

Government Budget Implications of the Covid-19 Virus as Seen Through our Consensus Forecasts



Economists work with numbers, and the financial costs of the coronavirus pandemic as proposed by some Governments are without precedent, except during the wars of the 20th century. And yet, victory is not assured and the duration of the engagement is uncertain. In this higher risk context, Governments and individuals will soon be focusing more on issues of financial, economic and political stability, as well as on future health security.

An Update and a Government Policy Focus

First, we refresh some of our tables that have regularly featured in our Covid-19 economic research series to try to gauge where various countries presently lie in their infection phase. Second, and drawing on recently-released IMF data, we look at some of the major government spending initiatives that have been enacted by countries

to mitigate the economic damage. We lay out the implications of these policies for consensus forecasts of governments' budgetary arithmetic. Third, we show how consensus GDP growth forecasts for 2020 have been evolving as a consequence of this health crisis, drawing on daily changes to forecast sentiment. Finally, we briefly discuss some of the other important – but oft-overlooked – issues in the current macroeconomic debate about the aftershocks from the Covid-19 virus. These include some cyclical considerations; the future of globalisation; the quality of health and economic data; and the emerging issue of health security.

Infection and Fatality Rates

In Figure 1 below, we provide a snapshot of Covid-19 infection rates and fatality rates for selected countries on

Figure 1: Cumulative Reported Covid-19 Infection and Fatality Rates as at April 27, 2020

	Cumulative Covid-19 Cases April 27, 2020	Population Millions	Cumulative Covid-19 Cases per million of Population	Deaths	% Deaths per Cumulative Covid-19 Cases	Deaths per Millions of Population
Spain	209465	46.7	4483	23190	11.07	496
Italy	197675	60.6	3262	26644	13.48	440
United States	965910	327.1	2953	54876	5.68	168
Euro area	832773	341.2	2441	111724	13.42	327
Singapore	13624	5.8	2349	12	0.09	2
United Kingdom	152840	67.1	2278	20732	13.56	309
Netherlands	37845	17.1	2213	4475	11.82	262
France	124575	65.0	1917	22856	18.35	352
Germany	155193	83.1	1868	5750	3.71	69
Sweden	18640	10.0	1864	2194	11.77	219
Canada	46884	37.1	1265	2560	5.46	69
Russia	80949	145.7	556	747	0.92	5
Poland	11617	37.9	307	535	4.61	14
Brazil	61888	209.5	295	4205	6.79	20
Australia	6713	24.9	270	83	1.24	3
Hungary	2583	9.7	266	280	10.84	29
New Zealand	1122	4.7	239	19	1.69	4
South Korea	10738	51.2	210	243	2.26	5
Hong Kong	1037	7.4	140	4	0.39	1
Mexico	14677	126.2	116	1351	9.20	11
Japan	13385	127.2	105	351	2.62	3
South Africa	4546	57.8	79	87	1.91	2
China	84199	1392.7	60	4639	5.51	3
Thailand	2922	69.4	42	51	1.75	1
Indonesia	8882	267.7	33	743	8.37	3
India	27892	1352.6	21	872	3.13	1
Taiwan	429	23.7	18	6	1.40	0

Source: World Health Organisation, Johns Hopkins University and European Centre for Disease Prevention and Control

