

# The Great Lockdown – The Coronavirus and the economy

Some musings on the impact on economic growth  
and the financial system



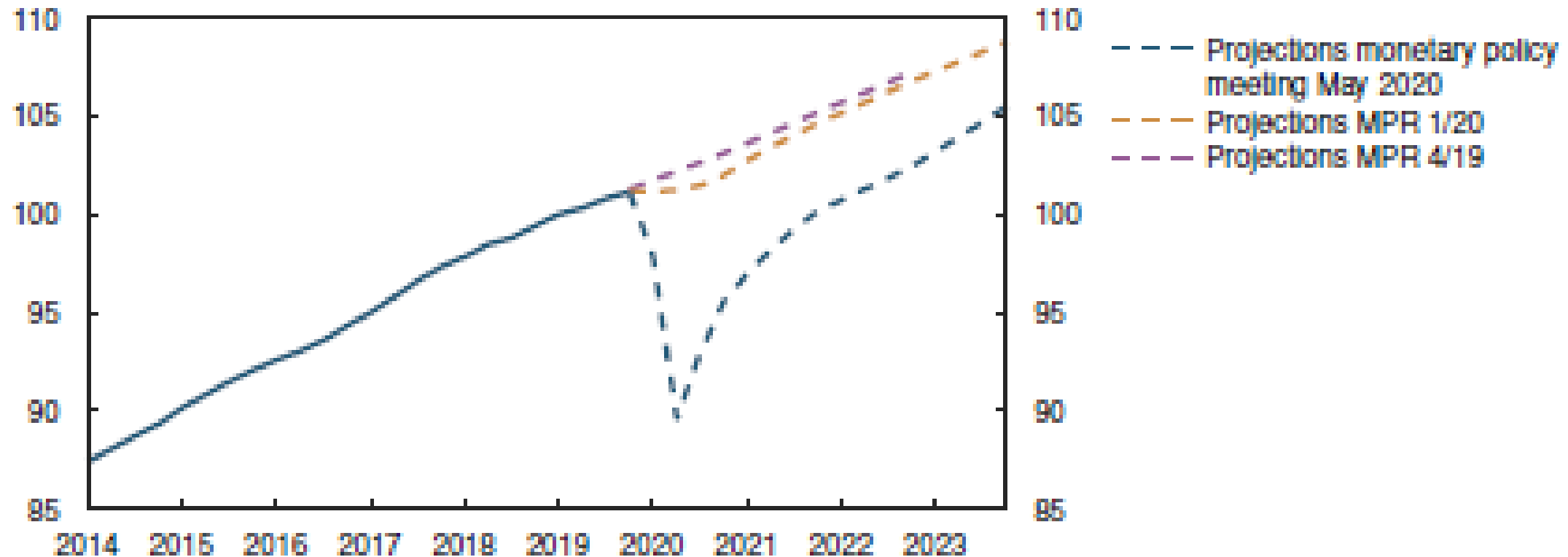
# The Great Lockdown – A simultaneous shock to both the supply and the demand side

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- As the Coronavirus spread across the globe the economy suffered from a simultaneous shock to both the supply and the demand side
- The trigger for the shock was government imposed lockdowns – but a serious dip was underway even without that
- Different from typical economic crisis either triggered by maturity of the economic cycle or excessive lending
- Banks not part of the problem this time but more part of the solution
- I will talk about three topics:
  - The magnitude of the crisis
  - The monetary and fiscal responses put in place
  - How will the world look after the crisis?



