UKRAINE

Supporting Businesses During the Pandemic: National and Municipal Responses

Economic Outlook and Indicators

Research

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The response to the COVID-19 pandemic has triggered an unprecedented economic crisis in Ukraine as lockdown measures involving the temporary closure of most businesses almost halting economic activity altogether except for key sectors such as transport, agriculture, food production, and pharmaceutical production. Moreover, the devastating disruption to global supply chains resulted in a sharp drop of revenues for businesses, as well as in incomes of households and the number of jobs[1].

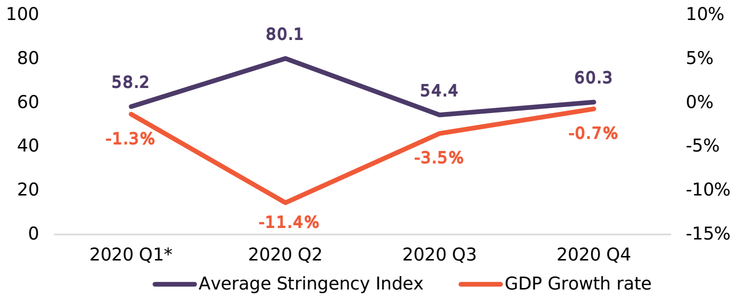
To address the challenges posed by the pandemic, various government measures have been taken at both national and local levels. In order to withstand the economic recession, almost all countries, including Ukraine, have introduced significant fiscal stimulus packages. Exclusively for the 2020 fiscal year, the Government of Ukraine created a stand-alone budgetary program under the Ministry of Finance to fight the pandemic, with an overall budget of UAH 80.9 billion (or 2% of Ukraine's 2019 GDP). The main activities implemented to support businesses are presented in the table below[2]:

Table 1: Main policies implemented by the Government of Ukraine to support businesses
Penalties for certain tax legislation violations canceled; a moratorium imposed on tax audits and inspections; deadlines for filing annual income and asset declarations extended; penalties for late or incomplete payment and late filing abolished for the period of 1 March – 31 May 2020; and a holiday introduced for SMEs for the payment of social security contributions until 31 May 2020.
The Ukrainian government launched a subsidized loans program (the 5-7-9 program) in February 2020 and later, during the lockdown, expanded eligibility criteria significantly. As of 1 March 2021, 9,490 loans worth UAH 22.6 billion had been issued under the program. The program is due to continue in 2021.
UAH 10.7 billion had been disbursed to fund unemployment and furlough benefits as of the end of 2020.
At the beginning of the quarantine in March 2020, the Cabinet of Ministers introduced price regulations for the period of the quarantine for 10 socially important food products, 20 categories of personal protective equipment (PPE) and medicines, and more than 10 types of antiseptics.
Around 40 percent of eligible applicants among self-employed entrepreneurs used their right to access Government aid of UAH 8,000. Half a million small entrepreneurs reportedly received the payment, with the cost amounting to around UAH 3.4 billion.

To assess the possible influence of the pandemic and the economic responses thereto at national level, we analyzed interrelations between indicators such as real GDP growth by quarter, the average quarterly Stringency Index[3], and the fiscal stimulus package as a % of GDP.

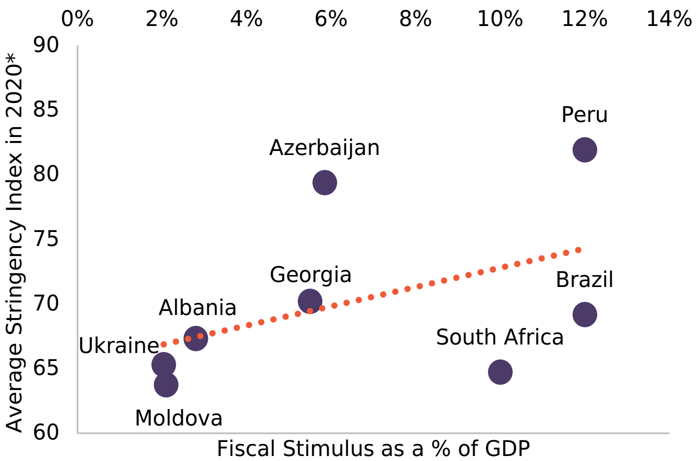
In 2020, Stringency Index equaled 64.2 (out of 100, with 1 being the least strict and 100 being the strictest), and real GDP growth was -4.2%. The analysis of the dynamics of the average Stringency Index and real GDP growth rates, both calculated for each quarter of 2020[4], revealed a strong negative relationship between real GDP growth and the Stringency Index. However, this does not necessarily imply the existence of a causal relationship as there are many other factors that could explain the GDP dynamics.

