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Global Economic Effects of Covid-19: In Brief

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Overview

Since the World Health Organization (WHO) first declared Covid-19 a world health emergency in January 2020, the virus has been detected in over 100 countries and all but a handful of U.S. states.[1] The infection has sickened more than 100,000 people, with fatalities.

On March 11, the WHO announced that the outbreak was officially a pandemic, the highest level of health emergency.[2] During that time, it has become clear that the outbreak is negatively impacting global economic growth.[3] The virus is affecting a broad swath of economic activities, from tourism, medical supplies and other global value chains, consumer electronics, and financial markets to energy, food, and a range of social activities, to name a few. Without a clear understanding of when the effects may peak economic forecasts must necessarily be considered preliminary. Efforts to reduce social interaction to contain the spread of the virus are disrupting the daily lives of most Americans.

On March 2, 2020, the Organization for Economic Cooperation and Development (OECD) released its revised economic outlook and suggested that global economic growth could decline by 0.5% in 2020 to 2.4% if the economic effects of the virus peak in the first quarter of 2020[4] (see **Table 1)**. If the effects of the virus do not peak in the first quarter, the OECD estimates that global economic growth in 2020 could be reduced by half, or 1.5%.

Concerns over economic and financial risks have pushed investors to search out safe-haven investments such as the benchmark U.S. Treasury 10-year security, which experienced a historic drop in yield to below 1% on March 3, 2020 (the price and yield of a bond are inversely related).[5] The yield dropped again to historic levels on March 6, 2020, and March 9, 2020, as investors moved out of stocks and into bonds due to concerns over declines in major stock indices and expectations that the Federal Reserve would lower interest rates for a second time in March 2020.[6] In overnight trading on March 8, 2020, and again on March 11, 2020, and March 13, 2002 U.S. stock market indices moved sharply, triggering automatic circuit breakers designed to halt trading if the indices rise or fall by more than 5% when markets are closed.[7] Financial markets from the United States to Asia and Europe are volatile as investors are concerned that the virus is creating a global issue with few metrics to indicate how prolonged and expansive the economic effects may be.[8] The virus is also affecting global politics as world leaders are cancelling

[1] Mapping the Spread of the Coronavirus in the U.S. and Worldwide, Washington Post Staff, *The Washington Post*, March 4, 2020. https://www.washingtonpost.com/world/2020/01/22/mapping-spread-new-coronavirus/?arc404=true.

[2] Bill Chappell, "Coronavirus: COVID-19 Is Now Officially A Pandemic, WHO Says," *National Public Radio*, March 11, 2020, https://www.npr.org/sections/goatsandsoda/2020/03/11/814474930/coronavirus-covid-19-is-now-officially-a-pandemic-who-says.

[3] Mapping the Spread of the Coronavirus.

[4] *OECD Interim Economic Assessment: Coronavirus: The World Economy at Risk*, Organization for Economic Cooperation and Development. March 2, 2020. http://www.oecd.org/economic-outlook/#resources.

[5] Levisohn, Ben, The 10-Year Treasury Yield Fell Below 1% for the First Time Ever. What That Means, *Barrons*, March 3, 2020. https://www.barrons.com/articles/the-10-year-treasury-yield-fell-below-1-for-the-first-time-ever-what-that-means-51583267310.

[6] Smith, Colby, Philip Georgiadis, and Hudson, Stocks Tumble and Government Bonds Hit Highs on Virus Fears, *The Financial Times*, March 6, 2020. https://www.ft.com/content/9f94d6f8-5f51-11ea-b0ab-339c2307bcd4.

[7] Georgiadis, Philip, Adam Samson, and Hudson Lockett, Stocks Plummet as Oil Crash Shakes Financial Markets, *The Financial Times*, March 9, 2020. https://www.ft.com/content/8273a32a-61e4-11ea-a6cd-df28cc3c6a68.

[8] Samson, Adam and Hudson Lockett, Stocks Fall Again in Worst Week Since 2008 Crisis, *The Financial Times*, February 28. https://www.ft.com/content/4b23a140-59d3-11ea-a528-dd0f971febbc.

international meetings[9] and some nations reportedly are stoking conspiracy theories that shift blame to other countries.[10]

The challenge for policymakers is to implement targeted policies that address what are expected to be short-term problems without creating distortions in economies that can outlast the impact of the virus itself. Policymakers are being overwhelmed by the quickly changing nature of the crisis that has compounded a health issue with what could become a global trade and economic crisis whose potential effects on the global economy are rapidly growing. In addition, many policymakers are constrained in their response to the crisis, with little flexibility for monetary and fiscal support, given the broad-based synchronized slowdown in global economic growth, especially in manufacturing and trade, which had developed prior to the viral outbreak.

