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The Economic Impact of Budgeting amidst COVID-19 Pandemic

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Abstract

The purpose of this research review is to identify the economic impact that the COVID-19 pandemic has on business's budget. Problem is, almost all of it shows no positive impact because budgeting is a significant factor in running a business, and hence it affects businesses in a negative way in a COVID-19 crisis. Results from the surveys conducted help to justify that such outbreak does affect projects or business budgeting or the business itself negatively, and that it prevents businesses to operate and perform at the most optimum level. Budgeting, one of the management tools used by businesses, is the process where these businesses establish a plan on how they would like to spend their money. This technique helps these businesses in decision-making because budgeting is the process where business estimates their finances for their upcoming future period and thus, able to plan their operations. However, it is necessary that the economic impact of budgeting is require to study such in a present scenario of COVID-19 Budgeting.

Keywords: Economic Impact, COVID-19, Budgeting and Pandemic



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Introduction

A budget generally describes the company's plan of conduct which assists the business in allocation of resources, assessment of its performance as well as articulation of plan. Not only it gives the business a precise concept of income and expenses, but it also affects or determine significant decisions for a business. For example, whether or not the business needs to improve its marketing, reduce expenditure, buy equipment, employ workers, and many more. In addition, an extensive budgeting is also needed to acquire loans from banks or pursuing stock funds from investors. (Ward, 2020)

How does budgeting affect businesses amidst the COVID-19 pandemic? Due to this outbreak, businesses need to make major adjustments to their strategy, goals and etc. before reverting to the usual when the situation stabilizes.

Whether this pandemic affects businesses positively or negatively, it's a guarantee that all businesses gain quite an experience and could improve their measures gradually or as prevention for potential crisis as such in the future.

Objectives and Methodology:

The research methodology consists of review of literature not only but it also includes the research analysis of following objectives through available literature:

- Forecasting in the Covid-19 era
- COVID-19 impact on economy
- Budgets planning amid Covid-19
- Budgeting for Government Covid-19
- Spending for COVID-19 mitigation



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However, the main objective of this review study is to view the nature of economic impact that businesses face and their strategies or actions that they make in dealing with the COVID-19 pandemic.

Literature Review and Economic approaches

In the article “Budget Forecasting in the COVID-19 era”, Derek Parker stated that the COVID-19 pandemic is such an extraordinary occurrence that makes it hard to do budgeting, especially to measure the perpetual effect and to get the personnel to be involved in the process of budgeting. He mentioned that the first move is to think back the process and decide on the goal that drives diagnostic as well as invention. What’s also significant is the allocation of resources in the business domain which most probably deals with issues. (Parker, 2020)

“As COVID-19 impact deepens, Google slashes marketing budget by 50%” by Mike Wheatley shows that the firm decides to reduce the number of new employments in 2020 due to the COVID-19 pandemic after deciding one week prior to cut back 50% of its marketing budget that starts in the latter period of six months this year. Google is also concerned about its cloud computing venture as it depends a lot on creating a wider sales workforce in competing with its rivals such as Microsoft and Amazon. According to Constellation Research Inc. analyst Holger Mueller, it could be a problem for Google if reductions take place in this particular area because they have stressed to improve their sales workforce in former times as shortage of the sales workforce is their major disadvantage. (Wheatley, 2020)

According to Jessica Davis in the article “Businesses Rewrite 2020 Budgets and Plans Amid COVID-19”, approximately after one month of lockdown, we can see what the board of directors conducted or potentially will in keeping their companies to operate as well as getting ready for the business to go back to its usual operations. Surveys were executed for top executives regarding the effects of the COVID-19 pandemic where results of the respondents came out differently. Dennis



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Gannon, advisory VP of Gartner Finance Practice said that because different departments may have different level of budget, it may be wrong to treat them comparably. (Davis, 2020)

“Budgeting for COVID-19: State and Centre should together make India business-ready”, by Rahul Renavikar states that the government’s number one priority is to put the pandemic to an end and rescue as much lives as they can. At long last, the government needs to take swift and firm actions to revive the economy to its normal state. In comparison to other countries, whether it’s a developed or still developing, India needs to come up with a distinct

strategy to address the distorted lucrative catastrophe. Large number of economists have been downgrading GDP prospects of India for FY21 (Financial Year 2020 – 2021). With all the attempts and initiatives to tackle the prevalent, both the government and the centre could be of help if they amend separate budgets for FY21. (Renavikar, 2020)

In reference to the article “2021 state budget to include extra spending for COVID-19 mitigation”, Riska Rahman mentioned that allocation of an extra fiscal bundle to tackle the pandemic next year’s state budget is already a work-in-progress executed by the Finance Ministry. Askolani, the Budgeting Director stated that the expenditure of tackling the pandemic for 2021 is the government’s 2020 allocation of additional expenses. He added that programs as such will not only be the purpose for this year, but also for the upcoming year and the following. Chatib Basri, a senior economist, said that the government must create a distinct SSN (Social Safety Net) in protecting those at risk for impacts, especially lower to middle class individuals. Apart from providing SSN to people who are under the poverty line, the government should also pay attention to lower-middle class individuals who is currently out of job due to the pandemic. The inner-city part of the country is enduring the hardest aftermath because they make up 55% of the population which makes higher in demand for food. Because the COVID-19 pandemic affected Indonesia rigorously compared to other outbreak, Chatib apprised that the government must be extra cautious to restore the economy. (Rahman, 2020)



