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Job-retention schemes and labour market adaptivity in the context of the Coronavirus crisis: Analysis and recommendations for Ukraine, Belarus, Moldova, Georgia, Uzbekistan and Armenia

by David Saha and Sebastian Staske

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About the German Economic Team

Financed by the Federal Ministry for Economics and Energy, the German Economic Team (GET) advises the governments of Moldova, Georgia, Ukraine, Belarus and Uzbekistan on economic policy matters. Furthermore, GET covers specific topics in other countries, such as Armenia. Berlin Economics has been commissioned with the implementation of the consultancy.

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Executive summary

The Coronavirus crisis has been a massive challenge for economies all around the world. Good adaption of the labour market to a crisis situation is of great importance for every country. Both the incomes of workers, the viability of companies and the future growth of the economy depend on a successful resolution of crisis-induced stresses on the labour market. This paper first analyses the different approaches to improve the adaptivity of the labour market, particularly the ability of companies to quickly cut labour costs if faced with a large external shock to their business. In the second part, labour market adaption during the Coronavirus crisis is analysed for six transition countries and initial recommendations for potential reforms of labour market regulation are given.

Policy options

Three main approaches to labour market flexibility exist: increasing labour market flexibility and two types of job-retention-schemes (JRS): short-time work (STW) schemes or wage subsidies (WS). Labour market flexibility implies mainly the reduction of employment protection legislation (EPL) that restricts the ability of companies to lay off employees. It is a pure market approach, which in practice implies that workers and the state (through claims to unemployment benefits) will have to bear some of the risks of economic shocks.

JRS have in common that the state essentially pays part of the labour costs of companies in order to induce them not to lay off staff or in order to compensate them for not being able to do so quickly. In the case of STW schemes, companies can unilaterally put employees on reduced or zero hours (short time) and part of the reduced salary they receive during this time will be paid for by the state. Restrictions on when, how and how long workers can be on short time apply. WS, on the other hand, are paid for all workers in qualifying firms, regardless of their hours of work being reduced or not. All schemes have advantages and disadvantages.

Flexibility approach: While this approach makes little demands on the capacities of the state and offers no room for abuse, it may lead to economic substance being lost as companies lay off skilled staff that they would need during the recovery. On the other hand, it facilitates structural change. “Zombie companies” with unviable or outdated business models are not artificially kept alive and their workers can move to more productive jobs. Highly problematic about the flexibility approach is the political dimension: Increasing job insecurity for employees is generally unpopular, especially during an ongoing crisis. A modification that takes employees’ legitimate concerns about income security seriously and may prove to be more politically palatable would be a flexicurity approach, in which the welfare state – especially unemployment protection, but also retraining and active labour market policies – are being built up alongside.

STW schemes: These permit companies to reduce labour cost during an acute, but temporary crisis without needing (or being able) to fire employees or otherwise reduce labour costs. Reducing the working hours of employees with corresponding wage cuts is normally only possible if mutually agreed upon with the employee. STW schemes allow companies to do this unilaterally, whilst ensuring that the workers keep their employment contract and receive a (usually high) share of their wage during their spell on short time, paid for mainly by the state, with some co-payment by the respective companies.

This has the advantage of being much more popular with voters than a flexibility approach and still allows companies to cut costs quickly. Potential disadvantages of STW schemes also exist: Firstly, they create additional fiscal costs, although these depend largely on the generosity of the unemployment insurance system. Secondly, like most state transfers, STW carries the potential for abuse and requires some administrative capacity by the state to properly set up and calibrate the system and monitor its implementation and uptake. Finally, STW schemes run the risk of delaying adaption to structural change. Companies experiencing a permanent shock to their business model may nevertheless try to use the STW scheme to retain employees and stay alive even though they should be liquidated sooner rather than later.

WS: This approach is largely similar to STW schemes but has the advantages of setting more incentives to keep employees working and having fewer abuse possibilities. However, broad wage subsidies also are a much less targeted transfer instrument than STW schemes and may be more costly. Also, WS are even more problematic regarding their potential effect to delay adaption to structural change.

Labour market adaption in six transition countries

All six transition countries analysed in this paper – Ukraine, Belarus, Moldova, Georgia, Uzbekistan and Armenia – share the same Soviet legacy with its formal approach in their labour law. However, they exhibit different degrees of flexibility of labour law, where especially Georgia with very lax regulations on firing stands out. Most countries were quite strongly affected by the crisis: Belarus and Uzbekistan suffered least and Armenia (due to the dual shock of the pandemic and war) most. Except a very narrow scheme in Ukraine, none of the countries has a STW scheme or other JRS in operation, although in some countries (Moldova and Armenia), companies can put employees on "technical unemployment" or idle time for a reduced salary – but usually only in case of complete impossibility of work and not for economic reasons alone.

In practice, the dominant adaption strategy in essentially all countries would probably be and has been to fire employees. Depending on the specific circumstances (notification period, admissible reasons for firing, severance pay), the cost saving that this allows companies will be more or less delayed – least so in Georgia and most so in Ukraine and Belarus where labour law, at least the standard rules in the labour code, are most rigid.

For most countries, implementation of a JRS, especially in the form of an STW scheme, could be contemplated. The notable exceptions might be Georgia and Uzbekistan: In Georgia the labour law is so flexible already that companies face no difficulties in reducing costs in the short term. Hence, there is less immediate need for a JRS and it may rather be useful to increase social protection mechanisms (e.g. implement an unemployment insurance system) as the Coronavirus crisis showed the necessity thereof. However, a STW scheme could still help companies retain valuable employees in temporary crises. Uzbekistan on the other hand probably lacks the requisite administrative capacity at present and might want to emphasize labour law reform.

In the other countries, a JRS appears useful. However, care should be taken to first analyse in depth the suitability of different design options (especially regarding coverage, eligibility, duration and generosity of the scheme as well as regarding the co-payment of companies using the scheme) and the net fiscal costs of such a system.

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Content

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1 Introduction

The Coronavirus crisis has hit economies across the world. Of particular economic importance and interest is the effect of the crisis on labour markets. As companies were temporarily closed or faced economic difficulties, especially due to reduced demand for their products, reducing labour costs was of great importance in order to stay afloat. However, the ability of companies to react to difficulties by adjusting their labour input, the adaptivity of a labour market, depends crucially on labour market regulation and policy.

Flexible “hiring and firing” as in the USA is not possible in many countries with more rigid labour market regulation. Companies in countries with more rigid labour law hence cannot quickly cut labour costs through firing workers. However, building especially on positive experience in Germany with “Kurzarbeit” (short-time work) during the global financial crisis of 2009, many countries have implemented and extended job-retention schemes during this crisis. Such schemes generally involve employees working less or zero hours without cancellation or modification of their employment contract and receiving a compensation for foregone salaries paid mainly by the government. As these schemes can be used by companies without requiring the workers to agree, they constitute a way to allow companies to reduce labour costs despite labour law protecting employees from dismissal. By maintaining the contractual links between employees and their employer, they also conserve person-specific human capital in companies, which may facilitate economic recovery after a crisis.

This paper concerns labour market adaptivity in six transition countries: Ukraine, Belarus, Moldova, Georgia, Uzbekistan, and Armenia. Among these countries, a few specific conditions and difficulties with relevance to labour market adaptivity exist and will be considered in this paper, such as the limited institutional and fiscal capacities of the state, labour regulation inherited from the Soviet Union and a prominence of informal work.

Our question is, what can be learnt from the experience of the Coronavirus crisis in these countries? How can labour market adaptivity, understood as the ability to optimally react to crises from the perspective of all affected stakeholders, be improved? In order to answer this question, we first review the policy options available to improve labour market adaptivity in chapter 2, paying special attention to both the role of labour market flexibility and recent experiences and discussions of various job-retention schemes. In the following chapter we will broadly analyse the labour markets of the six transition countries, combining recent data of labour market behaviour during the Coronavirus crisis as well as reviews of the regulatory environment and expert opinions. Chapter 4 draws initial conclusions about options to improve labour market adaptivity worth exploring in the near future as well as similarities and dissimilarities among the countries.

2 Policy options to foster labour market adaptivity

Labour markets should be able to adapt quickly to changed situations. This is vital to ensure that companies can survive temporary shocks such as closures during lockdown or temporary slumps in demand and that the labour force is (re-) allocated efficiently to the sectors where they are most productive (structural change). The task for policy is hence to foster *labour market adaptivity* in a way that protects or balances the interests of all relevant stakeholders. In the following, we analyse three main policy options to foster labour market adaptivity, discuss lessons on them from the Coronavirus crisis and their general suitability for transition countries.

2.1 Increasing labour market flexibility

Labour market flexibility is the answer of classical economic theory to ensure labour market adaptivity: Allowing companies to "hire and fire" flexibly should permit them to adjust quickly to changing economic conditions as they can easily reduce their labour costs in times of crisis and are encouraged to quickly hire new employees in good times. Labour market flexibility is achieved by reducing employment protection legislation (EPL), which refers to the set of legal rules restricting a company's ability to lay off workers individually or collectively.[1] The most prominent example of a country with a flexible labour market are the USA.

