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IRD 218

Assignment the covid 19 pandemic has ravaged the world

Briefly explain the impact on global economy between 2019 to2020

Answer

World Health Organization (WHO) first declared COVID-19 a world health emergency in January 2020. Since the virus was first diagnosed in Wuhan, China, it has been detected in over 190 countries and all U.S. states.1 In early March, the focal point of infections shifted from China to Europe, especially Italy, but by April 2020, the focus shifted to the United States, where the number of infections was accelerating. The infection has sickened over 2.1 million people, with thousands of fatalities. More than 80 countries have closed their borders to arrivals from countries with infections, ordered businesses to close, instructed their populations to self-quarantine, and closed schools to an estimated 1.5 billion children.2 In late January 2020, China was the first country to impose travel restrictions, followed by South Korea and Vietnam. Over the period from mid-March to mid-April 2020, more than 22 million Americans filed for unemployment insurance, raising the prospect of a deep economic recession and a significant increase in the unemployment rate.3

After a delayed response, central banks are engaging in an ongoing series of interventions in financial markets and national governments are announcing spending initiatives to stimulate their economies. Similarly, international organizations are taking steps to provide loans and other financial assistance to countries in need. The International Monetary Fund (IMF) estimated that government spending and revenue measures to sustain economic activity adopted through mid- April 2020 amounted to $3.3 trillion and that loans, equity injections and guarantees totaled an additional $4.5 trillion.4 As a result, the IMF estimates that the increase in borrowing by governments globally will rise from 3.7% of global gross domestic product (GDP) in 2019 to 9.9% in 2020, as indicated in Figure 1. Among developed economies, the fiscal balance to GDP ratio is projected to rise from 3.0% in 2019 to 10.7% in 2020; the ratio for the United States is projected to rise from 5.8% to 15.7%. For developing economies, the fiscal balance to GDP ratio is projected to rise from 4.8% to 9.1%.5 According to the IMF, France, Germany, Italy, Japan, and the United Kingdom have each announced public sector support measures totaling more than 10% of their annual GDP.6

Among central banks, the Federal Reserve has taken extraordinary steps not experienced since the 2008-2009 global financial crisis to address the growing economic effects of COVID-19, and the U.S. Congress approved a historic fiscal spending package. In other countries, central banks have lowered interest rates and reserve requirements, announced new financing facilities, and relaxed capital buffers and, in some cases, countercyclical capital buffers,7 adopted after the 2008-2009

financial crisis, potentially freeing up an estimated $5 trillion in funds.8 Capital buffers were raised after the financial crisis to assist banks in absorbing losses and staying solvent during financial crises. In some cases, governments have directed banks to freeze dividend payments and halt pay bonuses.

Economic Forecasts Global Growth

The economic situation remains highly fluid. Uncertainty about the length and depth of the health crisis-related economic effects are fueling perceptions of risk and volatility in financial markets and corporate decision-making. In addition, uncertainties concerning the global pandemic and the effectiveness of public policies intended to curtail its spread are adding to market volatility.

The Organization for Economic Cooperation and Development (OECD) on March 2, 2020, lowered its forecast of global economic growth by 0.5% for 2020 from 2.9% to 2.4%, if the economic effects of the virus peaked in the first quarter of 202011 (see Table 1). The OECD estimated that if the economic effects of the virus peaked in the first quarter, which is now apparent that it did not, global economic growth would increase by 1.5% in 2020. That forecast now seems to have been highly optimistic.

On March 23, 2020, OECD Secretary GeneralAngel Gurria stated that:

The sheer magnitude of the current shock introduces an unprecedented complexity to economicforecasting.TheOECDInterimEconomicOutlook,releasedon March2, 2020, madea firstattempttotakestockofthelikelyimpactofCOVID-19 onglobalgrowth,but it now looks like we have already moved well beyond even the more severe scenario envisaged then.... [T]he pandemic has also set in motion a major economic crisis that will burden our societies for years to come.12

On March 26, 2020, the OECD revised its forecast of the impact on global economic growth from the pandemic and measures governments have adopted to contain the spread of the virus. According to the updated estimate, the current containment measures could reduce global GDP by 2.0% per month, or an annualized rate of 24%, approaching the level of economic decline not experienced since the Great Depression of the 1930s. The OECD estimates in Table 1 will be revised when the OECD releases updated country-specific data.

