

COVID-19 OVERVIEW OF IMPACT ON THE GLOBAL ECONOMY AND STEPS OR SUGGESTIONS TO COMBAT THE SCENARIO

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ABSTRACT

The recent outbreak of coronavirus named COVID-19 has created a scenario filled with uncertainties for the entire world. Intense Market volatility and dislocation across industries have been caused as a result of this pandemic situation which may not be contained as planned. In a situation like this, it is imperative that the economy is hit negatively. While a lot of sectors are passing through the toughest phase they've seen in decades the financial markets are said to be rattled by the multiple effect of COVID-19. The paper aims to gain knowledge by studying the impact that COVID-19 has on the financial markets and services and understand the attempts made to contain the same.

Keywords: COVID-19, Market Volatility, Dislocation, Financial Markets.

INTRODUCTION

We live in a strongly integrated world where a country's economy doesn't exist in isolation anymore. The economy is global in nature and what impacts one nation has spillover effects on the other nations attached to it. The COVID-19 outbreak was triggered in December 2019 in Wuhan city of China, hence making China the epicenter for the same till January 31 when WHO (2020) declared it as an international health emergency when the number of countries affected rose to 24 and as on March 18,2020 the total number of confirmed cases are 2,09,839¹. The outbreak has surpassed mortality and morbidity in the entire world population and its economy. The level of economic disruption evident from the containment steps is rising even as we are trying to write or study about it right now. The OECD (2020) has downgraded its economic forecast, the service industry is contracting, Oil prices have slumped, manufacturing activities are adversely hit, and the investor's sentiments have been hurt. We're trying to study one of these aspects in detail where in the outbreak has significantly impacted the financial markets. The paper attempts to collate information from all sources from where significant data, information can be retrieved and some conclusions maybe drawn from the same. This paper is divided into seven sections started with Introduction, in next section literature review and the third section objective of the study, fourth section covered analysis and Interpretation, in fifth section limitation of the study and in last I ended with conclusion and suggestions.

REVIEW LITERATURE

COVID-19 has been very recently established and not many research studies have yet been conducted in the light of the same. However, the previous pandemics and studies on them provide for a bed to develop an outline of our literature review. Further, a huge number of articles published on a daily basis provide WHO situation report as on March 18, 2020.

Research Student at Chandigarh University with such facts, figures, estimates and

suggestions on the basis of which an understanding can be developed. Chen (2003) discusses the positive and negative impact of SARS outbreak on Taiwan's markets, said that the impact on stock market was adverse in all segments except for biotechnology sector. Chen (2007) examined how tourism industry suffered the highest stock price decline after SARS outbreak; study the case of portfolio management during epidemics, where in the fall in the prices of stock in tourism industries are traded off by increasing the stock investment in the pharmaceutical stocks. A study by Hood (2013) shows how investors start showing a non-investor reaction in case of an unexpected disaster. The study conducted by Deloitte (2020) measures the impact of COVID-19 on different segments of financial services including developing modern finance and limiting the impact to a shorter duration. An article by IMF (March 2020) studies the spikes the uncertainties about the future and points out to a shrinking risk appetite of the investors. In a quarterly review (March, 2020) by Banks for International Settlements, studies the impact of the stock prices through the lens of equity investors says that the impact of COVID-19 Evans & Over (2020) is more significant primarily because of the forceful reaction of the Chinese authorities to the outbreak, an increase in the global integration. However, they point out how the stock market has recouped better after COVID-19 than SARS. A publication by Norton Rose Fulbright (2020) examines the domino effect on derivatives due to market dislocation, could also lead to business becoming insolvent. This Covid-19 pandemic has cast a long shadow on Indian economy. [The Hindu] It has not only affected a particular sector but there is a multi-sectoral impact of the virus as all the economic activities of the nation have slowed down and all the resources have been diverted to meeting the never experienced before crises. The international crop research institute for the semi-ARID tropics [ICRISAT.org] have stated that to protect our primary sector the government has announced various relief packages in the form of cash and food assistance to migrant laborers but the hard truth is that the poor section of the society is always hardest hit in any disaster. The [UNWTO.ORG] COVID-19 and tourism is further important element in roadmap of the sector to regain its unique status back. [McKinsey & Company] The virus has spread all over the world; this has not triggered the global economy only but causes an unbelievable human loss. The impact of this virus is broader than the great depression. As per [QUARTZ INDIA] the World Bank and rating agencies had predicted that India growth for FY 2021 will be in lowest figures. The [WTO] claimed that world trade to fall upto 32% this year due to this pandemic. Some economists also said that there are a job loss 40 million people due to this pandemic [MRD report]. [THE NATIONAL BUREAU OF ECONOMIC RESEARCH] "'Stay at home'" is the only weakly associated with the slower growth of COVID-19. Many countries are working to develop antiviral drug or vaccine to control this disease. However, no single clinical approved treatment could be found. According to Dun and Bradstreet's latest economy anticipation the probability of country indulging into recession and corporations going bankrupt has increased.

