Emerging Markets (outside of East Asia), Developing Countries, and the Coronavirus

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EMs and Developing Countries

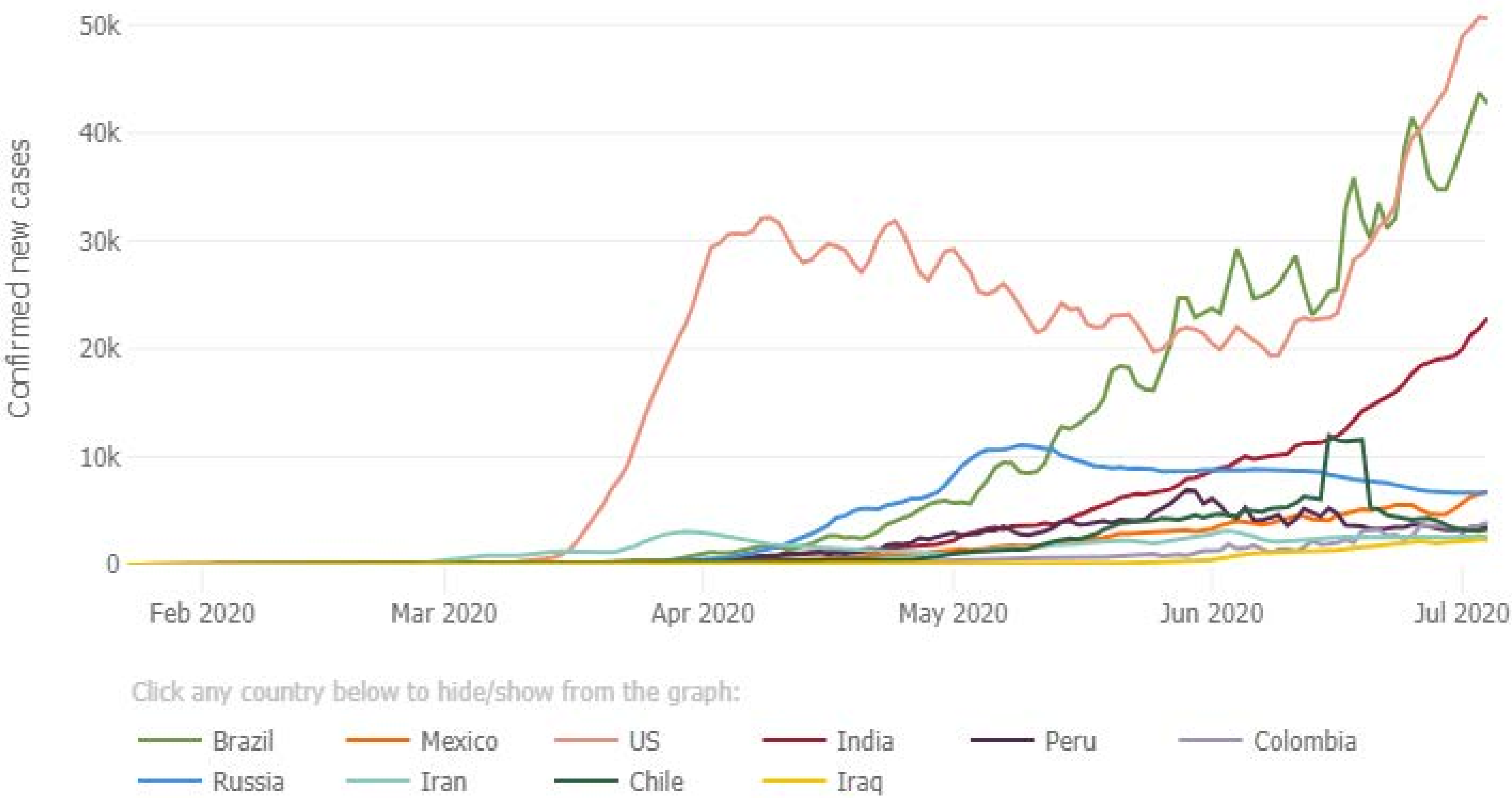
- EMs and developing countries have very varied situations.
  - East Asia, Latin America, South Asia, Africa
- Four phases of the pandemic (assuming no relapse)
  - Containment and Relief
  - Repair/Reallocation
  - Recovery
  - Reform

