Chapter 1

Macroeconomic assessment and economic outlook

This chapter presents the economic outlook for the region in light of the global health crisis and the restrictive measures implemented to combat the disease. It describes the near-term drivers and risks to economic growth, which is projected to decline in 2020 across the 12 economies before rebounding in 2021. It also examines the effects of the crisis on travel and tourism, international trade, private consumption, investment, businesses, employment and financial markets, taking into account the fiscal packages and other policy actions implemented to support the economy.

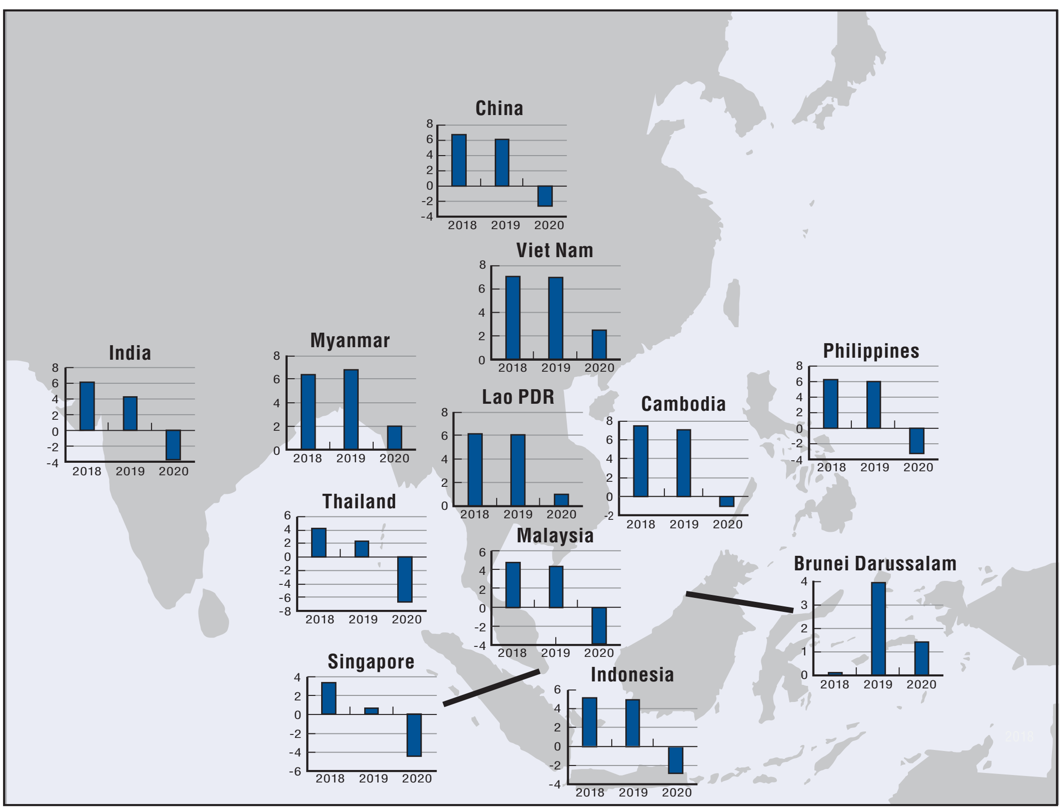
Introduction

The COVID-19 pandemic has brought the global economy to its knees. It has virtually shut down global travel and tourism, and against the backdrop of trade tension it has compounded the pressure on international trade. Restrictions on movement and business uncertainties have weighed on private consumption and investment. As the toll on the job market soars – setting the stage for economic crisis in many parts of the world – lockdowns have been lifted even in countries where infection is rising. This impairs the recovery process, especially when health systems are already pushed beyond their limits.

Emerging Asian economies addressed the pandemic using various measures. Policy actions generally included tight quarantine measures coupled with fiscal and monetary support to varying degrees. While the health situation has substantially improved in many economies in the region, India, Indonesia and the Philippines are still struggling to contain transmission of the virus. Given the ongoing elevated health threats, business sectors cannot maximise partial re-opening to recoup their losses and jumpstart job market recovery. The governments' ability to deliver on additional fiscal commitments is also limited by the pandemic's impact on fiscal revenue, given the weaker economic activity.

Figure 1.1. **Real GDP growth of Southeast Asia, China and India**

Comparison between 2018, 2019 and 2020 growth rates, percentage



Note: Data are as of 26 June 2020. Data for India and Myanmar relate to fiscal years. For Lao PDR, 2019 GDP growth rate is an estimate. The projections for China, India and Indonesia for 2020 are based on the OECD Economic Outlook 107 (database). The projections assume "single hit" scenarios, in which a second big outbreak is avoided.

Source: OECD Development Centre.

StatLink https://doi.org/10.1787/888934160532

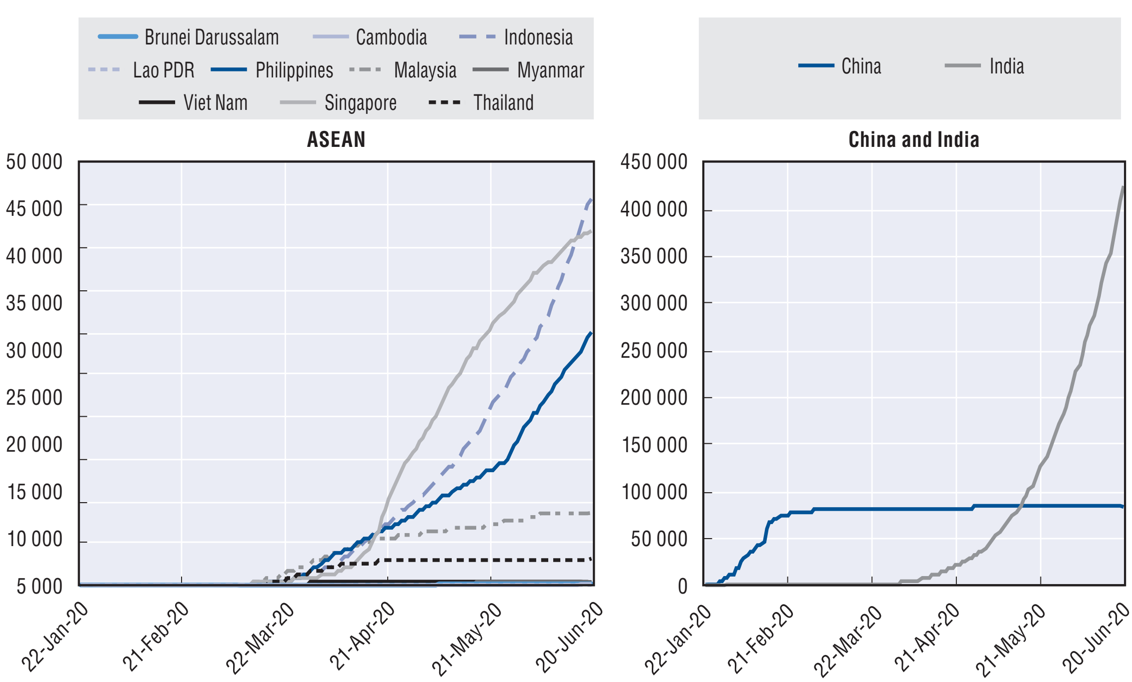
The region's financial markets have absorbed the stress relatively well thus far. Yet the risk of capital flow volatility is broadening, as are risks to banking sector profitability and solvency. Countries with banking stability issues prior to the pandemic, such as India and to some extent Lao People's Democratic Republic (hereafter "Lao PDR"), Myanmar and Viet Nam, are arguably more susceptible to shocks. The extent of rising unemployment levels and firm closures in all countries is a big concern in this respect. The condition of macroeconomic fundamentals in the next few months will influence the vulnerability of countries to cross-border capital flow disruption. Massive liquidity injections by the advanced economies into the global financial system are expected to drive rent seeking as interest rates plunge to historic lows in many jurisdictions.

In light of these headwinds, economic performance will weaken significantly across countries in Emerging Asia in 2020 relative to the previous year (Figure 1.1). The decades-long uninterrupted positive economic growth streaks in many of the region's countries are on track to be snapped at the end of the current year. However, barring an unsettling second wave of COVID-19 infections, growth in gross domestic product (GDP) is expected to recover in 2021.

Overview and main findings

As COVID-19's grip tightened in the first half of 2020, economies faltered to degrees not experienced in decades. Emerging Asian countries had confirmed more than 1.3 million cases as of early July, roughly 3% of which had concluded in death. Governments provided massive monetary and fiscal support to lessen the immense stress on health services and keep the social fabric intact. Quarantines and curfews have been imposed to limit the spread of the virus, although these in turn have further hampered economic activity. Progress in containing infections has been uneven across Emerging Asia. The number of cases in India began soaring in June. Indonesia and the Philippines are still confronting a large number of cases daily (Figure 1.2).

Figure 1.2. **Cumulative confirmed cases of COVID-19 in Emerging Asia**



Note: Data as of 21 June 2020.
Source: Johns Hopkins (2020), *COVID-19 Map* (database), https://coronavirus.jhu.edu/map.html.
StatLink https://doi.org/10.1787/888934160551

The growth prospects of Emerging Asian economies have absorbed big blows on several fronts. These economies were already weakening before the outbreak due to the trade tension and structural issues. The most recent national accounts data convey feebleness across demand and supply components in all reporting countries in the region. The health emergency has weighed heavily on aggregate private spending and investment. Production cutbacks have resulted from the curtailing of work hours or total closure of factories and offices.

Although quarantines and restrictions on movement have been relaxed in a number of countries in order to restart economic engines, the path to normalcy is beset by uncertainties and economic recovery is expected to be very gradual. It will likely take a few quarters before the crisis-related restrictions imposed in many countries are lowered to nil. Private consumption expansion will be measured according to the broad and deep impact of the pandemic on labour markets. It is anticipated that spending on basics and the rebuilding of the precautionary savings pool will take precedence among households during the recovery period.

Indications of a healthy trade rebound are limited. The retention of border restrictions, struggling domestic markets in advanced economies, political distrust among major trading countries and a potential re-escalation of the US-China trade tension do not augur well for the cross-border flow of goods. These developments could in turn hamper long-term private investment recovery. Emerging Asian economies generally have room for fiscal manoeuvres, but the space is limited, especially as revenues decline. In certain cases, governments also have to set aside funding for natural disasters that accompany the monsoon season and for other emergencies in the second half of the year.

Against this backdrop, economic output of Emerging Asian countries is projected to contract by 2.9% in 2020 (Table 1.1). The growth is projected to climb to 6.8% in 2021, presupposing that the conditions gradually return to normalcy. Southeast Asia's economy as a whole is expected to contract in 2020 by 2.8% before growth rises to 5.6% in 2021. Economic growth patterns in China and India are anticipated to mirror the same path. China's economy is expected to contract this year for the first time since the 1970s before GDP growth improves the following year. India's economy will also decline for the first time in more than 40 years and recover in 2021.

Table 1.1. **Real GDP growth in ASEAN, China and India, 2019-21**

Percentage

	2018	2019	2020	Change from the previous forecast (Nov. 2019)	2021
ASEAN-5 countries					
Indonesia	5.2	5.0	-2.8	↓	5.2
Malaysia	4.8	4.3	-3.9	↓	5.9
Philippines	6.3	6.0	-3.2	↓	7.0
Thailand	4.2	2.4	-6.7	↓	4.9
Viet Nam	7.1	7.0	2.5	↓	7.2
Brunei Darussalam and Singapore					
Brunei Darussalam	0.1	3.9	1.4	↓	3.3
Singapore	3.4	0.7	-4.4	↓	3.5
CLM countries					
Cambodia	7.5	7.1	-1.0	↓	5.8
Lao PDR	6.2	6.1	1.0	↓	5.0
Myanmar	6.4	6.8	2.0	↓	7.3
China and India					
China	6.7	6.1	-2.6	↓	6.8
India	6.1	4.2	-3.7	↓	7.9
Average of ASEAN-10	5.3	4.7	-2.8	↓	5.6
Average of Emerging Asia	6.3	5.4	-2.9	↓	6.8

Note: Data as of 26 June 2020. Data for India and Myanmar relate to fiscal years. For Lao PDR, 2019 GDP growth rate is an estimate. The projections for China, India and Indonesia for 2020 and 2021 are based on the OECD Economic Outlook 107 (database). The projections assume "single hit" scenarios, in which a second big outbreak is avoided. They also assume that world GDP is declining in 2020 but will almost regain pre-crisis level (2016 level) in 2021.
Source: OECD Development Centre.

ASEAN-5

- About four months after the first COVID-19 case was confirmed in **Indonesia**, the country continues to struggle to contain the spread of the virus. As private consumption and investment weaken, GDP in 2020 is forecast to shed about 2.8% in 2020 in its first contraction since the Asian Financial Crisis.
- **Malaysia** has managed to rein in COVID-19 cases steadily since April 2020. Nevertheless, private spending resilience is wavering and export prospects remain downbeat. Malaysia experienced marked declines in net exports and investment in Q1 2020. Against this backdrop, GDP is projected to decline by 3.9% this year.
- Reigniting business remains challenging in the **Philippines** due to protracted uncertainty over the extent of COVID-19 cases. Flailing export earnings add to the headwinds for growth. The economy is expected to contract by 3.2% in 2020, its first contraction in more than two decades.
- **Thailand** has navigated the pandemic relatively well, with daily cases of infection steadily reducing to single digits since peaking in March. However, the grim tourism and trade outlook weigh heavily on the economy. Real GDP level in 2020 is forecast to come in lower than the previous year by about 6.7%.
- **Viet Nam** is on track for an exceptional record in public-health crisis management despite the many limitations that the country faces. The considerable dissipation of the health risk has made the environment conducive to a smoother recovery for many firms. GDP growth will slow in 2020 to 2.5%, but the country will continue to lead the ASEAN-5 on this metric.

Brunei Darussalam and Singapore

- The comparatively effective COVID-19 management system in **Brunei Darussalam** allowed the economy to remain partially open even as other ASEAN economies went into strict lockdown. The gradual reversal of the sharp drop in oil prices bodes well for the economy in terms of export earnings and fiscal space. However, with uncertainties in external markets and constraints to fiscal capacity, GDP growth is forecast to roll back to 1.4% in 2020.
- A second wave of infections has pushed back **Singapore**'s re-opening plans. Robust monitoring and healthcare systems proved to be crucial in keeping social order. Government interventions were similarly helpful in limiting firm closures. Nonetheless, the prevailing weakness in domestic and external demand continues to strain economic prospects. GDP is projected to contract by 4.4% in 2020.

Cambodia, Lao PDR and Myanmar

- **Cambodia** is weathering the COVID-19 health risks comparatively well, helping to maintain a buoyant domestic economy despite the restrictions. However, growing risks to exports and friction on investment are set to drag down gross economic production by 1.0% in 2020, notwithstanding government assistance programmes. Economic activity is forecast to improve the following year when external uncertainties wane.
- **Lao PDR** has dealt with the threat of COVID-19 rather well, containing incidents of local transmission of the virus. Keeping risks to domestic labour-market stability at bay augurs well for private consumption. A challenge will be finding markets for the country's electricity exports given the slowdown in industrial activity in the region. The country's GDP is expected to register growth of 1.0% in 2020.
- The health situation in **Myanmar** has improved in recent weeks, although security issues in certain areas complicate the response to the health crisis. Easing stress on the growing tourism industry and coping with the wavering export and investment climate are crucial for the economy's stability. Given current conditions, GDP growth is projected to slow to 2.0% in 2020.

China and India

- Notwithstanding new pockets of infection in certain areas, **China** is on its way to restoring its full economic capacity. Strong growth in technology-based emerging sectors has helped lessen the economic impact of the lockdown and is paving the way for a full rebound in domestic activity. Overall, however, the domestic sector is still groping for balance. With trade tension still dominating bilateral relations, local production is unlikely to draw as much drive from the external market. GDP is projected to decline by about 2.6% at the end of 2020 in the economy's first contraction since the 1970s.
- **India** has become the new epicentre of COVID-19 in Asia, and the government is grappling to reverse the persistent rise in active cases. Fiscal limitations and banking-sector legacy asset issues compound difficulties in managing the economic risks. Deeply entrenched informal activity in the country is another complication given restrictions on the movement of labourers. Against this backdrop, the economy is forecast to end fiscal year (FY) 2020 (ending in March 2021) in the red. The contraction of about 3.7% will snap the country's four-decade streak of positive growth.

Other key points of the economic outlook and assessment

- The extent of monetary support in major economies effectively ushers in a return to the low-interest rate, high-liquidity environment experienced during quantitative easing. To support the ailing domestic credit market, Emerging Asian economies have ramped up monetary accommodation in a continuation of the policy mix of the previous year.
- Governments in Emerging Asia have taken drastic measures to finance pandemic-related spending. The fiscal outlays of ASEAN countries for health services, tax adjustments, subsidies and income support (excluding credit guarantees, money market intervention, direct lending and those with no breakdown) range from less than 0.1% to approximately 9% of GDP. In terms of debt, Emerging Asian economies had some fiscal leeway heading into this year, with measured government debt management in the last few years. Nonetheless, the sheer spending requirements needed to maintain social order and help the real economy regain its pre-pandemic health will test fiscal capacity.
- The collapse in economic activity led to both demand- and supply-side pressures in Emerging Asian countries. The aggregate effect of the COVID-19 crisis on inflation is therefore rather difficult to gauge and will depend on how these two forces balance out. Headline inflation in the region has moderated overall. At the same time, low global oil prices, which weighed on overall inflation in the first few months of the year, are on an upward trend. The aggregate figures may nevertheless hide differences at the sectoral levels.
- The flood of liquidity into global financial markets could have repercussions on the volatility of cross-border hot capital flows over the course of a few quarters. The ability to keep macroeconomic fundamentals sound during the recovery process will be essential for smoothing cross-border capital movement. Emerging Asian currencies have mostly weakened vis-à-vis the US dollar, reversing the 2019 trend.
- Corporate earnings are under heavy fire as the real sector reels from the impact of COVID-19. Grim expectations on corporate performance pushed bellwether indices to multi-year lows in the first four months of 2020. Yet hopes brought by the partial re-opening of economies have led equity prices higher since they bottomed in the March-April period.
- The current account balances of the region's economies are expected to weaken in the coming quarters. Tight border restrictions for shipments will continue to dampen cross-border trade. The risk of a revived trade tension could complicate the environment. Separately, remittances from foreign workers are expected to weaken significantly in the next few quarters, with many layoffs unlikely to be reversed in the short term.

Recent developments and near-term outlook

The rapid spread of COVID-19 is putting immense pressure on economic and social conditions in Emerging Asia. While COVID-19 has caused a lower death toll than the 1957 influenza pandemic or H1N1 in 2009-10 (as of early July), its coverage in terms of the number of countries affected and the potential economic cost will be much more significant (Box 1.1).

Box 1.1. **Comparison of past pandemics**

Epidemic and pandemic diseases have posed threats to human flourishing throughout history. The world remains under-prepared to contain epidemic and pandemic diseases, which are increasingly difficult to manage. A review of recent pandemics, associated responses and outcomes is given below (Table 1.2).

1957 Influenza Pandemic

The 1957 influenza pandemic ("Asian flu") was a category 2 outbreak of avian influenza that emerged in early 1956 and lasted until 1958. A vaccine for H2N2 was introduced in 1957, and the pandemic slowed. There was a second wave in 1958, and H2N2 went on to become part of the regular wave of seasonal flu.

1968 Influenza Pandemic

The 1968 influenza pandemic ("Hong Kong flu") was a category 2 flu pandemic that killed an estimated 1 million people worldwide in 1968 and 1969. It was caused by an H3N2 strain that descended from H2N2 through antigenic shift – a process in which genes from multiple subtypes reassort to form a new virus. The disease yielded a low death rate compared to other pandemics, with a case fatality rate below 0.5%.

SARS

SARS-CoV ("severe acute respiratory syndrome coronavirus") emerged in 2002. The sequence of the virus was significantly different from other coronaviruses known to cause human disease at the time. Public health measures to try to control the disease included earlier detection, isolation of infected people, droplet and contact precautions, and the use of personal protective equipment (PPE), including masks and isolation gowns. A screening process was put in place at airports to monitor air travel to and from the affected countries.

