



EFFECTS OF COVID-19 ON THE GLOBAL ECONOMY

Dr Varsha Agarwal - Associate Professor, Atlas Skilltech University, Mumbai

**Barirah Vaid - Student, BBA, Atlas Skilltech University, Mumbai,
barirahvaid@gmail.com, 9833104811.**

**Areez Dordi - Student, BBA, Atlas Skilltech University, Mumbai,
areezdordi24@gmail.com. 9969637873.**

ABSTRACT

How did the Covid19 pandemic bring the global economy to its knees? This paper dives into the ripple effect of the pandemic on the global economy. This unconstrained pandemic brought life to a standstill for about two years, wreaking havoc all over the globe. We see how pandemics in the past can provide a certain statistical prediction on the impact. We also see which sectors were affected the worst and give an insight into the stock market performance during the pandemic. The coronavirus was a very real and global tragedy and the unpredictability of the consequences made industries everywhere suffer.

KEYWORDS

Economic crisis, global recession, uncertainty, containment, spillover effect

INTRODUCTION

The Covid-19 viral pandemic was an unprecedented global phenomenon that is also a highly personal experience with wide-ranging effects. The World Health Organization (WHO) first declared Covid19 a global health emergency in January 2020; on March 11 it announced that the viral outbreak was officially a pandemic, the highest level of a health emergency. Since then, it has transformed into a global public health and economic

crisis that attacked the \$85 trillion global economy beyond anything endured in nearly a century. As transmissible cases began rocketing acutely in late February 2020, governments took unparalleled steps in March 2020 to lock down social activities to curb the spread of the pandemic, inadvertently generating a global economic recession.

This paper looks into how a health crisis transformed into an economic crisis. First, the proliferation of the virus spurred social distancing which led to events, businesses, financial markets and corporate offices being shut down. Also, the rampant rate at which the virus was spreading and the intense unpredictability of how bad the circumstances could get led to major banks and institutions being forced to cut their growth forecasts. This adversely affected the real economy globally, particularly in the production, demand and supply chain of goods. (Ullah, 2022)

There has been a persistent lack of clarity regarding the statistics and the information pattern about the pandemic, which makes it difficult to determine the potential economic impact of the virus outbreak. Complex factors such as speed of spread, average income per capita, the extent of healthcare facilities available, etc need to be considered. The difference in impact in urban and rural areas also needs to be taken into consideration. (Lloyd, 2020)

In times of crisis, massive decision-making is done through negotiation. Adversities like market crashes, natural calamities and war can be anticipated and prepared for, to a certain extent. The Covid19 pandemic was not one of those adversities. This was a much bigger deal than anyone had imagined it to have been. The momentum and severity of its possible threats, the uncertainty of information and most importantly, the novelty of the virus made the situation all the more intense. (Najam, 2020)

This pandemic presented a serious challenge to economic development worldwide and was expected to extend over the globe. In terms of economics, it has injected an unprecedented amount of uncertainty into financial markets worldwide and argued that world trade in goods and services could fall by 10-15% in 2020 and all capital markets have experienced a free fall. (Ahmed, 2022)

This study aims to investigate the impact of the covid19 pandemic on the global financial markets and to compare the degrees of impact on different countries. In a nutshell, the covid19 pandemic has unsurprisingly negatively affected the global markets.

REVIEW OF LITERATURE

The speedy propagation of the outbreak of the virus and its declaration as a pandemic by the WHO in March 2020 led to fear and a natural curiosity in the history of pandemics in the world. It has been observed that the emergence and spread of infectious diseases with pandemic potential have occurred regularly throughout history. Major pandemics such as plague and cholera have already afflicted humanity, with the most recent one being the covid19 pandemic. In the absence of pharmaceutical interventions, containment methods such as isolation and quarantine

have helped to contain the spread of infectious diseases, as was also observed with the covid19 pandemic. Plague is responsible for at least three human plague pandemics. It has a high fatality rate. (Dunkelberg, 2004) There have been seven major pandemics of cholera, of which the seventh was the most extensive in terms of geographic spread and duration. (... , 2019)

The Influenza virus is as ancient as 1510 with many variants such as the Russian flu, the Spanish flu, the H1N1 virus, the Asian flu, etc. The aftermath of an Influenza pandemic depends on the transmissibility and the virulence of the strain and on the susceptibility of the population, which may vary according to age and past exposure to influenza viruses, which then initiates the anamnestic response of the body. In December 2019, atypical pneumonia was reported in a group of patients in Wuhan, China which was shown to be caused by a new coronavirus, called SARS-CoV-2. (Na Zhu, 2020) Multiple public health measures were implemented by most countries, the goal of which was to flatten and delay the pandemic curve, preventing burnout of the healthcare system and protecting individuals before safe and effective vaccines and treatments were available. In less than a year (December 11, 2020) the first vaccine consisting of mRNA encoding the spike protein of the virus was developed by Pfizer/BioNTech and issued by the WHO in 2020 (Jocelyne, 2021).

