ECONOMIC AND SOCIAL DEVELOPMENT IN COVID-19 ENVIRONMENT

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Abstract

This paper discusses the COVID-19 pandemic in terms of its impact on both business and society. It comments on important data for 2020, describing the economic and social dimension of the arising COVID-19 pandemic, its uptake and main characteristics. In addition, the paper also comments on the methods to support the continuity of business and the support provided for the essential sectors. It outlines important statistics on the labor market and the economic impact of the pandemic on enterprises in Europe.

Key words: *COVID-19, pandemic, business activity, social*

1. INTRODUCTION

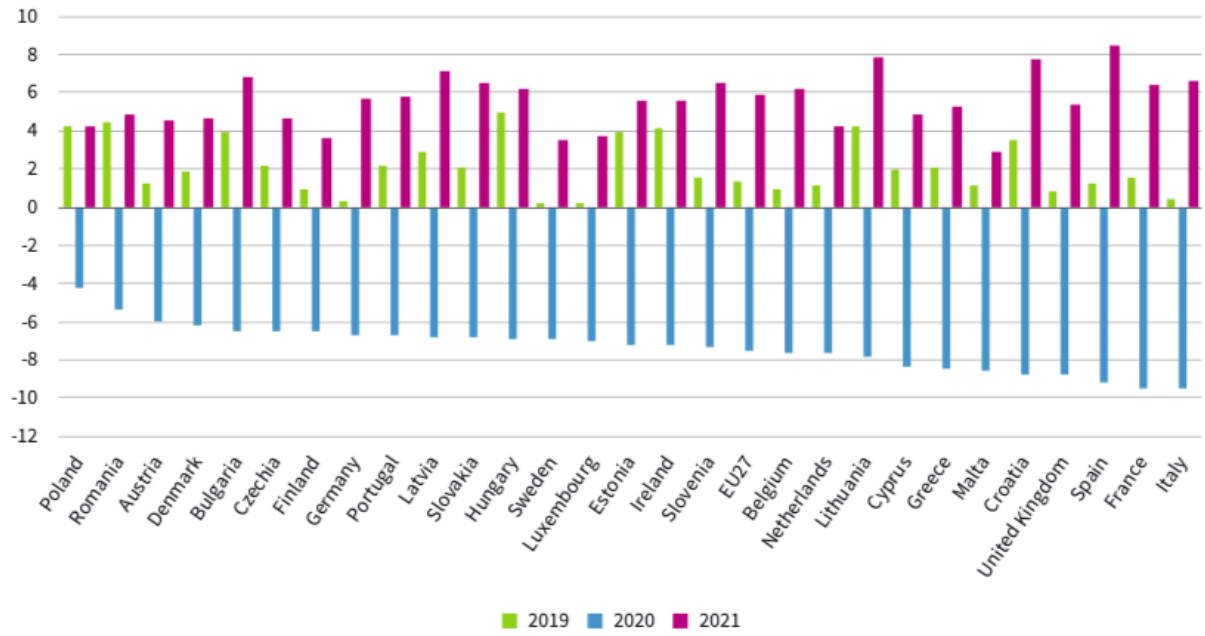
On 11 March 2020 COVID-19 was declared a global pandemic and ever since it has had an unprecedented impact on global economy in developed as well as in developing countries. The crisis had a major impact on most businesses (except for the construction sector and the financial services industry). In many ways it drastically changed the social order and the conditions of doing business. Also, the pandemic had a major impact on the organization of day-to-day life and the management of human resources. In many aspects, the pandemic can be compared to the 2008-2009 financial and economic crisis, particularly in terms of its influence on the labour market and the different categories of unemployment or partial work and reduced payrolls.

In this paper we will discuss the COVID-19 pandemic in terms of its impact on both business and society. We will comment and discuss important data for 2020, describing the economic and social dimension of the arising crisis, its uptake and main characteristics. In addition, the paper will also comment on the methods to support the continuity of business and the support provided for the essential sectors.

