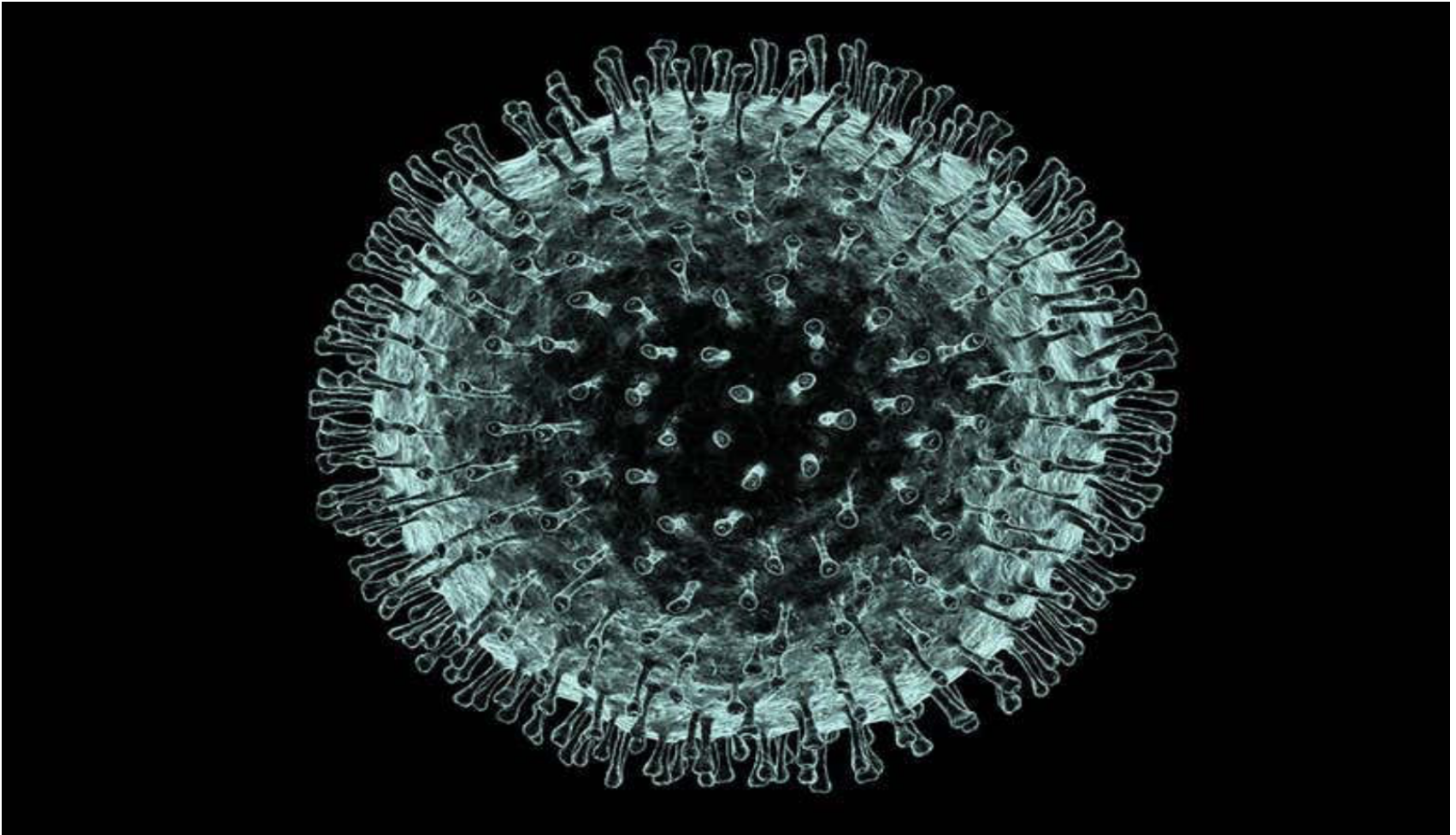


The economic impacts of Covid-19 in emerging markets



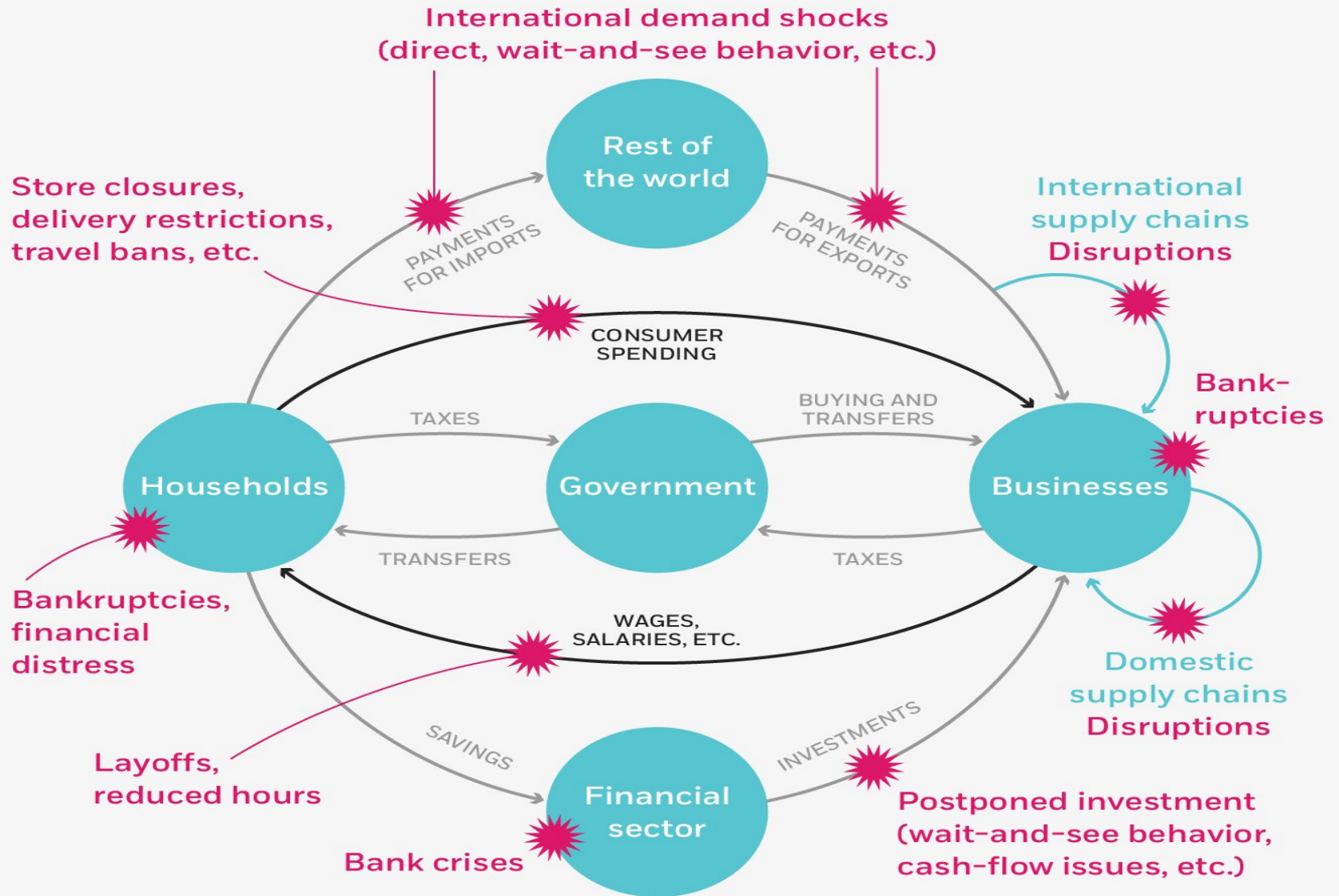
Germán Ríos
Senior Analyst
Omninvest

Table of contents

- The global economy
- Emerging markets
- We are we now?
- The three shocks
- Macroeconomic policy responses
- The international community