Speaking of the global economic impact, covid19 put the breaks on all kinds of economic activities, fear of GDP slowing down, individuals losing jobs and companies making losses. Overall, the functioning of global supply chains has been thrown into disorder, affecting companies across the world. Millions of people had lost their jobs at this time which greatly devastated everyone. We heard concerning news about companies shutting down operations, revising estimates or issuing statements about layoffs. Additionally, there was an obvious change in consumption patterns which brought about the sparsity of many goods in supermarkets all over. Global financial markets registered nosedives and volatility was at levels close to or above the 2008/2009 financial recession crisis. The available proof from preceding outbreaks provides information that can help us start thinking about the repercussions of Covid19. The data from SARS as well as from the Spanish Flu, 1918 provides us with some idea of the economic shock posed by the current outbreak. We must highlight the differences though. We are facing a different shock here. In the covid19 crisis, the evidence suggests there is no correlation between economic impact and mortality rates. The reaction of governments, companies and media have all created a simultaneous demand and shock supply.

Several countries were in lockdown mode, for an indeterminate amount of time. People were working from home or simply now working. All sectors were struck. However, the consequences of Covid19 were not equally distributed throughout the economy. The problems were explicitly poor in hospitality-related sectors with coping activity scaling down by more than 90%. A sizeable drop in travel affected many world destinations. Of course, Greece, Mexico and Spain which are more reliant on tourism (more than 15% of GDP) were affected worse by this crisis. Tourist destinations like Paris, Madrid, Venice and Rome were deserted. Despite globalization, a lot of activities are carried on locally as the services we use on a daily basis are locally sourced. Thus, there is a

heavy defeatist impact on the economy. It poses a strong attack on service-oriented economies. The economic impact of the health crisis was felt across sectors and countries. Entertainment, transport, hotels and restaurants which account for a quarter of the Italian GDP, were affected. The Euro 2020 and Tokyo Olympic Games were postponed to 2021. Job losses reached an unequalled high in the US. Lufthansa reduced 90% of its long-range flights and airlines asked employees to take unpaid leave for two months. We take China as an example. China represents more than 16% of the world economy right now. Any distress to Chinese activity is strongly felt in markets around the world in all sectors. China is as of now the world's largest importer and exporter. Countries banking on China for intermediary inputs are strongly affected. Companies such as Nike and Apple admitted to being hit by this. Spillover effects took place all through trade and supply chains. (Nuno, 2020)

Stock markets were noticeably impacted as well. After a strong bull market, the index of the US stock market was 30% below its peak. The UK and German stock markets showed worse performance than the US. (Reuters,2020) The volatility of equity markets was at an all-time high. Fewer tourists and lower consumption of airlines and retail caused the entertainment sectors to suffer greatly. It shows that service-oriented sectors are more impacted than agriculture or industry. The economic cost of a recession is unequally distributed. Countries having a larger tourism sector (as a % of GDP) were more severely affected than industrially focused countries. We also believe that countries more reliant on exports will suffer disproportionately more.

Speaking of the Indian economy which was already in a dire state before the pandemic struck, India faced a prolonged period of slowdown. Taking into consideration India's population the effective containment of the disease required the economy of the country to cease its normal functioning. Millions of jobs and livelihoods were at stake. 50 million migrant workers returned to their native place as activity came to a standstill with no job or income. This crisis showed up at a time when India's GDP growth was slowing down and unemployment was on the RISE owing to poor economic performance over the last several years. The dangerous situation that the economy was in before getting struck by this disturbance will likely worsen the situation. The Indian economy was experiencing a demand slowdown previously whereas now it faces both a demand and supply disturbance. (S. Mahendra and Rajeswari, 2020)

