

COVID-19 AND ITS IMPACT ON THE GLOBAL AND ASIAN ECONOMIES

ONLINE PRESENTATION ON WWW.SAUL-ESLAKE.COM

31ST JULY 2020

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY PTY LTD

Agenda

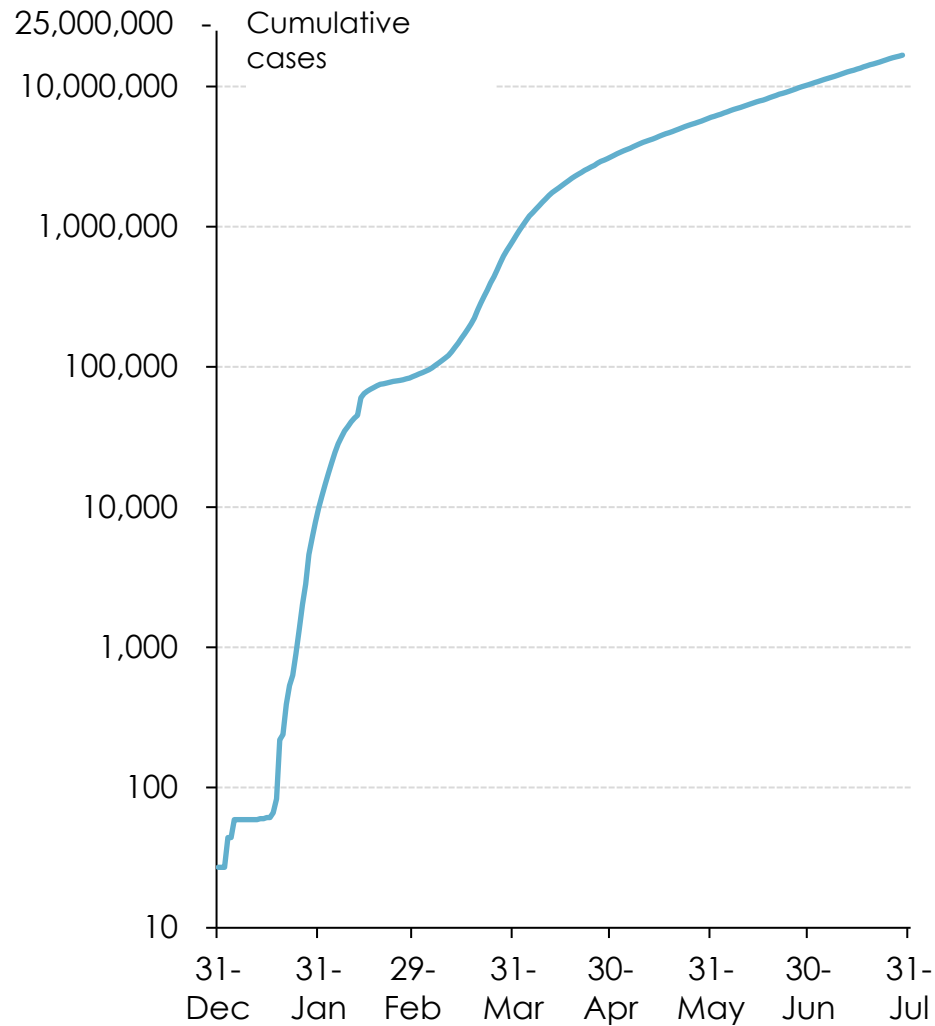
- ❑ **The virus**
- ❑ **The world economy**
- ❑ **A quick look at the major ‘advanced’ economies**
- ❑ **Asian economies**

Note: nothing in what follows constitutes investment advice, nor should it be construed as such!

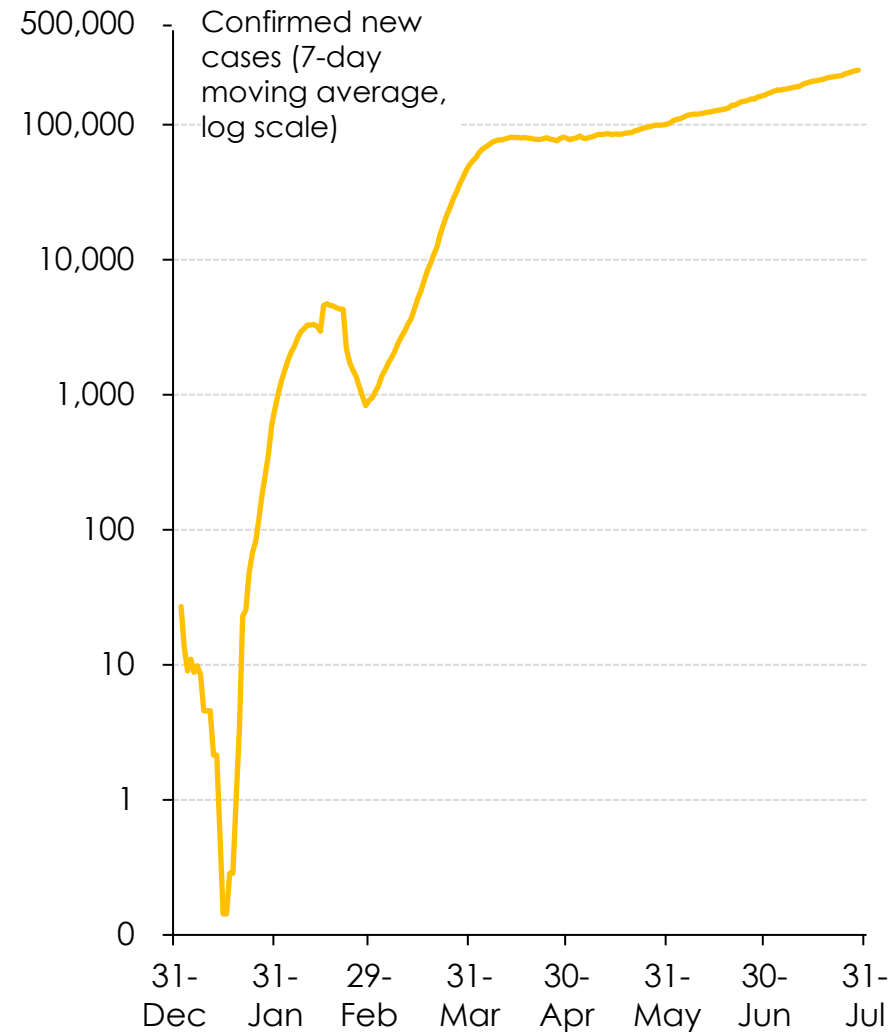
The virus

Globally the virus is still out of control

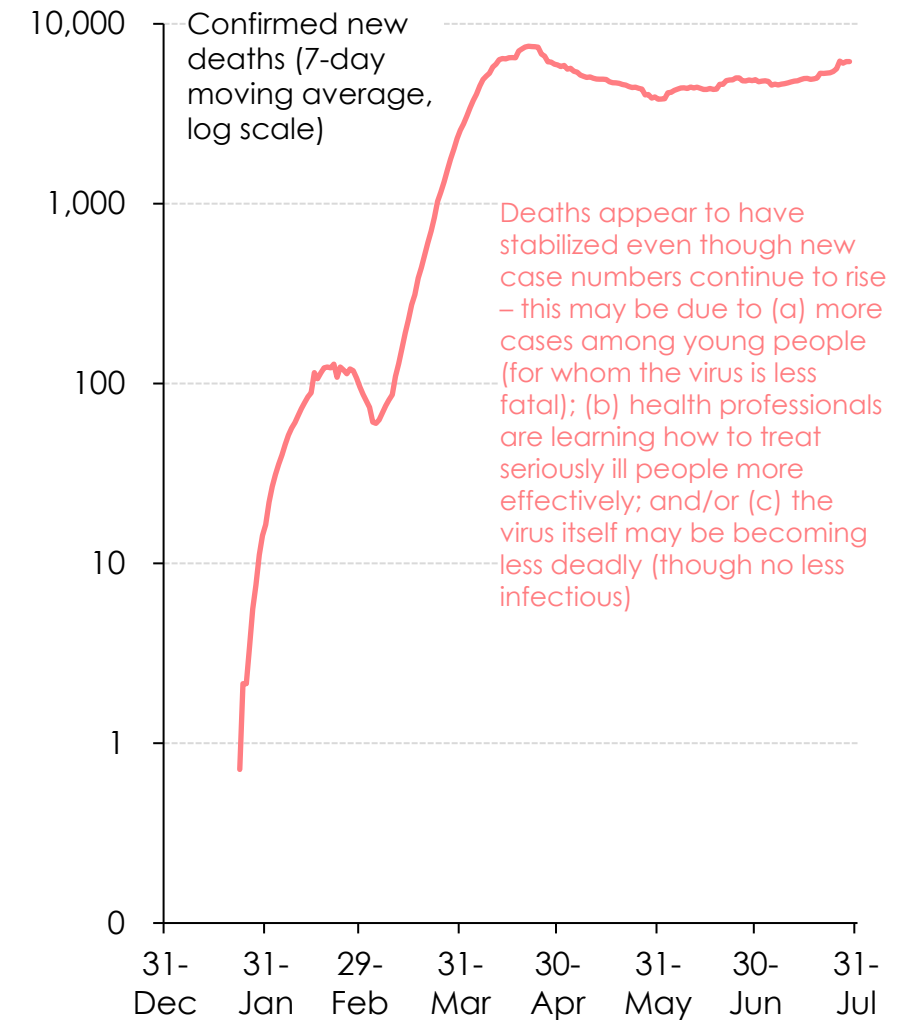
Cumulative confirmed cases – global total



New confirmed cases – global total



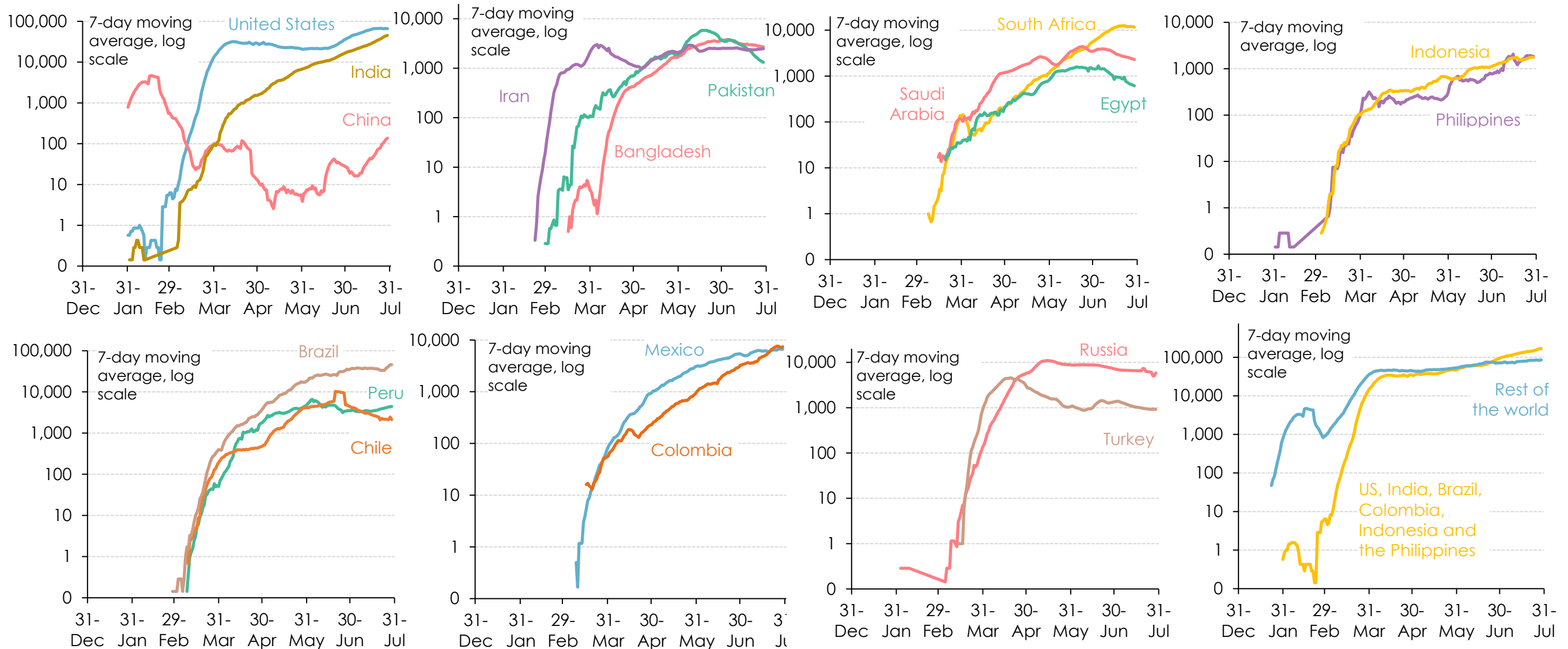
New deaths – global total



Note: Data up to 29th July. Source: University of Oxford, *Our World in Data*.

The US, India, Brazil, Colombia, Indonesia and the Philippines are yet to 'flatten' their curves – but most other large countries now seem to have

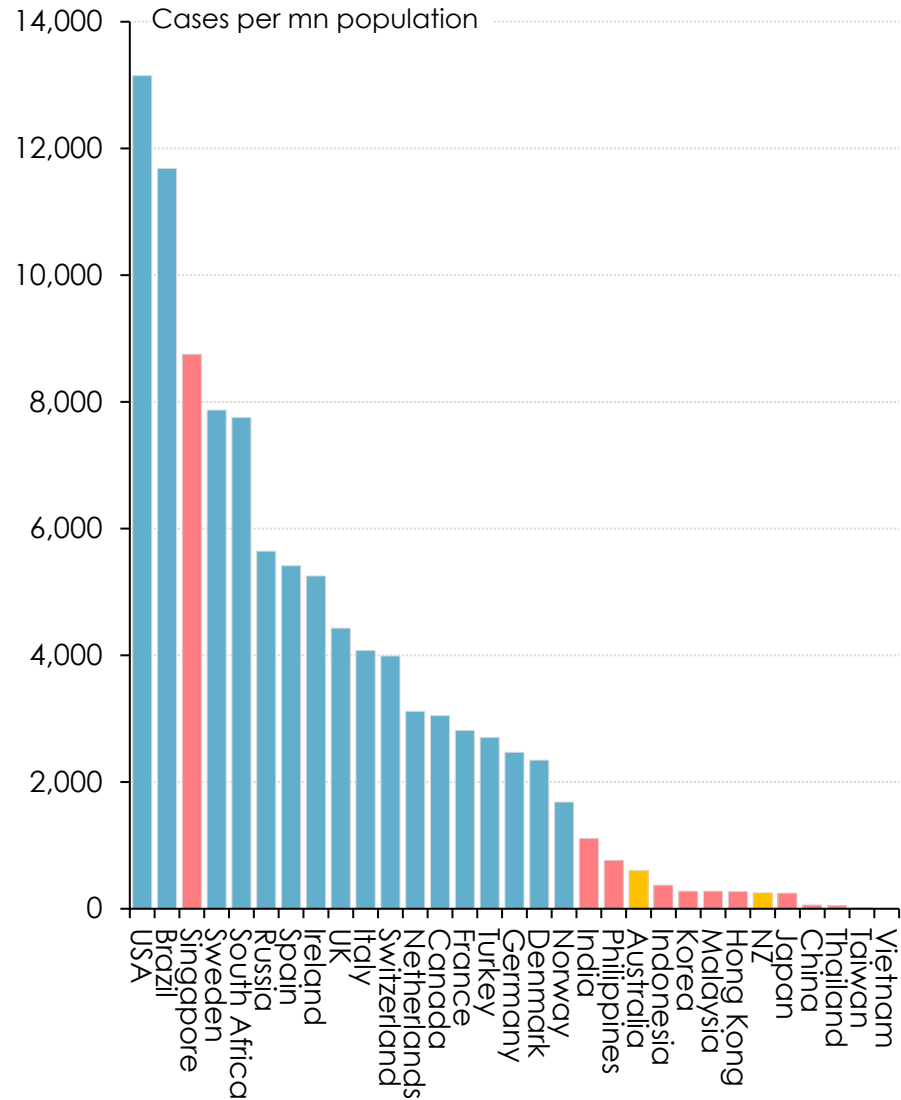
Daily new cases – 20 countries with large populations



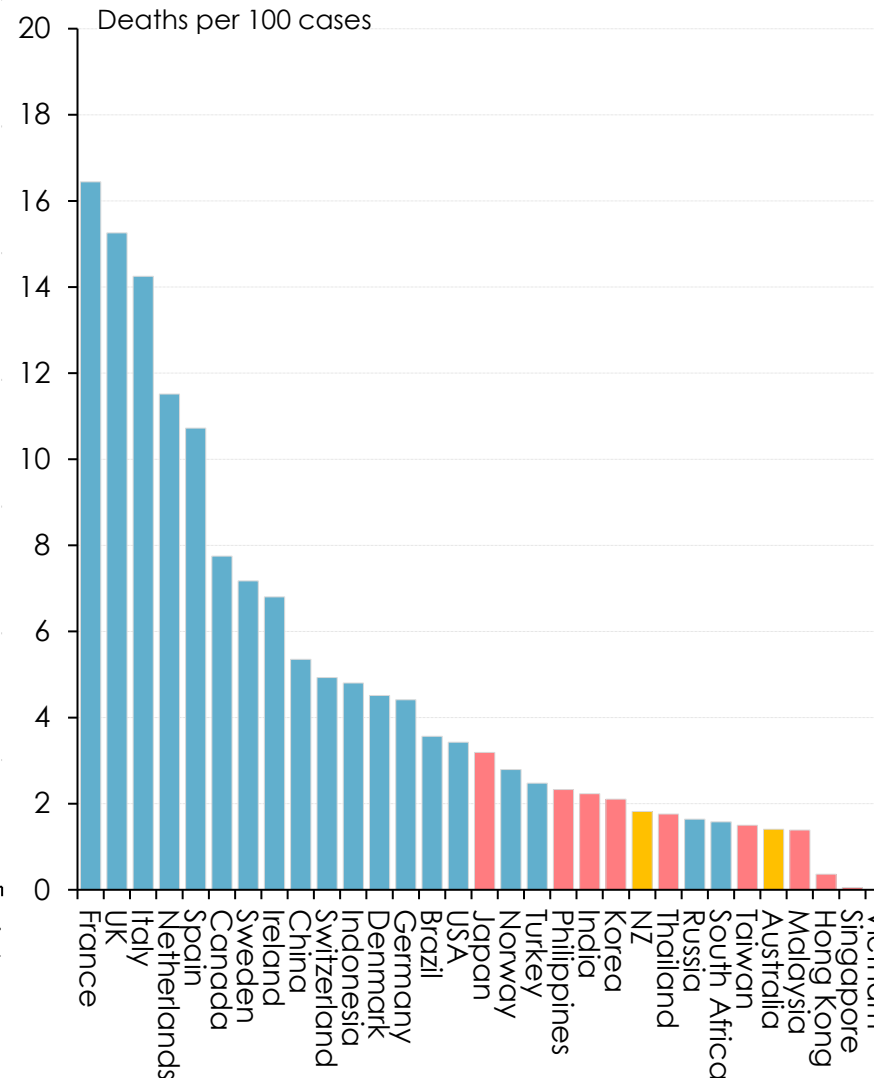
Note: Data up to 29th July. Source: University of Oxford, Our World in Data; Corinna.

Infection and death rates in Asian countries have for the most part been much lower than elsewhere in the world

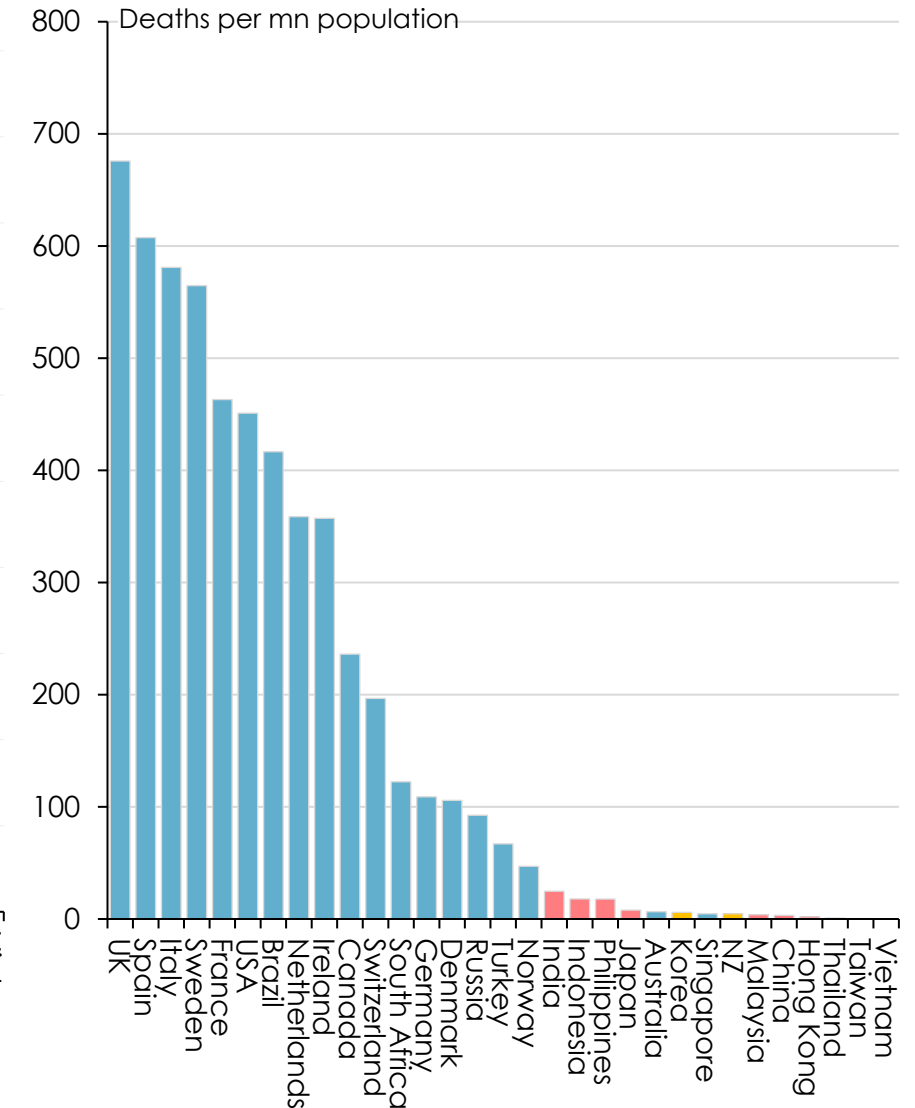
Apparent infection rate



Apparent death rate



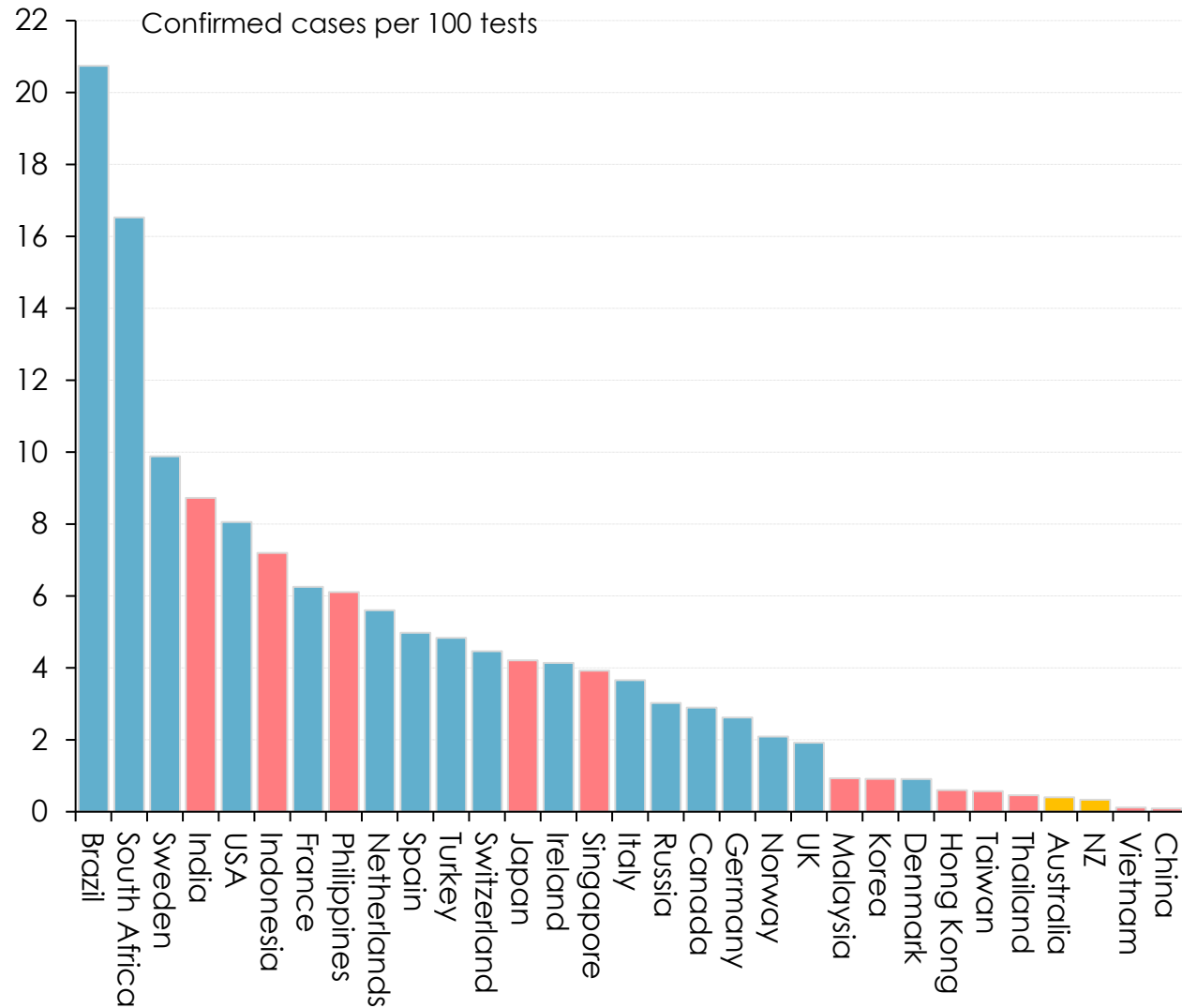
Deaths per mn population



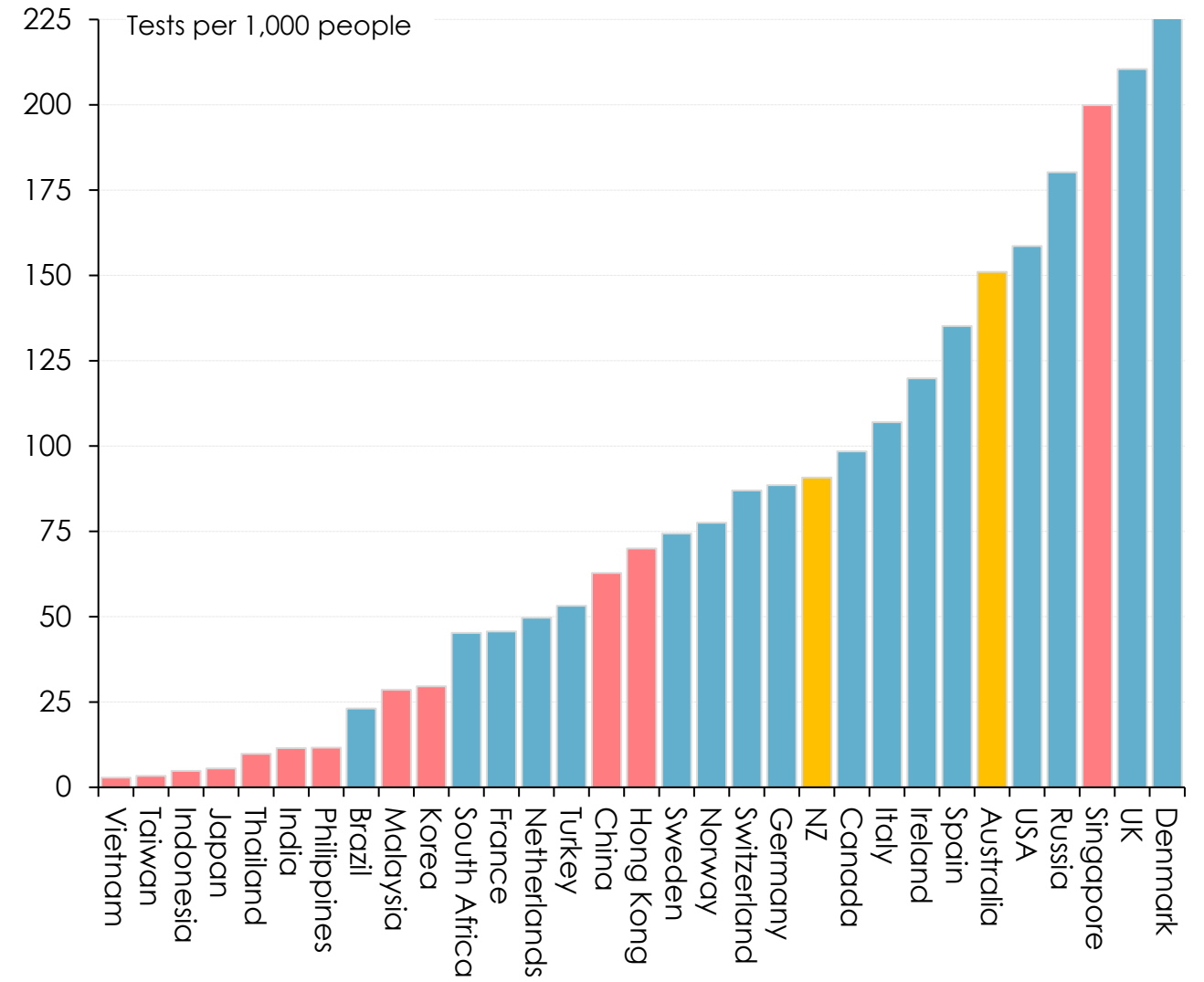
Note: Data up 29th July. Source: University of Oxford, Our World in Data; Corinna.

Countries reporting a high number of cases per 100 tests but doing a relatively low number of tests per 1000 people may not be testing enough

Confirmed cases per 100 tests



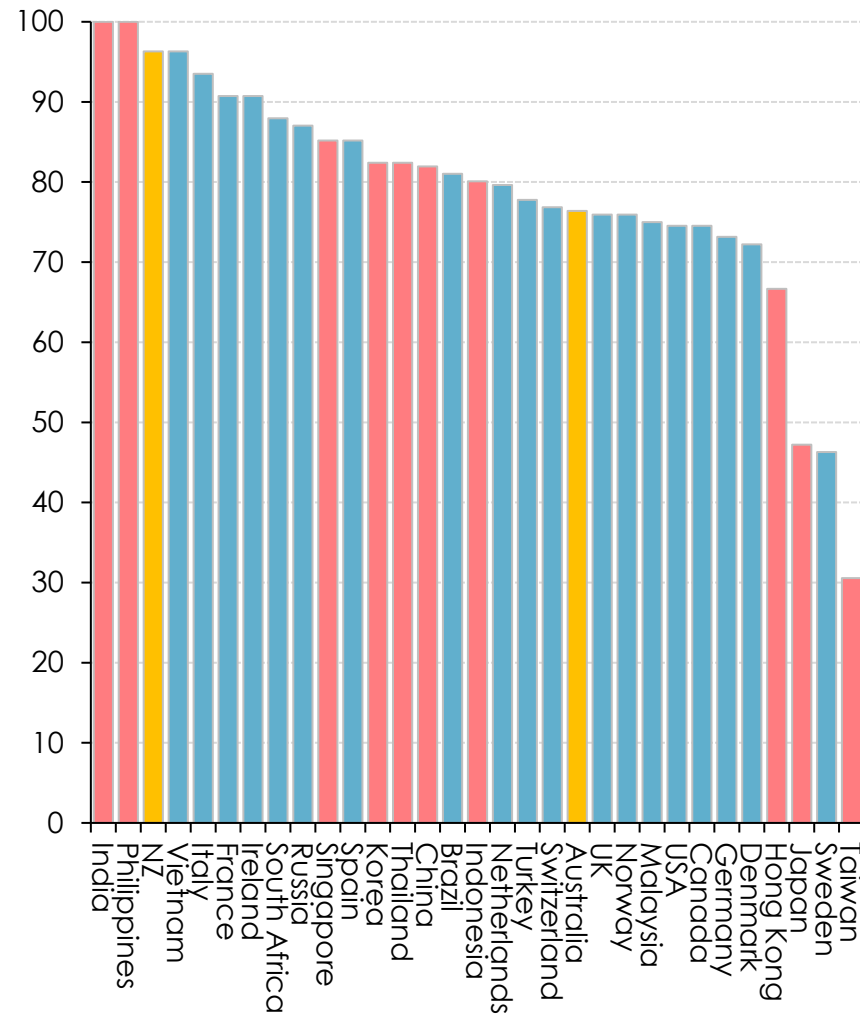
Tests per thousand of population



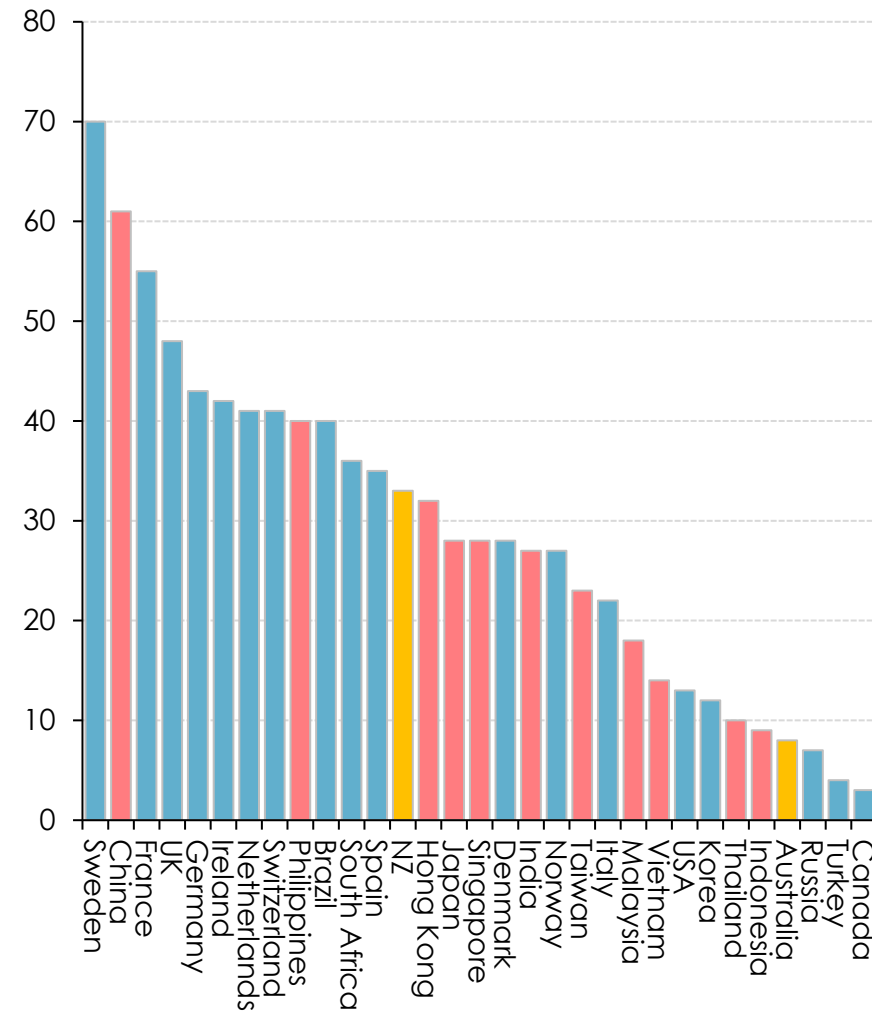
Note: Data up to 30th July. A high number of confirmed cases per 100 tests combined with a low number of tests per 000 population is *prima facie* evidence of an inadequate testing regime. Source: Worldometers; Corinna.

Asian countries differed in their approaches to restrictions – the strictest or longest lockdowns haven't always worked

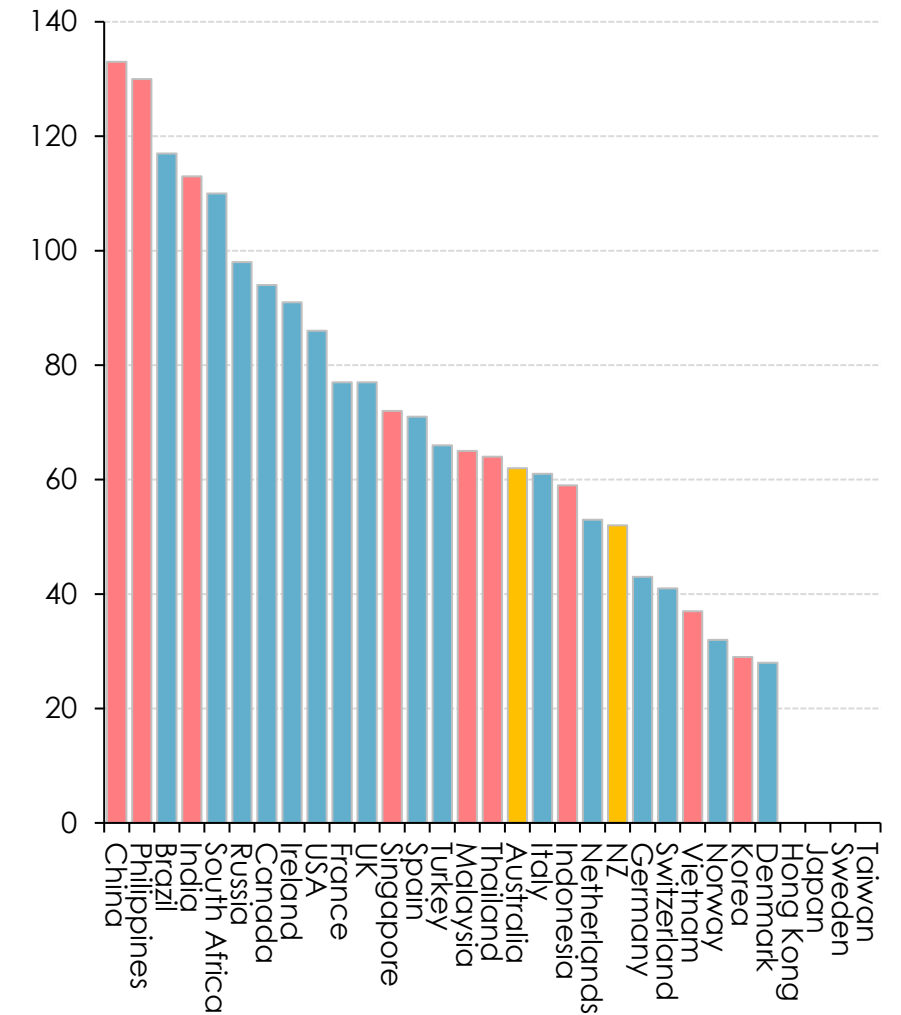
Highest level of restrictions imposed



Number of days restrictions at highest level



Number of days restrictions above 70 on Oxford index

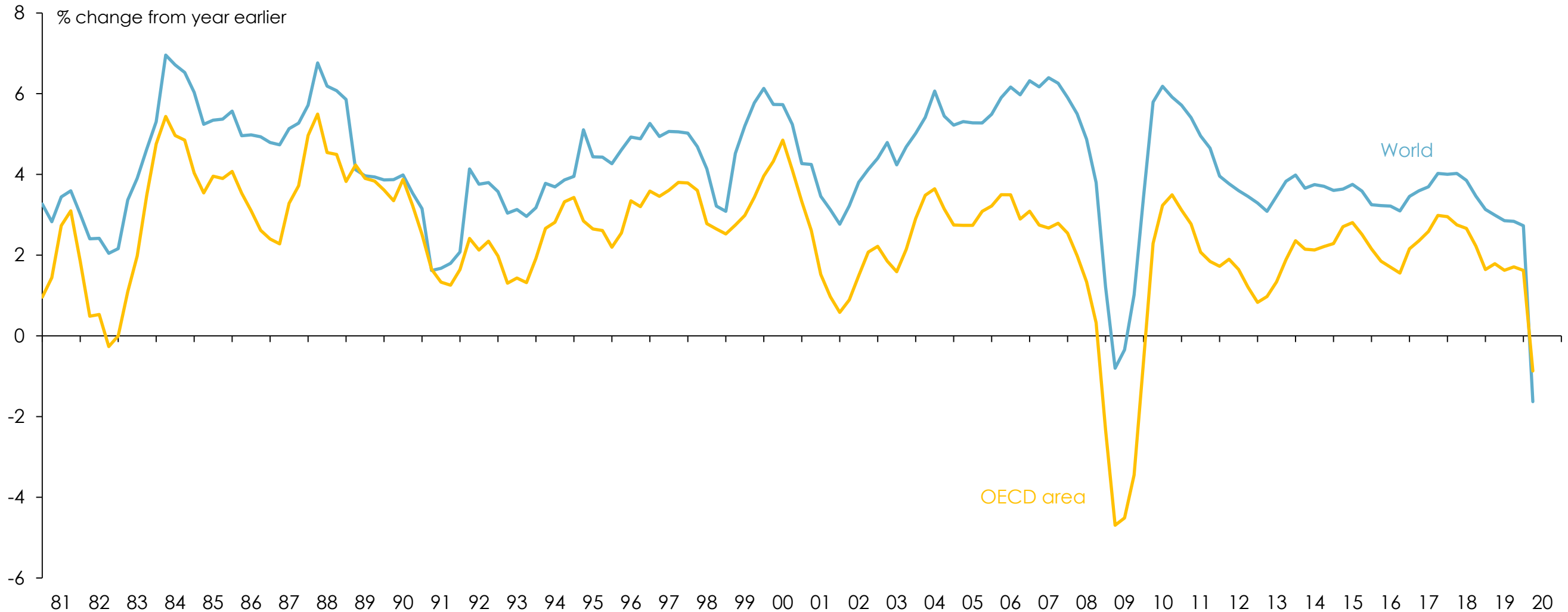


The Oxford COVID-19 Government Response Tracker collects publicly available information on 11 indicators of government response including school and workplace closures, public events cancellations, restrictions on public gatherings, stay at home requirements, public transport closures, domestic and international travel restrictions, public information campaigns, testing and contact tracing. Source: Blavatnik School of Government, Oxford University. Data up to 16th-22nd July.

The world economy

The world economy experienced its sharpest year-on-year contraction for at least 40 years in Q1 this year – with worse to come in Q2

World and OECD area real GDP growth



Note: Estimates of global GDP growth compiled by Corinna using data for 95 countries accounting for 90% of 2018 world GDP as measured by the IMF; excludes constituents of the former USSR before 1993, the former Czechoslovakia before 1995, and the former Yugoslavia before 1998.
Sources: national statistical agencies and central banks; Eurostat; OECD; IMF.

