

4th ILO Employment Policy Research Symposium

15-16 November 2021

ILO, Geneva

Macro-policy responses to COVID 19 in emerging economies:
current outcomes and evolving challenges

Presented by

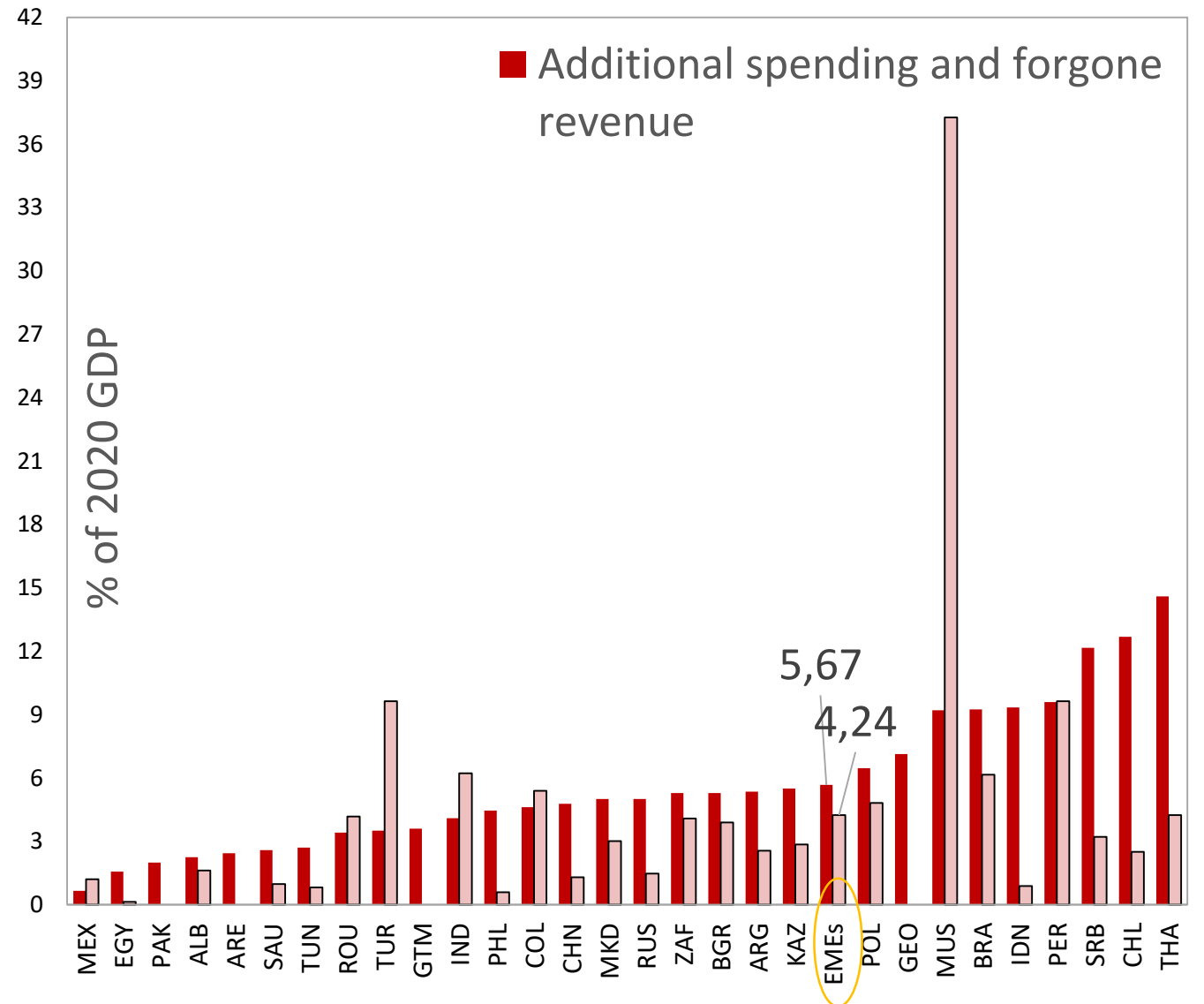
Yan Islam,

Adjunct Professor, **Griffith Asia Institute, Brisbane, Australia** and former Branch Chief,
Employment Policy Department, ILO, Geneva