Labeling the projected decline in global economic activity as the Great Lockdown, the IMF released an updated forecast on April 14, 2020. The forecast concluded that the global economy would experience its “worst recession since the Great Depression, surpassing that seen during the global financial crisis a decade ago.”13 The IMF forecasts that the global economy could decline by 3.0% in 2020, before growing by 5.8% in 2021; global trade is projected to fall in 2020 by 11.0% and oil prices are projected to fall by 42%, also shown in Table 1.14 The forecast assumes that the pandemic fades in the second half of 2020 and that the containment measures can be reversed. The IMF also concluded that many countries are facing a multi-layered crisis that includes a health crisis, a domestic economic crisis, falling external demand, capital outflows, and a collapse in commodity prices. In combination, these various effects are interacting in ways that make forecasting difficult.

Economic Policy Challenges

The challenge for policymakers has been one of implementing targeted policies that address what had been expected to be short-term problems without creating distortions in economies that can outlast the impact of the virus itself. Policymakers, however, are being overwhelmed by the quickly changing nature of the global health crisis that appears to be turning into a global trade and economic crisis whose effects on the global economy are rapidly growing. As the economic effects of the pandemic grow, policymakers are giving more weight to policies that address the immediate economic effects at the expense of longer-term considerations such as debt accumulation. Initially, many policymakers had felt constrained in their ability to respond to the crisis as a result of limited flexibility for monetary and fiscal support within conventional standards, given the broad-based synchronized slowdown in global economic growth, especially in manufacturing and trade that had developed prior to the viral outbreak. The pandemic is also affecting global politics as world leaders are cancelling international meetings23 and some nations reportedly are stoking conspiracy theories that shift blame to other countries.24

Initially, the economic effects of the virus were expected to be short-term supply issues as factory output fell because workers were quarantined to reduce the spread of the virus through social interaction. The drop in economic activity, initially in China, has had international repercussions as firms experienced delays in supplies of intermediate and finished goods through supply chains. Concerns are growing, however, that the virus-related supply shock is creating more prolonged and wide-ranging demand shocks as reduced activity by consumers and businesses lead to a lower rate of economic growth.As demand shocks unfold, businesses experience a decline in activity, reduced profits, and potentially escalating and binding credit and liquidity constraints. While manufacturing firms are experiencing supply chain shocks, reduced consumer activity through social distancing is affecting the services sector of the economy, which accounts for two-thirds of annual U.S. economic output. In this environment, manufacturing and service firms are hoarding cash, which affects market liquidity. In response, central banks have lowered interest rates where possible and expanded lending facilities to provide liquidity to financial markets and to firms potentially facing insolvency.

The longer the economic effects persist, the impact spreads through trade and financial linkages to an ever-broadening group of countries, firms and households. This potentially increases liquidity constraints and credit market tightening in global financial markets as firms hoard cash, with negative fallout effects on economic growth. At the same time, financial markets are factoring in an increase in government bond issuance in the United States and Europe as government debt levels are set to rise to meet spending obligations during an expected economic recession and increased fiscal spending to fight the effects of COVID-19. Unlike the 2008-2009 financial crisis, reduced demand by consumers, labor market issues, and a reduced level

Impact on air travel

On 5 March - before the US travel ban was announced - the International Air Transport Association (IATA) predictied the COVID-19 outbreak could cost airlines $113 billion in lost revenue as fewer people take flights.

“The industry remains very fragile,” Brian Pearce, the IATA’s chief economist, told the Associated Press. “There are lots of airlines that have got relatively narrow profit margins and lots of debt and this could send some into a very difficult situation.”

On March 16, British Airways said it would cut flying capacity by at least 75% in April and May. Other UK airlines, including Virgin Atlantic and easyJet also announced drastic cuts.

The travel and tourism industries were hit early on by economic disruption from the outbreak.

Besides the impact on airlines, the UN’s International Civil Aviation Organization (ICAO) forecast that Japan could lose $1.29 billion of tourism revenue in the first quarter due to the drop in Chinese travellers, while Thailand could lose $1.15 billion.

Disruption to commerce

The initial shortage of products and parts from China affected companies around the world, as factories delayed opening after the Lunar New Year and workers stayed home to help reduce the spread of the virus.