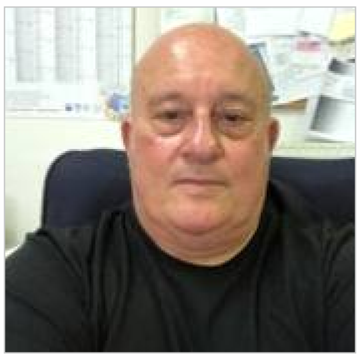
THE ECONOMIC AND FINANCIAL IMPACT OF SARS - COV - 2 PANDEMIC



Prof. Quirino Piacevoli
Degree in Health Economics- Bocconi University – Milan - Italy President of World Society of Intravenous Anaesthesia P. Chairman of the Department of Anaesthesia and Intensive Care Hospital San Filippo Neri – Roma – Italy

Introduction

The world is on the verge of an unprecedented pandemic disease, as many cities across the globe go on lockdown in response to the spread of novel coronavirus, the so-called COVID-19.

The consensus among economists about the global economic shutdown due to disease pandemic is believed to be the primary determinant of stock market volatility that could lead to the biggest stock market crash in the 21st century the SARS - COV- 2 pandemic is a sign of how vulnerable and fragile our world is.

The social and economic crisis precipitated by COVID-19 is affecting families, communities and nations across the globe. The impact of the pandemic is massive:

US$ 10 trillion of output is expected to be lost by the end of 2021, and US$ 22 trillion in the period 2020–2025 — the deepest shock to the global economy since the Second World War and the largest simultaneous contraction of national economies since the Great Depression of 1930–32; 115–125 million people have been pushed into extreme poverty.

National pandemic preparedness has been vastly underfunded, despite the clear evidence that its cost is a fraction of the cost of responses and losses incurred when an epidemic occurs.

The total cost of the economic losses due to SARS was estimated at US$ 60 billion. The 2015 MERS outbreak in just one country, the Republic of Korea, with 185 cases and 38 deaths, cost US$ 2.6 billion in lost tourism revenue and US$1 billion in response costs. The 2016 Commission on a Global Health

Risk Framework for the Future argued that its proposed preparedness spending boost of US$ 4.5 billion annually was a small investment compared with a scenario of the potential global cost of pandemics over the whole of the 21st century, which they assessed as being“in excess of $6 trillion”

Table 1. Historical MSCI World Index and S&P Performance Under Epidemic Risk.

Epidemic	Month End	6 - month % Change of S&P	12 - month % Change of S&P
HIV/AIDS	6/1/1981	-0.3	-16.5
Pneumonic plague	9/1/1994	8.2	26.3
SARS	4/1/2003	14.59	20.76
Avian flu	6/1/2006	11.66	18.36
Dengue fever	9/1/2006	6.36	14.29
Cholera	11/1/2010	13.95	5.63
MERS	5/1/2013	10.74	17.96
Ebola	3/1/2014	5.34	10.44
Measles/Rubeola	12/1/2014	0.2	-0.73
Zika	1/1/2016	12.03	17.45
Measles/Rubeola	6/1/2019	9.82	N/A

Europe, there have been rapidly growing numbers of severe and fatal cases in many EU/EEA countries, and several countries in Europe have already reported nationwide community transmission. Italy, Spain, France, and the Netherlands have already registered healthcare system saturation due to very high patient loads requiring intensive care. Stock markets have plummeted: France, -17.21 percent; Germany,-16.44 percent; the United Kingdom, -13.74 percent and; Italy, -22.85 percent. The European Central Bank announced to inject 780 billion euros into financial markets and refinancing options for the private sector of 3 trillion euros. In the United Kingdom, the Bank of England proceeded to interest rate cuts, whereas the government announced expansionary measures of 30 billion pounds.

Germany will launch a stimulus package of 750 billion euros to support the local economy. Economic contraction is already on its way with irreversible repercussions to the economy. In previous recessions, trade protectionism policies, along with export subsidies, enabled businesses to recover in the medium term. However, the current pandemic constitutes the traditional policy response irrelevant. Each government has to preserve the country's productive capacity restoring consumer spending, business investment, and market expectations. Further and coordinated action is required from all governments to support economic activity directly.

Actions required:

Raise new international financing for the global public goods of pandemic preparedness and response. The facility should have the capacity to mobilize long- term (10-15 year) contributions of approximately US$5-10 billion per annum to finance ongoing preparedness functions.

It will have the ability to disburse up to US$50-100 billion at short notice by front loading future commitments in the event of a pandemic declaration. The resources should fill gaps in funding for global public goods at national, regional and global level in order to ensure comprehensive pandemic preparedness and response .

The Global Health Threats Council will have the task of allocating and monitoring funding from this instrument to existing institutions, which can support development of pandemic preparedness and response capacities. COVID-19 is not only a global pandemic and public health crisis; it has also severely affected the global economy and financial markets. Significant reductions in income, a rise in unemployment, and disruptions in the transportation, service, and manufacturing industries are among the consequences of the disease mitigation measures that have been implemented in many countries. It has become clear that most governments in the world underestimated the risks of rapid COVID-19 spread and were mostly reactive in their crisis response. As disease outbreaks are not likely to disappear in the near future, proactive international actions are required to not only save lives but also protect economic prosperity. The COVID-19 pandemic has caused direct impacts on income due to premature deaths, workplace absenteeism, and reduction in productivity and has created a negative supply shock, with manufacturing productive activity slowing down due to global supply chain disruptions and closures of factories. For example, in China, the production index in February declined by more than 54% from the preceding month's value . In addition to the impact on productive economic activities, consumers typically changed their spending behavior, mainly due to decreased income and household finances, as well as the fear and panic that accompany the epidemic. Service industries such as tourism, hospitality, and transportation have suffered significant losses due to reduction in travel. The International Air Transport Association projects a loss in airline revenue solely from passenger carriage of up to $314 billion.

Restaurants and bars, travel and transportation, entertainment, and sensitive manufacturing are among the sectors in the U.S. that are the worst affected by the COVID-19 quarantine measures . The advance seasonally adjusted insured unemployment rate in the U.S. has already reached a record level of 11% for the week ending April 11, 2020. Global financial markets have been heavily impacted by the effects of COVID-19 spread. As the numbers of cases started to increase globally, mainly through the US, Italy, Spain, Germany, France, Iran, and South Korea, the world financial and oil markets significantly declined. Since the start of the year, leading U.S. and European stock market indices (the S&P 500, FTSE 100, CAC 40, and DAX) have lost a quarter of their value, with oil prices declining by more than 65% as of April 24, 2020. Daily data on stock market volatility and price movements are good indicators of consumer and business confidence in the economy.

Conclusion

As the spread of the virus is likely to continue disrupting economic activity and negatively impact manufacturing and service industries, especially in developed countries, we expect that financial markets will continue to be volatile. There is still a question as to whether this unfolding crisis will have a lasting structural impact on the global economy or largely short- term financial and economic consequences. In either case, it is evident that communicable diseases such as COVID-19 have the potential to inflict severe economic and financial costs on regional and global economies.

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