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The World Economy and Islamic Economics in the Time of COVID-19

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Abstract. COVID-19 has brought unprecedented challenges to the world economy that have never been experienced before, including a sharp decline in economic output and substantial increase in the level of unemployment. The aim of this paper is to critically discuss the effects caused by COVID-19 on the world economy and financial markets, the actions taken by the governments and corporations to withstand these effects, and what Islamic economics and finance can offer to improve the resilience of the economy while the pandemic is still ongoing. To address this aim, we adopt both deductive and inductive research philosophical approaches as this enables us to understand the economic implications brought about by COVID-19 systematically. We base our analysis on various data sources including government reports, reports published by international organizations, such as the IMF (International Monetary Fund), OECD (Organization for Economic Co-operation and Development), the World Bank, and other relevant secondary data sources. Our analysis shows that the pandemic has contributed to a sharp fall in economic output, to substantial increase in unemployment, to rise in markets' volatility, and to the deterioration in the financial status of corporations, particularly in certain industries such as airline, hospitality, tourism, and energy. The review of the governments' actions taken across the globe in response to these effects indicate a variation in the monetary and fiscal measures introduced in terms of their scale and scope. The same applies to the decisions made at corporate level. The analysis reveals that Islamic finance and economics provides a number of solutions to the COVID-19 economic effects through its key principles and investment vehicles, including profit and loss sharing, *takāful*, and *waqf*.

***Keywords*:** COVID-19, Corporate financial measures, Government financial measures, Islamic economics, Islamic finance, World economy.

***JEL Classification*:** E52, E58, G21, G28, P400

***KAUJIE Classification*:** Q41, Q52, I41, I65, I75

1. Introduction

While a number of pandemics have been experienced throughout history, the new pandemic of COVID-19 has brought extensive disruption to the world economy that have never been seen in modern times. This includes a sharp decline in economic activity, extensive increase in unemployment and poverty rates, deterioration in consumption levels, and slump in economic growth. All countries, without almost any exception, have experienced a severe decline in their GDP. A report published by the World Bank expects a (5.2%) contraction in global GDP in 2020 (World Bank, 2020a, para 2).

Financial markets have also experienced a sharp fall due to the effects of COVID-19. A report by the OECD (Organization for Economic Co-operation and Development) shows a decline of (30%) in the global stock markets, following the pandemic, as the volatility level of a number of equities listed rose and the credit spread of less graded investments accelerated (OECD, 2020a, p. 1). This has added into the fragilities faced by the global economy and the vulnerabilities faced by the corporate sector.

Among the main sectors that have been affected the most are the airline and hospitality industries. Both sectors experienced a significant decrease in their incomes with some companies running out of cash, entering into liquidation, and ceasing their business activities (e.g., Flybe, Virgin Australia, Trans States Airlines, etc.). Many companies are also obliged to reduce the size of their employment force and sell their assets. In Europe only, the International Air Transport Association (IATA) anticipates airlines to lose $21.5 billion in 2020 with 6 to 7 million jobs to be cut as a result of these losses (IATA, 2020, para 2).

Recognizing the scale of the economic crisis brought by the pandemic as well as preventing the spread of the virus, governments and corporations have taken various economic measures. This entails laying off and furloughing staff, limiting working hours, offering employees unpaid leave, cutting staff and managers' salaries, freezing any increase in executive pay and potential hiring, delaying non-essential training, suspending and scrapping of dividends and share buyback, and postponing capital spending.

Other measures are being introduced to stimulate the economy. This includes lowering or postponing tax payments, cutting interest rates on conventional loans, offering low-cost debt instruments, rescheduling debt payments, and gradually allowing companies to increase their business activities. These measures have allowed economies to rebound but at a very slow rate. Further actions are needed to enhance economic output and prevent more deterioration to the already weak economies.

Facing these economic uncertainties brought by COVID-19 raises a number of critical questions. Among the main questions we aim to address in this paper are: (1) what are the direct effects caused by COVID-19 on the world economy and to what extent these effects vary across the globe?; (2) what are the actions and measures taken by the governments to overcome the economic effects attributed to the pandemic and to what extent are they effective?; (3) what measures are taken at corporate and institutional level to minimize the impact of COVID-19 on the corporation(s) and their effectiveness?; and (4) what can Islamic economics and finance offer as feasible solutions in order to deal with the aftermaths of the pandemic?