H1N1 Swine Flu

The H1N1 swine flu pandemic broke out in 2009. The virus, first described in April that year, appeared to be a new strain of the H1N1 influenza virus that arose when a previous triple reassortment of bird, swine and human flu viruses further combined with a Eurasian pig flu virus. The World Health Organization (WHO) raised the worldwide pandemic alert level to Phase 6, signalling that a global H1N1 pandemic was underway in July 2009. At the time, more than 70 countries had reported cases of 2009 H1N1 infection, and community-level outbreaks of 2009 H1N1 were ongoing in multiple parts of the world.

Table 1.2. **Comparative global toll of epidemics since the 1950s**

Epidemic	Period	Cases	Deaths	Case fatality rate	Major intervention
1957 influenza pandemic	1957-58	----	1.1 million	0.04-0.07%	Vaccine
1968 influenza pandemic	1968-69	----	1 million	0.03-0.12%	Vaccine
SARS	2002-03	8 096	774	9.6%	Quarantine and medical treatment
H1N1 Swine Flu	2009-10	----	0.1-0.6 million	----	Vaccine

Note: Death figures are estimates except for SARS.
Source: OECD Development Centre based on various government sources.

In the current pandemic, most Emerging Asian countries imposed lockdown measures as early as January in China and in March elsewhere to slow the spread of the virus (Table 1.3). The measures, of varying duration, geographical coverage and scope, have been partially lifted in many countries but could be reinstated if new waves of COVID-19 occur.

Lockdown measures help to contain the spread of the virus, but they also prevent economic activity that would otherwise take place. As the debate in countries turns to how and when to end a lockdown and restart the economy, the health and economic implications of the lockdown measures need to be considered carefully.

Table 1.3. **Overview of COVID-19 lockdown measures in Emerging Asian countries**

Country	Date of first announcement	Geographical coverage
China	23 January 2020 (Wuhan), 23 and 24 January in other cities in Hubei Province, then some other cities	Wuhan in Hubei province was first to be placed under lockdown and other cities and districts in China followed suit
India	24 March 2020	Nationwide
Indonesia	16 March 2020	Closure of public places in several provinces, large-scale social restrictions in Jakarta
Lao PDR	29 March 2020	Nationwide
Malaysia	16 March 2020	Nationwide
Myanmar	3 April 2020	Region of Mandalay
Philippines	16 March 2020	Metro Manila, Luzon and selected provinces, cities and localities in Visayas and Mindanao regions
Singapore	6 April 2020	Nationwide
Thailand	22 March 2020 (Bangkok), followed by some other provinces and cities	Bangkok and several provinces, including Phuket, island of Koh Samui and Pattaya City
Viet Nam	31 March 2020	Nationwide, with social distancing measures in some provinces

Source: OECD Development Centre based on various national sources.

ASEAN-5

Indonesia

Indonesia, the most populous country in Southeast Asia, is still struggling to contain the spread of COVID-19 four months after the first case was confirmed in the country in early March. The cases have risen sharply. The case fatality rate in the country is the highest in Southeast Asia, at approximately 5.4%. The government declared a state of emergency that resulted in the closure of most businesses near the end of March. This was followed by the imposition of quarantine and curfew measures in wider Jakarta and other regions.[1] In an effort to limit economic losses, businesses were allowed to re-open in June, with schools expected to follow. The capital, with about 4% of Indonesia's population and 17% of the national GDP, accounts for more than 20% of the country's confirmed cases.

Real GDP level in 2020 is forecast to decrease by 2.8%, marking the country's first economic contraction since the Asian Financial Crisis two decades ago. Economic growth is set to rebound in 2021, assuming the health crisis wanes substantially. In Q1 2020, the economy managed to expand by 3.0% (Table 1.4). Private consumption growth ebbed, though it still provided the biggest contribution to economic expansion (Figure 1.3). While government consumption accounts for a smaller share in GDP, it picked up from the previous quarter to lend support. Exports were lethargic, and this was matched by a contraction in imports for the fifth straight quarter. Investment growth also slid to close to its slowest rate since Q4 2015. On the supply side, all main sectors showed slower growth than in the previous quarter. However, the financial services subsector grew markedly, aided by technology.

Table 1.4. **Recent real GDP growth in ASEAN, China and India, 2018-19**

Quarterly year-on-year percentage

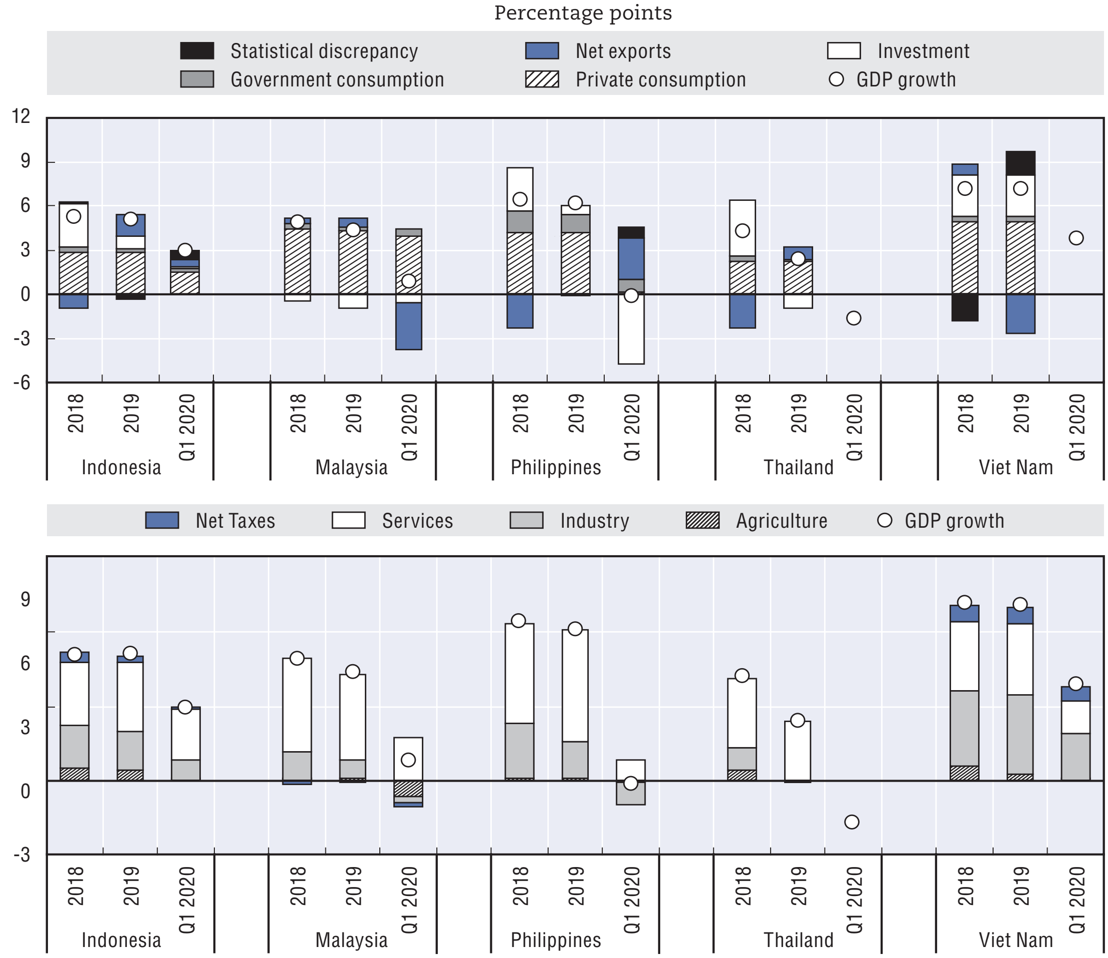
	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020
ASEAN-5 countries					
Indonesia	5.1	5.1	5.0	5.0	3.0
Malaysia	4.5	4.8	4.4	3.6	0.7
Philippines	5.7	5.4	6.3	6.7	-0.2
Thailand	2.9	2.4	2.6	1.5	-1.8
Viet Nam	6.8	6.7	7.5	7.0	3.8
Brunei Darussalam and Singapore					
Brunei Darussalam	-0.2	6.6	2.1	7.1	—
Singapore	1.0	0.2	0.7	1.0	-0.7
CLM countries					
Myanmar	6.6	5.7	7.5	7.9	—
China and India					
China	6.4	6.2	6.0	6.0	-6.8
India	5.2	4.4	4.1	3.1	—

Note: Data as of 26 June 2020. Data for India and Myanmar relate to fiscal years.

Source: OECD Development Centre based on CEIC and national sources.

Figure 1.3. **Contribution to growth by components in ASEAN-5, 2018-20**

Percentage points



Note: The agriculture sector refers to agriculture, fisheries and forestry in the data compilation. Net taxes are equal to gross tax minus subsidies. Thailand uses chain volume measures, and the sum of contributions to growth is not necessarily equal to GDP growth. Viet Nam has not yet published the demand-side components of GDP. The data are as of 26 June 2020.

Source: OECD Development Centre based on CEIC and national sources.

StatLink https://doi.org/10.1787/888934160570

Near-term prospects in Indonesia are uneasy as consumption pulls back and exports reel from weakening external demand. The retail sales index went into deeper contraction in April and May. Motor vehicle sales collapsed in the same period, falling by over 90% year-on-year in both months, with the confidence index suggesting deep caution among consumers. Increased pessimism among enterprises and continued slippage in foreign tourist arrivals signal a potentially slow recovery in many sectors. With the expected rise in unemployment, the poverty rate is projected to rise by about a percentage point this year, depending on the impact of government interventions (Bappenas, 2020a; 2020b). Sluggish nominal goods exports, coupled with the sharp fall in global oil prices from last year (before the recovery since end-April), add to the heavy economic drag. The government is trusting in the National Economic Recovery programme rolled out in May 2020 for economic guidance and support for enterprises, including those that are state-owned (Ministry of State Secretariat-Indonesia, 2020). The 3% deficit ratio threshold had been suspended by the government this year to gain spending flexibility. Thus far, national government support amounts to roughly 3.5% of GDP, according to the Asian Development Bank (ADB, 2020).[2] Measures to ease pressure in the money market and loan guarantees further amount to about 2.4% of GDP (ADB, 2020). These interventions accompanied the policy and bank reserve requirement rate cuts announced by the central bank.

Malaysia

Malaysia has steadily reined in COVID-19 cases since April 2020. The country registered its first case in late January, barely two weeks after the first case in Southeast Asia was confirmed in Thailand. The number of confirmed cases started to pick up pace in the second week of March. A national Movement Control Order (lockdown) was announced the following week, and stricter measures were imposed in certain areas as the situation evolved. As of early July, Malaysia had more than 8 500 confirmed cases, of which roughly 1.4% had resulted in death. Confirmed cases are concentrated in the Kuala Lumpur and Selangor areas, which account for about 40% of national GDP (Box 1.2). The economy is being reopened gradually, but foreign travel restrictions are set to remain until August. While battling COVID-19, the country is also in the process of regaining political stability. Almost two years after the national elections, a new prime minister was sworn in on 1 March.

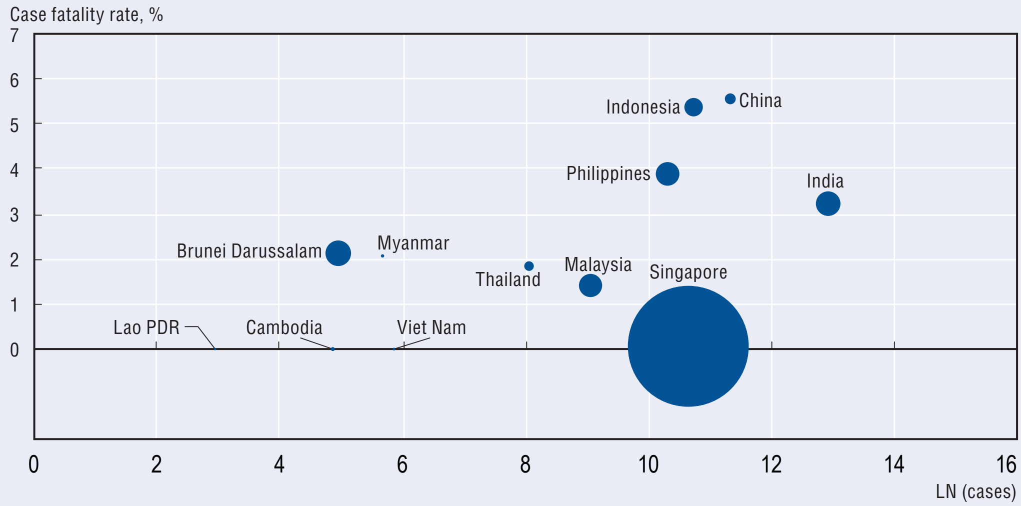
Box 1.2. **Economic centres bear the brunt of COVID-19 in Emerging Asia**

Statistics on the progression of COVID-19 in Emerging Asian economies are not necessarily comparable due to the differing extent of testing and tracing conducted. They may also differ in terms of data gathering and counting methodologies. Nevertheless, the reported data reveal some valuable insights.

Overall, China and India have reported the highest incidence of the disease (Figure 1.4). Infection rates in the region appear to be higher in agglomerations where population density is also high. China, Indonesia and the Philippines lead the region in terms of case fatality rate (deaths as a proportion of reported cases). This may reflect the readiness and capability of health systems to handle the influx of COVID-19 patients. Beyond hospital capacity, early detection seems to be a crucial factor.

Box 1.2. **Economic centres bear the brunt of COVID-19 in Emerging Asia** *(cont.)*

Figure 1.4. **COVID-19 confirmed cases and case fatality rates in Emerging Asia**



Note: The bubble size represents the number of reported cases as a proportion of the population. LN (cases) means natural logarithm of total reported confirmed cases. Data are as of 21 June 2020.

Source: OECD Development Centre based on national sources; Johns Hopkins (2020), *World Map* (database), https://coronavirus.jhu.edu/map.html; UN, Department of Economic and Social Affairs, Population Division (2018).

StatLink https://doi.org/10.1787/888934160589

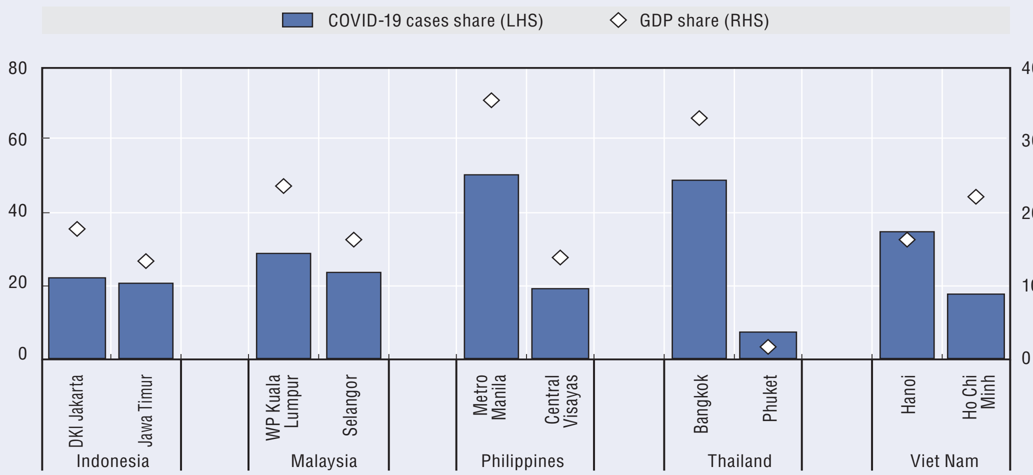
Viet Nam and the CLM economies (Cambodia, Lao PDR, Myanmar) have weathered the pandemic crisis comparably well. Considering Viet Nam's economic size, population and links with the global economy, its performance is particularly notable. Early measures, including border closures, quarantines, travel restrictions, targeted testing and monitoring protocols at the neighbourhood-level, kept the rate of infection low and averted a build-up of pressure on its limited healthcare system (Flemming, 2020; CSIS, 2020).

Country-level data in ASEAN-5 show that cases are disproportionately more prevalent in major cities and urban areas, making it more difficult to deal effectively with the health and economic effects of the pandemic. This is particularly glaring in the Philippines, where Metro Manila (the National Capital Region) and Central Visayas account for nearly 70% of total officially confirmed cases. Bangkok accounts for about 50% of the confirmed cases in Thailand. The pattern throughout the region may be linked to the location of major airports and to population density (taking into account the cluster of informal communities). The sheer size of urban agglomerations in terms of inhabitants and geographic area created a major challenge for health systems before restrictions were imposed. Moreover, a large proportion of economic activity occurs in these areas. The top two local agglomerations where COVID-19 is most widespread account for roughly 31% of national GDP in Indonesia, 40% in Malaysia, 50% in the Philippines, 34% in Thailand and 39% in Viet Nam (Figure 1.5). Reducing activity to bare essentials in these agglomerations has entailed substantial socio-economic costs.

Box 1.2. **Economic centres bear the brunt of COVID-19 in Emerging Asia** *(cont.)*

Figure 1.5. **Most affected areas in ASEAN-5, share in COVID-19 cases and national GDP**

Percentage



Note: Agglomerations are based on the definitions of national authorities as published. They may or may not be strictly comparable across countries. Only the top two areas in terms of share are included in the chart. COVID-19 data are as of 21 June 2020. GDP shares are based on current price series except for Malaysia (constant price) and refer to 2019 for Indonesia and 2018 for the rest. LHS means left-hand scale. RHS means right-hand scale.

Source: OECD Development Centre based on national sources and CEIC.

StatLink https://doi.org/10.1787/888934160608

The Malaysian economy is projected to contract by 3.9% in 2020. The GDP growth rate in Q1 2020 slipped to 0.7%, almost 3 percentage points lower than the previous quarter and the lowest rate since Q3 2009. Household and government spending helped to spur aggregate demand, but investment and exports slid substantially. On the supply side, the agriculture and industry sectors contracted while growth in the services sector was halved from Q4 2019. The economy is set to gain some lift in 2021 on robust fundamentals.

Household consumption indicators suggest a continued pullback in spending as the COVID-19 threat evolves, and consumer pessimism appears to be building. Retail sales and motor vehicle sales plunged markedly in April. Palm oil output grew little in April and May, while the manufacturing purchasing managers index plummeted by more than 17 index points before posting a healthy rebound (IHS Markit, 2020). With export prospects becoming even more downbeat and business sentiment flailing, much depends on the efficacy of stimulus packages announced between February and June and accompanying enterprise support interventions. The packages from the national government are estimated to be roughly 4.8% of GDP (ADB, 2020). The packages include health spending; temporary tax and social security relief; cash transfers to affected sectors; infrastructure spending; wage and personnel training subsidies; and grants to small businesses. Additionally, support for the money market and credit creation, including direct lending, amounts to more than 11% of GDP. The central bank has also lowered the policy rate by 100 basis points (bps) since the start of the year.

Philippines

With limited testing capacity five months into the pandemic despite sizeable public fundraising, the Philippines is experiencing protracted uncertainty over the extent of COVID-19. The country's first case was confirmed in late January, and the daily tally started to climb steeply around the second week of March. The government imposed a lockdown on the island of Luzon, which includes Metro Manila, and then announced a national state of calamity. Local governments in a number of provinces and cities outside Luzon implemented localised lockdowns, effectively restricting movement in the entire country. The Philippines has one of the highest number of COVID-19 cases in Southeast Asia as of early July. The case fatality rate, at about 3.9%, is just slightly below Indonesia's. Confirmed cases are very much concentrated in Metro Manila and Central Visayas, which jointly produce roughly half of the national GDP. The Enhanced Community Quarantine was partially relaxed in mid-May in some areas, but the ground measures remain tight, particularly in the capital.

The economy is expected to contract by 3.2% in 2020, the first red mark since the Asian Financial Crisis and the deepest drop in over 30 years. Modest growth is projected the following year when normalcy is restored and election spending picks up ahead of the 2022 national polls. The economy already shed 0.2% in Q1 2020. Private spending barely grew, as public spending rose briskly. Investment shrank by more than 18%. Fixed investment slipped considerably, while stocks registered substantial withdrawals. Gross exports retreated, matched by an even deeper drop in gross imports. Agriculture and industry output was pared on the supply side. The services sector grew at a measly rate, largely driven by finance and information and communication services.

