



COVID-19 and Economic Policy Options: What Should the Government do?

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Abstract

The Coronavirus disease (COVID-19) continues to grow rapidly from day to day in every part of the world and it is uncertain when this pandemic will decline. The world economy is experiencing a hard blow from COVID-19 both directly and indirectly, which is reflected in the many industrial sectors of many countries that have struggled to recover. This paper tries to map the economic impacts that are generally experienced by countries in the world affected by the pandemic, then formulates some recommendations related to the government's response in dealing with the COVID-19 pandemic as an option in effort to minimize wider economic impacts. This paper can contribute to policymakers in every government in the world and provide action options in dealing with the shock of the COVID-19 pandemic.

Keywords: Coronavirus; COVID-19; Economic Policy; Government.

Introduction

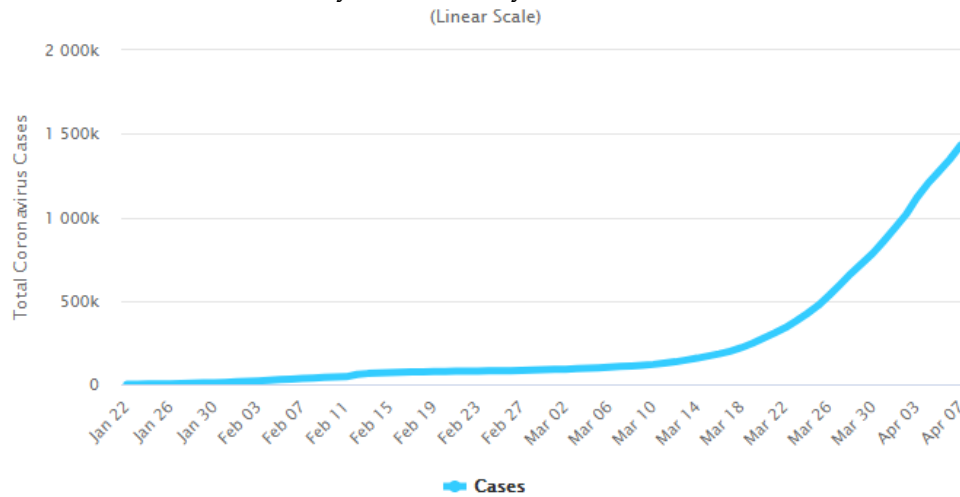
In 2019, there is fear about the impact of the US-China trade war, the US presidential election and Brexit on the world economy. Therefore, the International Monetary Fund (IMF) has predicted moderate global growth of 3.4 percent. But COVID-19 – disease caused by SARS - CoV-2 virus, a new type of coronavirus from the SARS species, changed the outlook unexpectedly (Ozili & Arun, 2020). The COVID-19 outbreak began in December 2019 in Wuhan City, Hubei Province, China. This virus has definitely continued to spread throughout the world, with increasing numbers of countries reporting the outbreaks. Several countries have succeeded in implementing policies that make the spread of COVID-19 begin to be controlled, but there is no guarantee that COVID-19 will disappear in the near future. In the midst of the high risk of death of world population caused by COVID-19, World Health Organization (WHO) on March 12, 2020 has announced coronavirus outbreak (COVID-19) as a pandemic.

The case of the COVID-19 pandemic continues to grow rapidly in every day in all parts of the world and it is uncertain when this pandemic will decline. Figure 1 shows how the development of this case continues to soar up, on April 8, 2020 there were 1,490,961 confirmed cases, 87,396 of them died due to the spread of COVID-19. The rapid spread of this virus has caused many countries to enact various policies in overcoming them, such as restricting or even closing some public facilities, some shops, offices, and

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schools and limiting public space for things or activities that are considered unimportant. Various countries in the world are struggling hard against this pandemic, all governments are increasingly tightening their policies. The long period of the existence of this pandemic will directly and indirectly intersect with the economic joints of every country in the world, the duration of this pandemic determines how much economic costs must be borne by each country.



Source: Worldometer (2020)