Table 1. OECD Economic Outlook Forecast, March 2020

Percent change in Real GDP Growth

	2019	2020			2021
		November projections	Difference from November	November projections	Difference from November
World	2.9	2.4	-0.5	3.3	0.3
G20	3.1	2.7	-0.5	3.5	0.2
Australia	1.7	1.8	-0.5	2.6	0.3
Canada	1.6	1.3	-0.3	1.9	0.2
Euro area	1.2	0.8	-0.3	1.2	0.0
Germany	0.6	0.3	-0.1	0.9	0.0
France	1.3	0.9	-0.3	1.4	0.2
Italy	0.2	0.0	-0.4	0.5	0.0
Japan	0.7	0.2	-0.4	0.7	0.0
Korea	2.0	2.0	-0.3	2.3	0.0
Mexico	-0.1	0.7	-0.5	1.4	-0.2
Turkey	0.9	2.7	-0.3	3.3	0.1
United Kingdom	1.4	0.8	-0.2	0.8	-0.4
United States	2.3	1.9	-0.1	2.1	0.1
Argentina	-2.7	-2.0	-0.3	0.7	0.0
Brazil	1.1	1.7	0.0	1.8	0.0
China	6.1	4.9	-0.8	6.4	0.9
India	4.9	5.1	-1.1	5.6	-0.8
Indonesia	5.0	4.8	-0.2	5.1	0.0

[9] Taylor, Adam, Teo Armus, and Rick Noak, Live updates: Coronavirus Turmoil Widens as U.S. Death Toll Mounts; Xi Cancels Japan Trip. *The Washington Post*, March 5, 2020, https://www.washingtonpost.com/world/2020/03/05/coronavirus-live-updates/.

[10] Shih, Gerry, China is Subtly Stoking Coronavirus Conspiracy Theories That Blame the U.S. for Outbreak, *The Washington Post*, March 5, 2020. https://www.washingtonpost.com/world/2020/03/05/coronavirus-live-updates/.

Russia	1.0	1.2	-0.4	1.3	-0.1
Saudi Arabia	0.0	1.4	0.0	1.9	0.5
South Africa	0.3	0.6	-0.6	1.0	-0.3

Source: *OECD Interim Economic Assessment: Coronavirus: The World Economy at Risk*, Organization for Economic Cooperation and Development. March 2, 2020, p. 2.

Estimated Economic Effects

The economic situation remains highly fluid. Uncertainty about the length and depth of the virus-related economic effects are fueling perceptions of risk and volatility in financial markets and corporate decisionmaking. In addition, uncertainties concerning the virus and the effectiveness of public policies intended to curtail its spread are adding to market volatility.

The OECD also estimates that increased direct and indirect economic costs through global supply chains, reduced demand for goods and services, and declines in tourism and business travel mean that, "the adverse consequences of these developments for other countries (non-OECD) are significant."[11] Global trade, measured by trade volumes, slowed in the last quarter of 2019 and was expected to decline further in 2020 as a result of weaker global economic activity associated with the viral outbreak, which is reducing economic activity in various sectors, including ports and the shipping industry.[12]

In addition, the OECD argues that China's emergence as a global economic actor marks a significant departure from previous global health episodes. China's growth in combination with globalization and the interconnected nature of economies through supply chains and foreign investment magnify the cost of containing the spread of the virus through quarantines and restrictions on labor mobility and travel.[13]

Initially, the economic effects of the virus were expected to be a short-term supply issue as factory output fell because workers were quarantined to reduce the spread of the virus through social interaction. Concerns have grown, however, that the virus-related supply shock might turn into more prolonged demand shocks as reduced activity by consumers and businesses lead to a lower rate of economic growth. As demand shocks unfold, businesses experience a decline in activity, reduced profits, and potentially escalating and binding credit and liquidity constraints. If the economic effects persist, contagion issues can spread the economic effects widely and affect a broader group of firms and households. This potentially can lead to liquidity constraints and credit market tightening in global financial markets, with negative fallout effects on economic growth. Such liquidity and credit market issues present a different set of issues to policymakers than addressing supply-side economic issue.

In many cases, national fiscal policies that might be employed to address demand issues are already constrained by high government debt levels; similarly, recent monetary policies have generally been accommodative, which leaves central banks little room for additional cuts in interest rates. In addition, in the current environment, even traditional policy tools, such as monetary accommodation, apparently are not being processed by markets in a traditional manner, with equity market indexes displaying heightened, rather than lower, levels of uncertainty

[11] Ibid., p. 2.

[12] Ibid., p. 4.

[13] Goldin, Ian. Coronavirus Shows How Globalization Spreads Contagion of All Kinds, *The Financial Times*, March 2, 2020. https://www.ft.com/content/70300682-5d33-11ea-ac5e-df00963c20e6.

following the Federal Reserve's cut in interest rates. Such volatility is adding to uncertainties about what governments can do to address weaknesses in the global economy.

