

Video conference 1: Employment and labour market affected by COVID-19 pandemic, global overview and the regional context; crisis mitigation measures

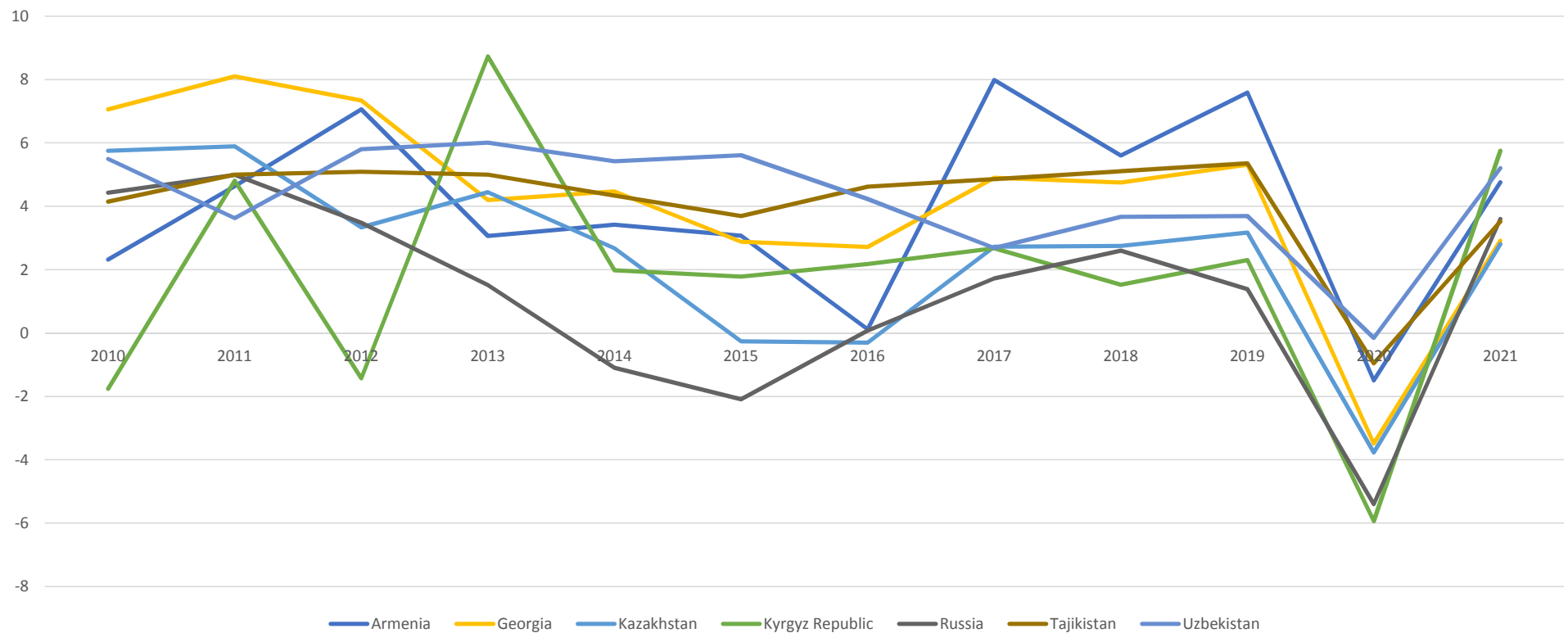
Wednesday 20 May 2020 r.

Moscow

The mechanism of the crisis and its features

- Reduced labor supply as a result of reduced mobility.
- Decrease in demand in sectors dependent on social interaction (tourism, accommodation and food services, entertainment)
- Closures in parts of the economy along the chain lead to a decreased demand from their suppliers and a general decrease in productivity
- Layoffs, lower incomes, fear of infection and general uncertainty lead to lower spending, which in itself leads to a shrinking economy and job losses
- Government revenues plummet, whereas health care costs grow
- Reduced demand in one country leads to lower exports by their trading partners
- The shock caused by the pandemic triggers the processes of a regular recession: the growth of bankruptcies, the risk of a banking crisis, the decline in the value of assets as a result of sales of foreclosed property
- A sharp unemployment growth, the number of the poor (including working low-income people (from 8.8 to 35 million people in the world in 2020 according to ILO estimates)).

