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FISCAL IMPLICATIONS OF THE WORLD CRISIS CAUSED BY THE COVID 19 VIRUS PANDEMIC

Marina Đorđević
University of Niš, Faculty of Economics, Niš, Republic of Serbia
marina.djordjević@ekonomski.rs

Jadranka Đurović Todorović
University of Niš, Faculty of Economics, Niš, Republic of Serbia
jadranka.djurović@ekonomski.rs

Milica Ristić Cakić
Innovation Center of the University of Niš, Republic of Serbia
milica42777@gmail.com

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Abstract: *The governments of all countries of the world have faced up with the health crisis caused by the Covid 19 virus pandemic in the previous and current year. This crisis turned into an economic crisis, considering that it was necessary to provide huge financial resources to overcome it. Governments "pumped" additional amounts of money by supplying the economy and the population with new liquidity through subsidies and one-time assistance in the form of "helicopter money". This has contributed to the deterioration of the fiscal performance of the world economies. The paper analyzes the economic and fiscal performance of the world leading economies such as the European Union, the United States, China and Russia. The aim of this paper is to point out the consequences of the applied measures in the domain of monetary and fiscal policy and influence on the increase of the budget deficit and public debt in the world.*

Key words: *crisis, Covid 19, public debt, budget deficit, fiscal policy*

1. INTRODUCTION

Huge fiscal stimulus, which is being applied in a large number of countries in order to overcome the crisis caused by the coronavirus, is leading to a worsening of the growth rate, because although they are encouraging for private borrowing, they represent a great burden for the state. Fiscal policy makers contribute to the financing of public health, but also provide direct assistance to the economy and the population whose functioning is endangered by lockdown due to the corona virus (Đorđević at all, 2020).

Governments reacted aggressively to the pandemic using fiscal policies that included additional spending, on the one hand, and tax breaks, on the other. Thus, state budgets were exposed to a double blow: through growth of public expenditures (subsidies to citizens and the economy, public expenditures for health and capital investments for the construction of hospitals and additional health care institutions) and reduction of public revenues (tax breaks, exemptions, tax obligation deferrals, etc.).

Makina & Layton (2021) believe that the large fiscal deficits that followed reflected the extent to which world governments spent above their revenues, mainly on the basis of borrowing. The sharp jump in the budget deficit for 2020 is the result of falling income and income tax revenues during the recession, increased social benefits due to higher unemployment and open support measures taken by governments to support individuals and companies due to the covid crisis.

The effects of fiscal policy measures on the crisis are high budget deficits around the world and increased public indebtedness in order to reduce deficit. These elevated levels of public debt are jeopardizing the creditworthiness of governments, leading to even greater borrowing and inflationary pressures in the future. Higher public debt will increase uncertainty and lead to an increase in the tax burden on the economy, which will slow down future investments and productivity.

Gräbner, Heimberger & Kapeller (2020) prove in their research that the macroeconomic impact of the crisis is more serious in the countries of the south than in the countries of the northern Eurozone, which further reinforces the tendency of increasing economic polarization.

The paper will first show the impact of the crisis on the economic indicators of the world's leading economies through the analysis of GDP and unemployment, and then the movement of selected fiscal indicators (budget deficit and public debt).

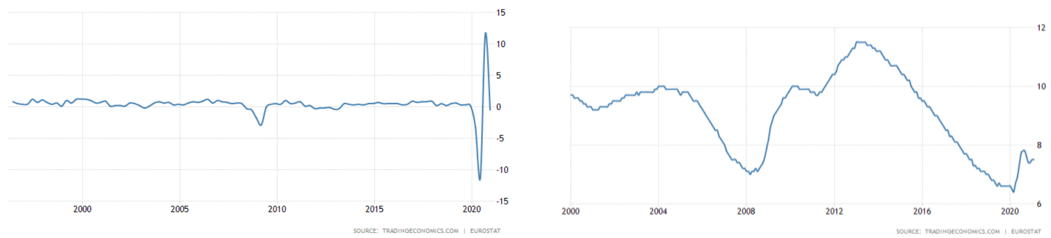
2. The impact of the crisis on the economic indicators of the world's leading economies

The economic crisis, which arose from the health crisis as a result of the measures taken in order to suppress the pandemic caused by the corona virus, has and will have far-reaching consequences on the economic trends of all countries in the world. Therefore, we can say with certainty that this crisis is systematic and that it was impossible to avoid it. Most countries in the world have chosen "lockdown" as a way to reduce the impact of the corona virus on the health of their citizens.