Figure 2: Reported New Covid-19 Cases - for order see Figure 1

	Monthly Total			Weekly 7 Day Total		
	Jan	Feb	Mar	Apr 12	Apr 19	Apr 26
Spain	0	34	85161	37116	26726	19056
Italy	3	885	100851	27639	23654	19426
United States	6	60	164554	217714	205135	203967
Euro area	15	1040	342500	151382	116948	88826
Singapore	13	85	746	1110	3693	6701
United Kingdom	2	16	22123	37088	35226	34160
Netherlands	0	2	11748	7786	7176	5601
France	6	51	44493	25185	18031	12293
Germany	5	52	61856	28765	19418	14278
Sweden	0	12	4016	3708	3671	4355
Canada	3	13	7408	9419	10040	12000
Russia	0	2	1834	8853	23209	37795
Poland	0	0	2055	2729	2386	2531
Brazil	0	1	4578	10449	15872	21910
Australia	7	18	4532	602	297	117
Hungary	0	0	492	677	506	584
New Zealand	0	1	646	177	49	23
South Korea	7	2924	6855	275	149	67
Hong Kong	13	82	619	114	21	11
Mexico	0	2	1092	2329	3278	6345
Japan	14	216	1723	3477	3613	2821
South Africa	0	0	1326	443	1006	1327
China	9687	69641	2886	522	706	106
Thailand	14	28	1609	382	182	189
Indonesia	0	0	1414	1750	2406	2359
India	1	2	1248	4982	7356	10784
Taiwan	9	30	267	22	13	31

Source: World Health Organisation, Johns Hopkins University and European Centre for Disease Prevention and Control

April 27. Figures 2 and 3 (above and next page) show reported numbers of Covid-19 cases on a cumulative basis and the new daily numbers at various points in April (with end-Jan, end-Feb and end-Mar data reported for comparable purposes). Some of the key conclusions to be drawn from the latest updates are as follows:

- Data from the World Health Organisation for April 28 reports 3.04 million confirmed cases and 211,221 deaths. It took only 13 days to go from 1 million cases to 2 million. By comparison, it took 8 days to go from 500,000 cases to 1 million and 7 days to go from 250,000 cases to 500,000.
- On a global scale, the doubling time is slowing (at least in terms of reported Covid-19 cases), but the pandemic is far from being brought under control. Notably, in the 13 days it took to double from 1 million to 2 million cases, the number of reported deaths increased 130%.
- China's National Health Commission (NHC) recently reported a major revision to Covid-19 deaths in Wuhan province. After a review of patient data, Chinese health officials identified an additional 1,290 Covid-19 deaths in the city of Wuhan. The new

The **World Health Organization (WHO)** is an agency of the United Nations responsible for international public health. It is part of the U.N. Sustainable Development Group, headquartered in Geneva, Switzerland, with six semi-autonomous regional offices and 150 field offices worldwide. The WHO relies on data and funding from member states and private donors. Most of its funding comes from voluntary contributions from member states.

The **Johns Hopkins University** is a private research university in Baltimore, Maryland. Founded in 1876, the university was named for its first benefactor, US entrepreneur, abolitionist, and philanthropist Johns Hopkins. Johns Hopkins experts in global public health, infectious disease, and emergency preparedness have been at the forefront of the international response to Covid-19.

The **European Centre for Disease Prevention and Control** is an independent agency of the European Union (EU) whose mission is to strengthen Europe's defences against infectious diseases. While the idea of creating a European centre for disease control had been discussed previously by public health experts, the 2003 SARS outbreak and its rapid spread across country borders confirmed the urgency of the creation of an EU-wide public health institution.

Figure 3: Reported New Covid-19 Cases per millions of population - for order see Figure 1

	Monthly Total			Weekly 7 Day Total		
	Jan	Feb	Mar	Apr 05	Apr 12	Apr 19
Spain	0	1	1823	794	572	408
Italy	0	15	1664	456	390	321
United States	0	0	503	666	627	624
Euro area	0	3	1004	444	343	260
Singapore	2	15	129	191	637	1155
United Kingdom	0	0	330	553	525	509
Netherlands	0	0	687	455	420	328
France	0	1	685	387	277	189
Germany	0	1	744	346	234	172
Sweden	0	1	402	371	367	436
Canada	0	0	200	254	271	324
Russia	0	0	13	61	159	259
Poland	0	0	54	72	63	67
Brazil	0	0	22	50	76	105
Australia	0	1	182	24	12	5
Hungary	0	0	51	70	52	60
New Zealand	0	0	137	38	10	5
South Korea	0	57	134	5	3	1
Hong Kong	2	11	84	15	3	1
Mexico	0	0	9	18	26	50
Japan	0	2	14	27	28	22
South Africa	0	0	23	8	17	23
China	7	50	2	0	1	0
Thailand	0	0	23	6	3	3
Indonesia	0	0	5	7	9	9
India	0	0	1	4	5	8
Taiwan	0	1	11	1	1	1

