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THE ECONOMIC IMPACT OF THE CORONAVIRUS COVID-19 CRISIS AND THE POSSIBILITY OF PUBLIC POLICY ANSWERS

Alessandro Figus[1]

Summary: This paper analyses the economic transmission channels of Covid-19 in Europe, the main mitigation factors in the region and the public economic policies implemented up to now and those that will be implemented in the coming years, a situation in full evolution and which certainly cannot be resolved in a short time.

Keywords: Economy, coronavirus Covid-19, public policy, Europe

Introduction

By the end of the year 2020, and since the pandemic began in the Chinese city of Wuhan in the last days of 2019, the coronavirus or Covid-19 has already claimed the lives of nearly 1.9 million people. Now, the big question that scientists, leaders, and citizens are asking every day revolves around what impact the coronavirus will have on the world economy. The virus has spread rapidly around the world, with a higher incidence in Europe, where it began its escalation in Italy, then spread to the rest of the countries of the continent: Spain, France, United Kingdom and, to a greater or lesser extent, in the rest of the countries of the continent and in the United States, a country that currently leads the world ranking for the number of infections and deaths.

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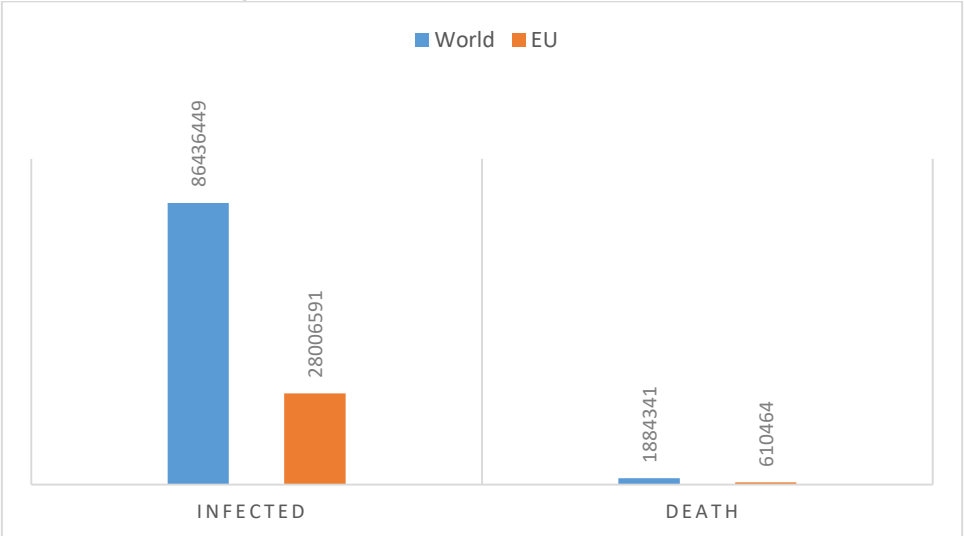
Figure 1. Covid-19 Death and infected in 2020



Source: Health Emergency Dashboard, 08 Jan 2020

The fight against this pandemic necessarily involves measures of population confinement and as a consequence, a slowdown in economic activity, if not paralysis in some sectors, with devastating effects on the world economy. WHO said that researchers, governments, and health professionals are still in the process of understanding and clarifying many questions about the pathogen causing Covid-19, the similarities of the disease with other similar ones, and its impact on people's health, but what remains beyond doubt is that since it is a new strain for which there is no vaccine yet, its effects on people's health are irremediably transferred to the health of the economy for the reasons mentioned above and that, in any case, it is not very different from similar situations developed by pandemic events in the past (Angeletti, 2008).

The economic impact of Covid-19 in Europe was very invasive in 2020 and will be considered in the short and long term due mainly to the decline in exports, capital flight, the collapse of tourism, the collapse of remittances to South American and Eastern European countries, and the economic contraction and unemployment caused by the restrictions imposed to control the pandemic.

However, the complexity of this crisis, while the region is accustomed to dealing with external shocks, lies in the fact that this is the first time it has faced so many challenges at once. One devastating factor is having a relatively old population, but fortunately, Europe is still very much internationally connected, as are the United States, and it is certainly good to have taken relatively rapid and rigorous containment measures, to have learned how to deal with external economic and health shocks in recent decades, to have taken measures to protect families and SMEs using existing social programs.

China's recovery will increase the demand for natural resources and their prices, and although the immediate impact may appear considerable, the recovery could instead be accelerated when the health issue is resolved also thanks to the arrival of vaccines.

Probably the only certainty about the global crisis caused by the coronavirus is that this is not a short-term issue; it could take months, and even years, before we will be back to something resembling normalcy. Depending on the duration and depth of the economic crisis, there will be fundamental changes in the dynamics of markets, both in consumption and production. It has become commonplace to say that the world will never be the same after this pandemic, both because of the health and economic impacts and because of the unprecedented public policies being designed and implemented around the world to mitigate the effects of Covid-19.

1. In-depth study

Amid the uncertainty we are in because of the coronavirus outbreak, it is very difficult to make any estimates of economic growth at the moment. However, beyond specific numbers that are constantly changing - mostly for the worse - the truth is that we are facing a global recession that appears to be very deep, but apparently, it is hoped that this will be short-lived, even if it will indeed leave scars.

So far, globally, the hardest-hit sectors have been the transportation one, business and professional services, tourism in general, hence hotels and restaurants, gaming, entertainment, retail, energy, and aerospace and defense industries. In contrast, some sectors have performed relatively well such as those related to the energy sector, namely gas and electricity; and to a lesser extent oil, banking, insurance, storage and packaging, online services, and healthcare. This appears to be logical.

We are looking at something new, where governments have been making decisions at a frantic pace, without much time to reflect or plan, in the face of complex moral decisions.

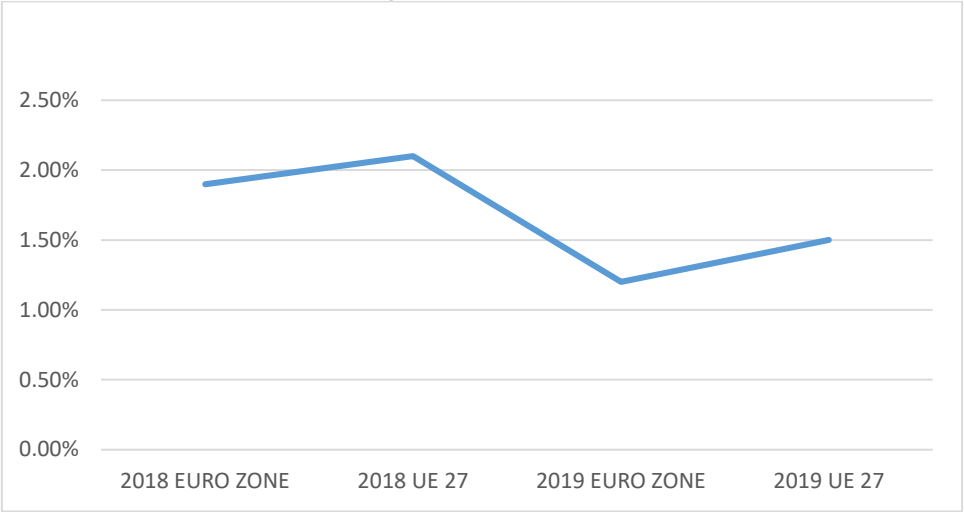
The connection between macroeconomics and public health is not obvious, making it difficult to analyze all possible scenarios, and discussions of macroeconomic policy options have largely been concentrated on developed countries. An important question is what the recovery will look like, and when it will truly take off.

However, given the gradual nature of the easing and the possible loss of production capacity, it seems that it will be slow and we will probably not return to the same level as before the pandemic for a long time.

Europe, of course, does not escape this reality, and this crisis has also come at a bad time. Europe had a mediocre economic performance in 2019.

In the year 2019, the GDP of the euro area rose by 1.2% and that of the European Union of 27 states by 1.5% after +1.9% and +2.1% in 2018 (https://ec.europa.eu/eurostat, 2020, see fig. 2).

Figure 2. GDP Trend



Source: EUROSTAT data 2020

Let's take into account that 2019 was also not an easy year for the European economic system. Europe faced several problems in 2019, first of all, the exit of the United Kingdom from the Union. It then saw European elections with a growing presence of populist formations, and a slowdown in growth that coincided with the withdrawal of stimulus by the European Central Bank (ECB), the division between partners' fundamental questions.

In the end, 2019 was not exactly an easy year for Europe, there was a slight slowdown in European growth with inflation approaching target; however, the ECB began to dismantle monetary policy: the Italian government, for example, the one most in crisis, ended up trying to reach an agreement with the EU, and the Brexit despite everything, found its orderly way. Yet for the EU, Brexit was a nightmare. The EU was never designed to be abandoned, and this has made it very difficult to dissolve all institutional ties.

The UK remains a G7 economy, Europe's largest exporter of financial services, and a military powerhouse. And from that point of view, that assumes a weakening of the EU in a world that is experiencing a major trade confrontation between two superpowers and at a time when Russia is making its reappearance as a global power. In that context, it is not good to show divisions and ruptures.

Brexit has continued to be a problem even during the pandemic crisis, but still has not caused a systemic crisis, as the Bank of England has sometimes pointed out. The UK was the main casualty by exiting the EU and this will immediately make its debt - more corporate than sovereign - more expensive, GDP will suffer a cumulative

decline of 2.7% in just under two years, unemployment will likely exceed 7%, and, with the depreciation of the pound, inflation will rise.

It will be a nightmare for British citizens and consumers, that's for sure. The rest of Europe will unquestionably suffer, but it will be the countries with the closest ties to the UK that will suffer the most and, above all, smaller economies such as Ireland, the Netherlands, Norway, and Denmark. But for Latin America, Asia, and even the United States, the impact will be marginal.

Certainly, the Italian situation has also raised strong concerns at the European level. Before the pandemic, Italy was one of the countries with the greatest political instability in Europe, where changes in the governing coalition were most common, so the Italian government will encounter difficulties at some point. But the big difference with the European sovereign crisis of 2012 is that many tools have been put in place by European authorities.

From the European Central Bank, with its policy of "quantitative easing" and zero interest rates for four or five years, to the Juncker plan for massive investments of which Italy is the main beneficiary. The decrease in non-performing loans (NPLs) is due to the previous drop in the unemployment rate. Italian small and medium-sized businesses have thus been able to contract thanks to the loans they obtain from the country's banks assisted by European guarantees through the Juncker plan. And the most important thing is the absence of contagion from the Italian situation.

In conclusion, the pandemic has also benefited the Italian economy, already in a crisis of its own, by putting aside the problems and authorizing budget variations that would have been impossible in normal times.

It is known that the European economy is resilient and that monetary and budgetary policies under pressure always end up working out well. But 2019 has not been an easy year, which is why the pandemic has on the one hand aggravated the situation, but at the same time diverted attention to the real European economic problem, to its structural crisis.

So if we were to ask ourselves the question of what are the differences between Covid-19 and other viruses, we would be tempted to analyze the impact of the coronavirus on the world economy.

The need to stop the spread of the epidemic forced governments to apply extraordinary measures, limiting the mobility of people, which forced the closure of public buildings, businesses, and stores. As a result, production, consumption, and tourism have been reduced in most of the affected countries. The result is a general decline in economic activity and its key figures. Today in the face of the pandemic crisis we see the stock market reflecting the weakening of the economy. During the critical weeks of the pandemic, the world's major stock markets left a third of their value behind. This is almost 10 percentage points more than in the weeks following the Lehman Brothers crash. And so far this year, the major stock market indices have lost between 15 and 30 percent of their price, although in recent weeks they are showing signs of recovery in a highly volatile environment.

Added to this, the oil demand has been strongly influenced by the contraction of economic activity. According to estimates by OPEC (Organization of Petroleum

Exporting Countries), global demand for crude oil in April will have fallen by 20 million barrels per day, 60% due to lower demand for fuel to transport goods and travelers.

But which sectors are most affected? The crisis could generate for the global economy a volume of losses that reaches one trillion euros. The sectors most affected: airlines, hospitality, and tourism in general, leisure and tourism, distribution, and textiles, whose brand value will be reduced by 20% in the next twelve months. On the other hand, energy, telecommunications, food, pharmacy, and technology, whose value will hardly be affected by the pandemic. However, as we have already mentioned, we cannot forget that all this is compounded by the effects on production in China. The decline in 2020 of China's international trade and its products due to the coronavirus affected industrial production, which fell 13.5% year-on-year in January and February, the largest drop in GDP in this country in 30 years. Unlike in other previous crises such as 2008, the fall in the economy produced by Covid-19 is expected to end when activity returns, with a V-shaped recovery as it has been called by the most optimistic, a very different situation from that of the 2008 crisis when it took years and years to absorb household and business debt.

2. Public policies and government action in the face of crisis.

The action of European national governments in the face of the pandemic crisis is in large part due to the response of governments and central banks, which came about rapidly and with far-reaching measures and fiscal stimuli. Central banks have injected liquidity into the system, large-scale asset purchases have been made and financing instruments with negative or near-zero rates are available. For their part, governments have implemented a range of measures to help individuals and businesses.

In Italy, for example, there have been about 500,000 temporary work regulation practices affecting more than four million workers, which is a relief measure for the wage burden of companies (Bellettini G., Goldstein A, (2020). On the other hand, lines of action have been created to provide liquidity and grant guarantees for lending.

The current health crisis is at the same time a financial one and must be considered as such because it stems from the international spread of Covid-19. It presents major public policy challenges for European governments. It is necessary to identify four complementary lines, to address the problem. First of all, there is a need to avoid contagion within the population. This is primarily a public health issue. Second, there is a need for short-term countercyclical policies to help the needy population, preserve jobs, and support the country's productive structures. Third, emerging from the most serious part of the crisis, structural economic measures must be discussed not only at the national level but should be developed at the European scale: fiscal space, how to finance the health system, and the creation of a solid social protection network. Fourth, to review the ability of European countries to react to problems that transcend their borders.

