



# drishti

## Impact of Covid-19 on Global Economy

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### Why in News

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Recently, the **United Nations Conference on Trade and Development (UNCTAD)** has observed that the economic uncertainty sparked by the **Covid-19** will likely cost the global economy \$1 trillion in 2020.

The observation is based on the **World Economic Situation and Prospects 2020** released by UNCTAD.

### Key Observations

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- A **slowdown in the global economy to under 2%** for this year is envisaged which will probably cost in the order of \$1 trillion.
  - **Worst possible scenario:** If the world economy grew at only 0.5% which would involve a \$2 trillion hit to **gross domestic product (GDP)**.
  - **Best case scenario:** With moderate declines in private consumption, investment and exports and offsetting increases in government spending, global growth would fall to 1.2% in 2020.
- **Global financial market is fluctuating** due to the **supply-chain interruptions from China** and **oil price uncertainty** among major producers.
- **European economies** had already been performing extremely badly towards the end of 2019.
  - **Europe** is almost certain to go into **recession** over the coming months.
  - **German** economy is in a **fragile** state.
  - **Italian** economy and other parts of the **European periphery** are also facing very **serious stresses** right now.
- Many parts of the **Latin American** region are also vulnerable.  
**Argentina** in particular will be struggling as a consequence of the knock-on effects of this pandemic.

- The **least developed countries** whose economies are driven by the **sale of raw materials** will also face hard consequences.
- Heavily-indebted **developing countries**, particularly **commodity exporters**, face a particular threat due to the **weaker export returns linked to a stronger US dollar**.  
The likelihood of a **stronger dollar** as investors seek safe-havens for their money and the almost certain **rise in commodity prices** as the global economy slows down, means that commodity exporters are particularly **vulnerable**.

## Suggestions

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- A series of **dedicated policy responses and institutional reforms** are needed to prevent a localized health scare from turning into a global economic meltdown.
- Governments need to **spend now in order to prevent more damaging meltdown** in the coming times.
  - **Chinese** Government is likely to introduce **significant expansionary measures** – shorthand for increasing spending or tax cuts.
  - The **US** government is in an election year and it needs to do **more than simply cutting taxes and reducing interest rates**.

## United Nations Conference on Trade and Development

- It was established in **1964** to promote development-friendly integration of developing countries into the world economy.
- UNCTAD is a **permanent intergovernmental body** headquartered at **Geneva** in Switzerland.
- Some of the **reports published by it are**:
  - Trade and Development Report
  - World Investment Report
  - The Least Developed Countries Report
  - Information and Economy Report
  - Technology and Innovation Report
  - Commodities and Development Report

**Source: UN**