The considerable drag on business operations and infrastructure projects across the archipelago will mute economic performance in the second and probably third quarters. The net sales index dropped steeply in April, while vehicle sales almost flatlined in April and May. With consumer confidence down, the consumer outlook in the next quarter and year has worsened (Bangko Sentral ng Pilipinas, 2020a). Growing employment pressure faced by overseas workers – both land-based and sea-based – could erode remittance inflows and further restrain household spending. Repatriations will also challenge the ailing domestic labour market (Box 1.3). Export earnings plummeted by more than half in April to compound the difficulties. The government's projected increase in the fiscal deficit ratio of over 5 percentage points from 2019 could help facilitate a smoother restart of the economy. National government outlays, covering cash transfers to low-income households, social protection for vulnerable workers, medical response spending and other items, are estimated to reach about 2.7% of GDP (ADB, 2020). Leaving fiscal space for the upcoming monsoon season will be crucial to keep the crisis response system well-functioning and mitigate further socio-economic costs. On the monetary front, the central bank continued to cut its policy rate guidance and the bank reserve requirement ratio, as in the previous year. Additional measures amounting to about 1.7% of GDP were rolled out to keep the credit flow from tightening (ADB, 2020).

Box 1.3. **Labour market vulnerabilities in Emerging Asia**

Policy makers in Emerging Asia understand that containing the labour-market impact of the pandemic is crucial for smoothing the path to economic recovery. This is important for stimulating private spending, the main driver of domestic demand in many Emerging Asian economies. It is key to ensuring that personal and business loans do not turn sour in order to hold financial risks at bay. It is also vital for sustaining the gains made in reducing poverty and advancing social welfare. The task, however, will require considerable effort and ingenuity in policy making.

Box 1.3. **Labour market vulnerabilities in Emerging Asia** *(cont.)*

Heading into the crisis, labour markets in the region were generally in stable condition regarding unemployment, but they are likely to experience deep and protracted adjustments moving forward. Indeed, sharp spikes in unemployment rates in countries with official unemployment data after Q1 2020 are worrisome. The unemployment rate in Malaysia rose to 5% in April 2020 from 3.4% a year earlier. In the Philippines, the joblessness rate climbed to 17.7% in April 2020 from 5.1% in April 2019 despite a drop in the labour participation rate of almost 6 percentage points during the same period.

A portion of jobs lost during the crisis, especially in the hospitality industry, cannot be replaced quickly. The aviation sector is anticipated to experience a particularly slow recovery (Pearce, 2020). Even if the 11.2 million jobs expected to be lost in Asia (IATA, 2020) are eventually restored, this will take time. The accelerated adoption of digital solutions during the crisis makes restoring lost jobs even more challenging.

Underemployment, labour informality and lack of well-established unemployment protection are the other sources of labour market vulnerabilities in Emerging Asia. Underemployment in Brunei Darussalam, Lao PDR and the Philippines is estimated to exceed 10% of the labour force in 2019 (Figure 1.6). Labour informality in the non-agriculture sector comprises more than half of the total number of workers in many countries in the region (Figure 1.6).

"No work, no pay" situations in low-paying jobs place many of these workers at the mercy of emergency government subsistence allowances. Furthermore, for these types of jobs – sidewalk or street vendors, small unregistered business owners and workers, informal transport providers, etc. – resumption of work depends on more than just loosening of restrictions, making reintegration into the labour market difficult for informal workers.

Figure 1.6. **Unemployment, underemployment and labour informality in Emerging Asia**

Note: The unemployment and time-related underemployment data refer to the ILO modelled estimates in November 2019. The OECD data refer to the simple average of the 36 OECD member countries using ILO data. Labour informality refers to the proportion of informal employment in non-agricultural employment (harmonised series) of ILO.

Source: OECD Development Centre and ILO.

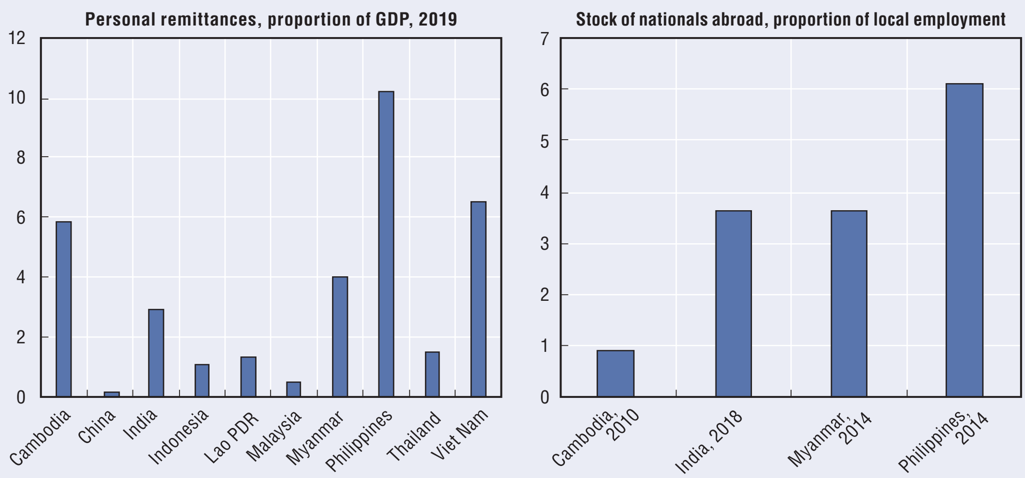
StatLink https://doi.org/10.1787/888934160627

Box 1.3. **Labour market vulnerabilities in Emerging Asia** *(cont.)*

Finally, the pandemic is destabilising employment for overseas workers, including those who work at sea as manpower for cargo and cruise ships. This results not only in reduced remittances, and therefore lower purchasing power for dependent households, but also bring additional entrants into the land labour market. The Philippines, which received approximately 9.3% of GDP in remittances in 2019 and has many nationals working overseas, is one of the most vulnerable countries in Emerging Asia in this respect (Figure 1.7). India, Cambodia and Viet Nam are likewise susceptible to the downturn in the employment situation abroad.

Figure 1.7. **Personal remittances and stock of nationals abroad, Emerging Asia**

Percentage



Note: The foreign nationals abroad data and total employment data are from ILO. For Myanmar, the foreign nationals data refer to 2014, while the total employment data refer to 2015.

Source: OECD Development Centre based on ILO; World Bank.

StatLink https://doi.org/10.1787/888934160646

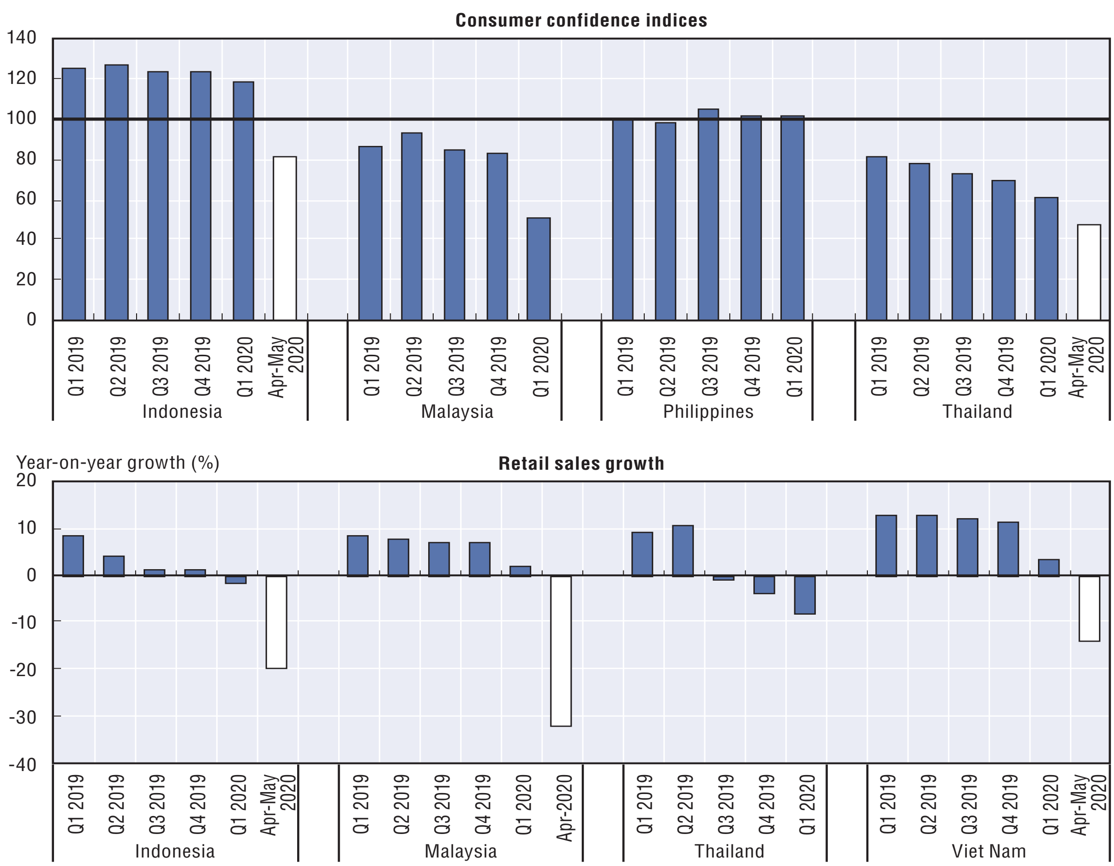
Thailand

Thailand has navigated the pandemic relatively well. Since peaking in March, COVID-19 cases have declined steadily. The government loosened business and movement controls in the first half of May, though a state of emergency remained in effect until the end of June, and travel restrictions remain in place as of 23 July. The country's first case was confirmed two weeks into January, and confirmed infections began to rise sharply in the second week of March. Border closures were imposed in the third week of March, followed by the declaration of a national state of emergency and imposition of curfews. Non-essential establishments were closed and the tight controls were observed for more than two months. As of early July, Thailand had over 3 000 cases, with a case fatality rate of approximately 2%. Cases are concentrated in the Bangkok metropolitan area, which accounts for roughly 50% of the tally. Bangkok produces a third of total economic output.

Although it seems that the Thai domestic market will be spared prolonged uncertainty, external markets are still far from stable. Given that the country is more integrated with the global economy than most other ASEAN economies in terms of trade and tourism, GDP is expected to contract in 2020 by about 6.7%. Economic performance is projected to improve in the following year, when the domestic and global environments stabilise. National accounts data in Q1 2020 reveal a 1.8% decline in GDP, continuing a downward trend from the previous quarter. Household spending momentum eased marginally, matched by a substantial downturn in exports. Government spending continued to decline as fixed investment shrank significantly. On the supply side, agricultural output decreased for a second straight quarter. The farm sectors in Thailand and other countries along the Mekong Delta have been contending with severe drought for months. The industry and the service sectors have been shackled by the trade war since last year and by the pandemic-instigated pullback in domestic spending and external shipments.

Growth could elude the economy until around the fourth quarter of this year. Trade and tourism prospects remain grim. The slump in the private consumption index in April was the steepest seen since 2010. Consumer pessimism is at its highest since 1998, while retail sales are down, as in other countries in the region (Figure 1.8). In the absence of a stable anchor, investment is likely to stay subdued in the near term. Much will depend on the efficacy of fiscal packages and monetary interventions to support domestic demand buoyancy for the rest of the year. The resumption of projects in the Eastern Economic Corridor would help spur economic growth. To support social welfare amid the pandemic, the government allocated roughly 8.3% of GDP for health-related spending; assistance to workers, farmers and entrepreneurs; and utilities, tax and social security payment relief (ADB, 2020). As for credit creation and direct lending, the interventions amount to 7.7% of GDP. Meanwhile, the central bank has pushed its already low policy rate even lower this year to facilitate market liquidity.

Figure 1.8. **Consumer confidence indices and retail sales growth in ASEAN-5, 2019-20**



Note: The confidence indices are adjusted to set 100 as neutral confidence point. The data are as of 26 June 2020.
Source: OECD Development Centre based on CEIC and national sources.
StatLink https://doi.org/10.1787/888934160665

Viet Nam

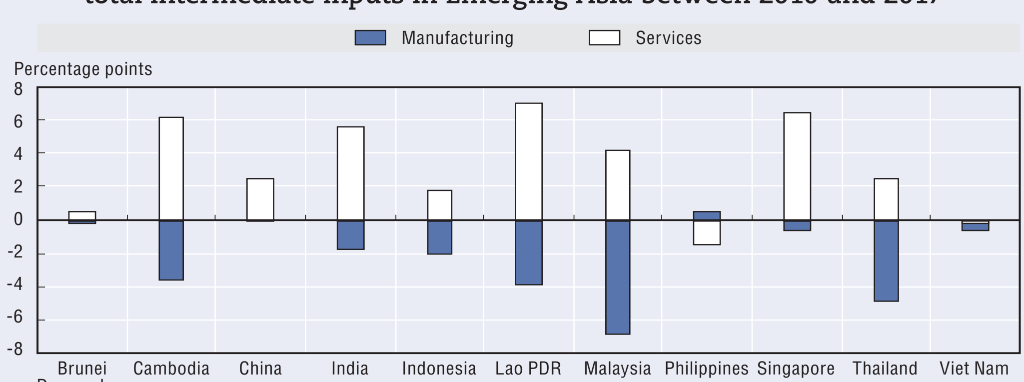
Viet Nam is on track for an exceptional outcome in public health crisis management despite its proximity to China and its comparatively limited resources. Viet Nam's first COVID-19 case was confirmed roughly a week before the end of January. The issuance of prevention guidelines and rapid mobilisation of testing and tracing were early steps, followed by border tightening, flight restrictions and mandated business closures on a gradual basis since early February. Nationwide movement restrictions were imposed on 1 April to slow the spread of the virus. The quick reaction appears to have paid off: as of early July, the number of confirmed cases stood at approximately 350 and the case fatality rate was nil. The government began relaxing quarantine measures in late April, including in Hanoi and Ho Chi Minh – the two cities with the highest concentration of cases. All domestic flights were allowed to resume around the same time following a partial re-opening a week before. Transport restrictions were further relaxed later.

Viet Nam's economy is forecast to grow by 2.5% in 2020. Although this is lower than the growth projected in November 2019, the country will continue to lead ASEAN-5 in this respect. The rate of expansion is likewise projected to rise to 7.2% in 2021, assuming no sizeable unforeseen shock occurs. In Q1 2020, GDP growth declined to 3.8% from 7.0% in the previous quarter. Manufacturing lost some momentum from previous quarters, while the services sector, a more stable growth driver in the past, was also deeply affected by the pandemic (Box 1.4). On the demand side, retail sales data suggest that private consumption has substantially weakened due to the health scare and movement restrictions. State investment has picked up to compensate for the fall in foreign capital inflows, based on FDI registration data. Meanwhile, nominal goods exports have held up well in the first three months of the year, anchored by a surge in offshore sales in February, just before most countries imposed their restrictions.

Box 1.4. **COVID-19 tests resilience of the services sector**

The services sector accounts for the largest share of economic output in Emerging Asian economies. In 2019, the sector's contribution ranged from just under 40% to nearly 70% of production in each country. The trend has been rising in many cases. This entails not only growing direct contribution to the economy, but growing input share in other sectors as well. Services input as a proportion of manufacturing's total inputs has generally risen between 2010 and 2017 in selected Emerging Asian economies (Figure 1.9). In contrast, the input share of other manufacturing sub-industries has mostly declined.

Figure 1.9. **Change in share of services and manufacturing in manufacturing total intermediate inputs in Emerging Asia between 2010 and 2017**



Source: OECD Development Centre based on ADB (2018), *Economic Indicators for Eastern Asia: Input-Output Tables*, http://dx.doi.org/10.22617/TCS189778-2.
StatLink https://doi.org/10.1787/888934160684

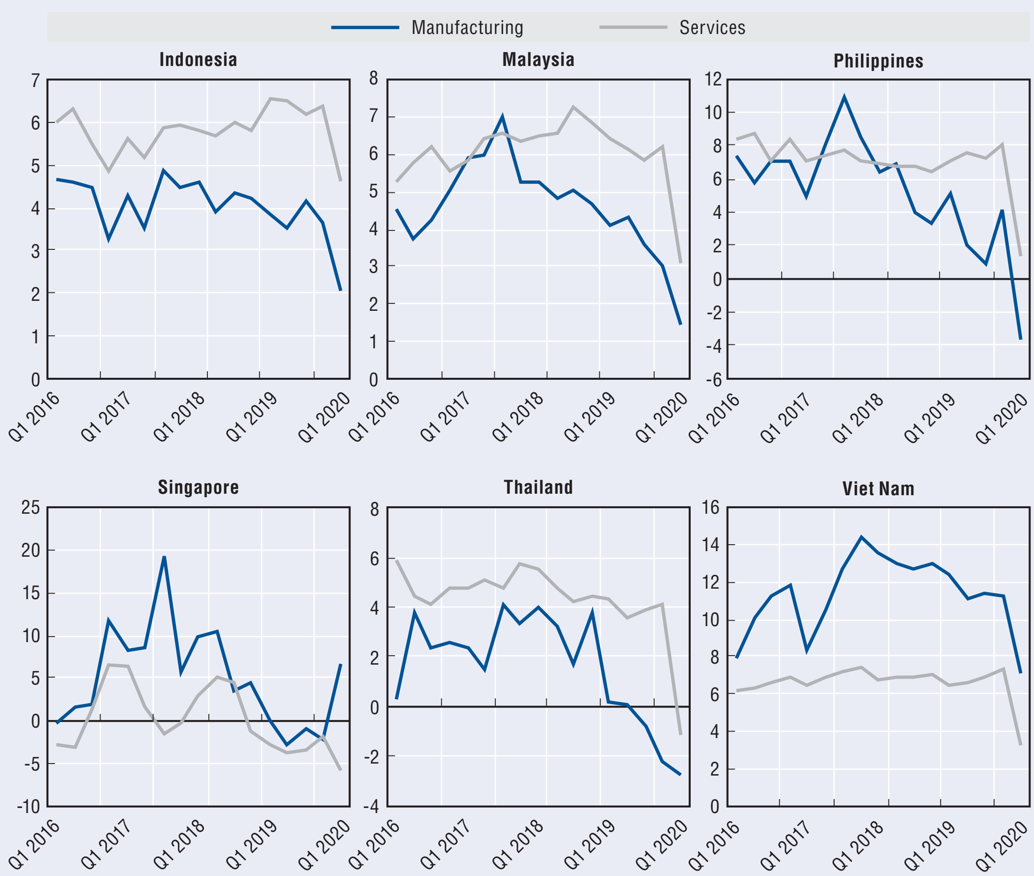
Box 1.4. **COVID-19 tests resilience of the services sector** *(cont.)*

The deepening of services penetration has arguably made the sector more robust in response to economic shocks. Moreover, while its share in inputs of export-oriented manufacturing has increased, the services sector has established a broader domestic market anchor. Our calculations using country input-output data reveal that the direct share of services in final domestic demand in the region remains substantially higher than its direct share in exports in 2017. When the US-China trade war erupted in 2019, services sectors were dented but generally remained stable even as manufacturing growth dipped in many countries.

The COVID-19 outbreak has weighed more heavily on the sector's growth, however, owing to the pullback in both domestic and external demand (Figure 1.10). The digital nature of some services helped the sector to stay afloat. E-commerce platforms maintained the flow of goods, although at a slower pace than before the imposition of quarantines and curfews. The use of digital finance averted potentially massive queues for physical cash on a daily basis. Digital services applications also enabled the continuous delivery of traditional services like health and education in some cases. This transformation within the services sector could underpin economic stability moving forward.

Figure 1.10. **Manufacturing and services in selected ASEAN economies, 2016-20**

Year-on-year growth, percentage



Note: Data for Viet Nam are year-to-date. The data are as of 26 June 2020.

Source: OECD Development Centre based on CEIC.

StatLink https://doi.org/10.1787/888934160513

Box 1.4. **COVID-19 tests resilience of the services sector** *(cont.)*

Moreover, with the improvement in digital tools further enhancing the efficiency of delivery of various services – such as communication, accommodation, logistics, finance and retail trade – the "servicification" of economies will likely broaden in the coming years. Nonetheless, governments in Emerging Asia have substantial work ahead in terms of providing the necessary digital infrastructure and regulations, both domestically and regionally, to maximise potential gains from these developments.

