



EVALUATION OF COVID-19 PANDEMIC FROM AN ECONOMIC PERSPECTIVE

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Abstract:

The aim of this study is to analyze the effects of COVID-19 which is classified as a global pandemic by World Health Organization (WHO) on March 2020. The novel Coronavirus (COVID-19) pandemic affect all the economies and societies in a negative way due to the high rate of spread all over the world. Because of the increasing number of infected people, governments are trying to implement some restrictive policies to avoid the spread of the virus. Some of these practices may be in the form of regulation of working conditions, urban transportation, lockdowns etc.. The purpose of these restrictive policies is to try to reduce the spread of the virus with social distance applications. During the pandemic process, many economic effects occurred, such as the difficulties in international trade, imbalances in supply and demand, the impact of supply chains and fluctuations in the financial markets. In this study, it is aimed to evaluate the COVID-19 pandemic from an economic perspective.

Keywords:

COVID-19, Pandemic, Economics

1. Introduction

The novel coronavirus (COVID-19) outbreak, which began in December 2019 has significantly impacted many countries and economies dramatically. Because of the increasing number of infected cases and the speed of spreading to several countries, governments are trying to take preventing actions. To isolate the cases and limit the transmission rate of the virus, governments are implementing a variety of policies and rules. Because of the severity of the conditions, governments are trying to balance the policies related with health and economic issues together. Global pandemics may have important effects on economic factors. Therefore, the potential effects of the pandemics and the actions taken to prevent the spread of the virus should be evaluated multi-dimensional. Some of the actions that governments are taken related to social distancing are about the schools, shopping malls, offices, airports and train stations etc. Due to the severity of the pandemics, sometimes governments are taking the decision of lockdown. On the other side during the pandemic period, because of the transportation difficulties international trade operations were also affected. Therefore, supply and demand imbalances were happened. Hence some sectors were affected too much because of the supply chain interruptions. The most important factor to be considered related with the COVID-19 is obviously the health of the population and the health industry. On the other hand during the COVID-19 pandemic, various costs can come to the fore and may have significant economic impacts. For example, it is possible to list many cost factors such as the effect of the treatment processes of infected people on the health system, decrease in employment productivity, social distancing practices that affect economic activity, the impact on tourism and reduced foreign investment etc. Furthermore, many other studies highlight the significant effects of the novel coronavirus (COVID-19) on global capital markets. Some researches point out the behaviors of the investors and how they reduce their investment intention and risk taking during the pandemic. Therefore, global pandemics can have significant effects on economic activities. In this context, many effects of the COVID-19 pandemic on both businesses and individuals should be observed from different sides.

2. General Impact of COVID-19 Pandemic on Economies

On the 11th of March 2020, The World Health Organization declared a global pandemic named COVID-19. The cases spread rapidly all over the world. Due to the globalization and movement of people the COVID-19 pandemic spread itself unprecedented way (Filho, 2020). To isolate the cases and limit the transmission rate of the virus governments are implementing a variety of rules and actions (Ibn-Mohammed et al., 2021). During this period both developed and developing nations are being affected (Filho, 2020). In this period, governments face various difficulties in developing the most appropriate solutions for both health and economic policies in the process of combating the COVID-19 pandemic. Governments have sought a balanced decision between health and economic goals for the COVID-19 outbreak. While the implementation of a restrictive policy that prevents the spread of the coronavirus pandemic increases the depth of recession and financial instability, on the other hand, a restrictive measure can be an important factor in achieving the extremely important and fundamental goal of saving human life (Wielechowski, et al., 2020).

The new coronavirus (COVID-19) outbreak has significantly impacted healthcare. The country's economies, many industries, transportation industry and many other areas have been seriously affected. As a result of quarantine practices, the mobility of people has declined drastically, resulting in a weakening of spending power and a stagnant economy. The COVID-19 pandemic has caused the economy at the macro level to be the worst global recession since 1930 (Shen, et al., 2020). Some studies indicated that the global economy is expected to shrink much more for 2020 than the 2008-2009 financial crisis. In addition, as the manufacturing sector is significantly affected on the supply side, this will affect other sectors and cause the supply of goods to decrease. At the same time this situation will cause the demand side to be negatively affected to a great extent and it will lead to a recession (Kashyap & Raghuvanshi, 2020).