Supporting national public policies, that is, those public measures of monetary nature, with the idea that sufficient liquidity would be the ideal measure to alleviate a

crisis identified as a "supply shock". However, in a very clever way, it is clear that aggregate demand would have to suffer a significant contraction and that fiscal policy would have to complement public policy instruments. More than one country has proposed fiscal measures that exceed 10% of its annual GDP and has classified as a national emergency the need to intervene; Europe must act quickly on this.

During the Covid-19 coronavirus pandemic, European governments focus on immediate needs: increasing hospital capacity, fighting hunger, and protecting families and businesses from eviction and bankruptcy. Much of the money currently flowing from the World Bank, IMF, other regional development banks, or central banks are being used to provide resources for protective equipment in hospitals, stabilize financial institutions that provide goods and services to essential workers, or provide direct monetary support to families.

At the same time, preliminary work has already begun in some European countries on what the next phase of recovery should look like and the role that strong public action should play in increasing demand, providing replacement income, and facilitating new investment. In a previous article, we noted that the recovery phase can help build prosperity and resilience by contributing to the potential of countries on their development path as well as their long-term sustainability.

The decisions that governments make as concrete public policy implementations are those to get their economic engine back on track, including the combined long-term social, economic, and environmental benefits they seek to achieve through their stimulus investments, will have far-reaching implications in ensuring that it can be rebuilt better and more robustly.

European governments must weigh many factors when developing their stimulus package: immediate needs, local institutional capacity, market conditions, the scope for borrowing, and the legacy of infrastructure investment decisions made in the past. Other criteria that should be evaluated in stimulus interventions or investments are their potential for job creation, the time it takes for the project to get underway, and whether public funds will help mobilize private financing to continue to support the rapid revitalization project.

If we start with the analysis of the 2008 economic crisis, we know that one of the main lessons was that the failure to implement basic market reforms or supportive policies put many projects at a disadvantage compared to pre-existing technologies or left them without the momentum needed to change long-standing development approaches (Figus, 2020). Technology can be the trump card for rapid economic revitalization because it can be applied to any list of projects or policies proposed as part of a stimulus package, from cash transfers to direct investment in new infrastructure. what is important now is the creation of jobs, which takes into account the number of jobs created for each euro invested, but also the types of jobs created and who will benefit, as well as the match between the skills needed and those available in the workforce locally.

A boost to economic activity focused on the economic multiplier effect, allows each intervention to contribute based on its ability to directly replace missing demand and its impact on import levels or the national trade balance, weighing opportunities

and risks, where we assess whether the project generates stimulus and employment benefits in the very short term and whether they are durable even in the face of the possible re-imposition of local quarantine measures.

Policymakers have a lot on their plate right now, and economic recovery plans cannot move faster than efforts to address the current health crisis. However, while governments are focused on recovery, the decisions countries make will define what tomorrow will look like and whether we will be better able to manage future global crises. We hope this checklist will make those decisions a little easier.

A guiding principle of free-market economics remains the issue of privatizing profits and socializing losses. However, in the current pandemic, even the most fundamentalist libertarians are calling for stricter market rules and a more active role for the state. In most European countries, although few countries in the world do not share these policies, the national economy is essentially structured around three components: household consumption, public spending, and private sector investment. In "normal" times, household spending and private investment ensure economic growth, but in times of crisis - regardless of their origin - even the most ardent defenders of commercial freedom demand that the public sector protect them.

A crucial difference between the crisis generated by the pandemic and previous crises is the fact that the problems have no economic basis at present. In this context, temporary subsidies to people who are still employed, such as those provided in the plans drawn up by the governments of several industrialized countries. People will not stop shopping because of a lack of money, but because social measures of removal and quarantine will prevent them from leaving, without the expansion of e-commerce, for example, compensating for the decline of traditional commercial activity. Financial support for people in need of it is still extremely important, but monetary support needs to be redirected to those who are losing their jobs and not, or at least not primarily, to those with guaranteed long-term employment.

To implement sound, and above all effective, public policy, the working population most at risk of becoming unemployed should also be supported. A key assumption of the measures implemented to contain the pandemic is that in all areas where it is possible to work from home, people will continue to carry out their tasks and responsibilities as usual. But job insecurity is spreading as fast as the virus, and presenteeism - the result of pressure from employers or financial incentives for people to go to work even if they are sick - is becoming another problem difficult to contain. It is therefore critical that those employed in essential sectors, where working from home is not feasible, are not infected or spread the virus, with new measures to ensure job or income stability threatened by the pandemic. Everyone in Europe seems to be following this line, and the European Union seems to be pursuing and nurturing it.

In Europe, the virus has found fertile ground for its rapid spread to large sectors of the population seriously affected by the austerity policies of previous years and also by the consequences of the 2008 crisis. The measures launched by the European Commission, the European Central Bank (ECB), the IMF, have enlarged the social stratum of the precariat, which is highly vulnerable to Covid-19 and similar threats. The new European precariat includes millions of homeless and beneficiaries of public or

NGO food aid programs, the problem is that practically everywhere in Europe, there is less money left at the end of each month for discretionary spending and this sends the economy into crisis. At the same time, part-time employment contracts have increased dramatically, undermining the economy of millions of European families.

The Covid-19 coronavirus has highlighted the state of poverty in many European countries, leading to a greater likelihood of precarious jobs, with fewer labor rights and benefits, and with fewer savings to cover unexpected costs or temporary gaps in their income. Therefore, European governments must take all possible measures to reduce both the financial pressure and the increased anxiety in the face of increasing job insecurity caused by the pandemic.

In conclusion, some possible measures to protect these workers would be to promote employment guarantee programs, ensuring the resources to cover the needs, this is the priority action that European governments should take to look ahead and consider beyond the decades of privatization implemented in Europe, actions that have weakened public services and made it much more difficult to deal with crises such as the current pandemic. We are now much more aware that those who work in hospitals, schools, care services for the elderly and disabled, do so under a lot of stress and in extremely precarious conditions. The pandemic has also shown us how our energy, food production, and transportation systems, which are based on perpetual patterns of extraction that would inevitably lead to the already very obvious environmental-climate catastrophe in many parts of the world, need to be restructured in this way.

Conclusion

The phenomenon of the coronavirus pandemic produced a negative supply shock that was transmitted through restrictions on-demand (to control its spread) and supply chain cuts, exacerbating the impact on supply. This will produce a global recession, particularly acute in Europe and the United States; but also for example in Latin America, an area that does not escape this reality, yet has many advantages that could result in faster economic recovery than in other parts of the world, mainly in 2021. The great advantage of reality like Latin America compared to Europe is that of having a relatively young population, i.e., being less internationally connected than the EU and the United States, and at the same time having adopted relatively rapid and rigorous containment measures. For Europe, the picture is different. The population is the oldest in the world and has not yet learned how to deal with external economic and health shocks, reaction times are too long, and measures to protect families and SMEs using existing social programs are not being taken. Added to this is the fact that during 2021 with the recovery in China, the demand for raw materials and their prices will increase, but Europe will not benefit because its economic recovery is not correlated, indeed not at all, to the production of raw material demand. Certainly, there is a lot of uncertainty, and it is probably too early to say, despite the economic efforts in the manufacture of vaccines, that the health crisis has been overcome, even we have begun to go through phases of disorder of which we do not see a certain end and clear design. What is needed today is a new vision of national and European policies, a broad and deep European reform of public administration, which is not limited to removing

obstacles to entrepreneurs. Europe is doing its part, now it's up to the European countries to follow the indications coming from Brussels, sharing strategies, reaching an agreement for the multi-year budget. In Italy, for example, the instrument of the Recovery Fund is a great opportunity for relaunching, and Germany has well understood that it is time to talk about European solidarity and to break down national barriers, thinking more about social action as an integral part of economic activity. The Recovery Fund can be put into action and the EU can start giving out the first robust tranches of loans and subsidies to European countries in difficulty.

The idea that, in the post-Covid-19 era, productivity and growth must be increased with an eye to the medium-long term is a need shared by all. The question remains, however, how to achieve it, and there is no time to lose.

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ASPECTS OF CORPORATE INFORMATION DISCLOSURE BY MIDDLE EAST BANKS

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Summary: The purpose of this paper is to discuss some of the current corporate information disclosure practices in the case of Middle East listed companies, with a special focus on financial institutions to explore several of the disclosure specificities. we selected three listed banks (Egypt Al Baraka Bank, Capital Bank of Jordan, and Qatar Islamic Bank) and we performed a content analysis of their issued corporate reports, in accordance with the disclosure requirements in each country, and review the literature on information corporate disclosure, with focus on Islamic banks. We find disclosure practices within the Middle East may differ from the rest of the world because most listed financial institutions in the Islamic region use both AAIOFI and IFRS standards in financial reporting, and that affects the disclosure of banks. We observed that financial statements of banks contain high-quality information that is comparable, verifiable, and understandable to users, which will be directly reflected on increasing confidence in the financial statements issued by Islamic banks and promotes transparency and corporate governance.

Key words: Islamic banks, disclosure, financial reporting, non-financial reporting, IFRS, AAIOFI

JEL classification: G21, G15, O1, J23

Introduction

The demand for greater accountability and legitimacy has been changing under the influence of various economic and social circumstances. One of the dire economic circumstances was the global financial crisis that hit financial markets between 2007-2008 bringing Wall Street giants to their knees and triggering a great recession, and big organizations collapsed like Lehman Brothers Bank. This has boosted the need for greater accountability and legitimacy in corporate reporting (Sariene et al., 2019), so companies that have new disclosure mechanisms based on financial and non-financial transparency have emerged in a bid to increase confidence in decision-making by stakeholders and boost economic development. Additionally, the competition between corporate firms, financial instability, and high levels of uncertainty in global economies is drive firms and regulatory bodies to found incorporate robust regulations to curb economic crises.

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This has suggested more noteworthy information disclosures about the activities carried by corporate firms (Coy et al., 2001). The rise of new administration models has prompted conventional financial information provided to be inadequate (Newberry 2015). Moreover, after the last financial crisis, organizations have started to experience the bad effects of outside pressure to be more responsible in their entire operations (Biondi and Bracci, 2018).

In such a manner, lately, some researcher has been found that non-financial data is a preferable option in contrast to that offered in traditional financial reports, to satisfy the needs of various partners on issues identified with authenticity and accountability (Montesinos and Brusca, 2019). Corporate governance and social responsibility reports are among the most requested issues, particularly after consistent corruption scandals (Biondi and Bracci, 2018). All things considered, the harmony among financial and non-financial transparency could be helpful, giving an information flow of public interest that permits stakeholders to engage with the organization and participate in decision-making (Flores et al., 2012).

The concept of the disclosure involves management analysis and discussions, descriptive notes with financial reports, and complementary financial statements (Abadi&Janani. 2013). On the other hand, disclosure is the dissemination and presentation of economic information whether financial and non-financial, quantitative or other related forms of the financial performance of an organization. According to (Holland, 2012), the growing recognition of financial reports and public disclosure mechanism has grown rapidly. Consequently, there have been attempts to improve public mandatory and voluntary disclosure by changes in mandatory financial reporting. According to the 2011 International Auditing Assurance Standards Board (IAASB) working paper, financial reporting disclosure requirements and practices have shifted from only providing breakdowns of line items on the financial statements to giving detailed disclosure that includes disclosures of assumptions, models, alternative measurement bases, and sources of estimation uncertainty among others. This is all in a bid to provide credible useful decision information to users.

Abadi&Janani, (2013) pointed out the importance of users of disclosed information which is primary for investors & creditors and then for secondary users (any other group including government banks employers). It is noteworthy that issuers have to provide credible information to enable users to make informed decisions.

Furthermore, authenticity and stakeholder theories propose that more noteworthy information transparency assists with maintaining consistent communication between the organization and its stakeholders that helping the entity to advise its actions and legitimize its conduct (Adam and McNicholas 2007: Michelon,2011) also Accountability, is a method for making value and improving partner contribution, should be executed through the non-financial transparency disclosures alongside financial related data in both public and private sectors (Carini et al., 2018), the writing on information disclosure essentially centres around the examination of the non-financial data contained in the private sectors yearly reports (Arvidsson 2011) and similar investigations in the appropriation of various reports in the public sector of the

implementation of new incorporated disclosure models and sustainability reporting or intellectual capital disclosures in the public sector.

International disclosure requirements have been instrumental in improving corporate governance practices in the Middle East listed companies, so (Abadi and Janani, 2013), reckon that changes in accounting standards in Middle East countries played a vital role in enhancing trust in organizations. Consequently, there has been growth in investments in different sectors

The Middle East region under study includes 16 countries which are (Bahrain, Egypt, Iran, Iraq, Israel, Israel, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syrian Arab Republic, Turkey, UAE, Gaza, and Yemen) within which each has its Stock exchange listing requirements for public companies. These listed companies will be selected from each listing exchange in each country and its disclosure requirements analysis to evaluate if there is any connection with the listed company asset valuation.

With an increase in globalization and international business trends taking place, one cannot hold back the notion that we must have international branches and/or subsidiaries. For instance, a study by (Reeb et al., 2020), established that the increase in the prevalence of opportunities posed by globalization has probed companies to set up branches in other countries. However, this came with complications concerning the preparation of corporate reports (Dhaliwal et al., 2019). Hence, the harmonization of financial standards has been widely advocated across all international accounting standards (Vidal-García & Vidal, 2020). Hence, this gives financial reports a different conceptual perspective.

Thus, we consider that the continuing economic and social circumstances together with the financial crisis experienced in 2008 brought about the greater need for accountability and legitimacy in corporate reporting around the world. Regulatory bodies like the International Accounting Standards Boards (IASB) regulating IFRS and the Financial Accounting Standards Board (FASB) overseeing GAAP were established to enforce laws and regulations to try to curb the financial collapse from happening again. These regulators have since moved from only establishing financial reporting guidelines to also enforcing non-financial reporting standards with special organizations established to oversee non-financial reporting enhancing stakeholder engagements and minimize financial problems within listed companies.

The purpose of this paper is to discuss some current corporate information disclosure practices and concepts around the world, as well as to explore several of the disclosure specificities of Middle East banks.