However, the consequences of the economic trends of these countries opted for this anti-virus strategy. Some countries have chosen a different approach in the fight against the Covid 19 virus. In this, a smaller number of countries, there were no restrictions on the movement of citizens and business shutdowns, so it was expected that such a policy would result in greater consequences for human health and lower production, which turned out to be partially true. That is, whichever strategy is chosen by a particular state, it has had different effects depending on where it is applied and under what circumstances that state operates. What all economies have in common is declining GDP, employment, and declining other macroeconomic indicators, such as savings, investment, imports, and exports. On the other hand, there was both an increase in the money supply and in budget spending and the public debt of the largest number of countries in the world.

The IMF survey presented in the World Economic Outlook provides IMF growth projections for certain groups of countries (IMF, 2020). Developed world economies have been shown to experience much deeper contractions (on average 8%) than the rest of the world. In that sense, the IMF estimated for developed economies that production and income in them will be lower than a year before the crisis caused by kovid 19 occurred. The recession and recovery in these economies, however, has been mitigated by a more moderate recession and a stronger recovery in the rest of the world, especially in developing economies (Makina, Layton, 2021). The following graphs will show the negative trends of key macroeconomic variables in selected economies (European Union, USA, China and Russia), which have the strongest impact on other countries in the world. The so-called *The Great Lockdown recession* has mostly affected the GDP and unemployment of most countries in the world.

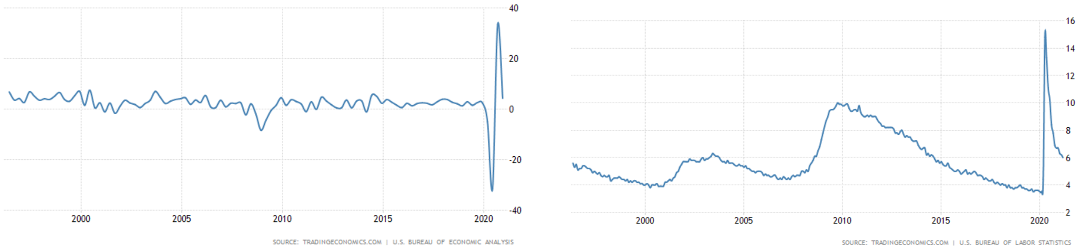
Graph 1: GDP growth and unemployment rate of the European Union, 1995-2020



Source: https://tradingeconomics.com/european-union/gdp-growth и https://tradingeconomics.com/european-union/unemployment-rate (25/04/2021)

Based on the movement of GDP growth in the European Union, we can see its sharp decline to -11.2% in the first half of 2020, then jump to 11.6% and then fall again at the beginning of 2021 to -0, 5%. This jump in the GDP growth rate is the result of measures taken at the level of the European Union in order to mitigate the negative effects of the crisis on the economy. However, IT was short-lived and in the long run, a further decline in GDP is expected in Europe, as well as in the whole world. As for unemployment in the observed period, it had large jumps during the Great Depression of 2006-2008 (10%), after the crisis of 2012-2013 (11.5%) and now from the corona crisis to about 8% in 2020 with a tendency of its further growth.

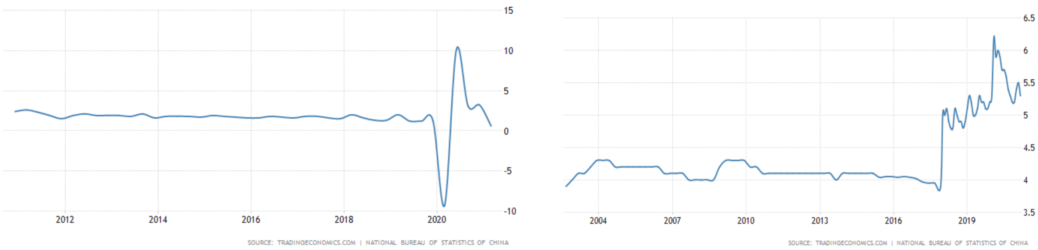
Graph 2: US GDP growth and unemployment rate, 1995-2020



