



Press Release

New MAS Study Models the Links between Health and Economic Impacts of the COVID-19 Pandemic in Palestine

Sunday, 28th Feb 2021: Continuing its research activities since the beginning of the COVID-19 pandemic in Palestine, the Palestine Economic Policy Research Institute (MAS) will soon publish the first scientific research to model and assess the interaction between the epidemiological and economic impacts of the pandemic, using the particular case of the occupied Palestinian territory (the West Bank). The findings of the study, undertaken for MAS by Drs. Mohammad Abu Zainah (Aix-Marseille University, France) and Sameera Awawda (Birzeit University, Palestine), provide useful information upon which a set of economic and public health policy responses to the COVID-19 pandemic can be advanced.

The novel modeling methodology accounts for heterogeneity across the different groups of the population to assess the impact of an epidemiological shock under different scenarios. The model employed available official data for the period March-August 2020 to compare findings on the consequences of the COVID-19 pandemic according to several scenarios. The effects of each of these scenarios is estimated on a set of micro-level variables, namely, individuals' labor supply, their health capital and health expenditures, and a



set of macro-level variables, namely, the level of government health and non-health expenditures and GDP.

Overall, results suggest that the occupied Palestinian territory is at moderate to high risk of the pandemic. In the absence of an effective vaccine, the lockdown policy may be vital in curbing the spread of the disease and mitigate its adverse effect on the health of the population. However, the implementation of a tight complete lockdown over a long-period is unaffordable in the light of the narrow fiscal space available to the Palestinian National Authority.

Hence, a policy response that targets the trees (i.e., the clusters/chains of infection) rather than the forest (the mass) is in order in the Palestinian situation. Such policy response should be oriented towards enhancing the overall capacity of the health systems (the health workforce, expenditures, and infrastructure). This also entails using the daily reported infection data to implement a set of targeted emergency responses that involve identifying, evaluating and properly addressing all risk factors that are susceptible to be associated with the spread of COVID-19 pandemic.

Khalidi: The response must be comprehensive, not partial

The Director General of MAS, Mr. Raja Khalidi, stressed that the results of the study affirm that facing the disastrous economic consequences of the COVID-19 pandemic requires going beyond the direct health sector policy measures towards devising set of proper economic policy measures. Amongst



the immediate economic measures, the study suggest implementation of a *means-tested benefits* principle (i.e., targeting the most economically affected groups) to help mitigate the adverse economic consequences of the pandemic on the most affected sectors of the economy as well as the most vulnerable groups of the populations who incur the double burden of health and economic losses.

Health impacts in the absence of any response

The impact of the COVID-19 pandemic mimics the impact of a *generalized epidemiological shock* (assuming equal risk of exposure for all). However, awareness of the differential impacts across different socio-demographic groups in the population, and particularly the double burden experienced by the high-risk and vulnerable groups in the population should be of prime concern. Even if exposure to the pandemic is uniform, its potential consequences on individuals' health and more generally wellbeing can be substantially uneven. The high-risk groups would suffer from an average decrease in health capital of between 11% and 11.8% from the generalised or Covid-19 specific shock, as compared to an average decrease in health capital for the low-risk groups of between 7.0% and 3.2%.

Economic impacts in the absence of any response

The macroeconomic impact of the COVID-19 pandemic appears to be also comparable to that observed under the *generalized epidemiological shock scenario* (causing an estimated drop in GDP of 3.4% - 3.2%). As regards



government expenditures similar effects can also be observed under both the *generalized pandemic* and the *COVID-19 specific pandemic* (an estimated drop in government non-health spending of around 35%, and a drop in government health spending of between 36 % and 33%).

Estimated results presented here on the overall impact of COVID-19 pandemic on the Palestinian economy for the period under study are close to the actual quarterly performance reported by the PCBS. Accordingly, the decrease in the GDP for the first quarter 2020 is estimated at 3.4% and 4.9% as compared with the first and last quarters of 2019, respectively. However, it is worth noting that some of the results here differ from previous projections on the impact of COVID-19 on the Palestinian economy. These differences are due mainly to the different working hypotheses and modeling strategies. Unlike previous estimates, the current model captures both the direct and indirect (*through the health production function*) epidemiological and economic effects of the COVID-19 pandemic.