All of the major international economic forecasting institutions expect 2020 to be the worst year for global growth since the 1930s

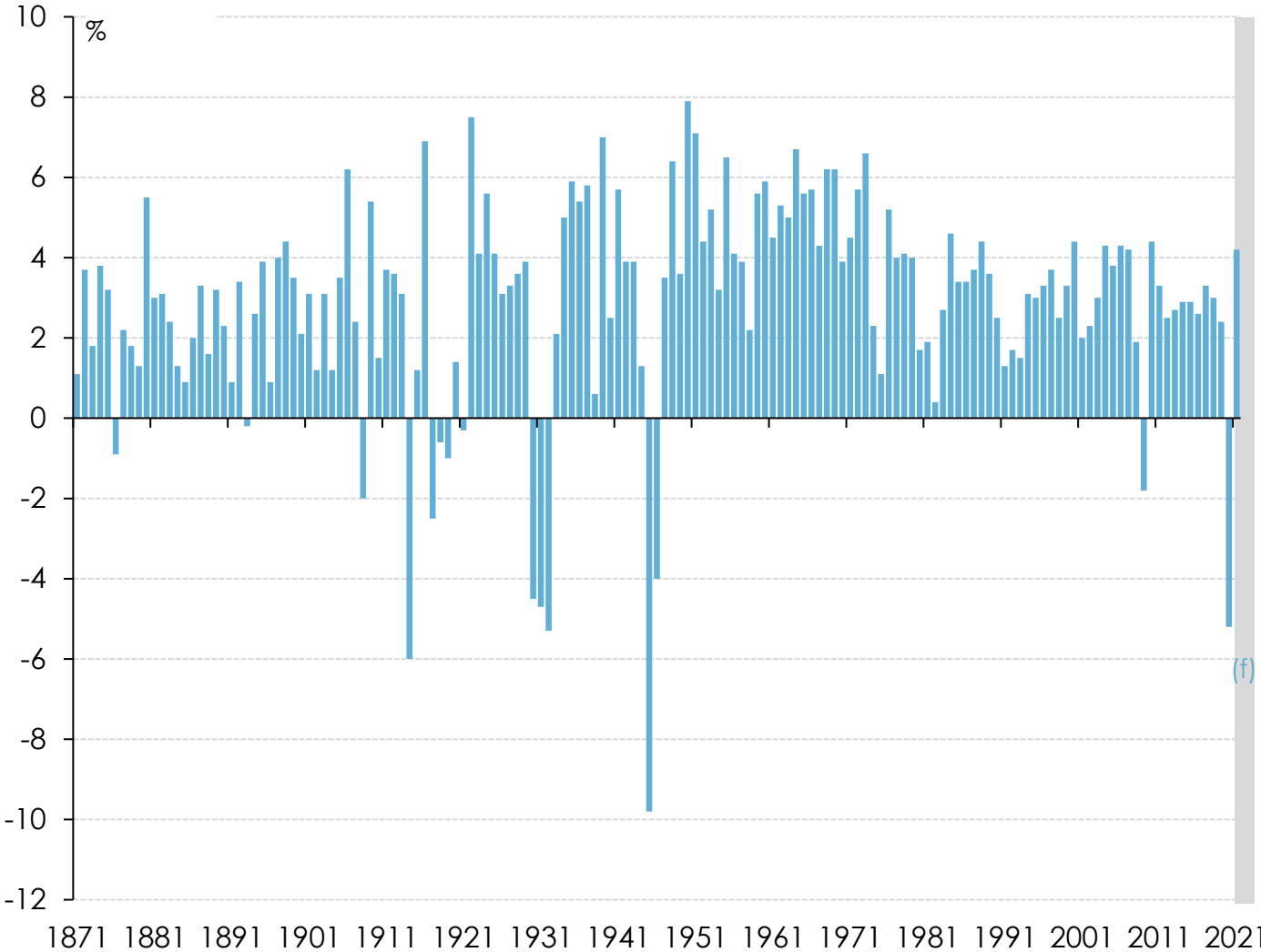
Major global institutions' growth forecasts for 2020 and 2021 compared

	<i>Actual</i>	<i>IMF</i>		<i>World Bank</i>		<i>OECD*</i>	
	2019	2020	2021	2020	2021	2020	2021
US	2.3	-8.0	4.5	-6.1	4.0	-7.3	4.1
China	6.1	1.0	8.2	1.0	6.9	-2.6	6.8
Euro area	1.2	-8.0	4.5	-9.1	4.5	-9.1	6.5
India	4.2	-4.5	6.0	-3.2	3.1	-3.7	7.9
Japan	0.7	-5.8	2.4	-6.1	2.5	-6.0	2.1
UK	1.4	-10.2	6.3	na	na	-11.5	9.0
Australia	1.8	-4.5	4.0	na	na	-5.0	4.1
New Zealand	2.2	-7.2 [†]	5.9 [†]	na	na	-8.9	6.6
World	2.9	-4.9	5.4	-5.2	4.2	-6.0	5.2
World trade	0.9	-11.9	8.0	-13.4	5.3	-9.5	6.0

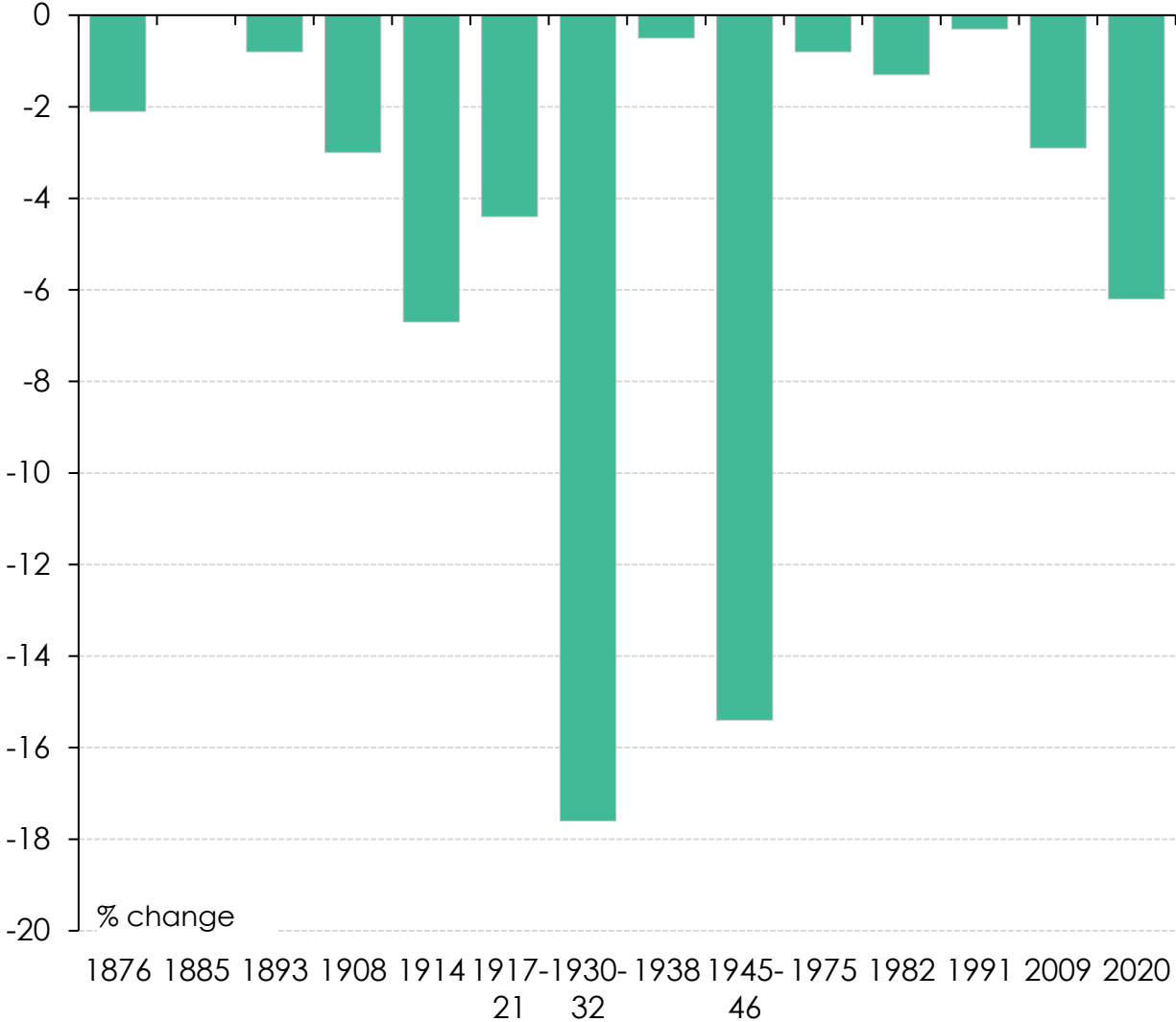
* OECD forecasts are their 'single hit' scenario to be consistent with the assumptions of the other institutions. [†] The IMF did not publish revised forecasts for New Zealand in its latest WEO publication. Source : International Monetary Fund (IMF), *World Economic Outlook*, 24th June 2020; The World Bank, *Global Economic Prospects*, 8th June 2020; Organization for Economic Co-operation & Development (OECD), *Economic Outlook*, Volume 2020 Issue 1, 10th June 2020.

The World Bank forecasts a 5.2% decline in world GDP this year, with a 4.2% increase in 2021 - the 4th worst global downturn in 150 years

Growth in global real GDP, 1871-2001



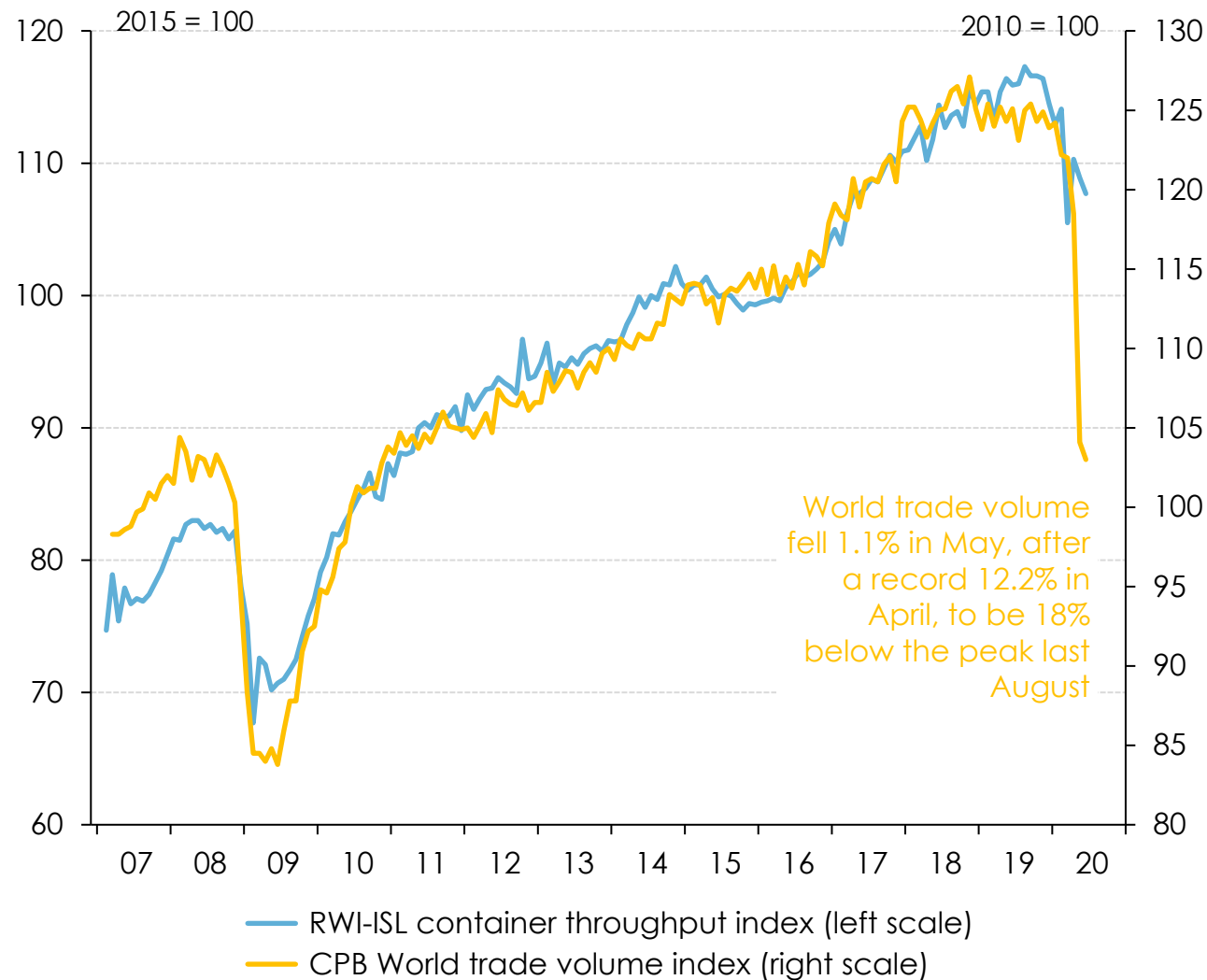
Cumulative decline in real per capita GDP during global recessions



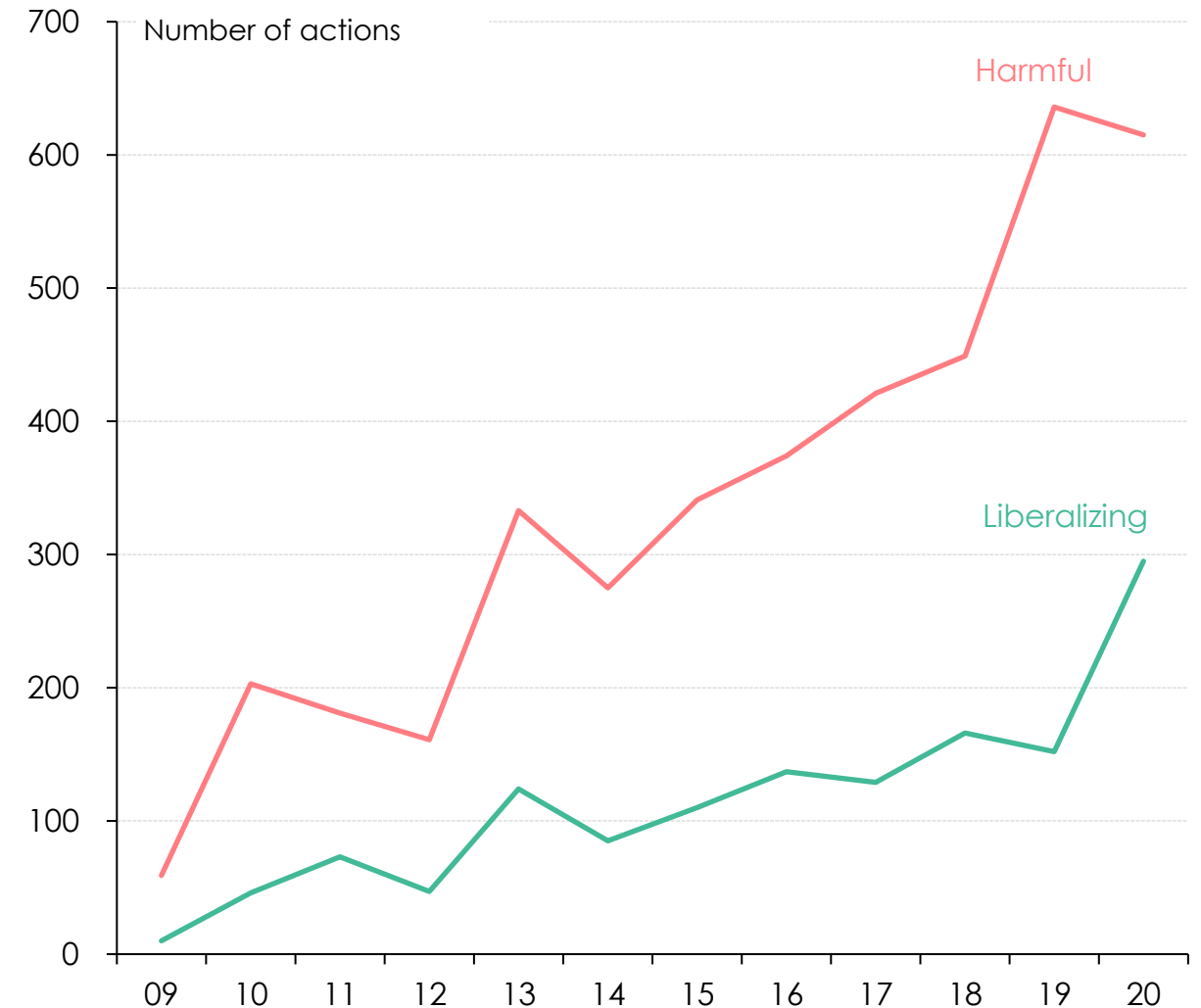
Source: The World Bank, *Global Economic Prospects*, 8th June 2020.

World merchandise trade volumes fell sharply in April

World trade volumes and container throughput



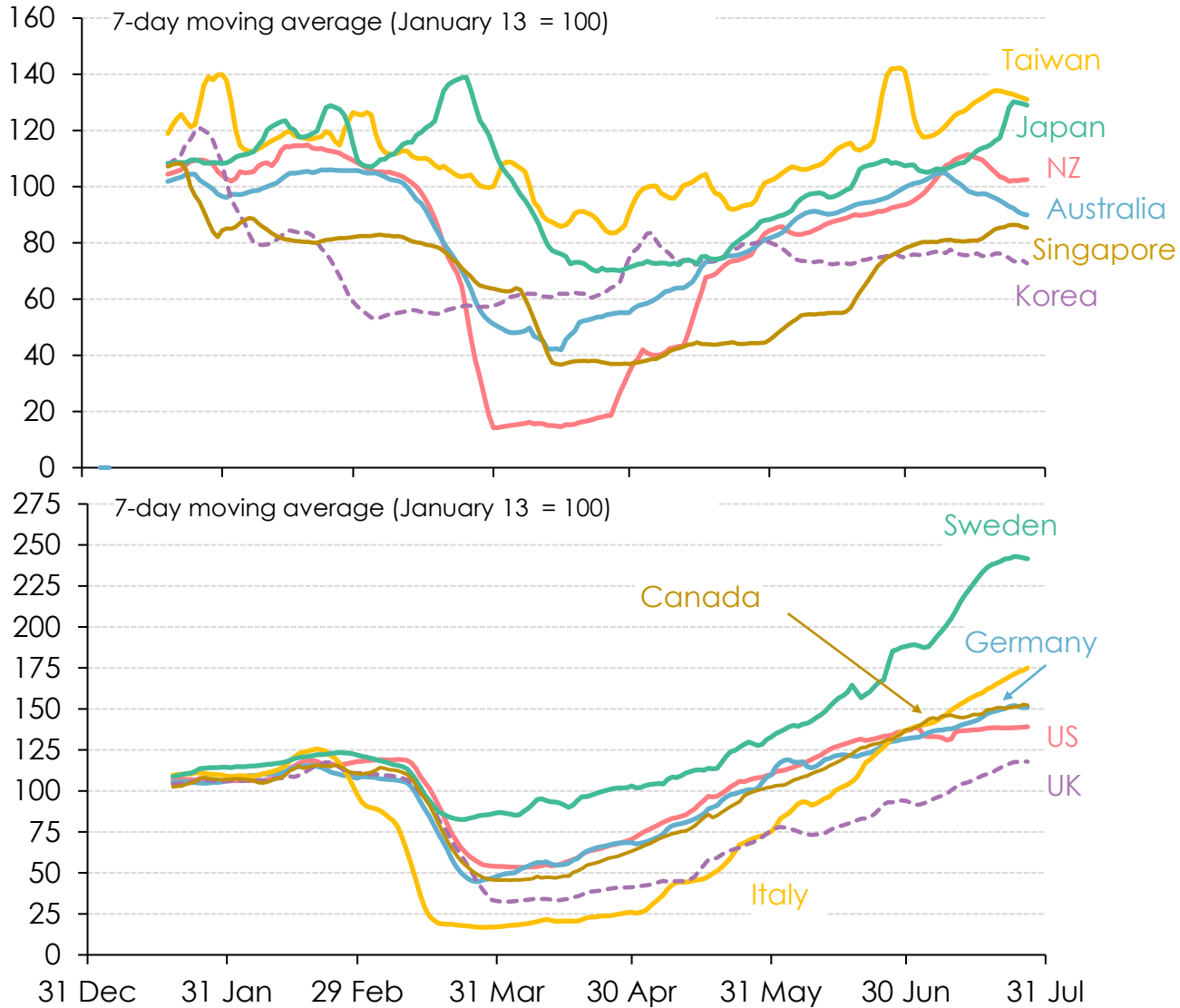
Pro- and anti-trade policy interventions



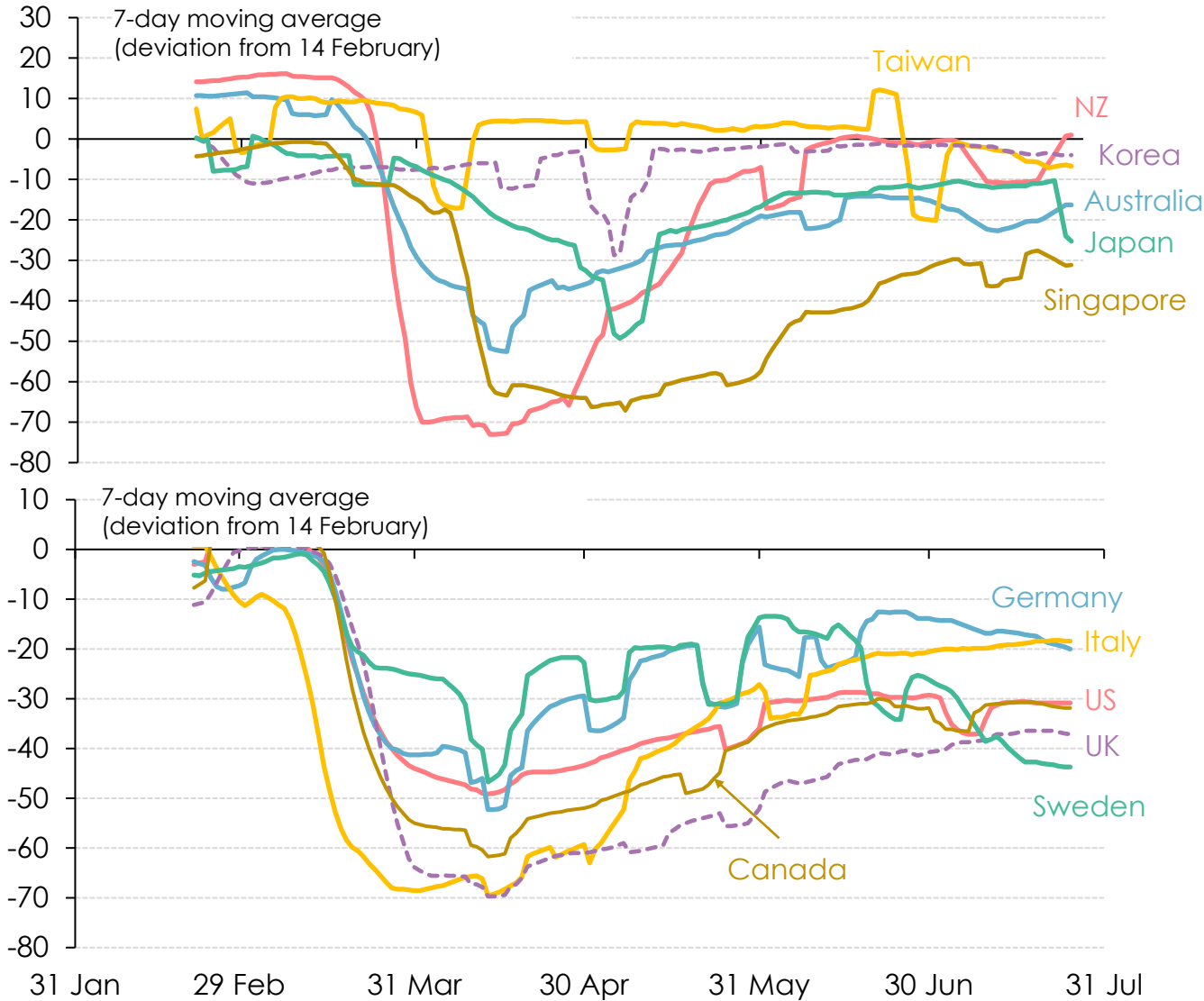
Note: The shipping container throughput index is based on reports from 91 ports around the world handling over 60% of global container shipping.
Sources: CPB Netherlands Economic Planning Bureau, *World Trade Monitor*; Institute of Shipping Economics & Logistics (ISL) and RWI Leibniz-Institut für Wirtschaftsforschung (RWI) *Container Throughput Index*; Global Trade Alert *Global Dynamics* (latest report 16th July).

Mobility data suggest that much of Asia is continuing to return toward more normal levels of activity, but the US and Europe may be stalling

Time spent driving



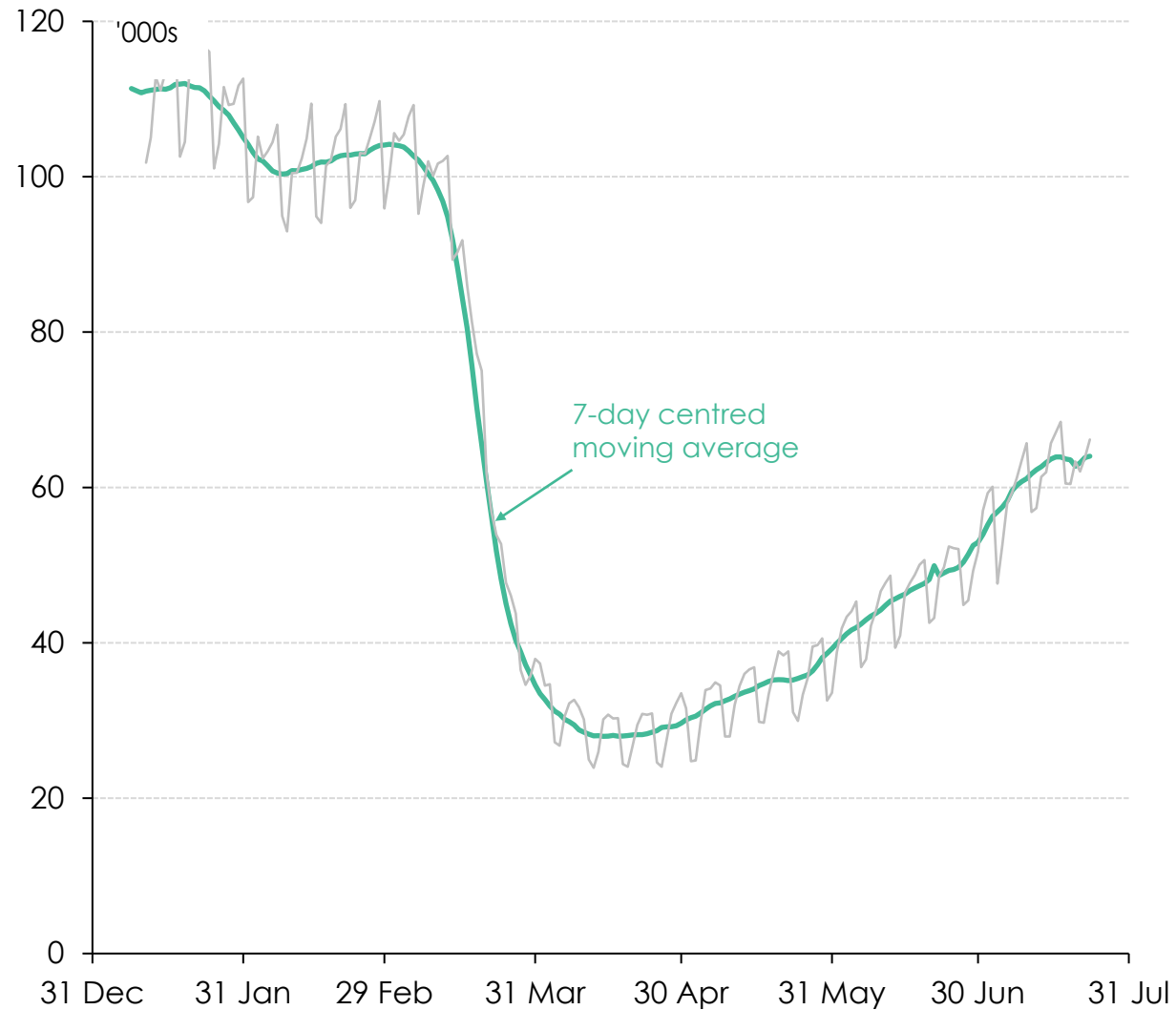
Time spent in work places



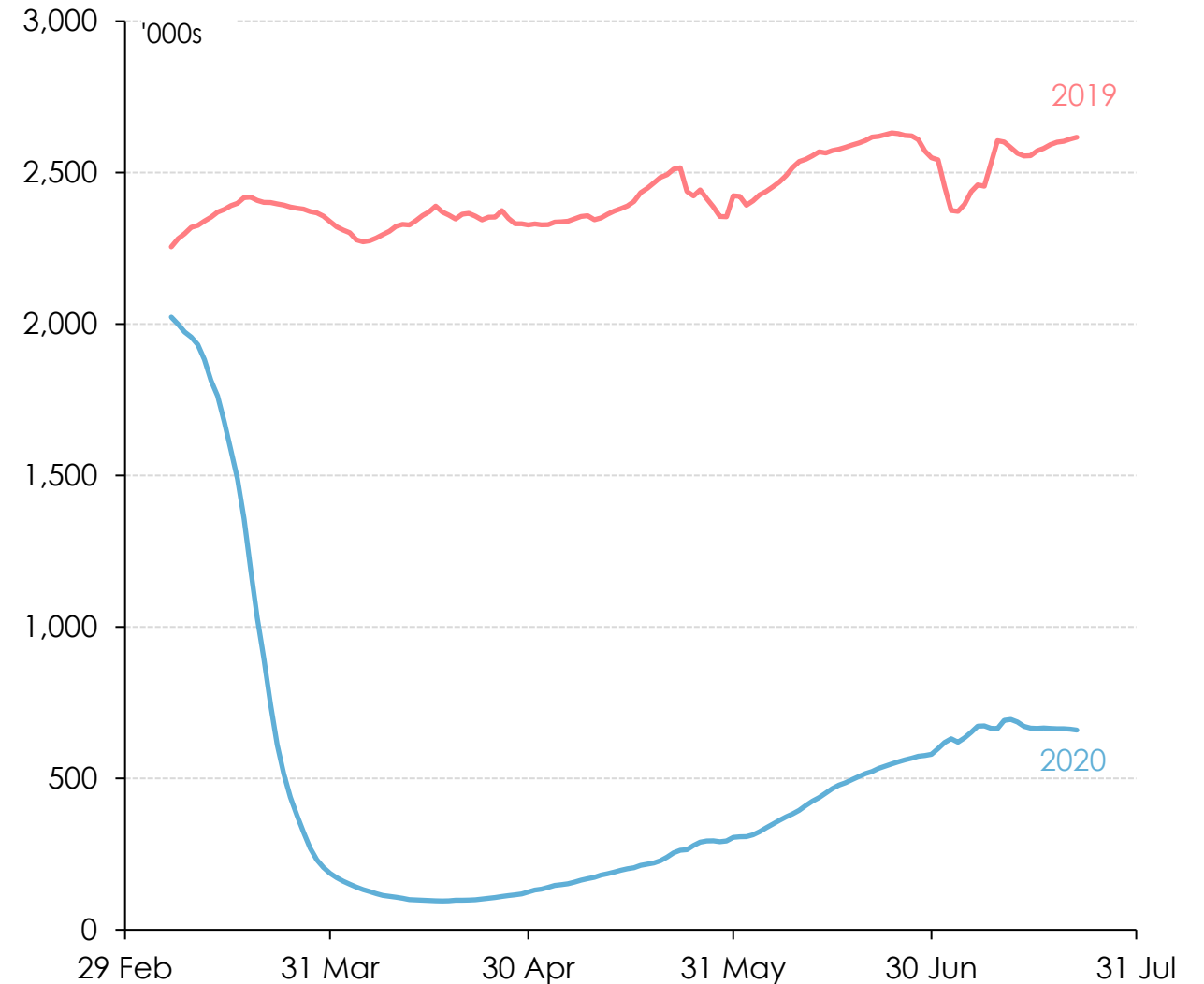
Sources: Apple Mobility Trends Reports (data up to 27th July); Google Covid-19 Community Mobility Reports (data up to 25th July).

The slow upturn in aviation seems to have levelled out – at 38% below pre-pandemic levels globally, and 75% below year-earlier levels in the US

Daily commercial flights worldwide



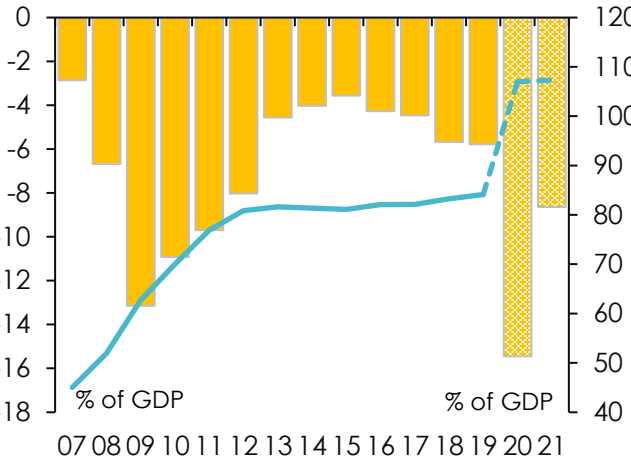
Daily US TSA security checks



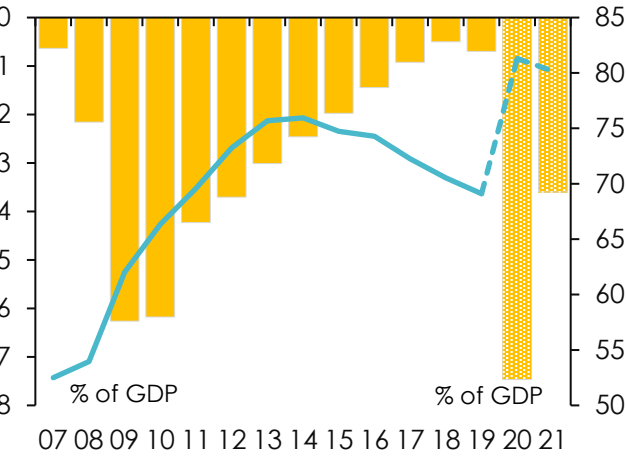
Note: Commercial flights include commercial passenger flights, cargo flights, charter flights, and some business jet flights. Data up to 23rd July.
Sources: Flightradar24.com; US Transport Safety Administration (at last, something useful produced by aviation 'security'!!!)

Governments around the world are doing more by way of fiscal stimulus than they did during the global financial crisis

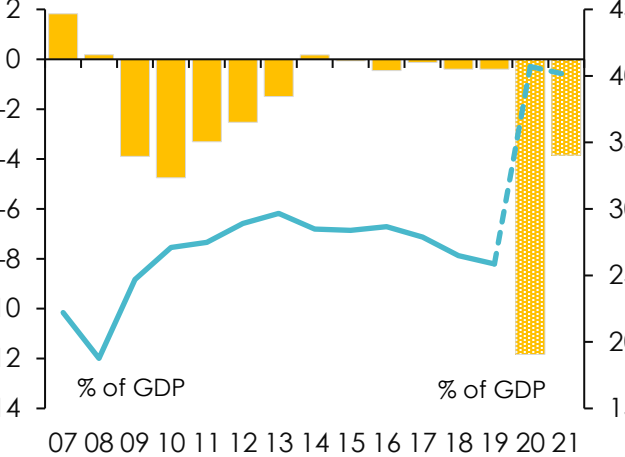
United States



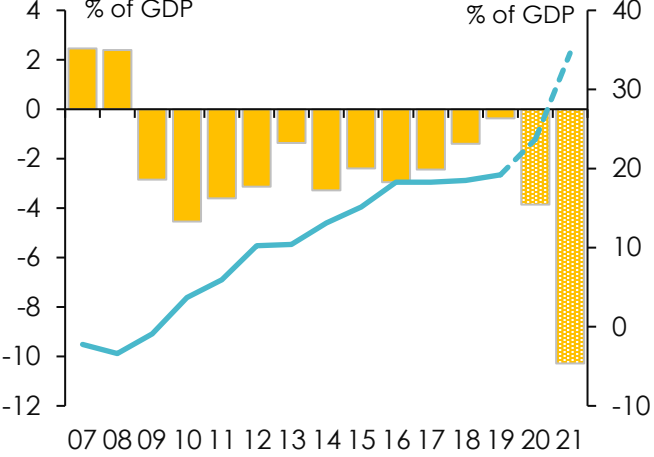
Euro area



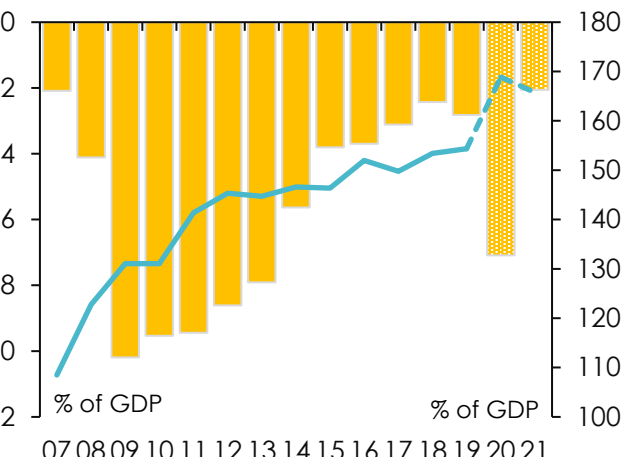
Canada



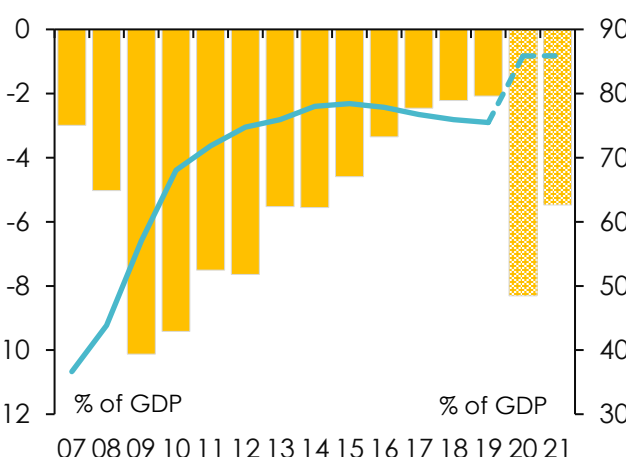
Australia



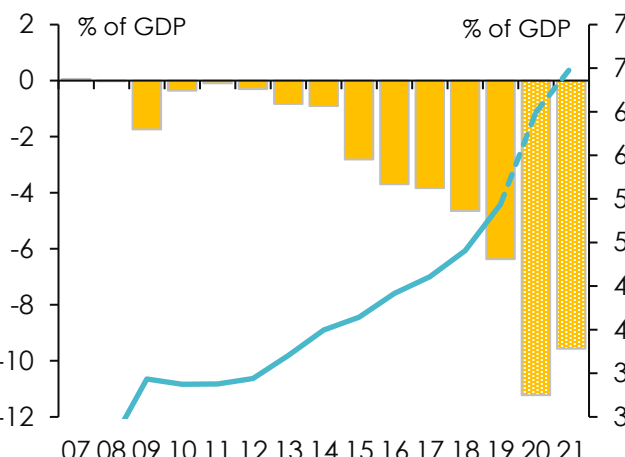
Japan



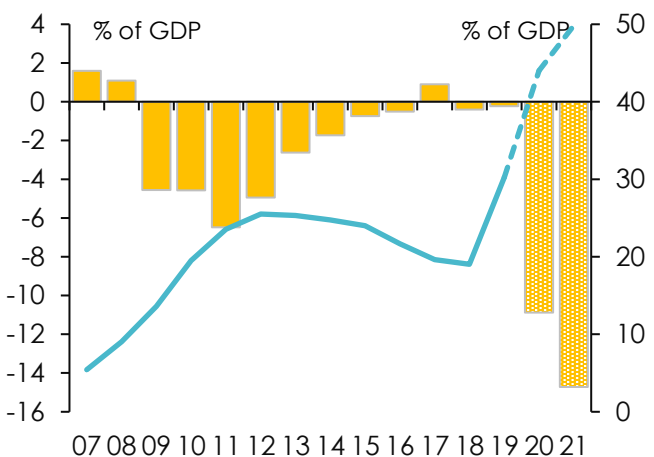
United Kingdom



China



New Zealand

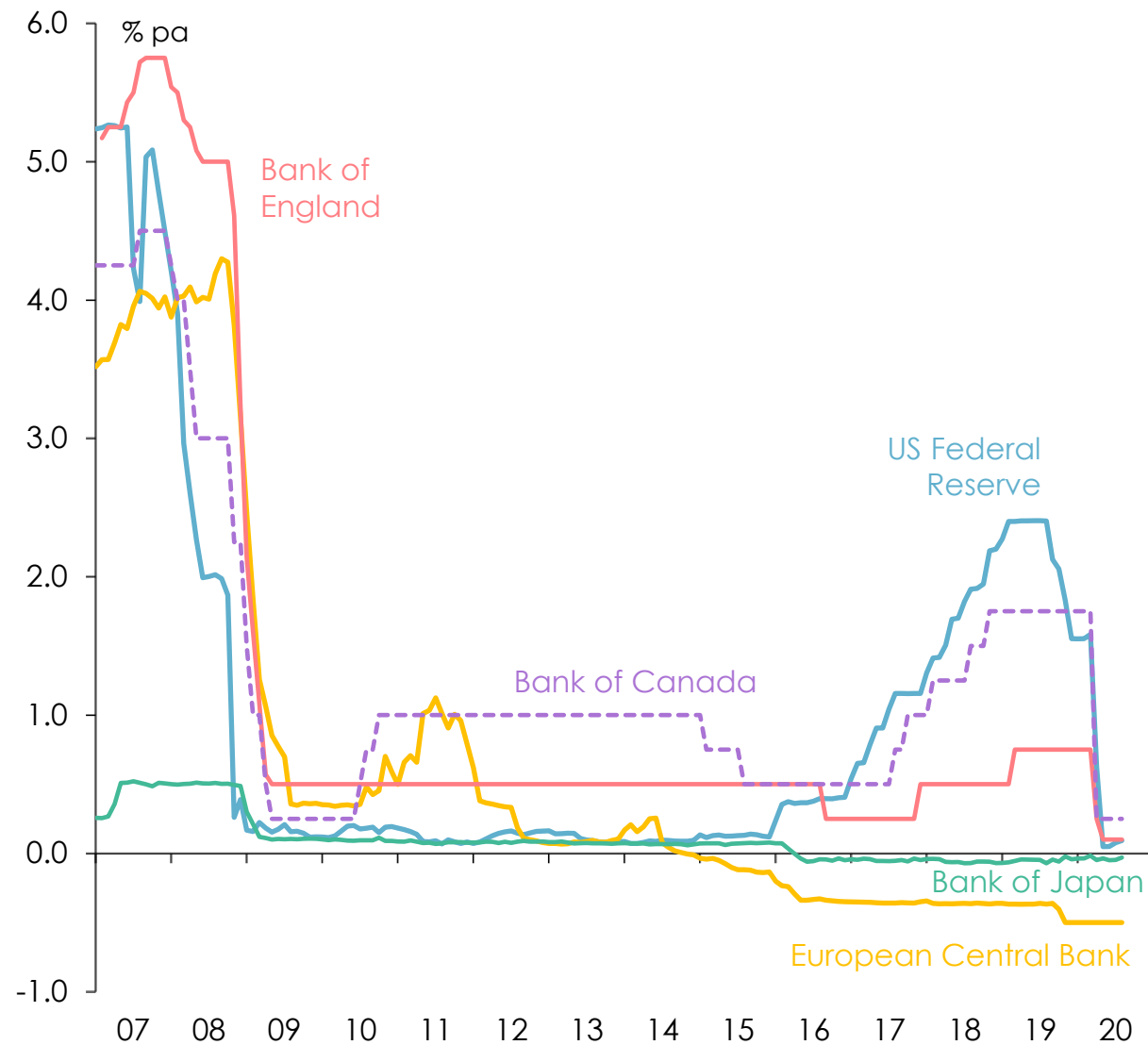


General government overall fiscal balance (left scale)
 General government net debt (right scale)

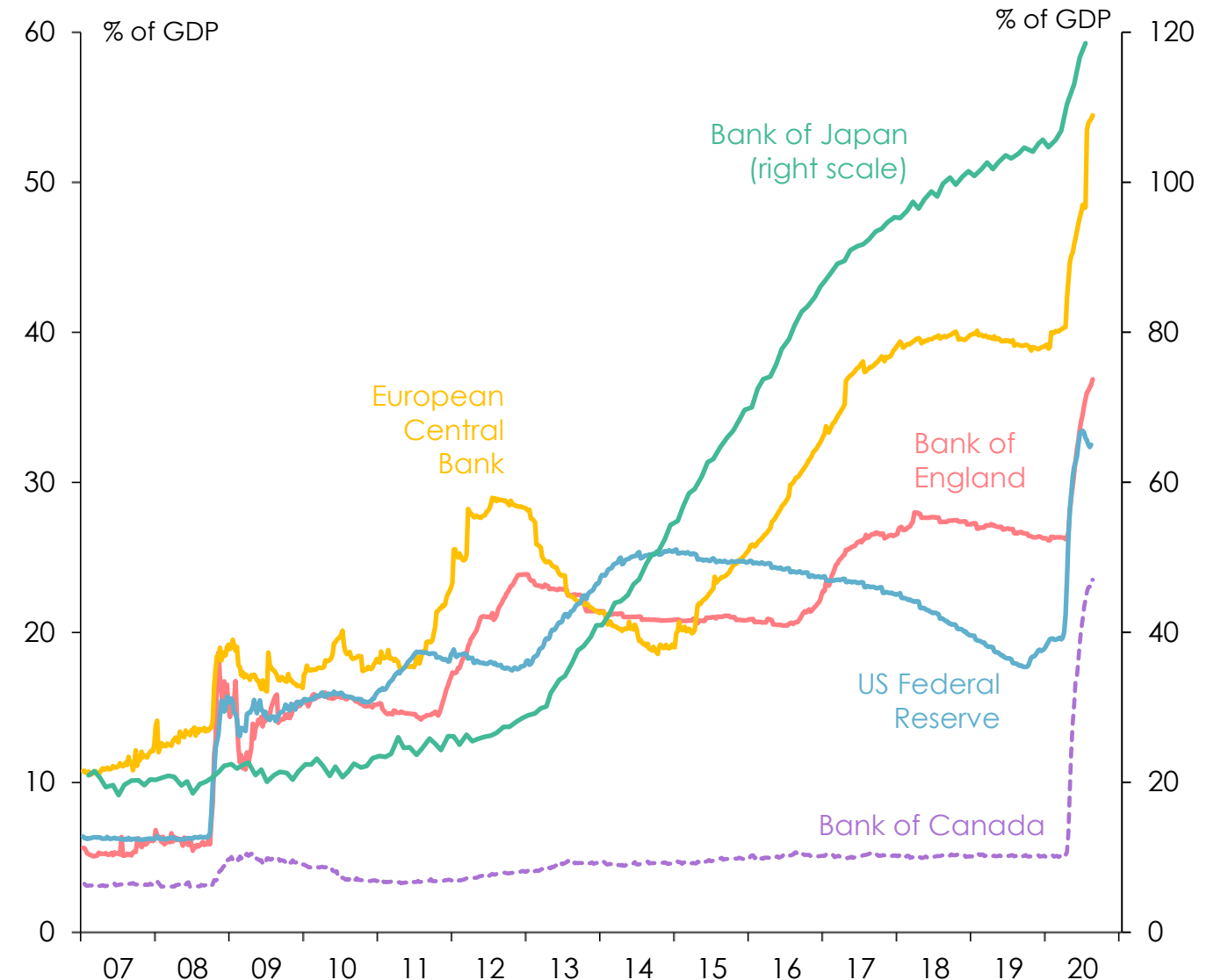
Note: UK data does not include the measures announced by the Chancellor on 8th July; China debt is gross debt, not net; Australian data are for the federal government only and are for fiscal years ended 30th June; NZ data are for fiscal years ended 31st March. Sources: International Monetary Fund, *Fiscal Monitor*, April 2020, and *World Economic Outlook*, June 2020; Australian Government, *Economic and Fiscal Update*, July 2020; New Zealand Treasury, *Budget Economic & Fiscal Update*, May 2020.

