

## Analysis of Measures to Support the Economy in the Context of the COVID-19 Pandemic

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**Abstract.** The successful functioning of the country's economy is closely linked to optimal budget support. This determines the effectiveness of the state's economic policy and its impact on economic and financial stability, the standard of living of the population, etc. This issue becomes particularly relevant in certain crisis periods, such as the 2020 and the COVID-19 pandemic. The purpose of the paper is to study the state and trends of the impact of COVID-19 on the economic situation in the world and determine the socio-economic losses that Ukraine will suffer from the pandemic. The paper proves that reducing the financial capabilities of the state requires reformatting the instruments of the state's financial policy in favour of other, less expensive sources of incentives. It was determined that the vast majority of countries in the world distinguish tax incentives as an influential stimulating factor of economic development. The system of incentive measures to support businesses in such countries as Germany, Italy, and the United States is analysed. The features and courses of incentive measures applied in Ukraine are determined. It is concluded that in the context of the "coronavirus crisis", Ukraine has resorted to the steps that all civilised countries of the world are taking: it reduces planned budget revenues and increases expenditures aimed at countering the pandemic. However, the system of proposed incentive measures is not enough to support business structures. It was proved that the vast majority of measures are not economic but social. The scientific originality of the results obtained is conditioned upon the need to apply instruments of more active tax and fiscal policy aimed at thoroughly supporting business structures to reduce the negative impact of the global economic crisis. It was determined that first of all, the most considerable factor should be the support for small businesses and the self-employed population of Ukraine as the most vulnerable category of business structures in Ukraine. Further research will be aimed at analysing the economic consequences of quarantine, economic losses after overcoming the coronavirus disease

**Keywords:** economic crisis, coronavirus, COVID-19, budget expenditures, stimulating tax instruments

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### The Problem Statement

The COVID-19 pandemic has become a new challenge in the development of the global economy. The uniqueness of the situation lies in the fact that the development of signs of an economic and financial crisis is not caused by market mechanisms or ineffective regulatory measures but is associated with a sharp decrease in the physical volume of economic activity and, accordingly, the volume of budget revenues at all levels of the country's budget system. The successful functioning of the country's economy is closely linked to optimal budget support. This determines the effectiveness of the state's economic policy and its impact on economic and financial stability, the standard of living of the population, etc.

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### Analysis of Recent Research and Publications

There is a discussion of the problem of coronavirus disease in the mass media, where representatives of government agencies, leading economic experts, sociologists and political scientists, and other leading experts on this issue express their views. In particular, these are A. Amelin, J. Lavrik, D.I. Monin [1], D.V. Dolbneva [2], et al.

### Purpose of the Study

The purpose of the paper is to study the state and trends of the impact of COVID-19 on the economic situation in the world and determine the socio-economic losses that Ukraine will suffer from the pandemic.

**Research Results**

During 2020, the global economy suffers from problems related to the COVID-19 pandemic. According to preliminary forecasts of the International Monetary Fund, GDP in the eurozone will fall by 7.5% this year, in the United States – by 5.9%. Meanwhile, China’s GDP may grow by 1.2% [3]. The world economy will fall by 3% in 2020 – the most in the last few decades. A 3% drop in the global economy means that the world will produce about 2.7 trillion dollars fewer goods and services than in 2019 [4].

For Ukraine, the IMF [5] predicts a drop of 7.7% in 2020 and an increase of 3.6% in 2021. JP Morgan analysts predict an economic downturn in Ukraine of 5.1% of GDP

in 2020 with inflation of 3.7%. In 2021, economic growth may reach 6.3% with inflation of 6% [6]. The National Bank of Ukraine expects GDP to fall by 5% this year and recover by 4.3% next year. The current account deficit is projected to reach 1.7% of GDP this year and 3.1% of GDP next year.

