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National Monetary Policy Responses in the COVID-19 Epidemic

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Abstract: The COVID-19 pandemic has had a significant influence on the economies of many different nations in the world. When the economy suffers a severe blow, monetary policy should help it get back on its feet. Building the home market and maximizing industrial allocation is now especially crucial because the COVID-19 outbreaks have made it difficult for countries to conduct normal commercial exchanges. The COVID-19 also exhibits the traits of persistent global epidemics. Every new outbreak of the disease has a detrimental effect on the economy and severely undermines consumer confidence. National monetary policy from the world's major central banks was quicker, broader, moreover, the response to the economic and financial crisis of COVID-19 was more broad than the one to the global financial crisis of 2008. The response of three major nations, including the United States, the United Kingdom, and China, to the COVID-19 will be critically analyzed in this paper. However, there are many potential threats to the government's easing of monetary policy to keep the economy stable while stopping the spread of the pandemic, which means that persistently low interest rates are no longer a sustainable option. Therefore, balancing the financial chaos and social problems caused by monetary policy is the key to ensure the sustainable development of the country.

Keywords: monetary policy, COVID-19, global financial crisis, economic

1. Introduction

Since the spread of COVID-19, governments and central banks around the world have taken unprecedented steps to cushion the economy and hasten its return to health. Despite the fact that monetary authorities have largely followed the script from the global financial crisis, the scale, magnitude, and speed of the monetary policy responses to the pandemic have been unprecedented [1]. To stimulate the economy, several central banks-especially those in industrialized nations-have turned to unorthodox monetary policy instruments, most notably large-scale asset purchases [2]. This paper will examine the national monetary policies of three superpowers-the United States, the United Kingdom, and China-each in turn in response to the onset of the current pandemic.

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2. Analysis

2.1. United States

2.1.1. Background

In January, the US officially confirmed the first COVID-19 case. Since the outbreak's peak in March and April, when numerous different tactics were used to stop its spread, the number of new cases has dropped. Even though infections spiked early in the summer when business and travel picked back up, they gradually declined as the season progressed thanks to stricter preventative measures. However, new cases resumed their upward trend in September and continued into early January. The number of newly reported cases of COVID-19 has been decreasing since mid-January, when vaccination rates peaked. The U.S. economy has made an impressive recovery since shrinking by 31.4% in the second quarter of 2020. The unemployment rate did not change from 5.8% in April 2021 to 5.8% in May 2021.

2.1.2. National Monetary Policy Responses

At the start of the crisis in the United States, in March, increased anxiety was seen in the financial markets. For the week ending March 20th, the St. Louis Federal Reserve Financial Stress Index registered a new record high. This was the highest price since December 2008, at the height of the financial crisis. By March of 2020, low liquidity was now affecting the U.S. Treasury market, long considered the deepest and most liquid market in the world [3]. On March 15th, the Federal Open Market Committee (FOMC) met and took action on the economy, a full two business days before its scheduled meeting date, as it has in many such emergency situations in the past. Its appreciation of the rapidity with which things can change during a pandemic is reflected in the fact that it was unwilling to wait the usual two days for a meeting.

At their most recent meeting, FOMC members voted to reduce the target range for the federal funds rate to near zero. Alternative strategies, including emergency loans and asset purchases, were discussed by the Federal Open Market Committee (FOMC). The Board of Governors and the Treasury Secretary issued a joint statement in response to these concerns. During the 2007–2009 financial crisis, the Federal Reserve Act's Section 13 enabled a number of emergency funding measures that went above and beyond those implemented at the time [4]. The corporate bond market was left out of the 13 programs implemented by the Fed during the financial crisis; however, it benefited enormously from the Federal Reserve's measures launched during the epidemic to offer backstop money to various markets. The Fed's willingness to operate as a lender of last resort in these markets, even at less than desirable interest rates, is reassuring to investors [5]. However, with these systems in place, trading will continue to take place in these marketplaces, avoiding a complete freeze. A potential financial catastrophe in the March-April time frame was successfully averted thanks to the backstop lending initiatives. The monetary strain observed in January and February 2020 has decreased and is currently at pre-pandemic levels.

2.2. United Kingdom

2.2.1. Background

The first confirmed case was on January 31st, 2020. The initial surge of cases occurred in April and May, and then, after a brief lull, a second and third wave of even more severe cases emerged. Beginning on March 23rd, authorities took measures to contain the initial outbreak, including travel bans, social isolation policies, the closure of amusement parks, hotels, and other non-essential stores

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and indoor enterprises, and increased testing. In April of 2020Q2, GDP decreased quickly and fell 19.5% q-o-q, causing the most damage to the economy. The 2020 UK economy contraction was 9.8 percent. Difficulties in establishing a new trade regime in the wake of Brexit will have a dampening effect on economic activity in the short run. Even once social alienation has lessened, businesses may be reluctant to spend during a period of balance sheet repair while they reallocate workers [4]. Production would reach its pre-crisis level by early 2022, but it would still lag below the pre-2020 trend by about 3% by 2025.

