

The COVID-19 Pandemic and Fiscal Policy Issues in ASEAN+3

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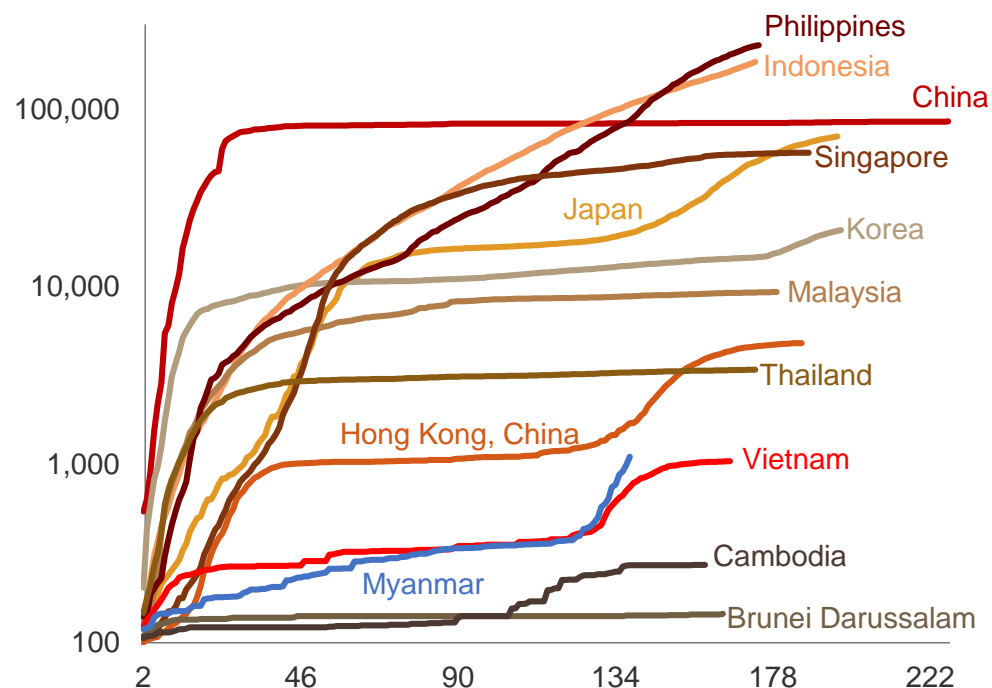


ASEAN+3 Regional Economic Outlook

The projected rebound in 2021 is by no means assured if there is a second wave of the pandemic, especially as outbreaks continue to recur in many economies, including among the ASEAN+3

ASEAN+3: Confirmed Cases

(Number of days after 100th confirmed case; cases in log scale)



Source: Haver Analytics, sourced from John Hopkins University; AMRO staff calculations.

AMRO Growth Projections

(Percent)

Economy	2018	2019	2020 ^p	2021 ^p
ASEAN+3	5.2	4.8	0.0	6.0
Plus-Three	5.2	4.9	0.7	6.1
China	6.6	6.1	2.3	7.0
Hong Kong, China	2.9	-1.2	-7.0	4.5
Japan	0.3	0.7	-5.4	2.8
Korea	2.7	2.0	-1.0	3.4
ASEAN	5.2	4.6	-2.6	5.7
Brunei Darussalam	0.1	3.9	1.6	3.1
Cambodia	7.5	7.1	-1.8	6.5
Indonesia	5.2	5.0	-0.8	5.2
Lao PDR	6.3	6.0	0.5	4.6
Malaysia	4.7	4.3	-3.2	5.7
Myanmar	6.8	6.8	1.1	6.2
Philippines	6.2	5.9	-6.6	6.5
Singapore	3.4	0.7	-6.0	7.0
Thailand	4.1	2.4	-7.8	4.6
Vietnam	7.1	7.0	3.1	7.0

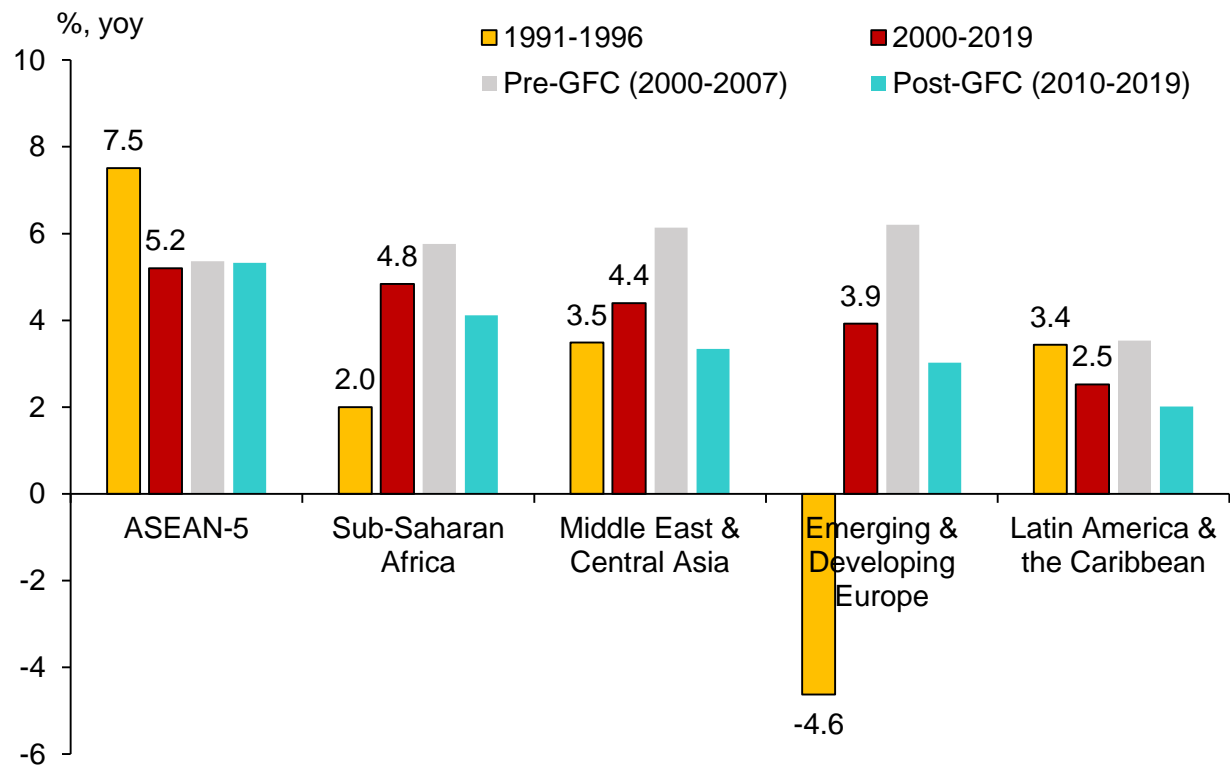
Source: AMRO staff estimates (AREO, August 2020).