The global economy

Where the COVID-19 crisis is striking the system



Disruptions in global production chains

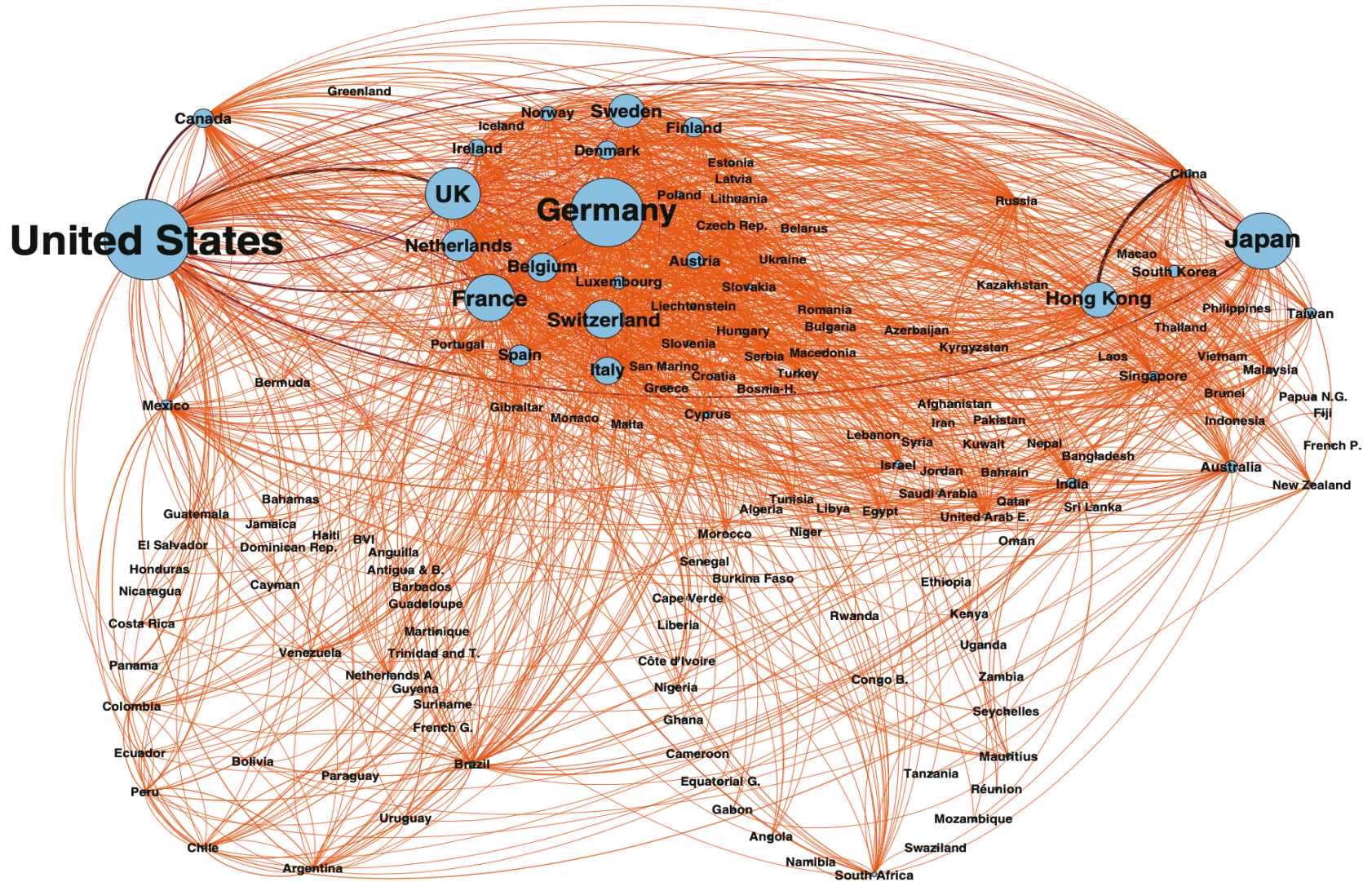
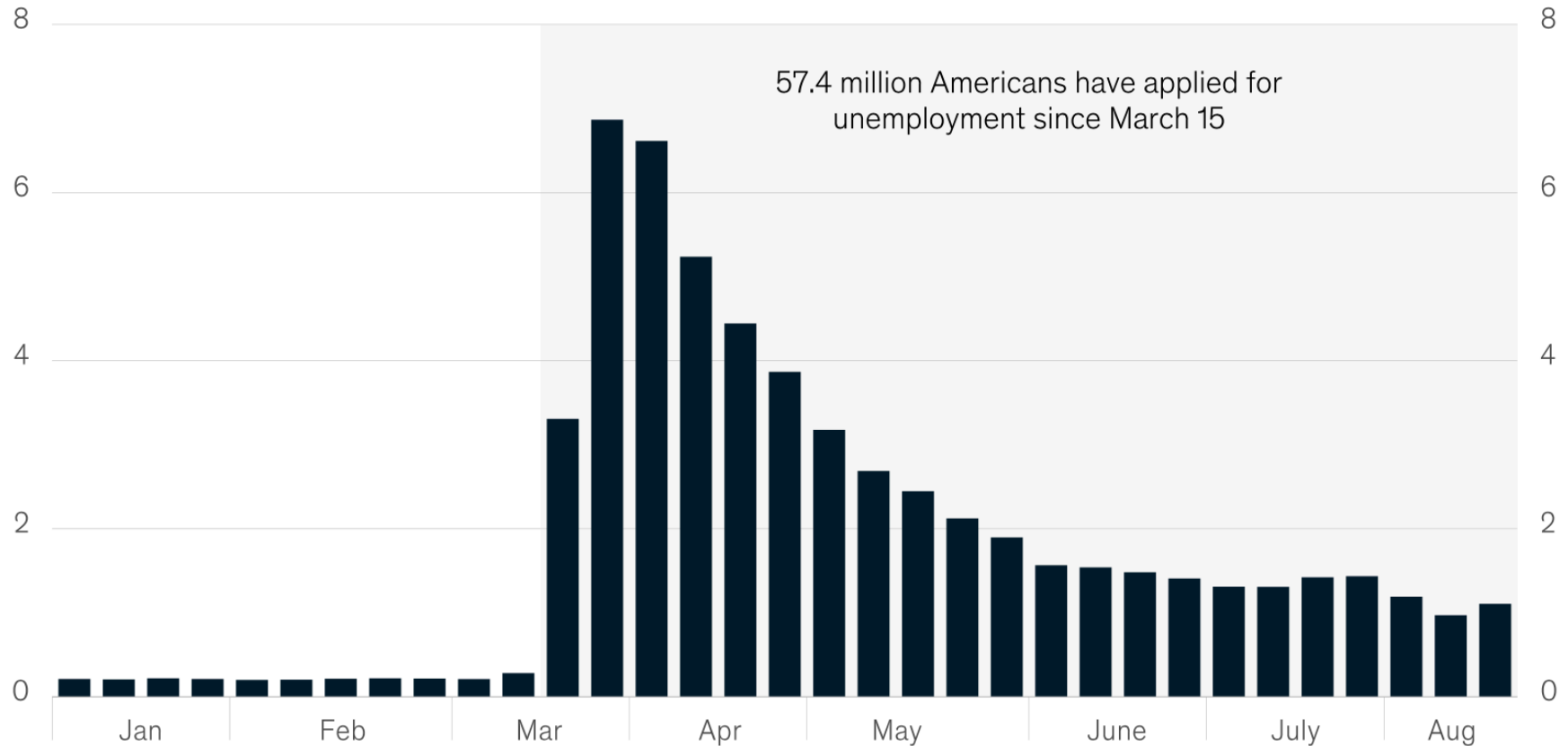


Fig. 2.9 Vertically linked foreign subsidiaries and their parents. *Source:* Authors' calculations based on data from Dun & Bradstreet

Historic surge in US unemployment benefits

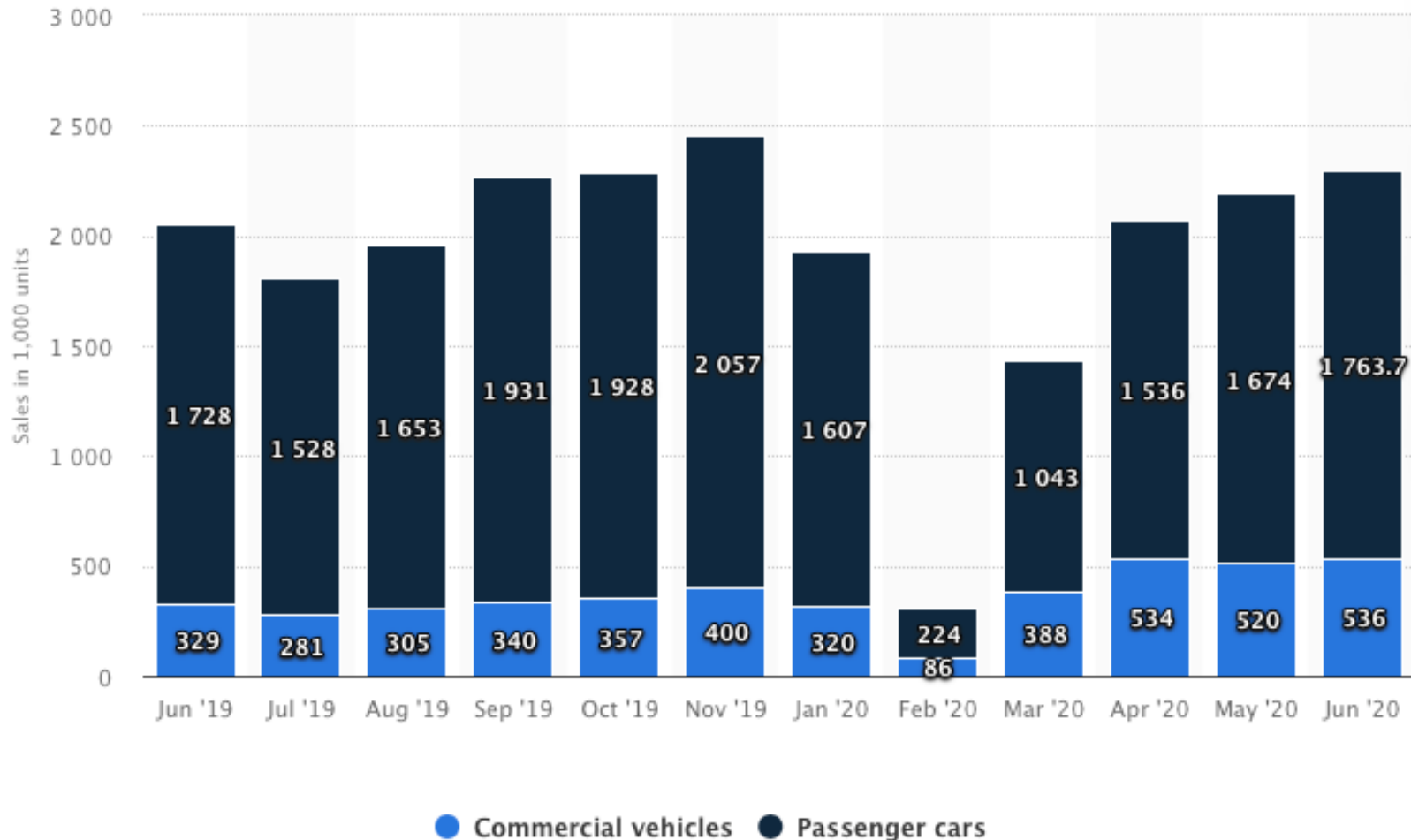
Weekly initial unemployment claims, 2020, millions



Source: *Unemployment insurance weekly claims*, US Department of Labor, August 20, 2020, [dol.gov](https://www.dol.gov)

