Editorial: The impact of COVID-19 on the real economy and on financial markets

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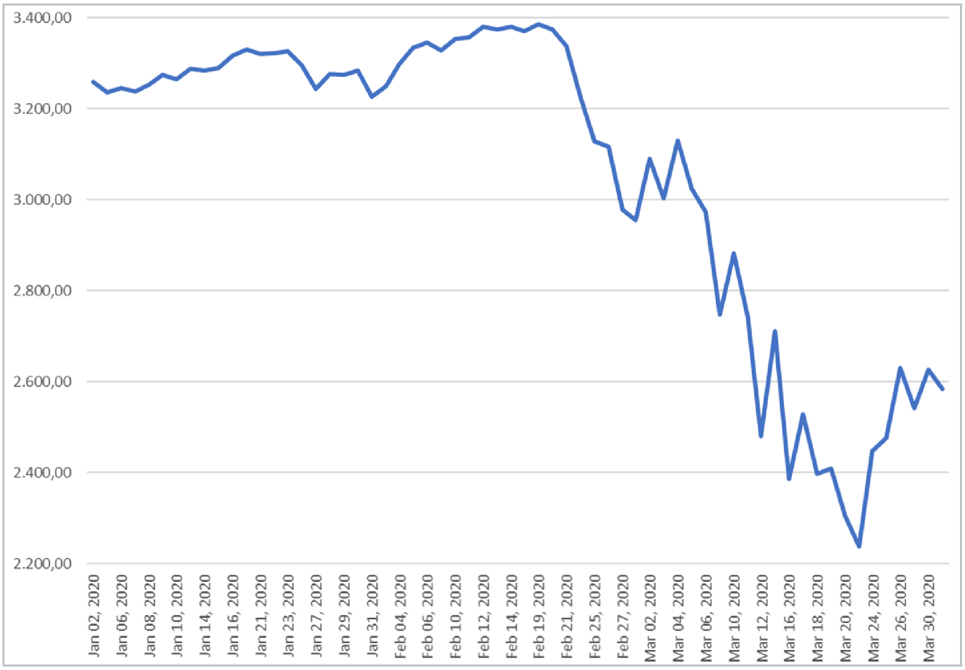
Early 2020 a novel coronavirus, i.e., COVID-19, emerged in Wuhan (China). China first quarantined the 11 million inhabitants of Wuhan, quickly extending the lockdown to nearby cities such as Huanggang (pop. 7.5 million). In the end, China put extreme measures in place: the mass quarantine included dozens of cities or about 50 million people in the Hubei Province, and included a full travel ban on public transport, flights and roads. International measures followed suit. Many countries imposed far-reaching limitations on public life, including social distancing measures, mask mandates, lockdowns and (mandatory) vaccinations (see for an overview, University of Oxford, 2022).

While the efficacy of such measures is more and more put into questions (e.g., Subramanian and Kumar, 2021; Hayes and Pollock, 2021; Paul et al., 2021; Altarawneh et al., 2022; Franco-Paredes, 2022), the socio-economic impact is undeniably. This was not only clear on financial markets (Figure 1), but also in the real economy (Figures 2–4). While epidemic outbreaks are certainly not new (e.g., Swine Flu in 2009–2010, or Ebola in 2013), nor even coronaviruses (e.g., SARS in 2002–2003, or MERS in 2012–2017), the consequences of the COVID-19 pandemic are more far-reaching than other recent outbreaks. For instance, the leading US stock market indicator S&P-500 index fell from 3,258 points at the start of the year 2020 to a low of 2,237 points on the 23rd of March, a stunning loss of 31%. The number of carried airline passengers dropped from 4.56 billion in 2019 to only 1.81 billion in 2020 (Figure 2). Over the same period, container port traffic went down from 810 million TEU to 758 million (Figure 3). Figure 4 shows the evolution of seated dining for the first three months of 2020 compared to the same day in 2019. While restaurant business was still operating normally in February, the business collapsed in March 2020: –47% on 15 March to –99% one week later (Figure 4).