p = projection.

Stronger economic fundamentals after the AFC

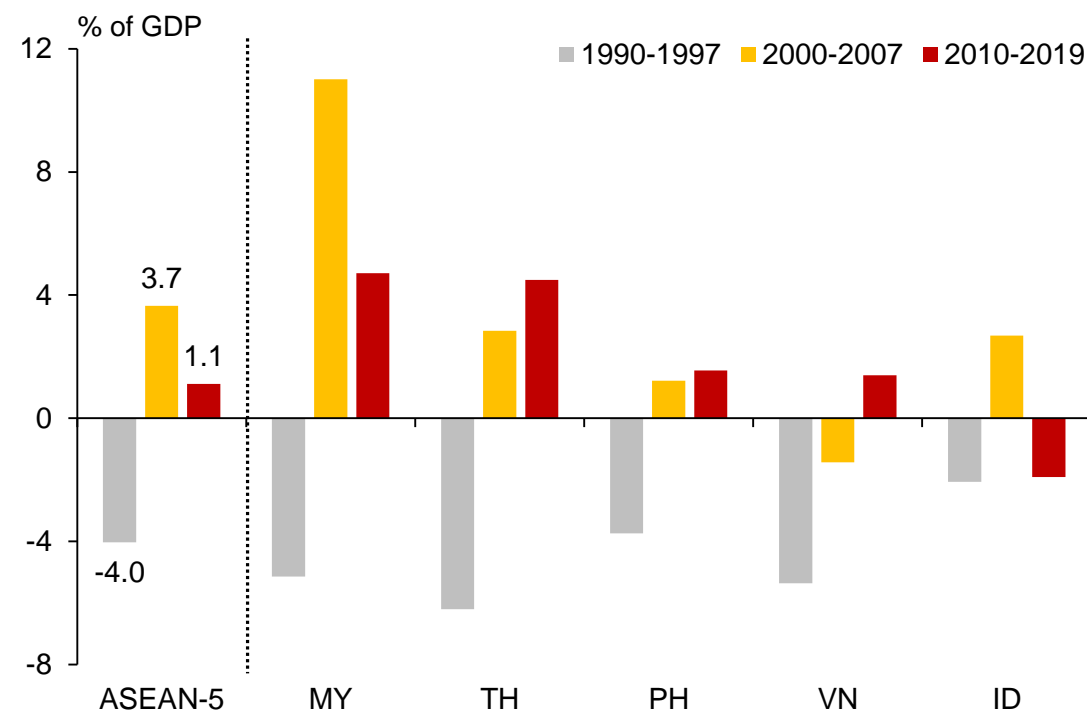
Over the past two decades after the AFC, ASEAN's economic growth outperformed most EME peers and their current account balances significantly improved...

Emerging Market Economies: Real GDP Growth (Year-over-year change)



Source: National authorities; IMF WEO Database; AMRO staff calculations
 Note: ASEAN-5 countries include Malaysia, Indonesia, Philippines, Thailand and Vietnam.

ASEAN-5: Current Account Balance (Percent of GDP)