1. The concept of corporate information disclosure

Gandía (2011) noted that disclosure is the dissemination and transfer of information from the source of its production to its users, disclosure is a deliberate transfer of information to those who do not know. Generally speaking, disclosure is important based on the process of presenting financial information, whether quantitative or descriptive in the financial statements or margins, notes, and supplementary tables on

time. This makes the financial statements not misleading and suitable for external users (Al-Jabali &Bni Ata, 2014).

The principle of disclosure was linked to the emergence of joint-stock companies and obligating them to publish their financial statements periodically (Abadi&Janani, 2013). The emphasis is to ensure that the management of those companies provides investors and lenders with a report on the results of their business and financial position so that investors can make their economic decisions based on that disclosure (Hanan, 2003).

Some of them defined disclosure as that information that the department publish to external parties from the users of the financial statements to meet its various needs of information related to the business of the facility and the disclosure includes any historical or future accounting or non-accounting explanatory information that the administration declares and including in the financial reports (Khashrama, 2003).

Al-Sabban (1997) defined disclosure as the intangible measure to measure the adequacy of the explanatory and supplementary data in the financial statements. On the other hand, (Al-Sayyed, 1993) established that the disclosure is the presentation of important information related to economic unity through a set of financial statements and reports helping the informed reader in making rational decisions. (Al-Khatib, 2002) also believes that disclosure means the disclosure of all financial events and the report of any change that occurs in accounting policies, such as inventory evaluation policy, depreciation policy, methods of creating reserves and allocations. This was supported by ideas established by (Taha, 1999) which showed that the main objective of accounting disclosure is to clarify and reveal all the basic information of interest to the external groups about the project to be able to make appropriate decisions.

Information disclosure is increasingly important for companies to finance operations by securing funds from financial markets, such as stock and bond exchanges.

On the other hand, disclosure is a prerequisite for establishing and managing efficient capital markets, and these markets are often supervised by professional or semi-governmental bodies that obligate dealers to follow the basic rules determined by the profession. Furthermore, it also encompasses following the regulations issued by supervisory bodies, so that the financial disclosures of published reports gain credibility among users, and this requires that the auditors certify the fairness of the financial statements and the accounting information that was disclosed to confirm the reliability of that disclosure (Hanan, 2003).

Some researchers indicated that disclosure has different forms and classifications. According to Abadi and Janani (2013), there are three forms of disclosure depicted which are adequate, full, and fair disclosure, but the most recognized (and the most relevant for our research) is the distinction between mandatory and voluntary disclosure:

Mandatory disclosure: This type of disclosure happens when companies are required by statutory law in their jurisdictions, professional regulations in form of standards, and listing rules of stock exchanges to disclose certain information in their annual reports (Hassan, et al 2006). Accounting experts believe many entities voluntarily

disclose information for the optimal functioning of capital markets but other views show that companies are just reluctant to disclose additional information if not required to do so (Shabahang, 2011).

Voluntary disclosure: This is just the disclosure of information above the mandatory disclosures. According to (Abadi& Janani, 2013), voluntary disclosure is disclosure where there is no provision for enforcing the disclosure rules. (Pankaj, 2007) adds it is the process of preparing information for corporate reporting in financial markets even though there is no legal requirement. Generally speaking, this disclosure is not affected by certain laws within countries.

Study Hassan et al., (2006) on financial disclosures and its determinants in Egypt establish what affects disclosure. They found that firm size matters. For example, large entities disclose more information under voluntary disclosures, while public sector entities disclose less information than the private sector does, for both types of disclosures. Also, more profitable companies disclose more information than less profitable ones. So there are two different ways companies disclose information in their annual reports are mandatory and voluntary disclosures.

In terms of disclosure, we think that there is an increasing trend towards expanding corporate disclosure beyond financial information, as it aspires to reflect non-financial events that cannot be expressed in numbers in their records (Al-Jabali&Bni Ata, 2014). Hanan, 2003; Khashrama, 2003). Researchers are constantly trying to overcome the obstacles that prevent this goal, but some believe that it is difficult to develop a specific concept of disclosure that satisfies all users (Ahmed, 2002; Al-Khatib, 2002; Zayoud et al., 2007). Rather, accountants cannot agree on a specific framework for disclosure, because it depends on the objective of preparing the accounting data and the category of its beneficiaries.

2. Disclosure requirements for listed companies

Listed companies (including banks) are required to produce corporate reports to conform to national or international regulations, and which are legit and professional. Corporate reports can be classified as financial and non-financial reports. Financial reports vary in type, use, and conditions, and/or principles as well as standards that govern their preparations.

Financial reports are issued for both single entities and groups under the listing requirements of relevant reporting standards as issued by different regulatory bodies some national, other international.

For our discussion, we shall consider the reporting requirements for listed companies (including banks) set by US GAAP, IFRS, and AAIOFI standards.

2.1 Disclosure of Financial information

The International Financial Reporting Standards (IFRS) and the United States (US) Generally Accepted Accounting Principles (GAAP) has been the global chief accounting systems widely recognized internationally. The US GAAP for listed companies has been the most important accounting system in the world and IFRS has

stepped up to become the widely accepted system in many countries. These two accounting systems provide key guidelines to many countries that might also have their accounting systems. IFRS as compared to GAAP is considered as a common global language for business issues that ensures company accounts are comprehensive and comparable against international boundaries. The convergence of these two accounting systems has largely impacted corporate management, investors, and stock markets accounting standards and professionals. Zehri&Chouaibi(2013) carried a study with a sample of 74 Developing countries and their empirical findings indicated that the developing countries which adopt IFRS experience high levels of economic growth, the legal system of common law, and advanced educational level. Most scholars argue that the IFRS was mainly targeted and focused on developing states, they also expressed concern with high costs and problems associated with this adoption in developed states (Epstein & Mirza. 2006; Bradshaw & Miller, 2003). A study that was carried out by (Zeghal and Mhedhbi, 2006), included 32 developing countries that adopted IFRS and 32 that didn't, their results were that developing countries that have a capital market, advanced educational levels, and high economic growth are mostly inclined to adopt IFRS.The established body that provides guidelines for Islamic institutions is the Accounting and Auditing Organization for the Islamic Financial Institution (AAIOFI). (Al-Nuaimi& Al-Tamimi, 2008; Hanan, 2003). This board was established to manufacture Sharia standards regarding financial operations at Islamic banks, and they made a great effort that took them several years. This body was named the Accounting and Auditing Organization for Islamic Financial Institutions (AAIOFI), in the year 1990 it signed its founding agreement in Algeria, and in the following year the authority registered in Bahrain and was the beginning of its actual launch (Khashrama, 2003). What has been issued so far 98 standards, including 58 legal standards, 26 accounting standards, 2 ethical standards, 7 standards of governance, and 5 standards for auditing (Ahmed, 2002). Its efforts focused on preparing and issuing these standards and working to root the transactions and accounting applications that Islamic banks deal with until the concept of banks became Islamic as an alternative to traditional banks. Perhaps this matter succeeded in some Islamic countries, whether in terms of establishing Islamic banks or in terms of the presence of the public investors who deal with it and was reluctant in some countries. If we look at the disclosure requirements for Egypt, Qatar, and Jordan as well as the other countries in the Middle East, we note several differences. Regarding the listing requirements on the major Middle East stock exchanges, we note that most adopted IFRS as published by IASB (PWC, 2017). The determinants of this choice include the cultural and political environment as well as the existence of a capital market.

Table 1. IFRS compliant listing requirements

Country Name	Local Stock Exchange Name	Accounting Standards	Version
Bahrain	Bahrain Bourse	IFRS required or permitted for listed companies?	IFRS as published by the IASB
Egypt, Arab Rep.	Cairo & Alexandria stock exchange	Only Egyptian Accounting Standards permited	IFRS is not permitted.
Iran, Islamic Rep.	Tehran Stock Exchange (TSE)	X	IFRS Not permited
Iraq	The Iraq Stock Exchange (**ISX**)	All Banks Including Unlisted	IFRS permitted
Israel	Tel-Aviv Stock Exchange Ltd.	Required for consolidated I statements except banking	IFRS as issued by the IASB
Jordan	Amman stock exchange	Required for consolidated and standalone/	IFRS as published by the IASB
Kuwait	Kuwait stock exchange	IFRS is required for consolidated and standalone/	IFRS as adopted .
Lebanon	Beirut Stock Exchange	Required for consolidated and standalone	IFRS as published by the IASB
Oman	Muscat securities market	Required for consolidated and standalone/	IFRS as published by the IASB
Qatar	Qatar Exchange	Required for consolidated and standalone/	IFRS as published by the IASB
Saudi Arabia	Tadawul All-Share Index (TASI)	IFRS is required for all banks and insurance companies	IFRS as published by the IASB
Syrian Arab Republic	Damascus Securities Exchange	X	
Turkey	Borsa Istanbul	Required for consolidated and standalone/	IFRS as published by the IASB
United Arab Emirates	Abu Dhabi securities exchange, DFM	Required for consolidated and standalone/	IFRS as published by the IASB
West Bank / Gaza	Palestine Securities Exchange	Required for consolidated and standalone/	IFRS as published by the IASB
Yemen, Rep.	N\A	X	X

Source: PWC (2017)

The table shows that all Middle East countries are required to apply IFRS Standards for domestic public companies, except Egypt. This is because, in Egypt, companies apply Egyptian Accounting Standards (EAS) which are developed by the Standards Committee of the Egyptian Society of Accountants and Auditors (ESAA). According to the study carried out by (Hassan et al., 2006), all companies listed on the Egyptian Stock Exchange (ESE) have to comply with the disclosure requirements of the Capital Market Law (CML) 95 of 1992 regardless of their legal form.

The disclosure of information in Egypt can be categorized into mandatory and voluntary disclosures. The Report on the Observance of Standards and Codes (ROSC) and the Capital markets Authority (CMA) notes some discrepancies between financial accounting standards and actual practices, report revealed missing disclosures on 30 top listed companies on the Egyptian Stock exchange (ROSC, 2004). This was as a result of lack of knowledge of prepares and auditors on financial statements, the unavailability of guidelines on EAS and IAS, and the lack of authority for enforcing penalties constrain preparation of financial reports with applicable standards. On the other hand, both Jordan and Qatar apply IFRS for individual and consolidated financial statements. Moreover, AAOIFI Islamic Sharia & IFRS standards. By referring to Table 1, it is clear that all companies listed on the Amman Stock Exchange in Jordan adopt international accounting standards, whereby the Jordanian Companies Law issued in 1997 (as amended in 2006) obliges all public and private joint-stock companies with limited liability and foreign companies operating in Jordan to prepare their data Annual financial according to “internationally recognized accounting and auditing principles”, and Financial institutions must be subject to the supervision of the Central Bank of Jordan,

use the IFRS issued by the International Accounting Standards Board. Also, the previous table shows that all companies in Qatar adopt international standards. The Qatari Companies Law No. 11 promulgated in 2015 requires companies listed on the Qatar Stock Exchange to prepare financial reports according to "internationally recognized accounting and auditing principles." It also allows some (Islamic) financial institutions listed on the Qatar Stock Exchange to provide financial statements prepared by accounting standards. Financial Accounting ("FAS") issued by the Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI") and the IFRS; Where AAOIFI guidelines are not provided.

If we look more closely at IFRS use, Table 2 further shows that there are still differences among Islamic nations regarding the listings by foreign companies. As such, countries such as the likes of Turkey, Bahrain, Iraq, Iran, Jordan, Palestine, and the United Arab Emirates are required to have IFRS for listings by foreign companies. In contrast, only Egypt is permitted to have IFRS for listings by foreign companies.

Table 2. The status of IFRS adoption as of May 2020 in a sample of Middle Eastern countries

Country	***IFRS Standards are required for domestic public companies***	***IFRS Standards are required or permitted for listings by foreign companies***	***The IFRS for SMEs Standard is required or permitted***	***The IFRS for SMEs Standard is under consideration***
Turkey	IFRS Standards adopted as Turkish Accounting Standards are required for listed companies, financial institutions, and other public interest entities.	Required.	No.	No.
Egypt	IFRS Standards are not permitted.	Permitted.	No.	No.
Bahrain	Required.	Required.	Permitted.	
Israel	All domestic companies whose securities trade in a public market only in Israel are required	With limited exceptions, foreign companies are required to use	Permitted.	

	to use IFRS Standards except for banking institutions (listed and unlisted, including credit card companies). Banking institutions follow regulatory accounting standards. Domestic companies whose securities trade both in Israel and on specified foreign stock exchanges are allowed to file in Israel financial statements according to IFRS Standards, IFRS Standards as adopted by the European Union, or US GAAP.	IFRS Standards in their consolidated financial statements. The exceptions are for (a) foreign companies whose securities are traded both in Israel and in specified other stock exchanges and (b) foreign companies that are controlled outside of Israel or whose revenues are primarily from outside Israel. The exception companies may use IFRS Standards, IFRS Standards as adopted by the European Union, or US GAAP.		
Iraq	Required.	Required.	Permitted.	
Iran	All listed companies, banks, insurance companies, and other financial institutions are required to use IFRS	Currently, there are no foreign companies whose securities trade on the Tehran	No. Currently, all SMEs are required to use the Iranian National	Yes.

	Standards.	Stock Exchange.	Accounting Standards.	
Jordan	IFRS Standards are required for all listed companies and financial institutions.	Required.	IFRS for SMEs has not been adopted. However, SMEs are permitted to use it.	Yes
Kuwait	IFRS Standards are required for all listed companies, financial institutions, and other companies that fall under the purview of the Kuwait Commercial Companies Law.	Securities of foreign companies are not publicly traded in Kuwait.	No. SMEs that fall under the purview of the Kuwait Commercial Companies Law and some other institutions are required to use full IFRS Standards.	No.
Palestine	IFRS Standards are required for listed companies and financial institutions.	Required.	Permitted.	
Oman	Required.	No. Local laws do not allow foreign companies to publicly trade their securities in Oman.	No. Full IFRS Standards are required.	
Qatar	Required.	Foreign companies are not listed on the Qatar Exchange.	IFRS Standards are required. Note that some Qatari companies and auditors have concluded	

			that the IFRS for SMEs Standard satisfies the requirement to follow international standards, and so they use the IFRS for SMEs Standard.	
Syria	Required.	There are no foreign companies whose shares are publicly traded on the Damascus Stock Exchange.	No. SMEs are not generally required to prepare general purpose financial statements. Those that do may use full IFRS Standards.	No.
Saudi Arabia	IFRS Standards are required for all listed companies, banks, and insurance companies.	There are no foreign companies whose shares are publicly traded in Saudi Arabia.	Permitted (adoption is in the process).	
United Arab Emirates	IFRS Standards are required for companies listed on NASDAQ Dubai, Dubai Financial Services Authority (DFSA), and Abu Dhabi Securities Exchange. IFRS Standards are permitted for companies listed on	Required.	Permitted.	