Before the Covid-19 outbreak, the global economy was struggling to regain a broad-based recovery as a result of the lingering impact of growing trade protectionism, trade disputes among major trading partners, falling commodity and energy prices, and economic uncertainties in Europe over the impact of the UK withdrawal from the European Union. Individually, each of these issues presented a solvable challenge for the global economy. Collectively, however, the issues weakened the global economy and reduced the available policy flexibility of many countries, especially among the leading developed economies. In this environment, Covid-19 could have an outsized impact. While the level of economic effects will eventually become clearer, the response to the virus could have a significant and enduring impact on the way businesses organize their work forces, global supply chains, and how governments respond to a global health crisis.[14]

Policy Response

In response to growing concerns over the global economic impact of the virus, G-7 finance ministers and central bankers released a statement on March 3, 2020, indicating they will "use all appropriate policy tools" to sustain economic growth.[15] The Finance Ministers also pledged fiscal support to ensure health systems could sustain efforts to fight the outbreak.[16] Following the G-7 statement, the U.S. Federal Reserve (Fed) lowered its federal funds rate by 50 basis points, or 0.5%, to a range of 1.0% to 1.25% due to concerns about the "evolving risks to economic activity of the coronavirus."[17] The cut is the largest one-time reduction in the interest rate by the Fed since the financial crisis of 2008. By itself, the move initially had a mixed impact on financial markets;[18] economists and others conclude that a cut in interest rates potentially could be mildly stimulative to domestic economy by reassuring broader market confidence.[19] Others, however, argue that monetary policy likely has limited effectiveness in addressing the supply shocks caused by a global health crisis.[20]

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[14] Rowland, Christopher and Peter Whoriskey, U.S. Health System is Showing Why it's Not Ready for a Coronavirus Pandemic, *The Washington Post*, March 4, 2020. https://www.washingtonpost.com/business/economy/the-us-health-system-is-showing-why-its-not-ready-for-a-coronavirus-pandemic/2020/03/04/7c307bb4-5d61-11ea-b29b-9db42f7803a7_story.html.

[15] the G-7 is comprised of Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States. *Statement of G-7 Finance Ministers and Central Bank Governors*, March 3, 2020, https://home.treasury.gov/news/press-releases/sm927, Long, Heather, G-7 Leaders Promise to Help Economy as Coronavirus Spreads, But They Don't Announce Any New Action, *The Washington Post*, March 3, 2020. https://www.washingtonpost.com/business/2020/03/03/economy-coronavirus-rate-cuts/.

[16] Giles, et, al, Finance Ministers Ready to Take Action.

[17] *Federal Reserve Releases FOMC Statement*, March 3, 2020, https://www.federalreserve.gov/newsevents/pressreleases/monetary20200303a.htm.

[18] Henderson, Richard, Colby Smith and Philip Georgiadis Markets Tumble as Fed Rate Cut Fails to Ease Fears, *The Financial Times*, March 4, 2020. https://www.ft.com/content/eed05754-5d00-11ea-b0ab-339c2307bcd4.

[19] Long, Heather, and Jena McGregor, Recession Fears Grow as Wall Street Investors Brace for a Wild Week for Stocks, *The Washington Post*, March 1, 2020. https://www.washingtonpost.com/business/2020/03/01/fear-markets-economy/.

[20] Fed Rate Cut is no Cure-all For Coronavirus Woes, *The Financial Times*, March 4, 2020. https://www.ft.com/content/f46c6d0c-5d63-11ea-8033-fa40a0d65a98, Greeley, Berndan, Coronavirus: Doubts Cast on Federal Reserve's Ability to Handle a Pandemic, *The Financial Times*, February 28. 2020. https://www.ft.com/content/d4e29856-5987-11ea-a528-dd0f971febbc.

In a sign of growing strains in financial markets, the Federal Reserve announced on March 12, 2020 that it will provide liquidity to the financial system by providing $5 trillion through a series of funding operations that will add to current monthly funding operations that are targeted at increasing reserves in the banking system and reducing stress in short-term funding market and in trading U.S. Treasury securities. Corporate bond markets halted activity on March 11, 2020 as companies drew on revolving credit facilities from banks to ensure they had enough cash on hand to sustain their operations during a prolonged slump in economic activity and potential credit tightening by banks.

In addition, banks and financial institutions that deal in trading U.S. Treasury securities had begun to pull back from facilitating trades to protect themselves from market volatility, increasing costs to traders who profit from the difference between buying Treasury securities and then selling futures contracts.[21] The Federal Reserve reportedly will provide $1 trillion in short-term lending to banks to sustain lending between banks, because credit markets had begun to freeze up. It also is to provide a series of $500 billion injections of funds into the repo (repurchase) market, where investors borrow cash in exchange for high-quality collateral like Treasury securities.[22]

In terms of a fiscal stimulus, the House passed H.R. 6074 on March 5, 2020, to appropriate $8.3 billion in emergency funding to support efforts to fight Covid-19; President Trump signed the measure on March 6, 2020. Other countries have indicated they will also provide assistance. Congress also is considering other possible measures, including contingency plans for agencies to implement offsite telework for employees, financial assistance to the shale oil industry, paid sick leave, a reduction in the payroll tax,[23] and an extension of the tax filing deadline.[24] On March 11, 2020, President Trump announced a restriction on all travel from Europe (excluding the United Kingdom and Ireland) to the United States for 30 days, directed the Small Business Administration (SBA) to offer low-interest loans to small businesses, and directed the Treasury Department to defer tax payments penalty-free for affected businesses.[25] The International Monetary Fund (IMF) is providing funding to poor and emerging market economies that are short on financial resources.[26] If the economic effects of the virus persist, countries may need to be proactive in coordinating fiscal and monetary policy responses, similar to actions taken by of the G-20 following the 2008-2009 global financial crisis.

