Socio-Economic Impacts of Covid-19 Pandemic in the World and the OIC Member Countries: Scope, Conceptual Framework, and Methodology

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- Introduction and the aim of the report

- Data, methodology, and conceptual framework

- Discussion of the results

- Macroeconomic and socio-economic effects of Covid-19

- Concluding remarks

- Covid-19 outbreak infected more than 165 million people, leading to approximately 3.5 million deaths since Dec 2019.

- Due to rapid spread of virus and high hospitalization/mortality rates, most countries adopted severe measures.

- The extreme measures adversely affected supply and demand of goods and services, increased unemployment claims, and reduced global economic activity.

- Most importantly, it disproportionately hit the most vulnerable groups.

Main policy tradeoffs

- There is strong tradeoff between pandemic measures and economic activity.

- Countries aim to achieve a balance between the two by periodic openings and closings—a strategic move until effective treatment/protection is developed.

- Length and intensity of closure measures depend on fiscal resources/space—lower-income countries are disadvantaged in this respect.

- These differences have implications about the pace of recovery and the post-recovery macroeconomic/socio-economic conditions.

The aim and content of the draft report

- This report aims to provide a guideline for OIC member countries to better respond to socio-economic inequalities resulting from the Covid-19 pandemic.

- Explains the conceptual framework of the study; provides the methodological details; and presents the current situation in the world and OIC countries using the most recent data.

- Presents five case studies (Cameroon, Qatar, South Africa, Turkey, and UNDP).

- Provides policy recommendations.

Data and methodology

- Cross-country comparability lies at the center of this report; it is essential to rely on measures/indicators that are consistently produced for a wide range of countries.

- The analysis draws on data produced by U of Oxford, the "Our World in Data" initiative. This initiative aims to generate cross-country data on the world's key problems such as poverty, disease, hunger, climate change, war, existential risks, and inequality—SDG-related issues.

- After the pandemic, the initiative and its researchers shifted their focus to collecting cross-country data on topics about the pandemic. Specifically, it collected wide range of information on policy measures taken across the world.

Data and conceptual framework

- The data set is called the "Oxford COVID-19 Government Response Tracker" (OxCGRT) and it addresses the need for continuously updated, readily usable, and comparable cross-country information on policy measures.

- OxCGRT started collecting daily data from the beginning of 2020 and it is regularly updated. It covers 185 countries—for 4 of them (Brazil, Canada, United States, and United Kingdom), sub-national data are collected.

- The goal is to capture governments' responses to the pandemic in various policy areas and document those responses in quantitative scales. The analysis links policy measures taken by governments during the pandemic and main socio-economic variables.

- Data on 20 policy variables (grouped under 4 main headings) are included into the analysis. Trends in those variables are interpreted jointly with the trends in macroeconomic/socio-economic variables.
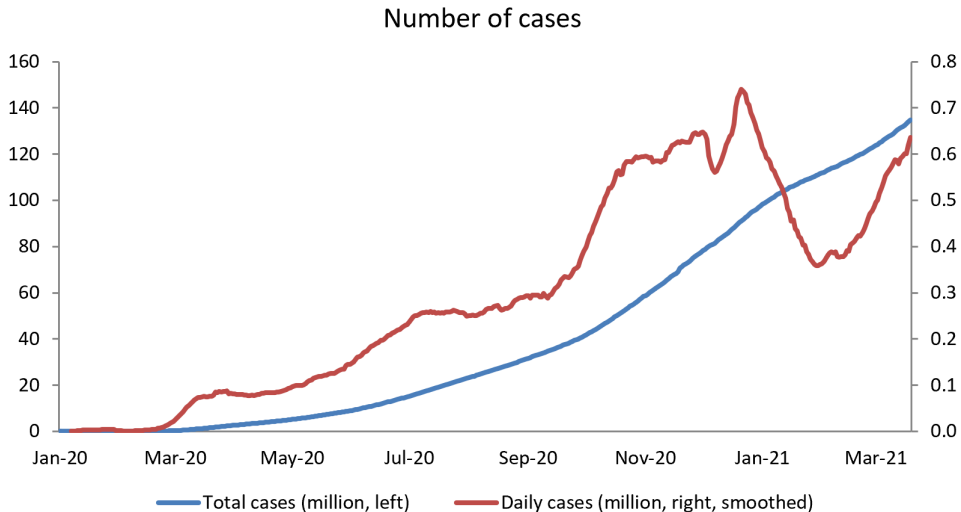
A. **Containment and closure policies** (school closures, workplace closures, public transport closures, cancellation of public events, restrictions on gatherings, stay-at-home measures, internal travel restrictions, international travel controls).

