

## Case Studies: Compare Georgia, Moldova and Serbia

### Georgia

Population 2019	3,7 million <sup>1</sup>
GDP 2019	17.7 billion USD
Confirmed COVID Cases a/o October 16, 2020	15,327

### Key Policy Responses as of October 7, 2020 (IMF COVID Policy Tracker)

#### Georgia

**Background.** Georgia has reported 4,453 active positive cases, 5,235 recovered and 62 deaths as of October 7, 2020, the 32nd week into the outbreak of COVID-19. The number of active cases increased 10 times during the past month as daily incidence of cases peaked to about 500 cases a day. COVID cases has been accelerating since mid-July. The Prime Minister described the present situation as the second wave of the pandemic. Only severe patients are treated at the hospitals. Less severe patients are treated in specially designated hotels. The government adopted a home treatment protocol for low symptom patients. Ajara remains a red zone, where entry and exit is controlled by epidemic services; and public transport services have been stopped. The government officials stated that there will not be a new lock down; and that the parliamentary elections end October will be held in observance of the medical protocol.

Earlier in the year, on May 22, 2020, parallel to the decreasing number of the active COVID cases, the government ended the national state of emergency and accelerated the pace of opening the economy. During the two months that the country lived under the state of emergency and curfew (March 21 to May 22, 2020), strict containment measures were imposed, including social distancing, lock down of high-risk districts, closure of border crossing, travel ban for foreign visitors, quarantine for nationals returning to Georgia, closure of shops (other than groceries and gas stations) and schools; a two-week ban on the private vehicle intercity movement (ended on April 27th); prohibition of intercity and intracity public transport movement (ended in late May). Various forms of economic activity, including tourism, came to a standstill during the state of emergency. Since the reopening, the recovery in economic activity has been slow as borders remain closed and international travel is broadly banned. On July 1 the EU listed Georgia among the 15 safe countries and announced readiness to accept the Georgian citizens in the wake of the coronavirus pandemic. Initially, Georgia reciprocated by opening the international travel to the citizens of Germany, France; Latvia; Lithuania and Estonia. However, in September, as the COVID cases increased, Georgia imposed a requirement to hold valid PCR test results for all foreign arrivals, including the citizens of the abovementioned countries. The number of quarantine days for the returning citizens is reduced from 14 to 8 days, starting from September 15t, but they are required to take a PCR test

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<sup>1</sup> World Bank, Data, GDP in Current USD and population a/o 2019.

on the 12th day. Public outdoor gatherings of above 200 people are prohibited from September 10 (political rallies are exempted from this rule). Public indoor gatherings for rituals (parties, funerals) shall be limited to max 10 people.

The regular international flights are still expected to resume in October. To reduce unemployment, the Georgian government allowed the Georgian citizens to travel for work to the neighboring Turkey, provided they have at least 3-month invitation from the perspective employer. Upon return, they will have to quarantine themselves for 2 weeks.

**Reopening of the Economy.** On April 24, the government presented a timeline for opening the economy in 6 stages, conditional on the trends of COVID19 statistics. It was planned to keep a 2-week gap between the stages, but the improving COVID19 statistics and steady decline in the number of the active cases of COVID 19, allowed the government to open the economy quicker. The first stage of opening commenced on April 27, 2020 as the passenger cars, taxis, online trade, deliveries and open air-markets became operational. Starting from May 5: construction, production of construction materials, carwash, computer and equipment repair shops, parks are open. Since May 11, all shops that have their own entrance from ground (other than malls, apparel and footwear shops) are open; all kinds of production and publishing services are also operational. The beauty parlors and aesthetic medical centers also opened faster than initially planned (May 18th). Tbilisi and other big cities are now open for intercity travelers. The public transport, including metro, resumed operation on May 29; All types of shops as well as the malls opened on June 1; all the restaurants and hotels opened on June 8; (i.e. about 1 month earlier than initially planned), however, all the above-mentioned need to observe strict cautionary measures: wearing face masks is mandatory inside the shops and while using public transport. The sports halls and swimming pools resumed their operations from July 7th. Similar to the hotels, to become operational, they also need a prior authorization from the ministry of health. Effective July 13, outdoor cultural events and indoor rehearsals were allowed. Domestic tourism opened on June 15th. Public schools are resumed inhouse classes on the October 1, 2020 for the classes from 1 to 6; The school year officially commenced on September 15th with online schooling for all classes. In red zones, only on-line lessons are allowed. The Ministry of Education approved an order regulating online schooling. Reopening of kindergartens was postponed to October 12. Opening of theatres and cinemas, as well as child entertainment centers, is postponed from October 1 to November 1.