Source: World Health Organisation, Johns Hopkins University and European Centre for Disease Prevention and Control

addition raises Wuhan's total from 2,579 to 3,869, a 50.0% increase. The new deaths raise China's national total from 3,342 deaths to 4,632, a 38.6% increase. China also reported an additional 325 cases in Wuhan. The NHC attributes the under-reporting to the large surge of cases early in the epidemic hindering data collection efforts.

- Spain had been reporting elevated levels of Covid-19 infection rates in March and early April but has shown a notable decline in more recent data. Indeed, its infection rate dropped to 19,056 in the week of April 26, down from 37,116 and 26,726 in the weeks of April 12 and April 19, respectively (Figure 2). Measured by the number of reported cases per million of population (Figure 3), the infection rate has almost halved in recent weeks.
- Italy's Covid-19 reporting has involved a number of peaks and valleys over the past several weeks, but it is exhibiting an overall slow decline since the height of 6,557 on March 22.

- The United States has reported a surge in rates of Covid-19 cases and deaths in the past two months, especially in urban areas.

Health Stats Comparisons are Difficult

Having presented an update on the Covid-19 situation based on recent WHO and other source data, we would again advise readers to use such information only as a general reference and with caution and awareness of their limitations. Many criticisms have been made of the reliability of Covid-19 health statistics in cross country comparisons and to understanding how the pandemic is developing. Historical revisions and clear cases of underreporting in official source information continue to occur and have generated many questions about data accuracy and comparability across countries and over time.

Fiscal Policy Implications

Across the world, governments have deliberately restricted economic activities through lockdowns of major areas in order to impair the transmission of the Covid-19 virus. These have obviously generated an enormous shock to the world economy via their impact on both the capacity

(continued on the next page)

to produce goods and services and on the demand for those goods and services. In order to mitigate the economic damage, governments (and Central Banks) have stepped in and pulled policy levers in often unprecedented ways. In general, the government-sponsored fiscal policy levers used have included:

Spending-side Measures: These include wage payments and transfers to workers and firms, as well as government-funded health systems for patients and those who need to self-isolate, or have to stay at home for childcare during school time. Other measures include cash transfers to households and temporary enhancement or extension of unemployment benefits. In some countries, public spending has been frontloaded, particularly on public healthcare, unemployment benefits, and the broader social safety nets.

Revenue-side Measures: These include tax relief initiatives for people and firms, postponing social security contributions and reducing advance tax payments. To address supply constraints and support demand, special investment allowances for projects taking place in a given time period or temporary value-added-tax rate cuts or extensions are also included.

Government Supported Liquidity Measures: Some governments are providing cashflow support in the form of loans, loan guarantees, equity injections, umbrella guarantees, and other liquidity support. Largest country examples include France, Germany, Italy, the United Kingdom, and to a lesser extent the United States. These liquidity-support measures often occur “below the line” or involve contingent liabilities that are outside budget revenues and expenditures.

IMF Analysis

A mid-April analysis from the IMF suggests that the Group of Twenty (G20) economies have provided or budgeted revenue and spending measures worth 3.5 percent of GDP on average, as of April 8, 2020, in response to the Covid-19 pandemic. This amount is higher than the stimulus during the global financial crisis of 2008-2010. Liquidity support measures that have been announced are worth above 10 percent of GDP in France, Germany, Italy, Japan, and the United Kingdom. This can be seen firstly in Figure 4 (bottom chart) which includes above-the-line spending and revenue measures only, weighted by GDP in Purchasing Power Parity adjusted current US dollars terms. Figure 5 (next page) adds below-the-line measures (loans, equity injections etc.) and government guarantees to revenue and expenditure measures.

