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THE PIONEERING IMPACT OF THE COVID-19 PANDEMIC ON THE FINANCIAL ECONOMY

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Abstract: Extraordinary situations that suddenly and severely disrupt the flow of normal periods have more or less positive or negative consequences in many areas, from the area of origin to the environment. They can be caused by man-made issues such as terrorism, international trade wars, international economic integration, as well as natural events such as earthquakes and climate change. The Covid-19 pandemic that humanity is experiencing on a global scale can also be considered as a natural event due to its general structure, although there are serious doubts that it is a laboratory production. Unlike other unusual situations, pandemics are not among the situations that humanity experiences frequently, so new and comprehensive studies are needed to control and manage their effects and consequences. The aim of this study is to determine the state of the financial markets during the pandemic and to reveal the short-term effects of the pandemic on this area. Money and capital market instruments for this period are analysed using data from widely recognised international financial institutions. Despite all the measures taken, it was found that there were serious fluctuations in the financial markets in the early stages of the pandemic and that these fluctuations will continue to have an impact in the short and medium term. In the long term, the pandemic is expected to have a significant impact, especially on developing countries with high external financing needs, such as Turkey.

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COVID-19 SALGINININ FİNANSAL EKONOMİ ÜZERİNDEKİ ETKİSİ

Öz: Normal ekonomik dönemlerin akışını aniden ve ciddi bir şekilde bozan olağanüstü durumlar, hem doğa olaylarından hem de insan kaynaklı faktörlerden kaynaklanabilir. Bu tür durumlar, genellikle beklenmedik bir şekilde ortaya çıkar ve ekonomik, sosyal ve politik sonuçlar doğurabilir. Terör saldırıları, ticaret savaşları, iklim değişikliği ve pandemiler gibi olağanüstü durumlar, dünya genelinde geniş kapsamlı etkilere yol açabilir. Doğal felaketler, yerel ekonomilere ve topluluklara büyük zarar verebilir. Depremler, seller, kasırgalar ve diğer doğa olayları, altyapıyı tahrip edebilir ve ekonomik kayıplara neden olabilir. Aynı şekilde, iklim değişikliği uzun vadeli etkilere yol açarak tarım, su kaynakları ve deniz seviyeleri gibi alanları etkileyebilir. Terörizm, güvenlik endişelerini artırabilir ve ticaret ile turizm gibi sektörlere zarar verebilir. Uluslararası ticaret savaşları, gümrük vergileri ve ticaret kısıtlamaları yoluyla ekonomileri etkileyebilirken, uluslararası ekonomik entegrasyon ülkeler arası ekonomik ilişkileri derinleştirebilir veya bozabilir. Covid-19 pandemisi gibi hastalık salgınları, dünya genelinde sağlık sistemlerini zorlayabilir ve ekonomik sıkıntılara neden olabilir. Bu tür olaylar, hızlı ve etkili müdahaleleri gerektirirken, aynı zamanda uzun vadeli hazırlık ve planlamaları da zorunlu kılar. Bu tür olağanüstü durumlarla başa çıkmak için toplumların kriz yönetimi becerilerini geliştirmesi ve uluslararası işbirliği önemlidir. Ayrıca, ekonomilerin ve toplulukların bu tür olaylara karşı daha dayanıklı hale gelmeleri için önleyici tedbirler alınmalıdır. Bu çalışmanın temel amacı, pandemi döneminde finansal piyasaların performansını değerlendirmek ve pandeminin bu sektöre olan kısa vadeli etkilerini analiz etmektir. Bu döneme ait finansal veriler, uluslararası finans kuruluşlarının verileri kullanılarak incelenmiştir. Pandemiye yönelik alınan önlemlere rağmen, salgının ilk aşamalarında finansal piyasalarda önemli dalgalanmaların meydana geldiği ve bu dalgalanmaların kısa ve orta vadede etkisini sürdüreceği sonucuna varılmıştır. Uzun vadede ise, özellikle dış finansman ihtiyacı yüksek gelişmekte olan ülkeler gibi bölgeler üzerinde pandeminin ciddi bir etki yaratacağı öngörülmektedir.

Anahtar Kelimeler: Finansal Ekonomi, Para Politikaları, COVID 19.

GİRİŞ

In the last days of 2019, it was declared as an epidemic threatening global public health by the World Health Organization as it spread to 18 countries about a month after its emergence in Wuhan, China (WHO, 2020). Following the official declaration of the pandemic, countries and international organizations started to determine and announce their strategies and road maps to combat the pandemic. It is seen that the majority of countries, except for a few exceptions, have decided to close international transportation routes for human transportation and to severely limit domestic transportation opportunities.

As a natural consequence of all these processes, economic activities and financial markets have been significantly affected since the beginning of the pandemic. There is an interaction process that starts with tourism and transportation activities and then spreads to related sectors such as hotel management, food and beverage, entertainment and then to all sectors. Furthermore, even health services outside the epidemic departments have come to a standstill as all facilities support the fight against the pandemic.

In this section, the economic impacts of the Covid-19 pandemic will be analyzed both globally and in Turkey on a macro and micro level. Since the pandemic is still ongoing, the evaluations to be made are not final, but can be considered as an assessment of the situation in terms of the point reached and predictions for future processes. It should also be noted that the world is in the midst of a serious pandemic storm at the time this report was prepared, and the authors of this report are actually experiencing the same process.

1. GENERAL GLOBAL OUTLOOK

Covid-19 can be defined as a full global pandemic that has the characteristics of the age we live in with its emergence, contagiousness, spread and the lack of precise and clear information despite the millions of data about it. Although the world has experienced outbreaks such as the 1918 Spanish flu, 1957 Asian flu, 1968 Hong Kong flu, 2002-2003 SARS, 2009 Avian flu, 2012 MERS and 2013-2014 Ebola, none of them left such deep and severe effects as Covid-19 in the global context. In fact, in the first six months after December 2019, which is considered as the beginning of the pandemic, the total number of patients spread to all continents and countries and the total number of deaths from the disease exceeded 10 million and the total number of deaths from the disease exceeded half a million. Although such large numbers were also seen in other outbreaks, it is seen that they did not cause such widespread effects in such a short time (Baldwin & Mauro, 2020: 5-6).

In the first economic sense, many businesses had to stop their production activities due to measures such as travel restrictions, curfews, import restrictions and bans taken by governments after the shortage and price increases of health supplies and equipment goods such as masks, cologne, respirators, which were urgently needed related to Covid-19. The pause in international trade and uncertainty about when it would resume led to a sharp drop in energy prices. Moreover, oil prices were negative. Production in the services and related manufacturing sectors, which are heavily dependent on labor, came to a grinding halt. This situation caused wholesale and retail trade sectors to have problems in the supply of goods in a short period of time, which led to price movements.

As a result of the measures taken by the state administrations, media, e-commerce companies and internet-based IT companies started to come to the fore as people who were confined to their homes by the pandemic started to look for ways to meet their needs without leaving their homes. Due to the intense demand for Covid-19-related health products, rapid investments and support emerged in areas such as pandemic hospitals, respirator companies, disinfectant companies.

Governments had to announce support and incentive packages to relieve the economy while experiencing serious declines in tax revenues, one of the main revenue items, due to the decline in production and commercial activities. This led central banks to print money for nothing. When the increase in prices due to the decrease in production was added to the increase in prices due to the printing of free money, an increase in inflation was inevitable.