Advantages of increasing labour market flexibility

In a flexible labour market, companies affected by a lockdown or demand shock can quickly reduce labour costs by firing workers. As labour costs are usually one of the largest cost items of companies, reducing them by laying off workers not needed in an economic slump should be a substantial step to ensuring the survival of otherwise viable companies during a crisis. This will also be better for workers, who ideally get rehired once conditions improve, compared to viable companies going out of business during a crisis, implying a permanent loss of jobs rather than a temporary one. Dealing with structural change should also pose no difficulties as companies with outdated business models, provided that they are not subsidised or otherwise kept alive artificially, should disappear with their workforce being absorbed by viable companies that can make better use of the workers. At the same time, hiring incentives for companies during a recovery phase should be higher as they know that they can lay off workers again if the market environment turns worse again.

Also, flexible labour market regulation should induce workers to be relatively forthcoming towards their employers with regard to "soft options" to reduce or adjust the company's labour input. These options, including temporary reductions of working hours or workers taking annual or unpaid leave in periods of low demand for a company may also help a company weather a crisis. But, as they would entail modifications of work contracts, they usually require workers' agreement. Workers are probably even more inclined to agree to such measures in flexible labour markets. Also, flexible labour markets make no particular institutional demands on the capacities of the state, apart from supporting the fired

[1] European Commission, https://ec.europa.eu/info/sites/info/files/european-semester_thematic-factsheet_employment-protection-legislation_en.pdf

workers through unemployment insurance. Hence, no substantial abuse risks of policies exist, as the state essentially stays out of the market.

Disadvantages of increasing labour market flexibility

Flexible labour markets imply a substantial income risk being assigned to workers rather than companies. Also, weak EPL is generally seen as putting workers in a disadvantageous negotiation position vis-à-vis their employers. Hence, there is usually substantial political opposition to increasing labour market flexibility. Especially during an acute crisis, political initiatives to reduce the protection of jobs are highly unlikely to find considerable support.

This disadvantage can be mitigated: Risks for workers can be reduced by good social protection, especially unemployment insurance (UI) and active labour market policies to keep unemployment spells short. Such a combination is called a *Flexicurity* system, with Denmark being the main example for such a system in practice. Indeed, the Danish system appears to have worked well during the global financial crisis of 2009, allowing a speedy and solid recovery.[2] Still, this possible interaction with social policy is unlikely to substantially reduce political opposition to increasing flexibility in a time of crisis.

Also, firing workers implies additional costs for companies when business improves again, as they need to find and train suitable new employees. In some cases, employers may be able to re-hire the employees they had to lay off during a crisis, but this is of course uncertain. Hence, if it is clear that a crisis is only temporary, it would be beneficial to companies (and indeed for the entire recovery process) if contractual relationships with employees could be retained.

2.2 Short-time work schemes

Short-time work (STW) schemes are the most commonly used and discussed type of job retention schemes (JRS). They have received much attention after Germany's short-time work scheme was considered highly successful in the 2009 global financial crisis. Covering a relatively wide class of policies with a wide range of design options (see Box 1), they are characterised by the government paying a large share of the wages of workers not working due to economic difficulties of their employer. Importantly, although workers are temporarily not or only partially working due to a decision of their employer, they retain their job and contract unchanged. A second, less prominent type of JRS are wage subsidies, which will be discussed in section 2.3.

Compared to the "pure market" philosophy behind labour market flexibility, in JRS governments use their fiscal capabilities to actively support companies and workers during periods of distress. Hence, these schemes allow companies to reduce labour costs without firing employees and are therefore also attractive to overcome the difficulties that rigid labour market regulation poses for companies without relaxing employment protection.

Advantages of STW schemes

STW schemes have economic and political advantages: By being able to reduce labour costs without needing to lay off workers, companies are protected from going insolvent and employee incomes are stabilised, supporting the economy in the short run. In the recovery phase, where workers return to

[2] Andersen, 2015.

their old jobs, companies do not have to bear the costs for hiring and training new workers and continue where they left off with their existing trained employees. The political advantage is that these schemes are unlikely to face strong opposition as they benefit both workers and companies. STW schemes hence can help countries with relatively rigid labour market regulation (i.e. restrictions on companies' ability to lay off workers) nevertheless ensure a good adaption of the labour market and companies to crises.

Disadvantages of STW schemes

STW schemes will have fiscal costs – after all the government will step in to pay a large share of the labour costs of companies using the instruments. However, the *net* fiscal costs strongly depend on the interaction with unemployment insurance. As laid off workers receive UI benefits, they also create fiscal costs. Usually, STW can be expected to create some additional net costs at least in the short run as not all workers receiving transfers would have otherwise been fired, especially if EPL is strict in the respective country. However, in the longer run, this could also turn into savings as workers return to work at companies that would have otherwise gone out of business.

Another potential disadvantage of STW relates to structural change: By protecting existing jobs, STW are mainly an instrument to protect the *status quo*. Although STW schemes can be calibrated to reduce incentives for "zombie companies" with no longer viable business models to use STW (for example by requiring companies to keep paying a share of labour costs or by restricting the duration of the scheme)[3], it is generally acknowledged that STW at least contain a risk that structural change, the reallocation of workers to more productive jobs, is slowed down by them.[4]

Finally, like every policy instrument involving government payments, STW is subject to abuse risks. Abuse would consist of companies using STW to pay for their workforce whilst illegally requiring employees to continue working normally. Combating this abuse is feasible, through on-site inspections or using tax enforcement methods (comparing turnover to the labour input in the books). The latter method may however be less applicable for countries with a large informal sector and hence more off-the-books transactions.

[3] Blanchard et al., 2020.

[4] ILO/OECD, 2020; Crimmann and Wießner, 2009.

Box 1: Design options and variants of short-time work schemes

Although many STW schemes in operation today appear quite similar at first glance and are often similar in basic design to the German "Kurzarbeit"[5], substantial design options exist on several dimensions to tailor the schemes to the needs, capacities and context of individual countries[6]:

- **Scalability**: Companies can either be allowed to flexibly scale down the working hours of employees, with the STW scheme only providing support for the hours cut. This is the most common variant, used for example in the German Kurzarbeit. Alternatively, companies only receive support for employees that temporarily do not work at all, as in the UK's furlough scheme used until August 2020. While the short-time work model provides companies with more flexibility and could save costs as workers work as much as the company's situation permits, the furlough model is easier to administer for governments, especially with regard to preventing and detecting abuse.
- **Coverage:** Qualification criteria that companies must meet or justifications they need to invoke in order to receive money from the scheme can be adjusted to make the scheme have wider or narrower coverage. In Germany, the criterion was relaxed in 2020, by requiring that at least 10% of a company's workforce must be affected by cuts in working hours, as opposed to 30% before. This is a key decision to balance impact and costs of STW.
- **Eligibility:** Governments must decide whether STW is available only for regular employees or also for employees on temporary contracts, temp agency workers and apprentices. This design option affects the system's cost and equity considerations among different types of employees.
- **Generosity:** STW can provide different *replacement rates* for lost wage income of employees. Usually, the replacement rate is at least the same as that of the country's unemployment insurance. STW can also contain caps of maximum benefits for higher incomes. These design options are important for keeping the costs of the schemes in check.
- **Co-payment:** Another important decision is whether the government bears all of the costs or whether companies must bear part of the costs, for example by continuing to pay social insurance contributions for workers on STW. Requiring co-payment by companies will incentivise companies not to use the schemes for employees that will probably not be re-hired. A higher co-payment will reduce the impact of STW on supporting companies in times of crisis, but also reduce the negative effect of STW on adaption of the labour force to structural change
- **Duration:** Finally, governments can control how long companies may use STW at any one time. Maximum duration ranges from 6 months to two years, although in some countries (e.g., Ireland, Spain, and Finland) the maximum duration per worker is tied to individual unemployment insurance entitlements. Restricting the maximum duration can serve to accelerate adaption to structural change but can also reduce the impact of the STW scheme if viable jobs are lost because support ended too early.

[5] See German Economic Team, PB/01/2020 "Measures of the German Federal Government to support business during the Corona crisis" for a summary of the German short-time work ("Kurzarbeit") scheme (Link).

[6] We mainly follow European Commission, 2020 in the categorisation of the design options.

