

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:

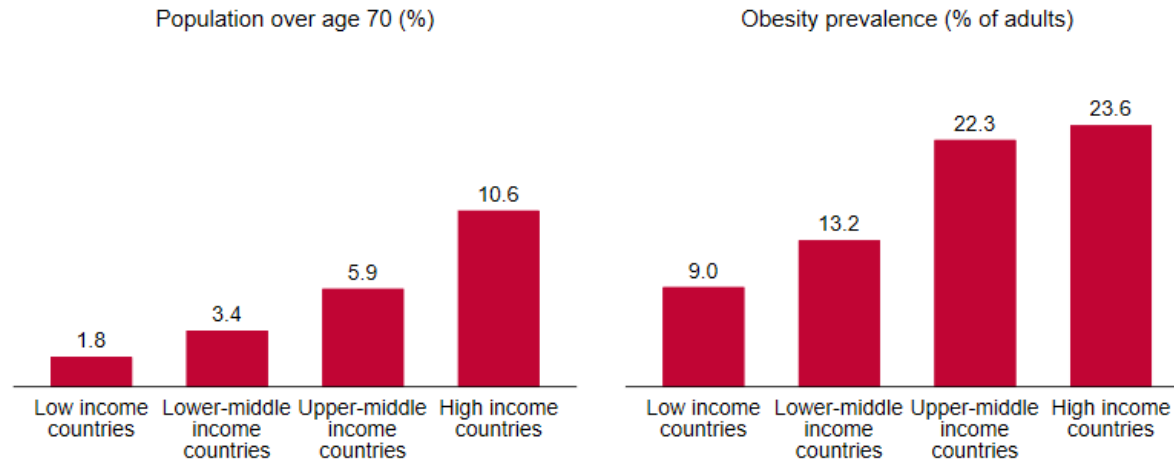
- Age distribution → younger population
- Obesity → less obesity in poorer countries
- Weather → warm/humid climate?
- Low connectivity → late arrival of virus

Reasons for Pessimism:

- Low capacity of health care systems
- Crowded spaces, urban poverty, multi-generational households might make lockdowns less effective

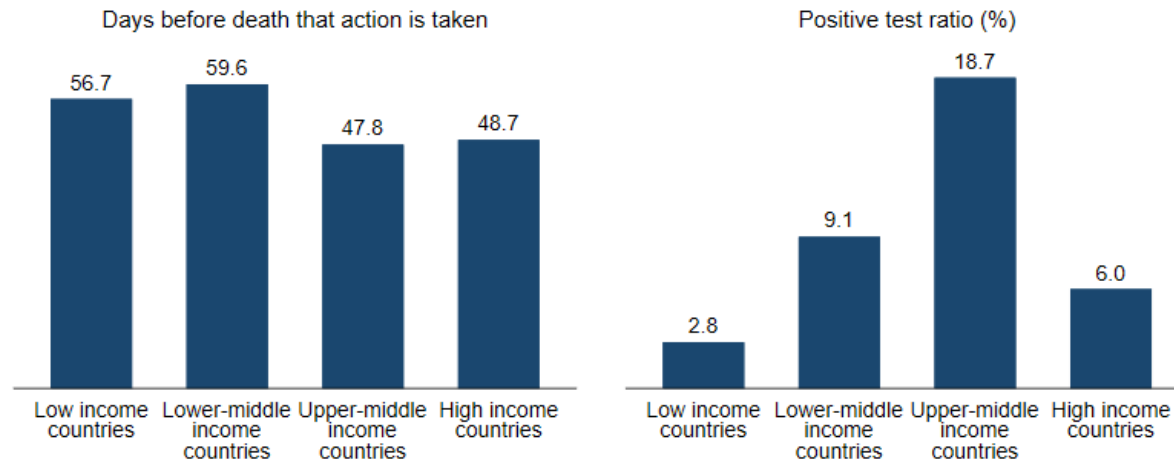
Risk Factors for Severe Covid-19 Illness