Major central banks have cut interest rates to record lows, and done more 'quantitative easing' than during the global financial crisis

Major central bank policy interest rates



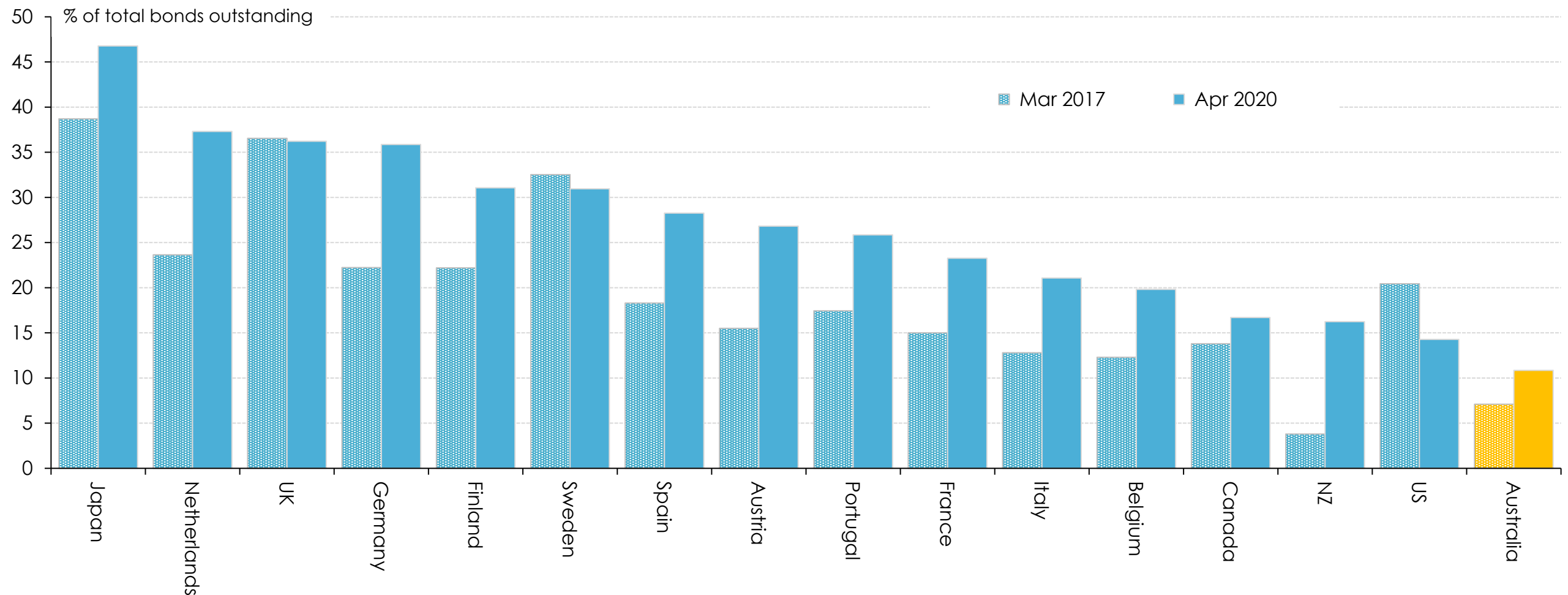
Major central bank balance sheets



Sources: US Federal Reserve; European Central Bank; Bank of Japan; Bank of England; Bank of Canada.

Central banks now hold significant proportions of total government debt in a growing number of countries

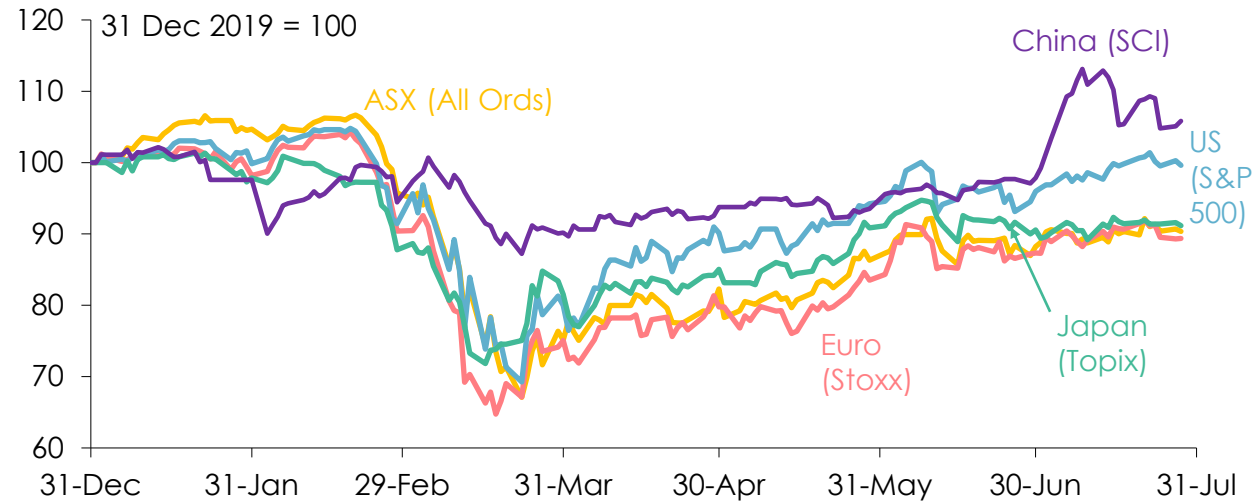
Central bank holdings of central government bonds



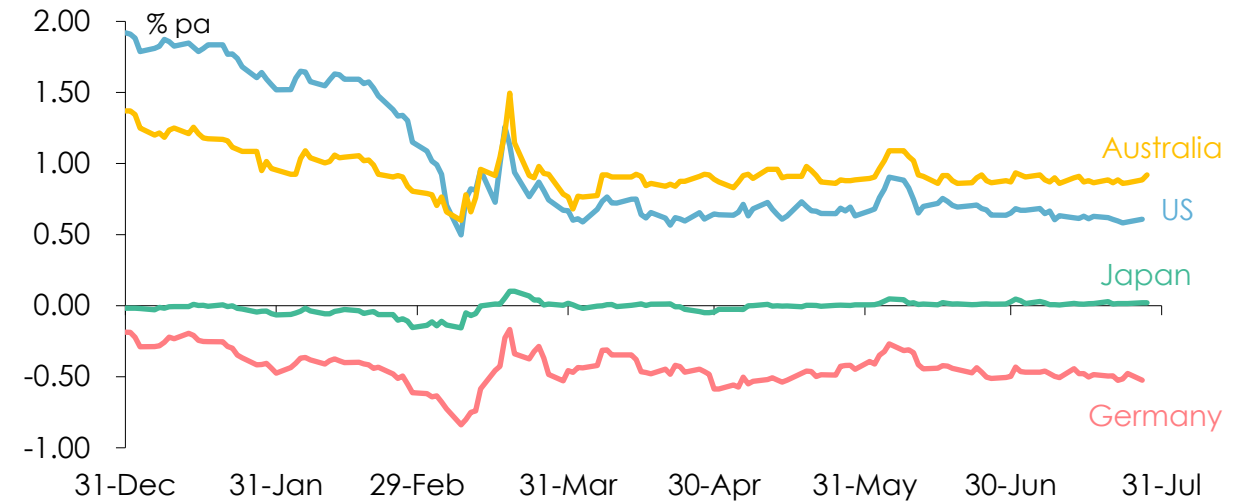
Sources: Surprisingly, the RBA does not disclose its holdings of Australian Government bonds in its weekly balance sheet statement (see RBA Statistical Table A1. Hence the figure shown here for Australia at March 2017 was derived from ABS *Finance and Wealth*, and that for April 2020 by adding to RBA holdings as per the December 2019 issue of *Finance and Wealth*, disclosed RBA purchases of Australian Government bonds up to end-April, divided by the amount of Australian Government securities outstanding disclosed in the Government's *Monthly Financial Statement*. The figures for RBNZ holdings of NZ government securities are published in Table r1 on the RBNZ's website while figures for total NZ government securities outstanding are in Table D30. All others are from OECD, *Economic Outlook* No. 107 (June 2020) and No. 104 (June 2017).

Central bank actions helped prevent the financial markets from seizing up in the second half of March

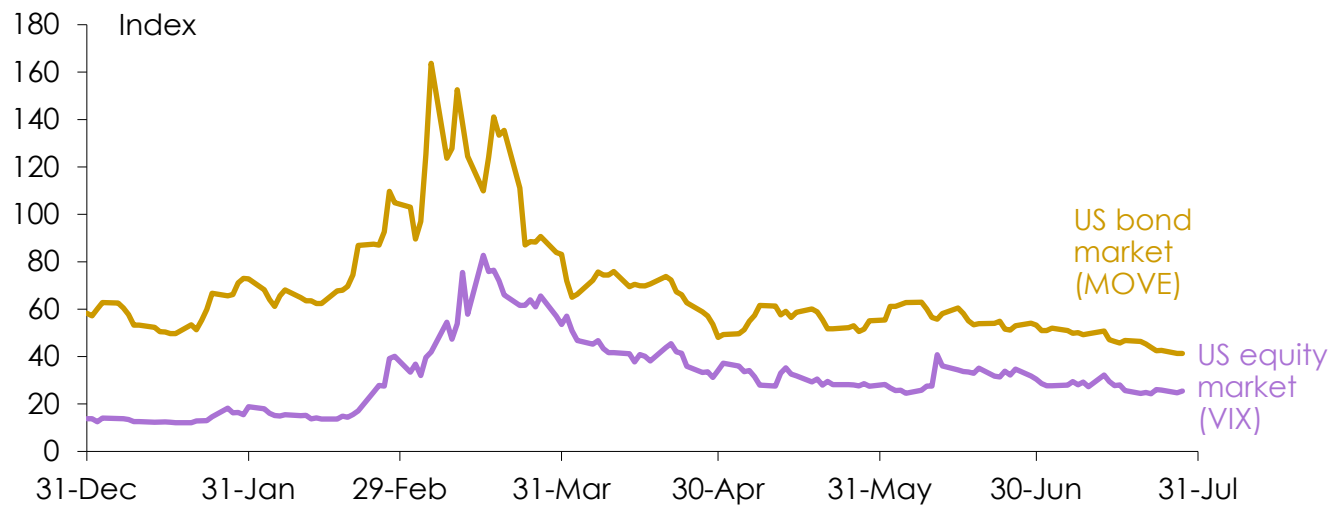
Stock markets



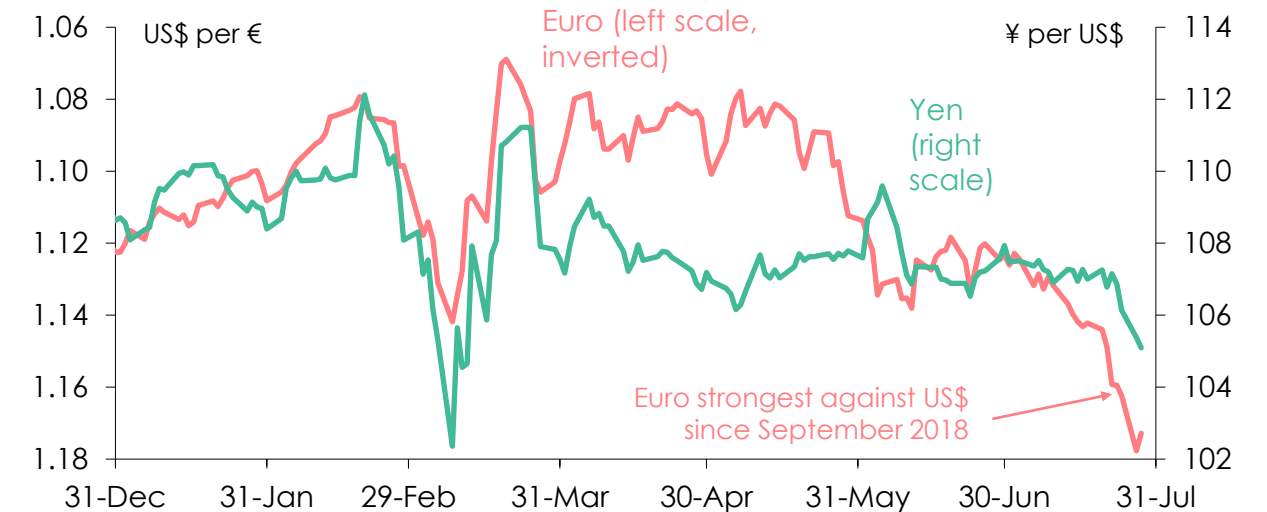
10-year bond yields



Measures of market volatility

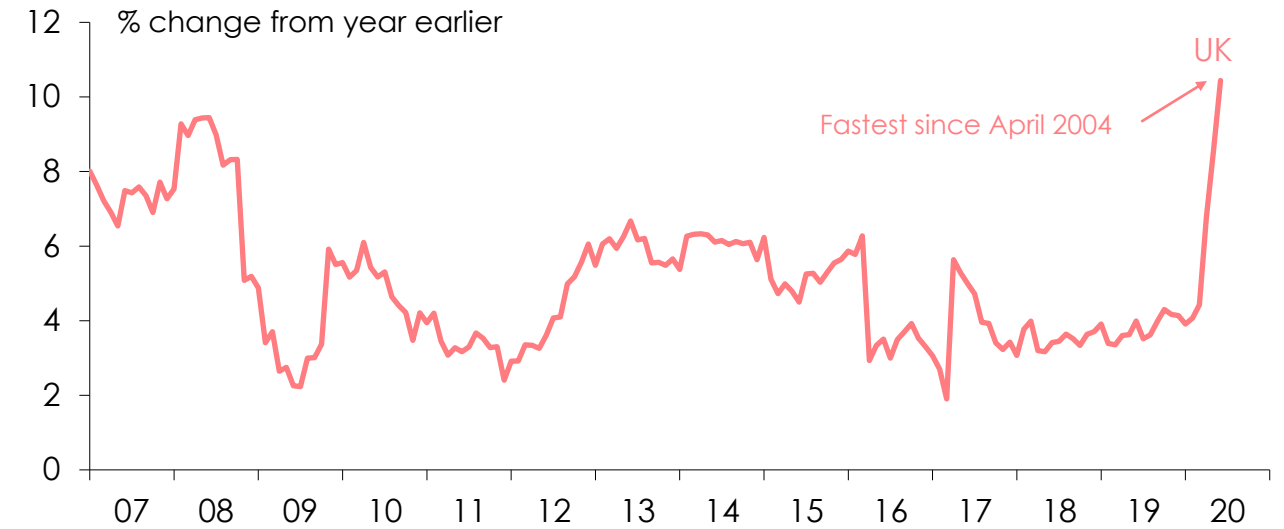
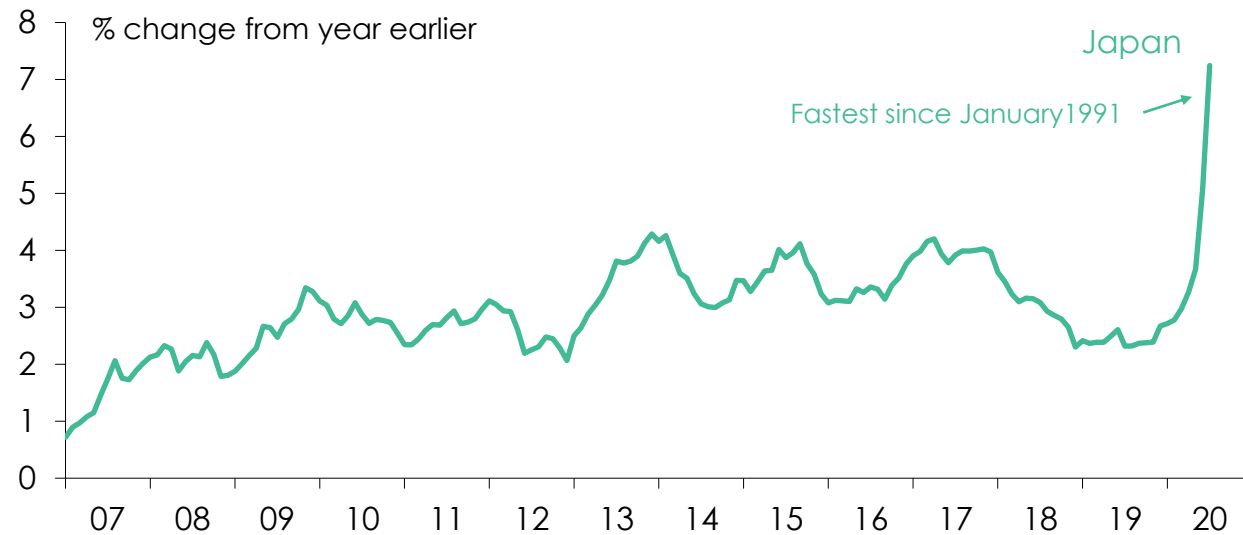
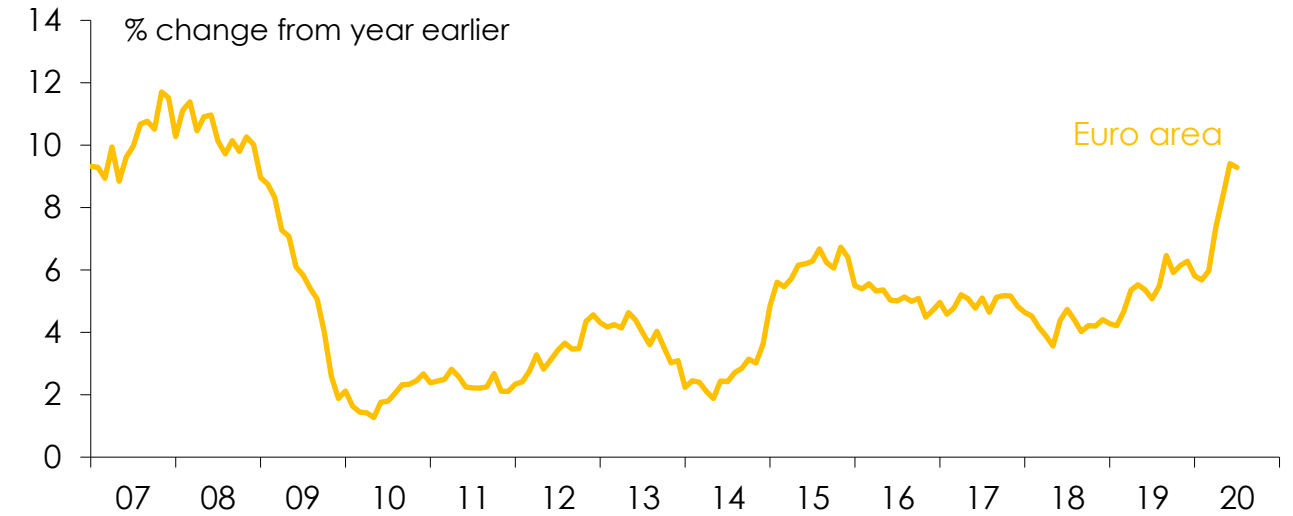
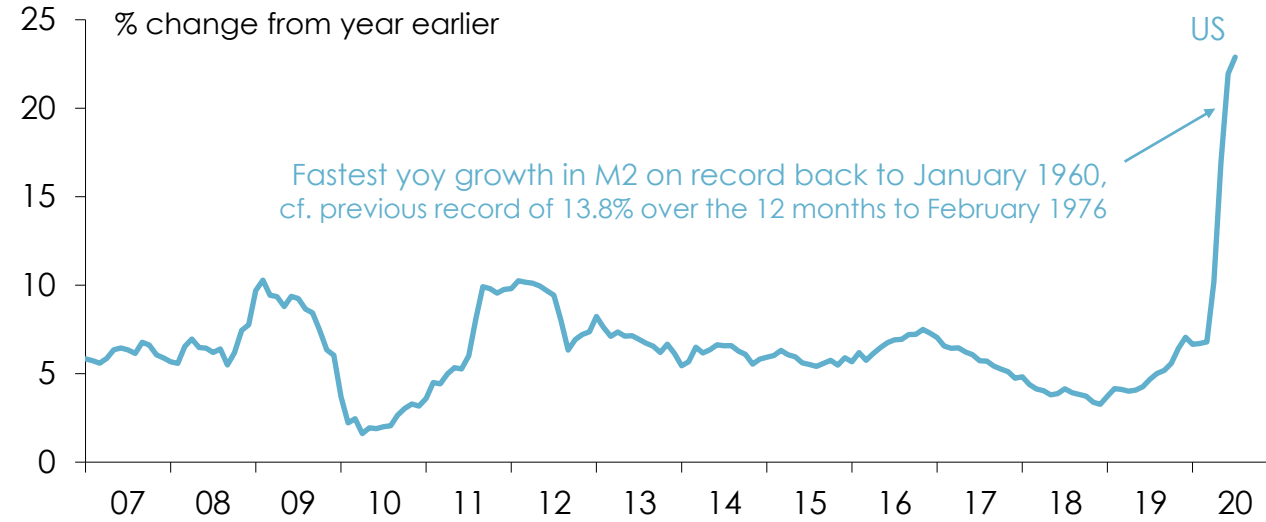


US dollar vs euro and yen



'Quantitative easing' has prompted a more rapid acceleration in money supply growth than it did during the global financial crisis ...

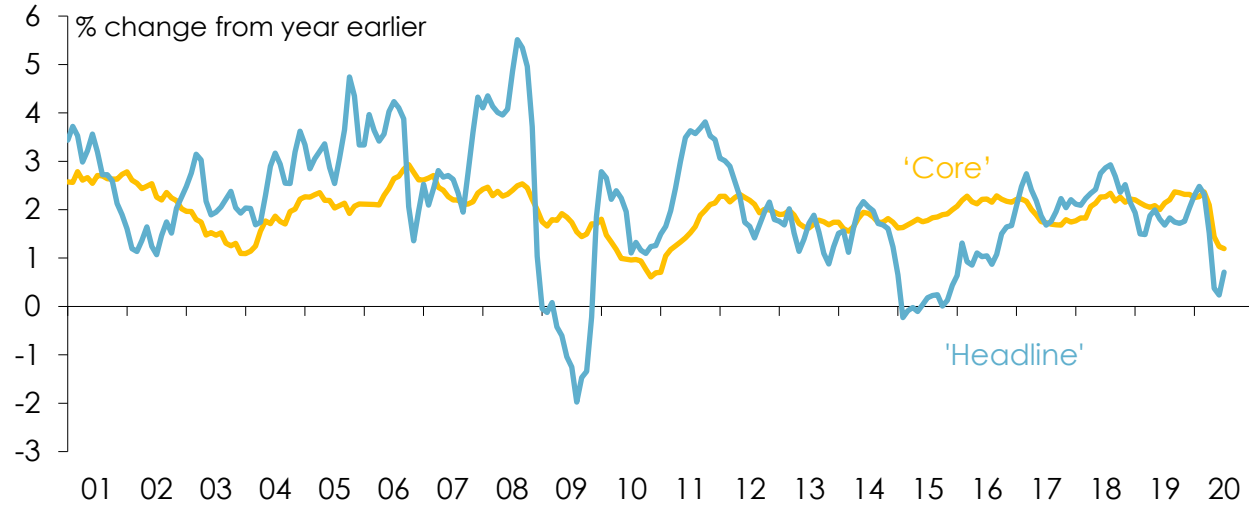
M2 money supply growth



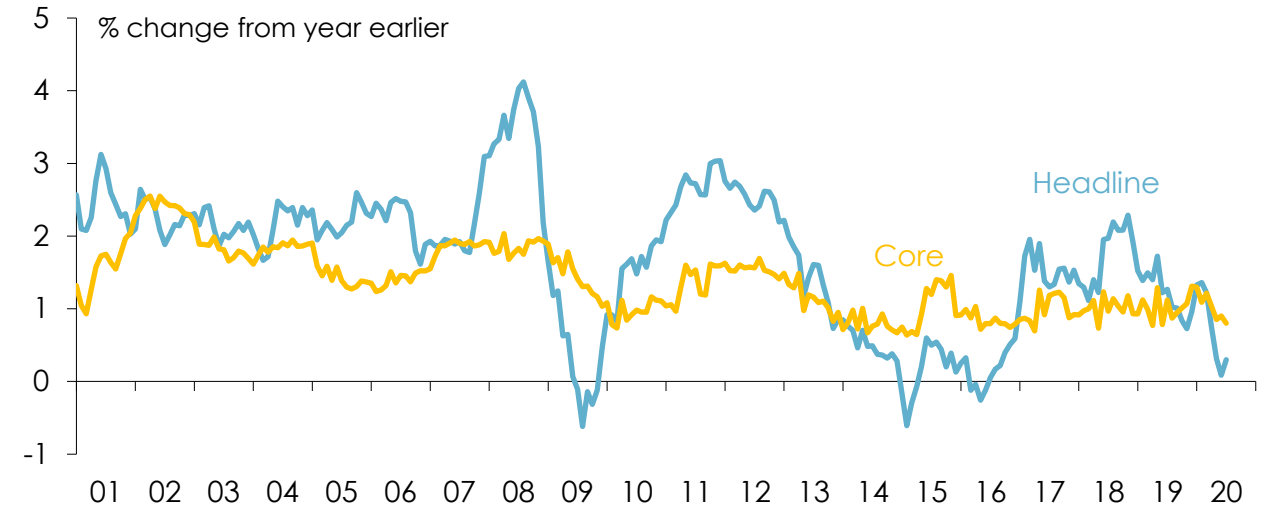
Note: Japan is M2+CDs; UK is M4. Sources: US Federal Reserve; European Central Bank; Bank of Japan; Bank of England.

...but so far at least, inflation has been falling rather than rising, even discounting the impact of lower oil prices

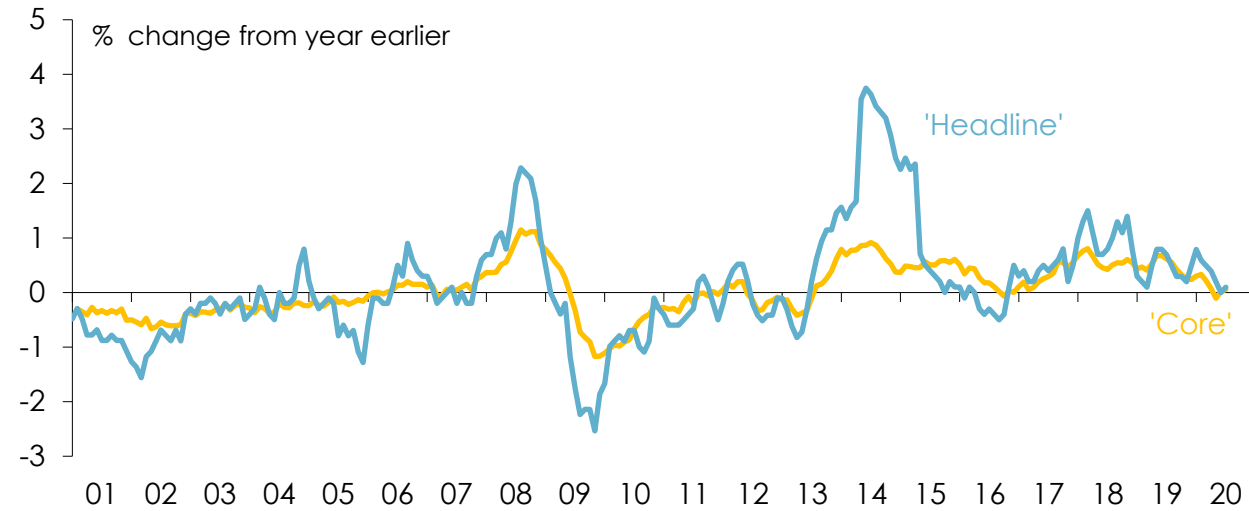
'Headline' and 'core' inflation - US



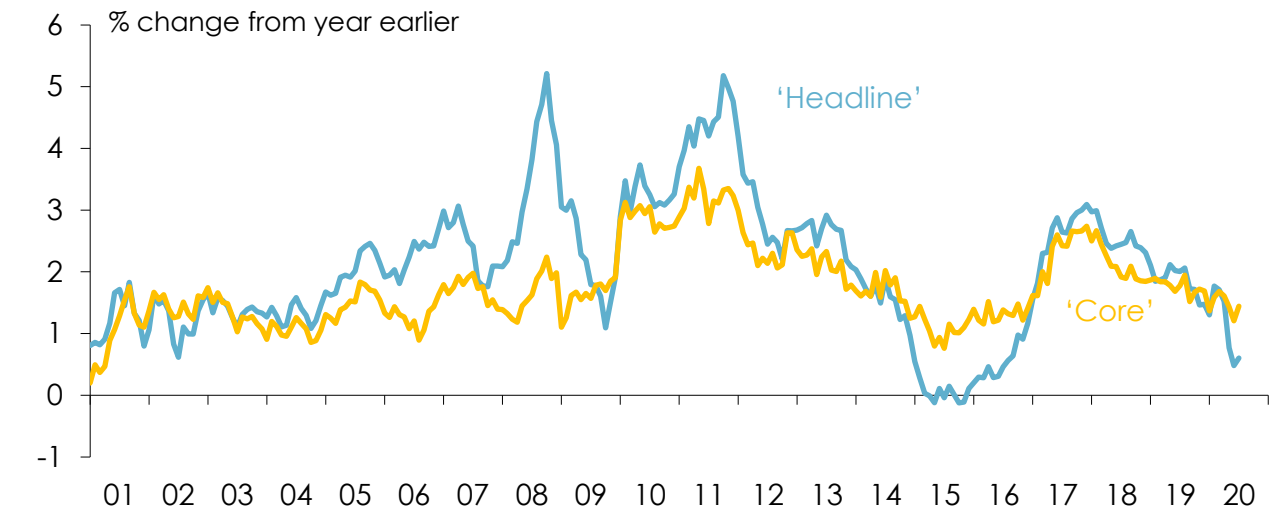
'Headline' and 'core' inflation – Euro area



'Headline' and 'core' inflation - Japan



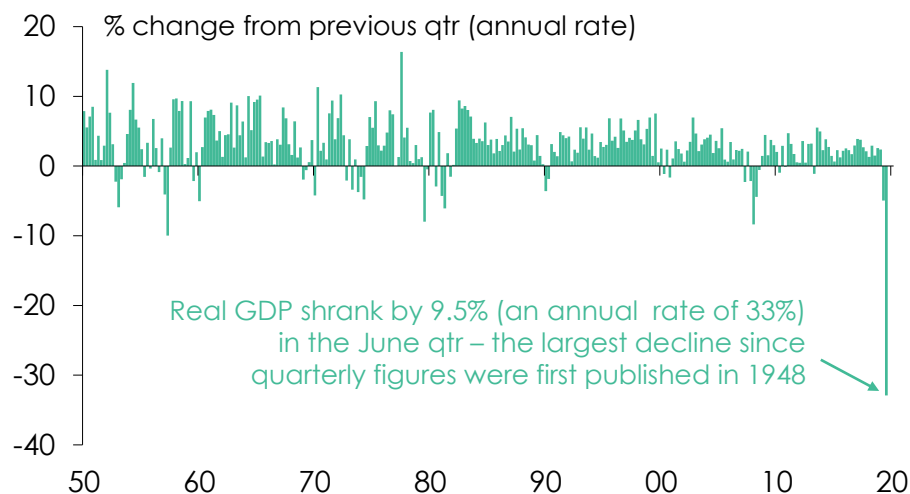
'Headline' and 'core' inflation – UK



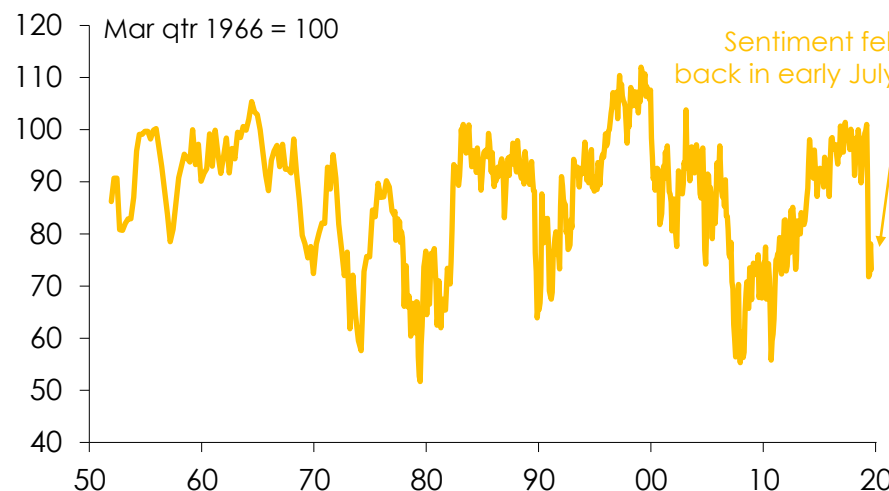
Note: 'Core' inflation is the CPI excluding food & energy in the US; excluding food, energy, alcohol & tobacco in the euro area; and excluding energy & seasonal foods in the UK. The 'core' inflation measure for Japan is the weighted median CPI calculated by the Bank of Japan. Sources: US Bureau of Labor Statistics; Eurostat; Statistics Bureau of Japan; Bank of Japan; UK Office for National Statistics.

The US economy has experienced its sharpest contraction since the 1930s, but there are increasing signs that a rebound began in May

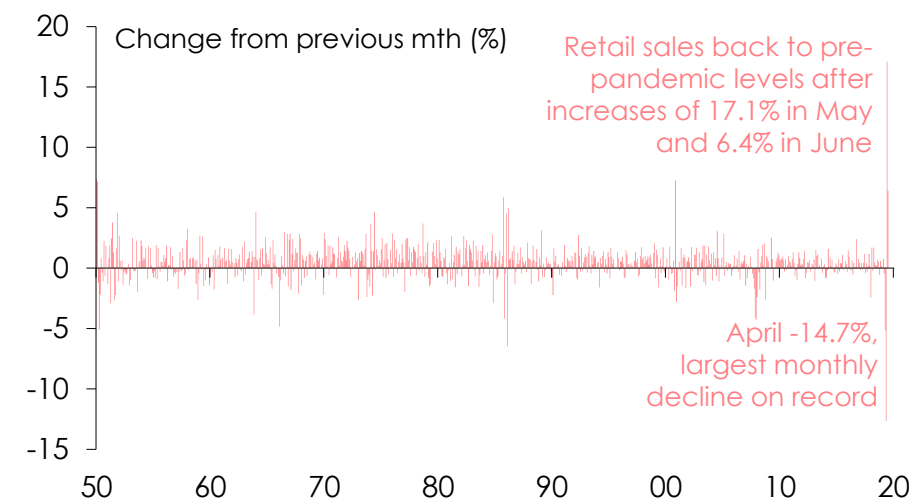
Real GDP



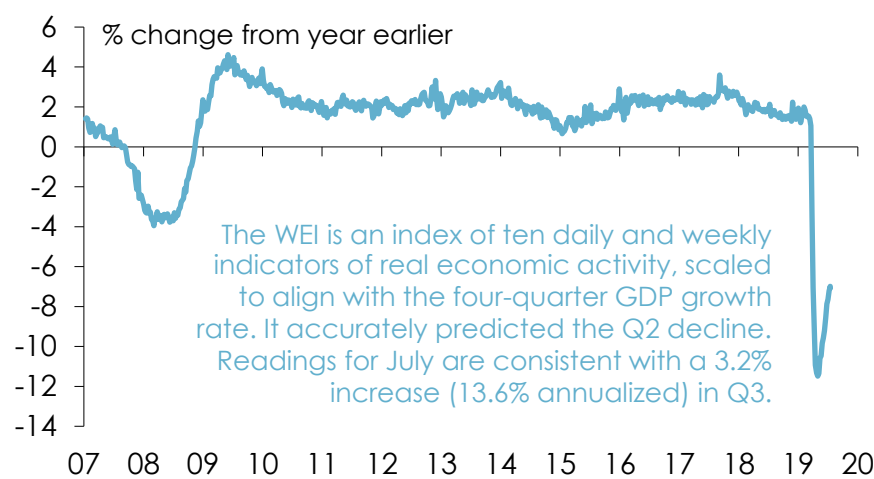
Consumer sentiment



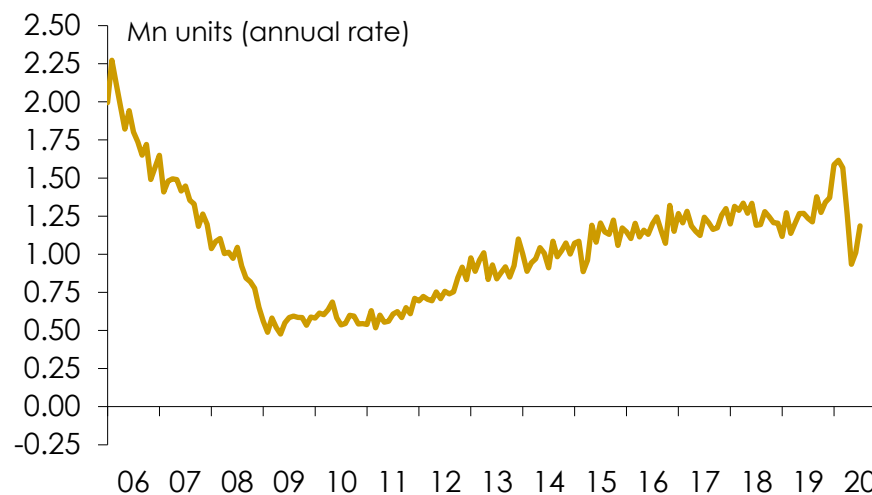
Retail sales



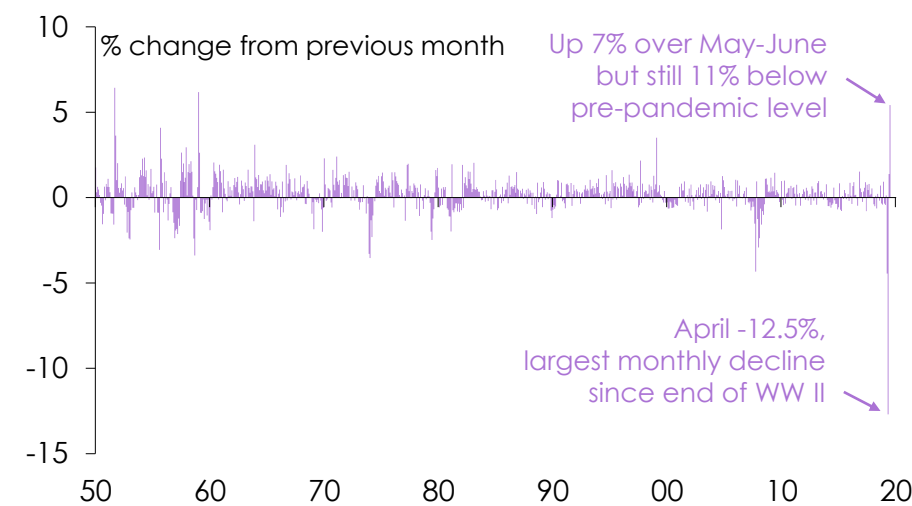
NY Fed weekly economic index



Housing starts



Industrial production



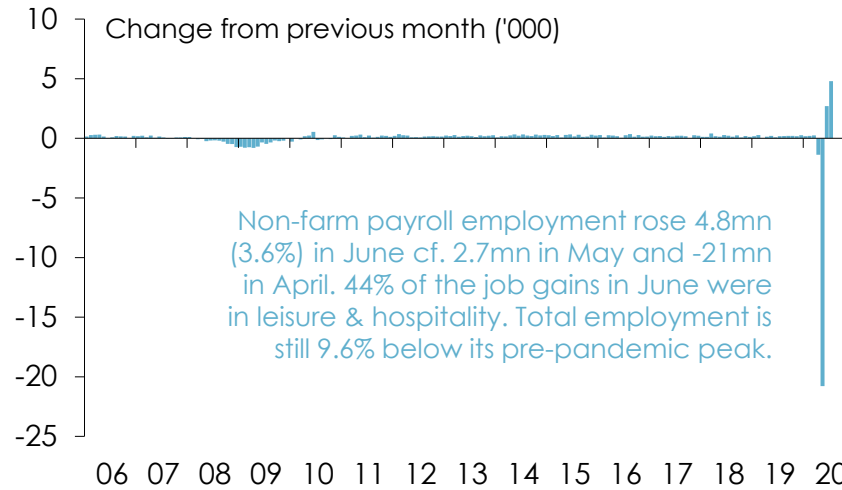
Sources: US Bureau of Economic Analysis; Federal Reserve Bank of New York; Michigan University Survey Research Center; US Commerce Department; Board of Governors of the Federal Reserve System.

