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■ RESEARCH ARTICLE

The Impact of a Country's Economic Status on the Extent to Which Economic Policy Responses to the Pandemic Were Implemented

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ABSTRACT: This research aims to identify the extent to which economic policy responses to the COVID-19 pandemic were executed in countries of varying economic status. This paper specifically focuses on the differences in fiscal and monetary policies between such countries. Furthermore, this research aims to identify what specific variables may be responsible for differences in the economic policies introduced. The countries examined in this paper are the G7 countries (Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States), representing the advanced economies, as well as the BRICS countries (Brazil, Russia, India, China, and South Africa), representing the emerging economies. The results of this paper show that countries with advanced economies implemented more extreme economic policy responses than countries with emerging economies. This was likely a result of such countries having more resources to go towards economic responses.

KEYWORDS: Social Sciences, Economics, Pandemic, Fiscal Policy, Monetary Policy.

■ Introduction

The COVID-19 pandemic caught people around the world off guard. To help mitigate the consequences of this pandemic on global economies, many governments decided to introduce economic policy responses with the hope of stimulating the economy again. Examining the extent to which different countries implemented economic policy responses to the pandemic will help understand the differences in such responses between countries with varying economic statuses. Ultimately, this paper aims to identify these differences and understand what factors lead to these distinctions. The main research question for this paper asks, "How does the economic status of a country impact the extent to which it implemented economic policy responses to the COVID-19 pandemic?". In this research, economic status describes the state of a country's economy, either advanced (high financial strength) or emerging (moderate financial strength).

The countries with advanced economies examined in this study are the G7 countries (Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States). The countries with emerging economies studied are the BRICS countries (Brazil, Russia, India, China, and South Africa). Data regarding the Gross Domestic Product per Capita of each country and fiscal policy data are taken from the year 2021. Data regarding changes in central bank interest rates is taken from the first change after March 11, 2020.

■ Literature Review

In their study, Elgin and Basbug analyze differences in economic policy responses to the COVID-19 pandemic in the 21 Mediterranean countries. The study specifically focuses on how these responses vary depending on whether the country is a member of the EU. The pandemic halted much economic activity, leading to high unemployment rates. Due to this, many governments decided to adopt stimulus packages. These packages included monetary, fiscal, and balance of payments/exchange rate policies. In examining these packages compared to each country's circumstances, it seemed that the EU and non-EU countries had a large divide between them. The non-EU countries did not have the appropriate fiscal and macro-financial packages they needed for proper pandemic recovery. The research suggested that economic stimulus packages needed to target the most affected units in the economy to improve this. There needs to be more in-depth information regarding the specific responses in relation to the various regions. The study focuses more on the effectiveness of such responses regarding a country's specific needs for pandemic recovery.[1]

Another study by Hoekman, Smits, and Koolman looks into the health and economic policies implemented in the Netherlands due to the COVID-19 pandemic. They determined that the Dutch successfully reduced transmission while also maintaining personal and economic freedom. The authors discuss some of the economic measures taken. They focus these measures on businesses, entrepreneurs, and emergency regulations. The authors conclude that the economic costs that the Dutch suffered were significant when compared to health losses. This paper only focuses on one country – the Netherlands. It discusses the economic consequences that occurred as a result of implementing containment measures and economic measures introduced to improve this situation.[2]

In a paper by Okafor, Khali, and Burzynska, the authors look into the link between a country's resilience and the connection between a country's size of tourism industry and economic policy responses to the pandemic. They conclude that countries with more extensive tourism sectors introduced larger

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economic stimulus packages. The paper suggests that this is to make up for the losses in the tourism industry due to the COVID-19 pandemic. This shows that countries with larger tourism sectors had to make greater efforts to relieve the damage caused. The authors also find that high economic resilience and risk quality can control the connection between a country's tourism sector and economic policy responses. They identify that highly resilient countries have tourism sectors that had an easier time addressing the consequences of the COVID-19 pandemic. This allows these sectors to need less government interference. The authors suggest that improving this resilience will mitigate consequences in the tourism sector.[3]

Finally, a study by Elgin, Yalaman, Yasar, and Basbug examines the role of central bank independence on economic policy due to the COVID-19 pandemic. It discusses how a country with an independent central bank may conflict with politicians and monetary authorities when determining how economic policies should lean. This is because monetary policymakers often favored monetary policies that were less expansionary. The study finds that countries with more independent central banks had more limited policy rate cuts and reserve requirement ratios.[4]

Research Question

How does the economic status of a country, either advanced or emerging, impact the extent to which it implemented economic policy responses to the COVID-19 pandemic?

