

LONG COVID



Long COVID: Key Findings & Recommendations

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KEY FINDINGS & RECOMMENDATIONS

The East Asia and Pacific region is suffering a reversal of fortune. In 2020, many EAP countries successfully contained COVID-19 and economic activity swiftly revived as other regions struggled with the pandemic and economic recession. Now the region is being hit hard by the COVID-19 Delta variant while many advanced economies are on a path to economic recovery.

The virus is damaging the economy and is unlikely to disappear in the foreseeable future. In the near term, the persistence of the pandemic will prolong human and economic distress unless individuals and firms can adapt. In the longer-term, COVID-19 will reduce growth and increase inequality unless the scars are addressed and the opportunities grasped. Policy action must help economic agents adjust today and make choices that avert growth deceleration and disparity tomorrow.

What is happening now?

The uneven economic recovery in the EAP region is facing a setback. China is projected to grow 8.5 percent in 2021, though growth momentum has eased. Overall regional growth is projected at 7.5 percent, reflecting the scale of China's economy. The rest of the region is anticipated to grow by 2.5 percent, compared to 4.4 percent forecast in our April Update, with significant heterogeneity across countries.

As a result, poverty will persist and inequality increase across several dimensions. As many as 24 million people will not be able to escape poverty in 2021 in developing EAP because of COVID-19. While all households have suffered, poorer ones were more likely to lose income, sell off productive assets, suffer food insecurity; and lose schooling for children.

Why?

Domestic restrictions to contain COVID-19 constrain economic activity despite buoyant exports. Testing, tracing, and isolation, a successful strategy in 2020, has been less effective against the Delta variant. Therefore, governments have been forced to impose disruptive restrictions to stop the spread of the virus. The economic consequences have been softened because economic activity is now less sensitive to infections and the buoyant external environment is sustaining regional exports.

Faster vaccination can save lives and livelihoods but faces constraints. Vaccination, which would have helped reduce mortality and transmission, was initially slow but is picking up pace. Across EAP countries, the share of the population that received at least one dose increased from an average of 18 percent by the end of June 2021 to 35 percent by the end of August 2021. Globally, countries with higher vaccination coverage had faster growth. Availability held back vaccination rates in larger countries like Indonesia, the Philippines and Vietnam. Smaller, poorer countries, like some of the Pacific islands, benefited from vaccine donations but some are constrained by limited distribution infrastructure. In several countries, as vaccination levels increase, hesitancy is likely to be a constraint.

Current trends in vaccination could help the EAP transition to a relatively benign phase of COVID-19 by June 2022. Many EAP economies could reach 60 percent vaccine coverage by the first half of next year. 60 percent coverage would not eliminate infections or the generation of new variants and countries will need to seek to achieve higher coverage. The experience of countries with high vaccination rates reveals that it would significantly reduce the incidence of serious illness and mortality, allowing a resumption of economic activity.

EAP countries must take three other measures to contain COVID-19. Testing, tracing and isolation must be used to contain the spread of infections. Health systems must be strengthened to deal with the lingering presence of COVID-19. And production of vaccines, including regionally,

must expand to cope with sustained high demand and unreliable imported supply.

COVID-19 threatens to create a combination of slow growth and increasing inequality for the first time this century in the EAP. The result could be deprivation to an extent that the region has not seen in the last two decades. Poverty in Indonesia and the Philippines could be an estimated 2 percentage points higher in 2023 if recovery is not accompanied by inequality-reducing policies.

The scars of the pandemic are likely to dampen long term economic growth. In Indonesia, Mongolia and Philippines, firms lost on average at least 40 percent of their typical monthly sales and cut jobs. The failure of otherwise viable firms is leading to the loss of valuable intangible assets, such as supplier or customer relationships and know-how. Surviving firms are deferring productive investments. Unemployment can erode human capital and hurt future earnings.

Increased inequality among households today can worsen inequality tomorrow. Income shocks among the poor have adverse long-term consequences. Distress sales of productive assets and increased debt can hurt longer-term incomes. Food insecurity increases the risk of stunting, which impedes children's development and earnings as adults. Limited engagement in online learning could cost the average student in school today a reduction of 5.5 percent in expected earnings every year.

What must be done?

The pandemic has created some opportunities and the right policies can promote equitable growth. Macroeconomic policy must support recovery without jeopardizing macro sustainability. Social protection systems must be reformed to ensure inclusivity. The rapid diffusion of technology could boost productivity, improve learning, and transform state institutions, but harnessing technology will require policy reforms.

Economic support is needed not just for relief, but to stimulate recovery and invest in more inclusive and sustainable growth. As

debt has accumulated, some on expensive terms, fiscal support across the region has declined. Governments should ensure current relief does not unduly crowd out public investment in hard and soft infrastructure, like clean energy, transport, health systems and schools. Many EAP countries can use monetary policy space to support the economy but must remain alert to abrupt global financial tightening. Financial sector surveillance needs to be ensured. Allowing easier access to credit must guard against potential financial instability.

Inclusive economic recovery needs adaptive social protection systems and educational reform. Gaps in social safety nets can be remedied by expanding eligibility for need-based assistance to the uncovered poor, increasing coverage of social insurance, and moving from the traditional static to dynamic targeting methods. Schools need to be re-opened safely with more-individualized remedial support provided to recover learning losses. To build human capital to meet tomorrow's demands, reforms of teacher preparation, curricula, and teaching materials will need to complement investments in EdTech.

Policies should support firms but not inhibit entry and exit. Extending support to productive firms must be accompanied by facilitating entry of new innovative firms through reforms of the business environment and allowing exit of weak firms through better bankruptcy laws and resolution frameworks. Services sector reforms will help finance, communication, transport, and other services be more effective. Countries must reduce remaining barriers to trade in both goods and services and strengthen pro-competitive regulation.

Policies are needed to support broader technology diffusion. Equipping firms with the skills to embed technology in their business must be complemented with openness and competition policies to increase the incentives for firms to exploit such technologies. Broadband access needs to be widened to facilitate use of more advanced technologies.

