



Foreign, Commonwealth  
& Development Office

# The economic impacts of Covid-19 and implications for the recovery

Presentation to the Cyprus Economic Society

21<sup>st</sup> April 2021

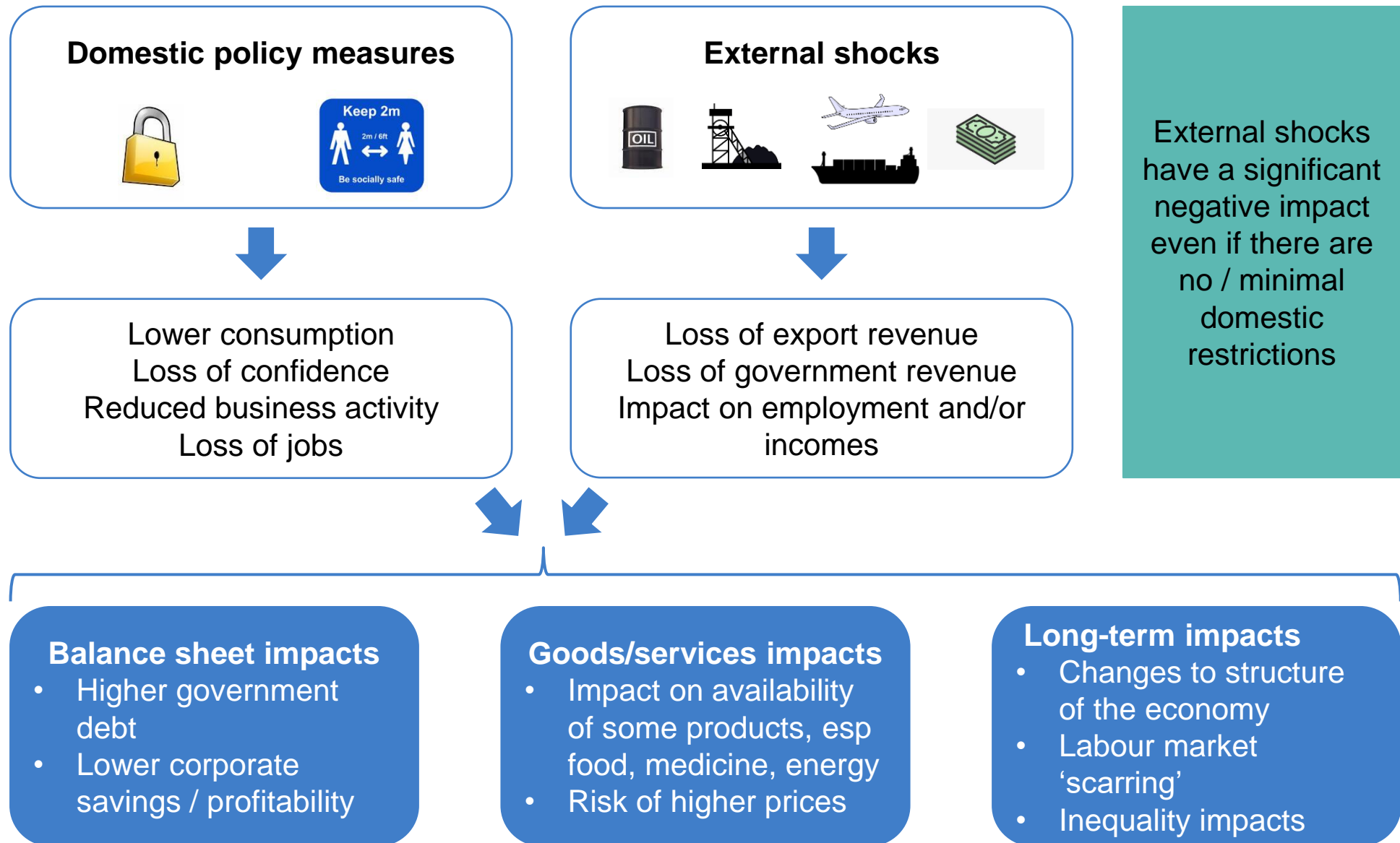
*Tom Strachan*

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## Overview

- Channels of economic impact
- Variations in impacts between regions and within economies
- ‘Scarring’ and its potential implications
- An upside?