average by income group



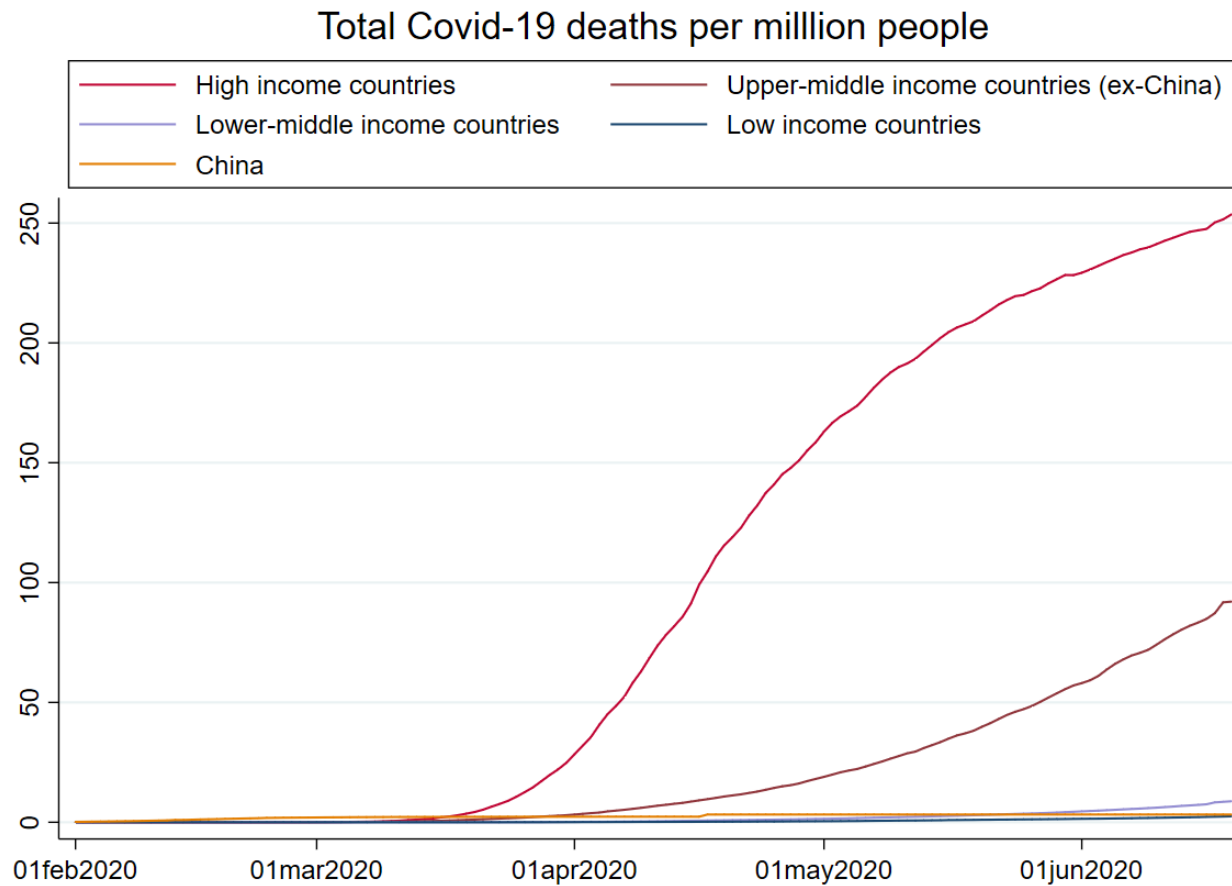
Public Health Response

average by income group



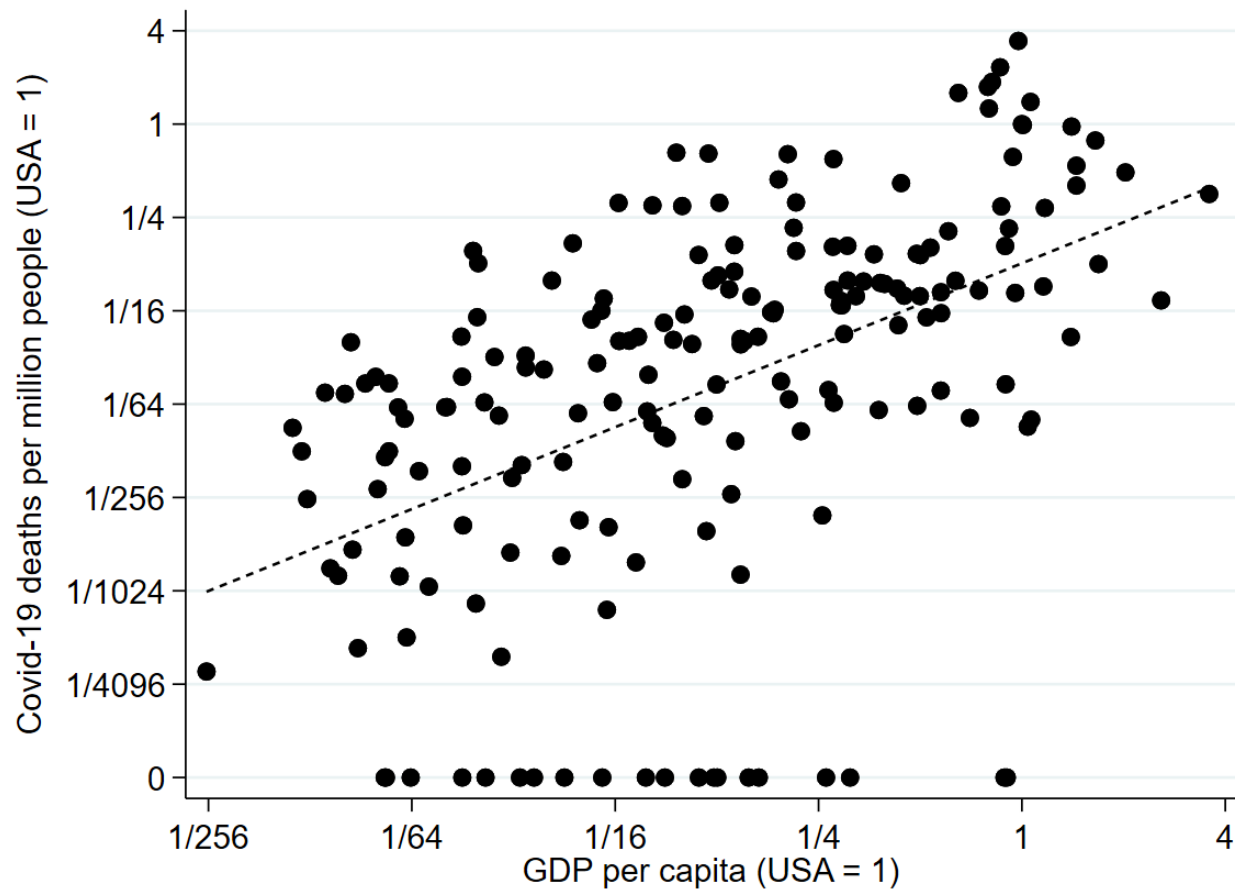
Sources: UN Population Prospects. World Health Organization. Oxford Covid-19 Government Response Tracker. Our World In Data

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

Some Examples (June 24, 2020; Source: worldometers.info)

Region	Country	Deaths per Million
Europe	U.K.	635
	Spain	606
	Germany	107
Asia	Turkey	60
	India	11
	Philippines	11
	Indonesia	9
	Vietnam	0
America	U.S.A.	375
	Mexico	181
	Brazil	253
	Peru	260
	Ecuador	242
Africa	South Africa	37
	Nigeria	3
	Angola	0.3

What explains the positive correlation? (selected columns from Table 2 in the paper)

