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COVID-19: The World Economy Needs a Lifeline – But Which One?

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Key Messages

- This paper presents the results of a survey of 1000 economic experts in 110 countries on the economic effects of the COVID-19 pandemic and the effectiveness of different policy measures to combat the crisis for different countries.
- The results indicate that economies all around the globe are severely hit by the COVID-19 crisis. The experts perceive the reductions in investment to have the strongest impact on their domestic economies
- In consequence, the experts expect a severe recession in almost all countries in 2020, followed by a long period of economic recovery
- The experts rate emergency liquidity assistance to firms as well as temporary tax deferrals for businesses as the most effective policy measures
- In contrast, they do not regard other responses such as helicopter money or lenient bank supervision as being well suited to combat the current crisis

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COVID-19: The World Economy Needs a Lifeline – But Which One?

Expert survey on the world-wide effects of the COVID-19 crisis and policy options

Dorine Boumans, Sebastian Link and Stefan Sauer *

The corona pandemic is currently putting the brakes on the global economy which is posing unforeseen challenges across the world. Most of the industrialised countries reacted by various social distancing or lockdown measures to contain the COVID-19 virus. This led to a standstill in many economic sectors that most likely is going to result in negative growth rates in many countries in 2020. The extent and duration of this recession is difficult to estimate, as it is uncertain how long the lockdown measures in place will be needed and whether a second wave of infections is likely. In light of this, governments and central banks have taken numerous aid measures to help companies and citizens in this particularly challenging phase and to limit the economic damage. Among many others, these measures include easier access to short-time work benefits and the unbureaucratic provision of liquidity for companies.

To get an early indication about the impact of the COVID-19 pandemic and the related containment measures on economic performance in different countries across the world, we conducted a survey among approximately 1000 economic experts in 110 countries between April 3rd and 10th 2020. In selecting participants for the survey, emphasis is placed on their professional competence in economic matters and inside knowledge of their reporting countries. This is guaranteed by screening their education and current affiliation as well as place of residence.[1] The focus of the survey was to find out if heterogeneous economic effects

[1] The survey is conducted among the panel of the ifo World Economic Survey. 80% of the respondents have a master or PhD degree and 70% studied economics. 43% of the respondents are affiliated with a university, research institution or think-thank and 15% work at banks or central banks. See Boumans and Garnitz (2017) for further details. More studies have used the supplementary question for further research cf. Boumans et al (2018); Boumans and Krolage (2018) and Boumans et al (2019).

* *We would like to thank Peter van Bergeijk for his valuable comments and support.*

of the corona pandemic are to be expected, how this affects GDP for 2020 in different countries and whether there is a consensus on when economic growth is back to its pre-crisis levels. In addition, we explored which specific policy measures are perceived to be most effective in different countries.

The results indicate that economies all around the globe are severely hit by the COVID-19 crisis. The experts point to a variety of channels to be roughly equally important. While they perceive the reductions in investment to have the strongest impact on their domestic economies, they also identify increasing governmental budget deficits, reduced spending on consumption as well as quarantine measures in general, closure of companies, and disruption of supply chains to strongly hamper economic activity. In consequence, the experts expect a severe recession in almost all countries in 2020 summing to a total decline of the global economy by -1.9% in 2020. This is expected to be followed by a long period of economic recovery. Only few countries, like China or India, are expected to still grow at comparably low rates in 2020. Nevertheless, also in these countries the expectations are considerably more pessimistic than before the outbreak of the crisis.

The experts have a strong opinion with respect to the effectiveness of different policy measures to combat the crisis. Strikingly, the experts strongly prefer emergency liquidity assistance to firms as well as temporarily tax deferrals for businesses, which are rated as being the by far most effective policy measures. In contrast, the experts in our sample do not regard other responses like helicopter money or lenient bank supervision as being well suited to combat the current crisis.

What are the most serious economic effects of the Corona-crisis?