The impact on the US labour market has been particularly severe – although employment rose, and unemployment fell, in May and June

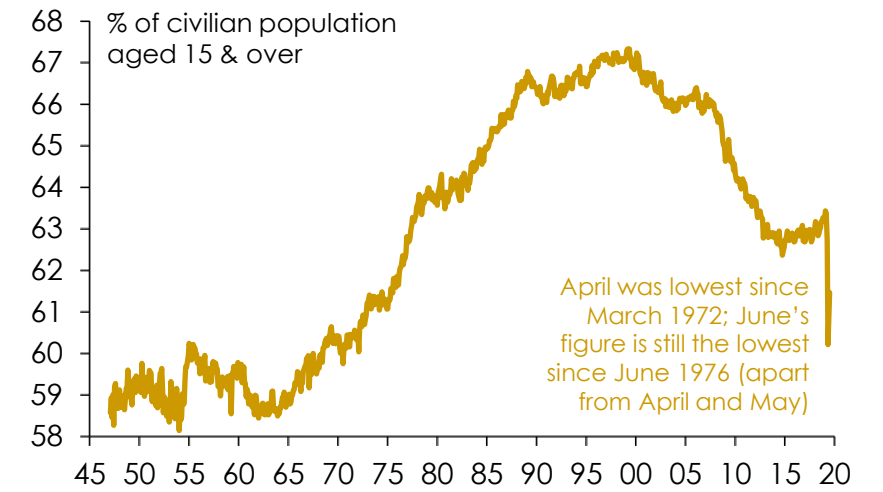
Unemployment benefit claims



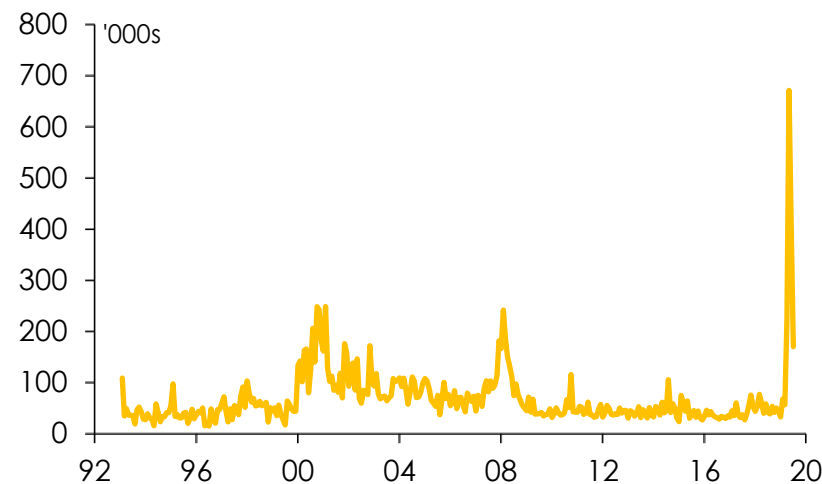
Non-farm payroll employment



Labour force participation rate



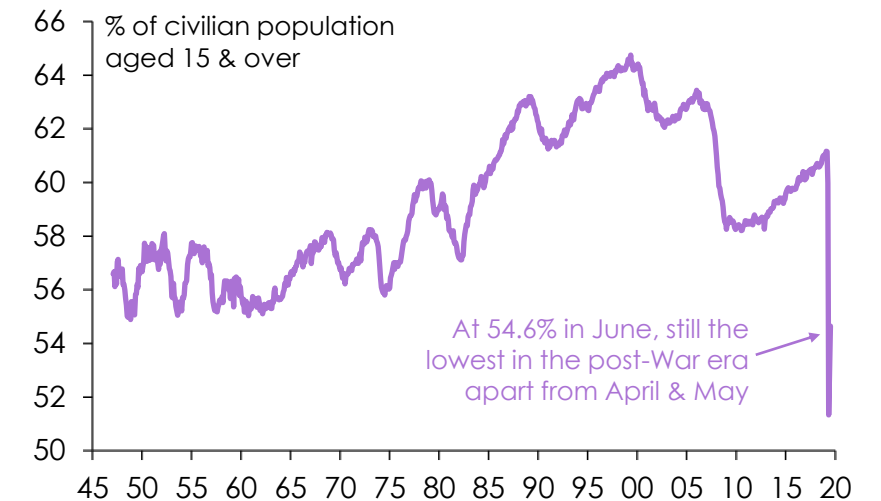
Layoff announcements



Unemployment rate



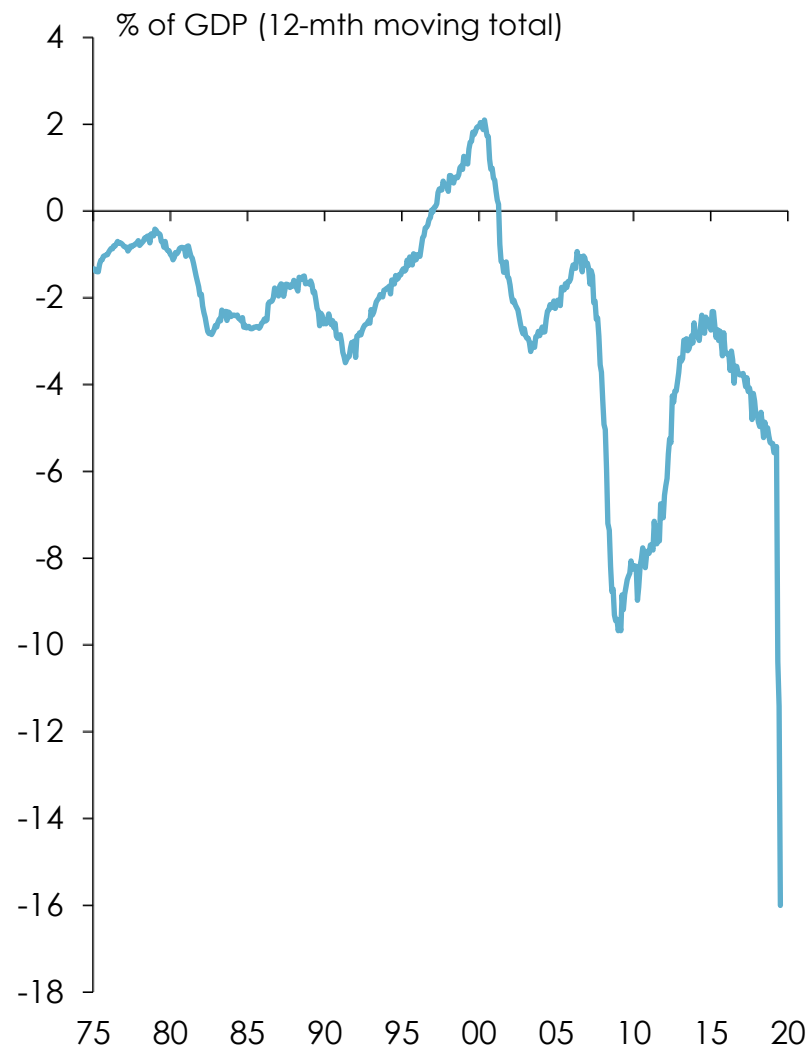
Employment to population ratio



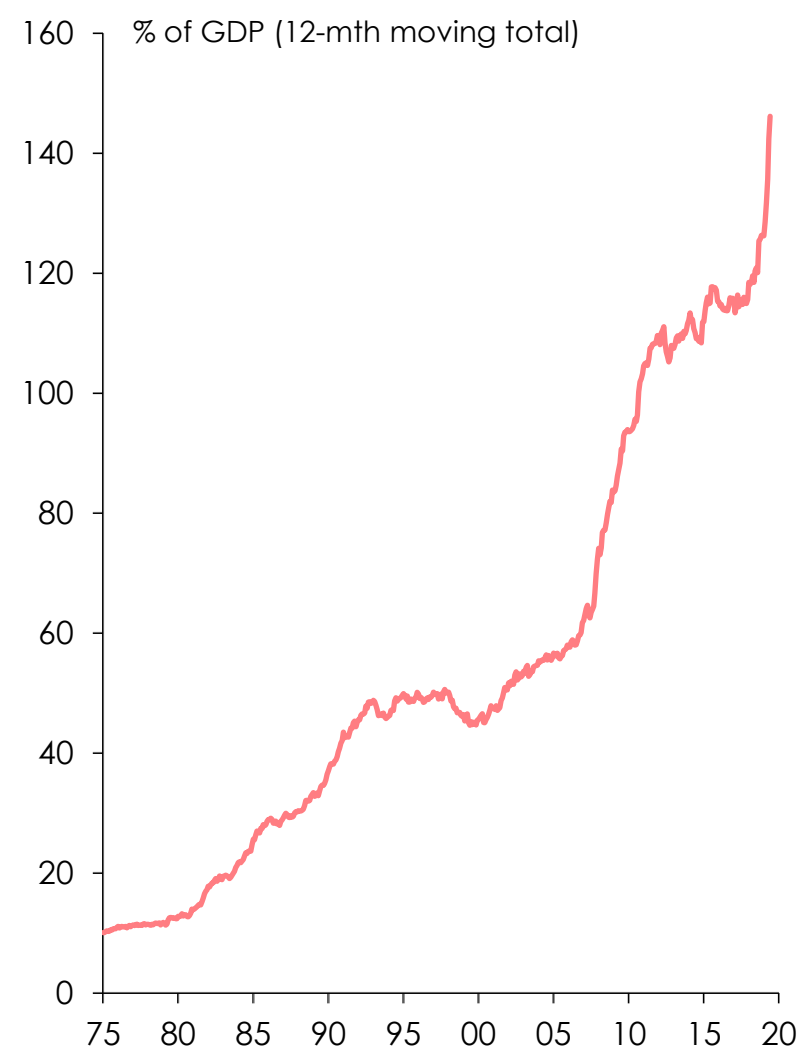
Sources: US Department of Labor; Challenger, Gray & Christmas; US Bureau of Labor Statistics; National Bureau of Economic Research Macro History database. July employment and other labour force data will be released on 7th August.

The US budget deficit has blown out dramatically since the end of March, reaching 16% of GDP in the 12 months ended June

US Federal budget deficit



US gross Federal debt

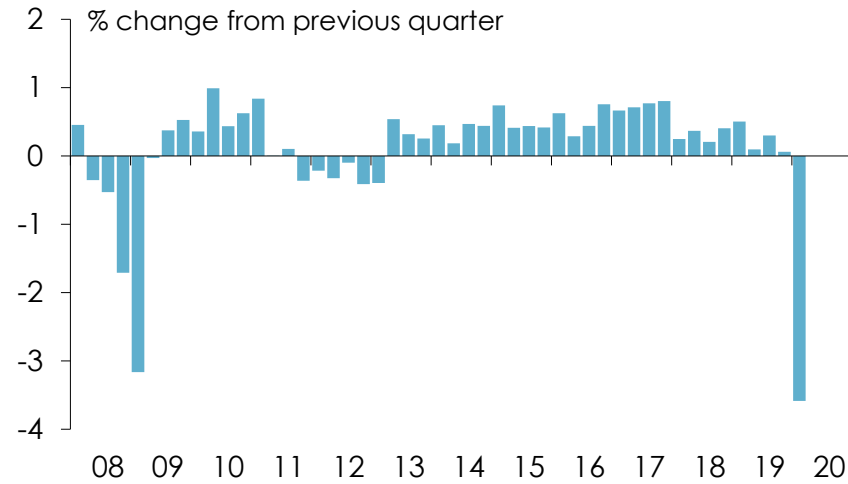


- ❑ The US federal budget deficit widened from US\$582bn (3.3% of GDP) in 2016 (Obama's last year in office) to US\$1 trn (5.4% of GDP) in 2019, while gross federal debt rose from US\$20.4 trn (115% of GDP) to \$24.1trn (126% of GDP)
- ❑ In March, the Congressional Budget Office forecast the deficit would remain above US\$1trn every year over the next decade, reaching US\$1.7 trn (5.6% of GDP) by 2030
- ❑ The budget deficit for April, May and June amounted to US\$2.0trn (reflecting the impact of Covid-19 related measures), bringing the 12-month moving total to US\$3.0 trn (16.0% of GDP), cf. a peak of 9.7% of GDP during the GFC (and the largest since 20.8% of GDP in FY 1945)
- ❑ Gross federal debt increased by US\$727 bn to US\$28.7 trn (154% of GDP)

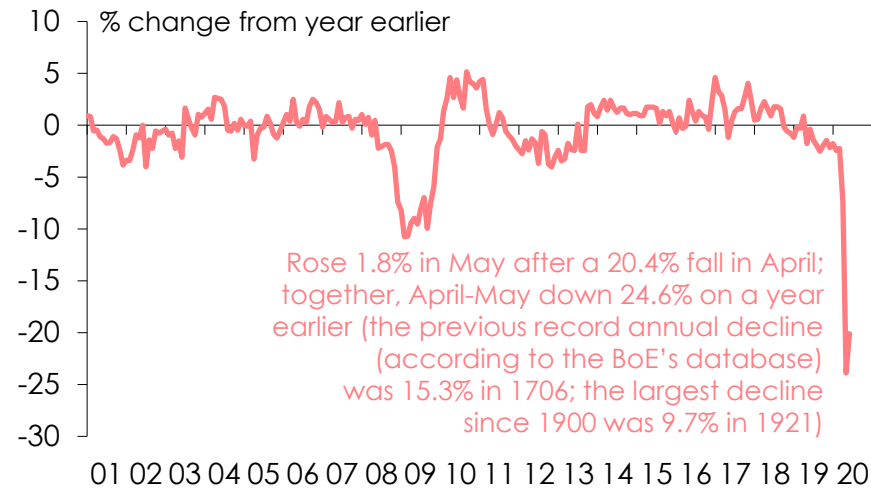
Note: The measure of US gross federal debt is at market value. Sources: US Treasury Department; Federal Reserve Bank of Dallas; US Bureau of Economic Analysis; US Congressional Budget Office; Corinna.

Europe is also experiencing a sharp downturn although unemployment probably won't rise as much as it has in the US

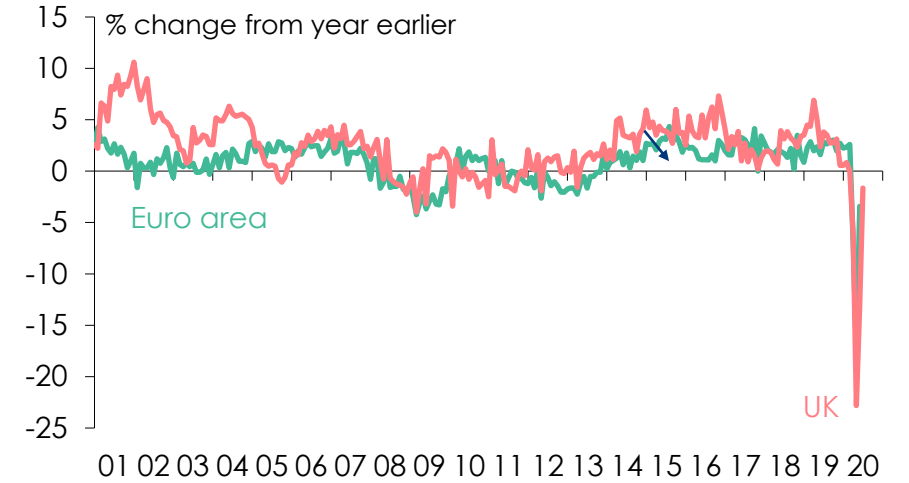
Euro area real GDP



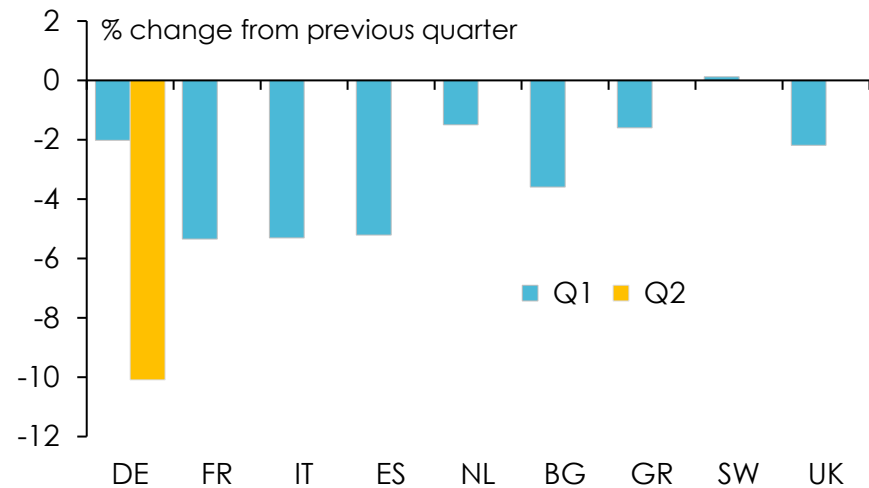
UK monthly GDP



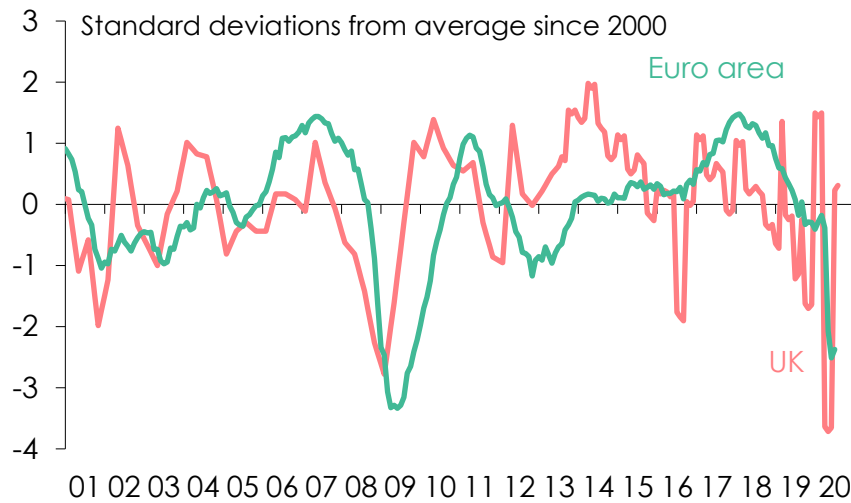
Retail sales volume



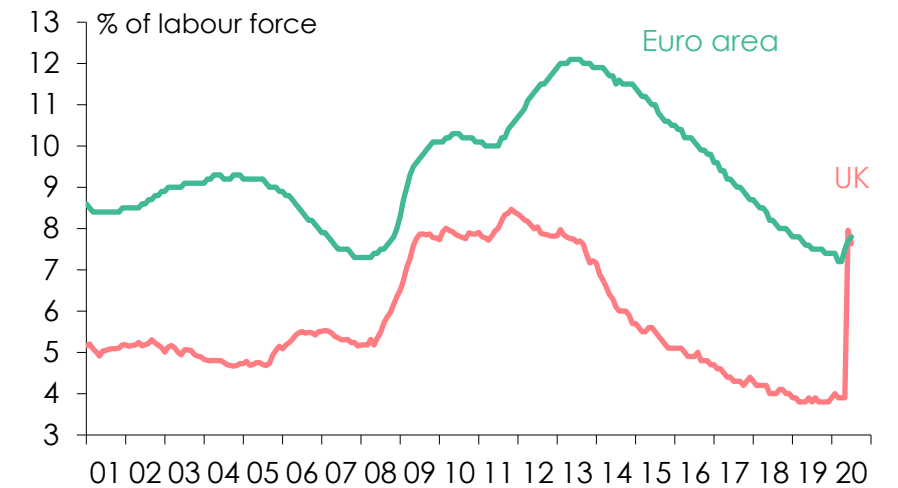
Quarterly GDP by country



Business confidence



Unemployment

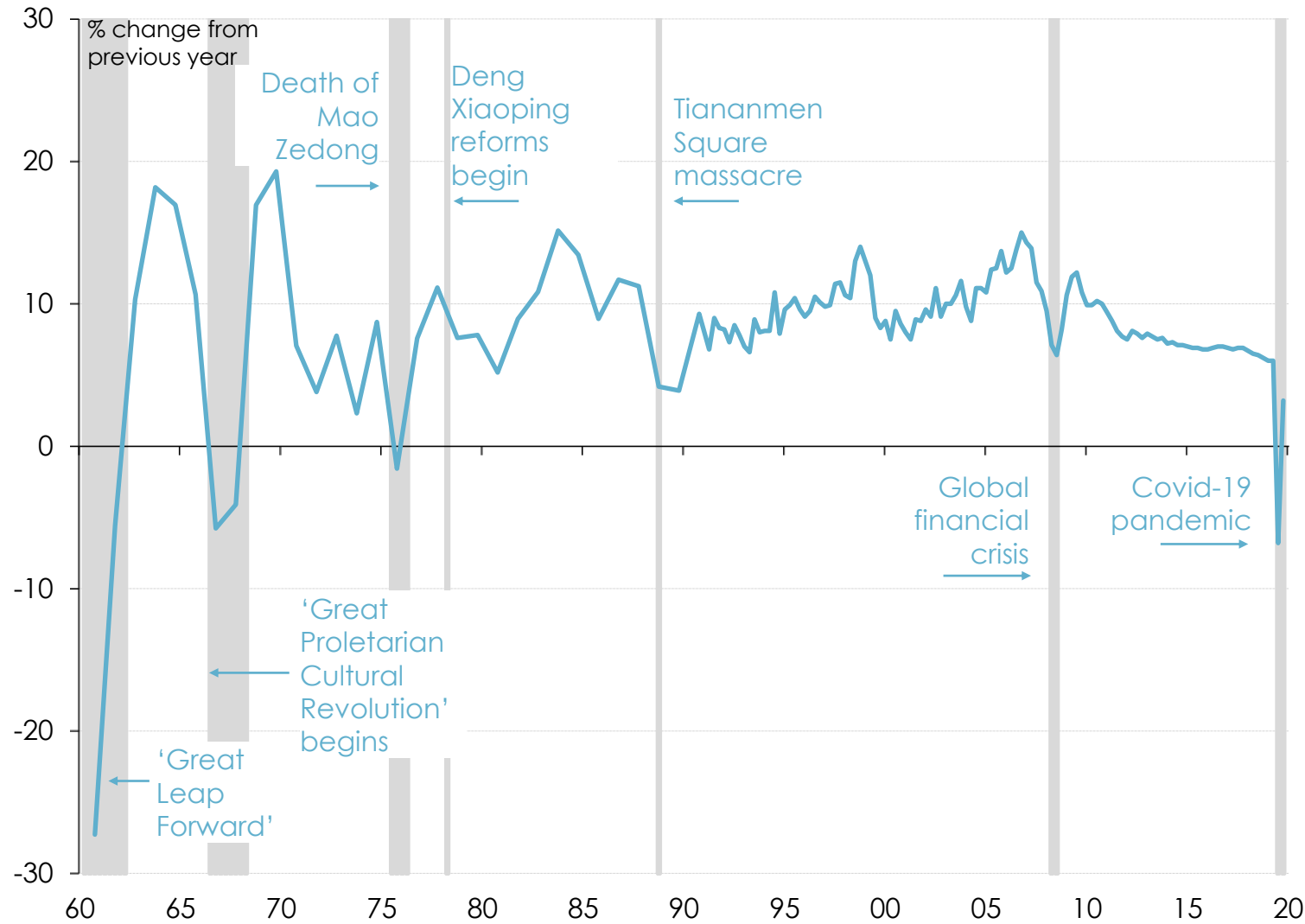


Sources: Eurostat; UK Office for National Statistics; Confederation of British Industry. The UK unemployment rate is published as a 3-month moving average; the most recent observation (for May) is derived by adding to the 'claimant count' unemployment rate the average margin between that rate and the conventionally defined unemployment rate over the preceding 12 months. Preliminary estimates of Q2 GDP for the UK will be released on 12th August.

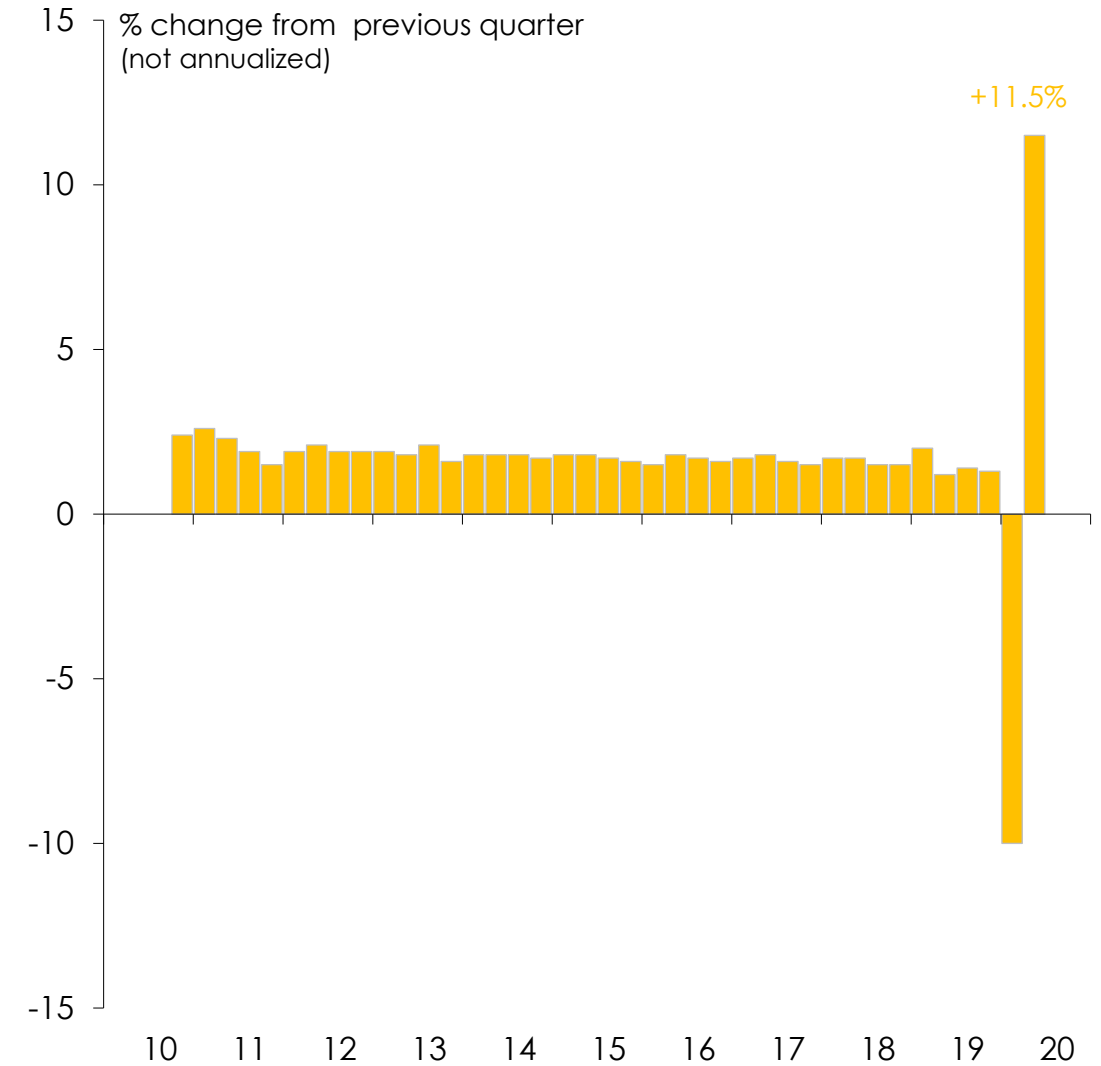
China

China's economy rebounded strongly in Q2 from what had been the worst downturn in almost 60 years in Q1

Real GDP growth, from year earlier, 1961-2020



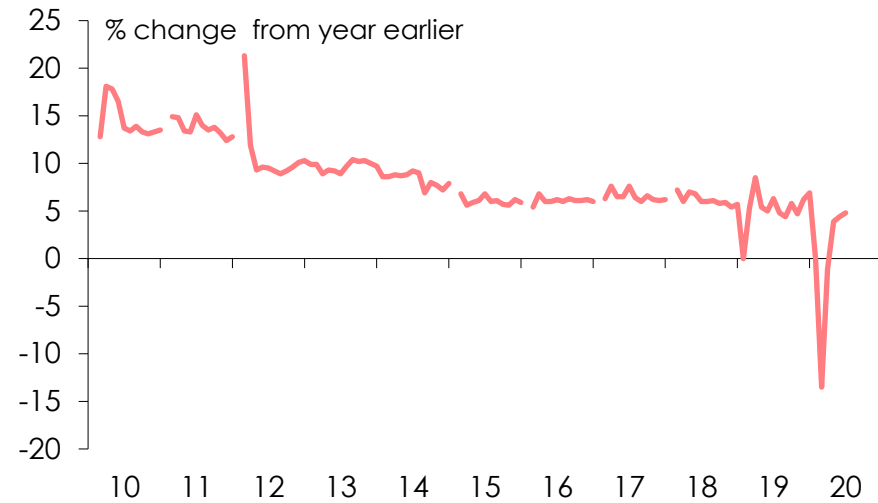
Quarterly real GDP growth, 2010-2020



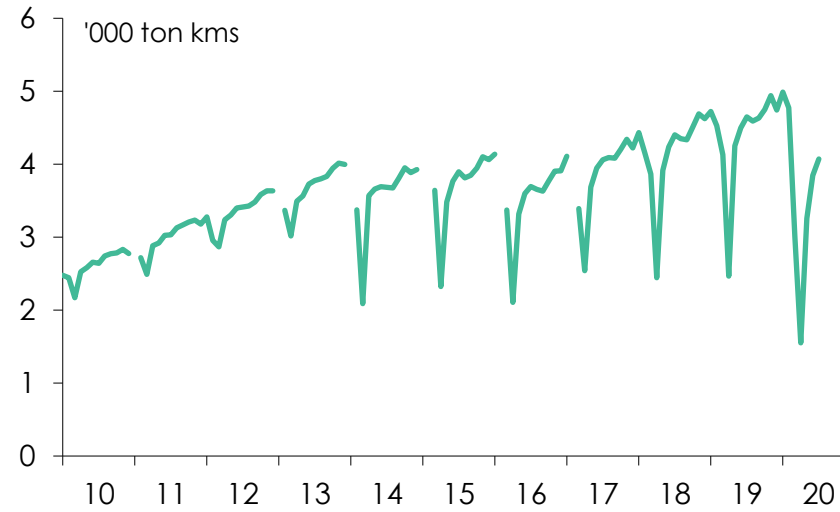
Note: In the left-hand chart, GDP growth rates are annual averages up to the December quarter of 1991, and then quarter-on-corresponding-quarter-of-previous-year thereafter. Sources: China National Bureau of Statistics.

The production side of the Chinese economy rebounded strongly in the June quarter

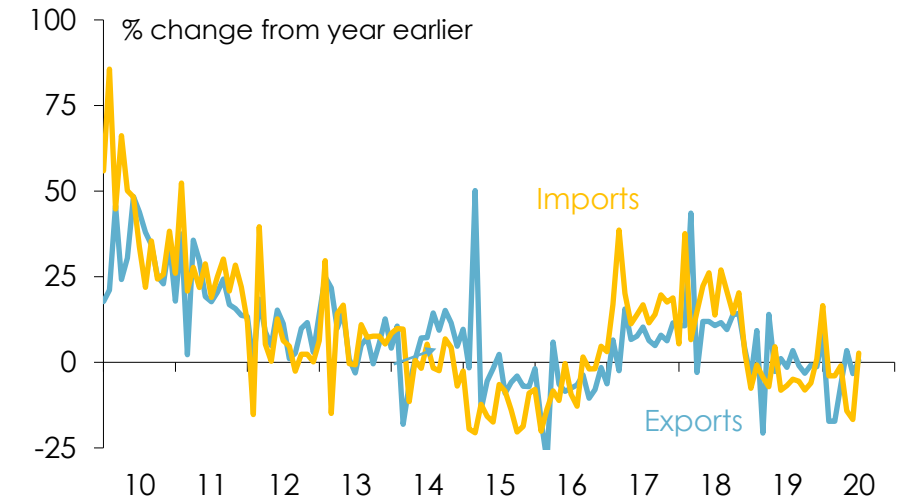
Industrial production



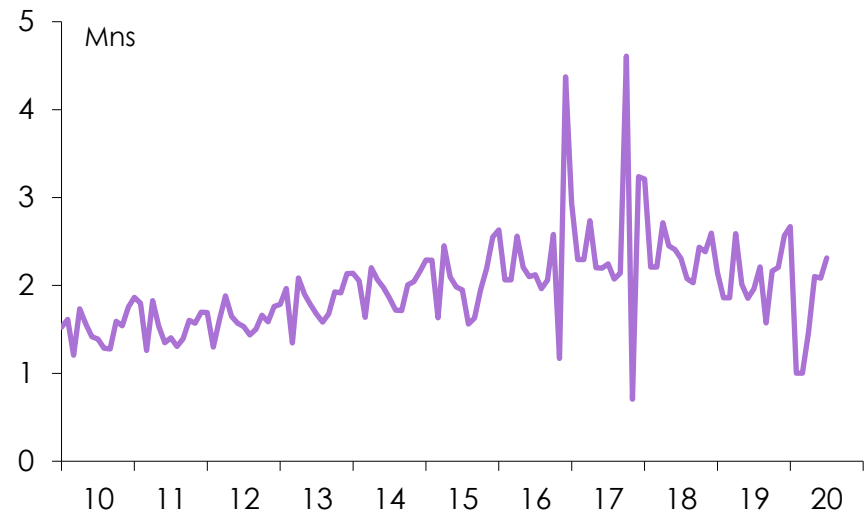
Freight traffic volumes



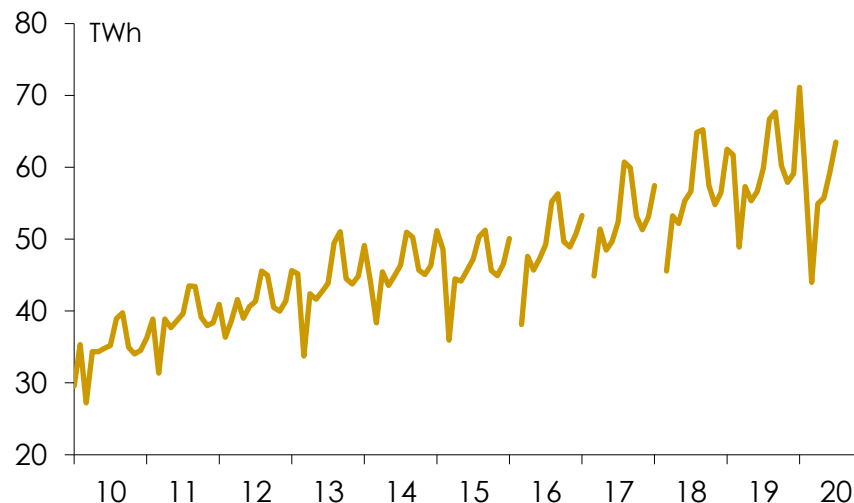
Merchandise trade



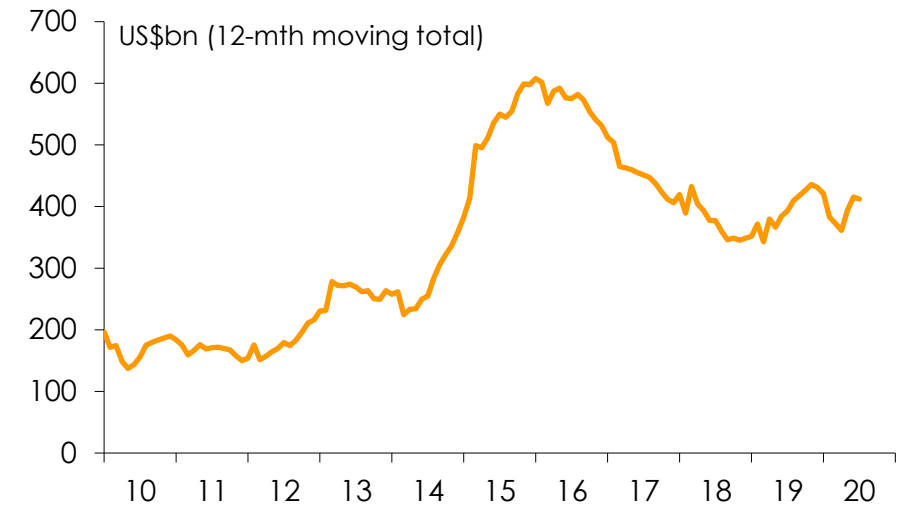
Motor vehicle production



Primary electricity production



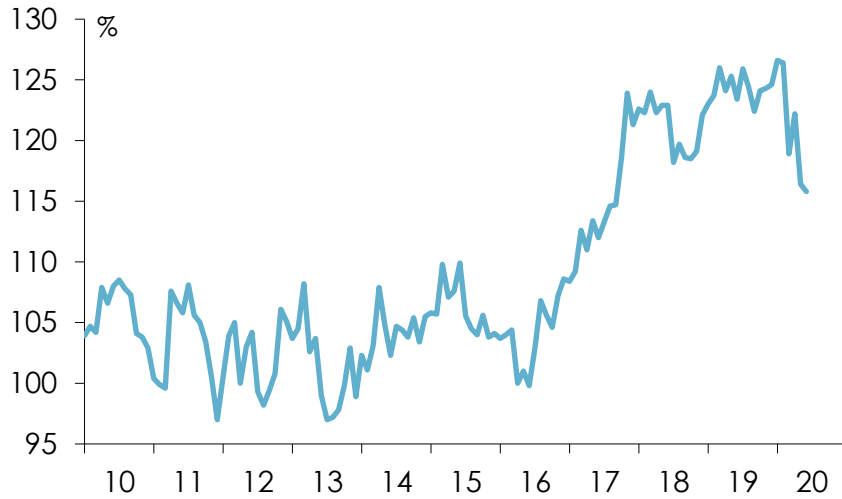
Merchandise trade balance



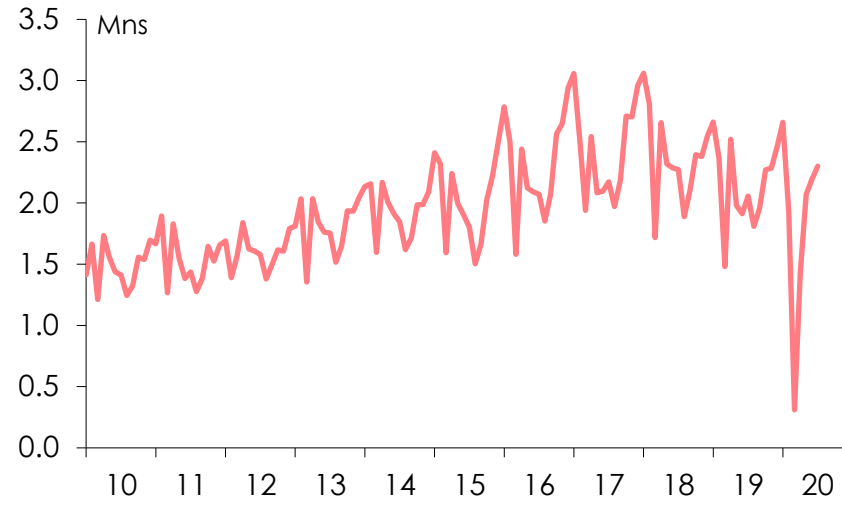
Sources: China National Bureau of Statistics; China Association of Automobile Manufacturers; China General Administration of Customs.

However the 'demand' side of the Chinese economy – both household and business – is recovering rather more gradually

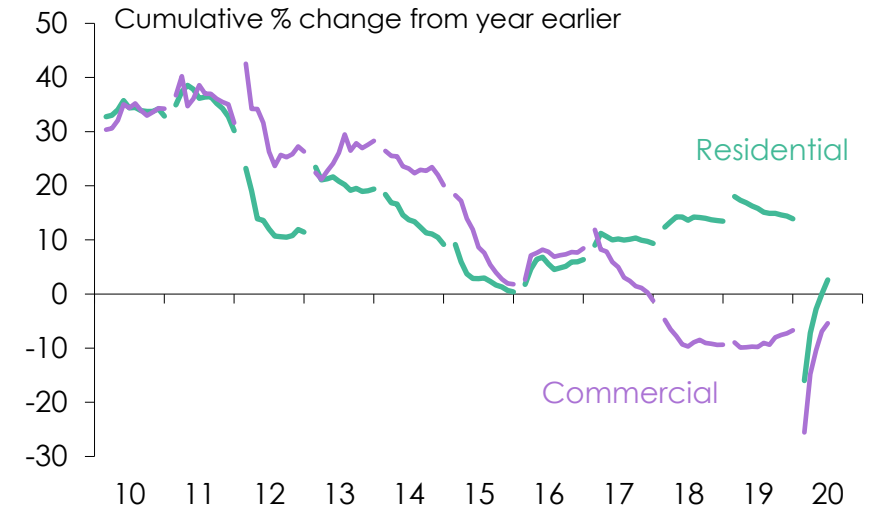
Consumer sentiment



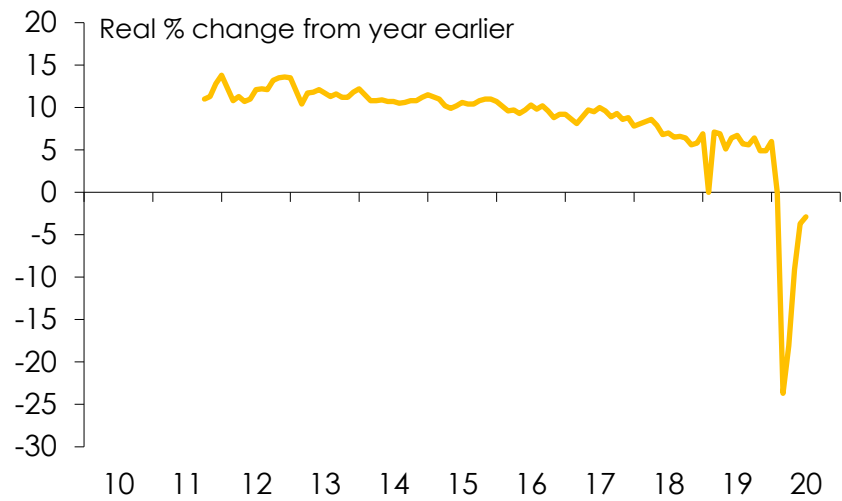
Motor vehicle sales



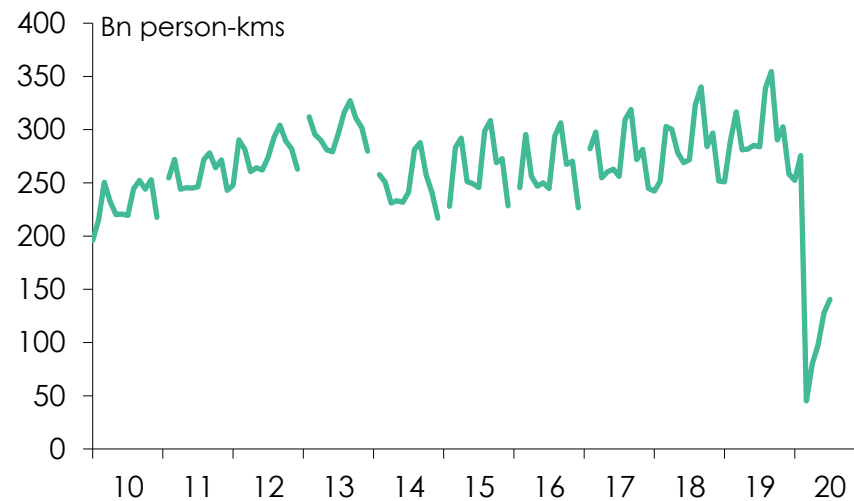
Real estate investment



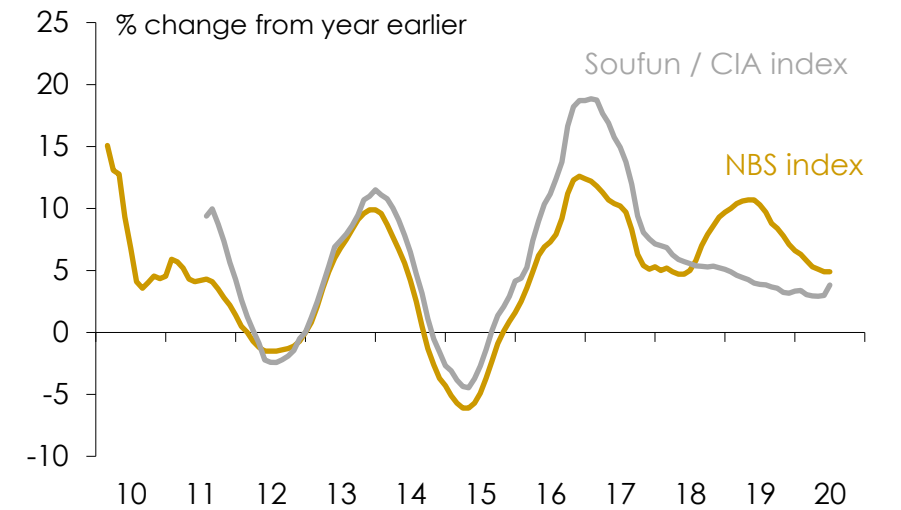
Retail sales volume



Passenger traffic volumes



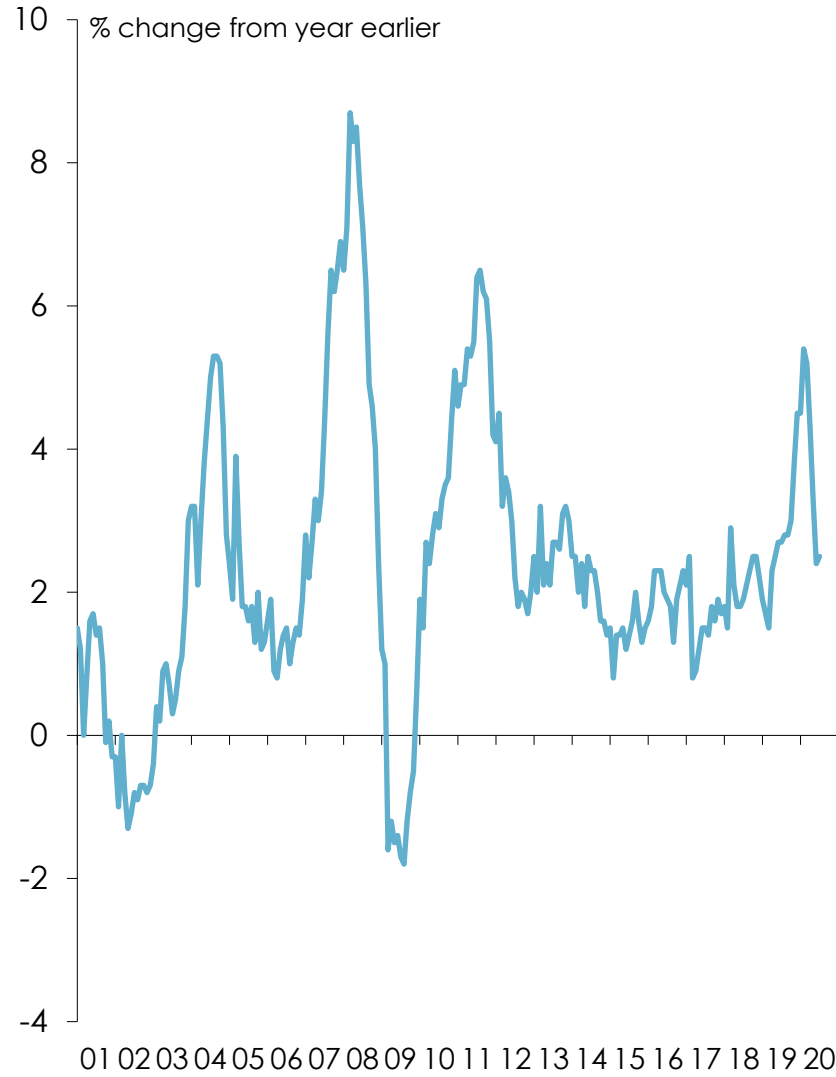
Residential real estate prices



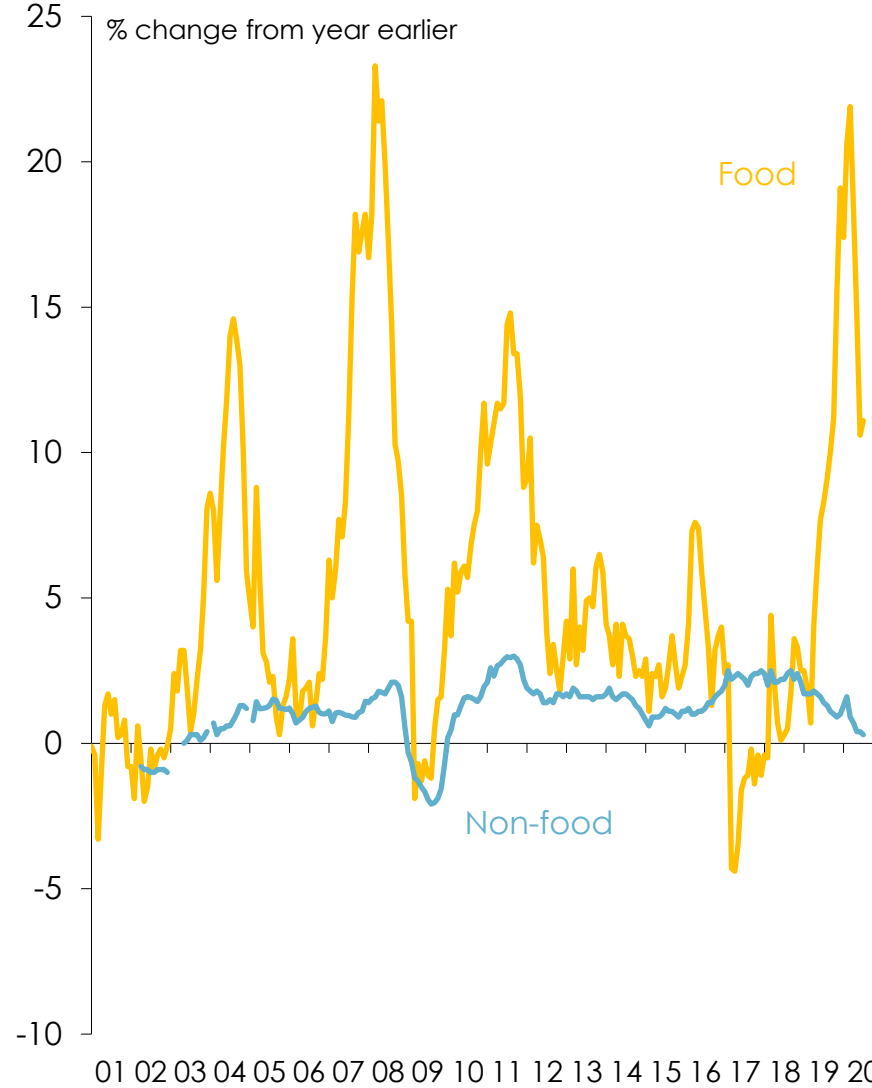
Sources: China National Bureau of Statistics; China Association of Automobile Manufacturers; China Index Academy.

