Economic Impact of COVID-19: Implications for Public Financing

Joint Learning Network Webinar

Pro-Poor Earmarking of Health Taxes for Domestic Resource Mobilization

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Although many countries have seen improvements, the COVID-19 pandemic continues to grow globally:

- >250,000 daily new cases with almost 800,000 confirmed deaths to date

- USA, Brazil, and India currently have the highest number of daily new cases.

- Evidence that non-COVID health service utilization is also being adversely affected.
Collateral damage from COVID-19: unemployment and poverty rates rising; adverse effect on remittances and household incomes; income inequality increasing; consumption and services sector, as well as those in informal sector impacted the hardest…
The longer and more severe the lockdown measures (as measured by stringency index) the bigger the expected economic impact.

**Lockdown stringency**

**External integration**
- Jamaica
- Cambodia
- Georgia
- Thailand
- Djibouti
- Cambodia
- Congo
- Kyrgyz Republic
- Mozambique
- Paraguay
- Nepal
- El Salvador
- Honduras
- Armenia

**Fiscal vulnerability**
- Afghanistan
- Niger
- Rwanda
- Nigeria
- Myanmar
- Bangladesh
- Indonesia
- Kenya
- India
- Egypt
- Sri Lanka
- Ghana
- Uganda
- Bangladesh
- Pakistan

**Extent of Economic Impact Differs Across Countries**

**Tourism**
- Jamaica
- Cambodia
- Georgia
- Thailand

**Exports**
- Djibouti
- Cambodia
- Congo

**Balance of Payments**
- Kyrgyz Republic
- Mozambique
- Paraguay

**Remittances**
- Nepal
- El Salvador
- Honduras
- Armenia

**External Debt**

**External Grants**

**Tax Revenues**

**Deficit**

**Public Debt**

**Public Debt Service**

Source: Hale et al (2020)
Per Capita GDP Growth Will Decline in Almost All Countries

- Current projections indicate South Africa, Brazil, UK, France, Sudan will see economic contractions in excess of -9% in 2020.
- USA, Nigeria, India, Malaysia expected to see a decline between -5% to -9%.
- China, Myanmar, Ethiopia, Vietnam will likely see a slowdown in economic growth but are not currently expected to see an economic contraction.

Source: WB/IMF staff estimates
Implications of the adverse economic impact from COVID-19 will depend on how health is financed across countries…

Health Financing Sources Differ Across Countries: On Average, OOP & External Financing Prominent in LICs
Economic Growth is Not the Only Determinant of Public Spending on Health

...public spending on health depends not only on what happens to economic growth, but also on public revenues and on the ability of countries to implement countercyclical fiscal and monetary policies (e.g., by borrowing) and to changes in priority for health in government budgets.

![Formula Diagram]

\[
\text{Health Share of Public Expenditure} \times \text{Public Expenditure Share of GDP} \times \text{GDP per Capita} = \text{Public Expenditure on Health per Capita}
\]

\[
\text{India (2018-2019)} \quad 4\% \times 28\% \times \text{US$2,100} = \text{US$21}
\]

\[
\text{India (2020-2021)} \quad ? \times ? \times \text{US$2,000} = ?
\]
Lower Public Revenues, Higher Deficits/Debt Projected

Revenues expected to decline…

…shortfalls in revenues made up by borrowing…

…leading to higher public debt levels.
Slowdown/Contraction in Health Financing Expected

- Even with countercyclical increase in total government spending share of GDP by increasing borrowing and rising debt, growth in per capita total government spending is expected to **slowdown or contract** in LICs.

- Health’s share of public spending will need to **increase** to preserve previous trend growth rates and to offset likely declines in OOP spending.

- Higher debt → greater debt servicing in future; **fiscal tightening may continue** for several years beyond end of current crisis.
## Summary: A Crisis for Health Financing

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<tr>
<th>A massive global economic contraction is occurring: causing a rise in unemployment, poverty, inequality as well as declining public revenues, remittances, and household incomes; Most countries have significantly increased borrowing to mitigate the effects of the crisis</th>
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<td>Higher borrowing may help mitigate immediate impact but rising debt levels will likely imply fiscal pressures for many years to come; Cutting unproductive spending, increasing public revenues (including via pro-health taxes), and debt relief measures will all be needed to be looked as possible options for fiscal space, including for health</td>
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<td>Without pro-active reprioritization, public financing for health will stagnate/decline across many countries, risking reversal of years of progress made towards UHC; health will need to make a strong and clear case for continued investments to maintain or increase allocations during annual budget submissions</td>
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<td>Budget submissions will also need to be realistic and sustainable and require some demonstration of reallocation and reprioritization with health within agreed strategies to address priorities and improve overall population health, especially for the poor, as well as to ramp up pandemic preparedness</td>
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