



## **An Analysis of the Economic Fallout of the COVID-19 Pandemic and Subsequent Stimulus Packages**

### **Introduction**

This may be the first time that history finds it so easy to mark the transition from the second decade to the third decade of a century with a specific event. This is the COVID-19 Pandemic. At the time this Insight was released, the number of global cases of infection was more than 3 million with the death toll surpassing 211,000, with more than half of the world's population still under lockdown. The world economy has in reality been dragged to a halt despite the expeditious and unprecedented rescue packages rolled out to salvage the economic, social and even political systems from decaying and collapsing. The world is racing against time to develop vaccines and effective cures to stop this humanitarian calamity. Some countries are cautiously celebrating a preliminary victory against the pandemic and others now have hope with a weak light at the end of the tunnel.

Taking into account the current global climate and following the State of Emergency Decree by Portuguese Government, the International Metals Study Groups decided to cancel their scheduled and fully prepared April meetings mainly in order to protect the health and safety of the renowned speakers, delegates, staff and vendors. At the same time, the secretariat has been working on relevant meeting documents and closely monitoring global developments. In this latest issue of our series of Insights, we will discuss the economic, commercial and financial fallout of this pandemic and the major economic rescue and stimulus packages being employed to fight the virus and resuscitate the global economy.

### **Comments or Questions**

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#### *Disclaimer*

*This Insight has been developed to provide member countries and industrial representatives with a summary of the current stimulus packages employed to fight the COVID-19 pandemic and minimize damage to the world economy. The contents of this Insight are based on publicly available information. Due to the fast changing situation, readers are recommended to refer to relevant governments and institutions mentioned herein for the most recent policy updates at the time of reading this Insight. All information and data were current as of 27 April 2020.*

## Global Economy in Recession

The world economy is in reality falling into a recession with almost every corner of the world and every part of economic system feeling the effects of the COVID-19 pandemic. The impacts include: non-essential commercial outlets shuttered, over 90% of passenger aircraft grounded, schools suspended, global supply chains broken, workers laid-off or furloughed, hotels and restaurants shut down and a significant increase in volatility in the financial markets. The world economy is effectively on hold and all analysts are revising down their estimations. For instance, the International Monetary Fund revised global GDP growth to minus 3% in their April Global Economic Outlook, the Fund also pointed out further downside risks due to the unclear scenarios posed by the pandemic.

### IMF GDP FORECASTS MADE IN APRIL 2020

Real GDP growth (Annual percent change)	2019	2020	2021
Australia	1,8	-6,7	6,1
Brazil	1,1	-5,3	2,9
China, People's Republic of	6,1	1,2	9,2
India	4,2	1,9	7,4
Japan	0,7	-5,2	3
United States	2,3	-5,9	4,7
Europe	1,6	-6,7	4,4
Euro area	1,2	-7,5	4,7
European Union	1,7	-7,1	4,8
World	2,9	-3	5,8

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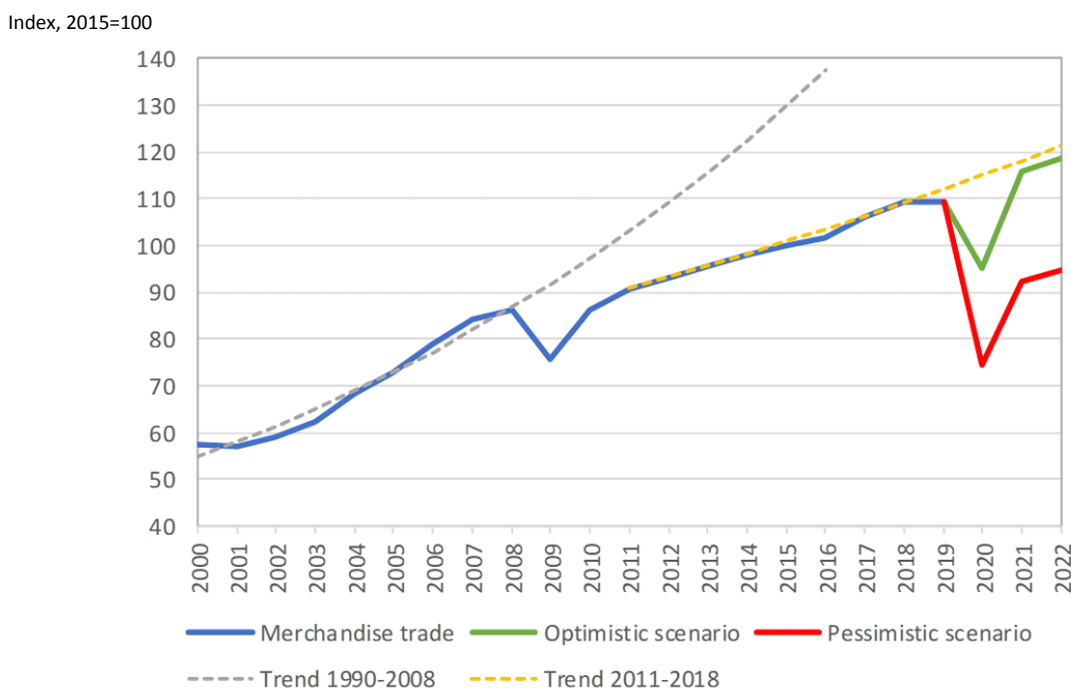
The bright side is that there is confidence that there will be a quick recovery in 2021, assuming that by then the coronavirus is contained. Among the three categories of recession: structural, cyclical and event-driven, the event-driven recession normally sees a quick rebound with the prerequisites that proportionate fiscal, monetary and other intervening policy tools can be put in place.

