IMPACT OF COVID ON ECONOMIC SCENARIOS

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ABSTRACT

Since the beginning of 2020, the COVID-19 pandemic has had a significant impact on worldwide economic activity. When a new coronavirus (COVID-19) started spreading so quickly, authorities had to take immediate and dramatic action, which included everything from social seclusion to the cancellation of public events and the enactment of lockdowns and shutdowns. In certain countries, the intensity of these restrictions has begun to diminish as authorities begin to progressively lift them and reopen specific economic sectors. Perhaps for some time to come, social isolation and other control measures will continue to be implemented. There has been an impact on supply as a result of these containment efforts as well as a reduction in aggregate demand as a result of heightened uncertainty and self-isolation by individuals owing to the rapid spread of the disease. The widespread closure of businesses has resulted in a significant worsening of job circumstances, a rise in the liquidity demands of businesses, and significant disruptions to the financial markets. Despite the lack of up-to-date factual statistics, a drop in economic activity of unparalleled proportions is already evident.

KEYWORDS: *COVID-19 Impact on Economy, Economy and Impact from Pandemic*

INTRODUCTION

There is a need for a scenario analysis since there is so much ambiguity about the COVID-19 pandemic's economic impact. The pandemic's progress, the necessity for and success of containment measures, and the probable appearance of medical therapies and cures are all subject to significant levels of uncertainty. A scenario analysis may be used to highlight these uncertainty, based on broad storylines for the aforementioned components and their economic impacts. Because these are fictitious examples put together by employees at the European Central Bank, they should not be taken as an indicator of Eurosystem staff macroeconomic estimates for 2020, which will be released in June. To make matters worse, this box only considers economic activity, but the Eurosystem staff's upcoming June 2020 macroeconomic estimates will include a comprehensive evaluation of inflation expectations [1].

To demonstrate the wide variety of effects that a COVID-19 pandemic may have on the Eurozone economy, three different scenarios are shown below. Some of the scenarios differ depending on a variety of factors, including how long strict lockdown measures are in place and what effect they have on specific sectors of the economy, how long-term containment measures affect the economy after they are lifted, how economic agents respond to disruptions, and how long-term disruptions affect economic activity after they are lifted. These scenarios for the Eurozone are based on the same general storylines for the global economy (and hence for the demand for the Eurozone's exports), but abstracting any other feedback loops relating to financial market disruptions or long-term effects of chronically high unemployment.

A moderate to severe economic impact is possible, depending on the assumptions underpinning the three distinct illustrated alternative scenarios. Only minor economic losses are incurred in the first (moderate) scenario of rigorous lockdown and additional containment measures, as well as quick improvements in medical treatments, which are expected to last for a short length of time (ending in the course of May 2020). Short-lived rigorous lockdowns are followed by more severe and long-lasting confinement restrictions in the second scenario (medium), which means a delayed restoration to regular activity and long-term production losses. Even if strong lockdowns are eased slightly in the third (severe) scenario, there is still a significant risk of the virus spreading, which necessitates the continuation of tough containment measures even if the lockdowns are eased. In the absence of a vaccine or other appropriate medical remedy, continuous attempts to limit the spread of the virus would continue to have a considerable impact on the economy. This won't happen until the second half of 2021, at the earliest. So the loss of output in this situation is expected to be substantial and lasting [2].

Economic sectors in the Eurozone are affected differently by containment measures taken during shutdown times. Services, particularly those connected to travel and leisure activities, take the brunt of the decline in activity. This has already been shown by a number of the surveys that have been conducted. As a result of the supply restrictions caused by the lockdown, numerous parts of the industry have seen a significant drop in production. Retail, transportation, lodging, and food service are all expected to suffer greater losses in value added as a result of the containment measures than the manufacturing, construction, and other industries (see Table A). Based on anecdotal experience and publicly accessible survey data, this sector split is just illustrative. There are estimates from other universities that are roughly in accord with the results from this study. Depending on the country, the first economic loss due to the lockdown is estimated at 30 percent of the value contributed compared to regular operation. It is expected that the first economic losses will be reduced in the second quarter of 2020 when agents respond to minimise economic disturbance. A month of extra lockdown measures would have a negligible influence on the yearly GDP level if the assumptions used in these examples are correct.

