Impacts of Covid-19 on Global Inflation and Unemployment

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ARTICLE DETAILS

Objective: The COVID-19 virus disrupted the international system and trade patterns, resulting in panic and public health crises throughout the globe. The COVID-19 epidemic sparked a financial catastrophe with far-reaching consequences that outstripped the global financial crisis. The goal of this research is to see how the changes brought on by the COVID-19 epidemic affect global inflation and the jobs of individuals causing unemployment. This article is divided into two sections, considering inflation and unemployment the COVID-19 globally.

Methodology: The methodology adopted for this study is empirical documentary research selecting first-hand research produced by international governmental and non-governmental organizations, newspapers, research articles of all categories as well as research published in scholarly journals available at online databases such as Taylor and Francis and JSTOR. The analysis has been done by applying the technique of content analysis.

Findings: According to estimates, the virus slowed global economic growth in 2020 to roughly -3.2 percent on an annualised basis, with a recovery of 5.9 percent expected in 2021.

Implications: According to consensus projections, the economic slump in 2020 will be less severe than previously anticipated, thanks in part to the fiscal and monetary policies implemented by governments in 2020.

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Introduction

COVID-19 was dubbed a pandemic by the World Health Organization (WHO) on March 10, 2020, hitting the $90 trillion worldwide economies, affecting more than 200 countries around the globe, and taking global economic growth as low as -4.5% to -6.0% in the year 2020, which potentially will improve to 2.5% to 5% in 2021, as projected by the US’s Congressional Research Service (Jackson et al., 2021). However, Jackson et.al (2020) findings also suggest that the world’s major economies would underperform at least until 2024. Though the last quarter of 2020 witnessed some recovery in the economic growth in the global north, however, the developing states in the global south could not recover from the
slump as the majority of them were dependent on trade which saw a negative growth of -9.0% in 2020 (Crayne, 2020).

The most significant factor in creating inflation and unemployment globally was the policy of lockdowns advised by the WHO, taking inspiration from the Chinese way of tackling the virus – while that policy curbed the virus to a great extent, it caused severe gaps in the demand and supply channel, therefore impacting the labour class the most as well as increasing the prices of commodities. It is still early to observe clearly whether increased prices have caused inflation on the same patterns globally or had different impacts on different regions of the world (Ebrahimy et al., 2020). However, inflation in Asian countries is reported to be high with a response by the governments highlighted and afterwards focused to resolve. China and Russia generally elaborate on the causes and nature of inflation in these regions at the government level. In the second section, the unemployment caused by the pandemic situation has been discussed at the global level. Studies were reported in a similar pattern as the inflation covering regions of the global north and global south, recording the differences between them. Lastly, this paper concludes by interpreting the future outcomes of the pandemic (Mimoun, Ben & Margalit, 2020).

It is pertinent to mention here that a few regions of the world could not receive consideration in this study due to time constraints and the availability of separate data. However, the available data and regions discussed in this paper are sufficient to understand the nature of inflation and unemployment globally post-COVID-19 (Embrahimy et al., 2020).

The prices of medicines and lifesaving drugs shot up to 10% throughout the world (Bunis, 2020). There was panic buying reported in the western countries which resulted in a shortage of daily utilities and packed food. Similarly, there were incidents of hoarding of food items and medical equipment worldwide. Furthermore, the industrial sector in the global north and global south was dependent on the migrant workers and the lockdowns forced them to move back to their homes, which resulted in shortages of supply as well. In addition to this, inflation was also increased because of reliance on imported goods which depreciated the currency in many states of the global south (Fernandes, 2020).

As per the World Trade Organization (WTO), the hoarding of critical goods such as medical supplies and food items by the exporting states also caused inflation in various states, as the exporter states feared a crisis-like situation at home (Maliszewska, Mattoo & Mensbrugghe, 2020). The US under the Trump administration banned the selling of surgical face masks outside the US. WTO reported in April 2020, that at least 80 states blocked exports in the wake of COVID-19, thus disrupting the global supply-chain market. Most of the items on the prohibition list for exports were related to medical equipment such as face masks, ventilators, and medicines (WTO, 2020). More recently, it was noted that many vaccine-producing countries have imposed restrictions on exports as well before vaccinating their population under the export authorization scheme – the list included the European Union, the United States, and the UK (BBC News, 2021; Boffey, 2021; Vela, 2021).