Dependent Variable: (Ln) COVID-Deaths per Million

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

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

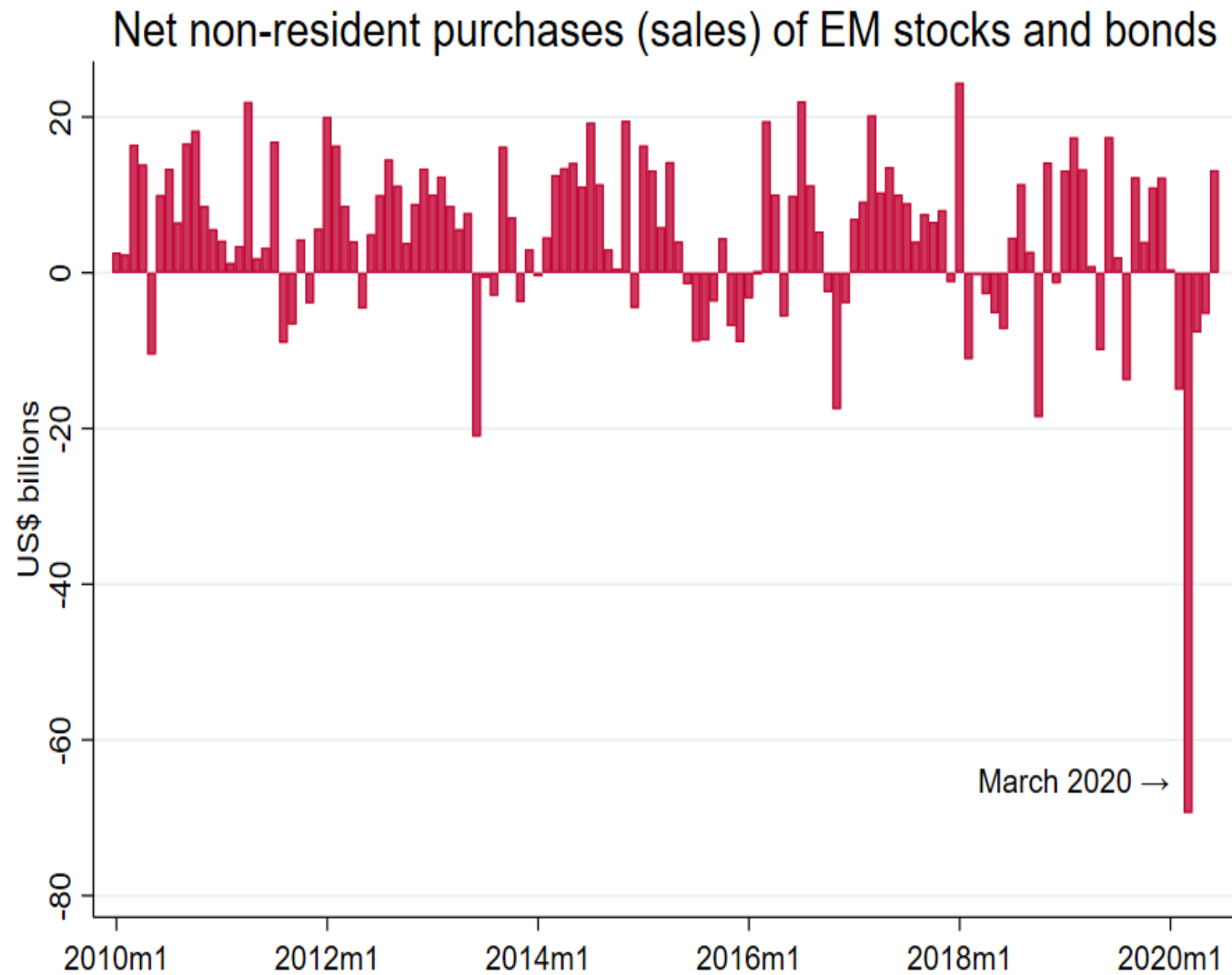
Economic Effects

Short Run