Methodology

This analysis specifically focuses on the difference in economic policy responses between countries with advanced economies and emerging economies. The countries in the developed economies section are all of the G7 countries. The G7 countries include Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States. The countries analyzed in the emerging economies section are the BRICS countries. These countries are Brazil, Russia, India, China, and South Africa.

Gross Domestic Product (GDP) per Capita was used to quantify the economic status of these countries, as it signifies the economy's strength and growth. This data was taken from the World Bank's international GDPs per capita database. Both fiscal and monetary policies were used to quantify economic policy. In terms of fiscal policy, the percentage of each country's GDP that they put towards fiscal policy response was analyzed. This data was obtained from the *International Monetary Fund's* 'Database of Fiscal Policy Responses to COVID-19'. In terms of monetary policy, the percent change in each country's central bank policy rate before and after the pandemic was analyzed. This was done using the policy rate before March 11, 2020 (the date COVID-19 was declared a pandemic by the World Health Organization (WHO)) and the next policy rate change following this date. This data was derived from the Country Economy. This area of the study has its limitations. Given that only the first interest rate change post-pandemic declaration is being recorded, the limitation is that countries may have implemented interest rate changes slowly over a prolonged period rather than all at once.

Results and Discussion

Table 1: GDP per capita of G7 and BRICS countries.[5]

Country (G7)	GDP per Capita (2021)	Country (BRICS)	GDP per Capita (2021)
Canada	$51,987.90	Brazil	$7507.20
France	$43,659.00	Russia	$12,194.80
Germany	$51,203.60	India	$2,256.60
Italy	$35,657.50	China	$12,556.30
Japan	$39,312.70	South Africa	$7,055.00
United Kingdom	$46,510.3		
United States	$70,248.60		

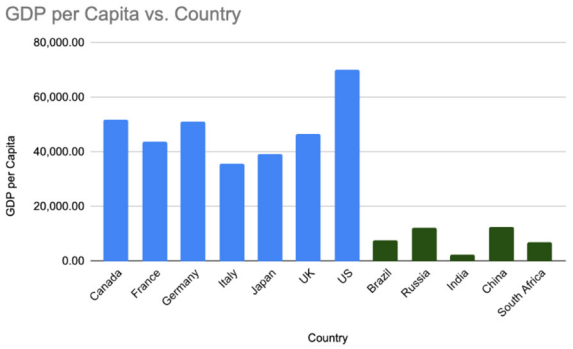

Figure 1: GDP per capita vs· country.

Table 2: Percentage of GDP put towards fiscal policy response for G7 and BRICS countries.[6]

Country (G7)	% of GDP towards Fiscal Policy Response (2021)	Country (BRICS)	% of GDP towards Fiscal Policy Response (2021)
Canada	15.90%	Brazil	9.20%
France	9.60%	Russia	5.00%
Germany	15.30%	India	4.10%
Italy	10.90%	China	4.80%
Japan	16.70%	South Africa	5.30%
United Kingdom	19.30%		
United States	25.50%		
Average	**16.17%**	**Average**	**5.68%**

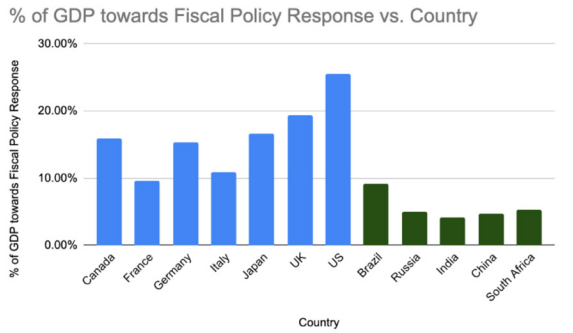

Figure 2: Percent of GDP towards fiscal policy response vs. country.

Table 3: Central bank policy rate (pre- and post-COVID) and percent change in central bank policy for G7 and BRICS countries.