These restrictions were imposed in a scenario where article XI of the WTO’s General Agreement on Tariffs and Trade bans such measures by the member states, nonetheless, it allows to take such actions for the time being to keep up with the internal situation. This situation while reducing the cost in the export states, gives rise to inflation in the importing states, as the demand there increases and the hoarding starts at the local level which creates food and equipment shortages

**Aim and Purpose of the Study**

Inflation was witnessed at different levels in different regions of the world. It is reported that face mask prices went up by 200% throughout the world. In the earlier phase of the pandemic, medical supply inflation was seen in the EU, but it was not evident in the US, as it was hit later than in the EU. Similarly, there was also witnessed a trend in deflation in the non-essential services, the demand for which reduced because of the lockdowns. However, the food items remained inflated throughout the pandemic in the EU,
as well as the US (Embrahimzy, 2020). There was an amended need to evaluate the combined effects of low trading due to the pandemic of COVID-19 worldwide attack to analyse the estimation of unemployment and inflation.

**Methodology**

The data suggest that a decline in inflation was more common in the global north compared to the global south, for instance, the global north was reported to have recorded a 54.3% decrease in inflation, while two categories in the global south, such as emerging market states, and low-income states, have recorded 45.9% and 26.3% respectively. The IMF predicts that even during the reopening phases globally, there would not be seen much deflation, as by then there would be accumulated debt on the large sections of society as well as states in the global south which will keep the inflation curve steady. This will be aided by reduced supply and large demands in various sectors, such as food and medical equipment (World Bank, 2020; WTO, 2020; Ehnt & Paetz, 2020; Ebrahimy et al., 2021). Ebrahimi et al. state that openness to trade is also a factor in inflating and deflating the market. For instance, export-dependent states would have to rely on the domestic market which would reduce their income and spending at home will witness deflationary trends.

Blanchard (2020) by taking into account the Philips curve suggested that inflation would not go high in the global north, as people were saving more money than spending in the global north, specifically in the United States, moreover, once the restrictions ease there will be a surge in the spending which will create inflation, however, it is not expected to be high. Blanchard believes that in the US it is more significant to control deflation rather than inflation, as uncertainty would not potentially find any new investments, nor do the people will spend because of precautionary measures, therefore, there will be an increased supply which will be needed to be sold at the low costs If the government did not sustain it.

However, Blanchard also suggests that inflation could be high in a case where the debt to GDP ratio is very high. The relief packages in the west will create deficits in the government's bonds, especially when the fiscal and monetary policies are not aligned, and governments pay more in relief packages and forcing the central bank to keep the interest rate low. This will put an extra burden on the central banks, cause overheating of the economy, increase the debt to GDP ratio, and finally result in hyperinflation. As far as inflation in the Eurozone is concerned, the European Central Bank is optimistic that there will not be inflation in the region as people are not spending and the demand is quite low in the EU countries (European Central Bank, 2020).

**Results**

Coming to the emerging economies, COVID-19 hit the economy of Asian countries badly. The economy of Asia was $9.34 trillion just before the pandemic, making the region the fourth-largest economy in the world. After the pandemic hit the region, the Asian governments immediately took the task of reducing inflation; therefore, decreased taxes initiated relief packages, and gave stimulus packages to households and companies. However, despite these steps, the economic growth of the region witnessed negative growth in the year 2020 with Thailand, Indonesia and Singapore witnessing reduced levels of output. Furthermore, the fiscal incentives too were not as high as required to reduce inflation – yet the steps are expected to not take the region into hyperinflation (Chong et al., 2020).

