



The macroeconomics of a pandemic: emerging and developing countries

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Five questions

1. How many shocks?
2. What can governments do?
3. How quick will the recovery be?
4. Role of monetary and fiscal policy
5. Lessons learned

How many shocks?

1. Covid-driven supply shock
2. Drop in trade volumes
3. Drop in terms of trade
4. Drop in services income
5. Massive capital outflows (at first)

What can/should government do?

1. Help families that have lost their income
 - It helps people stay at home
2. Help firms keep workers employed
 - Caveat: need fiscal space
3. Stimulate aggregate demand
 - Caveat: it is a supply shock, at least initially

How fast will the recovery be?

1. Factor 1: speed of virus containment
 - We cannot be sure
2. Factor 2: cyclical or structural shock?
 - Jobs are destroyed quickly, created slowly

The role of monetary and fiscal policies

1. Fiscal response is essential
 - But recall this was a supply shock before it was a demand shock
 - Fiscal policy works best when targeted at lifting specific supply constraints
2. EMs: more room for counter-cyclical monetary response
 - Record low interest rates in US and other AEs help
 - Initial capital outflows reversed
 - A number of EMs doing heterodox monetary policies
 - What are the limits? We do not know

Lessons for the future

1. Resilience and fiscal space
2. Informality and the labor market
3. A weak international safety net



Thank you!