The current economic crisis is the worst since the Great Depression. Strategic, financial and operational choices may be made more effectively in the face of such uncertainty by considering a succession of plausible and relevant futures to understand the signs and transmission mechanisms that can be used to make judgments.

To think about the transition from health care to the economy in a linear fashion would be a mistake. Because of their closeness, the two will continue to influence each other for many years to come. We must alter our perspective in order to do this. As a result, we should expect our recuperation to occur in "waves," rather than in alphabetical order. If you think about it, we may have to adjust our thinking from a post-COVID to a post-COVID world. As a result of this way of thinking, we must be ready for and control expectations that the healing process will be difficult or unpleasant [3].

This paper contains a number of possible future states, each with its own set of economic ramifications that are based on a variety of assumptions about epidemiology, society, technology, and politics.

For strategic planning and decision making, these economic scenarios are not forecasts of what will happen; rather, they are hypotheses about what may happen.

TABLE 1 : INITIAL SECTORAL LOSSES DUE TO STRICT LOCKDOWN MEASURES

Sector	Loss
Agriculture	10
Industry (excl. manufacturing and construction)	40
Manufacturing	40
Construction	40
Retail trade, transport, accommodation, food service activities	60
Information, communication	10
Financial and insurance activities	10
Real estate activities	20
Professional, scientific, administrative and technical activities	30
Public administration	10
Arts, entertainment, recreation and other activities	30

Strict containment measures are expected to severely affect economic activity in the euro area well beyond the short-term horizon

The sectoral approach used to assess the economic losses associated with the COVID-19 pandemic allows for the calculation of a time profile of indicative losses (as a percentage of maximum sectoral losses) implied by the virus containment measures in the euro area under the three alternative scenarios (see Chart A). The maximum sectoral losses (including direct and carry-over impacts) are assumed to occur in the first week of April 2020. The economic losses due to lockdowns began to build up in March – as different countries enforced lockdown measures – and after reaching a peak at the beginning of April, they are expected to decline to close to 50% of their maximum level by mid-May, end-May and in the course of June under the mild, medium and severe scenarios, respectively, as looser containment measures allow for a gradual restart of economic activity. While containment measures – coupled with the longer-lasting costs inflicted on activity stemming from the pandemic – are expected to exhaust their negative impact by end-2021 under the mild scenario, they would continue to weigh on economic activity in 2022 under the medium and severe scenarios [4].

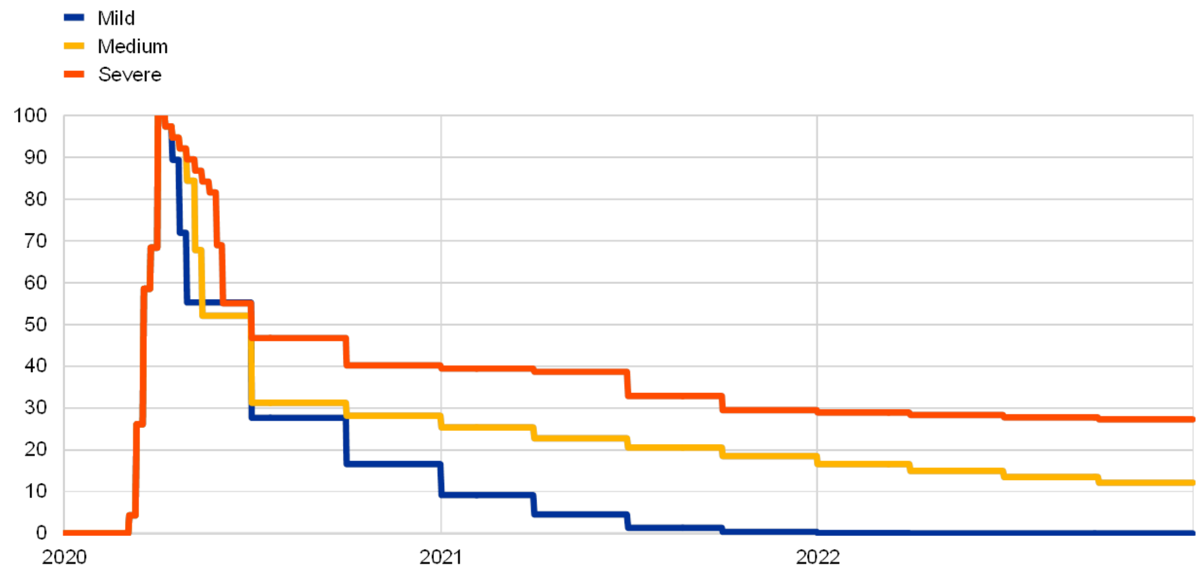

Figure 2 : Economic Impact

There is an alarming rate of infection with the COVID-19 pandemic, which has infected millions and slowed economic activity to the point of near-standstill. When health and human toll mounts, the economic harm begins to emerge and marks the greatest economic shock the globe has seen in decades.