Source: https://tradingeconomics.com/united-states/gdp-growth, https://tradingeconomics.com/united-states/unemployment-rate (25/04/2021)

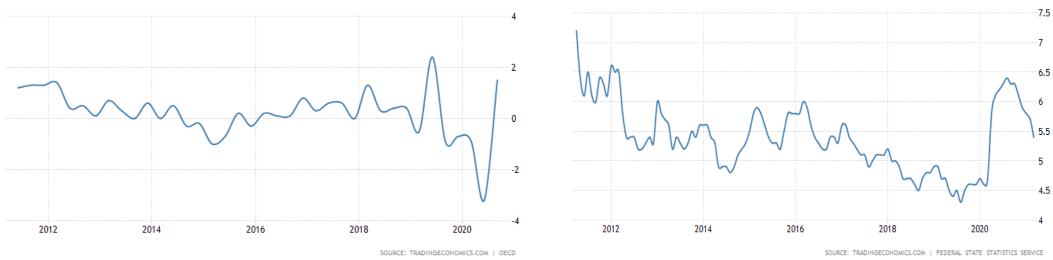
Graph 2 shows similar trends: after the fall of GDP to the level of -31.4%, there is an increase in the growth rate to the level of 33.4% (as a result of government measures taken to reduce the negative tendencies of the crisis caused by the coronavirus) and at the beginning of 2021 at the level of 4.3%. As for unemployment, in the US this increase is even more obvious and stood at around 15%. The unemployment rate fell to 6% in March 2021 from 6.2% in the previous month. The rate has been steadily declining in recent months, after reaching its highest level of 14.8% in April last year, but many believe this can be explained by many misclassifying themselves as "employed but absent from work". The Fed chairman recently said that the labor force participation rate is increasing and the unemployment rate is maintained, which would be a very desirable outcome (U.S. Bureau of Labor Statistics).

Graph 3: China's GDP growth and unemployment rate, 2010-2020



Source: https://tradingeconomics.com/china/gdp-growth, https://tradingeconomics.com/china/unemployment-rate (26/04/2021)

Graph 4: GDP growth and unemployment rate in Russia, 2010-2020



Source: https://tradingeconomics.com/russia/gdp-growth, https://tradingeconomics.com/russia/unemployment-rate (26/04/2021)

From Chart 3, which shows the movement of the GDP growth rate and unemployment in China, we can see that 2020 brings a sharp drop in GDP to -10% in the first half of the year and the same growth in the second half of the year. At the beginning of 2021, the GDP growth rate is 0.6%, while the growth of unemployment in China started to grow in the years before the crisis, and in 2020 it reached 6%.

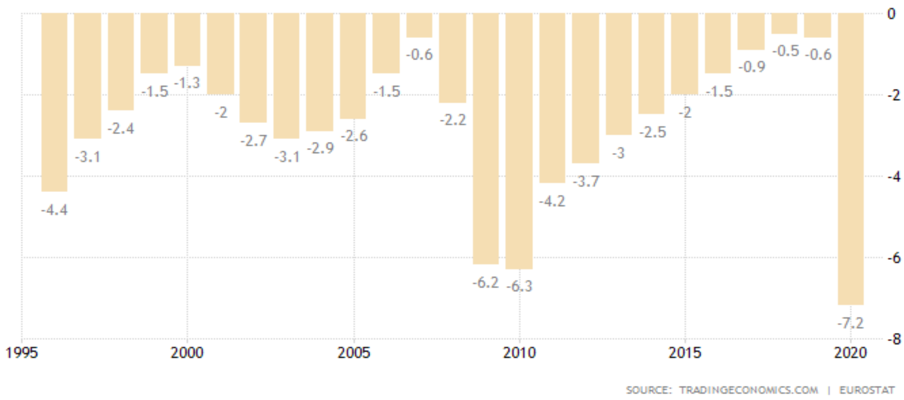
In Russia (Graph 4), GDP fell to -3.2%, while the unemployment rate rose sharply from 4.5 to almost 6.5%, but in the following months it fell to the level of 5 , 5,%. Specifically, it fell to 5.4% in March 2021, from 5.7% in the previous month and below analysts' forecasts of 5.6%. It was the lowest rate since March 2020, but still well above pre-pandemic levels (Федеральная служба государственной статистики).