In the light of all these indicators and projections, it is seen that the Covid-19 pandemic will have serious effects on the global economy both in the short term and in the long term. The predictions of international organizations related to the global economy in this context pose threats that cannot be underestimated. According to the assessments made by the IMF in June 2020, the global economy is expected to shrink by approximately 5%, and it is stated that the effects of the pandemic will be more severe compared to previous estimates (IMF, 2020: 1). On the other hand, the Asian Development Bank predicts that the cost of the pandemic to the global economy will be between \$ 2 and \$ 4.1 trillion (ADB, 2020: 3). In addition, the World Bank predicted that Covid-19 will cause the deepest economic recession since the Second World War and an increase in extreme poverty, and that the world economy will contract by 5.2%. Around 80 percent of the world's informal workers, 1.6 billion people, will face closures and slowdowns in sectors such as wholesale and retail, food and hospitality, tourism, transport and manufacturing (WB, June 2020: vi). Furthermore, according to the International Labor Organization, the global decline in working hours in the first quarter of 2020 will result in the loss of 130 million full-time jobs compared to the last quarter of 2019 and will likely be equivalent to more than 300 million full-time jobs in Q2 2020 (ILO, 2020:).

In addition to all these, it would be appropriate to take into account the situation of the global economy before the pandemic starts and to address these evaluations accordingly. It is seen that the general economic indicators before the pandemic did not go to the desired and expected points even if this process never happened in terms of future projections. Considering the upward trend in unemployment rates, the inflation and interest rate problems especially in developing countries, and the increasing inequalities in income distribution, it pointed to a negative trend regardless of the pandemic. When structural economic problems were added to this, it was predicted that a serious economic crisis awaited the global economy even without the pandemic. In a way, the pandemic has actually masked these problems.

1. 1. Trade Volume and Economic Growth during the Pandemic

As of the first quarter of 2020, the beginning of the pandemic, there has been a remarkable break in terms of growth worldwide. Due to increasing population numbers and development expectations, the growth imperative, especially in less developed and developing countries, is causing serious concern due to this break. Failure to achieve stable and sufficient growth rates marks a critical point in terms of employment and poverty.

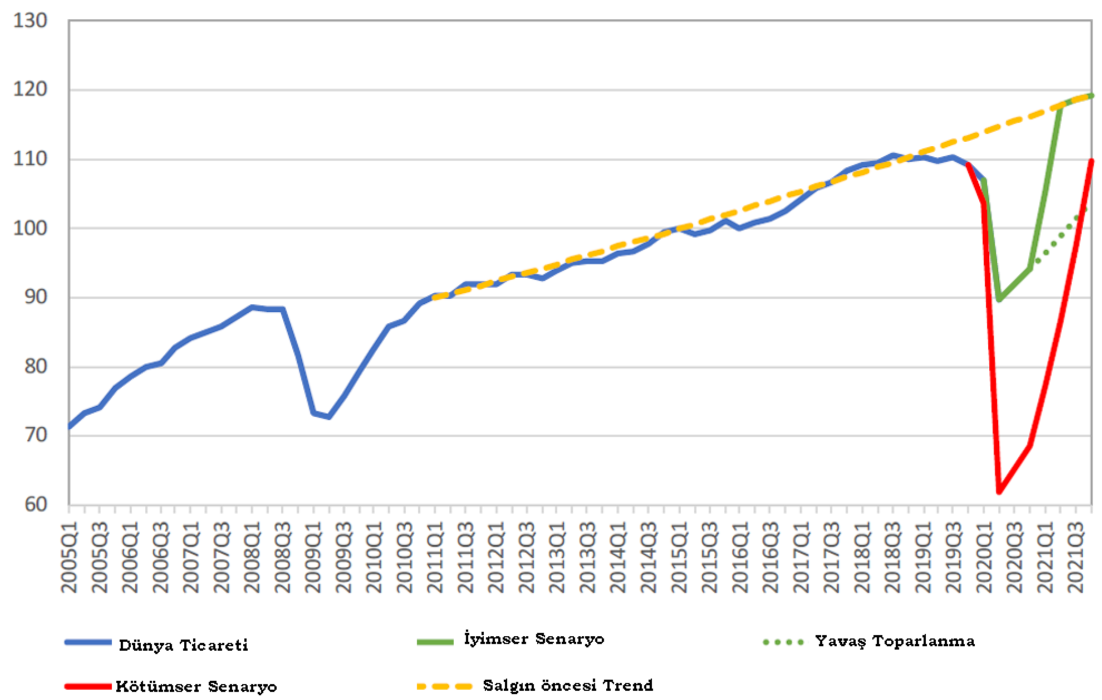

Figure 1: World Trade Volume Development and Scenarios After Covid-19 Pandemic (Index 2005=100)

***Source**: (WTO, 2020)*

As can be seen from the figure, according to WTO statistics, the volume of commodity trade decreased by 3% on an annual basis in the first quarter of 2020. Preliminary estimates for the second quarter, when the measures taken due to the pandemic affect a large part of the global population, point to an annual decline of around 18.5%. These declines are historically large, but could have been much worse. The WTO's annual trade forecast on April 20, in light of the great uncertainty about the severity and economic impact of the pandemic, set out two plausible paths: A relatively optimistic scenario in 2020, in which world commodity trade volumes would contract by 13%, and a pessimistic scenario in which trade would fall by 32%. Looking ahead to 2021, however, adverse developments, including a second wave of the COVID-19 pandemic, weaker-than-expected economic growth, or government trade restrictions, could lead to trade volumes falling short of previous forecasts.

