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**THE IMPACT OF THE CORONAVIRUS PANDEMIC ON
THE RA ECONOMY: EVALUATION AND RECOMMENDATIONS
TO THE GOVERNMENT**

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Global changes brought by the coronavirus

For at least the last thirty years, the main trend in international relations has been the gradual decline of the role of nation-states in the global world order. International organizations, large transnational corporations, and the charities established by the richest people in the world, sometimes had a much greater impact than individual states. The economic cooperation had led to the free movement of goods and services, which became the basis of modern economic life. It seemed that nothing could stop the process of globalization, which was accelerated even more by the unprecedented development of information technology. There have been many publications in various international think tanks about the inevitable further reduction of the role of nation-states, and the possibility of their elimination in the long run.

The new coronavirus pandemic that began in China in December 2019 at first did not seem to pose a threat to the triumph of globalization. By the end of January 2020, the only concern of the world economy was to find new sources of production instead of closed factories in China. Some economists believed that this situation could accelerate the process of gradual reduction of China's "world factory" function. It seemed that with the gradual cost increase of labor force in China, this process, conditioned by the US-China trade war, and from the beginning of 2020 also by the outbreak of the coronavirus, could seriously damage the Chinese economy, but it was not able to disrupt the triumph of globalization.

However, in the last ten months, almost the unbelievable happened in the world. In order to prevent the further spread of the pandemic, a number of countries not only closed their borders, but also in fact shut down their economic activities for a long time, making an exception only for the enterprises that provide for the livelihood of the people. The significant restriction on the free movement of goods and services, which plays the role of blood vessels for the world economy, is a serious blow to globalization, and at the same time a sign of "economic nationalism".

The growth of economic nationalism, however, cannot be limited to the disruption of globalization, and the gradual growth of the role of nation-states. In the last decade the international security architecture has been undergoing serious changes. The post-Cold War unipolar world, characterized by the absolute dominance of the United States, is being replaced by a multipolar and a much more unstable world order. However, due to globalization, the economic interdependence among the superpowers somewhat mitigated the geopolitical contradictions that used to arise among them. This was especially noticeable in US-China relations.

Due to the new coronavirus pandemic, however, the intensive process of the collapse of the global economy will significantly weaken the existing economic interdependence among the

superpowers, which may result in further escalation of conflicts. At the same time, if in the case of superpowers the existence of nuclear weapons precludes the possibility of a direct military confrontation among them, then the discrediting of international organizations, the growing role of nation-states may lead to the escalation of existing regional military conflicts or the emergence of new ones. Probably in this context we can consider the launch of large-scale military operations by Azerbaijan against the Republic of Artsakh on September 27, 2020.

The outbreak of the new coronavirus pandemic has put all states in front of the imperative of solving two key problems. The first is protecting people's health and preventing the collapse of the public health system, the second is mitigating the consequences of the economic crisis. The vast majority of countries try to solve the first problem by using strict measures of quarantine and social distance.

The main solution to the second is the implementation of various support programs by governments aimed at meeting the minimum social needs of people who have lost their jobs, as well as supporting companies that are still operating.

Businessmen are presented with different tools - tax holidays, interest-free loans, postponement of fines and penalties in case of non-fulfillment of obligations. The amount of funds allocated for these measures varies from 2-3% of GDP to almost half of GDP.

The growth of "economic nationalism" will have its negative consequences also for small states, including Armenia. Since independence Armenia's economic model has been based on covering a part of the negative balance through foreign trade negative balance, labor export and money transfers implemented by the latter. Thus, in January-June 2019, Armenia exported \$ 1.17 billion worth of products and imported \$ 2.32 billion worth of products. At the same time, in 2019 private money transfers to Armenia amounted to almost two billion USD.

"Economic nationalism" on the one hand can create problems in the import of some products, and on the other hand can cause significant difficulties for the RA citizens leaving for work abroad, leading to a reduction in the volume of money transfers. It is obvious that the mentioned processes coupled with the collapse of the tourism sphere, which is essential for the RA economy, will create serious problems for the RA economy.

Possible impact of coronavirus on food security and steps to be taken by the Government of Armenia in this area

As a result of pandemic, significant long-term changes are expected in people's behavior, which will have its impact on a number of sectors of the economy. It can already be expected

that even after the end of the critical phase of the pandemic, restrictions on people's movement will continue, and areas such as tourism, entertainment and public catering will not be able to return to pre-crisis levels for an indefinite period. As a result of this process, public wealth directly or indirectly related to these sectors will tend to depreciate sharply, which will lead to capital outflows to other sectors.

