THE IMPACT OF THE COVID-19 PANDEMIC TO THE GROWTH OF THE GLOBAL REAL GDP

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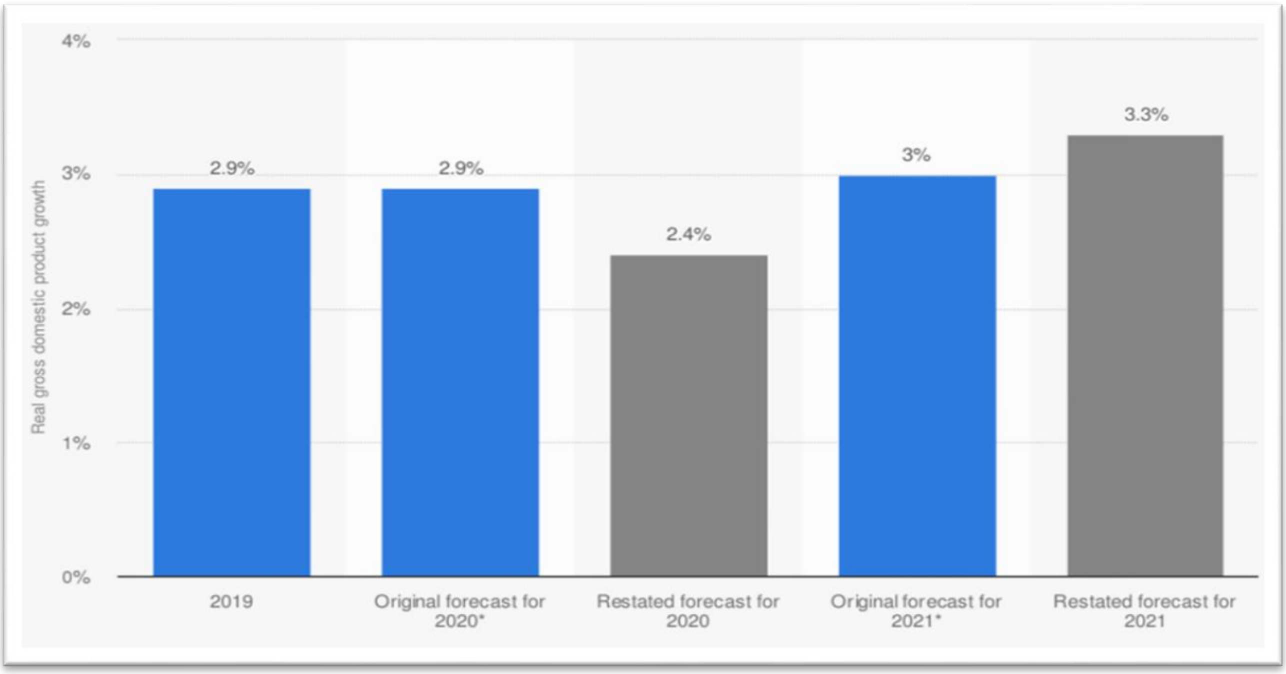
The COVID-19 pandemic is inflicting high and rising human costs worldwide. Protecting lives and allowing health care systems to cope have required isolation, lockdowns, and widespread closures to slow the spread of the virus. The health crisis is therefore having a severe impact on economic activity. As a result, in just three months, the forecast for 2020 has shrunk sharply from the expected 3 percent increase globally to a negative 3 percent, far exceeding the product losses seen during the 2008-2009 global financial crisis. The extent of the impact of the crisis on the global economy and the timing of the economy's recovery are very uncertain. This crisis poses a serious threat to the stability of the global financial system. Following the outbreak of COVID-19, financial conditions have deteriorated at an unprecedented rate, leading to some "cracks" in global financial markets. Volatility in the market has intensified and borrowing costs have increased as a result of widespread defaults. Tensions have arisen in key financing markets, including the global financing market for the U.S. dollar. The outflows of large capitals have also exacerbated various shocks in the domestic markets of countries in emerging market economies.