Containment

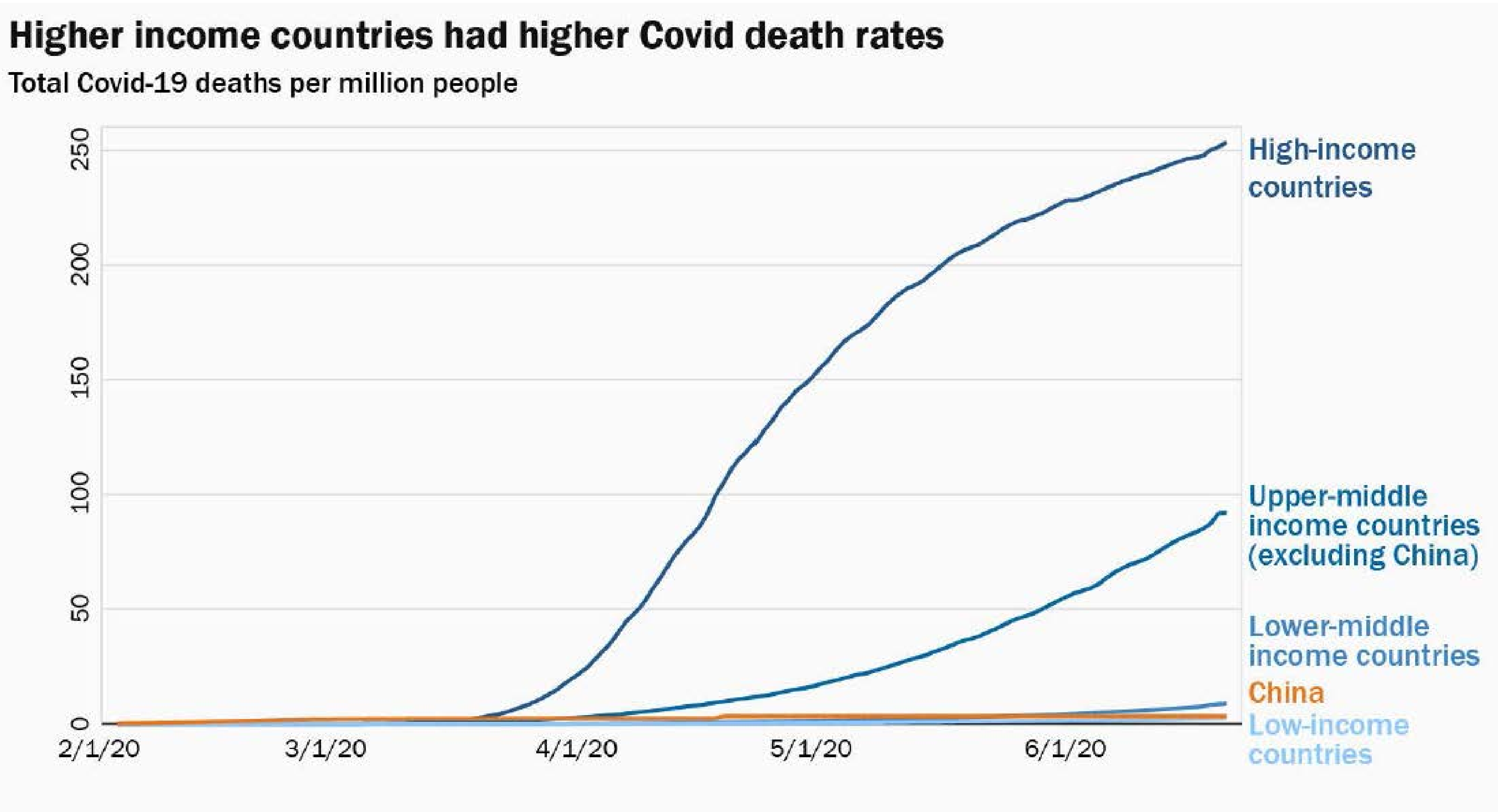
- Many tried the same playbook as industrial countries – total lockdown – but outcomes differ
  - Younger and less obese (but otherwise less healthy) populations
  - Households and small businesses have lower buffers
    - Less ability to bear sustained lockdowns
  - Social distancing more difficult – slums, dependence on public transport
  - Internal migrants with no safety nets
  - Worse medical facilities

Health consequences

- EMs and DCs outside east Asia have found it harder to bend the curve in a reasonable time.
- Some have relaxed lockdowns before containing the virus.
- Fortunately, deaths are still low.



