Impact of COVID-19 pandemic and policy responses: some thoughts in moving forward

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Main Messages

• COVID-19 is a truly unprecedented shock, causing severe economic contraction, substantial job losses and considerable increase in poverty and inequalities ... pursuit of SDGs has become even more challenging

• Governments have announced policy packages worth billions of dollars, but this has led to a considerable squeeze in policy/fiscal space ... sustaining policy support in the near-term will not be easy

• To build resilient, inclusive, and sustainable economies, policy packages must prioritize investments in people and planet ... thinking beyond a GDP-centric recovery is critical
South-East Asia region was not on track to achieve the Sustainable Development Goals, even before the COVID-19 pandemic

Snapshot of SDG progress in 2019: South-East Asia

Source: ESCAP, SDG Gateway Asia Pacific (accessed on 23 October 2020).
Covid-19 has resulted in severe economic contraction, leading to additional challenges to achieve the SDGs ...

GDP growth, 1971 – 2020 (forecast)

Developing ESCAP economies

Developed ESCAP economies

Total ESCAP economies

Source: ESCAP.
... with significant downgrades in GDP growth across the region

Downgrade of GDP growth in 2020 for selected countries and country groups

Source: ESCAP (as of 31 July 2020).
... but the impact of Covid-19 is more than just decline in GDP growth ... hundreds of millions of people have experienced job losses ...

**Equivalent number of full-time jobs (48 hours/week)**

- Asia and the Pacific: 200 million in 2020Q1, 220 million in 2020Q2
- Eastern Asia: 70 million in 2020Q1, 80 million in 2020Q2
- South-Eastern Asia and the Pacific: 30 million in 2020Q1, 40 million in 2020Q2
- Southern Asia: 15 million in 2020Q1, 20 million in 2020Q2

**Share of total working hours lost**

- Asia and the Pacific: 15% in 2020Q1, 20% in 2020Q2
- Eastern Asia: 10% in 2020Q1, 15% in 2020Q2
- South-Eastern Asia and the Pacific: 5% in 2020Q1, 10% in 2020Q2
- Southern Asia: 2% in 2020Q1, 5% in 2020Q2

... consequently, several million people could be pushed into poverty

Initial estimates of impact on poverty due to COVID-19

- South Asia
- East Asia & Pacific
- Rest of the world

<table>
<thead>
<tr>
<th>Country</th>
<th>April Projection</th>
<th>June Baseline Projection</th>
<th>June Downside Projection</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Asia</td>
<td>$1.90</td>
<td>$3.20</td>
<td>$5.50</td>
</tr>
<tr>
<td>East Asia &amp; Pacific</td>
<td></td>
<td></td>
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<tr>
<td>Rest of the world</td>
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</tbody>
</table>


Note: According to World Bank’s definition, East Asia & Pacific includes all ESCAP SEA countries and other countries including Australia, China, Hong Kong, Japan, Korea DPR, Macao, Mongolia, New Zealand, Republic of Korea and the Pacific.
However, Covid-19 has given the environment some breathing space ... though this may prove to be temporary.

In terms of policy responses, almost all countries have rolled out significant fiscal packages...

COVID-19 fiscal response (% of GDP) in selected countries and country groups


Note: Left panel - If a country announced a fiscal stimulus package but did not reveal its size, then it is not included in calculating the range and the median.
... aided by supportive monetary and financial measures

Changes in policy rates since the beginning of 2020

Source: ESCAP, based on information available up to 28 August 2020 from IMF Policy Responses to COVID-19, Bank for International Settlements and various national sources.

Supplementary policies to provide liquidity
- Lower RRRs (Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines)
- Interest and principal repayment deferrals (Brunei, Cambodia, Indonesia, Lao PDR, Philippines)
- Supply working capital at lower rate (Brunei, Malaysia)

Targeted financial support for SMEs
- Lower interest rates (Brunei, Cambodia, Indonesia, Lao PDR, Myanmar, Singapore, Thailand, Vietnam)
- Interest and principal repayment deferrals (Brunei, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, Timor-Leste, Viet Nam)
- Expand loan facilities (Brunei, Malaysia, Myanmar, Philippines, Singapore, Thailand, Timor-Leste)
Nevertheless, path to recovery will be difficult ... permanent output losses should be expected ...

