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QUESTION: THE COVID-19 PANDEMIC CONTINUES TO RAVAGE THE WORLD, BRIEFLY ASSESS THE PANDEMIC IMPACTS ON THE GLOBAL ECONOMY BETWEEN DECEMBER 2019 AND APRIL 2020. BASICALLYEXPLAIN BOTH THE INTENDED AND UNINTENDED CONSEQUENCES OF THE SHUTDOWNS LOOKING AT THE STATISTICS OF GLOBAL FINANCIAL INSTITIONS, FOR EXAMPLE THE IMF.

ANSWER

The COVID-19 pandemic expanded rapidly from a health emergency to an extraordinary shock to the global economy with far reaching negative consequences for financial markets. Governments around the world are taking swift action to offset the negative effects on firms and people who have lost jobs. Emerging markets and developing countries, some of which were prone to financial market volatility before the coronavirus pandemic, are especially exposed. This page outlines policy guidance for ways to mitigate risks to financial markets and maintain liquidity to support economic recovery once the health crisis is resolved.

Capital Markets Implications and Response 1 March 25, 2020. The COVID-19 crisis is an extraordinary supply and demand shock to the global economy with far reaching and uncertain ramifications. Emerging Markets and Developing Economies (EMDEs) are highly exposed, and capital markets are one of the main transmission channels of this on-going, global, systemic shock. This note identifies the impact of this evolving crisis on EMDE capital markets to date, assesses the different policy actions that policy makers have taken in response, and outlines some aspects of the assistance that the World Bank can provide to help alleviate the financial and economic damage from the coronavirus pandemic. Countries with high public- and private-debt levels, high foreign-investor participation, as well as less-developed domestic capital markets are most vulnerable. The private sector is highly exposed to the current crisis, especially small- and medium-sized firms, BBB-rated corporates and firms with heavy reliance on foreign exchange debt. Policy responses are focused so far on emergency measures designed to alleviate the liquidity and credit squeeze, as well as to normalize the extreme market volatility. Emergency assistance to private debt issuers has been part of measures directed to firms broadly and include tax relief and regulatory forbearance. So far, specific measures for listed corporates have been more limited. The World Bank can play a role in the capital market response by (i) advising on the applicability of emergency responses to countries and assessing longer-term consequences, (ii) identifying low hanging reforms to address structural bottlenecks and (iii) helping to identify reforms that could accelerate the recovery.

The COVID -19 crisis brings significant challenges to EMDE government issuers. Debt managers are confronted with volatile funding markets while facing increased financing needs, higher funding costs, large foreign capital outflows and uncertain investor behavior. It will be critical for debt sustainability that governments carefully assess how to finance their fiscal response, particularly in the context of already high public debt vulnerabilities in many countries. 3 While the decline in liquidity has been driven by the financial market volatility, more structural issues such as lack of hedging tools, higher inventory and market-making costs, and stricter regulations may be exasperating some of the market moves as well as the “lockdown”, which may be affecting financial intermediaries ability to serve markets. 4 According to most recent IIF data, cumulative capital outflows since the COVID-19 episode began in late January are already twice as large as in the global financial crisis and dwarf stress events such as the China devaluation scare of 2015 and the “taper tantrum” in 2014. March 25, 2020.The World Bank Group COVID-19 Outbreak: Capital Markets Implications and Response In the current environment, accessing the international debt market will be costly or impossible for many EMDE government issuers. As a result, issuers may need to focus their increased funding requirements on the domestic capital market. Increasing risk aversion in financial markets globally and a preference for short term liquidity will also likely result in a higher cost of funding for the sovereign in many domestic markets, and especially those with less diversified investor bases. This comes at a time, when sovereign funding needs are increasing, both to finance new public interventions and to roll over existing external borrowings. This increased activity of the sovereign in the domestic capital market will likely have a negative impact on other non-sovereign issuers and their ability to access the domestic debt market.

