

## **Impact of COVID-19 in Economy- Situation Analysis**

The outbreak of Novel COVID-19 first observed in December 2019 at Wuhan, China has now taken a toll over the world with its widespread contagion. With more than 465,000 confirmed cases in 200 countries and over 21,000 death tolls as of March 26 2020, the WHO has characterized the outbreak as a pandemic for its alarming level of spread and severity.

The ongoing health crisis has led to an environment of extreme fear and panic due to its rapid spread on a global scale. The Governments across the globe have called for extreme measures to contain the spread of the pandemic which include travel bans (international as well as domestic), quarantines, restrictions on gatherings and complete lock down of cities.

While the chronic effect of contagion has put the global health system under the stress with demands for immediate attention to prevent, contain and cure the disease, this global health crisis has triggered a Domino effect on the economic system across the globe and is having a pandemic effect as a global economic crisis as well.

Various bans imposed by Governments across the globe is causing severe disruptions in the global supply chain and has resulted in sudden supply and demand shock. Further, travel and tourism industries have witnessed a sharp decline in demand due to the lock downs, quarantines and ban on travel and gathering imposed by several governments. The economic emergency has already taken on a toll on global trade with numerous firms facing liquidity problems as well as major concerns regarding solvency due to disrupted operations. Nation-wide and localized school closures has created risk of disruptions in education establishments across the globe.

With restrictions on travel, the limited demand of transportation has resulted in the steep decline in the price of oil commodity. Expected recessions around the world, lower demand for goods and energy and cash-crunches across various industries has reflected the deteriorating investors' sentiment as financial markets witness their highest volatility after 1989 recession.

### **Following are the major sectors which is expected to be affected :**

#### **Global Trade**

Various bans imposed by Governments across the globe is causing severe disruptions in the global supply chain and has resulted in sudden supply and demand shock and subsequent slowdown in global trade and manufacturing activity.

The initial outbreak resulted in major giants like Apple announcing their inability to meet its Q1 FY20 revenue projection. Microsoft too followed the suit announcing its plan to revise the revenue guidance for Q3 FY20. Coca-Cola expressed its concern regarding supply chain challenges. Thus, it has already taken on a toll on global trade with numerous firms facing liquidity problems as well as major concerns regarding solvency due to disrupted operations.

#### **Aviation**

With declining demands for flights and travel restrictions along with lock-outs, many airlines are cutting capacity and taking emergency measures to reduce cost. As per International Air Transport Association, over 1.1 million passenger flights have been cancelled in response to government travel restrictions and loss of passenger revenue by \$113 billion has been expected in 2020. The CAPA Centre for Aviation has said "By the end of May, 2020, most airlines in the world

will be bankrupt. Coordinated government and industry action is needed — now — if catastrophe is to be avoided."

### **Tourism & Hospitality**

Travel bans by the Governments as well as announcement by Governments to avoid social contact and stay away from restaurants and pubs will lead to thousands of businesses in travel, tourism and hospitality sectors closing their doors and hundreds of thousands of job losses.

It is not clear as to how long travel bans and restrictions on gathering will be in place. Further, given the scenario that it will take not less than a year to have vaccination and medicines, to fight the virus, ready, it is expected to take time for tourist's inflow across the globe to reach the pre-pandemic level.

Hence, these temporary shutdowns and declining customers will cause a major concern to the highly indebted enterprises that will be unable to cover their fixed operating cost. While the firms with high- cash cushions are likely to survive the crunch, there is a fog of uncertainty for firms that are already low on cash.

### **Oil Price**

The pandemic causing the collapse in the demand for global travel has caused a steep decline in demand for oil. With countless flights cancelled, cruise industry on a standstill, highways empty and factories abandoned, the oil industry is now witnessing its darkest days and oil prices has dropped down to the lowest level (\$ 23.94 per barrel of light crude oil) since 2002.



### **Banking and Financial Service Sector**

Disruption in the global supply chain and subsequent disruption in operations of businesses will create strain in collection of interest in respect of existing credit facilities as well as creates disturbance in credit and deposit growth which will have impact on capital adequacy, liquidity and profitability of the banking and financial service sector industries. Unless reliefs are not provided by regulators on timely basis, this may further create solvency risk for many institutions worldwide. Apart from traditional banking business, the pandemic is also expected to have adverse impact on fintech companies as people staying home and slowdown in global travel will result in substantial reduction in cross-border business of Visa and MasterCard as well in the kinds of transactions fintech companies are providing.