With the gradual easing of restrictions, GDP growth in Viet Nam is expected to stabilise in the next quarter or two before picking up pace. The resumption of domestic flights in April bodes well for the travel and hospitality industries as domestic tourism could at least partially compensate for a massive drop in foreign tourist arrivals. Following the border shutdown, the number of overseas visitors fell by more than 98% in both April and May. Exports began feeling the global trade slowdown in Q2 2020. Even shipments to China, which expanded briskly from February to April, slowed in May. Viet Nam's broad-based fiscal intervention should help buttress economic growth. The national government allocation for COVID-19 containment measures, tax and duty deferrals, social protection programmes and related subsidies reached about 4.9% of GDP (ADB, 2020). On top of this, direct lending support and forbearance amounted to 5.2% of GDP. A key and persistent concern is the health of the banking sector.

Brunei Darussalam and Singapore

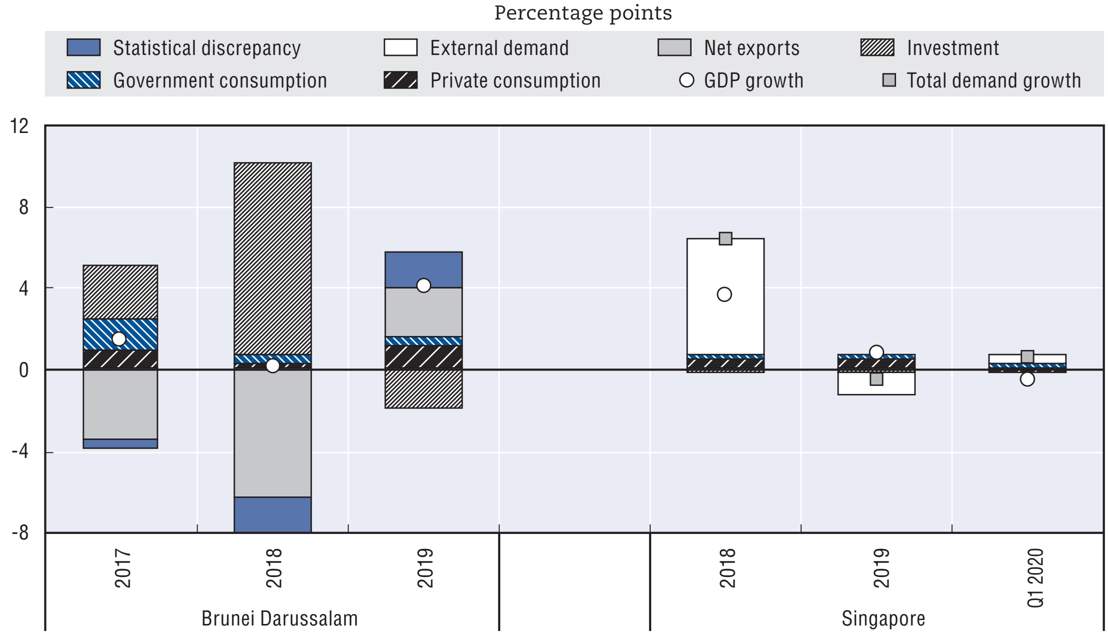
Brunei Darussalam

Brunei Darussalam contained the spread of COVID-19 effectively with an early response and efficient tracing. The government began imposing travel restrictions in late January, more than a month before the country saw its first case. Policy on self-isolation, mass gatherings and a further tightening of foreign travel rules was subsequently rolled out. The government nonetheless avoided the tight restrictions on movement seen in other Southeast Asian countries. Some businesses remained operational even after confirmation of the first case, in the second week of March, while places where people tend to gather (e.g. schools, sports facilities and cinemas) were ordered to shut. Flexible work arrangements were encouraged. The fact that Brunei Darussalam and its capital Bandar Seri Begawan are less densely populated compared to neighbouring countries has also played a part in reining in the spread of COVID-19. As of early July, the number of infections stayed below 150 and only three deaths were reported.

The country ended 2019 on a very strong note after posting 7.1% growth in Q4 2019. This was the fastest quarterly year-on-year expansion since quarterly data were made publicly available in 2004. Exports and private spending led the push in economic output during the quarter, as in the previous quarters last year (Figure 1.11). Nominal goods receipts in 2020 through March continued to rise significantly. Mineral fuel shipments were particularly strong. China and US nominal goods imports data in Q1 2020 also reveal a considerable increase in flows from Brunei Darussalam. Bank loans to the household sector in Q1 2020 slipped slightly from Q4 2019, but arguably remain robust.

Figure 1.11. **Contributions to GDP growth by components in Brunei Darussalam and Singapore, 2018-20**

Percentage points



Note: The agriculture sector refers to agriculture, fisheries and forestry in the data compilation. For Singapore, the data series is chain-linked and the contribution to growth is not necessarily equal to GDP growth; agriculture refers to "Other Goods Industries" in the data compilation and includes quarrying; industry is comprised of manufacturing, utilities and construction; and services include ownership of dwellings. The data are as of 26 June 2020.

Source: OECD Development Centre based on CEIC and national sources.

StatLink https://doi.org/10.1787/888934160703

COVID-19 and the response measures are expected to impede domestic activity in Brunei Darussalam more strongly in the next two quarters. External factors, such as the falls in global oil prices and tourist arrivals, will also weigh on economic activity. On the upside, oil prices have been in sustained recovery since the end of April. The government has allocated extensive support, especially to micro-, small and medium-sized enterprises (MSMEs) (Ministry of Finance and Economy-Brunei Darussalam, 2020). This is vital not only for the domestic engine but also for continued private-sector expansion, a long-standing objective of the government. Fiscal measures have centred on assistance pertaining to tax, utility and social security payments of the hardest-hit households and firms (IMF, 2020a). Fiscal limitations could be a challenge over the long haul, however. The affected sectors were also granted a six-month deferment on their loan principal repayments. Against this backdrop, the country's GDP growth is forecast to decline to 1.4% in 2020. A marginal rebound is expected in the following year when global conditions improve.

Singapore

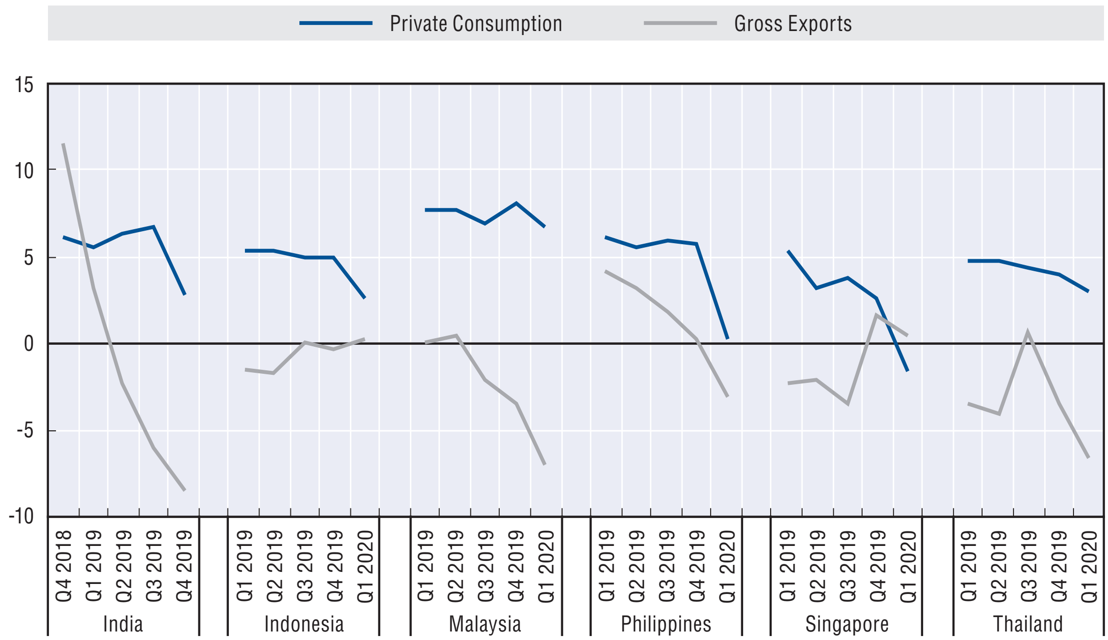
Containment measures were implemented in Singapore as early as the first week of January, more than two weeks before the first case of COVID-19 was confirmed. Restrictions on travel to and from China were implemented when domestic cases were first suspected. Testing and tracing went into overdrive in the city-state in subsequent weeks. A stay-at-home order was enacted, travel restrictions were broadened and education was gradually shifted to digital platforms. Contagion was contained until around the first week of April, when a second wave of infections occurred, affecting certain residential clusters. The transmission rate was significantly faster than in the first wave, but daily cases peaked after two weeks and have since gradually declined. As of early July, Singapore had around 42 000 confirmed cases, albeit with the lowest case fatality rate among ASEAN economies with registered fatalities, at less than 0.1%. These two figures are a testament to the testing capacity and healthcare quality.

A contraction of 4.4% in GDP is forecast in 2020, owing to the global trade and tourism downturn that affects an array of services and industrial subsectors. If it materialises, it will be Singapore's first annual contraction since 2001. GDP growth is forecast to swing back to positive territory in 2021, assuming that global conditions improve. Data in Q1 2020 reveal a dip of 0.7% in economic output from the previous year. The last time the country posted a quarterly year-on-year drop was in Q2 2009 during the global financial crisis. Manufacturing output growth swung upwards after retreating in the past three quarters. Production of biomedical goods, precision engineering and transport engineering registered strong growth during the period (MTI Singapore, 2020). While the information-and-communications and financial services subsectors continued to grow, most other services clusters fell into the red. On the demand side, private consumption and exports came in weak, as in Emerging Asia as a whole (Figure 1.12). Government spending and fixed investment partially absorbed the slack to buoy economic activity.

Prospects for the rest of the year remain feeble. The manufacturing PMI moderated further in April and May 2020, while retail sales plunged deeper. Foreign visitor arrivals, which plummeted in February and March, practically halted in April and were not expected to grow until a few months after the lifting of movement restrictions (Box 1.5). As in other ASEAN economies, nominal goods exports fell sharply in April and May. The government's sizeable fiscal package should buttress private consumption and businesses' financial standing. Health spending related to COVID-19, tax and tariff adjustments, social protection measures, wage subsidies and other interventions amount to an estimated 7.9% of GDP (ADB, 2020). Around 7.7% of GDP in additional lending support was also made available. The interventions arguably helped lower bankruptcy applications in the city-state in April and May from a year ago, after applications increased by almost 70% year-on-year in Q1 2020. However, despite incentives to keep workers employed, it may take time to reverse displacement, particularly of repatriated foreign workers.

Figure 1.12. **Private consumption and gross exports, real year-on-year growth**

Percentage



Note: Data for India relate to fiscal years. The data are as of 26 June 2020.

Source: OECD Development Centre based on CEIC and national sources.

StatLink https://doi.org/10.1787/888934160722

Box 1.5. **Rough waters for tourism and trade in Emerging Asia**

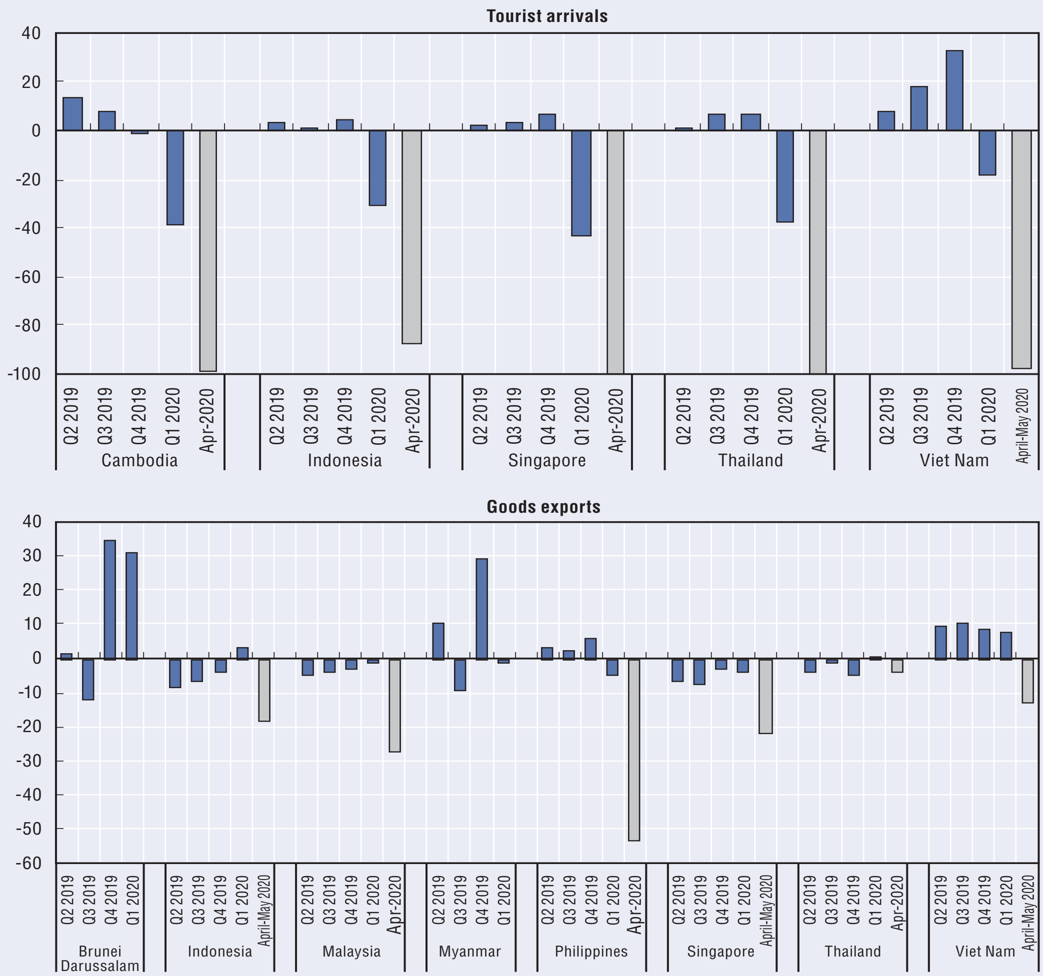
As the COVID-19 pandemic ushered in border closures and travel restrictions, tourist arrivals in Q1 2020 declined by 18% to 43% in Emerging Asian countries where data are available (Figure 1.13). The drop was even steeper in April and May due to broader flight and border restrictions. In Indonesia, foreign arrivals slumped by close to 90%, while in Cambodia, Singapore, Thailand and Viet Nam arrivals were restricted to those that were essential, or prohibited outright. Domestic tourism, a channel at least as significant as foreign tourism, was also squeezed. Though per-visitor spending may be lower than for international tourists, the number of local people travelling within the country is far higher, particularly in India, China and Indonesia (UNWTO, 2020).

Border closures also affect trade, and nominal merchandise exports, which reeled in 2019 from the US-China trade tension, face another significant shock. Data in April and May indicate a broader downturn than in Q1 2020 across Southeast Asian economies. The depth of decline varies, possibly due to differences in ground conditions, response timelines and the tightness of restrictions. The Philippines appears to be most affected among ASEAN economies. The country's export earnings in April shrank by more than half on a year-on-year basis.

Box 1.5. **Rough waters for tourism and trade in Emerging Asia** *(cont.)*

Figure 1.13. **Tourist arrivals and goods exports growth in Southeast Asia, 2019-20**

Percentage



Note: The base levels of exports are in US dollars and follow the calendar year, including Myanmar. The data are as of 26 June 2020.

Source: OECD Development Centre based on CEIC and national sources.

StatLink https://doi.org/10.1787/888934160741

Cambodia, Lao PDR and Myanmar

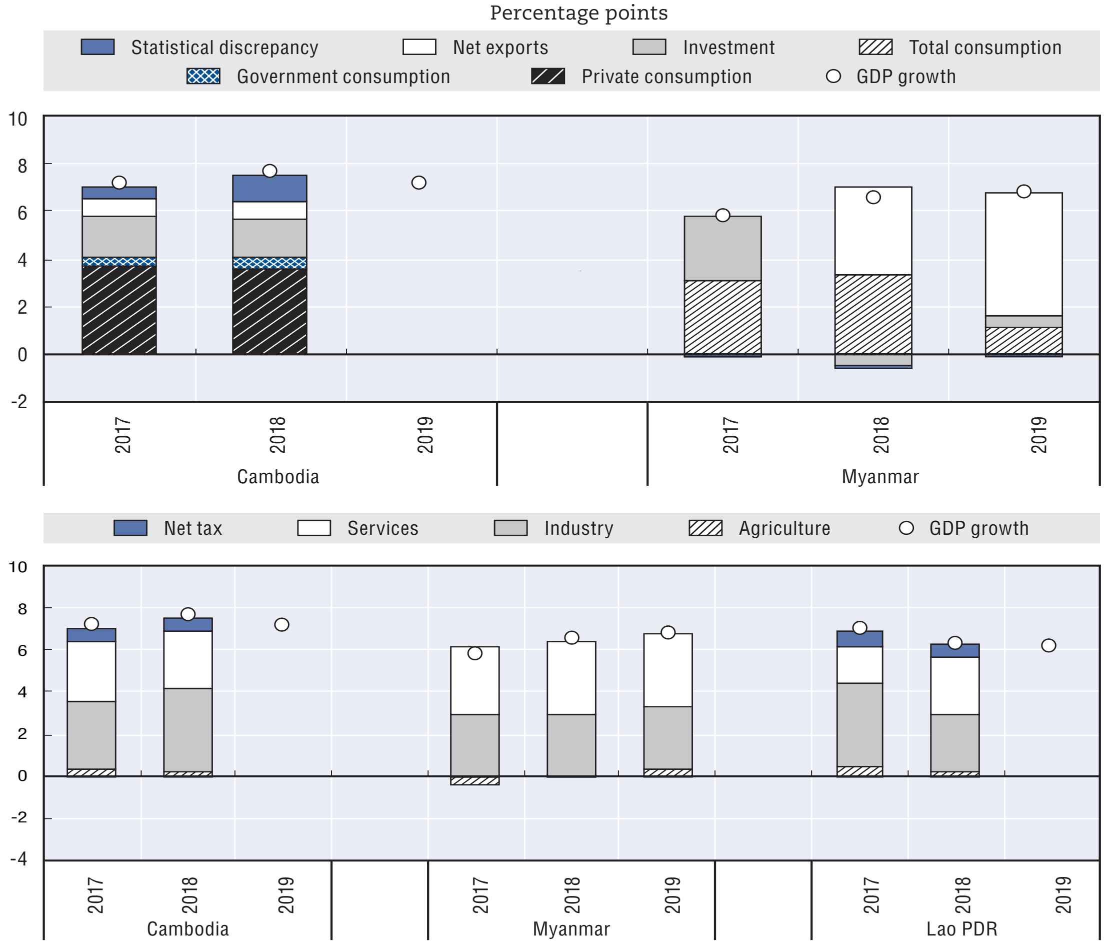
Cambodia

Cambodia is weathering the COVID-19 health crisis comparatively well five months after the country's first case was recorded in late January. A climb in cases that began in March was arrested in mid-April, with numbers rising again since mid-May. Response measures included advancing the school break, cancelling Cambodian New Year celebrations, foreign travel restrictions, the closure of businesses where people congregate and a ban on mass gatherings. A state of emergency was enacted at the end of April to grant the prime minister sweeping powers to deal with the health risk. As of early July, the number of confirmed cases is around 150, with no deaths. Cambodia is one of two countries in Southeast Asia with no fatalities from the virus.

Nonetheless, economic prospects in 2020 are strained. Leading indicators reported by the government suggest a weakening cycle (Ministry of Economy and Finance of Cambodia, 2020). Goods exports grew in the first four months of 2020 but slowed from the same period in the previous year. Incidentally, the European Union (EU) suspended part of Cambodia's trade preference status under the *Everything but Arms* programme in February 2020, effective in August unless objections are raised (European Commission, 2020). Foreign tourist arrivals in Q1 2020 shrank by more than a third and the reduction deepened considerably in April. Moreover, the Ministry of Economy and Finance report noted that while the total value of proposed projects has risen, approved private investment outside of special economic zones has declined. The effectiveness of assistance intended to keep the labour market buoyant will be material for sustaining private consumption, the key demand driver in recent years (Figure 1.14). The national government package for health spending related to COVID-19, tax and other fee exemptions, and other forms of subsidies and financial assistance, is estimated to represent about 0.6% of GDP based on nominal data (ADB, 2020). A more general package to support the labour market and revive the economy amounted to about 7.5% of GDP. In light of the circumstances, GDP is projected to decline by 1.0% for the year before registering a more buoyant growth rate in 2021.