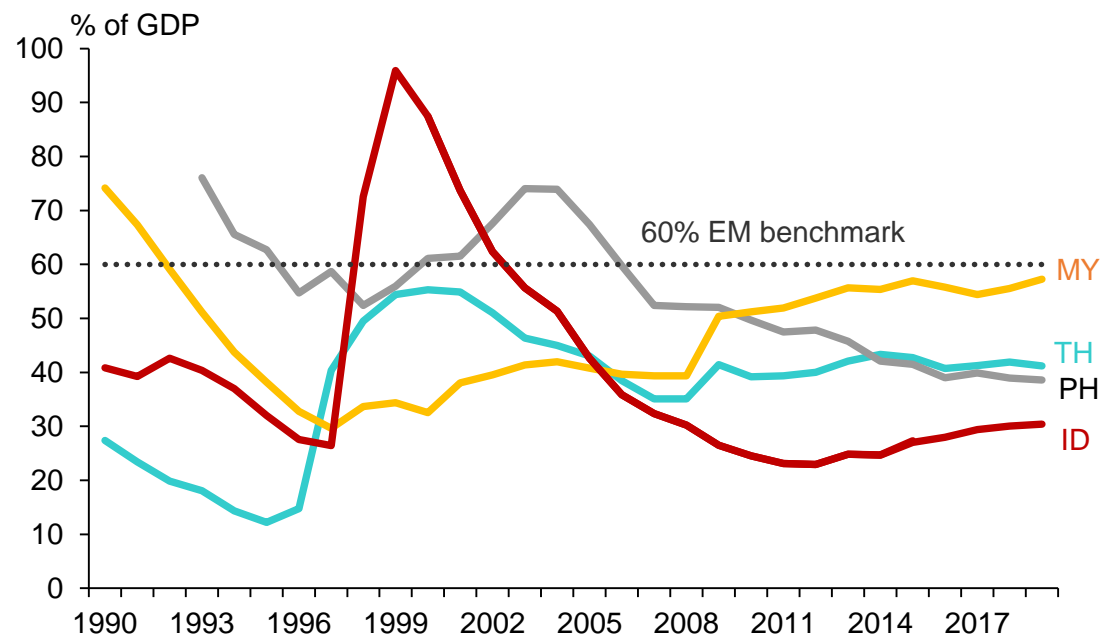


Source: National authorities; IMF WEO Database; AMRO staff calculations

Fiscal positions strengthened through structural reforms

Fiscal reforms in ASEAN economies – adopting fiscal rules, broadening tax bases – have improved fiscal management and successfully stabilized the debt-to-GDP ratios at lower and more sustainable levels...

ASEAN-4: Government Debt
(Percent of GDP)



Sources: National authorities; IMF Fiscal Monitor; AMRO staff calculations

Note: Based on the definition of gross general government debt; some data points (1990-1999 for Indonesia; and 1990-1995 for Thailand) were interpolated using public debt data.

ASEAN-4: Interest Rate - Growth Differential
(Percentage points)



Sources: National authorities; IMF; AMRO staff calculations

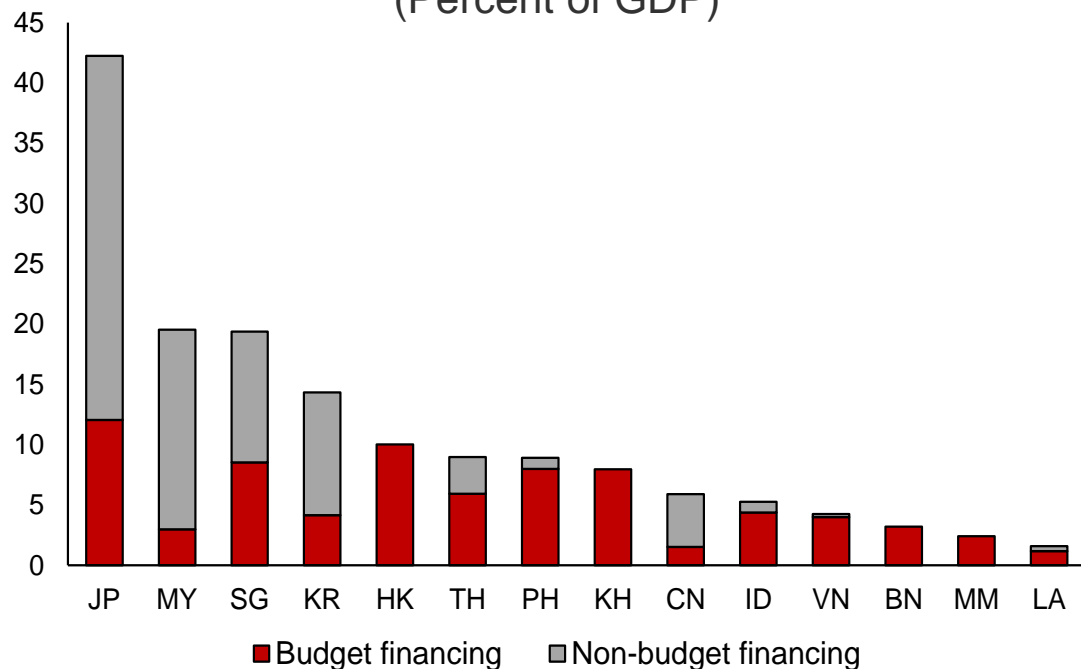
Note: Based on the differential between 10-year government bond yields deflated by CPI inflation and real GDP growth rates.

Large policy responses to the pandemic

Thanks to relatively stronger fiscal positions, ASEAN+3 economies could swiftly deploy sizable fiscal stimuli to support their economies, which would lead to widening fiscal deficits...

