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PANDEMIC SHOCKS AND INTERNATIONAL ECONOMIC RISKS

Global pandemic becomes a major event and multifunctional driving force of changes of societies and international economic relations in 2020. Fast moving and deep pandemic-ignited recession becomes largest ever disturbance of the globe since the Great Depression of 1929. It raises a research and policy questions how all this happened or how newly emerged virus played so big impact on the world economy and society.

COVID-19 pandemic in 2020 has caused multiple shocks for economies and deep contractions worldwide followed with recession larger extent then global crisis of 2008. The answer on the question “How” should give an opportunity to assess the resilience of the economies and to work out the preparedness to possible similar events in the future.

The causality in the economy in many cases are studying as factors-impact or transmission channels, ways between causes and arising implications. But pandemic recession case has difference because it is not pure economic phenomenon, but reflection of the unexpected natural force influence on the economy followed with disproportions and imbalances of the economic structures.

Systemic methodology requires identify an elements and their relationships within any complex process. So it requires look at the interrelations of shocks, pandemic economic impacts and economic risks as transmissions channels between virus pandemic and economic development.

Pandemic economic implications could be considered as specific cluster of interaction of shocks, impacts and risks.

Pandemic-igniting shocks could be designated as unexpected change of internal and external economic forces which affect changes of economic balances and structures therefore influence on economic growth and outcomes.

Pandemic economic impacts could be interpreted as major economic outcomes derived and resulting from the pandemic and related shocks.

Pandemic economic risks are probability of events and market deviations which might have lasting influence on the economy and enterprise, causing variations of economic performance and economic benefits.

COVID-19 pandemic and governmental policies in response have generated a number of economic shocks followed with short- and medium term impacts and risks. Pandemic shocks are a mixture of natural events forces and resilience public measures. Cross-border spillovers of pandemic shocks generated international risks and are considered as major forces of national, regional and world economies depressions in 2020.

Medical systems challenges, social stress, financial instability, business restrictions are causing endogenous shocks of supply, demand, output, productivity, technology. Households demand sliding down due to incomes and employment reduction. Supply shocks are causing by the freeze of businesses and output contractions. External (exogenous) shocks are resulting from unexpected fluctuations of international commodities and financial markets, catastrophic events, domestic and external conflicts.

Governmental response restrictions, relief measures have created so called “man-made” or “government-imposed” irregularities which would be considered as economic policy shocks with impact on business. The cluster of shocks are causing a disproportional economic impacts in different sectors and international risks for different countries.

Pandemic economic impacts are: extreme expenses for public health services.

Production and services contraction, employment and households incomes squishing, f employment and households incomes squishing, fiscal imbalances increase, supply chains instability, international trade and transportation reduction, international debt accumulation.

Shocks and economic impacts are correlating with international risks are considered as those having affecting several countries and cross-countries communications.

Sectors differentiation of contractions could be considered as one of the major international economic risks which may impact on risk of unbalanced recovery:

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

2. Moderate affected economic sectors: international trade, retail sales, education, energy, manufacturing.

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

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

Waves of pandemic and medical crisis continuation are influencing on international risk of economic uncertainty. It followed with International risk of countries and corporations financial instability.

Increase of governmental and private debts is an international risk due to downsizing capacities for the debt servicing during pandemic 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. In Europe 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 cross-border transmission of economic shocks through channels of foreign trade, financial flows, international communications. It causing an

international risk of world markets volatility, unbalanced depression and worsening of global imbalances. The prospects of countries are depending on recession downturn and recovery differentiation rates.

The IMF October 2020 forecasts providing a picture of differentiated expectations for GDP decline in 2020: world – 4,4%, developed economies – 5,8%, USA – 4,3%, Euro area – 8,3%, emerging and developing economies – 8,3% [3] Meanwhile China would be only one economy with positive GDP result. This would increase international market volatility and countries competition.

Coherence of specific pandemic-related shocks, impacts and international economic risks together with prospects of medical situation would influence on the economic recovery.

The major pandemic-related international economic risks to be considered are:

- pandemic economic impact cross-border spillover risks;
- post-pandemic economic uncertainty risks;
- countries economic differentiation and un-proportional recovery risks;
- change from V-shape to W-shape recovery risks;
- international supply chains disruptions risks;
- international mobility risks;
- de-globalization, regionalism and protectionism risks.

Pandemic related international economic risks should be considered as a certain coherence with other risks. Their joint factors are an extent of COVID-19 spread, medical system response and capacity, cost of prevention and mitigating. Therefore pandemic related risks should be considered both in qualitative and quantitative aspects as well as estimated probability of occurrence. Overall macroeconomic risks – fiscal, financial, exchange rates, investment, inflation, unemployment and social – also should be simultaneously considering.

International economic risks regulation should be based on comprehensive forecasts, adaptability and structured instruments using in a timely fashioned manner. During pandemic regulations should be aimed at restoring business and consumption, stabilizing the

fiscal situation, companies' financial soundness. During incoming recovery governmental policies should be focused on macroeconomic stability, digitalization and sustainable economic growth.

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