2.2.2. National Monetary Policy Responses

On March 11, 2020, the Bank of England made a series of significant policy changes, including a reduction in interest rates, to relax capital and liquidity requirements and launch a new Term Funding Scheme (TFSME) tailored to the needs of small and medium-sized enterprises. TFSME, like the Main Street Lending Program and the TALF, was created by the Fed to facilitate lending to small firms by providing long-term (4 year) loans to banks and building societies at low interest rates; however, unlike these other programs, TFSME did not use an SPV as a sham accounting device [6]. Although the bank projected that the TFSME would offer more than GBP 100 billion in funding, loans through this facility amounted to just over one-quarter of this amount as of the end of August.

As the crisis continued to worsen, further targeted measures were announced and implemented. With longer maturities, cheaper costs, and more frequent interventions, the Federal Reserve has been using swap lines to supply U.S. dollars to British financial institutions. On March 19, the Bank of England said that it will follow the Federal Reserve's lead in increasing its outright asset purchases by GBP 200 billion. To accomplish this goal, it would increase its purchases of gilts and corporate bonds. On March 24th, in addition to the Federal Reserve's Asset-Backed Securities Loan Facility (ABSLF) and Market-Based Securities Loan Facility (MBSLF), for a variety of collateral types, the Bank introduced the Contingent Term Repurchase Facility (CTRF), which promises unlimited lending at rates comparable to the Bank Rate. It was always our objective to do everything we could to aid in the British economy's recovery. Last but not least, the bank declared that it would establish the COVID Corporate Financing Facility (CCFF) with Her Majesty's Treasury to support the largest, highest-rated firms in the country through the purchase of marketable debt issued by these firms, in a fashion that is analogous to the Fed's established business lending facilities. Nearly $18 billion (in terms of GDP) was stored at this facility as of August's end.

Due to these measures, the Bank of England was able to raise its balance sheet by GBP 850 billion, or about 40 percent of the annual GDP for the United Kingdom, during those five months beginning in March of 2020 and ending in April of that year. From around GBP 100 billion to around GBP 240 billion, or close to 25 percent of annual GDP, was the increase in total bank assets during the same time period. The Bank of England's balance sheet has never been more than 18% of yearly GDP throughout the two centuries following Napoleonic Wars, World Wars, and the Great Depression [7].

2.3. China

2.3.1. Background

The Chinese government determined early in the year 2020 that a novel coronavirus caused a pneumonia epidemic in Wuhan. The government instituted stringent containment measures, including a 14-day quarantine for returning migrant workers, a nationwide mobility prohibition, the lockdown of Hubei Province, an extension of the Lunar New Year holiday, and social isolation. For the first three months of 2020, GDP fell by 6.8 percent annually as a direct result of these efforts to rein it in.

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2.3.2. National Monetary Policy Responses

Since it was founded, the People's Republic of China has been refining its monetary policy. Monetary policy has developed throughout time, notably following the Economic Reform and Opening Up, from a supplementary fiscal policy into a collection of laws, programs, and initiatives with distinct policy purposes that may be modified to accommodate domestic and international monetary changes [8]. Inflation was contained in 1993, deflation was the result of the Asian financial crisis in 1997, interest rates were lowered four times in 2008 to spur economic recovery, and in 2020, against the backdrop of a new epidemic, liquidity was released. Despite this, the authorities had to exert considerable effort to quarantine populations during the COVID-19 epidemic, in contrast to previous disasters and segregate affected populations while also employing macro-control procedures to promote economic recovery, all of which has significantly hampered normal cross-border commercial exchanges. The idea of domestic monetary circulation has come up several times here. Establishing and enhancing the home market, as well as modernizing the industrial layout, are the primary concerns.

After an epidemic has ended, many nations' governments take action to boost their economies at home while also bolstering their ability to prevent and control outbreaks elsewhere, creating a politically and economically volatile scenario. COVID-19's trajectory is also fluid and difficult to predict. To examine how China's monetary policy implementation affected industries in various economic zones, we can use the impact of the epidemic as a virtual node, as well as the Southeast Asian financial crisis and the global economic crisis as historical references [9]. Because of this, China will be able to enact the most effective monetary policy conceivable and dramatically transform its industrial structure in reaction to the pandemic.

3. Conclusion

Monetary policy has been relaxed to unprecedented levels in several nations since the start of the COVID-19 pandemic. Nonetheless, numerous economists have noted that central banks in the midst of a pandemic face a unique trade-off, between keeping the economy stable and stopping the spread of the disease. Monetary policy activities have an impact on the epidemic and its (potentially fatal) repercussions, which is certainly not the typical purpose of central banks, but they must be aware of this under these highly exceptional conditions. The stabilization policy faces new difficulties as a result of the pandemic. In order to prevent financial chaos and create favorable market conditions for fiscal packages meant to aid the most affected businesses and people, some of them required a large and unusual response from central banks. Low-interest rates are no longer a sustainable option for governments in the industrialized world looking to expand and maintain their fiscal spending. Financial speculative activity and bubbles can be avoided if they can discover alternate ways to fund their budgetary needs. Some of the adverse macroeconomic and distributional effects of APPs can be mitigated with the use of fiscal and macroprudential measures. Similarly, taxing stock buybacks by corporations may have beneficial effects on the economy as a whole and on income distribution. Overheated real estate markets can be avoided with the support of macroprudential policies and regulations, such as increased minimum down payment requirements or stricter loan-to-value ratio guidelines. However, whether loose monetary policy during the epidemic will lead to increased social inequality is still a topic worth exploring.

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