Inflation rose sharply last year, largely because of a surge in pork prices, but has receded this year, with non-food inflation at a 10-year low

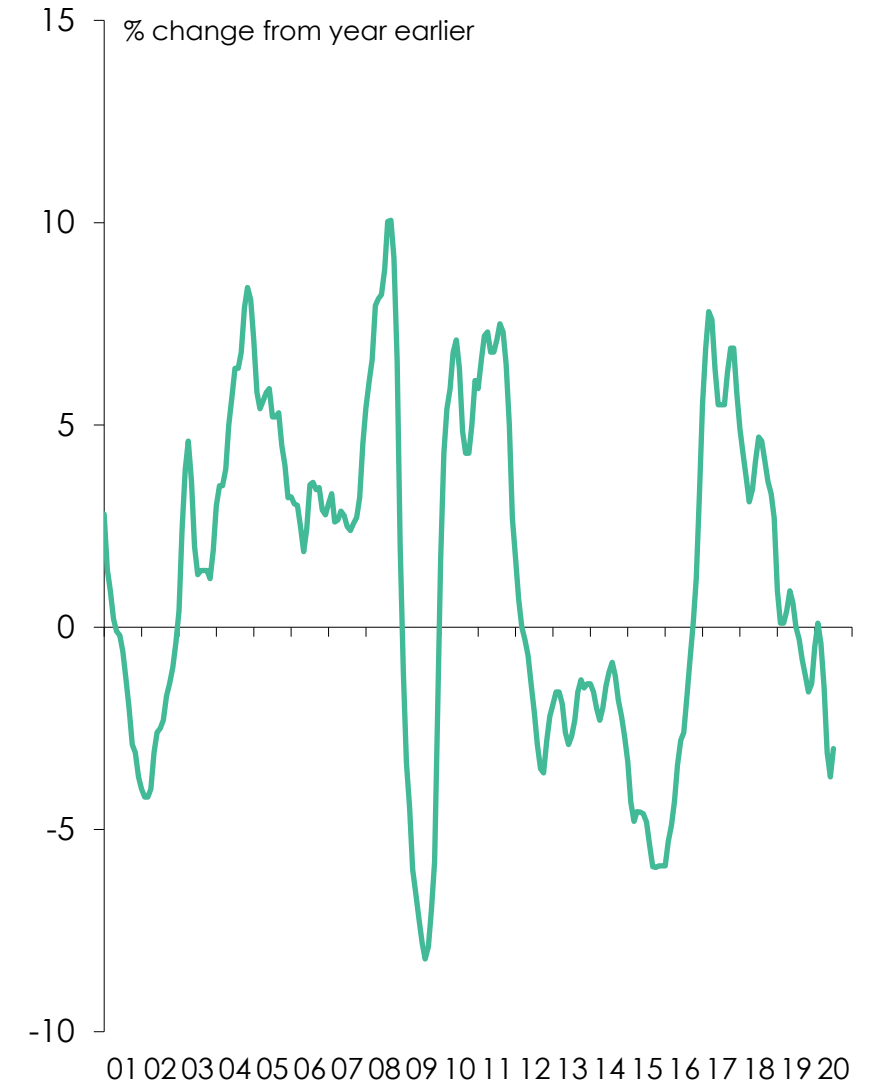
Consumer prices



Consumer prices— food vs non-food



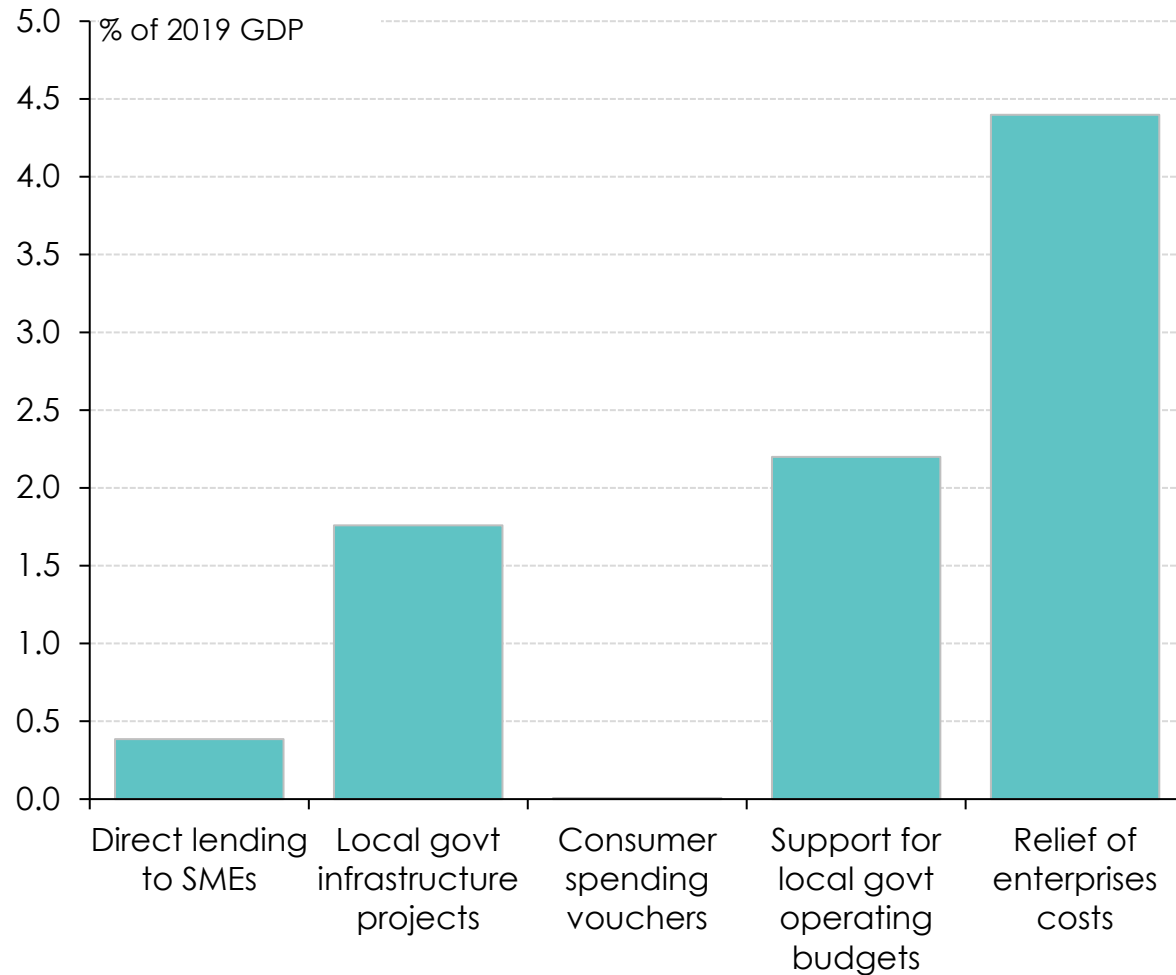
Producer prices



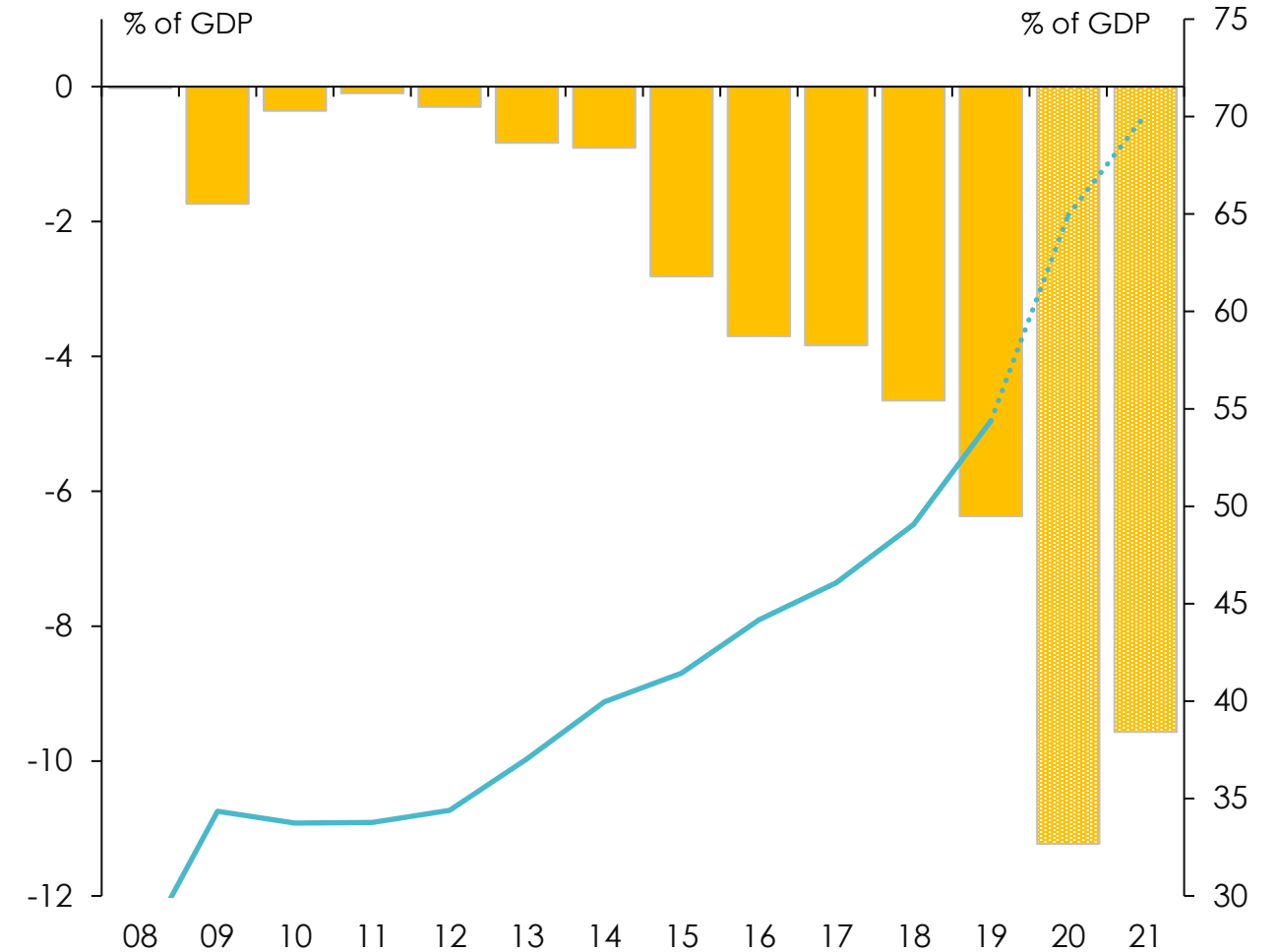
Source: China National Bureau of Statistics.

China's fiscal policy measures in response to Covid-19 appear to be larger than those taken during the global financial crisis

Fiscal measures announced by the Chinese Government in response to Covid-19



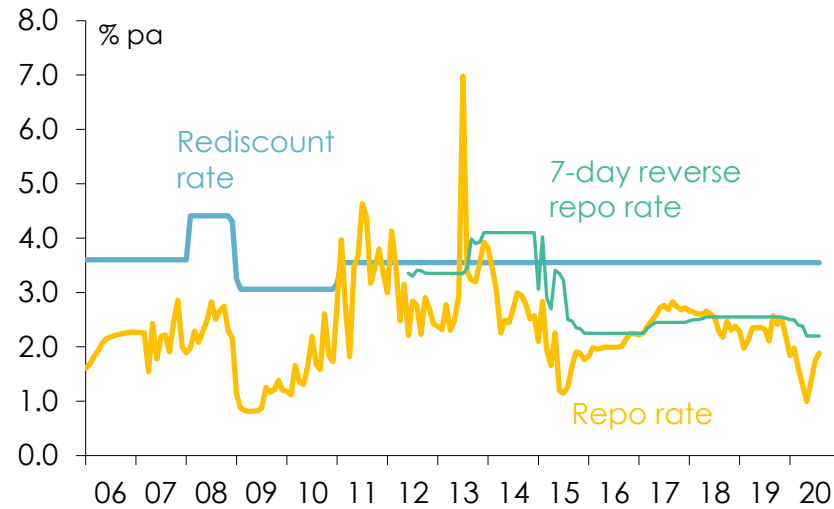
Chinese general government fiscal balance and gross debt



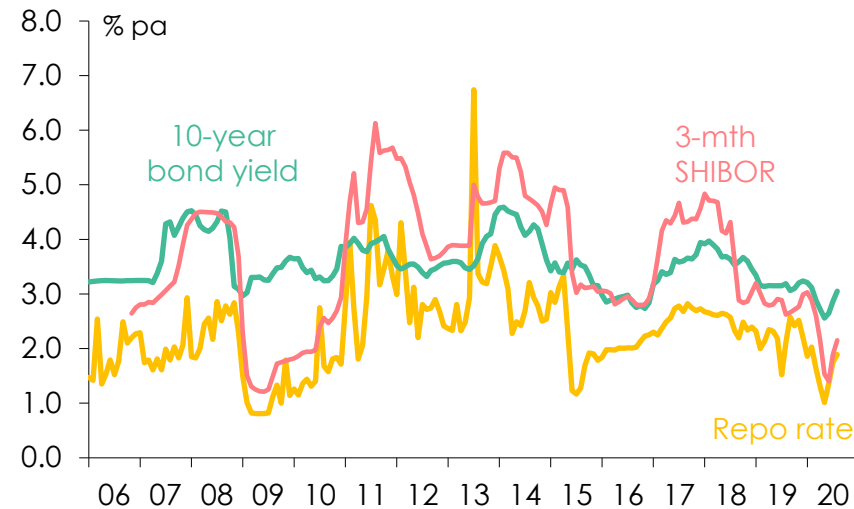
Sources: Asian Development Bank, ADB Covid-19 Policy Database; IMF, Fiscal Monitor, April 2020.

The PBoC has been more cautious about stimulus than it was in 2008-09 or 2015-16, perhaps because it's still concerned about financial stability

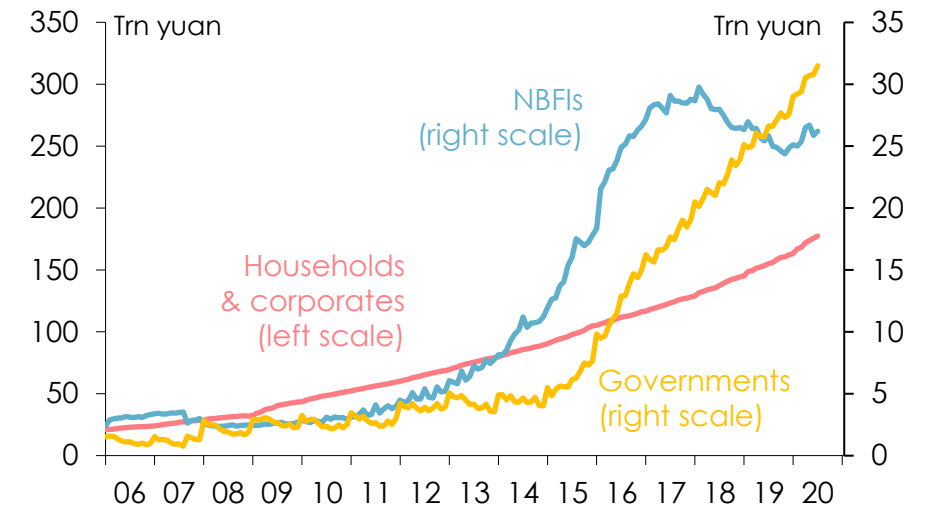
PBoC policy interest rates



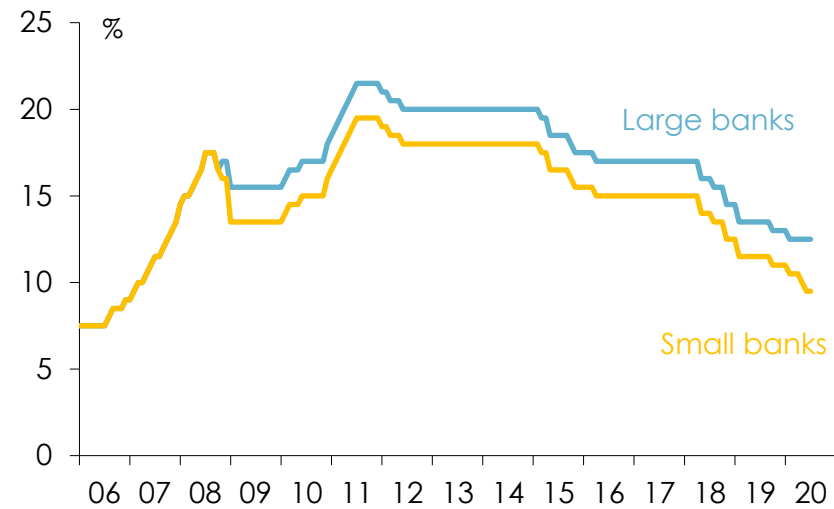
Market interest rates



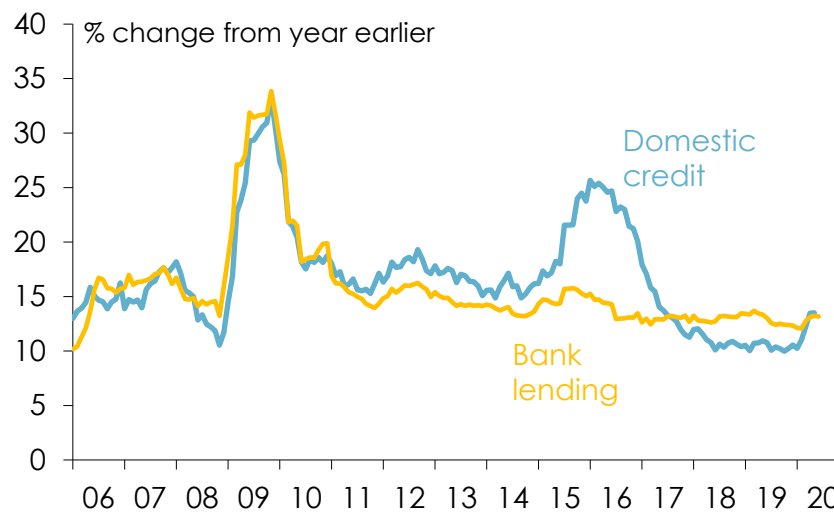
Depository corporation assets



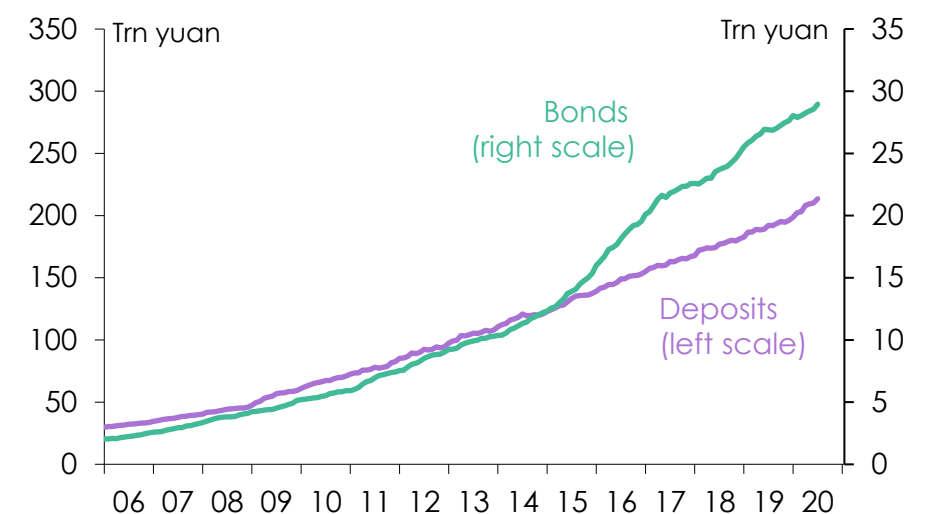
Bank reserve requirement ratios



Credit growth



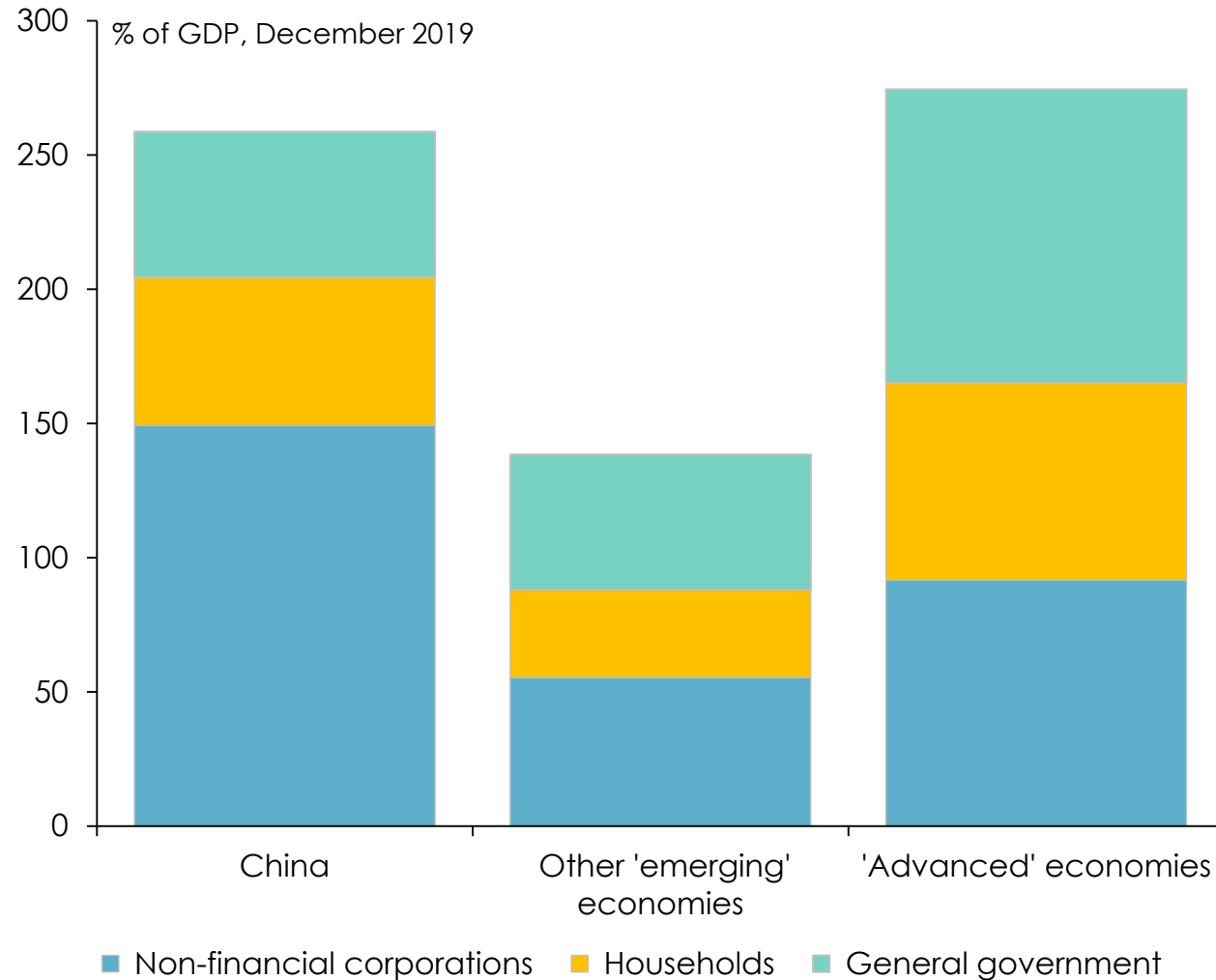
Depository corporation liabilities



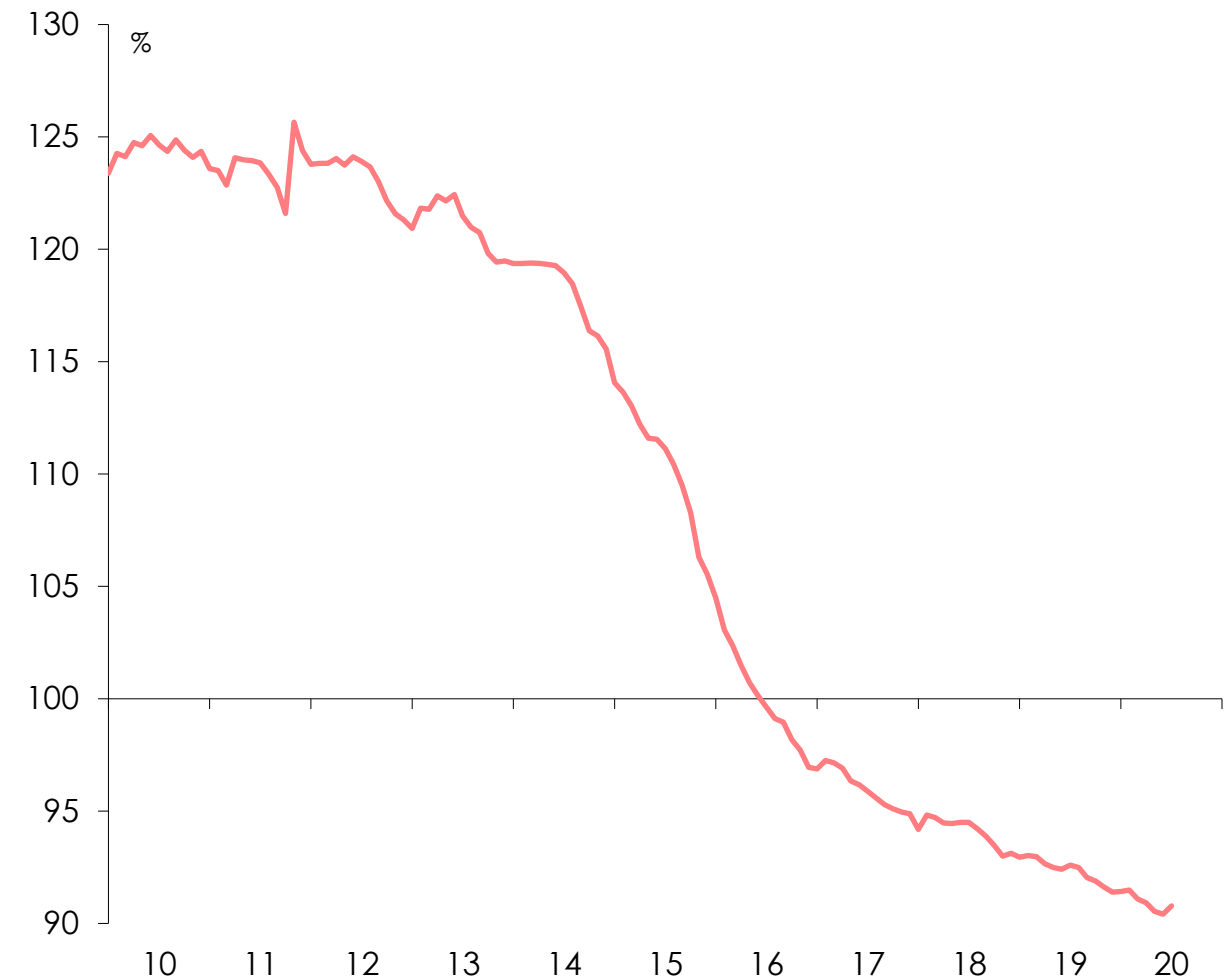
Sources: Refintiv Datastream; People's Bank of China.

China has a *lot* of debt, by 'emerging' market standards: and its banking system is more vulnerable than it once was

Debt as a pc of GDP – China, other 'emerging' economies and 'advanced' economies



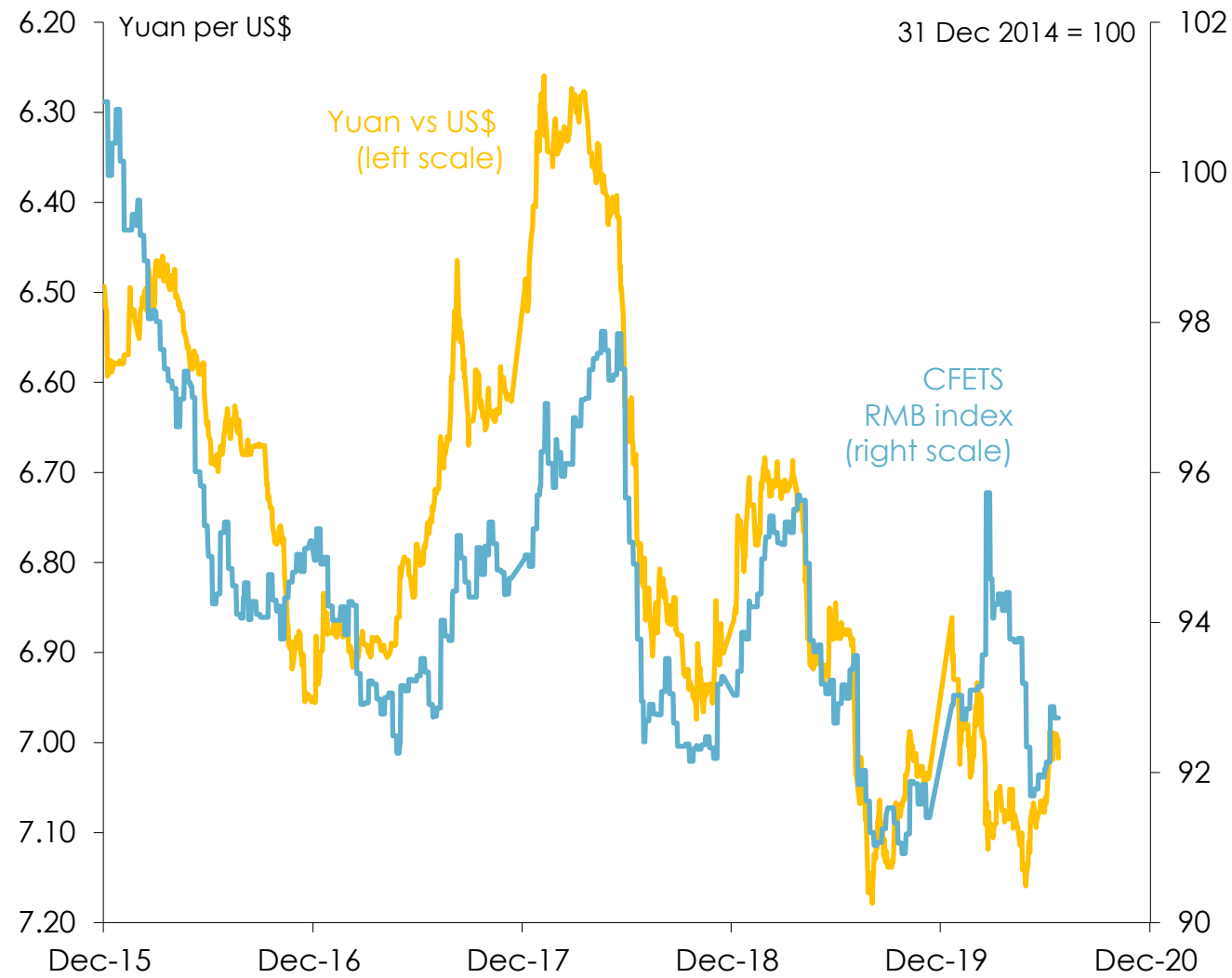
Deposits-to-loans ratio of the Chinese banking system



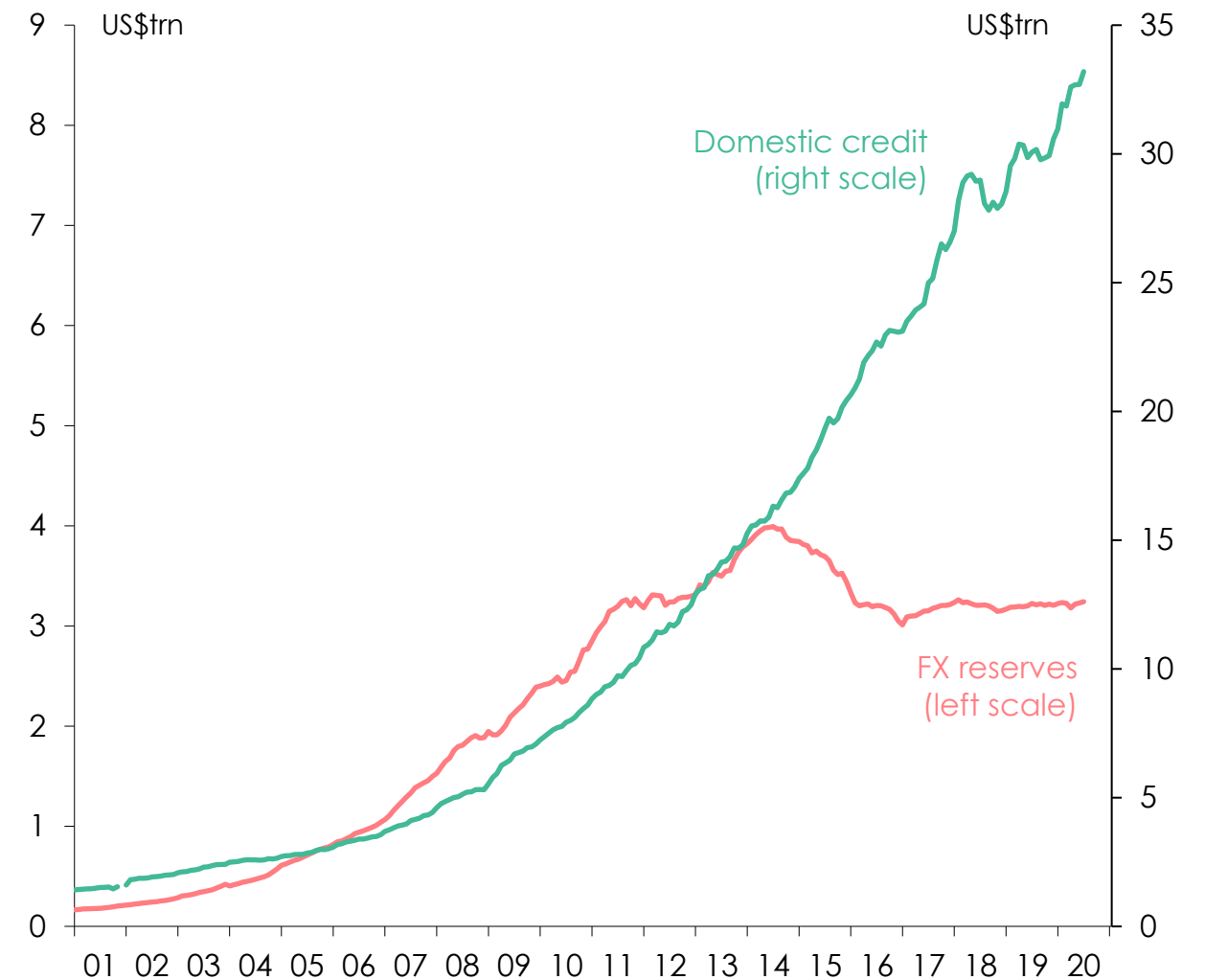
Sources: Bank for International Settlements; People's Bank of China.

The yuan has fell 0.4% against both the US\$ and the CFETS index – from a longer-term perspective Rmb stability is dependent on capital controls

Chinese yuan vs US\$ and trade-weighted index

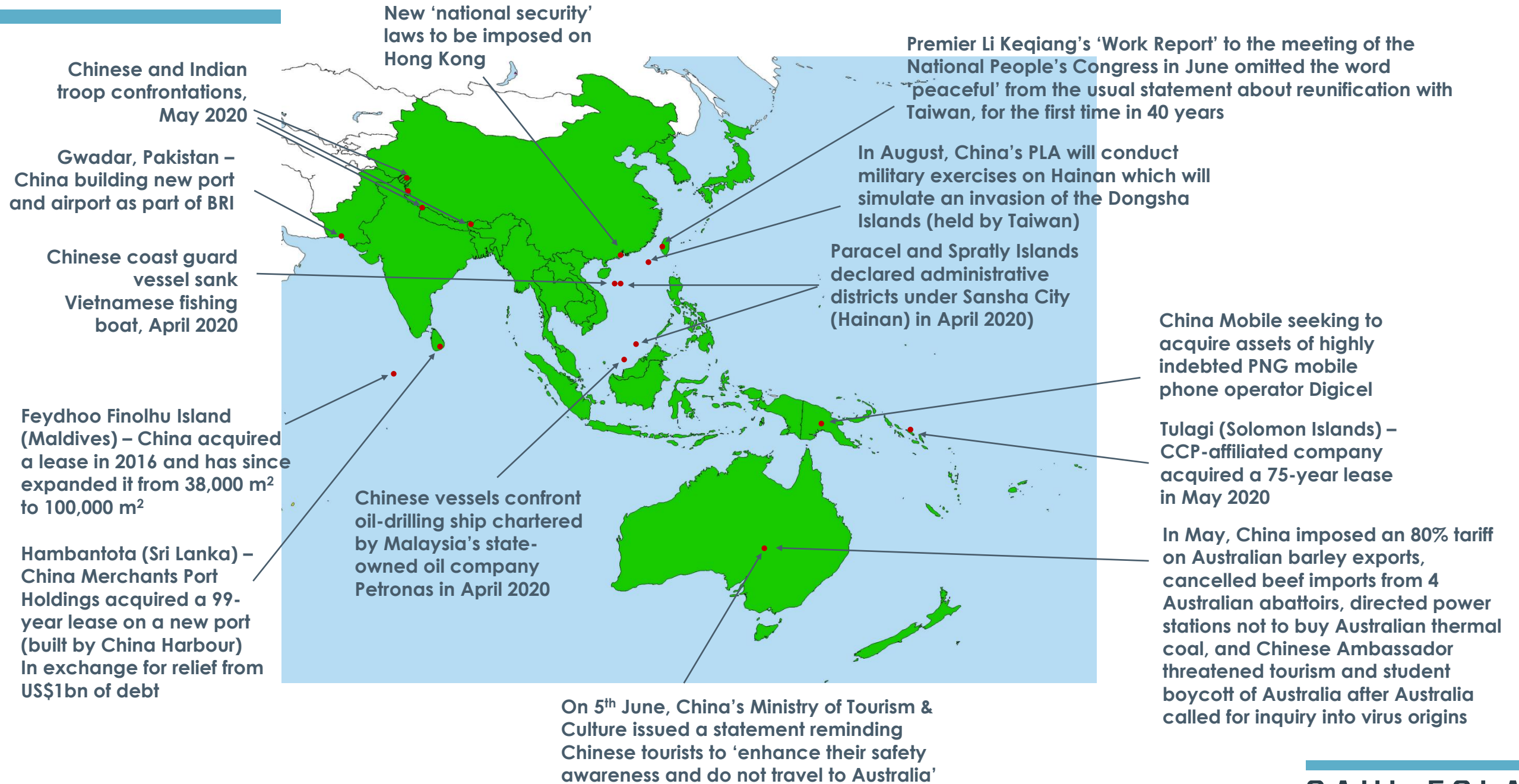


FX reserves and domestic credit



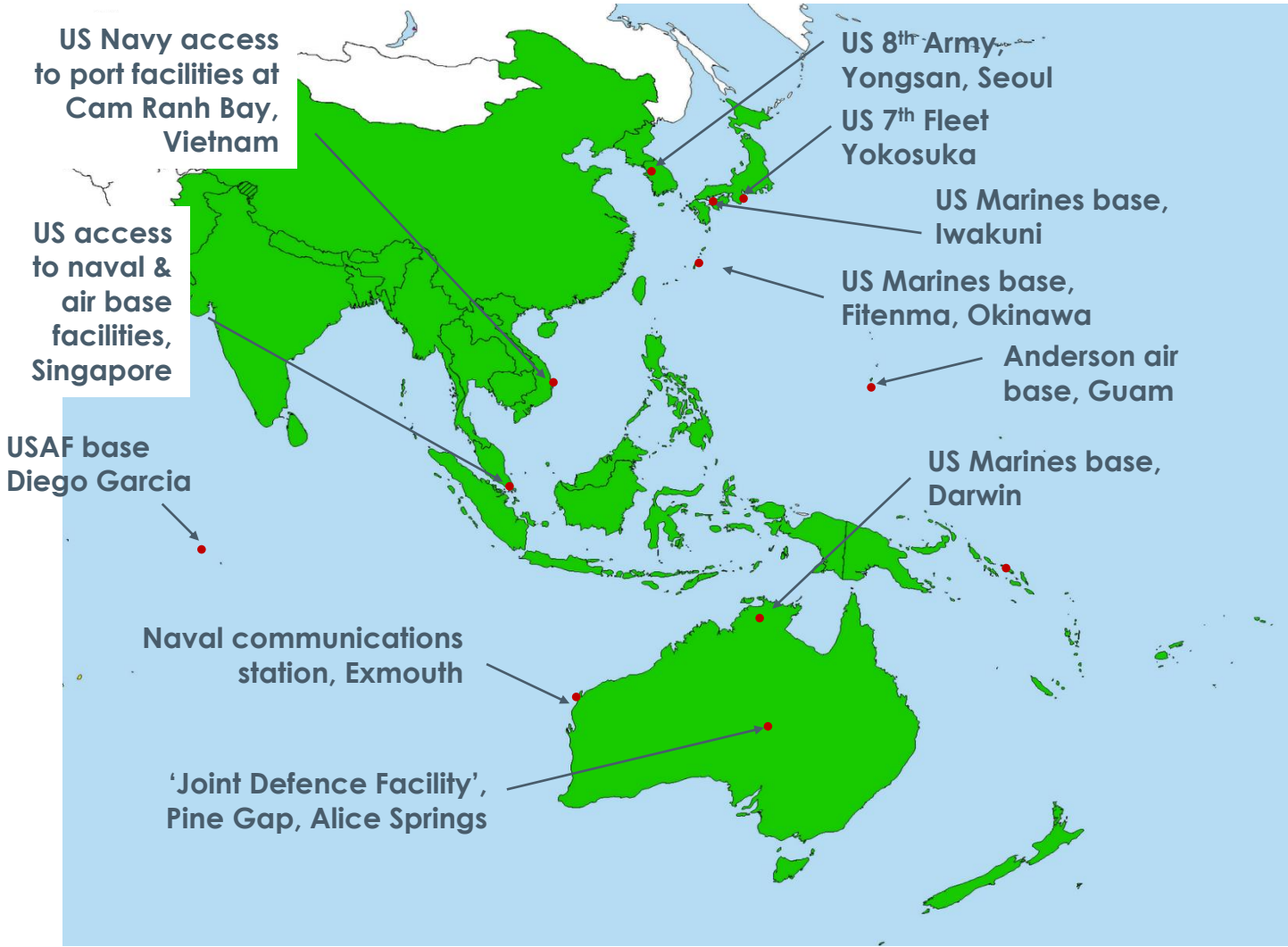
Sources: Refinitiv Datastream; China Foreign Exchange Trading System; People's Bank of China. Exchange rates up to 24th July.