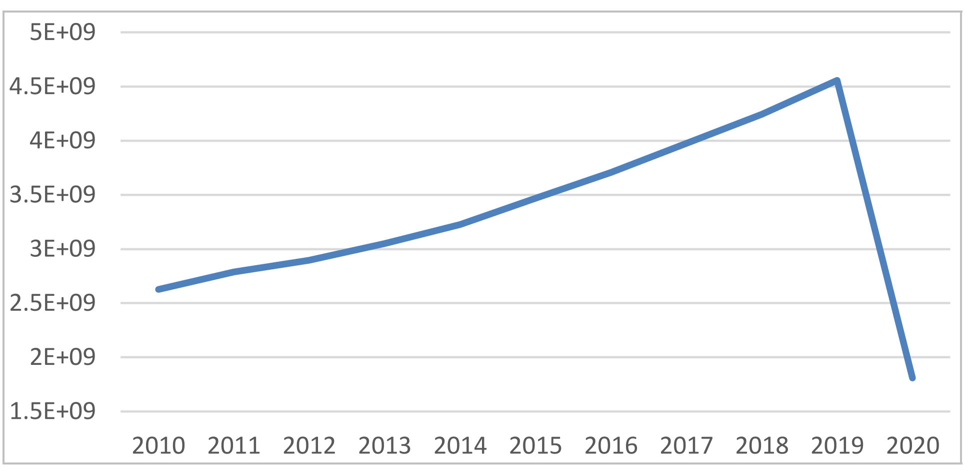
It is therefore no surprise that many executives felt that COVID-19 was the biggest risk to domestic growth according to 72% of respondents in developing countries, 62% of respondents in Asia-Pacific, 52% in North-America, and 48% in Europe (McKinsey, 2021). Although the overall impact of COVID-19 on the world economy seems clearly, many aspects remain unclear and warrant closer empirical investigation. *Global Business and Economics Review* therefore devotes a themed issue on ‘COVID-19 and the world economy’.

Figure 1 S&P-500 index between 1st of January 2020 and 1st of April 2020 (see online version for colours)



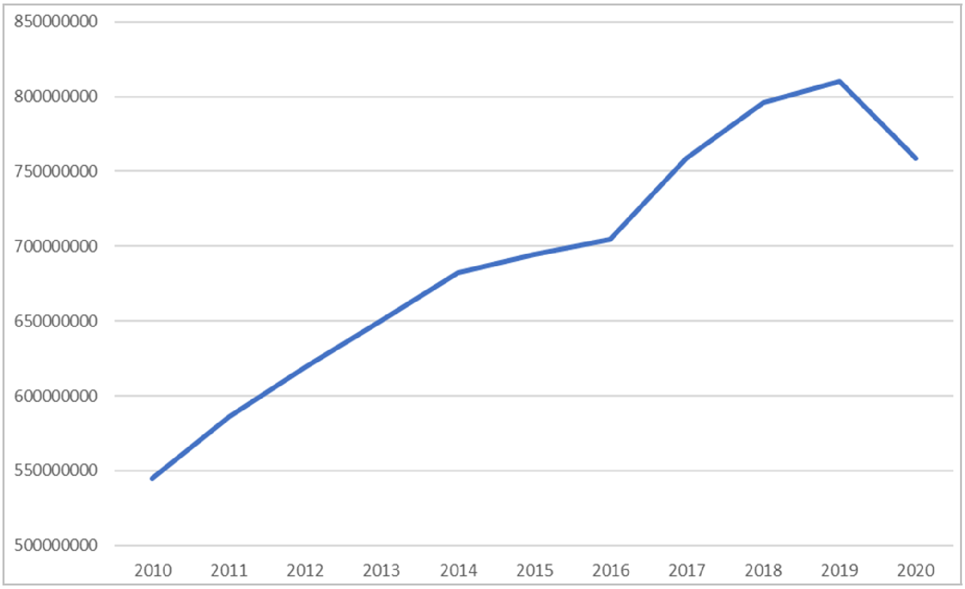
Source: Yahoo Finance

Figure 2 Annual world-wide number of carried airline passengers (2010–2020) (see online version for colours)



