

TOPIC- Outspread of COVID-19 and its effect on world economy

TITLE: COVID-19: Doomed the world economy or not?

INTRODUCTION

The World Health Organization (WHO) first declared COVID-19 a world health emergency in January 2020. Since the virus was first diagnosed in Wuhan in china, since then it has been detected in over 210 countries. In early March, the focal point of infections shifted from china to Europe, especially Italy. But by April 2020, it shifted to the US, India and the numbers of infections were accelerating. The infection has sickened over 2.7 million people and many more. Many have closed their borders for arrivals from various countries with infection, ordered businesses to close, and instructed their population to be self quarantine, and closed schools and various universities. In late January 2020, china was the first country to impose travel restrictions, followed by South Korea and other countries too.

On March 11, the WHO announced that the outbreak was officially a pandemic. This outbreak will be the highest level of health emergency.¹ A growing list of economic measures makes it clear that the outbreak is having a significant, negative and severe impact on global economic growth.² Global trade and gross domestic product (GDP) are estimated that they will decline sharply, at least through the half of 2020. This pandemic is affecting a broad swath of international economy, trade activities, and other global value chains. Mostly, the developing countries will go through the health and economic crisis because they are constrained by limited financial resources and there health systems could quickly become overloaded.

WORLDWIDE ECONOMIC POLICY TO DEAL WITH THIS ISSUE

The Policy tracker focuses on discretionary actions and might not fully reflect the policies taken by different countries in response of COVID-19, such as automatic insurance mechanisms and existing social safety nets which differ across the world in the breadth and scope too. Adding some different measures like tax and spending, loan and guarantees, monetary instrument, and foreign exchange operations might not provide an accurate estimate

¹ Bill Chappell, *COVID-19: COVID-19 Is Now Officially a Pandemic, WHO Says*, NATIONAL PUBLIC RADIO,(March 11, 2020, 12:30PM), <https://www.npr.org/sections/goatsandsoda/2020/03/11/814474930/coronavirus-covid-19-is-now-officially-a-pandemic-who-says>.

² Mapping the Spread of the COVID-19.

of the aggregate policy support. There are countries which had made the various policies which are listed below:

AUSTRALIA

- The commonwealth government has committed to provide free childcare around 1 million families and announced targeted support to the education system.
- The government has committed to spend almost an extra \$ 5 billion (0.5% of GDP) to strengthen the health system and protect the vulnerable people, including those in aged care from this outbreak.
- The Australian Banking Association has announced that banks will defer loan repayments for small businesses affected by covid-19 for 6months.Australian Prudential Regulation Authority (APRA) clarified that loans that have been granted repayment deferrals as part of COVID-19 support package need not be regarded as restructured for borrowers who has been meeting their repayment obligations.

CHINA

- An estimated RMB 2.6 trillion (or 2.5 % of GDP) of fiscal measures or financial planning have been announced, of which 1.2 % GDP are already implemented.
- The PBC provided monetary policy support and acted to safeguard financial market stability.
- The government has also taken multiple steps to limit tightening in financial conditions, including measured forbearance to provide financial relief to affected households, corporate and regions facing repayment difficulties.

INDIA

- The finance minister announced a stimulus package valued at approximately 0.8% of GDP.
- The PM Modi given an additional 150 billion rupees (0.1% of GDP) and devoted health infrastructure including testing facilities for COVID-19, personal protective equipment, isolation beds, ICU Beds and ventilators.
- The various state governments have also announced measures to support the health and wellbeing of lower-income households, primarily in the form of direct transfers (free food rations and cash transfers) – the magnitude of the measures varies by state, but on aggregate measures thus far amount to approximately 0.2% of GDP.

- The RBI reduced the repo and reverse repo rates by 75 and 90 (bps) to 4.4 and 4.0%, respectively, and announced liquidity measures to the tune of 3.7 trillion rupees (1.8% of GDP) across three measures comprising long term repo operations (LTROs), CRR cut of 100bps and MSF increase by 3% of the SLR.
- The RBI created a facility to help with state government's short term liquidity needs, and relaxed export repatriation limits.