Figure 1.14. **Contributions to GDP growth by components in Cambodia, Lao PDR and Myanmar, 2017-19**

Percentage points



Note: The agriculture sector refers to agriculture, fisheries and forestry in the data compilation. Net tax equals gross tax minus subsidies. For Myanmar, total consumption equals private consumption plus government spending, and data relate to fiscal years ending in September. Lao PDR, 2019 GDP growth rate is an estimate and demand-side data are not published. The data are as of 26 June 2020.

Source: OECD Development Centre based on CEIC and national sources.

StatLink https://doi.org/10.1787/888934160760

Lao PDR

Lao PDR's response to the threat of COVID-19 was similarly effective in limiting infections, especially given its borders with several countries including China and the limitations of its public coffers. The first local case of COVID-19 was confirmed in the last week of March. A few days later, the government issued nationwide containment measures that included a stay-at-home order, prohibition of mass gatherings, closure of non-essential businesses and border controls. The number of confirmed cases plateaued at 19 in the second week of April and there were no fatalities as of early July. Gradual re-opening of businesses began in the first week of May, and schools and sporting activities resumed, with strict measures in place to prevent the spread of the virus.

The country will remain one of the fastest growing economies in the region in the near-term despite the slowdown. GDP growth is expected to settle at 1.0% in 2020 and reach 5.0% in 2021. The pullback in regional economic activity does not bode well for Lao PDR's electricity exports in the coming quarters: the protracted severe drought in the lower Mekong region has strained power generation in addition to agricultural production in the first half of the year. On the upside, exports to China – its main market – appear to be holding up very well, based on China's goods import data this year through April. The impact of disruption of domestic activity will also be milder overall than in most ASEAN economies in light of the more limited spread of the virus. Bank lending activity will nonetheless be tempered by rising provisions for non-performing loans. Commercial bank lending, which was already slowing at the end of last year, remained lacklustre in Q1 2020.

Myanmar

Restrictions to business and social activities remain tight in Myanmar as threats of viral transmission persist. Schools remained closed in mid-July. A suspension of international flights and other containment measures were extended in late June until mid-July. The government set up a crisis management committee in mid-March and an independent task force later to conduct contact tracing, among other tasks. The first case was logged in late March just before the disease was detected in neighbouring Lao PDR. After a few days of gradual increase, the number of cases began to rise more sharply. The curfew and stay-at-home orders imposed in mid-April in Yangon presumably aided in stemming the tide. As of early July, the number of confirmed cases stood at approximately 300, with six fatalities. Security issues remain a considerable challenge in pursuing health and economic recovery policies moving forward.

GDP growth in fiscal year 2020 (ending September 2020) is projected to come in at 2.0%, which is substantially lower than the rate in the previous year and our forecast in November 2019. Greater expansion is expected in FY 2021 when industry and services operate at full capacity for the entire year. These two sectors produce more than three-quarters of total output and contribute the most to the country's economic expansion. Export value grew by more than 10% in the first half of the fiscal year (October-March), although exports have wavered in recent months. Shipments to China, the country's top export market, remained solid through March 2020 before pulling back in April, based on China's import data. Strong FDI inflow in Q1 FY 2020 (October-December) is also confronting rising business climate uncertainties. Myanmar's ongoing power projects will be crucial for increasing the production base in the next few quarters, as well as for lowering the cost of electricity for households, particularly those outside major cities. Domestic consumption will likely decline slightly this year, largely owing to restrictions on movement and enterprise activity. To support the struggling economy, the government has allocated funds to strengthen the health response, pushed back tax payment deadlines, reduced customs duties, offered soft loans to businesses and provided income support, among other measures (IMF, 2020a).

China and India

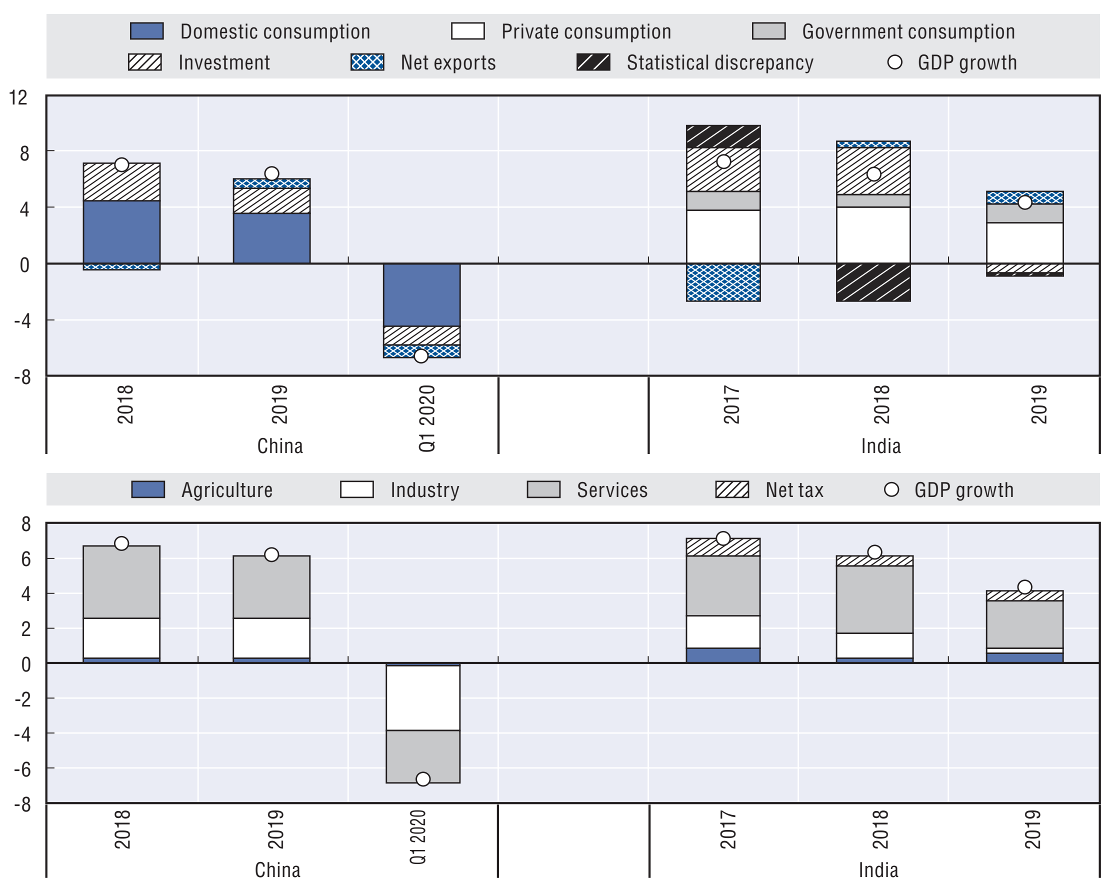
China

Despite cautiousness following a second flare-up of cases in some provinces as well as in the capital, China is continuing to wind down its stringent containment measures and pave the way for an economic restart. Schools and businesses have gradually reopened. Domestic tourism is showing signs of revival and the number of foreign flights entering the country has increased, although pandemic-induced overseas travel risks still prevail. The world's first case of COVID-19 was detected in December 2019 in the city of Wuhan. The number of cases slowly climbed for a few days, with the first fatality reported in early January. Transportation thoroughfares in the city were shut roughly a week before the end of January to allay growing concerns. Quarantines and travel restrictions followed elsewhere. The spring break was extended, effectively pushing back the resumption of work in many areas, and the opening of schools was postponed. Confirmed infections in China plateaued at nearly 80 000 around the end of February and the overall health situation began to stabilise from that point onwards. Wuhan, which posted the highest number of cases and deaths in China, was opened in April. As of early July, approximately 85 000 people were reported to have caught the virus in China, approximately 5.5% of whom had died.

China's GDP is projected to decline by about 2.6% at the end of 2020 in the country's first economic contraction since the 1970s. Economic expansion is expected to resume in 2021 at a rate of 6.8%, assuming economic engines will be operating at full scale. In Q1 2020, GDP shed 6.8%, the sharpest downturn in decades. This represents the first year-on-year quarterly decline in growth since the official series started in 1992. Key supply- and demand-side components shrank in general (Figure 1.15). On a more positive note, while containment measures slowed the economy to a virtual standstill, they also gave breathing space to the environment (Box 1.6). This applies not only to China, but globally (Bauwens, et. al., 2020).

Figure 1.15. **Contributions to GDP growth by components in China and India, 2017-20**

Percentage points



Note: The agriculture sector refers to agriculture, fisheries and forestry in the data compilation. Net tax equals gross tax minus subsidies. For China, domestic consumption equals private consumption plus government spending. For India, data relate to fiscal years ending March. The data are as of 26 June 2020.

Source: OECD Development Centre based on CEIC and national sources.

StatLink https://doi.org/10.1787/888934160779

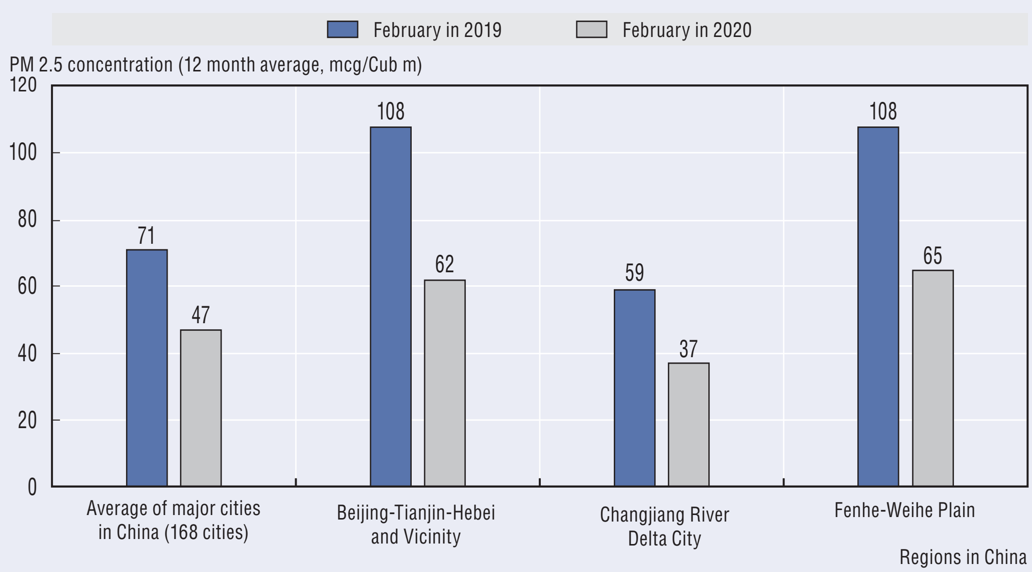
Box 1.6. **Air quality improves as activity slows during pandemic**

The challenging period of economic recovery from the COVID-19 pandemic provides a critical opportunity for policy makers to advance green investment and environmental sustainability.

Development in Emerging Asia has resulted in a deterioration of environmental conditions, especially air quality. During the pandemic, air quality improved due to restrictions on movement that lowered emissions. For example, the Himalayas became visible again from certain parts of India. Residents reported that the smog cleared during the government's 21-day lockdown, allowing them to see the towering peaks from Punjab, 125 miles away, for the first time in 30 years.

In China, many people stayed at home following the COVID-19 outbreak. Some factories ceased production, telework became commonplace and schools, restaurants and cinemas were closed. Vehicular traffic reduced significantly in the process, and air quality improved, with the concentration of particulate matter (PM 2.5) declining sharply in February 2020 in four areas where data are monitored (Figure 1.16).

Figure 1.16. **PM 2.5 concentration in China, February 2019 vs. February 2020**



Source: OECD Development Centre based on CEIC and national sources.
StatLink https://doi.org/10.1787/888934160798

Leading indicators in April and May show signs of nascent recovery in China. Technology-based emerging sectors are paving the way for an economic rebound, with the value added of high-tech manufactured goods increasing markedly (National Bureau of Statistics of China, 2020a; 2020b). There is also a budding resurgence in some high value-added services subsectors, led by information transmission, software and information technology services. Online retail sales of goods were reported to have expanded in the April-May period. This is matched by a robust rate of investment expansion in e-commerce services together with scientific and technological research. Investment in fixed assets is still weak, with construction activities regaining their footing. Sales of real estate and

FDI utilisation similarly remain in a contractionary cycle. On the external front, nominal goods exports recovered in April. Shipments of high-tech products as well as medical and pharmaceutical supplies were notably strong. However, the recovery proved to be short-lived, with receipts falling again in May. With the trade tension still dominating the external landscape, prospects remain muted and expose other countries in the region to negative spillovers via the global value chain (Box 1.7). Interestingly, COVID-19 appears to have halted a divergence in China's export growth trends that was largely induced by trade policies in 2019 (Box 1.8).

China implemented various interventions to keep the social fabric intact and enable the economy to recover smoothly. The central bank lowered policy rate guidance and the reserve requirement ratios of commercial banks to buoy credit flows. Containing bankruptcies and mitigating their financial market impact is a critical challenge. In this respect, deeply entrenched shadow banking, although reduced in recent quarters, can be a double-edged sword. While it can facilitate credit flows to support the recovery, it can also create considerable risks should bankruptcies snowball or in the event of another large wave of infections.

Box 1.7. **Implications of COVID-19 for global value chains in Emerging Asia**

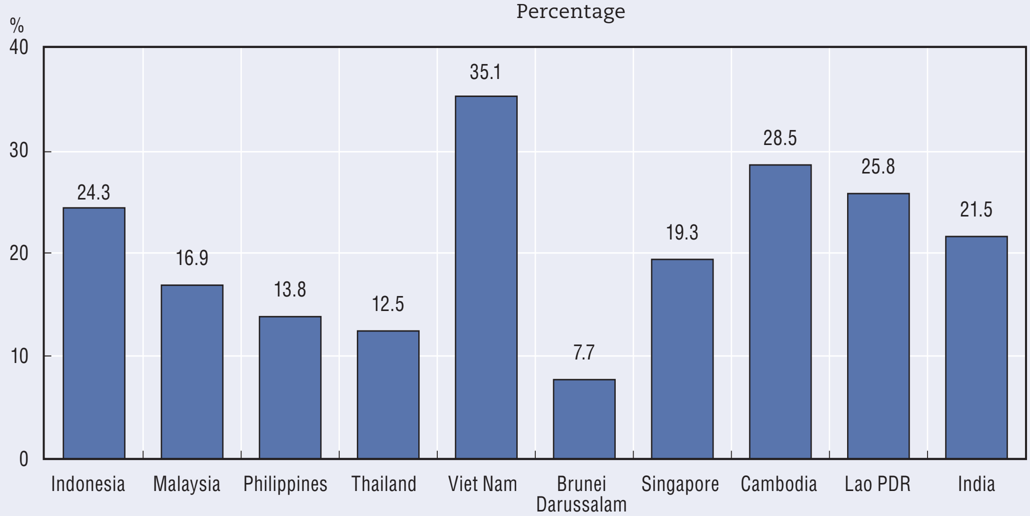
China, a major global producer of industrial commodities and components, has substantially contributed to the reshaping of the global production network since its accession to the World Trade Organization in 2001. This led to greater trade interdependence between China and other emerging economies in producing final goods. For example, in 2017, more than 35% of inputs to Viet Nam's manufacturing export commodities came from China. Similarly, more than 20% of inputs to the manufacturing exports of Cambodia, Lao PDR, Indonesia and India were sourced from China (Figure 1.17). The way COVID-19 has dragged down China's trade is expected to have a profound knock-on effect on the exports of Emerging Asian countries, both directly and through the regional value chain.

Forward and backward stream linkages give an idea of how disruption of the value chain will expose the trade positions of Emerging Asian economies at the global level. The Philippines has the highest global value chain (GVC) participation among Emerging Asian economies, according to data from the United Nations Conference on Trade and Development (UNCTAD, 2020). The country also has the highest foreign value-added content share in its exports and the highest domestic value-added contribution share in intermediate goods re-exported to another country. Singapore has a relatively high level of GVC participation, followed by Malaysia and Thailand. Looking ahead, it is important to recognise that policy co-ordination among countries in the region will greatly help to mitigate the economic cost of the health crisis.

Box 1.7. **Implications of COVID-19 for global value chains in Emerging Asia** *(cont.)*

Figure 1.17. **China's share in inputs to the manufacturing exports of other Emerging Asian economies in 2017**

Percentage



Note: Manufacturing industries include textiles and textile products; leather, leather products and footwear; wood and products of wood and cork; pulp, paper, paper products, printing and publishing; coke, refined petroleum and nuclear fuel; chemicals and chemical products; rubber and plastics; machinery; non-metallic minerals; basic metals and fabricated metal; electrical and optical equipment; transport equipment; and food products.

Source: Estimates using data from UNCTAD (2020), https://www.worldmrio.com/unctadgvc/.

StatLink https://doi.org/10.1787/888934160817

Box 1.8. **The evolving patterns of China-US trade**

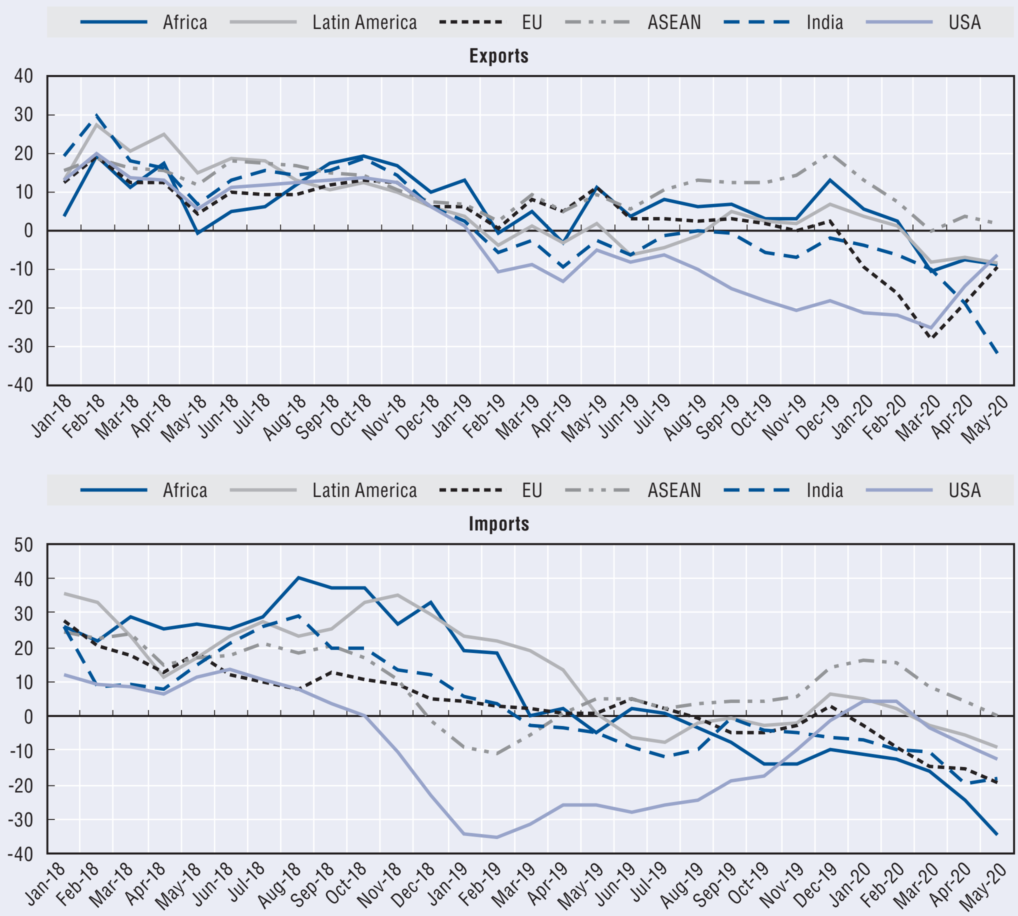
China's merchandise exports inflected upwards in April after a tumultuous first quarter owing to border and merchandise inflow restrictions. However, the trend marginally reversed in May. A seeming respite from the trade war in late 2019 was cut short when COVID-19 spread globally, and exports to all major trading markets eased considerably before the April uptick (Figure 1.18). Exports to the United States and Europe appear to have moved past the trough, although they are still weak.