To answer these questions a mixed research approach is adopted; inductive and deductive. The views presented in the reports published by governments and key international organizations such as the IMF, OECD, the World Bank, the Bank of International Settlements (BIS), and relevant corporate reports are critically examined. The literature that is pertinent to the research area is also referred to. For each research question, new insights are brought to the study field through critical and scientific arguments to support the statements made.

The remainder of the paper is organized as follows. The effects of COVID-19 on the world economy and financial markets are discussed in section two. Government economic measures introduced due to the COVID-19 are analyzed in section three. In section four, the corporate financial measures brought about as a result of COVID-19 are examined. The proposed solutions offered by Islamic economics to the effects caused by COVID-19 are discussed in section five. The final section outlines the paper conclusions and future directions of research in this area.

2. COVID-19 and Effects on the World Economy and Financial Markets

The effects of COVID-19 on the world economy have been substantial and widespread. Among the key areas affected is the economic activity, which has been reduced dramatically. Deb, Furceri, Ostry, and Tawk (2020, p. 6) find that industrial production fell by (15%) over the 30 days period from introducing the pandemic containment measures. The decline in economic activity is due to the health measures introduced in the work place and the need to close a number of factories and business units as a result of the surge in virus cases. The per capita income is now anticipated to contract in most countries with a (7%) drop expected in advanced economies and a fall by (2.5%) expected in emerging markets and developing economies (World Bank, 2020a, para 4).

While normality has returned to the level of business in some countries, such as China, the level of global economic output continues to be significantly lower than the one observed in the year before. If this is to continue for a long time, the shock to the world economy is likely to be enormous and will result in much larger budget deficits in most countries, which are already facing an unprecedented task in order to sustain public funding. In the Euro zone, for instance, the budget deficit is now predicted to rise to (8.5%) of the GDP in 2020 compared to (0.6%) in 2019 (Haroutunian, Hauptmeier, & Leiner-Killinger, 2020, para 4). The scale of the deficit is, to a large extent, larger in the countries with high debt-to-GDP ratios at the time of entering the pandemic crisis.

With the decline in commodity prices, such as oil and metals, governments are facing further burdens in their balance of payments and many countries have subscribed for the IMF rescue package. Oil crude prices remain the most affected by the sharp fall in demand with the average price falling by (50%) in the first quarter of 2020 (see figure 1 below). This is likely to cause a significant impact on the budget of oil producing countries and fiscal measures are needed to sustain public spending.

The cost of the packages offered as part of the liquidity and guarantee measures have been large in most countries with the US recording a fiscal package of (9.1%) of its total GDP, while Germany had a rate of (8.3%) and the UK of (8%) (Anderson et al, 2020, table 1). A report by the World Bank also reveals that public debt has surged in emerging markets following the pandemic crisis (World Bank, 2020a, para 7). The high level of the stimulus packages used to counter the effects of the pandemic is adding further pressure on the government budgets, raising public debt and the cost of servicing the national debt further. Therefore, it is imperative to strike a balance between the economic measures required as a response to the effects of the coronavirus and the size of the financial packages offered in order to better manage future public debt. Countries also need to be transparent in terms of the mechanisms they implement in managing the debt to avoid any future possible shocks to the economy.

In less developed countries, COVID-19 has created pressures on the financing scheme set for their economic and social development. A research carried out by the OECD shows that the funding scheme is likely to decrease by $700 billion in 2020, which creates further risks to development worldwide as global climate changes (OECD, 2020c, p. 1). With many individuals losing their jobs and lack of public investments, poverty will further worsen in these countries. According to an estimation made by the World Bank, COVID-19 will place 71 million people under extreme poverty raising the global extreme poverty rate to (8.82%) compared to (8.23%) in 2019 (World Bank, 2020b, p. 1). Supporting the hardest hit countries through interest free loans and grants would help to lower the severity of the financial and social impact caused by COVID-19.