**South Asia**

The economic outcomes of Covid-19 are highly impacting South Asian states with unusual speed and extremity. In South Asia, India introduced a stimulus package of $22.5 billion, meanwhile, Pakistan gave a package of $7.6 billion to help its poor class mostly comprised of daily wage labourers. However, the governments in both states could not control the food and medical equipment and lifesaving drug prices shot up – the basic food items such as wheat, sugar, and the price went up. In India, the long-term impact on inflation would also depend on the method of recovery of the economy. In case the recovery is weak, it would negatively impact inflation because consumption would not be holding below a certain limit.
Supply control from the government would also have limitations and therefore regularity in the supply chain would only make sure that the inflation is kept under observation (Barbate, Grade, & Raibagkar, 2021).

**Economic Crises in Asian Countries**

In Pakistan, the depreciation of the currency, the balance of payment issues and food shortages have already resulted in hyperinflation, COVID-19 made the situation worse for the cash-starved economy. In Afghanistan, food insecurity led to hyperinflation as its demands increased and states were hoarding. In Bangladesh, $3 billion in textile orders were cancelled by global importers, and its $310.0 billion economy witnessed a downward trend of 40%. Sri Lanka on the other hand was already in bad economic shape before COVID-19 and was facing a low currency, fewer taxes, and 90% debt of total GDP – COVID impacted its remittances sector and tourism sector which generate money to run the state. Nepal’s economy is dependent on its 26% remittances and large tourism industry, the lockdowns forced labourers to come back from the gulf and other states, as well as tourism, ended (Stone, 2020; Islam et al. 2020). The lower growth and less tax base will further increase inflation in south Asia causing high gaps in the debt to GDP ratio. Another pushback faced is in the shape of remittances as it is sent by migrant workers who work in the Gulf countries and the pandemic has locked down the work there.

**China**

As far as China is concerned, it faced extreme jolting in its export and production sectors, as the world entered lockdown the demand for supplies lessened from China which disrupted the balance of demand and supply in Chinese trade resulting in inflation and regression in the economy by 6.8% (Zhang & Wang, 2020). However, the inflation in China was short-lived, and limited to the only first quarter of 2020, in the second quarter, the Chinese economy started improving, and recorded a growth of 3.2% in the second quarter, and more recovery of 4.9% in the third quarter. The Chinese focus in the pandemic was on innovation and the digital economy which have revolutionized to a great extent, furthermore, even in the times of protectionism, deglobalization and trade wars, the dependence of Europe and other Asian and African markets increased, thereby increasing the scope of Chinese industry. The Chinese government spokesman recently stated that in the first quarter of 2021 total retail sales of consumer goods reached 6.97 trillion yuan ($1.79 trillion). The value-added industrial output which went down to -32.5% from 6.5% in January-February 2020, is now up by 32.5% an exponential rise never seen in history. Similarly, investments in fixed assets went up to 4.5 trillion yuan, an increase of 34.1% in the first quarter of 2021, which went down to -24.1% in the first quarter of 2020 from 2.5% in the last quarter of 2020. The foreign trade which went down to -9.2% in the first quarter of 2020 is now up by 22.5% (Zhao, 2021).

China being the world’s leading supplier of manufactured consumer goods increased a vital disinflationary force. As the globe modified to the pandemic, China did not take benefit of greater US demand to increase prices but rather rising Producer Price Index (PPI) inflation at the domestic level. It is because China’s manufacturers are afraid of losing world market share and secondly China’s companies do not as the market supposes, always expand profits. Despite the focus to maintain social stability, preserving market share, output growth and decreasing costs via technologies (Lo, 2021).

**Monetary Policy**

The IMF recommends that the states with more aggressive monetary policies will reduce the inflation curve. The policy, taking care more of output stabilization resulted in more inflation in the times when there was no major supply. Public debt purchases in the global north did not create many problems as they were measured. However, in crises like situations central banks finance the governments. In this situation, central banks’ balance sheet increases as it mints more money to pay for the government’s debt. This will not create problems for central banks as they will not lend money and encourage smaller banks to put the excessive money within banks and pay higher interests on them, however, during the recovery phase, it will create problems when to recover those amounts the banks will go for higher interests from the consumers (Ebrahimy et al., 2020). This situation can occur in the global south where central banks are
not independent and states like India and Pakistan have given hefty relief packages for political mileage which their governments would not be able to bear in the years to come, thus, resulting in hyperinflation.

