

THE ECONOMIC IMPACTS OF COVID-19 AND THE ISSUES OF ITS
OVERCOMING IN THE REPUBLIC OF ARMENIA

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The article deals with the research and analysis of coronavirus pandemic economic impacts on the world economy and the Armenian economy as well. The paper focuses on the anti-crisis measures of the RA Government and presents an evaluation of their efficiency.

Keywords: economic crisis, coronavirus pandemic, anti-crisis measures, financial resources, efficiency.

The openness of national economies and the globalization of world economic processes contributed to the fact that in the shortest possible time any manifestation could rapidly spread economic instability in one country and around the world, and taking more and more complex forms, turn into a global economic crisis. Their seriousness and the negative consequences of the crises on each national economy largely depends on the economic policy conducted by the given state and the anti-crisis policy efficiency [7].

The crisis is defined as "a turning point in the development of the structure of the system during its transition to a qualitatively different state" [6]. It is characterized by a special instability and nonlinearity of the parameters of the system. The coincidence of time even the weakest (and for this reason not taken into account in conditions of stable development) of external influences can cause imposition of these unaccounted weak influences and lead to strategic changes, to a complete restructuring system [1].

Due to the coronavirus pandemic, the world economy has entered a phase of another crisis at a fairly rapid pace since the March 2020. Earlier, in February, the International Monetary Fund announced that in 2020, a global recession is likely to occur, which may be even more severe than the global financial crisis of 2008.

It should be noted that the coronavirus itself is not as terrible for the economy, as the steps that almost all countries in the world have to take to protect themselves from it. Stringent containment measures and non-pharmaceutical interventions were effective in containing the spread of the coronavirus disease (COVID-19) and limiting fatalities, ensuring that the medical systems around the world were not overwhelmed [5]. While the lives saved have laid the foundation for a resumption of growth in the medium term [4], the Great Lockdown resulted in large short-term economic losses and a decline in global economic activity not seen since the Great Depression [2, 3].

It is already visible that in 2020 the world economy is expected to experience a sharp decline due to the severe quarantine and severe economic restrictions imposed by many countries to prevent the spread of the pandemic. In most places, whereas the incidence of the virus is still prevalent, Governments face the difficult choice between public safety and reviving the economy. This is particularly prominent in countries with workforces comprised largely by informal workers, where (rather than whereas) countries lack in capacities to economically balance the effects of the lockdown, and with the vulnerable and marginalized communities bearing the negative impacts of the economic and the health losses [10].

Following the introduction of COVID-19 containment measures across the world since March 2020, year-on-year GDP growth for the OECD area was minus 10.9% in the second quarter of 2020, following growth of minus 0.9% in the previous quarter. Among the major seven economies, the United States recorded, where many states introduced 'stay-at-home' measures in late March, GDP contracted slightly less ((minus) 9.5%, compared with (minus) 1.3% in the previous quarter). The United Kingdom recorded the sharpest annual fall (minus 21.7%), while in France, where lockdown measures were among the most stringent, GDP declined by (minus) 13.8%, after a drop of (minus) 5.9% in the previous quarter. GDP also fell sharply in Italy, Canada and Germany in the second quarter (by (minus) 12.4%, (minus) 12.0% and (minus) 9.7% respectively (compared with (minus) 5.4%, (minus) 2.1% and (minus) 2.0% in the previous quarter). In Japan, where containment measures were less stringent, GDP contracted by (minus) 7.8% in the second quarter of 2020, compared with (minus) 0.6% in the previous quarter [11].

In the Euroarea and the European Union, GDP dropped by (minus) 12.1% and (minus) 11.7% respectively, compared with declines of (minus)

3.6% and (minus) 3.2% in the previous quarter. These are probably the worst indicators of the last 50 years. The reason for such a decline is the strict quarantine measures, the closure of borders, the forced cessation of the economy, the so-called lockdown, which naturally had a negative impact on the socio-economic situation.

Obviously a number of sectors in the world economy will suffer most. In particular, tourism and aviation are the two areas that are most likely to become the main "victims" of the coronavirus. More than 197 million jobs could be lost in the global Travel & Tourism sector if barriers to global travel, such as blanket anti-travel advisories and quarantine measures remain in place, according to recent research from the World Travel & Tourism Council (WTTC).

