BUSINESS ACUITIES

INTERNATIONAL BUSINESS

MARCH -2020

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EDITORIAL BOARD

Stock market turmoil:

Impact of COVID-19:

The COVID-19 pandemic escalated globally in March 2020, leading to widespread lockdowns, travel restrictions, and disruptions to economic activity. Investor sentiment was severely affected by the uncertainty surrounding the virus's impact on public health, economies, and corporate earnings.

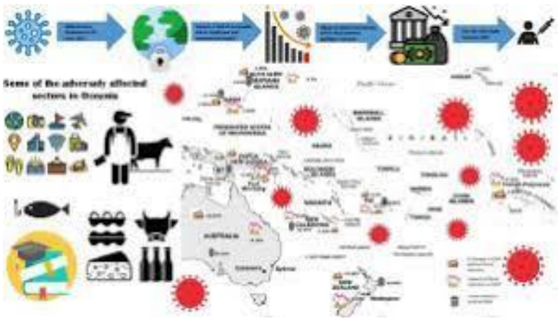
2. Sharp Declines:

Stock indices around the world recorded steep declines, with several major indices experiencing their largest percentage drops since the 2008 financial crisis. The speed and magnitude of the sell-off were unprecedented, reflecting investor concerns about the economic consequences of the pandemic.

3. Volatility and Panic Selling:

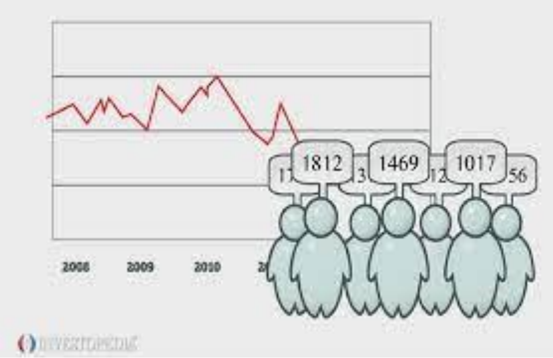
Market volatility soared as fear and uncertainty gripped investors. Volatility indices, such as the CBOE Volatility Index (VIX), reached high levels, indicating heightened market stress. Panic selling was observed, with investors rushing to exit positions and seek safety.

4. Sector-specific Impact:



The impact of the market turmoil was not uniform across all sectors. Industries directly affected by travel restrictions, social distancing measures, and reduced consumer activity, such as airlines, hospitality, and retail, experienced significant declines. Technology and healthcare sectors were relatively more resilient.

5. Circuit Breakers and Market Halts:



To manage the extreme volatility and prevent further panic, stock exchanges implemented circuit breakers and temporary market halts. These measures were designed to pause trading if certain thresholds were breached to allow for a cooling-off period and prevent further rapid declines.

6. Central Bank Interventions:

Central banks worldwide took aggressive measures to stabilize financial markets and restore confidence. They implemented interest rate cuts, liquidity injections, and asset purchase programs to provide support to the economy and financial system.

7. Investor Sentiment and Long-Term Outlook:

Investor sentiment was deeply affected by the uncertainty surrounding the pandemic, leading to heightened market pessimism. Concerns about the duration of the crisis, economic recession, and corporate earnings weighed on market participants' long-term outlook.

CENTRAL BANK POLICY ACTIONS:

1.Interest Rate Cuts:

Many central banks, including the U.S. Federal Reserve, the European Central Bank (ECB), and the Bank of England (BoE), implemented emergency interest rate cuts. These cuts aimed to provide monetary stimulus, lower borrowing costs, and support economic activity during the crisis.

2. Quantitative Easing (QE):

Central banks expanded their asset purchase programs, commonly known as quantitative easing. Through QE, central banks injected liquidity into the financial system by purchasing government bonds and, in some cases, corporate bonds or other securities. This measure aimed to support financial markets, provide liquidity to banks, and lower borrowing costs.

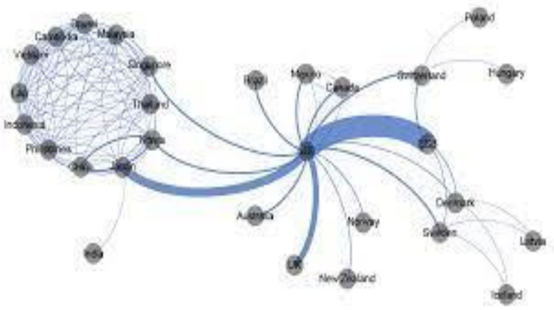
3. Liquidity Support:

Central banks introduced measures to ensure the availability of liquidity in financial markets. They provided additional funding to banks, conducted open market operations, and eased collateral requirements to support lending to households and businesses.

