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Centre for Innovation and Sustainable Development (CISD)

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Abstract

Whilst the magnitude and consequences of the outbreak can certainly not be compensated – at least for many, or even quantified, it is hoped that greater cooperation between global economies, will be fostered in the ongoing efforts to find a solution to address the outbreak.

This paper is aimed at contributing to the literature on a topic on which previous literature, at least prior to December 12 2019, practically and literally, in respect of COVID-19, did not exist.

Many major economies and global economies have extended shut downs from excluding essential workers, to 80-90% of its citizens being ordered to stay at home

Whilst it is certainly crucial to ensure that the outbreak is contained, it appears that certain economies, given uncertainties associated with the nature, scope of recent developments, are willing to take risks at salvaging their economies. At what stage does a government decide that prevailing restrictive social distancing measures should be relaxed? What are possible mental, long term consequences associated with, and attributable to a protracted economic shut down?

What options exist for monetary policy and central banks in particular, given less options available amidst historically low interest rate levels?

These constitute some of the questions which this paper aims to address

Key words: digital currency, interest rates, consumer spending, investor confidence, global markets, new Keynesian Philips Curve

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Introduction

Faced with unprecedented low levels of oil prices, fueled by oil price wars that have coincided with the COVID-19 pandemic, the lowest levels in two decades, inflation levels have been difficult to predict – along with other factors which traditionally have served as price indicators in monetary policy. Other vital monetary policy data and figures such as unemployment levels, have witnessed historically high levels which could not have reasonably been foreseen even in the few months which culminated in the recent COVID pandemic.

It is true that such forecasts have been made even more difficult as a result of lack of transparency, timely and accurate communication of vital information – as well as the unprecedented nature and knowledge of what is currently being dealt with.

The difficulty in relying on the “Leaning Against the Wind” (LAW) Policy – not only as a result of communicative challenges, but also during times when “confidence in the inflation target is threatened” was highlighted by Stefan Ingves in his speech and presentation “Swedish monetary policy experiences after the global financial crisis: What lessons are there for other countries”.

More importantly he highlighted the importance of adopting frequent and regular reviews of policy objective (with reference to Canada) as a means of creating better understanding and legitimacy, in order to counteract forces, towards less independent central banks (Ingves, 2019).

In its recent March report, two particularly note worthy observations are made in relation to the OECD’s projections and predictions about possible outcomes of the recent COVID -19 outbreak (See *Le Figaro*, 2020):

- “The OECD put forward two main possible scenarios:
-

The first, the basic one, which considers that the epidemic will peak in the first quarter following, and that its distribution in the rest of the world will be relatively contained. Under these circumstances, it is further added,

That:

- Overall growth will be limited by 0.5 % point this year, compared to forecasts dated November 2019, and that it would then reach 2.4% instead of the previously envisaged 2.9%.
- Furthermore, world trade would be expected to fall 1.4% in the first half and 0.9% year-over-year.

“L’OCDE met en avant deux scénarios principaux envisageables. Le premier – celui retenu de base – considère que l’épidémie atteindra un pic au premier trimestre suivant, et que sa diffusion dans le reste du monde sera relativement contenue.

Dans ces circonstances, la croissance globale sera limitée de 0.5 point de pourcentage cette année, par rapport aux dernières prévisions datées de novembre 2019: elle atteindrait alors 2.4% au lieu des 2.9% envisagés jusqu’alors. En outre, le commerce mondial baisserait de 1.4% au premier semestre et de 0.9% sur l’ensemble de l’année.

The Second Scenario

According to Le Figaro, the second “main” scenario would not only highlight a domino contagion, “widely distributed and difficult to control”, but also the following:

- The effect on world GDP could rise to 1.5%, and
- If China were to bear most of the slow down first, it would then be felt in Asia, Europe, as well as in North America;
- Trade would be “significantly weaker”, declining by about 3% over the year and affecting exports from all economies;
- Certain nations, notably in the euro zone, could also enter into recession.

It is however remarked that the second scenario would not be the pivotal determining factor – several other factors such as the manner in which the epidemic is managed by public authorities – as well as manner in which it spreads across the globe being highlighted.

