# Conversation on 2020 Pandemic – The View from Asia (III)

## A NUS Business School and ABFER Collaboration, Thursday, April 2, 2020

**Summary of Session 3: Household Finance and Financial Markets (11:30 am – 12:15 pm)**

- **Panelists:** Wenlan Qian, Ben Charoenwong, Weina Zhang, Johan Sulaeman, Sumit Agarwal
- **Moderator:** Joe Cherian

The third session in this series covered household finance and financial markets.

For ordinary people, regular consumption and housing are very important. When people go out less, they consume less, period. When there is a looming health crisis, they consume less. China is a case in point: during the lockdown, people cut back on their consumption, which does not necessarily bounce back when cities reopen because of the perceived future risks. Without solving the public health crisis, consumption will remain low.

The economic downturn means a substantial loss in income and maybe even a huge loss of jobs. In Singapore, 90 percent of households own their homes. Some face challenges in servicing their loans. As the recession drags on (and deepens), more people will not be able to service their mortgage debt. There will be a negative ripple effect on house prices. Already, Singapore's private housing market has experienced an over one percent drop in prices in Q1 2020, partly due to the absence of Chinese buyers.

The Monetary Authority of Singapore has alleviated the stress by allowing households and the mortgage owners to defer the payment on either their principal or the principal and interest until the end of this year, thereby easing some of the concerns faced by households. While the measure helps people to keep their "home," it does not change the impact of uncertainty and anxiety on the housing market.

The financial market has a liquidity problem. First, due to the pandemic-induced goods and service market weakness, corporations seek liquidity, including drawing on overdrawn lines. Second, there is a liquidity crunch due to an increase in demand for liquidity from asset managers. Many of them are shrinking their positions tactically or due to investor redemptions. The implication of asset managers behaving in a correlated manner would be a sudden increase in correlations across international markets, asset classes, and commodities.

There is also a concern about regulations and protectionism. As asset value drops, financial regulation turns protectionist. Regulators in Europe – in France, Italy, Spain, Belgium, Greece, and even in China – have announced that they are trying to ban foreign companies from investing in or taking over their companies. There is a concern that this trend is hard to undo. The financial markets tend to be self-correcting in that when prices drop, expected returns rise. Someone therefore will enter the market to seize the buying opportunities. Regulations that stop them from doing that prevents financial markets from functioning efficiently.

Old practices and habits drag the adoption of innovations, which then often needs nudging. While the crisis is hurting the growth momentum, corresponding community health policies change our behavior. There is now an apparent jumping-off point in using more efficient telecommunications technology. To illustrate, academic institutions now must rely on Zoom to conduct teaching and seminars. In the future, because online delivery works for some parts of learning, there will be more online delivery of modules, content and learning materials. This may democratize learning. In industries and businesses, we see a similar trend – hastening the adoption of technology which allows telepresence in the production of goods and services. Indeed, given modern technology, much can be done without human physical clustering. There will be fundamental changes in business models in this direction with commensurate changes in asset values, e.g., aircraft, buildings, malls, theatres, online entertainment, etc.

The pandemic pushes up precautionary savings and yet reduces the value of cumulated savings to date. More research needs to be done on retirement finance to help improve retirement schemes around the world. Many countries are allowing households to dig into their retirement savings to finance current spending; at a time when the markets and their investments are down. This is a dangerous precedent.

Finally, the pandemic raises the awareness that individual nations and the global community need to protect individuals and organizations the best they can against exogenous pan-state or global shocks, e.g., a natural disaster. Therefore, governments need national reserves, as in the case of Singapore and Norway. For a global negative exogenous shock, the world needs to pool resources to build global reserves. These arrangements can bolster ex-ante investment confidence, as investors would be less anxious about the global risks that stem from an act of nature.

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