**Chart 1.3 Abrupt and deep decline in the global economy**  
GDP trading partners. Index. 2019 Q1 = 100



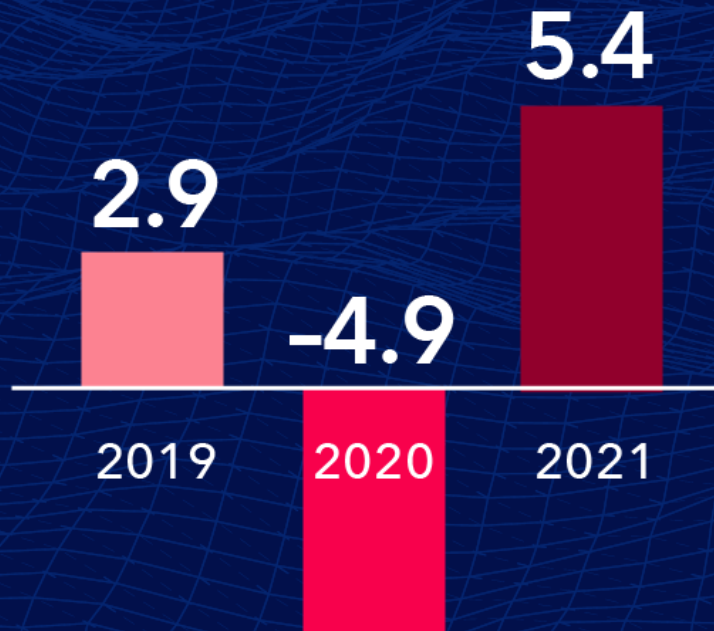
Sources: Refinitiv Datastream and Norges Bank