Figure 1. Total Cases

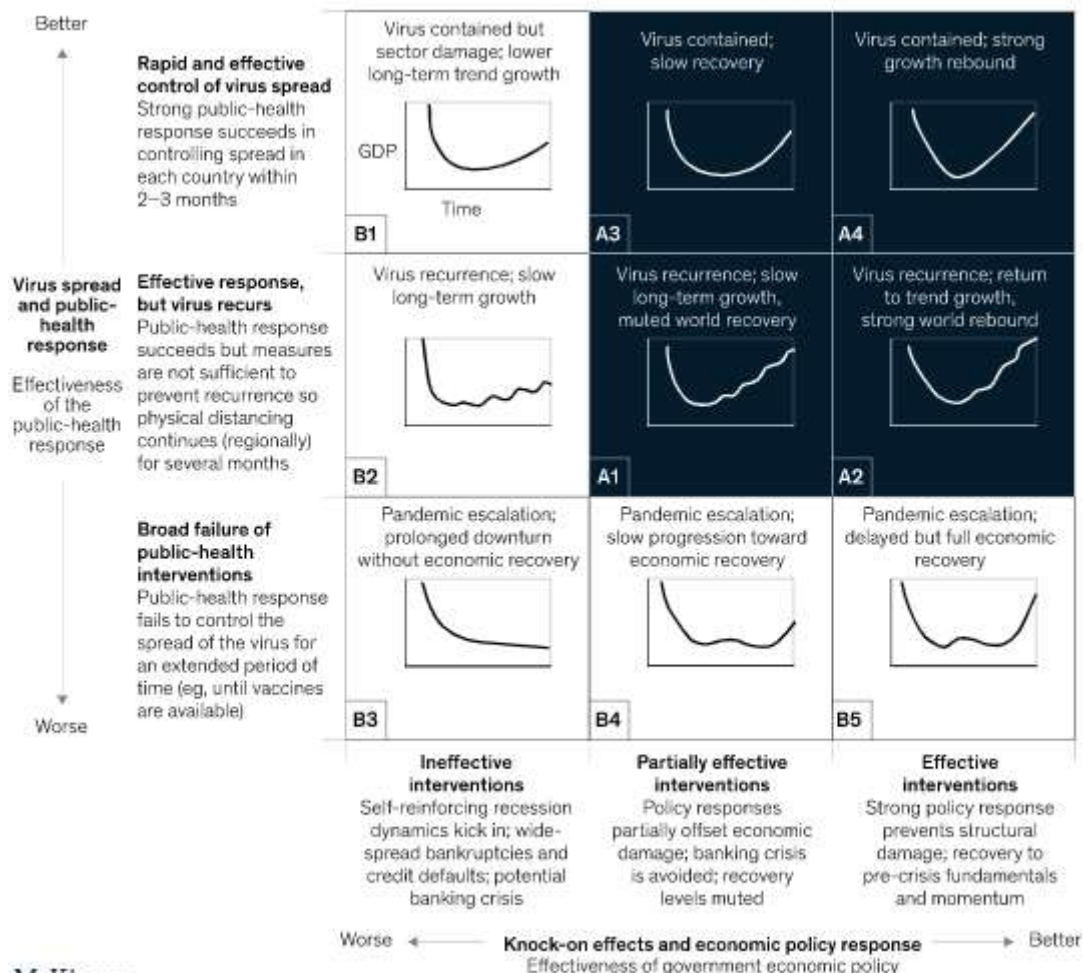
Nowadays, the world population is concerned with the continually increasing number of COVID-19 cases in each country. Increasing concern can change the pattern of behavior of everyone who will damage economic activity. Communities are encouraged to avoid public spaces where the virus can be transmitted, such as avoiding public transportation, workplaces, malls, and public places. Not surprisingly, many experts and researchers predict that economic growth will weaken this year, so this pandemic has become one of the biggest threats to the global economy and financial markets.

In the era of the industrial revolution 4.0, where the world seemed to have no boundaries and were connected to one another, the impact of COVID-19 besides death and morbidity was increasingly apparent and increasingly felt by many countries. As is known, COVID-19 is originated from China, where China is likely the biggest economy in the world today, so that the economic slowdown experienced by China has a multiplier effect on the world economy. In the midst of the China's economic slowdown, the global supply chain system has been disrupted. Regardless of its size, companies that depend on input from China have experienced production difficulties. Many countries also have strict restrictions related to the entry and exit of transportation and goods between countries which slower the global economic activity. Global financial markets are also responsive to COVID-19 which makes the global stock index worse. The most fundamental and significant influence is the panic among consumers and producers that changes the existing consumption patterns.

Economic Impact

Many countries are struggling against the COVID-19 pandemic. This pandemic has made the affected countries experience a serious blow to the economy. Since the outbreak of COVID-19, several business sectors have implemented shift systems for employees and even provided time off for them. In fact, many employees also take more rest time due to the illness, this certainly has an impact on the decline in company production. Most companies already have a way to overcome this. For example, employees who are sick and returning to work can work overtime. However, several other companies, decided not to pay employee bonuses, overtime pay, even the worst were layoffs, due to lack of income caused by the fewer transactions. The company was struck by doubts, between humanitarian reasons to reduce the number of victims of coronavirus, by providing regulations related to work from home and at the same time still trying to maintain its business.