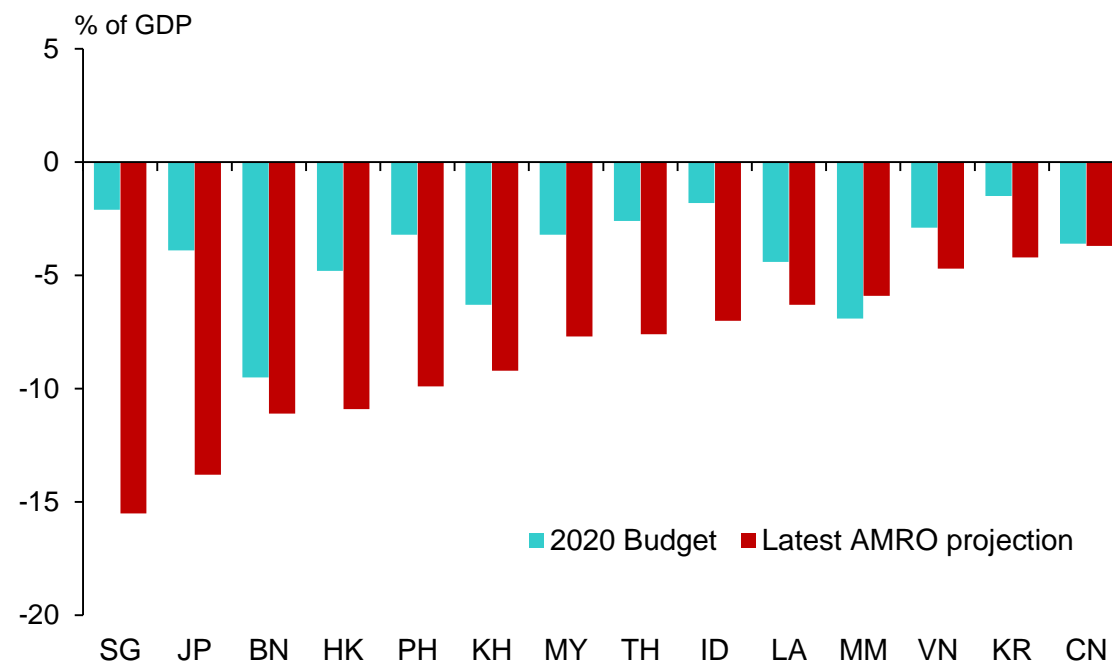
ASEAN+3: Announced Economic Stimulus

(Percent of GDP)



Fiscal Balance: Budget vs. Projection for 2020

(Percent of GDP)



Sources: National authorities; AMRO staff estimates

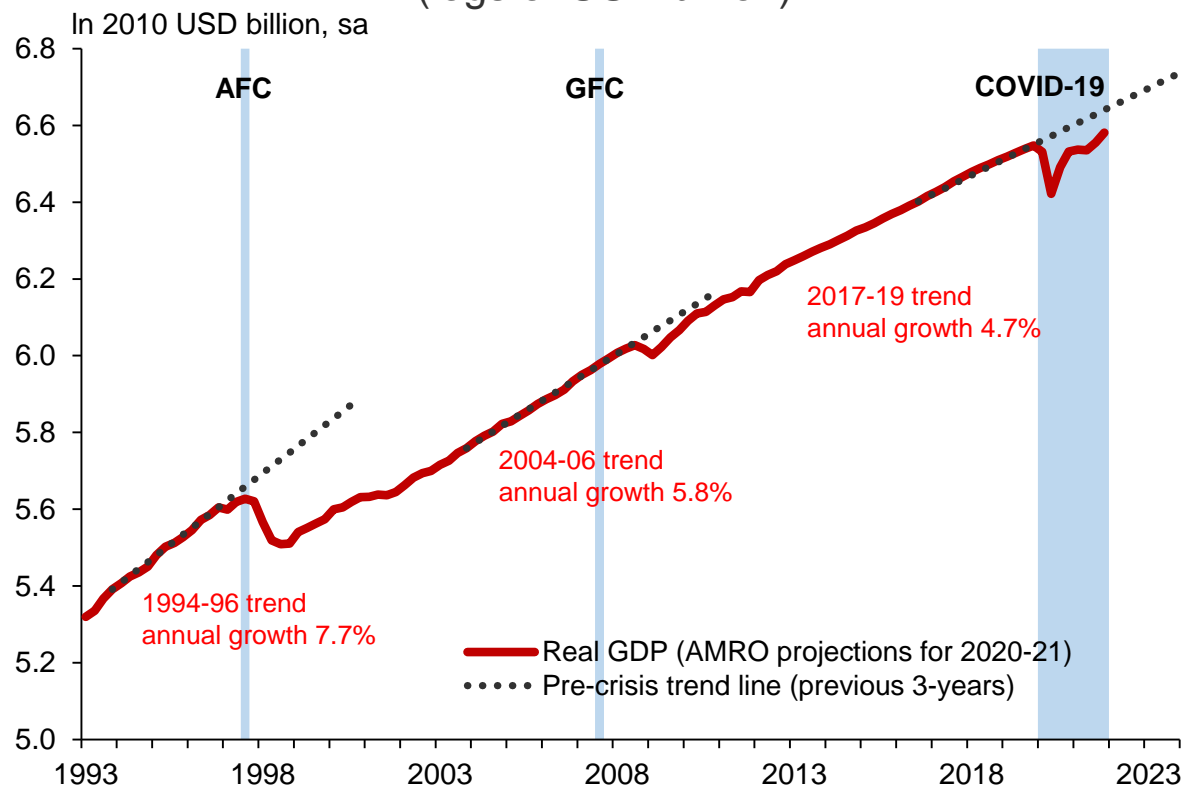
Note: Based on the government's announced stimulus packages (Feb 1 through Aug 3 2020) across regional economies and do not include monetary policy measures and other indirect supporting measures such as regulatory forbearance.