Source: https://coronavirus.jhu.edu/data/new-cases

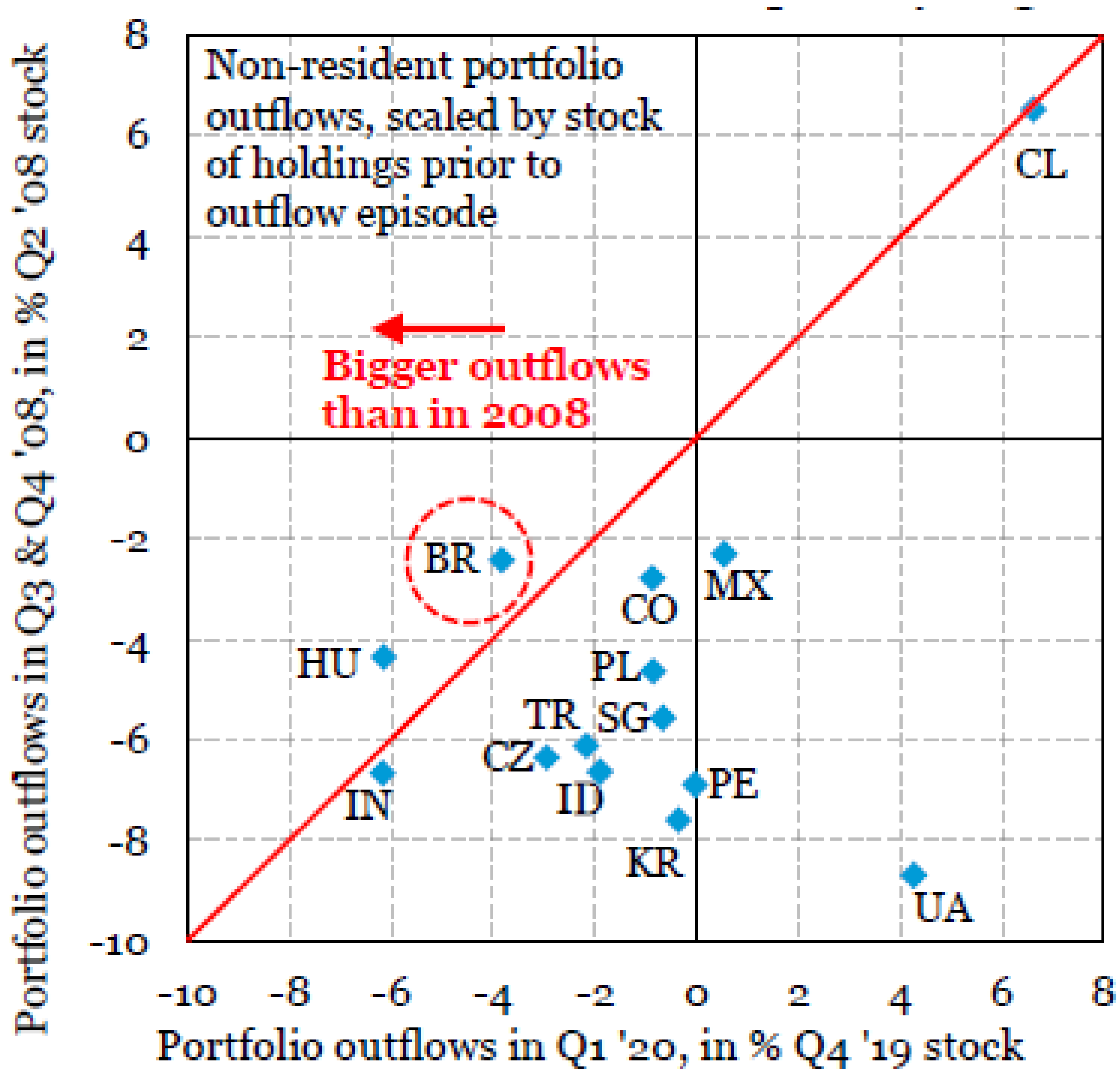


Source: Goldberg and Reed 2020

Have they dodged the bullet?

