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Impact of the Corona virus Pandemic on the Global Economy

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Abstract: The article discusses the main consequences of the COVID-19 pandemic for the economy. The authors emphasize that the outbreak of the virus has become one of the most serious threats to the global economy and financial markets. It is noted that concerns about the impact of the coronavirus on the global economy have stirred up markets around the world: stock prices and bond yields have fallen sharply. Forecasts of GDP decline in leading countries and regions are given; the main possible methods of mitigating the effects of the pandemic on the economies of developing countries are considered.

Keywords: Covid-19, economy, pandemic, GDP, crises, development, manufactory, global market.

Prolonged economic crises not only worsen economic indicators at the time of the crisis, but can also lead to a decrease in the long-term trajectory of economic development or, in other words, the trajectory of its potential output. Potential output is the aggregate level of output that the economy is able to produce with a full load of production factors under existing resource, technological and institutional constraints. In the practice of central banks, the relevant concept of potential output is a level of output that does not create pro- or disinflationary pressure, that is, a level at which, in the absence of new shocks, inflation is at the target level. Potential output is not static, but changes depending on the dynamics of factors of production (for example, the growth of the labor force, the development of new technologies or the commissioning of new equipment), so another characteristic of the economy is the growth rate of potential output, or the rate at which the level of potential output changes over time.

The outbreak of the new coronavirus (COVID-19) in 2020 will go down in history due to its huge impact on the global economy. Economic processes will recover, but they will not be the same as they were before.

China has been seriously affected by the outbreak of the devastating coronavirus (COVID-19). China's manufacturing and services sector has fallen to an all-time low, car sales in China have fallen by a record 80%, and Chinese exports fell by 17.2% in January and February 2020.

An analysis conducted by the UN Department of Economic and Social Affairs (DESA) has shown that the COVID-19 pandemic is disrupting global supply chains and international trade. In February-March 2020, almost 100 countries closed their national borders, the movement of people and tourist flows abruptly stopped.[1]

As the global supply chain slows down, the world is starting to pay more attention to its dependence on China, and anyone doing business with that country is experiencing this. As a result, the trend that is likely to follow the coronavirus outbreak will mean moving away from dependence on China and increasing self-sufficiency, both on an industrial and personal level. Industries that rely heavily on China, such as manuf acturing, are likely to reconsider their business ties and move some of their activities elsewhere to diversify risks.

COVID-19 has a serious impact on industrial production in developing countries because:

1. Demand from high-income countries for the production of goods and raw materials is declining.
2. Value chains are disrupted due to delays in the delivery of necessary components and supplies from more technologically advanced countries.

[1] UN Department of Economic and Social Affairs (DESA) (UN Department of Economic and Social Affairs) [Electronic resource]. – Access mode: https://economictimes.indiatimes.com/topic/UN-Department-of-Economic-and-Social-Affairs

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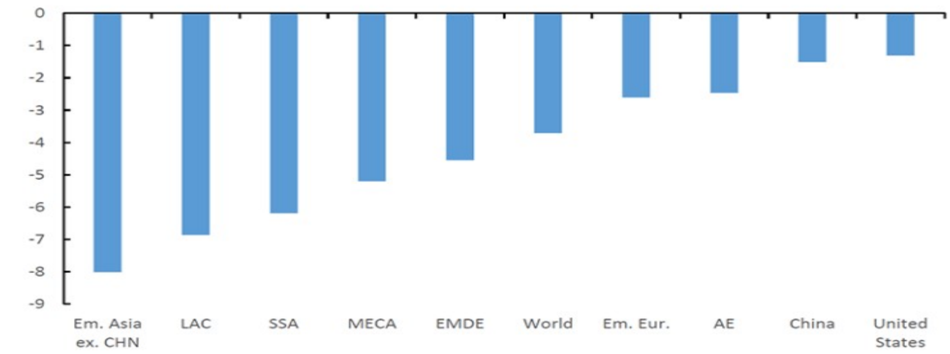
Figure 2. Global GDP growth 2020



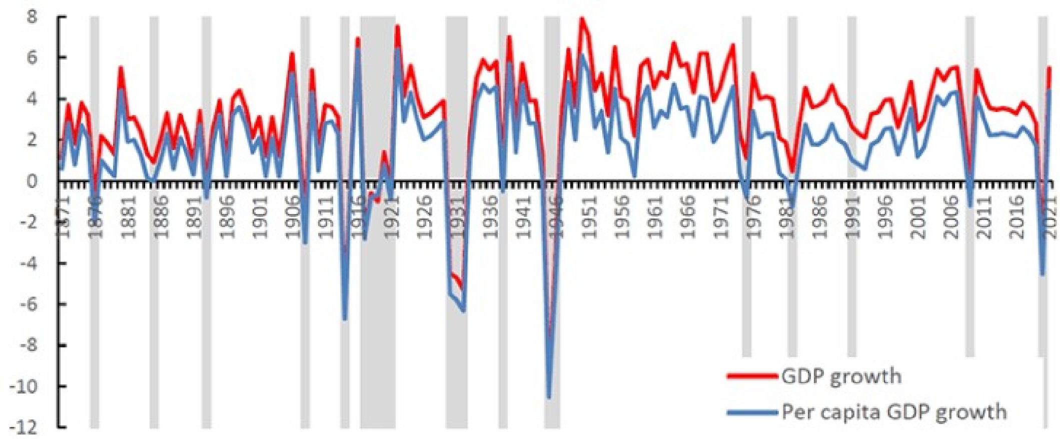
Source: IMF-WEO Apr-2021. Note: AE = Advance economies; Emerging Asia ex. CHN = emerging and developing Asia excluding China; EM. Eur = Emerging and developing Europe; LAC = Latin America and the Caribbean; MECA = Middle East and Central Asia; SSA = sub-Saharan Africa.