The pandemic has also contributed to an acceleration in the unemployment rate resulting in more inequalities in the society and contributing to a rise in mental health cases (Blustein et al., 2020, p. 2). Governments have had to set large financial packages to support the unemployed with the amount set running in trillions of dollars. However, despite the efforts made and the large amounts spent, many households, particularly in developing countries, have been left without income and have to rely on donations for their basic daily spending. To address this detrimental situation, more international co-ordination is required to help those countries with poor economic conditions, and international organizations such as the IMF and the World Bank should offer more financial assistance to these countries. This would include, for example, emergency loans that can be repaid on long-term basis, and guiding the governments in their fiscal and monetary policies.

In addition, COVID-19 brought high volatility to equities and fixed income securities. Stock markets across the globe experienced a sharp fall in the price of listed shares in the first weeks of the pandemic, particularly for the industries affected most by the lockdown measures, such as airlines, hospitality, and petroleum. Despite the rebound observed in the price of a number of equities, the pandemic is still driving investors' confidence low and affecting market sentiments.

Overall, research shows a negative correlation between stock market returns and COVID-19 (al-Awadhi, al-Saifi, al-Awadhi, & al-Hammadi, 2020, p. 4). The market reaction is also greater towards the virus cases number than death numbers and seemed to be higher during the early days when the cases are confirmed (Ashraf, 2020, p. 6).

Research further reveals that bond spreads and maturities have both been affected by the aftermaths of COVID-19 with maturities exceeding those observed during normal times (Halling, Yu, & Zechner, 2020, p. 530). The yield curve has also steepened in almost every market with the significant one observed in the US. Such a situation posits the likelihood of an economic recession as bond yields become highly volatile.

Interestingly, according to the Standard and Poor Dow Jones report, the Islamic equity indices remained more resilient and outperformed their conventional counterparts at least in the first quarter of 2020. This has been attributed to the hedging benefits associated with Islamic equities as they are subject to stringent screening (Ashraf, Rizwan, & Ahmad, 2020, p. 2). This provides further evidence that Islamic equities are more resistant to economic shocks, such as those observed under the COVID-19 pandemic. We will discuss this further in section five.

3. COVID-19 and Government Economic Measures

Countries across the globe introduced different economic measures to deal with the effects brought about by COVID-19. The measures include fiscal stimulus in the form of state guarantees of loans extended to companies, deferring the tax and social security, and increasing the level of public spending aimed at supporting businesses and enhancing investments.

Governments also provided financial packages to support households and the unemployed. In many countries, including for example, the UK and the US, employees were furloughed and the self-employed were paid a large proportion of their monthly earnings. Employees of the private sector also received financial assistance in countries such as Saudi Arabia and the United Arab Emirates. Tax rebates have been adopted as well to lower the financial burden on households.

In some countries, value added tax (VAT) has been reduced or abolished, at least in the short-term, and different incentive schemes have been used to encourage spending and prop up consumption (IMF, 2020). In countries such as Germany, credit guarantees have been offered to exporters, and firms were also given access to public guarantees (IMF, 2020, fiscal response section under Germany). While in the UK, the eat-out scheme to help restaurants has been very successful in getting clients back to the restaurants (Roberts, 2020, paras 22-25).

The fiscal measures also contained substantial financial packages for the health sector, particularly in advanced economies. Heavy spending has been set for health equipment and virus testing and tracking (e.g., \$100 billion in the US) (IMF, 2020, fiscal response section under US). Large grants have been made available for research and development with a significant proportion of these grants set aside to develop a vaccine for the virus (IMF, 2020). With the absence of a first vaccine in the market, the heavy spending on health is likely to continue particularly in the winter time due to the expected rise in flu cases.

Certain governments provided separate funds to back the IMF's attempt to support low-income countries. The US, for example, used part of its large international fund assistance, \$49.9 billion, to inject funds to the IMF borrowing scheme. While the UK extended £2.2 billion as a loan to the IMF Poverty Reduction and Growth Trust in addition to other funds made available under the IMF Catastrophe Containment and Relief Trust (IMF, 2020, fiscal response section under the US, UK, & Japan). Japan also pledged large funds to the IMF funding schemes designed to help low-income countries. These schemes are vital at supporting individuals who face severe poverty, which escalated further as a result of the pandemic.