Average Stringency Index and GDP growth rate by quarters of 2020 in Ukraine



* Data for Stringency Index for Q1 is avaiable since March 3, 2020.
Sources: Ourworldindata.org; State Statistics Service of Ukraine.

In order to assess the influence of fiscal stimulus packages on the economy, we analyzed the relationship between the size of the fiscal stimulus packages and the average Stringency Index in 2020, as well as between the size of fiscal stimulus packages and GDP growth in 2020. The analysis was based on eight countries selected from the GIZ "Connective Cities"[5] network according to the median GDP per capita. The selection of median countries increases ensures greater comparability, but it should be noted that observations of this subset of countries are illustrative and should not be generalized.



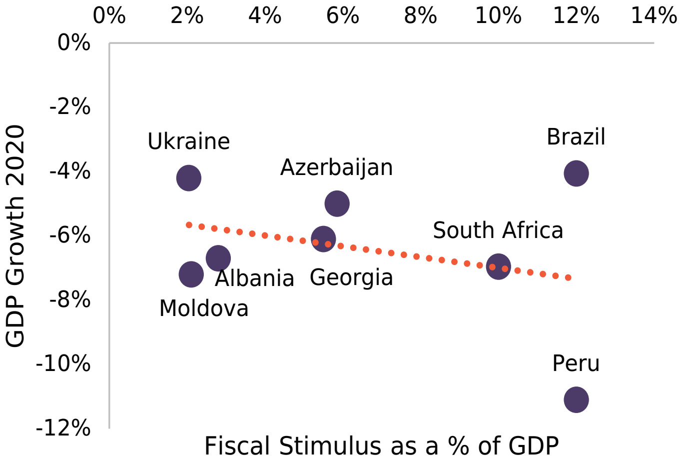
Sources: IMF Policy Tracker, World Bank World Economic Prospects report, ourworldindata.org

By looking at the relationship between the average Stringency Index in 2020 and the size of the fiscal stimulus packages for the targeted countries, it can be observed that, generally, countries to have imposed the strictest measures throughout the year were more likely to adopt a larger stimulus package. This observation makes sense, as the stricter the restrictions, the higher the expected fall in output, and thus the greater the requirement for a country to offer a more substantial package.

Georgia and Albania performed averagely among their peers, sitting right on the trendline. Meanwhile, Ukraine and Moldova were also close to the trendline, and both stand out for having the lowest fiscal stimulus packages, combined with having among the lowest stringencies within the group.Elsewhere, Azerbaijan and Peru appeared to have put out small stimulus packages relative to the level of stringency they employed throughout the year, while South Africa and Brazil seem to have put out larger fiscal stimulus packages relative to the level of stringency they employed throughout the year.

If we look at the relationship between the size of fiscal stimulus packages and GDP growth rate in 2020, it can be observed that countries with a steeper economic decline in 2020 adopted more sizable fiscal support packages. Even though this link is not particularly strong, the observation seems somewhat logical as the worse the economy is doing, the more the given country needs to spend to support various areas.

Ukraine is a positive outlier in this case, as it managed to keep its GDP decline to 4.2% in 2020, despite having the smallest stimulus package of the selected countries (2% of GDP). Two other outliers were Brazil, where a large fiscal package (12%) partially helped the country to offset the negative effects and to register a milder economic decline (-4.1%) in 2020, and Peru where a large fiscal package failed to sufficiently stimulate the economy and the country registered a decline in GDP of 11.1% in 2020. It is worth pointing out here that Brazil putting out a larger-than-average stimulus package relative to its stringency, and Peru putting out a smaller-than-average stimulus package relative to its stringency, could have had an influence on their respective GDP outcomes.



Sources: IMF Policy Tracker, World Bank World Economic Prospects report, Respective national statistics offices.

Thus, we see that while in general the size of the package could play a role in country's GDP growth dynamics, there are many other possible factors to consider, such as how diversified and targeted the package is, or how the package corresponds to the population's needs. This could imply that even though these support mechanisms were managed by the central government, local governments play a substantial role in conducting complementary activities to address the unique needs of local populations that could not be covered by centralized packages.