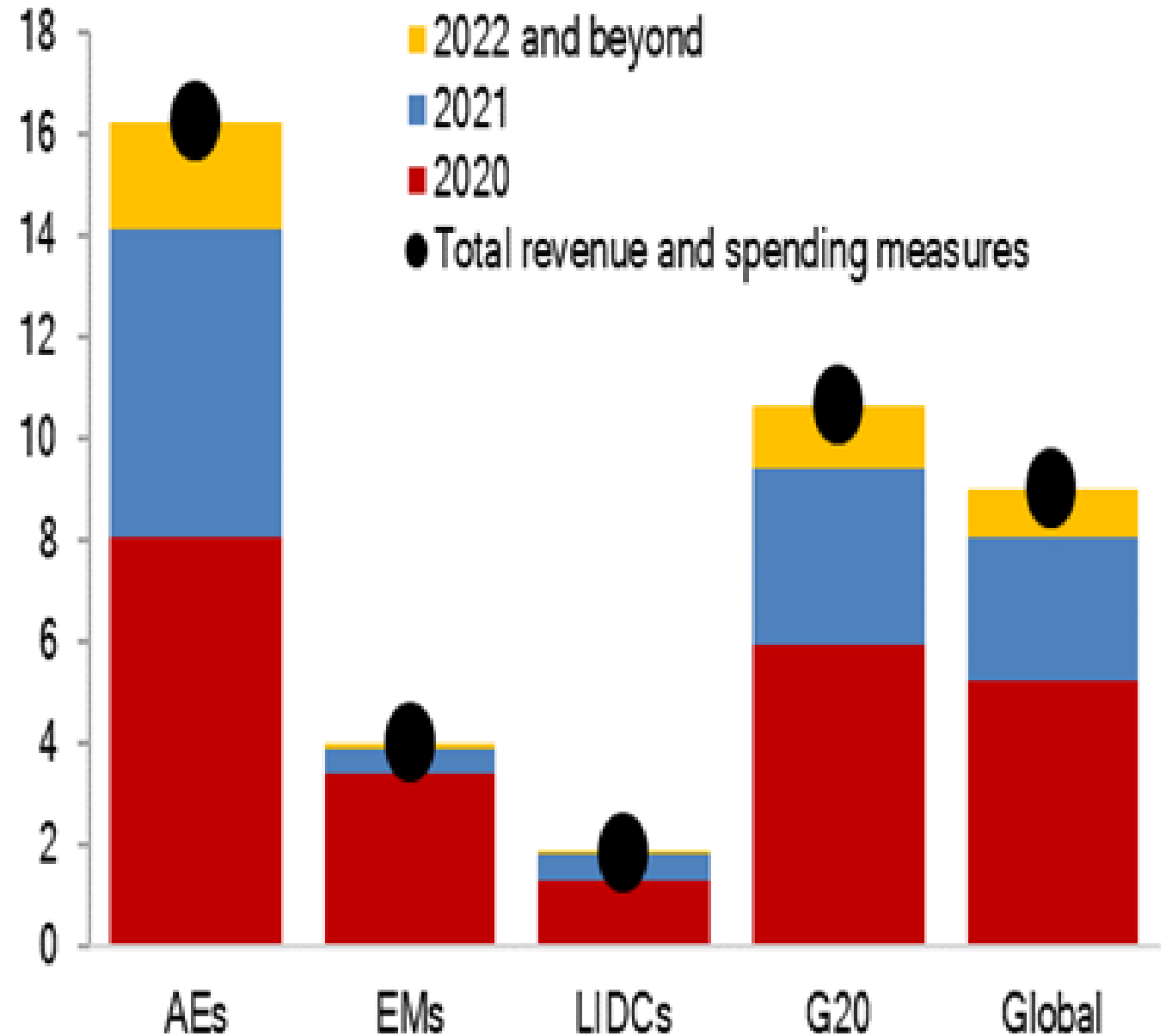
Email: i.islam@griffth.edu.au and yanislam53@gmail.com

Fiscal policy response to COVID-19 in EMEs (September 27, 2021)

Varies considerably by country, with Thailand and Chile the most generous, Mexico least



Outlook for 2022 and beyond suggest scaling back of fiscal support for all major regions (IMF, WEO, October, 2021)