Given the restrictions imposed by different countries and the difficulties of realizing air and land freight, serious problems will emerge for the smooth operation of the food supply chains. Most likely in the coming years the issue of providing healthy food to the population will become one of the priorities of the states, moreover, if in the past this problem was mainly faced by third world countries, now it is included in the agenda of national security priorities of developed countries.

During a panel discussion titled "Are We Heading toward Another Global Food Price Crisis" organized by the Center for Strategic and International Studies (CSIS), Joe Glauber, senior research fellow at the International Institute for Food Policy Research, noted that about two dozen countries have already announced bans on the export of various types of food, which could lead to an increase in international food prices, and in some countries also create problems with food availability.

"More than 30 developing countries are at risk of famine due to the coronavirus pandemic," David Beasley, Executive Director of the UN World Food Program, told the Guardian. Jürgen Voegele, Vice President for Sustainable Development at the World Bank, said in an interview that although global food resources have increased over the past two years due to the abundant harvest, some food prices may rise because of export bans and disruption of supply chains, and some developing countries may face the danger of food shortages.

The consideration of the above-mentioned trends is essential for developing an effective strategy at least in the medium-term perspective (3-5 years) to ensure Armenia's security interests in the post-pandemic world. Taking into account the possible disruptions in the food supply chains and the absolute prevalence of food security in the list of priorities of the states, the development of agriculture in Armenia at a progressive pace and significant increase in food exports may in the medium term become a significant factor ensuring the economic security of Armenia in the post-pandemic world, stable flow of revenues to the state budget, and contributing to the accumulation of public wealth in the sector. In addition, the substantial increase in food exports will significantly increase the geopolitical importance of the Republic of Armenia in the regional security system.

In this context, we consider important the implementation of strategic measures especially in the above-mentioned directions.

Irrigation system

The availability of an effective irrigation system and the necessary amount of water during the required period is perhaps the number one precondition for efficient crop production, fruit farming. Still in the Soviet years, a wide irrigation network had been formed in Armenia, consisting of large and medium reservoirs, canals, pumping stations and other infrastructure. In this paper we will not touch upon the current state or efficiency of that infrastructure, but we consider it necessary to emphasize the importance of building artificial “micro reservoirs” in terms of ensuring the smooth operation of irrigation.

“Micro reservoirs” are fed from the main canals and ensure uninterrupted irrigation in case of current or emergency water supply failures. The financial investment required for the construction of such reservoirs with a capacity of 20,000-100,000m³ is approximately 20,000 -200,000 USD. These “micro reservoir” can be built both on individual farmers' lands and adjacent to communities as back-up options to ensure the uninterrupted irrigation of up to several hundred hectares of land. In case of failure of the main irrigation system these water reservoirs can provide the farmers with necessary irrigation of up to several weeks. Their construction does not cause environmental problems, and at the same time it replenishes the strategic freshwater resources of the country. Uninterrupted water supply is a precondition for drip irrigation, without which it is impossible to switch to drip irrigation, and economical and efficient use of water resources. Without sustainable irrigation, it is impossible to expect investments in agriculture.

The co-financing of at least 50 percent of the cost of construction of such reservoirs by the state can stimulate the introduction of effective drip irrigation systems in cultivated and not cultivated lands by individuals and communities, and the subsequent development of intensive agriculture.

In order to solve this problem, it is necessary to start discussions with the engagement of large, medium-sized water users and community leaders, to develop a state support program to promote the construction of micro-reservoirs with a total capacity of at least 1 million m³ in 2021 and at least 2 million m³ starting from 2022.

Precision agriculture

In recent years, “precision agriculture” has become very popular in the world's leading countries, which, through the combination of “smart devices” - static and dynamic sensors and information programs - seriously contributes to effective decision-making in the field of agriculture. The analysis of information received through video drones and ground-based sensors connected to information systems allows to multiply the effectiveness of decisions on land quality assessment, sowing dates, irrigation, fertilization, pest and disease control,

harvesting, labor, and mechanization management. These solutions make it possible to increase the efficiency of both intensive and traditional agriculture.

We believe that the state should support companies providing services in the field of precision agriculture by creating an appropriate platform to promote science-business cooperation and innovative start-up programs. It should be noted that in 2019 at the Armenian National Agrarian University successful attempts were already made to create such a platform. This direction will greatly contribute not only to the effective management of traditional, intensive agricultural sectors, but also will promote the transfer of technologies to Armenia and the acquisition of new high-tech agricultural specializations by younger generation.