Recent Chinese activity in the Indo-Pacific region

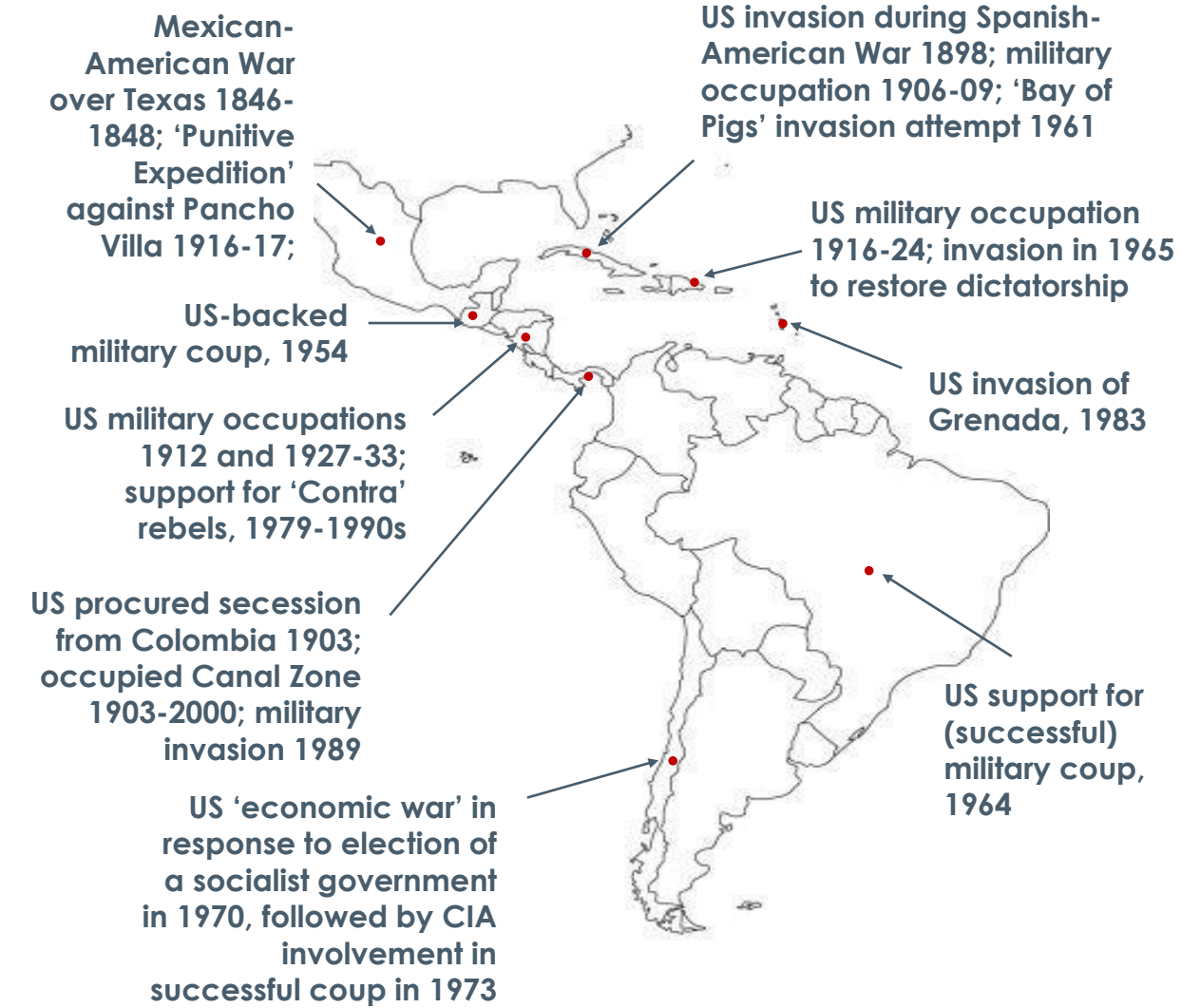


Of course the Chinese would say they're not doing anything the US hasn't, either in the Indo-Pacific or in the Americas

US military presence in the 'Indo-Pacific' region



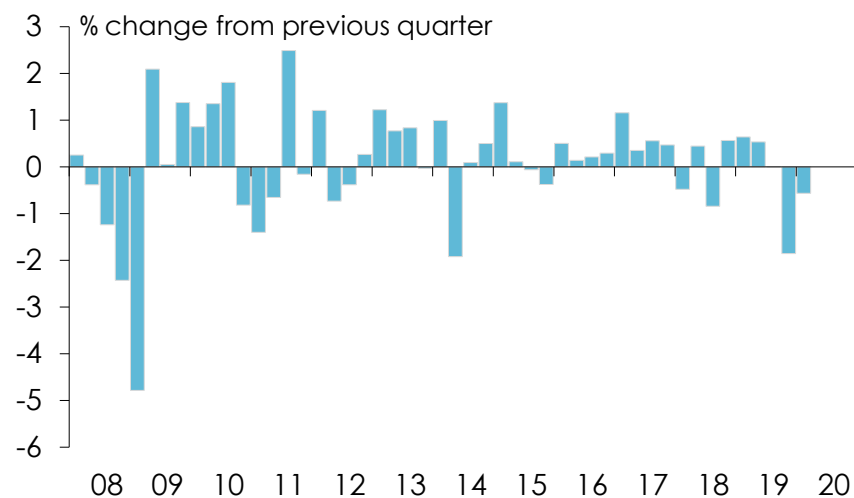
US involvement in Latin America and Caribbean



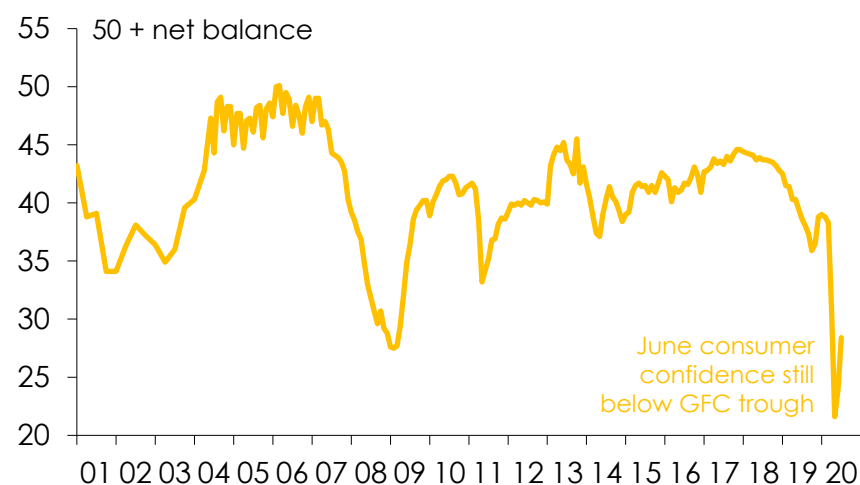
Japan

Japan entered its fourth recession since 2000 after hiking its GST rate last October, and the pandemic has worsened it

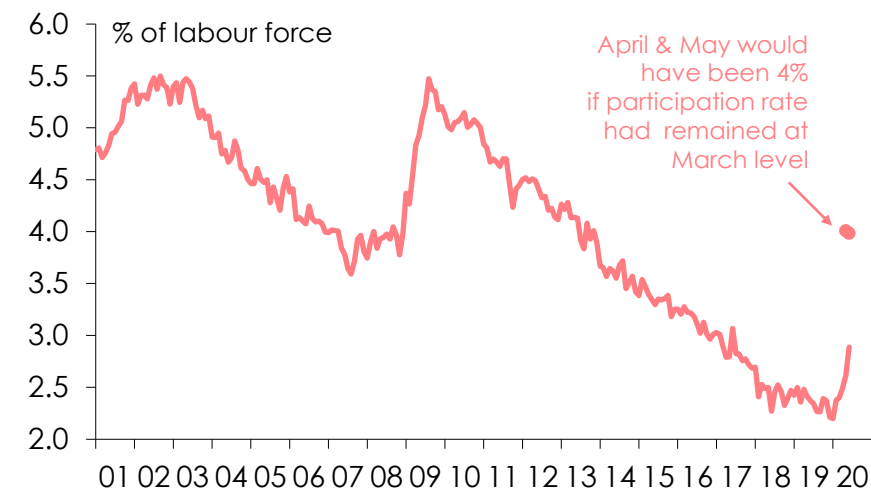
Real GDP



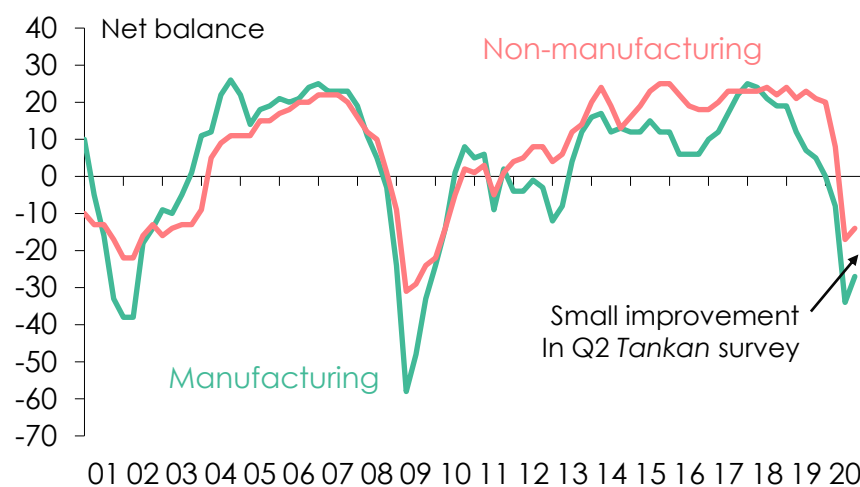
Consumer confidence



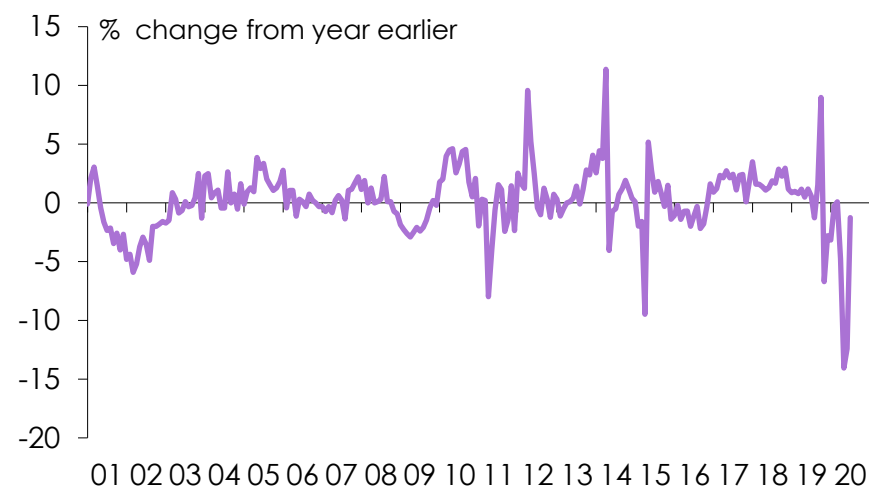
Unemployment



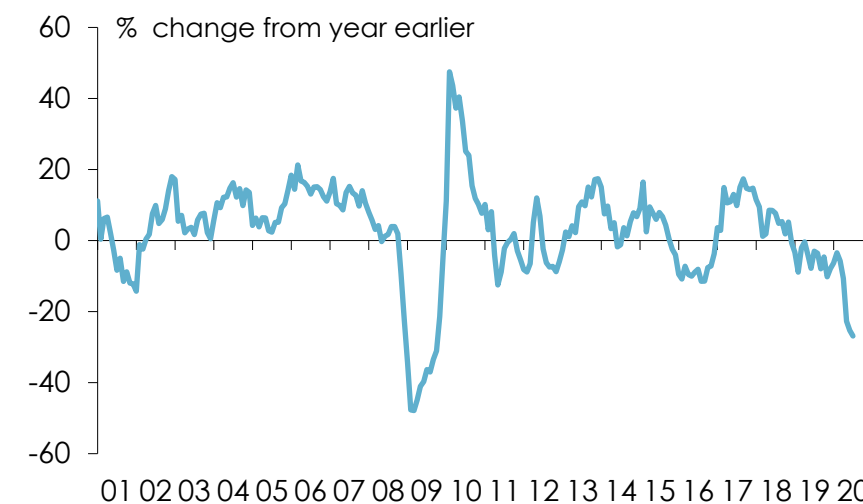
Business conditions – large firms



Retail sales



Merchandise exports

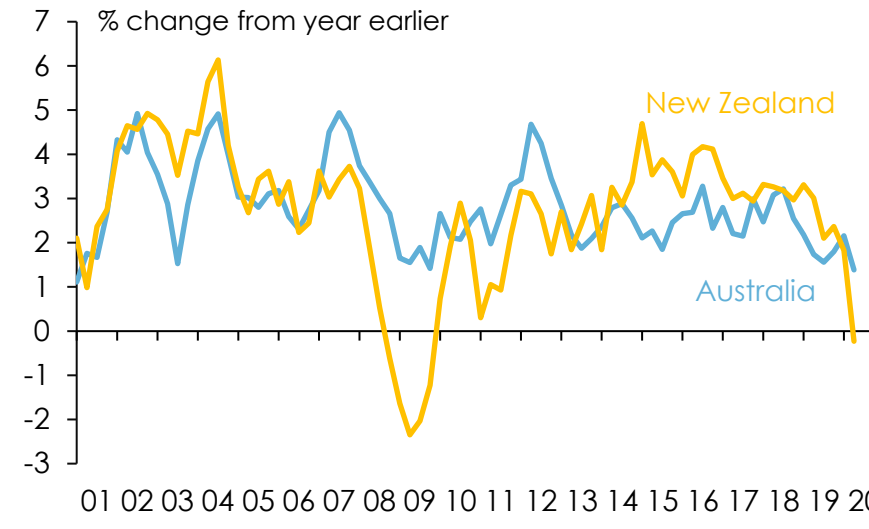
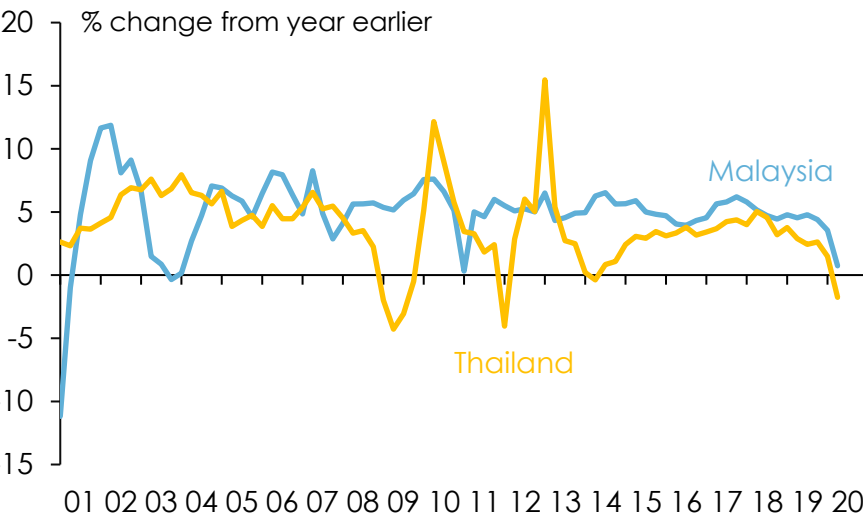
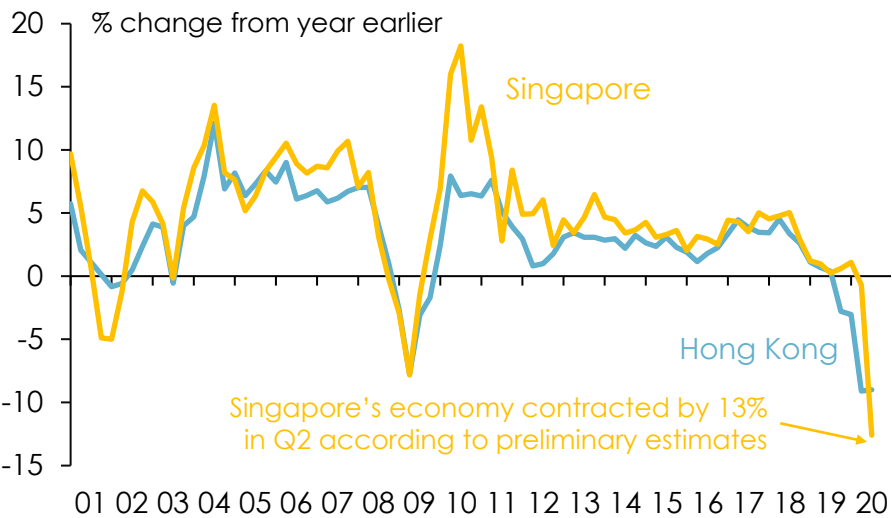
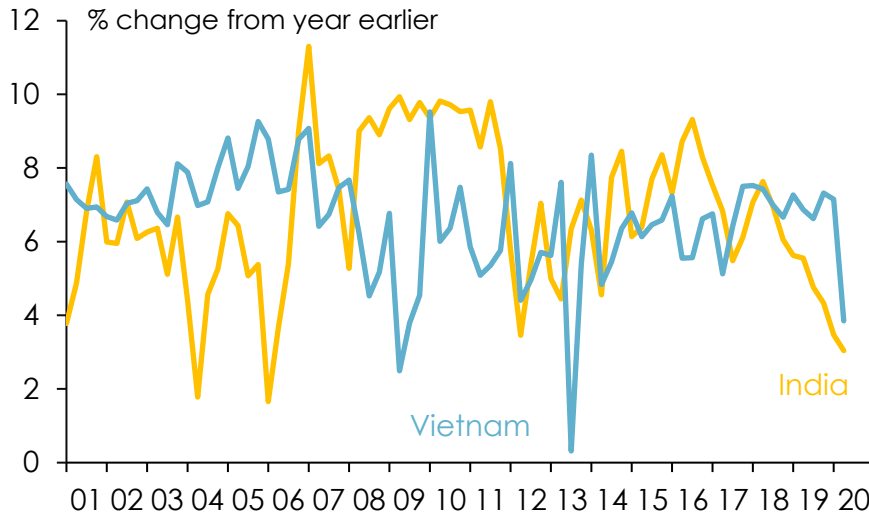
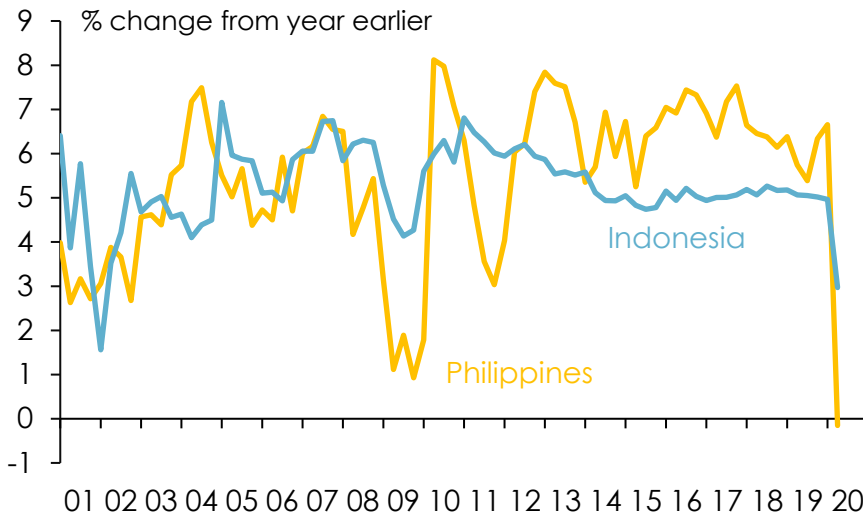
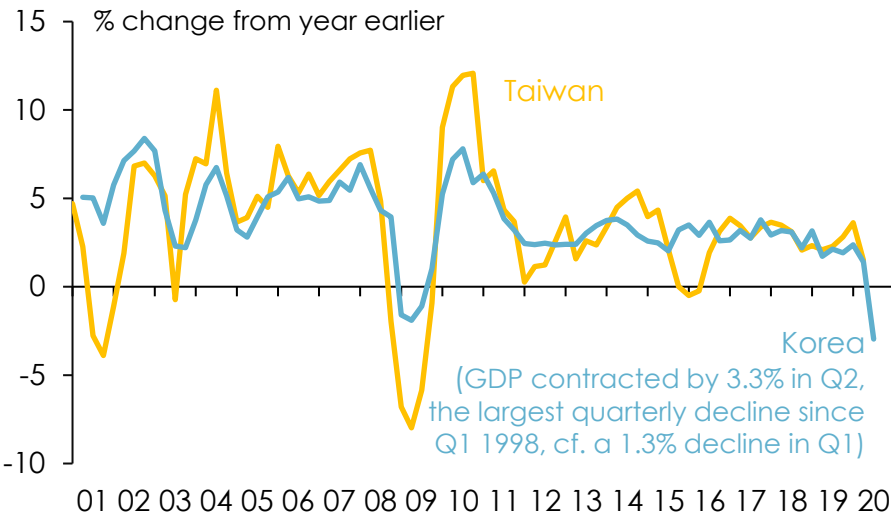


Sources: Japan Cabinet Office; Bank of Japan; Japan Automobile Dealers' Association; Ministry of Health, Labour & Welfare. The first estimate of Q2 GDP will be released on 17th August.

Other Asian economies

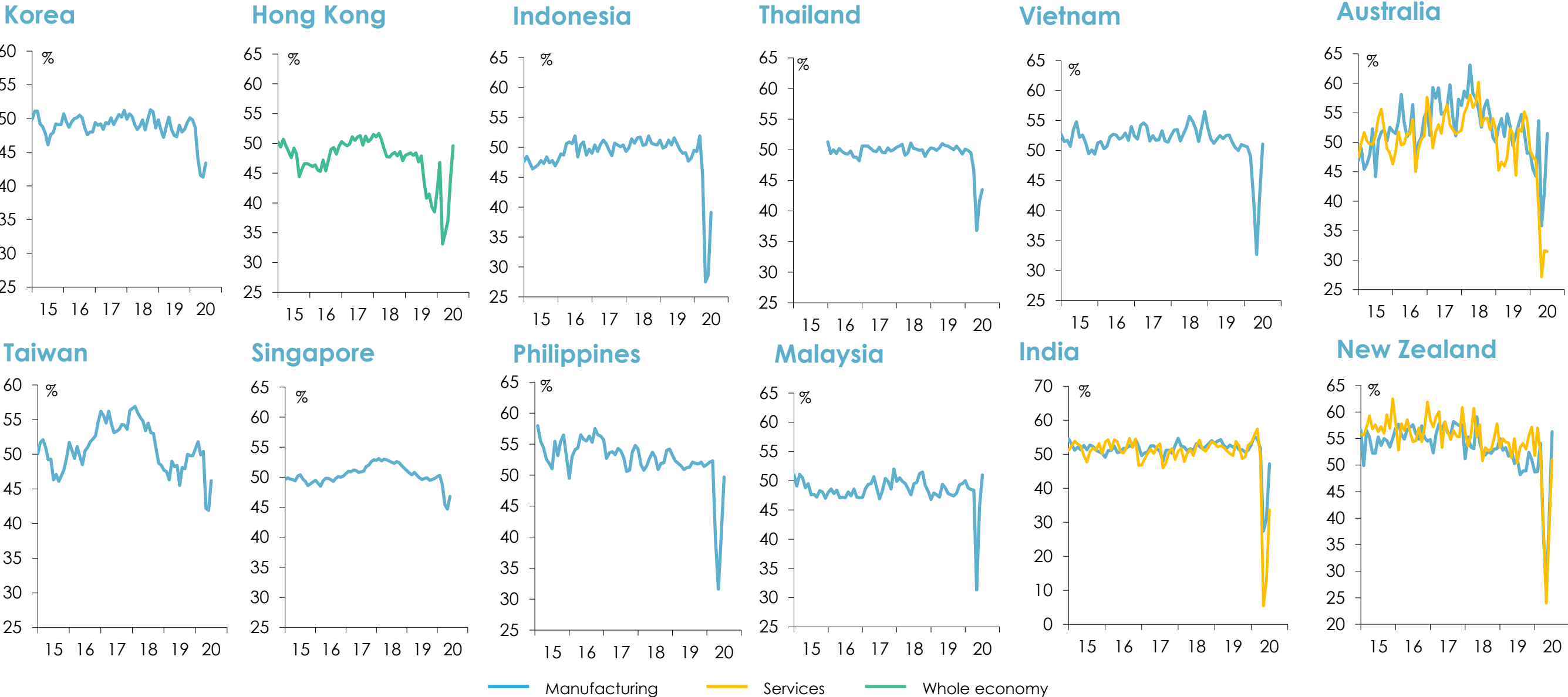
Most other Asian economies experienced a slowdown during the first quarter of 2020, with worse to come in the second quarter

Real GDP growth – Asia-Pacific economies



Sources: Bank of Korea; Taiwan Directorate-General of Budget, Accounting & Statistics; Hong Kong Census & Statistics Department; Singapore Ministry of Trade and Industry; Department of Statistics Malaysia; Office of the National Economic & Social Development Council of Thailand; Statistics Indonesia; Philippine Statistics Authority; General Statistics Office of Viet Nam; India Ministry of Statistics & Programme Implementation; Australian Bureau of Statistics; Statistics New Zealand; .

Purchasing managers' indices suggest activity in Asia-Pacific economies started to recover in May and improved further in June

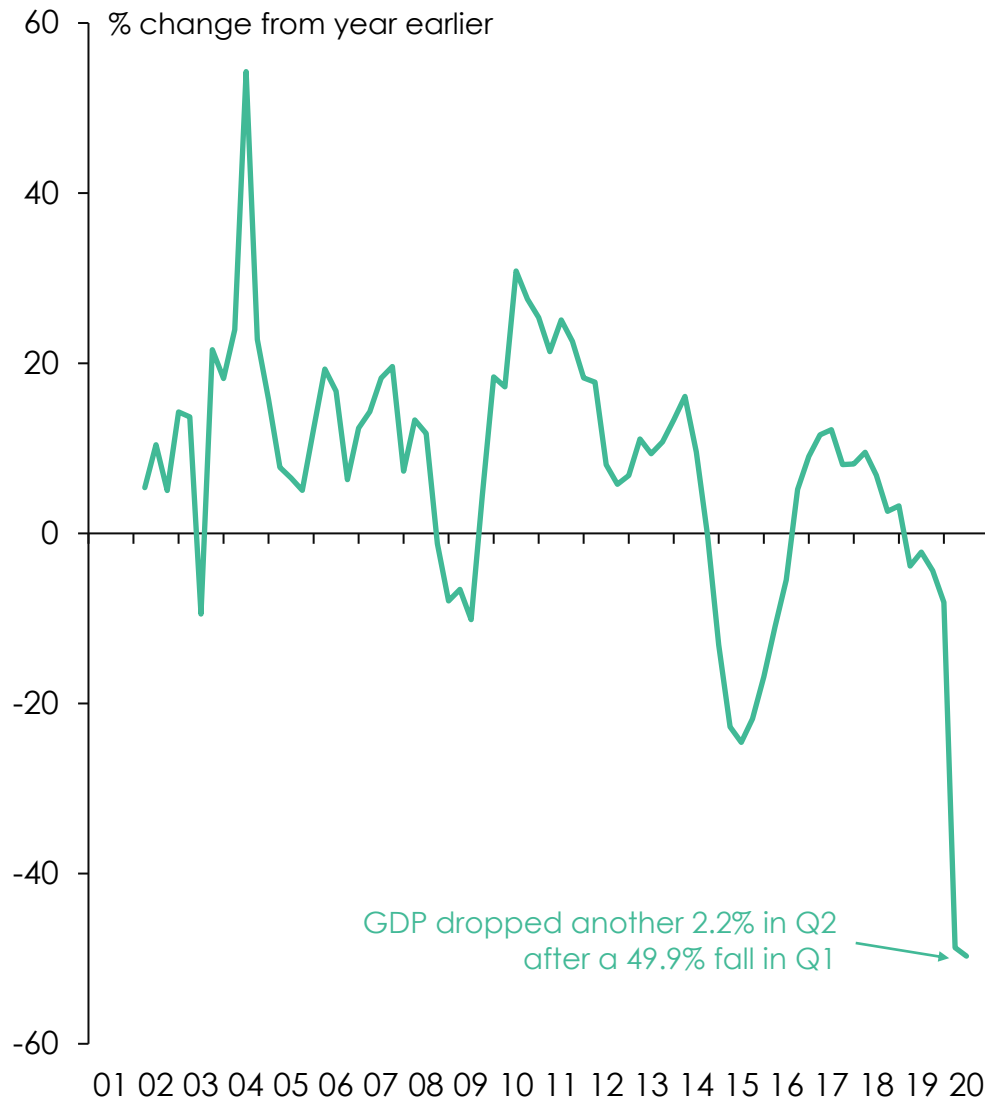


Note: Purchasing Managers' Indexes (PMIs) are derived from surveys of senior executives, who are asked to report whether various dimensions of business activity recorded an increase, decrease or no change compared with the previous month. A reading of 50 indicates an overall increase cf. the previous month, and a reading of less than 50 indicates a decrease. Latest data are for June.

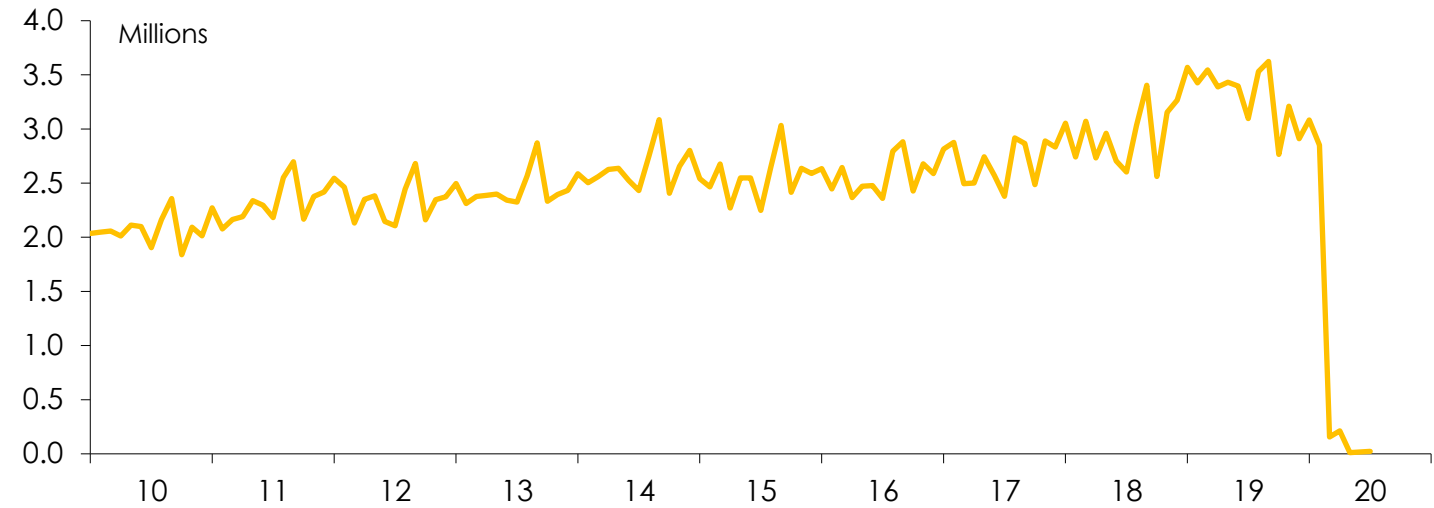
Sources: IHS Markit; Singapore Institute of Purchasing & Materials Management; Australian Industry Group; Business NZ; Refinitiv Datastream.

The world's worst recession is probably in Macau

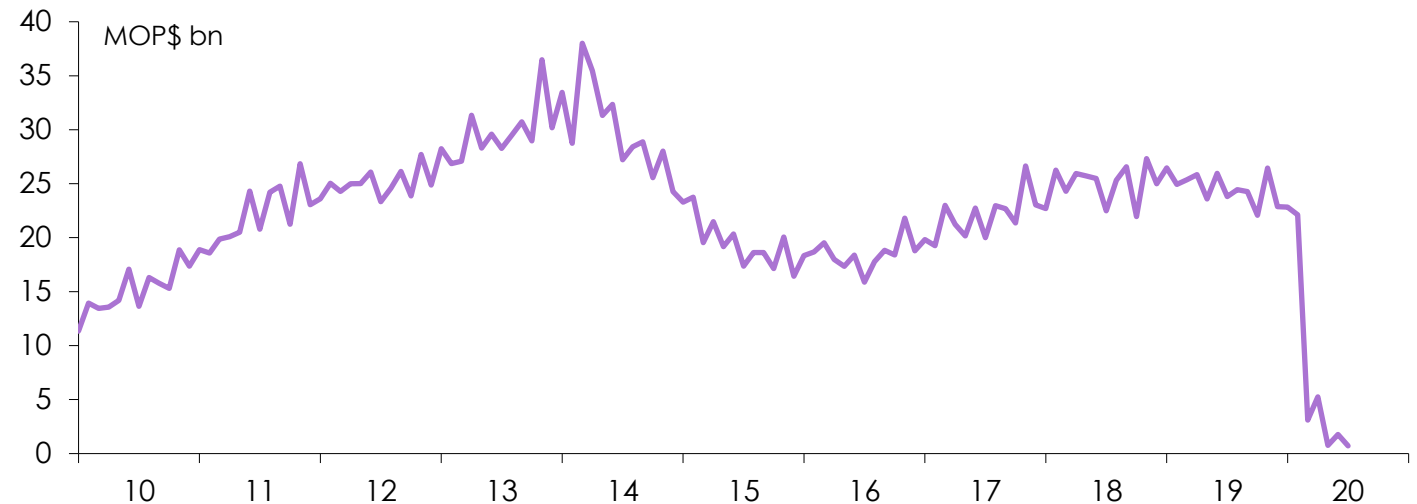
Macau – real GDP



Visitor arrivals



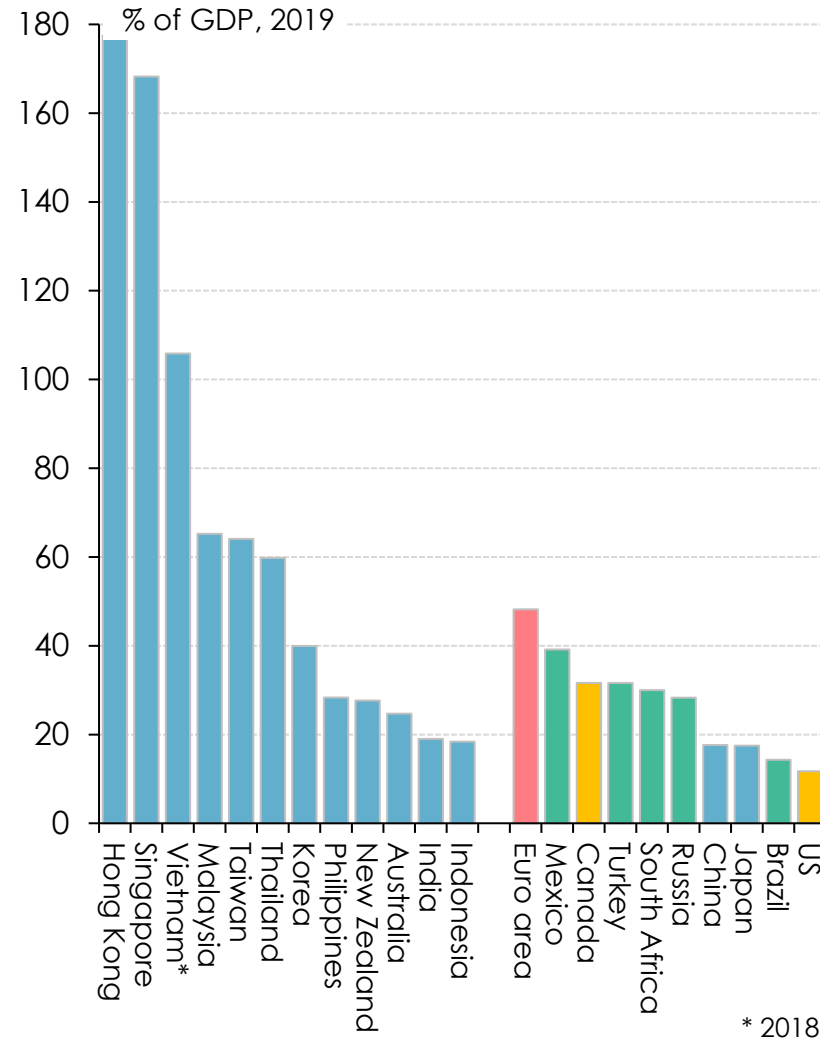
Gambling revenue



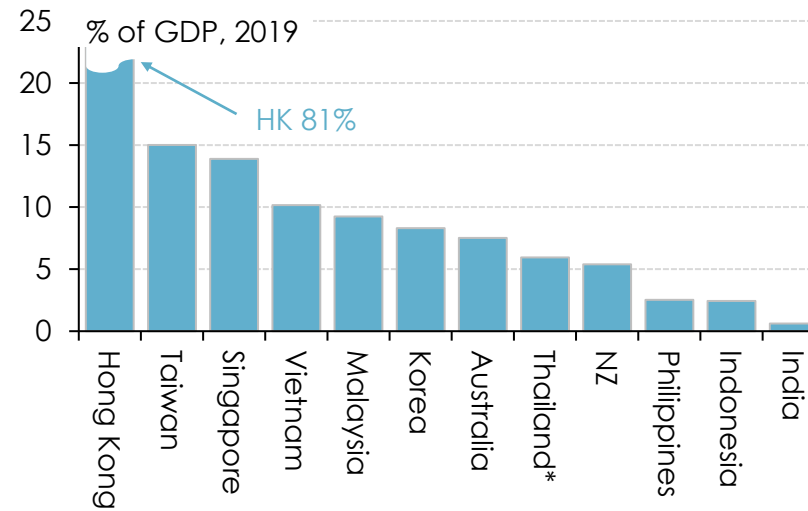
Note: MOP\$ is the standard abbreviation for Macanese patacas (1 MOP = US13¢). Source: Macau Statistics and Census Service.

Success in quelling Covid-19 doesn't guarantee a fast economic recovery: most Asian economies are very exposed to the global economy ...