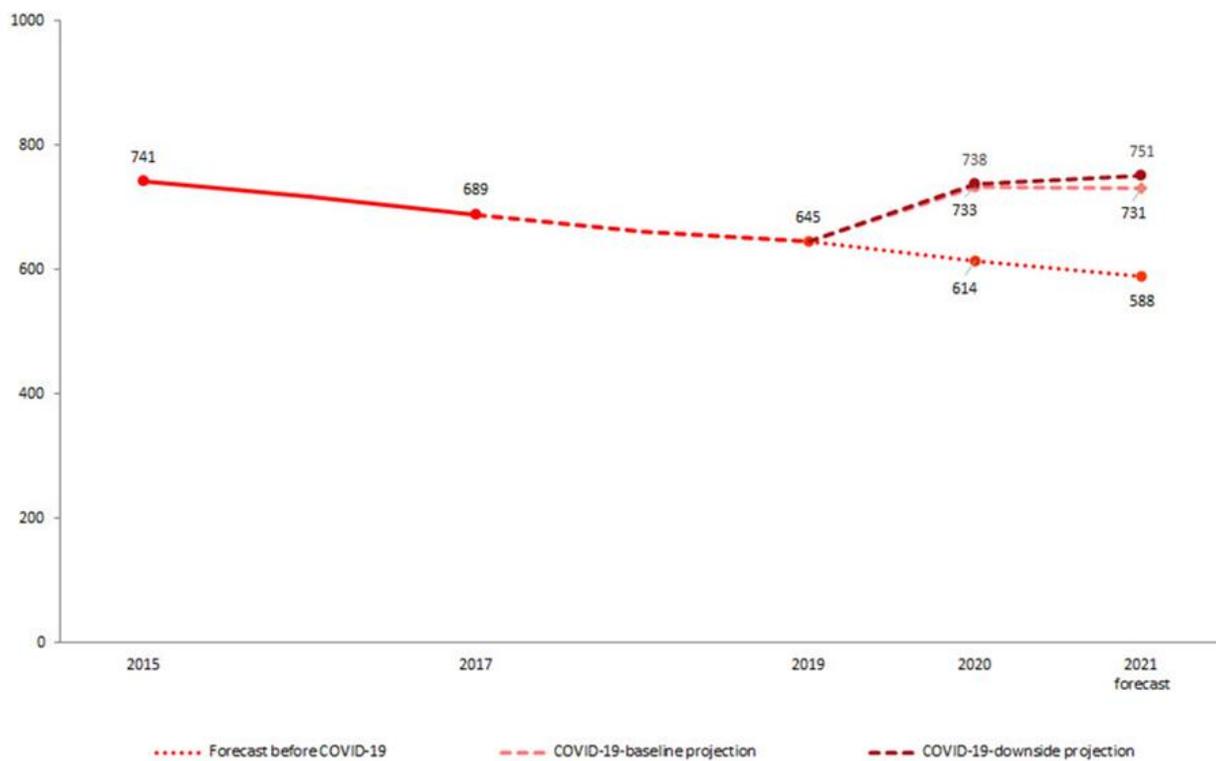
RESEARCH METHODOLOGY

Most if not all of the data for this paper has been quantitative. We have mainly used secondary data in our paper in the form of a lot of graphs and surveys taken by other third parties. The data for this paper hasn't been sourced from any one particular set location since our research topic is on a global scale. We have mainly done a non-probability-based type of sampling for this particular paper.

ANALYSIS & DISCUSSION

No one in their wildest dreams could have foreseen the covid19 pandemic. The global economy's growth was already very sluggish in 2019, only expected to have a 3.5 per cent increase and about a 3.6 per cent increase in 2020 according to projections made by the International Monetary Fund in October 2019. After the unexpected introduction of the Covid 19 pandemic the world was sent into a frenzy, 2020 was a hard time for everyone. It saw an increase of about 199 million and 124 million globally poor out of which 60 per cent were out of Southern Asia.

2020 saw the first proper extreme rise in poverty since 1998 when it was from 8.4 per cent to 9.5 per cent 2020. According to past projections, the global poverty rate was expected to be around 7 per cent by 2030, telling us that it was going to take us a lot of time, effort and resources to fix.