Objectives of the Study

1. To study the reasons for the spread of COVID-19.
2. To understand the impact on different sectors.
3. To understand view the impact on the financial sector.
4. To find the ways to contain the impact and develop suggestions for the same.
5. The Global economy at the moment stands highly-indebted and highly leveraged and is running into an economic black swan in the form of COVID-19. The scenario is infected with uncertainty so high that it cannot be determined for how long the virus will stay and what will be the virus- fighting mechanism.
6. Dow Jones Industrial Average officially entered a "bear market," which is when the market falls 20% from its

most recent high.

7. The impending stress caused by the Russia-Saudi feud has resulted in loss of production.
8. Government bond yields are seen to have day to day shifts.
9. Credit spreads have widened, major currencies are falling in their values.
10. Visages of open ideas such as helicopter money etc. are being discussed.

METHODOLOGY

To write an exploratory research paper using secondary data published in the form of reports, surveys, interviews, graphs, charts, facts, articles, blogs, and news talks for the purpose of understanding the scenario.

Analysis and Interpretation

As defined by the WHO (2020), COVID-19 is an infectious disease caused by a new virus, resulting in respiratory illness with symptoms like cough, fever, and in more severe cases difficulty in breathing. The virus spreads primarily through contact with an infected person and when a person touches his nose, mouth. The first case was traced in China on December 31, 2019 and as on March 19, 2020 the total number of cases have risen to 2, 09,839 and COVID-19 has been declared as a pandemic. Even though the epicenter has been China the effects have spilled in the entire world. This is because China's share in the global economy is huge. Large-scale quarantines, travel restrictions, and social-distancing measures drive a sharp fall in consumer and business spending until the end of Q2, producing a recession². The economic impact can be seen through these Figures 1-5.

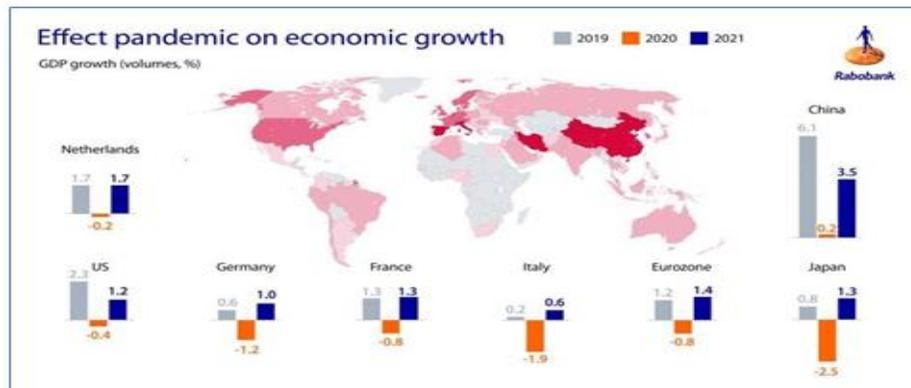


FIGURE 1
EFFECT PANDEMIC ON ECONOMIC GROWTH

The data give clear indication of the enormity of economic losses we might see in all over the world as well as south Asian countries which are forced to increase containment measures or have gone into lockdown as China did and now India. IMF indicated there would be global economic growth will slow down to 0.7% in 2020, down from 2.9% because of the COVID-19² crisis. Data on real economy impact is inadequate, but the information that we do have points to a sharp slowdown in economic activity.