For both short-term and long-term growth forecasts, the June 2020 Global Economic Prospects provides a comprehensive picture of both. Global GDP is expected to fall by 5.2 percent in 2020, the biggest recession in decades, according to the most conservative baseline prediction, which takes into account market exchange rate weights. Long-term economic damage is projected to be inflicted by the pandemic's profound recessions, which are expected to have a lasting impact on investment, human capital, and global trade and supply links [5-8].

An immediate response is required to mitigate the health and economic effects of the epidemic, safeguard those most at risk, and lay the groundwork for a sustainable recovery. If you're an emerging market or developing country, it's imperative to enhance public health systems, address the issues posed by informality, and undertake reform measures to ensure long-term economic development after the health crisis is over.

Income Per Person Has Decreased Historically

Global per capita income will decline in the highest proportion of nations since 1870 as a result of the pandemic, which is predicted to hit most countries in 2020. The world's most developed economies are expected to decrease by 7%. With their own internal breakouts of the virus, emerging market and developing nations would suffer a 2.5 percent contraction in their GDP. For the first time in at least six decades, this group of economies is demonstrating their worst performance.

Long-Term Damage To Potential Output, Productivity Growth

The June 2020 *Global Economic Prospects* looks beyond the near-term outlook to what may be lingering repercussions of the deep global recession: setbacks to potential output —the level of output an economy can achieve at full capacity and full employment —and labor productivity. Efforts to contain COVID-19 in emerging and developing economies, including low-income economies with limited health care capacity, could precipitate deeper and longer recessions —exacerbating a multi-decade trend of slowing potential growth and productivity growth [9].