The above graph tells us about the number of people living below \$ 1.90(about 150 rupees) a day, and a forecast before and after the covid 19 pandemic. **(Source: unstats.un.org)**

The frequent government-mandated lockdowns destroyed an already toppled economy. The April World Economic Outlook projected the 2020 global growth to fall to -3 per cent which was a great revision from the January 2020 report, downgrading it by 6.3 per cent. This would make The Great Lockdown the worst recession the world has ever faced since the Great Depression and a lot worse than the Global Financial Crisis.

The Great Lockdown

The world economy will experience the worst recession since the Great Depression.

(real GDP growth, year-on-year percent change)



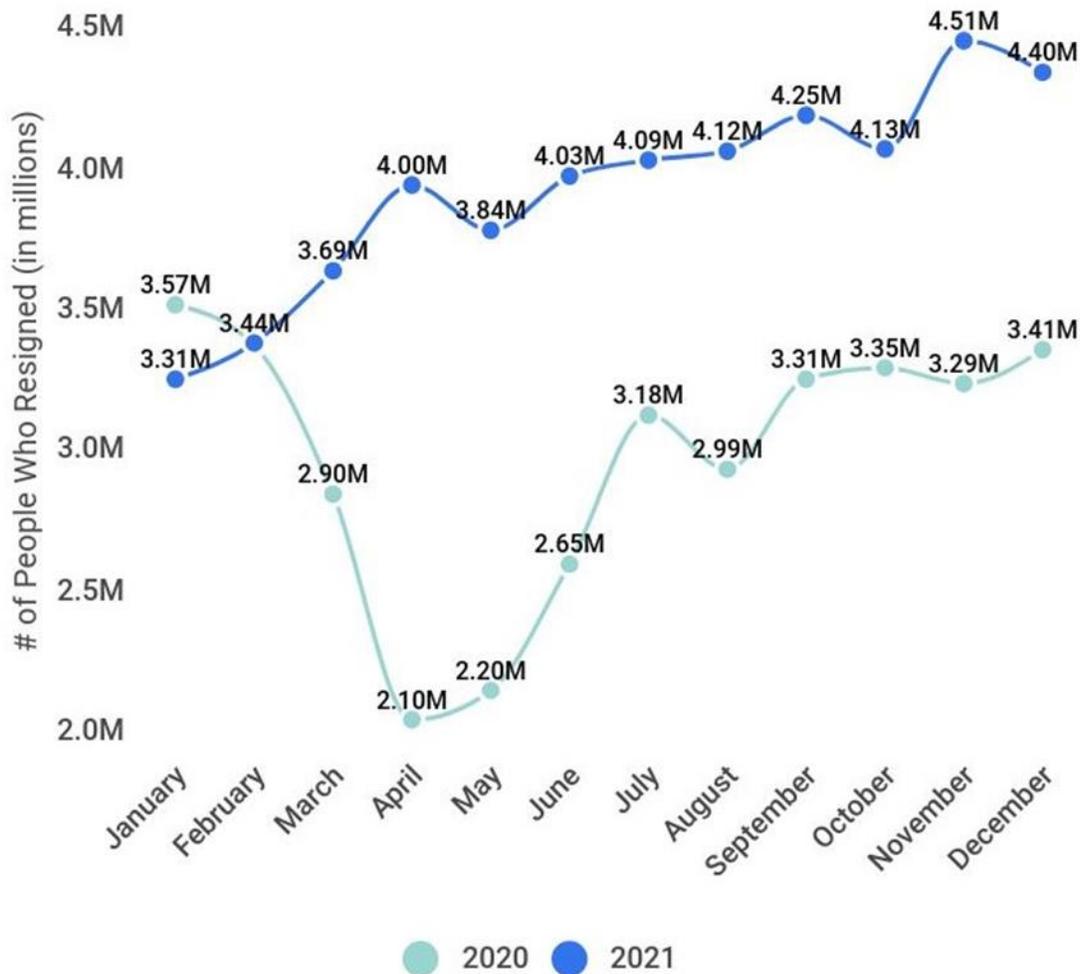
Source: IMF, *World Economic Outlook*.

INTERNATIONAL MONETARY FUND

(Source: www.imf.org)

Another factor that inhibited our economy from recovering was The Great Resignation. The pandemic stopped a lot of people from going to work but top-level CEOs thought it was a good idea to bring the work to them in the form of Work-From-Home. This led to people now working more hours and in turn getting more burnt out, This led to a lot of people quitting because they just couldn't handle the immense amount of pressure on them as shown by the table below telling us the monthly number of resignations between 2020-2021.