- No, regardless of the lower death rate, many of the economic consequences of the virus have hit them.
- On the external front:
  - Trade, especially commodities and manufactured goods
  - Tourism
  - Remittances
  - Capital outflows initially

Portfolio flows Q1 2020 relative to Q3 & Q4 2008

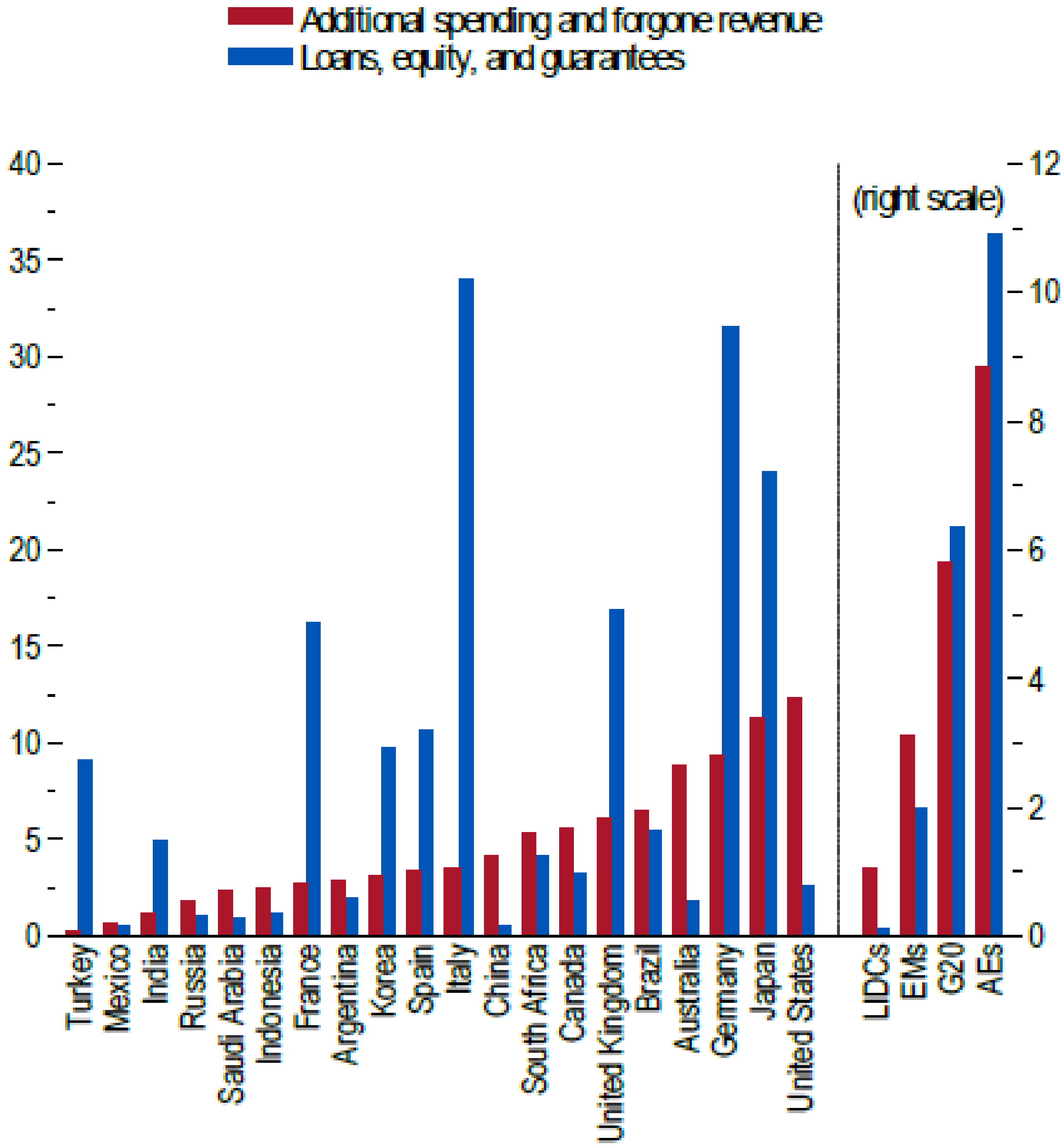


Source: Haver, IIF

Much damage and little relief

- With inflation less of a concern for most, central banks have expanded their balance sheets.
  - QE?
  - Intermediating between banks and government to finance expanded deficits.
- However, governments cautious:
  - Perceived fiscal resources for relief limited because of fear of downgrades/exclusion from borrowing
    - Exception: Brazil and augmented Bolsa Familia
  - Consequence: India and migrants
- Modest relief=> significant damage to poorer households and SMEs => growth and potential growth lower