	Dubai Financial Market PJSC.			
Yemen	No stock exchanges. Banks are required to use IFRS Standards.	No stock exchanges.	Although the IFRS for SMEs has not been formally adopted, its use is permitted, and many SMEs use it.	Formal adoption of the IFRS for SMEs is under consideration.
Lebanon	IFRSs required for all *			

Source: https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction and https://www.iasplus.com/en/resources/ IFRS-topics/use-of-IFRS accessed on 7/2020

2.2 Disclosure of non-financial information

The call for disclosure of non-financial information has increased in response to the fact that financial statements omit salient information about the company (Adams et al., 2007). Cohen et al., (2011) investigated public disclosure packages in a study of 50 public listed firms in the USA during 2004. These disclosure packages involve mandatory filing, voluntary reports, and corporate with investor relations during 2004. They discovered that companies disclose a wide variety of non-financial information in mandatory discloses and other sources such as investor promotion materials and company websites. All the sample firms distributed information about leading indicators mainly through formal reports both as mandatory and voluntary reports.

Non-financial reports are those reports that exhibit nonmonetary values that are vital to stakeholders which are mostly social and environmental aspects of the business activities.

Ghosh & Wu (2012) argues that although financial reporting is vital, it is not sufficient for a good performance evaluation system. So, the system needs to include non-financial measures of performance, this idea is supported by (Kelly, 2007) who notes that an entity's value is developed through various activities that promote critical success factors which include innovation, quality, productivity, and customer satisfaction, the Non-financial reporting helps companies measure their and understand their performances, set goals, and manage change efficiently. The non-financial information statement contains information vital to understanding the entity's development, performances, and position, the impact of its activities relating to:

a) Environmental matters (impact of company activities on the environment)
b) The company's employees,
c) Social matters,
d) Respect for human rights and
e) Anti-corruption matters.

This follows with a description of the policies and due diligence process implemented by the entity in pursuance of these policies.

There are several providers of sustainability frameworks and standards recognized internationally which include:

- The Global Reporting Initiative (GRI sustainability reporting standards).
- The UN Global Compact.
- The Organization for Economic Co-operation and Development (OECD Guidelines for Multinational Enterprises).
- International Organization for Standardization (ISO 26000 Guidance on social responsibility)
- The International Integrated Reporting Council (IIRC International Framework).

National local standards are being developed to complement international standards in enhancing transparency, and these local frameworks need to conform to globally recognized sustainability and reporting standards. The GRI sustainable reporting guidelines is the widely used standard as it is designed for use by any organizations regardless of size or sector or location, also The GRI provides the world's widely used standards on sustainability reporting, enabling organizations and their stakeholders to make informed decisions based on non-financial information, so organizations need to communicate between sustainability and business to enhance entity values, measure, manage change, and increase innovation.

It is noted that high-quality corporate reporting is vital not only in making investment and credit decisions, but also improves company performance and, hence, lead to economic growth. By studying the websites of various listed companies around the world, we observe that high-quality financial statements contain information that is comparable, verifiable, faithfully presented, and understandable to users, with IFRS being widely used around the world, including in most Middle East countries. Also, non-financial reports are prepared mainly according to GRI or UN Global Impact.

2.3. Considerations regarding the disclosure practices of middle east banking industry

There are noticeable differences in terms of disclosure between the Middle East region and the rest of the world, especially considering the Islamic laws and uses of information. A sector where disclosure practices vary significantly is represented by Islamic financial institutions because these focuses primarily on non-financial information. It includes the bank's compliance with the Sharia law and pleasing God through investment and Halal dealing, and avoiding usury and any suspicions related to investing their money in formulas inconsistent with Islamic Sharia (Toumi, 2013). Therefore, the corporate disclosure practices, at the level of these banks, are intended to

provide non-financial information, but this does not mean that they neglect the provision of financial information which users also need to maximize their returns and achieve an appropriate return on investment, also the objectives of financial reporting in Islamic institutions and traditional entities differ among each other, according to the different goals of the users.

2.4. Differences between IFRS and AAOIFI standards

Next, it is essential to identify the main differences between IFRS and AAOIFI standards which may influence disclosure practices of the Middle East banking industry. Thus, table 1.3.4 reveals some of these differences.

Table 3. Relevant differences between IFRS and AAOIFI standards

	AAOIFI standards	IFRS
The difference in contractual relationships	Sharing profit and loss and taking risks	Dependence based on interest on borrowing and lending
Differences in the goals of users of financial information	The focus is mainly on non-financial information. That is, compliance of financial institutions with the principles of Islamic law and the satisfaction of God through investment. Seek to ensure that shareholders get a reputable value on investments made in a company.	Get useful information in making decisions about the efficient allocation of resources in more profitable uses. Focusing on identifying events, economic transactions, to meet the needs for financial information
Differences in the structural goals of the organization	For the Islamic banking industry Focuses on the requirements of Islamic financial practices	Special for all economic and social activities Standards are generally, not industry-specific

Source: Nasheeda, A. (2015). A comparative study of Islamic accounting and auditing standards applied in Islamic financial institutions and IFRS / IAS. World Islamic Economics Magazine, August 2015.

2.4.1 Differences in contractual relationships.

Islamic banks have achieved a change in the type of relationship between the bank and its customers, as it excluded the most important thing that conventional banks depend on, which is the element of interest on borrowing and lending, as it has proven that the bank's relationship with its customers can be based on sharing in profit, loss, and risk by receiving other people's money based on speculation, then they invest them by the provisions of Sharia, which cannot be found in conventional banks and reflect the important accounting effects that were covered by the Accounting and Auditing Organization for Islamic Financial Institutions through its issued standards. (Toumi, 2013).

2.4.2. Conceptual differences

Differences between IFRS and AAOIFI standards were also made to the underlying conceptual guidelines. That is the precedence to economic reality over legal form and time value of money. These aspects are herein discussed as follows:

A) Precedence to economic reality over legal form: International accounting standards are prepared according to the requirements of the economic reality, by prioritizing the economic substance over the legal form of economic events. (Danjou, 2013) states that the transaction is measured and reported on according to its content and economic reality rather than its legal form. Given that the transactions upon which Islamic banks are based on the principles of Islamic Sharia, controversy arises over the appropriateness of applying this concept to such transactions where there are some reservations about its acceptability from an Islamic perspective.

B) Time value of money: AAOIFI rejects the concept of the time value of money through what is stipulated in Paragraph 7 and Paragraph 8 of Financial Accounting Statement No. 2 “Concepts of Financial Accounting for Islamic Banks and Financial Institutions” While IFRS relies on a “fair value concept” to evaluate some items, but in the absence of an active market, it allows reliance on discounted cash flow models based on current interest rates to estimate the market value. This is the main reason why a discount is used to display the effect of time value on money, which means that time has value to money and this value is used as a discount rate. Given that the determination of the time value of money or discount is dependent on interest rates, this may appear to be inconsistent with the prohibition of usury under Islamic Shari’ah (Toumi, 2013).

Moreover, Islamic Accounting Standards are corresponding to some IFRS, which are related to those standards that have a similarity element with a focus on adding a legal touch to make them more adapted to the requirements of Islamic banking and finance, and more appropriate to the objectives of Islamic transactions, an example is IAS 21, the effects of changes in foreign exchange rates corresponding to FAS 16, Foreign Currency Transactions and Foreign Currency Operations (Abadi&Janani, 2013).

Regarding the accounting standards for Islamic banking practices that are not covered by international accounting standards, this relates to the unique financial transactions of Islamic banks, which require the issuance of their standards, for example, Financial Accounting Standard No. 02 “Murabaha, and Murabaha with Purchase Order”,

Financial Accounting Standard No. 03 Funding in “Al Mudaraba”, Financial Accounting Standard No. 09, “Zakat” (Toumi, 2013).

International accounting standards that Islamic banks cannot adopt, which are those that conflict with the provisions of Islamic Sharia and included in the provisions of prohibited transactions, which means that there is no accounting and auditing body for Islamic financial institutions to issue and use standards over them, as is the case with IAS23 Borrowing Costs.

International accounting standards that can be adopted without the need to issue corresponding or equivalent Islamic Standards It has or is a substitute for it, as it is not inconsistent with the characteristics of dealings and financial and banking transactions Islamic, for example, IAS 2 Stock, Property, Plant, And Equipment.

Table 4. International accounting standards versus Islamic accounting standards

International accounting standards that Islamic accounting uses because they do not violate Sharia	International accounting standards that are not used by Islamic accounting	Islamic standards that are unique to Islamic financial institutions
No. (2): Inventory No. (19): Employee benefits No. (16): Property, plant, and equipment.	No. (1): Presentation of Financial Statements; No. (7): Cash Flow Statement); No. (8): Accounting Policies, Changes in Estimates, Accounting Errors, and Errors; No. (10): Post-Budgetary Events; No. (18): Revenue; No. (24) (Disclosure from Related Parties); No. (37): Provisions, contingent liabilities, and contingent assets. No. (23): Borrowing costs.	No. (1): General presentation and disclosure in the financial statements of Islamic banks and financial institutions); No. (2): Murabaha and Murabaha of the ordering person to purchase. No. (3): Mudaraba Finance*. No. (4): Participatory Financing. No. (9): Zakat**. No. (12): General presentation and disclosure in the financial statements of Islamic insurance companies)

Source: Nasheeda, A. (2015) A comparative study of Islamic accounting and auditing standards applied in Islamic financial institutions and IFRS / IAS. World Islamic Economics Magazine, August 2015.

2.5 A discussion on the disclosure practices of the Middle East banks

The business of Middle East banks and conventional banks are almost the same in terms of the services they provide in community service with a difference between them in the way of implementation from the “Sharia side”. Islamic banks provide their business and services by the principles of Islamic Sharia, while traditional banks operate by statutory laws that are in contrast to the majority of requirements of Islamic Sharia. (Khashrama, 2003).

Islamic banks operate mainly in developing countries in the Middle East, Africa, and Southeast Asia. Most of the banks face some difficulties in adopting unique accounting standards in their practices due to the lack of a legal framework and educational levels and high costs associated with adopting IAS. For example, financial institutions in some countries, such as Jordan, the Emirates, and Qatar, have adopted the IFRS. Meanwhile, in countries like Saudi Arabia, authorities require compliance with both international accounting standards and local accounting standards. Malaysia had national accounting standards based on International Accounting Standards (Ahmed&Duellman, 2011). In Bahrain, authorities require compliance with both AAOIFI and IFRS as requested by the Central Bank of Bahrain.

The dilemma currently facing them in terms of the different applications of accounting standards is a major threat to the sustainability of IFRS for example, some Islamic banks treat investment accounts that are based on the Mudaraba contract as liabilities and report them in the balance sheet (such as Jordan Islamic Bank, Bahrain Islamic Bank, and Qatar Islamic Bank).

Other banks treat investment accounts as fiduciary investments, and accordingly, they are reported as outside the balance sheet (such as Al Rajhi Bank and Shamil Bank of Bahrain) (Ahmed&Duellman, 2011). Although Middle East countries have used their local accounting standards and the Islamic standards, they have also adopted the IAS to professionalize their reporting and comply with international regulations as some exchanges have foreign listings.

The Accounting and Auditing Organization for Islamic Financial Institutions issues accounting standards, some of which are compatible with international accounting standards, some of which are alternative, and there are also completely new standards (Toumi, 2013).

This does not mean that the Islamic financial institutions are unable to apply the existing international accounting standards, but because due to not all Islamic transactions not covered by the IAS. Also, their characteristics are subject to the provisions and principles of Islamic Sharia, and it is possible to look at the relationship between international accounting standards and Islamic accounting standards from various aspects, which we will clarify in the following paragraphs.

First, by looking at the accounting frameworks that the Islamic financial institutions employ in several countries of the Middle East and North Africa region, we note that international financial reporting standards are now the most implemented ones at the level of these institutions, and this is due to regulations in force in those countries (AOSSG, 2017).

Table 5. Frameworks of financial reports in Islamic financial institutions

Financial reporting framework	2016 No.	2016 %	2014 No.	2014 %
IFRS	63	48%	61	46%
AAOIFI FAS	23	17%	24	18%
Local GAAP	44	33%	45	34%
Others	2	2%	2	2%
	132		132	

Source: AOSSG (2017). Financial Reporting by Islamic Financial Institutions an update to the 2014 study of financial statements of Islamic financial institutions, 2017

1-In some countries, AAOIFI standards are mainly applied in financial reporting, but if the AAOIFI standards absent they applied international financial standards.
2-Some countries that implement IFRS are excluded at the request of the entity from compliance with the IFRS application and instead allow AAOIFI FAS to apply (Abadi&Janani, 2013; Khashrama, 2003)

Despite its usefulness, the questionnaire faced several weaknesses, making AOSSG adopt in 2014 a more systematic approach to verify reliable sources of financial reporting standards that are legally applied to Islamic financial institutions. The sources included laws, regulatory directives, and other communications from government or official agencies.

The AOSSG, (2014) reviewed the financial statements of 132 Islamic financial institutions in 31 countries, chosen from the list of Best Islamic Financial Institutions by Country provided by The Banker Magazine (November 2013).

Then the AOSSG, (2017) updated this research with the same goal and on the same financial institutions in the same countries as previously shown.