Car sales in China have fallen sharply

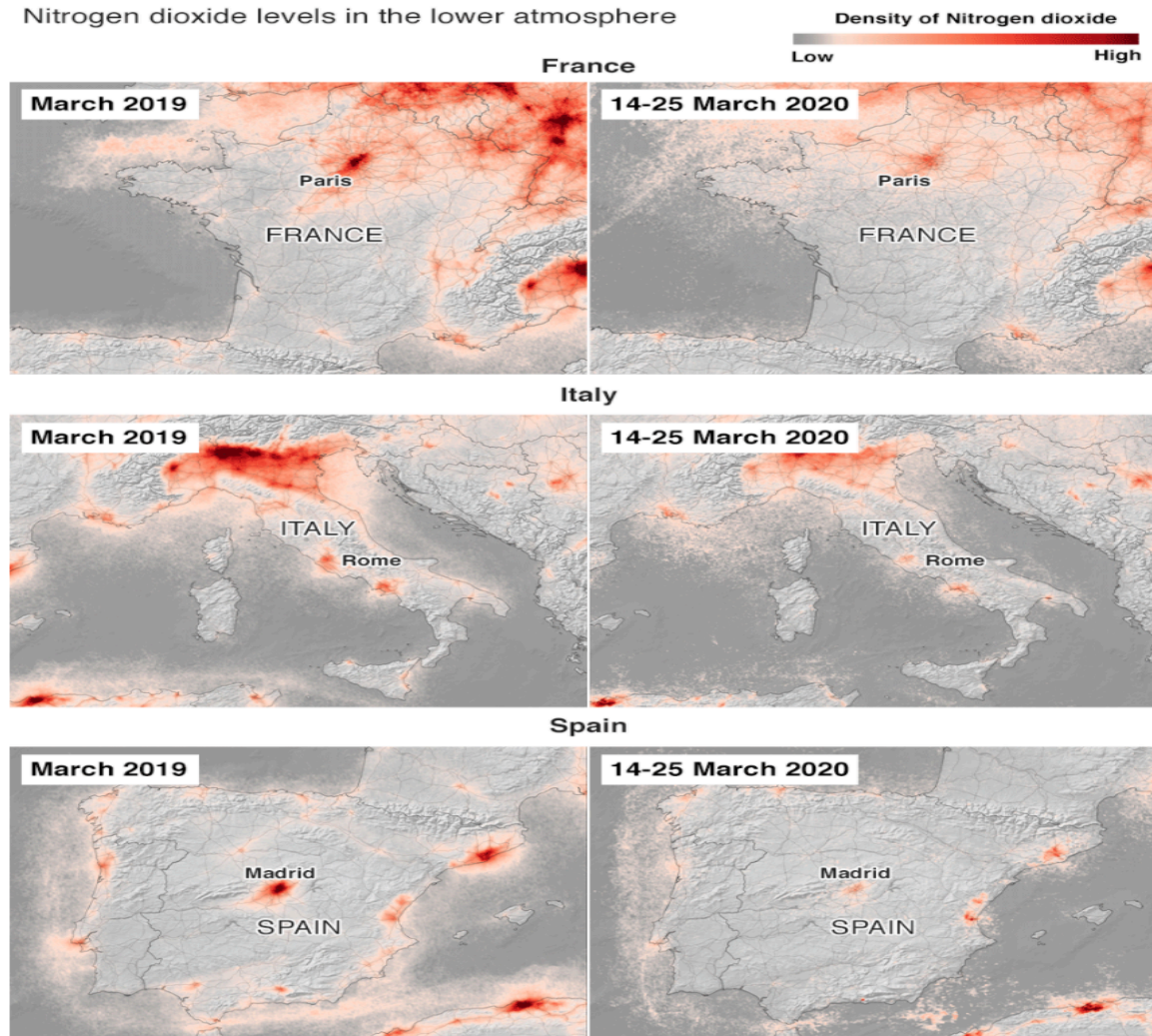
Monthly automobile sales (in 1,000 units)



A piece of good news: less pollution, but it will be temporal

Satellite images show pollution clear amid lockdown

Nitrogen dioxide levels in the lower atmosphere



Source: ESA/Copernicus, 27 March 2020

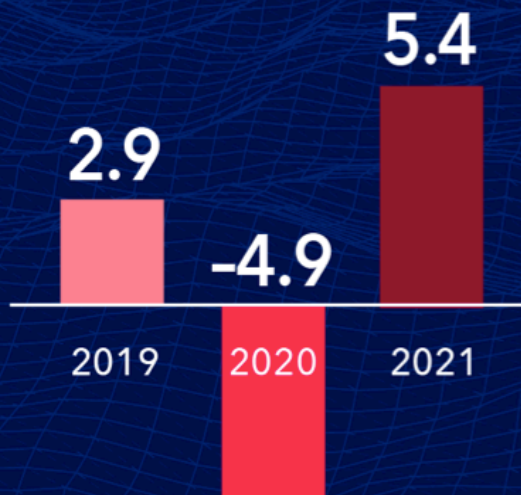
BBC

WORLD ECONOMIC OUTLOOK UPDATE JUNE 2020

GROWTH PROJECTIONS

A Crisis Like No Other, An Uncertain Recovery

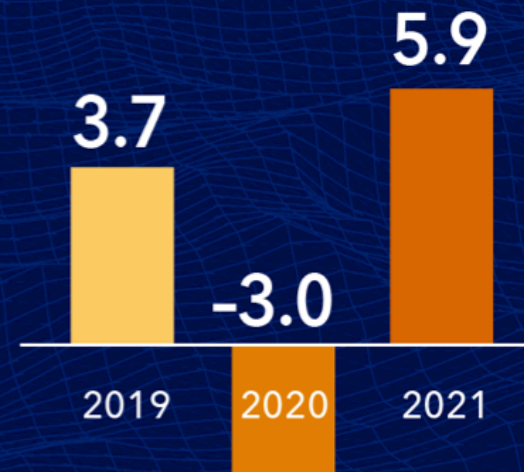
GLOBAL ECONOMY



ADVANCED ECONOMIES



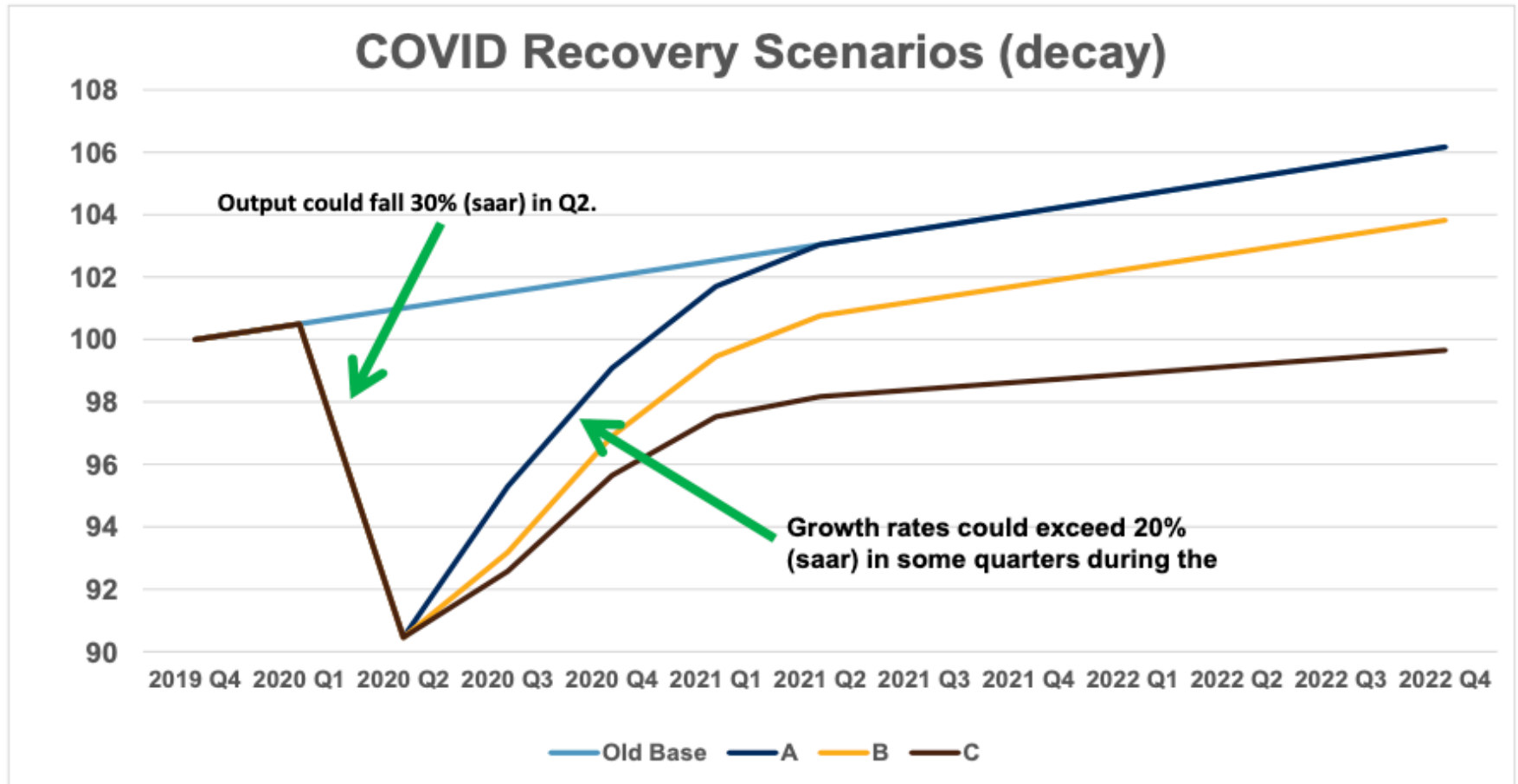
EMERGING MARKETS & DEVELOPING ECONOMIES



The global economic outlook has been shifting at lightning speed

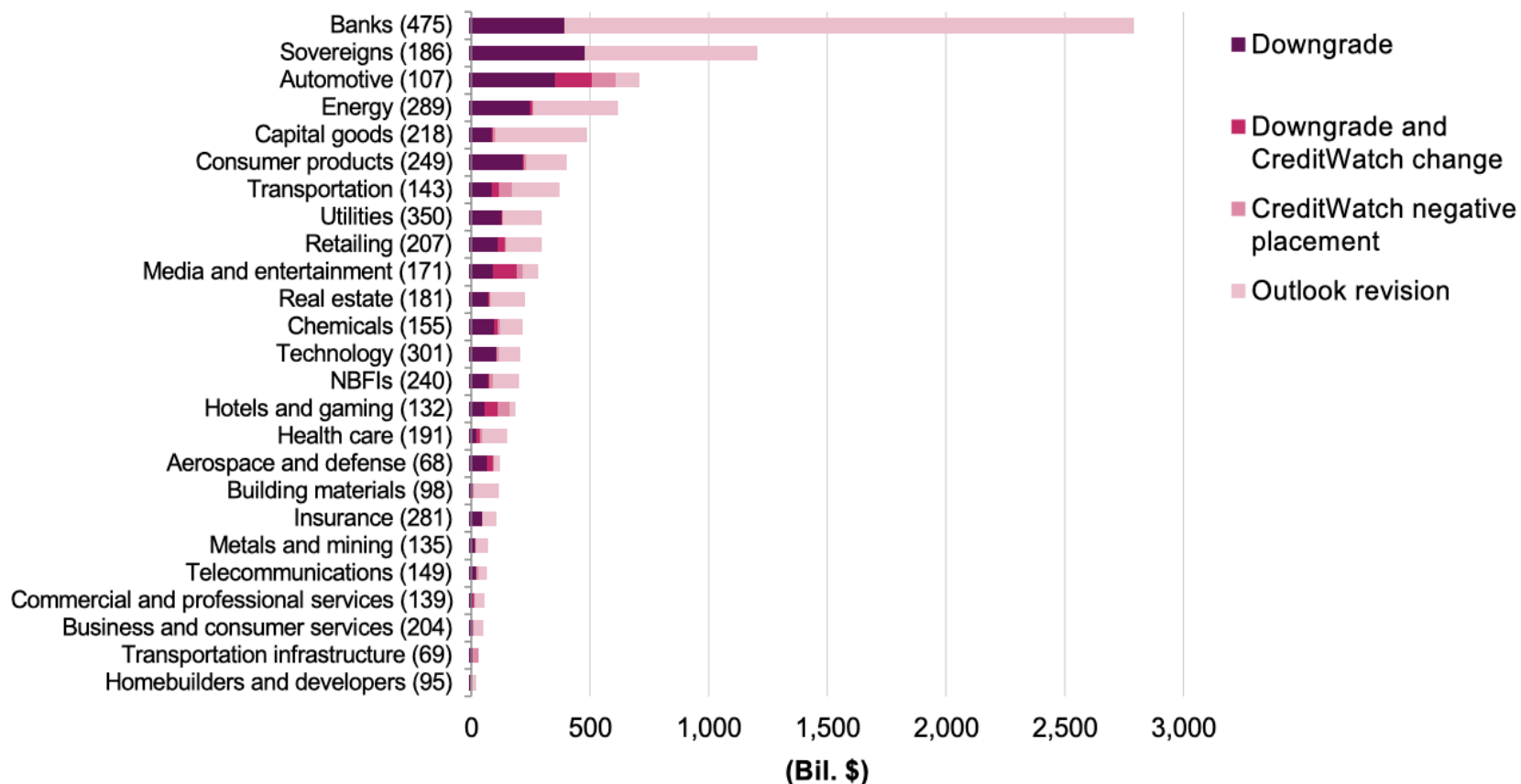
The COVID Recovery: Fasten Seat Belts!