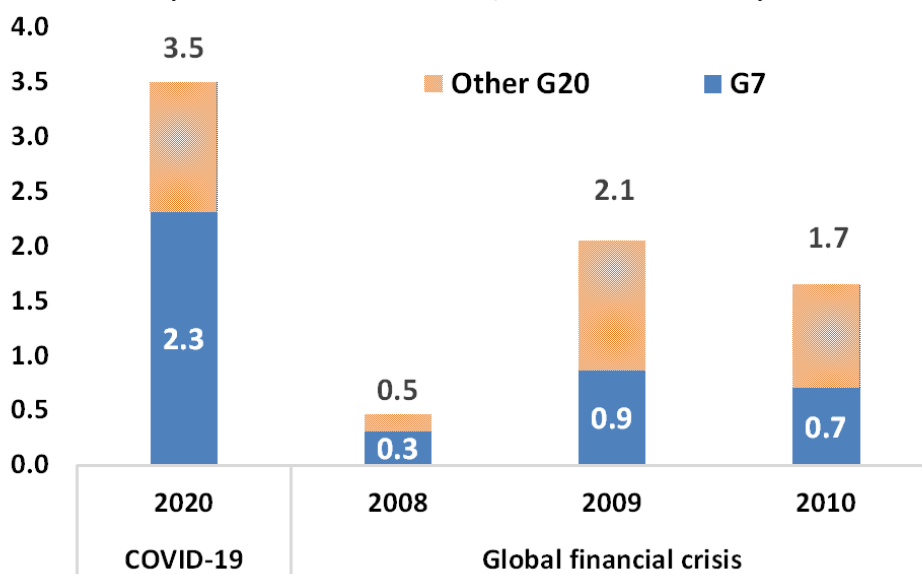
A key conclusion to be drawn from this analysis is that most European countries (e.g. Germany, Italy, France, Spain as well as the United Kingdom) have opted to tilt their fiscal stimulus strategy toward below the line measures relative to more conventional above the line spending and revenue measures. In total, spending and revenue measures amount to around US\$3.3 trillion and loans at the global level, while equity injections, and guarantees total US\$4.5 trillion.

Fiscal Measures in Major Economies and Regions

Below we summarise some of the specific fiscal initiatives that have been enacted in recent weeks:

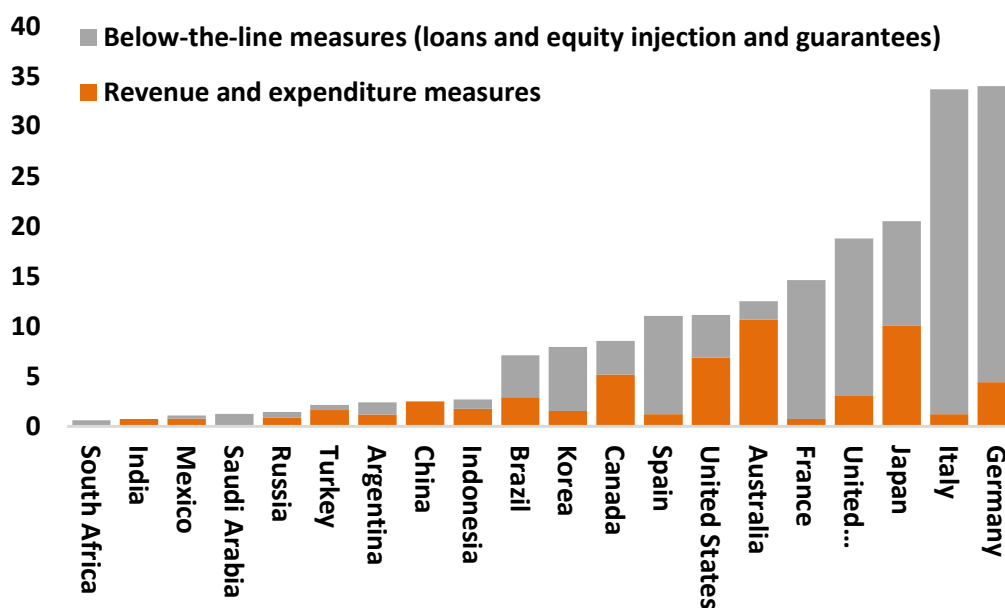
- In the United States, in addition to health measures approved in early March, the Coronavirus Aid,

