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# The coronavirus pandemic: economic and social impacts and responses.

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# Content

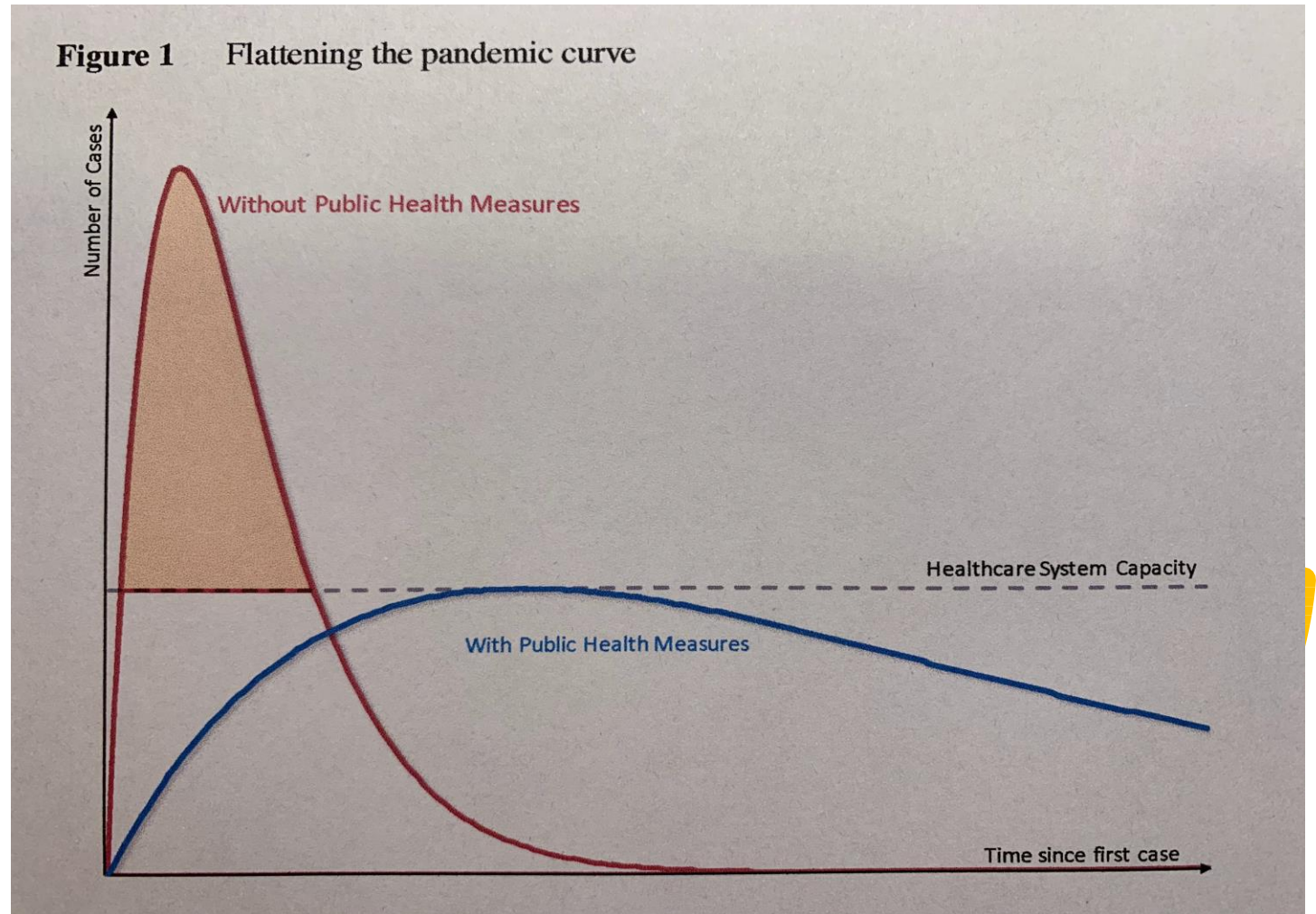
- I. Current situation: The extent of the COVID-19 pandemic**
- II. Health measures and their economic impacts**
- III. This time is different... to 2008. What kind of shock is this?**
- IV. Policy responses: questions and issues**