Fig. 1: Overview of design options and main effects

Design option	Effect on	
Scalability: Flexible cuts in hours or 0/100%	Flexibility	Abuse risks
Coverage: Circumstances required for JRS	Costs	Impact
Eligibility: Which workers can receive support	Costs	Equity
Generosity: Level of benefits	Costs	
Co-payment: Cost share of companies	Struct. change	Impact
Duration: How long	Impact	Struct. change

Source: Own illustration

2.3 Wage subsidies

A less commonly used variant of JRS are wage subsidy (WS) schemes, used for example in Australia, New Zealand in Canada, but also in Poland and Estonia during the Coronavirus crisis. These schemes differ from normal wage subsidies as subsidies are paid to firms both for hours worked (like normal wage subsidies) and for hours not worked (like STW). Most of the design options for STW schemes also apply to WS. Especially important is the coverage criterion: WS generally involve strict criteria that companies must meet to be eligible for WS to ensure that only companies affected by a significant decline in revenue receive subsidies.[7]

Another important part of the design of WS schemes is the relation between the subsidy paid to the companies and the wages of workers. Australia and New Zealand pay a lump-sum subsidy per worker that also acts as a minimum salary, whereas the subsidy is a fixed proportion of 75% of employees' regular wages in Canada and 70% in Estonia. In the Netherlands, the subsidy is paid proportional to the reduction in sales of the company.

Advantages of WS

Like STW, WS support companies and increase labour market adaptivity without requiring a weakening of EPL and layoffs of workers during a crisis. In addition to this, WS have two more advantages: Firstly, other than STW, firms have more incentives to keep workers working. Even if their productivity is temporarily lower than their wage, a WS will usually (the degree depends on its exact design) incentivise a company to keep a worker working, as long as there is any use for her work. This has a positive effect on economic activity and recovery. Secondly, the main abuse risk of STW – workers on STW working full-time or more than permitted – does not apply to WS as there is no conditionality of inactivity of workers for companies to receive the subsidy. Hence, WS are easier to implement institutionally, although the need for monitoring whether companies meet the usually strict qualification criteria will partially compensate this gain.

[7] OECD, 2020.

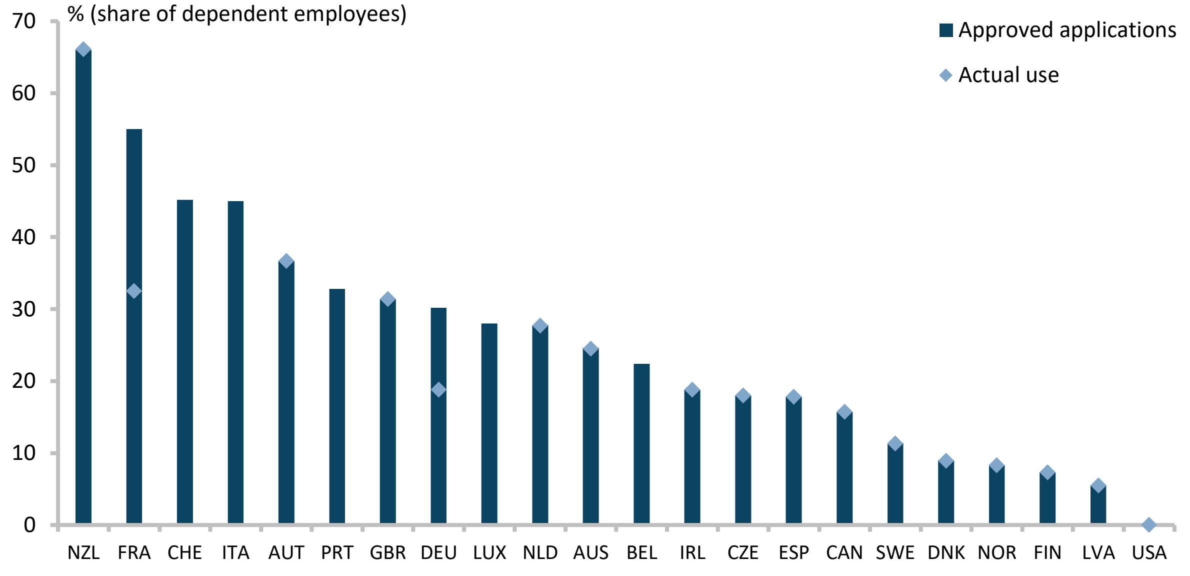
Disadvantages of WS

The main disadvantage of WS is of course that they are much less targeted instruments. Paying subsidies regardless of workers being on reduced hours implies that, even with strict qualification criteria, some companies will receive WS for workers that would have been working and getting paid anyway. This negatively impacts the cost/impact relation for WS. Furthermore, WS are even more problematic than STW schemes if companies or the economy is facing a reallocation shock. The wage subsidy is very attractive for companies with an outdated business model, where the productivity of their employees has permanently dropped below their wage level. A WS would allow many of these companies to continue to operate as long as the WS is paid.

2.4 Suitability to foster labour market adaptivity

JRS have been intensively studied and analysed in the context of the Coronavirus crisis. The focus on JRS as opposed to labour market flexibility is a pragmatic one as their implementation is more realistic during a crisis. They have been used at an unprecedented scale: Among OECD countries, 23 used and often adjusted existing STW schemes, eight introduced new schemes and seven introduced WS schemes.[8] Even in the USA with its flexible labour market, STW schemes exist, but were not used in significant magnitudes.[9] In most other countries, large shares of employees were supported by JRS.

Fig. 2 Use and approved applications for JRS in OECD-countries



Note: Take-up rates are calculated as a percentage of dependent employees in 2019 Q4. Data refer to end May except for Luxembourg and Switzerland (end April). Australia, Canada, Ireland, the Netherlands and New Zealand operate wage subsidy schemes, which are not conditional on the reduction in working hours. United States: data refer to participation in short-time compensation schemes.

Source: OECD, 2020

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[8] OECD, 2020

[9] However, many employees in the USA were made “temporarily unemployed”, i.e. fired with the intention of re-hire, often qualifying both for company healthcare and state unemployment benefits. See Springford and Tilford, 2020, for details.

Table 1: Use and adjustment of JRS during Coronavirus crisis in OECD countries

	Pre-existing short-time work scheme	Increased access and coverage	Increased benefit generosity	Increased access for workers in non-standard jobs	New short-time work scheme	New wage subsidy scheme
Australia						●
Austria	●	●	●			
Belgium	●	●	●			
Canada	●					●
Chile*	●	●	●	●		
Czech Republic	●	●	●			
Denmark	●	●			●	
Estonia						●
Finland	●	●	●	●		
France	●	●	●	●		
Germany	●	●	●	●		
Greece					●	
Hungary					●	
Iceland					●	
Ireland*	●					●
Italy	●	●		●		
Japan	●	●	●	●		
Korea	●	●	●			
Latvia					●	
Lithuania					●	
Luxembourg	●	●	●			
Netherlands*	●					●
New Zealand						●
Norway	●	●	●			
Poland						●
Portugal	●	●		●		
Slovak Republic	●	●	●			
Slovenia					●	
Spain	●	●	●	●		
Sweden	●	●	●			
Switzerland	●	●		●		
Turkey	●	●		●		
United Kingdom					●	
United States	●	●	●			

**Note: Ireland and the Netherlands: the existing STW scheme was replaced by a temporary wage subsidy scheme. Chile: Income support is financed out of the individual savings accounts for unemployment insurance of workers, unless there are no remaining funds.*

Source: OECD, 2020

JRS are found to achieve their primary task of protecting both companies and jobs.[10] While the fiscal costs of the schemes are acknowledged, a large share of costs will usually be compensated by savings from lower unemployment benefit usage or higher tax revenues due to a quicker recovery. Also, their potential status-quo preserving effect that creates difficulties with reallocation shocks and structural change can be reduced by ensuring a limited duration of the schemes, only partially compensating the labour costs in STW (co-payment) and focusing the support on sectors dealing with clearly temporary shocks only.

[10] See e.g. European Commission, 2020 or OECD, 2020.

3 Labour market adaptivity during the Coronavirus crisis in six transition countries

In the following, we hence take a look at the labour market situation during the Coronavirus crisis and labour market adaptivity in six transition countries. The aim is to better understand, where policies to foster labour market adaptivity and especially JRS would be needed and useful. It is useful to note that all countries have essentially inherited their Labour Codes from the Soviet Union. Although these codes have been amended in various degrees in the six countries analysed here, they still share some basic characteristics. Especially important is the formal approach to labour law, which substantially restricts freedom of contract emphasises legal clarity over flexibility. This implies especially that unilateral changes to the contract – e.g. changes in working conditions, working hours or terminations of the contract by the employer at short notice – are usually only permitted if they fit a list of reasons specified in the Labour Code.

3.1 Ukraine

Severity of the Coronavirus crisis

The economic shock caused by the Coronavirus crisis in Ukraine has been hard. The country has been affected by two waves of the Coronavirus domestically, leading to two lockdowns (one in spring 2020 and another one gradually increasing in severity since late summer 2020). Together with reduced demand for Ukrainian exports, this led to a decline of real GDP by 4.6% in 2020 after a growth of 3.2% in 2019. For 2021, a recovery with 4.3% real GDP growth is expected, but remains subject to considerable uncertainty.[11]

The Coronavirus crisis hit Ukraine at a time of relatively solid macroeconomic conditions. This permitted the government some fiscal room for manoeuvre, which they used for automatic stabilisers and emergency measures, planning for a fiscal deficit of 7.5% of GDP for 2020.[12] Nevertheless, the economy remains vulnerable. Fiscal space remains severely limited with the country being dependent on IMF and other donor lending. A large informal sector restricts both the tax base as well as the effectiveness of labour-market related measures.

