

**Economic and Finance Committee (ECOFIN)**

**The economic impact for covid-19**

Approved by President of the general assembly

**Letter from the President of the General Assembly**

Today, humanity faces the repercussions of its unwillingness to recognize the patterns that constitute the great mosaic of the history of humankind. As Andre Gide once said, “Everything has been said before, but since nobody listens, we have to keep going back and beginning all over again.” The global community is under the threat of a pandemic, and it’s trying to find ways to adapt itself to the structural change after the pandemic, which is called the new normal. However, are we really adapting to a new normal when we have already gone through similar paradigm shifts, especially during the past century? This new normal gave people and governments an insight into their broken systems, an insight into this dispersed world, with everything that's going wrong with the world right now people are trying to go back and find a “ remedy for a dispersed world “ which will be our theme for this year. In the words of Leo Tolstoy, “everyone thinks of changing the world but no one thinks of changing himself.” At SafirMUN we will be tackling most of this year's rising topics that were exposed. We will be presenting our delegates with a platform that can hopefully help them find a remedy for this dispersed world.

***Sary Matar***

***PGA of SafirMUN***

****

**Study Guide**

**Table of Contents**

**Chair Introduction Letters**

**Committee Introduction**

**Key terms**

**Focused Topic Overview:**

**The economic impact for covid-19**

**Reassessing the role of central banks during recessions**

**Timeline of Events**

**Case Studies**

**The Blocs**

**Further reading**

**QARMA**

****

**Chair Introduction Letters**

Greetings Dear Delegates,

I am Nandika H, your Chair for the Economic and Financial committee. To let you know a little about me, I am an enthusiastic and extroverted person with various passions! I am an avid reader and have a keen interest in international affairs having participated in various International Model United Nations including Harvard MUNs, hence bringing forward a plethora of knowledge and a wide range of experiences to SAFIRMUN. I am currently completing my senior year in High school and I am a nature enthusiast and a young entrepreneur as well!

Delegates, every Model United Nations has provided me with a new experience and has always made public speaking seem easy to me! Honestly, I was a silent observer in my first few MUNs but when I mustered enough courage to speak up and make my points in committee, I was a changed person! From this experience, I want to convey this message to you delegates that “ Continuous or even a small effort is the key to unlocking your potential ”.

I am more than thrilled to virtually meet all of you. I assure you that you will have a comprehensive committee session and a memorable time. Always remember to raise your “placards”, research, speak, up, negotiate, and lastly, have fun!

Fáilte delegates,

I am Muhammad Abduhoo. I am the appointed co-chair for ECOFIN (The Economic and Financial Committee). Allow me to introduce myself, I am a High school student and passionate about advocating for change through conferences that develop skills crucial for taking initiatives.

I’ve been a part of numerous Model United Nations and a recipient of awards. My journey to being an effective and competent conversationalist consisted of long hours, consistency, and a great deal of motivation. MUNS played a significant part in attaining that level of competency. After regularly participating in conferences like SAFIRMUN, I can firmly articulate that I wouldn’t be the person I’d be today if I hadn’t attended conferences.

I am aware that delegates who haven’t the experience of many conferences must be anxious and nervous because of the complex procedures but always remember that the change begins with trying and if you don’t try, how will you enjoy the bliss of the conferences? Feel free to contact me regardless of the time as I encourage questions and welcome new delegates. Always remember to raise your “placards”, research, speak, up, negotiate, and have fun!