B. **Economic policies** (income support for households, debt/contract relief for households).

C. **Health system policies** (public information campaigns, testing policy, contact tracing, mask wearing, vaccination policy, protection of elderly people).

D. **Policy indices** (stringency index, government response index, containment and health index, economic support index).
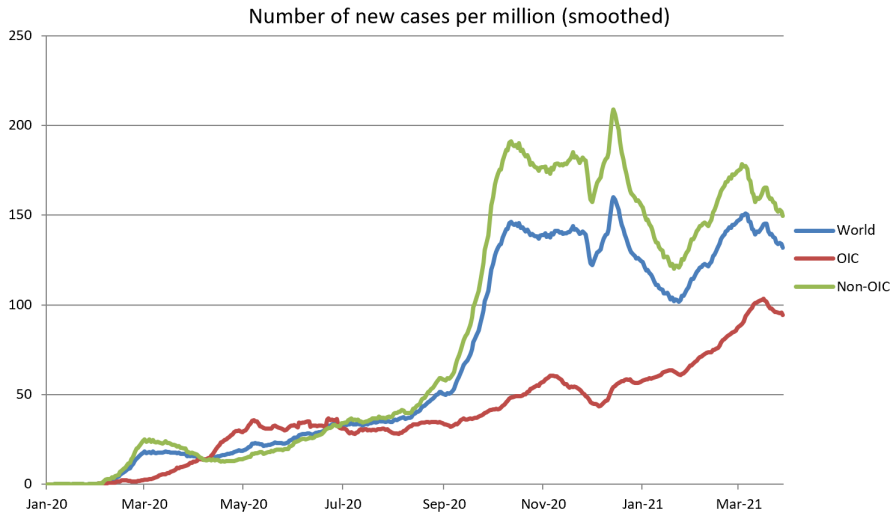
Limitations on data availability and quality

1. Initial data collection activities yielded "aggregate" variables. Granular information is not publicly available yet—apart from a few exceptions.

2. Comprehensive and representative micro data sets are also not available yet.

3. Data quality is questionable. Some countries under-report cases and deaths. Testing regimes, equipments, capacities, scales, and standards are different and, they change over time within countries.

4. Some countries treat asymptomatic and mild cases differently than others—i.e., those cases are not tested and even not admitted to health care facilities unless they develop more serious symptoms. (Limitations of econometric analysis.)