External Exposure

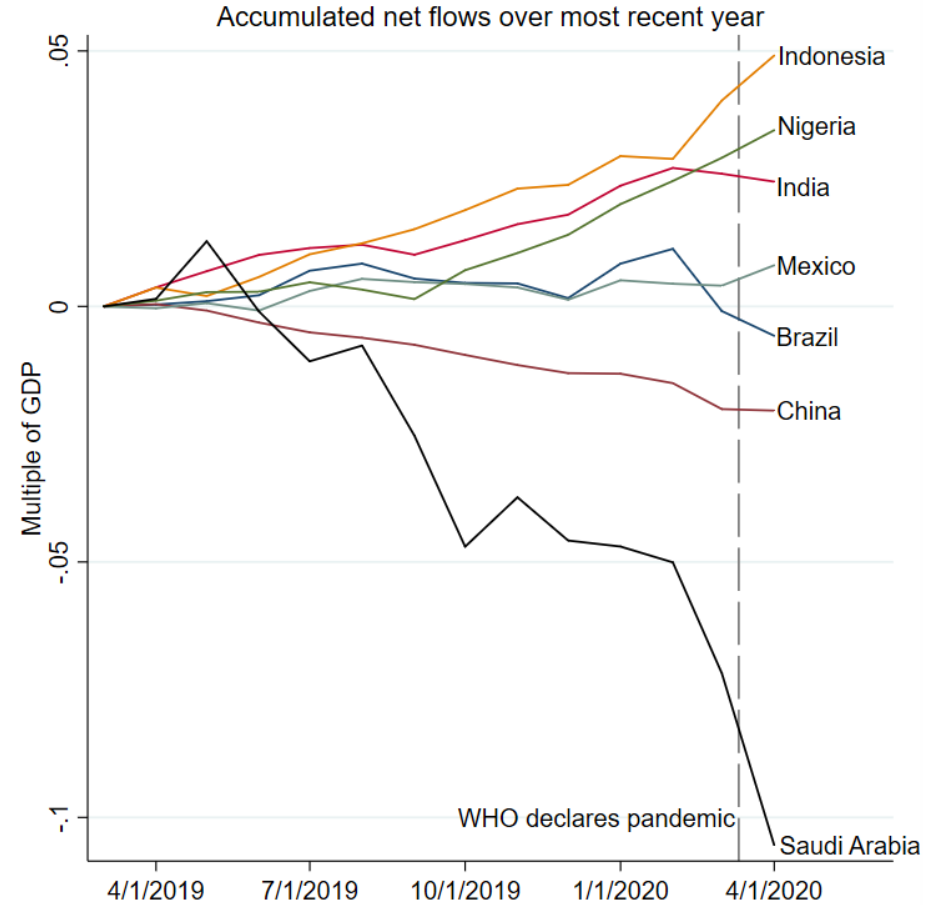
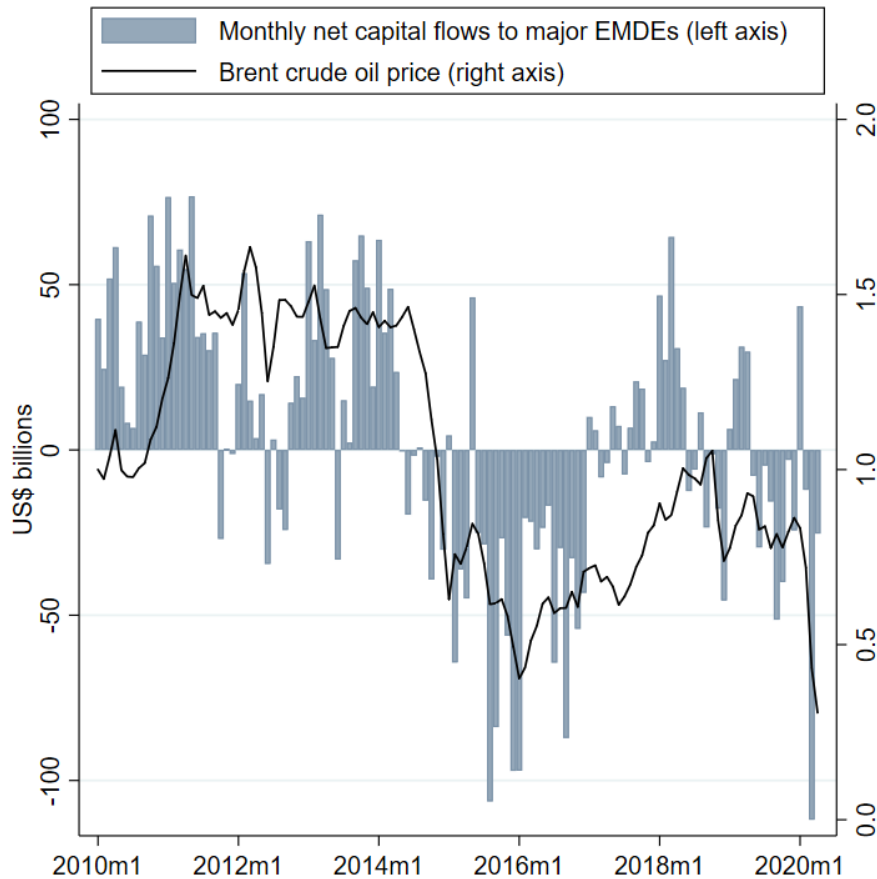
→ Financial Data

- 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 war 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