GDP impact of COVID-19 spread, public-health response, and economic policies



McKinsey & Company

Source: McKinsey & Company (2020)

Figure 2. Scenarios for the economic impact of the COVID-19 crisis

Directly the impact of this pandemic will reduce the country's GDP in the quarter of the case. How big the impact will depend on how much the population is affected, how

many populations have lost their jobs, how many populations have stopped productivity to avoid contracting the virus, and how many populations have died. After this pandemic year has passed, the impact on GDP will slowly diminish, estimated at around 1% or 2%, it is because the conditions are recovering so some of the output after the quarter of the case will be higher, the company will meet delayed demand and re-fill lack of stock (Wren-Lewis, 2020).

McKinsey, in one of their articles, stated that world leaders wish the scenario that occurs in Figure A1-A4 that the spread of COVID-19 can be controlled and the possibility of economic collapse can be minimized. The world economy will probably weaken, but it is hoped that it will slowly rise as the spread of the virus gets more controlled. Regarding consumer behavior, if there are opinions that said consumer behavior will not change after being hit by COVID-19, it is entirely incorrect

From some of the experiences and facts presented in the field, there is a need for adequate supply in the market, this is due to high demand which at times can have a severe impact on several sectors and depends on how consumers behave later. Availability of supply accompanied by clear information is needed, when consumers decided to go outside of the house for shopping needs, then social interaction is inevitable, information related to location and availability of supply is very important. In addition, several other sectors that provide services and consumption that involving personal contacts (ex. barbershop/ hair salon) are definitely affected economically. The F&B businesses, people choose to reduce food shopping in restaurants for health reasons and avoid contracting the virus, so it also has an impact on these businesses. It can be concluded that GDP will be greatly affected when people begin to limit their social interaction and productivity in an effort not to be affected by disease.

A long quarantine process will lead to the hoarding of certain types of goods, especially basic needs. The community will relocate their spending budget to prevent the spread of this disease. There will be a drastic decline in one industrial sector and a significant increase in other industrial sectors. The community also reduced purchases of tertiary goods and began saving more savings to avoid the worsening economic crisis. Thus, the Bank as a credit distributor, must be able to conduct good lending management, the Bank must reduce lending to industries that are severely impacted by COVID-19. Conducting in-depth analysis of each application becomes important, many companies will apply for credit as cash reserves during the COVID-19 pandemic.

Governments in almost all countries in the world have issued restrictions and even restrictions on travel to and from abroad for their citizens (Yu & Aviso, 2020). This lockdown policy has been implemented in China as the epicenter of the spread of COVID-19. The lockdown was also carried out by the USA in several European countries, such as Italy, which also experienced an awful COVID-19 outbreak. Lockdown is not only centered on overseas travel, but also out of town, even out of the region. People only shop for basic necessities and choose to postpone activities that are not important.

As the lockdown policy is implemented, the sector that also affected is the transportation sector, for example many of the flight have been suspended. This delay is a blow to transport companies. Compared to a few years ago, interest in air travel in China has decreased by 40% at the end of January as a result of the outbreak of the

COVID-19 (International Air Transport Association (IATA, 2020a). The downward trend in travel demand is predicted to continue for the next 6 months as the COVID-19 outbreak develops (IATA, 2020b). The reduced demand for air transportation directly impacts the tourism sector in many countries causing revenue lost from this sector. For example, in Indonesia, the Indonesian Central Statistics Agency or Badan Pusat Statistik (BPS) reported that the number of foreign tourist arrivals (tourists) was recorded at 885,067 in February. This number has decreased by 30.42% compared to years before and decreased by 28.85% compared to the same period in 2019 (CNBCIndonesia, 2020). Hotels, theme parks, and restaurants were severely affected, so that several hotels in Bali began to reduce rental rates per night, even giving very cheap packages to tourists who were willing to stay.

It is same for the manufacturing industry which faces limitations in procuring components and spare parts from abroad, laid-off employees, to declining sales figures, because people choose to postpone the purchase of tertiary goods and focus on daily needs causing the manufacturing sector to suffer.

The economic scale impact suffered by a country will be different and varied, the explanation in this section is the general impact felt by each country, there are even more impacts that are felt from the derivation of the points described above, in principle the impact of the economy these policymakers must immediately respond as a reaction from the government to save the people.

What Should the Government do?

With the increasing number of patients suffering from COVID-19 and increasing of the mortality rate, the policies taken by each government are important, both for the short term and long term.