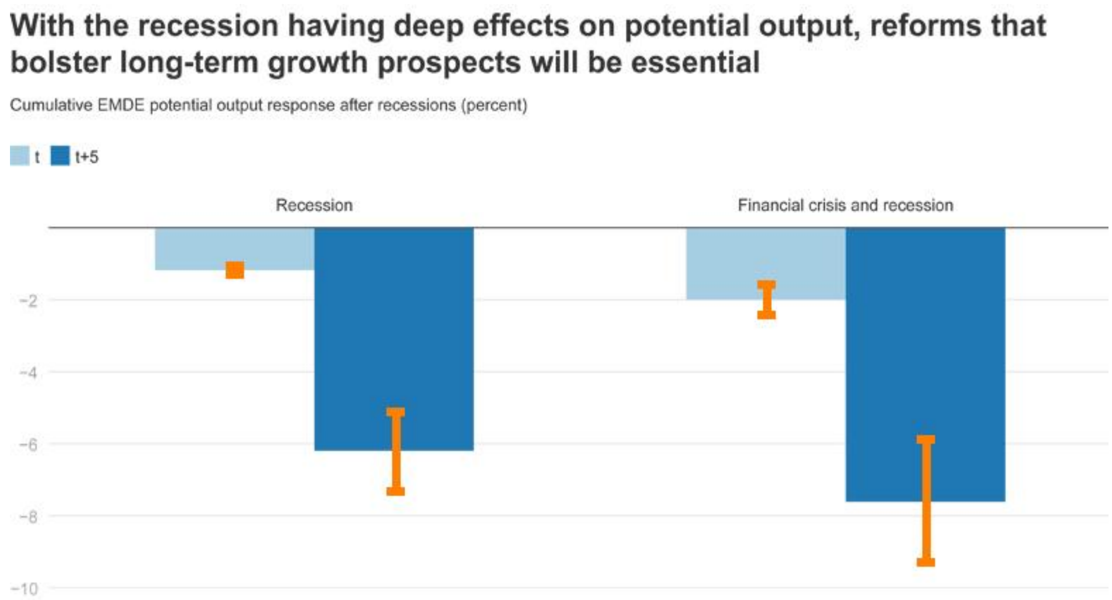

Figure 3 : Deep Impact

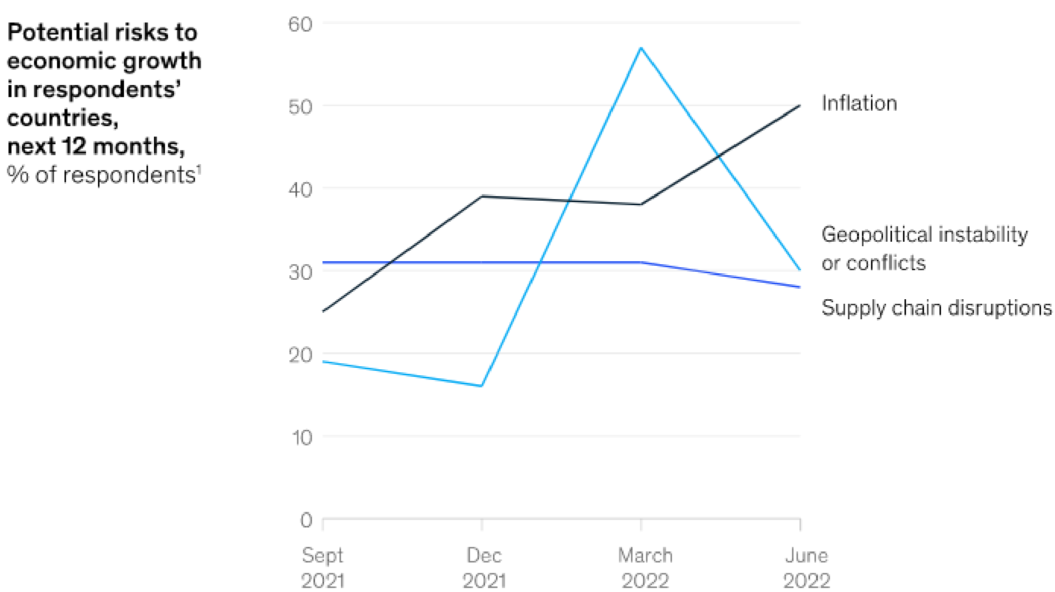

Figure 4 : Risk Factors

Additionally, oil demand and oil prices have fallen to their lowest levels in history. As soon as limitations on economic activity are eased, the low oil prices are anticipated to give at most a brief initial boost to GDP. It's possible that the costs to energy exporters will surpass any gains made by energy importers even if demand increases. Oil producers have a chance to diversify their economies while oil prices are low. It's possible that after the current health crisis passes, the recent drop in oil prices may give additional impetus for reforming energy subsidies [10].