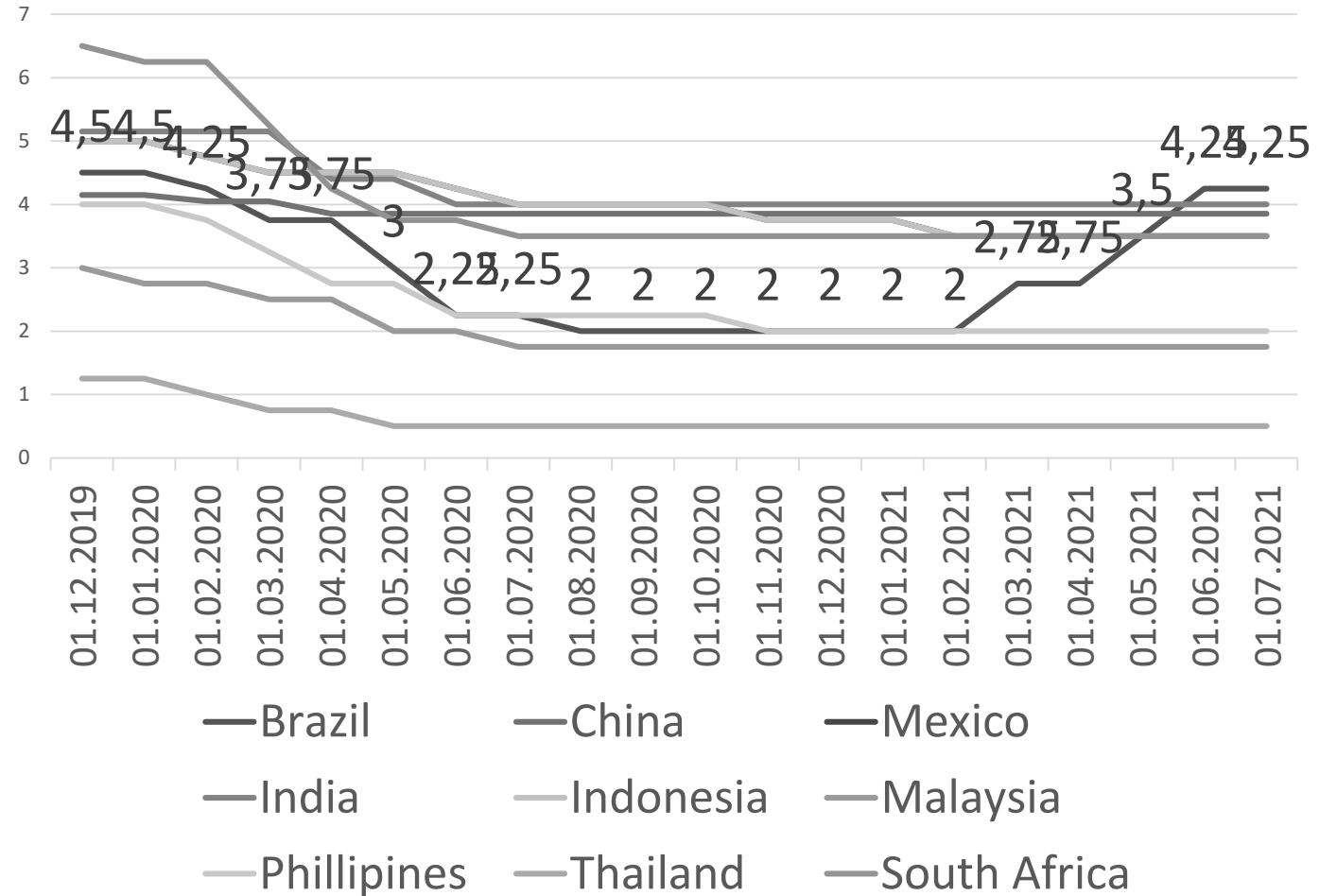
Monetary policy rate cuts maintained in many cases