GDP per capita, in terms of PPP, changes in per cent



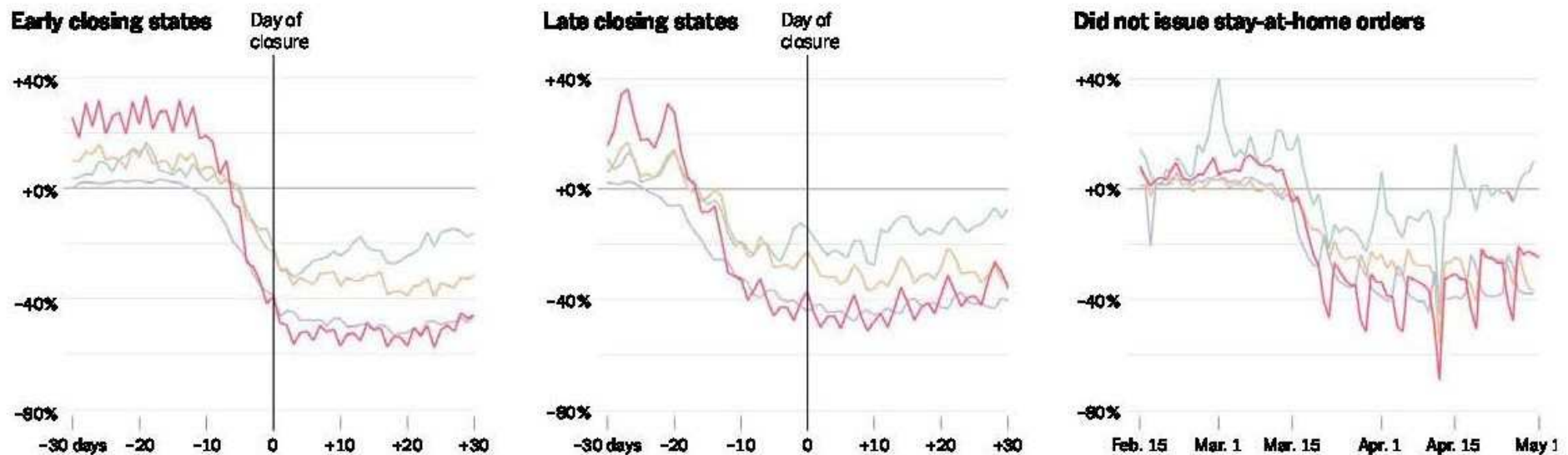
The Great Lockdown

- The deepest recession in the global economy since the Great Depression
- A multi-layer crisis: a crisis in the health care system, a drop in economic activity, a decline in domestic demand, an outflow of capital and a drop in foreign trade income.
- Quarantine as a result of negative externalities (external effects) from certain types of economic activity.
- Direct losses from non-manufactured goods and services as a direct consequence of government bans, but not only. Other sources of losses: compression of external demand, quarantine in other countries, changes in people's behavior
- The so-called supply shock, the economy did not produce value for reasons outside of the economy – factors of production are (temporarily) physically inaccessible. This happens because of war, natural disasters, epidemics ...
- A special feature is the closure of the movement of people between countries, which causes enormous damage to temporary labor migration and international tourism. Both impacts harm poorer countries, countries with surplus manpower and surplus tourist flows.
- Reduced prices for raw materials also hit our countries, worsening terms of foreign trade.
- There is no noticeable population loss from the pandemic itself