Key Policy Responses as of October 7, 2020

## **FISCAL**

- On June 24, 2020, the parliament approved an amendment to the state budget 2020 that envisages to fund the relieve measures listed in the 'Anti-Crisis Economic Action Plan' of the Government unveiled on April 24. The supplemental budget envisages fiscal deficit to increase to 8.5 percent of

GDP. The initiatives, with total cost of GEL 3.4 billion are included in the approved budget and are described below:

1. Support for citizens who have been employed but lost their jobs during the pandemic: GEL 200 per person for 6 months (GEL 450 million).
2. Income tax waiver for low-income citizens: during 6 months: (1) salaries up to 750 GEL will be fully exempt from income tax; for the salaries below 1500 GEL per month, the first GEL 750 will be exempt from income tax (GEL 250 million) will be forgone.
3. One-time assistance of GEL300 to the self-employed (GEL 75 million).
4. Utility subsidy: payment for gas, electricity and utilities for the for households consuming up to 200 kW of electricity and/or up to 200 m3 natural gas monthly (GEL 170 million).
5. Assistance to low-income families (with the social score of 65-100 thousand); assistance was given according to the number of people in the household for 6 months (GEL 48 million).
6. Assistance to the families with the social score above 100 thousand: GEL 100 for 6 months (GEL 13 million).
7. Assistance to the disabled and disabled children GEL 100 for 6 months (GEL 24 million).
8. StopCoV Fund proceeds of GEL 133,5 million will be used for the needs of the medical sector and hospitals engaged in fighting the coronavirus (reflected in "other revenues" and in expenditures).
9. Government has to cover costs of organizing quarantine spaces; sponsoring flights that returned the citizens to Georgia Total cost: GEL 45 million.
10. Healthcare costs and virus spread prevention measures. Total cost: GEL 285 million.
11. Improvement of healthcare infrastructure to serve COVID patients. Total cost GEL 60 million.
12. Credit guarantee scheme to help businesses cope with the pandemic GEL 330 million.
13. Interest subsidy was issued to help the hotels meet their banking obligations and co-finance up to 80 per cent of the annual interest rate on loans issued to family-owned, small and medium-sized hotels. Total cost GEL- 70 million; This interest subsidy was initially designed for 3 months but was prolonged to 6 months. In addition, the government allows new application process (Sep-Oct 2020) for the interested hotels.

14. Touristic enterprises are exempt from profits tax- GEL 45 million (reflected in tax revenues).

15. Microgrants GEL 20 million.

16. Support to construction sector/ purchase of houses for the refugees: Total cost: GEL 40 million.

17. Support to agriculture. Total cost: GEL 139 million. This includes State Program for Maintaining Prices of Primary Consumption Food Products, including building stocks of the following commodities: (rice, pasta, buckwheat, sunflower oil, sugar, milk powder, beans, wheat, and wheat powder.

18. Additional VAT refunds GEL 600 million; (reflected in tax revenues).

19. Lari deposits for commercial banks GEL 600 million (reflected in domestic debt and government deposit).

20. 3m bank loan service holidays for individuals (initially available for March-May) were prolonged for 3 more months for those borrowers who asked for extension.

21. The custom clearance term for vehicles imported before 1 April 2020 was once extended to September 1, 2020 and then further to March 2021. This measure will benefit 24 thousand importers of cars, but postpones GEL 30 million revenues for the state budget.

22. Pensions: Starting from January 2021, the rule of indexation of pensions will be introduced. According to this rule, the pensions will increase by at least the rate of inflation; for pensioners aged 70 and above: the pensions will increase in addition by 80% of the real economic growth rate. Regardless of the actual rates of inflation and economic growth, the pension increase will be at least GEL 20 for the pensioners below 70 and GEL 25 GEL for pensioners above age 70.