2.1. Economic Impact

Global epidemics can have significant effects on economic activities. In this context, many effects of the COVID-19 pandemic on both businesses and individuals are observed on national and international scale. There are various researches about the initial effects of the pandemic such as supply and demand, consumption, services, finance and investments. For example, due to the social distance measures taken, there may be a decrease in the consumption and purchasing activities of the individuals. Some activities such as tourism may be interrupted during the pandemic period. In addition, activities requiring human interaction, including schools, shopping malls, offices, airports and train stations, may be disrupted. Such a situation has caused many people to need internet and internet-based services for communication and interaction, and to continue their work responsibilities from their home (De, Pandey, & Pal, 2020).

COVID-19 pandemic can have two effects on both supply and demand sides. During COVID-19 pandemic times, companies, especially in the field of consumption, may face changing behaviors of customers and marketing channels. In the early days of the COVID-19 period, there was an increase in consumption demand due to stocking. However, with the pandemic, both the dynamics of demand, consumption and purchasing behavior have changed (Ceylan, et al., 2020). The global COVID-19 pandemic has led to changes in people's behavior. The usage of digital products increased, the physical interaction and mobility is decreased (Barouki et al., 2021). To reduce the physical distance, governments sometimes take the decision of lockdown. Because of the lockdown decisions and social distancing rules, many of the sectors and industries are affected. For example services sector, travel and tourism industry, catering and leisure affected importantly (Ceylan, et al., 2020).

During the pandemic period because of the transportation difficulties, international trade operations were affected. So that supply and demand imbalances were happened. Hence some sectors were affected too much during COVID-19 pandemic. Since the demand for products that are needed significantly in daily life conditions is high, the effect can be seen more intense and faster. While the manufacturers of these products may face a sudden increase in demand for such essential products, some businesses could face a significant shortage of raw materials during the pandemic period (Paul & Chowdhury, 2020).

Moreover, due to globally interconnected economic relationships, the worldwide pandemic is making supply chains more complex. Hence from the economic perspective, there is a great disequilibrium between supply and demand of commodities (Ibn-Mohammed et al., 2021).

Also the 1918 pandemic caused labor shortage and labor immobility thus disrupted the economic development and food supply (Ben-xi & Zhang, 2020). On the other side Karlsson et al. stated that the 1918 flu pandemic represents a significant supply shock and has an important effect on labor supply due to its power and randomness (Karlsson, et al., 2014).

The International Labour Organization (ILO) stated that, because of the COVID-19 pandemic the number of job losses will increase more, compared to the 2008-2009 global financial crises (ILO, 2020). Due to the rise in unemployment rate will cause the income reduction of employees and therefore there will be a decrease in the consumption of goods and services (Almeida & Santos, 2020).

Therefore it can be said that there are various effects of pandemics for different subjects. The spread of the novel coronavirus (COVID-19) in early 2020 has significantly impacted many countries and economies (Qiu, Jiang, Liu, Chen, & Yuan, 2020). During the COVID-19 pandemic period, various costs come to the fore, creating a significant impact on economic context. These costs include the effects and costs of medical treatment of individuals infected by the virus on the health system, the effects of non-epidemic diseases on the health system, the spread of the virus and the costs undertaken to control the epidemic, the decrease in productivity in employment, the economic effects of social distance restrictions, the tourism sector being affected by the epidemic and decrease in investments etc. It is possible to list various cost factors related with different sides (Goodell, 2020). IMF changed its global economic growth estimation from 3.3% to -3% in its April World Economic Outlook 2020. This makes the COVID-19 pandemic a global economic crisis which was not happened this much since the Great Depression (Ibn-Mohammed et al, 2021). In World Economic Outlook Update June 2020 report IMF projected the global growth as -4.9% in 2020, which is 1.9 percentage points below the April 2020. During the pandemic period IMF is providing financial assistance and debt service relief to member countries who are facing negative economic impact of the COVID-19 pandemic (IMF, 2020).

Another important challenge with COVID-19 is to balance the reduced economic activity when controlling the spread of the disease. Economies are trying to minimize the economic effects of various restrictions and quarantines applied under social distance rules and tries to restore economic activity (Barouki et al., 2021).

Social distancing practices such as the imposition of various restrictions on public transport, decisions for schools and distance education alternatives are examples of attempts to reduce the rate of normal contact between people. Economics has a clear role in matching incentives for health and social well-being with macro-level outcomes through micro-level behaviors (Fenichel, 2013). Each pandemic may have a different structure in itself. For this reason, the policies that can be implemented to control pandemics often differ. In order to take appropriate precautions for the COVID-19 pandemic, it is aimed to reduce the spread of the virus by taking measures such as the isolation of individuals and travel restrictions (Tisdell, 2020).