Labour market regulation

Ukraine's labour market regulation can be described as relatively rigid. The Labour Code is a typical one for a transition country and aims to strengthen the negotiation power of employees versus their employers by imposing clear restrictions on the ability of companies to hire and fire flexibly.[13] Companies can dismiss groups of workers only if they can prove substantial "organisational changes" in their company such as the closure of business units. This cannot be done at short notice as employees are entitled to two months notification period before their contract is cancelled. Changes in working time generally require the consent of workers and unpaid leave must be requested by the

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[11] German Economic Team (Ukraine), PB/10/2020, "Economic forecast for 2021: Rebound despite uncertainty" (Link).

[12] A budget turnout with a deficit of 6% is expected at present. See footnote 11 for details.

[13] German Economic Team, PS/01/2021, forthcoming.

worker. Hence, normal labour market regulation contains relatively little formal possibilities for companies to cut labour costs in the short run.

Labour market measures taken by the government

Apart from non-labour-market measures such as subsidised credit for SMEs and tax measures, the government undertook several measures to improve labour market adaptivity in response to the urgency. Most importantly, a limited STW scheme called “partial unemployment” was set up but limited to SMEs and to a physical or legal inability to work. This means that purely economic reasons for working time reductions such as demand effects of the Coronavirus crisis are not permissible grounds for participating in the scheme. Businesses having an annual average number of employees of not more than 250 and an annual turnover not exceeding USD 50 m[14] can apply for their employees to receive two thirds of their regular salary from the state. Larger companies can pay their employees two thirds of their salary for “idle time”, i.e. a “suspension of work caused by the absence of organizational or technical conditions necessary for the performance of work, unavoidable force or other circumstances”[15]. Furthermore, remote work was introduced as a legal concept, allowing companies to let employees work from home (and hence circumvent lockdown-related problems).[16]

Labour market adaptivity during Spring 2020

Labour market data shows that despite the lockdown beginning in March, a substantial effect on employment and unemployment too place in the second quarter of 2020. Although the second quarter of the year is usually marked by high employment, employment in 2020Q2 decreased by 0.9 m persons compared to the previous quarter and the unemployment rate increased from 8.5% to 9.8% and was much higher than in 2Q2019 (7.7%). With loosening lockdown measures, labour market data for the third quarter showed some signs of improvement.

Company representatives stated that the rigidity of the labour market indeed was highly problematic for companies during the first lockdown period. Especially for larger companies, no possibilities exist to substantially reduce labour cost in the short run if faced with a shock of this magnitude due to difficulties in renegotiating employment contracts for lower working hours and the mandatory two months’ notice period for redundancies. In effect, the dominant form of labour market adaption were redundancies, much more important than partial unemployment, reduced hours or unpaid leave[17], but these only eased the labour costs burden on companies with a significant delay, whilst severing ties with employees who companies may have wished to retain relations with. It appears likely that some of these job losses could have been averted if a more comprehensive JRS would have been in place. The partial unemployment scheme appears to be attractive in principle, but its application is highly constrained to SMEs having to stop operation on orders of government and only compensating wages up to the minimum wage. These conditions made it unusable, for example for the important automotive supplier industry, where companies often are too large to qualify for partial

[14] https://www.dentons.com/en/insights/alerts/2020/april/8/ukraine-amends-labor-and-employment-laws-during-the-covid19-pandemic

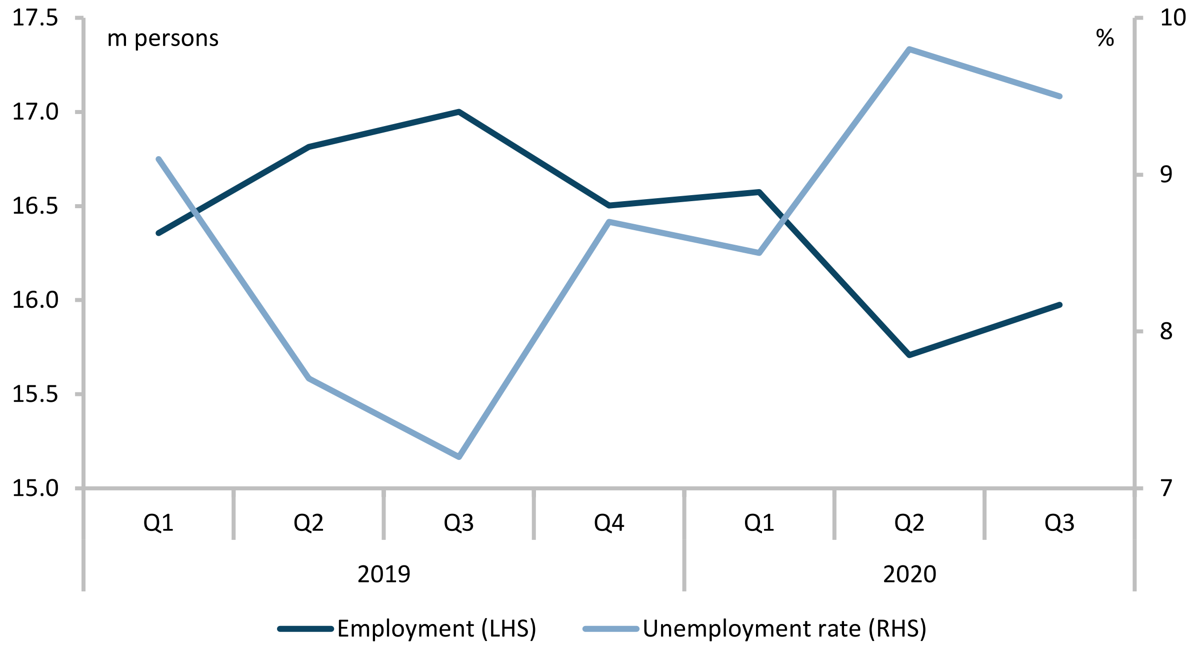
[15] https://www.kyivpost.com/business/top-5-options-for-labor-relations-during-quarantine.html

[16] https://ceelegalmatters.com/ukraine/13460-remote-work-flexible-working-hours-delay-allowance-labour-law-changes-during-quarantine-in-ukraine

[17] German Economic Team (Ukraine), PS/01/2021, forthcoming.

unemployment and had to suspend operations not because of orders of the Ukrainian government but because of a sudden collapse of demand as car production in Europe had been halted. In sum, the Ukrainian labour market showed relatively limited flexibility and only a very limited JRS is in place.

Fig. 3: Total employment and the unemployment rate in Ukraine, 2019-2020



Source: Ukrstat

3.2 Belarus

Severity of the Coronavirus crisis

Belarus represents somewhat of an oddity due to an almost complete absence of lockdown measures during Spring 2020. Retail stores restaurants and entertainment facilities remained open. Only public events in cultural institutions as well as events with international participation were banned in Spring. More stringent measures were adopted when infection rates rose for a second time in early autumn. In addition, following the presidential elections, a political crisis with major public protests erupted. In consequence, GDP in 2020 declined by 0.9% compared to an originally expected 0.9% of real growth. Recovery is not in sight yet: for 2021 a real GDP decline by 2.7% is currently expected.[18]

The relatively mild impact of the Coronavirus crisis is hence explained by the weak measures restricting the private sector, as well as reports about the large share of state-owned enterprises (SOEs) continuing production despite weak demand and hence running up stocks. Services-focused parts of the private sector such as the country's strong IT industry were not strongly affected by the crisis.

[18] German Economic Team (Belarus), Newsletter No 68, January-February 2021, "Against the tide: No economic recovery in sight" (Link).

Labour market regulation

The labour code in Belarus contains a list of permissible reasons allowing dismissal of employees. If the employer wants to change the working conditions, he is obliged to inform the employees within the terms established by legislation and a severance pay is to be paid. A notification period of two months and payment of the three months of salary as severance pay is required for layoffs of workers.