Monetary and further macro measures have been adopted to improve the resilience of financial institutions. In Australia, for instance, funds have been allocated into mortgage and asset-backed securities to finance certain categories of banks and non-banking institutions (IMF, 2020, fiscal response section under Australia). In Italy and some other European countries, banks were allowed, temporarily, to hold below the minimum capital and liquidity requirements. While in India long-term repo operations and reduction in cash reserve ratio have been pursued (IMF, 2020, monetary and macro-financial section under Italy, India, and other countries). These measures have enabled banks to withstand the financial pressures brought by the decline in savings and extensive use of credit by both households and firms.

The base interest rate has also been reduced by a number of central banks with the rate being zero in a number of countries including the Euro zone. Besides, the deposit rate facility has turned negative in some countries, (-0.50%) in the Euro area (Deutsche Bundesbank, 2020, p. 15). The cut in interest rate is to encourage banks to borrow from the central bank and extend more credit to businesses and individuals. Likewise, the capital buffer has been reduced to enable banks to set more funds aside for financing

Interestingly, most countries kept their exchange rate regimes unchanged despite the pressures imposed on some of the national currencies. This can be attributed to the uncertainties associated with any exchange rate measure alongside the substantial fiscal and monetary changes introduced to contain the effects of the pandemic.

4. COVID-19 and Corporate Financial Measures and Impact

In addition to the fiscal and monetary measures, a number of decisions have been made to support corporations and small and medium enterprises (SMEs). Countries used different financial packages and approaches to help business firms, including free interest rate loans, grants, and equity acquisitions.

The scale of the financial support also varied from one country to another. Industrialized countries, such as China, France, Germany, Japan, the UK, and the US offered sizeable packages to firms. In China, for instance, financial authorities made RMB 1.8 trillion available to manufacturers, agriculture sector, and SMEs in the form of re-lending and re-discounting (IMF, 2020, monetary and macro-financial section under China). While France, Germany, and the UK extended large funds to firms and SMEs in the form of grants and tax holidays (IMF, 2020, fiscal response section under the UK, France, & Germany). In the US, $2.3 trillion were included as part of the coronavirus economic relief package (IMF, 2020, fiscal response section under the US). However, despite the efforts made, a number of businesses were forced to close down or to reduce their work force.

Similarly, various financial schemes have been introduced to support businesses in developing countries. In South Africa, for example, funds have been made available to SMEs and small farmers. Refinancing facilities have been introduced in India to help SMEs, rural banks, and housing companies (IMF, 2020, fiscal, monetary and macro-financial sections under South Africa & India). What is apparent from these schemes is that each country took into account the severity of the financial effect caused by the pandemic on the different sectors of the national economy. Nevertheless, like advanced economies, the program set has not fully prevented some companies from collapsing or reducing their work force.

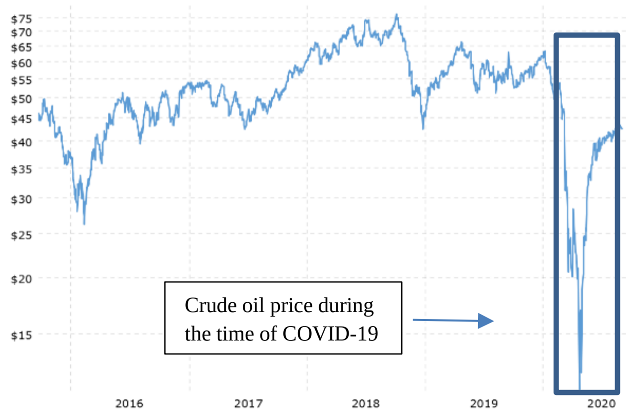
To avoid large job losses, subsidization of a number of industries is followed in various countries with some governments targeting the sectors that are most affected by the pandemic, such as tourism and airlines. The schemes introduced were in most cases highly effective at preventing companies from closure. But these schemes are less likely to continue in the foreseeable future due to their direct financial burden on the governments that did pursue them.

Besides governments' interventions, corporations set their own measures to cope with the sharp fall in liquidity due to the pandemic. A number of airline companies, for instance, decided to reduce their fleet or lease back part of their aircrafts. They also sought debt restructuring from their creditors and placed a number of their employees on government's financial support schemes (see Albers & Rundshagen, 2020, on the various measures taken by airline companies and their respective governments).