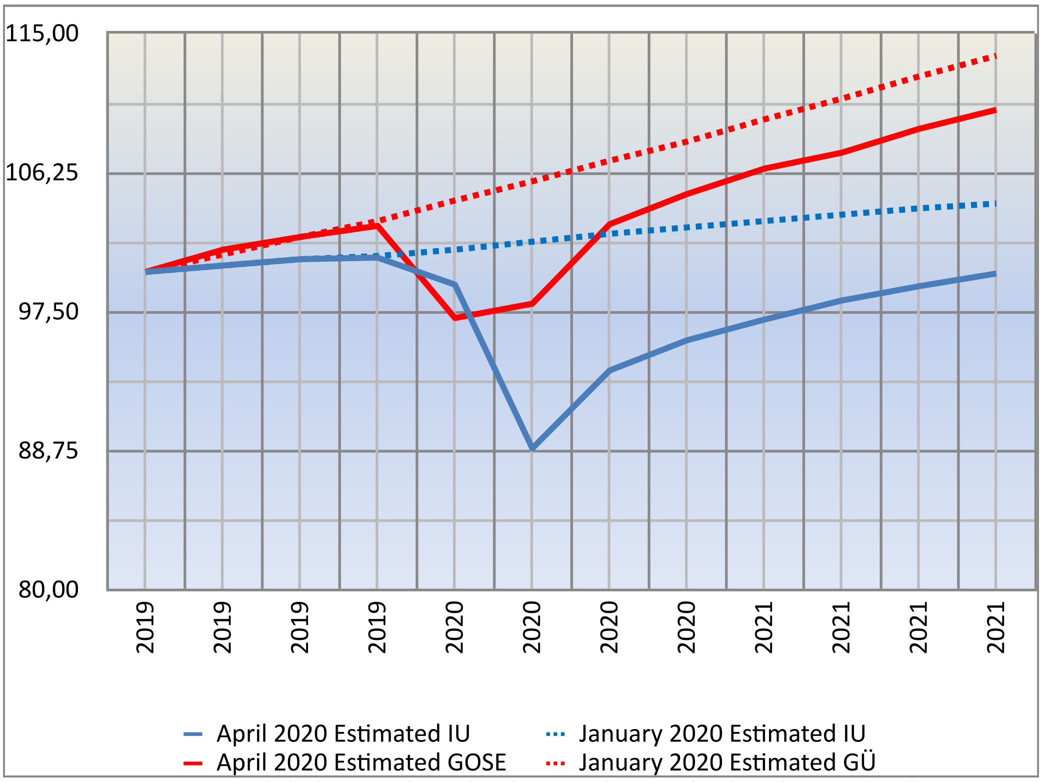

Figure 2: Global Growth Projections Before and After the Pandemic

2019 Q1 Base period accepted. EM: Developing Countries, DM: Developed Countries

***Source**: IMF*

As it is seen from the figure, based on the first quarter of 2019, while the expectations before the pandemic were that global growth would continue steadily, the pandemic signaled a serious economic fluctuation. Despite the volatility, a rapid recovery is expected in developing countries, while the recovery in developed countries is expected to last until the end of 2021. Although a rapid recovery process is foreseen for developing countries, the risk of recurrence of the pandemic increases the possibility of economic stagnation in all countries of the world with a sharper acceleration of the fluctuation.

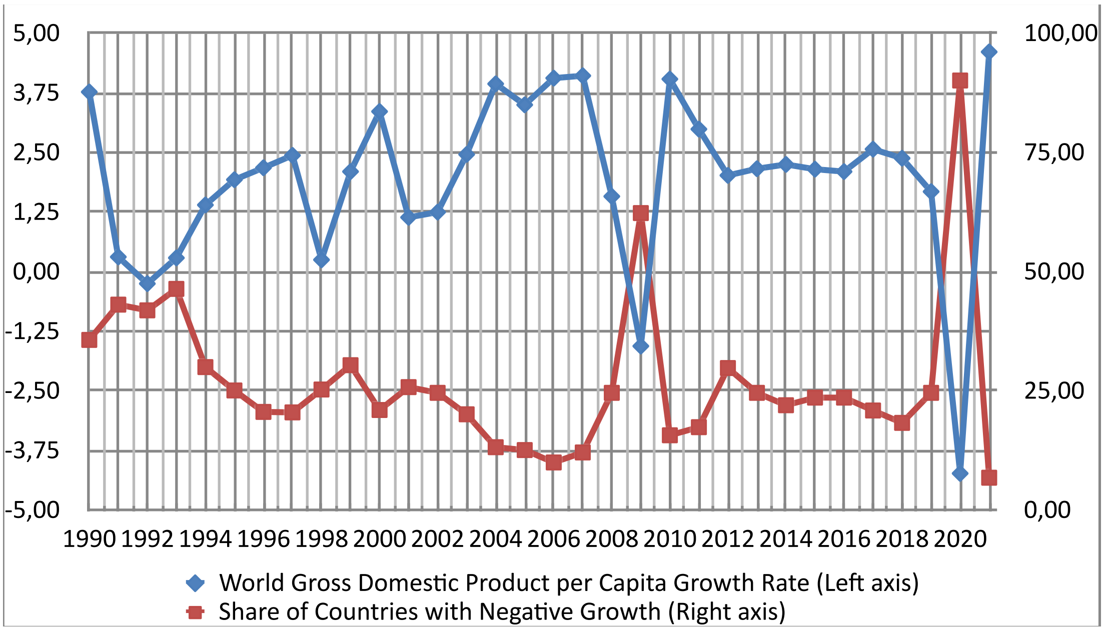

Figure 3: World Gross Per Capita GDP Ratio and Countries with Negative Growth

Source: *IMF*

Between 1990 and 2020, countries had negative growth rates of 25-30% on average. If the 2020 forecast is ignored, it is seen that this rate occurred at a maximum of 62% during the 2009 financial crisis. As a result of the pandemic, the expectation for 2020 is predicted to be realized far beyond this with 90%. This means that 90% of the world's countries will experience negative growth rates. What is more serious is that 1/3 of the world's countries are already condemned to negative growth rates over a 30-year period. Despite their large numbers, these countries are weak in terms of economic impact and therefore their contribution to the world growth rate is limited. However, the persistence of this situation and its effects on income distribution is a problem that economists need to deal with.

In this 30-year period, it is observed that the world economy had a growth rate of approximately 2% in terms of gross product per capita. Even without the pandemic, there has been a downward trend since 2017. Although the last decade has not been as volatile as before 2010, the world has not been able to achieve the required growth rates and a comprehensive solution to the issues of unemployment and poverty has not been produced.

In order to calm the environment of fear and panic that emerged in societies during the Covid-19 outbreak, and to slow down the spread of the virus, which spread very quickly, first of all, international travel was restricted and travel within countries was restricted, and then curfews were imposed in many countries. Likewise, in Turkey, in addition to all similar measures, the activities of businesses and social areas such as restaurants, cafes, children's playgrounds, entertainment venues, beach promenades, picnic areas, etc. were temporarily suspended. In this way, during the pandemic process, approximately similar measures were taken in all countries to prevent the spread of the virus and ensure social security (Eryüzlü, 2020: 13). Although the effects of these measures are seen in the short term, what they will cause in the long term is also a matter of evaluation. The widespread establishment of cleanliness practices and increased measures to be embedded in society is seen as a low-cost and highly effective method that can reduce the degree of transmission and thus reduce social and economic costs. These measures, which are extremely useful in controlling the spread of the virus, have led to the immediate cessation of many consumer expenditures (McKibbin & Fernando, 2020: 25-26). Due to the restrictions imposed by the governments, there has been a significant decline in demand, especially in food and beverage services, travel, accommodation and textile businesses. Based on this, it can be stated that the demand for social expenditures has decreased especially and primarily. According to data from the Union of Chambers and Commodity Exchanges of Turkey (TOBB), the number of companies opened in March 2020 in the accommodation and food services sector in Turkey decreased by approximately 15% compared to the number of companies opened in March 2019 (TOBB, 2020).

1. 2. Current Account Balance, Inflation and Employment

The social groups most affected by crisis periods in terms of depth and periodicity are undoubtedly the poor and low-income groups. These groups, who do not currently have sufficient resources in terms of jobs and income, become poorer due to the shrinking economies caused by the crisis. During the last 40 years of the global liberal capitalist system, this situation has progressed to the detriment of low-income groups.

As can be seen from the table, there is no country that can achieve positive growth by the end of 2020, except China, India and some low-income countries. Even those countries that have achieved positive growth have achieved very low growth rates compared to previous years. In particular, large economies such as the US, Japan, Germany and France are expected to shrink by more than 5%. According to the IMF's forecasts, while a rapid recovery is envisaged in almost all countries of the world, it is not clear how this recovery will be realized (IMF, 2020: 5).

In 2020, it is accepted that the gross national product will be below -5%, especially in developed countries. In fact, leading European economies such as Italy, Spain, France and Germany will see declines exceeding 9%. It would be overly optimistic to expect the effects of this situation to disappear within a year and reach positive growth figures again. In particular, it should not be overlooked that a second wave of the pandemic could have much deeper and long-term effects.

