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**A.S. MAHDICH,**  
*Candidate of Science, Associate Professor,  
Alfred Nobel University (Dnipro)*

## **COVID-2019: EFFECTS FOR UKRAINE**

In current paper, we have discussed the impacts of the COVID-2019 pandemic on the economy of Ukraine and the responsive actions taken in order to find out the areas of adaptation needed to focus on. In the paper, we have mainly focused on the effects of COVID-2019 on agriculture, exports, tourism and retail. Our research has shown that agriculture, as outdoor business with minimal human resources, had the least quarantine restrictions. Large agricultural holdings, which experience political protectionism and excessive financial capacity, did not feel adverse effects of quarantine to same extent as small and medium farms, which faced greatest losses. During pandemic Ukrainian exporters of agricultural products did not face a decline in demand for agriculture products that also contributed to good resilience of agriculture in terms of COVID-2019.

Quarantine restrictions have generally had an adverse impact on domestic exports, mainly due to a decline in international traffic. Ukrainian exporters faced significantly increased transport costs. Another negative effect of the COVID-2019 for domestic exporters was the removal of customers from the contracts, increased receivables and lower contract prices. In terms of quarantine measures, the profits of Ukrainian exporters have decreased.

The tourism industry of Ukraine was the first to feel the effects of the active phase of quarantine. As a result, one of the most affected by quarantine restrictions were tourists, resort and recreational and health facilities

Trade in food is considered to be strategic area of Ukrainian trade. Quarantine restrictions have considerably affected the retail sector. In terms of strict quarantine restrictions, the food and economic markets completely stopped functioning. As a result of pandemic there was an explosive growth of online stores of grocery retailers. Our research helped to figure out what areas should be prioritized to recover from COVID-2019 crises.

**Key words:** *COVID-2019, agriculture, exports, tourism, retail.*

Проаналізовано вплив пандемії COVID-2019 на економіку України та відповідні дії, вжиті для того, щоб з'ясувати сфери адаптації, на яких потрібно зосередитися. У статті основну увагу приділено впливу COVID-2019 на сільське господарство, експорт, туризм та роздрібну торгівлю. Наше дослідження показало, що сільське господарство, як відкритий бізнес з мінімальними людськими ресурсами, мало найменші карантинні обмеження. Великі агрохолдинги, які практикують політичний протекціонізм та характеризуються значною фінансовою спроможністю, не відчули негативних наслідків карантину в тій же мірі, як малі та середні фермерські господарства, що зазнали найбільших втрат. Під час пандемії українські експортери сільськогосподарської продукції не відчули зниження попиту, що також сприяло стійкості сільського господарства в умовах обмежень, пов'язаних з COVID-2019.

Карантинні заходи, як правило, мали негативний вплив на внутрішній експорт, головним чином через зменшення міжнародних перевезень. Українські експортери зазнали суттєвого збільшення транспортних витрат. Ще одним негативним ефектом COVID-2019 для вітчизняних експортерів було відсторонення клієнтів від

контрактів, збільшення дебіторської заборгованості та зниження контрактних цін. Внаслідок карантинних заходів прибуток українських експортерів зменшився.

Туристична галузь України першою відчула наслідки активної фази карантину. Як результат – туристи, курортно-оздоровчі та оздоровчі заклади найбільше постраждали від карантинних обмежень.

Торгівля продуктами харчування вважається стратегічним напрямом. Карантинні обмеження значно вплинули на роздрібний сектор. В умовах жорстких карантинних обмежень продовольчий та економічний ринки повністю перестали функціонувати. У результаті пандемії відбулося бурхливе зростання інтернет-магазинів продуктових товарів. Наше дослідження допомогло з'ясувати, яким сферам слід надати пріоритет, щоб вийти з кризи COVID-2019.