Soil quality

One of the important preconditions for the development of agriculture is the maintenance of soil quality and the expansion of quality land. Since independence, the indicator of land quality decline in Armenia has increased significantly due to various factors. The main reasons for that are corrosion, salinization and swamping: at the same time, lots of lands used for vegetable and fruit growing are 3rd and 4th class. Due to the lack of the necessary finance, the farmers are not able to carry out appropriate land improvement and to carry out effective agricultural activities, therefore, these lands remain uncultivated. Investments in such lands should be directly encouraged by the state in the form of land improvement, addition of humus to the soil composition, as well as the removal of salinity and swamp, and the implementation of corrosion protection programs.

In order to solve this problem, we propose to develop and implement programs with up to 50% compensation by the state for the cost of the work performed by businesses to improve the quality of lands connected to the existing irrigation system, which will include ameliorative, humus addition, creation of forest layers for protection from wind, anti-saline drainage and swamp cleaning actions. These actions will increase the cost of land already connected to the irrigation network, which in its turn will provide new opportunities for effective investment programs.

Measures implemented by the RA Government

The broader public in Armenia started talking about the economic consequences of the coronavirus after the state of emergency declared by the RA Government on March 16, 2020 entered into force. As in all countries affected by the pandemic, the RA Government has developed and started to implement socio-economic programs to mitigate the economic downturn caused by the coronavirus. Accordingly, on March 26, 2020 the RA Government adopted a comprehensive program of measures to combat the coronavirus (hereinafter the

Comprehensive Program)¹. According to the mentioned decision, the main goals envisaged by the program are the following:

- assistance to individual businessmen of the RA by sectors to mitigate the risks associated with the current foreseen market liquidity due to the spread of the coronavirus;
- sustainable and continuous development of the economy;
- adjusting capital investment priorities by the state and activation of the implementation process;
- identifying and assisting groups of people who lost their jobs due to coronavirus (including the self-employed) for whom it may be impossible to find another job in the near future;
- ensuring the social security of the socially vulnerable groups, supporting their and their families' economic stabilization;
- upgrading the healthcare system to effectively fight the coronavirus;
- increasing the efficiency of management of food, medicine, raw materials, goods and other necessary reserves;
- approval of the financing plan for the activities envisaged by the program, according to sources and indicative sizes.

For the implementation of the above-mentioned goals, the Government of the Republic of Armenia has allocated a package of 150 billion drams with the following distribution:

- 25 billion drams - enterprise support programs aimed at solving current market liquidity problems;
- 25 billion drams - social assistance programs;
- 80 billion drams - long-term economic development programs aimed at solving the problem of expanding private investment;
- 20 billion drams as reserve funds to make necessary redistributions.

In the framework of this paper, the essence of socio-economic measures and some issues related to them will be analyzed. It should be noted that it is not possible to carry out a complete analysis of the measures' outcomes due to the lack of comprehensive statistics.

Thus, the set goal of the support of business entities envisaged by the comprehensive program is to create conditions and opportunities for business entities to analyze the

¹ <https://www.arlis.am/DocumentView.aspx?DocID=144143>

changing conditions of demand, to respond to them, and to continue the activity accordingly and to develop.

The RA Government has adopted 9 measures in this direction², which can be classified as credit and grant measures.

Credit measures are mainly in the form of allocation of interest-free loans or various forms of loan interest subsidies. The following areas are financed by credit measures:

- 1) salary or equivalent payments to the employees of business entities;
- 2) payments of taxes, duties and mandatory payments to the state or community budget;
- 3) purchase or import of raw materials, provided the entire volume of raw materials is to be used in the Republic of Armenia or the Republic of Artsakh for the purpose of obtaining a finished product, and the business entity manages the necessary and appropriate production capacities;
- 4) purchase or import of new devices and equipment, provided that the given devices and equipment be used to organize production or to expand production in the Republic of Armenia or the Republic of Artsakh;
- 5) payments for public services (electricity, water, gas, communication, telecommunication expenses);
- 6) companies engaged in business, provided that the purchased or imported goods be sold in the Republic of Armenia or in the Republic of Artsakh;
- 7) credit support to the agricultural sector;
- 8) support to start-ups.