| <i>GDP growth (volumes, %)</i> | '19 | '20 | '21 |
|--------------------------------|-----|------|-----|
| Gross domestic product | | | |
| World | 2.9 | 0.7 | 3.2 |
| US | 2.3 | -0.4 | 1.2 |
| Eurozone | 1.2 | -0.8 | 1.4 |
| - Germany | 0.6 | -1.2 | 1.0 |
| - France | 1.3 | -0.8 | 1.3 |
| - Italy | 0.2 | -1.9 | 0.6 |
| - Spain | 2.0 | -0.3 | 2.8 |
| United Kingdom | 1.4 | -0.7 | 0.4 |
| China | 6.1 | 0.2 | 3.5 |
| Japan | 0.8 | -2.5 | 1.3 |
| Brazil | 1.2 | 0.4 | 3.3 |
| India | 5.3 | 3.6 | 6.9 |
| Australia | 1.8 | -0.6 | 2.1 |
| Level in US dollar | | | |
| Oil | 64 | 46 | 60 |

FIGURE 2
GDP GROWTH

Given the increasing number of countrywide lockdowns, this slowdown is not likely to subside soon. According to UNCTAD (2020) the economic uncertainty it has sparked will likely cost the global economy \$1 trillion in 2020. In a PWC survey of CFOs conducted on March 9, 2020 in the U.S and Mexico reveals that “80 percent are concerned that coronavirus global health emergency will lead to global economic recession. More than half believe the outbreak could have a significant impact on their business operations (54 percent) and will decrease their revenue or profit (58 percent)”. In another survey conducted by the Politico magazine surveying more than 30 smart macro thinkers, points out to the restraints on mass consumption with stronger domestic supply chain with infusion of individualism. The OECD (2020) Downside scenario sees a sharper contraction in global GDP peaking later this year and likely running into 2021.

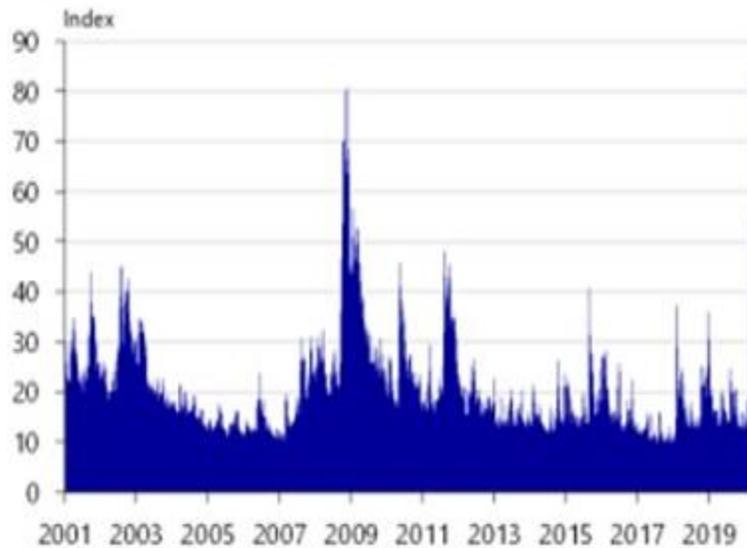
Effect of COVID-19 on the Financial Sector

Financial markets are the most sensitive segments of the economy reacting first and fastest to the sentiments and not to the fundamentals. The volatility index is also known as the fear index, following the old stock-market adage of selling first and asks questions later. At the opening bell of the Wall Street on March 13, 2020 U.S. stock market fell so fast that it triggered a 15-minute halt in trading. By the time the day was over, the Dow and the S&P had experienced their biggest one-day drop since 1987³. The situation after COVID-19 has hit the globe, has managed to surpass the dramatic volatility seen during the global financial crisis of 2008-09.



