

PANDEMIC SHOCKS AND INTERNATIONAL ECONOMIC RISKS**Shevchenko Volodymyr**

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World economic recession has a complex origin and implications. COVID-19 pandemic in 2020 has caused multiple shocks for economies and deep contractions worldwide at the extent larger than global crisis of 2008.

Governments directed lockdowns as virus spread prevention measures in order to drop down virus cases, but this has frozen a large part of business, mostly small and medium. Lockdown was terminated in summer 2020 and that restored a part of business, but economic risks remain. Second wave of pandemic in fall has enforced new lockdowns. This requires a study of shocks as the pandemic transmission channels on the economies and international risks.

World history shows that extreme natural and political events are generating stresses for society and economic shocks, crises. Extreme events are causing problems with economies contraction, emergency expenses, financial distress.

Pandemic of coronavirus COVID-19 and governmental policies in response have generated a number of economic shocks followed with short- and medium-term impacts. Content and impacts of pandemic shocks are a mixture of outcomes of natural events and resilience public measures. Cross-border spillovers of pandemic economic shocks generated international risks and are considered as major reasons of national, regional and world economies depressions in 2020. Specific features of shock in Europe are depending on countries' levels of infection cases, economic structures and public policies.

Shocks could be defined as: 1) endogenous (internal) shocks of the economies and 2) exogenous shocks caused by external forces or events – natural, political, social and technological. Respectively types of economic shocks considered: supply, demand, financial, regulatory, technology.

Changes in macroeconomic parameters, business restrictions would cause shocks to supply, demand, output, productivity, technology. Households demand sliding down due to incomes and employment reduction. Supply unstable caused by frozen businesses and output contractions. Endogenous shocks are also an impact of deviation from normal business processes in cases of bankruptcy, mergers and acquisitions, restructuring, strikes or changes in business models.

External (exogenous) shocks are unexpected fluctuations of international commodities and financial markets; natural catastrophic events, domestic and external conflicts - military, territorial, political, international, religious.

Governmental response restrictions, relief measures have created “man-made” or “government-imposed” irregularities which would be considered as regulatory policy shocks with impact on business. The cluster of shocks created a disproportional economic impacts and international risks.

International risks are considered as those having affecting many countries and cross-countries communications.

Sectors differentiation of business contraction could be considered as one of the major international economic risks with impact on unbalanced recovery. The economic sectors of European countries could be differentiated depending on extent of downturn due to demand, production and structural conditions.

1) Less affected sectors: agriculture, continuing manufacturing industries (steel, chemical, food production), and municipal services.

2) Moderate affected economic sectors with output drop ranged in 10-20 %: retail sales, education, energy, car and machinery manufacturing.

3) Substantially affected sectors: tourist industry, international transportation, airlines, and leisure services.

Depression of the small and medium enterprises is widespread international economic risk. It caused by their role in services, small companies also are usually less financially stable and more market volatility affected.

Medical crisis continuation as second wave of pandemic affects Europe in US and impact on international risk of economic uncertainty. It also influencing on budget cost and countries financial stability.

Increase of governmental and private debts is an international risk due to downsizing capacities for the debt servicing during depression.

Pandemic-related international social risk have emerged along with economic shocks, businesses freezing, lockdowns, transport restrictions and appeared as loss of jobs, shift from traditional to distance work. Work hours losses (part-time employment, formal employment but no work, unemployment) in the second quarter of 2020 have been estimated as: world – 14,0, Americas - 18,3 %, Europe and Central Asia – 13,5%. [2]. Within European region work hours losses have been estimated in: Southern Europe – 18,0%, North Europe - 15%. Western Europe -14,3%, Eastern Europe – 11,6% [2].

Globalization and interdependence of countries contribute to transmission of economic shocks through channels of foreign trade, financial flows, and international communications. It causing an international risk of unbalanced depression and worsening of global imbalances. The prospects of countries are depending on recession downturn and recovery different rates in Europe and emerging economies. The latest IMF estimates are giving a comparison of the world and European countries.

Table 1.

GDP development in 2019 and the forecast for 2020-2021,% year on year (based on the IMF World Economic Outlook updates in June 2020)

	2019	2020 forecast	2021 forecast
World	2,4	-4,9	5,4
Developed economies	1,7	-8,0	4,0
USA	2,3	-8,0	4,5
Eurozone	1,2	-10,2	6,0
Emerging and developing economies	3,7	-3,0	5,9
Emerging Europe	2,1	-5,8	4,3
Ukraine	3,2	-7,7	3,6

Source: compiled by the author based on data [3]

Greater GDP contraction in Eurozone and developed economies due to intensive pandemic spread and even recovery prospects. Relatively moderate contraction is expecting in emerging and developing economies despite a mixed pandemic situation. GDP forecast for 2021 would reflect an effect of a “low base” of 2020 downturn, while the real achievement of pre-pandemic indicators is expected in 2-3 years. Projections for Ukraine should consider instability of exports and the impact of external debt servicing expenses.

International economic risks management should be based on time-fashioned targets and instruments. Short-term policies should be aimed at restoring business and consumption, stabilizing the fiscal situation, companies' financial soundness. Medium-term policy should be focused on macroeconomic stability, external balances and sustainable economic growth.

References:

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ТРАНСФОРМАЦІЯ ПОВЕДІНКИ СПОЖИВАЧІВ НА СВІТОВОМУ РИНКУ ПІД ВПЛИВОМ ГЛОБАЛЬНОЇ ПАНДЕМІЇ

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Глобальна економіка у цілому і міжнародна торгівля, зокрема, зазнали і продовжують зазнавати величезних втрат під час пандемії коронавірусної інфекції, що триває сьогодні. Ситуація невизначеності, в якій через це перебувають наразі і бізнес, і кінцеві споживачі у переважній більшості країн світу, обтяжується додатково падінням доходів, обмеженнями у транскордонних пересуваннях, стрімкими змінами у товарній і географічній структурі попиту на світовому ринку, трансформацією поведінки всіх ринкових суб'єктів тощо.

На ринках B2B зменшення доходів компаній, обмежені можливості транспортування, протиепідемічні заходи, що знижують виробничу активність компаній-постачальників тощо примушують виробників і продавців зменшувати виробничі і маркетингові витрати, шукати нових постачальників як за кордоном, так і у власній країні, прискорювати