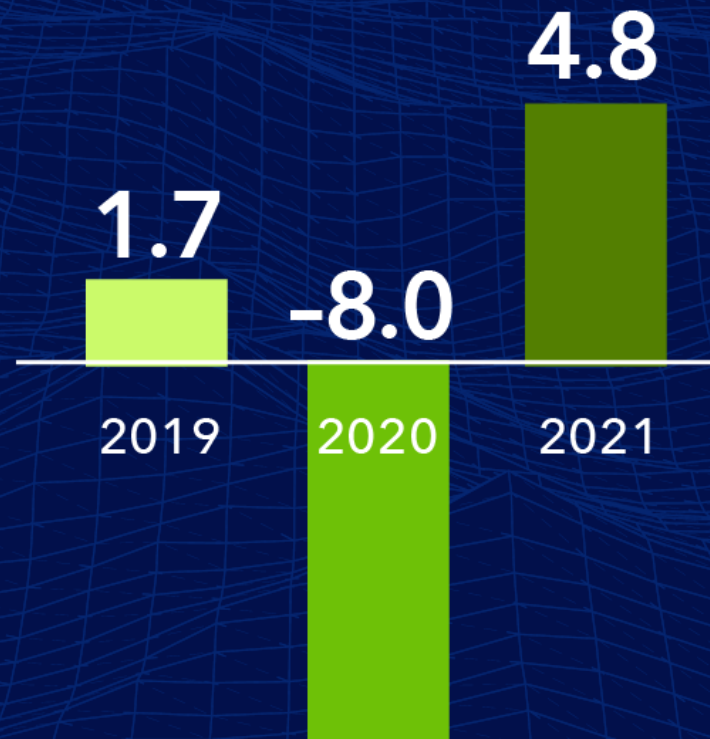
# GROWTH PROJECTIONS

A Crisis Like No Other, An Uncertain Recovery

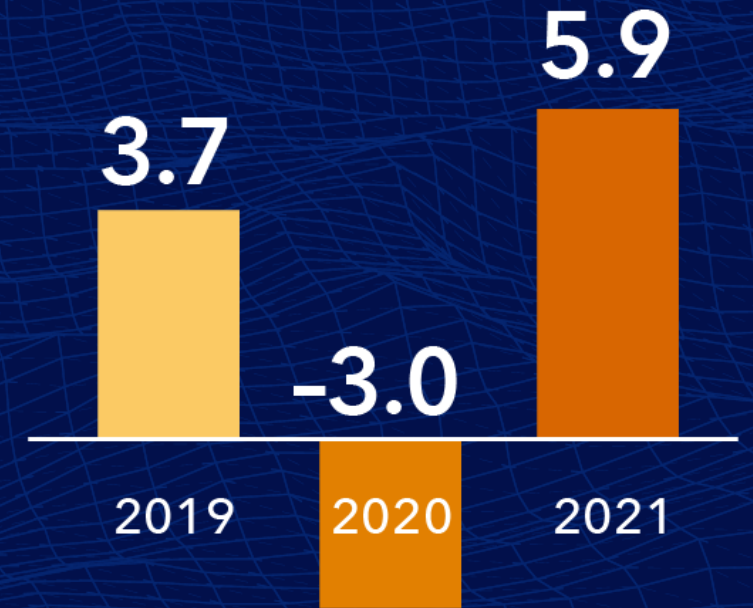
## GLOBAL ECONOMY



## ADVANCED ECONOMIES



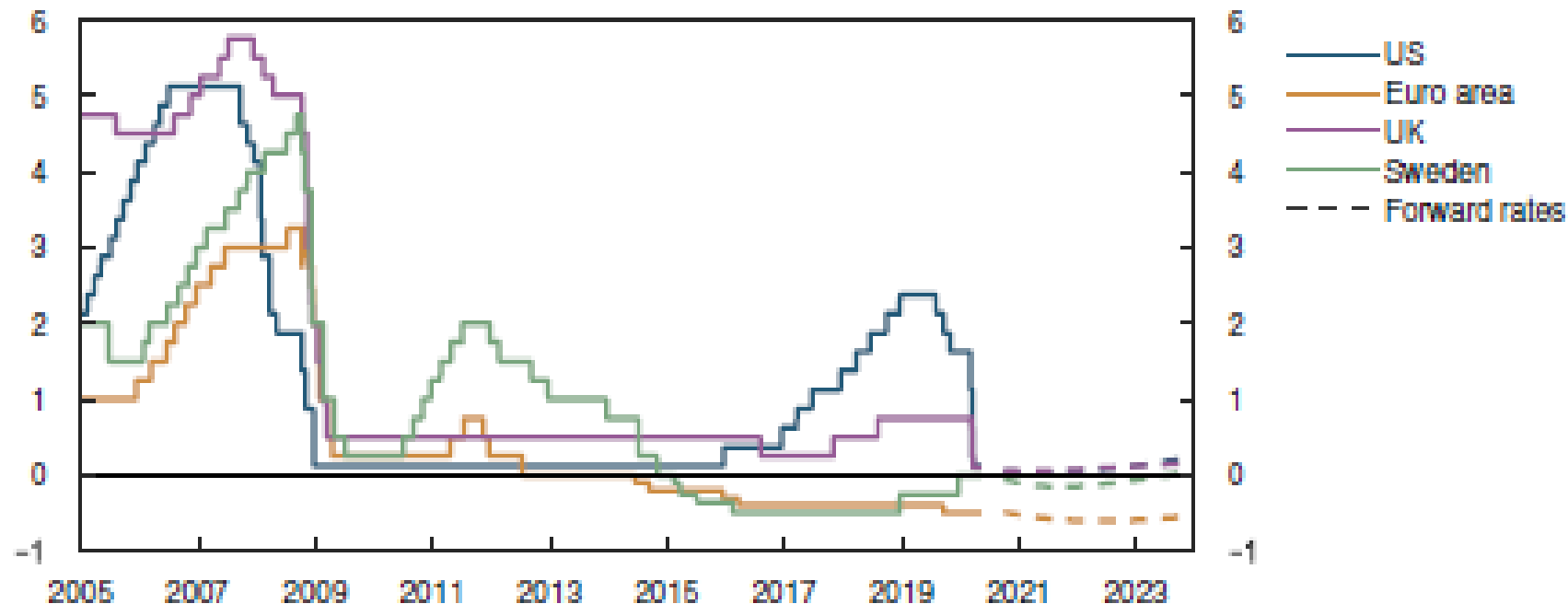
## EMERGING MARKETS & DEVELOPING ECONOMIES