2. ECONOMIC DIMENSIONS OF THE COVID-19 PANDEMIC

Due to the lockdown measures implemented worldwide, one of the main effects of the COVID-19 pandemic is the impact it had on the labour market. However, when analyzing the crisis environment it is important to compare it to the one experienced during the previous crisis. It is reported by Eurofound that the labour market effects of the 2008–2009 global financial crisis were experienced primarily in two capital-intensive sectors - construction and manufacturing, where employment reductions of 10-20% were recorded at EU aggregate level [1]. On the other hand, service sectors, representing over two-thirds of EU employment, are found to be relatively less affected. Because of its specific origins, the current COVID-19 crisis has initially affected service sectors most, in particular those based on social gatherings such as entertainment, hotels and restaurants, sports and leisure, and transport, as well as all tourism-related activities [2].

Figure 1: GDP per capita (percentage change on previous year, 2019–2021), EU27 and the UK



Source: European Commission (2020)

Overall the economic and labour market consequences of the COVID-19 pandemic are predicted to be more serious than those of the 2008–2009 global financial crisis, just over a decade ago. Global working hours in the second quarter of 2020 are reported to be 10.5% lower than in the fourth quarter of 2019 (equivalent to 305 million full-time jobs worldwide), with somewhat higher impacts in the major developed economies including the EU [3]. Also, EU GDP growth projections for 2020 have been revised from +1.5% to -7.5% in the Commission's latest spring 2020 Economic Forecast, with rather different projections for the severity of the decrease and the nature of the subsequent recovery in different countries [4].

The data set out in fig. 1 shows that the first five countries that experienced lowest decrease in GDP for the period 2019-2020 are Poland, Romania, Austria, Denmark, and Bulgaria. The countries with the highest decrease in GDP are respectively Italy, France, Spain, the UK, and Croatia. These are the countries with the strictest lockdown measures which ultimately reflected on their growth performance. Yet, for the first quarter of 2021 Spain, Italy, France, Lithuania, Latvia, Bulgaria and Croatia mark more than 6% GDP growth, whereas the economic growth in all other countries is between 4% and 6%.

In terms of employment effects, the data shows that at the end of April 2020, there were applications for short-time working by over 10.1 million employees in Germany. In 2009 which was the peak crisis year of the global financial crisis they were 3.3 million [5]. It is also important to observe that this represents around a quarter of the German workforce, which is unprecedented in terms of country statistics. The situation is even more serious in France where 12.7 million employees were receiving partial activity payments in mid-May 2020 [6], and this represents nearly half the workforce there. In Ireland, a country which was severely hit by the global pandemic in 2009, the 'COVID-adjusted unemployment rate' was 28.2%, considering workers and businesses being granted temporary pandemic unemployment entitlements and wage subsidies. Furthermore, the increased telework was another major factor influencing the employment environment (fig. 2). It is reported that over one third or 37% of the EU workforce are estimated to have started teleworking since the onset of the crisis [7].

Another interesting observation is that while the sectors most affected during the global financial crisis were primarily male-dominated, with a concentration of mid-paying employment, the sectors most affected by COVID-19 closure have been mainly female-dominated. This is explained to be due to the fact that women tend disproportionately to work in sectors with high levels of social interaction e.g.

education, childcare, social work, art and creation, beauty care, etc. and these are all sectors affected by the physical distance measures. While it is observed that in recent history pandemics have contributed to increasing inequalities [8], it is expected that vulnerable groups are the most exposed to employment fall-out of COVID-19. Also, like in the global financial crisis, young people are likely to be more significantly affected [7].