### Deterioration in Global Trade

Global trade had already been buffeted by rising protectionism and trade tensions between major trade partners over the past two years. The COVID-19 pandemic adds to these problems. According to the World Trade Organization (WTO), world trade will suffer a loss of between 13-32% this year; this wide range of estimation itself shows the extent of uncertainty caused by the pandemic. With the wide lockdown of the global economy, the service sector will suffer in addition to merchandise trade with the travel bans, the prohibition of retail, entertainment and hospitality activities implemented as some of the

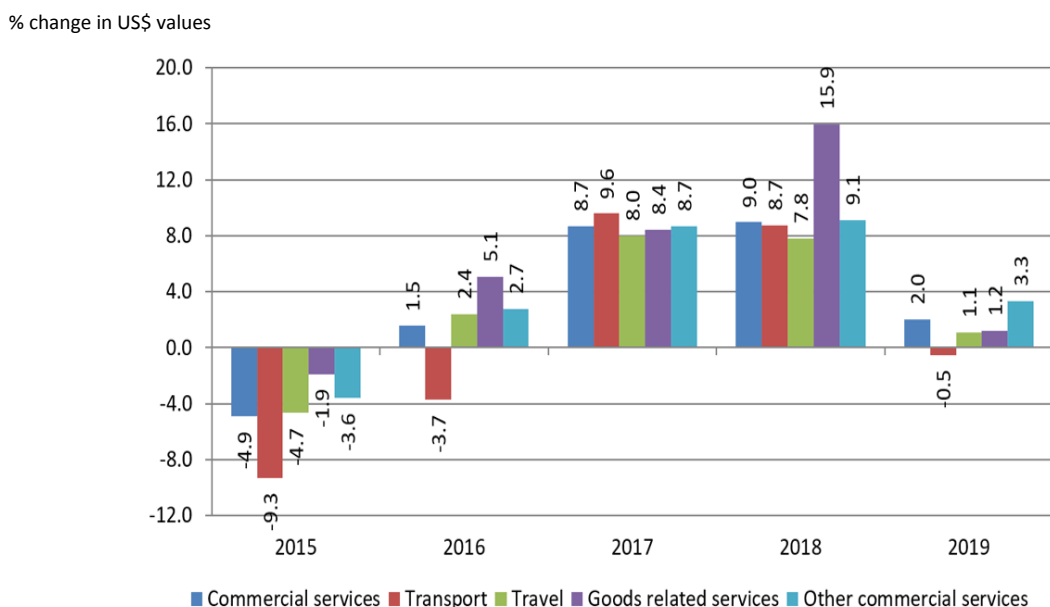
main measures to contain the spread of the coronavirus.

### World merchandise trade volume, 2000-2022



Source: WTO Secretariat.

### Growth in the value of commercial services exports by category, 2015-2019



Source: WTO Secretariat, UNCTAD and ITC.