Source: World Bank

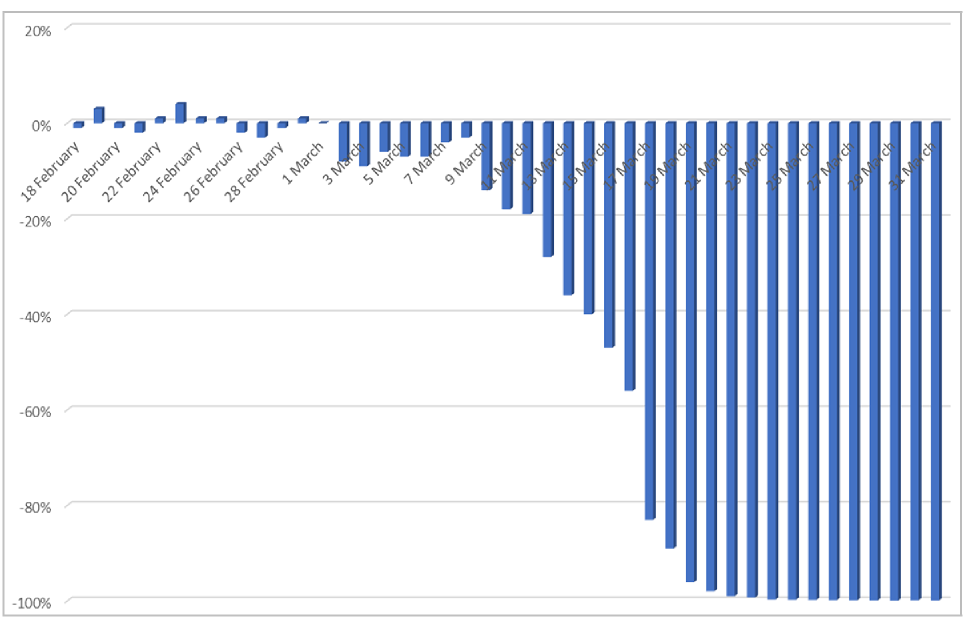
Figure 3 World-wide container port traffic (see online version for colours)



Note: TEU: 20 foot equivalent units.

Source: World Bank

Figure 4 Global seated dining (compared to year ago on same date) between January and March 2020 (see online version for colours)



Source: OpenTable (2022)

Al-Harbi and Ahmad examines the impact of COVID-19 on micro, small, and medium enterprises in Saudi Arabia and clearly document the adverse impact of COVID-19 on small businesses. A large 58% of their respondents indicated that their profitability has been negatively impacted by the pandemic. Furthermore, they find that 36% of firms increased their borrowings to survive as 64% experienced a liquidity crisis, while 79% was hit by a labour crisis and 70% by increased operating expenses. This corroborates with evidence from other emerging markets such as China (Lu et al., 2021), Jordania (Al-Hyari, 2020) or Pakistan (Aftab et al., 2021). US focused research also showed an investment decrease of 30% and an employment decline of 2% during COVID times (Bosshardt and Kakhbod, 2021). The decline is about twice as large for firms exposed more to the pandemic than other firms. Exposed firms draw relatively more on credit lines. Similar evidence is found during the Global Financial Crisis of 2008–2009 for the US data (Campello et al., 2011) as well as European data (Campello et al., 2012).

While the stock market impact in OECD countries is well-documented (see, e.g., Figure 1 and BBC, 2021), Danquah et al. examine the performance of 14 African stock markets using four important events (WHO announcement, confirmed infections, confirmed deaths and vaccination status). The author team clearly finds a negative impact of the confirmed cases of infections and confirmed deaths. However, the study also shows that vaccination had no impact on African stock markets. Surprisingly, the results show a positive impact of the WHO pandemic announcement, maybe due to African markets not being well integrated with world markets. Bagchi et al. also examine the contagion effect of Asian emerging stock markets during the pandemic.

As stock markets reacted mostly negatively, not surprisingly investors were looking for safe haven assets due to increased uncertainty and market turbulence. Dasauki et al. analyse 13 potential safe haven assets. Surprisingly, their empirical results show that gold was not a safe hedge against stock market volatility, while silver and crypto currencies were safer choices. Tiffani et al. find that COVID-19 increased Bitcoin volatility, but it could still act as a hedge against fiat during the pandemic. Finally, Umar et al. analyse the peculiar case of the negative oil spot price in April 2020 when lockdowns generated a huge negative demand shock for oil, at the moment when storage tanks for West Texas Intermediate (WTI) oil contracts were full. Overall, the collection of papers in this themed issue brings us closer to a deeper understanding of the impact of a pandemic on the world economy.

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