The COVID-19 pandemic and the resulting lockdown measures have some major effects on the economy of nearly all countries. Currently, it is unclear which effects are going to be the most serious and will hinder recovery when economic and everyday life can go back to normal. In China, for example, where the pandemic originated, industrial production fell by 13.5% in the first two months of the year. At the same time, sales and investment saw a considerable drop in growth. More specifically, retail sales of consumer goods decreased by 20.5% relative to the year before, while domestic investment declined by 24.5% (National Bureau of Statistics of China 2020). China is a key player in different supply chains, and a further and prolonged slowdown is likely to have significant negative spillovers to the global economy (Baldwin and Weder di Mauro 2020). Other studies highlight that the lockdown in itself is also very costly. For example, the recent study by (Dorn et al 2020) highlights the costs of quarantine measures in terms of lost value added for Austria, France, Germany, Spain, Switzerland and UK They conclude that if lockdown measures last more than one month, the production losses reach dimensions not seen in the EU before, in any recession or natural disaster.

Table 1: Impact of COVID-19 effects on the economy

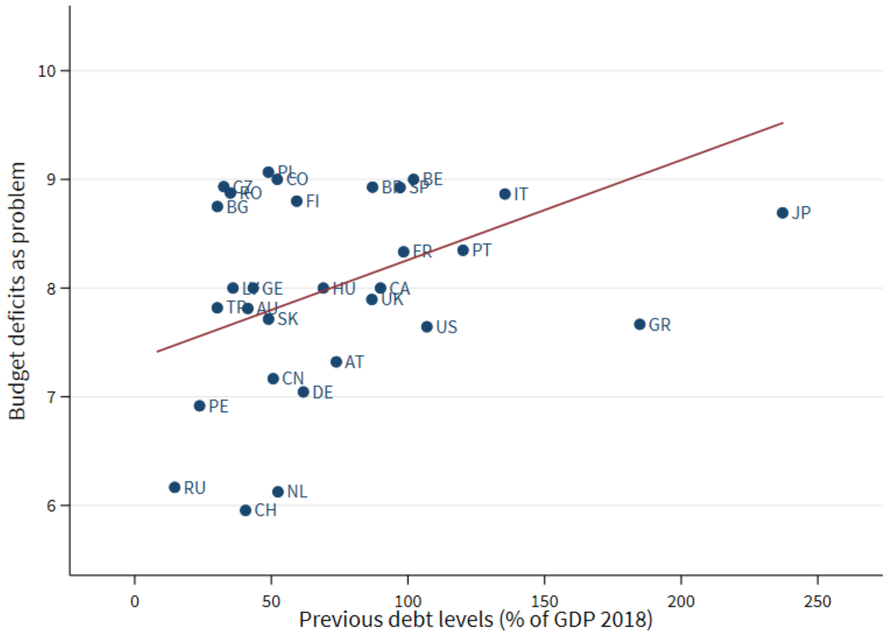
	Total	European Union	USA	Other adv. economies	CIS[1]	Em. and dev. Asia	Latin America	MENA[2]	Sub-Saharan Africa
Reduction in investment	**8.2**	8.3	8.4	8.0	8.1	7.7	8.5	7.2	8.2
Increasing governmental budget deficits	**8.0**	8.2	7.6	7.3	7.3	7.7	8.3	7.6	8.5
Reduced spending on consumption	**7.9**	8.0	9.0	8.2	7.2	7.4	8.2	5.1	7.8
Closure of companies/sudden production stops	**7.6**	7.9	7.8	6.9	7.2	6.9	7.7	6.2	7.5
Quarantine measures	**7.6**	7.7	7.9	7.0	7.7	6.9	8.2	6.4	7.1
Disruptions to supply chains	**7.5**	7.5	8.1	7.5	6.8	7.4	6.9	6.4	7.7
Bankruptcies of firms	**7.0**	7.1	6.8	6.8	6.8	6.1	6.9	6.3	7.3
Illness-related workforce reductions	**5.3**	5.4	6.0	5.1	4.5	4.3	5.6	5.4	5.7
Bank failures	**3.7**	3.8	3.2	3.2	4.2	3.8	3.8	3.3	4.6

Note: Answers are an average calculated on a scale from 1 to 10, where 10 is the strongest impact.
[1] Commonwealth of Independent States; [2] Middle East and Northern Africa