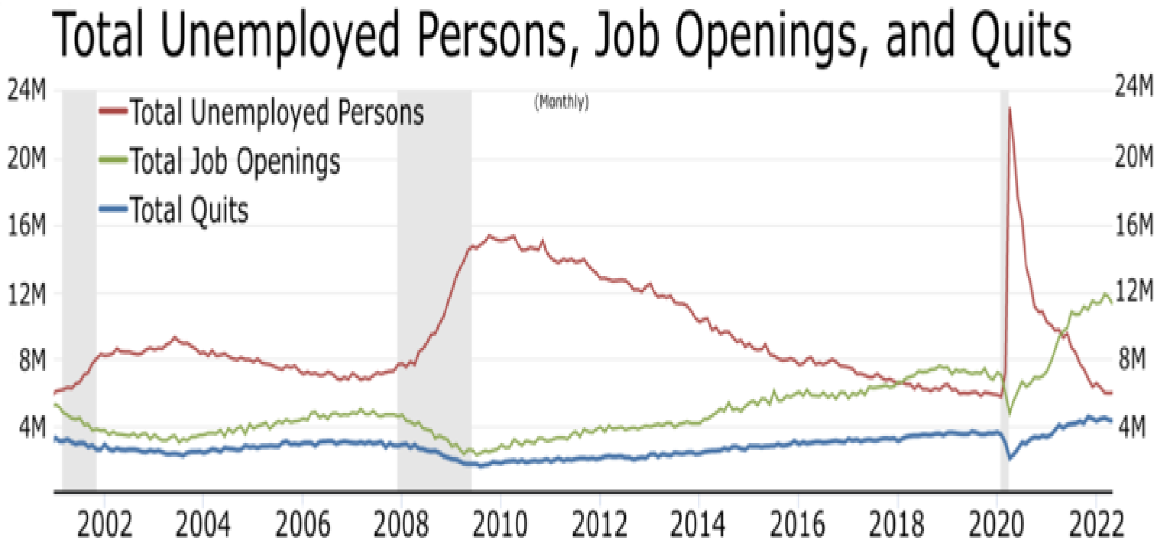

Figure 4: Unemployment Aspects

It is imperative that governments solve the current health crisis and limit the short-term economic harm in light of this alarming forecast. As soon as the economic crisis is over, the government must implement long-term reforms to enhance the underlying drivers of economic development.

Health services must be strengthened and targeted stimulus measures put in place to assist rekindle growth, including support for the private sector and direct funding for the people. Policies to rebuild both short and long term. A country's mitigation efforts should centre on maintaining economic activity by providing assistance to individuals and small businesses, as well as to key services.

It is only through worldwide collaboration and coordination that we have the best opportunity of halting the pandemic's spread and reducing its economic impact, particularly through foreign aid and other forms of financial assistance.

However, geopolitical instability and inflation have surpassed variable energy prices in terms of worry for global economies, as they were in the March 2022 Global Risks Survey. Volatile energy prices and increasing interest rates are the top two global threats, with supply chain disruptions rounding out the top three.

The COVID-19 pandemic has had far-reaching economic consequences including the COVID-19 recession, the second largest global recession in recent history, decreased business in the services sector during the COVID-19 lockdowns, the 2020 stock market crash, which included the largest single-week stock market decline since the financial crisis of 2007–2008 and the impact of the

COVID-19 on financial markets, the 2021–2022 global supply chain crisis, the 2021–2022 inflation surge, shortages related to the COVID-19 pandemic including the 2020–present global chip shortage, panic buying, and price gouging. It led to governments providing an unprecedented amount of stimulus. The pandemic was also a factor in the 2021–2022 global energy crisis and 2022 food crises.

Possible instability generated by an outbreak and associated behavioural changes could result in temporary food shortages, price spikes, and disruption to markets. Such price rises would be felt most by vulnerable populations who depend on markets for their food as well as those already depending on humanitarian assistance to maintain their livelihoods and food access. As observed in the 2007–2008 world food price crisis, the additional inflationary effect of protectionist policies through import tariffs and export bans could cause a significant increase in the number of people facing severe food insecurity worldwide [11].

Many fashion, sport, and technology events have been canceled or have changed to be online. While the monetary impact on the travel and trade industry is yet to be estimated, it is likely to be in the billions and increasing [12].

Amidst the recovery and containment, the world economic system is characterized as experiencing significant, broad uncertainty. Economic forecasts and consensus among macroeconomics experts show significant disagreement on the overall extent, long-term effects and projected recovery. Risk assessments and contingency plans therefore must be taken with a grain of salt, given that there is a wide divergence of opinion. A large general increase in prices was also attributed to the pandemic. In part, the record-high energy prices were driven by a global surge in demand as the world quit the economic recession caused by COVID-19, particularly due to strong energy demand in Asia.

During the first wave of the COVID-19 pandemic, businesses lost 25% of their revenue and 11% of their workforce, with contact-intensive sectors and SMEs being particularly heavily impacted. However, considerable policy assistance helped to avert large-scale bankruptcies, with just 4% of enterprises declaring for insolvency or permanently shutting at the time of the COVID wave.

CONCLUSION

More over half of those polled expected global economic prospects to worsen in the months ahead during the early months of the epidemic in 2020, when pessimism about the second half of 2022 was at its highest. More over half of those surveyed believe global circumstances will deteriorate in the next six months, while just 29% believe they will improve. 39 percent of respondents anticipate their economies to improve in the near future, which is a bit more optimistic than the global economy's prognosis. Only around half of respondents anticipate their home economies to grow in this survey, the first since September 2020. They're almost as likely to predict a decrease as an improvement in economic conditions now.Asia-Pacific and Greater China respondents are generally more optimistic about their economies' second half of 2022 than they were in the last poll, although overall confidence has decreased since the previous survey (Exhibit 2). Similarly, European and North American respondents' outlooks on the future have worsened throughout this period.

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