## Financial Markets

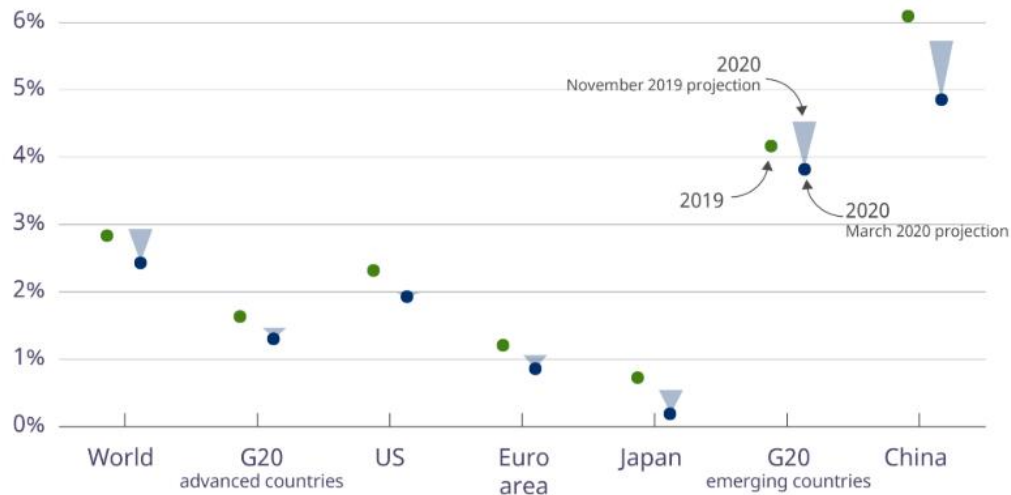
The demand and supply shocks initiated from the World's second largest economy (China) during the initial months of the outbreak had a rippling effect towards the financial markets across the globe. The pessimistic anticipation by key players in global markets had directed the stock market downwards in the initial months of the outbreak. However, with announcements and expected announcements of various relief packages by Governments, there has been rise in stock prices across the globe after weeks of losses driven by a global economic slowdown.

## Overall Impact on World GDP

Due to impact in various sectors of economy as discussed above, world GDP growth is going to slow down. The OECD in its March Interim Economic Outlook has projected the World GDP growth rate of 2.4% for 2020, after adjusting the November's projection of 2.94% taking into account the impact of the pandemic on a global economy.

### GDP Growth Projection

%, year on year, 2019 and 2020



Source: OECD Economic Outlook database

## Some Measures taken by Governments across the globe

To reduce the effect of COVID-19 pandemic in global economy, various multilateral finance institutions and Governments are contemplating various reliefs to the businesses and those affected by this crisis.

Following are synopsis of some of the measures that have been announced:

Agency/Government	Reliefs Announced
IFC	<p>\$ 8 billion package of fast-track financing to assist companies and countries in their efforts to prevent, detect and respond to the rapid spread of COVID-19.</p> <p>\$2 billion each to the Real Sector Crisis Response Facility, Global Trade Finance Program, Working Capital Solutions Program and Global Trade Liquidity Program</p>
World Bank	\$6 billion package in financing to strengthen health systems and disease surveillance
ADB	\$6.5 Billion initial package to address the immediate need of developing member countries to respond to COVID-19 pandemic.
IMF	\$50 Billion program for coronavirus relief.
European Central Bank	Spending €750 billion in bond purchases to calm down sovereign debt markets.
US	<p>Fed Rate reduced to zero and launched \$700 billion quantitative easing program to shelter the economy from the effects of the virus.</p> <p>\$ 2 trillion COVID-19 economic stimulus deal has been passed by senate.</p>
India	<p>INR 1.75 trillion scheme to address the concerns of poor, migrant workers and those who need help.</p> <p>Government will pay EPF contribution on behalf of both the employee and the employer for a period of three months for certain small companies.</p>
UK	Likely to announce Coronavirus Aid Package to Self-Employed
UN	Has appealed for \$2 billion in global funding to help both poor countries and those wracked by war tackle the coronavirus pandemic

## **Nepalese Context**

Nepal, being heavily reliant on China and India for its international trade, disruption in supply chain in these two economies, which is already apparent, will have impact in its supply chain and local trade and daily wage workers as well as small businesses are going to face immediate liquidity crunch. Big business houses with fixed cost obligation including employee payments and huge finance costs will have to face difficulties in medium term unless Government announces relief packages.

Apart from that, travel bans across the globe has already affected Nepal's Travel and Tourism Sector (which contributes 2.1% of GDP) and occupancy, before lockdown by the Government, was reduced to as low as 10%. This is more alarming in Nepalese context given the fact that there was surge in Investments in Hotels and other hospitality sector business in recent years targeting the Visit Nepal Year 2020. This is evident from that fact that investment in Hotel has increased to NPR 138.68 billion (4.36%) in February 2020 from NPR 66.9 billion (3.35 %) in 2017.

Nepal's airlines sectors including Nepal Airlines Corporation (flag carrier of Nepal) will also face the brunt of this situation given the huge fixed operating costs including finance costs.

Travel bans and subsequent impact on business of Hotels and other Hospitality Sector Business will impact farmers and agro-businesses which is reliant on demand from those sectors.

Impact of different businesses as explained above will have impact on debt servicing on one hand and growth of deposit/credit on the other. This is expected to result in contraction in business and profitability of the banking and financial sector service companies. However, it is too early to assess the extent of such impact and how long will it take to get out of the situation.

Thus, some sort of relief packages to people and businesses is need of the hour and will involve heavy spending from public exchequer. However, disruption in import from these two economies and corresponding decline in local trade, one due to reduced import and other due to closure of local businesses, will impact the tax revenue on account of VAT and custom duty, which accounts for major source of revenue (first and third respectively) and hence may need downward revision in its revenue target. Further, this being a global crisis with Governments across the globe needing financial assistance, securing the maximum international assistance to fund the relief packages is a difficult task.

Accordingly, maintaining a balance between falling revenue and rising costs to support the businesses in this hard time is a major challenge Government faces.