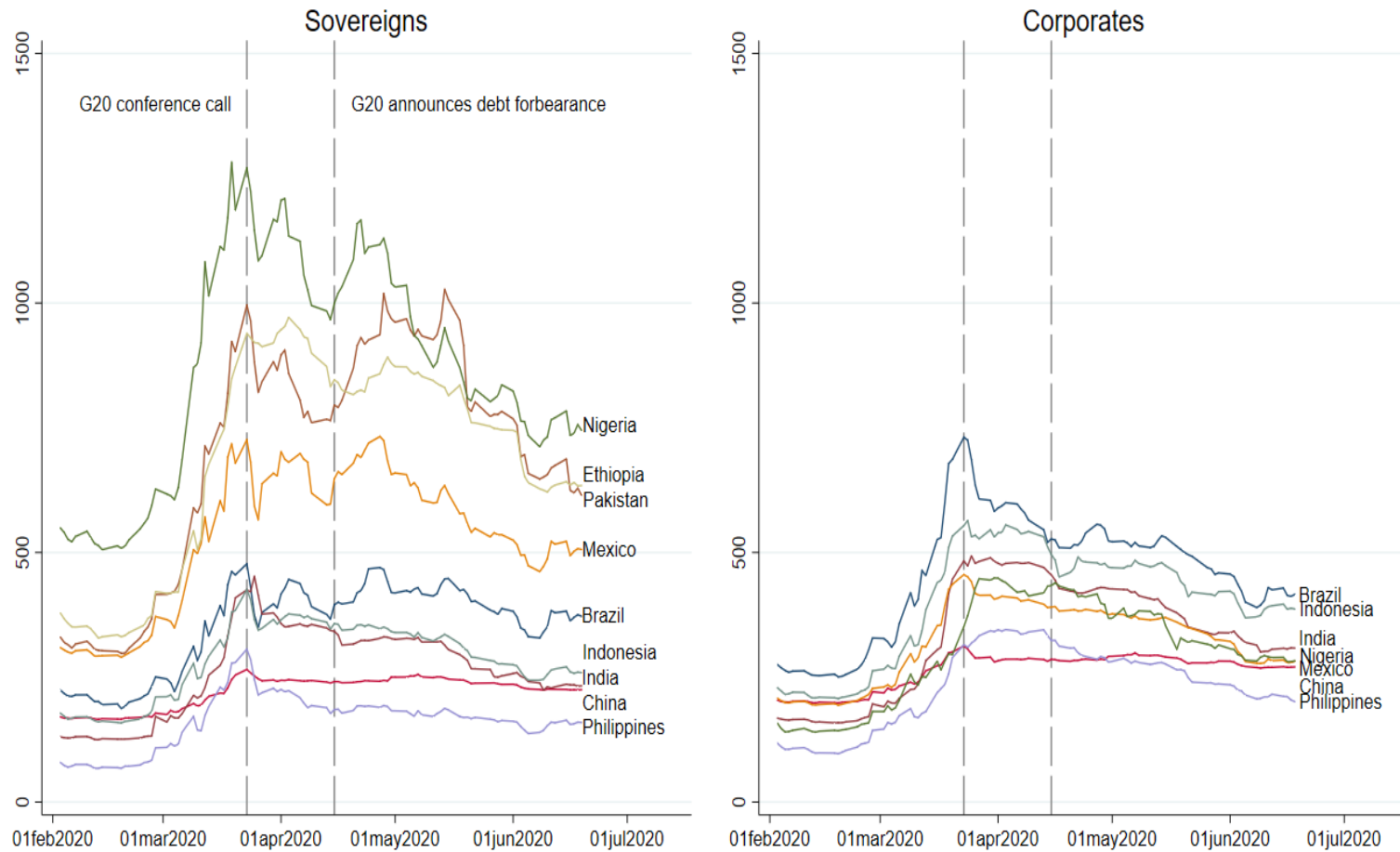
Source: Institute for International Finance

