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Question

The COVID-19 pandemic continues to ravage the world. Briefly assess the pandemic's impacts on the global economy between December 2019 and April 2020. Basically explain both the intended and unintended consequences of the shutdowns, looking at the statistics of global financial institutions, for example, the IMF.

Answer

INTRODUCTION

Coronavirus disease (COVID-19) is an infectious disease caused by a newly discovered coronavirus.

Most people who fall sick with COVID-19 will experience mild to moderate symptoms and recover without special treatment.

The disease was first identified in December 2019 in Wuhan, the capital of China's Hubei province, and has since spread globally, resulting in the ongoing 2019–20 coronavirus pandemic. As of 22 April 2020, more than 2.58 million cases have been reported across 185 countries and territories, resulting in more than 178,000 deaths. More than 696,000 people have recovered.

coronavirus pandemic has had far-reaching consequences beyond the spread of the COVID-19 disease itself and efforts to quarantine it.

The coronavirus pandemic caused the largest global recession in history, with more than a third of the global population at the time being placed on lockdown.

THE IMPACT OF THE PANDEMIC OF THE GLOBAL ECONOMY

There is an ongoing severe global economic recession which began affecting the world economy in early 2020 due to the pandemic. The recession is considered to be the steepest economic downturn since the Great Depression.

The recession began during the 2019–20 coronavirus pandemic.The pandemic caused the largest global lockdown ever in human history, with more than a third of the world's population at the time being placed on lockdown.This caused severe economic repercussions as economies across the world had to enter into a 'lockdown' to stop the spread of COVID-19. The lockdown occurred on top of an 'economic slowdown' during 2019, which saw the stagnation of stock markets and consumerism worldwide

Global stock markets fell on 24 February 2020 due to a significant rise in the number of COVID-19 cases outside mainland China. By 28 February 2020, stock markets worldwide saw their largest single-week declines since the 2008 financial crisis. Global stock markets crashed in March 2020, with falls of several percent in the world's major indices. As the pandemic spreads, global conferences and events across technology, fashion, and sports are being cancelled or postponed.] While the monetary impact on the travel and trade industry is yet to be estimated, it is likely to be in the billions and increasing. By 16 March, news reports emerged indicating that the effect on the United States economy would be worse than previously thought.

As of April 2020, the recession has seen staggering unemployment and the collapse of multiple state-funded beneficiaries of for unemployed adults. The UN predicts that global unemployment will wipe out 6.7 per cent of working hours globally in the second quarter of 2020 – equivalent to 195 million full-time workers.] In western nations, unemployment is expected to be at around 10%, with more severely affected nations from the coronavirus pandemic having higher unemployment rates.

The recession saw the collapse of the price of oil triggered by the 2020 Russia–Saudi Arabia oil price war, the collapse of the tourism industry, hospitality industry, energy industry and a significant downturn in consumerism in comparison to the previous decade. Global stock markets crashed around 20 to 30% during late February and February 20th 2020, respectively. During the crash, global stock markets made unprecedented and volatile swings, mainly due to extreme uncertainty in the markets

In terms of unemployment Unemployment,The International Labour Organization stated on 7 April that it predicted a 6.7% loss of job hours globally in the second quarter of 2020, equivalent to 195 million full-time jobs. They also estimated that 30 million jobs were lost in the first quarter alone, compared to 25 million during the 2008 financial crisis.

In January and February 2020, during the height of the epidemic in Wuhan, about 5 million people in China lost their jobs.[107] Many of China's nearly 300 million rural migrant workers have been stranded at home in inland provinces or trapped in Hubei province.

In March 2020, more than 10 million Americans lost their jobs and applied for government aid.[110] The coronavirus outbreak could cost 47 million jobs in the United States and unemployment rate may hit 32%, according to estimates by the Federal Reserve Bank of St. Louis.

The lockdown in India has left tens of millions of migrant workers unemployed.

The survey from the Angus Reid Institute found that 44% of Canadian households have experienced some type of job loss

Nearly 900,000 workers lost their jobs in Spain since it went into lockdown in mid-March 2020. During the second half of March, 4 million French workers applied for temporary unemployment benefits and 1 million British workers applied for a universal credit scheme.

Almost half a million companies in Germany have sent their workers on a government-subsidized short-time working schemes known as Kurzarbeit.The German short-time work compensation scheme has been copied by France and Britain.

In terms of the financial market, the Economic turmoil associated with the coronavirus pandemic has wide-ranging and severe impacts upon financial markets, including stock, bond and commodity (including crude oil and gold) markets. Major events included the Russia–Saudi Arabia oil price war that resulted in a collapse of crude oil prices and a stock market crash in March 2020. The United Nations Development Programme expects a US$220 billion reduction in revenue in developing countries, and expects COVID-19's economic impact to last for months or even years.Some expect natural gas prices to fall.

Also,

The finances of many oil-producing nations suffered severe stress. Iraq, which gets 90% of its budget from oil revenue and could profitably extract oil as long as it was above $60 a barrel, announced that it would have a $4.5 billion monthly shortfall starting in May. Other oil exporters - including Mexico, Venezuela, Ecuador, and Nigeria - are expected to contract economically or struggle to manage the fiscal fallout. Countries such as Saudi Arabia and Russia have cash reserves measured in years, but their leadership remain concerned.

STATISTICS OF THE INTERNATIONAL MONETARY FUNDS SHOWING THE CONSEQUENCES OF THE LOCKDOWN .