The downward trend is not only because of the quarantine

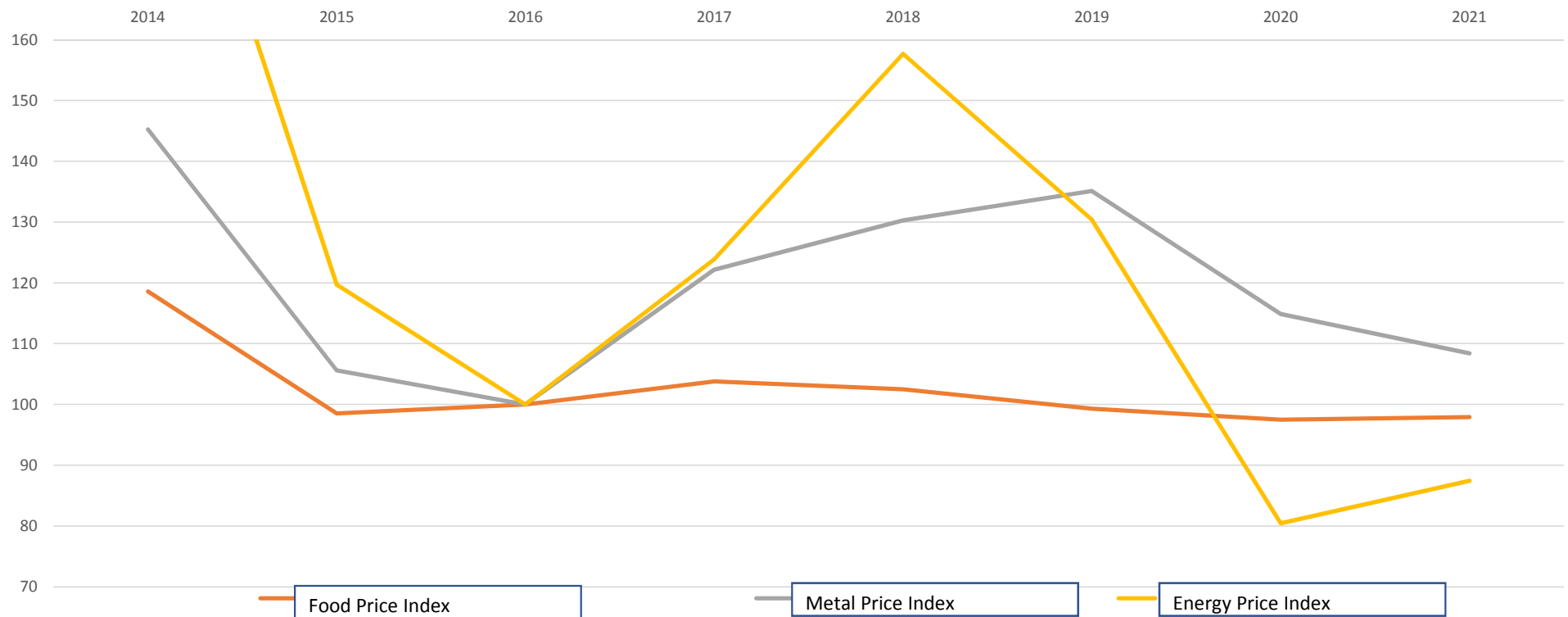
Change in economic measures by timing of state closures

— Consumer spending — Small businesses open — Time spent at work — Hours worked at small businesses