Other countries have followed the Federal Reserve:

- The Bank of Canada and the Reserve Bank of Australia cut their benchmark interest rates. Canada announced on March 11, 2020 a $750 million fund to

[21] Rennison, Joe, and Colby Smith, What is Causing Such Fear in the U.S. Treasuries Market?, *The Financial Times*, March 13, 2020. https://www.ft.com/content/efa431c8-6471-11ea-b3f3-fe4680ea68b5.

22 Smith, Colby, and Brendan Greeley, Fed to Pump Trillions of Dollars into Financial Markets, *The Financial Times*, March 12, 2020. https://www.ft.com/content/7b231b2c-6483-11ea-a6cd-df28cc3c6a68.

[23] Armus, Theo, Federal, State Officials Attempt to Fight Virus Through Social Distancing, Stimulus Package, *The Washington Post*, https://www.washingtonpost.com/world/2020/03/11/coronavirus-live-updates/.

[24] Sevastopulo, Demetri, US Treasury Considers Tax Filing Extension to Ease Virus Impact, *The Financial Times*, March 11, 2020. https://www.ft.com/content/c65a6e40-639f-11ea-b3f3-fe4680ea68b5.

[25] McAuley, James, and Michael Birnbaum, Europe Blindsided by Trump's Travel Restrictions, With Many Seeing Political Motive, *The Washington Post*, March 12, 2020. https://www.washingtonpost.com/world/europe/europe-blindsided-by-trumps-travel-restrictions-with-many-seeing-political-motive/2020/03/12/42a279d0-6412-11ea-8a8e-5c5336b32760_story.html.

[26] Politi, James, IMF Sets Aside $50bn for Coronavirus-hit Countries, *The Financial Times*, March 4, 2020, https://www.ft.com/content/83c07594-5e3a-11ea-b0ab-339c2307bcd4.

combat and mitigate the effects of the virus, including expanding eligibility for employment insurance (EI) and EI sick leave benefits, relaxing workshare requirements, increased testing, surveillance, and monitoring and assistance to other, more vulnerable, countries.[27] The Bank of Canada announced on March 13, 2020 a 0.5% cut to 0.75% in its Bank Rate interest rates.[28] Canada also announced March 13, 2020 that it would impose travel restrictions, including prohibiting cruise ships from docking. Australia reportedly is considering a $6.5 billion stimulus that would provide direct payments to citizens and wage subsidies to workers and tax breaks for businesses.[29]

- Italy has imposed country-wide travel restrictions, directed that all stores except food and pharmacies close, and was set to inject around $30 billion into its economy; it announced plans to place a moratorium on debt payments, including mortgages, and it closed schools and museums.[30]
- Iran has closed schools, universities, religious seminaries, gyms, entertainment venues, Friday prayers, most public events, and parliament. The country has reserved hospitals only for those suspected of being infected with the virus; it is disinfecting streets and public transport daily and checking on every household across the country.[31] On March 11, 2020, Iran requested $5 billion in funding from the IMF to respond to the Covid-19 crisis.[32]
- Israel announced that it would appropriate $2.8 billion to prevent the spread of Covid-19, asked foreign nationals to leave the country, and asked anyone coming into the country to self-quarantine for 14 days.[33]
- South Korea has engaged in an extensive public testing campaign, including of asymptomatic individuals, and has extended school holidays into March. The government appropriated $10 billion to support anti-viral activities.[34]
- The European Central Bank (ECB) announced that it was ready to take "appropriate and targeted measures," if needed. With interest rates already low, however, it indicated that it could expand its program of providing loans to EU banks, or buying debt from EU firms, and possibly lowering its deposit rate further into negative territory in an attempt to shore up the Euro's exchange

[27] "Trudeau Announces $1 Billion Fund to Respond to COVID-19," CBC News. https://www.cbc.ca/news/politics/liberals-support-workers-businesses-covid-19-1.5493454.

[28] Bank of Canada Lowers Overnight Rate Target to 0.75%, Bank of Canada, March 13, 2020. https://www.bankofcanada.ca/2020/03/bank-of-canada-lowers-overnight-rate-target-to-%c2%be-percent/.

[29] Australian PM Considering Cash Handout as Part of Fiscal Stimulus, *Reuters*, March 9, 2020. https://www.reuters.com/article/us-health-coronavirus-australia-budget-c/australia-pm-considering-cash-handout-as-part-of-fiscal-stimulus-sky-news-idUSKBN20W0CR

[30] How Countries Around the World are Battling Coronavirus, *The Financial Times*, March 10, 2020. https://www.ft.com/content/151fa92c-5ed3-11ea-8033-fa40a0d65a98; Arnold, Martin and Guy Chazan, Christine Lagarde Calls on EU Leaders to Ramp up Coronavirus Response, *The Financial Times*, March 11, 2020. https://www.ft.com/content/44eac1f2-6386-11ea-a6cd-df28cc3c6a68.