**Ключові слова:** *COVID-2019, сільське господарство, експорт, туризм, роздрібна торгівля.*

### **Problem statement and analysis of recent research and publications.**

COVID-2019 has adversely influenced all the countries, however, to different extent. Ukraine, as many other countries, has faced considerable losses. Even though, the country has already faced political and economic crises before pandemic, it appeared to be quite resilient to the consequences of pandemic. Ukraine has faced deficient growth due to the low rates of domestic savings and investment even before COVID-2019. Until 2020, savings share in GDP was 5%. In 2020 pandemic changed this figure to 11.3% (State Statistics Service of Ukraine, 2021). However, it should be noted that household incomes have grown quickly recently due to transfers rather than labor incomes increase, that is unsuitable pattern for effective poverty decrease. Pandemic turned government policy from structural reforms to responsive actions. Fiscal risks at the macro level have raised. Monetary needs of public sector are anticipated to raise due to increases in minimum wage level and social transfers, which limits space for public investment and increases inflationary pressures in a supply-restrained economy. Moreover, considerable government domestic debt is crowding out needed private investment. Holdings of government securities already account up to 30% of total assets of the state-owned banks although corporate lending is still stagnating. Sounder fiscal measures, thus, are needed to reduce risks for the nearest future growth prospects (National Bank of Ukraine, 2021). An adaptive quarantine in June 2020, which replaced the entire lockdown, turned many services to normal operating. Domestic demand was enhanced by over 10% y-o-y real wage increase due to minimum wages increase and recovery of the economy. On the supply side, wholesale and retail trade grew 7.9% y-o-y in 2020 and positively contributed to GDP growth (World Bank, 2021a). Lower energy and higher iron and grain commodity prices, accompanied by import compression, resulted in the most beneficial terms of trade for Ukraine for the last decade. There was recorded current account 4.4% surplus in 2020. Remittances appeared to be relatively resilient, decreased to 5.3% y-o-y in 2020, whereas private capital inflows recovered. International reserves accounted US\$29.1bn in December 2020, equal to 4.7 months of next year's imports. The inflation grew from 2.5% in 2020 to 6.1% in the beginning of 2021 that was above the target of 5+/-1% of National Bank of Ukraine. This caused the key rate increase to 6.5% in March 2021 (National Bank of Ukraine, 2021b).

Mentioned above shows that there are signs of adaptation of Ukraine to pandemic conditions and areas to slow, but promising recovery. A lot of research studies have been devoted to the forecasts of the pandemic effects on the economy of the countries (Dolbneva, 2020; Kalyuzhna et al., 2020; Shevchenko, 2020). Considerable area of research deals with the influence of COVID-2019 on the migration flows (Artyomova & Kuznetsova, 2020; Klietsova et al., 2020; Korolenko & Petrosian, 2021; Libanova & Pozniak, 2020; Tishchenkova & Tyshchenkova, 2020; Yeleyko & Ukraynets, 2020). Current research contributes to the large body of literature on pandemic effects by discussing how pandemic influenced Ukrainian economy and what has been already done to address pandemic adverse effects.

**Purposes of the paper.** The purpose of current paper is to consider the impacts of the COVID-2019 pandemic on the economy of Ukraine and the responsive actions taken in order to find out the areas of adaptation needed to focus on.

**Main results.** Below we have considered the influence of COVID-2019 pandemic on Ukrainian economy.

#### ***Agricultural sector***

The agricultural sector is critical to Ukraine's food security. The share of agricultural sector in GDP of Ukraine is 9%, in the structure of tax revenues – 6%, in the structure of employment – 18% (State Statistics Service of Ukraine, 2021). Trade in agricultural products along with metallurgical products is the main source of foreign exchange earnings in the country. In general, agricultural exports, primarily grain, provides Ukraine with up to 40% of foreign exchange earnings (State Statistics Service of Ukraine, 2021).

Agriculture, as an “open-air” business with minimal human resources, had the least quarantine restrictions. Large agricultural holdings, which experience political protectionism and excessive financial capacity, did not feel adverse effects of quarantine to same extent as small and medium farms, which faced greatest losses (Waş et al., 2020). Agricultural firms minimized additional costs for compliance in terms of the new sanitary requirements. Logistics disruption due to quarantine in spring 2020 was offset by stocks. There were recorded fluctuations in population demand for some types of agricultural products (buckwheat, sunflower, lentils). Moreover, due to the introduction of quarantine measures, the demand for food products of entertainment business has decreased. However, during pandemic Ukrainian exporters of agricultural products did not face a decline in demand for agriculture products that also contributed to good resilience of agriculture in terms of COVID-2019 (Kaminskyi et al., 2021).