Figure 4: Fiscal Response to the Covid-19 Pandemic and the Global Financial Crisis (Above-the-Line Measures, Percent of G20 GDP)



Sources: National Authorities and IMF Staff Estimates, as of April 8, 2020.

Figure 5: Below-the-line Fiscal Measures
(Percent of National GDP)



Sources: National Authorities, and IMF staff estimates as of April 8, 2020.

Notes: The decomposition between loans and guarantees is based on available information as of April 8, 2020.

G7 = Group of Seven; G20= Group of Twenty; PPP= purchasing power parity.

- Relief, and Economic Security (CARES) Act includes a package worth US\$2 trillion or almost 10 percent of GDP in tax, spending, and liquidity-support measures, including pandemic unemployment assistance to households, payroll tax deferral, and pay-check protection for small and medium-sized companies.
- In the European Union (EU), current tax and spending measures taken by member states amount to roughly 3.1 percent of EU-27 GDP. Further support is to be provided through EU level initiatives, including a ‘coronavirus investment response’ to help national health sectors, businesses (through working capital or guarantees), and national short-term employment schemes. Liquidity support measures such as loans or loan guarantees to businesses have also been common. After some years of surplus, Germany is budgeting for deficits in 2020 and 2021.
- In Japan, the Emergency Economic Package Against Covid-19 announced on April 7 totals ¥108 trillion (20 percent of GDP) and covers cash handouts to affected households and firms; concessional loans from public and private financial institutions; and deferral of payment of tax and social security premiums for one year.
- In the United Kingdom, in addition to a number of specific measures aimed at the health crisis, the fiscal year 2020/21 budget projects a substantial fiscal easing over the medium term (by 1 percentage point of GDP on average over the next five years relative to the previous fiscal path), including a planned increase in net public investment from 2 to 3 percent of GDP.
- China is looking to fast track spending to mitigate the health effects of the Covid-19 pandemic. These include accelerated unemployment insurance disbursement to support households, and temporary tax relief and deferral of tax payments for businesses in affected sectors and regions. More stimulus may be announced at the delayed annual parliament meeting (originally scheduled for March), after a weak Q1 GDP growth figure of minus 6.8% (y-o-y) raised fears about social stability and a long and deep economic contraction.
- India has announced a reduction in personal income tax rates, with a rationalization of exemptions. However, its efforts thus far seem small in relation to other countries, partly due to budgetary constraints. In March 2020, the government announced a fiscal support package (worth only 0.8 percent of GDP) to cushion the

Covid-19 impact, including cash transfers, an insurance cover to medical workers, and steps to strengthen food security.

- In Brazil, the government has expanded cash transfers to low-income households and provided temporary tax relief, amounting to 2.9 percent of GDP. President Bolsonaro is under pressure to do more to safeguard investment in infrastructure, mining, energy and regional development.