There are two major sources of Islamic financing which are Mudaraba and Musharaka however the practice of Islamic banking rarely uses these. These are outlined below as they apply only in the Islamic financial institutions:

*Murabaḥah: which is mean a term of Fiqh (Islamic jurisprudence) for a sales contract where the buyer and seller agree on the markup (profit) or “cost-plus” price for the item being sold (Al-Jabali&Bni Ata, 2014). In recent decades it has become a term for a very common form of Islamic (Shariah-compliant) financing, where the price is marked up in exchange for allowing the buyer to pay over time.

*Mudarabah or “Sharing the profit and loss with venture capital” is a partnership or trust financing contract where one partner gives money to another for investing in a commercial enterprise (Abadi&Janani, 2013).

*Zakat: is a form of treated in Islam as a religious obligation or tax, as one of the Five Pillars of Islam. It is a religious duty for all Muslims who meet the necessary criteria of wealth and mandatory charitable contribution.

Overall, we conclude that the disclosure practices within the Middle East may differ from the rest of the world, merely of the incorporation of the Islamic laws within this region, mostly in the banking industry. However, most banks and financial listed institutions in the Islamic region use both AAIOFI and IFRS standards in reporting certain items within their financial reports.

2.6. Case study on the corporate information provided by Middle East banks

In this paragraph, we look at different types of reports issued by a sample of Middle East Banks and we determine the comparative structure of annual reports issued by those companies. For this aim, we collected data on the respective banks from their websites.

Table 6. Types of Reports Issued by a sample of Middle East Banks

Report type	EqyptAl Baraka Bank	Capital Bank of Jordan	Qatar Islamic Bank
Annual report	√	√	√
Quarterly reports	√		√
Corporate governance report	√	√	√
Integrated report			
Examples of other types of reports			
Economic value generated and distributed	√	√	
Social responsibility report	√	√	√
Social report	√		

Source: Research conducted by the authors based on the data available online accessed on 13/9/2020

https://www.albaraka-bank.com.eg/media/378093/Annual-2019-En-final-.pdf
https://www.capitalbank.jo/en/site/banners/investor-relations
http://www.qiib.com.qa/Documents/List/2

Table 7. Structure of Annual Reports Issued by a sample of Middle East Banks

Elements	EqyptAl Baraka Bank	Capital Bank of Jordan	Qatar Islmaic Bank
Consolidated financial statements	√	√	√
Individual financial statements of the parent company	√	√	√
Management statements	√	√	√
Notes to the consolidated financial statements	√	√	√
Changes in the legislative framework	√	√	
Newly developed products and services	√		
Cash flow analysis	√	√	√
Alternative performance measures	√	√	
Adequacy of equity	√	√	√
Interests in unconsolidated structured entities			
Ownership structure	√	√	√
Information about investors and related parties	√	√	√
The social and environmental impact of operations	√		
Insurance activities			
Leasing		√	
Contribution to the Deposit Guarantee Fund and the Resolution Fund	√	√	
Foreign exchange transactions	√	√	√
Staff costs	√	√	
Auditor report	√	√	√
Information on risks and litigation	√	√	√

Source: Research conducted by the authors based on the data available online accessed

on 13/9/2020

https://www.albaraka-bank.com.eg/media/378093/Annual-2019-En-final-.pdf
https://www.capitalbank.jo/en/site/banners/investor-relations
http://www.qiib.com.qa/Documents/List/2

Conclusion

To achieve our research objective of discussing some current corporate information disclosure practices and concepts around the world, with a special focus on the disclosure specificities of Middle East banks, we involved a qualitative research methodology.

We conclude that that high-quality corporate reporting is vital not only in making investment and credit decisions, but also improves company performance and, hence, lead to economic growth. We observe that high-quality financial statements contain information that is comparable, verifiable, presented faithfully, and understandable to users, with IFRS being widely used around the world, including in most Middle East countries. On the other hand, non-financial reports are prepared mainly according to GRI or UN Global Impact.

The research work looked into different financial reporting standards around the world including the major ones, like US GAAP and IFRS. We noted that in the Middle East Region most countries have adopted the use of the IFRS; some countries have used these international standards as benchmarks and modified them to their local standards that still conform to international requirements. But some countries within the Middle East region have been noted to use AAOIFI standards for their financial reporting which also conforms to regional Islamic requirement and sharia laws. However, in estimating certain items in their reporting, they adopt IFRS if the AAOIFI standards absent.

The study reveals that most countries under study have adopted at least use the IFRS reporting standards, except Egypt, which applies Egyptian Accounting standards, and most banks and financial listed institutions in the Islamic region use both AAIOFI in general and IFRS standards in reporting certain items within their financial reports.

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IMPACT OF THE COVID-19 PANDEMIC ON THE TAX POLICY OF THE RUSSIAN FEDERATION

Olga Shinkareva[1]

Summary: The study analysed the tax revenues of Russian Federation for 9 months of 2020 and how COVID-19 affected the country's tax policy. The need to find new sources of state income in Russia led to a number of tax innovations, such as the progressive personal income tax rate, an increase in the tax on mining and excise taxes. The study synthesis of key tax trends, an analysis of the consequences of these changes, which will allow borrowing the country's experience from other countries.

Key words: tax policy, COVID-19, pandemic, lockdown, Russia**.**

JEL classification H30

Introduction

This paper presents the current changes of tax policy of Russian Federation. The economies of all countries are experiencing serious shocks due to the pandemic of COVID-19, many industries for more than six months have experienced a multiple drop in demand and the authorities of all states face a serious problem - how to help business survive this difficult time. In this situation, many countries use tax measures to support this category of persons and change the tax policy, and studying the experience of Russia in this matter will be useful.

The materials of the study are presented by regulatory and legal assets in the studied area, reports of the Federal Treasury of Russia on tax revenues, interviews with the Chairman of the Government of the Russian Federation and the Minister of Finance of the country.

1. Tax measures to support the economy of Russia

The pandemic and lockdown led to significant changes in the tax policy - benefits were quickly granted. Let's consider tax support measures for all companies in Russia. There are listed in the Table 1.

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Table 1. Changes in the tax policy due COVID-19 – tax support measures for all companies

№	Measure	Content
1	Extension of reporting deadlines	Extension for most tax reports was three months
2	Suspension of tax audits	Up to June 30 - no new field tax audits, the already assigned audits was not suspended
3	Suspension of recovery measures	until July 1, 2020, debt collection measures were not applied for business. This means that business will not send a claim with accrued penalties and fines, will not write off debts and will not block expenditure operations on the settlement account

Source: Tax Code of the Russian Federation

Companies from affected industries received more tax support. The affected industries are:

- air transportation, airport activities, road transportation,
- culture and entertainment,
- sports,
- tourism and hospitality,
- public catering and restaurants,
- non-governmental educational organization,
- conference and exhibition activities,
- domestic services (repair, washing, dry cleaning, hairdressers and beauty salons)/

Support measures for these companies are listed at the Table 2.

Table 2. Changes in the tax policy due COVID-19 – tax support measures for companies from affected industries

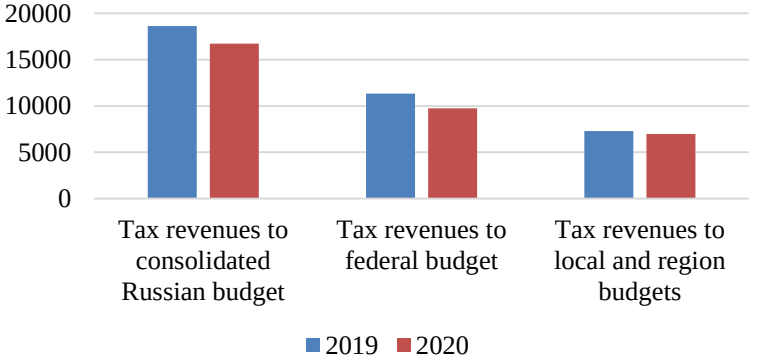
№	Measure	Content
1	Tax holidays	Receive exemptions from taxes, fees, state social security charges (excluding VAT and Individual Income Tax) for 2 quarter of 2020
2	Reduction of state social security charges	For small and medium-sized enterprises from affected industries, the rate was reduced to 15% from the 1st of April till 31st of December
3	Extension of tax payment period for SMEs	For small and medium business - extended terms of payment of almost all taxes (excluding VAT) for 3-9 months
4	Suspension of enforcement measures	For small and medium business - no collection measures for tax arrears already formed, a ban on making decisions on suspending account transactions for collecting tax arrears

Source: Tax Code of the Russian Federation

2. Tax revenue decrease due lockdown and tax measures to support the economy

These measures, coupled with a significant decrease in the tax base due to the "shutdown" of many sectors of the economy, led to a decrease in tax revenues for 9 months to budget by 10.2%. At the same time, tax revenues to federal budget showed the decrease of 13,8% when revenues to local and region budget revenue decreased by 4,5% (Figure 1).

Figure 1. Tax revenues – 9 months of 2020, bln. rubles

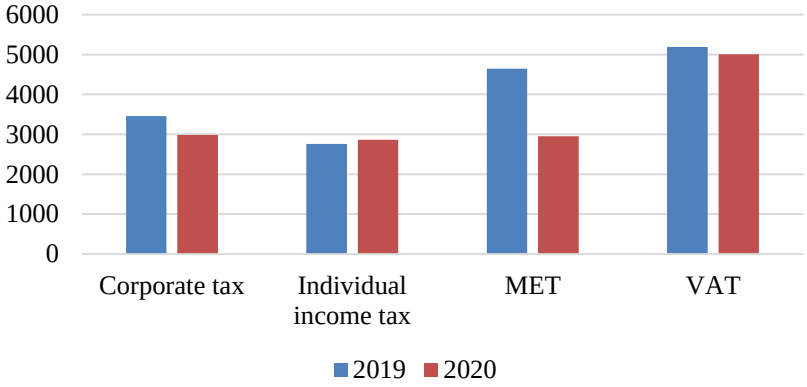


Source: Federal Treasury of Russia

The decrease of Russia Gross Domestic Product is 3,6% (Rosstat).

If we consider certain types of taxes, then a significant decrease was demonstrated by Mineral Extraction Tax - by 36%, as well as corporate tax – by 14% (Figure 2).

Figure 2. Tax revenues (different taxes) – 9 months of 2020, bln. rubles



Source: Federal Treasury of Russia

Very interesting fact is that the Individual Income tax showed an increase on 4%. In our opinion, this can be explained by the fact that people from the black sector of the economy lost their jobs in the first place, and most of those who were formalized with the payment of all taxes retained their jobs, as the Russian state issued subsidies to enterprises to maintain the number of employees.

3. Tax innovations – 2021

The need to find new sources of state income led to a number of tax innovations.

First of all, it's individual income tax. Russia changes flat tax scale to progressive tax scale. From January, the 1st, the personal income tax rate changes from 13% to 15% for those who earn over 5 million rubles a year (it's approximately 55 600 euros). It is expected that this will bring to the budget 60 billion rubles, which will be used to treat children with orphan diseases.

Serious changes are also taking place in the taxation of deposits of individuals. Previously, deposit income was practically non-taxable. Since 2021, interest on all deposits is subject to personal income tax at a rate of 13% if they exceed the amount calculated according to the formula:

1 000 000 rubles * Key rate on January 1

One million rubles are approximately 11 100 euros and current kay rate in Russia is 4,25%.

From January 1, interest on state and municipal bonds, as well as corporate bonds that were not subject to personal income tax previously, will be taxed. Major changes planned in the taxation of natural resources (Table 3).

Table 3. Major changes in the tax policy (taxation of natural resources)

№	Measure	Expected additional tax revenues
1	To increase MET in 3.5 times for metallurgists and fertilizer producers	56 billion rubles (623 million euros)
2	To abolish the mineral extraction tax benefit for developed fields	260 billion rubles (almost 3 billion euros)
4	Discussion about Tax on added income settings	above 97 billion rubles (more than 1 billion euros)

Source: How tax initiatives support the economy during the pandemic, 2020

It is planned to increase Mineral Extraction Tax 3,5 times for metallurgists and fertilizer producers. According to the Ministry of Finance, this will replenish the budget by 56 billion rubles (623 million euros) in 2021.

Since 2021, it is planned to abolish the mineral extraction tax benefit for developed fields, which will bring another 260 billion rubles (almost 3 billion euros).

The system of taxation of the oil industry consists in half of benefits. The Ministry of Finance is trying to transfer oil producers from Mineral Extraction tax to the tax on added income, as a number of benefits are morally outdated. Tax on added income was introduced as an experiment for pilot deposits from year 2019. But the Ministry of Finance revealed a bias in favour of the oil industry - the budget did not receive 200 billion rubles in 2019 and 2020. Now the tax parameters will be adjusted, which will give the budget above 97 billion rubles (more than 1 billion euros) in 2021.

It is proposed to increase excise taxes on tobacco products by 20%, which will give another 70 billion rubles (almost 800 million euros). Russian Finance Minister, Anton Siluanov, believes that "it will cost about 20 rubles per pack, if you look at the cost of cigarettes in the amount of about 120 rubles" (How tax initiatives support the economy during the pandemic, 2020).

Additional income will bring a revision of double taxation agreements with a number of countries. Interest and dividend payments going offshore should be subject to adequate tax. Now 2/3 of the funds are subject to a 2% rate. In the event of the refusal of states to accept the new conditions of the Russian Federation, it will unilaterally withdraw from the treaties.

The agreements were supposed to be an incentive to attract foreign investment in the Russian Federation. But "companies open or buy a company in Cyprus or Malta, which becomes a formal shareholder or lender of a legal entity in Russia. It pays dividends or interest on loans to foreign countries. Dividends are taxed 5-10%, and interest on loans - 0%" (How tax initiatives support the economy during the pandemic, 2020).

According to the Ministry of Finance, in 2018-2019 3,3 trillion rubles (almost 37 billion rubles) were withdrawn to Cyprus. Therefore, it is proposed to raise rates to 15%. Russia and Cyprus have already signed a protocol to amend the agreement. Additional revenues to the budget will amount to 130-150 billion rubles (more than 1,5 billion rubles) annually. Malta and Luxembourg did the same. Leveling taxes will encourage businesses to re-register in special areas with preferential taxation on the Russky Islands in Primorye and Oktyabrsky in the Kaliningrad Region.