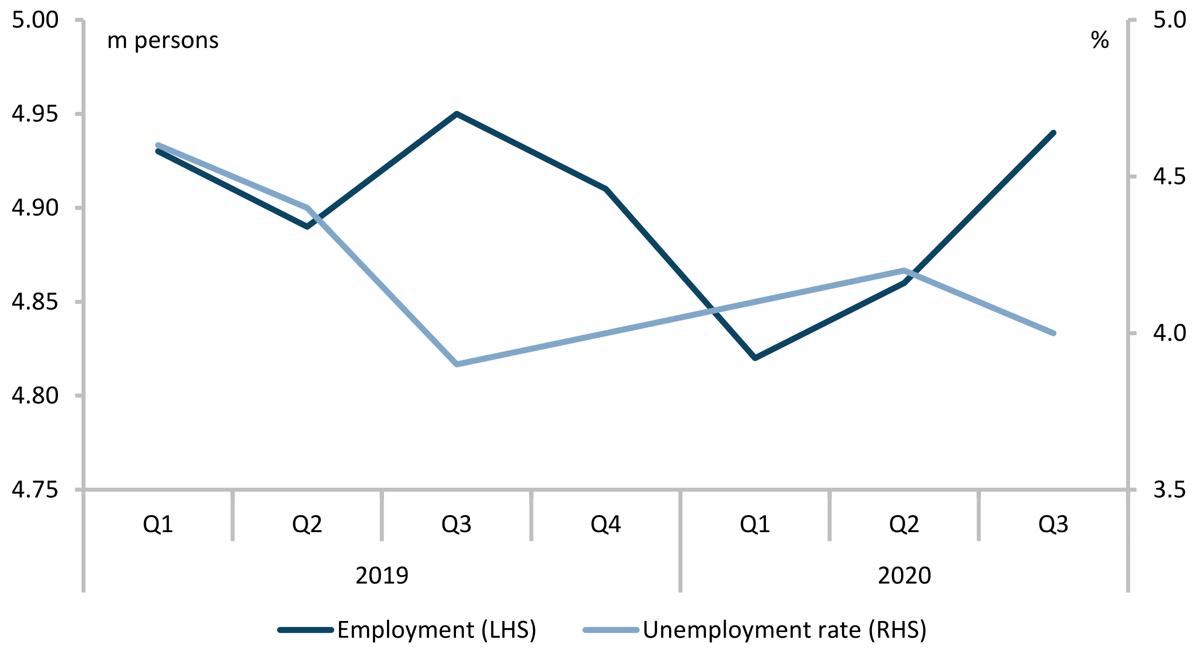
Labour market measures taken by the government

Substantial changes have been made in Spring 2020 allegedly as a reaction on the COVID-19 pandemic: Employers can change essential employment terms due to the impact of the pandemic such as individual scope of work differing from the job description and even lower-skilled task, situation of the daily working hours and any other changes except the salary with only one day of notification. Also, employees can be temporarily transferred to another position inside the company or even to another company without their consent. Other changes to employment terms, including salary reductions or reductions of working time with corresponding salary decreases, are possible if employees are given one month's notice.[19] If employees do not agree to the new conditions, they may be dismissed.

Labour market adaptivity during Spring 2020

Due to the reasons described above, no clear effect of the Coronavirus crisis on employment and unemployment in Belarus is visible in the data. Unemployment only barely fluctuated around 4% during 2020 and employment also did not change much.

Fig. 4: Total employment and the unemployment rate in Belarus, 2019-2020



Source: Belstat

Weak lockdown measures restricted the impact on domestic services sectors or the privately dominated exporting IT sector, whereas many of the more exposed goods-exporting sectors such as

[19] https://www2.deloitte.com/by/en/pages/legal/articles/covid-19-measures-introduced-to-support-belarusian-businesses.html

manufacturing are dominated by SOEs that continued production without change and preferred to run up stocks of finished products. Hence, as little need for adaption existed in the sectors dominated by private companies and a political choice was taken to not reduce production in SOEs, no strong inferences about labour market adaption can be made here.

Regarding general adaptivity of the labour market, company representatives stated that flexibility in the labour market is better in practice than would be expected given the rigid Soviet-legacy Labour Code with relatively high restrictions on terminations of contracts (2 months notification period, 3 monthly wages severance pay). Fixed term working contracts are permissible without requiring specific justification and are frequently used. Reductions of salary, if necessary, are possible either according to the Labour Code by reassessing the workplace and the required remuneration and changing it with two months' notice or by frequent mutual agreements between employers and employees.

3.3 Moldova

Severity of the Coronavirus crisis

The impact of the Coronavirus on Moldova and its economy has been hard. Despite a state of emergency being declared in March 2020 and lasting until May, case numbers have continued to increase throughout spring and summer. Closures of retail trade and gastronomy as well as the reduced demand for Moldovan exports negatively affected the country's GDP. In addition, a severe drought reduced the agricultural harvest and further deepened the crisis. In effect, Moldova's GDP contracted by 6.7%, one of the sharpest downturns among all countries analysed in this paper.

Both monetary and fiscal policy were used to stabilise the economy. The National Bank's policy rate was lowered from 5.50% to 2.65% and reserve requirements for banks were lowered. Assisted by emergency loans from the IMF and EU, the budget deficit was allowed to grow to 5.4% of GDP. Hence, painful and procyclical expenditure cuts were not necessary during the crisis. For the future, 4.5% of GDP growth are currently predicted for 2021 but subject to large uncertainty, further fuelled by an unclear political situation that may complicate access to necessary external funding.[20]

Labour market regulation

The Moldovan labour code contains most of the typical, restrictive soviet heritage in terms of dismissal or changes to the working hours. Laying off employees besides dismissal on grounds of conduct is only possible in case of the typical "organisational reasons" such as closure of a department and reductions of working hours with corresponding salary cuts require the assent of workers. Under the name of "technical unemployment", a flexibility-enhancing institution already existed in the labour law: Companies may put employees on paid leave for a period that may not exceed 4 months within a calendar year. Technical unemployment is defined as the impossibility of the employer to continue production activity for economic objective reasons – e.g. in a crisis. During the leave the employees must be ready to continue work at any time and are entitled to not less than 50% of their basic wage. As this does not involve payments by the state or unemployment insurance to cover the wage costs of employees, it is not a JRS, however.

[20] German Economic Team (Moldova), Newsletter No 63, January-February 2021, "After twin shocks: economy expected to recover in 2021" (Link).

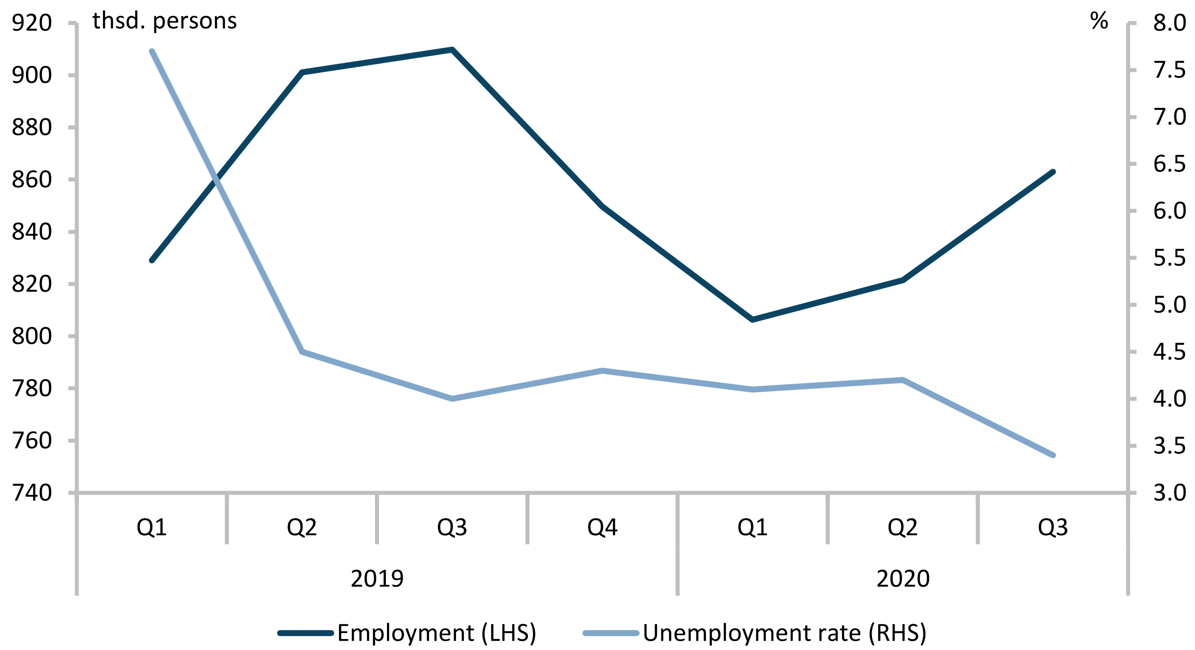
Labour market measures taken by the government

The government responded to the Coronavirus crisis by undertaken measures both aimed at providing social assistance to workers who lost their job due to the crisis and to induce companies to retain their workers in employment despite their activity being affected by containment measures. Unemployment benefits were increased, now guaranteeing a minimum of MDL 2,775, the minimum wage for the real sector. Companies were assisted by being reimbursed in full the payroll taxes for workers on technical unemployment and 60% for workers in non-operational businesses for reasons other than force majeure.[21]

Labour market adaptivity during Spring 2020

Company representatives from Moldova stated that the restrictive labour law in Moldova made adapting to the crisis difficult. Especially larger companies were often unable to find satisfactory arrangements to reduce working hours without incurring significantly higher hourly labour costs. Firing employees is difficult in Moldova if a company plays by the rules and during the state of emergency from March to May, companies were not allowed to lay off any workers. Public assistance to allow companies to reduce labour costs during the most intensive phases of the crisis was very limited as the "technical unemployment" only leads to relatively minor savings in labour costs.