	GDP			INFLATION RATE 1			CURRENT ACCOUNT BALANCE 2			UNEMPLOYMENT RATE 3		
	2019	2020*	2021*	2019	2020*	2021*	2019	2020*	2021*	2019	2020*	2021*
Europe Region	1.2	-7.5	4.7	1.2	0.2	1	2.7	2.6	2.7	7.6	10.4	8.9
Germany	0.6	-7	5.2	1.3	0.3	1.2	7.1	6.6	6.7	3.2	3.9	3.5
France	1.3	-7.2	4.5	1.3	0.3	0.7	-0.8	-0.7	-0.6	8.5	10.4	10.4
Italy	0.3	-9.1	4.8	0.6	0.2	0.7	3	3.1	3	10	12.7	10.5
Spain	2	-8	4.3	0.7	-0.3	0.7	2	2.2	2.4	14.1	20.8	17.5
Luxemburg	2.3	-4.9	4.8	1.7	0.7	1.5	4.5	4	4.4	5.4	7.7	6.8
England	1.4	-6.5	4	1.8	1.2	1.5	-3.8	-4.4	-4.5	3.8	4.8	4.4
Switzerland	0.9	-6	3.8	0.4	-0.4	0.6	12.2	7.2	8.8	2.3	2.7	2.6
Russia	1.3	-5.5	3.5	4.5	3.1	3	3.8	0.7	0.6	4.6	4.9	4.8
Turkey	0.9	-5	5	15.2	12	12	1.1	0.4	-0.2	13.7	17.2	15.6
Asia	4.6	0	7.6	2.7	2.5	2.5	1.8	1	1.2	...	...	...
Japan	0.7	-5.2	3	0.5	0.2	0.4	3.6	1.7	1.9	2.4	3	2.3
S. Korea	2	-1.2	3.4	0.4	0.3	0.4	3.7	4.9	4.8	3.8	4.5	4.5
China	6.1	1.2	9.2	2.9	3	2.6	1	0.5	1	3.6	4.3	3.8
India	4.2	1.9	7.4	4.5	3.3	3.6	-1.1	-0.6	-1.4	...	...	...
Indonesia	5	0.5	8.2	2.8	2.9	2.9	-2.7	-3.2	-2.7	5.3	7.5	6
Malaysia	4.3	-1.7	9	0.7	0.1	2.8	3.3	-0.1	1.7	3.3	4.9	3.4
USA	2.3	-5.9	4.7	1.8	0.6	2.2	-2.3	-2.6	-2.8	3.7	10.4	9.1
Mexico	-0.1	-6.6	3	3.6	2.7	2.8	-0.2	-0.3	-0.4	3.3	5.3	3.5
Brazil	1.1	-5.3	2.9	3.7	3.6	3.3	-2.7	-1.8	-2.3	11.9	14.7	13.5
Argentina	-2.2	-5.7	4.4	53.5	...	...	-0.8	...	...	9.8	10.9	10.1
Colombia	3.3	-2.4	3.7	3.5	3.5	3.2	-4.3	-4.7	-4.2	10.5	12.2	11.9
Chile	1.1	-4.5	5.3	2.3	3.4	2.9	-3.9	-0.9	-1.8	7.3	9.7	8.9
Uruguay	0.2	-3	5	7.9	8.8	7.9	0.2	-2.5	-3.1	9.4	10.5	8.1
Iran	-7.6	-6	3.1	41.1	34.2	33.5	-0.1	-4.1	-3.4	13.6	16.3	16.7
Pakistan	3.3	-1.5	2	6.7	11.1	8	-5	-1.7	-2.4	4.1	4.5	5.1
Sudan	-2.5	-7.2	-3	51	81.3	91.1	-14.9	15.2	-11.8	22.1	25	22
Israel	3.5	-6.3	5	0.8	-1.9	0.5	3.5	3.5	3.2	3.8	12	7.6
Sub-Saharan Africa	3.1	-1.6	4.1	8.4	9.3	7.6	-4	-4.7	-4.2	...	...	...
Nigeria	2.2	-3.4	2.4	11.4	13.4	12.4	-3.8	-3.3	-2.5	...	...	...
South Africa	0.2	-5.8	4	4.1	2.4	3.2	-3	0.2	-1.3	28.7	35.3	34.1
Senegal	5.3	3	5.5	1	2	1.9	-9.1	11.3	11.4	...	...	...

Low Income Countries	5.6	1.6	4.9	9.7	11.2	5.8	-6.7	-8	-7.5	...	...	...
Ethiopia	9	3.2	4.3	15.8	15.4	9.1	-5.3	-5.3	-4.6	...	...	...
Kenya	5.6	1	6.1	5.2	5.1	5	-4.5	-4.6	-4.4	...	...	...

Table 1: GDP, Current Account Balance, Inflation and Unemployment Rates during and after the Pandemic

* IMF estimated data

1 Annual average rate of increase in consumer prices

2 Ratio to gross national product

3 Definitions of unemployment may therefore differ between countries

Source: *(IMF, 2020)*

One of the most critical issues here is the inflation factor. Although serious contractions occurred in almost all sectors during the pandemic period, there was no decline in prices as production came to a standstill, on the contrary, price increases occurred in certain sectors in developing countries due to foreign dependency. Exchange rate pressure increases the prices of imported products and leads to higher inflation. In some underdeveloped countries, it is obvious that the situation will become more problematic.

Since the pandemic has a widespread impact on the whole world, no major changes are expected in the current account balance. It is thought that countries will implement policies to utilize their domestic capacities and encourage more local production on the occasion of the pandemic. Here, countries that can recover quickly from the pandemic and develop comprehensive and sound economic policies will be able to stand out in terms of exports.

While unemployment is one of the most fundamental problems threatening the global economy, it stands out as a bigger problem due to the pandemic. Even in some European countries and the United States, unemployment is estimated to exceed 10%. What is even worse is that this situation does not seem to improve in a short time. This high unemployment rate is expected to have negative effects on other indicators. For governments, unemployment and the fight against it will be the main economic theme of the next few years.

Spain, among developed countries, and South Africa, among developing countries, are facing a severe unemployment situation. Especially for Spain, the damage caused by unemployment of around 20% and continuing for years will be difficult to compensate for many years. The situation in Sudan and South Africa is even more dire.

As a result of the sudden changes in demand and supply during the pandemic, there are significant declines in production (Guerrieri et al. 2020: 2). Production declines will also be reflected as an increase in the unemployment rate. In its May 2020 forecast, the International Monetary Fund (IMF) forecasts an unemployment rate of 8.3% for the end of 2020, compared to an average of 4.8% in developed economies in 2019. For Turkey, it forecasts an unemployment rate of 17.2% for the end of 2020, up from 13.2% in 2019. This forecast means that approximately 1.3 million people will be unemployed in Turkey in 2020.

1. 3. Inflation and Monetary Policies

The general trend of the pandemic period is seen as a decline in prices due to the contraction in global demand. Especially the declines in metal and energy products, which are the basic elements of the manufacturing industry, draw attention. Since China, the world manufacturing base, was also the starting point of the pandemic, the low demand in its exports brought the factories to a standstill. As a result, energy demand decreased and energy stocks started to increase rapidly, all over the world, particularly in China. In this context, the limited storage possibilities of energy and the high cost of stopping production are important factors. Surprisingly, crude oil prices have also seen negative prices, that is not a common fact throughout history. Subsequently, serious declines were observed in the basic elements of manufacturing.