How quickly and effectively world trade can recover relies not only on the evolving situation of COVID-19, but also on the direction the already constrained global trade environment is moving in. The eventual reflection on the fallout of this pandemic is very likely to diverge between different parties. A consensus on further global integration or a recast of global supply chains will be one of the main issues to be addressed. Perhaps one of the main questions is: are we entering a new era of de-globalization or re-globalization?

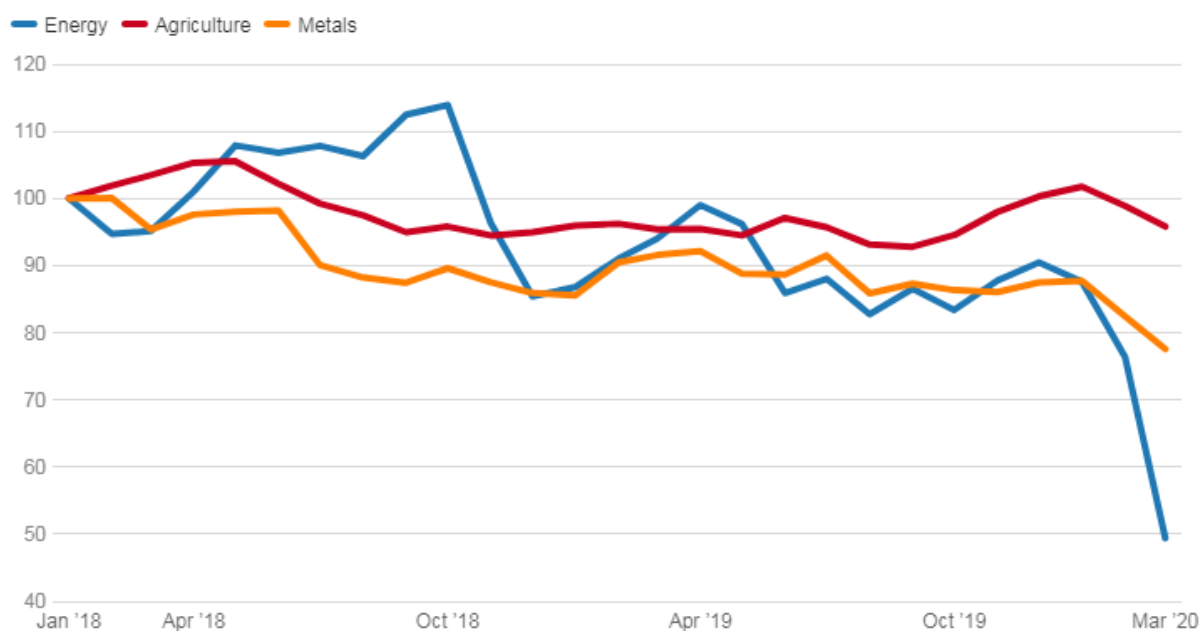
## Consumption, Export and Investment

The COVID-19 pandemic is negatively impacting both economic and societal systems. The shocks and scars will be felt even after a vaccine or effective treatments are found and the coronavirus is defeated. To lift the world economy out of the recession left by the pandemic, the traditional three economic stimuli need to be carefully crafted and balanced. Consumption is likely to be constrained as those furloughed or laid-off will have less money to spend. A variety of governments are giving out helicopter money (money created directly by the central bank and transferred to the wallets of the public) but ultimately those receiving the money will pay for it. Exports, as already mentioned, have been constrained. We can expect more salt to be rubbed into the wound in the aftermath of this pandemic, particularly for those export-oriented or export-dependent economies. The worldwide shutdown has weakened production activities and disrupted global supply chains and resulted in a diminished commodity market and deteriorating prices. This will certainly have a negative impact on current account balances and the international payment capabilities of the commodity export dependent countries which in turn could limit their strength in fighting the virus.

### As the coronavirus pandemic worsened, commodity prices fell

Index US\$ (Jan 2018 = 100)

Source: World Bank



Last observation is March 2020

Investment is the last resort for governments to boost economic activities in spite of the current dilemma of mounting government debt and already limited monetary and fiscal room for manoeuvre due to years of expansionary fiscal and monetary policy. To be effective, government investment and public spending should be designed as seed funding to activate private investment and attract foreign direct investment which the United Nations Conference on Trade and Development (UNCTAD) predicts will drop by 40% in 2020-2021 in the aftermath of the pandemic. UNCTAD's figures also pointed to a precipitous

decline of 50% and 70% respectively in global mergers and acquisitions for the months of March and April this year.