Sources: National authorities; AMRO staff projections

Policy issues (1): Growth Support vs. Fiscal Space

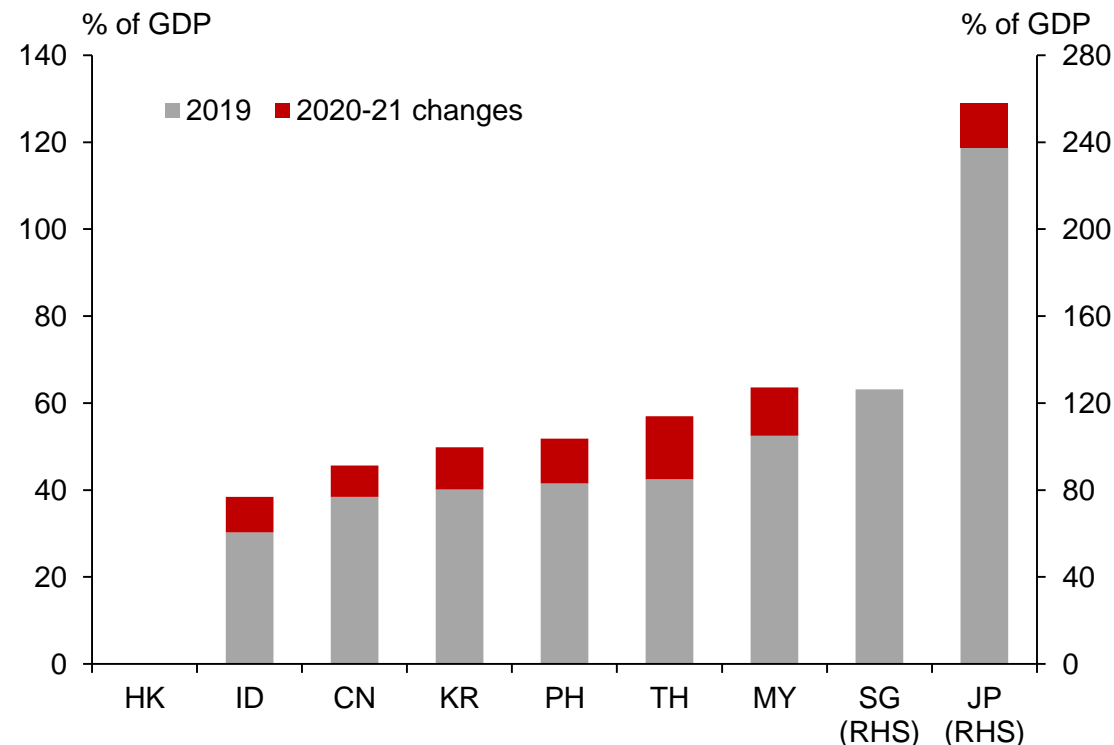
As the pandemic gradually comes under control, policymakers need to recalibrate their policies to strike the right balance between the stimulus to restore growth momentum and the consolidation to restore fiscal space...

ASEAN-4 & Singapore: Real GDP (logs of USD billion)



Sources: National authorities; Haver Analytics; AMRO staff calculations
Note: 'ASEAN-4 & Singapore' include the original 5 members: Malaysia, Indonesia, Philippines, Singapore and Thailand.

Government Debt Projection for 2020-21 (Percent of GDP)

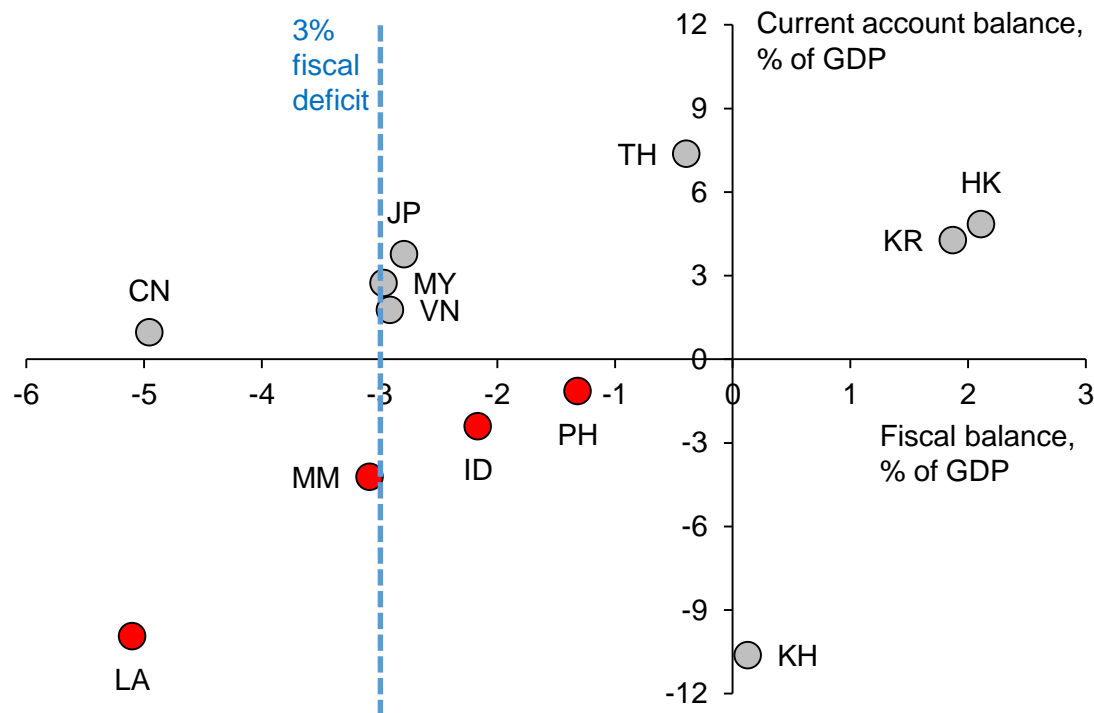


Source: AMRO staff projections
Note: The 2020-21 projections are based on the information available up to 19 June 2020.