Overall, there is a lot of uncertainty about the effects of the pandemic. We do not know what impact the disruption in supply chains or the shock to domestic investment and consumption will have in which country. Consequently, one focus of our economic expert survey was the impact of COVID-19 on the economy. Asked about different possible impacts, experts identified and assessed the strongest effects of the pandemic in their respective countries on a scale from 1 to 10. Aggregated across all countries, experts stated that a reduction in investment will have the strongest impact on the economy (rated 8.2), see Table 1. Increasing governmental budget deficits (8.0) and reduced spending on consumption (7.9) came close second. Other listed effects, like quarantine measures in general (7.6), closure of companies (7.6), and disruption of supply chains (7.5) are also perceived to have a strong impact on the economy. Illness-related work force reductions (5.3) and bank failures (3.7) are to a lesser extent considered as having a severe effect on the economy.

Interestingly, the experts' perceptions about the severity of different aspects of the crisis are relatively similar across the globe. Comparing different country groups and countries, there is only little variation in the average assessments of most effects and "reduction in investment" and "reduced spending on consumption" were assessed among the most important in almost all countries. US experts, however, assigned the strongest impact on the US economy to reduced spending in consumption. Also, the disruption to supply chains is rated somewhat more important in the USA than in other aggregates.

Figure 1: Governmental budget deficits as a problem vs previous debt levels



Source: Own calculations and IMF 2018.

Strikingly, there is heterogeneity in the perception of increasing governmental budget deficits being problematic (see Figure 1). Increasing budget deficits is seen as a much bigger problem for states with high previous debt levels like Japan, Italy, Spain, Belgium and Brazil (average assessments of experts in these countries were nearly 9). But also for Poland, Czech Republic, Romania, Bulgaria and Finland as well as Colombia, respondents are concerned about debt levels although their debt levels are below 100% of GDP. Experts in countries with relatively low initial levels of public debt, like Switzerland (average of 6.0), the Netherlands (6.1), and Russia (6.2), did express considerably lower concerns.

Moreover, experts' assessment of the effects of the pandemic are influenced by the difference in social distancing and curfew measures present in their respective country. The surveyed experts gave information about official government policy regarding social distancing measures at the time of filling in this survey. The answers of experts from countries with complete lockdown and curfews, like Italy for instance, rated the economic impact of quarantine measures as well as closure of companies and sudden production stops higher than respondents in other countries. This indicates that the lockdown policy and the duration of these measures have a big influence on the extent of production losses and the resulting declines in GDP. In line with this, Dorn et al. (2020) estimate that a lockdown extension of a single week in Germany incurs a decline in GDP growth of 0.7-1.6 percentage points. For the UK and Italy, a one-week extension would imply a drop in GDP growth of 0.8-1.5 percentage points.

Recession expected in almost all parts of the world

The likelihood that the effects of the COVID-19 pandemic will cause a recession in their country was almost unanimously confirmed by all experts in the survey when being asked to forecast GDP growth in 2020. GDP in 2020 is forecasted to be negative almost everywhere making clear that COVID-19 is indeed a global problem (see Table 2).[2] Weighting the country-specific forecasts by GDP, the surveyed experts expect global GDP to decrease by -1.9% this year. Hence, the annual growth rate is expected to be more than 5 percentage points below the pre-crisis forecast of the IMF in January that expected world GDP to grow at a rate of +3.3% in 2020 (IMF 2020c). Only in emerging and developing Asia the aggregated result for 2020 is still slightly positive. This is due to a positive expected growth rates in a few countries within this group. In China, for example, economists expect GDP to grow by 2.3% in 2020. Although growth remains positive it is clearly far below the growth rates in recent years. In comparison, GDP

[2] On the one hand, the increased interconnectedness of the global economy and the deep integration of supply chains can smooth the effect of a pandemic shock by allowing consumers to purchase and consume goods they wouldn't otherwise be able to get in their own country. On the other hand, existing supply chains take time to change when they are stopped due to for example the current COVID-19 shock (Sforza and Steininger 2020).

growth for China in 2020 was expected to be 6.0% according to the IMF in January. Also, in all other countries the experts' expectations are much lower than the IMF forecast in January. In the European Union experts have, on the aggregate level, the most negative growth expectations for GDP (-5.0%). The average expected growth rates were negative in every member state. Also, for the USA the answers were quite pessimistic (-4.6%) and 6.6 percentage points below the IMF forecast from January. Nevertheless, the experts of most countries were somewhat less pessimistic than the IMF Outlook from April that was published 3 days after the end of the survey and projected a global GDP decrease of -3.0%.