Confirmed [cases of COVID-19 have now hit nearly 2.5 million](https://coronavirus.jhu.edu/map.html) globally. Businesses are coping with lost revenue and disrupted supply chains as [factory shutdowns](https://www.reuters.com/article/us-china-health-scale/under-chinas-coronavirus-lockdown-millions-have-nowhere-to-go-idUSKBN2081DB) and quarantine measures spread across the globe, restricting movement and commerce. Unemployment is skyrocketing, while policymakers across countries race to implement fiscal and monetary measures to alleviate the financial burden on citizens and shore up economies under severe strain. The International Monetary Fund (IMF) on 9 April said the coronavirus pandemic had instigated an economic downturn the likes of which the world has [not experienced since the Great Depression.](https://www.reuters.com/article/us-health-coronavirus-imf/imf-chief-says-pandemic-will-unleash-worst-recession-since-great-depression-idUSKCN21R1SM)

Predicted slump for Asia

On 15 April, the IMF warned [economies in Asia would see no growth](https://www.bbc.co.uk/news/business-52305258) this year, for the first time in 60 years, with the service sector particularly under pressure. National lockdowns across the region have meant airlines, factories, shops and restaurants have suffered the greatest economic shocks. Just a day after the IMF warning, official [data showed the Chinese economy had contracted in the first quarter](https://www.reuters.com/article/us-china-economy-gdp/hobbled-by-coronavirus-chinas-first-quarter-gdp-shrinks-for-first-time-on-record-idUSKBN21Z08Q) - the first time since quarterly records began in 1992. GDP in the world's second largest economy fell 6.8% in January-March year-on-year - more than the 6.5% forecast by analysts and the opposite of the 6% expansion in the fourth quarter of 2019. The Chinese economy is likely to be hit further by reduced global demand for its products due to the effect of the outbreak on economies around the world. Data released on 16 March showed [China's factory production plunged](https://news.trust.org/item/20200316071843-1rb9t/) at the sharpest pace in three decades in the first two months of the year. For 2020, the country's [economic growth is expected to fall to 2.5%](https://www.reuters.com/article/us-china-economy-gdp/hobbled-by-coronavirus-chinas-first-quarter-gdp-shrinks-for-first-time-on-record-idUSKBN21Z08Q), according to a Reuters poll - its slowest in almost 50 years.

On 14 April, the International Monetary Fund ([IMF](https://www.imf.org/en/Publications/WEO/Issues/2020/01/20/weo-update-january2020)) updated its global growth projections from only three months ago, indicating that the global economy is expected to experience its worst recession since the Great Depression, surpassing the deep economic slump following the global financial crisis a decade ago. Earlier in April, the [United Nations Department of Economic and Social Affairs](https://www.un.org/development/desa/dpad/publication/world-economic-situation-and-prospects-april-2020-briefing-no-136/) (UNDESA) analysed the effects of the containment measures and projected that the world economy could, in the worst-case scenario, contract by up to 1 per cent. Similarly, the [OECD](https://socialprotection.org/discover/publications/evaluating-initial-impact-covid-19-containment-measures-economic-activity) stated in early March that increasingly stringent lockdown measures in most of the world’s advanced economies would inevitably result in significant declines in GDP growth.

The impact on employment will be worse than initially expected

The ILO’s previously predicted rise in unemployment of up to 25 million in 2020, with losses in labour income in the range of USD 860 billion to USD 3.4 trillion, seems accurate, if not underestimated. According to the ILO, these numbers may underestimate the real magnitude of COVID-19’s impact. The [ILO’s latest summary](https://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_739961/lang--en/index.htm) states that the current containment measures are affecting close to 2.7 billion workers, representing around 81 per cent of the world’s workforce.

[The United Nations (UN)](https://reliefweb.int/sites/reliefweb.int/files/resources/sg_report_socio-economic_impact_of_covid19.pdf) has expressed concern that the COVID-19 crisis will lead to a reversal of decades of progress in the fight against poverty, and that already high levels of inequality within and between countries will be further exacerbated. The crisis will therefore inevitably and adversely impact the implementation of the 2030 Agenda for Sustainable Development. The COVID-19 pandemic is expected to negatively influence almost all SDGs. The current crisis will also severely affect the prospects for industrialization in developing countries.