Fig. 5: Total employment and the unemployment rate in Moldova, 2019-2020



Source: National Bureau of Statistics of the Republic of Moldova

Despite the very constrained labour market flexibility, the impact of the Coronavirus crisis on the labour market was hard and can be especially seen in the employment figures. While employment normally exhibits a strong seasonal upturn between the first and second quarter, no such upturn was visible in 2020 and employment in the 2020Q2 was almost 80,000 workers lower than in 2019Q2 – a

[21] https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#M; https://www.ilo.org/global/topics/coronavirus/regional-country/country-responses/lang--en/index.htm#MD; https://home.kpmg/xx/en/home/insights/2020/04/moldova-tax-developments-in-response-to-covid-19.html

heavy impact given a total employment between eight and nine hundred thousand workers. The unemployment rate did not show a corresponding increase, which is in tune with the reports about insufficient flexibility for employers: As firing is difficult and was not permitted during the state of emergency, the labour market response appears to have resulted mostly from non-hiring rather than actual redundancies of workers.

Overall, Moldova, too, is characterised by a relatively inflexible labour market and the absence of Job Retention Schemes ("technical unemployment" is not a JRS as the state does essentially not take over the costs of idle workers from companies, apart from reimbursing payroll taxes). In consequence, much of the burden of the economic crisis in Moldova had to be borne by companies that neither received large support to retain employees nor were able to reduce labour costs quickly. It remains to be seen, whether this has permanently damaged or rendered insolvent a significant number of companies.

3.4 Georgia

Severity of the Coronavirus crisis

The COVID-19 pandemic has taken a huge toll on the Georgian economy. Instead of a growth of 4.3% forecast at the start of 2020, there was a drop in real GDP by 5.1%. The early and very strict lockdown that was imposed in spring resulted in a very low number of COVID-19 cases, but also strongly impacted economic activity. Among the strongest measures was the closure of shopping malls, restaurants and hotels.

The effect of the crisis was most pronounced in the services sector, particularly the crucial tourism industry. Services exports dropped by more than 60% yoy in 9M2020, almost entirely due to the halt in international tourism. A crucial question for 2021 will be when tourism can return to a normal level. The high uncertainty in this regard is a downside risk to the estimate for GDP growth in 2021, which stands at 4.3%.

The government has reacted to the crisis by a sizeable stimulus package, totalling almost GEL 2 bn (3.9% of GDP). About half of this support is for households, roughly 30% for business with the remainder reserved for health care spending. [22]

Labour market regulation

Georgia has by far the most flexible labour law of all countries in the region. An employment agreement can be terminated unilaterally by the employer for economic reasons and/or if technical or organisational reasons require downsizing without the obligation to offer an alternative position. The shortest notice period allowed is three days. If the notice period is not less than 30 days, the employee is entitled to a severance payment in the amount of one monthly salary. It is also possible to terminate the employment relations with a notice period of less than 30 days but in this case the employer is obliged to pay a severance pay in the amount of two monthly salaries.

In practice, changes to employment relations – dismissals and/or other amendments – usually take place by mutual agreement in order to avoid unpredictable, expensive, and time-consuming

[22] German Economic Team (Georgia), Newsletter No 38, January-February 2021, "Shock to tourism sector drives recession" (Link).

proceedings in court. Several approaches are used to circumvent the remaining legal rigidities, e.g. by concluding fixed term contracts, changing the organisational structures or by “persuading” employees to agree to particular changes with or without compensation. Hence, employers are usually able to reduce working time or salary if he really wants to do so and is willing to push the employees and/or to bear additional expenses for arising severe payments.

Labour market measures taken by the government

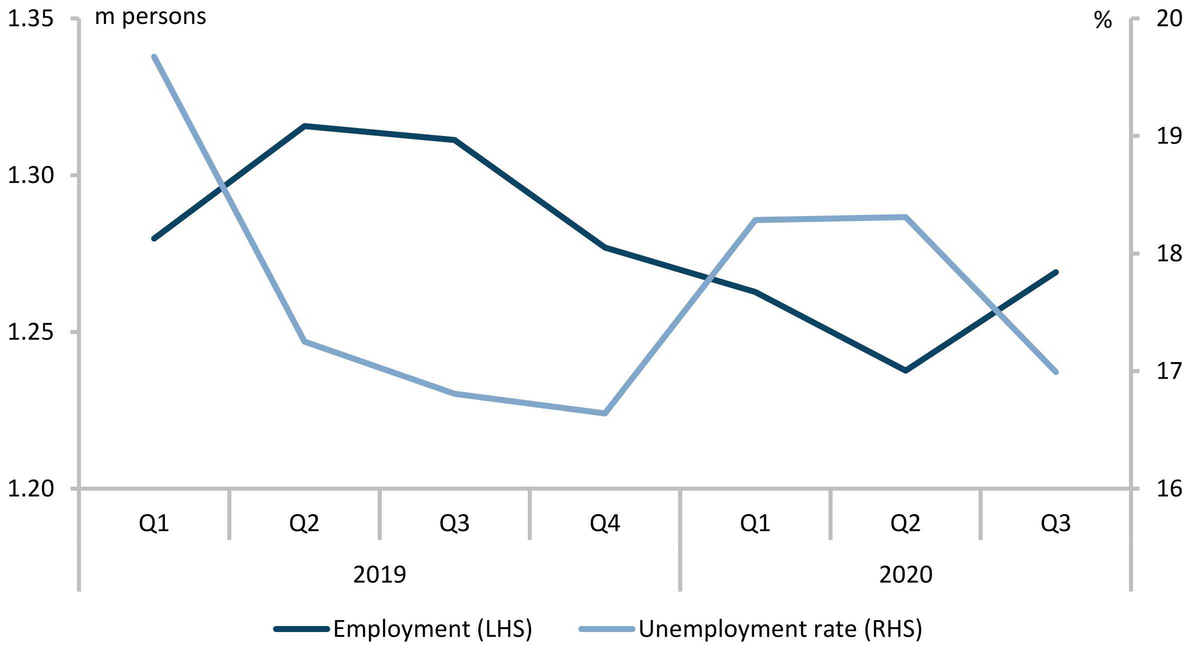
As Georgia exhibits very flexible labour market regulation but very little social protection schemes, the government was primarily focused on preventing widespread lay-offs in its labour policy response to the crisis. Businesses were incentivized to retain employees through an income tax relief subsidy. For six months, income tax was fully exempt for the first GEL 750 of salaries up to GEL 1,500. Indirectly, the government also aimed at supporting the labour market through strengthening business with various support programmes, particularly for the agricultural and tourism sector.

Additionally, as Georgia has no unemployment insurance, the government had to enact ad-hoc programmes for social support to those who lost their jobs and consequently their main source of income. Formal sector employees who lost their job or are on unpaid leave receive GEL 200 for up to six months. People in the informal sector and those who are self-employed receive a one-time assistance of GEL 300.

Labour market adaptivity during Spring 2020

While the labour market data shows a the most sizeable increase in the unemployment rate in 2020Q1, this is mostly due to seasonality in economic activity and likely only slightly aggravated by the beginning COVID-19 pandemic. Although not necessarily visible at first sight, the more pronounced effect is the stagnation of the unemployment rate (at a high level) in Q2. Instead of the seasonal increase in employment, there was a steep decline against the backdrop of the strict lockdown imposed during the spring.

Fig. 6: Total employment and the unemployment rate in Georgia, 2019-2020



Source: Geostat

Company representatives stated that layoffs were the most prominent tool at their disposal in order to adapt to the crisis. As labour is relatively plentiful supply, they were not very worried about finding suitable staff once they need to hire again. Overall, Georgia shows the advantages and disadvantages of a highly flexible labour market setup with little state involvement: Companies could adapt quickly by cutting costs but will have to hire and train new staff after the crisis. For workers made redundant, the absence of a developed welfare state necessitated ad-hoc plans to provide some social support. It is possible that some job losses were prevented by the income tax relief for businesses who retained employees. Going forward, Georgia could either progress to more of a Flexicurity mode, strengthening the welfare state and retaining the flexible labour market regulation, or consider at least limited JRS to allow companies that only expect a temporary crisis to keep trained staff in the company in order to resume work quickly once crises end.