Table 2: Inflation Rates in Developed and Developing Countries (Annual Change in Consumer Prices %)

Country	2014	2015	2016	2017	2018	2019	2020 T	2021 T
USA	0.524	0.714	2.171	2.171	1.911	1.902	0.784	2.417
Germany	0.202	0.201	1.707	1.481	1.751	1.530	0.203	1.340
Argentina	23.915	n/a	n/a	24.796	47.646	53.832	n/a	n/a
Brazil	6.408	10.673	6.288	2.947	3.745	4.306	3.010	3.268
China	1.500	1.600	2.100	1.800	1.900	4.500	0.953	2.983
France	0.1	0.301	0.819	1.258	1.908	1.623	-0.698	1.321
S. Africa	5.325	5.281	6.724	4.717	4.920	3.745	0	4.334
India	5.272	5.259	3.569	4.594	2.465	5.766	2.734	3.849
England	0.911	0.056	1.209	3.027	2.275	1.415	1.018	1.945
Spain	-1.041	0.017	1.570	1.112	1.183	0.788	-0.988	1.394
Italy	0	0.1	0.497	0.989	1.175	0.484	0.24	0.655
Japan	2.504	0.157	0.286	0.553	0.826	0.478	n/a	0.362
K. Korea	0.833	1.132	1.337	1.408	1.321	0.738	-0.3	0.9
Russia	11.362	12.908	5.375	2.523	4.269	3.046	3.793	2.887
Turkey	8.170	8.808	8.533	11.920	20.302	11.836	12.000	12.000

T: IMF forecast

Source: *IMF, World Economic Outlook Database, April 2020*

As can be seen from the table, inflation rates in almost all countries are expected to decline slightly in 2020, followed by significant increases in 2021. Especially in the second half of 2020, the contraction in demand due to restrictions such as lockdowns caused by the pandemic may cause a slight decline in inflation. However, this decline may actually be a harbinger of a crisis rather than a healthy economy. The expectation of a rise in 2021 can also be shown as evidence of this. Considering the concentration of countries such as Germany, China, France, etc., which account for most of the world's exports, it will be inevitable that this inflation increase will have significant effects on other countries as well.

As can be seen in the figure, energy products such as oil, natural gas and LNG lost around 50% of their value. Base metal industry products such as platinum, zinc, copper, aluminum, aluminum and iron also fell between 40% and 17%. It is observed that the knife-like cut in industrial production is the main factor in these declines. Food prices were relatively less depreciated as they are the raw material for basic necessities.

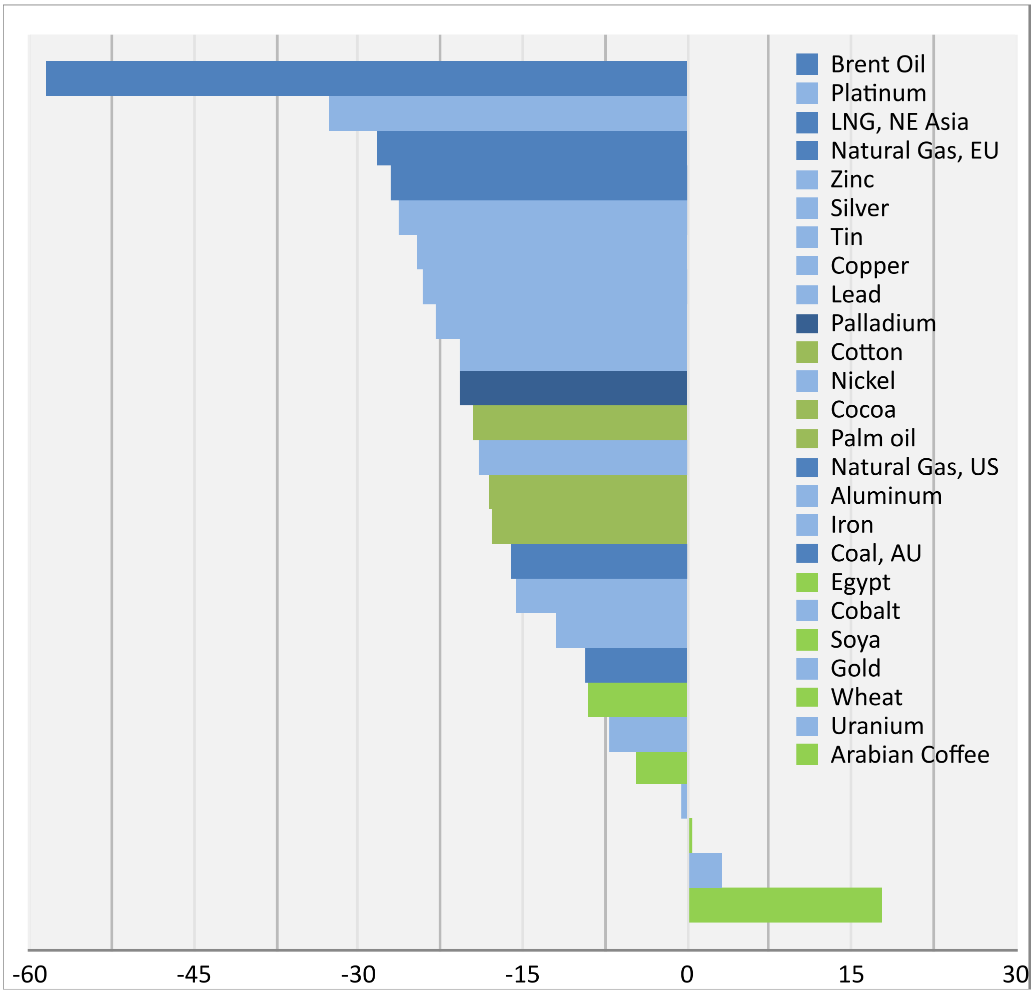

Figure 4: Changes in Global Commodity Prices (%)

Source: IMF

On the other hand, despite the decline in prices in dollar terms, the relative value of the dollar, gold and other highly convertible currencies against other currencies does not allow any decline in prices. In addition, energy and iron-steel products, whose prices fell sharply during the height of the pandemic, have recently recovered significantly. Prices suppressed due to health concerns and postponed needs will inevitably lead to price increases in the following periods.