3. Analysis of the movement of selected fiscal indicators

Considering the fact that most countries in the world have responded to the crisis with numerous monetary and fiscal measures, this has affected the state of their budgets, as well as increased indebtedness that has threatened to jeopardize the stability of public finances and overall economic stability. Measures in the form of subsidies to the economy and the population, tax delays, reduction of reference interest rates of central banks, expansionary monetary policy, "cheap money" policy, as well as the state aid to the most vulnerable sectors in the hospitality, transport and tourism, contributed to deepening budget deficits and growth in public debts of the countries around the world.

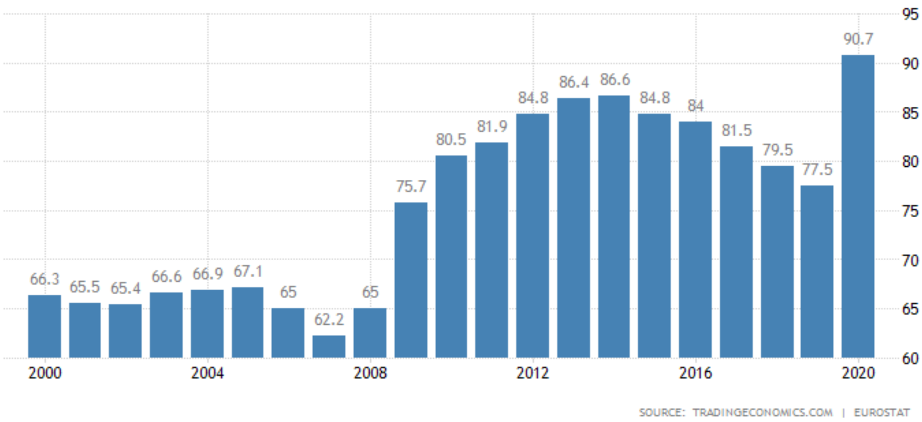
To continue, the situation in the budgets of the European Union, the USA, China and Russia will be presented, through graphic representations, because these are the economies that have the greatest impact on the whole world and the events in them are transmitted to the economic trends of all countries the world.

Graph 5: Trends in the budget deficit of the Eurozone countries, 1995-2020



Source:https://tradingeconomics.com/european-union/government-budget (28/04/2021)

Graph 6: Trend in public debt of Eurozone countries, 2000-2020



Source: https://tradingeconomics.com/european-union/government-debt-to-gdp (28/04/2021)

The budget deficit and public debt of the European Union have deepened with the beginning of the crisis and with the application of numerous measures to overcome it. The key measures from the European Union budget include:

- investments in building hospitals, mitigating the negative effects on the labor market and the areas most affected by the health crisis;

- expanding the scope of the EU Solidarity Fund for the Public Health Crisis in order to direct funds to the most severely affected EU countries;

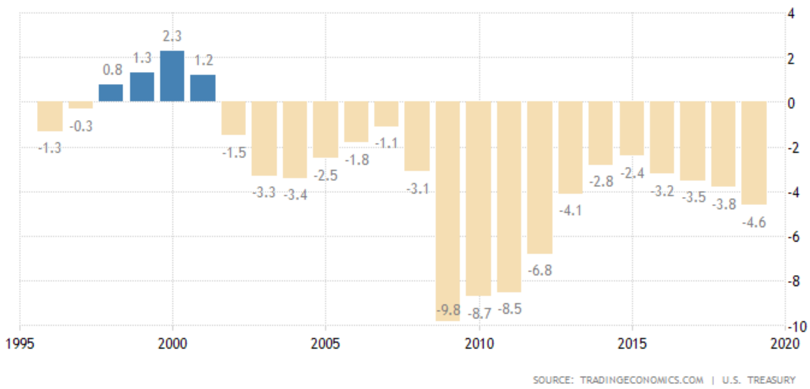
- redirection from the EU budget as a guarantee to the European Investment Fund in support of banks to provide liquidity to small and medium enterprises;

- allowing credit conditions for debtors,

- adopting aid packages for other countries to mitigate the effects of the coronavirus pandemic (IMF, 2021).

