## Box 1.1: A Comparison between COVID-19 Crisis and Global Financial Crisis

The last global financial crisis (**GFC**) of 2008-09 and ongoing GHC of COVID-19 have had significant impact and implications on the economic and financial systems of world. However, these crises have some unique and idiosyncratic features. Unlike the GFC, which was mainly caused by endogenous economic and financial imbalances, the ongoing pandemic is purely exogenous in nature. The pandemic has had far more intense and wider economic impacts, especially in terms of output, fiscal spending and public debt, and economic uncertainties. In fact, the GFC-driven regulatory reforms and experiences learnt about the cross-sectoral feedback effects as well as the use of different tools to address systemic issues have greatly helped policy makers to weather these shocks. Importantly, banks were at the epicenter of the financial crisis both in terms of causes and its propagation during GFC, but in the current health crisis, they have turned into part of the solution. Moreover, the policy responses of the central banks and national authorities around the world have been swift and aggressive against the pandemic, and the scale and scope of these measures exceed the ones used to contain GFC. A brief comparative analysis can be seen in the table below:

| Sr. No | GFC | COVID-19 |
|---|---|---|
| 1 | Originated in the financial sector | Originated in the health sector |
| 2 | Global output loss = 0.6 percent | Estimated global output loss = 3.3 percent |
| 3 | Less than 60% economies of the world experienced sub-zero growth | More than 80% economies of the world are likely to experience sub-zero growth |
| 4 | Value of Global Economic Policy Uncertainty Index was around 200 | Value of Global Economic Policy Uncertainty Index was above 400 |
| 5 | Transmission of crisis to other countries took considerable time | Immediate transmission of health crisis into economic shocks around the globe |
| 6 | Banks were the epicenter of financial crisis both in terms of causes and its propagation | Banks have turned into part of the solution in current crisis unlike part of the problem previously |
| 7 | Tightening in financial conditions was more pronounced | Tightening in financial conditions has been less pronounced |
| 8 | Central banks responded aggressively to contain GFC | This time, central banks' actions were extraordinary in speed, size, and scope. Particularly, in emerging markets, several central banks introduced asset purchase program for the first time |
| 9 | During GFC, AEs and EMEs ran fiscal deficits of 8.9 percent and 4.8 percent (as percent of GDP), respectively | AEs and EMEs experienced fiscal deficits of 11.7 percent and 9.8 percent, respectively, in 2020 |
| 10 | In AEs, general government debt as percent of GDP) reached to 91 percent in 2009 from 79 percent in 2008 | General government debt, with 16-percentage points rise, is projected to reach at 120 percent (as percent of GDP) in 2020 |
| 11 | In EMEs, general government debt increased to 38 percent in 2009 from 35 percent in 2008 | Debt level is estimated to reach at 64 percent from 55 percent in 2019. |
| 12 | EMEs experienced capital outflows | Portfolio capital outflows were 50 percent larger |