## **Impact on Unemployment**

According to the International Labor Organization (ILO), roughly 81% of the world's 3.3 billion working population has suffered from business closures or reduced working hours. The organization is concerned that their job loss estimate of 25 million in 2020 will be too conservative based on its recent released data that there are 1.25 billion jobs in sectors very vulnerable to the pandemic. Most of those jobs are low-paid and low skilled. A mass loss of this size could be devastating. Businesses, governments and labor advocacy groups need, on one hand, to work collaboratively to help those most vulnerable to job loss survive the current situation. On the other hand, strong policy tools need to be employed to try to ensure that temporary job losses don't become permanent. To this end, the current rescue packages to keep firms afloat, particularly for small and medium sized businesses (SMEs) are crucial and, if necessary, could be further strengthened.

## **Country and Region Specific Stimulus Packages**

The next section of the Insight will examine the stimulus packages that have already been rolled out or are being considered by various regional and national economies.

### **China**

China was the first country impacted by COVID-19. This resulted in the almost complete sealing-off of Wuhan, the epicenter of virus, starting on January 23. The following quasi nationwide lockdown eventually proved to be effective. This cause and effect relationship came at the cost of the economy. The world's acknowledged growth engine in recent years saw a 6.8% reduction in GDP over the first quarter of 2020. This ended nearly half of century of uninterrupted growth. Now the government is synchronizing its policies to revitalize the economy with continued efforts to curb the resurgence of the pandemic in the country. To have a sense of the size and target of the current stimulus package, it is useful to consider the rescue package adopted in the aftermath of the 2008 financial crisis. At that time the RMB4 trillion (\$575 billion) stimulus package was directed mainly at hard infrastructure sectors including roads, dams, airports, high-speed railways and metro lines. The effect of that package was mixed. Besides enjoying ensuing GDP growth of 9.65 percent in 2008, 9.4 percent in 2009, 10.64 percent in 2010, 9.55 percent in 2011, 7.86 percent in 2012, 7.77 percent in 2013 and 7.3 percent in 2014, the government to some extent limited its capacity to manage the economy, and a painstaking supply side structural reform characterized by phasing out excessive capacity, destocking, deleveraging and cost cutting was kick-started in 2015.

Lessons learned from the previous stimulus package and new elements such as e-commerce, 5G, renewable energy generation and storage, electric vehicles have led the government to be more sophisticated in formulating, implementing and managing the new stimulus actions.

A new package of a roughly RMB3 trillion (\$425 billion) will be implemented in combination with pro-active fiscal policies, prudent monetary and financial policies, direct compensation for the vulnerable sections of society and the promotion of vehicle consumption particularly new energy vehicles. The central government has approved project-oriented local government debt of RMB1.29 trillion (\$183 billion) to improve debt efficiency and requested local governments to issue debt in a timely fashion. Besides that, to provide local governments with ammunition to fight the pandemic, the Ministry of Finance agreed a general government debt of RMB558 billion (\$7.9 billion) for the first quarter of 2020. Small and medium sized businesses in China contributed 50% to tax revenue, 60% to GDP, 70% to technological renovation and 80% to urban employment. However, these companies are the most vulnerable to shocks resulting from the lockdown and pandemic. Therefore the central government's comprehensive financial support package incorporates a basket of tools such as preferential interest rates, loan refinancing, expanding the scope for direct financing, etc.. Instead of giving out cash to citizens, local governments are sending out coupons to households to encourage consumption and restart the economy.

As opposed to pouring money into traditional infrastructure which is normally dominated by State Owned Enterprises (SOEs), the new round of stimulus packages will focus more on new infrastructure characterized by data centers, 5G base stations, artificial intelligence, charging stations, ultra-high-voltage grids and high-speed mobility infrastructure in which the private sector already has a foothold.

It is expected that the COVID-19 pandemic will certainly result in unprecedented liquidity injections into the economic system. What also can be anticipated is that the government may ultimately resort back to investment in traditional infrastructure if the current policy takes too long to have an impact.