The COVID-19 pandemic has caused an unprecedented human and health crisis. The measures necessary to contain the virus have triggered an economic downturn. At this point, there is great uncertainty about its severity and length. The latest Global Financial Stability Report shows that the financial system has already felt a dramatic impact, and a further intensification of the crisis could affect global financial stability.

Since the pandemic’s outbreak, prices of risk assets have fallen sharply. At the worst point of the recent selloff, risk assets suffered half or more of the declines they experienced in 2008 and 2009. For example, many equity markets—in economies large and small—have endured declines of 30 percent or more at the trough. Credit spreads have jumped, especially for lower-rated firms. Signs of stress have also emerged in major short-term funding markets, including the global market for U.S. dollars.

Market strain:Volatility has spiked, in some cases to levels last seen during the global financial crisis, amid the uncertainty about the economic impact of the pandemic. With the spike in volatility, market liquidity has deteriorated significantly, including in markets traditionally seen as deep, like the U.S. Treasury market, contributing to abrupt asset price moves.

To preserve the stability of the global financial system and support the global economy, central banks across the globe have been the first line of defense. First, they have significantly eased monetary policy by cutting policy rates—in the case of advanced economies to historic lows. And half of the central banks in emerging markets and lower income countries have also cut policy rates. The effects of rate cuts will be reinforced through central banks’ guidance about the future path of monetary policy and expanded asset purchase programs.

Second, central banks have provided additional liquidity to the financial system, including through open market operations.

Third, a number of central banks have agreed to enhance the provision of U.S. dollar liquidity through swap line arrangements.

And finally, central banks have reactivated programs used during the global financial crisis as well as launched a range of new broad-based programs, including to purchase riskier assets such as corporate bonds. By effectively stepping in as “buyers of last resort” in these markets and helping contain upward pressures on the cost of credit, central banks are ensuring that households and firms continue to have access to credit at an affordable price.

To date, central banks have announced plans to expand their provision of liquidity—including through loans and asset purchases—by at least $6 trillion and have indicated a readiness to do more if conditions warrant.

All in all, the sharp tightening of global financial conditions since the COVID-19 outbreak—together with the dramatic deterioration in the economic outlook has shifted the one-year-ahead distribution of global growth massively to the left. This points to a significant increase in downside risks to growth and financial stability. There is now a 5 percent likelihood (an event that happens once every 20 years) that global growth will fall below -7.4 percent. For comparison, this threshold was above 2.6 percent in October 2019.

The global spread of COVID-19 may require the imposition of tougher and longer-lasting containment measures—actions that may lead to a further tightening of global financial conditions should they result in a more severe and prolonged downturn. Such a tightening may, in turn, expose financial vulnerabilities that have built in recent years in the environment of extremely low interest rates. This would further exacerbate the COVID-19 shock. For example, asset managers facing large outflows may be forced to sell into falling markets—thus intensifying downward price moves. In addition, levered investors may face further margin calls and may be forced to unwind their portfolios; such financial deleveraging may aggravate selling pressures.

As firms become distressed and default rates climb higher, credit markets may come to a sudden stop, especially in risky segments like high yield, leveraged loan, and private debt markets. These markets have expanded rapidly since the global financial crisis, reaching $9 trillion globally, while borrowers’ credit quality, underwriting standards, and investor protections have weakened. Since early March, high-yield spreads have skyrocketed notwithstanding recent declines, particularly in the sectors most affected by the pandemic like air travel and energy. Similarly, leveraged loan prices have fallen sharply—about half the drop seen during the global financial crisis at one point. As a result, ratings agencies have revised upward their speculative-grade default forecasts to recessionary levels, and market-implied defaults have also risen sharply.

As a result of these actions aimed at containing the fallout from the pandemic, investor sentiment has stabilized in recent weeks. Strains in some markets have abated somewhat and risk asset prices have recovered a portion of their earlier declines. Sentiment continues to be fragile, however, and global financial conditions remain much tighter compared to the beginning of the year.

The COVID-19 pandemic is inflicting high and rising human costs worldwide, and the necessary protection measures are severely impacting economic activity. As a result of the pandemic, the global economy is projected to contract sharply by –3 percent in 2020, much worse than during the 2008–09 financial crisis. In a baseline scenario--which assumes that the pandemic fades in the second half of 2020 and containment efforts can be gradually unwound--the global economy is projected to grow by 5.8 percent in 2021 as economic activity normalizes, helped by policy support. The risks for even more severe outcomes, however, are substantial. Effective policies are essential to forestall the possibility of worse outcomes, and the necessary measures to reduce contagion and protect lives are an important investment in long-term human and economic health. Because the economic fallout is acute in specific sectors, policymakers will need to implement substantial targeted fiscal, monetary, and financial market measures to support affected households and businesses domestically. And internationally, strong multilateral cooperation is essential to overcome the effects of the pandemic, including to help financially constrained countries facing twin health and funding shocks, and for channeling aid to countries with weak health care systems.

Together, monetary, fiscal, and financial policies should aim to cushion the impact of the COVID-19 shock and to ensure a steady, sustainable recovery once the pandemic is under control. Close, continuous international coordination will be essential to support vulnerable countries, to restore market confidence, and to contain financial stability risks. The IMF is ready to assert the full weight of its resources—first, to help protect the world’s most vulnerable economies, and, for the long term, to strengthen the eventual recovery.

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