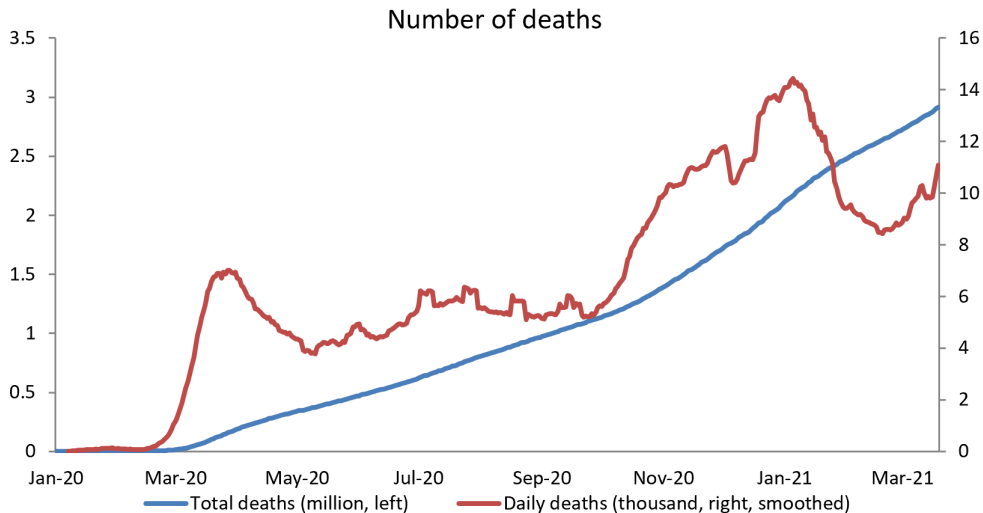## Differential trends in infection and death rates

- There are stark cross-country differences in trends (i.e., timing and intensity of ups, downs, and swings) and levels of Covid-19 infection/death rates.

- Boom-bust cycles are not as significant in OIC countries as they are in rest of the world.

- A level difference is also observed—e.g., the numbers of new cases and deaths per million are much lower in OIC countries relative to the rest of the world.

- These differences suggest that (1) pandemic may follow different transmission processes in OIC and non-OIC countries and (2) Covid-19 data quality may be lower in OIC countries in comparison to non-OIC countries.
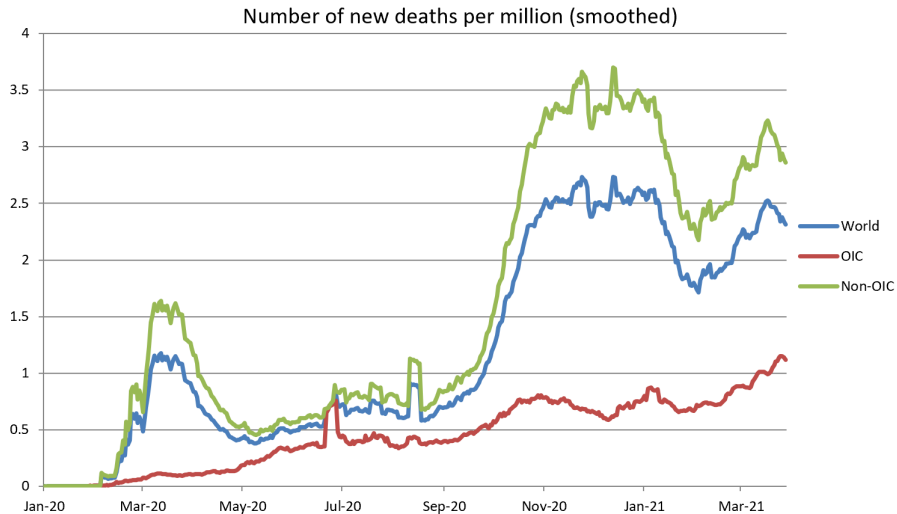
Number of cases

Legend: Total cases (million, left) — Daily cases (million, right, smoothed)

Number of new cases per million (smoothed)

Number of deaths

Legend: Total deaths (million, left) — Daily deaths (thousand, right, smoothed)

Number of new deaths per million (smoothed)

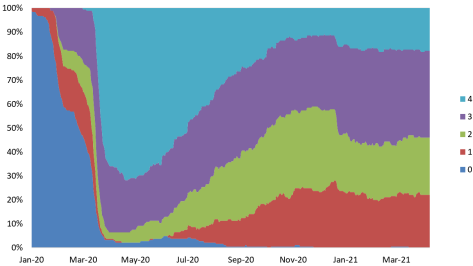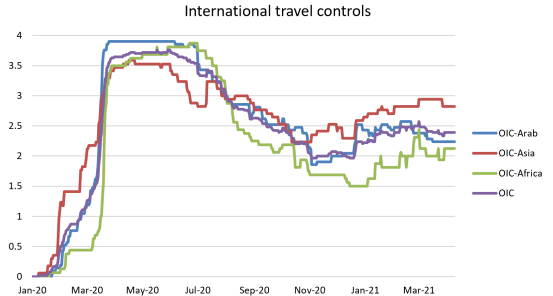International travel controls (average)