Policy issues (2): Financing Capacity

Amid challenging external and fiscal environment, careful financing plans are required to stably finance enlarged fiscal deficits and heightened debt service, while managing the market participants' sovereign risk perceptions...

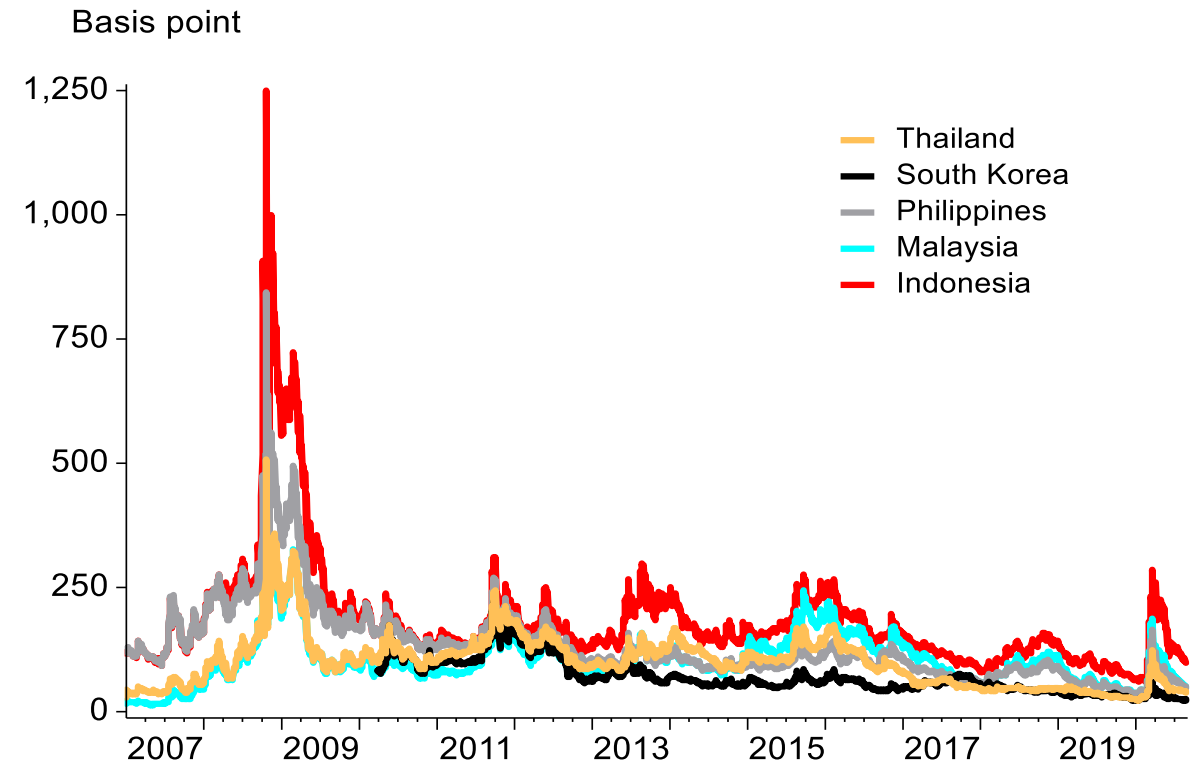
Fiscal vs. Current Account Balances
(Percent of GDP, 2017-19 averages)



Source: IMF (WEO Database, April 2020)

Note: Fiscal balances are based on general government net lending/borrowings.

5-Year Sovereign Credit Default Swap Spread
(Basis point)

