

CORONAVIRUS: HOW THE NEW VIRUS INFLUENCES THE GLOBAL ECONOMY

Anastasiia Terentieva, Georgii Romaskevych, Yulia Belokon
Odessa I.I. Mechnikov National University

Abstract. The article provides insight into the effect of the coronavirus (COVID-19) on the world economy. Papers overview the preliminary estimates that expect the global GDP growth slowdown. The article indicates the involvement of U.S., Chinese, German and Japanese economics in the global recession process and the cyclical nature of these circumstances. Reasonable pieces of advice are submitted to extinguish the coronavirus pandemic.

Keywords: coronavirus, global economies, GDP, swoon, expected growth.

INTRODUCTION. The number of people infected with the coronavirus has surpassed 114,000 worldwide. The virus that started in China late last year is having consequences for all major economies with flight cancellations, panic buying and strict quarantine measures in some cases (Amaro, 2020). The stock market's swoon is not just a symptom of the harm the virus is inflicting on the world economy, but also one of its causes. The coronavirus (COVID-19) outbreak has already brought considerable human suffering and major economic disruption. Output contractions in China are being felt around the world, reflecting the key and the rising role China has in global supply chains, travel and commodity markets. Subsequent outbreaks in other economies are having similar effects, nevertheless on a smaller scale (Coy, 2020).

The coronavirus could prove to be deadlier than it currently is; the fatality rate is around 2 per cent, but that could change. It could also prove to be the opposite if more people are found to have mild cases. The coronavirus could become a pandemic; it could also taper off. Government intervention could dull the effects in populations; a bungled response could do the opposite.

The stock market isn't the economy, but it's a signal that investors are worried about the economic outlook for the coming year because of the virus. They're predicting

that the coronavirus will continue to spread and cause more disruptions, depress demand, and maybe cause a global slowdown (Kirby, 2020).

RESULTS. There's a virtual cytokine storm going on. The all-out effort to battle the disease is doing more harm to global growth than the disease itself. Quarantines, travel restrictions, business closings, and citizens' voluntary self-protection measures have frozen business while wreaking havoc on people's routines. More people are working from home as the virus spreads to new countries and governments issue new advice. Some people in Europe are taking fewer trips on public transport and avoiding public spaces, such as museums, restaurants and movie theatres (Coy, 2020).

If extinguishing the virus is impossible, the next best thing is learning to live with it. Save extreme precautions for the most vulnerable, such as nursing-home residents, while dialling back economy-deadening measures in other spheres. For example, factories, offices, and schools should generally stay open, although with better procedures to limit contagion (hand-washing, social distancing, working from home where possible, paid sick leave). Governments can offset economic damage with stimulative fiscal and monetary policies (Coy, 2020).

Before the COVID-19 outbreak, activity data remained soft but survey indicators had begun to stabilise or improve in both manufacturing and services. Financial conditions had also strengthened following moves to increase monetary policy accommodation and reduce trade policy tensions. Preliminary estimates suggest that global GDP growth slowed further in the fourth quarter of 2019, to just over 2½ per cent (at an annualised rate on a PPP basis), with strikes, social unrest and natural disasters affecting activity in several countries. Growth remained close to trend in the United States, but demand fell sharply in Japan following the consumption tax increase in October and stayed weak in economies strongly exposed to the slowdown in global trade, including Germany. Growth continued to be subdued in many emerging market economies, with GDP growth slowly easing in China and large non-performing loans and over-leveraged corporate balance sheets weighing on investment in India.

Global growth could conceivably approach 1.0%, far below the 2.6% last year and the weakest since the global financial crisis. The Organization for Economic Cooperation and Development (OECD), the rating agency Moody's and other financial institutions have also downgraded their global growth forecasts over the last few days. The OECD estimated that global GDP will be 2.4% this year, a 0.5% percentage point cut from a forecast done in November. Moody's revised down its GDP expectations for the global economy Friday to 2.1%, from 2.4% (OECD, 2020).

CONCLUSIONS. Overall, the level of world GDP is reduced by up to $\frac{3}{4}$ per cent (relative to baseline) at the peak of the shock, with the full-year impact on global GDP growth in 2020 being around 0.5 percentage point. Most of this decline stems from the effects of the initial reduction in demand in China. Global trade is significantly affected, declining by 1.4% in the first half of 2020, and by 0.9% in the year as a whole. This is an abnormal global economic slump. The most effective immediate policy response is not monetary or fiscal policies; it's health security controls. If health security controls fail to contain the spread of COVID-19, financial markets may soon have to accept that a global recession is a foregone conclusion.

There's still so much we don't know about the coronavirus, which makes the potential economic fallout extremely uncertain, for both China and the rest of the world. It is also difficult to completely isolate one factor — in this case, a virus outbreak — from everything else happening in the world that can rattle the markets or strain economies (Herron, 2020).

REFERENCES

1. Amaro, S. (2020, March 10). How bad could it get? Economists predict how the coronavirus could hurt the global economy. Retrieved March 11, 2020, from <https://www.cnbc.com/2020/03/10/coronavirus-analysts-cut-global-growth-forecasts-as-epidemic-spreads.html>
2. Coy, P. (2020, March 11). <https://www.bloomberg.com/news/articles/2020-03-11/you-can-t-fight-the-virus-without-harming-the-economy>. Retrieved March 11, 2020, from <https://www.bloomberg.com/news/articles/2020-03-11/you-can-t-fight-the-virus-without-harming-the-economy>

3. Herron, J., & Hajric, V. (2020, March 10). Dow Average Sinks Into Bear Market on Virus Fears: Markets Wrap. Retrieved March 11, 2020, from <https://www.bloomberg.com/news/articles/2020-03-10/stock-rally-to-build-in-asia-after-strong-wall-st-markets-wrap>
4. Kirby, J. (2020, March 9). Will coronavirus cause a global recession? We still don't know. Retrieved March 11, 2020, from <https://www.vox.com/2020/2/28/21153492/coronavirus-recession-china-stock-market-economy>
5. OECD. (2020). *OECD Interim Economic Assessment Coronavirus: The world economy at risk*. Retrieved March 11, 2020 from <http://www.oecd.org/berlin/publikationen/Interim-Economic-Assessment-2-March-2020.pdf>