# The first response is to reduce interest rates

**Chart A Low global interest rates**

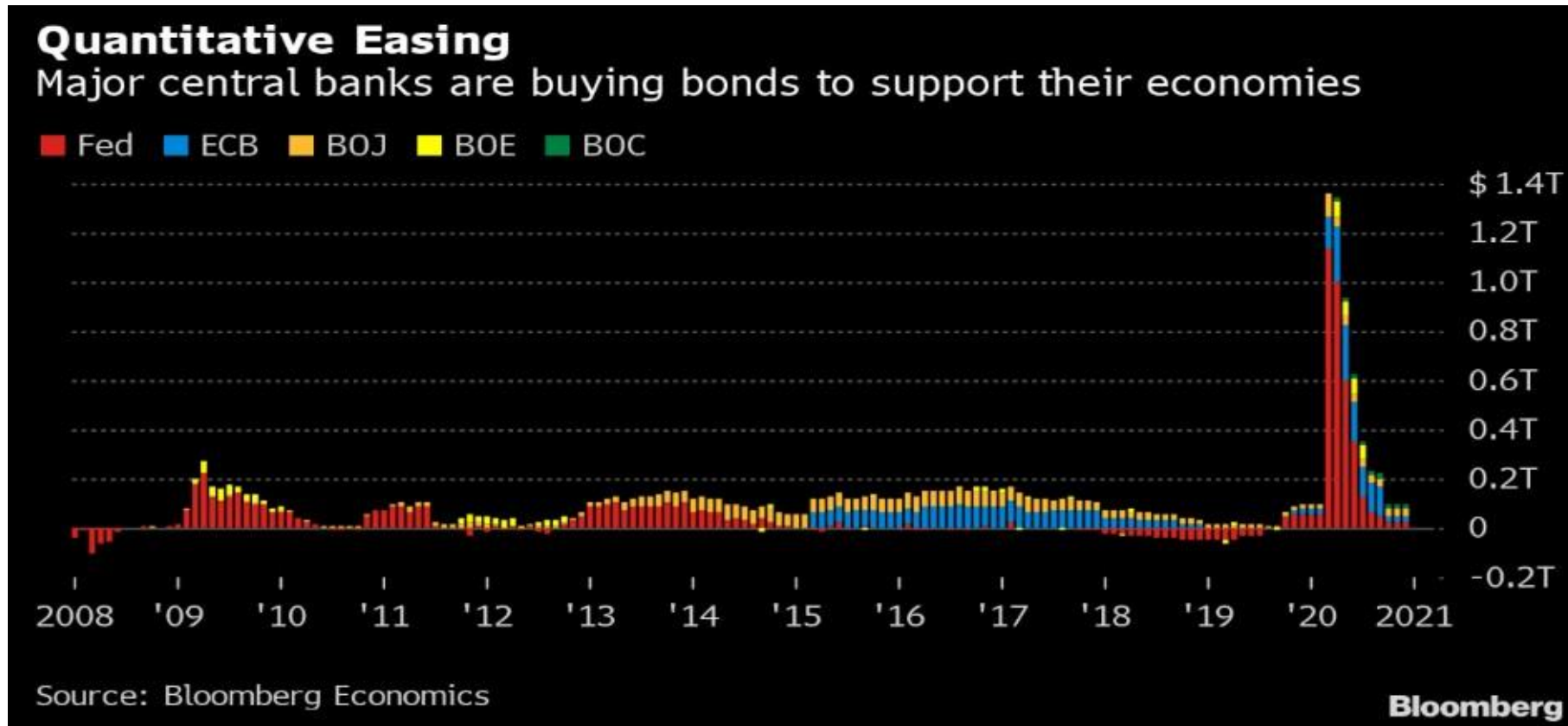
Policy rates and estimated forward rates in selected countries. Percent