“Plus alarmist, le second scénario principal met en exergue une contagion domino, largement diffuse et difficilement contrôlée. Dans ce cas, l’effet sur le PIB mondiale pourrait monter à 1,5%, et si la Chine porterait d’abord la majeure partie du ralentissement, celui-ci serait ensuite ressenti en Asie, en Europe ainsi qu’en Amérique du Nord.....”

What options exist for monetary policy and central banks in particular given less options available amidst historically low interest rate levels?

Literature Review and Background to the Topic

Uncharted Territories

In relation to the previous section, and one month thereafter, could the afore mentioned two scenarios be confirmed or justified?

This topic is indeed unique since unlike most other topics, much research is required in the area.

Is the pandemic, as it is now referred to, expected to peak in the following quarter for many countries – even if it appears to have peaked for China?

Even though it is relatively too early and pre mature to draw any conclusions yet, it appears increasingly likely that transparency and disclosure will be contributory factors in generating greater uncertainty and confusion during this pandemic. As recently revealed, not only does it appear that patients who possibly died of the COVID-19 virus, were not included in certain estimates – partly because they did not exhibit the usual symptoms, so called “asymptomatic” features, other data which could have been included, but were omitted, are gradually being realized.

Whilst there are increasingly suggestions that infections could occur through talking or even breathing – quite in contrast to recent beliefs that it could only be contracted through sneezing or heavy breathing, the modes of transmission, as well as possibilities of second waves of outbreaks occurring, all contribute to the prevailing levels of uncertainty which have built up over the recent months.

Certain mysteries relating to why countries such as Portugal have not been as badly affected as its neighbor, Spain – as well as the contrasts between the United States, and its neighbors, Canada and Mexico.. also remain unaddressed.

It was also highlighted in the report by *Le Figaro* that with regards to the second scenario, that “the nations most connected to China, such as Japan, South Korea and Australia should feel the full brunt of its slowdown in 2020, and that conversely, other regions, such as North America, would be relatively less affected.”

Can any of the scenarios be justified to a certain extent?

Whilst the obvious devastating impacts of the COVID-19 outbreak on the airlines industry – globally, and tourism – particularly in respect of countries most severely impacted, cannot be denied, it also appears that certain countries have appeared to revive economic activities whilst their neighbors are still trying to come to terms with the ongoing costs of an economic shut down.

The domino effect of the COVID-19 outbreak – particularly in respect of travel restrictions, whilst having benefited the environment, in terms of pollution, is resonating within the tourism sectors, impacting not only restaurants and hotelier businesses, but also high street shopping – an area which was already facing economic pressures of demand from shoppers and consumers. In this respect the global market has been affected considerably even though certain jurisdictions are still fortunate enough to avoid an economic shut down.

The problem is compounded further by the recent oil price wars which have pushed oil prices down even further than the levels triggered as a result of fallen demand and excess supply.

Over three months after the outbreak of December 12th 2019, does it appear that the rest of the world is recovering or that more (and even major) economies are shutting down or are still shut down?

If it is indeed the case that the pandemic can simply be fueled through basic human functions such as talking and breathing, what are the cost benefit analyses of shutting down the economy for a prolonged and protracted period of time if relatively inexpensive tools and gear such as face masks could significantly mitigate costs?

Consequently, transmission risks – owing to the inappropriate use of such gear need to be considered. Social, mental costs of an economic shutdown are also being revealed across jurisdictions even as governments are increasingly being compelled to water down extremely restrictive measures for certain classes of more vulnerable citizens.

If the modes of transmission of the COVID-19 pandemic, as well as the nature and determinants of the viability of its transmitting agent/s could be more accurately discerned, this would also enhance the cost benefit analyses in mitigating unnecessary and ineffective expenditure. At this current stage, it is still being referred to as “the invisible enemy”. Such invisibility not only reflects the magnitude of what is still unknown about the pandemic, but also the inability to control it.

Whilst glimmers of optimism are appearing, it is further hoped that immunities are being developed by those who have already recovered or may be carriers without even knowing it – such persons having been influenced by “asymptomatic” features. The use of serums and plasma containing antibodies serve as potential sources of treatment in the event that it appears that the time required to develop vaccines may prove unnecessarily costly and consuming.