- A. Demand-only shock, B. Level shock (dot com), C. Lower, slower (GFC)



Many negative credit actions have been taken by credit rating agencies due to COVID-19

Sector Breakdown Of Corporate And Sovereign Debt Amount Affected By COVID-19 And Oil Prices



Numbers in parentheses signify the number of rating actions in that sector (including downgrades, negative outlook revisions, and negative CreditWatch placements). NBFIs--Nonbank financial institutions.

Downgrades are tracked from Feb. 3 through Sept. 7. Source: S&P Global Ratings Research.

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The global economy

- Very difficult to forecast economic growth under these circumstances: it has become a moving target.
- However, beyond the specific numbers, we are facing a global recession that hopefully will be short-lived.
- Measures to mitigate the economic impact of COVID-19 are unprecedented.
- Traditional macroeconomics (principally Keynesian) is not effective in these circumstances
- Services are taking the biggest hit, with manufacturing less affected.
- Policymakers in developed economies have acted quickly, learning for the experience of the Global Financial Crisis, however many policy interventions will eventually need to be reversed.
- Focus is shifting to recovery after the end of the lockdowns.

Emerging markets

Emerging markets hit hard by Covid-19...

COVID-19 Dashboard by the Center for Systems Science and Engineering (CSSE) at Johns Hopkins University (JHU)

Global Cases

28,200,037

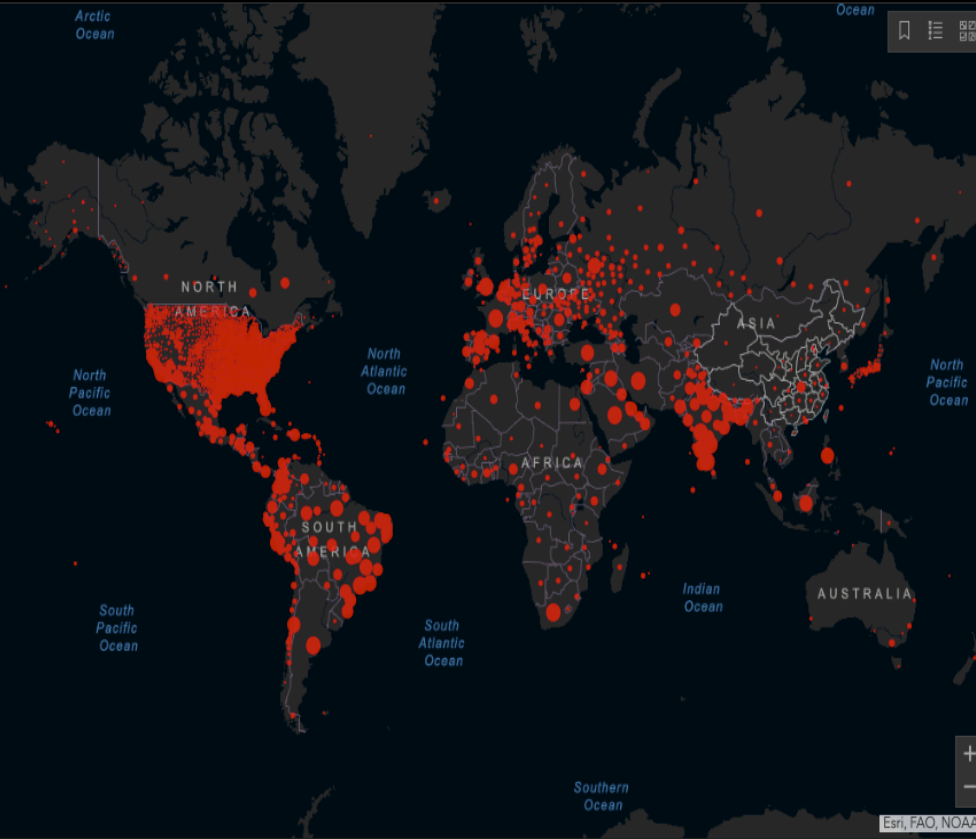
Cases by Country/Region/Sovereignty

- 6,397,547 US
- 4,562,414 India
- 4,238,446 Brazil
- 1,048,257 Russia
- 710,067 Peru
- 694,664 Colombia
- 652,364 Mexico
- 644,438 South Africa
- 554,143 Spain
- 524,198 Argentina
- 428,669 Chile
- 397,801 Iran
- 392,243 France
- 360,544 United Kingdom
- 334,762 Bangladesh
- 323,720 Saudi Arabia
- 300,371 Pakistan
- 286,455 Turkey

Admin0 Admin1 Admin2

Last Updated at (M/D/YYYY)

9/11/2020 12:28 p.m.



Cumulative Cases Active Cases Incidence Rate Case-Fatality Ratio Testing Rate

188

countries/region:

Lancet Inf Dis Article: [Here](#). Mobile Version: [Here](#). Data sources: [Full list](#). Downloadable database: [GitHub](#), [Feature Layer](#).
 Lead by JHU CSSE. Technical Support: [Esri Living Atlas team](#) and [JHU APL](#). Financial Support: [JHU](#), [NSF](#), [Bloomberg Philanthropies](#) and [Stavros Niarchos Foundation](#). Resource support: [Slack](#), [Github](#) and [AWS](#). Click [here](#) to **donate** to the CSSE dashboard team, and other JHU COVID-19 Research Efforts. [FAQ](#). Read more in this [blog](#). [Contact US](#).

Cases and Death counts include confirmed and probable (where reported).

Global Deaths

910,134

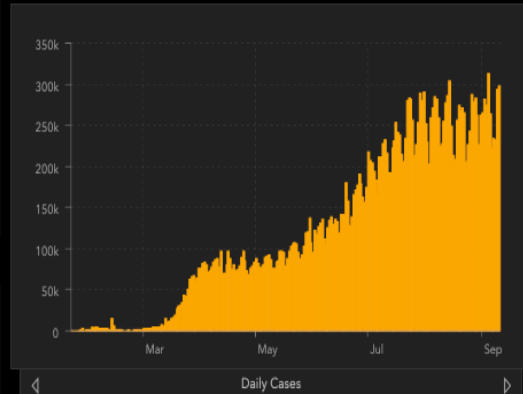
- 191,802 deaths US
- 129,522 deaths Brazil
- 76,271 deaths India
- 69,649 deaths Mexico
- 41,697 deaths United Kingdom
- 35,587 deaths Italy
- 30,819 deaths France
- 30,344 deaths Peru

Global Deaths Global Recovered

US State Level Deaths, Recovered

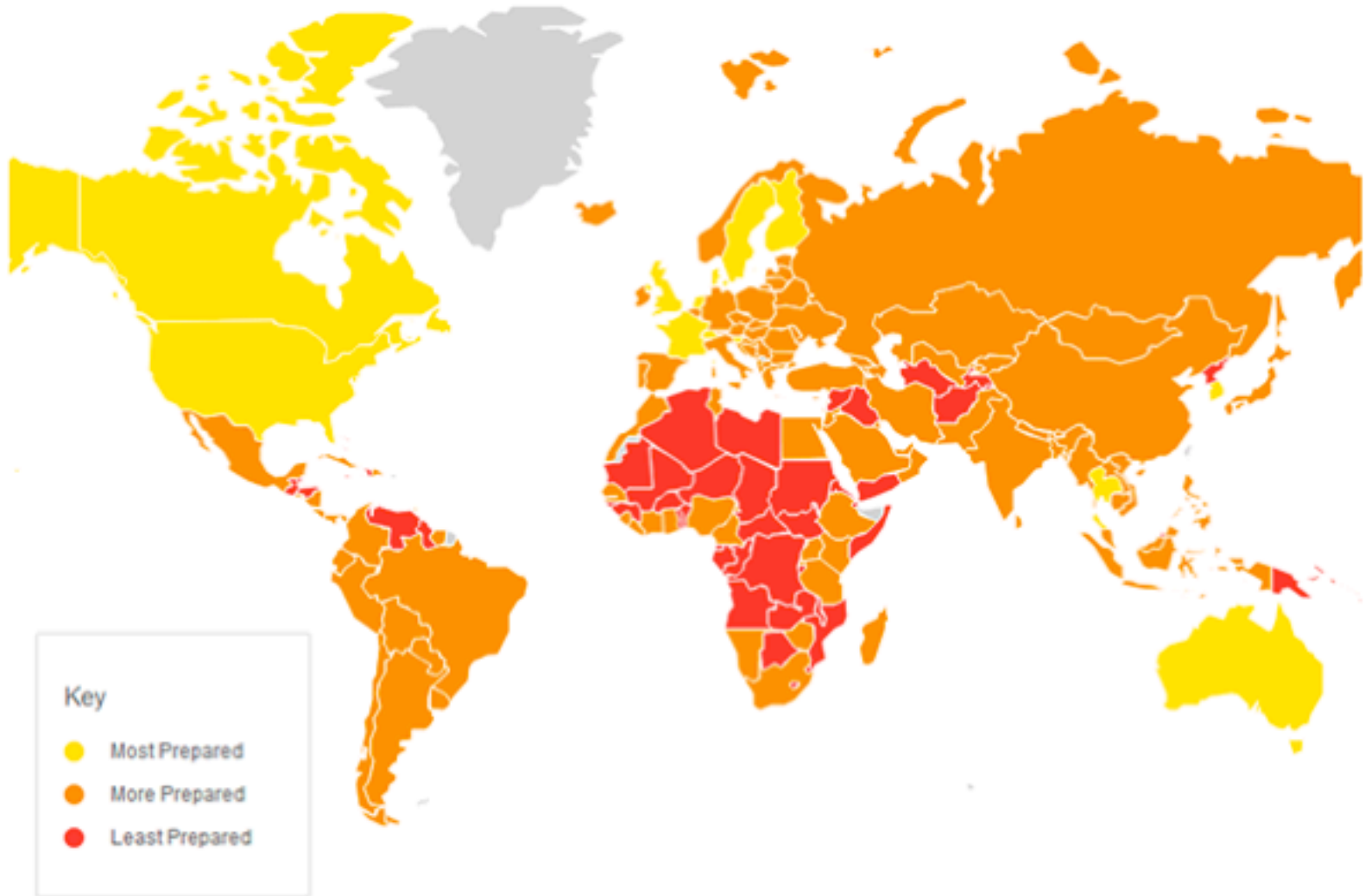
- 33,019 deaths, **75,584 recovered** New York US
- 16,014 deaths, **34,290 recovered** New Jersey US
- 14,099 deaths, **recovered** California US
- 13,930 deaths, **564,114 recovered** Texas US
- 12,326 deaths, **recovered** Florida US
- 9,166 deaths, **107,501 recovered** Massachusetts US
- 8,461 deaths, **recovered** Illinois US
- 7,807 deaths, **116,339 recovered** Pennsylvania US

