Socio-economic Impact of the COVID-19 Pandemic and Anti-crisis Measures

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Abstract: According to the Organization for Economic Cooperation and Development, in 2021 the economic losses from the pandemic will amount to about USD 7 trillion. It will exceed the losses from the global economic downturn of 2008 known as ‘the Great Recession’. The Covid-19 pandemic has had a huge impact on both the global and Russian economies. Due to the quarantine, many companies were forced to temporarily close; there was a decrease in aggregate demand and a rise in unemployment. According to official data, in 2020 Russia’s GDP decreased by 3.1% compared to the previous year and the household income decreased by 3.5%. From January to August 2020, the unemployment rate in Russia increased from 4.7% to 6.4%, the highest over the past 8 years. A wide range of anti-crisis measures is involved to overcome the consequences of the economic crisis that engulfed almost every country. These measures can be implemented in monetary policy and fiscal policy. The purpose of the research is to systematize the socio-economic consequences of the pandemic for the Russian economy and developed economies, and analyse the anti-crisis measures taken by them. The study was carried out on the basis of statistical and economic analysis, synthesis, comparison, analogy, modelling, and expert forecasts.

1 INTRODUCTION

The COVID-19 coronavirus pandemic has precipitated the world’s biggest economic crisis since the Second World War. According to the World Bank forecast, the total loss from the pandemic will exceed USD 10 billion in 2020-2021 (La finance pour tous, 2021). The overall economic losses relative to the downturn could be much greater due to the long-term impact on investment and education.

Since Covid-19 was detected in China at the end of 2019, the way people live changed. To measure its short-term economic impact, we compare the current dynamics of GDP with that observed before the pandemic. For this purpose we analyse the World Bank forecast predicting the dynamics of GDP in January and December 2020.

In January 2020, the World Bank forecasted GDP growth of 2.5% in 2020 and 2.6% in 2021. However, in reality the GDP dropped by 4.3% in 2020, and this indicator was expected to decrease by 4% in 2021 (La finance pour tous, 2021).

According to the World Bank forecasts, global GDP will reach USD 87.384 billion in 2021. Before the pandemic, according to calculations, global GDP should have reached USD 89.993 billion in 2020 and USD 92.333 billion in 2021. Thus, the damage caused by the pandemic to the global economy will exceed 8,200 billion euros, which is equal to Germany’s biennial GDP.

One of the distinguishing features of the current economic crisis is that it is universal in nature and affects almost all countries of the world.

The worst-hit region was Latin America and the Caribbean, where cumulative losses over two years...
are estimated at 16.5% of pre-crisis GDP. They are followed by the Middle East, North Africa and the Eurozone, with a combined loss of 14.8% of 2019’s level of GDP. It is expected that the economic losses from Covid-19 of the Asia-Pacific region will be least perceptible; it will amount to about 8% of 2019’s level of GDP. At the same time, the region will keep positive dynamics of GDP at the level of 0.9% in 2020 and 7.4% in 2021 (La finance pour tous, 2021).

However, these are short-term consequences of the Covid-19 pandemic, while its impact on the global economy will presumably continue until 2023, when the economy will return to pre-crisis levels of economic activity.

The most important area affected by Covid-19 is education. The current pandemic is destroying education systems around the world. The loss of income due to the economic downturn will negatively affect the availability of educational services for the population, especially in countries where higher education is expensive. This can lead to a reduction in human capital, which is an important factor in economic growth.

On the other hand, the economic downturn has been followed by an increase in global poverty. According to research, global extreme poverty dropped dramatically in the period 1990-2017. In 1990 about 1.9 billion people lived on less than USD 1.90 a day, this indicator decreased by more than 60% over 30 years, and in 2017 about 690 million people suffered from poverty (La finance pour tous, 2020). However, according to the World Bank, the Covid-19 pandemic can reverse this trend and bring rising poverty back.

According to the pessimistic scenario, there will be more than 730 million extremely poor people in the world in 2021; almost 150 million more than in January 2020 before the start of the Covid-19 pandemic. At the same time, unemployment continues to rise. Almost a year after the start of pandemic, the unemployment rate in the Eurozone rose from 7.4% in December 2019 to 8.3% in December 2020 (Albert, 2021).

The COVID-19 pandemic has led to an increase in public debt in all countries of the world (Figure 1) (Tadviser, 2021).

According to the OECD, in order to preserve public services and benefits and stabilize debt in such conditions, governments will have to increase revenues by almost 8% of GDP. In some countries, including France and Japan, this figure will be more than 10% of production volume without regard to such new costs as climate change adaptation.

At the beginning of 2021 uncertainty about the effect of restrictions on economic activities remains. The situation is aggravated by the emergence of new strains of the virus. Everything will depend on Covid-19 dynamics and compliance with the imposed restrictions.

2 MATERIALS AND METHODS


The purpose of the research is to systematize the socio-economic consequences of the pandemic for the Russian economy and developed economies, and analyse the anti-crisis measures taken by them.