Apparent diverging export growth trends since mid-2019 – for example, falling growth with the United States and rising growth with ASEAN and Africa – have somewhat reconverged, suggesting another potential shift in the trade pattern. The protracted trade skirmish paved the way for the US share in China's exports to decline by about 3 percentage points between December 2018 and May 2020 on an annualised basis. During the same period, ASEAN's share increased by roughly 2 percentage points.

Box 1.8. **The evolving patterns of China-US trade** *(cont.)*

Figure 1.18. **China's goods trade by partner, 2018-20**

Year-on-year growth, nominal 3-month moving average, percentage



Note: The data for January and February 2020 were calculated using February 2020 year-to-date data and the distribution in January and February 2019. Africa, EU and Latin America aggregations were provided by the source. Latest data are as of May 2020.

Source: OECD Development Centre based on CEIC.

StatLink https://doi.org/10.1787/888934160836

Imports from some of China's key partners have similarly pulled back. Imports from ASEAN are seemingly relatively more stable than from the other economic blocs (Figure 1.18). Purchases of food and live animals for consumption have been particularly robust, presumably because an outbreak of African swine fever squeezed the output of local farmers.

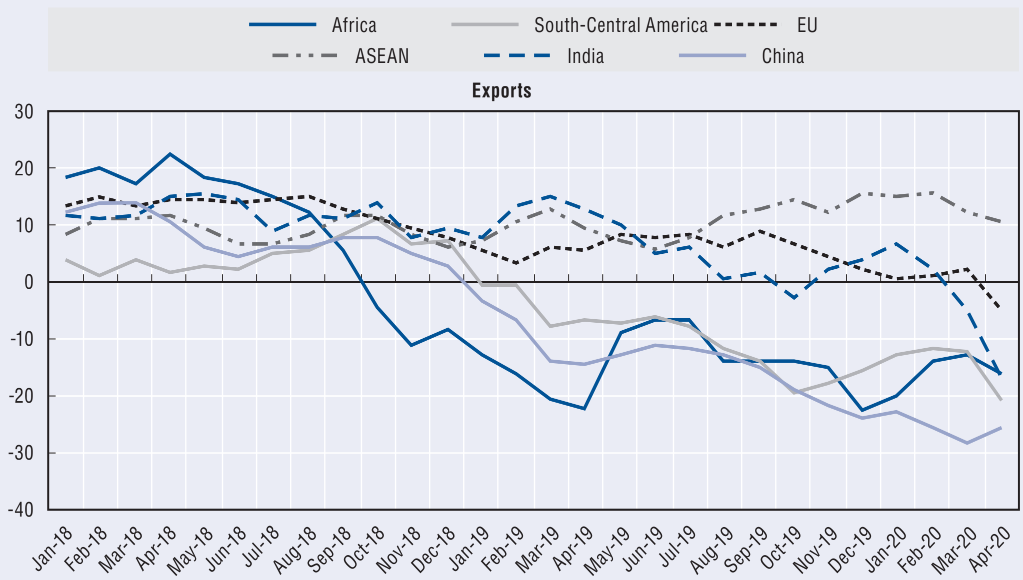
China's imports from the United States went into an upward trajectory as well from around Q4 2019, before the pandemic-induced dip, as policy compromises softened tensions somewhat. US tariffs on Chinese goods, due to be enforced in October and December 2019, were set aside, and a phase-one trade deal was signed in January 2020, taking effect the following month. However, it is posited that the targets of the phase-one deal will likely be missed given current trends (Bown, 2020).

Box 1.8. **The evolving patterns of China-US trade** *(cont.)*

Meanwhile, US imports data suggest that divergence continues (Figure 1.19). As imports from China and India, together with South and Central America and Africa, trend downwards, the value of goods shipments from ASEAN are rising. Country-level breakdown of ASEAN aggregates reveals that not all countries in the bloc are reaping the gains. Brunei Darussalam, Cambodia, Malaysia, Myanmar, Singapore and Thailand appear to have benefitted more from the trends than the other ASEAN countries, while imports from Indonesia and Viet Nam also show modest increases.

Figure 1.19. **US goods imports by partner, 2018-20**

Year-on-year growth, nominal 3-month moving average, percentage



Note: Africa, EU and South-Central America aggregations were provided by the source. Latest data are as of April 2020.

Source: OECD Development Centre based on US Census Bureau.

StatLink https://doi.org/10.1787/888934160855

India

India has become the new epicentre of COVID-19 in Asia and the government is struggling to halt a persistent rise in cases. The country recorded its first COVID-19 infection at the end of January. The number of cases increased relatively moderately in the next two months and the situation was fairly stable. Confirmation of infections began to increase faster in April, with the case fatality rate following an almost identical trend. Travel and visa restrictions covering a number of countries were imposed in early March, and staggered school closures were imposed around the same time. The travel advisory was reinforced around the third week of March. Subsequently, several districts and Union Territories were placed under strict movement controls. In the second week of April, the containment measures were extended, though areas where infections had subsided were given some leeway. New guidelines were issued for e-commerce deliveries and distribution companies to ensure availability of supplies and reinvigorate trade. Manufacturing was allowed to resume partially in selected locales, like economic and export processing zones, IT-enabled services and agriculture in some areas. Despite the interventions, cases continued to rise steadily. The limitations on movement placed an enormous burden on many people, particularly those living at the fringes of the society and migrants, and in a country with a large informal sector the economic toll is mounting (Box 1.9). Facing these myriad challenges, the government decided to ease the containment measures in early June under a localised approach, applying stricter rules to areas where the case-load is high. Cases continued to rise sharply under the new rules.

GDP growth in FY 2019 eased to 4.2% from 6.1% in the previous fiscal year, the third straight year that output growth has slowed in Emerging Asia's second-largest economy. Government spending and private consumption did much of the heavy lifting on the demand side as investment and exports slackened. Supply-side data reveal marked improvement in agriculture output. Services growth cooled though the sector remains the biggest economic contributor. Growth in the industry sector moderated owing to the slowdown in manufacturing and utilities.

India's economy is forecast to contract in FY 2020 (ending March 2021). The contraction of about 3.7% will snap a streak of positive growth that lasted more than 40 years. Assuming that the banking sector's health holds up throughout the recovery process, the economy should record a more robust expansion in FY 2021. Economic performance in the first two quarters of the new fiscal year is on track to weaken further in light of the COVID-19 measures undertaken between mid-March and May and the continued rise in confirmed cases. Bank lending growth stayed on a downward trajectory in recent months and it is likely to slow further. India entered the year with its banking sector still saddled by a high amount of non-performing assets, and recent events could heighten risk aversion even more. Incidentally, the central bank has allowed financial institutions to defer reimbursement of term loan instalments due to the situation. Separately, business and consumer confidence indices underline growing economic pessimism as firms' and households' financial positions deteriorate (Figure 1.20). A credit-rating downgrade (Moody's, 2020) weakens market confidence and lessens the public sector's elbow room. The value of goods exports declined sharply in April-May, while tourist arrivals between January and March 2020 also plummeted. Reviving areas that were recently devastated by a typhoon will add to the fiscal strain, as will the economic losses and social impact of the calamity. A package of support rolled out by the public sector, including the central bank, covers subsistence spending of vulnerable and financially challenged segments, small and medium enterprises, non-bank financial institutions and agricultural stakeholders.[3]

Figure 1.20. **Confidence indices, goods exports and tourist arrivals, India, 2018-20**

Note: The data follow fiscal years (ending March). Tourist arrivals data are as of March 2020 while exports are as of May 2020. The confidence indices are adjusted to set 100 as neutral confidence point. The data are as of 26 June 2020.
Source: OECD Development Centre based on CEIC and national sources.
StatLink https://doi.org/10.1787/888934160874

Box 1.9. **The economic implications of lockdown in Emerging Asia**

Looking at the appropriate length of a lockdown, a recent study found that suppression is unlikely to produce the desired results if the restrictions are abandoned too soon – i.e. ending the policy in under six weeks – and that the optimal duration of the policy depends on how effective it is in reducing the rate of virus transmission (Scherbina, 2020). A combination of physical distancing, self-isolation and closures of schools and universities may need to be maintained until a vaccine becomes available (Ferguson et al., 2020). Looking at the United States, a report using the Susceptible-Infected-Recovered (SIR) model approach warns that once mitigation efforts are relaxed the disease will restart its rapid progression and reach its peak rate of infections approximately 15 months from now (Atkeson, 2020). The scope of the lockdown, its duration and the underlying economic and health costs also depend on measures that improve the capacity of the health system to cope with the epidemic and the strength of countries' economic fundamentals (Ornelas, 2020).

At the same time, the direct and indirect economic costs of combatting the disease through lockdowns are significant (Table 1.5). In a trade-off between restrictions and economic activity, policy makers must tackle challenges to public health while mitigating the economic impacts of COVID-19. A recent analysis warns that the economic and health costs will be much higher for developing economies than for advanced ones. Thus, large-scale lockdowns may not be economically or socially sustainable over long periods.

Box 1.9. **The economic implications of lockdown in Emerging Asia** *(cont.)*

Table 1.5. **Length and estimated impact of lockdown measures in Emerging Asia**

Country	Length of lockdown	Estimated impact
India	69 days (24 March to 1 June)	Over USD 4.5 billion per day of lockdown and approximately USD 100 billion for the entire lockdown period[4]
Malaysia	47 days (18 March to 4 May)	MYR 2.4 billion lost for every day of business suspension
Philippines	76 days (17 March to 1 June)	Approximately PHP 1.1 trillion, or the equivalent of 5.56% of the GDP
Singapore	56 days (7 April to 2 June)	Approximately SGD 10 billion (USD 7 billion) in lost output, or the equivalent of about 2% of GDP

Note: The start of the lockdown period is considered to be the date when the majority of non-essential businesses were ordered to close. The end of the lockdown is considered to be the date when restrictions started to be relaxed/removed for the first time and for a significant number of activities. The term "lockdown" may have had different designations across countries.
Source: OECD Development Centre based on national sources; University of Oxford, *Coronavirus Government Response Tracker* (database) (accessed on 28 June); Prime Minister's Office of Malaysia (2020a); NEDA (2020); and Bloomberg Quint (2020).

Resumption of economic activities should be conducted cautiously, with prevention and control measures remaining in place. Moreover, the effectiveness of lockdown measures will differ depending on other policies enacted simultaneously. More specifically, lockdown is found to be more effective when it coincides with appropriate macroeconomic policies, namely loosening the monetary stance and providing an abundant social safety net (Guerrieri et al., 2020). Indeed, many Emerging Asian countries eased their monetary policy stances by reducing policy rates and/or lowering the reserve requirements applicable to the banking sector. Monetary measures were accompanied by ample stimulus packages aimed at easing the financial burden on firms while preserving households' income. The announced packages include financial support to vulnerable populations (Indonesia, the Philippines and Singapore), and reduction of required pension-fund contributions (Malaysia), among other measures.

Another major difficulty in adopting the right policy response to COVID-19 is that it has engendered an unprecedented economic crisis with shocks to both supply and demand. This sets it apart from the global financial crisis of 2007-08, which was considered a demand shock. In today's crisis, workers and businesses are prevented from continuing their activities, affecting supply, while lockdown measures depress aggregate demand by reducing and changing consumption activities. Since traditional policy prescriptions for demand and supply shocks are completely different, COVID-19 presents a new challenge in thinking about the policy implications of a lockdown.

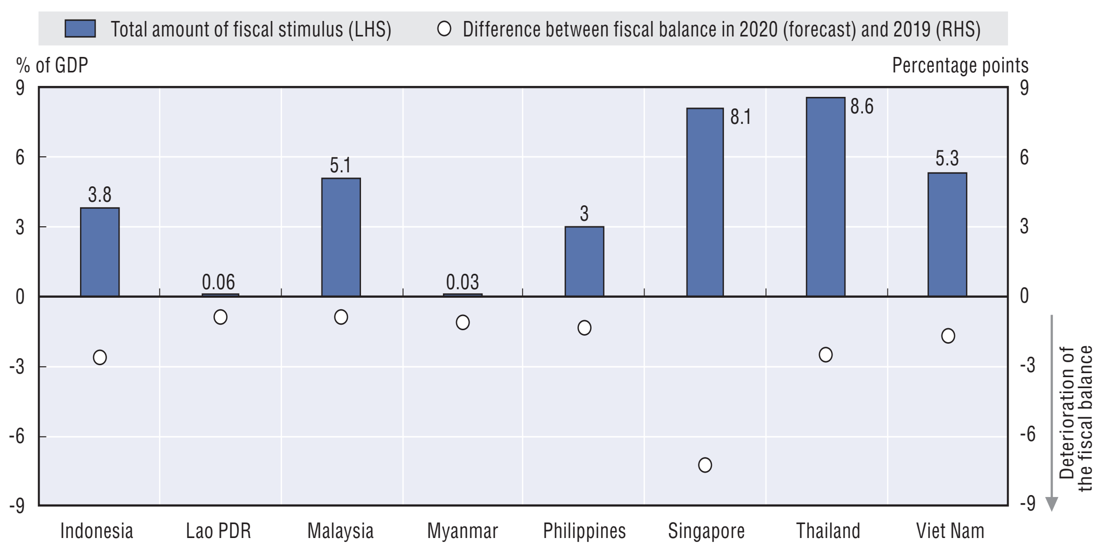
While the optimal duration and scope of lockdowns remain open issues, lockdowns must be combined with the right policies to ensure their effectiveness both in preventing a resurgence of viral transmission and in mitigating the unprecedented economic impacts that they bring. The economic implications of lockdown should be discussed in the specific context of Emerging Asia.

Source: Tanaka, K. and M. Pezzini (2020), *The Economic Implications of Lockdown in Emerging Asia*, OECD Development Matters blog post, https://oecd-development-matters.org/2020/04/15/the-economic-implications-of-lockdown-in-emerging-asia/.

Governments have fiscal leeway but limited space calls for efficient spending

Governments in Emerging Asia have taken drastic measures to finance pandemic-related spending. Following nominal data compiled by ADB (2020), the fiscal outlays of ASEAN-5, Singapore, China and India for health services, tax adjustments, subsidies and income support (excluding credit guarantees, money market intervention, direct lending and those with no breakdown) range from less than 0.1% to about 8.6% of GDP (Figure 1.21). Financing these obligations involves borrowing from multilateral development banks and the market. Certain central banks also bought national government debt securities. In addition, budgetary items have been reallocated to pandemic-related initiatives. Contributions from multilateral agencies, other governments, private firms and philanthropic organisations have helped to deepen public coffers. In this context, improvements in the credit ratings of a number of countries prior to this shock has helped reduce the cost of capital raising. Indonesia, the Philippines and Viet Nam for instance, have seen their credit ratings adjusted upwards at least once in the last five years.[5] Regarding macroeconomic conditions, the low interest-rate environment augurs well for sovereign borrowers.

Figure 1.21. **Total amount of fiscal packages and estimated impact on the fiscal balance of selected Emerging Asian economies**



Note: The cut-off date for the fiscal stimulus data is 15 June 2020. Data refer to the general government.

Source: OECD Development Centre based on: ADB (2020), *ADB COVID-19 Policy Database*; IMF (2020b), *World Economic Outlook database*, April 2020; and the World Bank national accounts dataset.

StatLink https://doi.org/10.1787/888934160893

Emerging Asian countries have implemented various fiscal tools to cope with the economic impact of the pandemic. As outlined in Annex 1.1, fiscal support packages were provided in the form of tax relief and benefits to stabilise income and consumption, while progressive taxation and unemployment benefits were introduced to ease conditions for businesses and workers.

In Thailand, the first economic response was a fiscal package of THB 1.9 trillion (Thai baht) to finance income-loss compensation and public health improvements and to cover assistance for 3 million workers outside the government social security system, including businesses and individuals affected by COVID-19. Greater access to loans from specialised financial institutions was also provided.

Singapore unveiled four tranches of support to aid households, lower-income individuals and the unemployed. The first package, approved in February, was estimated at USD 4.4 billion for workers and businesses through co-funding of business costs and tax relief (Unity Budget). In March, Singapore unveiled another plan worth USD 33 billion to assist hard-hit sectors like food services, aviation, tourism and self-employed individuals (Resilience Budget). Another tranche amounting to USD 23.2 billion was released in May to provide additional support to workers and businesses (Fortitude Budget).

In Malaysia, the main thrust of the economic packages was to enhance cash flow for households and businesses. The first, worth USD 4.6 billion, was announced in February and sought to alleviate the pandemic's immediate impact on the tourism industry and other hard-hit sectors. Incentives for industry included tax deductions, deferral on the payment of monthly income tax instalments and exemption of the hospitality industry from service tax on the provision of accommodation and related services for six months commencing March 2020 (Prime Minister's Office of Malaysia, 2020b).

In Myanmar, hard-hit sectors like hotels, tourism companies and SMEs are receiving an allocation amounting to MMK 100 billion (Myanmar kyat). To assist companies affected by the slowdown in business activity, the government offered assistance through loans with an interest rate of 1% and a grace period of one year to help employers pay salaries. Tax payment deferrals were extended to ease the financial position of businesses and workers. The government is also providing a 40% social security support to 1.3 million workers who were dismissed due to COVID-19.

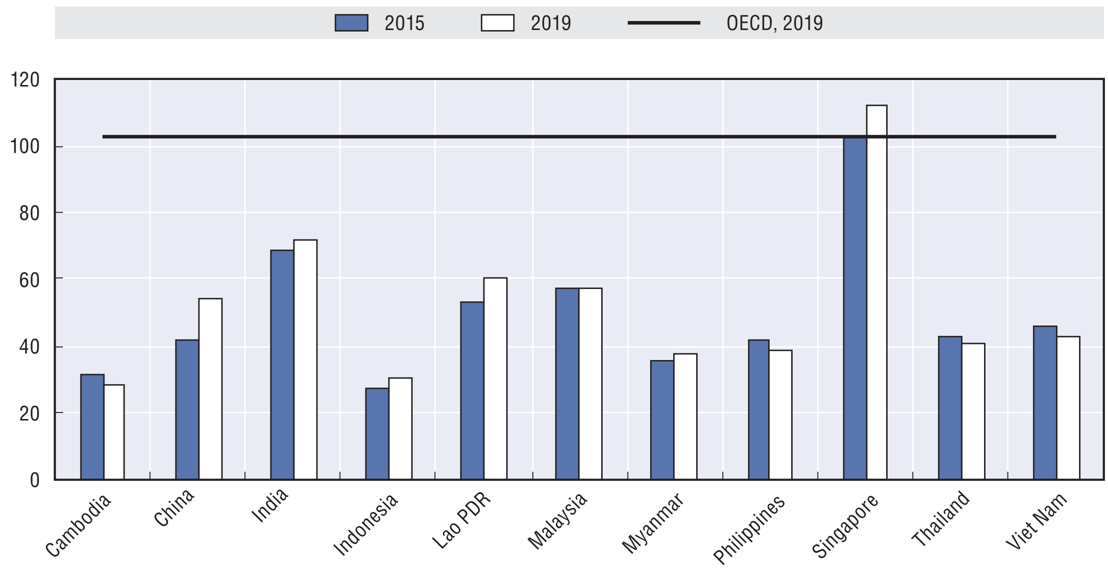
In contrast, Brunei Darussalam, Cambodia and Lao PDR have shown limited flexibility in monetary and fiscal support. In particular, direct income transfers in Lao PDR are marginally low compared to all Emerging Asian countries, but other measures are provided in the form of tax incentives, including tariff exemptions and relevant fees of imported goods to be used in the containment of COVID-19. In Cambodia and Brunei Darussalam, government responses have concentrated on indirect income and non-cash incentives. The total stimulus effect of Cambodia's response is estimated to stabilise the economy by 8.7%, and Brunei Darussalam's by 2.6%.