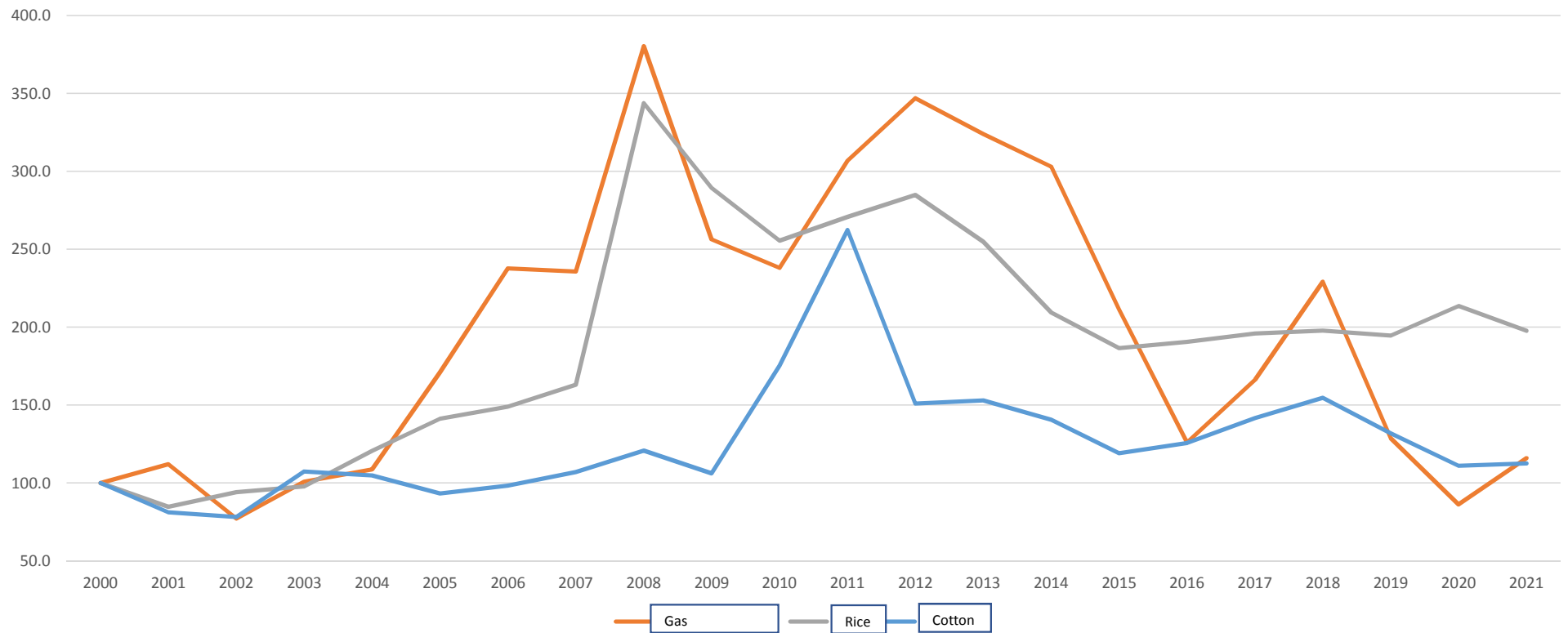


Note: Change shown from Jan. 2020. "Early closing states" include 14 states that issued stay-at-home orders and non-essential business closures during the week of March 19. "Late closing states" includes 14 states that issued some type of statewide order

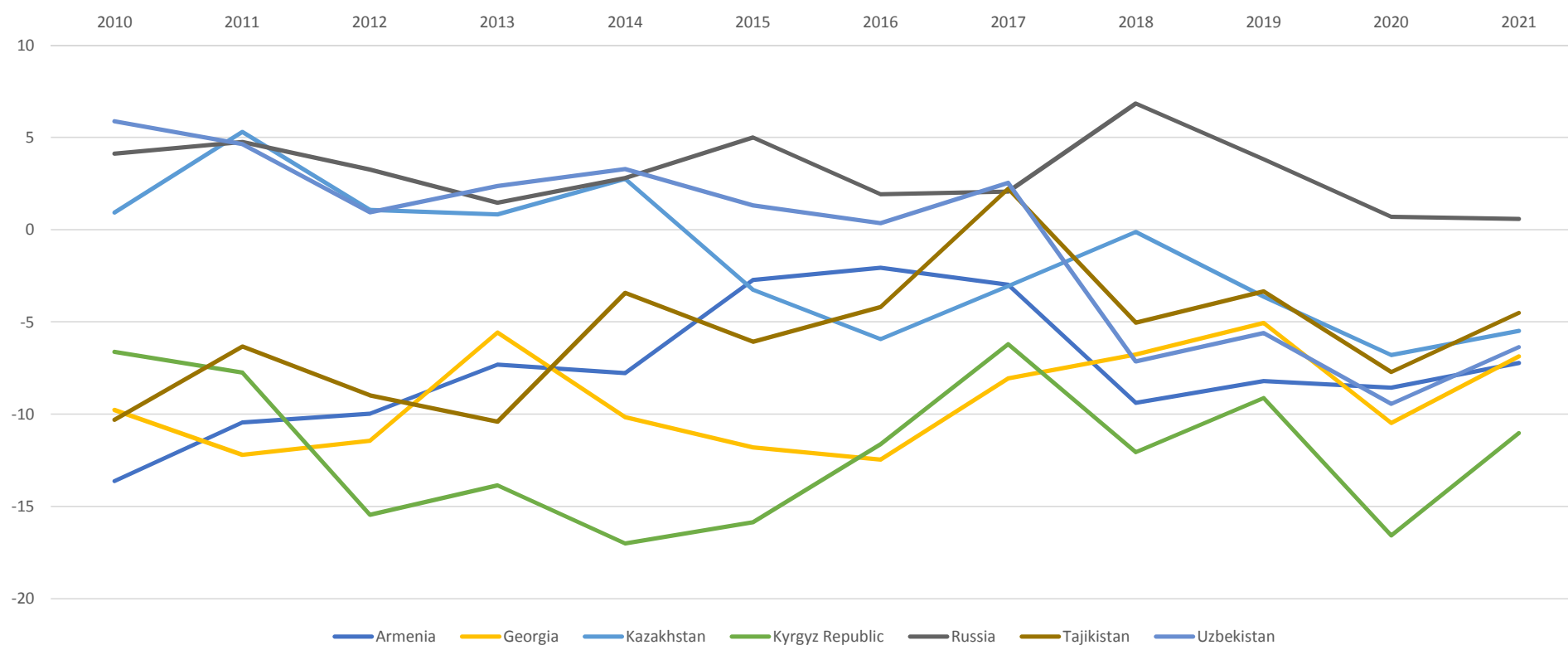
World prices for energy, metals and food, indices