**Discussion**

The International Labour Organization (ILO) estimates the figure for extreme poverty to be around 115 million globally, approximately 10% of the total population of the world. The labour force throughout the globe faced such a crisis after the 1930s great depression. Meanwhile, those who lost their jobs were mostly related to the services sector which could not find work because of the lockdowns. The ILO estimated that at least 81 million people lost their jobs globally (Lakner et al., 2020). The Covid-19 crisis has impacted the unemployment rates for every country and their economy.

Furthermore, as Emrahimy et al. (2021) study suggest, unemployment is equally linked to inflation as well, therefore, during the rebound phase as there would be debt, less work available, demand for more salaries, and an inability by the employers to pay more – the unemployment crises will remain unsolved for at least some time in the global north as well as global south. However, there is a difference in both regions in terms of wage bargaining, while bargaining for the employers in the global north would be at the lower end, the bargaining for the labourers in the global south would be at the lower end because of the overall bad shape of the economy of the emerging and low-income states.

In the global north, specifically in the United States, unemployment was extremely high during the early phases of COVID-19, however, Blanchard (2020) suggested it will be matched by more vacancies when the pandemic subsides. In Europe, COVID-19 has hit the more volatile southern Europe more aggressively which was already facing an economic meltdown with soaring unemployment rates even before the pandemic. Today, the European economies are going through challenges due to the spread of Covid-19 and its effects on different macroeconomic factors like unemployment. In Europe, the pandemic has brought a long-term economic crisis.

The unemployment rates in Italy were 10.0%, Greece 17.3% and Spain 14.1%. If this region is pushed for austerity post-COVID-19, it could perhaps announce exit from the EU region as it will increase the pace of economic recession and income will also decrease as well as growing gaps between debt to GDP ratios (Ehnts & Paetz, 2021). They suggest that to overcome the unemployment issue in the EU region, the governments must spend more to cut the cost of household spending which will save the debt to GDP ratios and solve the labour problems. However, as per the European Central Bank data, it is significant to note that unemployment in the Euro area was not as high as in the United States, Canada, Australia, or other developed states. As per the PMI indicators, unemployment increased in April because of the lockdowns, it decreased from 51.4% in February to 33.4% in April and gained momentum in July to 43.1% because of the relaxation in lockdown.

However, the most affected industries were services, warehousing, and transportation. Furthermore, the manufacturing sector also witnessed a decline. Similarly, the total working hours also declined by 3.1% in the first three months of 2020 in the entire EU area, and it was double that of the financial crisis of 2009 which also contracted the GDP of the region by 3.6%. However, significant to note EU did not lose more persons in the labour market as unemployment decreased by only 0.2% in the entire area. Meanwhile, on the other hand, 19.5 million people lost jobs in the US, noting an unemployment increase to 9.8%. The key difference between the two regions was the governments’ financial support offered to the labour force and organizations in the shape of short-term work schemes, temporary layoffs, which contained labourers being unemployed, a total of 26% of the employees in Germany, 47% in France, 42% in Italy, 23% in Spain, and 21% in the Netherlands were protected by these schemes (Botelho et al., 2021).

Chong et al. (2020) state that among Asian countries, Singapore recorded the highest growth in unemployment increasing the levels from 2.4% pre-pandemic to 2.9% post-pandemic. The reason for such a high rate in Singapore was its dependence on 1.43 million migrant labourers. This has spillover effects
for other Asian countries as the majority of these workers come from within the region and they're going back to their home countries increasing the levels of unemployment there as well. Malaysia also recorded 5.1% of unemployment, a growth from 3.2% pre-pandemic. Meanwhile, the Philippines has recorded the highest unemployment in the region recorded at 17.7%. Chong et al. believe that unemployment is expected to stay for a long period even after the pandemic is over as there is slow economic growth as well as an increased level of inflation.