Overall Net Capital Flows to Emerging Markets



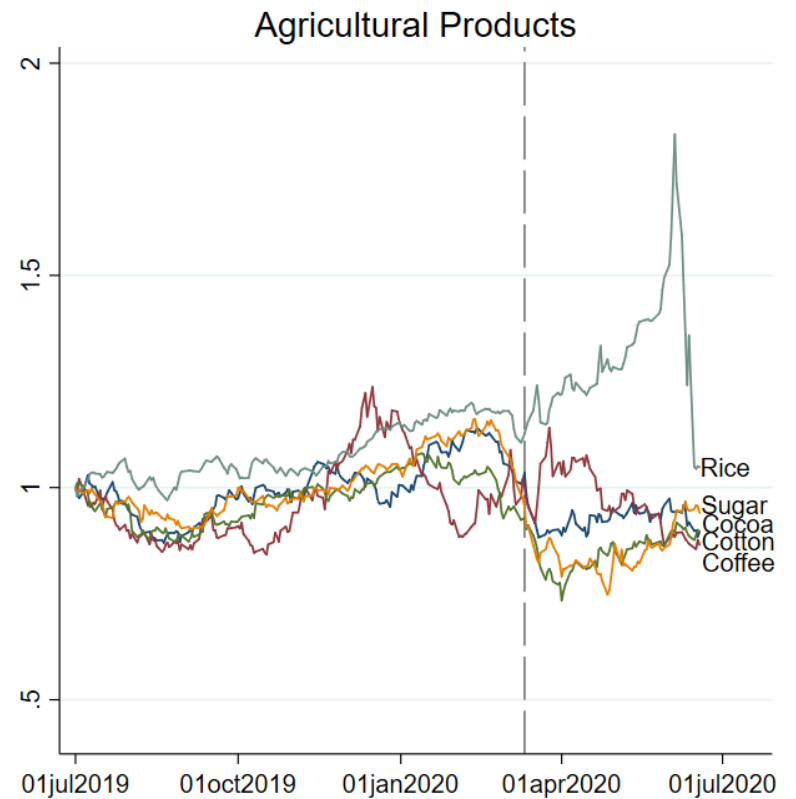
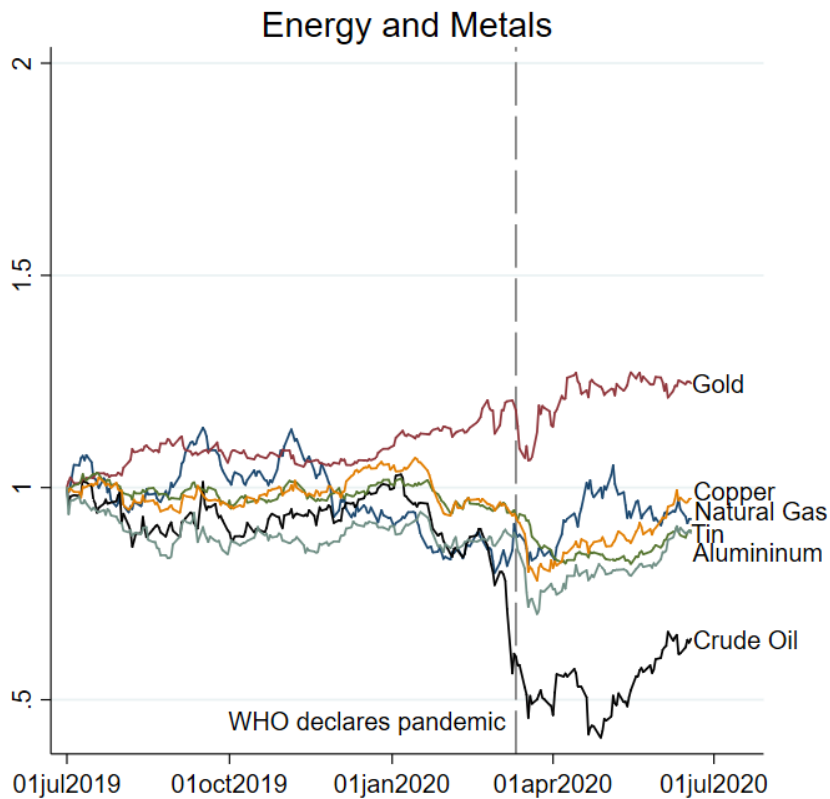
Source: Institute for International Finance. World Bank Commodity Markets Outlook.

Hard Currency Bond Spreads in Emerging Markets (bps)



Source: JP Morgan

Commodity Prices



Source: JP Morgan

Risk Factors for Exposure to External Recession (% of GDP)