All these measures contributed to the increase of the budget deficit to -7.2%, which is at the level of the historical maximum, considering that even in the period of the great economic crisis, it was not above that level and it was -6.3%.

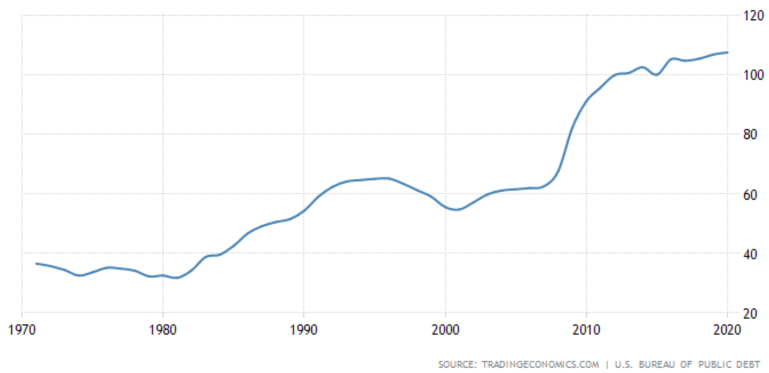
Graph 7: Trends in the US budget deficit, 1995-2020



Source: https://tradingeconomics.com/united-states/government-budget (28/04/2021)

The fight against the corona virus has increased the public debt of the Eurozone to over 90% of GDP, while in previous years it was about 80%, with the level of public debt varying from country to country in the European Union.

Graph 8: Trends in US public debt, 1970-2020



Source: https://tradingeconomics.com/united-states/government-debt-to-gdp (28/04/2021)

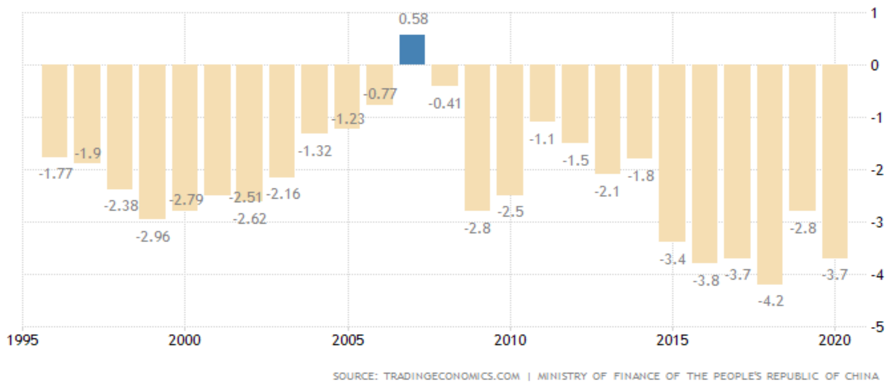
When we talk about the state of public finances in the United States, we can see that the situation is similar to that in the European Union. More precisely, the budget deficit during the world economic crisis was close to 10% (-9.8%), and now, during the "crown of the crisis", it is twice smaller, ie. is -4.6%. On the other hand, public debt is constantly high of 107.6%. All this is a consequence of measures to overcome the crisis. In March 2021, the government approved the so-called The U.S. rescue plan, which provides another round of quantitative relief to fight coronavirus with an estimated cost of about 8.8% of GDP. The plan focuses on investing in maintaining public health and providing assistance to families and businesses. It also includes unemployment benefit programs, through direct incentive payments in the amount of 1,400 US dollars to qualified persons.

Besides in the second half of 2020, certain changes were undertaken within the previous act, which included: using the funds of the Disaster Relief Fund to provide additional unemployment benefits; continuous relief of student loan payments; postponement of collection of taxes on employees' salaries and social insurance; identifying opportunities to help landlords and homeowners (Strategies to fight the spread of COVID-19).

It is estimated that about 11% of GDP is allocated under the Coronavirus Aid and Economic Protection Act (CARES Act, 2020). The law includes: granting one-time assistance to individuals; extension of unemployment benefits; providing a network to deliver food to the most vulnerable; preventing corporate bankruptcies by providing loans, guarantees and supporting Federal Reserve programs; providing funding to hospitals, state and local authorities, and international assistance.