Across Emerging Asia, efficient spending is needed because low domestic and global economic growth mean less revenue intake. Central government data between March and May reveal that, with the exception of Cambodia, fiscal revenue shrank in all Emerging Asian economies where data are available, and by a good margin, between 7.9% and 38%.[6] Deferment of tax filing and lower enterprise sales are slowing collections. The stress on national coffers will extend at least until next year, when employment and corporate income taxes for this year will be paid. India's sovereign credit rating, for instance, has been downgraded by Moody's owing to limited progress in structural reforms, which amplifies the pandemic's impact on economic stability (Moody's, 2020). For Brunei Darussalam, Indonesia and Malaysia, subdued global oil prices present further difficulties for boosting fiscal resources, even though prices have recovered since end-April. Expenditure momentum varies across countries. Available data from March 2020 onwards suggest that momentum remains contained in China and Indonesia, is just picking up in India and Malaysia, and is brisk in Cambodia, the Philippines and Thailand.

In terms of debt, Emerging Asian economies have some fiscal leeway. Governments have been largely measured in managing their debt in the last few years (Figure 1.22). Nonetheless, the sheer spending requirements induced by COVID-19 to maintain social order and help the real economy regain its pre-pandemic health will present a challenging fiscal test. It pays for governments to continue to prioritise job retention and social protection in the recovery phase in order to maintain social stability. Stimulus spending per se can only take root once production lines have been fully restored. Accordingly, maximising the outcome of expenditures, including assistance from external parties, is a crucial challenge.

Figure 1.22. **General government gross debt**

Percentage of GDP



Note: OECD average is calculated using the country-level gross debt ratios in the IMF Fiscal Monitor database and the GDP data in the IMF World Economic Outlook database.

Source: OECD Development Centre; IMF (2020c), *Fiscal Monitor Database*; and IMF (2020b), *World Economic Outlook Database*.

StatLink https://doi.org/10.1787/888934160912

Stretching fiscal capacity in response to COVID-19, including by expanding emergency funding across levels of government early in the year, could mean more difficulties ahead for Emerging Asia. The region is highly susceptible to natural disasters such as storms and flooding, particularly in the second half of the year. India and the Philippines have already dealt with destructive storms in May. When people are displaced by natural disasters, substantial financial allocation is needed for relocation, immediate response and rebuilding. Similarly, the drought in the Mekong region presents a persistent risk that could require government funding.

With these difficulties compounded by COVID-19, many governments in Emerging Asia are hard-pressed to manage the increase in their initially planned fiscal deficit ratios. The commitment of the regions' major stakeholders to further strengthen regional financial safety nets will be material in maintaining market trust.

The sizeable cost of COVID-19 will test fiscal management

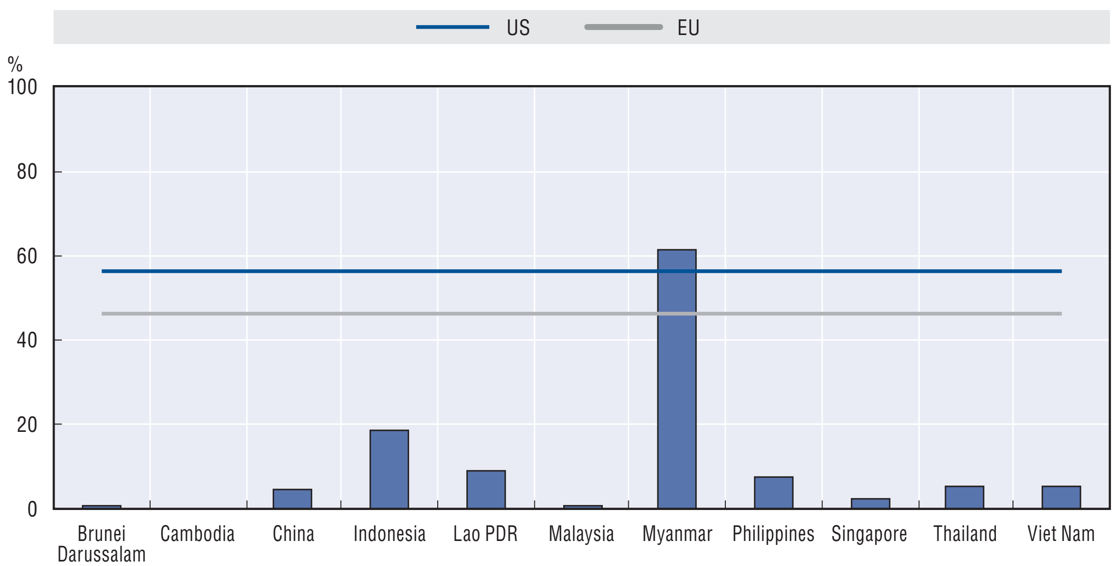
The COVID-19 pandemic and recovery programmes will push the fiscal limits of many economies into uncharted waters. Baseline public debt levels in a number of advanced economies were already at historic highs prior to the pandemic owing to different rounds of quantitative easing. Debt accumulation will now have a much broader base as emerging markets join in the massive fiscal expansion to keep social discipline intact and reinvigorate their economies. It is worth noting that the rising debt pile is matched by interest rates that are racing to the bottom and negative-yielding bonds that have substantially grown in volume (Borio, 2019). It thus becomes relevant to assess the implications of these developments for future tax levels to avoid the debt trap.

The extensive involvement of central banks in capital-raising activity by national governments has been a key feature of the response of the United States and European Union at times of economic difficulty. The exercise called debt monetisation or money-financed fiscal expansion (printing money to buy national government debt) has continued, even after the worst phase of the pandemic has passed, as a measure to push back against the liquidity trap.

In Emerging Asian economies, government debt is typically marketed to non-government entities, with the exception of Myanmar, whose secondary market liquidity is still developing. The share of central government debt in central banks' total assets in Emerging Asia is far lower than in advanced economies (Figure 1.23). Inflation is a key consideration in undertaking this policy option.

Figure 1.23. **Central bank claims on central government, 2019**

Share in central banks' gross claims, percentage



Note: Gross claims refer to the sum of foreign claims, claims on central government, claims on other depository corporations and claims on other sectors. It balances with the sum of gross liabilities including capital. Data were accessed on 3 May 2020 and are as of December 2019 except for Cambodia (May 2019) and Myanmar (September 2019).

Source: OECD Development Centre based on IMF International Financial Statistics and CEIC.

StatLink https://doi.org/10.1787/888934160931

Recent events have prompted some Emerging Asian economies to shift strategies. The central banks of Indonesia and the Philippines, for instance, have been granted the authority to support government financing needs directly (Bangko Sentral ng Pilipinas, 2020b; Bank Indonesia, 2020). The Philippine central bank has entered into a 3-month repo agreement with the treasury, while the Bank of Indonesia purchased government Islamic bonds during the primary market auction in the last week of April. Unlike the advanced economies, however, the Philippines and Indonesia have signalled that this will be a remedial measure

This brings to light the notion of *helicopter money*. The idea can be traced back to Friedman (1969) and in brief, helicopter money refers to the policy of flooding the system with money at no cost. Central banks buying government debt at zero interest rate, and then repudiating the debt incurred, is one way to administer helicopter money. However, such monetary and fiscal policy co-ordination tends to breach the principle of central bank independence and could compromise fiscal discipline in the long run. It could also substantially weaken the central bank's capital base and instigate inflationary pressures.

Another consideration in sharply increasing government borrowing from the market is that private borrowers will be crowded out. It could also result in the divergence of market interest rates from policy rates and could be burdensome for government finances in the future. Along these lines, the EU's coronabonds proposal raises the question of whether economies in Asia could undertake a similar project, to go hand-in-hand with regional safety nets like the Chiang Mai Initiative Multilateralisation.

It has been argued that the mutualisation of fiscal risk espoused in the idea of the coronabond is somewhat similar to the European community bond under the community loan mechanism created in the 1970s (Horn, Meyer and Trebesch, 2020). The community loan mechanism complemented the existing European Medium-Term Financial Assistance Facility before the two were eventually merged to form the EU Balance-of-Payments Facility. A key feature of the community bonds is provisions on guarantees supported by the EU budget and direct country quotas.

Monetary support goes into overdrive

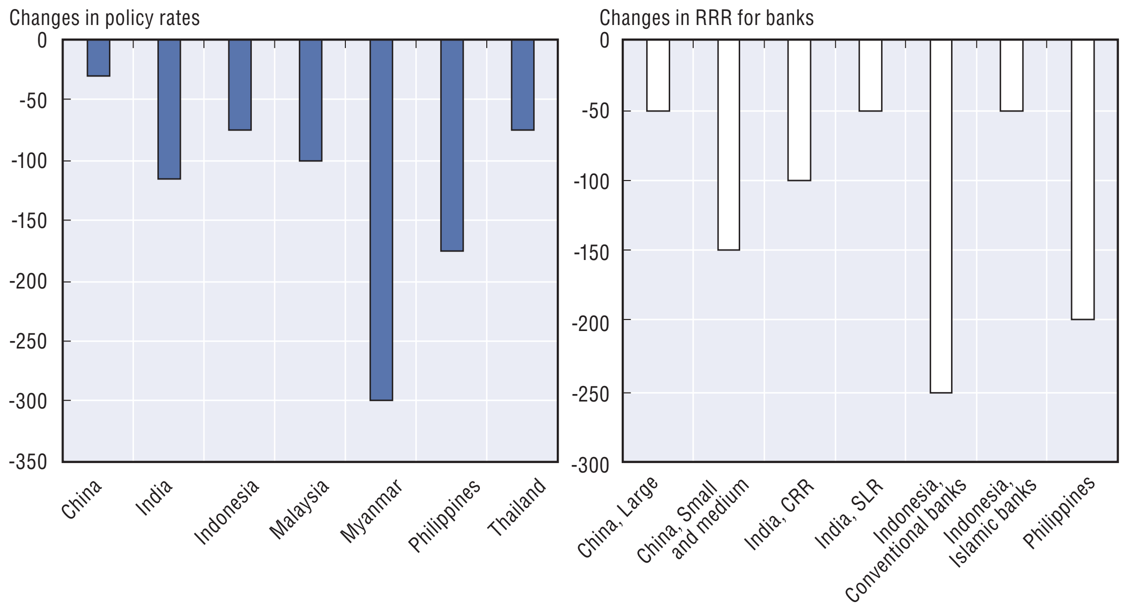
The extent of monetary support in major economies effectively ushers in a return to the low-interest rate, high-liquidity environment experienced during the quantitative easing period. Central banks in the United States, European Union, Japan and the United Kingdom have further loosened their policy stances to combat the adverse effects of the health crisis. The United States brought its policy rate back to its historic lowest point as the other major central banks left theirs at close to zero, if not negative. They have also relaunched massive asset-purchase programmes.

Emerging Asian economies proved to be just as inclined to increase monetary accommodation. In a continuation of the policy mix of the previous year, reserve requirement ratios for banks have been adjusted to augment the changes in policy rates to facilitate easier liquidity conditions. The central banks of China, India, Indonesia, Malaysia, Myanmar, the Philippines and Thailand have lowered their interest-rate instruments by 30 to 300 basis points (bps) since the end of 2019 (Figure 1.24). The policy rate in Thailand is at its historic low since the current policy rate series began in May 2000. Similarly, the policy rate in the Philippines is at its lowest point since the interest rate corridor was adopted in July 2016.

New rounds of easing to reserve requirement ratios (RRR) have been implemented since January 2020. Indonesia's statutory RRR dropped to its lowest level since the start of the data series in January 1997. A sizeable cut in RRR in the Philippines has likewise pushed the current rate to a new trough since September 2000 and is expected to be cut by another 200 bps before the end of the year (Bangko Sentral ng Pilipinas, 2020c). The central banks of China and India adopted similar measures. Other financial interventions implemented in the region include deferral of loan payments, conversion of short-term credit into long-term, liquidity injections via open market operations, support for bond issuances, targeted lending and relaxation of mandated macroprudential thresholds, among others.[7]

Figure 1.24. **Monetary policy actions in selected Emerging Asian economies, 2020**

Basis points



Note: For China, policy rate relates to the one-year loan prime rate, and RRR cuts for those small and medium banks in China that specialise in lending to priority sectors are even larger. For India, SLR means statutory liquidity ratio and CRR means cash reserve ratio. For Indonesia, the first local currency RRR cut was announced in December 2019, effective January 2020. In March 2020, Indonesia lowered the foreign currency RRR by 400 bps and the RRR of banks engaged in import and export financing by 50 bps. For the Philippines, RRR covers commercial banks' local currency deposits. The data are from 1 January 2020 to 26 June 2020.

Source: OECD Development Centre calculations based on data from CEIC and national sources.

StatLink https://doi.org/10.1787/888934160950

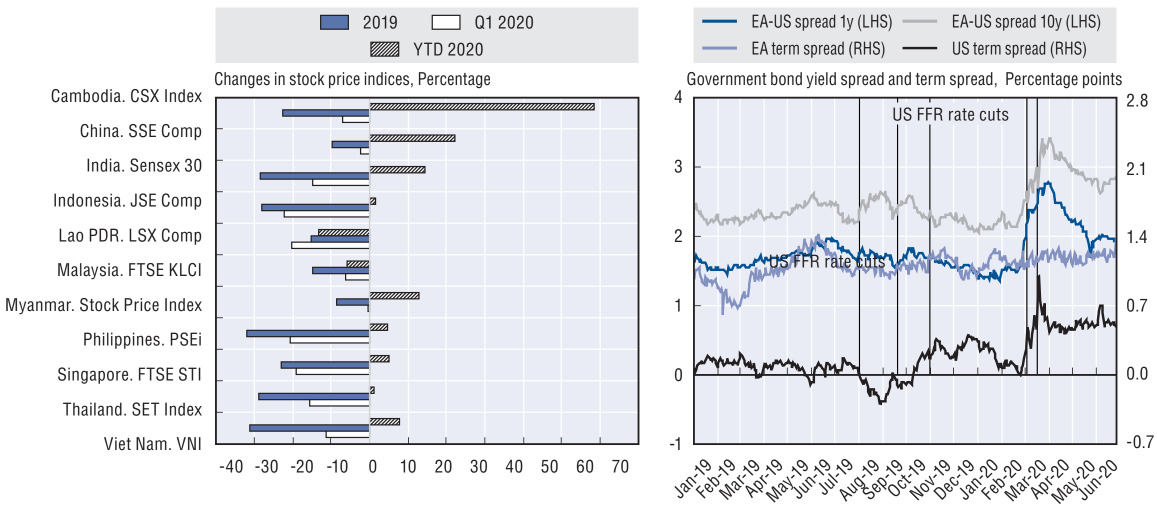
Monetary tools aside, central banks in Emerging Asia have ramped up procurement of national government debt to finance fiscal expansion. Generally, central banks obtain government bonds through transactions in the secondary market. However, given the circumstances, Indonesia and the Philippines have granted their respective central banks the authority to purchase government bonds in the primary market for a specific period.

Risk remains elevated in financial markets

Corporate earnings are under heavy fire as the real sector reels from the impact of COVID-19 and measures to contain its spread. The grim expectations on corporate performance have swept the equities markets across Emerging Asia and in other regions, pushing the benchmark indices to multi-year lows in the first three months of the year (Figure 1.25). Yet hopes brought by the partial re-opening of economies have pushed equity prices higher to erase some of their losses after the multi-year lows observed in March-April 2020.

The bond markets, in contrast, have been somewhat calmer. Yields have moved in accordance with monetary stances, and spreads vis-à-vis US bonds have reversed since April 2020 (Figure 1.25). Monetary policy actions and fiscal assurances alleviated budding investor apprehension at the end of Q1 2020. Substantial lending from multilateral development banks has likewise lessened countries' inclinations to tap the market. Corporate solvencies and the extent of supplementary government borrowing from the market are two factors that could heavily influence the direction of yields moving forward.

Figure 1.25. **Changes in stock price indices and bond yield and term spreads in Emerging Asia, 2019-20**



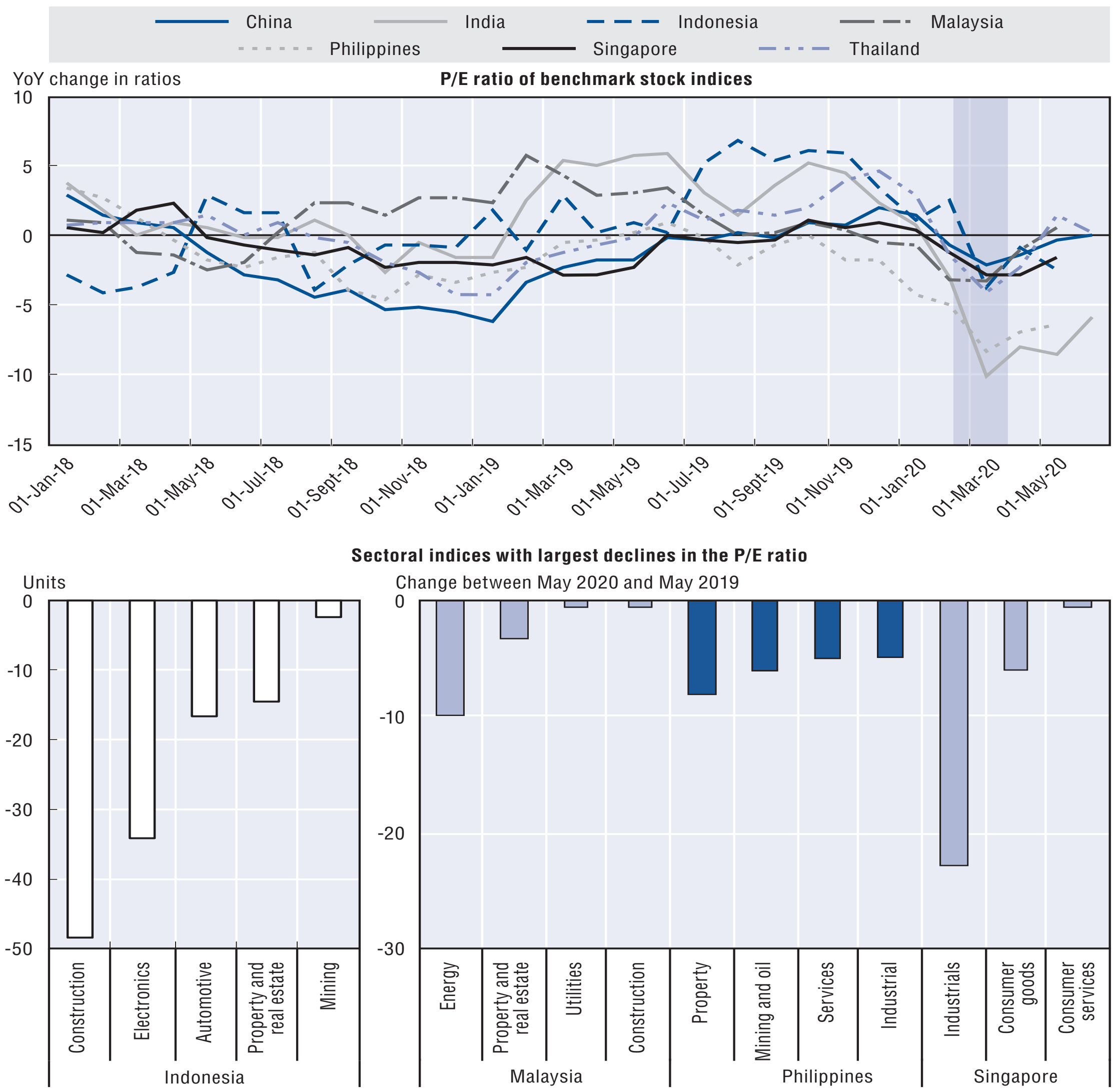
Note: For bond yields, Emerging Asia refers to the simple average of government bond yields of China, India, Indonesia, the Philippines, Singapore, Thailand and Viet Nam. Term spread pertains to the difference between 10-year and 1-year bond yields. US FFR means US Fed Funds rate. RHS means right hand scale. LHS means left hand scale. Data are as of 26 June 2020.

Source: OECD Development Centre based on Fusion Media Ltd., www.investing.com and national sources.

StatLink https://doi.org/10.1787/888934160969

Decreases in Emerging Asian stock prices were initially accelerated by large net outflows from investment funds that focus on emerging market equities. The COVID-19 pandemic, the oil price rout and a marked deterioration of the economic outlook led to sizeable portfolio outflows. Data compiled by the Institute of International Finance points to non-resident-portfolio equity outflows of USD 72 billion and debt flows of USD 25 billion in Q1 2020, with Emerging Asia[8] particularly affected (IIF, 2020). By March 2020, standard stock-price valuation measures, such as the price/earnings (P/E) ratio, had fallen markedly, although trends have been on the rise since then (Figure 1.26). Significant declines were recorded in the sectors most affected by the COVID-19 lockdown and restrictions, such as industry, construction and real estate, among others (Figure 1.26). The prospect of falling earnings due to limited business operations has driven down investor demand for the stocks of firms operating in the sectors most affected by the lockdown and restrictive measures.