4. Regulatory Reliefs:

Central banks implemented regulatory reliefs and eased capital requirements for banks to ensure they had the capacity to lend during the crisis. These measures aimed to support credit flows and provide stability to the financial system.

5. Currency Swap Lines:



Central banks, including the Federal Reserve, established or expanded currency swap lines with other central banks to enhance global liquidity and facilitate the availability of U.S. dollars in international markets

6. Forward Guidance:

Central banks communicated their commitment to maintaining accommodative monetary policy for an extended period. This forward guidance aimed to provide stability, reduce uncertainty, and support market confidence.

7. Coordination among Central Banks:

Central banks engaged in coordinated actions and regular communication to address the global nature of the crisis. They shared information, discussed policy measures, and collaborated to stabilize financial markets and support the global economy.

ECONOMIC STIMULUS PACKAGES:

1.United States:

The U.S. government passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act, a $2.2 trillion stimulus package. It included direct cash payments to individuals, expanded unemployment benefits, small business loans, funding for healthcare resources, and assistance to industries severely impacted by the pandemic, such as airlines.

2. European Union:

The European Union launched a €540 billion stimulus package called the Coronavirus Response Investment Initiative. It aimed to support member states by providing liquidity to businesses, particularly small and medium-sized enterprises (SMEs), and directing funding towards healthcare systems and affected sectors.

3. United Kingdom:

The UK government introduced the Coronavirus Job Retention Scheme, which covered 80% of the wages of furloughed workers, up to a certain limit. It also provided grants and loans to businesses, extended social welfare support, and increased funding for the National Health Service (NHS).

4. Canada:

The Canadian government unveiled an economic stimulus package worth over $82 billion. It included wage subsidies for businesses, expanded employment insurance benefits, additional funding for healthcare resources, and financial support for affected industries.

5. Australia:

The Australian government announced a $17.6 billion stimulus package that included tax relief for businesses, one-time cash payments to welfare recipients, wage subsidies for apprentices, and funding for healthcare resources.

6. Japan:

The Japanese government approved a stimulus package worth ¥108.2 trillion ($988 billion) to support the economy. It included cash payments to households, support for businesses and workers affected by the pandemic, and funding for healthcare and infrastructure development.

7. Germany:

The German government passed an economic stimulus package worth €130 billion. It included tax relief for businesses, financial support for families and low-income earners, increased funding for healthcare and education, and investments in climate-friendly technologies.

JOB LOSSES AND UNEMPLOYMENT:

1.Global Job Losses:

The pandemic led to a sharp increase in job losses across various sectors and countries. Lockdown measures, social distancing requirements, and reduced economic activity resulted in business closures, layoffs, and reduced working hours.

2. Industries Most

Affected: Sectors such as hospitality, tourism, retail, aviation, entertainment, and food services were hit particularly hard by the pandemic. These industries heavily reliant on in-person interactions and travel experienced significant declines in demand, leading to widespread job losses.

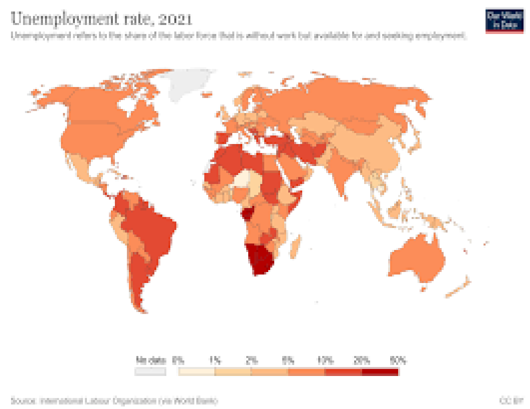
3. Small Businesses:

Small businesses, including restaurants, shops, and local services, faced particular challenges during the pandemic. Many were forced to close or scale back operations, resulting in layoffs and reduced employment opportunities.

4. Unemployment Rates:

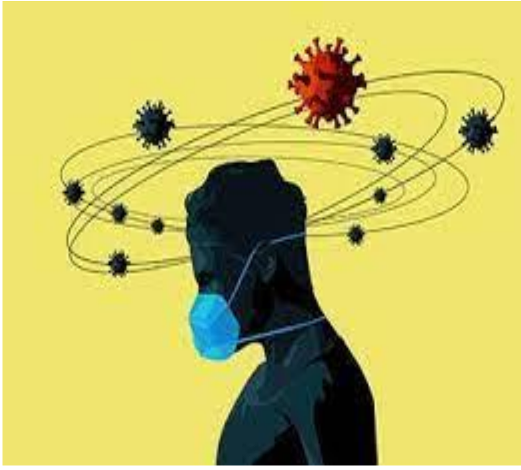
Unemployment rates rose significantly in many countries as a result of the pandemic. Governments and statistical agencies reported sharp increases in the number of unemployed individuals seeking work.