The study was carried out on the basis of statistical and economic analysis, synthesis, comparison, analogy, modelling, and expert forecasts.
3 RESULTS AND DISCUSSION

The service sector, in particular small and medium enterprises, has been affected the most by the pandemic and lockdown. It is noteworthy that in large developed countries the share of small and medium enterprises in the economy exceeds 60%, while in Russia it is no more than 22%. That is why the impact of the coronavirus pandemic on the domestic economy turned out to be quite mild compared to more developed economies.

Tourism industry has suffered greatly from the pandemic. The Russian tourism business lost 1.3 billion roubles in 2020 or 33% of its annual turnover.

Due to the spread of coronavirus, hundreds of thousands of labour migrants were forced to leave Russia. This led to a shortage of personnel in such industries and business areas as housing and utilities, delivery and taxi services. The number of issued work permits and patents decreased from almost 1.5 million in 2019 to 935 thousand in 2020 (Ageeva, 2020). As the statistics, migrants make up 7% of the Russian labour force and provide about 6% of GDP.

Due to shopping mall closures and restrictive measures in supermarkets, e-commerce has begun to thrive. Perhaps, online commerce is the only sector that has won amid the coronavirus pandemic. According to statistics, in the first half of 2020, the share of e-commerce in the total trade turnover in Russia was 10.9% (in 2019, this figure did not exceed 6.1%) (Finance. Rambler, 2020).

The logistics industry is also developing rapidly, in particular the express delivery and courier market. Delivery services, in turn, contributed to the development of warehouse real estate. Thus, the volume of online products in Moscow warehouses increased 10 times over the year: from 5% to 51% (Malina, 2020). Due to online stores, in the third quarter of 2020 the volume of leased and purchased warehouse space reached 861,000 sq. m, which is almost 200% more compared to 2019 (Malina, 2020).

Warehouses are the main component of online trading that is why this sector is now one of the most developing in real estate. In 2020, it invested 26.6 billion roubles in new storage platforms. In 2021, demand and interest in opening such facilities continues to grow.

Nowadays, innovation-oriented investments are engaged in order to help businesses operate successfully amid the devastating impact of the pandemic. It is noteworthy that research and development expenditures continued to grow even in 2020, exceeding their pre-crisis level. Moreover, R&D spending has been more stable during the pandemic-related economic downturn than during other crises. At the same time, the consequences of the crisis were very uneven in different sectors. Producers of computer software, internet and communication technologies, computer hardware and electrical equipment, pharmaceuticals and biotech products have significantly increased investments in innovations and expanded their research and development activities. In contrast, transport companies and the tourism industry, the most affected by the pandemic, have cut their innovation expenditure.

According to the annual ranking of world economies in terms of innovative development, high-income countries traditionally maintain the leading positions, with middle-income countries such as China, Turkey, Vietnam, India and the Philippines following them (Table 1) (OMPI, 2021). Switzerland, Sweden, the US and the UK have been leaders of this table for the past three years. The Republic of Korea entered the top five innovation-driven economies in 2020. At the same time, there are another four Asian countries in the top 15; Singapore (rank 8), China (rank 12), Japan (rank 13) and Hong Kong (rank 14).

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North America and Europe continue to dominate in innovation development, far ahead of other regions. Southeast Asia, East Asia and Oceania have shown the fastest growth rates over the past decade, approaching the leaders. China remains the only middle-income country among the top 30 innovation economies. Other middle-income countries rank...
lower in the Global Innovation Index: Bulgaria (rank 35), Malaysia (rank 36), Turkey (rank 41), Thailand (rank 43), Vietnam (rank 44), Russia (rank 45), India (rank 46), Ukraine (rank 49) and Montenegro (rank 50). However, Turkey, Vietnam, India and the Philippines are gradually closing the gap. These large economies have the potential to affect the Global innovation index ranking.

At the same time, in 2020, there was a significant reduction in foreign direct investment. Due to the effects of the pandemic, foreign direct investment decreased by 42% compared to 2019 and reached USD 859 billion compared to USD 1,500 billion in 2019 (UN News, 2021). In addition, investment flows were extremely uneven. In 17 of 27 member states of the EU, including Germany, Italy, Austria and France, foreign direct investment decreased. On the other hand, investment in Sweden doubled to USD 29 billion, and investment in Spain increased by 52%.

A significant decrease in foreign direct investment was also recorded in the US (-49%, to USD 134 billion). Overall, foreign direct investment flows have dropped sharply in some large Western European countries as well as in Russia. However, foreign direct investment plunged only by 12% or USD 616 billion in developing countries. Thus, the share of developing countries in international investments reached 72% in 2020. The inflow of foreign direct investment to China increased by 4% and amounted to USD 163 billion compared to USD 53 billion in 2003, which made China a leading global beneficiary in 2020 (UN News, 2021).