# I. Current situation: extent of the pandemic

- Yesterday (Tuesday 24th) we had nearly 410.000 cases of contagion in 195 countries and territories, with more than 18.000 people dead. And this continues growing exponentially in a number of countries.
- Many countries are in the acceleration phase of the contagion.
- From having the epicenter in China, the virus moved rapidly to Italy and all of Europe, which is now the epicenter.
- Everything indicates that the next epicenter is going to be the United States, where the contagion curve is becoming steeply exponential.
- The spread of the virus to Latin America and Africa is coming with a few weeks delay, but it is coming.
- There is much discussion of the economic responses in developed countries, but not enough in developing countries.

## II. Health Measures and their economic impacts

Flattening the curve of contagion is necessary to reduce cases and also to prevent the health care system from being overwhelmed



Source: Pierre-Olivier Gourichas, UC Berkeley

## II. Health Measures and their economic impacts

- The Health Measures “Package” (HMP) to “flatten the curve” consists of:
  - Social distancing
  - Closing schools and universities
  - Posponing or cancelling all types of events (artistic, sports, etc)
  - Massive testing and tracking of contagion
- This “package” makes a huge difference for contagion, but also, by restricting human activity (lockdown), has huge economic costs:
  - Never before was so much of the population been told to stop working, stop travelling, stop spending, all over the world
  - A “sudden stop” in economic activity
  - A near shutdown of the economy and some sectors in particular.
  - Recession and unemployment
- Even if the lockdown lasts no more than one or two months, serious contractions of GDP growth are likely in 2020 in many countries.

## II. Health Measures and their economic impacts

- The HMP has initial impacts but also subsequent feedback loops and amplification effects:
  - Reduction in sales
  - Supply chain disruptions
  - Lay-offs
  - Cash flow problems and bankruptcies
  - Sectorial impacts: Airlines, Tourism
  - Strong impacts on certain occupations: Domestic Workers
  - 2nd order effects: Non-performing loans in the banking system, fiscal deficits, int'l debt levels
- While the initial shock is impossible to avoid, the amplification effects and feedback loops can be addressed by fiscal, monetary, employment protection, income support and other measures.
- This is important to preclude the economic damages to become structural



### III. This time is different...

Four differences with  
2008-09

What kind of shock is this?

- 1) The 2008-09 crisis was initially a financial crisis, that then impacted the real economy. This pandemic is a supply shock affecting directly the real economy, production, supply chains. It is also a demand shock for certain sectors, particularly services (airlines, hotels, tourism, restaurants, etc).
- 2) The 2008-09 crisis was a crisis of the North Atlantic. It did not affect China too strongly. And thanks to Asian dynamism, Latin America and Africa had strong external demand for minerals and raw materials (Positive China effect). The Coronavirus crisis is global, no exceptions, and hypersynchronized.
- 3) This time the impacts and disruptions on int'l flows of goods, services and people are much higher than in 2009. This is a massive process of de-globalization. Nothing like this happened in 2008-09.
- 4) In 2008-09 there was a lot of int'l coordination and collaboration, not this time. G7 and G20 are relatively passive. Multilateral Agencies have mobilized some resources, but much more can and must be done.

This means that while there are many lessons from the 2008-09 crisis that are relevant today, and useful instruments that could be deployed (eg from the **ILO Global Jobs Pact**) there is a need and space to think afresh and innovate.



## IV. Policy responses: questions and issues

The range of policy instruments includes:

- Monetary policy
- Fiscal policy
- Employment support measures for enterprises and workers
- Enterprise specific support
- Worker specific support
- Social policies and transfers (very important for countries with large informal sectors and vulnerable populations).