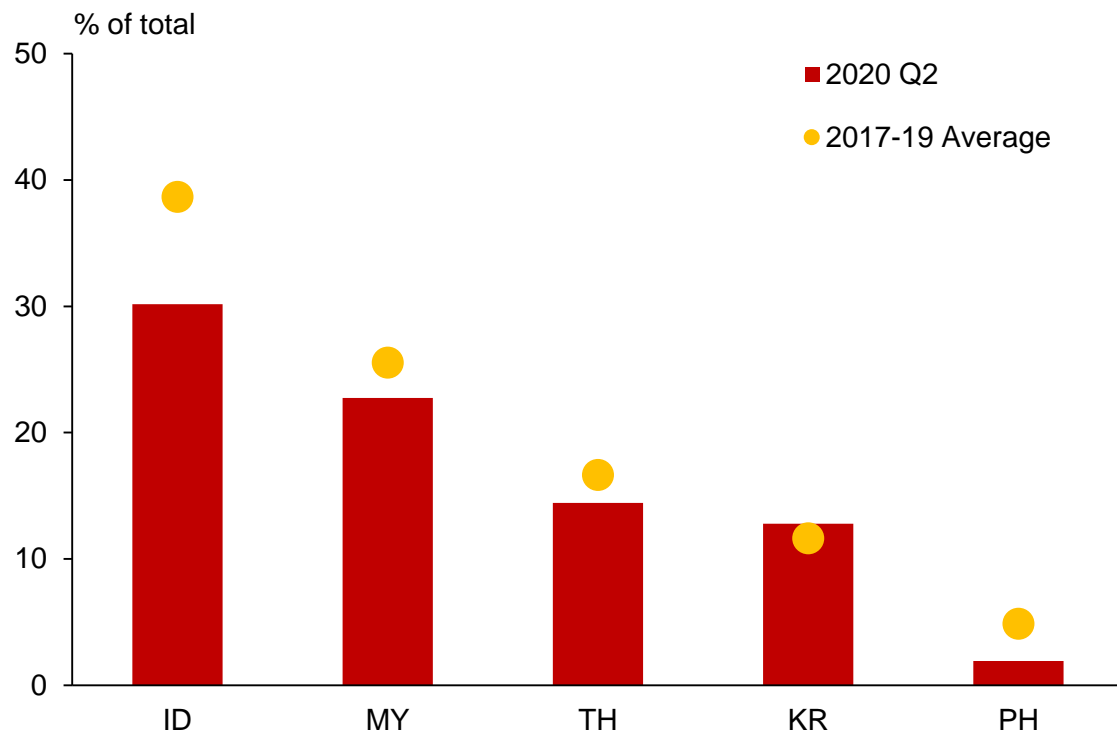


Source: CMA Datavision/Haver Analytics

Country-Specific Factors (1): Risk of capital outflow

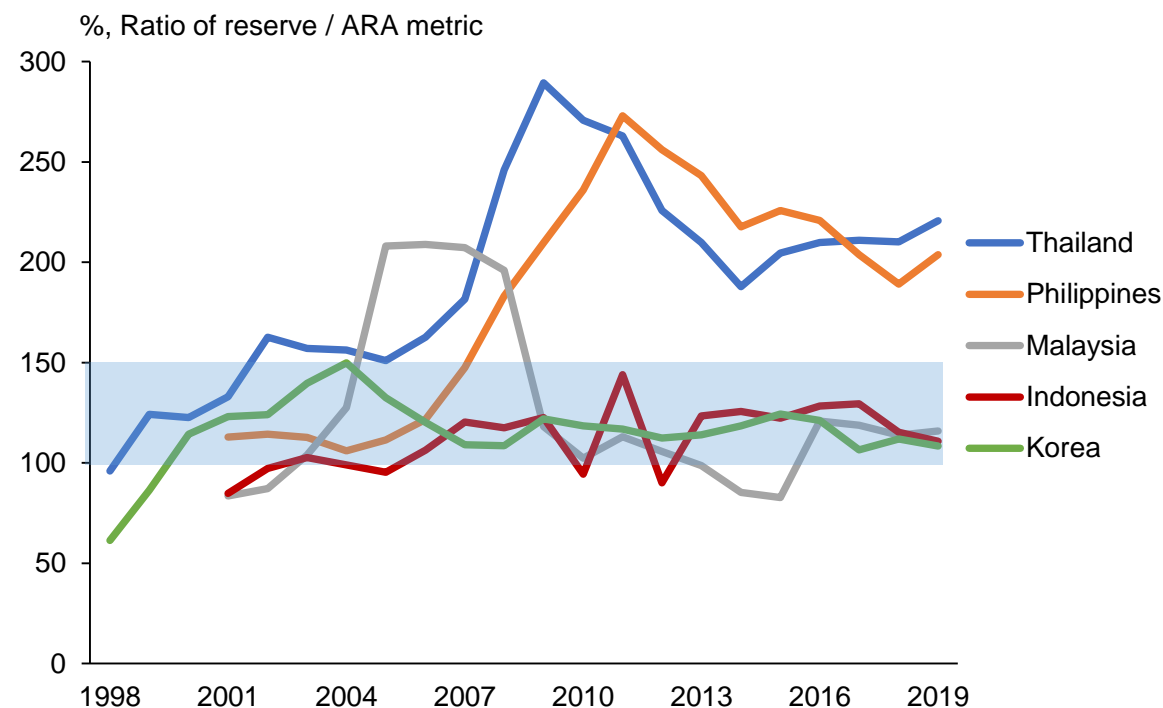
Some EMs are more reliant on foreign investors and may be more vulnerable to capital flow volatility risks, should risk aversion rise in financial distress and prompt massive sell-offs...

Foreign Holdings of LCY Government Bonds (Percent)



Sources: AsianBondsOnline; National authorities

Foreign Reserve Adequacy (Percent)