The pandemic had a serious impact on the dynamics of bankruptcy. According to statistics, in 2020, in Russia the wave of pandemic bankruptcies began among individuals, where the number of bankruptcies increased by 72.6% compared to 2019. The number of corporate bankruptcies, on the contrary, decreased, legal entities went bankrupt in 2020 19.9% less often than in 2019 (Gordeev, 2021). This situation was a consequence of the state’s moratorium on the bankruptcy of small and medium-sized businesses. Thus, a ‘deferred effect’ arose: enterprises that did not fulfil their debt obligations could not find themselves in bankruptcy proceedings due to the existing moratorium, i.e. the procedure was postponed for some time. Lending to individuals increased during the pandemic, since Russians who lost their jobs or part of their income during the period of restrictive measures began to use new loans in order to pay off the old ones and to ensure their subsistence. The number of overdue payments also has increased significantly. As the coronavirus continues to spread, new restrictive measures have been put in place, and it is obvious that the number of bankruptcies will grow.

A wide range of anti-crisis measures is involved to overcome the consequences of the economic crisis that engulfed almost every country. These measures can be implemented in monetary policy and fiscal policy. Within the Eurozone, monetary policy is carried out for all member countries by the European Central Bank. In particular, in March 2020, the bank resumed the purchase of securities, thus ensuring the flow of additional financial resources into the economy, thereby easing the terms of lending, with which both private and state economic agents are currently forced to resort.

As for the fiscal policy, it remains specific to each state. In such countries as France, Germany, Spain, the UK, the Netherlands and Italy, it comes down to increasing government spending in order to revive the economy and mitigate the effects of the economic downturn. France has spent 184.6 billion euros on the implementation of anti-crisis measures, which is 7.6% of GDP, in terms of funds allocated for the elimination of the consequences of the pandemic; it occupies the third position of the six countries. Germany is the leader in this ranking where the amount of allocated funds there exceeds 290 billion euros (in Spain – 138.59, in the UK – 228.96, in the Netherlands – 62.49, and in Italy – 67.90) (La finance pour tous, 2021). The limited resources for overcoming the consequences of the pandemic allocated in Italy constitute only 3.8% of GDP.

Fiscal policies implemented in EU countries are aimed at reviving household demand (for example, increasing social benefits in the UK) and stimulating supply, in particular through subsidizing entrepreneurship. For example, France has expanded business investment, which accounts for over 58% of all allocated financial resources, while 89% and 67% of all resources in the Netherlands and the UK respectively are demand-oriented.

The economic damage from the coronavirus is mitigated by providing tax incentives to individuals and businesses affected by the pandemic, compensating for loss in income due to the forced suspension of their activities. These measures have increased disposable income in many developed countries, to a lesser extent in developing countries, and, thereby, to prevent further reduction of total expenditures in the economy.

For entrepreneurs, the provision of guarantees for loans and the restructuring of their debt are effective. These measures will allow solvent, but illiquid companies to stay in the economy and maintain established production relations.
At the same time, laid-off employees are engaged in various retraining programs that will allow them to be employed in other sectors of the economy less affected by the pandemic. Given that retraining can take a certain amount of time, laid-off employees should receive benefits for the entire period of retraining and job-seeking.

In Russia, a number of measures are also being taken to maintain aggregate demand in the economy. In particular, Russian families with children aged 3 to 16 received a one-off payment of 10,000 roubles per child (starting June, 2020), a one-off payment of 10,000 roubles per child aged under 16 (starting July, 2020), a monthly allowance of 5,000 roubles per child aged under 3 (from April to June 2020), a one-off New Year’s payment of 8,000 roubles per child under the age of 8, a one-off payment of 3,000 roubles per child to households with unemployed parents (from April to September 2020). Direct transfers compared to targeted measures of state support reduce the cost of the subsidy to the final recipient (Minakova, Bukreeva, Masalov, Galchenko and Kharlanova, 2019).

The second important measure is assistance to small and medium-sized enterprises, and borrowers, facing tough economic times. Thus, banks offer ‘repayment holiday’, i.e. consumer credits and mortgage loans repayments are postponed for a period up to 6 months. There are free vocational training and continuing education programs (World Skills Russia), reimbursement of labour costs in organizing public works and creating temporary jobs, ‘freezing’ of obligations for loans for up to 6 months, expansion of the concessional lending program, etc.

In addition, targeted support is provided for the basic industries of the country’s economy, which are most affected by the pandemic, i.e. the agro-industrial complex, domestic tourism, and transport.

4 CONCLUSIONS

As the situation evolves, the impact of the pandemic on various industries and businesses is becoming more evident. In this regard, it is possible to determine which interventions are most effective and how to adapt them to a specific situation. In this situation, it is inexpedient to use tariff and non-tariff trade barriers, especially for the supply of medical equipment and individual protection resources. In addition, the use of tariff instruments negatively affects the volume of world trade and, as a rule, causes compensatory fluctuations in exchange rates.

It is expected that when Covid-19 restrictions are removed, the growth of the world economy will average up to 4.3% in 2021 (De Grandi, 2021). According to forecasts, it will amount to 3.2% in the USA (compare to -3.7% in 2020), 1.6% in Japan (compare to -5.3%), and 7.5% in China (De Grandi, 2021). In general, in Asian countries, GDP growth will amount to 6.7% (compare to -0.2% in 2020). These countries will become the ‘locomotive’ of the world economy.

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