**Committee Introduction**

The Economic and Financial Committee, also known as ECOFIN is the second of the six committees of the United Nations General Assembly. It was formed with the rest of the General Assembly when the UN was established after the Second World War in 1945. The committee first met in London in January 1946. Since then, the committee meets once every year in October for a 4 to 5-week session. Its primary roles include addressing issues related to economic growth and development with specific regard to macroeconomic policy on international trade and external debt sustainability, securing financing for sustainable development, poverty eradication and globalization and interdependence. In recent times, the Millennium Development Goals and special situations related to Least Developed Countries and Landlocked Developing Countries, as well as recovery and restructuring in the aftermath of the 2008 Financial Crisis has been focused on increasingly. The ECOFIN is open to all 193 member nations of the UN, each of which has equal representation and voting rights. Though resolutions adopted by the committee are not enforceable, they carry the weight of the international community’s will. The GA also has the power to convene an emergency special session and act to ensure peace security. The ECOFIN is administered by one chairperson, three vice-chairpersons and one rapporteur. The ECOFIN regularly updates its working methods and practices to enable deeper debate and greater impact of the committee’s deliberations and decisions. These efforts include streamlining the agenda, holding “question time” sessions with secretariat officials after the presentation of substantive reports and reducing the number and length of draft resolutions adopted. The Committee currently holds a dialogue with the Executive Secretaries of the Regional Commissions as well as a number of side events as part of its program of work.

**Key terms**

**COVID-19:** COVID-19 is a disease caused by a new strain of coronavirus. 'CO' stands for corona, 'VI' for the virus, and 'D' for disease. Formerly, this disease was referred to as '2019 novel coronavirus' or '2019-nCoV.'

**Lockdowns:** Lockdowns are general population restrictions, which may include orders to stay and work from home, put in place to slow the spread of a communicable disease.

**Marginal Propensity to consume:** In economics, the marginal propensity to consume (MPC) is a metric that quantifies induced consumption, the concept that the increase in personal consumer spending occurs with an increase in disposable income.

**Epidemic:** An infectious disease spread in a community at a particular time is called an epidemic

**Pandemic:** If an epidemic is not controlled and it goes global, it is called a pandemic.

**FTSE:** The Financial Times Stock Exchange 100 Index is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalization.

**S&P 500 index:** The Standard and Poor's 500, is a free-float, weighted measurement stock market index of 500 of the largest companies listed on stock exchanges in the United States.

**GDP:** Gross domestic product (GDP) is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period.

**Deflation:**Deflation is generally the decline in the prices for goods and services that occur when the rate of inflation falls below 0%

**Economic downturns:**An economic downturn is a general slowdown in economic activity over a sustained period of time.

**Monetary Reserve:**A monetary reserve is the holdings of currencies, precious metals, and other highly liquid assets used to redeem national currencies and bank deposits and to meet current and near-term financial obligations by a country's central bank, government treasury, or other monetary authority.

**Credit:**Credit is generally defined as a contract agreement in which a borrower receives a sum of money or something of value and repays the lender at a later date, generally with interest.

**Stagflation:**Stagflation refers to an economy that is experiencing a simultaneous increase in inflation and stagnation of economic output.

**Focused Topic Overview**

**The economic impact for covid-19**

**Origin of COVID – 19**

The most common explanation for COVID-19’s origin is that of a spillover event in Wuhan. Like the SARS-Cov of 2002, the coronavirus also appears to have originated from an animalistic source, owing to human engagement with wildlife environments where animals serve as the intermediate viral hosts. In the past, many deadly epidemics and outbreaks have been caused by highly contagious viruses stemming from animal sources.

The Ebola outbreak in the Democratic Republic of Congo in 1976 had a fatality rate of 44%. Since then, 26 outbreaks of the Ebola virus have occurred in ten countries of Africa, including the Democratic Republic of Congo, Sudan, Gabon, Côte d’Ivoire, South Africa, Uganda. Congo, Guinea, Sierra Leone, and Liberia. Of the five viral types that cause Ebola, four are present in animals like monkeys, gorillas, and chimpanzees. Consumption of these species leads to humans contracting the disease. Similarly, the Marburg virus outbreak in Germany and Serbia in 1967 was associated with a laboratory working using African green monkeys.

At the time of writing this, there have been 3.23 million deaths due to COVID-19 worldwide and this number is consistently increasing. Many countries are now facing a second wave that will make life even worse for countries trying to survive and come out of the economic peril caused by the first wave.