The devastating figure comes from WTTC economic modelling, which looks at the impact faced by the Travel & Tourism sector amid local and global travel restrictions as a result of COVID-19. In the worst-case scenario, where restrictions were lifted after the summer, the impact would be more significant, putting a total of 197.5 million jobs at risk. This represents an alarming 96 per cent rise from the most recent 100.8 million jobs WTTC had previously estimated to be under threat from the coronavirus pandemic. The impact of prolonged travel restrictions could also wipe out \$5,543 billion in the sector's contribution to global GDP, equating to a 62% percent drop compared with 2019. Meanwhile, in the worst-case scenario, global international arrivals will suffer a sharp decline of 73% and 64% for domestic arrivals [16].

The International Civil Aviation Organization (ICAO) estimates that during the first half of 2020, compared to their original forecast, there will be an overall reduction of 47% to 58% of seats offered by airlines, 503 to 607 million passengers, and a potential loss of gross of operating revenues of airlines of 112 to 135 billion USD [9], the latter, according to preliminary estimates, has already suffered a loss of more than 200 billion USD due to the sharp reduction of flights due to the closure of air corridors in many countries around the world [17]. The energy-exporting countries also felt the full depth of the crisis. In almost all countries of the world, large industrial companies are forced to close down due to the epidemic, as a result of which the demand for energy carriers in the world market has sharply decreased and the countries that produce them suffer great financial losses.

The world financial markets also suffer great losses. In particular, according to the data published by the IMF, investors have already removed

over 83 billion dollars from emerging markets since the beginning of the crisis, the largest capital outflow ever recorded and this process is still actively going on [12].

As for the labor market, according to some estimates, at least 25 million people may become unemployed [14].

However, in reality we should not think that the epidemic is the only cause of the current economic crisis. Despite the outbreak of the coronavirus, the world economy has already accumulated many negative factors and there were serious challenges, which would sooner or later lead to more serious economic shocks. In particular, we can mention the trade confrontation between China and the United States, Brexit, the exit of Great Britain from the European Union, the oil conflict between Russia and Saudi Arabia, the deepening of the debt crisis in the world financial markets. In this regard, it should be noted that the global gross debt is currently growing at a rapid rate, several trillion dollars more than in 2008, which is already a matter of serious concern. Of course, in addition to the above, there are other factors that have already significantly weakened the economies of major countries, so there is no doubt that the COVID-19 pandemic will actually become the "black swan", which will smoothly push the world economy into a deep recession.

Governments around the world have allocated significant financial resources, averaging between 7% and 15% of their GDP to support national economies in overcoming the economic effects of the pandemic. In particular, 10% of GDP in the USA, 15% in Great Britain, 18% in Italy, 15% in Spain, 21% in France, 6.5% in Switzerland, 10% in Poland, 8% in Estonia, 6% in Georgia 4.7% and etc.

As countries start to ease their lockdown measures in a phased approach to reopen their economies and societies, investments in personal protective equipment, cleansing and hygiene products, widespread COVID-19 testing, and contact tracing of those with the virus are essential basic measures, but are often challenging to execute. Key elements for the immediate re-opening phase include business continuity measures, strengthening public service delivery (including e-services), and building resilience of business and people towards shifting to a new normal that includes safe 'co-existence with COVID-19.' Some countries are now turning their attention to the socio-economic recovery phase and laying-out what the building back better strategy should be.

Armenia is currently facing a sharp increase in COVID-19 cases with a very high infection rate per capita. The first confirmed case in Armenia was reported on March 1, 2020. The government extended a national state of emergency to September 11, and imposed strict containment measures, including school closures, travel bans on foreign citizens from high risk countries, and imposed fines to those who violate isolation orders during the state of emergency.

Armenia's economy GDP shrank by 13.7% in the second quarter of 2020, up from 4.7% in the previous period. It was the sharpest decline in economic activity since 2009. In the period from January to July of 2020, the economic activity index (EAI) decreased by 5.7% as compared to the same period of the previous year [15].