Figure 9. International travel controls. Upper panel presents the world average, while lower panel displays the distribution of a 5-category ordinal scale (0 - no measures, 1 - screening, 2 - quarantine arrivals from high-risk regions, 3 - ban on high-risk regions, 4 - total border closure) across 185 countries.

Source: https://ourworldindata.org

International travel controls

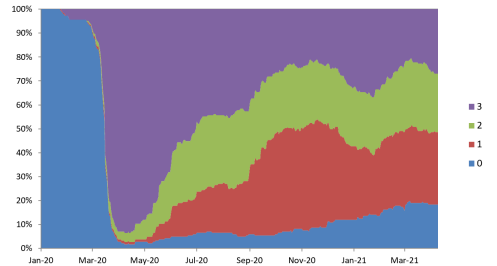International travel controls
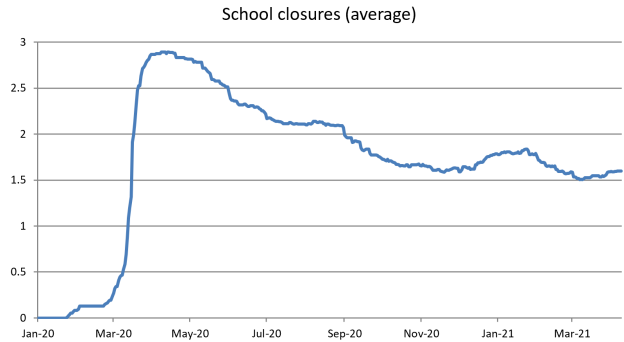
School closures (average)

Figure 2. School closures. Upper panel presents the world average, while lower panel displays the distribution of a 4-category ordinal scale (0 - no measures, 1 - recommend closing, 2 - require closing (only some levels or categories, eg just high school, or just public schools), 3 - require closing all levels) across 185 countries.

Source: https://ourworldindata.org
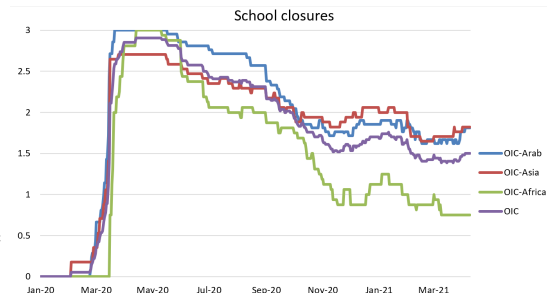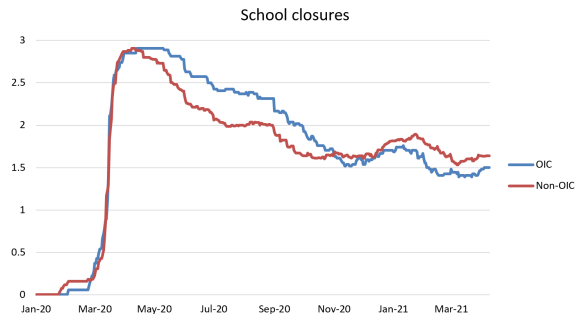
School closures (OIC)

Figure 25. School closures. Upper panel compares the OIC and non-OIC averages, while lower panel compares OIC countries across Arab, Asian, and African groups.