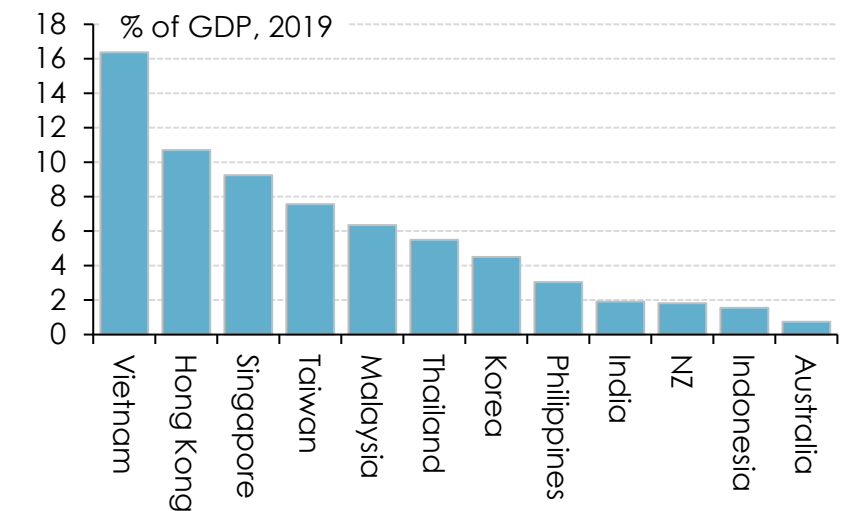
Exports of goods & services as a pc of GDP



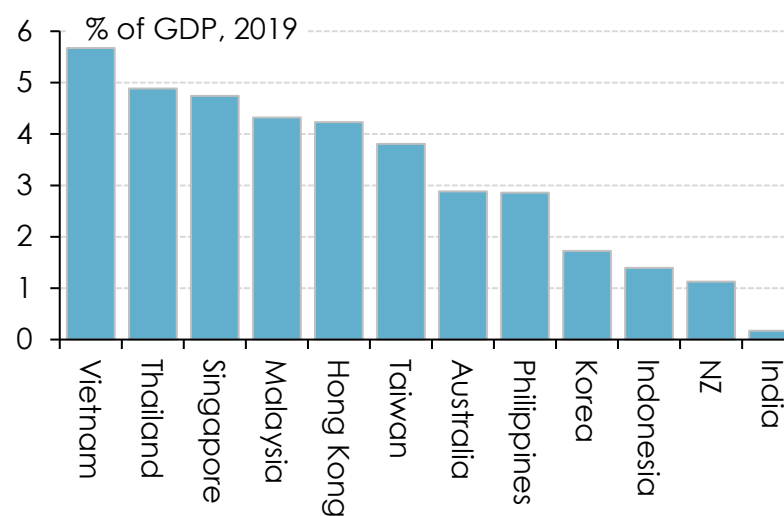
Merchandise exports to China



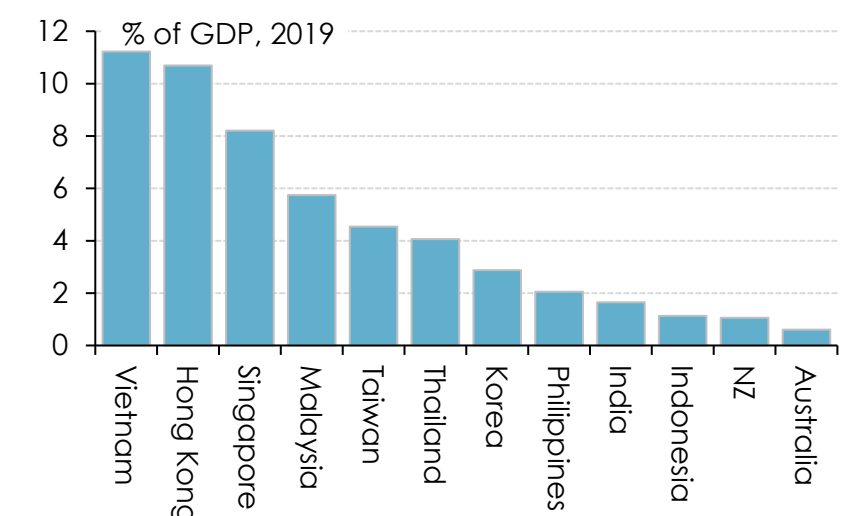
Merchandise exports to the US



Merchandise exports to Japan



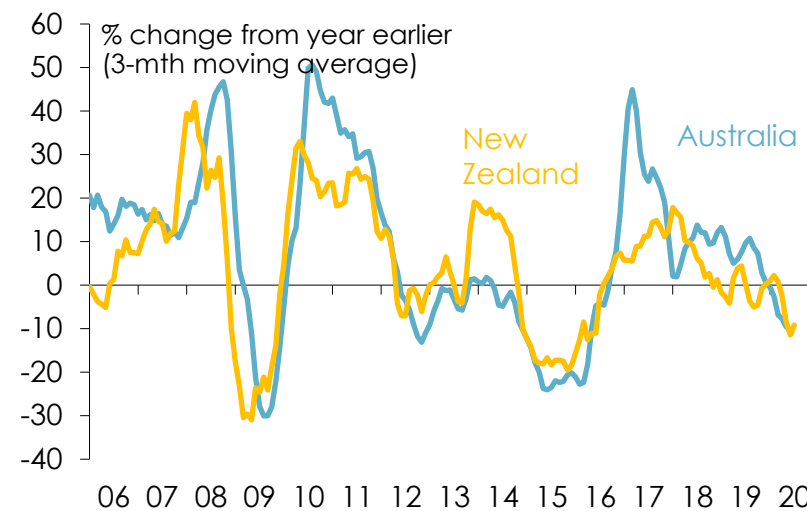
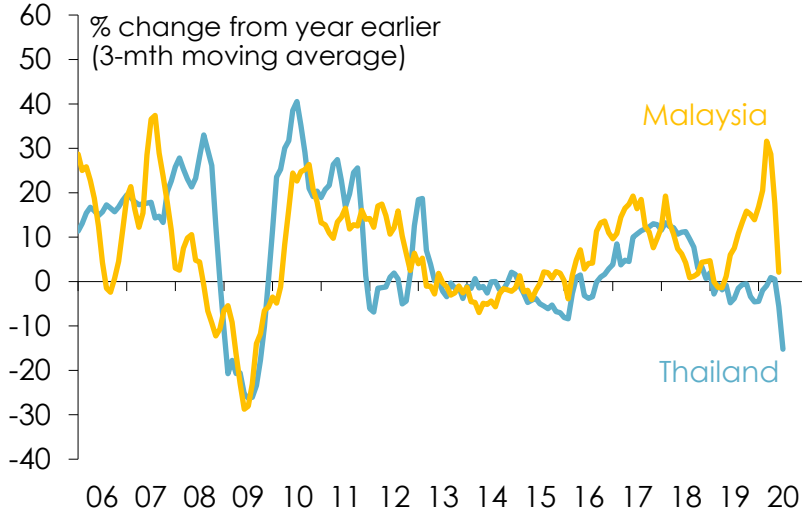
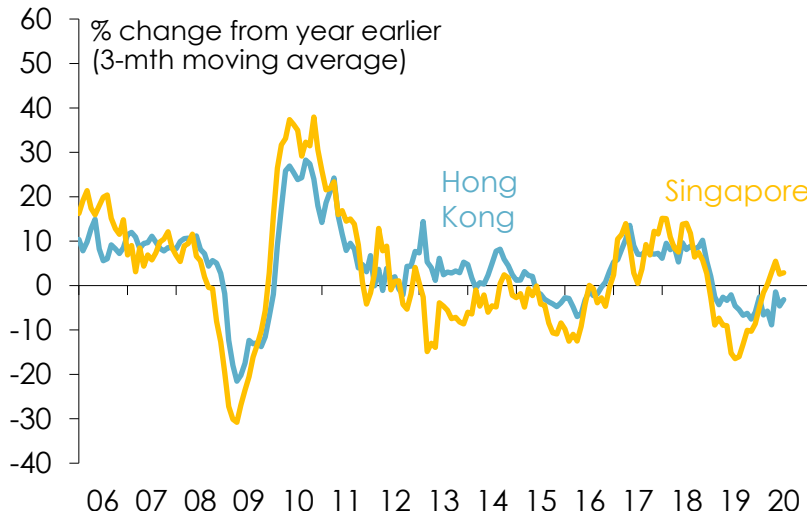
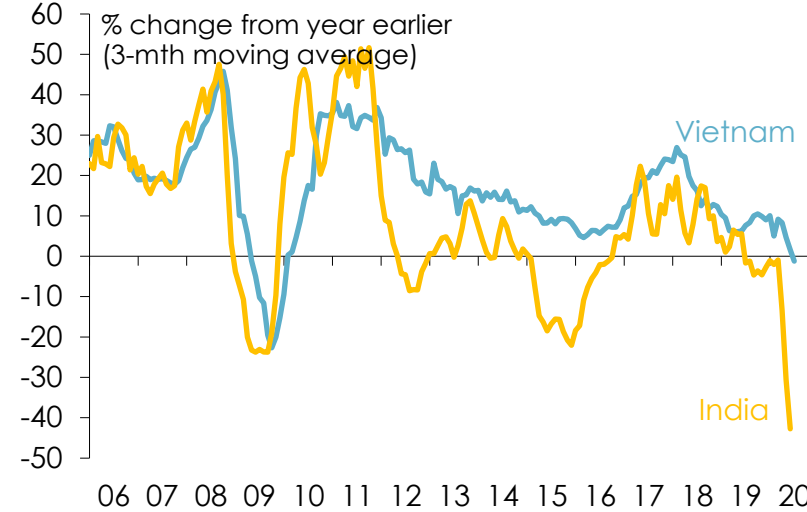
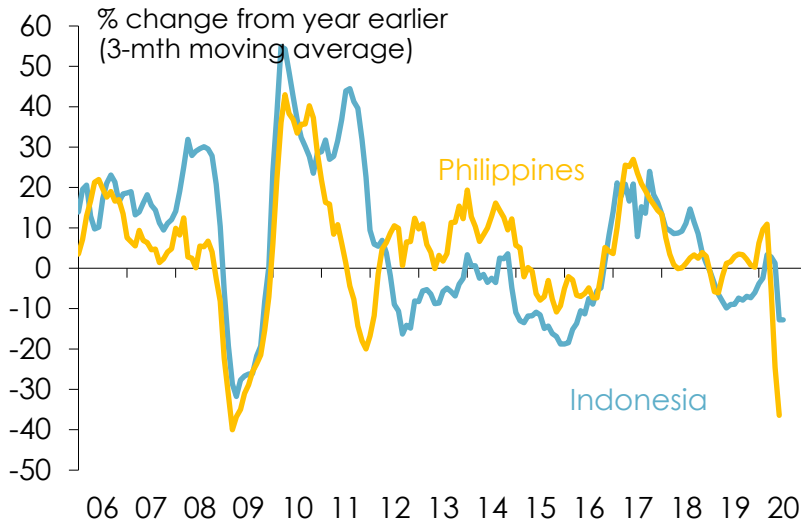
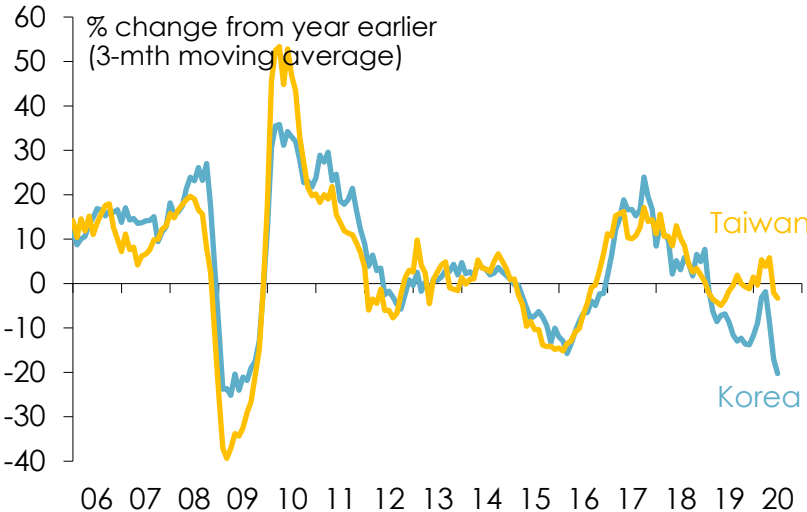
Merchandise exports to the EU



Sources: Bank of Korea; Taiwan Directorate-General of Budget, Accounting & Statistics; Hong Kong Census & Statistics Department; Singapore Ministry of Trade and Industry; Department of Statistics Malaysia; Office of the National Economic & Social Development Council of Thailand; Statistics Indonesia; Philippine Statistics Authority; General Statistics Office of Viet Nam; India Ministry of Statistics & Programme Implementation; Australian Bureau of Statistics; Statistics New Zealand; IMF, *Direction of Trade Statistics*.

... and weaker exports are detracting significantly from economic growth in some countries particularly Korea, Philippines, Thailand and India

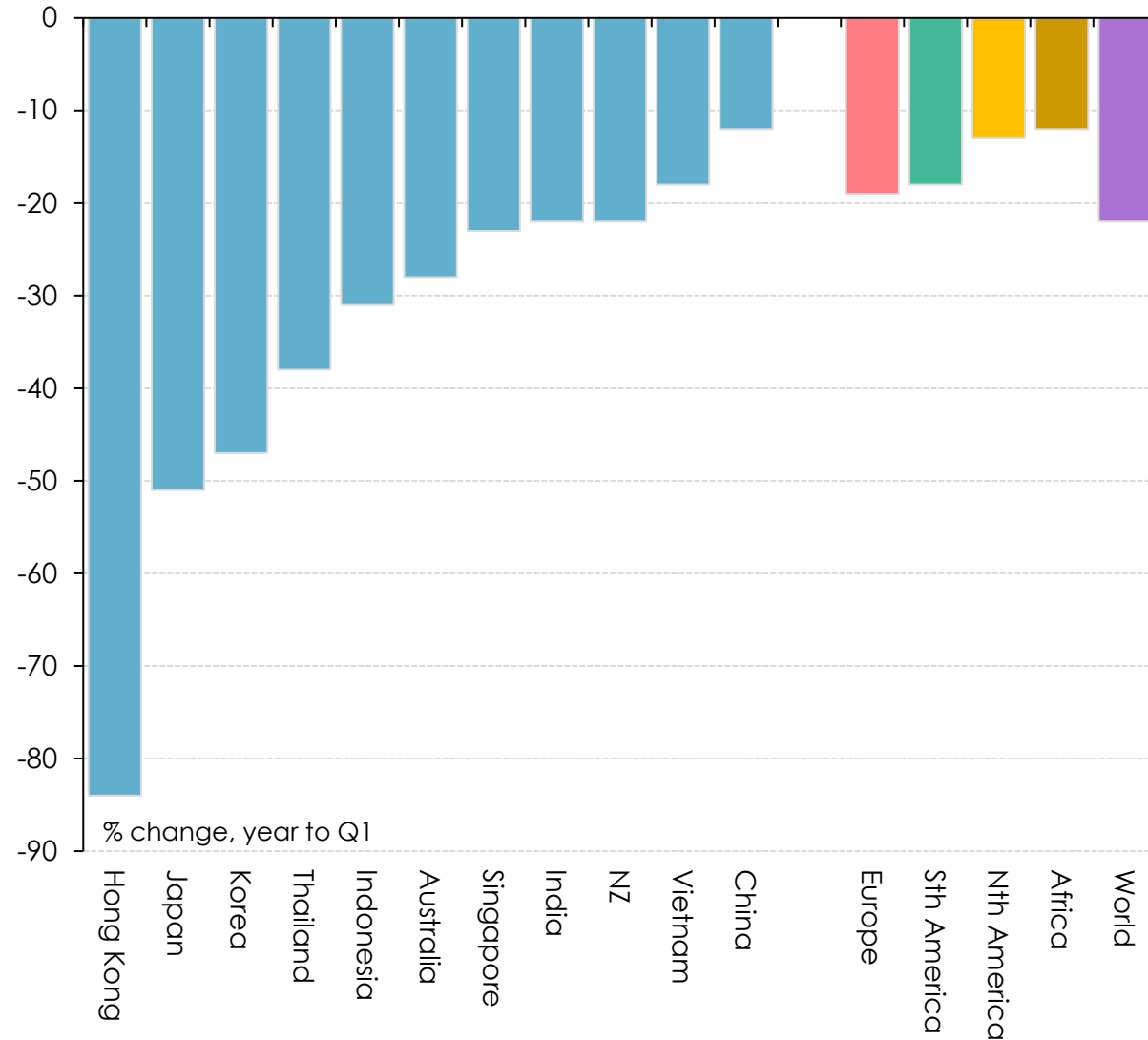
Merchandise exports



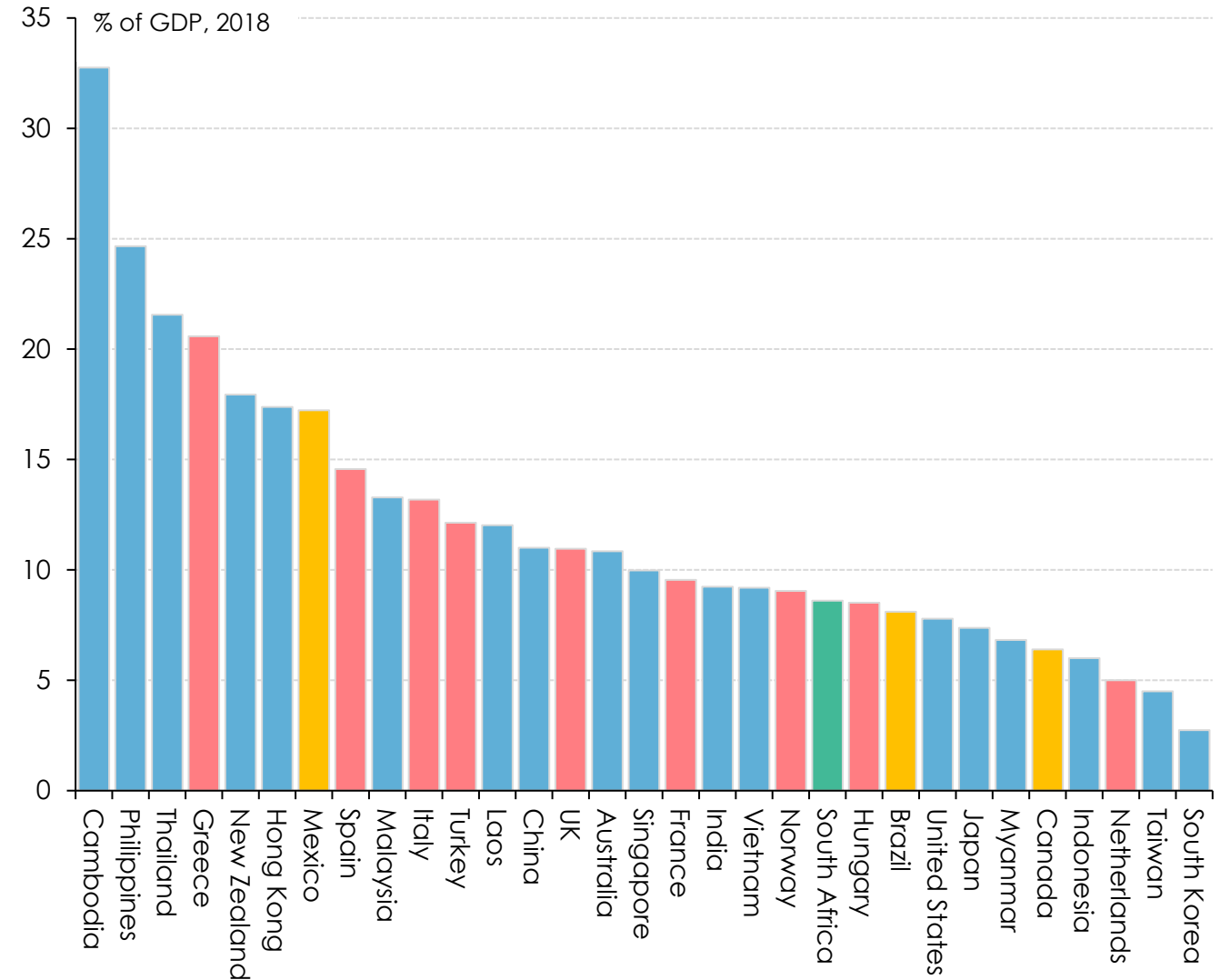
Note: all data in US\$ (for Singapore, Hong Kong, Australia and New Zealand converted from national currencies using month-average exchange rates).
 Sources: Bank of Korea; Taiwan Foreign Trade Bureau; Hong Kong Census & Statistics Department; Singapore Department of Statistics; Department of Statistics Malaysia; Thailand Ministry of Commerce; Statistics Indonesia; Philippine Statistics Authority; General Statistics Office of Viet Nam; India Ministry of Statistics & Programme Implementation; Australian Bureau of Statistics; Statistics New Zealand.

Most 'peripheral Asian' economies are also vulnerable to a prolonged downturn in tourism

International visitor arrivals, Q1 2020



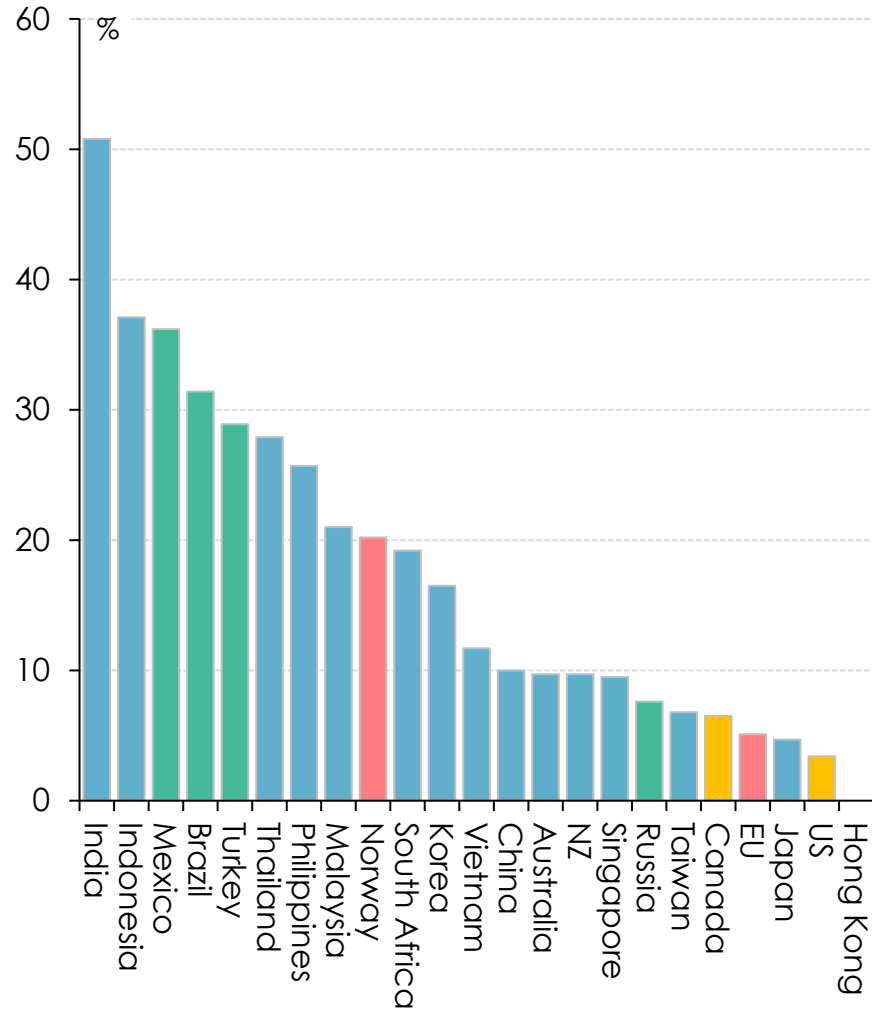
Tourism as a pc of GDP, 2018



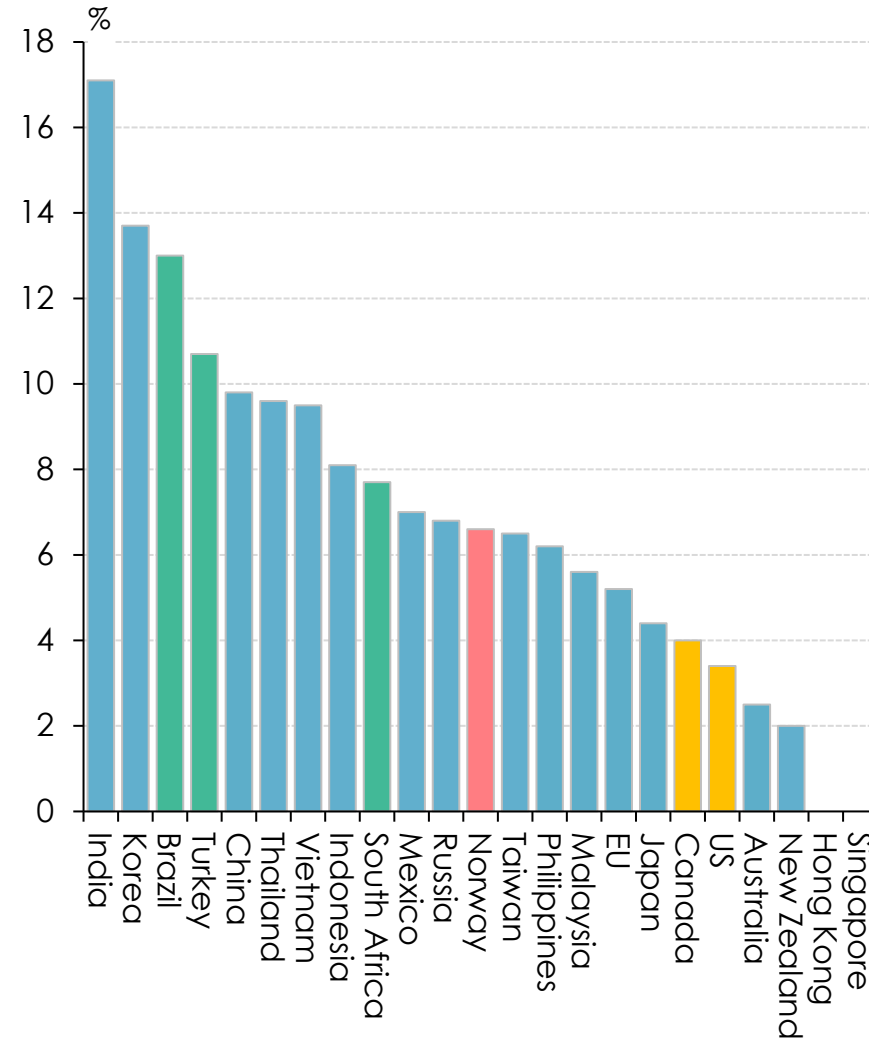
Sources: World Tourism & Travel Council; United Nations World Tourism Organization.

Many 'peripheral' Asian economies are very open to trade but some – most notably India – remain staunchly protectionist

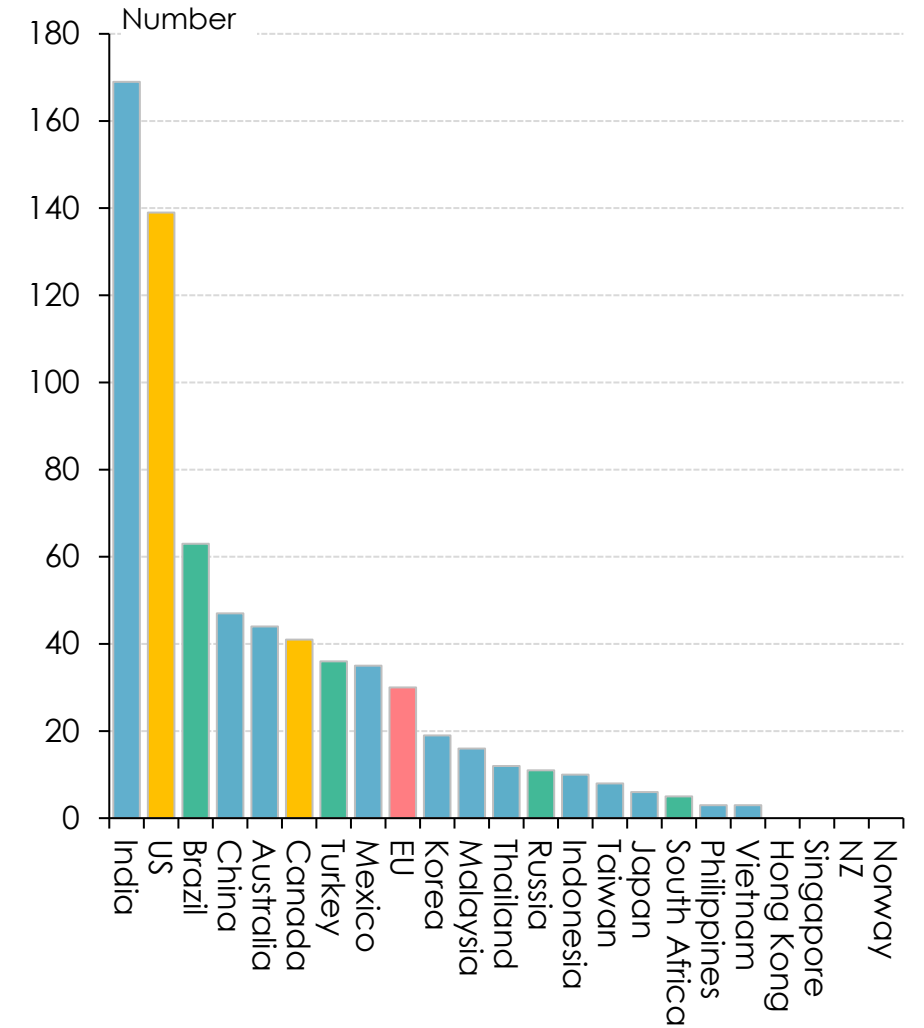
Average 'bound' tariffs, 2019



Average 'applied' tariffs, 2019



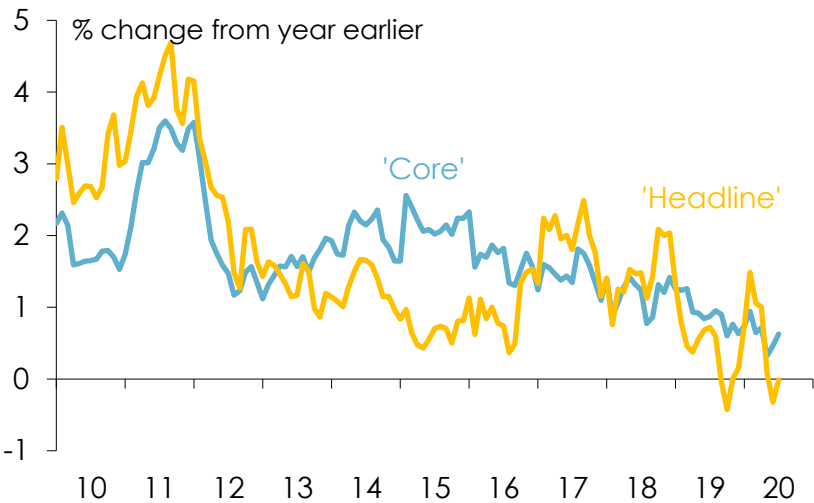
Number of 'anti-dumping' actions, 2015-2019



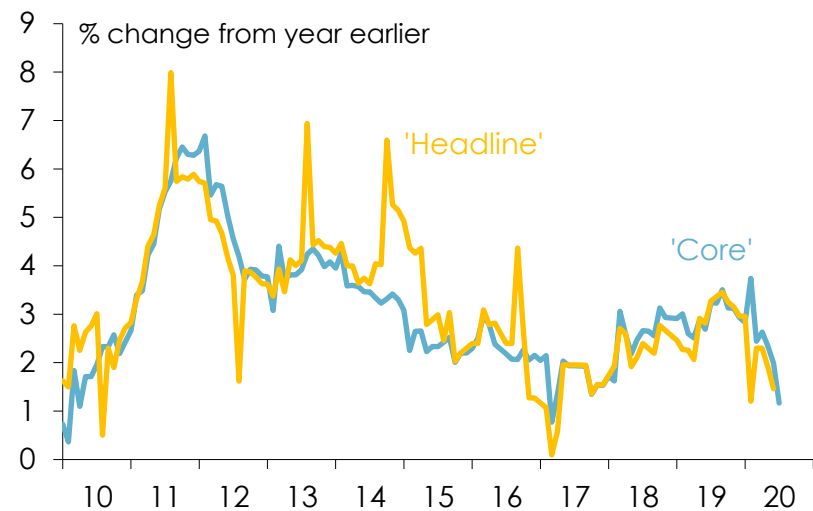
Note: 'bound' tariffs are the maxima that governments can set under legally binding commitments; 'applied' tariffs, are the rates which are actually charged, in each case expressed as an average of the total value of imports. Sources: World Trade Organization, International Trade Centre and UNCTAD, *World Tariff Profiles 2019*; World Trade Organization Committee on Anti-Dumping Practices.

In the more advanced Asian economies, inflation has remained very low (often below central bank targets)

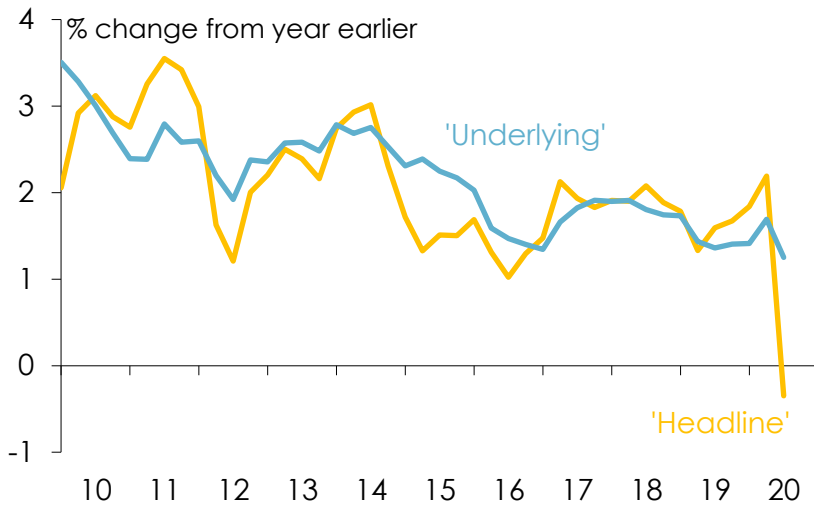
Korea



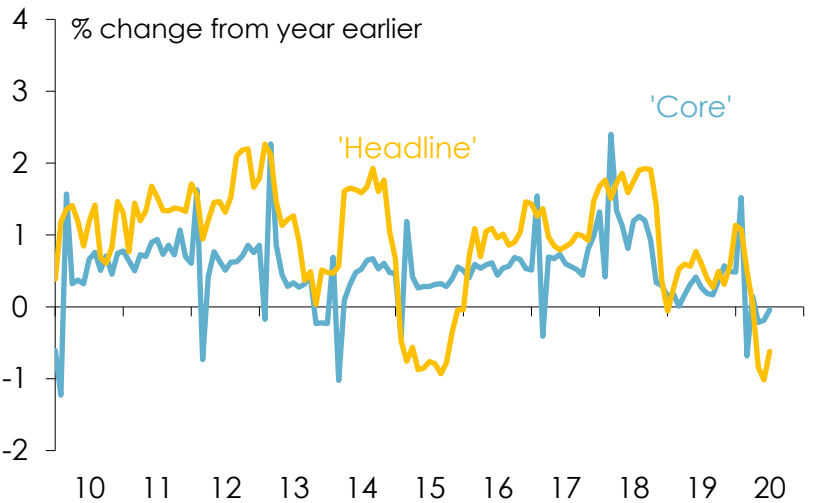
Hong Kong



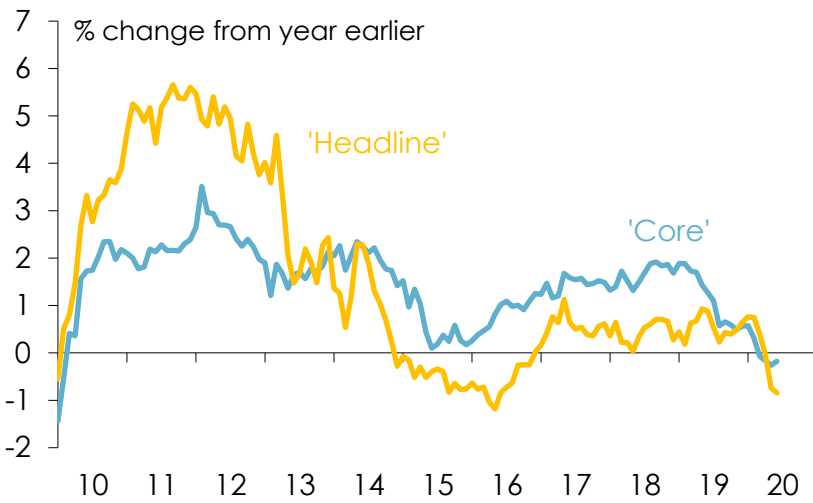
Australia



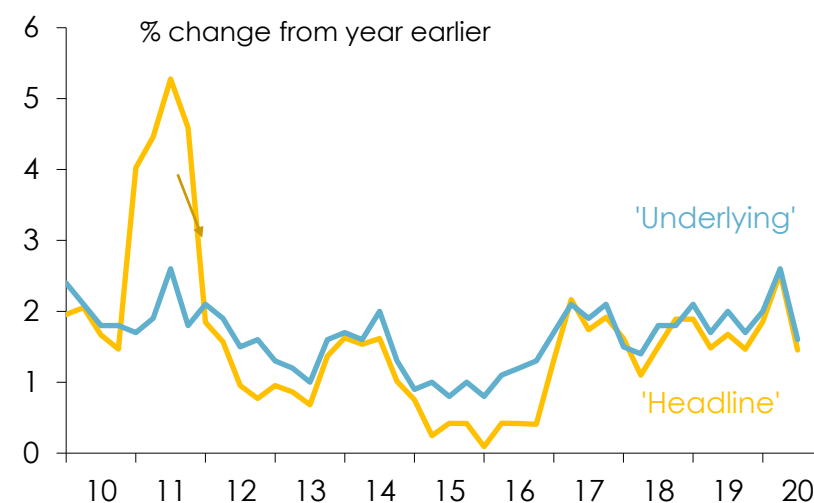
Taiwan



Singapore



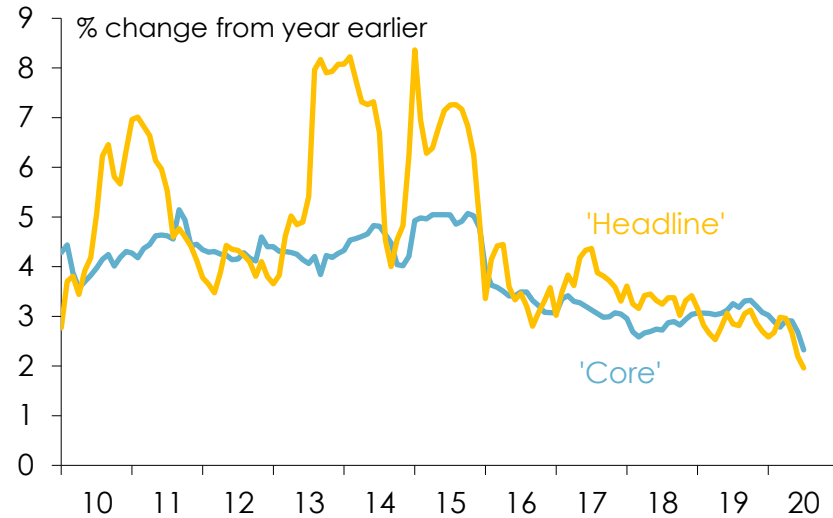
New Zealand



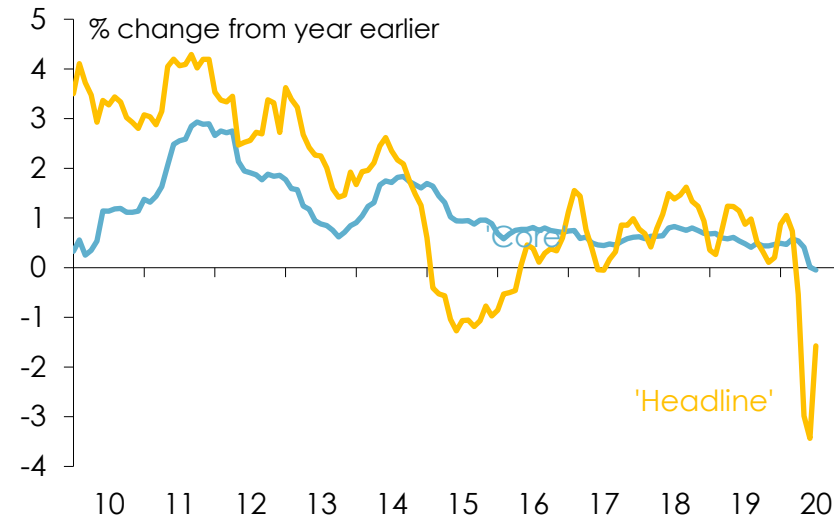
Note: 'Core' inflation in Korea excludes agricultural products and oil; in Taiwan it excludes fresh fruit, vegetables and energy; in Singapore it excludes accommodation and private transport; and in Hong Kong it excludes the effect of 'one-off government relief measures'. 'Underlying inflation' in Australia is the average of the weighted median and trimmed means; in New Zealand it is the weighted median. Sources: national statistical agencies and/or central banks.