According to the ILO (2021), the greatest number of jobs were lost in the Americas, whereas, the least was recorded in Europe and Central Asia. As far as the trends in unemployment are concerned, the African continent recorded 0.2% unemployment which is the least in the world, followed by Europe and Central Asia at 0.6%, Asia and the Pacific reported to have 0.7% unemployment, whereas, the percentage of unemployment in Arab states and Americas was at 1.7% and 2.7% respectively. Worldwide lost working hours were estimated to be around 8.8% of the total working hours compared to the last quarter of 2019, and these lost hours are comparable to 255 million jobs. If seen quarterly, the second quarter of 2020 reported the highest number of working hours lost at 18.2%. Worldwide trends showed half of the working hours lost were due to losing jobs while the rest of the half was because of inactivity.

Throughout the globe, 114 million people lost their jobs. Women and young employees lost the greatest number of jobs, 5% and 8% respectively. Global labour income, meanwhile, faced losses of $3.7 trillion, recording 4.4% of the global GDP (ILO, 2021). ILO projects continued job losses for the year 2021, at the optimistic level they project 36 million full-time jobs losses, while pessimistically the projections are around 130 million jobs. There is also inequality reported in the employment market, for instance, the communication and IT sector witnessed growth while physical labour witnessed a decline (Stone, 2020). Afghanistan’s poverty after the pandemic was projected to be around 80% of the total population, while Pakistan’s poverty rate is projected to be around 40% of the total population by the IMF. Only in the garment sector of Bangladesh did, the lockdown causes 1 million job losses (Stone, 2020).

Americas reported the highest number of incomes lost at 10.3%, followed by Africa at 9.4%, Arab states, at 8.4%, Asia and Pacific at 6.6%, and Europe and Central Asia at 8.7%. In Africa, sub-Saharan Africa was affected the most with 22 million jobs. The least affected region of Africa was South Africa which lost 2 million jobs, however, the region had to face the greatest number of lost working hours at around 26.8% (ILO, 2021).

Conclusion
There will be uneven recovery from COVID-19, though the projections suggest that the global economy will improve by the end of 2021 however it is not a straight line globally. There might be fluctuations on the way depending on the performance of the virus as well as the response by the various governments in developed, emerging markets and low-income states. The ILO (2021) is to have predicted an uneven rebound by world economies after the pandemic. After analysing the data above, it is believed the way low-income states in South Asia (which were hit hard by the pandemic) have responded by stressing the monetary regime to cover the fiscal policy will come back to bite them in the long run when the central banks would increase the taxes, resulting in inflation.

It is significant to mention that WTO Director-General Roberto Azevêdo called on participant states to chalk out the utmost limitations while applying export restrictions and similar actions that could upset supply chains. He also advised WTO members to expand fairer policies on new trade-related initiatives in the wake of the COVID-19 pandemic (WTO, 2021). Likely options for a fairer trade policy are: Guaranteeing that the new actions are sufficiently printed at the state level and keeping them on the websites to be available for everyone to see, including foreign state authorities so that they can devise their policies accordingly. Meanwhile, the ILO (2021) encourages a rebound that is healthy and considers the entire globe, especially the low-income states. It advises considering employment, wages of workers, their rights, and inclusion in the future economy (ILO, 2021). As Covid-19 keep on to be a major problem
all over the globe, states must address the unemployment that the pandemic heightened. Nations must keep on going to generate strategies and programs designed to safeguard the poverty-stricken.

Implications of the Study
To sum up, the best helps the rich states in the global north can provide for the low-income states in these times is to support them in the vaccination drive, as well as waive off some of their debts which would be a great service in helping their economy as without the support it is expected they would not be able to recover in near future.

Data Availability Statement
Data for the present study were collected after reviewing the systematic literature from previous studies exploring the global effects of COVID-19 on economic status and tendencies of unemployment. Empirical documentary research selecting first-hand research produced by the international governmental and non-governmental organizations, newspapers, research articles of all categories as well as research published in scholarly journals available at online databases such as Taylor and Francis and JSTOR were included in the data.

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