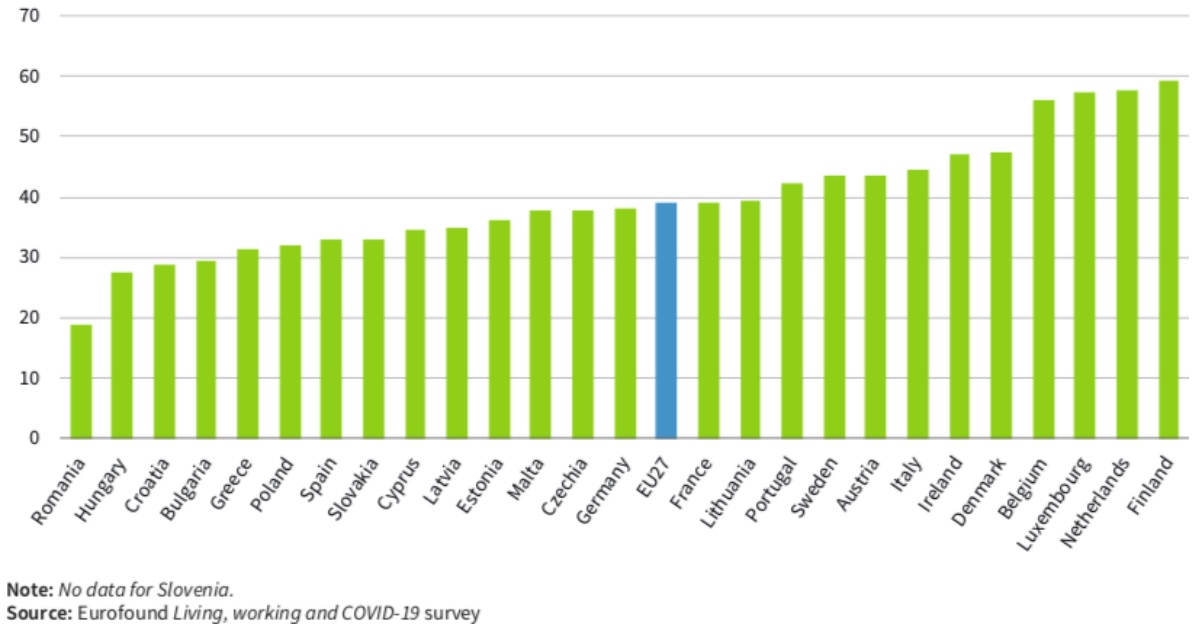


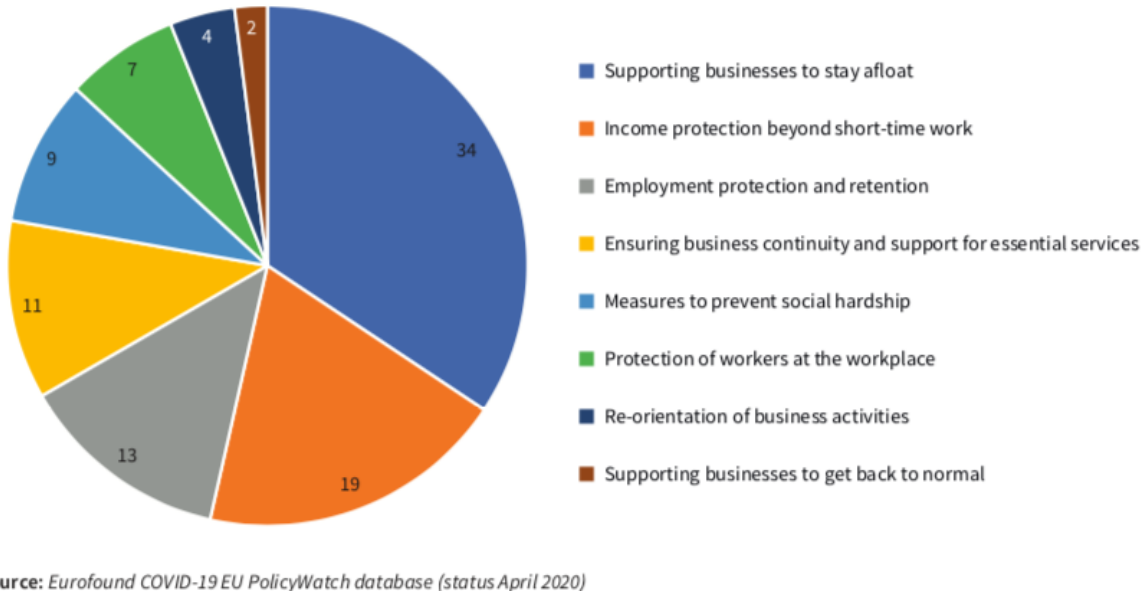
Fig. 2. Employees who have started teleworking due to COVID-19, EU27 (%)