By contrast, in most of the middle- or lower-income economies, inflation has given central banks less room to move

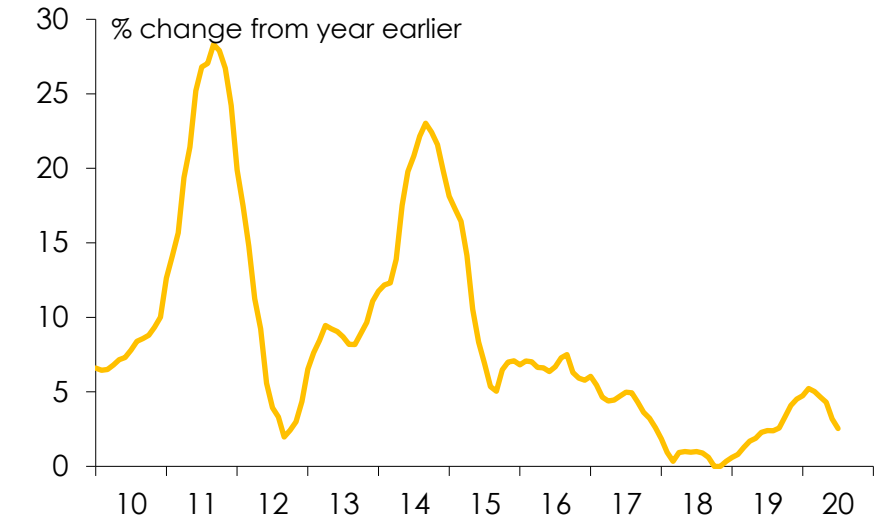
Indonesia



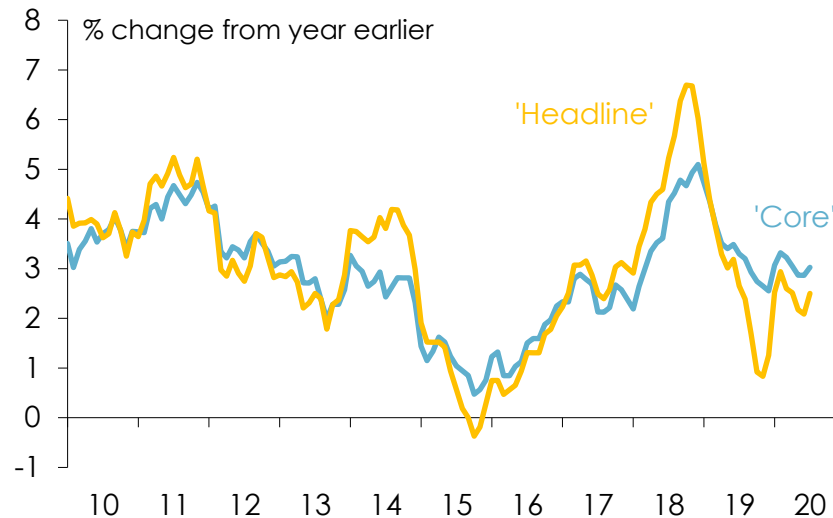
Thailand



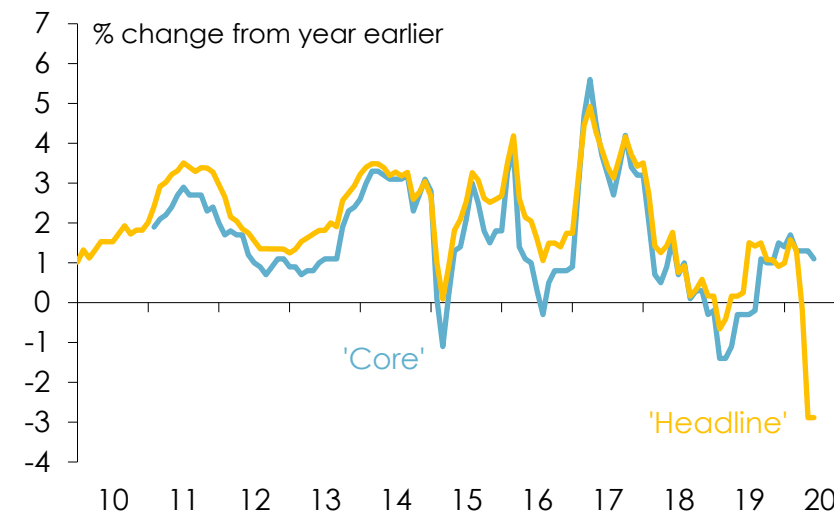
Vietnam



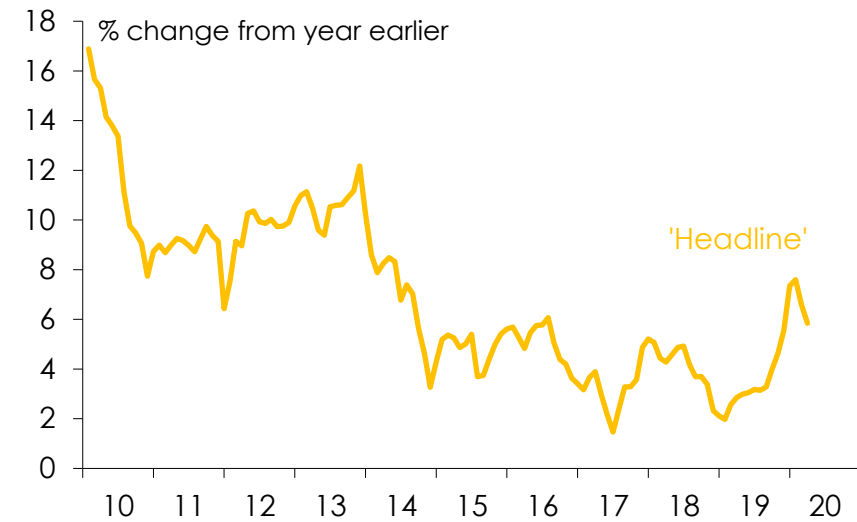
Philippines



Malaysia



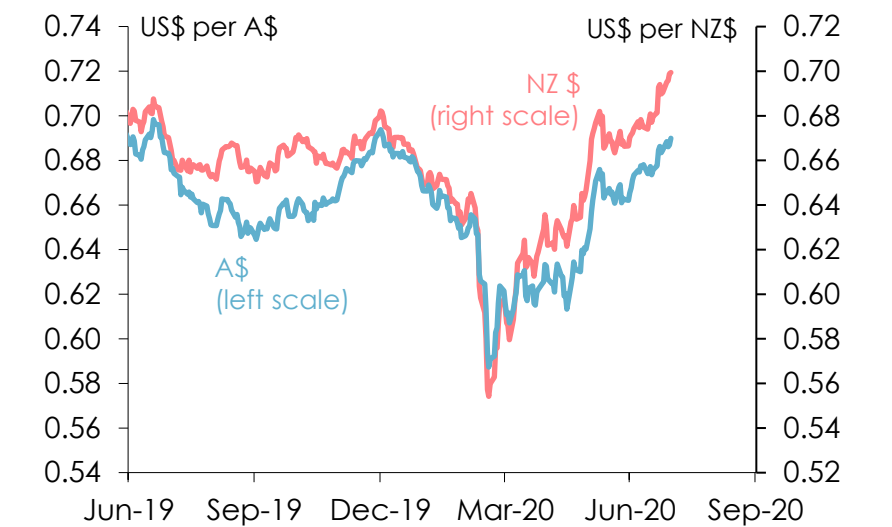
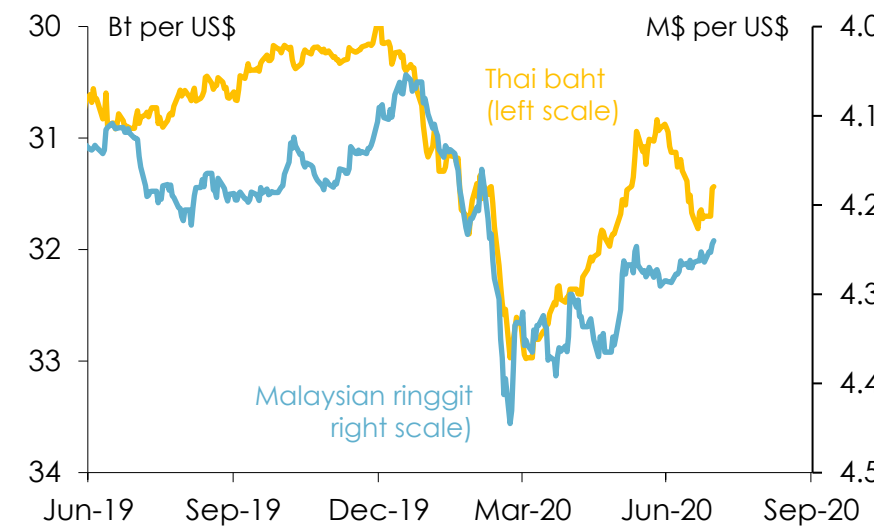
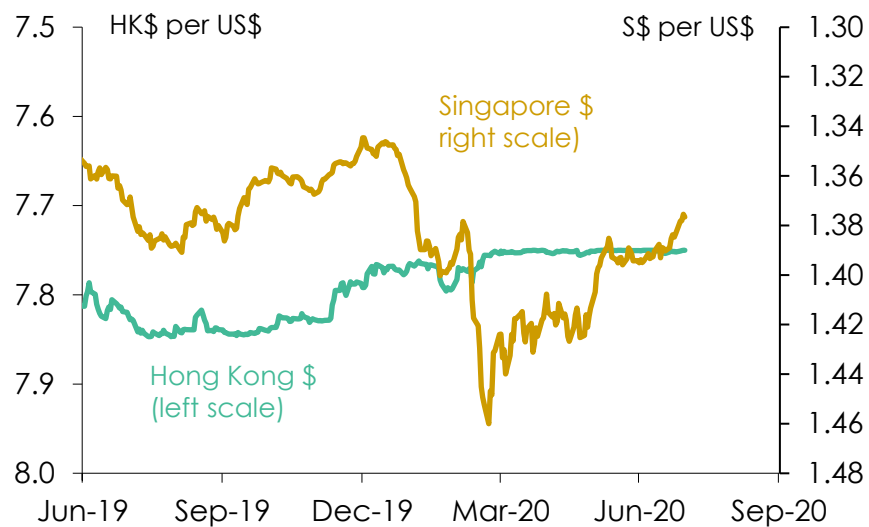
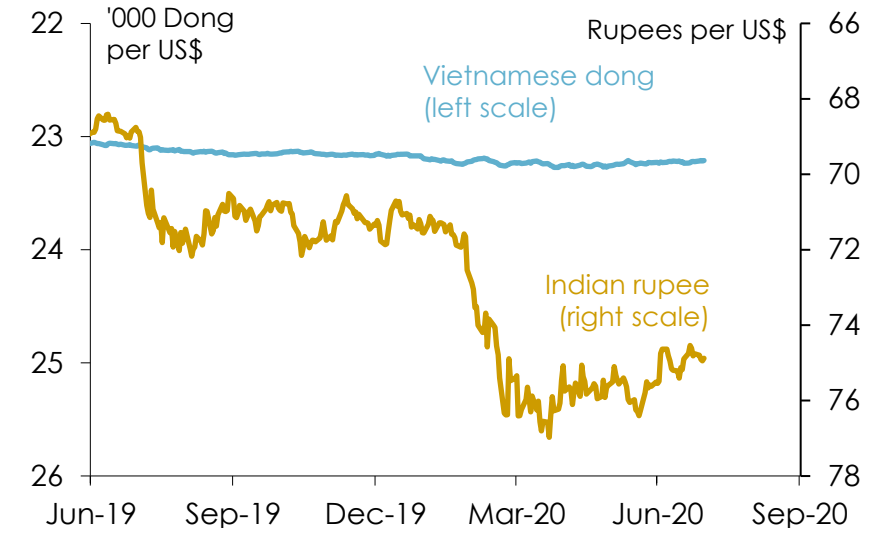
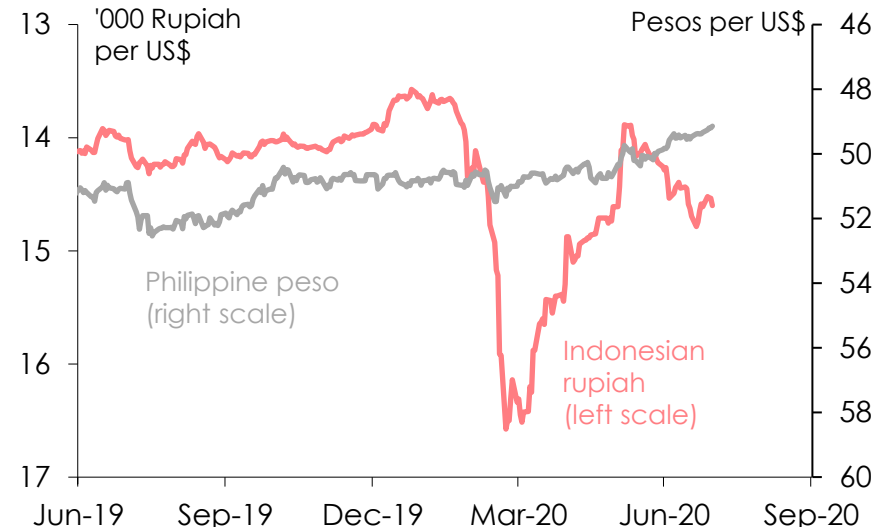
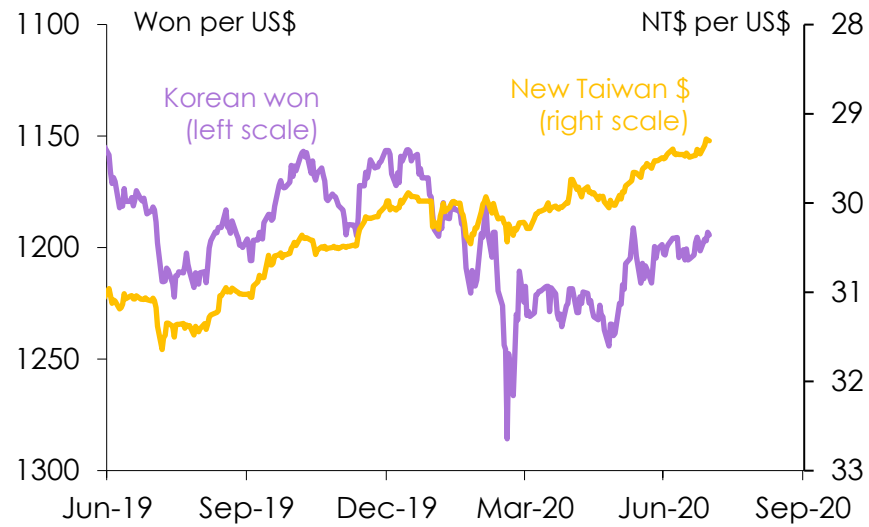
India



Note: 'Core' inflation in Indonesia excludes 'volatile foods' and changes in 'administered prices' (such as fuel subsidies, transport fares and electricity prices); in the Philippines it excludes rice, corn, meat, fish, cultivated vegetables and fuels; in Thailand it excludes fresh or raw food and energy; and in Malaysia it excludes fresh food and 'administered' prices. Vietnam and India do not publish 'core' inflation measures. Sources: national statistical agencies and/or central banks.

The NT\$, HK\$, ₱ and Dong have all been fairly stable against the US\$, while most of the others except the Bt and Rupee have recouped earlier losses

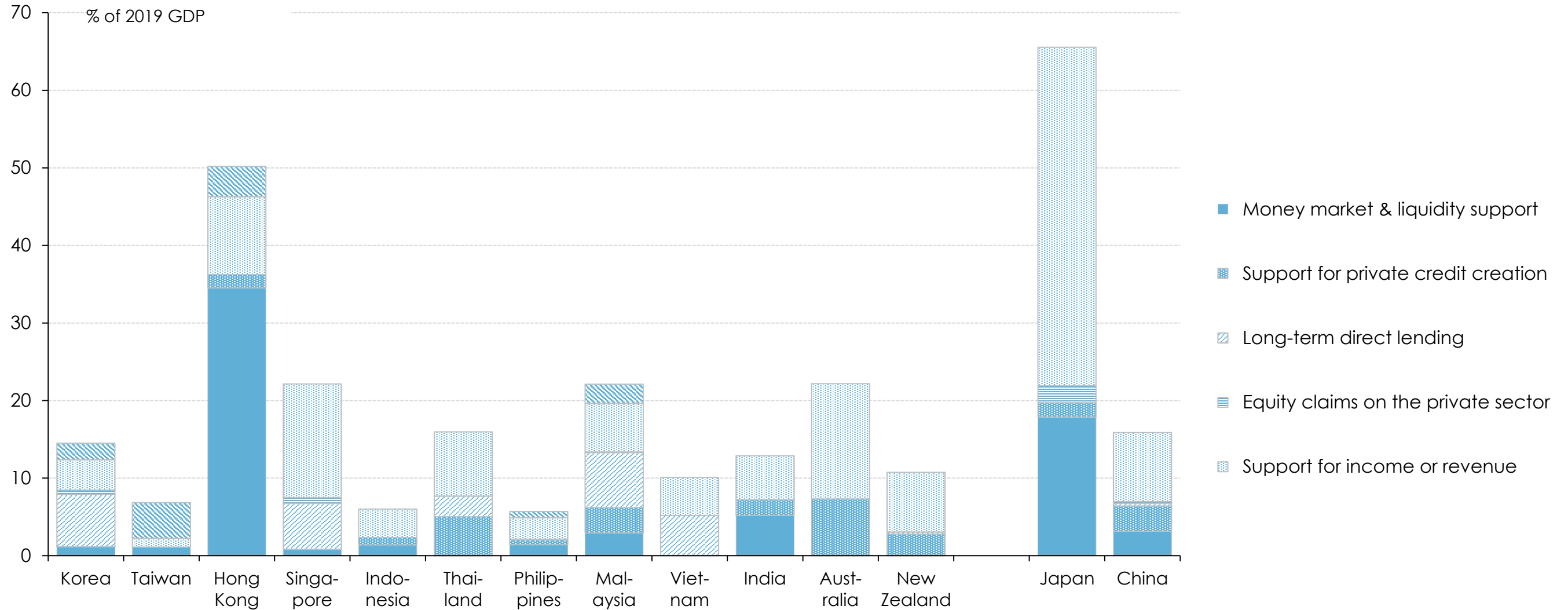
Asian and Pacific currencies vs US dollar



Note: all scales are inverted except for the Australian and New Zealand dollars. Data up to 30th July. Source: Refinitiv Datastream.

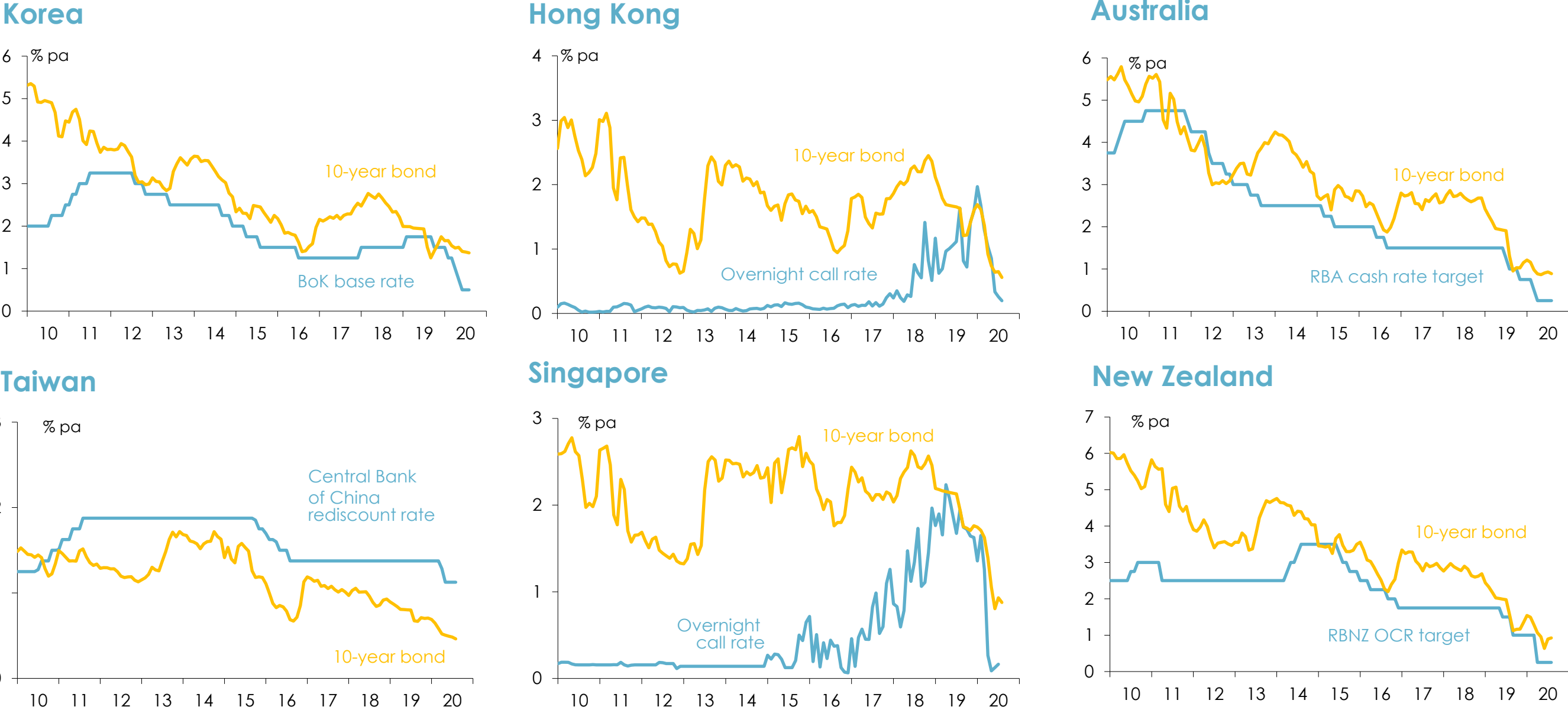
Policy measures in Asian economies have, except for Japan and Hong Kong, been on a smaller scale than in larger economies

Policy support for lending, incomes and economic activity in response to Covid-19



Note: The amounts depicted in this chart are derived from government or central bank public statements, and represent amounts allocated for the identified purposes. These are not necessarily the amounts which will be actually spent, or lent. Source: Asian Development Bank, Covid-19 Policy Database.

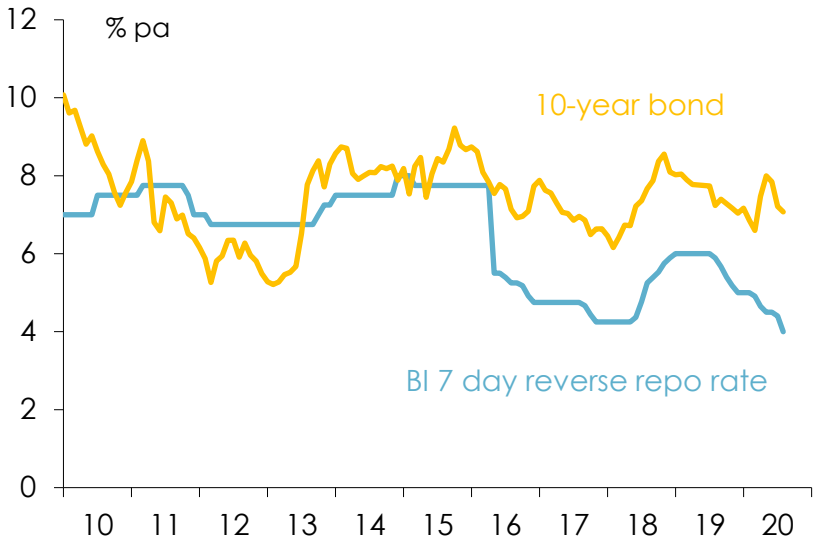
Central banks in the higher-income economies have cut policy interest rates to record lows



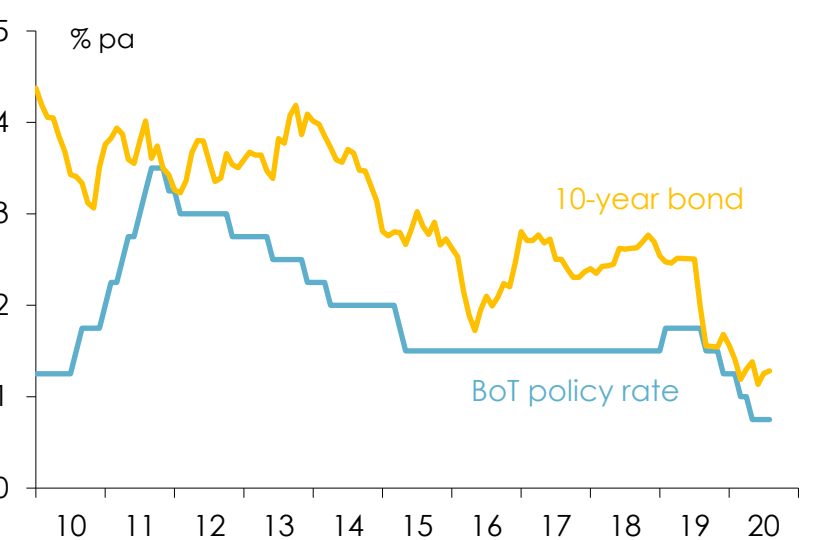
Note: Neither Hong Kong nor Singapore use a monetary policy indicator interest rate. Hong Kong has a currency board system, so HK interest rates track US rates very closely; the Monetary Authority of Singapore uses the (effective) exchange rate as its principal monetary policy interest rate. Sources: Bank of Korea; Central Bank of China; Hong Kong Monetary Authority; Monetary Authority of Singapore; Reserve Bank of Australia; Reserve Bank of New Zealand; Refinitiv Datastream.

Central banks in the middle- or lower-income Asian economies have also cut policy interest rates, but not by as much or to as low levels

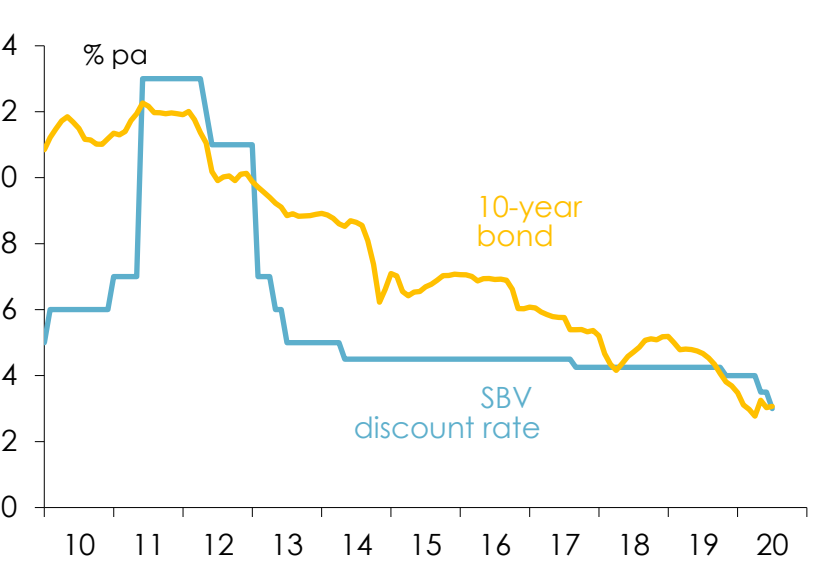
Indonesia



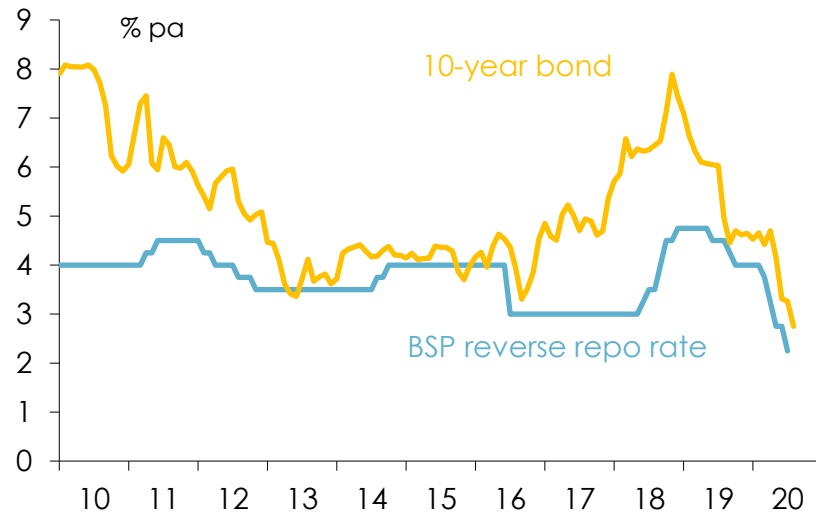
Thailand



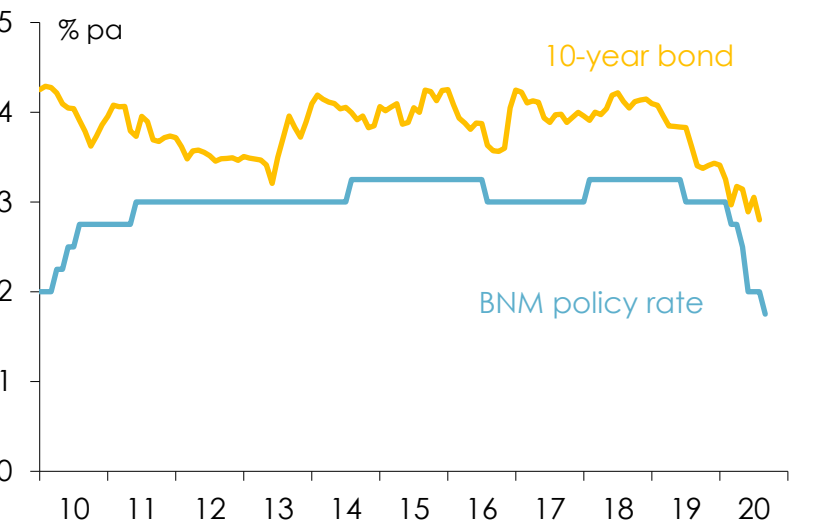
Vietnam



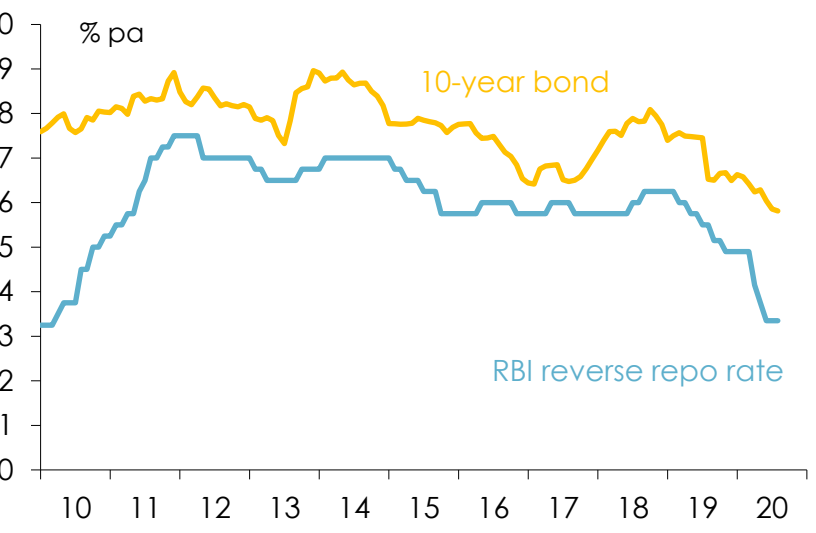
Philippines



Malaysia



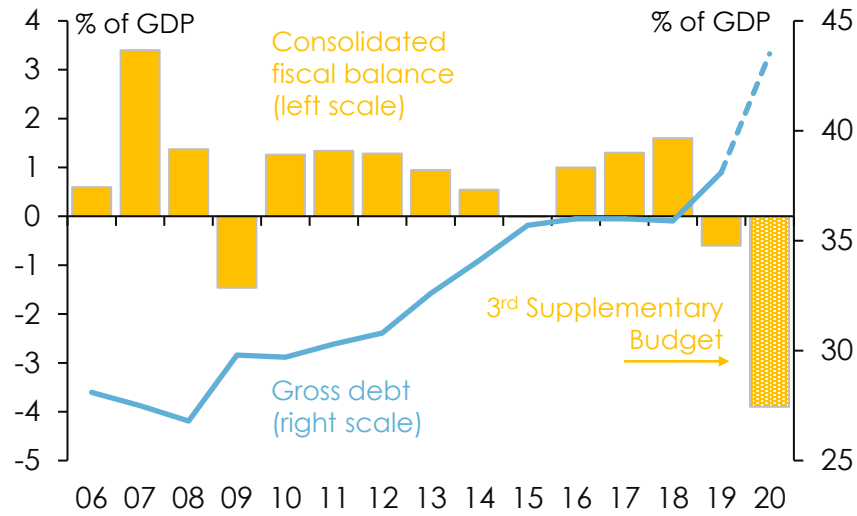
India



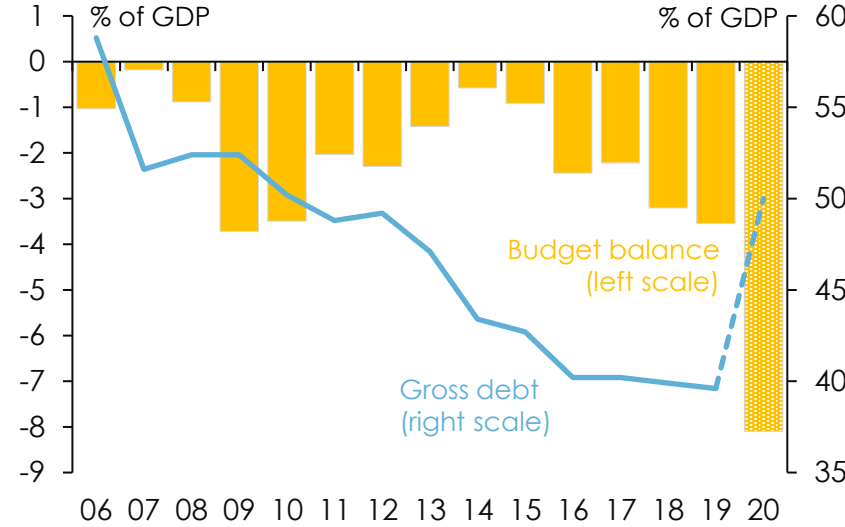
Sources: Bank Indonesia; Bangko Sentral ng Pilipinas; Bank of Thailand; Bank Negara Malaysia; State Bank of Vietnam; Reserve Bank of India; Refinitiv Datastream.

Some Asian central banks have engaged in various forms of 'quantitative easing'

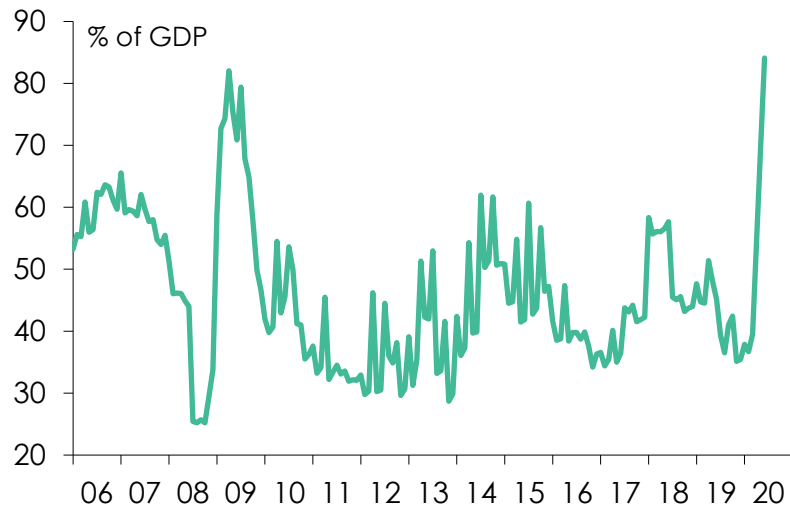
Korea central government budget



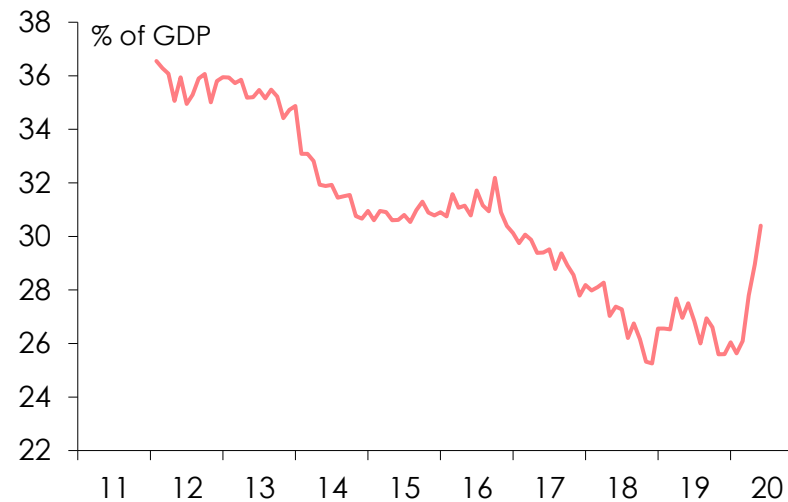
Philippines NG budget



BoK domestic assets



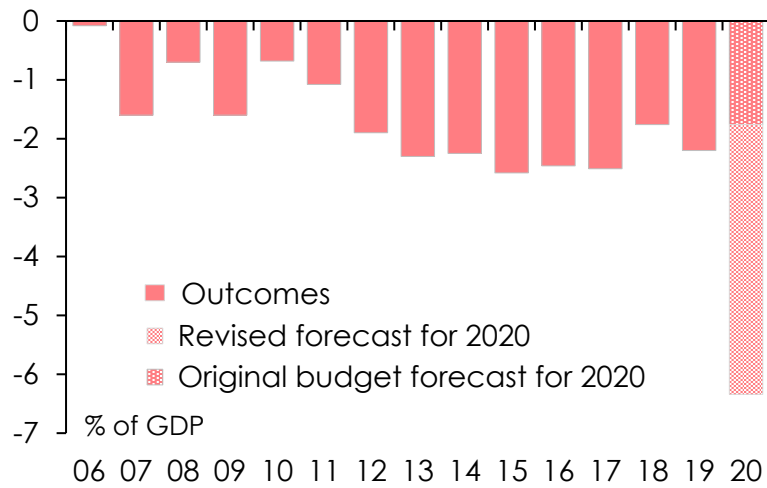
BSP assets



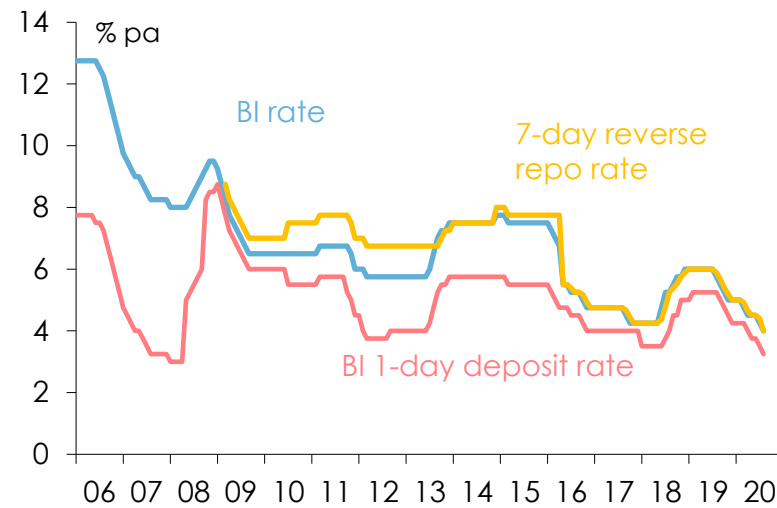
- ❑ The Bank of Korea has cut its policy rate by 100bp so far this year to a record low of 0.50%
- ❑ After its last rate cut in May, Governor Lee Ju-Yeol indicated the BoK was considering using 'unconventional monetary tools' to support growth
 - since March, the BoK has been willing to supply 'unlimited liquidity' to financial institutions, accepting a wider range of collateral in repos
 - this month the BoK lent ₩8 trn to a ₩10 trn SPV established to buy corporate bonds and CP
- ❑ The BoK's total domestic assets more than doubled between end-February and end-May, from 40% of GDP to 84% - reflecting increased holdings of bonds, reverse repos and lending to both government and the private sector
- ❑ The Philippines National Government (NG) expects its budget deficit to reach 8.1% of GDP this year, and public debt to rise to 50% of GDP
- ❑ In March, the BSP purchased ₱300bn (US\$6bn) of bonds directly from the Treasury Bureau under a 6-mth repo arrangement, and has indicated a willingness to purchase a further ₱200bn (but to date hasn't made any further purchases)

Bank Indonesia has entered into a formal agreement with the Indonesian Government to purchase debt directly, and subsidize other debt issuance

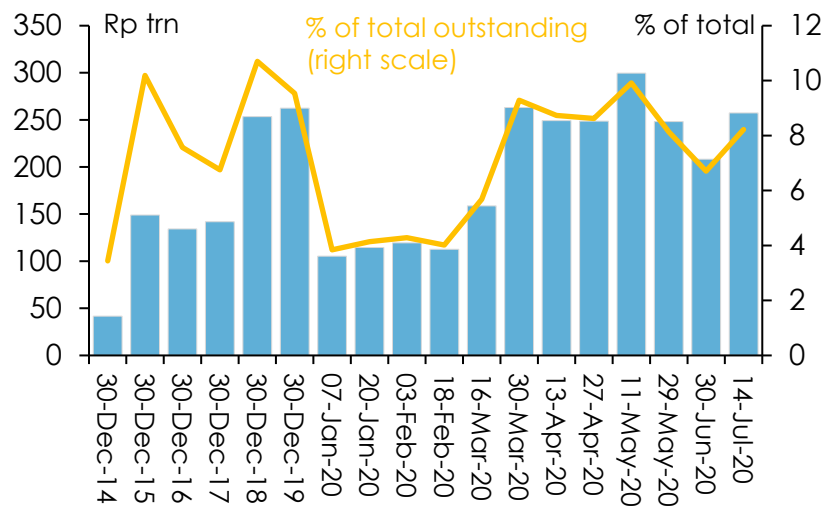
Indonesia budget deficit



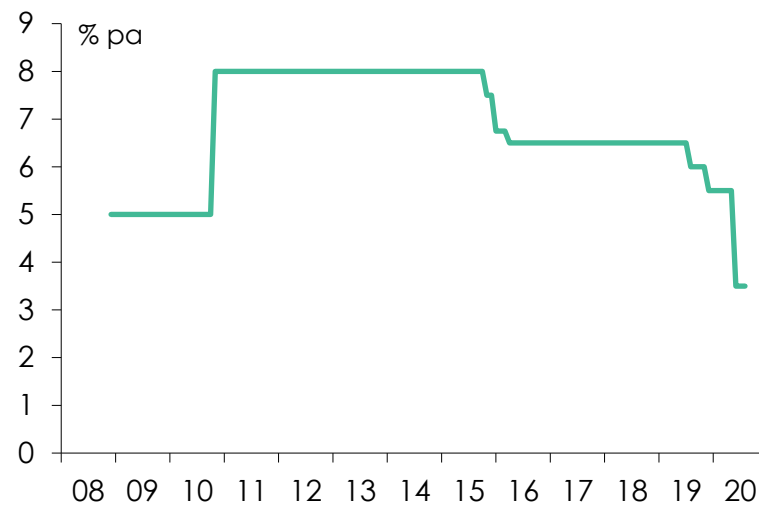
BI monetary policy rates



BI holdings of tradeable SBNs



Bank reserve requirement ratio



- This month the Indonesian Government and Bank Indonesia agreed on a ‘burden sharing’ scheme under which BI will directly purchase from the Government almost Rp400 trn of bonds (SBNs) – equivalent to about 1/4 of this year’s financing requirement – at its benchmark reverse repo rate, and return the interest received to the Government
 - BI has so far purchased Rp36.7 trn of SBNs
 - prior to this BI had also purchased at least Rp166trn of SBNs in the secondary market
- BI will also subsidise the interest on another Rp177trn of bonds issued to fund loans to micro, small and medium-sized businesses
- This follows BI’s decision in mid-April to cut banks’ reserve requirement ratio by 200bp, coupled with a requirement that banks use the funds thus ‘freed up’ to purchase SBNs
 - banks’ holdings of SBNs have since increased by Rp 213 trn (27%)
- BI calls all this ‘synergic monetary expansion’
- BI is also doing conventional monetary policy: it cut its policy indicator rates by 25bp at this month’s policy meeting

Other medium-term risks for ‘peripheral Asia’

❑ ‘Second waves’ of infections

- particularly in those countries which are easing restrictions without having ‘flattened the curve’ (Indonesia, India)
- conversely, countries which maintain severe restrictions for longer in order to contain the spread of the virus face more near-term downside economic risks (Philippines)

❑ ‘Reshoring’ to major advanced economies

- one likely consequence of the pandemic is a desire in ‘advanced’ economies for greater self-sufficiency in the supply of ‘strategic’ products – which could have adverse consequences for Asian economies (particularly Taiwan, Thailand, Malaysia, Singapore and Vietnam) where participation in Global Value Chains has been an important driver of economic growth
- this may partly offset the potential gains to some countries (most notably Vietnam) from the relocation of production from China in order to circumvent US tariffs on imports from China

❑ Protracted downturns or sluggish recoveries in major export markets

- more than 40% of Vietnam’s and the Philippines’ exports, and around 30% of Taiwan’s and India’s, go to the US, Japan or EU
- while others, such as Malaysia and Hong Kong, are more directly exposed to China, a significant proportion of those exports are indirectly exposed to developed markets

❑ Persistent investor risk aversion towards all ‘emerging markets’

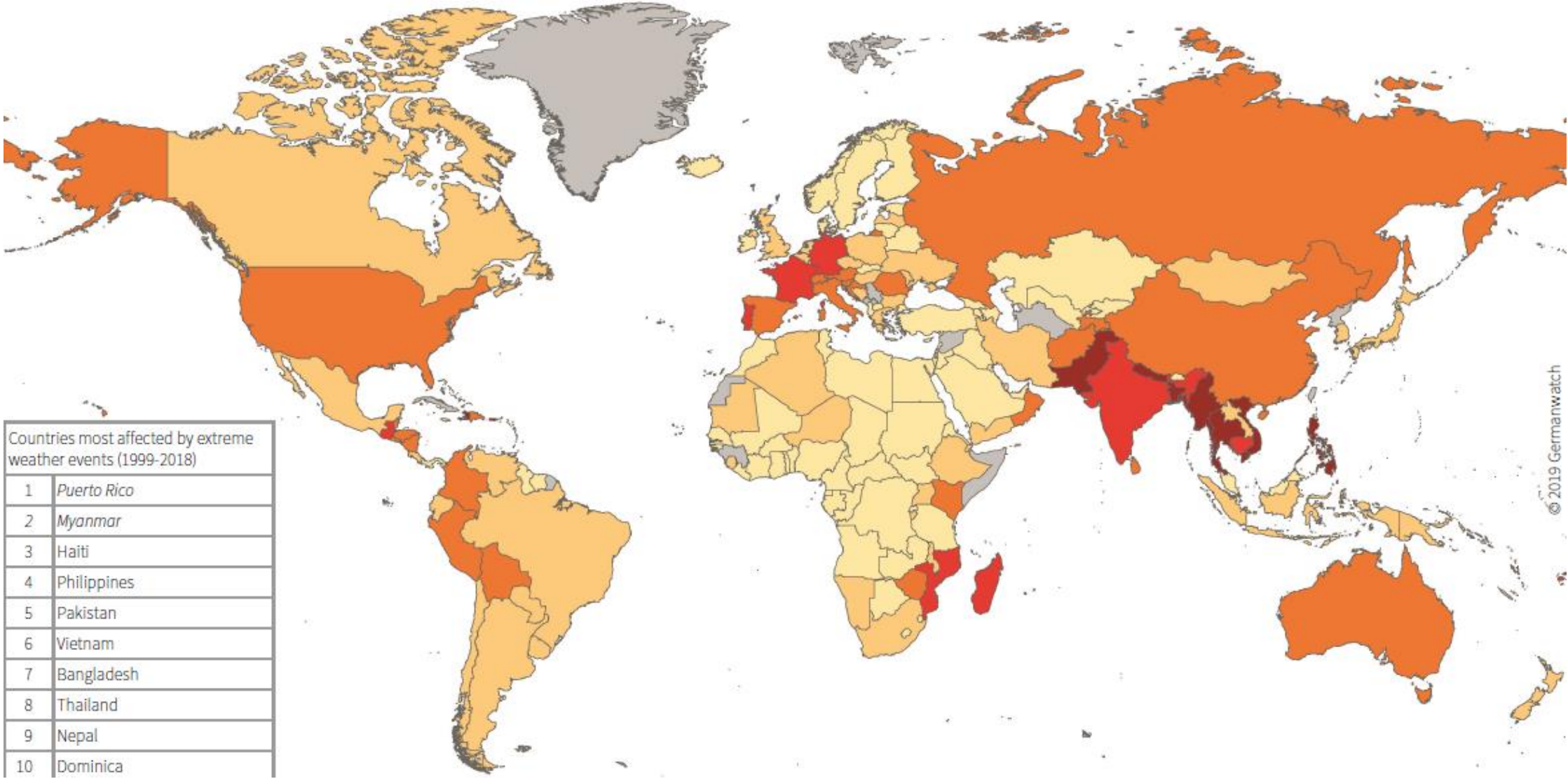
- could adversely affect economies with persistent current account deficits or large FX-denominated debts, but in general Asia less exposed than other EM regions

❑ Disappointment / exasperation with India’s failure to live up to expectations

❑ Climate change

- 6 of the 10 countries most affected by climate change over the past 20 years are in ‘peripheral Asia’ (Myanmar, Philippines, Vietnam, Bangladesh, Thailand and Nepal)
- A large proportion of peripheral Asia’s population live in cities especially prone to rising sea levels (eg Manila, Jakarta, Bangkok, Ho Chi Minh City, Yangon, Kolkata, Dhaka and Singapore)

South and South-East Asian countries are among the most exposed to risks from climate change



Climate Risk Index: Ranking 1999 - 2018 1 - 10 11 - 20 21 - 50 51 - 100 >100 No data

Source: David Eckstein, Vera Künzel, Laura Schäfer & Maike Wings, *Global Climate Risk Index 2020*, Germanwatch (December 2019).

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