The outburst of coronavirus is a public health emergency that has severely impacted more than 100 countries this year alone. It is inherent to identify and diagnose the disease in its early stages to mitigate its life-ending consequences. The pandemic has altered the contemporary world, says The New York Times in 2020. Educational institutions in 193 countries have closed down and have impacted 99.4% of the student population as per UNESCO. It's to note that this pandemic doesn't only accentuate a health crisis but also an economic crisis.

**Overview of Economic Issues**

While deaths are, for all intents and purposes, the most tragic consequence of COVID-19, this pandemic and the subsequent lockdown have brought forward a myriad of economic issues that would take years to be resolved. COVID-19 and the subsequent lockdown caused the largest global recession in recorded history. On a micro-scale, panic buying has led to a shortage of household commodities worldwide. Unemployment is also on an astonishing high, with the International Labor Organization concluding that 400 million full-time jobs have been lost globally and revenue earned by workers worldwide has fallen by 10%.

On a macro scale, Agrarian economies are suffering heavily as the lockdown has essentially disrupted agricultural cycles. What is important to understand here is that despite the global economic losses, developing countries would suffer more because of weaker planning and less social benefits like global healthcare. Social Impacts A global pandemic is much more than its immediate impact may suggest. A pandemic of this scale has incredible social, psychological and political impacts. The USA, a country severely hit by COVID-19 is a prime example of the massive political bearing this pandemic holds. The elections in the USA were dependent on what the incumbent's response strategy was to the pandemic. On a more humanitarian level, social isolation caused by the pandemic is a real issue creating mental health problems for many individuals. Unemployment has created financial insecurity for many people which can also be cause for troubled mental health.

The uncertainty prevailing in the world economic sector has undoubtedly been drastic. Many small businesses have been forced to close down due to low sales and decreasing profits since the beginning of the lockdown. Because of the pandemic, the misfortunes were felt exacerbated across essentially all ventures and, in any event, for fused organizations. Both high-talented and less-gifted administrations were hit hard by COVID-19. Small businesses are already financially fragile, but due to layoffs and closures, they have suffered immensely.

According to the IMF, 10.4% of the US population are out of work due to COVID. The travel and tourism industry also faced a significant blow due to travel bans and restrictions. However, they have seen how the global community has united in such difficult times and there's a shared and collective responsibility on all countries to work for a better world.

**The Importance of Flexible Funding**

The UN has called for an increase in flexible funding arrangements. Research has proven that multi-year flexible humanitarian funding is more efficient in the delivery of its outcomes since its structure is oriented in a way that it readily lends itself to emergency management crises and any problems that emerge from the unravelling of unforeseen events.

There is sufficient evidence published by think tanks, humanitarian organizations, and UN Agencies that illustrates the efficiency and far-reaching benefits of multi-year flexible funding programs. With the growing scale of humanitarian health needs following the COVID-19 19 pandemic and to achieve a high degree of preparedness against future viral outbreaks, efficiency is a key priority for donors and implementing agencies. For example, Multi-year flexible financing has allowed the International Rescue Committee to respond faster and reach the most vulnerable in emergencies. In the Central African Republic and Cameroon, the International Rescue Committee could quickly respond to emergency needs without any major budget or grant agreement changes.

This illustrates that Flexible Funding is more instrumental in helping organizations to adapt to emergencies and address them quickly and efficiently. Currently, the WHO’s core voluntary contributions are completely unconditional i.e. flexible and WHO exercises absolute autonomy in determining how these funds should be distributed across the different programs of WHO. They don’t have to comply with any terms and conditions regarding the allocation of these funds from the donating parties. However, these flexible funds represent ONLY 3.9% of all voluntary contributions.

But 90.1% of the donations are Specified Voluntary Contributions. Meaning they are strictly earmarked for certain programs decided by the donors themselves. Since these funds need to be allocated to specific problems within a specified timeframe of the donors’ choice, these funds are not exactly helpful to the WHO in times of health emergencies as they are reserved for particular territories and particular healthcare problems. This means that when a health crisis like the coronavirus erupts the UN has ONLY 9.9% of its total contributions to rely on.