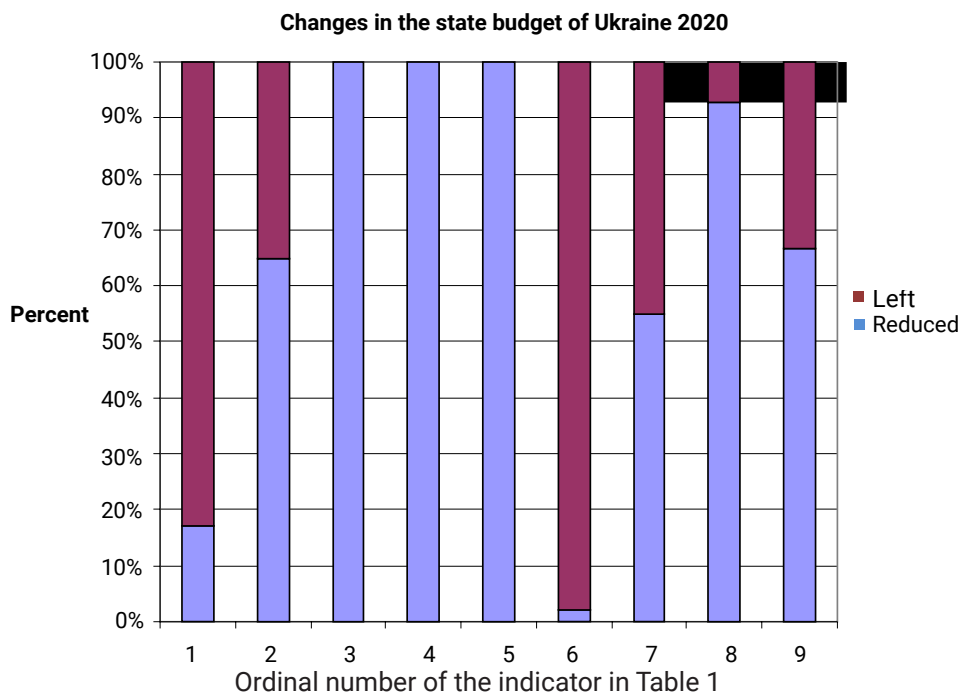
In the context of the global economic crisis aggravated by the COVID-19 pandemic, the Government and Parliament of Ukraine had no choice but to urgently change the budget of Ukraine. Forced reduction of funding for some items and redistribution of funds to others is a much better scenario than if the main financial document of the country in this situation remained unchanged [7]. Table 1 shows the sample indicators for which a considerable reduction was made.

**Table 1.** Sample indicators for which a considerable reduction was made [8]

No	Indicator	Monetary measurement		%	
		Reduced	Left	Reduced	Left
1	Subsidies, billion UAH	8.2	39.3	17	83
2	Regional Development Fund billion UAH/billion UAH	4.9	2.6	65	35
3	Subvention to support amalgamated territorial community billion UAH/billion UAH	2.1	0	100	0
4	Energy Efficiency Fund billion UAH/billion UAH	1.6	0	100	0
5	Subvention for payment to teachers billion UAH/billion UAH	1.6	0	100	0
6	Subvention for payments to lowincome families billion UAH	1.3	60.0	2	98
7	Subventions for local elections billion UAH/billion UAH	1.2	1.0	55	45
8	Statistical monitoring billion UAH/million UAH	1.3	100.0	92.86	7.14
9	Subvention for the programme “Capable school for better results” billion UAH/million UAH	1.0	500.0	66.67	33.33

As is evident from Figure 1, subventions have completely disappeared for important items of expenditure. In particular, subventions for community development disappeared from the budget, expenses for the protection of

teachers and the project “Capable school for better results” were reduced, and expenses for the development of the Energy Efficiency Fund disappeared. For other indicators, there was also a considerable reduction [9].



**Figure 1.** Changes in the state budget of Ukraine 2020

Reducing the financial capabilities of the state requires reformatting the instruments of the state's financial policy in favour of other, less expensive sources of incentives. Tax incentives are identified as an influential incentive factor for economic development, namely, non-application of fines for a certain period, the absence of the need to justify delays in payment and filing of declarations, etc. Tax audits are also suspended, certain operations are exempt from VAT, and enterprises in certain industries are temporarily exempt from paying taxes.

A popular measure is the deferral of VAT and personal income tax or the payment of accrued tax liabilities in instalments. Therewith, the payment is postponed not only for a month or two but more often for six months or even until the end of 2020. In particular, in Germany, the

Federal Government provides 50 billion euros to provide non-bureaucratic emergency care for small businesses, the self-employed, and freelancers: self-employed individuals and companies with up to 5 employees receive up to 9.000 euros; self-employed individuals and companies with up to 10 employees receive up to 15.000 euros. In addition, the Federal government has created an Economic Stabilisation Fund, which is aimed especially at large companies. The fund includes 100 billion euros for corporate actions; 400 billion euros for guarantees; the fund can refinance KfW programmes (German state bank), which have already been approved for up to 100 billion euros. For this purpose, KfW provides various credit programmes in unlimited scope. This eases financial difficulties, especially for small and medium-sized companies [10] (Table 2).