Source: https://ourworldindata.org
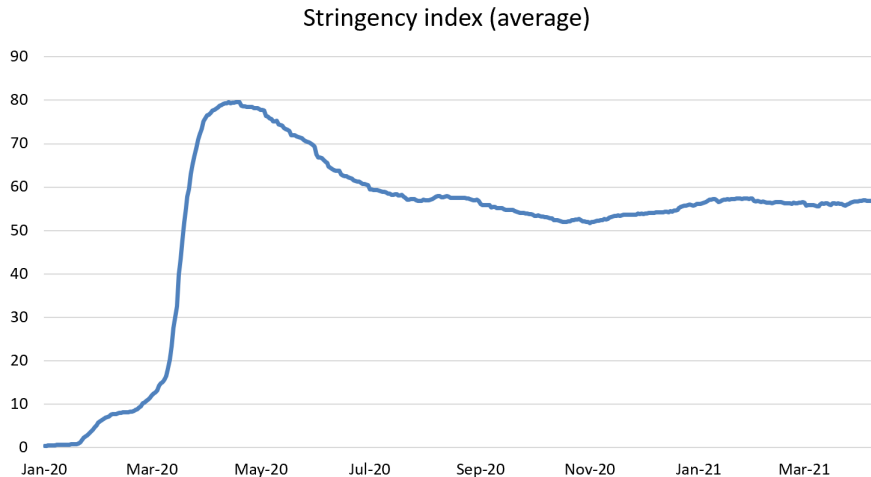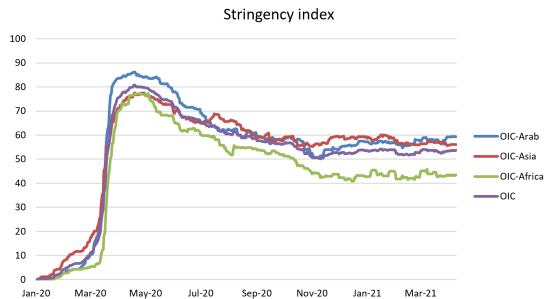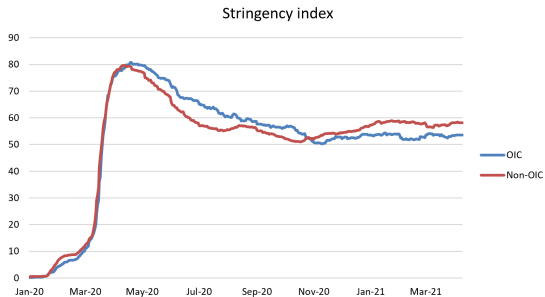
Stringency index (average)

Figure 18. Stringency index (world average). *Source:* https://ourworldindata.org

Stringency index

Stringency index

Main results

- The results suggest that OIC countries strictly implemented containment/monitoring policies (even stricter than non-OIC countries) during 2020.

- Then, due to increased social pressures and accumulated socio-economic risks, the stringency of policies was relaxed faster than non-OIC countries.

- Lack of sufficient support and relief programs for households contributed to rapid relaxation of containment policies. Low stringency is not backed by a sound vaccination plan in most OIC countries—which lags behind the rest of the world due to low vaccine supply. This heightens the risk of further Covid-19 waves with higher infection and death rates.

- Risk of further economic damages is also non-negligible.

Growth effects of Covid-19

- Economic contraction for year 2020 is around 3.5 percent for OIC countries, slightly higher than the global estimate of 3.3 percent. Recovery in OIC region for 2021 and 2022 is expected to be on par with global recovery.
- There is heterogeneity within OIC countries: OIC-Arab group -8.2 percent, while Asian and African groups -3.6 and -0.2 percent, respectively. Expected recovery paths reflect similar heterogeneities.
- Contraction in Arab region partly comes from deterioration in conflict-afflicted member countries—such as Libya, Iraq, Lebanon, Tunisia, and Palestine. Uncertainty in oil prices negatively affects oil-exporting Arab countries.
- Fiscal room is small in lower-income economies—limiting governments' capacity to smooth out output losses. However, financial conditions in advanced economies indirectly support the developing world. Contraction is detrimental to poorer OIC economies, as they not only cope with the economic difficulties posed by Covid-19, but they try to close the gaps in income and living standards.