Sources: Bloomberg, Refinitiv Datastream and Norges Bank

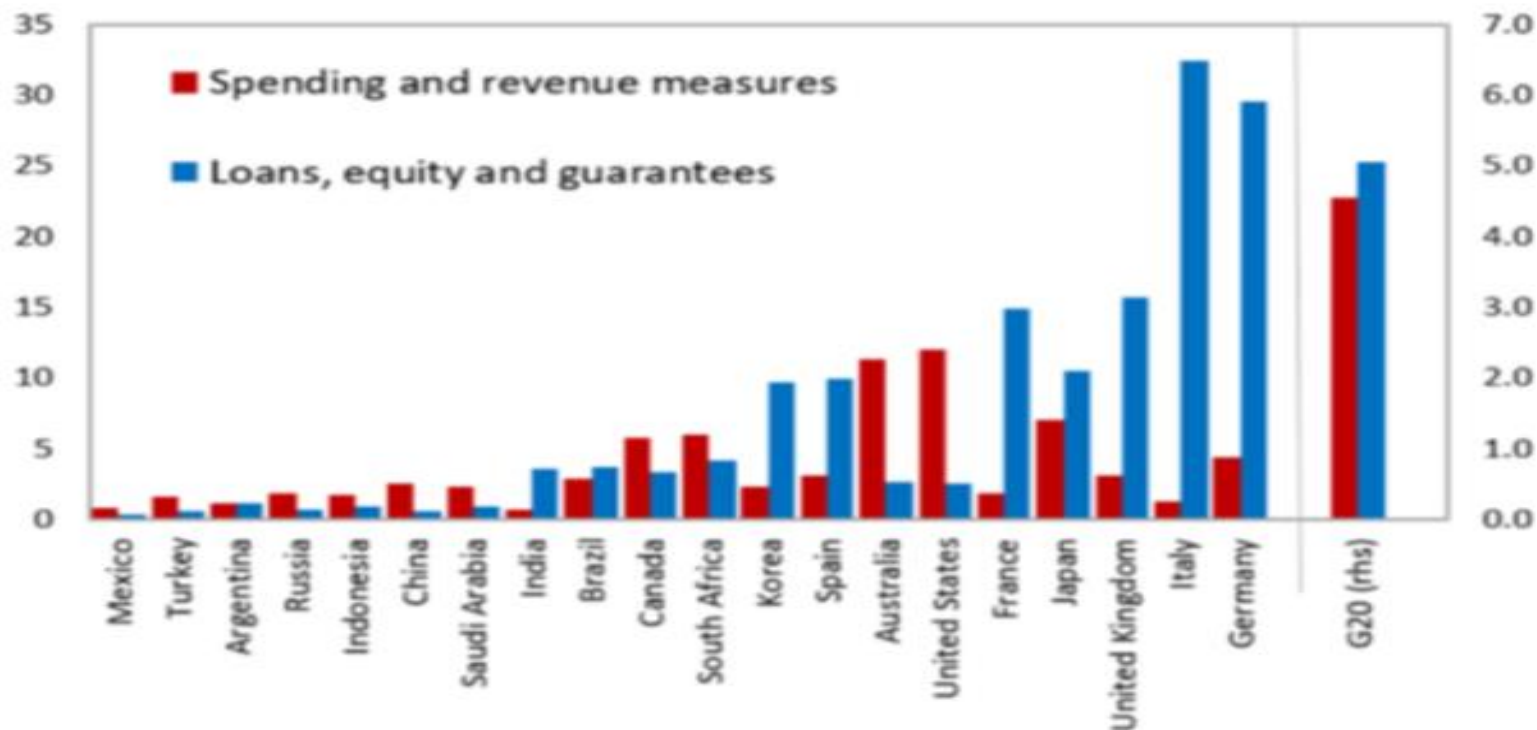


...the second is to buy bonds to bring down the long term interest rates as well



...and the third is to spend government money to save companies and consumers

(Announced fiscal measures in G20 economies, % of GDP)



# Some possible short term effects of the Great Lockdown

## The Bad

- Increasing income inequality as service sector is hit the hardest
- Reversal of international trade and globalization

## The Good

- More emphasis on ESG (Environment, Society, Governance) issues going forward
  - Build back better
  - Understanding of environmental risk including climate risk
- Fast forward of digitalization gives better productivity growth





# Longer term issues related to the Great Lockdown

Debt levels in the public sector may become unsustainable

The debt levels will have to be reduced

- Increase taxes or
- Generate inflation

Interest rates around zero may create a set of problems

- The best investments may not necessarily be made
- Low growth for a long time



# Specific issues for Thailand

- The Thai economy is hit particularly hard as it is dependent on tourism and demand in the export markets
- The measures taken in terms of travel and quarantine has for all practical purposes shut down international tourism
- GDP for 2020 is expected to fall by 8% with just a 5% recovery in 2021
- The outcome is highly dependent on development in Covid19 and the policy responses taken by the Thai government
- Continued contraction in GDP will hit small and medium sized companies harder impeding potential growth in the future