2. IMPACT OF COVID-19 ON TURKISH FINANCIAL MARKETS

2. 1. Inflation and Monetary Policies

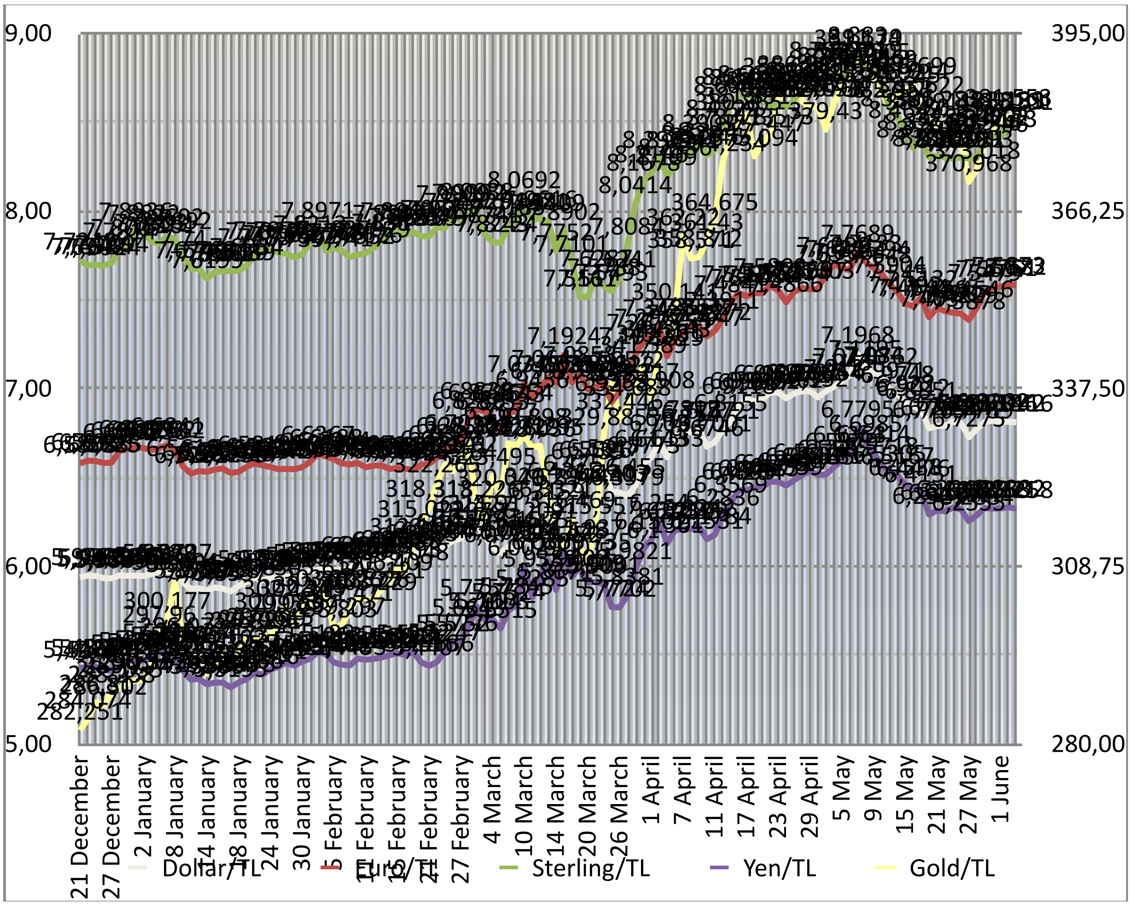

Figure 5: Course of Exchange Rates (Left Axis) and Gram Gold Price (Right Axis) during the Pandemic Period

Source: TCMB

As can be seen from the figure, the Turkish Lira depreciates against all developed country currencies. While the rate of depreciation for the Dollar, Euro and Yen is around 15%, there is a slightly lower depreciation of around 10% in Sterling. However, the highest rate of depreciation is seen in gold with 35%. Here, it is possible to think that the effect of the fact that gold is considered as a safe haven in such crisis situations globally is great.

Especially from the end of March until May 6, the increase in exchange rates and gold prices gained significant momentum, reached a peak and then retreated from there. Considering that Covid-19 cases and deaths in Turkey started to rise during this period and reached a peak in late April, it is thought that there is a correlation between exchange rates and the depreciation of the Turkish Lira. The critical issue here is that in countries with currencies that appreciate against the Turkish Lira, it is the Turkish Lira that depreciates while the pandemic causes more severe consequences. In fact, the main reason for this depreciation in the Turkish Lira is not the pandemic, but the financial difficulties caused by the economic problems that may arise as a result of the pandemic. Here, the currencies of developed countries can be considered as an indicator. However, it may be more appropriate to consider the currencies of developing countries to compare the Turkish Lira.

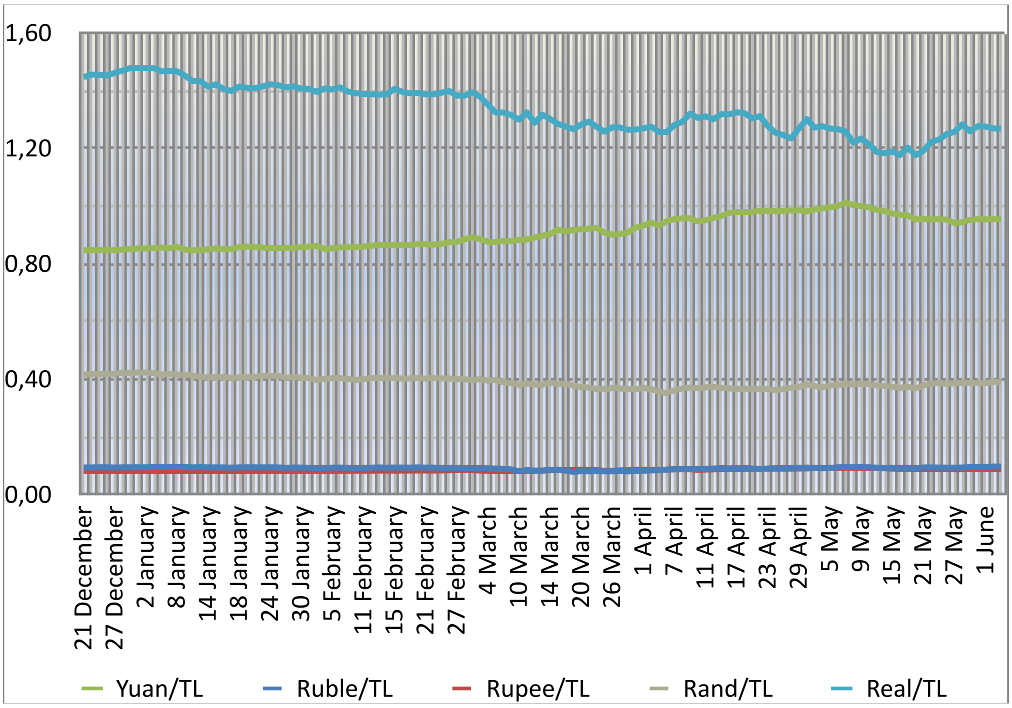

Figure 6: The Course of Emerging Market Currencies during the Pandemic

Source: TCMB

During the pandemic period, the Turkish Lira maintained its value to a large extent against emerging currencies. While the Rand and the Rupee formed a similar graph with the Turkish Lira in the said period, the Real depreciated. It is clearly seen that the Yuan, the currency of China, the starting point of the outbreak, positively diverged from emerging economies.

It can be said that structural financing problems caused by economic problems due to the pandemic rather than the direct effects of the pandemic stand out in developing countries. It is clearly seen that China has become a more active actor in the global system, similar to developed countries.

2. 2. Capital Markets

As in other areas of social and economic life, the Covid-19 pandemic has been effective in capital markets. Just as some areas such as informatics, communication, social media in the real sector were positively affected by the pandemic, and some areas such as tourism, transportation and accommodation were positively affected, similar situations were observed in financial markets.

