

# COVID-19 Public Health and Macroeconomic Measures

## Issue

The spread of COVID-19 has prompted countries to implement unprecedented measures to contain the pandemic and avert economic catastrophe. Consequences include businesses being temporarily shut down, financial market turmoil, an erosion of consumer spending and business investment, and contractions in trade. Aside from responding to the immediate public health emergency, policymakers must ensure workers remain on payroll and businesses remain solvent so the economy can rebound once the worst of the pandemic subsides. This memo will provide a high-level overview of why the COVID-19 pandemic is unique when compared to other outbreaks; an overview of various public health interventions to date; an overview of the main macroeconomic interventions; and a summary of some initial macroeconomic impacts. This piece relies on data from the OECD's ongoing *Tackling Coronavirus (COVID-19)* research initiative.

## Why COVID-19 is Unique

- Four factors distinguishing the spread of covid-19 from other outbreaks is its high reproduction number (the number of other people infected by one person), the larger number of asymptomatic or mild cases, its relatively long incubation period (11-12 days), and its capacity to last on surfaces for up to three days.
- Because COVID-19 has a high reproduction number, achieving herd immunity (50-60% of the population) comes at the cost of placing enormous strain on the healthcare system. Without containment measures, the virus would self-eradicate in 5-6 months in the UK and US, but the human price would be very high. Absent a vaccine (12-18 months away), acute care services would lack the capacity to handle a sudden inflow of infected people, leading to a large number of deaths.

## Overview of Public Health Interventions

- Policy options include: (i) information and communication; (ii) reduction of the risk of transmission; (iii) increase in social distancing; (iv) decrease interval between symptom onset and isolation; (v) disinfection measures; and (vi) travel restrictions. The best way to mitigate the spread of the virus is by implementing a suite of complementary policies, not just individual policies alone.

- Policy measures have been enacted similarly across countries, but countries differ on two main dimensions - timing and the strength. Countries have implemented policies at different times, depending on the evolution of the outbreak locally; countries have also decided to implement measures at strength levels, depending on the outbreak's severity and the feasibility of the policy. Most countries have tended to implement stronger and more homogenous policies as the virus spreads.
- Strong containment and mitigation measures limiting the frequency and duration of social contact are key. Specific actions include workplace social distancing; school closures; and banning mass gatherings. Containment and mitigation measures create economic and social costs, like unemployment, financial and housing insecurity, increased mental health issues, decreased exercise, and decreased social connection. Containment and mitigation measures only buy time and must be maintained until a vaccine is developed.
- Proactive containment measures like screening, contact tracing, and quarantine were key to South Korea and Singapore's success. South Korea harnessed big data to collect information on the movements of the infected, lowering the cost of tracing and making it more efficient. South Korea also implemented innovative screening procedures like phone booth and drive thru-style testing, Singapore initiated contact tracing for all confirmed and suspected cases with strict enforcement early on. Countries that did not enact proactive containment measures (Italy, France, Spain, USA) were forced to enact stricter lockdowns.

### **Overview of Economic Interventions**

Generally speaking, countries have responded with the same basket of fiscal and monetary policy interventions, although there is some variation depending on local circumstances:

- **Spending and transfer measures** – broad-based tax cuts; more generous, streamlined unemployment benefits; supports to those who do not qualify for unemployment benefits (gig economy workers, self-employed, quarantined, infected, parents providing childcare); generous wage subsidies paid to employers to retain staff; bailouts for heavily impacted sectors like aviation, tourism, oil and gas; government guaranteed low/no interest loans and credit for businesses; funding to strengthen healthcare system capacity; and the removal of trade restriction on medical goods.
- **Tax-administration measures** – waiving/deferring employer and self-employed social security and payroll contributions; providing tax concessions for healthcare workers; offering additional time for filing and paying income taxes; deferring consumption taxes, customs or excise duties for imported essential items like food, medicine, and

goods; expediting the refunds of excess taxes paid; deferring/adjusting required advance payments of business taxes based on the revised expected tax liability; increased flexibility of loss carry-forward provisions.

- **Monetary measures** - central banks lowering overnight interest rates at or near zero and purchasing commercial paper (short-term, unsecured corporate debt instruments), corporate bonds, and government bonds; quantitative easing; easing minimum capital requirements (counter-cyclical capital buffers) to support banks' ability to supply credit.

### **Summary of Initial Macroeconomic Impacts**

- Factors impacting the severity of the economic slowdown are the magnitude and duration of national shutdowns; the extent of reduced demand for goods and services in other parts of the economy; and the speed at which fiscal and monetary measures can take effect.
- Most impacted service sectors include travel, tourism, hospitality, aviation, and those with direct contact between consumers and service providers like real estate and personal care. While most retail stores, restaurants, and theatres are closed, takeaway sales and online retail sales will prevent complete cessation of economic activity in these areas. Spending on essential items and consumer staples will remain largely unchanged.
- Non-essential construction activity is being adversely impacted because either containment measures affect the availability of labour and/or because of construction projects grinding to a halt due to a temporary decline in investment.
- Direct impacts of slowdown on manufacturing sector likely to be smaller in some cases due to it being less employment-intensive, but major slowdowns are occurring in certain areas because of difficulty in obtaining components from suppliers in other countries.
- OECD estimates that the overall direct hit to GDP will average 20-25% in many advanced economies. Impacts will vary reflecting the differences in the composition of output across different economies; Italy and France will be more adversely impacted by a decline in tourism and leisure activity, while Germany will be more adversely impacted by the decline in manufacturing activity. Canada will be adversely impacted by the slowdown in commodity demand due to its sizable agriculture, mining, and oil and gas activity.