#### ***Exports***

Quarantine restrictions have generally had an adverse impact on domestic exports, mainly due to a decline in international traffic. Ukrainian exporters faced significantly increased transport costs. Another negative effect of the COVID-2019 for domestic exporters was the removal of customers from the contracts, increased receivables and lower contract prices. In terms of quarantine measures, the profits of Ukrainian exporters have decreased.

Ukraine is an exporter of primary commodities, in particular, metals, the price for them is significantly falling due to falling demand in world markets. The price of copper has already considerably fallen. Prices for iron and steel have the same trend. Further dynamics of the exports of metals decline is directly related to the spread of the pandemic, which considerably diminished the whole level of production of equipment and machinery in the country and demand for related products abroad. One of the pipe production leaders – Interpipe – in the second and third quarters of 2020 faced a 15–20% reduction in profits compared to the first quarter of the same year. However, due to the closing of similar productions abroad in the Middle East and Europe the company appeared to be able to export more products in the mentioned regions than planned. During the quarantine, there was recorded a growth in foreign demand for domestic products that are cheaper, including foodstuff of Ukrainian company Dobrodiya have become widespread among customers in Africa and Asia.

### ***Tourism***

The tourism industry of Ukraine was the first to feel the effects of the active phase of quarantine. Most hotels remained closed until mid-May 2020, unable to officially meet visitors. Restrictions also affected mass events - festivals, concerts, sports competitions, which usually attract guests from different cities and countries. As a result, one of the most affected by quarantine restrictions were tourists, resort and recreational and health facilities (camps, sanatoriums, boarding houses, health complexes), which have almost completely stopped their activities (Rutynskyi & Kushniruk, 2020). In general, the losses of the tourism industry in Ukraine are estimated at more than US\$1.5 billion dollars (Centre for Applied Research, 2020a). In addition to the losses, the tourism sector of the Ukrainian Carpathians in 2020 suffered from low demand for skiing holidays due to the abnormally warm winter. During the period of adaptive quarantine (from June 2020), tourism industry slowly began to recover and the demand for domestic tourism increased.

### ***Retail***

Trade in food is considered to be strategic area of Ukrainian trade. Quarantine restrictions have considerably affected the retail sector. In terms of strict quarantine restrictions (mid-March - mid-May 2020), the food and economic markets completely stopped functioning. As a result of pandemic there was an explosive growth of online stores of grocery retailers. Large retailers introduced their online stores. In the table 1 below, we have presented adverse effects of COVID-2019 pandemic on the economy of Ukraine and measures taken.

### ***Forecasts of further economic situation in Ukraine***

According to World Bank, economic recovery of Ukraine (table 2) is anticipated to be smooth given high uncertainty associated with the vaccine introduction and the economic policies directed to addressing obstacles to investment. It is projected that the GDP growth would be at the level 3.8% due to positive trends in agriculture and processing industry. Minimum wage level increase will cause additional pressure on inflation and current account imbalances. The poverty rate of US\$5.5 a day threshold is anticipated to decrease to 2.5% in 2021 (World Bank, 2021).