3. Value chains are disrupted due to delays in the delivery of necessary components and supplies from more technologically advanced countries.
4. Other factors, including policies (for example, restrictions on the movement of goods and people), the inability of workers to reach the workplace, or financial constraints that affect the normal production process.

A number of banks and financial institutions have proposed the worst-case scenarios for 2020, as the spread of the virus affects the global economy and activates financial markets. The extent of the damage will depend on how quickly the virus is contained, what measures the authorities are taking to contain it, and what economic support governments are willing to provide to stop the impact of the epidemic and immediately after it.

Global markets are the first to react to the crisis. When it became clear that the coronavirus would not disappear anytime soon, stock markets around the world took a hit. After the CDC issued a public warning about the coronavirus, the S&P 500 index showed its worst week since the global financial crisis of 2008, falling by more than 11% in the last week of February 2020.

Figure 1. Global GDP growth in a historical perspective



Sources: Bolt et al. (2018), Kose, Sugawara, and Terrones (2019, 2020), and IMF-WEO Apr-2021. Shaded areas refer to global recessions.

Conversely, the yield on the benchmark 10-year U.S. Treasury reached a record low as investors moved from risky assets to safe assets. Gold has also experienced a sharp jump since the beginning of the year.

Tourism industries have suffered the most, as the authorities encourage "social distancing" and consumers stay at home. The International Air Transport Association warned that in 2020, the coronavirus could cost global air carriers from $63 billion to $113 billion in revenue, and the international film market could lose more than $ 5 billion at the box office. Similarly, shares of major hotel companies have plummeted and

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entertainment giants such as Disney have taken a significant hit to revenue.

Restaurants, sporting events and other services will also face significant disruptions. Industries less dependent on high social interaction, such as agriculture, will be comparatively less vulnerable, but will still face challenges as demand fluctuates.

The advanced positive financial impact of the coronavirus will be seen in teleworking and remote work, and we can expect a boom in freelancing, remote work and remote software applications.

Some corporations have started offering employees work-from-home options to compete with remote-controlled startups.

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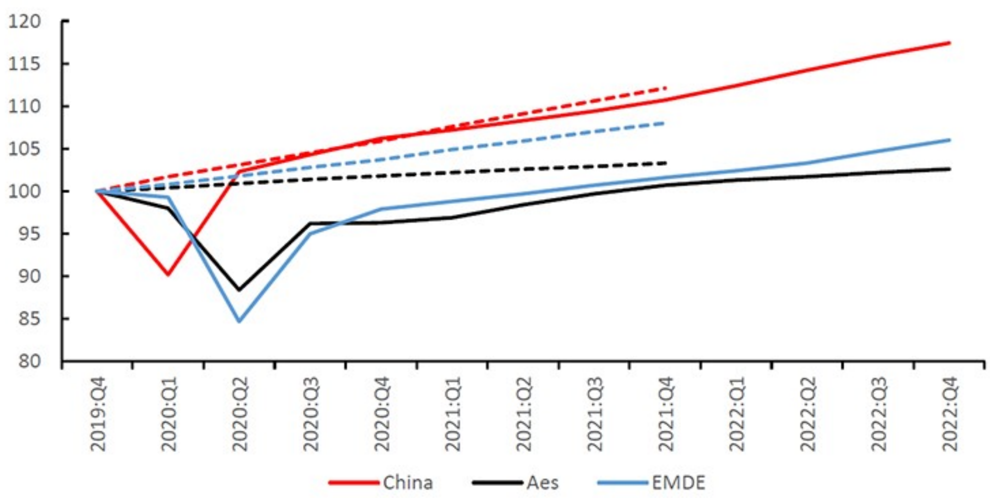
Figure 3. Quarterly World GDP (GDP forecast in Jan-2020 vs. Jan-2021, 2019 Q1 = 100)



Source: IMF-WEO Jan-2021. Note: dashed lines indicated estimates from Jan-2020 World Economic Outlook Update.

Some corporations have started offering employees work-from-home options to compete with remote-controlled startups. The winners of stock prices since the beginning of the year (%) due to the coronavirus were Zoom Video Communications with a price/profit ratio of 1250, followed by Netflix (89), Amazon (83), Cerner (44), Thermo Fisher Scientific (34), K12 (26) and Quest Diagnostics (18).

Thus, at the end of 2007 and at the peak of the pre-crisis boom, the volume of outstanding international debt securities of developing countries, such as bonds, asset-backed securities and commercial securities issued by their governments and firms, amounted to $840 billion, or 70% of the total amount of $1.2 trillion. By the end of 2019, this figure had increased to $3.36 trillion, or 80% of the total outstanding international debt securities of developing countries worth at least $4.2 trillion. While the governments of developed countries are preparing to send checks to their citizens and open emergency credit lines for their companies, this is clearly not an option that is open to most developing countries that are heavily dependent on access to US dollars and lack their own financial infrastructure and financial capabilities to follow suit.

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