[31] Ibid.

[32] Hendrix, Steve, Iran Seeks Emergency IMF Funding for Coronavirus Crisis, *The Washington Post*, March 12. 2020. https://www.washingtonpost.com/world/europe/europe-blindsided-by-trumps-travel-restrictions-with-many-seeing-political-motive/2020/03/12/42a279d0-6412-11ea-8a8e-5c5336b32760_story.html.

[33] Egash, Ruth, Netanyahu Announces $2.8 Billion Aid Package to Stabilize Economy as Virus Spreads, *The Washington Post*, March 11, 2020. https://www.washingtonpost.com/world/2020/03/11/coronavirus-live-updates/.

[34] Ibid.

rate.[35] ECB President-designate Christine Lagarde called on EU leaders to take more urgent action to avoid the spread of coronavirus triggering a serious economic slowdown. Financial markets anticipated that the ECB would lower its deposit rate below the current rate of -0.5% and the European Commission indicated that it was creating a nearly $30 billion investment funds to address Covid-19 issues.[36] On March 12, 2020, the ECB decided to: (1) expand its longer-term refinance operations (LTRO) to provide low-cost loans to Eurozone banks to increase bank liquidity; (2) extend targeted longer-term refinance operations (TLTRO) to provide loans at below-market rates to businesses, especially small and medium-sized businesses, directly affected by Covid-19; (3) provide an additional €120 billion (about $130 billion) for the Bank's asset purchase program to provide liquidity to firms.[37] On March 13, 2020, financial market regulators in the UK, Italy, and Spain intervened in stock and bond markets to stabilize prices after historic swings in indexes on March 12, 2020.[38] In addition, the ECB announced that it would do more to assist financial markets in distress, including altering self-imposed rules on purchases of sovereign debt.[39] Germany's Economic Minister announced on March 13, 2020, that Germany would provide unlimited loans to businesses experiencing negative economic activity (initially providing $555 billion) and tax breaks for businesses.[40] Recent forecasts indicate that the economic effect of Covid-19 could push the Eurozone into an economic recession in 2020.[41]

- The Bank of England announced on March 11, 2020 that it would adopt a package of four measures to deal with any economic disruptions associated with Covid-19. The measures include: an unscheduled cut in the benchmark interest rate by 50 basis points (0.5%) to a historic low of 0.25%; reintroduce the Term Funding scheme for Small and Medium-sized Enterprises (TFSME) that provides banks with over $110 billion for loans at low interest rates; lower banks' countercyclical capital buffer to zero percent, which is estimated to support over $200 billion of bank lending to businesses; and freeze banks' dividend payments.[42] The UK Chancellor of the Exchequer proposed a national budget on March 11, 2020 that includes nearly $35 billion in fiscal spending to counter

[35] US Fed's Coronavirus Rate Cut is First Move in a Dance With Markets, *The Financial Times*, March 4, 2020. https://www.ft.com/content/83c07594-5e3a-11ea-b0ab-339c2307bcd4, Giles, Chris, Martin Arnold, Sam Jones, and Jamie Smyth, Finance Ministers 'Ready to Take Action' on Coronavirus, *The Financial Times*, March 3, 2020. https://www.ft.com/content/b86f7d92-5d38-11ea-b0ab-339c2307bcd4.

[36] Arnold, Martin and Guy Chazan, Christine Lagarde Calls on EU Leaders to Ramp up Coronavirus Response, *The Financial Times*, March 11, 2020. https://www.ft.com/content/44eac1f2-6386-11ea-a6cd-df28cc3c6a68.

[37] *Monetary Policy Decisions*, The European Central Bank, March 12, 2020. https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.mp200312~8d3aec3ff2.en.htm.

[38] Stafford, Philip and Adam Samson, European Regulators Intervene in Bid to Stabilize Stock and Bond Prices, *The Financial Times*, March 13, 2020. https://www.ft.com/content/77f57d4c-6509-11ea-a6cd-df28cc3c6a68.

[39] Arnold, Martin, ECB Enters Damage-Limitation Mode With Pledge of More Action, *The Financial Times*, March 13, 2020. https://www.ft.com/content/f1cbd4f8-650f-11ea-b3f3-fe4680ea68b5.

[40] Loveday, Morris and Louisa Beck, Germany Announces "Bazooka" Economic Plan to Mitigate Coronavirus Hit, *The Washington Post*, March 13, 2020. https://www.washingtonpost.com/world/2020/03/13/coronavirus-latest-news/.

[41] Lagarde to Confront Coronavirus Crisis at ECB Policy Meeting, *The Financial Times*, March 8, 2020. https://www.ft.com/content/79a280c6-5fb5-11ea-b0ab-339c2307bcd4.