23. The government increased the list of villages that benefit from the provisions of the law on 'Mountainous Regions' by 59 villages. Total 272,000 people will benefit from this law. These are dwellers of high mountainous regions; as well as the villages adjacent to the occupied territories. The benefits introduced by this law include: subsidized electricity and heating to households; higher pensions; social transfers for the newborns; increased salaries for teachers and medical personnel; some tax allowances for businesses operating in those areas.

686 thousand people benefited from the government's economic benefits package described above. On August 6, the Prime Minister's unveiled new new/modified measures to support the citizens of Georgia to cope with the pandemic. According to which:

- 1. The government provided GEL 200 one-time assistance to all children below 18. There are 800 thousand citizens of Georgia of this age. The total cost was about GEL 160 million. The government asked the banks to ensure that the disbursed sums reach the intended beneficiaries (i.e. children) so, that the banks do not direct these sums to offset the credit or belated liabilities of the parents, if such exist. The beneficiaries receive these grants before the start of the school year.
- 2. The government helped the students from vulnerable families (with the social score below 150 thousand) to cover one semester of their university tuition. About 33 thousand students are expected to benefit from this initiative. Total cost GEL 35 million.
- 3. GEL 300 per person benefit was provided to the self-employed, who lost their job during the pandemic and applied for government assistance, but were refused, as they failed to provide required documents. About 250 thousand self-employed applied for this assistance. o/w 170 thousand people received it. With this measure, the remaining 80 thousand self-employed received this benefit. Total cost of this initiative is 24 million.
- 4. The government will cover utility costs of the residents of Georgia during the period November-February (4 months).

#### **MONETARY AND MACRO-FINANCIAL**

- The National Bank of Georgia (NBG) announced measures to support capital and liquidity in the banking sector. Banks have been asked to evaluate the quality of the loan portfolio; on-site inspections have been suspended; and a moratorium on fines was introduced where a breach emerged due to the crisis. The NBG reduced its policy rate cumulatively by 100 bps since April 2020 (by 50 bps on Apr 29; 25 bps on Jun 24, 2020; 25 bps on Aug 5). NBG kept the policy rate at 8 percent at the Sep 16 MPC meeting. Next MPC meeting will be held on Oct 28th. The office operations of currency exchange booths and other payment service providers are fully operational since early June, after closing them for 2 months due to the pandemic. To ease Lari liquidity pressures, the NBG started FX swap lines with banks and microfinance institutions in mid-April. In addition, starting June 1 the NBG launched a new tool for liquidity management to support the financing of small and medium-sized businesses in Georgia, which consists of two components: the first is for commercial banks, which receive liquidity support from the NBG in exchange for mortgaging the loan portfolio; the second component is for micro-financing organizations. The depreciation in Georgian Lari has gained pace over the last weeks, along with the deteriorating epidemic situation and Lari depreciated by 16.1 percent vis-à-vis the U.S. dollar since March 6th .

#### **EXCHANGE RATE AND BALANCE OF PAYMENTS**

- NBG has sold net USD 486 million foreign exchange since the beginning of the year to prevent disorderly depreciation.

## Moldova

Population 2019	2,7 million <sup>2</sup>
GDP 2019	12 billion USD
Confirmed COVID Cases a/o October 16, 2020	65,076

### Key Policy Responses as of October 8, 2020 (IMF COVID Policy Tracker)

#### Moldova

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**Background.** The first confirmed COVID-19 case was reported on March 7, 2020. Confirmed cases have risen progressively, prompting a declaration of a [state of national emergency, restrictions on border crossings, and limits on economic and social activity](#). Among other provisions, the state of emergency allowed Moldovan authorities to impose additional border controls, limit movement, prohibit large gatherings, manage food supplies, and coordinate media messaging about the pandemic.