MONTHLY NUMBER OF RESIGNATIONS 2020-2021



(Source:

www.zippa.org)

The pandemic also completely capsized a lot of industries as a whole like the food service industry which saw a resignation percentage of 6.9% as a last-ditch effort to switch to a more stable industry.

CONCLUSION

The Covid19 crisis spread rapidly throughout the world. We were facing a new type of crisis. This was a global bolt out of the blue where interests were at extraordinary lows with spillover effects being created throughout supply chains. a global recession was inevitable. The economic costs of a recession are unequally distributed. we already know most of the affected sectors, as was previously mentioned. Nobody can precisely predict the financial damage from the covid19 pandemic. Governments all over the world recognized the challenge and did commendably well. There is a lot of work to be done in reviving the economy which we believe can be done.

REFERENCE

1. Ullah, S. (2022, February 3). *Impact of covid-19 pandemic on Financial Markets: A Global Perspective - Journal of the knowledge economy*. SpringerLink. Retrieved October 07, 2022, from <https://link.springer.com/article/10.1007/s13132-022-00970-7>
2. Lloyd, C. (2020, March 13). *Epidemics, economic growth and stock-market performance - A historical perspective*. SeekingAlpha. Retrieved October 07, 2022, from <https://seekingalpha.com/article/4331798-epidemics-economic-growth-and-stock-market->
3. Najam, A. (2021, August 31). *Avoid these traps when negotiating in a crisis*. Harvard Business Review. Retrieved October 7, 2022, from <https://hbr.org/2020/03/avoid-these-traps-when-negotiating-in-a-crisis>
4. Ahmed, A. H., & Tahat, Y. (2022, April). *Stock market returns and covid-19 outbreak: Evidence from the UK*. Research Gate. Retrieved October 7, 2020, from https://www.researchgate.net/publication/340926380_Stock_Market_Returns_and_COVID-19_Outbreak_Evidence_from_the_UK
5. Mutreja, A., Kim, D. W., Thomson, N. R., Connor, T. R., Lee, J. H., Kariuki, S., Croucher, N. J., Choi, S. Y., Harris, S. R., Lebens, M., Niyogi, S. K., Kim, E. J., Ramamurthy, T., Chun, J., Wood, J. L. N., Clemens, J. D., Czerkinsky, C., Nair, G. B., Holmgren, J., ... Dougan, G. (2011, August 24). *Evidence for several waves of global transmission in the Seventh Cholera pandemic*. Nature News. Retrieved October 7, 2022, from <https://www.nature.com/articles/nature10392>
6. Zietz, B. P., & Dunkelberg, H. (2004, November 14). *The history of the plague and the research on the causative agent yersinia pestis*. International Journal of Hygiene and Environmental Health. Retrieved October 7, 2022, from <https://www.sciencedirect.com/science/article/pii/S1438463904702771>
7. Shah, K. A. (2022, September 30). *Decoding the global macro environment*. LinkedIn. Retrieved October 7, 2022, from https://www.linkedin.com/pulse/decoding-global-macro-environment-kirtan-a-shah?trk=public_profile_article_view
8. Zhu, N., Zhang, D., Wang, W., Li, X., Yang, B., Song, J., Zhao, X., Huang, B., Shi, W., Lu, R., Niu, P., Tan, W., Gao, G., Wu, G., Xu, W., Wang, D., Ma, X., & Zhan, F. (2020, February 20). *A novel coronavirus from patients with pneumonia in China, 2019: Nejm*. New England Journal of Medicine. Retrieved October 7, 2022, from <https://www.nejm.org/doi/full/10.1056/nejmoa2001017>
9. Piret, J., & Boivin, G. (1AD, January 1). *Pandemics throughout history*. Frontiers. Retrieved October 7, 2022, from <https://www.frontiersin.org/articles/10.3389/fmicb.2020.631736/full#B8>
10. Dev, S. M., & Sengupta, R. (2020, April). *Covid-19: Impact on the Indian Economy*. Indira Gandhi Institute of Development Research. Retrieved November 21, 2022, from <http://www.igidr.ac.in/pdf/publication/WP-2020-013.pdf>
11. Fernandes, N. (2020, March 23). *Economic effects of coronavirus outbreak (covid-19) on the World Economy*. SSRN. Retrieved October 7, 2022, from https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3557504