Brazil an exception: 6.25% end September 2021 vs 2% in February 2021

Significant upward adjustment in Peru, Russia
Modest upward adjustment in Mexico

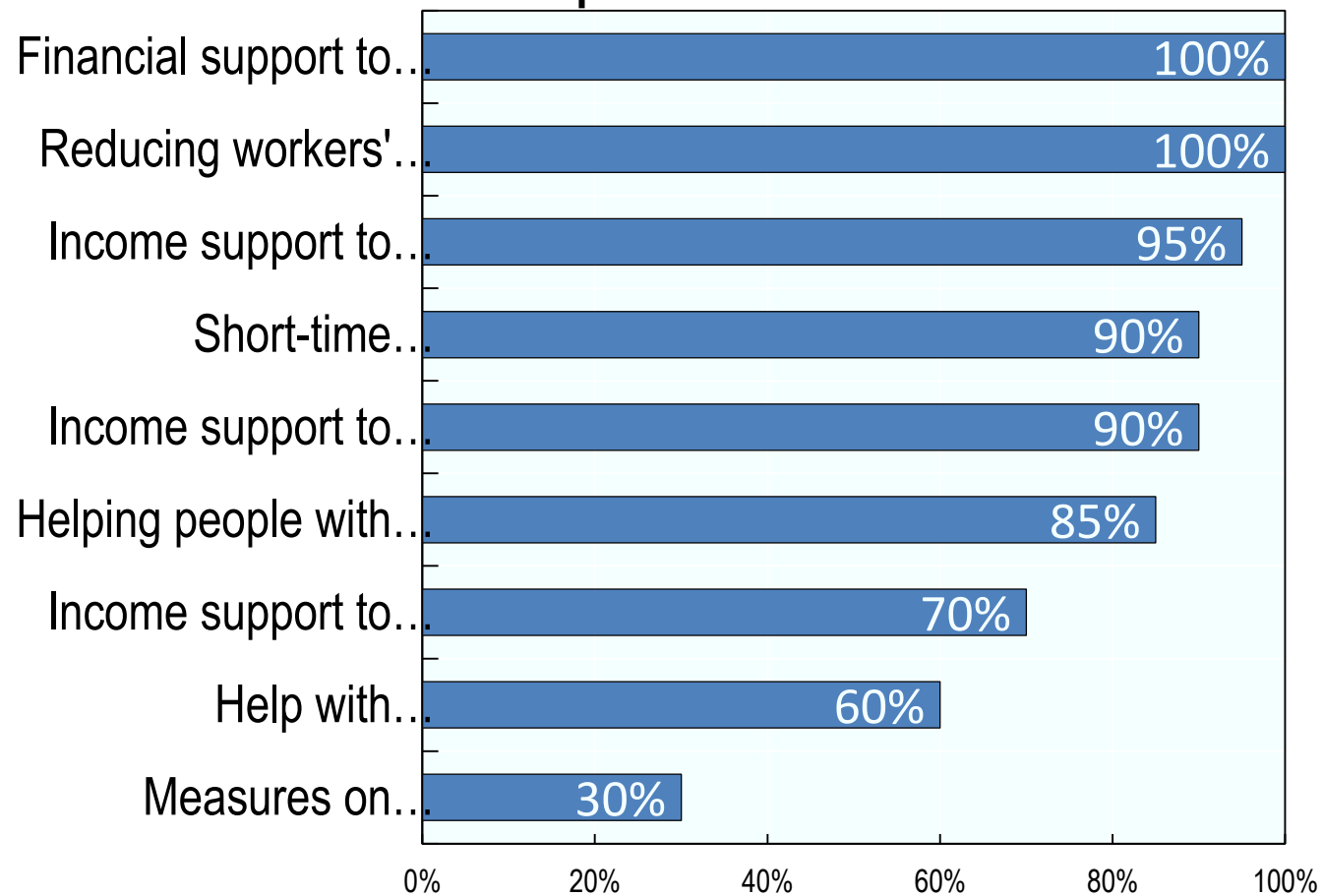
Unconventional monetary policy tools used in EMEs for the first time

Changes in policy rates (%), 31.12.2019 - 01.07.2021, selected EMEs



Labour market and social protection policies also used extensively in G20 countries, but employment protection regulations used sparingly

Share of G20 countries that have introduced (or announced) new measures or expanded existing ones in response to Covid-19



Should we worry about rising inflation, debts and deficits?

- Short-term spike in inflation (>5%), but IMF's projection for 2022-2026 more promising (<4% by 2026)
- Higher debts and deficits in EMEs in 2020-2022, but tapering off by 2025
- There is no clear prospect of rising borrowing costs
- Borrowing costs would rise if GDP growth < interest rate
- Borrowing costs on a secular downward trend in AEs
- In EMEs as a whole, growth > interest rate given benign inflation outlook and return of growth in 2022-2026 period
- Hence, unlikely prospect of a sharp increase in borrowing costs across EMEs
- BUT...there are multiple cases of fiscal distress (e.g. Sri Lanka)

Coping with immediate and long-term challenges facing EMEs in age of COVID-19

- Immediate challenge: resolving vaccine inequality
- More than 64% of the population in high income countries had at least one dose of available vaccines, with upper middle income countries also doing reasonably well (November 3, 2021)
- Just 5.8% of the population in low-income countries had one dose
- Massive increase of 59% of health-care spending for low income countries to reach 70% vaccination target by 2022
- AEs only need 0.8% in health-care spending to reach same target
- Global fund of USD 50 billion needed to reach 60% vaccination rate plus other COVID-safe measures

Long-term challenge: attaining and financing SDGs

- SDGs financing gap now more than USD 4 trillion
- This will require a new domestic resource mobilization drive
- Enhanced national policy implementation capacity, esp., on labour market and social protection policies
- Enhanced global cooperation
- New allocation of SDRs (USD 650 million) a promising beginning
- BUT...major share (approx. 55%) will go to AEs, given distribution based on existing quotas
- Perhaps there is a case for placing the new SDRs in a COVID-19 trust and recycling them through regional development banks