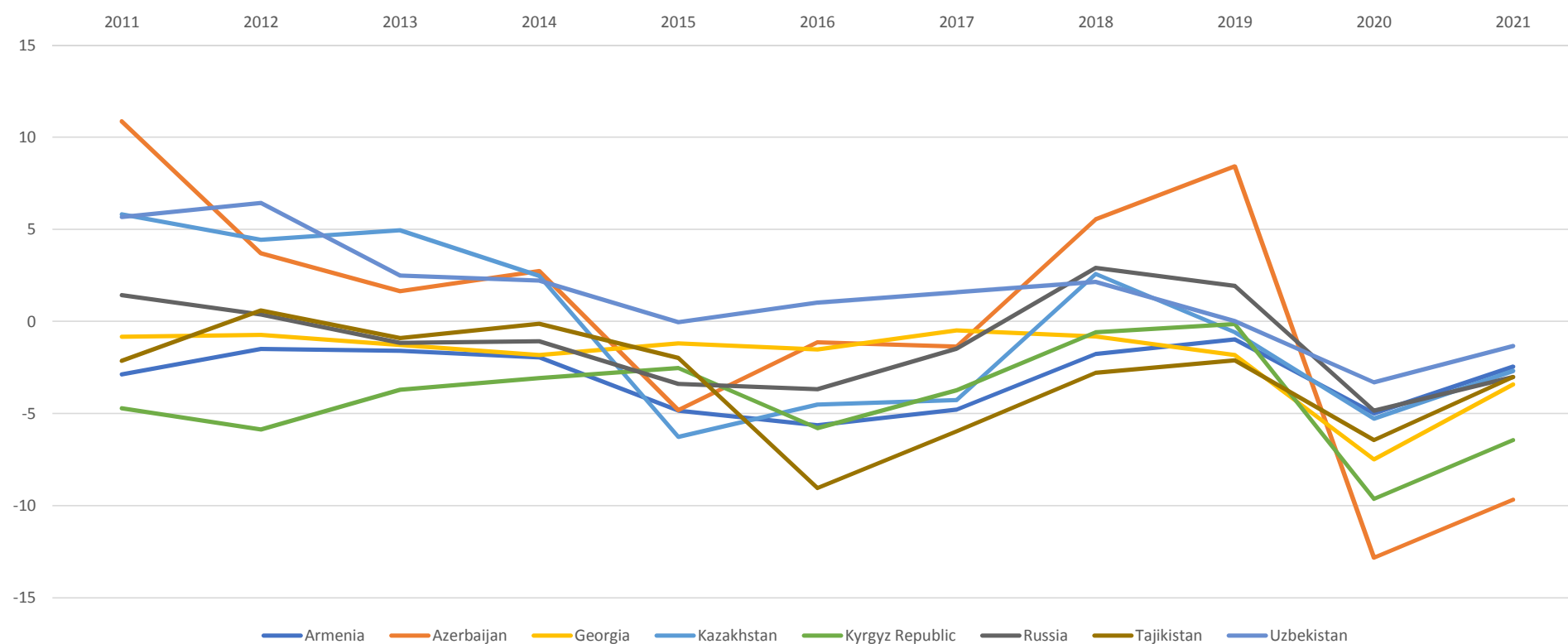
World prices for gas, rice and cotton



Balance of payments, per cent from GDP



Net government loans, in per cent from GDP

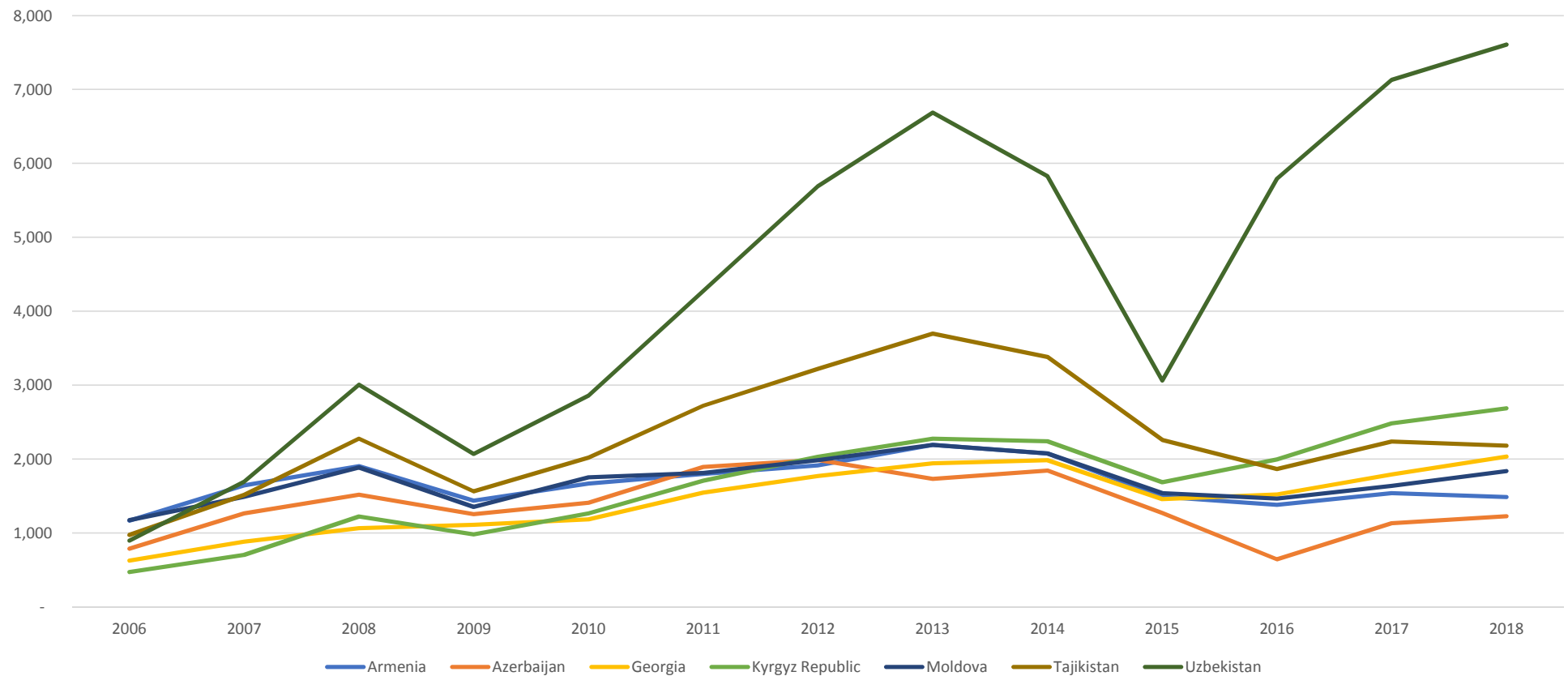


Impact on labour migration

Country	Compared to exports
Tajikistan	324%
Kirgizia	102%
Uzbekistan	44%
Moldovia	41%
Armenia	27%
Ukraine	21%
Georgia	20%
Azerbaijan	5%
Belorussia	3%
Kazakhstan	1%
Russia	0%