Large difference in fiscal outlays and credit easing

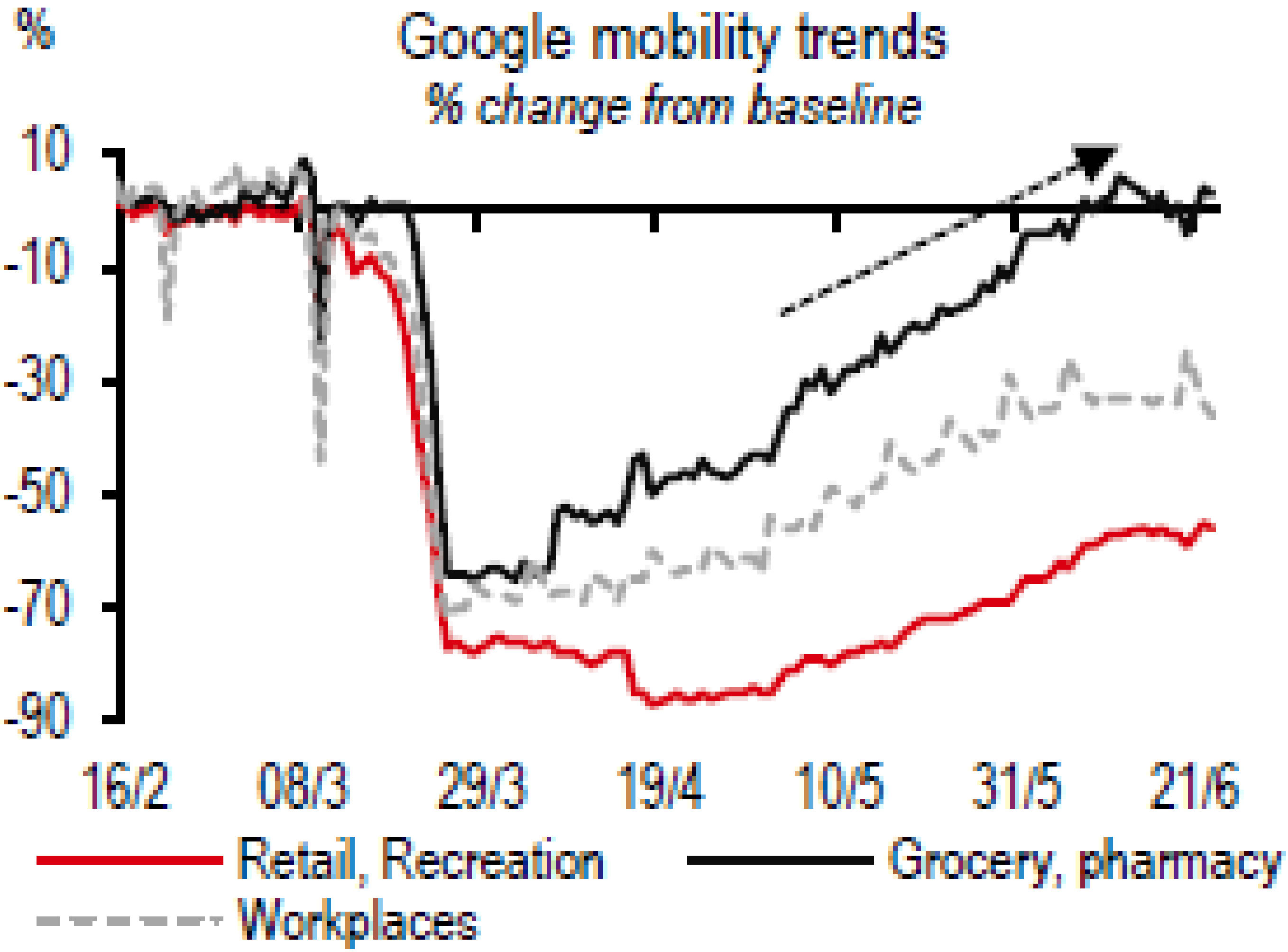


Source: IMF

Consequently

- With little relief and much damage, demand is less likely to spring back up when restrictions lifted

Mobility trends in India



Repair

- Over 100 countries approached the IMF
  - Some sovereign defaults likely, even though G20 agreed on a moratorium on official payments.
  - Poor countries still paying private lenders!
- As demand slowdown is prolonged, corporate distress is a big concern in EMs
  - Significant dollar debts
  - Restructuring of existing debts plus new funding is key to preventing lasting damage.
    - Effectiveness of restructuring process
  - Recapitalizing financial system

Recovery

- Potential growth will be hit severely
  - Viable firms will close
  - Debt-overhang-hit & funding-starved corporations
  - Capital-short financial sector
- Domestic-demand-led recovery difficult
  - Fiscal and financial sector constraints
- Will need external demand
  - Global trade recovery is critical.
  - Cross-border investment helpful
- Unfortunately, global order is in an unholy mess and likely to get worse
- Reform?