Having considered the main issues, future policy recommendations, in respect of fiscal – and particularly, monetary policies will be considered in the published/publisher version of this paper. Jurisdictional approaches , as well as monetary policy updates and references relating to this, can be found under the relevant section of this paper.

Forecasting Techniques

Martins and Verona (2020) illustrate how the New Keynesian Phillips Curve (NKPC) is able to “outperform standard benchmarks” in forecasting U.S inflation once frequency-domain information is taken into consideration. Such procedure incorporating a “decomposition” of time series (of inflation and its predictors) into several frequency bands, forecasting separately each frequency component of inflation (Martins, Verona; 2020:1).

As rightly concluded by Martins and Verona that even though the expectations-augmented Phillips curve has served as the key model for explaining inflation in macroeconomic analyses and models, its shortcomings, namely, the fact that “it has performed poorly in forecasting inflation out-of-sample, irrespective of its many specifications over time”, is also highlighted (see 2020:2). Hence their rationale for advocating the new Keynesian Phillips curve which, in their opinion, may be used in real time forecasting – and whose results could be successfully used to predict inflation IF “information from the frequency domain is taken seriously” (2020:19).

The reliability and accuracy of real time forecasting particularly given the unpredictable nature and uncertainty levels attributed to the recent crisis is however, called into question – particularly owing to prevailing levels of communication between key global actors.

Recent developments in efforts aimed at mitigating discrepancies between accounting and prudential regulation have been evidenced through the adoption by the International Financial Reporting Standard (IFRS) and the US Generally Accepted Accounting Principles (US GAAP) of a “ more forward looking” expected loss approach for loan loss provisioning – with variants of the approach entering into force in January 2018 and December 2019, respectively (Borio and Restoy, 2020 :5). However, it is also argued that even though the “new forward looking standard” has the potential to mitigate excess pro cyclical, it requires banks to start provisioning for future expected losses before borrower defaults – and that this would not address the case of a “truly unexpected shock” such as that presented by the COVID-19 pandemic. The importance of achieving the right balance between the impact of procyclicality and a transparent recognition of bank asset valuations , as well as the right balance between reducing procyclicality and maintaining the credibility of the financial statements and accounting standards generally, is also emphasized with the concerns that transitional arrangements which most jurisdictions have adopted under the original BCBS guidance, only partially mitigate the problem (2020:6).

Conclusion

It is hoped that lessons will successfully be drawn from other jurisdictions whose economies have been minimally impacted (relatively) to those economies still trying to address the devastating consequences of a shut down. Comfort can be drawn from the fact that if indeed a second wave of COVID-19 outbreak were to occur, the global economy and its peoples would be better prepared and equipped to address it.

Whilst it is true that no monetary compensation could address the emotional, social and mental devastations caused by the pandemic – as well as ongoing social distancing measures,

Ultimately, the devastation experienced by a major economy and particularly one which determines the course of other global markets , constitutes a global problem – even if felt to a lesser degree or varying degrees by other.

The responsibility in ensuring that ongoing social distancing measures do not generate greater mental and problematic issues – particularly for those not accustomed to having lost income, family, and the support of friends all at the same time,

Also lies with the respective governments. As rightly highlighted, the intended and prospective remedies “should not generate a greater problem than that which it was intended to solve”. The COVID-19 outbreak is without doubt a global problem which requires global cooperation in order to find the much needed global solution.

Whilst the magnitude and consequences of the outbreak can certainly not be compensated – at least for many, or even quantified, it is hoped that greater cooperation between global economies, will be fostered in the ongoing efforts to find a solution to address the outbreak.

L'un des scénarios peut-il être justifié dans une certaine mesure?

Si l'impact dévastateur évident de l'épidémie de COVID-19 sur l'industrie du transport aérien - à l'échelle mondiale et le tourisme - dans les pays les plus durement touchés, ne peut être nié, il semble également que certains pays semblent avoir relancé les activités économiques alors que leurs voisins sont encore essayer de faire face aux coûts actuels d'une fermeture économique.