What do Consensus Forecasts Reveal About Governments' Fiscal Balances

A snapshot of the latest consensus forecasts for a number of countries' budget balances (levels and relative to GDP) is shown in the Figures on this page. The Covid-19 virus's implications for financial and economic stability, as well as the much looser stance of fiscal policy that it has caused are – according to our panellists – likely to generate a substantial increase in fiscal deficits (or much reduced surpluses in the case of Norway). Our forecast data shows that fiscal balances in 2020 are expected to deteriorate in all countries, with the largest deficits in the United States, European and other economies. However, GDP growth is currently forecast to recover somewhat later this year and into 2021, and this should ease the strains on fiscal policy (at least on a percentage of GDP basis) and more generally

Figure 6a: Government Budget Deficit Forecasts (% of GDP)

	2019	2020	2021
USA	-4.6	-11.6	-8.8
Japan	-3.0	-3.6	-2.9
Germany	1.5	-4.9	-2.3
France	-3.1	-7.2	-4.1
UK	-2.3	-7.9	-5.7
Italy	-1.6	-6.8	-4.0
Canada	-1.0	-7.0	-3.3
Netherlands	1.7	-2.8	-1.3
Norway	6.4	3.9	5.2
Spain	-2.5	-7.3	-3.9
Sweden	0.4	-4.0	-1.4
Switzerland	0.8	-2.4	-0.7
Australia	0.0	-5.3	-7.7
China	-5.0	-5.2	-4.4
India	-3.8	-4.7	-3.9
Poland	-1.0	-6.1	-3.8
Russia	1.8	-3.1	-1.4
Brazil	-5.9	-9.6	-5.9
Mexico	-1.6	-3.8	-3.4

Source: Consensus Economics, April 2020

improve government finances. That's largely why outsized fiscal deficits in 2020 are expected to give way to reduced deficits in 2021.

Figure 6b: Government Budget Balances					Consensus forecasts for 2020				2021
		Historical Data ³			from survey of:				Consensus
		2017	2018	2019	Jan '20	Feb	Mar	Apr	Forecasts
United States	US\$ bn	-666	-779	-984	-1053	-1062	-1067	-2410	-1929
	% of GDP	-3.4	-3.8	-4.6	-4.7	-4.8	-4.8	-11.6	-8.8
Japan	¥ tn	-14.7	-14.9	-16.6 e	-15.4	-15.6	-13.8	-19.3	-15.9
	% of GDP	-2.7	-2.7	-3.0 e	-2.7	-2.8	-2.5	-3.6	-2.9
Germany	Eur bn	40.3	62.4	49.8	18.9	20.8	18.2	-162.3	-78.8
	% of GDP	1.2	1.9	1.5	0.5	0.6	0.5	-4.9	-2.3
France	Eur bn	-63.6	-59.5	-73.8 e	-59.9	-59.7	-62.6	-164.9	-99.9
	% of GDP	-2.8	-2.5	-3.1 e	-2.4	-2.4	-2.5	-7.2	-4.1
United Kingdom	£ bn	-56.1	-38.0	-50.4 e	-55.2	-55.3	-59.7	-166.4	-128.1
	% of GDP	-2.7	-1.8	-2.3 e	-2.4	-2.4	-2.6	-7.9	-5.7
Italy	Eur bn	-42.0	-38.6	-29.3	-40.6	-40.8	-44.8	-111.7	-68.7
	% of GDP	-2.4	-2.2	-1.6	-2.3	-2.3	-2.5	-6.8	-4.0
Canada	C\$ bn	-19.0	-14.0	-23.7 e	-23.3	-26.0	-28.5	-157.3	-78.0
	% of GDP	-0.9	-0.6	-1.0 e	-1.0	-1.1	-1.2	-7.0	-3.3
Euro zone	Eur bn	-103.5	-57.9	-92.9 e	-113.3	-116.5	-134.4	-759.2	-369.0
	% of GDP	-0.9	-0.5	-0.8 e	-0.9	-1.0	-1.1	-6.7	-3.1
Netherlands	Eur bn	9.3	10.6	14.0	4.8	4.5	5.5	-21.5	-11.1
	% of GDP	1.3	1.4	1.7	0.6	0.5	0.7	-2.8	-1.3
Spain	Eur bn	-35.1	-30.5	-30.9 e	-26.6	-27.0	-27.3	-84.8	-49.1
	% of GDP	-3.0	-2.5	-2.5 e	-2.1	-2.1	-2.1	-7.3	-3.9

e = consensus estimate based on latest survey.