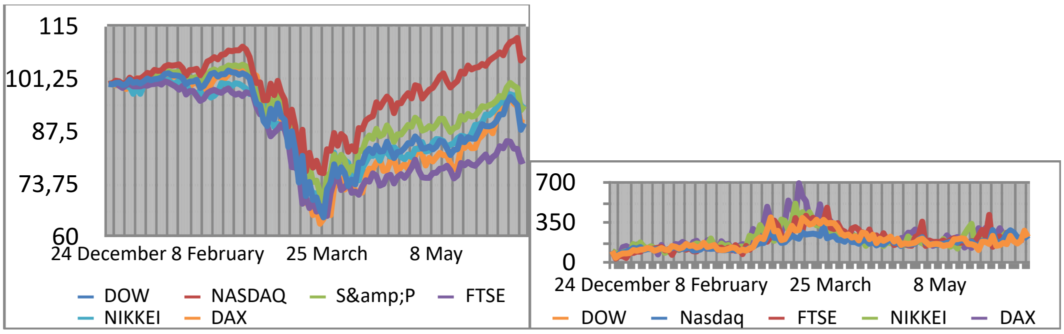

Figure 7: Stock Indices (left) and Volumes (right) of Developed Economies during the Covid-19 Pandemic (Base=23 December)

Source: *(Investing.com, 2020)*

Since the second half of February, when the pandemic began to spread globally and make its effects felt in the context of health, the capital markets of developed countries began to experience sharp declines. As a result of these declines, serious losses between 23% and 37% occurred in all stock markets at the end of about a month, and it is seen that starting from the end of March, a relatively slower recovery process has started. Although a similar pattern was observed across all stock markets, there were significant differences in terms of the degree of impact and the recovery process.

It is easily noticeable that the Nasdaq stock exchange, which is considered the world's leading technology stock exchange and includes technology giants such as Apple, Google, Microsoft, Oracle, Amazon and Intel, has many aspects that differ from all other stock exchanges in this pandemic process. Especially in the 3rd week of March, when the rate of decline reached its lowest points, all stock exchanges suffered losses of over 30%, while Nasdaq entered a rapid recovery process after a maximum loss of 23%. In a period of almost a month, it reached the values where the epidemic first started again, and even managed to exceed its pre-epidemic value. It should be noted that this situation supports the assessments that the pandemic provided a significant advantage for technology firms. Considering that services such as education, banking, communication, etc., where work is done online from home to the extent possible, are web-based in nature, it can be seen that this situation is normal.

In contrast to the Nasdaq Stock Exchange, the DAX index, which includes mainly industrial manufacturing companies, and the UK FTSE index, which includes mainly energy and electronics companies, were negatively affected. Although this situation has dimensions stemming from the industrial and energy sectors, it may also be related to the domestic economic conditions of the countries. On the other hand, it should also be considered that the effects of the pandemic on the markets may vary depending on areas other than the economy, such as the health and population structure of countries, measures taken, etc. In addition, the fact that the trading volumes of all stock exchanges, except Nasdaq, showed significant increases during the period when the pandemic reached peak values shows that losses were also supported by volume. In particular, the fact that the DAX index reached 7 times more volume compared to the beginning of the pandemic did not go unnoticed.

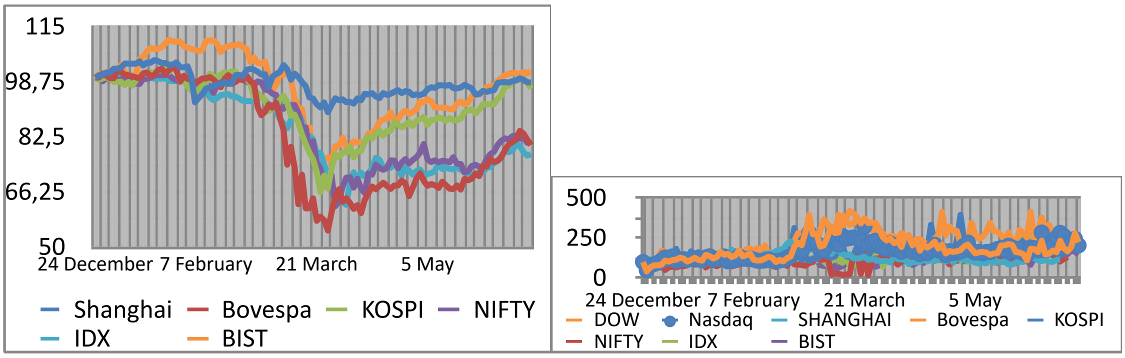

Figure 8: Emerging Economies Stock Indices (left) and Volumes (right) during the Covid-19 Pandemic (Base=23 December)

Source: *(Investing.com, 2020)*

The stock market indices of emerging economies reacted similarly to the indices of developed countries in the periods when the pandemic worsened globally and suffered losses in value. However, the level of impact was more severe in developing countries and the loss rates were between 25% and 45%, except for the Chinese stock market. Despite the fact that China was the starting point of the pandemic, the Shanghai stock market diverged positively from other stock markets. In two separate periods - the first in early February, when Covid-19 cases increased rapidly in China, and the second at the end of March, when Covid-19 cases increased rapidly globally - it is seen that the maximum loss was around 10%, followed by a horizontal recovery process.

Turkey's BIST index and Korea's KOSPI index also posted losses of around 30% towards the end of March, although they diverged significantly from the stock markets of other emerging economies. Although the BIST index was initially higher, by mid-June both indices followed a similar pattern by recovering their losses. This may be attributed to the fact that Turkish financial markets were undervalued before the pandemic and did not suffer many casualties at the beginning of the pandemic. Among the stock market indices of emerging economies, the Brazilian stock market Bovespa Index was the most negatively affected. The Indian stock market NIFTY and the Indonesian stock market IDX indices also followed a similar pattern to the Bovespa index. As of the first half of June, these three stock markets are still down by 20% and are expected to recover at a relatively slower pace.

In terms of volume, the Brazilian and Korean stock markets were relatively higher than other emerging markets at the peak of the pandemic and the losses were reinforced by volume. On the other hand, the Indian stock market remained at very low levels in terms of trading volume.

Just as the effects of the pandemic differed from sector to sector in real markets, it is observed that sectors in financial markets also partially differed from each other. However, it should not be overlooked that all sectors suffered significant losses during the peak of the pandemic. Considering the sectoral indices within the BIST, it is observed that the information technologies and services sectors have entered a recovery process that has exceeded the periods when the pandemic started. Similarly, the electricity, petro-chemical and machinery industry sectors have compensated for their losses. On the other hand, it is noteworthy that the banking sector is still hovering at lower values as of mid-June.