**Table 2.** Instruments and their types to support businesses and the unemployed in Germany

Instrument	Amount, billion euros	Type
Short-term unemployment support	26	Grant
Grants for freelancers and microenterprises	50	Grant
Economic Stabilisation Fund	600	Guarantees and loans
Support for start-ups	2	Guarantees, loans, additional capitalisation
KfW instruments	450	Guarantees, loans, "instant" loans
Support and insurance of credit risks of exporters	30	Guarantees

Source: [10]

In Italy, the Ministry of Economy and Finance has adopted a system of measures that provide initial support for businesses: payment of taxes, tax withholding and tax liabilities have been suspended for taxpayers and businesses living or operating in eleven municipalities affected by coronavirus containment measures.

Measures will include:

- deferral of certain tax payments, including Value Added Tax;
- suspension of mortgage payments for some employees, including autonomous ones;
- state guarantees of bank financing and loans to firms to increase liquidity in emergencies.

The measures also include a package of loan guarantees to avoid a credit crisis. The state guarantee fund for small and medium-sized enterprises will be increased by 1 billion euros, and the state lender Cassa Depositi e Prestiti will be allowed to guarantee at least 10 billion euros of loans

from the Treasury fund for 500 million euros [11]. A large package of incentive measures was introduced in the United States: tax deferral without interest or penalties for certain people and businesses affected by the coronavirus crisis (this allowed the economy to provide more than 200 billion US dollars); tax benefits for employers who provide payments due to the provision of paid sick leave to workers; 1 billion dollars for emergency government subsidies for the provision of unemployment insurance support [12].

The complex of stimulating measures in Ukraine is less economically oriented and is more social than economic. Thus, on March 18, 2020, the Law of Ukraine "On Amendments to the Tax Code of Ukraine and Other Laws of Ukraine Regarding Taxpayer Support for the Period of Implementation of Measures Aimed at Preventing the Occurrence and Spread of Coronavirus Disease (COVID-19)" came into force [13]. The so-called "tax holidays" for individuals and legal entities have been established (Table 3).

**Table 3.** Support for businesses during quarantine

No.	Support for businesses during quarantine	Terms of validity of support and some restrictions on their part
1	A moratorium on conducting documentary and factual inspections has been established for the period from March 18 to May 31, 2020 [14]	However, there are exceptions, the moratorium does not apply to documentary unscheduled inspections of budget VAT refunds (this applies to legal entities). Notably, desk audits are not included in the list of inspections for which a moratorium is established. There is a certain logic in this since a desk audit is carried out in the premises of the supervisory authority, based on the data specified in the taxpayer's tax returns (calculations), and data from the electronic Value-Added Tax Administration system, as well as data from the Unified Register of excise invoices and data from the electronic fuel sales administration system. However, due to the fact that quarantine has been introduced, it is not clear how acts based on the results of the audit will be sent and how taxpayers will receive them