These measures have enabled a large proportion of the airline companies to survive the turmoil caused by the pandemic. However, certain companies did not survive the effects caused by the pandemic, such as Virgin Australia. Many companies have also been subject to downgrading by credit agencies including British Airways, EasyJet, and Lufthansa. Despite the gradual opening of the airline routes, many airline companies still face liquidity crises particularly in the countries where companies did not receive enough financial support and most routes remained closed.

Oil companies also faced a sharp fall in their incomes due to the substantial fall in oil prices and low demand for oil-related commodities. The price war between major oil-producing countries and problems associated with the supply chain has added pressure to an industry already in turmoil. Further consolidation and restructuring of debt is expected for the oil companies that are most affected by the drop in demand due to COVID-19. Other companies are likely to receive state help particularly in countries where the energy sector represents a symbol of the country's economic power. Figure 1 shows the sudden drop in oil price when COVID-19 first emerged in January 2020. Afterwards, the price recovered gradually although it was still below the price it reached the year before.

Figure (1) Crude Oil Prices, 2016-2020



Source: https://bit.ly/2J0rczg

Similar to the airline and oil industries, hospitality and tourism industries incurred significant losses because of the restrictions imposed on peoples' movements, social distancing, and quarantine measures to prevent the spread of the virus (see for example, Foo, Chin, Tan, & Phuah, 2020).

Most countries remained closed until the mid of June 2020 when the re-opening of the economy started to take effect. The loss of the tourism industry is estimated at $1.2 trillion with possible job losses of 120 million (UNWTO, 2020, p. 1). While OECD estimates the fall in international tourism to be between 60% to 80% (OECD, 2020b, p. 1).

Despite these major economic effects, some scholars perceive the pandemic as an opportunity to revive the industry through its transformation, revisiting the standards set for the sector, and promoting educational and training programs that take into account the new environment created by the pandemic (Sigala, 2020, pp. 319-320). This should cover the social, ethical, and practical elements of the industry, which are based on the new measures set to restart the sector after months of closure. OECD also calls for more co-ordination at a global level and involving other businesses that are linked to the tourism industry (OECD, 2020b, pp. 15-16).

Other industries that are highly affected by COVID-19, include leisure and auto equipment. With most leisure events postponed or cancelled; the sector incurred hefty losses, while demand for auto parts and equipment dropped substantially in the first months of the pandemic. Despite the revival observed by mid-summer, both sectors remain significantly below their normal activity compared to 2019. With the world economy expected to take longer to recover, both sectors are predicted to continue experiencing a sharp fall in their revenues.

Some industries, instead, are reviving following the pandemic. This includes in particular pharmaceutical, groceries, and certain online-based businesses, such as those used for educational purposes or entertainments. Individuals and businesses alike continue adjusting to the new life and this is also reflected in their spending. Such spending habits are likely to continue as long as there is no permanent solution to the pandemic.

Finally, unlike the financial crisis of 2007-2008, COVID-19 so far has not resulted in a severe impact on banks' income streams. However, this may start to materialize as savings drop and banks become hesitant to extend more credit to businesses due to their high risk. While central banks are offering more assistance to banks to continue their lending to firms and individuals through open market operations and other monetary policy instruments, these mechanisms may become less effective due to the sharp decline in the economic activity and high market uncertainty.

5. Islamic Mechanisms and Solutions to COVID-19 Economic Effects

Islamic economics and finance, which follows the Sharīʿah guidelines, offers a number of solutions that can be effective at reducing the social and economic effects brought about by COVID-19. The question is, to what extent Islamic economics and financial principles and mechanisms can minimize these effects? Also, what is the current evidence from the global economy and markets regarding corporations and institutions adhering to the Islamic rulings?

First, as guided by Islamic economics, the role of economic agents is to ensure equitable distribution of wealth. This can be achieved by preserving the rights of people to own property and increase their wealth through permissible investments while still protecting those who are less fortunate. As the wealth is, ultimately, deemed as the property of Allah Almighty, individuals are bound to follow his commands including giving *zakāh* and supporting those who are in financial difficulty through other forms of charity, such as *ṣadaqah* (voluntary charity). With many people affected by COVID-19, and as per the teachings of Islam, individuals need to be more generous to those who are in financial distress. Individuals are also recommended under the guidance of the Qur'ān to be mindful of their neighbors, both economically and socially, particularly in times of distress as the one currently experienced due to the pandemic.