These changes could put pressure on banks as borrowers become unable to repay their debts, leading to a halt in credit markets over a period of time. Long-term dislocation in financial markets can cause panic among financial institutions and in turn lead to a credit crisis for non-financial borrowers and exacerbate the economic crisis.

The coronavirus (COVID-19) pandemic is seen as a historical problem because it is the first-time humanity has encountered such an unprecedented problem. In mid-February, when financial market participants feared that the epidemic would turn into a global pandemic, stock prices plummeted from previous levels. The impact of the pandemic on credit markets, especially in risky segments such as high-yield bonds, leveraged loans and private debt, has been widespread, and the issuance of these segments has largely ceased. These changing market conditions have led to a return to quality with a sharp decline in yields on secure bonds. The negative consequences of this pandemic are causing enormous economic hardship to any category of states.

Figure 1. Forecasted Global Real Gross Domestic Product (GDP) growth due to the coronavirus (COVID-19), from 2019 to 2021



Source: OECD. Statista 2020

According to the international organizations like the IMF, global economic growth in 2020 will be minus 3%, which is a negative decline. This situation is even worse than in the 2009 global financial crisis. According to the International Monetary Fund in October 2019, the growth forecast for the current year was 6%, but after the onset of the pandemic, the situation has changed radically, and the above data is re-analyzed. The slowdown in economic growth during the pandemic period mainly falls on the group of developed countries, and the growth rate for 2020 was minus 6.1 percent for this group of countries. Figure 1 shows the forecasted Global Real GDP growth due to the pandemic from 2019 to 2021. According to the figure in 2020 restated forecast of the growth of Real GDP will be about 2.4% while the original forecast for 2020 will be 2.9%. Moreover, in 2021 the original and restated forecasts of the growth of the Real GDP will be 3% and 3.3%, respectively.

Global economic growth is expected to rise to 5.8 percent in 2021, which is a positive indicator, showing a return to normal levels of economic activity from very low levels of it. While the growth rate in the emerging market and developing economies is 6.6 percent, in developed economies it is 4.5 percent. For comparison, the global growth rate in 2010 rose from minus 0.1 percent in 2009 to 5.4 percent. The resumption of global economic growth in 2021 is due to the complete cessation of the pandemic in the second half of 2020, and the removal of strict restrictions on the pandemic will lead to a gradual return of consumer and investor confidence and which in turn restarts the laws of the market. Significant economic policy measures have been taken to meet the requirements of public health care by limiting to some extent the economic activity and the financial system around the world. The projected recovery assumes that these policy measures will be effective in preventing widespread bankruptcy, rising unemployment, and financial strains of firms. This crisis is not like any other one. First, the shock is huge. The costs associated with this emergency and the measures to prevent it are more than the losses caused by the global financial crisis. Second, as in a war or political crisis, there is a strong uncertainty about the duration and intensity of the blow. Third, there are different roles in economic policy in the current context. In normal crises, policymakers try to stimulate economic activity by stimulating aggregate demand as quickly as possible. This time the crisis requires a certain amount of preventive measures. This makes incentive activities more difficult and undesirable, at least for the most affected sectors.

Countries are taking drastic measures to maintain economic and financial stability and prevent the emergence of negative macro-financial gaps. Central banks have eased monetary policy and are ensuring the liquidity of the financial system, including influencing the economy through currency exchange lines to maintain credit flows. As a result of these efforts, funding markets have retained their functions and have shown that investor sentiment has improved. Supervisors are urging banks to renegotiate loan terms with those who have problems repaying their debts to help reduce losses and overcome economic hardship. The country’s government is helping people and companies through large-scale, timely and targeted financial measures to limit the defaults of firms and households through moratoriums on payments and guaranteed loans. Multilateral cooperation has increased the available resources to support the most vulnerable countries and communities. The IMF, with $1 trillion in available resources, is actively supporting its member countries. These policies are necessary to ensure that the suspension of production does not lead to further damage to the productive capacity of the economy, the financial system and the structure of society. Once the spread of the virus is under control, policies should be aimed at stimulating economic recovery, as well as assessing and treating the damage caused by the pandemic to the balance sheets of non-financial firms, financial institutions and governments.

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