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Data Review and Economic Analysis

As mentioned in above literature that surveys were conducted for top executives. The first survey was a 2020 User Survey by Dresner Advisory Services, which he includes questions in regards to effects of the COVID-19. The results show that 61% agreed that the outbreak affects projects and budgets. Regionally, the numbers also vary with Europe, Middle-East and Asia stands at 72%, North America stands at 66%, and Asia Pacific stands at 62%.

Apart from regions, he also group respondents by roles. 89% agreed that the pandemic affects projects and budgets, where 83% of them are executive management, 75% are marketing, 65% are finance, 60% are IT, 60% are Research and Development and 56% are Business Intelligence.

The third basis is industry wise. While Technology at 59% and Financial Services at 53% agreed that they endure the smallest impact, the biggest impact goes to Education and Higher Education at 93%, Consulting at 88%, Advertising at 83%, and Healthcare Providers at 78%.

The other survey conducted was the Gartner Survey of 317 CFOs, in which it shows 62% respondents plan to cut back on their business's conventional, selling as well as budget for administrative matter. Although 38% agreed that they will not cut back their budget in 2020, 18% of respondents agreed to decrease their budget in each category by no less than 10%, and so far, the marketing department is the only one that cuts its budget by more than 10% or more. (Davis, 2020)

In addition, related to , Google's expenditure on its sales and marketing was \$18.46 last year. Due to the pandemic, this year they have to cut back their budget by half. (Wheatley, 2020)

However, given the fact above and reason we can see, here Table 1 the expending of covid-19 budgeting is more than the list of contributors. This is reproduced here as a secondary analysis:



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Table 1: List of Contributors

Contributors

Donor	Funding received US\$
African Development Bank	2 000 000
Australia	4 541 504
Austria	2 171 553
Azerbaijan	10 000 000
Bill and Melinda Gates Foundation	10 978 040
Canada	12 889 063
Central Emergency Response Fund (CERF)	20 000 000
China	50 100 000
Côte d'Ivoire	439 351
COVID-19 Solidarity Response Fund	99 037 297
Czech Republic	258 176
Denmark	16 138 585
Estonia	108 578
European Commission	70 583 849
Finland	1 103 753
France	1 399 661
Gavi, The Vaccine Alliance	3 001 751
Germany	30 833 732
Guinea	193 670
Holy See	111 720
Iceland	204 290
Ireland	7 439 039
Italy	454 545
Japan	47 500 000
King Baudouin Foundation	3 250 000
Kingdom of Saudi Arabia	10 000 000
Kuwait	60 000 000
Latvia	108 577



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Liechtenstein	320 513
Luxembourg	219 780
New Zealand	1 258 685
Norway	2 488 248
Novartis International AG	499 690
OPEC Fund for International Development (OFID)	500 000
Republic of Korea	3 300 000
Republic of Slovenia	67 873
Serbia	1 100 000
Singapore	500 000
Slovakia	220 507
Switzerland	698 538
United Kingdom	104 619 100
United Nations Development Programme (UNDP)	928 753
United Nations Development Programme (UNDP) Multi-Partner Trust Fund (MPTF)	1 498 155
United Nations Office for the Coordination of Humanitarian Affairs (UNOCHA)	7 237 434
United Nations Population Fund (UNFPA)	51 400
United States	30 289 300
Viet Nam	50 000
Vital Strategies/Resolve to Save Lives	749 925
World Bank	48 875 633

(Source :World Health Organisation,2020)

In addition, the following donors have pledged further support to WHO:

Alwaleed Foundation, Australia, Croatia, Cyprus, European Commission, France, Germany, Iceland, Italy, Kingdom of Saudi Arabia, Netherlands, Norway, Pacific Island Health Officers'



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Association, Portugal, Russian Federation, Spain, COVID Multi-Partner Trust Fund (MPTF), and United States.

Here are some of the ways WHO is responding in different regions and countries :

Table : 2

Polish medics bring Italian COVID-19 experience to Kyrgyzstan with WHO support

“A team of medics from Poland went to Kyrgyzstan to share their experience from virus-hit Italy and transfer knowledge and skills to their peers. This support was part of the Emergency Medical Team initiative coordinated by WHO and was organized as a fast track to improving the care of COVID-19 patients in Kyrgyzstan.”