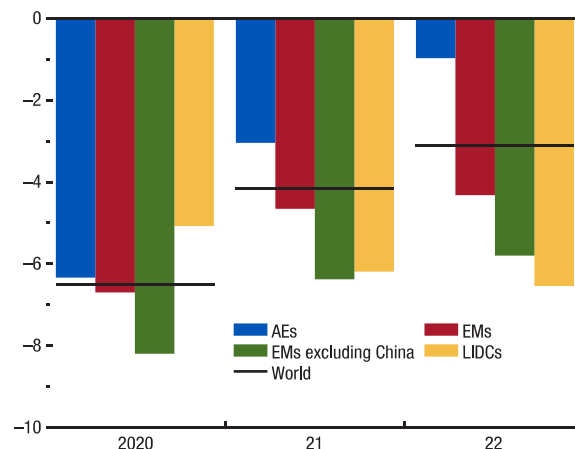
# There are two broad ways in which Covid-19 has an economic impact



# The economic impact has varied notably between and within regions

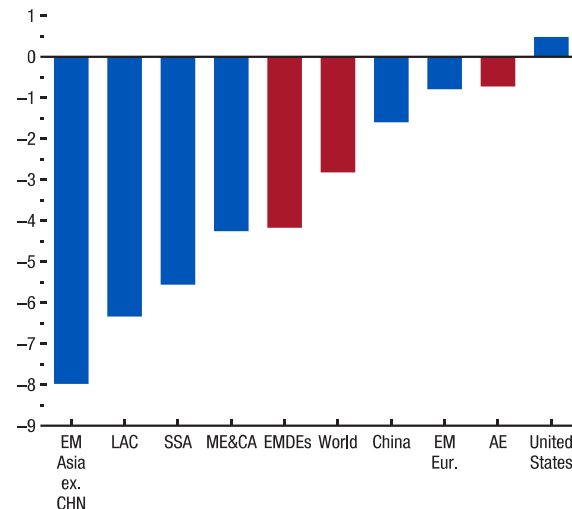
## The impact is forecast to last much longer in lower income economies

Change in GDP per capita forecast (ppt) – Apr 2021 vs Jan 2020



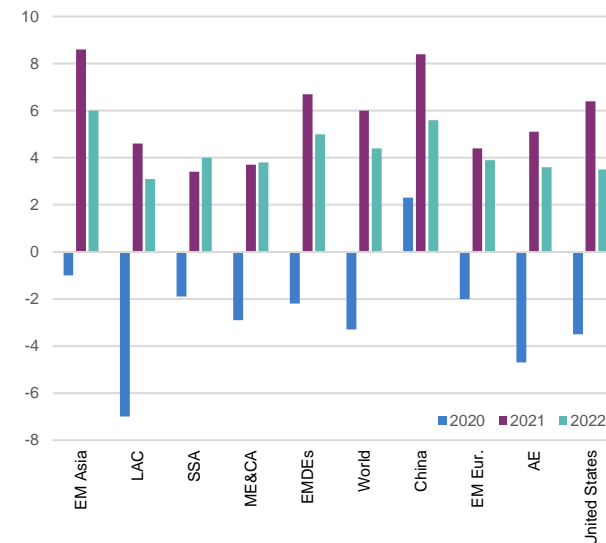
## Emerging Asia (excl China) is forecast to see the biggest losses relative to pre-Covid forecasts...

Revision to 2024 GDP level between Jan 2020 and Apr 2021 (%)



## ...but Asia is still forecast to be the fastest growing region in 2021 & 2022

GDP growth forecasts (%)



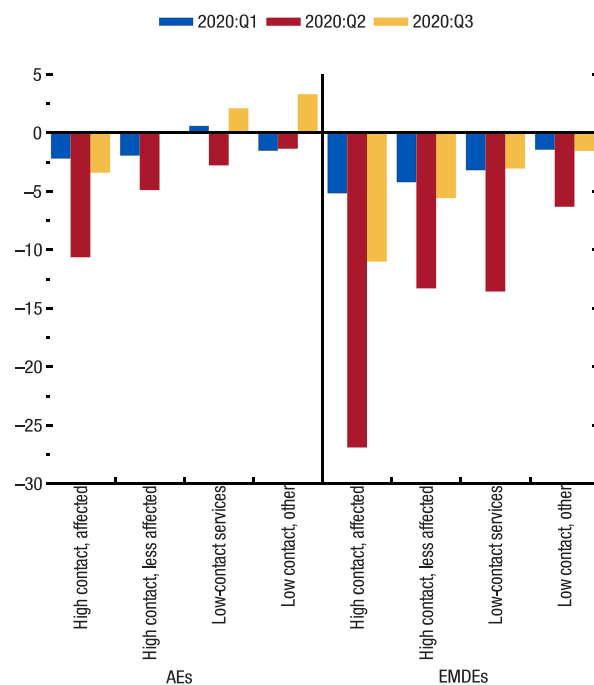
Heterogeneous impacts of Covid-19 on growth rates across regions:

- Impacts harsher for tourism-dependent economies and oil exporters
- Other commodity exporters benefitted from rising mineral prices
- Better prospects where pandemic under control

# There are also substantial differences in the scale of impacts within economies...

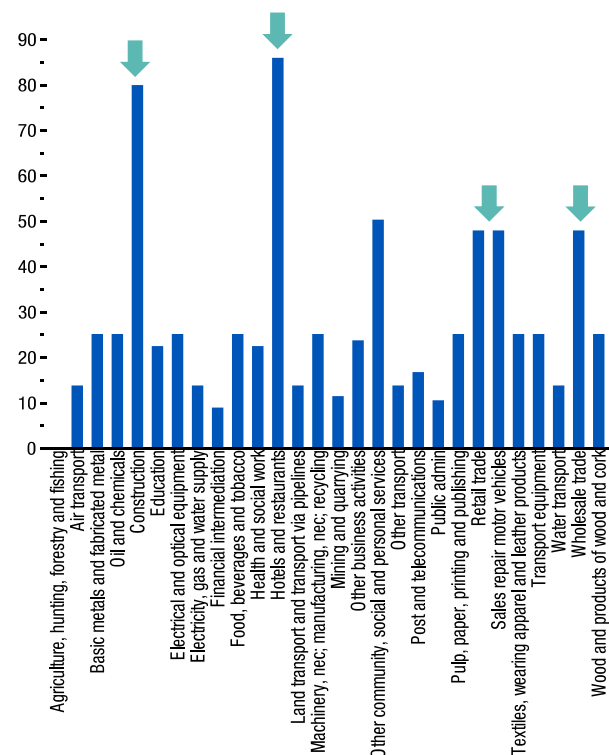
## High contact employment sectors have seen larger impacts...

Cumulative % change in total hours worked from Q4 2019



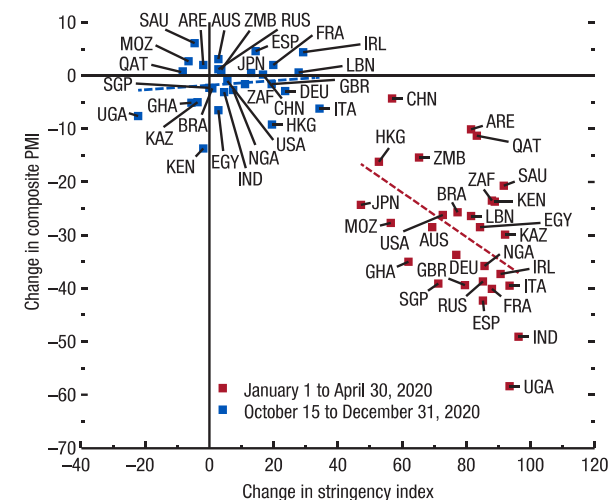
## ...with construction and hospitality particularly badly affected

Share of activity impacted by Covid-19, by sector (%)



