

ASSESSMENT OF THE EFFECT OF GLOBAL UNCERTAINTY CREATED BY COVID-19 PANDEMIC ON INVESTMENTS

Sinem YALÇIN

Turkish Court of Accounts, Türkiye
sinemyalcin@sayistay.gov.tr

Abstract:

The Covid-19 pandemic, which emerged in Wuhan, China in December 2019 and created the biggest collapse in global economy after World War II (5.2% contraction), affects all developed and developing economies negatively. Economic activities are not only affected by social life but also by political decisions and approaches, and by the developments outside the country. In other words, economic activities are not only affected by the restrictive measures and sound practices such as limited socialization aiming to counteract the pandemic, but also by the post-pandemic uncertainties in economic conditions. The basis of this is that economic agents such as households and investors make their decisions considering the available data and the decisions and approaches for future. In the long run, as uncertainty in one economy also affects the other economies due to the intertwined and global nature of economy, the Covid-19 pandemic causes uncertainty in investors' expectations which in turn causes a contraction in investments. As a matter of fact, in the past epidemics of SARS (2002-2003) and MERS (2012), the contraction in investments due to uncertainty continued for more than five years after the pandemic. Since the contraction in investments will lead to an increase in unemployment and a setback in economic growth, the actual estimation of the uncertainty level is essential for providing an overall view of the economy. For these reasons, it is necessary to analyze the investment levels before and after the Covid-19 pandemic together with the values of the "Global Uncertainty Index" in order to assess the effect of the pandemic on investments properly. In fact, the Covid-19 pandemic created 3.5 times more uncertainty than the 2009 Global Economic Crisis. The uncertainty environment negatively affected the investment climate as well, and caused a 5.5% contraction in global investments in 2020. The size of this contraction is higher in developed countries (6.5% in 2020) compared to developing countries (4.5%). Accordingly, studies by international organizations report that the contraction in investments will continue after the Covid-19 pandemic and that the recovery will take a long time. Per capita investment rates, which are closely related to growth in real GDP, also confirm this situation: While the per capita investment rate was 1.4% in 2020, it is expected to be -0.1% in 2022. In conclusion, both the vaccine studies and the stabilization policies implemented by countries are expected to positively affect other macroeconomic indicators, particularly the investments, by decreasing the uncertainties created by the pandemic. Despite the expectation for recovery, countries should not abandon economic measures, and the reality of pandemic and the uncertainties it creates should be taken into account while planning investment policies and investment prioritization in particular.

Keywords: Pandemic, investment, uncertainty

JEL Codes: H39, H50, I18