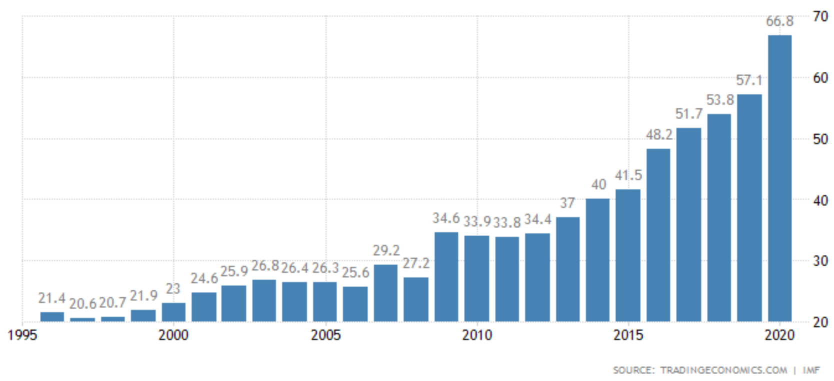
The People's Republic of China, after a large deficit in 2018, which was -4.2%, improved the state of its public finances in 2019 to - 2.8%. However, it was only for short time, because under the influence of the crisis caused by the corona virus, the budget deficit deepened to the level of -3.7%. The state of THE public debt WAS even more alarming, because it rose sharply to almost 70%, which WAS the largest debt that China had in the observed period of 25 years.

Graph 9: Trends in China's budget deficit, 1995-2020



Source: https://tradingeconomics.com/china/government-budget (29/04/2021)

Graph 10: Trend in China's public debt, 1970-2020.



Source: https://tradingeconomics.com/china/government-debt-to-gdp (29/04/2021)

China's announced discretionary fiscal measures are estimated at 4.7 percent of GDP. The key measures within the corona virus protection program are the following:

- increase in spending in epidemic prevention and control,

- production of medical equipment,

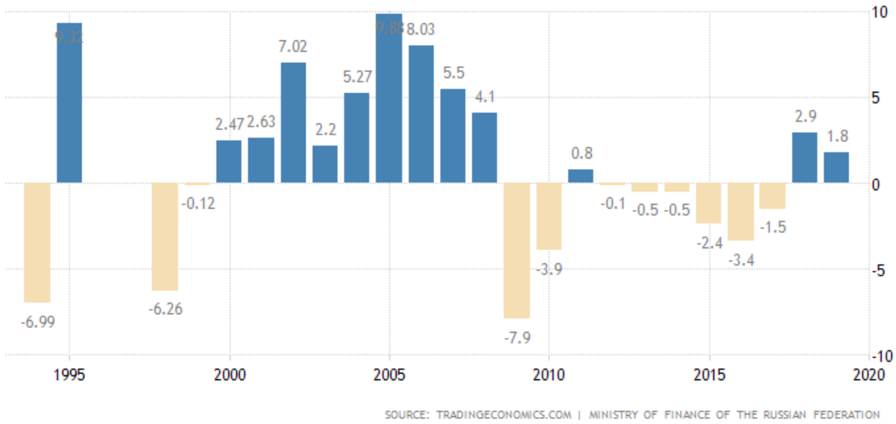
- accelerated payment of unemployment insurance and extension to migrant workers,

- tax relief and waiver of social security contributions and

- additional public investment.

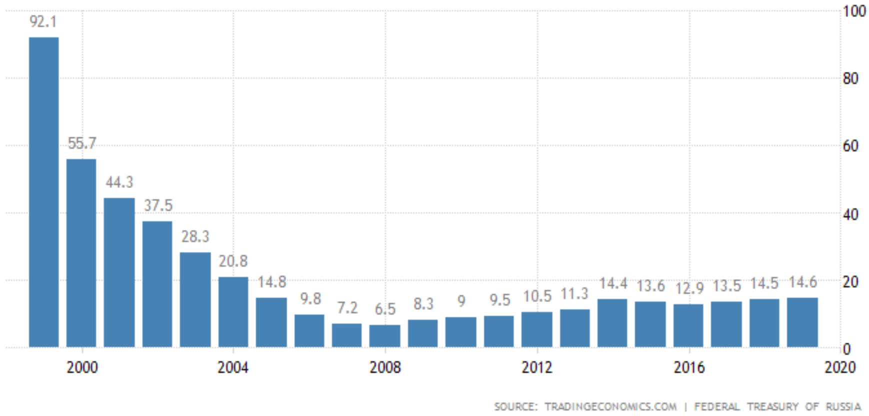
Automatic stabilizers further increase budget support. Overall public sector support is expected to be higher. For example, outside the budget support includes additional guarantees of 0.4 percent of GDP and reductions in fees and duties of 0.9 percent of GDP for the use of roads, ports and electricity (IMF, 2021).