Employment effects of Covid-19

- Average 2015-19 unemployment rate for the OIC group is 8.1 percent, and it is expected to increase by 0.6 percentage points and reach 8.7 percent by 2020.

- Low-skilled, women, and youth are affected severely. Increase in unemployment, decline in LFP, and reduced job opportunities are more prominent for these groups. These asymmetric effects are likely to be more persistent and long lived.

- Employment dropped in transportation, accommodation, food, entertainment, and services sub-sectors. Manufacturing and construction experienced drops, but milder. Information & communication technologies, insurance, finance, and food retail trade experienced employment growth. Covid-19 expedited automation/digitization mega-trends in vulnerable sectors. Job separation rates increased and job finding rates declined—implying increased turnover and longer unemployment spells.

Fiscal capacity-employment interactions

- Despite the heterogeneity in infection and death incidence, almost all societies/economies have been deeply influenced by the pandemic. Governments are forced to tradeoff public health safety with economic activity, and maintaining a balance has not always been easy.

- Advanced economies have larger fiscal capacities and they could afford keeping their economies closed for longer time periods, while developing and less-developed countries typically had smaller fiscal packages, which forced them to implement lockdown measures for shorter durations.

- This tradeoff has been particularly difficult for countries with workforces comprising mostly of informal and low-skilled workers living in slums. Informal workers and their families are not only out of the coverage of typical "formal" support packages, but they are also the ones who have been exposed to severe health risks during the pandemic due to adverse conditions they live/work in and limited health insurance coverage.

Gross general government debt

- Average (2015-19) gross general government debt as percentage to GDP is 49.7 for OIC countries. It sharply increased during the pandemic (64.5 percent). Although it is expected to somewhat decline in 2021 and 2022, mostly due to economic recovery, part of the increase in government debt may be permanent.

- It increased from 59.9 percent to 80.0 percent for the OIC-Arab group (35 percent increase), from 39.2 percent to 55.6 percent for the OIC-Asia group (41.8 percent), and from 49.4 percent to 57.4 percent for the OIC-Africa group (16.2 percent).

- These patterns exhibit limited fiscal response capacity for LDCs among OIC countries.

Inflationary effects of Covid-19

- Average inflation for OIC countries (2015-19) is 5.5%. With Covid-19, it increased by almost 150 percent and reached 13.8%. Country-specific spikes (Sudan, Lebanon, Suriname, Iran, Yemen, etc.) explain almost all the jump.

- Countries with pre-pandemic structural problems—i.e., conflict, institutional weaknesses, macroeconomic imbalances, foreign exchange volatility, and excess reliance on imported commodities—suffered the most from high post-pandemic inflation. They are expected to be exposed to high inflation also in 2021-22.

Effects on socio-economic inequalities

- Shocks hitting the developing countries during the pandemic has specific features that lead to accumulation of various socio-economic risks.

- The shock is expected to leave permanent damages on disadvantaged groups'—such as low-skilled workers, informal workers, women, and youth—socio-economic status.

- These asymmetric effects are harmful especially for poverty, gender equality, education, social protection, refugees/IDPs, slum dwellers, labor markets outcomes, remittances, food insecurity, and tourism dimensions in vulnerable economies.

Concluding remarks

- Covid-19 disrupted manufacturing activities, trade patterns, human mobility, and global supply chains.

- Policies to contain the spread of virus posed challenges on economic activity. High volatility in financial markets and mixed signals by health authorities about the course of pandemic increased uncertainty, and curbed investment, employment, and production appetite.

- Asymmetries in fiscal and monetary policy implementation across countries generated sharp capital movements and led to accumulated risks for future economic instabilities.