US Deaths, Recovered



Daily Cases

...and many are not well prepared



Countries best and least prepared for an epidemic: capability to respond to an epidemic or pandemic in 2019. Source: Global Health Security Index

Capital outflows put pressure on exchange rates

Exchange rate market pressures in major Emerging Market Economies

Exchange rates adjusted to a larger extent, reserves were used sparingly.

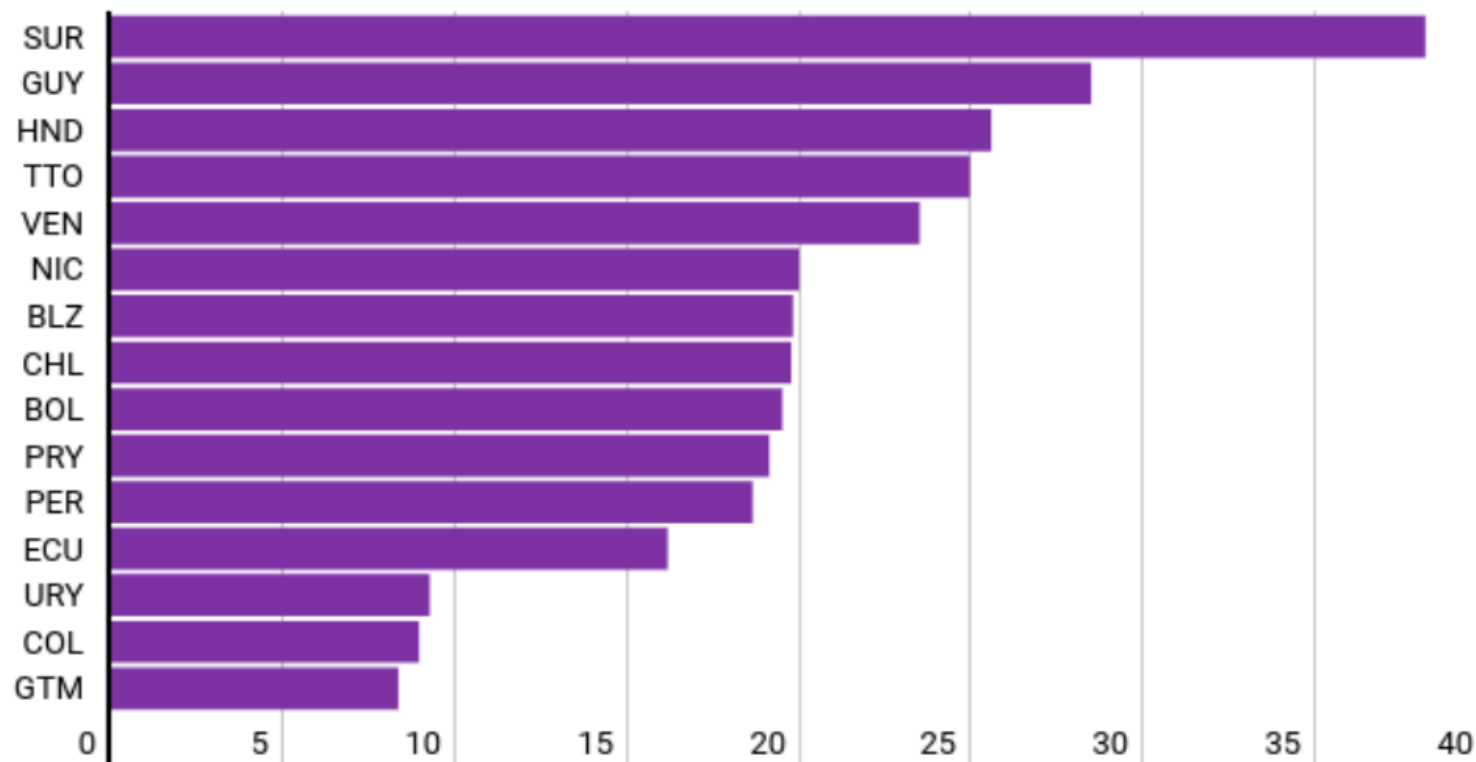


Sources: The IMF's International Financial Statistics database and IMF staff calculations.

Note: Major Emerging Markets Economies include the 20 largest Emerging Market Economies measured by GDP: China, India, Russia, Brazil, Indonesia, Mexico, Turkey, Poland, Thailand, Argentina, The Philippines, Egypt, Vietnam, Malaysia, South Africa, Colombia, Romania, Chile, Peru, and Kazakhstan. All periods are peak to trough. GFC (August 2008-March 2009), Taper Tantrum (May 2013- February 2014), 2019 selloff (April 2018-October 2018), Covid19 (January 2020-April 2022).

In many EM, there is high dependency on commodity exports, which were hit hard

(Commodity exports, percent of GDP)

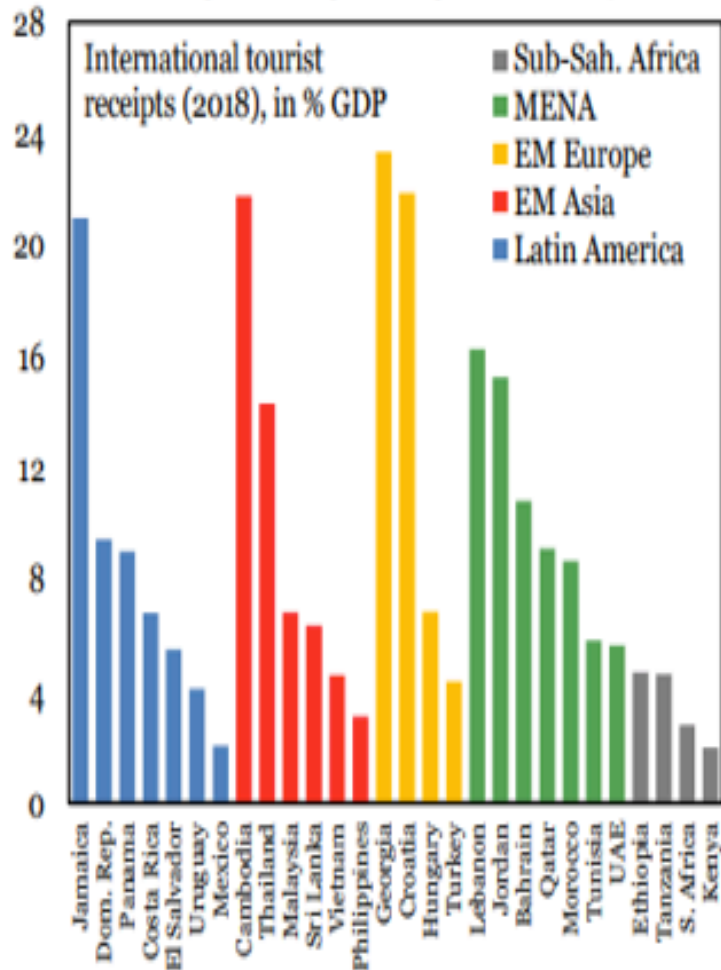


Source: World Bank. World Development Indicators database and IMF staff calculations.

Note: Latest available data. Includes food, fuel, and ores and metals exports. Country abbreviations refer to the International Organization for Standardization code.

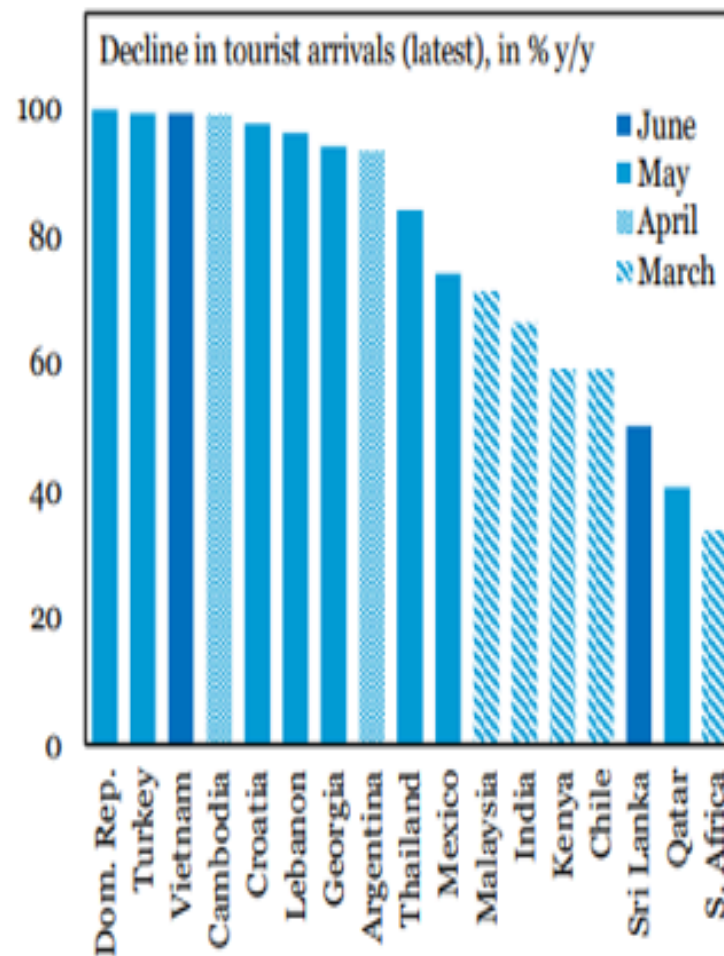
Tourism is very important in many EM...