EFFECT OF EPIDEMIC DISEASE COVID-19

The global COVID-19 pandemic is exacting a terrible human toll and menacing the world economy. Across the world, industries and companies should take measures to protect their employees and clients.

The severity of the economic effect will largely depend on two factors – the duration of restrictions on the movement of people and economic activities in major economies; and the actual size and efficacy of fiscal responses to the crisis.

The UN Department of Economic and Social Affairs stated that, millions of workers in corona affected countries are facing the bleak prospect of losing their jobs. Governments are considering and rolling out large stimulus packages to avert a sharp downturn of their economies which could potentially plunge the global economy into a deep recession. In the worst-case scenario, the world economy could contract by 0.9 per cent in 2020.³ They added that the contraction could be even higher if governments fail to provide income support and help in boosting the consumer spending. They also warn that the adverse effects of prolonged economic restrictions in developed countries will soon spill over to developing countries via trade and investment way.

In India a survey conducted by industrial organization FICCI and tax consultancy Dhruva advisors released that , the corona virus pandemic is having a “deep impact” on Indian business and has already caused an unprecedented collapse in economic activities over the last few weeks.⁴

The President of FICCI said, “The COVID-19 pandemic is causing a deep economic harm and could reverse the gains made in the industrial economy over many decades . There is a

³ *Global Economy could shrink by almost 1% in 2020 due to COVID-19 Pandemic: United Nations, ECONOMIC TIMES, Apr.2,2020.*

⁴ *Economy suffers 'Unprecedented Collapse' due to COVID-19: Survey, ECONOMIC TIMES, Apr.21,2020.*

need to render immediate and sizable support to industry to protect people, jobs and enterprises”.

Economies can influence health outcomes, and not just in terms of National Health Service resources but for minority of self-employed workers there will be no sick pay and those without financial support will be put under great stress.

STEPS TAKEN TO TACKLE COVID -19

- Physical distancing and self – quarantine
- Travel restrictions
- Effective use of personal protective equipment
- Testing and tracing
- Healthcare- capacity surge

CONCLUSION

Pandemics, like many other natural disasters, offer a unique opportunity to study how economies work. They have much in common with a randomized control trial, but at much larger scale. Not surprisingly, our empirical approach shares similar features with such a trial, specifically, we use history as a guide of how the future usually unfolds, and then compare that prediction to how the future unfolded following pandemics. Summing up our findings, the great historical pandemics of the last millennium have typically been associated with subsequent low returns to assets, as far as the limited data allow us to conclude. These responses are huge. Smaller responses are found in real wages, the bottom line of all this is that the economics are secondary to the health consequences for any pandemic that has a significant fatality rate (as corona virus so far appears to have). The economics are important in their own aspect and as a warning to avoid drastic measures that do not influence the number of deaths, but beyond that there is no meaningful trade-off between preventing deaths and losing some percentage of gross domestic products for less than half the year. But still statistically significant, due to deaths, and increased absenteeism from work by sick workers and by workers wishing to reduce the risk of contracting illness in the workplace, i.e., prophylactic absenteeism. Prophylactic absenteeism is one example of voluntary risk-modifying behavior in response to a pandemic. Other examples are reduced domestic and international travel, and reduced public gatherings at sporting and other events (Congressional Budget Office 2006). Non-voluntary risk-modifying behavior may be

imposed on workers with children by school closures intended to mitigate the spread of the virus (Beutels et al. 2008). Thus, some workers will be forced to take leave to care for young children. Workers who take paid leave from work, whether forced or voluntary, reduce their firm's labour productivity i.e., output per worker, unless other workers can fully replace output lost due to absenteeism. What are really needed are fiscal measures to save companies and banks from bankruptcy, so that they can recover quickly once the pandemic is over. Policymakers should be considering various forms of tax relief and public guarantees to help firms borrow if necessary. But the most promising option is a short-time work allowance. This approach, which has been tried and tested in Germany, compensates for the underemployment of the workforce through the same channels that are already used for unemployment insurance. Better yet, it costs hardly anything, because it prevents the losses that would follow from increased real unemployment. All countries should be replicating this part of Germany's policy to prevent job losses.