Table 1

## COVID-2019 effects and measures taken in Ukraine

Negative consequences of COVID-2019	Main measures taken
<b>Agriculture</b> – fluctuations of population demand for food products; – poor weather conditions in 2020 which caused decline harvest	– additional agreements to reinforce the responsibility of the parties; – digitalization in the agricultural sector
<b>Export</b> – decline in international traffic; – decline in profitability; – withdrawal of customers from contracts; – lower contract prices; – increased receivables	– decreased the number of employees to meet the needs of production; – transition to remote work; – introduction of electronic document management; – setting up additional pandemic headquarters; – allocating funds for the purchase of medical equipment for local hospitals by large companies
<b>Tourism</b> – business activity of tour operators stopped due to hotels suffered considerable losses due to the need to refund for canceled bookings	– up to 25% reductions of staff; – setting up purchases of tours remotely; – reduction of working day, using vacations at own expenses of staff; – digital transformation of the hotel business; – through the introduction of electronic document management
<b>Retail</b> – considerable part of outlets closed; – large chains of retail stores in terms of quarantine have considerably expanded the geographical scale and capabilities of their own supply services	– introduction of on-line stores; – introduction by retail chains own mobile applications; – refocusing on contactless after-sales service

Source: author based on Centre for Applied Research (Centre for Applied Research, 2020a, 2020b).

Table 2

## World Bank projections of economic development of Ukraine

Indicator	2018	2019	2020	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	3.3	3.4	-4.5	3.8	3.0	3.5
Private Consumption	8.9	11.9	-3.0	4.6	3.8	3.5
Government Consumption	0.1	-5.0	1.8	1.5	0.0	0.0
Gross Fixed Capital Investment	14.3	15.0	-27.4	9.7	8.4	7.5
Exports, Goods and Services	-1.6	6.7	-7.4	3.4	2.0	4.4
Imports, Goods and Services	3.2	6.3	-11.5	6.8	5.0	4.8
Inflation (Consumer Price Index)	9.8	4.1	4.8	5.0	5.0	5.8
Current Account Balance (% of GDP)	-3.2	-0.9	4.4	-1.3	-2.8	-3.3
Net Foreign Direct Investment (% of GDP)	1.9	2.1	2.2	2.4	2.6	6.2
Debt (% of GDP)	60.6	50.4	63.2	62.4	59.7	57.8

\*f – forecast.

Source: author based on World Bank (2021).

From the table 2 it can be seen that for the forecasted period 2021–2023 economic situation in Ukraine is seen to be stable but no fast recovery is expected. According to World Bank forecast during 2021–2023 private consumption will not return to pre-pandemic level, however, the indicators of inflation and exports are anticipated to be better than before COVID-2019. There is also expected positive trend of foreign direct investment increase. Based on mentioned, new approaches and adaptation strategies should be developed both by government authorities and business sector in order to stay resilient to consequences of COVID-2019.

### **Conclusions**

High profitability of agricultural sector in Ukraine demonstrates a growing trend of importance in the context of the spread of the pandemic and restrictive actions. Thus, in such conditions technological backwardness of Ukraine should be overcome, investment in the secondary processing of agricultural products is needed, as well as in the development of innovative technologies in the agricultural sector is relevant for the state and business.

The impact of COVID-2019 on the exports reflects the necessity to continue adjusting the budget plans for the nearest future by the companies and actively seek for new activities and markets. Moreover, large exporting companies should still focus on finding more flexible approaches to the organization of activities, such as the transition to a shift mode. It is also vital for domestic businesses engaged in the export of goods to minimize unit costs, as well as maintain customers and broaden their customer base as much as possible.

The companies, which engaged in tourism industry, should focus on domestic tourism, visa liberalization (introduction of electronic visas and visas on arrival or elimination of visas) as well as infrastructure development in the regions, the construction of roads and airports.

As the consequence of quarantine is economic crisis, which is characterized by reduction in purchasing power and a change in consumer behavior as well as violation of the traditional seasonality of sales, changing trends due to falling consumer incomes, the existing boundaries between traditional and online retail are disappearing. Accelerated development of digital services, such as e-commerce, payment systems and ordering and delivery services should be high priority for retail companies.

It should be also noted that there is also a problem of emigration of young qualified personnel abroad, lack of government efforts to support the efficiency of entrepreneurship by investing in business projects and creating special support programs for industries (in particular, cheap loans for small and medium farms). Adaptation that is more effective is needed, more powerful tools to be applied. Our further research will be devoted to the investigation of the experience of other countries in recovering from COVID-2019 consequences.

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