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

Source: World Development Indicators

Economic Effects

Short Run

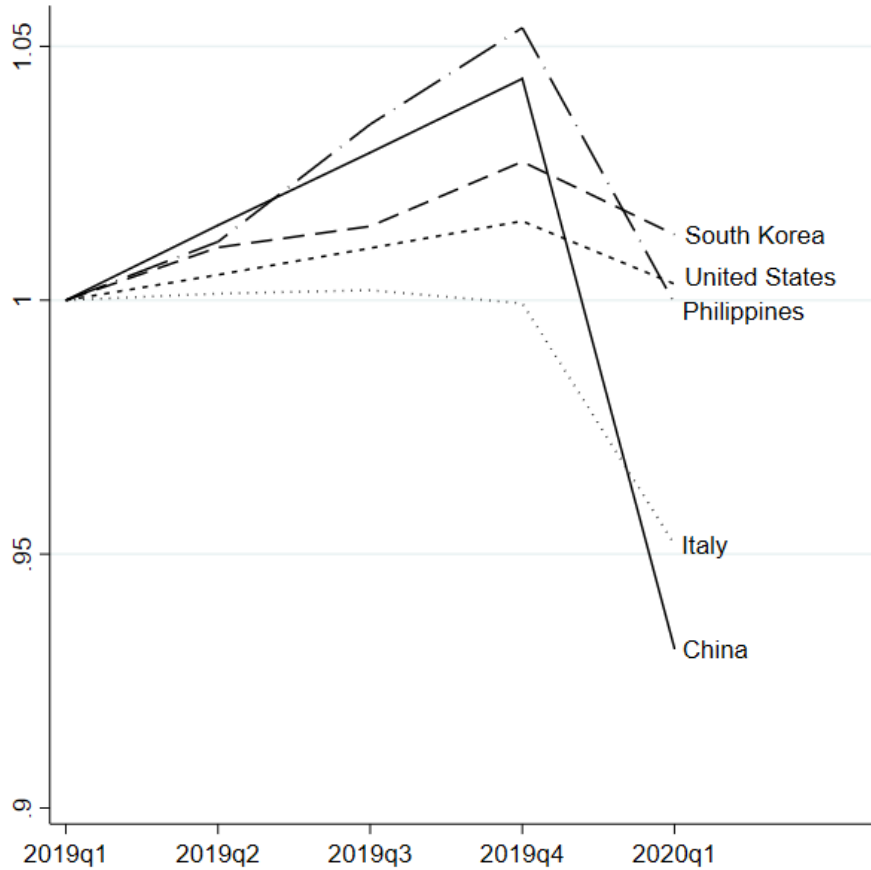
Effects of Own Containment Policies

→ No macro data yet. But phone surveys.

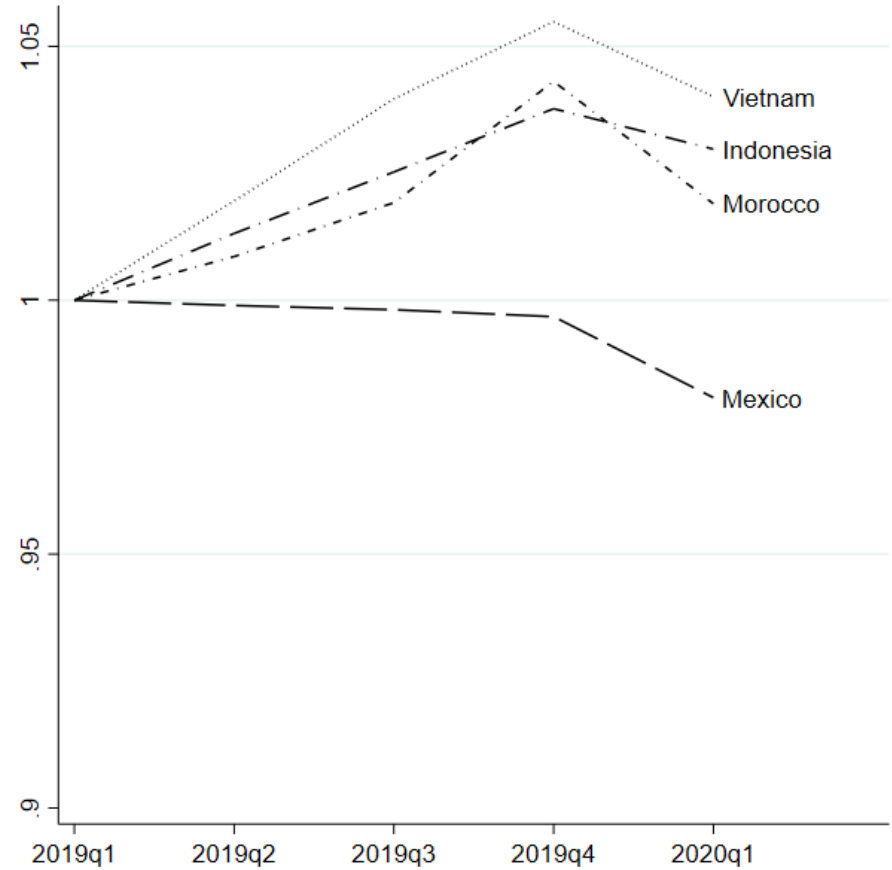
- Large employment and income losses even in countries with few deaths
- Difficulty meeting nutritional needs
- Food insecurity in several countries
- Disruption in education and routine health care
- Increases in domestic violence

Real Gross Domestic Product

Countries with first case before Feb. 15



Countries with first case after Feb. 15



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!