Exhibit 1. Many EMs rely heavily on tourism, ...



Source: Haver, IIF

Exhibit 2. ... but international arrivals have collapsed.



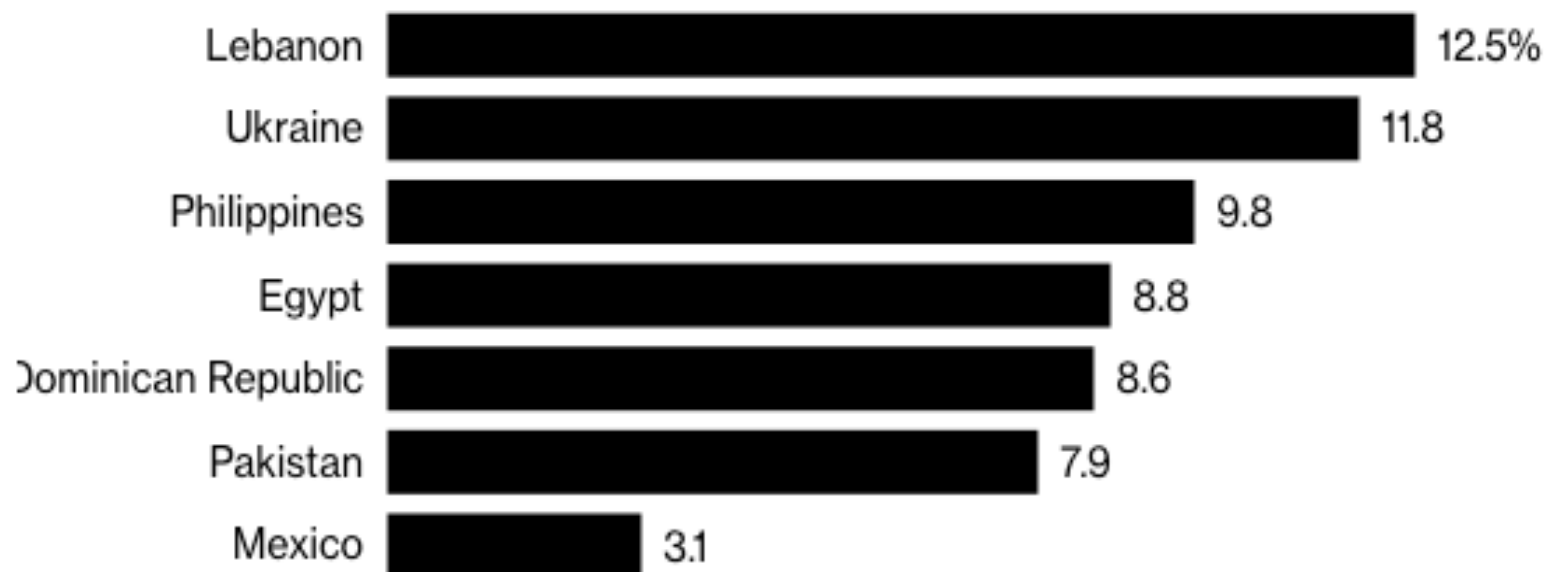
Source: Haver, IIF

...as well as remittances

Sending Money Home

Emerging markets that rely on remittances could face an extra blow

■ Share of GDP from remittances in 2019



Source: World Bank. Shows selected emerging markets with higher shares of remittances

Coronavirus Heat Map

Country	Containment response	Health security	Disruption to domestic activity	Commodity dependence	Informality	Forecast fiscal stimulus	Public indebtedness
Argentina	2	3	4	3	4	2	5
Bolivia	2	4	3	5	5	5	4
Brazil	4	3	5	3	3	3	5
Chile	1	3	4	5	2	1	2
Colombia	2	4	4	4	4	3	4
Costa Rica	2	4	5	3	3	4	5
Cuba	2	4	5	1	1	4	4
Dominican Republic	2	4	4	3	4	4	4
Ecuador	2	4	4	4	5	5	4
El Salvador	2	4	5	3	5	2	5
Guatemala	2	4	5	4	5	5	3
Honduras	2	5	4	4	5	5	4
Jamaica	2	5	4	4	3	2	5
Mexico	4	3	5	3	5	2	4
Nicaragua	5	4	4	5	5	5	4
Panama	3	4	5	3	4	4	4
Paraguay	2	4	3	5	5	4	2
Peru	1	4	4	4	4	2	2
Uruguay	3	4	5	4	2	3	5
Venezuela	3	5	4	5	5	5	5

Containment response: A qualitative assessment by EIU analysts of the strictness of social distancing protocols, enforcement of border controls and measures taken to increase the testing rate.

Health security: Considers countries' capabilities to respond to epidemics and pandemics, as measured by the Global Health Security Index.

Disruption to domestic activity: Uses the contribution of services to GDP to assess the extent to which quarantine measures affect aggregate output.

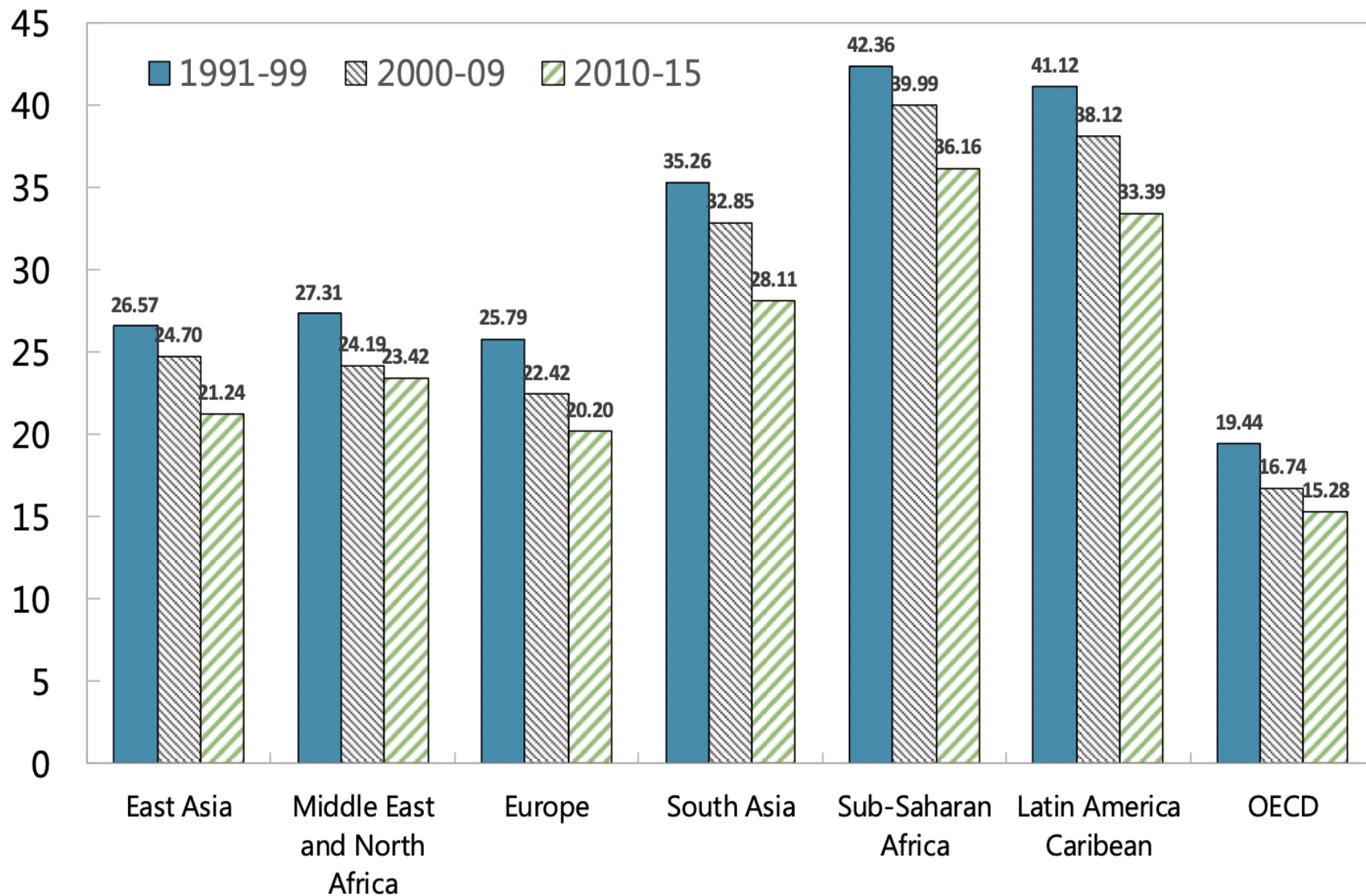
Informality: Uses proportion of informal employment to assess labour market vulnerability to economic shocks.

Forecast fiscal stimulus: Considers the magnitude of fiscal stimulus, as a percentage of GDP, deployed to minimise economic damage.

Public indebtedness: Uses the public debt/GDP ratio as a proxy for available fiscal space.

Commodity dependence: Uses the commodity exports/GDP ratio to assess countries' exposure to external demand shocks.