Table 2: Expected Growth of GDP in 2020

	GDP 2020	IMF Forecast January 2020	IMF Forecast April 2020
Total	-1.9%	3.3%	-3.0%
European Union	-5.0%	n.a	n.a
Euro area[3]	-5.3%	1.3%	-7.5%
Germany	-5.3%	1.1%	-7.0%
France	-5.0%	1.3%	-7.2%
Italy	-7.0%	0.5%	-9.1%
USA	-4.6%	2.0%	-5.9%
Other advanced economies	-2.7%	1.9%	-4.6%
Japan	-3.3%	0.7%	-5.2%
Russia	-3.4%	1.9%	-5.5%
Emerging and developing Asia	2.2%	5.8%	1.0%
China	2.3%	6.0%	1.2%
India	2.5%	5.8%	1.9%
Latin America	-3.3%	1.6%	-5.2%
Brazil	-4.2%	2.2%	-5.3%
Sub-Saharan Africa	-0.7%	3.5%	-1.6%
South Africa	-3.4%	0.8%	-5.8%

Note: Answers are weighted according to 2017 PPP-adjusted GDP as reported by the IMF.
Source: own calculations based on survey answers, IMF Economic Outlook January 2020 (IMF 2020c), and April 2020 (IMF 2020b).

[3] See Annex A for further details on forecasts of GDP in 2020 in the Euro Area.

Moreover, there is a lot of uncertainty about when GDP is going back to pre-COVID-19-crisis levels. Experts' expectations about the duration of the recovery period therefore differ considerably (see Table 3). Looking at all respondents jointly, there is roughly one third of the experts (30.7%) that expect full recovery in the first half of 2021 whereas another third is more pessimistic and expects that GDP will not recover before 2022 (34%). Strikingly, the experts' forecasts vary strongly between countries. Specifically, Chinese, Korean, Turkish and Pakistani experts expect domestic GDP to return to their pre-crisis levels between the fourth quarter of this year and the first quarter of 2021.[4] From the European countries, the Netherlands seems to be most optimistic expecting GDP to be back at its pre-crisis level in the first half of 2021. However, there are a few European countries where experts are a lot more pessimistic about a fast recovery. In Italy, for example, two thirds of the experts don't expect a return to the pre-crisis level before 2022.

Table 3: Expectation of recovery of GDP to pre-crisis levels

	N	in 2020	1st half of 2021	2nd half of 2021	not before 2022
European Union	506	6.7%	28.4%	23.3%	41.5%
USA	59	15.2%	20.3%	32.2%	32.2%
Other advanced economies	118	16.1%	33.0%	22.0%	28.8%
CIS	59	8.4%	35.5%	25.4%	30.5%
Emerging and developing Asia	50	34.0%	32.0%	20.0%	14.0%
Latin America	92	13.0%	41.3%	16.3%	29.3%
Middle East and Northern Africa	16	18.7%	37.5%	18.7%	25.0%
Sub-Saharan Africa	77	20.7%	31.1%	25.9%	22.0%
Total	998	12.0%	30.7%	22.8%	34.3%

Note: own calculations based on survey answers.

Policy responses – What helps the economy the most?

Governments and policy institutions responded in many ways beyond quarantine measures to limit the human and economic impact of the COVID-19 pandemic. A policy tracker database by the IMF continuously collects the key economic responses in 193 economies (IMF 2020a).

[4] See Annex B for further details on country distributions.