Results show that both consumption expenditure and health investment go in the same direction. Therefore, in the current study, the negative impact on GDP due to the drop in the government expenditure is partially offset by the increase in household consumption expenditure yielding a decrease in the GDP up to 3.7%. By contrast, the estimated decrease in GDP in previous projections by PCBS and MAS of between 14-20% is mainly shaped by the fall in the total government expenditure (in the range of 23-42%).

Health sector focused policy response



A policy-response against the COVID-19 pandemic that relies on expanding government expenditure on health sector would help mitigate the adverse impact of the pandemic on the health of the population, in particular for the high-risk and vulnerable groups. Hence, the incremental burden of household direct health expenditures is lower under such a scenario (an average increase in household health expenditure of 111% as compared to 142% under the no-intervention scenario). Such policy intervention implies a reallocation of government resources in favor of the health sector rather than a generalized expansionary fiscal policy. Indeed, under conditions of highly constrained budget setting for large increases in public spending, a major policy issue is related to the government's available fiscal space.

Lockdown impacts

The active circulation of the COVID-19 virus and the rising daily COVID-19 infection rates and COVID-19-related mortality, bring to the fore the policy question of *whether to re-impose a tighter strict public-health measures by implementing a complete lockdown to rein in Covid-19*. By comparing *the lockdown scenario to the do nothing scenario*, results suggest that the former may indeed be a preferred policy option over inaction in terms of both *micro-level* and *macro-level* outcomes under consideration.

Implementing a tight lockdown over a long period, which can in fact help prevent the rapid circulation of the virus, can be associated with disastrous adverse consequences on the economy overall, hence, might not appear as the best policy option. Indeed, findings reported elsewhere have already shown



that developing countries may not be able to afford a tight long-period lockdown nor do they afford the prohibitive economic and health losses of the pandemic.

This calls for alternative affordable (least possible cost) measures that can target the trees rather than the forest. Such policy requires striking the right balance between safeguarding lives (protecting health) and livelihoods (minimizing economic losses). Of course, in order to keep the virus under control until a vaccine is available, different combinations or types of preventative and protective measures are feasible and have been shown to be effective to slow, or even halt, the transmission of COVID-19.

Interestingly, simulation results clearly indicate that a *public health policy response* that specifically targets the health sector may be preferred over the *lockdown policy response*. In effect, the *public health policy response* appears to be as *effective* as the lockdown policy in terms of its overall protective effect of individuals' health (an overall decrease in health capital that amounts to 5.6%, as compared to 4.2% under total lockdown). In fact, a closer look at the disaggregate results by socio-demographic groups reveals that implementation of a lockdown is particularly protective for the high-risk groups (a decrease in health capital by 6.3% as compared to 8.3% under a policy response scenario).

This finding alludes again to the importance of taking into consideration the differential impacts that such protective measure may have on the different socio-economic groups of the population. Although, the pandemic does not



discriminate between the worse-off and the better-off, its consequences can be highly uneven, particularly in the low-coverage, low-income settings where access to affordable and quality health care can be highly compromised by the ability-to-pay.

Public finance implications of policy response

The implementation of the lockdown appears to be associated with only tiny increase in government health expenditure (of only 3.4%) and a reduction of 23.5% in government (non-health) expenditure. Overall, this suggests that the implementation of COVID-19 lockdown would mainly help the government not to foot the potentially prohibitive bill of the pandemic may it spread rapidly and require a more comprehensive and sustained response.

Vaccination: the magic bullet?

The results confirm the vital role of a vaccine in providing an effective and safe prevention against COVID-19. Of course, the provision of such a vaccine will put an end to the ongoing debate about *whether policies should be set to either save lives or save economies*. The provision of a vaccine appears to have immediate positive impact at both the micro- and macro-levels. However, the limited doses of the vaccine that can be made available in the first phase raises the question of the priority groups of the population to receive it first. Results shed light on the positive public health and economic effects of the provision of the vaccine to the high-risk groups of the population; *viz.*, the elderly, the unhealthy individuals and the adult woman.