## However, the impact of lockdowns seemed to reduce after the initial one

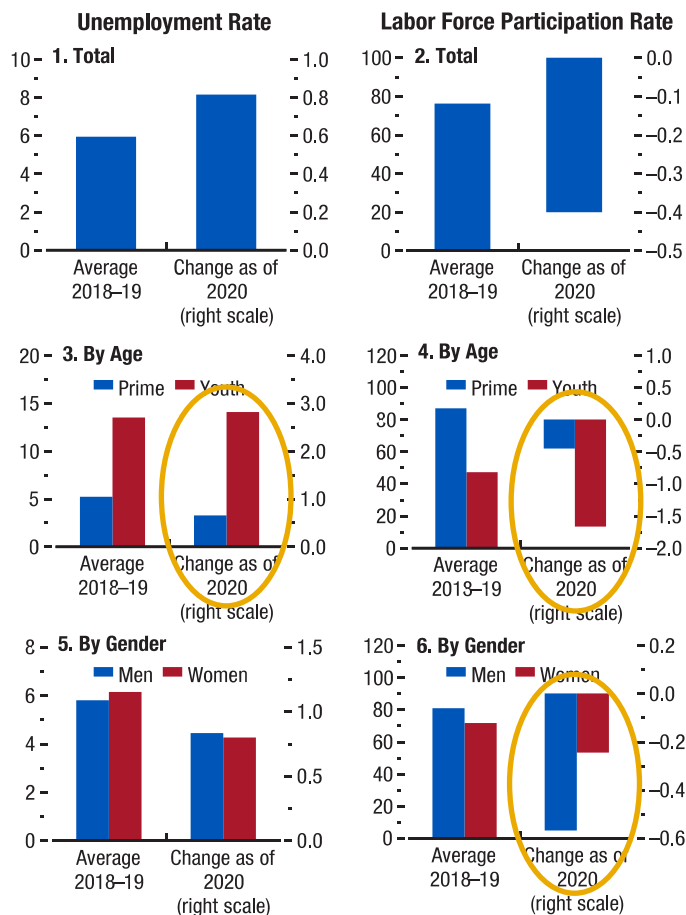
Effect of lockdown on economic activity (beginning vs end)



# ...with some particularly interesting differences in labour market outcomes

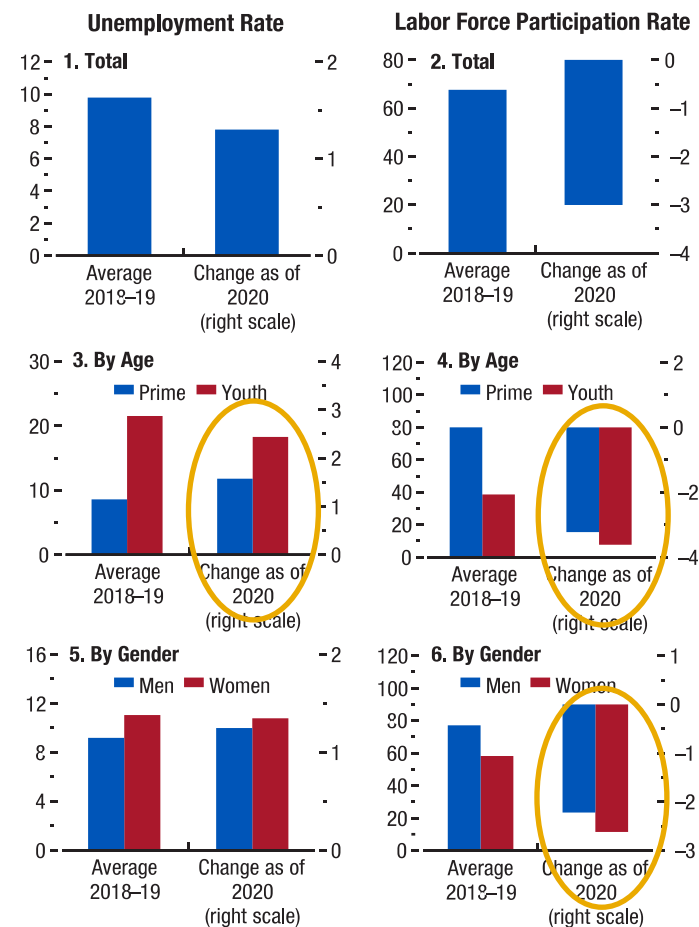
## Advanced economies

Labour market conditions (% / ppt)



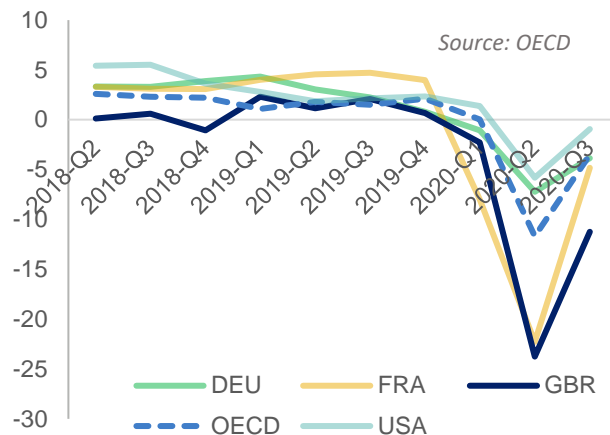
## EMDEs

Labour market conditions (% / ppt)