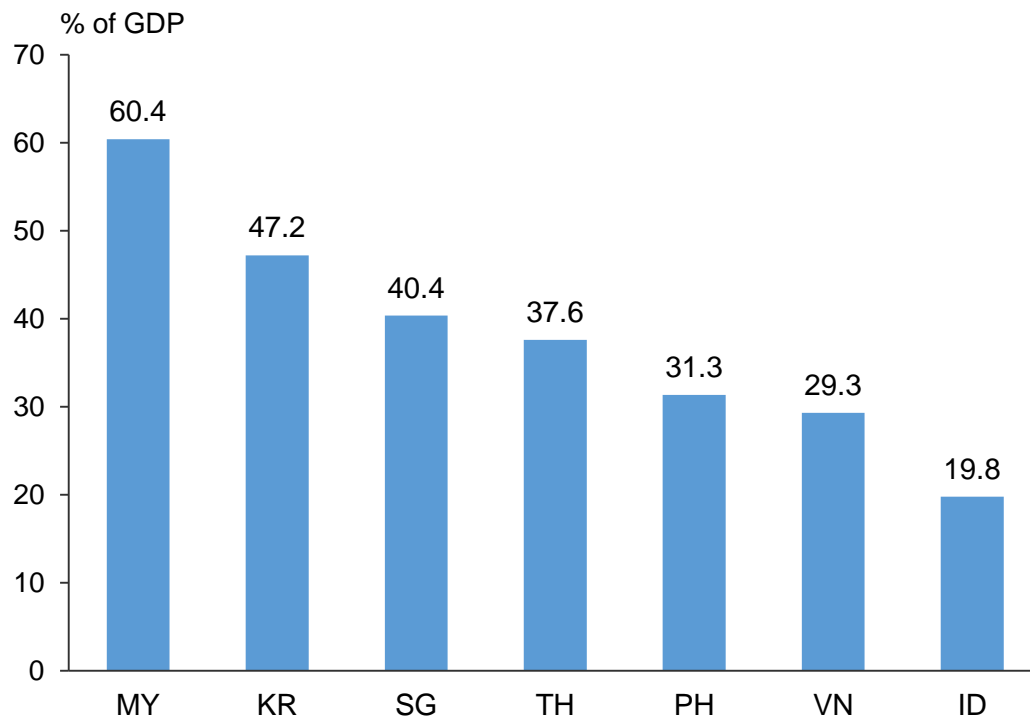
Source: IMF

Note: The ratio between 100% and 150% is considered 'adequate' according to the IMF's criteria.

Country-Specific Factors (2): Domestic financial markets

Sizable LCY government bond markets and a broad institutional investor base would help mitigate the adverse impact of foreign investors' risk aversion and capital outflows on domestic financial markets...

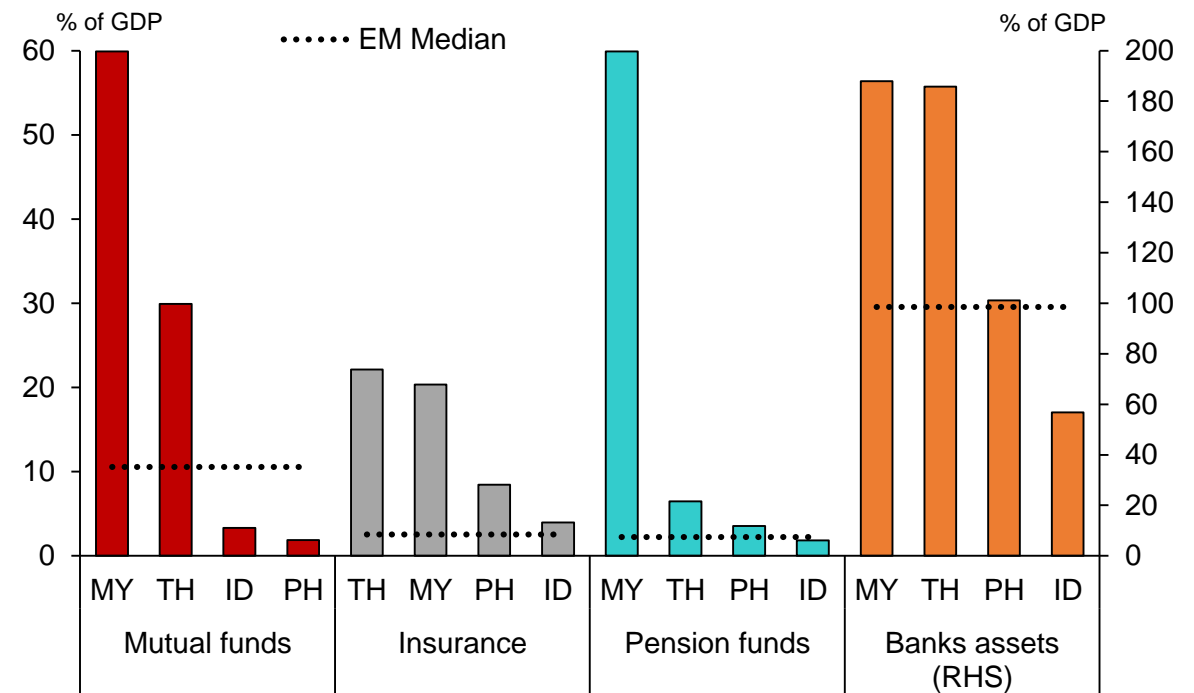
Size of LCY Government Bond Market
(Percent of GDP)



Sources: AsianBondsOnline; National authorities

Note: As of Q2 2020

Domestic Institutional Investor Base
(Percent of GDP)



Source: IMF (Global Financial Stability Report, Oct 2018)

Note: As of end-2017 (Mutual funds and banks assets), or end-2016 (Insurance and pension funds); Each dotted line indicates the median for selected 17 EM economies.

Some Key Takeaways

- *Region has built up macroeconomic fundamentals since the AFC – strong BS, high growth low inflation, strong external position, relatively fiscal deficit and low to moderate debt level.*
- *Fiscal deficit expected to increase this year and next because of stimulus measures.*
- *Debt stock expected to rise.*
- *Deficit financing not expected to be a problem in ASEAN-4, taking into account the overall financing capacity, financial market sentiment and growing reliance on domestic funding.*

Thank you.



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