[42] Romei, Valentina, Coronavirus fallout: Bank of England launches 4 key measures, *The Financial Times*. https://www.ft.com/content/4e60c08e-6380-11ea-b3f3-fe4680ea68b5.

adverse economic effects of the viral crisis and proposes that statutory sick leave be boosted by about $2.5 billion in funds to small and medium businesses to provide up to 14 days of sick leave for affected employees. Part of the fiscal spending package includes open-ended funding for the National Health Service (NHS), $6 billion in emergency funds to the NHS, $600 million hardship fund to assist vulnerable people, and tax cuts and tax holidays for small businesses in certain affected sectors.[43]

- The Bank of Japan, with already-low interest rates, interjected $4.6 billion in liquidity into Japanese banks to provide short-term loans and twice that amount into exchange traded funds to aid Japanese businesses. The Japanese government also pledged to provide wage subsidies for parents forced to take time off due to school closures.[44]
- According to a recent CRS In Focus, [45] China's economic growth could go negative in the first quarter of 2020 and fall below 5% for the year, with more serious effects if the outbreak continues. In early February, China's central bank pumped $57 billion into the banking system, capped banks' interest rates on loans for major firms, and extended deadlines for banks to curb shadow lending. The central bank has been setting the reference rate for China's currency stronger than its official close rate to keep it stable.

Multilateral Response

International Monetary Fund

The IMF announced that it is making available about $50 billion for the global crisis response.[46] For low-income countries, the IMF is providing rapid-disbursing emergency financing of up to $10 billion (50% of quota of eligible members) that can be accessed without a full-fledged IMF program. Other IMF members can access emergency financing through the Fund's Rapid Financing Instrument (RFI). This facility could provide about $40 billion for emerging markets facing fiscal pressures from COVID-19. Separate from these resources, the IMF has a Catastrophe Containment and Relief Trust (CCRT), which provides eligible countries with up-front grants for relief on IMF debt service falling due. The CCRT was used during the 2014 Ebola outbreak, but is now underfunded, according to IMF Managing Director Kristolina Georgieva with just over $200 million available against possible needs of over $1 billion. [47] On March 11, 2020, the United Kingdom announced that it will contribute £150 million (about $170 million) to the CCRT. To date, the United States has not contributed to the CCRT.[48]

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[43] Payne, Sebastian and Chris Giles, Budget 2020: Sunak Unveils £30bn Stimulus to Counter UK Coronavirus Shock, *The Financial Times*. https://www.ft.com/content/f7b27264-6384-11ea-a6cd-df28cc3c6a68.

[44] Harding, Robin and Hudson Lockett, BoJ Spurs Asia Markets Rebound With Vow to Fight Coronavirus, *The Financial Times,* March 2, 2020. https://www.ft.com/content/9fa91e06-5c3b-11ea-b0ab-339c2307bcd4.

[45] For additional information about China's response, see: CRS In Focus IF11434, *COVID-19: U.S.-China Economic Considerations*, by Karen M. Sutter and Michael D. Sutherland.

[46] International Monetary Fund, IMF Makes Available $50 Billion to Help Address Coronaviris, March 4, 2020.

[47] International Monetary Fund, *United Kingdom Boosts IMF's Catastrophe Relief Fund with £150 million*, March 11, 2020.

[48] Ibid.

World Bank and Regional Development Banks

The World Bank announced that it is making up to $12 billion in financing ($8 billion of which is new) immediately available to help impacted developing countries.[49] This support comprises up to $2.7 billion in new financing from the International Bank for Reconstruction and Development (IBRD), the World Bank's market-rate lending facility for middle-income developing countries and $1.3 billion from the International Development Association (IDA), the World Bank's concessional facility for low-income countries. In addition, the Bank is reprioritizing $2 billion of the Bank's existing portfolio. The International Finance Corporation (IFC), the Bank's private-sector lending arm is making available up to $6 billion. According to the Bank, support will cover a wide range of activities including strengthening health services and primary health care, bolstering disease monitoring and reporting, training front line health workers, encouraging community engagement to maintain public trust, and improving access to treatment for the poorest patients.

Several years ago, the World Bank introduced pandemic bonds, a novel form of catastrophe financing.[50] The Bank sold two classes of bonds worth $320 billion in a program designed to provide financing to developing countries facing an acute epidemic crisis if certain triggers are met. Once these conditions are met, bondholders no longer receive interest payments on their investments, the money is no longer repaid in full, and funds are used to support the particular crisis. In the case of Covid-19, for the bonds to be triggered, the epidemic must be continuing to grow 12 weeks after the first day of the outbreak. Critics have raised a range of concerns about the bonds, arguing that the terms are too restrictive and that the length of time needs to be shortened before triggering the bonds.[51] Others stress that the proposal remains valid – shifting the cost of pandemic assistance from governments to the private sector, especially in light of the failure of past efforts to rally donor support to establish multilateral pandemic funds.