# Economic scarring occurs through capital and labour degradation and behavioural changes, but the impact on output will also vary by economy

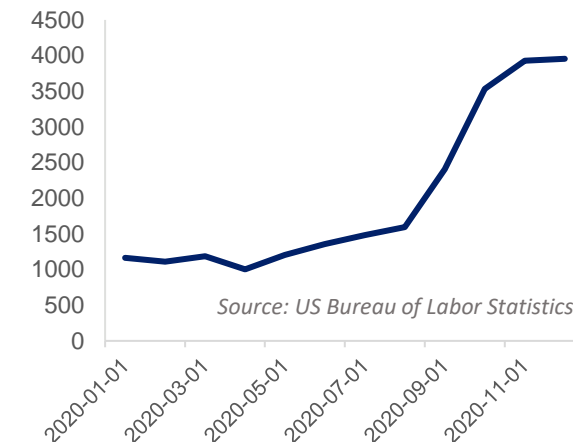
Reduction in investment will lead to an ageing capital stock  
GFCF total, annual growth rate (%)



On average,  
**investment fell  
~11% across  
OECD in Q2  
2020** and  
remains below  
pre-crisis levels

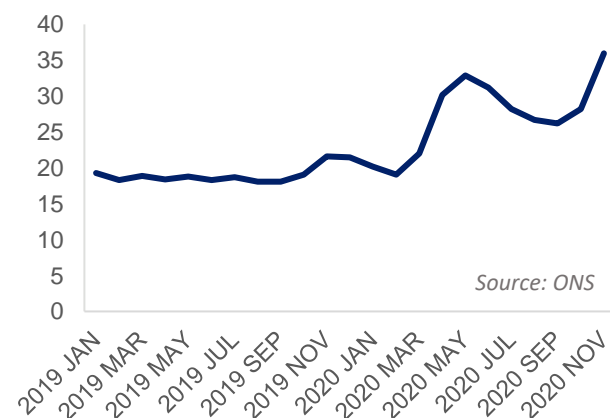
Higher unemployment will see skills atrophy

US, Unemployed for 27 weeks or more, 000s



In UK, after two  
previous  
recessions,  
unemployment  
took **seven  
years** to return  
to pre-crisis  
levels (ONS &  
BoE, 2020)

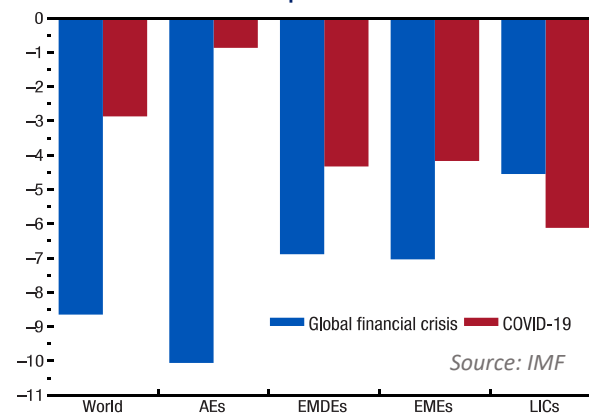
Changing consumer habits will lead to structural effects  
UK, online sales as a % of total retail sales



In the UK, **in-  
person sales  
have fallen  
~15%**; if  
persistent may  
threaten jobs in  
already  
struggling  
sector

Medium-term output losses forecast to see significant  
variation

% difference from pre-crisis forecast



AEs forecast to  
see much smaller  
hit to output in the  
medium term than  
the GFC

For lower income  
countries, it is the  
other way around

# Constrained fiscal circumstances will limit governments' ability to mitigate scarring impacts, with long-lasting impacts

EMs entered the crisis with the highest sovereign debt in nearly two decades.