3. SOCIAL DIMENSIONS OF THE COVID-19 PANDEMIC

When observing the National policy response, it is observed that the urgency of the crisis resulting from the COVID-19 pandemic is reflected in the fact that nearly 60% of the measures reported are entirely new, while the remainder consist of amendments to existing provisions [1]. The material gathered in the database shows that nearly 35% of the initiatives implemented during the early phase of the evolution of the pandemic (from February to late April 2020) focused on supporting businesses to stay afloat. This was followed by income protection beyond short-time work measures (19% of initiatives) and employment protection and retention measures (13% of initiatives), many of which were related to the implementation of short-time work. Around one-tenth of policy initiatives were developed to ensure business continuity and provide support for essential services (11%) as well as to prevent social hardship (9%) (see Fig. 3).

Still, the largest share of the initiatives aimed at keeping businesses afloat took the form of non-repayable grant payments. Their primary aim was the self-employed, micro and small businesses to enable them to cover their ongoing operating costs like rent, utilities, etc. This focus serves to highlight the severity of the short-term impact of lockdown measures and the closure/partial closure of many businesses.

Of almost equal importance were policies which aimed to ensure ongoing access to finance. This included government-backed bank guarantees for business loans at low interest rates and the deferral of financial commitments such as social security contributions, taxes and loan payments.



Source: *Eurofound COVID-19 EU PolicyWatch database (status April 2020)*

Fig. 3. Distribution of policy measures in different categories (%)

A significant feature of the policy response to COVID-19 has been the provision of income support measures to people who were not previously covered or covered only partially, such as self-employed workers, fixed-term contract workers and people employed on other atypical contracts. It is further reported that 70% of the employment protection measures adopted focused on short-time work (STW) arrangements [1]. The share of the most precarious atypical workers has been growing in the EU over the last 10 years, and this made the provision of support to this group all the more important [9]. The importance of the extension and amendment of paid sick leave schemes was tied to the nature of the crisis as a health crisis. Furthermore, it was designed to prevent from any negative financial consequences for workers having to quarantine or to self-isolate.

Nevertheless, despite the widespread adoption of income protection measures, many individuals and families suffered dramatic reductions in income [7]. Hence, measures were introduced to defer rent and mortgage payments.

4. CONTINUITY OF BUSINESS AND SUPPORT FOR ESSENTIAL SECTORS

One of the specific characteristics of the COVID-19 pandemic is that it made a very quick reallocation of essential and non-essential categories of economic activities. This was particularly important to determine the measures and approaches towards the different types of businesses as well as the relevant support required to compensate for the low levels of activity in certain sectors due to the lockdown measures.

It is reported that in the context of the COVID-19 pandemic, at least 21 countries in the EU have introduced temporary and exceptional measures to keep essential services functioning during the health emergency and lockdown. The list of essential services included health and social care activities, agriculture, production and distribution of food and other essential goods, utilities, defense and public administration activities [1]. The crisis also contributed to further highlight the pressing nature of long-standing labour shortages in a number of sectors such as health and social care. These sectors have traditionally been under-valued and low-paid and the restrictions on the movement of labour have further exacerbated such shortages, including those heavily reliant on the seasonal migration of labour like the agricultural business.

In addition, it is reported that the COVID-19 outbreak has placed extremely great pressure on the healthcare sector where resources (both human and material) have been mobilized at EU and national

levels to prevent the healthcare system from collapsing as the crisis increased. This also contained an enormous attempt to engage additional staff in hospitals.