It is noteworthy that in order to be a beneficiary of the above-mentioned measures, the RA Government has set certain minimum requirements, in particular:

- good credit history, i.e. according to ACRA information, during the 12 months prior to the loan application date, the applicant did not have overdue loan liabilities of 30 days or more;

- good tax history, meaning:

a. no administrative proceedings were instituted against the business entity for collecting the unfulfilled tax liabilities during the 365 days preceding the date of submission of the loan application, or

b. the overdue tax liabilities as of December 31, 2019, on the date of loan submission, did not exceed 1% of the total amount of tax liabilities repaid from the joint treasury account in

² <https://www.gov.am/am/covid19/>

2019, the amount of state duty paid in 2019, and the balance of the joint treasury account as of December 31, 2019.

In particular, all businesses, in fact, regardless of their field of activity, can benefit from the assistance tool envisaged by the first measure of the Government, if they meet the above two main requirements. In this context, it should be noted that in the conditions of declining economic indicators, it is certainly possible to direct “cheap” cash flows to business, but in terms of compliance with the goal set by the comprehensive program, in our opinion, it is necessary to study the structure of stakeholders according to sectors and business size.

It should be highlighted that the first one³ is the largest of the Government's measures program. The mentioned measure was later supplemented with some investment promotion tools, in particular, those business entities, which will invest 25 million drams or more in their statutory capital in 2020, can benefit from the full volume of preferential lending toolkit.

The business entity, in the authorized capital of which an investment of 25 million drams or more was made in 2020, enjoys all the following additional privileges:

- the subsidy is provided for a loan period of up to 30 months, and in case of foreign currency loans - for a 9-month period;
- the maximum amount of the subsidized part of the loans to be provided is set at 300 million drams, and in case of foreign currency lending - equivalent to 150 million drams;
- the amount of subsidy increases by 0.25% (except for cases of full subsidy).

The business entity, in the authorized capital of which an investment of 50 million drams or more was made during 2020, enjoys all the following additional privileges:

- the subsidy is provided for a loan period of up to 36 months, and in case of foreign currency loans - for a period of 12 months;
- the maximum amount of the subsidized part of the loans to be provided is set at 400 million drams, and in case of foreign currency lending - equivalent to 200 million drams;
- subsidy rates increase by 0.5% (except for cases of full subsidy).

The business entity, in the authorized capital of which an investment of 100 million drams or more was made during 2020, enjoys all the following additional privileges:

³ <https://www.arlis.am/DocumentView.aspx?DocID=145869>

- the subsidy is provided for a loan period of up to 48 months, and in case of foreign currency loans - for a period of 24 months;
- the maximum amount of the subsidized part of the loans to be provided under the support tool is set at 500 million drams, and in case of foreign currency lending - equivalent to 250 million drams;
- subsidy rates increase by 1% (except for cases of full subsidy).

The mentioned statutory capital increases must be made at the expense of investments in the form of cash. Moreover, the reduction of the authorized capital is not allowed during the whole period of subsidizing.

We believe that the toolkit of loan support for investments needs to be expanded, as the mentioned can be beneficial for the business entity only in case of concrete calculations in specific situations.

The next economic measures are grant-based. They mainly envisage partial reimbursement of the salary fund in the approximate amount of the taxes withheld and paid by a tax agent.

However, in the measures of this nature, the Government has also enshrined the principle of sustainability, mainly providing grants to organizations that have been able to retain jobs. Let us consider the fifth measure as an example of the mentioned ones⁴. According to the respective decision of the Government, the beneficiaries of this measure are the business entities (except banks, credit companies, pawnshops, insurance companies, foreign exchange offices, securities trading companies, investment companies, investment funds, organizers of lotteries and winning games, managers of investment funds, payment and settlement organizations, insurance brokers, credit and insurance bureaus, state joint stock companies, state non-commercial organizations, community non-commercial organizations, public administration institutions, community management institutions, non-governmental organizations, foundations, public associations, non-commercial cooperatives, political parties) which from January 1, 2020 to April 1, 2020 had continuous employment of 2-50 employees, and the actual fund of income calculated by the above business entities did not decrease during the mentioned period. Moreover, the procedure of calculating the number of employees and calculated income is defined in accordance with the regulation adopted on the basis of paragraph 2 of this decision. In fact, all the measures of this group are built on similar principles. In our opinion, this group of measures has certain shortcomings, in particular:

- There may be a motivation for businesses to keep to some extent paid jobs as a formality. For example, it is not a secret that there are differences between real and

⁴ <https://www.arlis.am/DocumentView.aspx?DocID=141227>

declared salaries in the field of public catering and hospitality. Therefore, with regard to the paid jobs submitted by an entity with the income tax calculation, it cannot be claimed that the real salary has been paid. Thus, this tool could become an incentive for many companies to continue declaring jobs, distorting the real changes in economic indicators.