(Source :World Health Organisation,2020)

Table : 3

WHO supports countries to mitigate COVID-19 spread in the South-East Asia Region



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“As the COVID-19 pandemic spreads, WHO is supporting countries in their containment and mitigation efforts such as by providing technical guidance, laboratory capacity strengthening for testing, equipment for hospitals and healthcare workers ”

(Source :World Health Organisation,2020)

The Economic Impact and the Content Analysis:

All around the world, employees are doing WFH (Work from Home) to practice social distancing. Because of this, meetings and conferences are held online to make sure everyone is on the same page, on the right track. This is where technology comes in. With the use of Zoom, TenCent, Microsoft Teams and other similar platforms, companies can engage their employees in the decision-making of COVID -19 budgeting. They can brainstorm their ideas and assign tasks to employees. Even if this outbreak lasts for a year or two, it does not stop a company from forecasting its budget.

Google may not be the only organization that needs to cut back new hires and also 50% of its marketing due to COVID-19 budget. It is understandable why they plan to do so as salary needs to be paid per worker. Fortunately, they could create an opening for sales workforce for unemployed people, or even offer it to current staff which will cut the cost.

As mentioned, different departments may have different level of budget they require. Sales department may require lesser budget than production because the former mostly deals with people, whereas the latter utilizes machineries. In simpler words, each department may have different needs. Companies can inquire their budget by departments.

It is a good cause that the government prioritizes to save lives and attempting to stop the outbreak. But focusing on one matter as such abandons the fact that the economy is declining. The



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government should spend more and centres such as banking institutions should increase the interest rate. As a result, this could likely boost or upgrade its GDP prospects back to normal.

The fact that spending of addressing the COVID-19 pandemic for 2021 is included in 2020's budget is a good start. With people being unemployed because of the pandemic, the government needs to remember that that would mean individual's level of income is decreasing. Under SSN, the government can start an Unemployment Insurance, just like in USA. With this, unemployed individuals can also afford to buy the demand for food. Moreover, the government can set Maximum Pricing strategy in order for businesses to not set prices too high that people cannot afford, and in which is not giving the businesses any returns.

It is a quantitative forecast in helping organizations to achieve their objectives with resources that are available. In COVID-19 budgeting, managers would be able to organize their planning activities and making sure that their resources are assigned effectively. It is considered as a good tool in making sure that resources are assigned according to the objective priorities. Therefore, in making sure that it is assigned accordingly, budgeting will enable and help management to know when to review and revise the plans if results shown is different from what is planned or expected (Oden, n.d.).

To simplify, it can be defined as a in COVID-19 situation a new financial plan, whereby the finances are kept in track, in order to monitor and control the financial management. Furthermore, it is crucial for organization to guide the organization to identify any possible deviations that may occur in the future because of COVID-19. It could also be considered as a valuable tool used to control the finances of an organization, on how it is spent, whether it is in the correct way and is used towards achieving their financial plans or goals. Therefore, it is important for organizations to have an effective COVID-19 budget, as budgeting is beneficial to the organization as a whole.

An effective COVID-19 budget would mean that the respective organization has a proper monitoring of their activities and adequate information to estimate accurately. With this, budgeting



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should be considered as a fundamental tool for the management of an organization to be effective and efficient. However, according to studies, it is seen that some organizations are unaware of this and thus, these organizations are unable to make use of the benefits.

Although COVID-19 budgeting is important and not very beneficial to the organizations, there are a few challenges that these organizations may face during the covid-19 budgeting process. This will also arise even if their COVID-19 budgets are properly made. Therefore, an adequate and reliable information should be gathered and analysed before making budget decisions, as to better develop an effective COVID-19 budget that would benefit the organizations.

Even though some challenges may arise during the process, organizations should be aware of the importance of COVID -19 budgeting. Therefore, an economic impact for these organizations is that they should organize the COVID-19 budget tasks effectively and properly, in order to enhance their performance and correct if there are any potential problems that may occur. Last but not least, it shows that budget can contribute to improving the results.

By connecting cost management efforts to COVID-19 budgeting, companies enhance the quality of information available for managers to utilize in formulating their budgets. Companies that provide reliable cost management procedures and immediate access to cost information intensify both the efficiency and the pace of their budget process. Another best method in associating cost management to budgeting are by standardizing the cost management practice and managing the strategic control of variance analysis to recognize flaws that have a vital impact while preparing and adopting COVID -19 budgeting. (Andersen, 2000).

Finding and Conclusion

It was found that the economic impact of budgeting during this COVID-19 pandemic was leaning more towards the negative and serious effects on economy of nation and on economic policy of any country. With people just have to WFH, using online platforms still has its drawbacks when



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conducting a meeting. Some people are better with hands-on work, rather than just discussion. Some have problems with number of staff, which is an affect of the outbreak. Others are trying to deal with the budget from different aspects, GDP and unemployment. In conclusion, COVID-19 has a huge negative impact on business budgeting because it limits one's ability to fully operate and perform as per normal. It is a quantitative forecast in helping organizations to achieve their objectives with resources that are available. In COVID-19 budgeting, managers would be able to organize their planning activities and making sure that their resources are assigned effectively.

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Web link: <https://www.who.int/emergencies/diseases/novel-coronavirus-2019/strategies-and-plans>