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Impact of Coronavirus on World Economy

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The outbreak of coronavirus (COVID-19) has entailed great human suffering and severe economic disruption. China's output contractions are felt worldwide, reflecting the country's key and growing role in the world supply system, travel and product markets.

In China, containment measures included quarantine and widespread restrictions on labor mobility and travel, which led to unplanned delays in restarting plants after the Lunar New Year holiday and a sharp reduction in many service sector activities. These measures involve a serious reduction in production, while the effects of the outbreak persist.

The negative consequences of these events for other countries are tangible, including a direct destruction of the world supply system, lower final demand for imported goods and services, and a wider regional reduction in international tourism and business travel.

Compared to similar episodes in the past, such as the outbreak of SARS in 2003, the global economy has become much more interconnected, and China plays a much more serious role in global production, trade, tourism and commodity markets. This increases the economic consequences for other countries from the adverse shock in China. Even if the peak of the outbreak is short-lived, with a gradual recovery in production and demand over the next few months, it will still have a crucial impact on the global growth in 2020 [1].

The pandemic has significantly weakened world economic prospects in the near term. Since the outbreak in January, people have become infected worldwide, with their share growing rapidly outside of Chinese Peoples Republic. The outbreak started in Hubei, that accounts for about 4.5% of China's production, but the effects quickly manifested throughout China when efforts to control the spread of the virus led to widespread restrictions on passenger traffic and labor mobility and hours worked.

The decline in production in China has been quickly felt by businesses around the world, taking into account the key role of China in the world supply chains as a manufacturer of computers, electronics, pharmaceuticals and transportation equipment, as well as the main source of demand for many goods [2].

Travel restrictions and discontinuation of scheduled visits, flights, business and leisure activities seriously affect many service sectors. Worldwide, Chinese tourists make up about one tenth of all foreign tourists and a quarter or more of all visitors to Japan, Korea and some small Asian countries.

Based on this, it is predicted that global GDP growth will slow from 2.9 per cent in 2019 to 2.4 per cent this year, and then reach about 3¼ per cent in 2021, as the effects of coronavirus are gradually disappearing and production is gradually recovering. A weakened fiscal policy will also help in Asian economies, but it will probably be more restrictive than desirable in many other countries, especially in Europe, given the weak growth prospects and low borrowing rates.

The effects of the coronavirus pandemic on the economies less closely integrated with China are projected to be weak, especially in the United States and Canada, although the decline in confidence, disruptions of the world supply chains and weaker external demand will hold back growth prospects.

Gradual recovery in many emerging market economies is projected for 2020-21, but the extent of this recovery remains uncertain. The upsurge will require the positive impact of reforms and support for monetary policy in India and Brazil, targeted policies in Mexico and Turkey to stimulate sustainable growth, and the gradual recovery of commodity exporters prone to the slowdown in China this year.

In case outbreaks spread exponentially in the Asia-Pacific region or largest advanced economies in northern hemisphere, the global GDP could be reduced by 1.5 per cent in 2020. Also, the overall impact on China will increase, reflecting a decline in major export markets and supplying countries.

Targeted measures are now needed not only in China, but in all countries which are affected by the pandemic. In all economies, especially those which suffered from the coronavirus most, there is an urgent need for efficient public health measures that could stop the speed of the infection spread. A targeted economic policy is required to support the provision of medical care [3].

First of all, additional financial support is required for health services, including sufficient resources to provide adequate personnel and testing facilities, as well as all necessary measures to prevent, contain and mitigate the consequences.

Measures can also be taken to mitigate the adverse effects of the outbreak on vulnerable social groups. Short-term work schemes can be used to increase the flexibility of working hours while preserving jobs, although such schemes do not protect temporary workers or migrant workers from layoffs. Governments can also help households by providing temporary assistance, such as remittances or unemployment insurance, to workers on unpaid leave.

Monetary policy should remain supportive. Subject to current growth forecasts, there is a limited need for further interest rate cuts in the United States unless the risks of a more severe growth slowdown increase. The euro zone and Japan may face the new need for additional non-traditional measures. A number of emerging market economies, including Brazil, India and Mexico, have the potential to further soften monetary policy in case inflation declines, while taking advantage of fiscal and structural measures that enhance investor confidence.

In addition to provisional measures to support sustainable enterprises and vulnerable workers, coordinated policy actions will be required in all major economies to provide effective health care worldwide and provide the most effective incentives for the world economy. Additional support for fiscal and monetary policies and the strengthening of structural reforms in all countries will help restore growth, increase consumers and investors' confidence and reduce uncertainty.

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