## **United States**

The United States is currently mobilizing its resources to defeat the pandemic and prevent its economy from sliding into a deep recession. Its eagerness to reopen the economy is understandable given the fact that 26.4 million people have claimed unemployment benefits over the 5 weeks ending 18 April. It should also be taken into account that this figure does not include those workers that are inactive but still-the-on-the-payroll and funded by the forgivable US\$349 billion Paycheck Protection Program (PPP).

So far the country has enacted four phases of a stimulus package to strengthen the health system, help businesses weather the storm, and generally assist people to cope with the

challenges presented by this situation.

Phase I was called the Coronavirus Preparedness and Response Supplemental Appropriations Act and was enacted on March 6, 2020 and provided \$8.3 billion to fund research, support the preparedness of health agencies at different levels, and provide international humanitarian aid to virus affected countries.

The title of phase II was the Families First Coronavirus Response Act which was passed on March 18, 2020. This \$100 billion package included provisions for paid sick leave, free coronavirus testing, expanded food assistance, additional unemployment benefits and additional protection for healthcare workers.

Phase III of the stimulus package included a provision of more than \$2 trillion under the designation Coronavirus Aid, Relief and Economic Security (CARES) Act was signed into law on March 27, 2020. As part of the rescue package, more than US\$600 billion will be given to individuals and families as subsistence support, another US\$500 billion was allocated to support big business and important sectors such as aircraft builders and commercial and cargo airlines, about US\$340 billion out of the package has been allocated to local and state governments for their direct response to the pandemic and to schools and child care services, small businesses can get around \$377 billion to retain their employees on payroll, the public and health sector that are directly in the frontline of fighting the pandemic will receive the remaining of about US\$179 billion.

Phase IV (or 3.5 as referenced in the some of the US Media) was a new interim relief package given the title of the Paycheck Protection Program and Health Care Enhancement Act. This was approved on April 24, 2020. This new \$484 billion package includes \$310 billion to replenish the Paycheck Protection Program, \$60 billion in economic disaster loans for small businesses, \$75 billion in emergency relief for hospitals and \$25 billion to ramp up coronavirus testing. The remaining \$14 billion is to cover the administrative costs. To further resuscitate and reboot the economy, more ambitious and bold programs are likely to be enacted in future. It is also understood that a pipeline of infrastructure projects worth of \$2 trillion is under consideration.

## **European Union, Euro Zone and Europe**

This devastating global pandemic is testing the resilience and solidarity of the Union in prospects of both its economic and social integration. Collective, decisive, coordinated, coherent and cohesive financial, monetary and political reaction to the economy and social mobility decimated by the pandemic will have a strong influence on how the continent recovers from the effects of the coronavirus. This could also result in either closer integration or future further fragmentation of the Block. An UNCTAD survey found that the composite purchasing managers index (PMI) indicator, a measure of prevailing economic trends, contracted from above 50 points in January to 31.4 by mid-March in the Euro Zone.

In the case of services the index fell to 28.4. Information compiled by the European Automobile Manufacturers Association estimates that more than 1.1 million out of a total of 2.6 million direct manufacturing jobs in the EU auto sector have been lost.

To deal with the heavy blow inflicted on the economy by the pandemic, stimuli packages at both Union and national levels have been rolled out to mitigate the economic and social consequences resulting from the virus, and lay a foundation for the quick recovery to economic and social normalcy once the pandemic is vanquished. After intense negotiation between the Eurozone finance ministers, a stimulus package with a combined value of €540 billion was on the horizon by April 9. Under this package, every Eurozone country will get an amount, equivalent to 2% of its GDP. The €540 billion consists of a €240 credit line provided by the Eurozone Stabilization Mechanism, an up to €200 billion lending capacity increase of the European Investment Bank and a pan-European guarantee fund agreed along with €100 billion to stabilize the job market. The latter two provisions are made available to all EU members. It was proposed at the virtual meeting participated by member leaders on 23 April that the package should be operation by 1 June. In addition, the European Central Bank announced a €750 billion pandemic emergency purchase program to support the Eurozone economy.

The Europe Union also amended its 2020 budget, in which, €3.1 billion was added to tackle the COVID-19 pandemic. On top of that, €37 billion from the EU budget, up to €28 billion of uncommitted structural funds and up to €800 million from the EU Solidarity Fund will be made available to be redirected to strengthen health systems, assist SMEs in weathering the storm, implement crisis-counteracting projects and help members that have been most heavily impacted by the pandemic.