**Reopening the economy.** The state of national public health emergency instituted from 15 May 2020 has been canceled by a decision of the Extraordinary National Commission for Public Health of 28 September 2020. Interventions are moving to a more de-centralized risk management or alert levels at a territorial level that will in turn establish public health measures. Currently 28 out of the 36 territories are in code red. New measures to prevent COVID-19 infection at the entry to the Republic of Moldova are in place from 28 September 2020. However, group tourism up to a maximum 10 people, mass gatherings up to a maximum of 50 people, and training for sportsmen, are allowable effective August 1. Swimming pools reopened from August 10 and private kindergarten schools could reopen from August 17. Weddings are allowed up to a maximum of 50 people. Only the students, teaching staff and authorized personnel from some specialized institutions have access to schools' buildings. Exhibitions, festivals and fairs are now allowed, and theaters and concerts are also permissible for a maximum of 50 percent of the seats and 2 hours only. All these openings are subject to proper safety measures being in place.

Key Policy Responses as of October 8, 2020

#### FISCAL

- A comprehensive fiscal package has been adopted as per two 2020 State Budget Amendment, following several targeted fiscal measures to support businesses and vulnerable households, such as expanding unemployment benefits and strengthening existing targeted social assistance, tax relief for sectors affected by state-imposed restrictions, delaying tax payment

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<sup>2</sup> World Bank, Data, GDP in Current USD and population a/o 2019.

deadlines to mid-2020, suspending tax audits and other controls, and increasing state budget allocations to the budget emergency and health funds and to a mortgage guarantee program.

### **MONETARY AND MACRO-FINANCIAL**

- The National Bank of Moldova decreased the base rate applied to the main short-term monetary policy operations to 2.75 percent, decreased the required reserve ratio in local currency to the level of 32.0 percent, while the required reserves ratio in freely convertible currencies increased to the level of 30.0 percent. These measures were taken with a view to support the economy, ease liquidity conditions, and enhance financial system resilience. Financial sector policy has thus far focused on providing credit institutions with flexibility to manage near-term payment obligations of individuals facing financial difficulties without recourse to adjustment of prudential provisions, including in cases of loan rescheduling.

### **EXCHANGE RATE AND BALANCE OF PAYMENTS**

- The National Bank of Moldova announced that it stands ready to intervene in the foreign exchange market to counter disorderly market pressures and excessive exchange rate volatility.

## Serbia

Population 2019	6.9 million <sup>3</sup>
GDP 2019	51.4 billion USD
Confirmed COVID Cases a/o October 16, 2020	35,719

### Key Policy Responses as of October 8, 2020 (IMF COVID Policy Tracker)

#### Serbia

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**Background.** Serbia reported its first confirmed COVID-19 case on March 6, 2020. The government declared a national state of emergency on March 15 and adopted [several containment measures](#). These included closing borders, prohibiting movement of citizens during the weekends and between 5pm and 5am during weekdays (total ban for senior citizens), suspension of public transport and all activities in parks and public areas intended for recreation and sports, closing education centers and shopping malls (except grocery stores and pharmacies). GDP growth reached -0.6 percent in Q1 and -9.2 percent in Q2 (s.a. qoq)—+5 percent and -6.4 percent in yoy terms in Q1 and Q2, respectively.

**Reopening of the economy.** Since April 21, containment measures were gradually relaxed (with protective measures in place), including the reopening of green markets, fitness centers, hairdressers, parks, bars, coffee shops, and restaurants; and allowing outdoor sports and recreation activities. Inter-city and urban public transportation resumed on May 4. On May 7, the state of emergency was lifted, abolishing the ban on movement of citizens, including senior citizens. Shopping malls reopened on May 8 and kindergartens on May 11 and commercial flights have resumed since in mid-May. Since May 15, both Serbian and foreign citizens are allowed to enter the country presenting a negative PCR testing not older than 72 hours (Serbs could alternatively stay in quarantine for 14 days). As of May 22, a negative test is no longer required to enter Serbia. On May 15, a gradual resumption of commercial flights started. As of June 1, outdoor sports competitions with public are allowed, with safety measures in place, as well as outdoor public gatherings with a maximum of one thousand people. As of June 5, there are no more restrictions on the number of people allowed in outdoor public gatherings and events. For indoor gathering and events, the maximum number of attendees has been increased from 100 to 500.