Conclusion

The pandemic and lockdown led to significant changes in the tax policy - benefits were quickly granted. These measures, coupled with a significant decrease in the tax base due to the "shutdown" of many sectors of the economy, led to a decrease in tax revenues (by 10.2% and GDP (by 3,6%), and the need to find new sources of state income led to a number of tax innovations, such as the progressive personal income tax rate, an increase in the tax on mining and excise taxes.

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INNOVATIVE METHODS OF FINANCIAL RISK MANAGEMENT IN THE INSURANCE COMPANIES

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Iulia Caprian[2]
Chiril Gavlitchi[3]

Summary: In the current crisis situation caused by the COVID-19 pandemic, in order to increase the efficiency of insurance companies not only in the Republic of Moldova, but also internationally, it is necessary to scientifically review the changes that have taken place recently, to assess the negative factors and new opportunities, to consider a set of problems, the solution of which lies in the development of innovation activity.

The aim and objectives of the research is to form a mechanism for the development of innovative activities of insurance companies and the development of recommendations to stimulate innovation processes at the national level. Achieving this goal has been realized by interconnected scientific objectives:

- analysis of the particularities of the implementation of the innovative activities of the insurance companies and of the methods to increase the stimulation of the innovative processes
- development of a mechanism for optimizing the innovative activities of insurance companies.

Key words: risk, insurance companies, risk insurance system, insurance market, innovative development model.

JEL classification G52, O31

Introduction

At the moment, there is a decline in the economy of the Republic of Moldova, conditioned by the COVID 19 pandemic, which, in turn, is reflected in the activity of

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insurance companies. Insurance reserve funds are mainly funded by compulsory insurance. The activity of insurance companies is regulated and consists in the profitable placement of accumulated surplus funds, insurance reserves and investment funds. At the same time, insurance companies in the Republic of Moldova underestimate the importance of introducing innovations in their activities and also is not studied innovative processes in the Republic of Moldova with the help of insurance and reinsurance. This issue is very important at the current stage of development of the insurance market in the Republic of Moldova, because the economic performance of each insurance company has a significant impact on stimulating innovation processes at the national level.

For the efficient implementation of innovation-based activities, it is necessary to have a development program based on professional knowledge, the dynamics of innovation implementation and obtaining a return on investment in innovation. Such a program cannot be created without the analysis of the country's economic development forecast, without the necessary tools for the analysis of the management system of insurance companies; without modeling the management system of the development of innovative activities as a component part of the general management system of an insurance company and as an economic tool for increasing the efficiency of insurance activities in the Republic of Moldova.

Insurance and reinsurance research as the main elements for stimulating innovation and direct development of innovative activities of insurance companies, operating in conditions of economic crisis, is a very current and important topic for the economy of the Republic of Moldova.

1.Literature review

From the research of the scientific papers of several researchers, we consider that the definition of insurance given by them reflects certain aspects of insurance. Some authors have defined insurance as a specific activity or field of services.

Researchers in the field of insurance and reinsurance define insurance as the operation by which an insurer constitutes, on the principle of participation and contribution, an insurance financial fund, through natural and legal persons (insured), exposed to commercial, financial and other risks, and compensates the damages suffered to those persons who have suffered as a result of any circumstance, at the expense of the insurance fund consisting of the insurance premiums collected (Fotescu S., Tugulschi A., 2006). Therefore, it follows from this statement that the existence of a financial fund is formed from insurance premiums through the contribution of all participants to risk-taking. Dan Constantinescu defines the term insurance as "an instrument that provides financial protection for extraordinary events, the insurance premiums being paid by using the financial resources of individuals and legal entities participating in the insurance contract".

Another approach to defining insurance and reinsurance terms assumes that those operations attribute to financial protection for losses caused by systematic and

unsystematic risks. So, insurance is seen as an instrument of financial protection, as it also involves compensation in the form of money (financial flows).

Jordan Elliot Goodman and John Downes, in the "Dictionary of Financial and Investment Terms", define insurance as the system by which economic entities, businesses, corporations, financial organizations, individuals, pay insurance premiums under the contract with insurance companies that pay the amounts corresponding in case of occurrence of the event specified in the insurance contract (Jordan Elliot Goodman, John Downes, 2010). Another approach, but related to reducing uncertainty, is proposed by Titel Negru, which defines insurance as a process of risk redistribution, insurance and reinsurance activities represent the distribution of risk.

The process of identifying, estimating, researching the risk response, reducing the probability of unsystematic risks implementing risk insurance procedures through financial instruments, contractual clauses or concluding the insurance contract, which is a tool for transferring risks from legal and natural persons to companies of risk-absorbing insurance (Dolghi, V., 2012).

From the definitions presented above, we can conclude that insurance is both an activity and a financial instrument (lever) for risk reduction. We emphasize the financial aspect, because, in case of occurrence of the risk event, the insurer is obliged to make a financial consideration (payment of compensation). It follows that the financial management of the insurance company is an important function, the efficiency of which depends on both the company's performance and the financial situation of policyholders (especially in the case of legal entities), but also of individuals - in the case of insuring their assets.

Currently, there is an international standard for the concept of "innovation" as a well-defined management category. It is contained in documents known as the Frascati Handbook and the Oslo Handbook. The official terms for innovation in the Republic of Moldova are the terms used in the innovation policies which are determined in the Innovation Strategy of the Republic of Moldova for the period 2013-2020 “Innovations for Competitiveness”, approved by Government Decision no. 952 of 27.11.2013. These, together with the landmarks stipulated in the National Development Strategy "Moldova 2020" will contribute to the economic development of the Republic of Moldova.

2.Data sources and used methods

The theoretical basis of the research consisted of the fundamental scientific landmarks of the theory of innovation management, exposed in the works of researchers and specialists in the field of innovation management, normative and legal acts of the Republic of Moldova. The following elements were studied and used in research: literature, materials of scientific conferences, international and national practice of management of novational activities.

The methodological basis is the provisions of economic theory, theory of organization and management of innovation, theory of organization and management of organizations in the insurance sector.

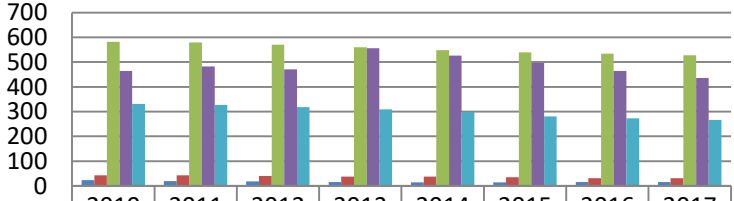
The information base of the research was composed of data from the National Bureau of Statistics of the Republic of Moldova, laws and methodological recommendations of the ministries and departments of the Republic of Moldova on the development of innovative activities of insurance companies.

The analytical basis of this study represents the financial statements of insurance companies in the Republic of Moldova, for the years 2015-2019, statistical data, websites.The following research methods were used: analysis, synthesis, comparison, generalization, as well as economic modeling and statistics methods, specialized methods for searching for innovative ways of development, including research methods of innovative processes, project management methods, methods analysis and stimulation of the innovative activity of economic entities.The object of research is the Moldovan insurance company "Moldasig" JSC - the leader of the insurance market in the Republic of Moldova. For fourteen years, the company has won almost all types of insurance. The company is built and developed based on the following values: timely payments, high liquidity of assets, a responsible attitude towards risks and rational reinsurance. This approach to business and insurance has allowed Moldasig to become an advanced and modern company that defines and promotes the insurance culture in Republic of Moldova.

3.The results of own research and discussions

The domestic market has passed the fourth stage of compliance with the provisions of Law no. 407-XVI of 21.12.2006 "On insurance", according to which the minimum level of share capital has changed, amounting to 15 million MDL. These conditions have led to a reduction in the number of insurance companies from year to year and a filtering of the insurance market by companies that do not comply with this level of statutory capital, while improving the fulfillment of obligations under insurance contracts, such as and increasing the level of solvency that establishes confidence in insurance companies.

Figure 1. Evolution of the number of insurance companies on the European market and the Republic of Moldova in 2010-2017



	2010	2011	2012	2013	2014	2015	2016	2017
Moldova	24	20	18	16	15	15	16	16
Romania	43	43	40	38	37	35	31	31
Germany	582	580	570	560	548	539	534	528
United Kingdom	464	483	471	556	526	496	464	436
France	331	327	318	309	299	281	273	267

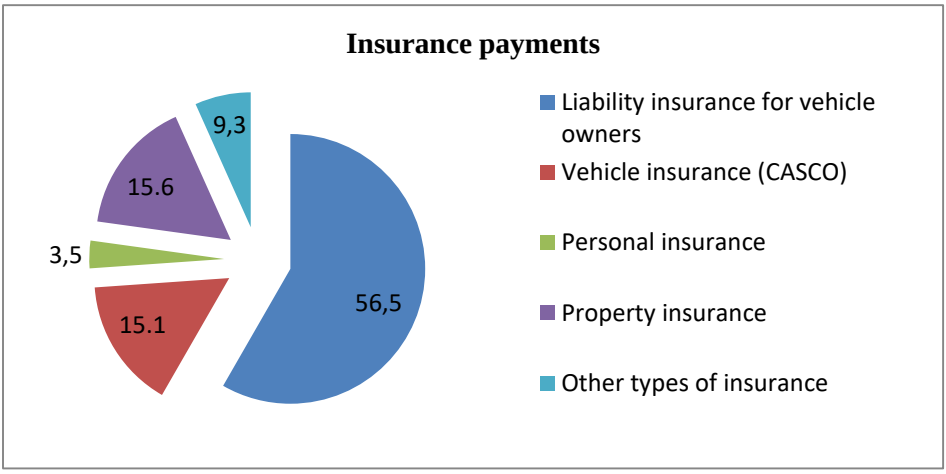
Source: Elaborated by the authors according to Insurance Europe data

According to the data in Figure 1, we notice that for the analyzed period, Moldova followed by Romania has the lowest number of insurance companies, and Germany reaches a threshold of 528 companies in 2017, being the country with the most. The number of insurers in all states is steadily declining.

The downward trend in the number of insurers is largely determined by the periodic increase in capitalization requirements and compliance with the complex regulatory system of insurance activity.

For a more detailed description of the activities of the insurance company "Moldasig" JSC the dynamics of insurance payments and premiums should be analyzed. The insurance payments for 2019 by Moldasig JSC are presented in Figure 2.

Figure 2. Insurance payments for 2019 "Moldasig" JSC



Source: Elaborated by the authors according to Insurance Europe data

Figure 2. shows that payments for civil liability insurance of vehicle owners prevail (56.5%), payments for property insurance and CASCO are almost equal, the lowest share being for personal insurance. This suggests that people often insure their vehicles due to the fact that this insurance is mandatory.

To assess the financial risks of an insurance company, it is necessary to make a risk forecast. We will initially use the Cramer-Lundberg formula. The calculations are performed in table 1.

From the Cramer-Lundberg formula and from the results obtained, it results that the insurer remains solvent until 2018, because the volume of premiums collected exceeds the volume of payments for insured events. In 2019, the company's solvency and capital decreased by 173,820 thousand MDL, this was due to a decrease in the volume of insurance premiums and an increase in the volume of payments, and the probability of a financial risk also increased significantly.

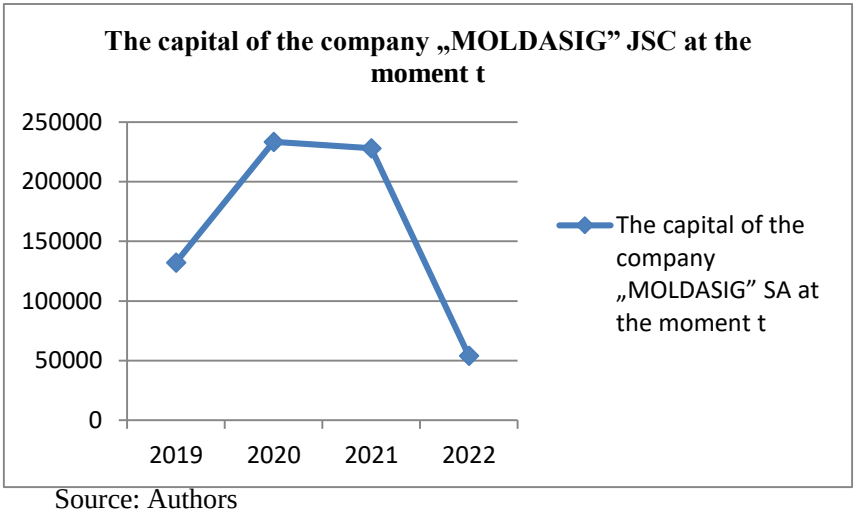
Table 1. Calculation of the company's capital at time t.

№	Indicator	2019	2020	2021	2022
1.	Share capital (u, thousand MDL)	60000	60000	60000	60000
2.	Total insurance premiums (c_t, thousand MDL)	94718	334363	343364	203913
3.	Total payments (S_t, thousand MDL)	22535	160981	175388	209757
4.	The company's capital at time t (U_t , thousand MDL) $U_t = u + c_t - S_t$	132183	233382	227976	54156

Source: Authors

In order to avoid further losses, it is necessary to increase capital by increasing insurance premiums, i.e. to provide consumers with more favorable conditions for the provision of services, for example, to reduce prices for agricultural insurance. If the situation repeats itself, the company will have to take long-term loans from the bank, as they will not be able to cover the growing losses in insurance payments with own funds.