**Lockdowns and the Economy**

In an interview Dr David Nabarro, the WHO’s Special Envoy on Covid- 19 stated during an interview with The Spectator, “We really do appeal to all world leaders: stop using lockdown as your primary control method”. The UN has recommended that lockdowns be used only in combination with testing, contact tracing, and isolation techniques. Furthermore, countries should orient their policy formulations towards using collective Covid-19 control methods, instead of relying solely on lockdowns.

The WHO Director-General said in a media briefing on Covid-19: “We cannot say this loudly enough, or clearly enough, or often enough: all countries can still change the course of this pandemic. If countries detect, test, treat, isolate, trace, and mobilize their people in response, those with a handful of cases can prevent those cases from becoming clusters and those clusters becoming community transmission”.

Lockdowns have always been considered an efficient strategy in managing health crises. Since pandemics are essentially unforeseen events, lockdowns are seen as an effective measure since they buy governments some time to formulate healthcare policies and adapt the state institutions to the healthcare emergency. In the past, lockdowns have been used rigorously by countries in the face of pandemics and epidemics. After being confronted with the SARS pandemic of 2002, which infected and killed nearly 5300 people in China, the Chinese government adopted stringent measures and took to sealing government and domestic buildings to mitigate the infection rates.

Similarly, during the Spanish Flu of 1918 to 1920, cities across the American continent also resorted to lockdowns after witnessing high death rates. In Philadelphia, schools, churches, places of the communal gathering were shut down, whereas St. Louis also imposed a partial lockdown after a case was detected in the region. Thus lockdowns have served as an immediately implementable measure in response to viral outbreaks in the past.

But some countries that have managed the health crisis remarkably well, such as New Zealand, Vietnam, Taiwan, Iceland, and Singapore, approached the virus from a multidimensional perspective. They did not consider national lockdowns as the only strategy through which the curve could be flattened, or the disease could be eliminated. Travel restrictions increased health checks on borders, aggressive testing, and contact tracing operations were used alongside lockdowns. These helped reduce the transmission rates, allowed the exhausted health systems to recover and alleviated the need to implement more prolonged and restrictive lockdowns that adversely affect economic practices.

Conclusively, the UN has recommended that lockdowns should be used as the last resort when the health crisis has spiralled out of control. Even when the urgent and unavoidable need to implement lockdowns does arise they should be short and used together with other disease-mitigating techniques.

A great example is restrictions on International. When mentioning international travel, it is essential to recognize that international travel encompasses everything from vacation trips to corporate conventions for Multinational companies and general trade between countries. All of this gets halted when a lockdown is imposed. A study suggests that by mid-February of 2020, travel restrictions allowed for 80% fewer virus importations worldwide. This effect is pronounced when intra-national travel is also halted. Trade going down has a severe effect on economies around the world. For example, Pakistan saw a great reduction in covid cases when intracity travel was banned.

A worldwide Second Wave has erupted across different countries. It is crucial to swiftly decide how countries, especially developing countries, can develop efficient alternatives to lockdowns. While economies are still struggling to recover from the adverse effects of the first lockdowns, second lockdowns seem to be inadvisable. Moreover, some countries have been disproportionately affected by the economic downsides of lockdowns, especially those in the African region. This is because most populations in the African continent are reliant on informal employment or daily income for example vendors, small-scale farmers, labourers, etc. The hastily imposed lockdowns have grimly aggravated the food crises in these areas. For example, in Zimbabwe, Malawi, Nigeria, Lagos, and Uganda, the government support packages are highly inadequate and barely meet monthly needs.

With the emergence of the ‘Second Wave’ governments will probably be tempted to impose lengthy and stringent lockdowns. However, this seems inadvisable for countries that have been adversely affected by lockdowns the first time. A second lockdown in these areas will be a recipe for disaster hence viable alternatives need to be formulated and implemented.