5. Partial and Temporary Unemployment:



In some cases, governments implemented measures to support businesses and workers by providing wage subsidies or furlough schemes. These programs aimed to prevent further job losses by allowing companies to retain their employees, even if they were not actively working.

6. Unequal Impact:



The impact of job losses and unemployment was not evenly distributed across all demographics. Low-wage workers, temporary and contract workers, and individuals in the informal sector were disproportionately affected by the economic downturn.

7. Government Support and Assistance:

Governments worldwide implemented various measures to support individuals and businesses affected by job losses and unemployment. These measures included enhanced unemployment benefits, direct cash payments, job retention schemes, and financial assistance programs.

8. Long-Term Implications:

The pandemic's economic consequences on employment are likely to have long-term implications. The recovery of the job market may take time, and structural changes in the labour market may occur as businesses adapt to new realities and consumer behaviours.

SUPPLY CHAIN DISRUPTIONS:

Factory Closures:

Many factories in China, the initial epicentre of the outbreak, temporarily closed or operated at reduced capacity due to lockdown measures and labour shortages. This led to disruptions in the production and distribution of goods.

2. Transportation Restrictions:

Travel restrictions, border closures, and reduced air and sea freight capacity affected the movement of goods. This resulted in delays and logistics challenges, impacting the timely delivery of raw materials, components, and finished products.

3. Inventory Shortages:

The disruption in supply chains led to inventory shortages for many companies. As factories remained closed or operated at limited capacity, companies faced challenges in restocking their inventory, which impacted their ability to meet customer demand.

4. Dependence on China:

China plays a crucial role in global supply chains as a manufacturing hub for various industries. The disruptions in Chinese factories had a ripple effect on supply chains worldwide, affecting companies reliant on Chinese suppliers or manufacturer

5. Just-in-Time Inventory:

Many companies follow the just-in-time (JIT) inventory management approach, where inventory levels are kept low to minimize costs. However, the sudden disruptions exposed the vulnerabilities of this approach, as companies struggled to quickly adjust to supply chain shocks.

6. Diversification Efforts:

The disruptions highlighted the need for supply chain diversification and reducing overreliance on a single source or region. Companies began revaluating their supply chain strategies and exploring options for diversification to mitigate future risks.

7. Pharmaceutical and Medical Supplies:

The disruption in the supply chain also impacted the availability of critical pharmaceuticals and medical supplies, including personal protective equipment (PPE) and ventilators. The increased demand and supply chain disruptions strained the healthcare industry's ability to respond to the crisis.

8. Collaboration and Resilience:

The disruptions prompted increased collaboration among supply chain partners, as companies sought alternative suppliers, adjusted production plans, and shared information to mitigate the impact. Supply chain resilience became a key focus, with efforts to enhance flexibility and contingency planning.

GOVERNMENT DEBT AND DEFICIT:

Increased Spending:

Governments worldwide implemented substantial fiscal stimulus measures to support their economies and mitigate the impact of the pandemic. These measures included increased healthcare spending, direct financial assistance to individuals and businesses, and support for affected industries. The surge in government spending contributed to concerns about rising debt levels.

2. Decreased Tax Revenues:

The economic downturn resulting from the pandemic led to a decline in tax revenues for governments. Business closures, reduced consumer spending, and rising unemployment affected tax collection, putting additional pressure on government finances.

3. Budget Deficits:

The combination of increased spending and decreased tax revenues led to widening budget deficits for many countries. Budget deficits occur when government spending exceeds revenue, necessitating borrowing or other financing mechanisms to cover the shortfall.

4. Debt-to-GDP Ratios:

The rapid increase in government debt, coupled with declining economic output, raised concerns about debt sustainability. Debt-to-GDP ratios, which indicate the level of government debt relative to the size of the economy, rose significantly in many countries. Higher debt levels can potentially constrain future fiscal flexibility and economic growth.

5. Bond Market Volatility:

Concerns about government debt and deficits also manifested in bond markets. Increased borrowing by governments to finance stimulus measures put upward pressure on bond yields, reflecting higher perceived risks and potential inflationary pressures.

6. Investor Confidence:

Government debt and deficit concerns affected investor confidence in the long-term sustainability of public finances. A loss of investor confidence can lead to higher borrowing costs for governments, making it more challenging and expensive to service their debt.

7. Calls for Fiscal Discipline:

As governments implemented expansive fiscal measures, some economists and policymakers raised concerns about the long-term implications of rising debt and deficits. Discussions around the need for fiscal discipline and sustainable fiscal policies emerged, with debates over the appropriate balance between short-term stimulus and long-term fiscal responsibility.