Figure 3. The capital of the company „MOLDASIG" JSC at the moment t



Source: Authors

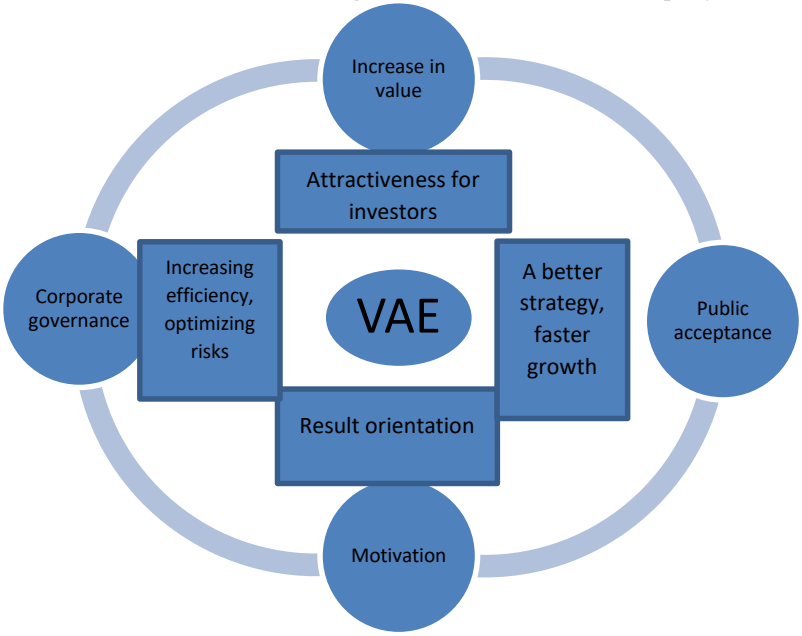
Previously existing methods for assessing the performance of companies have ceased to meet the requirements of managers. Thus, it became necessary to determine

the risks and returns of each division of the company in order to properly allocate capital between them.

To improve efficiency in risk analysis, there are currently new complex risk indicators, such as economic value added (VAE) and risk-adjusted return on capital (RCAR). The fact that these indicators are successfully applied in the management system of many foreign insurance organizations tells us about the possibility of introducing new methods of risk management in insurance companies. The reason why in Moldova the concepts of risk management based on VAE and RCAR have not been applied so far is the complexity of their use in the same form as abroad, which is due to the lack of adequate calculation methods.

It should be noted that the main objective of developing a risk management system using VAE and / or RCAR is to increase the efficiency of the risk management system. VAE and RCAR take into account the cost of increasing debt and equity, while the indicators used in insurance companies do not take into account the capital structure. This feature of the indicators makes it possible to analyze the efficiency of capital use compared to some alternative investment options.

Figure 4. The main advantages of using the VAE indicator (Innovative methods of financial risk management in an insurance company)



Source: Authors

Thus, VAE is used to evaluate the long-term performance of a company and its individual divisions. It is also an indicator of the quality of management decisions, as its constant positive value indicates an increase in the value of the company, while a

negative one indicates a decrease. Therefore, VAE can be used to build a company's risk management system. The benefits of using VAE can be seen in Figure 4.

To optimize the value of capital, you should work with the most reliable counterparties (e.g. reinsurance agents) and reallocate capital between lines of business. When addressing investment policy issues, you need to respect investments in those areas that require less funding. In this case, the rate of return on investment should exceed ownership over capital. Capital cost management includes controlling the balance between the cost of debt and equity. You also need to remember that borrowing can be cheaper than using your own funds. Thus, a comparison of the results of the VAE or RCAR indicator within the insurance company's divisions makes it possible to draw conclusions about the profitability of developing a certain business line and then reallocating the company's capital so as to develop those types of insurance that are most profitable. for this company. In addition, an additional advantage of this indicator is that its calculation does not require hard-to-find data and takes place only on the basis of financial statements. There are two main approaches to calculating economic added value:

$$VAE = PNOA - CC \times VC, \quad (1)$$

where:

- ✓ PNOA — net operating profit adjusted after tax;
- ✓ CC— the cost of capital;
- ✓ VC— the value of capital used.

$$VAE = \text{required capital (risk + closed surplus)} \times (RORAC - CC), \quad (2)$$

where:

• the capital required is the sum of the company's capital required to carry out current operations, as well as to cover the main types of risks to protect the insurer from bankruptcy;

• RCAR (Risk-adjusted return on capital) - PNOA ratio to the required capital;

The relative RCAR indicator from the point of view of risk management can be used in an insurance company, mainly to optimize the aggregate amount and structure of capital to maximize the efficiency of its use. For an insurance company, RCAR can be calculated as follows:

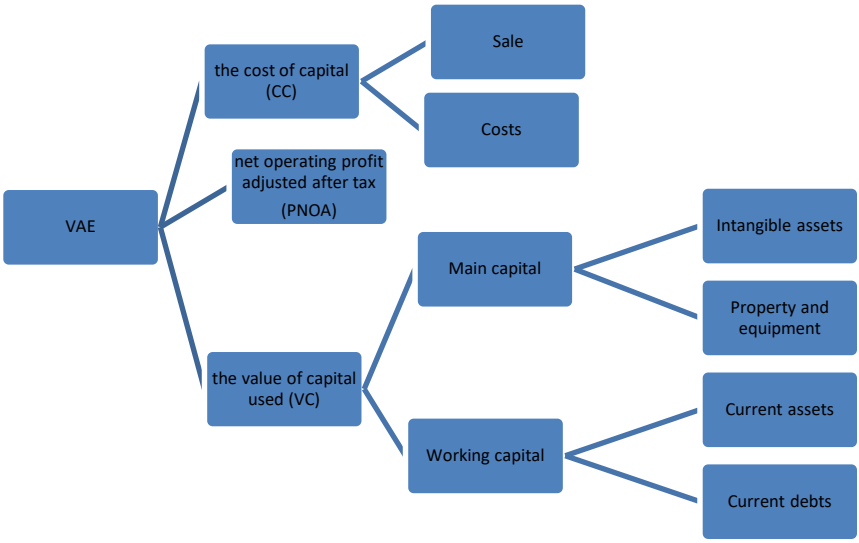
$$RCAR = (PN - PP) / CR \quad (3)$$

where:

- PN – net profit;
- PP – expected losses due to risks;
- CR – required venture capital.

RCAR, like the VAE indicator, is compared to zero to determine the performance of the company or its individual divisions - a positive value indicates an increase in the company's market value compared to the book value and therefore an incentive for subsequent investments.

Figure 5. VAE management in MOLDASIG ” JSC



Source: Authors

VAE management is based on identifying the factors that contribute to an increase in the indicator, which can lead to an increase in profits or a decrease in the size of capital and its cost.

To optimize capital, you should work with the most reliable counterparties (eg reinsurance agents) and reallocate capital between lines of business. When addressing investment policy issues, you need to respect investments in those areas that require less funding. In this case, the rate of return on investment should exceed ownership over capital. Capital cost management includes controlling the balance between the cost of debt and equity. You also need to remember that borrowing can be cheaper than using your own funds.

Thus, a comparison of the results of the VAE or RCAR indicator within the insurance company's divisions makes it possible to draw conclusions about the profitability of developing a certain line of business and then reallocating the company's capital, so that those types of insurance are most profitable for this company. to develop.

The results of the calculation of the VAE indicator for the company are presented in table 2.

We can see that VAE maintains a positive value of the company's value until 2018 and increases it. But in 2019, there is a sharp decline in the value of VAE, which reduces the value of the company. That is, after calculating the result of the activities, taking into account the costs of attracting equity and borrowed capital, we can conclude that the use of capital is inefficient compared to alternative investment options.

Table 2. Calculation of the VAE indicator (thousand MDL)

Indicator	2016	2017	2018	2019
PNOA	9328,8	15208,8	30427,2	-32932
CC	1,38	0,99	0,43	-1,05
VC	-76597	-48821	-104927	-120711
VAE	**115403**	**63553**	**76039**	**-159978**

Source: Authors

You just have to pay attention to the decline in profits, find out the reason and stop the decline. The results of the calculation of the RCAR indicator for the company are presented in Table 3.

Table 3. Calculation of the RCAR indicator (thousand MDL)

Indicatorul	2016	2017	2018	2019
E	9328,8	15208,8	30427,2	-32932
EL	22143,55	26035,75	27454,7	28198,25
RC	60002	60002	60002	60002
RCAR	**-0,21**	**-0,18**	**0,05**	**-1,02**

Source: Authors

Based on the results obtained, it can be concluded that these negative values indicate a lower market value of the company compared to the book value with variable changes and therefore this situation is an incentive for additional investments to increase the market value of the company in the future.

Conclusions

The economy of the Republic of Moldova will receive significant benefits from the expansion of innovative business activities of insurance companies by using financial funds from insurance reserves and investment funds formed by insurance companies. At present, in connection with the transition to information technology, insurance companies are using new technologies in the field of computer networks to manage and control not only insurance contracts but also the core business processes in the financial and real estate sector of economy.

Environmental factors that influence the level of development of the insurance company's innovative activities include: state regulation on the use of insurance reserves and investment funds and the state of the insurance market in Republic of Moldova.

The method of increasing the innovative activity of insurance companies is to expand their innovative activities in the real sector of the economy, to increase the independence of companies in “managing investment funds.

In the process of developing the insurance and reinsurance market in the Republic of Moldova, the influence of strategic risks increases. Currently, the most pressing risk on the national insurance market is the risk of losing the customer base and market share.

The result of the operational activity at Moldasig JSC before taxation for the entire analyzed period decreased by 10.5 million MDL. This happened due to the reduction of the result from the main activity by 27.1 million MDL, and to the result of other ordinary activities by 6.7 million MDL. Thus, the result of financial transactions for 2016 - 2019. increased by 23.2 million MDL. The result of the main activity of Moldasig JSC in 2016 - 2017 represented more than 70% of the result of ordinary activities before tax, but in 2018 its share decreased to 40%, and in 2019 the loss from the main activities of the insurance company was 7% higher than its profit from normal pre-tax activities. Financial performance indicators, as well as liquidity, profitability and sustainability are largely in line with the rules. This means that the insurance company Moldasig JSC is solvent and has a strong position on the insurance market, although due to the current state of the country's economy, the profit decreased slightly and led to a decrease in profitability.

Thus, according to the results of research conducted on the insurance and reinsurance market of the Republic of Moldova and the insurance company "Moldasig" JSC, we can recommend:

• reviewing the satrategic policy of insurance companies in the field of innovations to minimize the costs of insurance and reinsurance services;

• minimizing short-term debts that worsen market stability;

• stimulating investment activity to increase insurance reserves and own funds;

• elaboration of new insurance programs that are more profitable than those of competitors on the national and international market;

• development of investment activity to stimulate innovative activities in the agricultural sector of the economy of the Republic of Moldova

• manage finances based on budgeting;

• introduction of an innovative automated control system.

The main tasks of implementing innovative processes in the activity of Moldasig JSC:

1. increasing efficiency by developing new contracts and modifying existing ones;

2. optimizing the productivity of data entry and verification in the actuarial calculation system;

3. distribution of financial losses in the implementation of insurance operations in the field of innovations

4. modeling the risk process in insurance and reinsurance operations in the process of boosting innovation processes at national level

5. development of reinsurance contracts and operational review of all reinsurance parameters.

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COVID-19 ECONOMIC IMPACT ASSESSMENT

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Nikola Ćeha[2]
Milenko Ćeha[3]

Summary: The world has encountered an unexpected crisis of enormous proportions caused by the pandemic of the new Covid-19 virus. No country could be ready to economically withstand multiple pandemic strikes. The reduced level of activity in the world market has led to a decrease in demand for common goods and services and a sharp increase in demand for basic foodstuffs and medical products. The medical systems of most countries could not withstand the growth rate of the number of infected and a spread of crisis to all spheres of life. The aim of this research is to point out the consequences and time needed to recover from the financial crisis caused by the Covid-19 virus. The world's financial institutions have prepared packages of measures to overcome the crisis to help national economies overcome the current situation as much as possible.

JEL Classification: G21, G28, F01
Key words: financial crisis, GDP, economy, investments, World Bank

Introduction

Epidemics or pandemics throughout history have had a negative impact on individual segments of the countries' economies, world regions, and in some cases on global trends. Preserving human lives as the highest value during pandemics is the primary task of humanity, but if human beings is seen as working-class individuals, caring for them becomes a struggle to preserve the global economy. (Cvetkovic and Miljkovic, 2020)

Amidst the slowing down of the Chinese economy with interruptions to production, the functioning of global supply chains has been disrupted. Companies across the world, irrespective of size, that are dependent upon inputs from China have started experiencing contractions in production. Transport being limited and even restricted among countries has further slowed global economic activities. Most importantly, some panic among consumers and firms has distorted usual consumption patterns and created market anomalies. Global financial markets have also been responsive to the changes and global stock indices have plunged. (Warwick and Roshen, 2020)

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From the very beginning of the pandemic in December 2019 in China, the world faced the onset of a global economic crisis that permeates all spheres of society. The initial blow to the economy began with the shattering of health systems that were not ready for the infection of enormous proportions and the speed with which it spread. Reduced movement of people has directly affected many market activities around the world. One of the few expansive markets was the online market, which provided a solution for performing certain market activities without physical contact in order to reduce the possibility of infection. Finally, lock-downs in most countries have led to a significant reduction in market activity which has in turn led to reduced movement of goods and capital. This scenario caused reduced liquidity and solvency, as well as partial layoffs.

As in any crisis, the dismissal of workers is the biggest problem because allows the crisis to spread due to rising unemployment and lack of funds in families where one of the members lost their job. This result automatically leads to a reduction in the purchasing power of the affected households and a reduced market movement of money. Due to the increase in the number of the unemployed, the chance that some of them will get another job also decreases. The workforce becomes forced to work for low incomes to provide for basic needs.

On the other hand, employers, due to lower demand for goods and services, are forced to reduce the number of employees in order to maintain liquidity and smooth debt servicing. Smaller inflow of money puts them in a situation to fight for the survival of their business instead of kick-starting innovations and conquering new markets.

Under such conditions, the state should play a key role in order to maintain its own economy and prevent the spread of the crisis. With its planned measures, the state aims to ensure the functioning of the economy so that after the crisis, companies can continue their activities and begin recovery instead of disappearing from the market and thus directly contribute to increasing unemployment and cash inflows into state coffers through tax liabilities.

The most common measures implemented by states throughout the crisis are postponed payments of taxes and contributions, moratoriums on loan repayments, subsidizing the payment of salaries and subsidizing the economy for the purchase of fixed assets. The most affected companies often receive grants from the state in order to overcome the crisis and continue their business.

The world's financial institutions have prepared packages of measures to help countries maintain their economies and reduce the fall of their gross domestic product. Most of the financial resources are provided in the form of loans with lower interest rates, while the funds are provided as a grant to meet the most affected industries such as catering and tourism.