Figure 3.4 Shadow Economy by Region (average, percent of GDP)

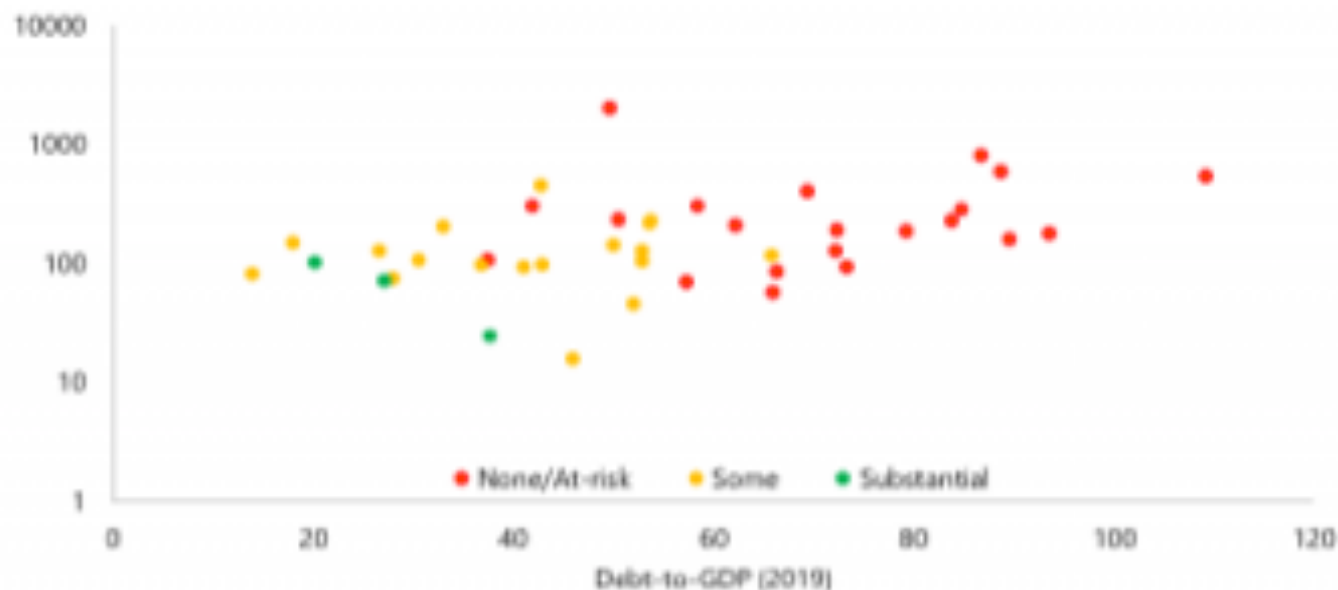


Source: IMF

A worrisome lack of fiscal space

One-third of Emerging Market Economies have limited or no room for fiscal policy to counter a prolonged crisis.

(EMBI bps in log scale; percent)



Sources: Bloomberg; WED live; VE database; and IMF staff calculations.

Note: EMBI changes account for the period 1/1/2020 - 7/10/2020. Colors of dots represent fiscal space assessments. Fiscal space is defined as the room for undertaking discretionary fiscal policy relative to existing plans without endangering market access and debt sustainability.

Ratings agencies are punishing Emerging Markets (EM) credits

Country	Current	Implied Change vs. last	Implied Rating	Ratings			5-Yr CDS (bp)	to US (bp)	
	Score			S&P	Moody's	Fitch		*to 5-Yr German (bp)	
Korea	21.9	4.4	A+	AA	Aa2	AA-	37		72
Taiwan	22.9	3.1	A+	AA-	Aa3	AA-			
UAE	27.0	5.0	A-	NR	Aa2	NR			
Saudi Arabia	28.4	5.3	A-	A-	A1	A	64		239
China	29.8	5.0	A-	A+	A1	A+	50		82
Czech Rep.	31.4	-0.4	BBB+	AA-	Aa3	AA-	44		53 *
Thailand	34.3	6.5	BBB	BBB+	Baa1	BBB+	71		
Indonesia	36.5	5.0	BBB	BBB	Baa2	BBB	224		267
India	36.8	0.8	BBB-	BBB-	Baa2	BBB-	200		
Peru	37.0	3.1	BBB-	BBB+	A3	BBB+	119		195
Chile	38.9	4.4	BBB-	A+	A1	A	117		165
Russia	39.3	5.0	BBB-	BBB-	Baa3	BBB	180		246
Mexico	40.0	5.6	BB+	BBB	Baa1	BBB-	286		323
Poland	40.1	5.6	BB+	A-	A2	A-	68		95 *
Hungary	40.4	5.6	BB+	BBB	Baa3	BBB	85		162 *
Colombia	45.8	4.8	BB	BBB-	Baa2	BBB-	262		373
Brazil	50.3	5.0	B+	BB-	Ba2	BB-	324		319
So. Africa	50.5	3.8	B+	BB	Ba1	BB	424		536
Egypt	50.9	-1.9	B+	B	B2	B+	664		683
Turkey	54.7	4.5	B	B+	B1	BB-	620		726

Source: BBH, Bloomberg

We are we now?

Where are we?

- Uncharted waters
- Governments are making decisions at a very fast pace, without much time to think or plan
- There are difficult moral trade-offs
- The connection between public health and macroeconomics is not clear
- Macroeconomic policy discussions are focused on advanced countries