Source: MSCI, Macrobond, Rabobank

**FIGURE 3
STOCKS MARKETS HAVE CRASHED**



Source: MSCI, Macrobond, Rabobank

**FIGURE 4
VIX AT RECORD LEVELS**

Steps taken by Government

The Governments and Central Banks are looked up for supports and policy actions:

| Country | Government | Central bank |
|-----------------------|---|---|
| US | Fiscal stimulus package of USD 1000bn (pending) | Cut fed funds target to 0.00-0.25% (-100bp) |
| | Invoke 1951 Defense Act | Increase Treasury holdings +500bn |
| | \$8.3 bn spending bill aimed at R&D of vaccines, test kits and medical treatments and healthcare activities in general | Increase agency MBS holdings +200bn |
| | Coronavirus relief package signed into law by Senate on 18 March | Discount window: cut primary credit rate by 150bp; reflecting 100bp cut, and 50bp narrowing |
| | | Discount window now offers up to 90 day borrowing |
| | | USD liquidity swap lines enhanced |
| | | Launch of CPFF, PDCF and MMLF |
| | | Reduced reserve requirement ratios to zero as of March 26 |
| China | Tax concessions for companies directly affected by COVID-19 | Cut policy rates by 10bps |
| | Increased quota for issuance of local government bonds by CNY 290 bln | Cut banks reserve requirement ratio to 11% (big banks) and 10% (small banks) |
| | | Liquidity injections for banks worth CNY 1.7trn |
| United Kingdom | GBP 330bn worth of loans to SMEs (15% of GDP) | Cut policy rate by 50 bps to 0.25% |
| | GBP 20bn worth of tax cuts | New four-year funding scheme to banks close to BoE interest rate |
| Eurozone | Guaranteed loans for firms | Cheap LTRO and easing of TRLO III conditions |
| | Cheap credit for travel sector | Pandemic Emergency Purchasing Program (PEPP) of EUR 750bn |
| | Payment deferrals: tax, mortgage, utility bills | |
| | Short-term work schemes and temporary layoff schemes | |
| | Income subsidies | |
| | Country-specific measures: investment in infrastructure and housing (Germany), bailout of state shareholdings (France), paid parental leave | |
| | | |
| Japan | Aid package including special financing for SMEs worth JPY 1.6trn | Loans with maturity up to 1y at 0% |
| | Government looking into tax cuts and increased government spending worth JPY 30tn H26 (USD 280bn) | Increased purchases of CP and corporate bonds by JPY 2trn |
| | | Increase annual pace of ETF purchases +12trn |
| | | Increase annual pace of J-REIT purchases +180bn |

FIGURE 5
GOVERNMENT AND CENTRAL BANK POLICIES

The European Securities and Markets Authority, together with National Competent Authorities (NCAs), is closely monitoring the situation in view of the continuing impact of the COVID-19 outbreak on financial markets in the European Union (EU) like appointing a board of supervision, Business continuity planning to integrate contingency plans, Market disclosure of all relevant significant information, extensive financial reporting.

India is currently working on a set of policies to measure the impact of the virus on economic slowdown, and to combat the same. This may include cash transfers to workers in the informal sector. A substantial cut in the policy rate is expected out of RBI as per the MPC.

Limitation

All over the world this outbreak took place, when I am writing this paper whole world is busy to handle patients and already peoples are affected economically, socially and psychologically. Maximum literatures are available on medical science, overall economic damaged results yet to come therefore more extensive research is required in this topic which creates further scope on this topic.

CONCLUSION

The Situational threat Report Index from Bain's Macro Trends Group combines official data to evaluate the COVID-19 outbreak's effect on global business suggests the implementation of first level contingency procedures as the markets and publics in multiple nations are reacting strongly. As per a recommended action plan of a CEO, they must act aggressively and act now to align the senior teams with an established war-room setting and war-room plan.

A few more guidelines suggest how business organizations should protect their employees, and empowering them to deal with such a challenging situation at a personal front. Setting up a cross-functional COVID-19 response team. Ensuring liquidity sufficiency to sustain through the non-reactive times. Staying close to the customers and stabilizing their supply chain management systems. The governments are expected to be at their toes keeping the infrastructural requirements up to date, along with the need to abstain from unnecessary movements. Challenges in the hand of policy makers to contain the compiled impact of the outbreak on the sensitive markets and economy.

ENDNOTES

¹WHO situation report as on March 18, 2020.

²Mckinsey & Company Report on COVID-19 Implications for business.

³Morning Edition of NPR (2020), conducting an interview conducted with economist Meghan Greene, senior fellow at Harvard 's Kennedy School to study the live dip in the US stocks.

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