To name a few, the United States passed a bill to spend an estimated US$2.3 trillion (around 11% of GDP) to provide emergency assistance and health care response for individuals, families, and businesses affected by the pandemic ("CARES Act"). In Germany, in addition to running down accumulated reserves, the federal government adopted a supplementary budget of €156 billion (4.9 percent of GDP) which includes, amongst other things, extra funds for the health-care system, expanded access to short-term work and grants to small business owners and self-employed persons. Moreover, the European Union agreed on a package of summing to €540 billion (4 percent of EU27 GDP) that allows the European Stability Mechanism (ESM) to provide "Pandemic Crisis Support" (based on existing precautionary credit lines) up to 2 percent of 2019 GDP for each euro area member to finance health related spending. It also provides €25 billion in government guarantees to the European Investment Bank to support up to €200 billion to finance to companies, with a focus on SMEs, and creates a temporary loan-based instrument (SURE) of up to €100 billion to protect workers and jobs. Key measures by the ECB include monetary policy support through additional asset purchases of €120 billion until the end of 2020, and temporarily additional auctions of the full-allotment, fixed rate temporary liquidity facility at the deposit facility rate and more favorable terms on existing targeted longer-term refinancing operations (TLTRO-III). Japan announced tax cuts of around 0.6 percent of GDP, along with targeted measures for up to 0.5 percent of GDP to counteract the effects of COVID19. China's fiscal policy responses of an estimated RMB 2.6 trillion (or 2.5 percent of GDP) focus on Increased spending on epidemic prevention and control, production of medical equipment, accelerated disbursement of unemployment insurance as well as tax relief and waived social security contributions.

Strikingly, the economic experts perceive some policy measures to be far more effective than others (see Table 4). Among these measures, emergency liquidity assistance targeted to small businesses is by far perceived as the most effective policy response (overall rated at 8.2 on a scale between 1 and 10). Noteworthy, experts in all regions rate this option highest. Moreover, experts on average perceive temporary tax deferrals for businesses (7.2) and emergency liquidity assistance to larger businesses (6.8) as good policy measure in most country groups except for the U.S. where experts are less convinced about temporary tax deferrals (5.9).

Other policy responses are on average rated as less effective but with quite some variation between country groups. While, for example, the average effectiveness of helicopter money in most groups is below 5, U.S. experts assign an average score of 5.7 indicating that this measure receives relatively more popularity in the U.S. On the other hand, temporary sales tax cuts do not convince the U.S. experts at all. At the same time, the effectiveness of this measure is rated 5.9 on average in Europe and above 6 in most Asian countries. The answers on permanent tax cuts show a similar picture (with somewhat lower averages): U.S. experts do not think that tax cuts are a good response to the current crisis. Variation between countries is also evident in the experts' assessments of interest rate cuts which are rated more effective in lesser developed and emerging countries (Africa, Latin America, Emerging Asia) which is likely related to the fact that there is more scope for interest rate cuts in these countries while Europe and the U.S. are already at or close to the zero lower bound.

Table 4: Effectiveness of policy responses by country groups

	Total	EU	USA	Other advanced economies	CIS	Em. and dev. Asia	Latin America	MENA	Sub-Saharan Africa
Emergency liquidity assistance to small businesses	**8.2**	8.3	8.6	8.3	7.6	7.7	8.1	7.7	7.7
Temporary tax deferrals for businesses	**7.2**	7.4	5.9	7.0	7.4	6.7	7.2	7.3	7.3
Emergency liquidity assistance to larger businesses	**6.8**	7.0	7.2	7.1	5.3	6.5	6.4	6.3	6.2
Asset purchasing of private and public securities by the central banks	**6.0**	6.5	6.9	5.7	4.2	4.9	5.8	5.3	5.4
Temporary sales tax cuts	**5.9**	5.9	3.7	5.5	6.2	6.5	6.4	6.5	6.5
Interest rates cuts	**4.7**	4.0	4.0	4.7	5.0	6.2	6.1	5.3	6.6
Permanent tax cuts	**4.7**	4.7	2.6	4.3	5.4	5.6	4.7	5.3	5.4
Helicopter money for all	**4.7**	4.6	5.7	5.1	4.2	4.6	4.9	5.5	4.0
Lenient bank supervision	**4.6**	4.7	3.4	4.3	4.6	4.9	4.4	5.7	5.2

Note: Answers are an average calculated on a scale from 1 to 10, where 10 is most effective.