PMCG's team, within the project "Research of Good Practices and Moderation of Virtual Events at Municipal Level in Times of COVID-19"[6] implemented under GIZ's Connective Cities initiative, conducted desk research and online interviews with municipal representatives from around the world, including Ukraine. In the process, we found that there were several examples where municipalities in our target countries came up with innovative measures to support local businesses. While the research managed to cover just a few Ukrainian municipalities, it was nevertheless interesting to review specific cases and good practices with respect to how Ukrainian municipalities tried to support local businesses and to fill the gap between national initiatives and local needs. In table 2 below, a selection of responses highlighted from the interviewed municipalities in Ukraine is presented.

Table 2: Selected municipal responses from Ukraine

Kyiv	Khmelnytskyi	Mykolaiv	Zhytomyr
- Provided financial and credit support to SMEs. - Provided appropriate infrastructure for doing business and to allow for the introduction of innovations by SMEs. - Extended the discount on the lease of communal property and some local payments.	- A platform of local producers - Buy Khmelnytskyi - Aims to increase the competitiveness and prestige of local producers in the Khmelnytskyi municipality, to increase the recognition of local brands, and to provide the local population with high-quality goods[7]. - The Virtual Reality (VR) platform of sister cities includes VR space for the promotion of the city of Khmelnytskyi and the VR location of sister cities, which allows you to learn information about sister cities (history, economic development, tourism, etc.)[8].	- Local producers were helped by the "Made in Mykolaiv" campaign. Within the campaign, the municipality ensured that local products were marketed properly (special stickers were used for identification). - The municipality gave free access to various communal properties to entrepreneurs. - Businesses did not have to pay rent during the periods in which they did not operate. - Special assistance schemes for sole entrepreneurs with children were elaborated. - The city ensured continuation of work by issuing special passes for local municipal transport for eligible workers online.	- Allocated US$1.8 mln from the local budget in order to prevent the spread of COVID-19. - A mechanism for the safe operation of SMEs was developed. - Measures to support the businesses most affected by the pandemic have been included in the Local Economic Development Plan for 2021-2022. - Special transportation organized for employees working at vital enterprises. - Benefits on local taxes and levies have been established. - A regulation on the reimbursement of interest paid by business entities on short-term and medium-term loans taken out from banking institutions has been approved. - A "COVID-19" section has been created on the official website of the Zhytomyr City Council to inform the population generally and entrepreneurs more specifically. - The municipality and Zhytomyr Business Club helped to provide entrepreneurs with guidelines on preventing coronavirus infection and its spread.

1 United Nations Ukraine: "ASSESSMENT OF THE SOCIO-ECONOMIC IMPACT OF COVID-19 IN UKRAINE".
2 Information about all measures supporting the Ukrainian businesses were extracted from the IMF Policy Tracker.
3 Government Stringency index is a composite index of 9 different indexes, that measure how stringent the government's restrictions are. The index is produced by Oxford.
4 Data for Stringency Index for Q1 is avaiable since March 3, 2020, so, the figures given in our analysis for Q1 stringency actually correspond to just March 2020.
5 https://www.connective-cities.net/
6 https://www.pmcg-i.com/item/408/Research-of-Good-Practices-and-Moderation-of-Virtual-Events-at-Municipal-Level-in-Times-of-COVID-19.
7 https://kupuikhmelnytske.com/ 8 https://khm.ileyes.com/?fbclid=IwAR2_EsKVoH2JbPUshexmvr1npjGN1qvrxU4lHHnhqecSThIInhXnjjno738

Basic Economic Indicators	2017	2018	2019	2020 Q1	2020 Q2	2020 Q3
Nominal GDP (bln hryvnia)	2 984	3 561	3 975	846	868	1 157
GDP per Capita (USD, PPP)	11 871	12 629	13 341	-	-	-
GDP Real Growth (%)	2.5%	3.4%	3.2%	-1.3%	-11.4%	-3.5%
Yearly inflation (%)	14.4%	10.9%	7.9%	2.9%	2.4%	2.4%
Exchange rate (hryvnia/USD)	26.7	27.3	25.7	25.8	26.9	27.8
FDI (BOP net inflows) (bln USD)	3.7	4.5	5.9	-1.5	1.3	0
Unemployment Rate (%)	9.5%	8.8%	8.2%	8.6%	9.9%	9.5%
Gross external Debt (bln USD)	115.5	114.7	121.7	120.0	122.6	122.8

* preliminary data