**New containment measures.** In response to a new wave of infections which started in late June, new measures have been implemented. On July 1: mandatory use of masks in public transportation and indoor spaces and stricter measures in municipalities where state-of-emergency is declared. These include limiting the number of people in outdoor and indoor gatherings; banning sport and entertainment events; limited hours of operation for restaurants and bars; and closure of swimming pools, spa and wellness centers. Additional measures came into effect on July 17: a nationwide ban on gathering of more than 10 people in public spaces indoors and outdoors; mandatory distance of 1.5 meters in public spaces. In light of the declining

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<sup>3</sup> World Bank, Data, GDP in Current USD and population a/o 2019.



number of new positive cases in August, some of the measures have been relaxed. On August 24, cinemas and theater reopened, with safety measures in place (max. 500 spectators, mandatory use of masks, etc.). Working hours of all establishments will be restricted to 11:00 pm as of October 8.

Key Policy Responses as of October 8, 2020

## FISCAL

- A first package of fiscal measures amounted to about RSD 390bn (7 percent of GDP). Key measures include: (i) 10 percent wage increase for public healthcare sector (RSD 13bn) and increased healthcare spending (about RSD 60bn); (ii) one-off payment to all pensioners (RSD 7bn); (iii) universal cash transfer of EUR 100 to each citizen over 18 years old (about RSD 71bn); (iv) three-month deferment of labor taxes and social security contributions for all private companies, to be repaid in 24 installments starting from 2021 (RSD 100bn); (v) deferment corporate income tax advance payment during the second quarter of 2020 (RSD 21bn); and (vi) wage subsidies, including payment of minimum wages for all SME employees and entrepreneurs for three months (RSD 93bn) and payment of 50 percent of the net minimum wage for three months for employees in large private sector companies and for employees who are currently not working (RSD 4bn). Other measures include a 3-month moratorium on enforcement and interests on tax debt under rescheduling agreements and 10 percentage points reduction of the interest rate on tax debt. A state guarantee scheme for bank loans to SMEs has been approved (RSD 240bn), as well new loans to SMEs from the Development Fund (RSD 24bn).

A second round of measures was adopted in late July, including wage subsidies for SME employees for another two months (RSD 36 billion), and deferment of labor taxes and social security contributions for all private companies for an additional month (RSD 30 billion).

In late August, the authorities announced one-off fiscal support to help hotels in cities, through a fixed subsidy per room and per bed, with a cost of about 0.02 percent of GDP.

## MONETARY AND MACRO-FINANCIAL

- On March 12, the [National Bank of Serbia \(NBS\) cut the key policy rate from 2.25 percent to 1.75 percent](#) and narrowed the interest rate corridor from  $\pm 1.25$ pp to  $\pm 1$ pp relative to the key policy rate. On April 9, [the NBS cut the policy rate from 1.75 percent to 1.5 percent](#). [On June 11, it cut the policy rate again to 1.25 percent](#). It has also provided liquidity (both in dinars and euros) to banks through additional EUR/RSD swap auctions and repo purchase auctions and outright purchases of dinar government securities, and reduced the FX swap interest rates (NBS deposit facility rate plus 10 bp for dinars and 0 percent for euros). Moreover, the NBS introduced a [3-months](#)

moratorium on all repayments under bank loans and financial leasing agreements. In May, local-currency denominated corporate bonds became eligible for open market operations (OMOs) and as collateral for banks to receive daily liquidity loans and short-term liquidity from the NBS. On June 11, the NBS relaxed the loan-to-value (LTV) cap for first-home buyers mortgage loans, increasing the limit from 80% to 90%.

In July, the NBS set up a repo line arrangement with the ECB to address possible euro liquidity needs of Serbian financial institutions. Under this repo line, the ECB provides euro liquidity (up to EUR 1 billion) to the NBS in exchange for adequate euro-denominated collateral. Moreover, a new 2-month moratorium was introduced, relieving debtors of repaying their liabilities during August and September.

In August, the NBS adopted a new set of temporary measures through 2021 intended to provide easier access to housing loans for individuals. These measures include the earlier approval of mortgages before construction is completed, the possibility of extending mortgage repayment periods, and a temporary relaxation of the approval procedure for short-term dinar loans up to a certain amount.

#### **EXCHANGE RATE AND BALANCE OF PAYMENTS**

- The NBS has intervened heavily in the foreign exchange market to maintain a relatively stable exchange rate during the crisis period.