3.5 Uzbekistan

Severity of the Coronavirus crisis

Of the countries in our analysis, Uzbekistan fared best economically in relation to the COVID-19 pandemic as it is the only country to have maintained a positive real GDP growth rate. At the start of the global pandemic in spring 2020, the government reacted very swiftly and strongly by enacting a variety of comprehensive lockdown measures, including the closure of shops and public transport. However, given the strong agricultural sector (28% of GDP) which was less affected by the lockdown and the eventual easing of containment measures, growth was less severely affected compared to other countries. Whereas the initial estimate was 6.0%, the actual growth was only 1.6%.[23]

Labour market regulation

The Uzbek labour code is a typical example of the soviet approach in terms of lay off of employees. As a rule, unilateral changes to an employment agreement such as layoffs or reassignments within the company are only possible if so foreseen by the code – namely in cases of technological changes or changes of the production and work and, importantly, in case of reduced volumes if those changes affect headcount or character of the work. In case the employer intends to make use of this regulation, he has to inform the employees not less than two months in advance and may dismiss those employees unwilling to accept the proposed amendments. If possible, the employer has to offer the employee another working place in the company. If layoffs are necessary, companies are obliged to account for social criteria when selecting which of their employees to lay off.

Labour market measures taken by the government

The government undertook several smaller-scale measures to support companies and facilitate adaption on the labour market, including funding for training programmes in order to help employers to retain employees. Vocational training was also made available to unemployed persons. The government expanded public work programmes and increased associated salaries. This was also aimed at labour migrants who were not able to work abroad. Special programmes in the agricultural sector provided subsidies for low-income families and unemployed for purchasing equipment and seeds. To

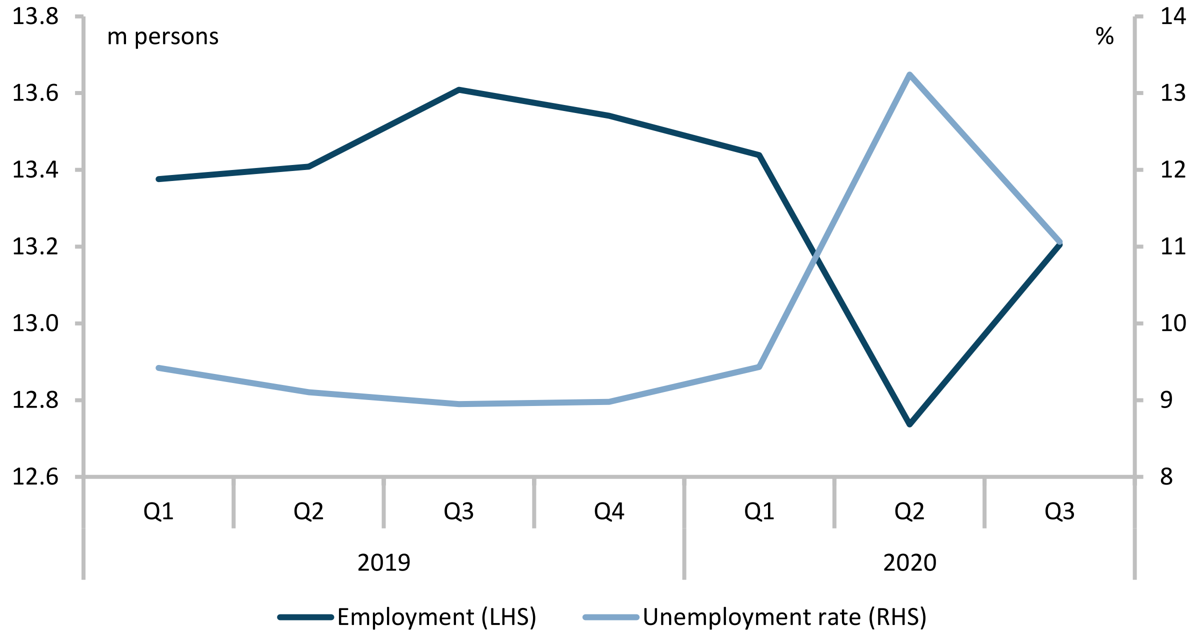
[23] German Economic Team (Uzbekistan), Newsletter No 10, January-February 2021, "COVID-19 pandemic slows growth only temporarily" (Link).

cushion the social effects of the crisis, the government eased simplified access to unemployment benefits.

Labour market adaptivity during Spring 2020

Despite the positive real growth rate, the Uzbek labour market was hit hard. Employment decreased by about 0.7 m people and unemployment increased by almost 4 pp to 13.2% in 2020Q2. The timing in the second quarter is probably a combination of the time it took companies to take action to respond to the crisis and the mandatory notice periods for any terminations of employment contracts.

Fig. 7: Total employment and the unemployment rate in Uzbekistan, 2019-2020



Source: Uzstat

The sharp effect of the crisis on the labour market illustrates that Uzbekistan, undergoing rapid change and having a growing and young population, requires relatively high growth rates to sustain a positive dynamic on the labour market.

Views by company representatives generally reflected the understanding that the state at present has not the capacity to undertake larger support schemes on the labour market. Companies stated that they often attempted to retain their employees and keep paying their regular salaries despite the difficult economic situation. Some companies were able to find arrangements with employees, such as unpaid leave. Despite the rigid labour law, such flexibility is possible as employees in a country with high base unemployment and a growing, young population have a high interest in staying on good terms with their employer (although employers are also very keen on retaining trained, skilled specialists as those are still rare). Constraints on the capacity of the state make the development of extensive JRS appear unfeasible for Uzbekistan in the short run. Rather, a reform of the labour code could increase flexibility of labour law, possibly in sync with a gradual development of unemployment benefits.

3.6 Armenia

Severity of the Coronavirus crisis

In addition to the global COVID-19 pandemic, Armenia was hit hard in 2020 by the outbreak of war with Azerbaijan over Nagorno-Karabakh from September to November. Overall, GDP declined by 7.3% in 2020. That is a change of -12.8 pp compared to the estimate in early 2020 of 5.5% and the largest decline of growth among the countries analysed in this study. The medium-term prospect is dim, as growth is not expected to recover quickly, the estimate for 2021 stands at 1.0%.[24] The situation with Azerbaijan presents further downside risks in addition to the pandemic-related risks. Altogether, the economic effects of the war probably were more significant than the economic impact of pandemic. Nevertheless, the government instituted a sharp lockdown from March to May, including the closure of gastronomy and other non-essential retail outlets.

Labour market regulation

The typical post-Soviet, rigid labour market regulation applies in Armenia as well: Termination of an employment contract by the employer may only take place according to a list of admissible reasons including changes in production volumes, economic, technological, and labour conditions as well as the necessity to reduce the number of employees. Termination requires that the employer is either unable to offer the employee an alternative employment or that the employee refused an adequate alternative position in the company. Notification period in this case is at least two months in advance in writing. If the employer fails to comply with the notification period, the employee is entitled to a compensation for each day of delayed notification calculated on the basis of the average hourly wage of the employee.

Labour market measures taken by the government

Apart from other measures to help the economy, including subsidised 2-3 year loans to companies[25], a package of amendments to the labour code was passed, effective from 16 March 2020. This was aimed at improving labour market adaptivity and regulating some unclarities with regard to the pandemic. Importantly, a force majeure provision was added to the labour code that allows employees not be paid in case of idleness due to force majeure. However, this only applies to a complete impossibility to perform work (including from remote locations). Reorganisation of work was facilitated by allowing employers to send employees to work from home without prior notice. As is typical for post-Soviet labour codes, refusal of employees to accept such organisational changes would permit dismissal of employees after the usual notification period. Companies that did not fall under the force majeure clauses (e.g. companies that ceased production due to economic reasons) could put employees on idle time at two-thirds of the usual pay (and at least the minimum salary per hour).[26] Also, several social protection measures were undertaken to assist e.g. families affected by the dismissal from work of at least one parent or employees of companies affected by the crisis.[27]