**The Covid Economic Situation**

According to the [Global Economic Prospects](https://www.worldbank.org/en/publication/global-economic-prospects), a 5.2 per cent contraction in global GDP during the year 2020 was seen. This is the deepest global recession in decades despite the extraordinary efforts of governments to counter the downturn with fiscal and monetary policy support. Over the long term, the deep recessions triggered by the pandemic are expected to leave lasting scars through lower investment, an erosion of human capital due to loss of work and schooling and fragmentation of global trade and supply linkages.

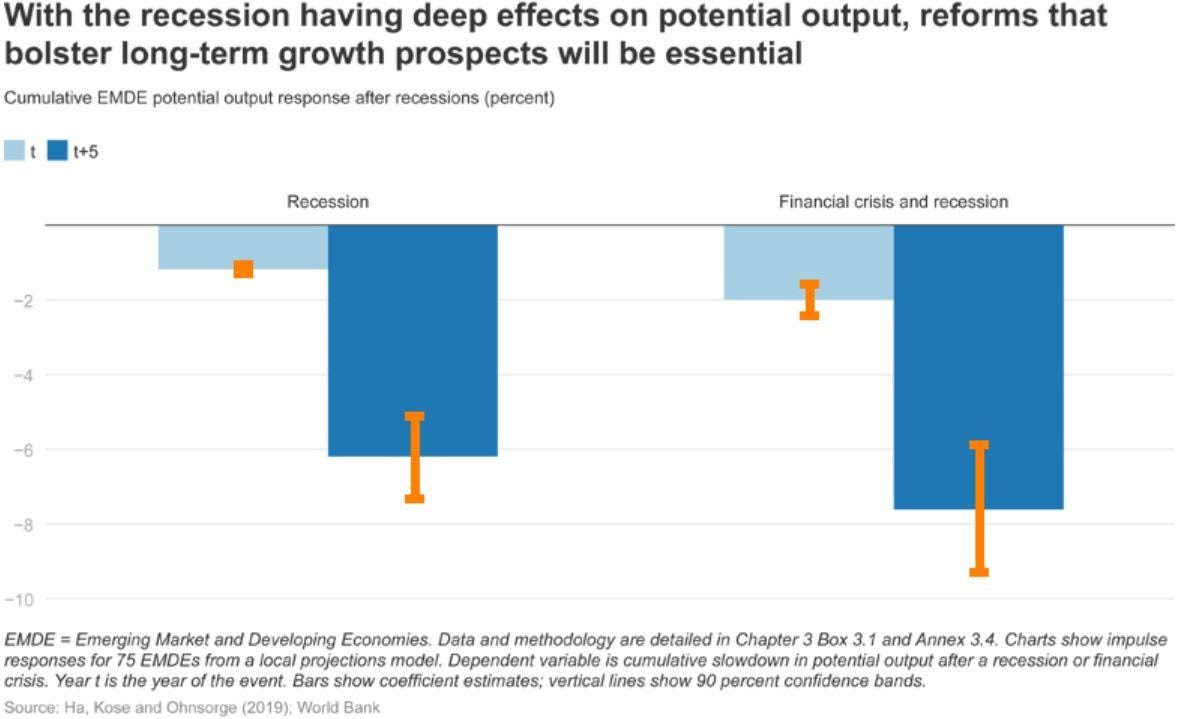
For emerging markets and developing countries, many of which face vulnerabilities, it is critical to strengthen public health systems, address the challenges posed by informal markets and implement reforms that will support strong and sustainable growth once the health crisis ends. Advanced economies are projected to shrink by 7 per cent. These losses will spill over to the emerging markets and developing economies, who are forecast to contract by 2.5 per cent as they cope with their own domestic outbreaks of the virus. This would represent the weakest economic situation in the last sixty years.