The volume of construction decreased by 22.6%, the trade turnover by 11%, the volume of services by 9.3% , foreign trade by 11.3%, exports by 6.4%, imports by 13.7%. During the same period, the volume of industrial production increased by only 1.3%, electricity production by 3.4% [18].

As we can see, the decline in economic indicators is higher than the official forecasts for them. It should be noted, that at the end of April the government revised the budget indicators due to the crisis caused by the pandemic. The previously planned 4.9% economic growth mark was reduced to 2%. At the same time, the state budget deficit increased from 160.7 billion drams to 324 billion drams.

Two months later, according to the forecast of the Central Bank of Armenia in July, a 4% decline in GDP is expected in Armenia in current year. After, according to the CBA forecast in late September, the decline will amount 6.2%. As we can see, the actual decline in the economy has almost doubled.

Compared to the beginning of the year, the government debt increased by 366.82 billion drams or 11.2%, reaching 3.65 trillion drams, of which the external debt increased by 173.34 billion drams or 6.8%, the domestic debt by 193.7 billion drams or 26.28% . The main part of the growth of domestic debt is government bonds acquired by residents. The share of domestic debt is 25.53% against 24.01% of the previous year. The indicator state debt ratio to GDP in Armenia amounted 53.6% in 2019. At present it is already near 56.3%. In addition, when considering public debt, the structure of that debt is more important, as is the size of the service burden. In Armenia, 76% of public debt falls on foreign debt, and 24% on domestic. In 2020, 169.2 billion drams or about 2.4% of GDP will be spent from the state budget to service the

Government debt. This indicator includes only the interest payments on the Government debt, which, of course, is a big financial burden for our economy.

In essence, giving a concrete numerical assessment of the damage to the Armenian economy will be conditional, but based on official figures it is approximately more than 880 billion drams for only 1-st semester of 2020.

In order to mitigate the socio-economic issues related to the pandemic, the Government of the Republic of Armenia announced an assistance package with a headline amount of \$150 billion drams (2.3 percent of Armenian GDP). Within this package, the Government has elaborated and implemented a number of anti-crisis measures as were the case in many countries around the world. Taking into account the impact of the economic consequences of pandemic and restrictions on the Armenian economy, the measures fall into three broad categories:

- subsidized 2-3 year loans to provide short-term support to affected businesses and SMEs;

- direct subsidies to SMEs and businesses to help maintain their employees;

- lump-sum transfers to the vulnerable groups of population including individuals who were unemployed after the COVID-19 outbreak, families with or expecting children, micro-businesses, general population who needed help with utility bills, and temporary part-time employment.

As of September, the authorities have adopted 25 support packages, the 12 from which are economic-oriented and the 13 of them social-oriented. Together with bank supports, the allocated financial resources for these measures amounts around 144.5 billion AMD (\$295m).

As for monetary policy while crisis caused by pandemic, the Central Bank of Armenia (CBA) gradually reduced the policy rate up to 4.25 percent as of September 2020. The interbank market has been active, and the central bank has easily met liquidity needs so far and provided a few foreign exchange swap operations to assure sufficient liquidity in dram and in foreign currency. The CBA undertook few foreign exchange sales to limit excessive dram volatility around the beginning of April, although since then the dram has strengthened, and the CBA has been able to buy some FX. The CBA has not used macro prudential policies actively, except asking banks to consider voluntary prudent loan restructuring and payment holiday period from March to June. The CBA's authorities are supervising banks' liquidity positions and will act swiftly if required to safeguard financial stability. The exchange rate

has been allowed to adjust flexibly and has appreciated to pre-pandemic level against the USD. No balance of payment or capital control measures have been adopted [13].

Since May, the movement restrictions were removed in Armenia, and containment measures were eased, allowing for resumption of public transport, retail businesses, restaurants and etc.

Referring to the effectiveness of the anti-crisis measures taken by the Government, it should be noted, that the latter can be preliminary evaluated by analyzing the financial allocations volume and GDP ratio index and the range of beneficiaries of these measures.