Following the video conference participated by leaders from its 27 members on 23 April, the European Commission has started to consider a common recovery fund to lift the union and the member countries out of the crisis. Though the details are yet to be finalized, the size of the recovery package would amount to at trillions of euros and continue for several years after the pandemic.

At the national level, the United Kingdom appropriated £12 billion in its 2020 budget to support its economy. 80% of salaries and wages up to £2500 per month will be paid to those furloughed due to the pandemic by the government under its job retention scheme. The UK's comprehensive rescue and stimulus package also includes [The Coronavirus Business Interruption Loan Scheme \(CBILS\)](#), [Covid Corporate Financing Facility \(CCFF\)](#), [interest rate cut and liquidity injection by the Bank of England](#), and [tax relief, exemption and deferral](#). In Germany, an economic cushion package of €750 billion plus an additional debt facility of €156 billion were drafted to help the economy. In France, the government injected €45 billion into the system to support the social security system and unemployment benefits, in addition, the government will guarantee loans up to €300 billion to ensure adequate liquidity and cash flow to keep the economy afloat. Italy, the hardest coronavirus-hit country



in Europe, has ramped up its stimulus package to €750 billion, nearly half its GDP. Spain, the second hardest hit country, has announced a €220 billion stimulus package.

## Japan

Using a combination of fiscal and monetary expansion, the world third-largest economy has boosted its economic stimulus package to ¥117 trillion (\$1.1 trillion), equivalent to 1/5 of its GDP, to stave off fallout from the pandemic on its economic system and citizens. This package includes a universal cash payout of ¥100,000 (\$930) to each citizen, a maximum of ¥2 million subsidy for self-employed companies whose revenue has dropped significantly due to the pandemic, ¥13.9 billion to build up national stockpile for necessary drugs and ¥1 trillion for local governments to support their medium and small businesses. The remaining and the largest portion of the stimulus package will be achieved through expanding lending via the banking system and a deferral and moratorium of corporate tax and business cost payments. At the same time, the Bank of Japan has joined other central banks in releasing liquidity to the economy through unlimited bond purchasing in order to keep the borrowing costs low.

## Additional Actions

Proportionate stimuli packages are critical in winning the battle against the pandemic and to facilitate a rapid return to normalcy. Vulnerable regions and countries with fragmented health systems, weak governance capabilities and tight fiscal and monetary space require international aid. The pandemic is not a crisis for a specific country, it is unprecedented challenge for all of humanity. Concerted efforts and mutual support are therefore needed to tackle the challenge.

The World Bank Group has increased its funding to \$14 billion under its fast-track package of support to help developing countries respond to the pandemic. Out of the \$14 billion, \$8 billion will be channeled through the International Finance Corporation to provide loans or equity investment to companies affected by the pandemic, to mitigate the payment risk of financial institutions so that they can continue to provide trade financing, to fund emerging-market banks to extend credit to help businesses shore up their working capital, and to offer risk-sharing support to local banks so they can continue to finance companies in emerging markets. The remaining \$6 billion will be grants and low-interest loans from the International Development Association for low income countries and loans from the International Bank for Reconstruction and Development for middle income countries.

The IMF doubled the annual access limits for its rapid disbursing vehicles to about \$100 billion to meet the emergency financing requests from more than 100 countries in fighting the virus and to minimize the impact on their economies. At the same time, the IMF is working with donors to increase the Catastrophe Containment and Relief Trust to \$1.4 billion in order to extend the duration of the debt relief to low-income countries affected by the crisis and assist them with the provision of additional financial resources.

In a G20 leaders statement following its first-ever virtual summit, the group of countries

committed to take whatever measures were needed to protect lives, safeguard people's jobs and incomes, restore confidence, preserve financial stability, revive growth, minimize disruptions to trade and global supply chains, help all countries in need of assistance, and coordinate on public health and financial measures. The G-20 Group temporarily suspended debt payments from the International Development Association-eligible (IDA) countries and least developed countries beginning May 1, 2020. It is estimated that more than \$20 billion of debt repayment could be suspended up until the end of the year. The debt suspension is intended to ease the debt burdens of the developing and the least-developed countries in order for them to have more funds available for combating the pandemic.

## **ILZSG**

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