L'effet domino de l'épidémie de COVID-19 - en particulier en ce qui concerne les restrictions de voyage, tout en ayant profité à l'environnement, en termes de pollution, résonne dans les secteurs du tourisme, affectant non seulement les restaurants et les entreprises hôtelières, mais aussi les achats de rue - une zone qui faisait déjà face à des pressions de la demande des acheteurs et des consommateurs.

À cet égard, le marché mondial a été considérablement affecté, même si certaines juridictions ont encore la chance d'éviter une fermeture économique. Le problème est encore aggravé par les récentes guerres pétrolières qui ont fait chuter les prix du pétrole encore plus loin que les niveaux déclenchés en raison de la baisse de la demande et de l'offre excédentaire. Plus de trois mois après le déclenchement du 12 décembre 2019, semble-t-il que le reste du monde se redresse ou que davantage (et même de grandes) économies sont en train de fermer ou sont toujours en train de fermer?

S'il est en effet vrai que la pandémie peut simplement être alimentée par des fonctions humaines de base telles que parler et respirer, quelles sont les analyses coûts-avantages de l'arrêt de l'économie pendant une période prolongée et prolongée si des outils et des équipements relativement peu coûteux tels que les masques faciaux pourraient réduire considérablement les coûts? Par conséquent, les risques de transmission - en raison de l'utilisation inappropriée de tels engins doivent être pris en considération. Les coûts sociaux et mentaux d'un arrêt économique sont également révélés dans toutes les juridictions, alors même que les gouvernements sont de plus en plus obligés de réduire les mesures extrêmement restrictives pour certaines catégories de citoyens plus vulnérables.

Si les modes de transmission de la pandémie de COVID-19, ainsi que la nature et les déterminants de la viabilité de son ou ses agents de transmission pouvaient être discernés avec plus de précision, cela améliorerait également les analyses coûts-avantages en atténuant les dépenses inutiles et inefficaces. À ce stade actuel, il est toujours appelé «l'ennemi invisible». Cette invisibilité reflète non seulement l'ampleur de ce qui est encore inconnu au sujet de la pandémie, mais aussi l'incapacité de la contrôler.

Alors que des lueurs d'optimisme apparaissent, on espère en outre que les immunités sont développées par ceux qui ont déjà récupéré ou peuvent être porteurs sans même le savoir - ces personnes ayant été influencées par des caractéristiques «asymptomatiques». L'utilisation de sérums et d'anticorps contenant du plasma constitue une source potentielle de traitement dans le cas où il apparaît que le temps requis pour développer des vaccins peut s'avérer inutilement coûteux et long.

Conclusion

Il est également à espérer que des leçons seront tirées avec succès d'autres juridictions dont les économies n'ont pas du tout été impactées (relativement) par les économies qui tentent toujours de faire face aux conséquences dévastatrices d'une fermeture. Le réconfort peut être tiré du fait que si une deuxième vague d'épidémie de COVID-19 devait effectivement se produire, l'économie mondiale et ses peuples seraient mieux préparés et équipés pour y faire face.

S'il est vrai qu'aucune compensation monétaire ne pourrait faire face aux ravages émotionnels, sociaux et mentaux causés par la pandémie - ainsi qu'aux mesures de distanciation sociale en cours,

En fin de compte, la dévastation subie par une grande économie et en particulier une économie qui détermine le cours d'autres marchés mondiaux, constitue un problème mondial - même s'il est ressenti à un degré moindre ou à des degrés divers par d'autres.

La responsabilité de veiller à ce que les mesures de distanciation sociale en cours ne génèrent pas de problèmes mentaux et problématiques plus graves - en particulier pour ceux qui ne sont pas habitués à perdre leur revenu, leur famille et le soutien de leurs amis en même temps,

Incombe également aux gouvernements respectifs.

Comme cela a été souligné à juste titre, les mesures correctives envisagées et envisagées "ne devraient pas engendrer un problème plus grave que celui qu'il était censé résoudre". L'épidémie de COVID-19 est sans aucun doute un problème mondial qui nécessite une coopération mondiale afin de trouver la solution mondiale si nécessaire.

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