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[24] GDP figures by the IMF

[25] https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19

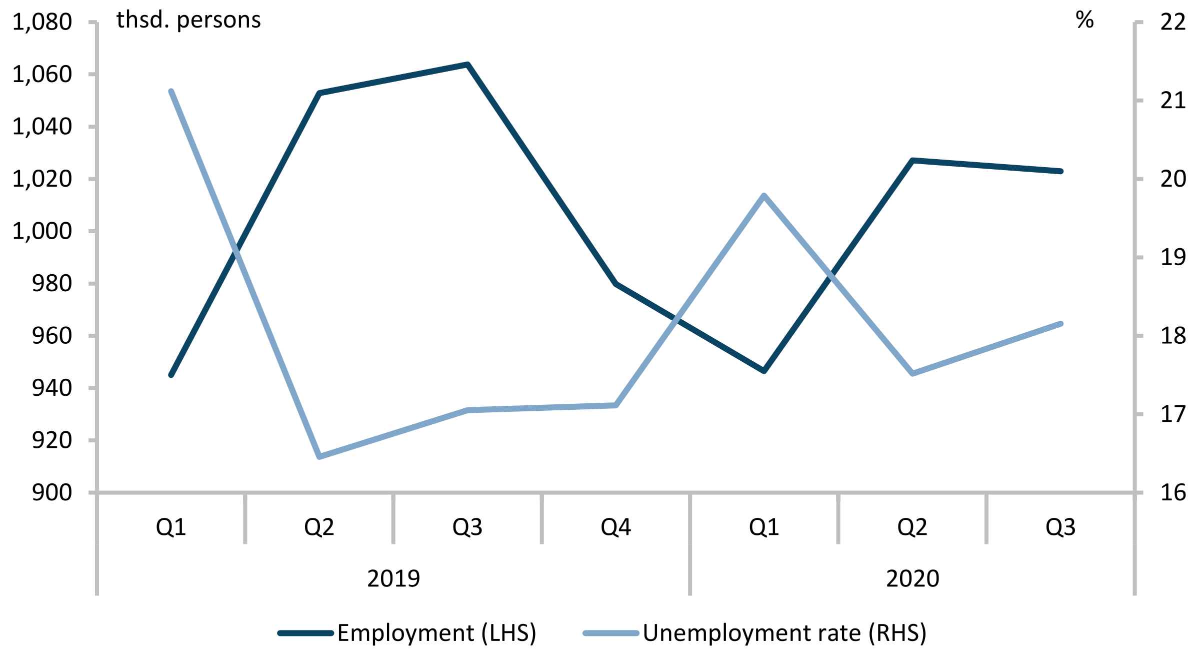
[26] https://www.pwc.com/am/en/assets/pdf/PwC%20Armenia_%20COVID-19%20Legal%20Issues_03.04.2020.pdf

[27] https://www.ilo.org/global/topics/coronavirus/regional-country/country-responses/lang--en/index.htm#AM

Labour market adaptivity during Spring 2020

Despite the significant effects of the crisis, unemployment in Armenia declined in 2020Q2, exhibiting the usual seasonal behaviour. This could reflect the fact that seasonal agricultural and construction work was not immediately affected by the Coronavirus crisis. It is nevertheless striking that despite the right of employers to terminate employment due to economic reasons (after two months notification) and the deep crisis in the economy, neither the second nor third quarters exhibit a significant increase of unemployment or decrease of employment figures. Full-scale war, which may distort the labour market impact of the Coronavirus crisis, only started in late September.

Fig. 8: Total employment and the unemployment rate in Armenia, 2019-2020



Source: Armstat

Some company representatives stated that they chose to keep employees on payroll (despite the relatively high retainer fee of two-thirds of pay) in order to keep the human capital within the company. This may reflect the nature of Armenia as a small country where qualified staff are relatively rare, despite the high unemployment rate. Also, credit provision to companies may have helped retention of jobs. Still, it is surprising that despite relative flexibility of labour law for a post-Soviet state (economic reasons being a permissible grounds for termination of an employment contract) and the relatively high costs of idle employees not due to force majeure, only few layoffs took place. It may be advisable to closely look at companies' debt burdens upon exiting the dual crisis to make substantial inferences about whether some government assistance through a JRS would be important for companies or further flexibilization of the labour code (e.g. shortening the notification periods in case of deep crises) would be needed to ensure the survival of otherwise viable companies.

4 Conclusions and recommendations

All six transition countries analysed in this study were affected by the Coronavirus crisis, but to varying extent. Whereas Belarus did not impose a real lockdown and Uzbekistan managed to continue growing at a reduced pace, Ukraine, Georgia and Moldova were hit hart and Armenia's economy suffered the double blow of the Coronavirus crisis and war. Also, despite sharing a Soviet legal transition, the rigidity of labour law varies across the countries. Job-retention schemes essentially do not exist in the countries, except the "partial unemployment" scheme in Ukraine, which has high access restrictions. Hence, companies' options to adapt to crises are mainly governed by the legal and practical flexibility of the labour market regimes and their willingness to shoulder costs themselves to retain their staff.

Table 2: Comparison of key aspects of labour market regulation in the countries analysed

	Economic grounds permissible for termin-ation of employment	Regular notification period for dismissals, months	Severance pay after regular termination, regular monthly wages	Technical unemployment (reduced salary payment by company)	Partial unemployment (paid by state)
Ukraine	-	2	1	+	+
Belarus	-	2	3	-	-
Moldova	-	2	one weekly wage per year worked	+	-
Georgia	+	1	-	-	-
Uzbekistan	+	2	1	-	-
Armenia	+	2	1	+	-

Source: German Economic Team

Essentially, labour law is most flexible in Georgia, with short notification periods and no severance pay required, and most rigid in Belarus (two months notification, three months severance pay, no technical unemployment option or economic grounds for dismissal), although practice there has evolved around the rigidities imposed by the labour code.

The absence of comprehensive JRS in all countries and the difficulties renegotiating working hours with employees imply that companies' main option to reduce labour costs in practice will be to lay off workers. Our recent paper on Ukraine also shows that despite theoretical possibilities to change working hours in labour contracts, terminations turned out to be the dominant form of adaption by companies.[28] The combination of required notice periods and severance pay create substantial firing costs in most countries, which can put companies under pressure if – as in the Coronavirus crisis – they may face a situation with practically no demand or possibility to work at short notice. Also, companies reliant on skilled staff will have to face the trade-off between laying off staff to cut costs during crisis or continuing to pay staff (a reduced salary where "technical unemployment" provisions exist and the company's circumstances qualify).

[28] German Economic Team (Ukraine), PS/01/2021, forthcoming.

All countries should seize the opportunity to consider whether changing labour market regulation could improve labour market adaption and be conducive to their resilience to crises. As outlined above, they face the basic choice of a flexibility/Flexicurity approach and that of instituting Job Retention Schemes. The choice depends mainly on trade-offs of fiscal versus political costs (and the capacity of state institutions). Although most companies do not have much fiscal leeway, the costs of implementing JRS depend to a large extent on how generous the unemployment insurance system is and how payments to employees in a JRS would compare to unemployment benefits they would otherwise receive. Except Georgia, all countries have an unemployment insurance and could hence reference a JRS to it, which should keep additional net costs in check. Also, to avoid abuse of the system (companies with unviable business models avoiding closing down by using the JRS), JRS can be built with the obligation for companies to contribute to the costs (as an insurance premium) as well as with a cap on the maximum use duration for the system.

The alternative would be to increase labour market flexibility. Nut unless the unemployment insurance is beefed up at the same time (which would also create net costs) that could be politically very difficult to carry out. On the other hand, comprehensive reviews of labour market regulation and new Labour Codes would probably improve business and investment climate in general in most countries, as the legacy labour codes also create difficulties in "normal times", for instance due to very short-notice possibilities for employees to leave their jobs and complex calculations of working hours and holiday entitlements.[29]

Detailed recommendations for each country will require deeper analysis, especially of the net costs of a possible JRS. However, the following options appear to merit deeper investigation:

- **Ukraine**: Extending the coverage of the "partial unemployment" scheme to a real JRS by extending the range of applications to economic difficulties of companies, widening access to all private companies (not only SMEs) and reference payments to UI benefits rather than the minimum wage
- **Belarus**: Both implementation of a suitable JRS as well as a new Labour Code should be considered. As the current regulation is split between highly protected regular employment and fixed-term appointments with many workarounds to the rigidities, a unified and realistic approach to labour law could benefit workers and companies alike.
- **Moldova**: Apart from implementation of a JRS, it could be contemplated to at least increase the maximum duration of technical unemployment from the present four months and to facilitate transfers[30] of workers to other organisational entities within the company without their written consent and long notification requirements (as has been made feasible in several other countries).
- **Georgia:** As the labour law is very flexible and no unemployment insurance exists, a JRS appears comparatively less appealing for Georgia. However, it could be contemplated to move from a pure flexibility to a flexicurity approach by instituting at least limited unemployment or

[29] See our studies on "Unlocking investments through reforms: Proposals from German business" for the countries Ukraine, Moldova and Belarus: German Economic Team (Ukraine) PS/03/2019, German Economic Team (Moldova) PS/03/2019, German Economic Team (Belarus) PS/01/2019.

[30] https://ceelegalmatters.com/moldova/14429-moldovan-employment-law-in-the-age-of-the-pandemic

social protection, as the crisis necessitated ad-hoc social protection schemes anyway and more institutionalised schemes could offer more reliability and equity in their coverage.

- **Uzbekistan:** As the country is in a period of rapid change with still limited capacity of state institutions, it could make sense to prioritise labour market flexibility over instituting a JRS.
- **Armenia:** Although assessment of the situation is hard due to the double crisis in the last year, the relatively rigid labour law would suggest that a limited JRS could work well in Armenia.

Doing nothing and leaving everything as it is would, for all countries except Georgia with its highly flexible labour market, risk leaving too much weight on the shoulders of companies. A final conclusion on whether this assignment of much of the burden of the crisis to companies was economically sound can only be made in some years, as it requires an assessment of insolvencies and growth during the recovery phase. If many economically healthy companies went out of business after the crisis due to the inability to cut costs, this may be more costly than either a JRS or flexicurity approach would have been.

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