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COVID-19 Takes Toll On The Global Economy

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COVID-19 Takes Toll on the Global Economy

Ten months after the first outbreak of COVID-19, the global economy has suffered significantly. According to the World Bank, global GDP is likely to contract 4.4 percent by the end of 2020, making this the deepest global recession in decades. Many of the economies in the Eurasia region are expected to contract between 5 percent and 15 percent. The pandemic has also impacted over 75% of the world's global manufacturing outputs. As a result of the pandemic and the ensuing lockdowns, workers have been deeply affected. Unemployment rates have increased across many countries, with the proportion of people out of work hitting 10.4% in the United States. The pandemic already erased 130 million jobs globally in the first quarter of 2020 and is expected to eliminate more than 400 million full-time jobs in the second quarter. Additionally, national debt in advanced countries is set to reach 125% of total GDP by the end of 2021 and is also expected to rise to about 65% of emerging markets' GDP during the same period. Of the countries impacted by COVID-19, only China has regained most of the economic activity it lost when the virus first struck in January. However, the performance of the Chinese economy this year will still be worse than any other year since China opened its economy in the 1980s.

Despite years of progress in minimizing global poverty, the COVID-19 pandemic poses a grave threat to the entire global economy and will be especially damaging to developing countries. The United Nations Development Program (UNDP) projects that developing countries will lose at least $220 billion in income. Even more concerning, G20 estimates that the COVID crisis could push 150 million more people into extreme poverty by 2021. While some of this is likely to be offset as economies start to recover in 2021, a longer-term projection by the Brookings Institution suggests that as many as 60 million more people are likely to remain in poverty by 2030 than were projected before the pandemic. The COVID pandemic has most severely damaged the economies of developing nations where economic growth was already slow. For instance, India's per capita growth rate has been revised downwards to about an 11% contraction in 2020. Likewise, developing countries in Africa are expected to lose substantial progress in their economic development and will likely face long-term effects of the pandemic on their economies for years to come.

International trade and investment have plunged during the COVID-19 pandemic. Global shares have been in flux throughout the pandemic, with the Dow Jones Industrial Average reporting its largest percentage drop in the first quarter since 1987. This October, global stock markets have retreated in October in response to a record number of new infections in parts of Europe. The Dow Jones posted its fourth straight negative session by dropping 943.24 points. Likewise, the S&P 500 and the Nasdaq Composite also fell by over 3%. The European market indexes have also dropped, with the German Dax falling 4.2% to its lowest level since late May, and the French CAC 40 declining 3.4% in anticipation of another lockdown. Additionally, exporters of energy and industrial commodities have been hit particularly hard as the pandemic and efforts to contain it have triggered an unprecedented collapse in oil demand and prices. In May, Brent crude oil's price dipped below $20, the lowest level seen in 18 years. This has also had a disproportionate impact on developing countries, whose oil and gas incomes are projected to shrink between 50 and 85%. However, prices have recently regained ground as travel restrictions in some countries have relaxed, and the Brent crude oil price has risen back to $40.36.

In response to the pandemic, international organizations have taken extraordinary steps to offset the worst potential economic impact. Over the course of 2020, $12 trillion of fiscal support was spent to help stave off a deeper collapse during the first stages of the pandemic. The use of cash transfers to poor households in developed countries have managed to mitigate some of the damage that lower-income individuals and households will have to endure because of COVID-19. Likewise, central banks have also contributed by slashing interest rates to make borrowing cheaper and encourage spending. Most recently, financial leaders from G20 nations have agreed on a "Common Framework" in order to deal with the rising number of low-income countries facing debt distress. G20 has also agreed to extend the Debt Service Suspension Initiative (DSSI) by six more months. In terms of support for developing countries, World Bank President David Malpass has asked G20 leaders to back $25 billion in additional aid for the International Development

Association. Some billionaires have also contributed to relief efforts, donating a total of $7.2 billion tom COVID-19 relief between March and June.

Following the first phase of the pandemic there has been some slight recovery. Manufacturing has strongly recovered, boosting world trade, and household spending has also generally remained strong due to governments providing wage subsidies to replace lost earnings. However, in anticipation of a second wave of COVID infections, corporate outlook and investor confidence are declining with fears of another lockdown. On October 28th, French President Emmanuel Macron announced France's second national lockdown, which appears to confirm these concerns. The United States' recovery has also slowed in recent months as the country has lost control of new COVID outbreaks and the lack of congressional agreement on a new stimulus deal. Additionally, investors are also coming to terms with the failure of Congress to agree to a pre-election stimulus package. Although China's economy contracted by 6.8 percent during the first quarter, its cumulative growth for 2020 is now narrowly in the black. Britain, Germany and the US economies have shrunk in absolute terms. There are some rays of hope as Chinese economic output grew 4.9 percent during the third quarter compared with a year ago; much of the gains in GDP came after massive stimulus measures from the Government. However, Chinese employment and retail sales in China are still suffering. With the anticipation of a second wave of the coronavirus throughout most of the globe and no financial stimulus, investors' confidence in the global economy is unlikely to improve soon.

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