The Asian Development Bank (ADB) has approved a total of $4 million to help developing countries in Asia and the Pacific.[52] Of the total, $2 million is for improving the immediate response capacity in Cambodia, China, Laos, Myanmar, Thailand, and Vietnam; $2 million will be available to all ADB developing member countries in updating and implementing their pandemic response plans. The ADB also provided a private sector loan of up to $18.6 million to Wuhan-based Jointown Pharmaceutical Group Co. Ltd. to enhance the distribution and supply of essential medicines and protective equipment.

Estimated Effects on Developed and Major Economies

Among most developed and major developing economies, economic growth at the beginning of 2020 was, but still was estimated to be positive. Countries highly dependent on trade—Canada, Germany, Italy, Japan, Mexico, and South Korea—and commodity exporters are now projected to

[49] World Bank, *World Bank Group Announces Up to $12 Billion Immediate Support for COVID-19 Country Response*, March 3, 2019.

[50] Anna Gross, "Critics take aim at 'failure' of bond designed to fight disease," *Financial Times*, March 10, 2020, https://www.ft.com/content/a6239e12-5ec7-11ea-b0ab-339c2307bcd4.

[51] Ibid.

[52] Asian Development Bank, *ADB Approves Another $2 Million to Help Asia and the Pacific Tackle Coronavirus*, February 26, 2020.

be the most negatively affected by the slowdown in economic activity associated with the virus.[53] In addition, travel bans and quarantines are taking an especially heavy economic toll in China, South Korea, and Italy, where viral outbreaks have so far been most prevalent. The OECD notes that production declines in China have spillover effects around the world given China's role in producing computers, electronics, pharmaceuticals and transport equipment, and as a primary source of demand for many commodities.[54]

In early January 2020, before the coronavirus outbreak, economic growth in developing economies as a whole was projected by the International Monetary Fund (IMF) to be slightly more positive than in 2019. This outlook was based on progress being made in U.S.-China trade talks that were expected to roll back some tariffs and an increase in India's rate of growth. Growth rates in Latin America and the Middle East were also projected to be positive in 2020.[55] These projections likely will be revised downward due to the slowdown in global trade associated with Covid-19, lower energy and commodity prices, and other secondary effects that could curtail growth. Commodity exporting countries, in particular, likely will experience a greater slowdown in growth than forecasted in earlier projections as a result of a slowdown on trade with China and lower commodity prices.

Other Affected Sectors

Public concerns over the spread of the virus have led to self-quarantines, reductions in airline and cruise liner travel, the closing of such institutions as the Louvre, and the rescheduling of theatrical releases of movies, including the sequel in the iconic James Bond series (titled, "No Time to Die").[56] School closures, so far in China, Japan, South Korea, Italy, India, and some U.S, States are affecting some 290 million children worldwide, challenging parental leave policies.[57] Other countries are limiting the size of public gatherings.

Some businesses are considering new approaches to managing their workforces and work methods. These techniques build on, or in some places replace, such standard techniques as self-quarantines and travel bans. Some firms are adopting an open-leave policy to ensure employees receive sick pay if they are, or suspect they are, sick. Other firms are adopting paid sick leave policies to encourage sick employees to stay home and are adopting remote working policies.[58] Concerns remain, however, that some U.S. workers will continue going to work when they are sick, since not all U.S. employers provide paid sick leave. Microsoft and Amazon have instructed all of their Seattle-based employees to work from home until the end of March 2020,[59]

[53] *OECD Interim Economic Assessment,* p. 7.

[54] Ibid, p. 5.

[55] *Tentative Stabilization, Sluggish Recovery? World Economic Outlook Update*, January 20, 2020, The International Monetary Fund. https://www.imf.org/en/Publications/WEO/Issues/2020/01/20/weo-update-january2020.

[56] Rosenberg, Alyssa, Coronavirus Shut Down Mona Lisa and James Bond. We Can't Let it Isolate Us, *The Washington Post*, March 4, 2020. https://www.washingtonpost.com/opinions/2020/03/04/coronavirus-shut-down-mona-lisa-james-bond-we-cant-let-it-isolate-us/.

[57] Taylor, Adam, Teo Armus, Rick Noak, Coronavirus Turmoil Widens as U.S. Death Toll Mounts; Xi Cancels Japan Trip, *The Washington Post*, March 5, 2020,

[58] Hill, Andrew and Emma Jacobs, Coronavirus May Create Lasting Workplace Change, *The Financial Times*, February 27, 2020. https://www.ft.com/content/5801a710-597c-11ea-abe5-8e03987b7b20.

[59] Armus, Teo, Live updates: Coronavirus Turmoil Widens as U.S. Death Toll Mounts; Xi Cancels Japan Trip, *The Washington Post*, March 5, 2020, https://www.washingtonpost.com/world/2020/03/05/coronavirus-live-updates/.

The drop in business and tourist travel is causing a sharp drop in scheduled airline flights by as much as 10%; airlines are estimating they could lose $113 billion in 2020 (an estimate that could prove optimistic given the Trump Administration's announced restrictions on flights from Europe to the United States),[60] while airports in Europe estimate they could lose $4.3 billion in revenue due to fewer flights.[61] The loss of Chinese tourists is another economic blow to countries in Asia and elsewhere that have benefitted from the growing market for Chinese tourists and the stimulus such tourism has provided.