Country	Central Bank Policy Rate (Pre-COVID)	Central Bank Policy Rate (Post-COVID)	Percent Change in Central Bank Policy Rate
Canada[7]	1.25% (2020)	0.75% (2020)	- 40%
France (ECB)[8]	-0.50%	-0.50%	0%
Germany (ECB)[8]	-0.50%	-0.50%	0%

Italy (ECB)[8]	-0.50%	-0.50%	0%
Japan[9]	-0.10%	-0.10%	0%
United Kingdom[10]	0.25% (2020)	0.10% (2020)	-60%
United States[11]	1.00% (2020)	0.00% (2020)	-100%
Average (G7)			**-28.5%**
Brazil[12]	4.25% (2020)	3.75% (2020)	-11.7647%
Russia[13]	6% (2020)	5.5% (2020)	-8.33333%
India[14]	5.15% (2019)	4.4% (2020)	-14.5631%
China[15]	4.05% (2020)	3.85% (2020)	-4.93827%
South Africa[16]	6.25% (2020)	5.25% (2020)	-16%
Average (BRICS)			**-11.11988**

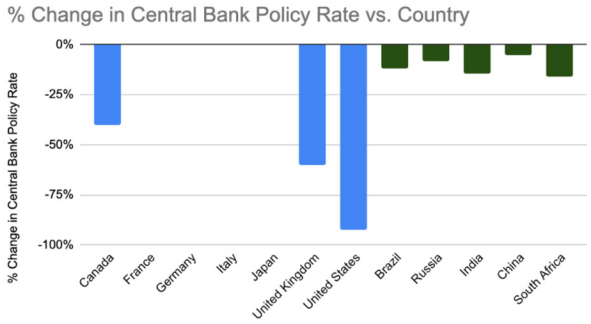

Figure 3: Percent change in central bank policy rate vs. country.

Discussion

Based on analysis of the data collected, a clear trend can be seen between a country's GDP per capita and the extent to which they implemented economic policy responses during the COVID-19 pandemic. Both Table 1 and Figure 1 contain data regarding the GDP per capita of each country analyzed. As can be observed, the G7 countries had higher GDPs per capita, signifying more advanced economies. The BRICS countries had lower GDPs per capita in comparison, representing an emerging economy. This represents the difference between the two groups of nations.

Next, Table 2 and Figure 2 both represent the percent of GDP put towards fiscal policy responses in each country analyzed. The G7 countries had an average of 16.17%, whereas the BRICS countries had an average of 5.68%. This clearly demonstrates that the G7 countries had a significantly larger percentage of their GDP per capita going towards fiscal policy responses in comparison to the BRICS countries. This difference could be the result of many things. One possibility is that the G7 countries had the ability to invest more into strengthening their economies, as they represent the world's most prosperous nations. Another option is that wealthier countries needed to make greater efforts to stimulate their economies once activity began to decrease.

Table 3 and Figure 3 contain data on changes in central bank policy rates immediately following the declaration of the pandemic by the WHO. Among countries that made policy rate changes, the G7 countries seemed to have more extreme percent changes when compared to the BRICS countries. This could similarly result from healthier economies making greater efforts to nourish them.

Conclusion

As mentioned in the discussion of results above, a correlation can be inferred between a country's economic status and its economic policy responses to the COVID-19 pandemic. The G7 countries are known to have advanced economies, and the BRICS countries are known to have emerging economies. The countries with developed economies seemed to contribute a larger percentage of their GDP towards fiscal policy response when compared to emerging economies. Furthermore, changes in central bank policy were more extreme in countries with advanced economies. Both of these fiscal and monetary policy changes seemed to be executed to a greater extent in countries with developed economies. This further supports the conclusion that wealthier countries were able to invest more into strengthening their economies, which ultimately amplifies the growing success of already successful economies.

This conclusion can be supported by similar trends found under different circumstances. Examples of this can be seen in the papers mentioned above in the literature review. One similar trend is between a country's tourism industry and the economic policy responses they implemented during the pandemic. This study showed that countries with more extensive tourism sectors must introduce greater stimulus packages. This demonstrates another variable, in addition to economic status, that impacted economic responses to the pandemic.

In the future, this research can be continued by looking into how countries of lower economic status than emerging economies had varying fiscal and monetary policy responses to the COVID-19 pandemic. Additionally, the economic status of these different countries can be used to analyze economic policy responses to other events that have had impacts on a global scale.

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