Table 3, Continued

No.	Support for businesses during quarantine	Terms of validity of support and some restrictions on their part
2	Deferral of tax liabilities for the annual declaration of property status and income for 2019 [15]	Positive changes are made regarding the postponement of payment until October 1, 2020, for individual entrepreneurs of the amount of tax liability that was submitted in the annual declaration of property status and income for 2019
3	"Tax holidays" for land payments	Thus, for the period from March 1 to April 30, 2020, land fees (land tax and rent for land plots of state and municipal ownership) are not charged or paid for land plots that are owned or used, including on lease terms by individuals or legal entities, and are used by them in economic activities. In turn, an individual entrepreneur can apply for recalculation of the specified taxes to the supervisory authority
4	Exemption from accrual and payment of single social security tax	Temporarily, for the periods from March 1 to March 31 and from April 1 to April 30, 2020, the following persons are exempt from calculating and paying single social security tax: a) individual entrepreneurs, including those who have chosen the simplified tax system; b) persons engaged in independent professional activities; c) members of a farm if they do not belong to persons who are subject to insurance on other grounds. Therewith, these persons can independently make a decision on the payment of a single contribution for the specified periods in the amounts and in accordance with the procedure established by law, and reflect this in the financial statements. In addition, it should be remembered that sole proprietors of the first and second groups (without employees) can save on taxes since they can go on vacation for one calendar month
5	No fines or penalties for the "tax holidays" period	For violations of tax legislation committed during the period from March 1 to May 31, 2020, penalties will not be applied, except for sanctions for the following: – violation of requirements for long-term life insurance contracts or insurance contracts within the framework of non-state pension provision, in particular, insurance of an additional pension; – alienation of property held as a tax lien without the consent of the supervisory authority; – violation of the rules of accounting, production and turnover of fuel or ethyl alcohol in excise warehouses, which are applied on a general basis; – violation of accrual, declaration and payment of VAT, excise tax, rent. In addition, for the period from March 1 to March 31 and from April 1 to April 30, 2020, temporary penalties are not applied for the following violations: – late payment (late transfer) of a single tax; – incomplete payment or late payment of the single tax amount simultaneously with the issuance of the payment amounts for which the single tax is accrued (advance payments); – late submission of single social security tax reports to the tax authorities, including penalties for repeated failure to submit single social security tax reports for the periods from March 1 to March 31 and from April 1 to April 30, 2020. Also during the periods from March 1 to March 31 and from April 1 to April 30 2020

Source: [3]

Most countries of the world, as well as Ukraine, were not ready for a global pandemic. State systems are too difficult to implement the necessary changes quickly. The pandemic has become a test for every country's civil society.

## Conclusions

In the context of the "coronavirus crisis", Ukraine has resorted to steps that all civilised countries of the world are taking: it reduces planned budget revenues and increases expenditures aimed at countering the pandemic. European countries were more ready than Ukraine to take all necessary

measures to get out of the current crisis and restore the economy. Unprecedented amounts of government guarantees are aimed at avoiding turning liquidity problems into solvency problems. Supporting small and medium-sized businesses through subsidies and tax and debt deferrals will allow avoiding massive defaults and a deep recession.

It is very important today, first of all, to support small businesses because they have a much smaller safety net or no safety net at all. Further research will be aimed at analysing the economic consequences of quarantine, economic losses after overcoming the coronavirus disease.

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## **Аналіз заходів з підтримки економіки в умовах пандемії COVID-19**

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**Анотація.** Успішне функціонування економіки країни тісно пов'язане з оптимальним забезпеченням бюджету. Від цього залежить дієвість економічної політики держави та її вплив на економічну і фінансову стабільність, рівень життя населення тощо. Особливої актуальності дане питання набуває у певні кризові періоди, яким став 2020 рік та пандемія COVID-19. Метою статті є дослідження стану і тенденцій впливу COVID-19 на економічну ситуацію у світі і визначення соціально-економічних втрат, яких зазнає Україна від пандемії цієї хвороби. У статті обґрунтовано, що зменшення фінансових можливостей держави потребує переформатування інструментів фінансової політики держави на користь інших, менш затратних джерел стимулювання. Визначено, що в якості впливового стимулюючого чинника економічного розвитку переважна більшість країн світу виділяють податкове стимулювання. Проаналізовано систему стимулюючих заходів щодо підтримки бізнесу в таких країнах, як Німеччина, Італія, США. Визначено особливості та спрямованість стимулюючих заходів, застосованих в Україні. Зроблено висновок, що в умовах «коронакризи» Україна вдалася до кроків, які роблять всі цивілізовані країни світу: вона зменшує заплановані доходи бюджету і збільшує видатки, які спрямовані на протидію пандемії. Проте системи запропонованих стимулюючих заходів недостатньо для підтримки бізнес структур. Обґрунтовано, що переважна більшість заходів носить не економічну, а соціальну спрямованість. Наукова новизна отриманих результатів полягає у визначенні необхідності застосування інструментів більш активної податкової та бюджетної політики, спрямованої на ґрунтовну підтримку бізнес структур, з метою зменшення негативного впливу світової економічної кризи. Визначено, що насамперед вагомою повинна бути підтримка малого бізнесу та само зайнятого населення України, як найбільш вразливої категорії бізнес структур України. Подальші дослідження будуть спрямовані на аналіз економічних наслідків карантину, втрат економіки після подолання коронавірусної хвороби

**Ключові слова:** економічна криза, коронавірус, COVID-19, бюджетні видатки, стимулюючі податкові інструменти

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