Graph 11: Trends in Russia's budget deficit, 1995-2020



Source: https://tradingeconomics.com/russia/government-budget (29/04/2021)

Graph 12: Trend in Russia's public debt, 2000-2020



Source: https://tradingeconomics.com/russia/government-debt-to-gdp (29/04/2021)

Finally, in the analysis and THE review of THE data related to Russia, we can see different tendencies and trends in relation to the previously analized countries. The state of the budget shows a surplus in 2019 of 1.8%. Also, public debt is at an extremely low level of 14.8%, which shows that Russia is one of the least indebted countries in the world and that the measures it is taking in the fight against the Corona virus will lead to a certain increase in debt and deficit that is not alarming, such as it is in other countries observed.

The key fiscal measures introduced so far are more than 3% of GDP and include:

- additional funding for the health system

- partial coverage of the salaries of parents who stay at home during the period when schools are closed

- measures to support businesses, including partial coverage of salaries of self-employed and workers at risk of dismissal, partially subsidizing the wages of those returning to work, postponing utility payments for small and medium-sized enterprises

- bonus for paying corporate income tax

- financial support for enterprises (IFM, 2021).

The Russian government has included some support measures in the budget for 2021, which will be extended in the current year as well. The possibility of rescheduling tax payments has been expanded to 2021. It has also further raised the cumulative framework of state guarantees for loans in total for about 4% of GDP.

CONCLUSION

Most countries in the world have chosen "lockdown" as a way to reduce the impact of the corona virus on the health of citizens, which has had consequences for the deterioration of economic performance in these countries. Government measures have had different effects depending on where they are applied and under what circumstances that state operates. What all economies have in common is declining GDP, employment, and declining of other macroeconomic indicators, such as savings, investment, imports and exports. On the other hand, there was an increase in the money supply, an increase in budget spending and the public debt of the largest number of countries in the world.

Based on the data we presented in the paper, it can be seen that budget deficits in all analized countries increased enormously in 2020 compared to the previous period. Accordingly, there has been an increase in public debt, due to the fact that it was one of the most commonly used ways to cover the budget deficit during the crisis caused by the coronavirus.

Finally, it can be concluded that the Great Lockdown recession has affected the deteriorating fiscal performance of countries in the world and that its impact will continue, so that fiscal authorities will have to make great efforts to overcome these problems as easily as possible or at least partially mitigate them.

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SUMMARY

Governments reacted aggressively to the pandemic using fiscal policy that included additional spending, on one hand, and tax breaks, on the other. Thus, the state budgets were exposed to a double blow through:

- *growth of the public expenditures* (subsidies to citizens and the economy, public expenditures for health and capital investments in bulding hospitals and additional health care institutions) and
- *reduction of the public revenues* (tax breaks, exemptions, allowing tax obligations, etc).

Health insurance organizations have requested additional funding from the government to cover the increased costs imposed on them. This has meant an increase in donations from the budget that have been directed to the organizations of obligatory social insurance. In that sense, it was necessary to provide additional funds for these activities.

Budgets in 2020 were deprived from the level of public revenues that the state collected less, due to reduced production and reduced consumption. A decrease was not only recorded in the area of direct tax revenues, but also in the consumption tax. In the area of the corporate income tax, the inflow of the income from this tax form was reduced due to difficult working conditions in numerous companies With regard to the personal income tax, there was a problem in reducing the number of taxpayers, as a large number of employees have lost their jobs. The reduction in spending has led to the reduction in revenues from indirect taxes such as VAT, excise duties and customs duties.

All this contributed to the deterioration of the fiscal performance of countries around the world, due to the fact that additional money had to be provided from sources that mean new borrowing and an increase in public debt.

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