Output loss in Asia and the Pacific: GDP levels after the crisis remain below the historic trend

(a) Asia Financial Crisis

(b) Global Financial Crisis

Source: ESCAP, based on World Bank Open Database (accessed on 22 June 2020).
Note: Panel a covers 26 developing Asia-Pacific economies; Panel b covers 44. They are selected based on data availability.
... and policy/fiscal space is likely to remain limited, with fiscal positions deteriorating further.

Fiscal balance (as a share of GDP) in Asia and the Pacific

<table>
<thead>
<tr>
<th>Year</th>
<th>Fiscal Balance (as a share of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>-5.5</td>
</tr>
<tr>
<td>1992</td>
<td>-4.5</td>
</tr>
<tr>
<td>1994</td>
<td>-3.5</td>
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<tr>
<td>1996</td>
<td>-2.5</td>
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<tr>
<td>1998</td>
<td>-1.5</td>
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<tr>
<td>2000</td>
<td>-0.5</td>
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<td>2002</td>
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<td>2004</td>
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<td>2006</td>
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<td>2008</td>
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<td>2010</td>
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<td>2012</td>
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<td>2014</td>
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<td>2016</td>
<td>0.5</td>
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<tr>
<td>2018</td>
<td>0.5</td>
</tr>
<tr>
<td>2020</td>
<td>0.5</td>
</tr>
</tbody>
</table>

Difference of fiscal balance (as a share of GDP) between October 2019 and October 2020 projections

Note: The red bars illustrate three years before and after the crises. The black dotted lines provide average fiscal position during three years before and after the crises. Median is taken to estimate fiscal balance in the region.

Source: IMF, World Economic Outlook Database. (accessed on 23 October 2020).
Looking forward ... Build Forward Better

The short-term: focus on lives

- **Contain the pandemic** and ensure adequate and equal access to medical services
- Plan the **reopening of economies** in a **staggered** manner
- **Introduce sustainability** requirements in the immediate policy responses to COVID-19 (e.g. link mandatory sustainability reporting with financial support for firms)

The medium- to long-term: build resilient, inclusive, and sustainable economies for **People** and the **Planet**

- **Key principle:** put the **2030 Agenda at the center** of the post-COVID recovery efforts, rather than just a GDP growth-centric rebound
Example 1 - People: Use more redistributive policies, such as progressive taxation, to support vulnerable groups

Gini coefficient (of disposable income) and relative redistribution in 2017

Source: The Standardized World Income Inequality Database (accessed on 4 August 2020).
Note: Gini coefficient (of disposable income) reflects post-tax and post-transfer inequality. Relative redistribution is the percentage reduction in inequality due to taxes and transfers. The dotted line is a fitted one.
Example 2 - People: Invest in social protection and public health emergency preparedness

Public spending on social protection, as a share of GDP

Additional annual investment to provide basic human rights and build human capacities

- Universal access to quality education
- Universal health coverage
- Agricultural productivity
- Nutrition-specific interventions
- Social protection floor
- Targeted cash transfer

Example 3 - Planet: increase public investments in green sectors to create jobs

Public money commitments to fossil fuels, clean and other energy in recovery packages (as of 2 September 2020)


Note: Asia-Pacific countries are in green boxes.

Example 4 - Planet: eliminate fossil fuel subsidies and introduce carbon pricing

Fossil fuel subsidies and fiscal stimulus to cope with COVID-19


Source: ESCAP, based on IMF (2019)
Example 5 - Planet: encourage investments in ESG conscious businesses

Environment
- Water and pollution
- Resource depletion
- Greenhouse gas emission
- Deforestation
- Climate change

Social
- Employee relations and diversity
- Working conditions, including child labour and slavery
- Local communities; seek explicitly to fund projects or institutions that will serve poor and underserved communities globally
- Health and safety
- Conflict

Governance
- Tax strategy
- Executive remuneration
- Donations and political lobbying
- Corruption and bribery
- Board diversity and structure
How is ESCAP supporting member States to Build Forward Better

• Monitoring policy announcements to cope with COVID-19
• Providing knowledge products to assess the impact of COVID-19 and advise policymaking
• Organizing high-level regional policy dialogues
• Training government officials to use technical tools for policymaking
• Working with regional networks to support transition towards sustainable development
Key Takeaways

• COVID-19 is threatening people’s lives and livelihoods as never before … policy support must continue

• COVID-19 offers an opportunity to rethink and transform the development pathways … invest in people and planet

• Several policy tools are available to build resilient, inclusive and sustainable economies … put the 2030 Agenda at the center