**Impact on trade and manufacturing production**

COVID-19 is severely impacting manufacturing production in developing countries because:

1) demand from high-income countries for manufacturing goods and raw materials is decreasing;

2) value chains are being disrupted due to delays in the delivery of necessary components and supplies from more technologically advanced countries;

3) other factors, including policies (e.g. restriction of movement of goods and people), inability of employees to reach the workplace or financial constraints, which affect the normal production process. [UN economists](https://news.un.org/en/story/2020/03/1058601) have estimated a USD 50 billion decrease in manufacturing production in February 2020, and the IMF warns that the negative economic effects will be felt “very intensively” in developing countries that sell raw materials. All these negative channels will inevitably have an impact on exports from developing countries. The losses in export volume will be further intensified by the decline in energy and commodity prices. [UNCTAD](https://unctad.org/en/PublicationsLibrary/gds_tdr2019_covid2_en.pdf?user=1653) projects that developing countries as a whole (excluding China) will lose nearly USD 800 billion in terms of export revenue in 2020.

Impacts in Africa

Fully in line with the global economic prospects, [a recent report of the African Union (AU)](https://www.tralac.org/news/article/14483-impact-of-the-coronavirus-covid-19-on-the-african-economy.html) states that “Regardless of the scenario whether optimistic or pessimistic, Covid-19 will have a harmful socioeconomic effect on Africa” (p. 30). Losses related to the fall of the global oil price are estimated at USD 65 billion. Losses amounting to USD 19 billion are expected in Nigeria alone. The crisis will also affect manufacturing firms. According to the AU report, the automotive industry (-44 per cent), airlines (-42 per cent) and energy and basic materials industries (-13 per cent) face even higher losses. MNE perspectives of profits in developing countries have been revised downwards by 16 per cent. This revision amounts to 1 per cent in Africa compared to 18 per cent in Asia, and 6 per cent in Latin America.

Impacts in Latin America

[CEPAL estimates](https://dialogochino.net/en/trade-investment/34547-coronavirus-takes-toll-on-latin-american-economies/) a 1.8 per cent contraction in regional gross domestic product (GDP) in Latin America, a 10 per cent increase in unemployment and a rise in the number of people living in poverty to between 35 million and 220 million (of its 620 million inhabitants). The number of those living in extreme poverty could climb from 67.4 million to 90 million. Much of the negative impact could stem from the drop in the price of commodities and food (copper for Chile and Peru, fish meal for Peru, soy for Brazil, Argentina and Uruguay, beef for Uruguay and Argentina, shrimp for Ecuador) and the close trade relations with China, one of the largest buyers of Latin American goods.

Impacts in Asia

The coronavirus first broke out in China. [According to the BBC](https://www.bbc.com/news/business-51706225), the country experienced a 13.5 per cent reduction in industrial production in the first two months of 2020. China is the world’s largest exporter and produces one-third of all global manufacturing goods. The newly published [Asian Development Bank Outlook 2020](https://www.adb.org/publications/asian-development-outlook-2020-innovation-asia), revising the 6 March 2020 update, asserts that China remains the epicentre of the crisis, but developing Asia has only been hit by a 7.7 per cent decrease in industrial production since the beginning of 2020. Countries that are less affected by the virus are India, NIEs and the ASEAN 5; their industrial production continues to show a positive growth rate.

**Policy and coping strategies**

Leading news outlets such as [the Economist](https://www.economist.com/leaders/2020/04/02/covid-19-presents-stark-choices-between-life-death-and-the-economy) or the [Financial Times](https://www.ft.com/content/7eff769a-74dd-11ea-95fe-fcd274e920ca) assert that calls urging governments to act fast and boldly have gained increasing support across the political spectrum. According to those same sources, economic policies that until very recently were frowned upon have resurfaced in a number of countries to prevent a complete economic and social breakdown owing to the containment strategies.