Every region is subject to substantial growth downgrades. East Asia and the Pacific will grow by only 0.5%. South Asia will contract by 2.7%, Sub-Saharan Africa by 2.8%, Middle East and North Africa by 4.2%, Europe and Central Asia by 4.7% and Latin America by 7.2%. These downturns are expected to reverse years of progress toward development goals and tip tens of millions of people back into extreme poverty. Emerging markets and developing economies are facing this crisis mainly due to the pressure on weak health care systems, loss of trade and tourism, falling foreign remittances, fewer capital flows and tight financial conditions amid mounting debt.

Exporters of energy and industrial commodities have been particularly hard hit. The pandemic and efforts to contain it have triggered an unprecedented collapse in oil demand and a crash in oil prices. Demand for metals and transport-related commodities such as rubber and platinum used for vehicle parts has also tumbled. While agriculture markets face trade restrictions and supply chain disruptions which have raised food prices in many countries. This world scenario envisions only 4.2% global growth in 2021. However, this view may still be optimistic. Should COVID-19 outbreaks persist and restrictions on movement are extended or reintroduced with longer economic disruptions the recession could be deeper.

Businesses now find it hard to service debt and heightened risk aversion is leading to climbing borrowing costs and bankruptcies. This can cause financial crises in many countries. Looking at the speed with which the crisis has overtaken the global economy may provide a clue to how deep the recession will be. The sharp pace of global growth forecast downgrades points to the possibility of yet further downward revisions and the need for additional action by policymakers in the coming months to support economic activity.

Long term efforts to contain COVID-19 in emerging and developing economies, including low-income economies with limited health care capacity, could cause deeper and longer recessions. Resulting in a multi-decade trend of slowing potential growth and productivity growth. Many emerging and developing economies were already experiencing weaker growth before this crisis but the shock of COVID-19 now makes the challenges for these economies even harder.



The historic collapse in oil demand and oil prices is likely to provide at best temporary initial support to growth once restrictions to economic activity are lifted. However, even after demand recovers adverse impacts on energy exporters may outweigh any benefits to activity in energy importers. Low oil prices offer an opportunity for oil producers to diversify their economies. In addition, the recent oil price plunge may provide further momentum to undertake energy subsidy reforms and deepen them once the immediate health crisis subsides.

**The Stock Markets**

If the normal flow of any sector is disrupted, the first reflection of the event could be found in the stock market of the relevant sector. This part of the study guide concentrates on analyzing the impact of COVID‐19 on the stock market of different countries.

A study on the US stock market argued that no other earlier pandemic, including the Spanish Flu, had a more significant impact on their stock market compared to the COVID‐19 pandemic. It shows that from February 24 to March 24, 2020, in only 22 trading days there were a staggering 18 market jumps. In the history of the United States, this is the highest number of jumps within the same period of trading days. This jump frequency was 23 times higher than the average rate since 1900.

Another study showed that due to the uncertainty caused by the coronavirus outbreak and the fear of losing profit in business, 6 trillion USD in wealth was washed out from the global stock market in the week of 24th February 2020. In the same week the S&P 500 index of the United States lost 5 trillion USD in wealth. Among the 5 trillion USD loss amount, the largest ten companies’ loss accounts for 1.4 trillion USD in wealth. The reasons were an increasing number of lockdowns, travel restrictions and monetary policies during the COVID‐19 crisis.

The S&P 500 index of the US stock market fell below 30% from its peak during March, 2020. The market performance of the United Kingdom and Germany were even worse than the performance of the US stock market. The year‐to‐date stock return decrease in the United Kingdom was 37% while for Germany it was 33%. But the two lowest performers in the global stock market were Brazil with −48% and Columbia with −47%.

The worst performing sector was the Oil, Gas and Coal sector with a 50% negative return. After the fuel sector the second‐highest damage was seen in the Travel and Leisure industry with a 40% negative return. Following them the aerospace, mining, bank, and media sector have also been affected very severely and have a fall of more than 30%.

