The Effects of the Coronavirus Pandemic in Emerging Market and Developing Economies: An Optimistic Preliminary Account

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Main Message

• Expectation in early 2020 was that EMDEs would be hit hard by the crisis

• To date (June 25), EMDE record better than expected:
  ➢ On the public health front (→ deaths per million)
  ➢ On the economic front (→ financial data)

• High uncertainty and more pessimism for the long-run
  ➢ Course of the pandemic
  ➢ Long-term effects on human capital
  ➢ Implications of deglobalization

• Policy implications:
  ➢ More resources available for addressing economic fallout
  ➢ Strict nationwide lockdowns could be eased
  ➢ Need to focus on long-term structural issues and not just solvency
Public Health

Relevant Factors

Reasons for Optimism:

• Age distribution $\rightarrow$ younger population
• Obesity $\rightarrow$ less obesity in poorer countries
• Weather $\rightarrow$ warm/humid climate?
• Low connectivity $\rightarrow$ late arrival of virus

Reasons for Pessimism:

• Low capacity of health care systems
• Crowded spaces, urban poverty, multi-generational households might make lockdowns less effective
Risk Factors for Severe Covid-19 Illness
average by income group

Population over age 70 (%)

- Low income countries: 1.8%
- Lower-middle income countries: 3.4%
- Upper-middle income countries: 5.9%
- High income countries: 10.5%

Obesity prevalence (% of adults)

- Low income countries: 9.0%
- Lower-middle income countries: 13.2%
- Upper-middle income countries: 22.3%
- High income countries: 23.6%

Public Health Response
average by income group

Days before death that action is taken

- Low income countries: 56.7 days
- Lower-middle income countries: 59.6 days
- Upper-middle income countries: 47.8 days
- High income countries: 48.7 days

Positive test ratio (%)

- Low income countries: 2.0%
- Lower-middle income countries: 9.1%
- Upper-middle income countries: 18.7%
- High income countries: 6.0%

Covid-19 deaths per capita have been overwhelmingly concentrated in high income countries

Source: Our World in Data
National Income and COVID-19 deaths per million are positively correlated.

Sources: Our World in Data. World Development Indicators
Notes: Ordinary least squares fit shown as dashed line.
<table>
<thead>
<tr>
<th>Region</th>
<th>Country</th>
<th>Deaths per Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>U.K.</td>
<td>635</td>
</tr>
<tr>
<td></td>
<td>Spain</td>
<td>606</td>
</tr>
<tr>
<td></td>
<td>Germany</td>
<td>107</td>
</tr>
<tr>
<td>Asia</td>
<td>Turkey</td>
<td>60</td>
</tr>
<tr>
<td></td>
<td>India</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td>Philippines</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td>Indonesia</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>Vietnam</td>
<td>0</td>
</tr>
<tr>
<td>America</td>
<td>U.S.A.</td>
<td>375</td>
</tr>
<tr>
<td></td>
<td>Mexico</td>
<td>181</td>
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<tr>
<td></td>
<td>Brazil</td>
<td>253</td>
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<td></td>
<td>Peru</td>
<td>260</td>
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<td></td>
<td>Ecuador</td>
<td>242</td>
</tr>
<tr>
<td>Africa</td>
<td>South Africa</td>
<td>37</td>
</tr>
<tr>
<td></td>
<td>Nigeria</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Angola</td>
<td>0.3</td>
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</table>
What explains the positive correlation? (selected columns from Table 2 in the paper)