Source: Consensus Forecasts, April 2020

¹Euro zone countries follow the Maastricht definition for budget balances. Others are home country definitions.

²The UK's Public Sector Net Borrowing (in £ bn) is shown as a deficit in the public accounts.

³Germany, France, Italy, the Euro zone, the Netherlands and Spain are Calendar Year data. Others are Fiscal Year.

Figure 7: Current Infection Rates versus Changes to Consensus GDP Forecasts for 2020

	Covid-19 Cases per million	Consensus GDP Growth Forecasts		GDP Growth
	as at April 27, 2020	January 13, 2020	April 27, 2020	Adjustment
Italy	3262	0.38	-8.34	-8.72
Spain	4483	1.63	-6.85	-8.48
South Africa	79	1.17	-6.85	-8.03
New Zealand	239	2.22	-5.54	-7.76
Thailand	42	2.76	-4.93	-7.69
France	1917	1.18	-6.10	-7.28
Hungary	266	3.30	-3.96	-7.26
Mexico	116	1.09	-6.06	-7.15
Euro area	2441	0.99	-5.98	-6.97
United Kingdom	2278	1.10	-5.84	-6.94
Poland	307	3.43	-3.28	-6.71
Netherlands	2213	1.36	-5.09	-6.44
Canada	1265	1.61	-4.76	-6.37
Germany	1868	0.86	-5.40	-6.26
United States	2953	1.91	-4.28	-6.19
Sweden	1864	1.11	-4.76	-5.87
Australia	270	2.25	-3.61	-5.86
Singapore	2349	1.41	-4.17	-5.58
Brazil	295	2.20	-3.37	-5.57
Russia	556	1.78	-3.69	-5.47
Japan	105	0.37	-3.90	-4.27
China	60	5.86	1.74	-4.12
India	21	6.02	1.97	-4.05
Hong Kong	140	0.03	-3.76	-3.79
Indonesia	33	5.03	1.76	-3.27
South Korea	210	2.16	-0.79	-2.95
Taiwan	18	2.30	-0.13	-2.43

Source: Consensus Economics, World Health Organisation, European Centre for Disease Prevention and Control

The Effectiveness of Fiscal Policy

The overall effectiveness of these initiatives will hinge on a number of factors and not just their size. A key consideration is the degree to which fiscal policy can temper the employment dislocations which might have otherwise impaired household incomes and stifled consumer spending. Absent targeted fiscal initiatives that protect employment, a recovery process that ought to begin once the virus curve in an economy has been flattened and moved into reverse may well be delayed. Monetary policy initiatives (which are not our focus in this note) in this environment are arguably less effective than fiscal policy. Cutting interest rates, after all, will not necessarily raise demand in a lockdown and does little to help small firms – a key consideration for employment dynamics. Central banks can, however, make sure there is sufficient liquidity to meet financial market demands and this, in turn, can help to fend off an unnecessary credit crisis. And that helps make sure bond markets are working

which, in turn, lets governments raise the money they need to fund fiscal policy.

Continuous Consensus Forecasts

We turn now to an update of our Consensus GDP growth forecasts, as shown in the above table, which contrasts current infection rates with changes in our Consensus Forecasts between January 13 and April 27, 2020. Those updates continue to suggest that most countries are now expected to undergo a major contraction in 2020 and particularly those that have high infection rates. Italy, with Covid-19 cases per million of population at 3262, is forecast to contract 8.34%. Taiwan, in contrast and shown at the bottom of the table is forecast to contract by a more modest 0.13%. Of those that don't have major Covid-19 infection rates, outsized revisions to consensus forecasts may reflect other factors. For example, the large downgrade to GDP forecasts for Thailand is likely related to its exposure to tourism and international travel restrictions. Commodity-

related GDP declines are presumably at the root of the corrections to South Africa (owing to its exposure to metals and mining and weak national finances) and New Zealand (agricultural exports).