The central bank and the finance ministry must work hard amid a continuing virus outbreak to ensure that the ongoing economy does not experience severe disruptions. To ensure the country's economy can run well, the government must be present to answer all these challenges. Relaxation of the installment payments or credit can be an option taken by the relevant financial authority. Cutting interest rates is the best quick option that can be done by the central bank. Many impacts will be felt structurally for all sectors of the economy, and broad responses are needed in terms of health, education, fiscal and health policies. Every policy will be very effective if followed by good supervision management, the policy to carry out quarantine for affected people and reduce or even limit large-scale social interaction is a positive response taken by stakeholders. Promoting healthy way of living practices to the community is also a very effective option in reducing the level of transmission, this practice if applied widely can break the chain of distribution of COVID-19 which will also reduce social and economic costs more quickly.

Small and Medium Enterprises is one of the supporting factors of a countries' economy which will certainly be affected by the COVID-19 that occurs, the government must immediately form an "emergency fund allocation" for SMEs. This is important to provide liquidity for SMEs and their owners. In order to be effective, the government must seriously pay attention and prepare applications, requirements, evaluations, and a

fast confirmation process, because if it takes too long then there will be many more problems that can arise that bring SMEs to the brink of bankruptcy.

Doctors and paramedic are the spearhead in combating this pandemic, the government must provide an adequate budget to cover everything needed. Reallocate the budget to the health sector, immediately postpone several projects and infrastructure development in other sectors that are not a top priority. All communities in each country need a large amount of COVID-19 testing tools, a systematic and integrated hospital health system, access to medicines and hazmat clothes, vaccine and anti-virus research, trial laboratories, and several other health-related aspects that must be funded. This must be done immediately, because if not dealt with quickly, it will get worse.

For countries that already have a lockdown policy, the government must meet the basic needs of the population of the middle and lower economy and unemployment. Pay attention to areas that are vulnerable to a lack of nutrition to meet their needs. Provide free health access to these groups. This program needs to be supervised properly.

The next option that can be taken is learning from other countries that have proven to be able to control the spread of the COVID-19 outbreak with its policies. For example, countries in East Asia that quickly do lockdown policy and control the movement of the citizen. Furthermore, the government must provide full support for research to race against time to catch up before COVID-19 becomes more widespread. There are always new facts and evidence presented every day from COVID-19, the government must focus on integrating every new evidence available to tactics and strategies to address all aspects affected by this COVID-19.

Furthermore, the long-term policy options taken are equally important. It is very important for governments to invest in their health systems, especially developing countries that are vulnerable to contracting and countries where many infectious diseases originate, because this is related to loss of life and difficulties in various aspects that plague most people. Experts have warned, and continue to warn, that zoonotic diseases will continue to be a threat to the lives of millions of people, with the potential for major disruptions in the integrated world economy as it is today. Global cooperation, especially in the fields of economy and public health, is very important. All countries must participate actively. It was too late to act when the virus began to attack many countries and tried to close the borders once the pandemic began (McKibbin & Fernando, 2020).

Need more pro investment in health infrastructure, such as increasing public health capacity to be more effective and efficient in responding to epidemic epidemics such as COVID-19, increased international oversight must also continue, cooperation, coordination, and communication about outbreaks of COVID-19 and learn from this incident to be better prepared to respond to new public health threats in the future.

After the COVID-19 pandemic has subsided, several factors may need to be considered with regard to producers and consumers. For producers basically it might be related to liquidity, which in order to solve the problem certainly producers expect the existing situation to recover quickly as usual. Producers, in this case the company as employers, are also expected to be more humanizing their employees. All of these processes need time, to speed up this process, there needs to be fiscal support so that

problems in the field can be immediately recovered. The vigilant nature of the community will certainly last for some time after the outbreak has subsided, the government cannot force the community directly to arouse its rapid consumption passion. It takes several alternative solutions that must be prepared, such as giving concessions to companies to recover with VAT deductions for the next year for the industrial sector which was really devastated by the impact of this pandemic, so that companies will have more profits when this pandemic ends, it is hoped this will also provide stimulus for creditors to provide credit for the business sector.

Conclusions

Starting from January to April, the world continues to race against COVID-19. The government as a policymaker always makes the best efforts for its people. The economy was hit hard by this COVID-19 both directly and indirectly. Various industrial sectors from many countries must fight to recover from the hard impact of COVID-19, requiring policies that are pro to all stakeholders. A simple policy that can be easily implemented by everyone, such as social distancing, requires awareness and compliance for all elements of society so that all can implement it which is useful to break the chain of distribution of COVID-19, to help the world economy recover.

Governments in almost every country in the world have seen this pandemic as something serious. Policymakers have begun to take serious and ambitious steps to combat COVID-19. Some of the recommendations the authors try to offer in this paper, related to what the government must do to save the economy amid the spread of the spread of COVID-19, the analysis is carried out in general so that it can be accepted in all types of government related to what every country can do for recovering world economy and a healthy community again as before the pandemic. It is hoped that this article can contribute to policymakers in every government and provide readers with a different perspective.

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