One of the studies from another dimension of COVID-19 is about the students. Aucejo et al emphasized that there are various uncertainties in the process that students experience regarding financial and health shocks during the pandemic. Students are faced with an increasingly uncertain environment regarding that the pandemic period may have affected their academic performance, educational plans and their academic efforts. In particular, they worry about not being able to complete their studies, having lack of resources, or serious illness (Aucejo, et al., 2020).

The existence of highly contagious diseases such as COVID-19, which has become pandemic, creates serious health and economic problems. The world population is gradually increasing and has become increasingly urbanized. People mostly live in large cities. Besides this, the mobility of people in all geographies is also increasing. These factors facilitate the emergence and spread of new infectious diseases (Tisdell, 2020).

2.2. Financial Impact

The new coronavirus (COVID-19), spread to the world very quickly and had unprecedented effects on daily life and economy. The epidemic has brought public authorities, investors and the whole public realized that natural disasters can cause economic damage on a previously unknown scale. While there are studies on the effects of the pandemic on the stock market and the opportunity to observe the behavior of households spending, there is not much information yet on its impact on the retail industry and its investors (Ortmann, Pelster, & Wengerek, 2020).

There are two possible arguments about why investors change their behaviors about their investment decisions. The first one is COVID-19 pandemic which can be considered as an external shock that has severe effects on daily life, the second one is it creates anxiety and fear in society and causes uncertainty on economics (Ortmann, et al., 2020). Besides, uncertainty plays an important role in economic fluctuations (Choi, 2020).

As the virus began to spread around the world, the impact on governments, public institutions, industries and firms became more prominent, and many countries became inactive due to the closing of borders and lockdowns which results an increased level of uncertainty at both the industry level and the firm level (Sharma, et al., 2020).

The ones who are more exposed to the COVID-19 pandemic, they are more anxious to invest. Especially in this period, they are less willing to make risky investments and they have more pessimistic expectations about the economy. Therefore, the investors reduce their investment intention and risk taking. Due to the uncertainty about the pandemic, news, press articles, expert opinions and media reports show a fragmented image for the future of the economic development and so the optimal investment and portfolio strategies. It is possible to say that COVID-19 pandemic caused significant decreases in financial markets worldwide and increased financial market risks (Ortmann, et al., 2020).

Avoiding investment behavior can result from financial anxiety, and in addition to this condition, anxiety can also affect individuals' propensity to take risks (Talwar, et al., 2021).

For instance, many studies have highlighted the serious impact of the novel coronavirus (COVID-19) on global capital markets (Qiu, Jiang, Liu, Chen, & Yuan, 2020). It led to decreases in stock prices, increase in volatility, decreases in nominal interest rates and contractions in real economic activity, which were reflected in real GDP, especially throughout the world. In addition, the increase in uncertainties regarding the course of the epidemic has led to uncertainties regarding the scale of the epidemic (Barro, Ursúa, & Weng, 2020).

Some of the researchers considered psychological factors as another factor affecting the financial behavior of individuals. Studies conducted in this context have emphasized that psychological factors play a key role in shaping individuals' financial behavior and emphasized the importance of examining these factors comprehensively. In times of pandemic such as COVID-19, which has significant effects around the world, financial attitude becomes even more important. On the other hand, examining the investment behavior of retail investors is also among the critical issues (Talwar, et al., 2021).

6. Conclusions

The novel coronavirus (COVID-19) outbreak, which began in December 2019 and which is classified as a global pandemic by World Health Organization (WHO) on March 2020 has several impacts firstly on health, the health system and many other effects on economic issues. The economic impact of COVID-19 may be seen initially on consumption, services, finance and investments. Because of the lockdown decisions and social distancing rules many of the sectors and industries are affected. For example, catering, travel, services sector, tourism and leisure are affected importantly. In addition, because that the manufacturing sector is significantly affected on the supply side, this will affect other sectors and cause the supply of goods to decrease. While this situation will cause the demand side to be negatively affected to a great extent, it will lead to a recession. Besides international trade and economics are also affected because of the transportation difficulties and supply chain interruptions during the pandemic period. On the other side there are many studies that point out the impact of the novel coronavirus (COVID-19) on global capital markets. It led to decreases in stock prices, increase in volatility, decreases in nominal interest rates and contractions in real economic activity, which were reflected in real GDP, especially throughout the world. In addition to its economic threats and impacts, it has also created various opportunities for many different sectors. In particular, it accelerated the digitalization brought by Industry 4.0 and created different effects in areas such as e-commerce. In this period, effective supply chain management has become even more prominent. In this manner, for future studies many effects of the COVID-19 pandemic on both businesses and individuals should be observed from different sides using empirical analysis.

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