Heterogeneous  
impacts/shocks  
by country  
depend on...

- The extent of reduction in access to foreign income, various channels:
  - Reduction in commodity prices:
    - some countries rely on very few commodities,
    - commodity exporters vs commodity importers,
    - oil price decline: bad news for exporters, good news for importers
  - Collapse in tourism: some countries highly reliant. Huge shock.
  - Expected collapse in remittances: some countries highly dependent
- The extent of potential reduction/collapse in access to capital markets

# Heterogeneous impacts and responses: Key questions

- Latin America and Africa are “lucky” to be a few weeks behind Europe and Asia in the global spread of the virus. This time should not be wasted, time has to be used wisely to anticipate for impacts and prepare responses. (Chang and Velasco).
- Some governments in Latin America are in denial and postponing preparations. This is criminal.
- In terms of the medical response:
  - Do countries have sufficient testing kits, respirators, hospital beds, doctors, nurses, etc? All this should be prepared.
- In terms of the economic response, key issues:
  - The Fiscal policy response is essential, but: what to do in countries with no fiscal space?
  - For how long to sustain the social distancing and lock-down? A lockdown is not an economically sustainable situation.
  - How can the cost of the lockdown be lowered?
  - And how should it be shared? (Social Justice issues).
  - Role of social dialogue and negotiations.

# Support measures for enterprises

- Temporary deferrals or permanent reductions in certain taxes
- Temporary deferrals or permanent reductions in payroll and social security contributions
- Flexibilization of employment contracts to allow temporary reduction of work schedules and corresponding reduction in payrolls, without firing workers (work sharing). Employment protection measure.
- Additional credit lines to allow commercial banks to restructure debts
- Sectoral support packages for drastically affected sectors: airlines, tourism, hotels, etc.
- Question of balanced supports for large, medium and small enterprises
- Question of what to do with informal sector operators.

A large, textured orange watercolor splash on the left side of the slide, with various shades of orange and red, and some darker spots. The text is overlaid on this splash.

## Support measures for workers

- Work sharing schemes to avoid lay-offs
- Temporary wage subsidies
- Teleworking
- Unemployment benefits



# Support measures for households

- Impacts: medical expenses, parents that cannot go to work because of the crisis and school closings, loss of income because of quarantine, etc.
- Measures:
  - A variety of Social transfer schemes for most vulnerable groups (extremely poor and poor, single parent households, elderly, disabled)
  - Subsidies for medical expenditures

# Fiscal policy

- A powerful instrument to alleviate impacts
- Not just to stimulate aggregate demand
  - remember this is a supply shock/income shock, but ...
  - to provide targeted support to enterprises, workers, households and vulnerable groups for immediate needs (next 2-3 months).
  - This seems to be the key role of fiscal policy this time.
- Size of fiscal packages varies widely: Hong Kong 4% GDP; China 2%; Italy, Spain, UK 1.5-2%. Costa Rica 3%. US: 5%

# Fiscal policy, main measures

- Temporary Deferral in tax payments to ease cash flow problems of companies
- Temporary deferrals or subsidies for social security payments
- Funds and special measures for emergency credits, or for credit restructuring operations by commercial banks, or for loan guarantees.
- Income support measures for workers, households and other groups



# Fiscal policy restrictions and risks

- Increase in fiscal deficits, both because of additional expenditures and decline in tax revenues
- Increase in debt levels: in countries with high debt levels this could trigger downgrades by rating agencies and increase the cost of international borrowing, a vicious circle
- Higher interest rates due to government pressures in financial systems
- International financial markets might shutdown in general or for certain countries
- Key Question: how to scale up the necessary support without turning the COVID-19 crisis into a debt sustainability crisis?
- In fiscally restricted countries fiscal policy cannot play a full role.
- Lack of fiscal space might cost lives and economic destruction.
- Use of fiscal space must be prioritized very carefully (health system, livelihoods, enterprise survival, support to workers and social transfers)

# Thank you!



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