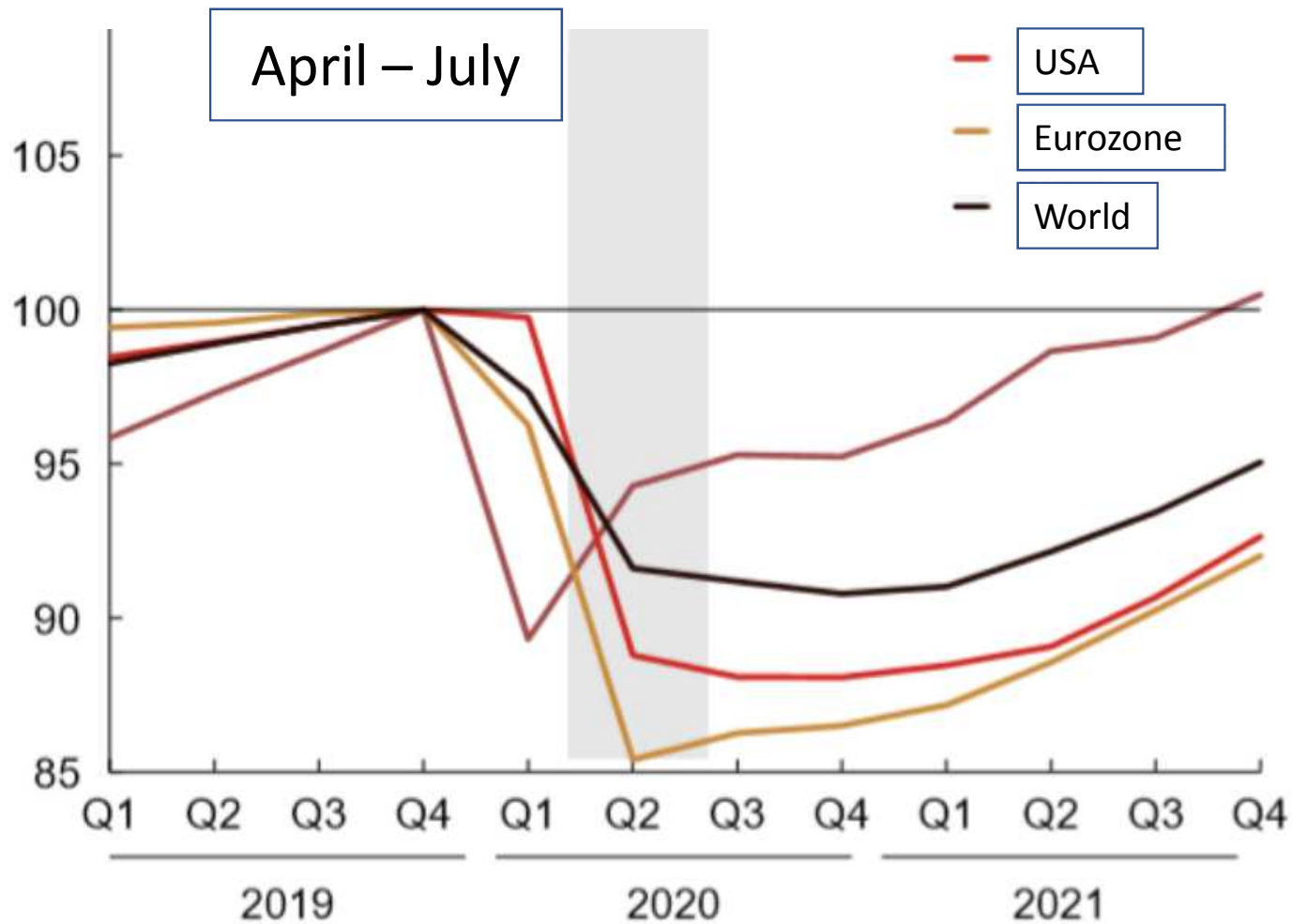
- Normally countercyclical (but this time the effect may be weaker)
- Of great importance for Central Asia (there are two million migrant workers in Russia only from Uzbekistan)
- Decrease in the volume of transfers - a blow to the current balance of payments
- Reduced consumption, growing poverty.
- Returning home is an additional burden on the labor market, an additional increase in unemployment and a decrease of incomes

Private cash transfers received (mil US \$)



What is next?

- Two phases: the restriction phase and the recovery phase; both uncertain
- Unknown factors:
 - Pandemic spread rate
 - Severity and types of containment measures
 - Impact of the compressed demand on suppliers
 - Reduction of spending and investments
 - Changes in people's behavior
 - Prices on raw material markets
- V or L-shaped recovery? (practical value for public support)



The World Bank
forecast
(L-shaped)

Why we need to help businesses

- It is important to mitigate the impact of the recession on people's lives and economic activity in business
- Bankruptcies in a lockdown situation are not related to efficiency; this is force majeure
- Losses in certain parts of the economy must be redistributed to all in order to preserve the structure of the economy
- A wave of bankruptcies leads to inefficient redistribution of assets, which will complicate economic recovery
- Mass ruin will destroy the banking system, increase the cost of credit resources, which will also hinder the recovery
- Criticism: the state aid is implicitly an insurance at the expense of the society; decline and growth are two regular phases of the economic cycle, and businesses should be ready for both