Additional Challenges

Beyond the international health crisis there will be other challenges in the medium term from the impact of the Covid-19 virus. They include the near-term disruptive impacts on the quality of economic data, the unusual nature of the current crisis relative to prior recessions, along with issues concerning the future of globalisation and public debt monetization.

Data Quality Problems Everywhere

We mentioned earlier the major problems in trying to compare health statistics across countries (page 3). In addition, readers will be aware that much economic data is survey based. Industrial production, some unemployment figures, inflation releases, GDP, as well as various sentiment data require respondents to fill in surveys. How these surveys will be conducted and their answers evaluated and disclosed is a matter which economists will be examining closely. Sentiment affects the answers to surveys. Data on consumer price inflation includes restaurant prices, but restaurants are closed.

This is Not a Normal Downturn

Much of the demand-related damage from the Covid-19 virus is arguably caused by fear. Consumers are uncertain and are not spending freely. Companies are fearful, and have changed business plans, furloughed labour and cut costs. Policy makers are also fearful and have been forced to adjust policy more spontaneously and without as much strategic foresight as previously. Policy changes are complicated by the need to make adjustments at the same time as politicians have reduced economic activity in order to achieve health policy aims. This is a very unusual situation relative to the normal upswings and downswings of the economic cycle. Many of those were preceded by outsized savings and investment imbalances, the unwinding of which sowed the seeds for instability, followed by recovery.

The Future of Globalization

Just as with previous financial crisis, the virus has shown that when it comes to healthcare, the world is 'global when healthy, but national when sick.' At a time when it had already been in retreat due to increases in protectionism, trade disputes and geo-political tensions, this pandemic will add questions about the future of globalization. Freedom of movement and global supply chains – key lynchpins of globalization – are now subject to severe restrictions and it is not clear at all whether

they will return to previous 'normality' once the virus has passed. The virus and its financial challenges are also resulting in severe strains to European Union country relations and 'solidarity'.

Out-sized Public Debt and Monetisation of Debt

Global debt is set to rise substantially in 2020 as a result of the Covid-19 crisis, which has triggered a collapse in commercial activity and sharp increase in health and social security related expenditure. Certainly, the trend that had been established in some countries in recent years toward fiscal austerity and public debt repayment has come to an end. At present, this is not causing major strains in government debt markets – sovereign bond market spreads, for example, seem to be well contained. Fears about a potential monetization of government debt – and its inflationary implications – also appear to be temporarily contained. That is perhaps because Central Banks have not yet explicitly offered to monetise these deficits, but instead opted for another round of new asset purchase programmes to buy the glut of bonds governments will soon issue. It is, however, notable that some economists are now calling openly for explicit helicopter money, in the sense that Central Banks should directly fund government deficits. Should this debate become more active, and find an echo in policy, the economic and financial market ramifications could become significant.

Health Security

Undoubtedly, the issues surrounding national and international health will emerge as important political and scientific challenges going forward. No one can predict when the next infectious virus outbreak might strike, but economic and social impact of Covid-19 – which is already greater than SARS in 2003 and MERS in 2012 – is a reminder of how viral disease outbreaks represent a major threat to humanity. We expect that Government and private sector expenditure on health services and life science research will be expanded so that we can be more prepared for the next health crisis. The areas of health information and statistics are, we believe, also in need of simultaneous reform, standardisation and expansion.

Given the aforementioned social and economic impacts of the Covid-19 health shock, a snap back to a pre-virus state appears unrealistic. Tourism, immigration and international relations are among the immediate areas that have been impacted by radical changes to the way we live and travel. How countries trade and do business with one another as we begin to emerge from Covid-19 lockdowns will have a lasting effect on the sustainability of cross border supply chains, as well as future decisions on political, financial and health security cooperation.

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