The decline in industrial activity has reduced demand for energy products such as crude oil, causing prices to drop sharply, which negatively affects energy producers, renewable energy producers, and electric vehicle manufacturers, but generally is positive for consumers and businesses. Saudi Arabia is pushing other OPEC (Organization of the Petroleum Exporting Countries) members collectively to reduce output by 1.5 million barrels a day to raise market prices. U.S. shale oil producers, who are not represented by OPEC, support the move to raise prices.[62] An unwillingness by Russia to agree to output reductions added to other downward pressures on oil prices and caused Saudi Arabia to engage in a price war with Russia that has diven oil prices below $50 per barrel, the estimated break-even point for most oil producing countries.[63] In 2019, low energy prices combined with high debt levels reportedly caused U.S. energy producers to reduce their spending on capital equipment, reduced their profits and, in some cases, led to bankruptcies.[64] Reportedly, in late 2019 and early 2020, bond and equity investors, as well as banks, reduced their lending to shale oil producers and other energy producers that typically use oil and gas reserves as collateral.[65]

Disruptions to industrial activity in China reportedly are causing delays in shipments of computers, cell phones, toys, and medical equipment.[66] Factory output in China, the United States, Japan, and South Korea all declined in the first months of 2020.[67] Reduced Chinese agricultural exports, including to Japan, are leading to shortages in some commodities. In addition, numerous auto producers are facing shortages in parts and other supplies that have been sourced in China. Reductions in international trade have also affected ocean freight prices. Some freight companies argue that they could be forced to shutter if prices do not rebound quickly.[68]

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[60] Taylor, Adam, Airlines Could Suffer up to $113 Billion in Lost Revenue Due to Coronavirus Crisis, IATA Says, *The Washington Post*, March 5, 2020. https://www.washingtonpost.com/world/2020/03/05/coronavirus-live-updates/.

[61] Airlines Slash Flights to Cut Costs as Coronavirus Hits Travel Demand, *The Financial Times*. https://www.ft.com/content/c28b5790-62c6-11ea-a6cd-df28cc3c6a68.

[62] Brower, Derek, Cash-Strapped US Shale Producers Pray for OPEC Aid, *The Financial Times*, March 3, 2020. https://www.ft.com/content/9161e62c-5cb1-11ea-b0ab-339c2307bcd4.

[63] Strauss, Delphine, Why There Are no Winners From the Oil Price Plunge This Time, *The Financial Times*, March 10, 2020. https://www.ft.com/content/da2b0700-622c-11ea-b3f3-fe4680ea68b5; Mufson, Steve and Will Englund, Oil Price War Threatens Widespread Collateral Damage. *The Washington Post*, March 10, 2020. https://www.washingtonpost.com/climate-environment/oil-price-war-threatens-widespread-collateral-damage/2020/03/09/3e42c9e2-6207-11ea-acca-80c22bbee96f_story.html.

[64] Texas Oil Groups: Panhandling Ahead, *The Financial Times*, January 20, 2020.

[65] Ibid.

[66] Hille, Kathrin, Alistair Gray, and Patrick McGee, Coronavirus delays PC and smartphone shipments for weeks, *The Financial Times*, March3, 2020. https://www.ft.com/content/72742872-5c31-11ea-b0ab-339c2307bcd4.

[67] Newmyer, Tory, The Finance 202: Stocks Stage Major Comeback, but Manufacturing Report Points to Continued Coronavirus Pain, *The Washington Post*, March 3, 2020. https://www.washingtonpost.com/news/powerpost/paloma/the-finance-202/2020/03/03/the-finance-202-stocks-stage-major-comeback-but-manufacturing-report-points-to-continued-coronavirus-pain/5e5d84a6602ff10d49ac081f/?itid=hp_hp-cards_hp-card-politics%3Ahomepage%2Fcard-ans.

[68] Lynch, David J., Economic Fallout From China's Coronavirus Mounts Around the World, *The Washington Post*,

Disruptions in the movements of goods and people reportedly are causing some companies to reassess how international they want their supply chains to be.[69] According to some estimates, nearly every member of the Fortune 1000 is being affected by disruptions in production in China.[70]

Conclusions

The quickly evolving nature of the Covid-19 crisis creates a number of issues that make it difficult to estimate the full cost to global economic activity. These issues include, but are not limited to:

- How long will the crisis last?
- How many workers will be affected both temporarily and permanently?
- How many countries will be infected and how much economic activity will be reduced?
- When will the economic effects peak?
- How much economic activity will be lost as a result of the viral outbreak?
- What are the most effective monetary and fiscal policies at the national and global level to address the crisis?
- What temporary and permanent effects will the crisis have on how businesses organize their work forces?
- Many of the public health measures taken by Italy, Taiwan, South Korea, Hong Kong, China, etc. have sharply impacted their economies (plant closures, travel restrictions, etc.). How are the tradeoffs between public health and the economic impact of policies to contain the spread of the virus being weighed?

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[69] Ibid.

[70] Ibid.

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