*Dependent Variable: *(Ln)* COVID-Deaths per Million*

<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(6)</th>
<th>(10)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ln(real GDP per capita)</td>
<td>0.878***</td>
<td>0.599***</td>
<td>0.186</td>
<td>0.163</td>
<td>0.340**</td>
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<tr>
<td></td>
<td>(0.102)</td>
<td>(0.077)</td>
<td>(0.121)</td>
<td>(0.115)</td>
<td>(0.131)</td>
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<tr>
<td>Square root of days since first death</td>
<td>0.622***</td>
<td>0.566***</td>
<td>0.488***</td>
<td>0.437***</td>
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<tr>
<td></td>
<td>(0.030)</td>
<td>(0.033)</td>
<td>(0.055)</td>
<td></td>
<td>(0.061)</td>
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<tr>
<td>Population over age 70 (%)</td>
<td>0.079***</td>
<td>0.102***</td>
<td>0.087**</td>
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<td></td>
<td>(0.028)</td>
<td>(0.028)</td>
<td>(0.043)</td>
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<td>Obesity prevalence (% of adults)</td>
<td>0.060***</td>
<td>0.071***</td>
<td>0.072***</td>
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<td></td>
<td>(0.019)</td>
<td>(0.019)</td>
<td>(0.020)</td>
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<td>Days before first death that action is taken</td>
<td>-0.004</td>
<td>-0.005</td>
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<td></td>
<td>(0.004)</td>
<td>(0.004)</td>
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<tr>
<td>Ln(Population per km² in largest urban center)</td>
<td></td>
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<td></td>
<td>1.030***</td>
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<td></td>
<td></td>
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<td>(0.317)</td>
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<tr>
<td>Observations</td>
<td>189</td>
<td>189</td>
<td>172</td>
<td>157</td>
<td>155</td>
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<tr>
<td>Adjusted R-squared</td>
<td>0.239</td>
<td>0.677</td>
<td>0.673</td>
<td>0.684</td>
<td>0.691</td>
</tr>
</tbody>
</table>
Tentative Conclusions

• Most (not all) developing countries have kept the death toll low

• Young population and limited obesity are key

• Population density in largest cities is important. But does not explain the better record of developing countries to date.

• Policy implications:
  – Can cautiously ease costly lockdowns
  – Remain vigilant to avoid importing infections (quarantines)
  – TTI going forward
  – If above successful, scarce fiscal resources do not need to be devoted to ICU beds, expensive PPE, ventilators, etc.
  – Can focus on economic fallout
Economic Effects

Short Run

External Exposure

→ Financial Data

• Unprecedented non-resident portfolio investment outflows
• Very large, but not unprecedented, capital outflows
• Capital outflows highly correlated with price of oil
• Oil price collapse = result of two shocks:
  – Demand shock (health crisis)
  – Supply shock (price ware between RUS and SAR)
• Looks very much like a commodity price bust
• Substantial increase in borrowing costs
• Solvency crisis?
• Spreads have come down; commodity prices have increased
Net non-resident purchases (sales) of EM stocks and bonds

Source: Institute for International Finance
Overall Net Capital Flows to Emerging Markets

Hard Currency Bond Spreads in Emerging Markets (bps)

Source: JP Morgan
Figure 8: Poorer countries will be most affected by declines in commodity prices and remittances.

Source: World Development Indicators
Economic Effects

Short Run

Effects of Own Containment Policies

→ No macro data yet. But phone surveys.

• Large employment and income losses even in countries with few deaths
• Difficulty meeting nutritional needs
• Food insecurity in several countries
• Disruption in education and routine health care
• Increases in domestic violence
Real Gross Domestic Product

Countries with first case before Feb. 15

Countries with first case after Feb. 15

Source: Haver
Economic Effects

Long Run

• Long-run effects on human capital
  – School closures → potentially long-run effects on education and fertility among girls
  – Disruption of routine health care → effects on maternal and child mortality, vaccinations

• Deglobalization
  – Immigration
  – Trade
  – Willingness to help developing countries (debt relief?)
Thoughts on policy implications

• Though effects so far are not as grave as expected, economic fallout is still considerable
• Enormous uncertainty about the future
• Fiscal stimulus will be needed. But many countries have no fiscal space
• Fiscal multipliers weak in developing countries
• Monetary transmission mechanism weak in developing countries
• External help will be needed. But willingness to help?
• Debt relief will be needed for many countries. But:
  – For whom?
  – Is insolvency the result of the COVID crisis or of long-term pre-existing problems?
  – Tradeoff between substantive relief and further increase in borrowing costs
• Debt service standstill is a means to buy time to assess the situation. But will not be sufficient.
THANK YOU!