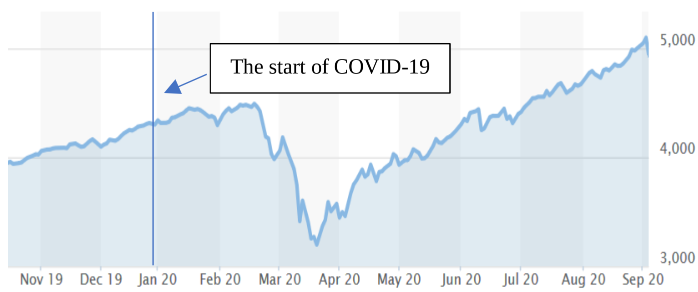
Second, the absence of interest on lending and borrowing is likely to result in better pricing of banking financial products in times of economic distress, such as the one experienced under COVID-19. As evidenced by the monetary measures taken by central banks, including the lowering of interest rates to zero in a number of countries, such as Sweden and Spain, the removal of interest is deemed to be effective at boosting lending and helping the economy to recover. A fall in interest rate induces more consumption and encourages individuals and firms to borrow more, resulting in more investments and providing opportunities for employment. This is imperative at a time when the income of households is declining due to economic contraction. Therefore, the Islamic call for no interest will be effective at minimizing the downfall brought by COVID-19 to the economic activity.

Third, Islamic principles including the adoption of profit and loss sharing (PLS) mechanism may offer better protection to banks and their clients and this becomes even more important in the economic downturn. Although there is no conclusive evidence to fully support such a claim, as some studies reveal, for example, that the financial crisis of 2007-2008 brought similar effects on the soundness of Islamic and conventional banks (e.g., Bourkhis & Nabi, 2013, p. 75). From our perspective, and similar to Ahmed (2002, p. 29), we assert that the share of losses, which are likely to rise in times of economic decline, would enable banks to protect their net worth and avoid further weakening of their balance sheet. As deposits are not fully guaranteed, any potential losses are likely to be better absorbed by the Islamic banks minimizing their overall credit risk. PLS financial instruments, such as *mushārakah*, also create stability for the banks and lowers their agency costs.

Additionally, the transactions associated with banking products are directly linked to the real economy under Islamic finance. In this way, banks are less susceptible to speculation and high leverage (Bourkhis & Nabi, 2013, p. 69). This allows Islamic banks to be more resilient at a time when businesses and individuals are likely not to be able to meet their debt obligations. However, this may only last for a short time as the real economy starts to decline at a higher rate due to the uncertainties brought about by the pandemic. Therefore, more protection is needed for the Islamic banks through central bank contingency plans including, for example, lowering the capital and liquidity requirements for the banks.

Fourth, Islamic equities and indices have mostly performed well except in the first three months of the pandemic (see figure 2). This can be attributed to the high level of screening to which these equities are subjected to (e.g., companies need to have a low debt to equity ratio), and the resilience of the sectors to which they belong to. This adds further evidence that the Islamic principle of focusing on wealth creation is essential at protecting the economy from the wider shocks caused by COVID-19.

Figure (2) Dow Jones Islamic Market Index, Nov 2019 – Sept 2020



Source: https://on.mktw.net/3fr65BZ

In line with the Sharīʿah principles, allocating the resources to the most critical sectors of the economy such as health, agriculture, and manufacturing, the overall effect can be reduced. This is observed in the aftermath of COVID-19 as governments pursued rescue plans to help these sectors in the form of grants, subsidization, and equity acquisitions. It is essential that these rescue packages are enhanced through additional fiscal and monetary policies including further tax cuts and better access to low-cost funding. Government interventions can also be exercised via economic sponsored schemes that aim to boost spending and investments. A good example of these schemes is the one introduced by the UK government to help restaurants by paying (50%) of the meal bills (HM Treasury, 2020, para 1).