- Technical shortcomings of measures that may create inconvenient expectations for businesses during the economic crisis. In particular, the list of beneficiaries of the mentioned measures sometimes excludes such organizations, which not only did not reduce jobs and the salary fund, but also had paid bonuses in the previous month or their former employee moved to another employer, etc. It is natural that not being a beneficiary due to such technical deficiencies, for a business corresponding to the purpose of the measure can rightly create, apart from the factor of injustice, distrust in the professional substantiation of the measures implemented by the Government.
- The factor of not being a real support for businesses. In particular, it is necessary to analyze to what extent this support is actually able to stop the bankruptcy of the business. In this context, we suggest analyzing the 23rd measure of the Government. The areas presented in this measure are the ones hit hardest by the coronavirus. According to the justification of this measure, the sales turnover of the mentioned areas has decreased by up to 70%.

The mentioned measure envisages provision of monthly grants up to a maximum of 33% of the salary fund.

However, this measure needs to be analyzed in terms of effectiveness.

In particular, according to the RA National Statistical Service (NSS) 2018 data, public catering, salaries, and equivalent assets accounted for 22 percent of total corporate expenditures. According to the same data, the median of the sector product profitability index was 21.9%. This means that in 2018 about 82% of the sales turnover of the companies in the sphere were covered by the expenses. The measure can finance maximum 7.26% of the total expenses. In other words, a company with a turnover drop of up to 70%, which according to the above average calculation will have a cost coverage deficit of about 40% (given the reduction of direct costs), will receive funding up to a maximum of 7.6%.

Let us make a conventional example as a proof to what is said. According to the above-mentioned average indicators, a company in August 2019 had a turnover of 100 million drams, with expenses amounting to 8.2 million drams. At present, the company has a 50% decline, with a turnover of 50 million drams and expenses of about 6.3 million drams. Such an organization will receive funding of about 400,000 drams.

Based on the above, the following efficiency issues arise:

- By what means and how shall companies finance their deficits?

- How will this measure contribute to the financial stability of companies?
- What measurable result will the 6 billion AMD financed from the RA state budget during 2 years exactly give?
- Is there a relevant analysis according to the number of companies and the size of the decline?

It is noteworthy that the mentioned measures do not ensure enough injection to the economy, as the flows mainly return in the form of taxes.

The Government's social programs are mainly aimed at providing financial assistance to various social groups on the basis of the minimum wage and reimbursing utility bills for some months. There are 13 social measures⁵. It is very important to implement these measures at the beginning of the economic crisis. In this context, we think that the social measures were appropriate, and they served their purpose.

CONCLUSIONS

1. Social measures are implemented appropriately and in a timely manner. It is another question to what extent they have contributed to the full execution of the social function of the state, that is, to satisfying the social minimum for the beneficiaries. The next question is the economic justification of the amount of funds spent, in particular, how much injection is needed to influence the total demand with such a toolkit. Of course, such an analysis requires an appropriate database.
2. As for the economic measures, we believe it is necessary to carry out additional analysis on the composition of the beneficiaries of loan products, as well as on the spheres of activity.

It should be noted that the Armenian Government adopted the last measure to neutralize the economic effects of the coronavirus on September 22, 2020 before Azerbaijan unleashed a new war against the Republic of Artsakh on September 27. In this context, the Government has the task of completely reviewing the strategy of economic recovery and continuous development. It is clear that effective mechanisms for encouraging investment must be introduced, which will also guide the desired transformation of the structure of the economy.

⁵ [https://www.gov.am/am/covid-19-cragrer./](https://www.gov.am/am/covid-19-cragrer/)

RECOMMENDATIONS

Taking into account the above-mentioned, the establishment of a platform for consolidation of the existing economic potential in the republic is an important tool to overcome the created challenges. It will give an opportunity to combine the intellectual abilities of the representatives of the business world, experts and the academic community in order to find ways out of the current situation with the least possible losses. As a pilot version of this platform, we propose to organize a scientific-practical conference titled “The main guidelines of economic policy in Armenia in the new reality.” The conference can be held through combining the formats of a webinar and classic discussion. As a result of the conference, concrete proposals can be developed, which will be submitted to the RA Government.