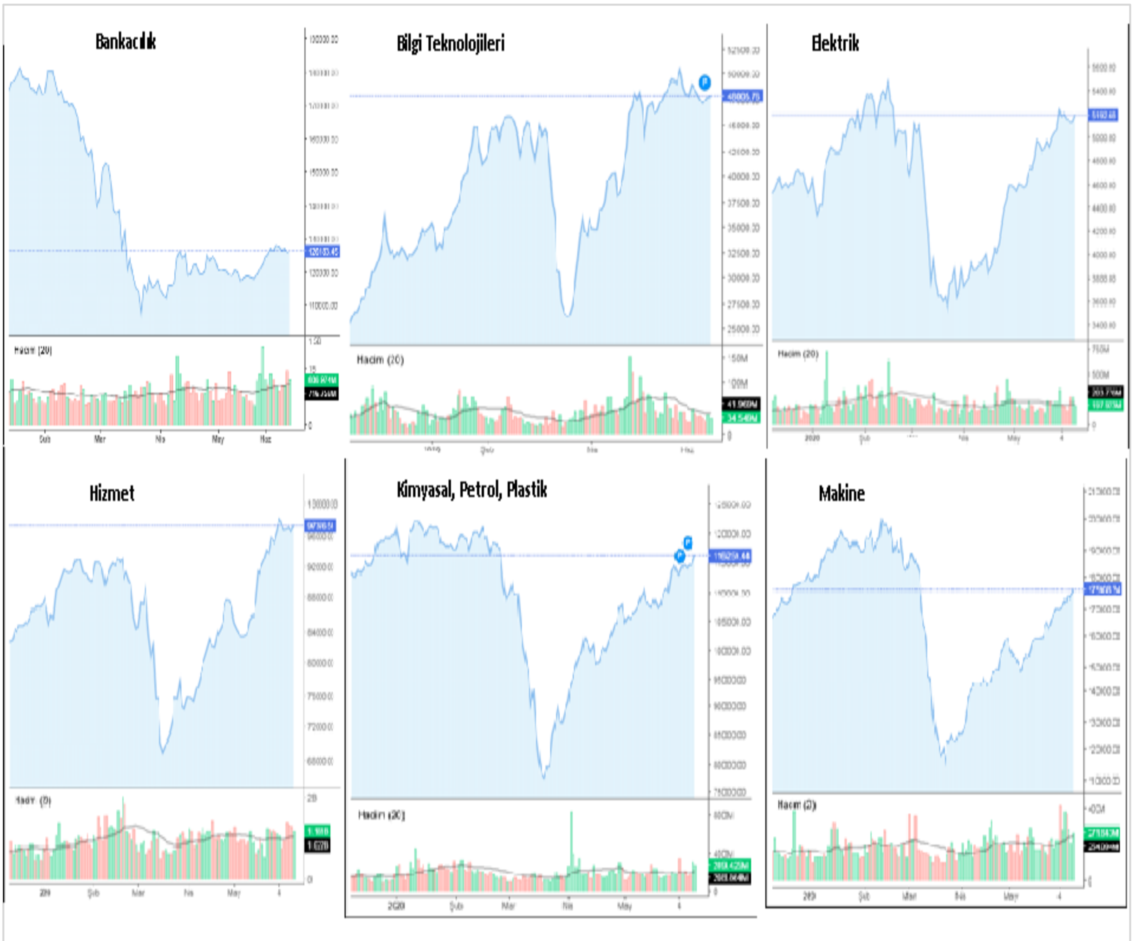

Figure 9: BIST Sectoral Indices during the Covid-19 Pandemic

Source: *Compiled from PDP and BIST data.*

2. 3. Fundamental Uncertainties Awaiting Financial Markets

As in other areas, there is widespread uncertainty about the persistence of the effects of the pandemic on the economy over time, the extent and depth to which they will continue, and when and how they will end. Forecasts depend on the depth of the contraction in the second quarter of 2020 (for which full data are not yet available) and the magnitude and persistence of the negative shock. These, in turn, depend on several uncertain factors (IMF, 2020):

First, "the duration of the pandemic and associated constraints" comes to mind. Spreading the pandemic over months or years will naturally increase the measures and restrictions to be taken and spread them over a longer period. Accordingly, longer and more permanent damage to economic indicators is likely to occur. On the contrary, the discovery of a vaccine for Covid-19 or a mutation of the virus that will reduce the level of contagiousness and lethality will cause positive expectations in the economy and increase the possibility of rapid recovery.

Second, “voluntary social distancing that will affect expenditures” can be considered. The measures that people will take to prevent the transmission of the disease and the increase in the level of social awareness on this issue will lead them to postpone their non-priority needs such as entertainment, vacation and travel, and will negatively affect the sectors that produce in this field. Worse still, it will cause them to consume more minimally in their primary needs such as education and health, which have a high weight. This will mean a further contraction of the economy.

Another factor is the “ability of displaced workers to find employment in different sectors”. There may be a shift from sectors negatively affected by the pandemic to sectors positively affected. In this case, it will be important for workers to adapt to new sectors and to have the qualifications and skills to do so.

Another factor can be considered as “the difficulty of firms that have closed down and lost their human resources to return to their activities when the pandemic disappears”. Since it will not be possible for employees earning minimum wage or similar fixed and limited earnings to wait for their workplaces to open for months, it will cause them to turn to alternative job opportunities. On the other hand, idle material resources will be sold or rented. Afterwards, it will not be very easy to bring both human and material resources together again, even if the pandemic ends.

Another factor is the increase in “business costs” due to measures such as staggered work shifts, improved hygiene and cleaning between shifts, and physical distancing of personnel as a result of changes to strengthen workplace safety. Each additional measure will naturally have additional costs to businesses, which will be reflected in product and service prices.

- Global supply chain restructuring affecting productivity as companies seek to increase their resilience to supply disruptions

- Extent of cross-border spillovers and financing gaps resulting from weak external demand

- Final resolution of the current disconnect between asset valuations and expectations of economic activity (as highlighted in the June 2020 GFSR Update)

CONCLUSION

The economic troubles that started with Covid-19 have serious differences with the onset of other crises in the last century. For example, in 2008, there was a market shock and a financial sector collapse that started with it, while the shock in Covid-19; economic processes that started with a sharp decrease in demand (in many sectors) and on the supply side, with firms taking positions to store cash, and then progressing in the form of supply shocks with increasing costs. Another difference is that although the demand potential exists in the markets, the market mechanism to bring supply and demand together does not work due to lockdowns, travel restrictions, etc., and the dysfunctional market mechanism is gradually spreading both in Europe, Asia and the Americas. In the financial sector, investors started to sell assets seriously and there was a strong desire to sell (the highest rate since 1987). Losses in European stock markets exceeded 10 per cent, while in the US, trading was suspended after high declines.

With the exception of the health and technology sectors, almost all sectors experienced partial or complete suspension of activities lasting weeks or even months. In labour-intensive sectors such as tourism, education and entertainment, these interruptions were much more extensive and prolonged. Firms suffered major income losses and were unable to provide cash to pay rents and salaries. Thus, the impact of the pandemic was very quickly reflected on the real sectors. On the other hand, curfews and other measures brought transport and logistics processes to a standstill to a great extent. Many commercial goods could not be transferred from production to the end user, thus all sectors were rapidly dragged into recession.

When it became clear that the pandemic would last longer than 1 year, governments felt the need to intervene in the markets. In order for firms to manage their fixed costs, incentive packages were announced on the one hand, while fiscal policies were developed in the form of tax exemptions and postponements on the other. In addition, salary supports were provided for citizens whose employment opportunities were lost. Many planned investment projects had to be cancelled or suspended.

The public incentives and subsidies implemented during this period, together with the effect of decreasing tax revenues, increased the resource needs of governments. Governments, whose borrowing opportunities were restricted due to similar problems all over the world, found the remedy in printing money without any return. Thus, while budget deficits grew on the one hand, on the other hand, despite the lack of consumption, currencies started to depreciate and inflation started to rise.

As a result, unlike other financial crises, the Covid-19 epidemic affected almost the entire globe in a very short time, with all sectors except a few. It seems that these effects will continue for many years, albeit with partial regional and sectoral differences.

Hakem Değerlendirmesi
Dış bağımsız
Yazarların Katkısı
Bu çalışmada yer alan tüm başlıklar tek yazara aittir.
Çıkar Çatışması
Yazar çıkar çatışması bildirmemiştir.
Finansal Destek
Yazar bu çalışma için finansal destek almadığını beyan etmiştir.

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