Fifth, the evidence emerging form COVID-19, and similar to Islamic economics, shows that it is imperative to avoid wealth creation from non-economic activities such as those received through short-selling of stocks or financial derivatives. It is deemed that short-selling creates undesirable movements in securities markets, which do not really reflect the true value of companies' stocks, and this may also contribute to excessive losses to the traders engaging in the activity. Therefore, a number of countries, such as France, now ban the practice of short-selling of stocks, at least temporarily (IMF, 2020, monetary and macro-financial section under France). The move from these practices is likely to lead to a reduction in market volatility and to preserve the nation(s) wealth.

Sixth, the Islamic call for co-operation (*takāful*) is pivotal at absorbing the economic and social shocks brought about by COVID-19. *Takāful* allows for more funding to flow into the economy and to support those businesses and individuals that are less fortunate due to the pandemic. The use of *takāful* also enables for better risk sharing and distributing wealth evenly between the economic agents. Linking deposits and investments to the real economic activities is another benefit of using *takāful* and this is imperative to withstand the significant fall in productivity due to the social measures introduced to prevent the spread of the virus.

Seventh, the use of *waqf* endowments extended by Muslims for charitable purposes can help at supporting those individuals and businesses that are most affected by the pandemic. The use of *waqf*, both in the form of property or cash, allows to reduce the social gap, which is exacerbating due to the increase in unemployment. Besides, as many business entities or individuals are not able to access funding through banks or other normal borrowing channels, the use of *waqf* becomes important at serving their financial needs. The return generated from the investments funded through *waqf* can be spent on social purposes or used to expand the current projects. Besides, the adoption of crowd-funding *waqf* may prove to be beneficial in the time of the pandemic. To promote the use of this form of *waqf*, emphasis should be placed on its usefulness and ease of use as evidenced by a research presented by Thaker (2018, p. 592). On the whole, the effective use of *waqf* can play a major part in lowering the financial burden brought about by the coronavirus on the government and support the local communities and the economy.

Finally, Islamic economics, which builds on social justice and solidarity, can provide a solid foundation on handling and managing the various effects brought about by COVID-19 on individuals, corporations, and markets. As uncertainty is high and economic output is at its lowest level, governments and wealthy individuals need to play a more pro-active role in supporting those who are less well off. According to the Islamic conception, individuals should not be marginalized and the society has a duty towards the poor, both in times of ease and difficulty. Prophet Muhammad (ﷺ) and his companions both provided the best examples of supporting the poor and were more generous in times of difficulty. These noble virtues are now required more than any time to protect the economic and social needs of all people.

Previous research supports the notion that religious values or ethics do influence decision making and attitudes in a positive manner (Haniffa & Hudaib, 2007; Phipps, 2012). Therefore, we would expect that the adoption of Islamic precepts including piety, equity, justice, benevolence, and cooperation would result in more social and economic cohesion. They would also contribute to a better allocation of resources, which becomes critical in an economic downturn such as the one observed under COVID-19. On the whole, the moral economics of Islam is deemed to establish a foundation for better decision making and, therefore, provide an opportunity to address the problems caused by the pandemic prudently.

6. Conclusions and Future Notes

Throughout modern history, the world economy has experienced a number of crises including the great depression of the 1930s, the energy oil crisis of the 1970s, and the financial crisis of 2007-2009. However, the effects brought about by COVID-19 are to some extent unique due to their scale and scope. In fact, all countries across the globe, small or large, have been affected by the coronavirus. In this paper, we critically discussed the economic and financial consequences brought about by COVID-19, its direct effect on corporations and markets, and how Islamic economics and finance can contribute to addressing some of the problems caused by the pandemic.

On the whole, the pandemic has resulted in a sharp fall in the economic activity, to an increase in poverty levels, to an increase in the volatility of equity markets, to further steepness in the yield curve, and to excessive losses in some sectors of the economy. To manage this critical situation, governments need to be more cautious in their monetary and fiscal measures and to set realistic plans for the economic recovery. Further international co-ordination is also needed to help countries with poor economic conditions. At sector or firm level, more state interventions are needed by injecting more liquidity into the companies which have suffered the most from the pandemic. Industries' consolidation and debt restructuring are also required to prevent more business closures and to provide a platform for their recovery.