The anti-crisis allocations volume and GDP ratio in Armenia is about 2.3% of Armenia's GDP. Governments around the world have allocated significant financial resources, averaging between 7% and 15% of their GDP to support national economies in overcoming the economic effects of the pandemic. In particular, 10% of GDP in the USA, 15% in Great Britain, 18% in Italy, 15% in Spain, 21% in France, 6.5% in Switzerland, 10% in Poland, 8% in Estonia, 6% in Georgia 4.7% and etc. Comparing this figure with the data of other countries, it becomes obvious that it is a very low indicator to ensure high efficiency.

As for the range of beneficiaries of support measures, it is quite narrow and although the government has gradually expanded it to some extent, but still many businesses and social groups have been left out of that range, which, of course, has a negative impact on the socio-economic situation of the country.

Taking into account the above, we can not speak about the high efficiency of those measures.

During any economic crisis, governments are encouraged to expand the financing of the economy, both through support for various sectors and through increased budget spending. Therefore, it is not accidental that the representatives of the International Monetary Fund and other international economic organizations repeatedly urge governments to expand the injection of financial resources into the economy.

Of course, this will lead to an increase of public debt, but if such steps are not taken, in the future it will take more resources and long time period to get the economy out of deep depression. In fact, the absolute size of public debt cannot provide as much information about the economic situation as the directions of use of the funds involved and effective management of public

debt risks. Along with the growth of the actual public debt in Armenia, there must be conducted significant changes in the structure of the economy, increasing its inclusiveness and stimulating large inflows of investments in real sector of economy.

Taking into account the above mentioned, it is quite evident that to handle the consequences of economic crisis caused by Covid-19 and enhance the effectiveness of measures, first of all, the fundamental goals, that aim at implementing the state's anti-crisis measures should be accurately defined. It is also necessary to develop a set of clear criteria and guidelines for selecting the key directions of anti-crisis measures that can be applied in the development of anti-crisis policy aimed at overcoming crisis. Those may be the following:

- Stimulation of the real sector of the economy;
- Promoting the aggregate demand;
- Financial assistance to crisis-affected companies;
- Protection of domestic market and national producers;
- Social orientation;
- Orientation to the development of scientific, technical and human potential;
- Ensuring access to credit resources;
- Enhancing the system of state guarantees;
- Effective distribution and redistribution of state resources [8].

Thus, in order to face further more serious challenges, it is necessary to review the amount of anti-crisis measures, the allocations and the scope of their beneficiaries. One of the most important measures to overcome the current economic crisis is to inject sufficient liquidity into the economy which will help to avoid a sharp decline in both aggregate supply and aggregate demand, otherwise the economy will inevitably find itself in a long period of decline. As we see, it is not sufficient in Armenia at the moment.

**COVID-19-Ի ՏՆՏԵՍԱԿԱՆ ԱԶԴԵՑՈՒԹՅՈՒՆՆԵՐԸ ԵՎ ԴՐԱՆՑ
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ՀԱՆՐԱՊԵՏՈՒԹՅՈՒՆՈՒՄ
Սարգսյան Կ. Ս.**

Հոդվածում ներկայացվում է կորոնավիրուսի համավարակի տնտեսական ազդեցությունների ուսումնասիրությունը և վերլուծությունը համաշխարհային տնտեսության և Հայաստանի տնտեսության

վրա: Հողվածում վերլուծվել են նաև ՀՀ կառավարության հակաճգնաժամային միջոցառումները և գնահատվել է վերջիններիս արդյունավետությունը:

Բանալի բառեր. տնտեսական ճգնաժամ, կորոնավիրուսի համավարակ, հակաճգնաժամային միջոցառումներ, ֆինանսական ռեսուրսներ, արդյունավետություն:

ЭКОНОМИЧЕСКОЕ ВОЗДЕЙСТВИЕ COVID-19 И ПРОБЛЕМЫ ЕГО ПРЕОДОЛЕНИЯ В РЕСПУБЛИКЕ АРМЕНИЯ

Саргсян К. С.

Статья посвящена исследованию и анализу экономических воздействий пандемии коронавируса для мировой экономики и экономики Армении. В статье проанализированы антикризисные меры правительства РА и дана оценка их эффективности.

Ключевые слова: экономический кризис, пандемия коронавируса, антикризисные меры, финансовые ресурсы, эффективность.

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