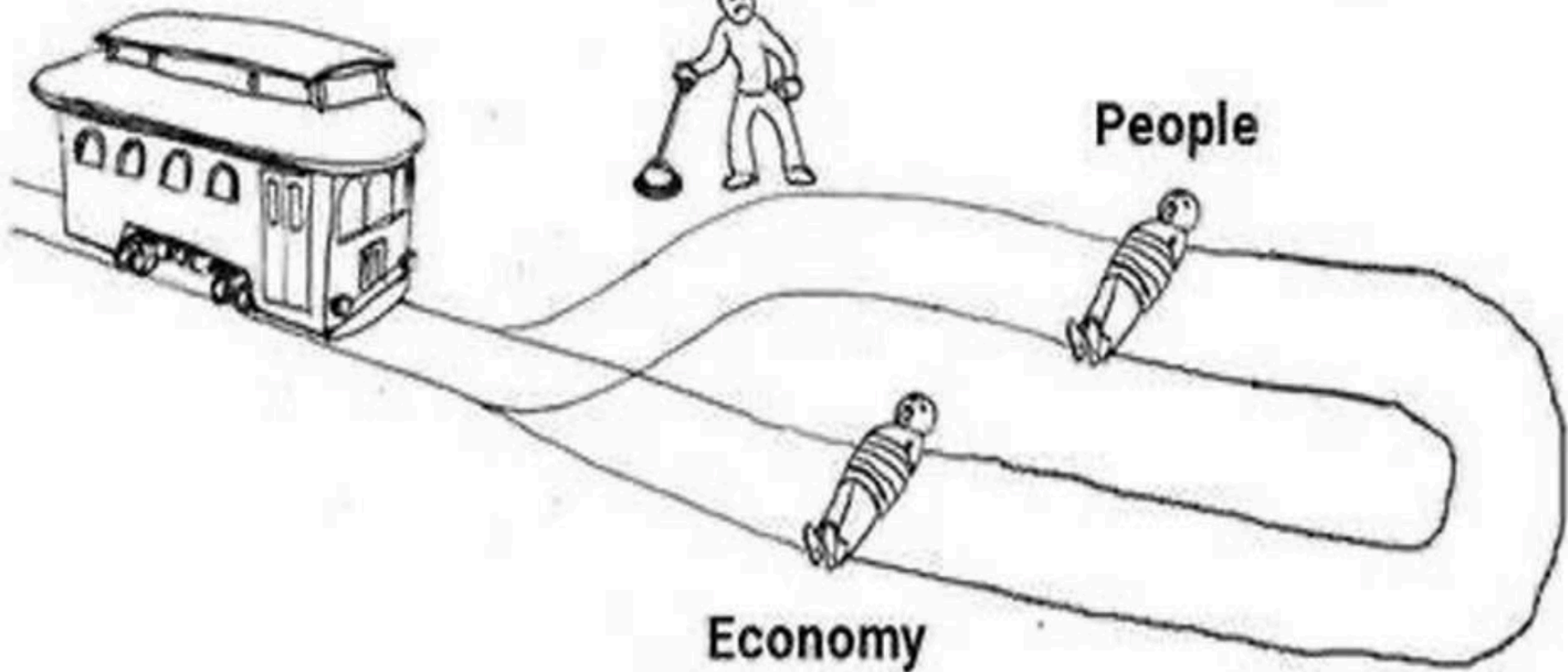
The trolley problem

Covid-19

Government

People

Economy

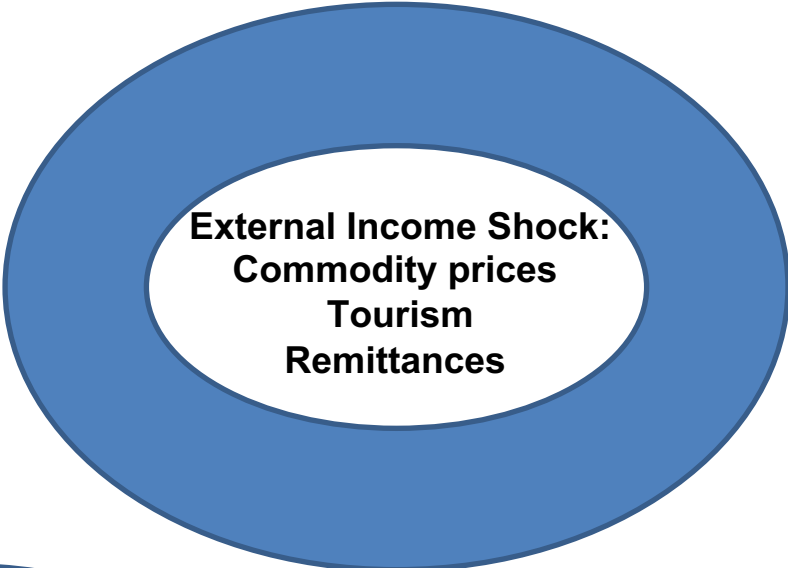


The three shocks

Three simultaneous shocks



**Health Shock:
Coronavirus COVID-19**



**External Income Shock:
Commodity prices
Tourism
Remittances**

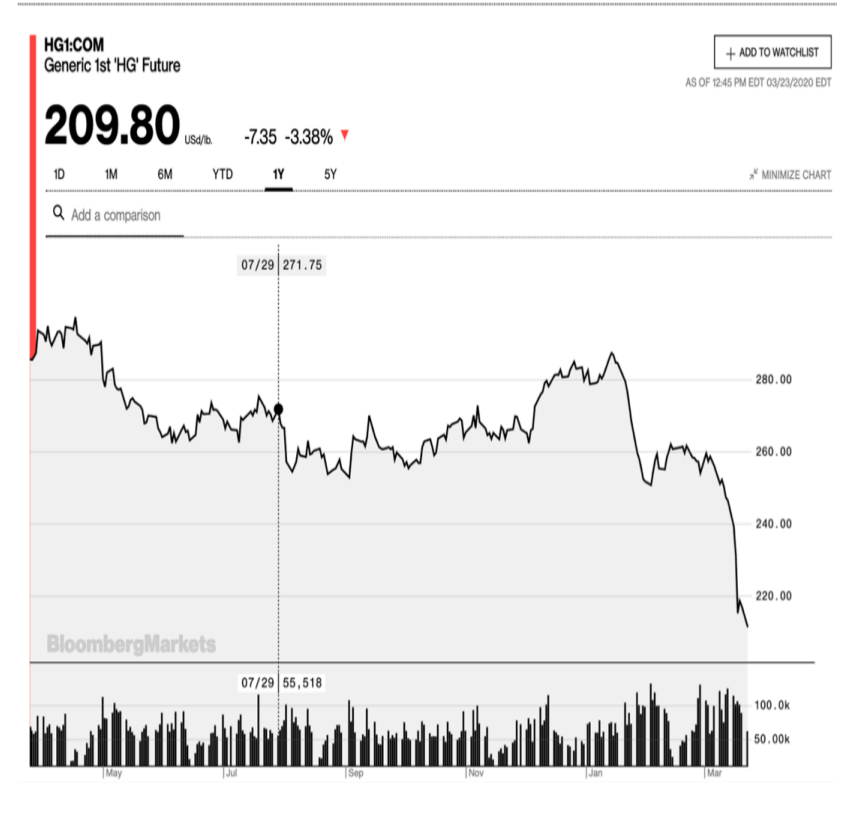


Capital Markets Shock

Commodity prices have taken a large hit



Aggregate commodity index



Copper

Oil hits record lows

US dollars per barrel



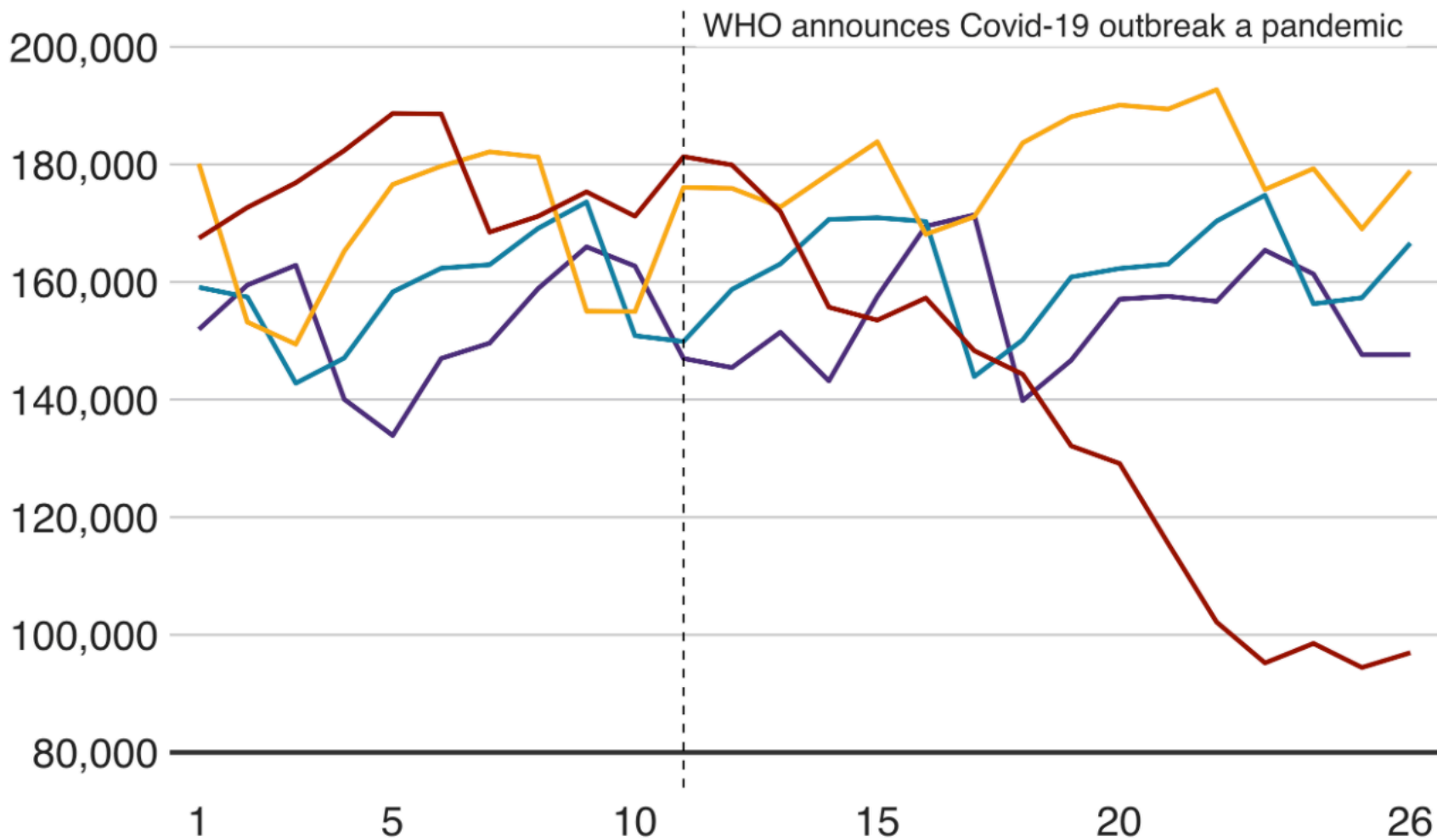
Source: Bloomberg, 27 March 2020, 13:00 GMT

BBC

Far fewer commercial flights

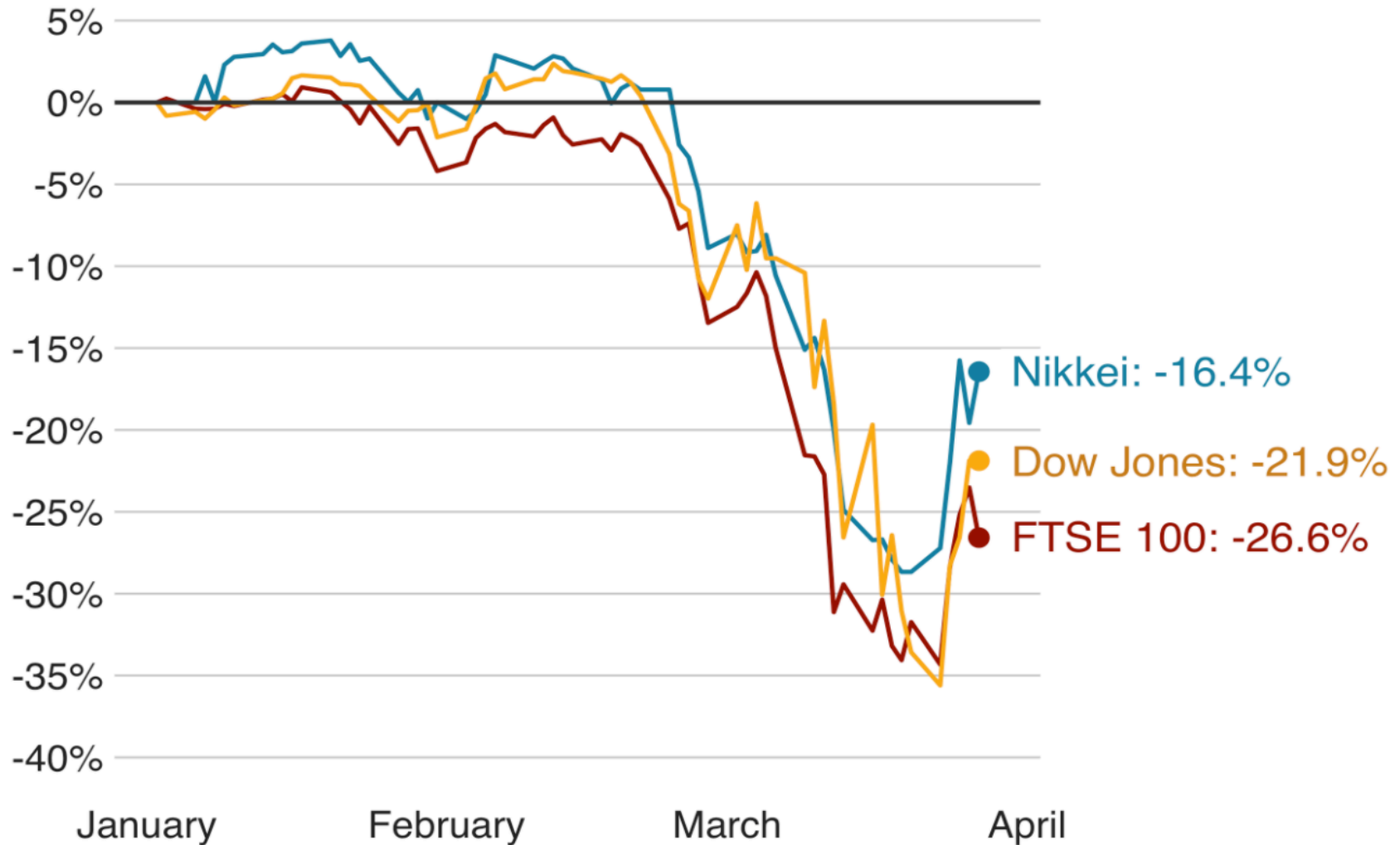
Number of daily flights in March

— 2017 — 2018 — 2019 — 2020



Source: Flightradar24, 27 March 2020, 13:00 GMT

The impact of coronavirus on stock markets since the start of the outbreak



Source: Bloomberg, 27 March 2020, 13:00 GMT

This time is different

- It is a supply shock.
- It expands through both supply and demand channels.
- Traditional Keynesian fiscal policies have limited impact: there is demand, but many activities are shut down.
- Layoffs and bankruptcies will make the recuperation much slower.
- Fiscal policy can help, but not through the standard channels: it should focus on people and firms.

Macroeconomic policies responses

Macroeconomic policies responses

- Coronavirus is a short-term situation, it is not a permanent shock
- There is the need to create all the short-term fiscal space possible
- Tax revenues are going down because of the measures to fight COVID-19
- This is no the time to worry about prudential norms: credit rating, debt/GDP, fiscal deficit, etc.
- The objective is to mobilize the maximum amount of fiscal resources by borrowing all that is possible

Creating maximum fiscal space

- Short-term situation: borrow all that is possible with a maturity of around two years
 - Domestic markets: monetary easing and central bank support
 - International capital markets
 - IMF and other International Financial Institutions (IFIs)
- Postpone all non-essential expenditures
- Oil importers should take advantage of lower prices: split the gains between government and consumers
- International Reserves are for emergencies: they should be used to support fiscal efforts such as loans to firms and credit lines to banks

Using the fiscal space

- Most important: support health system
- Provide short-term assistance to people and firms
- Help banks if needed through central banks
- There is not time to design new programs, governments should use what is in place i.e. cash transfers schemes
- Focus on the informal sector
- Use the banking system to support firms, i.e. provide partial guarantees for banks to lend for the payroll

The International Community

What should the international financial community do?

- Recirculate the flight-to-safety money that is flowing to the US
- Quantitative Easing: buy IFIs and EM bonds
- Increase the number of countries with access to FED swap lines
- Expand the use of existing credit facilities, i.e. IMF Rapid Financing Instrument (RFI)
- Create an international fund to pay for testing, equipment and eventually vaccines