Besides the conventional measures, the paper shows that Islamic economics and finance presents a number of solutions that could be effective at lowering the effects triggered by COVID-19. This entails applying PLS mechanisms, eliminating interest rates and wealth creation from non-economic activities, adopting *takāful*, and introducing *waqf* both in the form of property or cash. Embracing the virtues of Islam, including social justice and solidarity, would also enable individuals to play a more pro-active role in supporting each other in difficult times such as those brought by COVID-19. By considering the solutions that Islamic finance and economics offers, policy makers and companies' managers can rethink some of the decisions made due to COVID-19 and implement other alternatives that could boost economic recovery, reduce market uncertainty, and boost social stability.

Finally, the issues raised in this paper provide directions for future research. For example, other researchers may consider providing empirical evidence on the resilience of Islamic financial institutions towards the economic effects brought about by COVID-19. Other studies can also explore how Islamic macro-economic principles can be adopted to enable economic recovery and to reduce the social gap or examine the role of the Islamic moral economy in the prevention of financial hardships or the acceleration of poverty during the time of COVID-19. Another stream of research may consider investigating the relationship between the use of Islamic investment vehicles such as *mushārakah*, *istiṣnāʿ*, *takāful*, and *waqf*, and economic recovery in the time of the pandemic. The effects of COVID-19 on Islamic equities and bonds or listed companies can also be explored by country, region, or using a global sample.

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الاقتصاد العالمي والاقتصاد الإسلامي في زمن كوفيد-١٩

عبدالحفيظ بن عمراوي

أستاذ محاضر رئيسي، جامعة ويستمنستر، المملكة المتحدة

المستخلص. تسببت جائحة كرونا كُوفيد-١٩ في إبراز العديد من التحديات غير المسبوقة في الاقتصاد العالمي المتمثلة في الانخفاض الحاد في الناتج الاقتصادي، والزيادة الكبيرة في مستويات البطالة. يهدف هذا البحث إلى مناقشة آثار كوفيد-١٩ على الاقتصاد العالمي والأسواق المالية والإجراءات التي اتخذتها الحكومات والشركات لمواجهة هذه الآثار وما يمكن للاقتصاد والتمويل الإسلامي أن يقدمه لتحسين وضعية الاقتصاد الذي ما زال يعاني من آثار هذه الجائحة. ولتحقيق هذا الهدف، استخدم البحث كل المناهج البحث الفلسفية الاستنتاجية والاستقرائية لفهم الآثار الاقتصادية الناجمة عن كوفيد-١٩ بشكل منهجي. اعتمد التحليل في هذا البحث على بيانات متنوعة تشمل التقارير الحكومية المنشورة من قبل المنظمات الدولية، كصندوق النقد الدولي، ومنظمة التعاون الاقتصادي والتنمية، والبنك الدولي، علاوة على بيانات ثانوية أخرى ذات صلة بالموضوع. ويظهر التحليل أن الوباء قد ساهم في انخفاض حاد في الناتج الاقتصادي، وزيادة كبيرة في البطالة، وزيادة في تقلب الأسواق، وتدهور الوضع المالي للشركات، لا سيما بعض الصناعات كالطيران، والفنادق، والسياحة، والطاقة. وتشير مراجعة الإجراءات التي اتخذتها الحكومات في جميع أنحاء العالم إلى تباين في التدابير النقدية والمالية المقدمة من حيث نطاقها. وينطبق الأمر نفسه على القرارات المتخذة على مستوى الشركات. كما يكشف البحث بأن التمويل والاقتصاد الإسلامي يقدمان عددًا من الحلول لمواجهة الآثار الاقتصادية لكوفيد-١٩ من خلال مبادئه الرئيسة وأدواته الاستثمارية بما في ذلك تقاسم الأرباح والخسائر، والتكافل، والوقف.

الكلمات الدَّالة: كوفيد-١٩، الإجراءات المالية للشركات، الإجراءات المالية الحكومية، الاقتصاد الإسلامي، التمويل الإسلامي، الاقتصاد العالمي.

تصنيف JEL: E52, E58, G21, G28, P400

تصنيف KAUJIE: Q41, Q52, I41, I65, I75