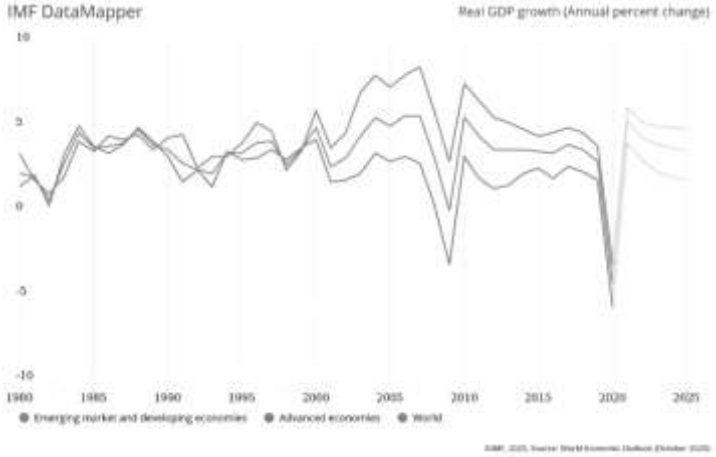
Global GDP

The global pandemic is certainly one of the widest possible crises, which in the long run has led to a significant drop in world GDP. The slow movement of goods and people has led to problems in the supply of many world markets.

The reduction in goods flowing through the global supply chain, and substantial reliance on China for imported goods, led to shortages of supplies to import-dependent countries as China shut down many of its export factories. This led to increases in the price of the remaining stock of imported supplies already in import-dependent country, which also triggered inflationary pressures on the price of basic commodities despite the general low demand for imports due to the coronavirus pandemic. It was difficult to find alternative imports after China's shut-down because many countries had partially or fully closed their borders which stifled international trade at the time. (Ozil and Arun, 2020)

Global GDP has declined significantly, indicating the severity and scale of the Covid-19 crisis. Many predictions suggest that recovery from the crisis will take many years. Recovery and movement of GDB is most dependent on vaccine rollout.

Figure 1. Real GDP growth



Source: IMF, 2020

According to the IMF, advanced economies will have a decline of 8% in 2020 compared to 2018 when there was no Corona virus, while developing economies will suffer a decline of 7.8% in the same period. Globally, the decline in GDP will amount to 7.9% in 2020 compared to 2019.

This result shows a significant decline in market activity, while projections for 2021 and 2022 show a recovery of the world economy, but under the assumption that the pandemic will end. Given the unpredictable course of the pandemic and the possibility of its suppression, it is difficult to make a precise prediction of the supply and demand market trends.

Table 1. Real GDP growth, 2020

Real GDP growth (Annual percent hange)	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Europe	**1,8**	**2,7**	**2,3**	**1,6**	**-7,2**	**4,7**	**3,1**	**2,4**	**2**	**1,7**
Serbia	3,3	2	4,4	4,2	-2,5	5,5	6	4,5	4	4
Switzerland	1,7	1,9	2,7	1,2	-5,3	3,6	2,1	1,4	1,9	1,3
Germany	2,2	2,6	1,3	0,6	-6	4,2	3,1	1,8	1,3	1,2
Slovenia	3,1	4,8	4,1	2,4	-6,7	5,2	3,4	2,8	2,6	2,3
Croatia	3,5	3,1	2,7	2,9	-9	6	4,4	3,5	3,1	3
Italy	1,3	1,7	0,8	0,3	-10,6	5,2	2,6	1,7	0,9	0,9
Montenegro	2,9	4,7	5,1	3,6	-12	5,5	4,2	3,1	3	3

Source: IMF, 2020

Europe's GDP recorded a significant decline in 2020 compared to 2019, despite the implemented fiscal policy measures that contributed to easier survival of the entire economy. The most significant decline was recorded in the countries with the highest level of tourism share in GDP. Montenegro recorded a decline of 15.6 percent in 2020 compared to 2019, which is a significant blow to the economy where most economic activities focus on tourism services and tourism-related products and services. This scenario resulted in the closure of many travel agencies, which have almost been without any activity in this period, but also in many hotel chains becoming insolvent due to the length of the crisis.

Despite the potential loss of life and the large-scale disruption to a large number of people, many governments have been reluctant to invest sufficiently in their health care systems, let alone public health systems in less-developed countries where many infectious diseases are likely to originate. Experts have warned, and continue to warn, that zoonotic diseases will continue to pose a threat to the lives of millions of people, with potentially major disruption to an integrated world economy. The idea that any country can be an island in an integrated global economy has been proven wrong by the latest outbreak of Covid-19. Global cooperation, especially in the sphere of public health and economic development, is essential. (McKibbin and Fernando, 2020)

Unemployment as a major concern

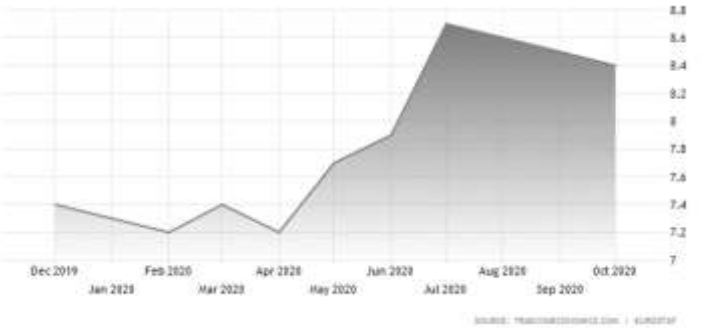
The most difficult task in times of crisis is to preserve jobs. When unemployment begins to rise, the crisis spreads at a dizzying pace due to the lack of money of ordinary citizens. Layoffs represent a hopeless situation for them given the very small chance of finding a job during a crisis. The governments of all countries are struggling with various measures to maintain employment because a sudden increase would lead to a major blow to GDP and the state coffers.

According to the International Labour Organization, global labour income has fallen by almost 11% or $ 3.5 trillion in the first three quarters of 2020. This result indicates the seriousness and comprehensiveness of the crisis in all market spheres. In 2021 global growth is projected at 5.4 percent. Overall, this would leave 2021 GDP some 6½ percentage points lower than in the pre-Covid-19 projections of January 2020. (ILO, 2020)

The most vulnerable group are low-income households that could face subsistence problems in the coming period due to lack of funds. Such a scenario would significantly affect the increase in world poverty levels.

One of the activities that has recorded the greatest labour demand is medicine, which is facing a shortage of qualified personnel in the fight against Covid-19. On the other hand, the aviation industry and tourism are the branches that suffer great consequences from the spread of the Corona virus, as well as the branches in which the largest number of lost jobs was recorded. People are increasingly giving up long-distance travel, many tourist facilities have been closed, thousands of flights around the world have been cancelled, causing losses measuring up to hundreds of millions of euros.'

Figure 2. Unemployment rate, Europe



Source: Eurostat, 2020.

According to Eurostat, the highest increase in unemployment at the European level was between April and July 2020. The 1.5% increase in unemployment in the 4-month period at the European level is a bad sign, especially considering the uncertain end of the Covid-19 crisis and the effectiveness of planned vaccines.

The impact of the Covid-19 pandemic on the world labour market is best illustrated by data from one of the world's largest economies, the United States, which had an unemployment rate of 14.7% at the peak of the pandemic in April, more than during the Great Depression of the 20th century, when more than 40 million jobs were lost in the United States. (Kahrovic, 2020)

In addition to the disruption in the supply chain, the capital market sector has also been affected. In the US, the S&P 500, a stock market index that measures the stock performance of 500 large companies on the US stock exchange, the Dow Jones Industrial Average and the Nasdaq fell dramatically until the US government secured the

Coronavirus Aid, Relief, and Economic Security (CARES) Act, with the indexes raising by 7.3%, 7.73% and 7.33% respectively. (Nicola, et al, 2020)

Measures introduced by international and European financial institutions

The world's financial institutions reacted efficiently at the very beginning of the pandemic, preparing a set of aid measures targeted at the affected countries in order to help, primarily health care systems, aimed at increasing their capacities for testing and hospital accommodation. Such measures have helped many states whose health care systems were bursting at seams. Financial assistance has made it easier for many countries to procure respirators and protective equipment, as well as infection prevention equipment.

The World Bank has prepared monetary aid packages for the countries most affected by the pandemic. Part of the funds is provided as a grant, while the rest is prepared in the form of loans with a grace period and lower interest rates.

With the pandemic's rapid spread into developing countries, the World Bank Group is delivering record levels of support to clients. It is making available up to $160 billion in financing capacity through June 2021. Its support is tailored to the health, economic, and social shocks that countries are facing, and includes over $50 billion of IDA resources on grant and highly concessional terms. (World Bank, 2020)

Table 2. Measure packages

Country	**Package**
Serbia	USD 100 Million
Albania	USD 18 Million
B&H	USD 36,2 Million
North Macedonia	USD 98,5 Million
Turkey	USD 100 Million

Source: Authors according World Bank data

Two walk-in and up to ten drive-through testing points for Covid-19 will be established in Serbia and the country's testing capacity will be increased from 7,000 to at least 9,000 tests a day thanks to the new $100 million loan from the World Bank, approved today. (World Bank, 2020)

The ECB has drastically expanded its quantitative easing program by buying additional bonds, then providing cheap long-term loans to banks to maintain liquidity, easing conditions for banks to grant loans and the like. Regarding the reduction of the reference interest rate, the ECB did not have room to act, given that it has been at a record low level for a long time. (Prascevic, 2020)

The scope and speed of the Federal Reserve's intervention (FED) was more significant than the ECB's intervention. In mid-March, the FED lowered the reference interest rate by the entire percentage, to the range from 0% to 0.25% - the level it was at

between 2008 and 2015. The FED has also increased the amount of funds it holds in bonds. They also came out with a program of measures at the level of $ 2.3 billion to support local governments and small and medium enterprises. (Prascevic, 2020)

Fiscal policy measures

All countries have implemented fiscal policy measures to mitigate the impact of the crisis. Such measures were most often reflected in the postponed tax payments for companies, as well as the payment of salaries to workers in private companies in order to relax employers from larger borrowings allowing them to maintain their current liquidity. This measure helps the state to maintain the economy functional, thus preventing its collapse and ensuring inflows into the state treasury through taxes and contributions in the coming period.

Moratoriums on loans are of great help to both the economy and the population, which during the crisis are not able to service debts while maintaining current liquidity.

Central banks have reduced mandatory collateral to encourage the use of credit. Also, the level of the mandatory bank reserves was reduced.

During the global crisis caused by the Corona virus, Serbia managed to preserve macroeconomic and financial stability thanks to a comprehensive package of monetary and fiscal measures, but also the fact that it welcomed the crisis readily, in a good macroeconomic position built in the past years. Responsible economic policy over the past eight years has resulted in low and stable inflation for the seventh year in a row (around 2% on average), a relatively stable dinar exchange rate against the euro, high foreign exchange reserves (€13.0 billion in September), a significant reduction in the share of problem loans (3.4% in September) and regulated public finances. In that way, space was created to adopt a comprehensive set of measures to overcome the negative consequences caused by the pandemic. (NBS, 2020)

Hungary has introduced measures abolishing social security contributions at the expense of employers (maximum 19% of gross earnings) and abolishing social security contributions at the expense of employees (except for health insurance contributions, which amount to 4% of gross earnings and a maximum of €22), in the sectors most affected by the crisis. It is estimated that this measure will cost Hungary €500 million (0.35% of GDP). Bosnia and Herzegovina has introduced a measure that will make contributions to the minimum wage in the private sector for all workers paid from the state budget. Finland has decided to reduce pension insurance contributions by 2.6 percentage points compared to the current 24.4% of gross earnings (which will cost €900 million, or 0.4% of GDP), while Italy exempts the hardest hit sectors from paying taxes and contributions. (Naled, 2020)

€4.6 billion deferral (Bruegel estimate) of VAT payments for April and May 2020. This deferral applies to companies with revenues less than €50 million if the fall in income is larger than 33%, or companies with revenues more than €50 million if the fall in income is larger than 50%). $600 billion (Bruegel estimate) in direct payments of $1,200 to Americans earning up to $75,000 - which would gradually phase out for higher

earners and end for those with incomes more than $99,000 — and an additional $500 per child. (Bruegel Datasets, 2020)

The imposed restriction on internal movement and fiscal policy spending had a positive impact on the level of economic activities while the number of confirmed cases was positively related to the opening, highest and lowest stock prices of major stock indices. The implication of the findings is that fiscal policy spending appears to be more effective in mitigating the effect of the Covid-19 pandemic than monetary policy decisions particularly because the adoption of accommodative monetary policies by many central banks can exacerbate inflationary pressures that could worsen macroeconomic stability in the short term (Peterson and Thankom, 2020).

Conclusion

Experts have warned, and continue to warn, that zoonotic diseases will continue to pose a threat to the lives of millions of people, with potentially major disruption to an integrated world economy. The idea that any country can be an island in an integrated global economy has been proven wrong by the latest outbreak of Covid-19. Global cooperation, especially in the sphere of public health and economic development, is essential. All major countries need to participate actively. It is too late to act once the disease has taken hold in many other countries and to attempt to close borders once a pandemic has started. (Warwick and Roshen, 2020)

Considering the oscillations in the movement of the crisis and the uncertain end of the pandemic, the budgets of the world's financial organizations may move even more in a negative direction.

Timely fiscal policy measures can significantly help economies to overcome this crisis with as few consequences as possible. The recovery of the economy in the coming period will contribute to the recovery of global GDP.

The rollout of the Covid-19 vaccine will play a significant role in the coming period. Given that it is very difficult, almost impossible to prepare a vaccine that gives safe results without side effects in a short period of time, the biggest challenge for the world health organization will be approving vaccines and educating the population to make the percentage of citizens who accept the vaccine higher.

The economic crisis caused by the Covid-19 pandemic differs from other crises because its root cause is not directly related to the real or financial sector. During the crises that took place in history, there was no complete lock-down, people were able to do business and work. Especially because of that fact, this crisis represents the greatest challenge in the history of mankind, and what is certain is that individuals, households, and the states alike will alter their future consumption structure.

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