Conclusion:

This study gives an early indication on the heterogeneity in economic effects of the COVID-19 pandemic in different countries all around the globe. For this purpose, we consulted a large panel of approximately 1000 economic experts in 110 countries on the economic impact of the pandemic and the (potential) effectiveness of policy measures for their domestic economies.

All around the globe, economies are strongly affected by the COVID-19 crisis through a variety of different channels. Among these, experts perceive the resulting reduction in investment to have the strongest impact on the economy. Further channels that are identified as having severe impacts on the local economies include increasing governmental budget deficits, reduced spending on consumption as well as quarantine measures in general, closure of companies, and disruption of supply chains. In consequence, the experts expect a massive slump in GDP. In most countries, experts expect a severe recession in 2020 and a long period of economic recovery. Only few countries, like China or India, are expected to still grow at comparably low rates in 2020. Nevertheless, also in these countries the expectations are considerably more pessimistic than before the outbreak of the crisis.

A main takeaway of the survey are the experts' assessments of effective policy responses to the crisis. Strikingly, the experts strongly prefer emergency liquidity assistance to firms as well as temporarily tax deferrals for businesses, which are rates as being the by far most effective policy measures. In contrast, the experts in our sample do not regard other responses like helicopter money or lenient bank supervision as being well suited to combat the current crisis.

This analysis opens-up questions for further research.[5] The results of this survey wave can be compared to other existing surveys, such as surveys of professional forecasters, business surveys, etc. In addition, a follow-up wave of this survey will provide an interesting comparison on how economic experts update their expectations as the crisis prolongs, what they think about certain exit strategies and how they assess the responses their domestic government have undertaken.

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[5] Data can be made available by contacting the authors.

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Annex:

A: Euro Area GDP 2020 Forecast comparison with IMF Forecast GDP of April

	GDP 2020	IMF Forecast April 2020
Germany	-5.3%	-7.0%
Netherlands	-3.4%	-7.5%
Denmark	-3.9%	-6.5%
Sweden	-5.0%	-6.8%
Finland	-5.6%	-6.0%
United Kingdom	-4.8%	-6.5%
France	-5.0%	-7.2%
Italy	-7.0%	-9.1%
Spain	-3.8%	-8.0%
Portugal	-6.1%	-8.0%
Greece	-6.2%	-10.0%

Source: own calculations based on survey answers and IMF (2020b).

B: Expectation of recovery of GDP to pre-crisis levels

Country	N	in 2020	1st half of 2021	2nd half of 2021	not before 2022
Germany	44	6.8%	34.0%	20.4%	38.6%
France	33	3.0%	30.0%	21.2%	45.4%
Italy	67	2.9%	16.4%	16.4%	64.1%
Spain	39	5.1%	41.0%	25.6%	28.2%
United Kingdom	38	5.2%	26.3%	21.0%	47.3%
Netherlands	24	4.1%	54.1%	25.0%	26.6%
China	12	66.6%	16.6%	16.6%	0.0%
Korea	12	41.6%	41.6%	16.6%	0.0%
Pakistan	11	36.6%	45.4%	18.1%	0.0%
Turkey	10	50.0%	20.0%	10.0%	20.0%

Source: Own calculations based on survey answers.

EconPol Europe

EconPol Europe – the European network for economic and fiscal policy research – is a network of 14 policy-oriented university and non-university research institutes across 12 countries, who contribute scientific expertise to the discussion of the future design of the European Union. The network's joint interdisciplinary research covers sustainable growth and best practice, reform of EU policies and the EU budget, capital markets and the regulation of the financial sector, and governance and macroeconomic policy in the European Monetary Union.

The network was founded in spring 2017 by the ifo Institute, along with eight renowned European research institutes. A further five associate partners were added to the network in January 2019.

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