53%

Current EM Debt as % of GDP (BIS & IMF, 2020)

10%

Increase in EMDEs debt as a % of GDP since the outbreak of the pandemic (IMF, 2020)

43%

Increase in EM debt as % of GDP since the GFC (BIS & IMF, 2020)

34%

Increase in AE debt as % of GDP since GFC (BIS & IMF, 2020)

## Sovereign debt sustainability outlook remains challenging

- EM debt levels will continue to rise due to the extreme support measures taken by governments to mitigate the impact of the crisis
- For EMs, there is a clear need for fiscal consolidation, *but* excessive fiscal constraints would be unhelpful given the weak recovery thus far
- Given the high fiscal deficits before the pandemic, a return to pre-crisis level may not resolve the problem for many countries at risk of debt distress

## Three country groups at highest-risk of debt distress

1. Oil export dependent countries,
2. Tourism-dependent countries
3. Frontier market economies in SSA

## Other consequences of the pandemic are not addressed, leading to wider socio-economic scarring

- Poverty traps – 140 million may have fallen into extreme poverty in 2020
- Nutritional shocks (esp for young children and unborn babies)
- Loss of education – 1.6 billion children were out of school at the peak
  - Inability to home school
  - Girls less likely to return / more likely to get married/pregnant
- The 'wrong' businesses survive (wealth > efficiency)

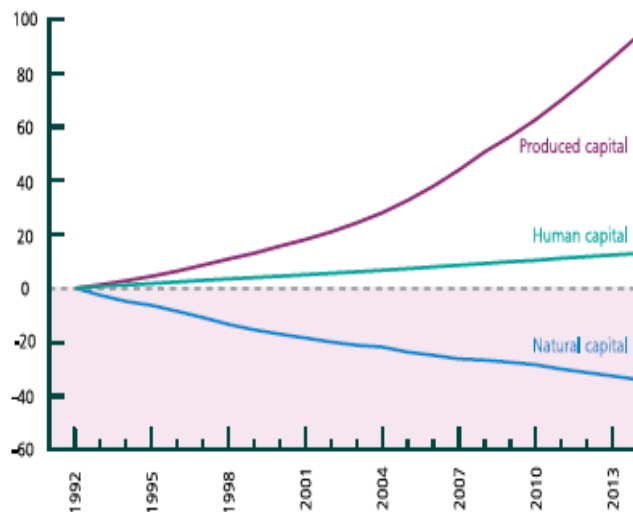


# 'Build Back Better' – the potential opportunity from Covid-19?

## GLOBAL

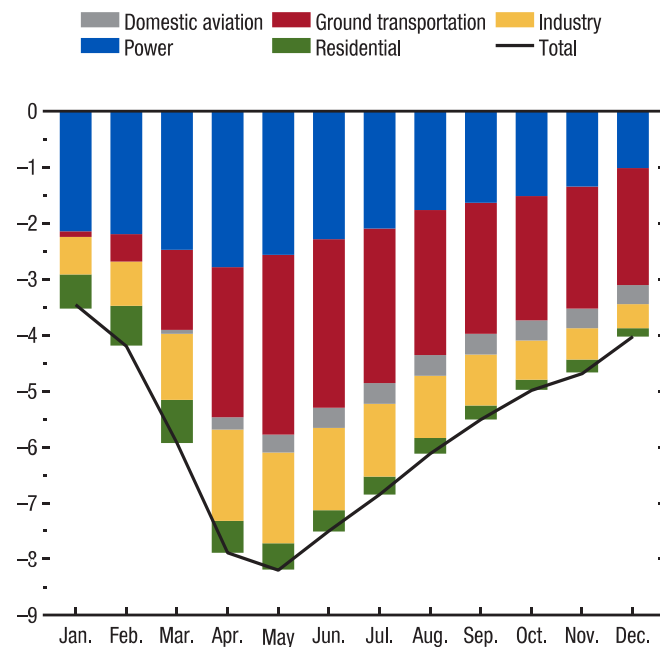
### Global natural capital has been steadily declining

Global wealth per capita, 1992-2014  
(% change)



### Global CO<sub>2</sub> emissions were 4% lower in 2020

Cumulative CO<sub>2</sub> emissions 2020 vs 2019  
(% difference)



## DOMESTIC

### Economic changes as a result of Covid-19 provide opportunity to address longstanding structural challenges:

- Increased remote working can help reduce dominance of cities and aid efforts to rebalance between regions
  - E.g. 'Levelling-up' agenda in the UK
  - Impacts on housing market
- (Forced) rapid adoption of new technology can help boost productivity
- Reinvigorated international discussions on taxing multinationals
- Fiscal position may force renewed look at sustainability of public finances
- Increased social activism



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