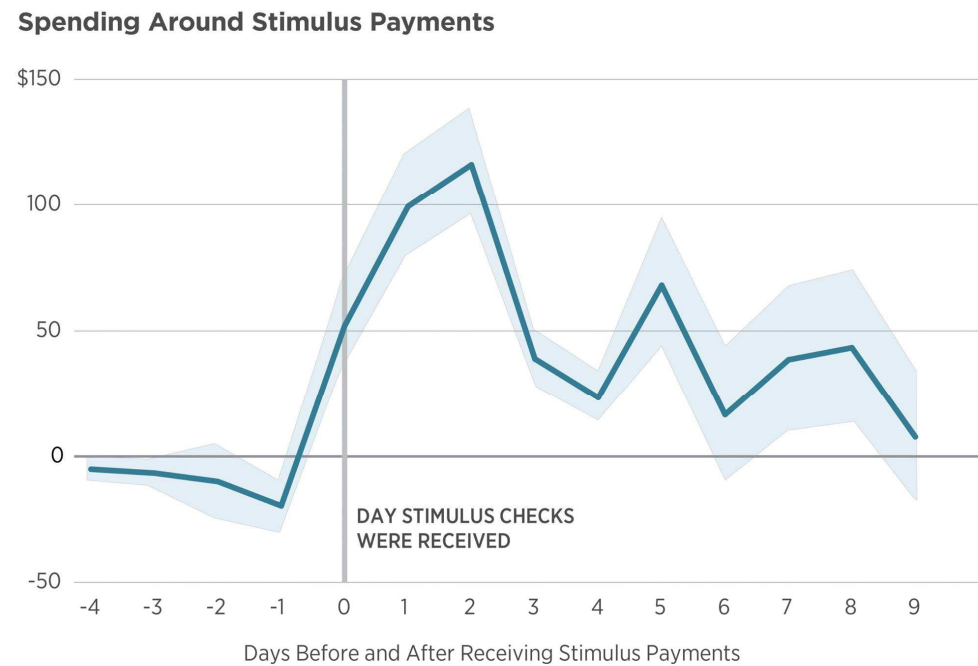
Primary support mechanisms

- Direct subsidies (SMEs, affected industries like aviation)
- Partial compensation of losses to companies with a sharp decline in turnover
- Deferral of rental and tax payments
- Debt restructuring support (special fund)
- Moratorium on bankruptcy
- Special credit programs
- Rental payments
- Temporary reduction of certain taxes (especially for small businesses)
- Subsidies to employers for salaries
- Criticism: loans and deferrals of payments, as well as a moratorium on bankruptcy suggest that after the crisis, the businesses will begin to recover quickly and will be able to meet the newly accumulated obligations, which is not necessarily so.

Why we need to support people

- To ensure efficiency of containment measures (the primary motivation of leaving home is the need to earn money on a daily basis)
- To mitigate social problems (poverty, psychological problems, family troubles, drinking, suicide and others) and reduce the risk of social disasters: hunger, riots etc.
- To avoid the loss of human capital and transition of the economy into a new equilibrium with depression
- To support consumer demand and thus support SMEs

Impact of stimulus payments on spending



This figure shows estimates from a regression of spending on indicators of days before and after receiving stimulus payments. The solid blue line shows point estimates, while the shaded area shows a 95% confidence interval. Time to Payment is equal to zero on the day of receiving the stimulus check. Source: SaverLife.

For some it is worse than for others

- All workers employed in the most affected sectors of economy
- Part-time workers, workers on short-term contracts who are often not entitled to unemployment benefits.
- Young workers, foreigners, own-account workers, workers on temporary contracts, informal employment (substantial for many countries)
- Least affected: workers in the public sector, agriculture and telecommuting
- Enhanced division of the labour market into the protected and unprotected segments

Direct monetary transfers

According to the ILO Social Protection Floors Recommendation (No 202, 2012) the countries should provide basic income security for all and gradually ensure higher levels of protection to as many people as possible and as soon as possible.

- Extended unemployed insurance (reduced employer obligations, higher unemployment payments)
- Direct transfers to families with children
- Social benefits (the available analysis indicates that the poorer the household, the more they spend immediately out of the benefits received)
- Partial tax return
- Vacations on mortgage loans

The role of trade unions during the pandemic: protection of workers' rights and strengthening of the social security system

- Promotion and maintenance of standards defined in ILO Convention 102 and Recommendation 202 which describe minimal social security standards. The pandemic crisis demands revision of the social security system in CIS countries.
- It is important to comply with Recommendation 205 on decent work. For example, the success of the containment measures depends, among other things, on free access to medical care for the infected and the right not to go to work feeling unwell without any confirmed diagnosis from the doctor and with secured sick leave benefits.