The FTSE index of the United Kingdom dropped more than 10% on March 12, 2020. The stock market index of Japan plummeted more than 20% compared to its high values in December of 2019. The uncertainty of the pandemic along with the tremendous economic losses has made the stock market highly volatile and unpredictable. Even more than the recession of 2008.

**Affected Economic Sectors**

A study done by the World Bank Group predicts that if on average the affected countries of the world suffer only half of what China has suffered from COVID‐19 the GDP of the world will fall by 2%. Specifically, the GDP of the developing countries will fall by 2.5%, while the industrial nations will experience a 1.8% decline in their GDP. The study also asserts that if all the countries experience an equal amount of shock as China did, then the GDP fall will be two times more than the abovementioned predictions.

As many countries are experiencing lockdown for quite a remarkable time, many people are working from home and many are entirely absent from their workplace. For the production sectors, the absence of workers is leading to a labour shortage in their production. As labour supply is short automatically to keep the balance of production procedure the demand for capital is also decreasing. This ultimately is leading to a production cut which is directly causing GDP to fall.

The second cause of the GDP fall is the decline in net export. One of the main reasons behind the reduction in import and export is the extra cost related to the border crossing of the products. Due to the spread of COVID‐19, it is calculated that the transport costs of cross border trade have increased by 25%. These additional costs are coming from the extra inspection time, shortened office hours and roadblocks all of which are happening due to the coronavirus pandemic. Another reason behind the fall of net export is the inability to produce the exportable goods in the desired quantity due to shortage of imported raw materials. According to the US Institute of supply management, around 75% of the manufacturing companies have experienced disruption in their supply chain. This disruption in the supply chain is increasing the production cost of manufacturing companies.

The third cause of GDP fall, according to the study, is the fall in the marginal propensity to consume (MPC)of the general public. As the world is currently going through an uncertain situation, people are afraid of spending their income. Most people are cutting their consumption of unnecessary goods and services. Moreover, some are getting forced to cut their consumption due to losing their income source or due to a fall in their income. It is commonly known that the most crucial element of GDP is consumption. Thus, the worldwide reduction in people's demand for goods and services is resulting in a considerable decrease in the GDP of any country and consequently affecting an individual's income negatively.

The fourth cause of GDP contraction is coming from the fall in the tourism, hospitality, and recreation sectors. Due to the reduction in travelling and business meetings, countries are losing a massive amount of tax‐related to these activities resulting in a fall in government income. The stakeholders of the overall travel industry, such as airlines, cruise companies, hotels, casinos, travel agents and tourist vehicles are going through their worst nightmare of the century. The most famous tourist spots of the world, such as the Eiffel Tower, Statue of Liberty, and Madame Tussaud Wax Museum, are deserted. Airlines industries are temporarily shutting down flights to many destinations and consequent unemployment. It is estimated that 90% of the activities of the hospitality and tourism industries have been cut short.

The tragic pandemic has now reduced the expected income from this industry in 2020 to 447.4 billion USD only, which is around 35% lower than the 2019 revenue. Countries that are highly dependent on tourism like Greece, Spain, Italy, India, and Japan are expected to experience a steep fall in their GDP this year as they annually earn around 7.5% to 20% of their GDP from the tourism industry.

The fifth cause of GDP contraction is coming from the losses of the sports sector. The sports sector is directly or indirectly connected to production industries, tourism, and the hospitality industry as well as the media and communication industry. From 2011 to 2018, the global value of the sports industry has seen a 45% rise. Thus, the cancellation of big sports events such as the Tokyo Olympic 2020, Euro 2020, PSL 2021, IPL 2021 and Copa America will bring a chain effect to many of its stakeholder sectors. To begin with, there are three direct sources of income that are related to significant sports events broadcasting and sales of media rights, sponsorship and advertising partnerships and match day revenue through ticketing and hospitality. Due to the cancellation of the big sports events, income generations from all three segments will be significantly hampered this year.