According to Eurofound [1] in order to address the impact of COVID-19, some businesses were able to reorient their activities by shifting production to provide goods in higher demand as a result of the pandemic. Others moved their businesses online, with financing and practical support from the government. Also, it is observed that a number of distilleries or other manufacturers using alcohol in the production of disinfectants have adapted their production to deliver hand sanitizers. Measures introduced by governments such as the reduction of excise duty (up to 90%) for alcohol producers, were intended to support local manufacturers in Latvia to produce much-needed disinfectant for public and private use.

Furthermore, as observed by Eurofound [1], in Austria companies producing snow canons, snow blowers and mobile nebulizers adapted their use for cleaning and disinfecting large surfaces, such as train stations, production halls or in nursing homes. Also, several textile manufacturers contributed to the fight against the virus by producing personal protective equipment - cloth face masks and aprons. A Slovakian textile and garment manufacturer adapted their production to manufacture protective face masks after signing a contract with the government for the delivery of 650,000 face masks. The same was done by some Bulgarian textile manufacturers. The business association of Leiria Region (Associação Empresarial da Região de Leiria – Nerlei) in Portugal started a challenge coordinated by the Polytechnic of Leiria to encourage companies to produce safety goggles for distribution free of charge to healthcare providers, police, security and prison services in the district of Leiria. In addition, ten companies, mostly from the moulds and plastics sectors, cooperated to produce 6,000 safety goggles. In Latvia, volunteers from the start-up community and civil society (non-for-profit organisations) joined forces to find solutions to the COVID-19 challenge. They organized a virtual hackathon in March 2020 where the winner, in consultation with the specialists at Pauls Stradins Clinical University Hospital, designed prototypes of face shields. The company delivered 20,000 face shields to almost 400 customers in Latvia and exported nearly 1,000 to another four countries between March and April 2020.

In Europe government support for e-business and exports were among the measures introduced to assist companies to reorient their activities to have a higher number of consumers. Producers not accustomed to e-business platforms and exporters facing supply chain disruptions were given an opportunity to expand their knowledge base in this area through such financial supports. In Ireland companies availed of the retailers' fund launched by the government with in order to initiate e-commerce activities during the time of the physical closure of businesses, in particular those struggling with traditional retail activities.

In Czechia exporters that were faced with supply chain disruptions were provided with government support in the form of information (like webinars and practical information), facilitation through their embassies in the supply chain countries, finding partners and providing expertise. In a similar manner, in Ireland, the National Digital Strategy provided a platform to launch the 'trading online voucher scheme'. It was intended for small companies (up to 10 employees) and the aim was to encourage them to trade more online, increase their sales and also have access to new markets. A maximum amount of €2,500 was provided through Local Enterprise Offices with co-funding of 10% from businesses and the voucher can be used towards website development, building new apps for customers and subscriptions to low-cost online retail platform solutions. It was meant to help companies quickly establish a retailing presence online.

During the pandemic the sudden loss of income has certainly posed existential challenges to many small and micro businesses. However, it has also impacted on large companies facing ongoing operating costs, such as rent and utilities. In order to rescue the enterprises that have been acutely affected by the complete temporary closure of business and those with dramatic drops in income in the short term, several countries (20 EU Member States and Norway) introduced non-repayable grant schemes. While some are specifically targeted at businesses affected by mandatory closure (for example Belgium, Greece and Hungary), others support companies with a loss of income related to a specific share of turnover in the same month of the previous year - e.g. in Austria, France, Poland and Norway. Certain sectors like tourism were supported by grant measures in Belgium, Croatia, Estonia, France, Slovenia

and Norway. But even though they may constitute a lifeline for many businesses, such eligibility criteria inevitably mean that some enterprises cannot access support.

5. CONCLUSION

The paper explained the major consequences of the COVID-19 pandemic in terms of economic and social implications. It discussed major business aspects, employment policy measures and support to essential businesses. The pandemic had a major impact on the organization of day-to-day life and the management of human resources and in many aspects it can be compared to the 2008-2009 financial and economic crisis, particularly in terms of its influence on the labour market and the different categories of unemployment or partial work and reduced payment.

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