Figure 1.26. **Price-to-earnings (P/E) ratio for selected Emerging Asian stock markets and sectors, 2018-20**



Note: The benchmark stock indices on the top figure represent the indices depicted in Figure 1.25. The RHS figure of sectoral indices displays the sectors with the largest declines in the P/E ratio between May 2020 and May 2019.
Source: OECD Development Centre based on data from CEIC.
StatLink https://doi.org/10.1787/888934160988

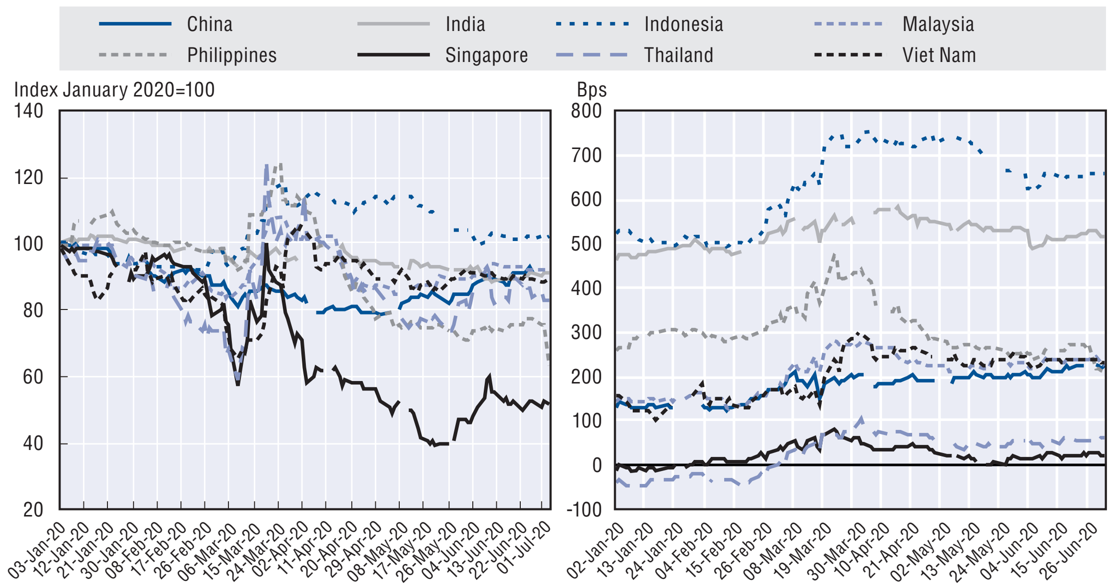
Government bond yields of Emerging Asian economies were highly volatile in the first weeks of the COVID-19 crisis (Figure 1.27). Corresponding spreads against 10-year US Treasuries increased across most Emerging Asian benchmark bonds as the crisis developed, driven by the deterioration on the health front, with the number of COVID-19 cases rising worryingly, and by the lockdown measures imposed in most countries in the region. The yield curve mostly rose in March and April 2020 across debt markets in the region (Figure 1.28).

In the weeks that followed, pressure eased and yields stabilised. Bond yields have fallen markedly in Singapore, Viet Nam and Thailand, reflecting receding risk aversion, as well as monetary policy actions and the signal for further credit market support. Credit default swap (CDS) spreads, which widened at the beginning of the crisis (Figure 1.29), also narrowed in recent months to a certain degree, mirroring the trends in the bond market.

However, financing needs moving forward could put some upward pressure on yields in the near to long term. Higher government bond issuance could also crowd out private sector issuance. Considering the pressure on corporate solvencies, a tightening of market conditions could complicate efforts to mitigate debt defaults.

Figure 1.27. **Bond yield index and spreads in selected Emerging Asian economies, January-July 2020**

Basis points



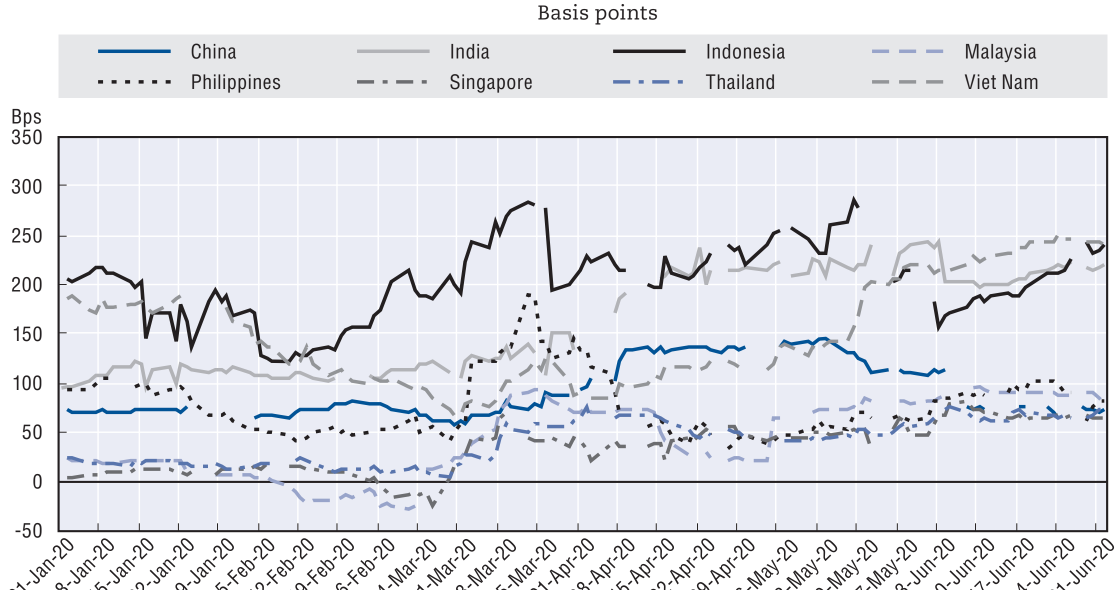
Note: Spread of 10-year sovereign bonds of selected Emerging Asian economies on 10-year US Treasuries.

Source: Thomson Reuters Eikon.

StatLink https://doi.org/10.1787/888934161007

Figure 1.28. **Yield curve in selected Emerging Asian economies, January-July 2020**

Basis points



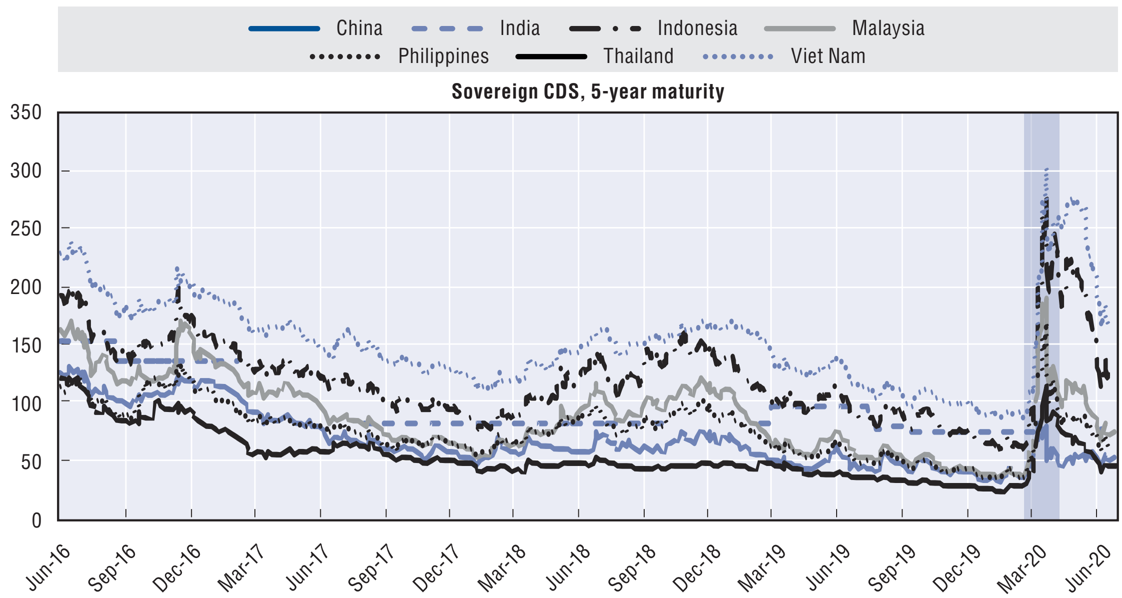
Note: The yield curve is calculated as difference between the 10-year sovereign yield and the 1-year yield.

Source: Thomson Reuters Eikon.

StatLink https://doi.org/10.1787/888934161026

Figure 1.29. **Credit default swap spreads in selected Emerging Asian economies, 2016-20**

Mid spread close in basis points



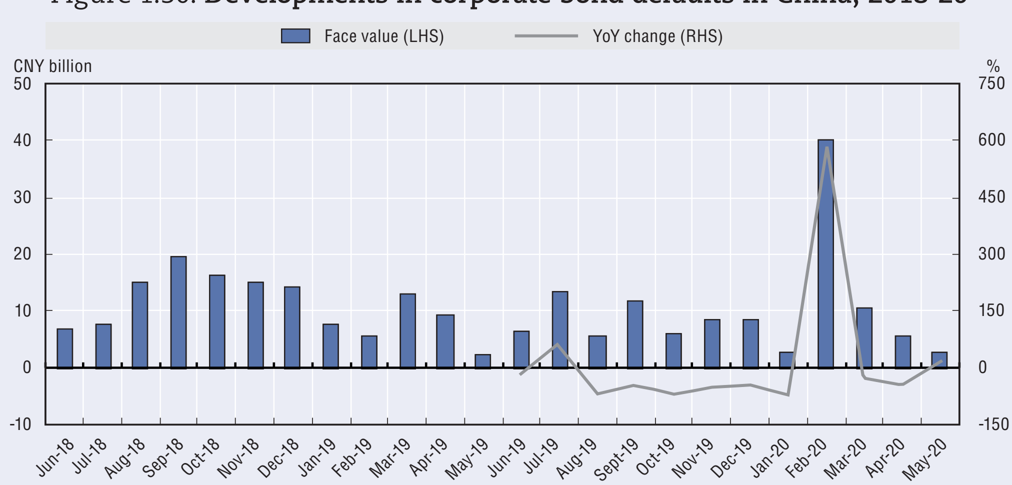
Source: Thomson Reuters Eikon.

StatLink https://doi.org/10.1787/888934161045

Box 1.10. **Volatility of corporate bond defaults in China**

Defaults on onshore corporate bonds reached CNY 40.2 billion (Yuan renminbi) in February 2020, a six-fold increase from the same period the year before (Figure 1.30). Although the growth rate of defaults slowed in the following months, calming apprehensions in the onshore debt market, there are signs of uneasiness concerning financing of the offshore dollar debt issuances of Chinese companies. The concern is particularly acute for cyclical industries such as construction. Heavily indebted Chinese property developers, which account for the largest share of USD issuance in Asia, are increasingly sending signals of distress.

Figure 1.30. **Developments in corporate bond defaults in China, 2018-20**



Source: OECD Development Centre based on data from CEIC.

StatLink https://doi.org/10.1787/888934161064

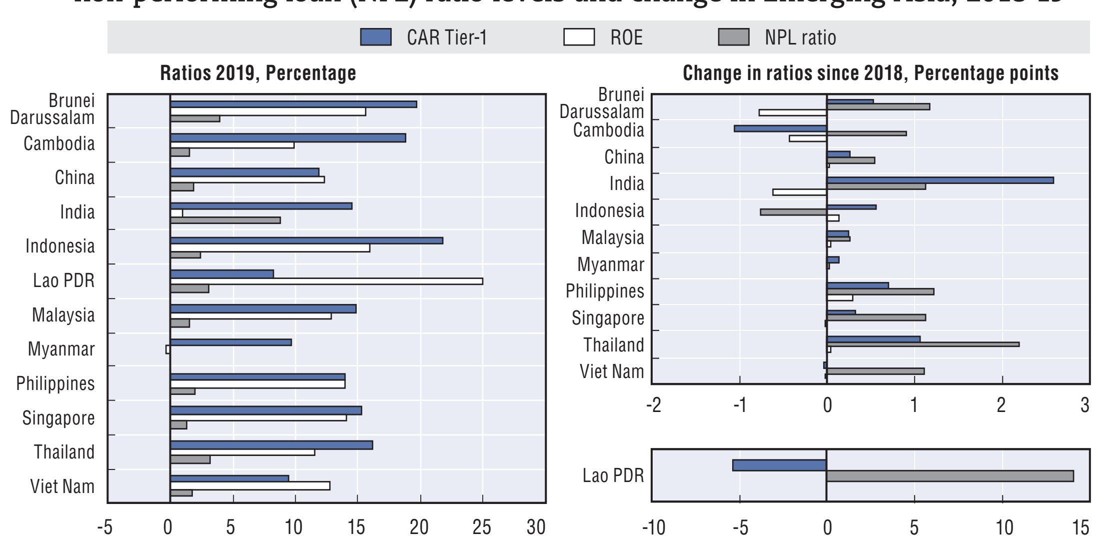
Banking sector braces for profit and solvency risks

Banks are a particular source of concern given linkages with the heavily-impacted real sector. Managers are under continuous pressure to adjust balance sheets as central banks tighten their watch. On the upside, capital adequacy ratios (CAR) were generally sound at the end of 2019, even if limited to tier-1. To put this into perspective, Emerging Asia economies have an average of 14.5% in this metric vis-à-vis the Basel 3 accord threshold of 10.5%.

However, there are country-specific concerns. For instance, the ratios of Lao PDR and Myanmar are understandably lower considering the relative level of banking sector development (Figure 1.31). And while the CAR of Myanmar's banking sector has risen since 2018, it has declined in Lao PDR by a good margin, suggesting an increase in banks' appetite for risk. The sharp rise in Lao PDR's banking returns on equity (ROE), compared to other Emerging Asian countries, lends support to this view – a strategy that will be tested given the ongoing business-cycle downturn.

India is still troubled by non-performing loans (NPL) and other assets despite the various initiatives undertaken by the central bank in recent years. Propping up the domestic bad debt market remains a big difficulty in the country and results in low asset value recovery rates. This could potentially be addressed by pursuing the long-planned public asset management company, which could work hand-in-hand with local private asset reconstruction companies and other similar institutions in the region. The marginal reduction in the NPL ratio from 2018 is a welcome development. Nonetheless, India's central bank projected that the broader gross non-performing assets of the banking sector were set to rise in 2020 (RBI, 2019), and it made the projection before the COVID-19 crisis spread. Viet Nam's banking sector has strengthened, but it is still in the process of resolving legacy assets that were pushed to the balance sheets of the public asset management company.

Figure 1.31. **Capital adequacy ratio (CAR) Tier-1, return on equity (ROE) and non-performing loan (NPL) ratio levels and change in Emerging Asia, 2018-19**



Note: The data are as of Q4 2019, except China and India (Q3 2019) and Myanmar and Viet Nam (Q2 2019). There is no NPL data for Myanmar.

Source: OECD Development Centre based on IMF and national sources.

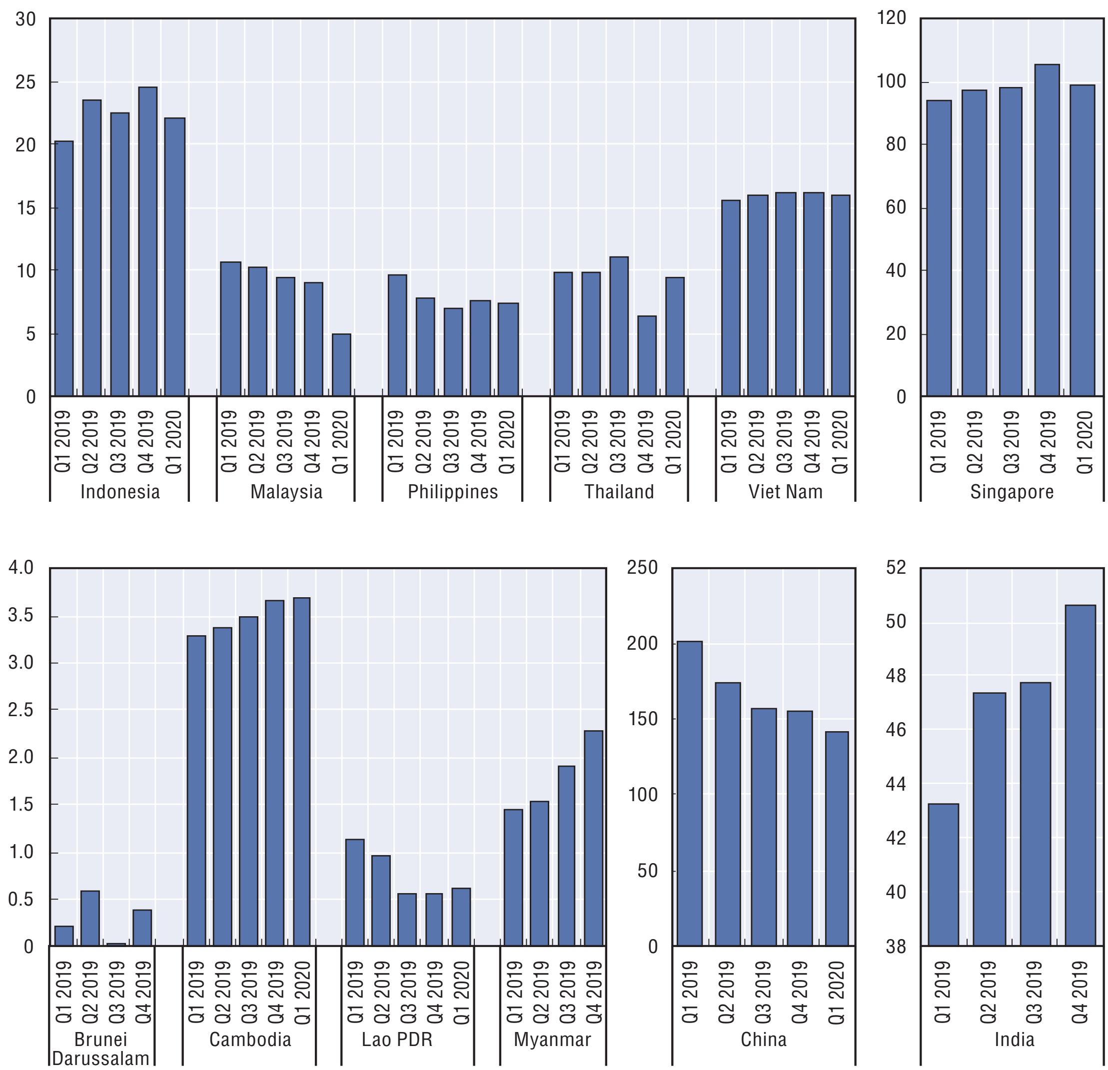
StatLink https://doi.org/10.1787/888934161083

Capital flow and exchange-rate volatility risks are brewing

FDI data in Q1 2020 indicate that the long-term investor view of economic prospects has remained unchanged, even though placements mostly slid slightly from the previous quarter. The annualised FDI level marginally declined from Q4 2019 in China, Indonesia, Malaysia, the Philippines, Singapore and Viet Nam, but inched upwards in Cambodia, Lao PDR and Thailand (Figure 1.32). Barring another wave of confirmed cases, the performance of many countries in Emerging Asia in handling the pandemic threat generally augurs well for keeping substantial investor interest in the region. Nevertheless, given that business conditions deteriorated more significantly in Q2 2020, net foreign placements are expected to be more conservative in Q3 2020 and possibly in the following quarter as well.

Figure 1.32. **Foreign direct investment in Emerging Asian countries, 2019-20**

USD billion, annualised



Note: Quarterly data are annualised (i.e. four-quarter sum). The asset/liability principle is followed in the presentation of FDI data. FDI inflow data refer to foreign placements minus foreign withdrawals (Balance of Payments liability side). The data are as of 26 June 2020.

Source: OECD Development Centre calculations based on CEIC data, national sources and IMF International Financial Statistics database.

StatLink https://doi.org/10.1787/888934161102

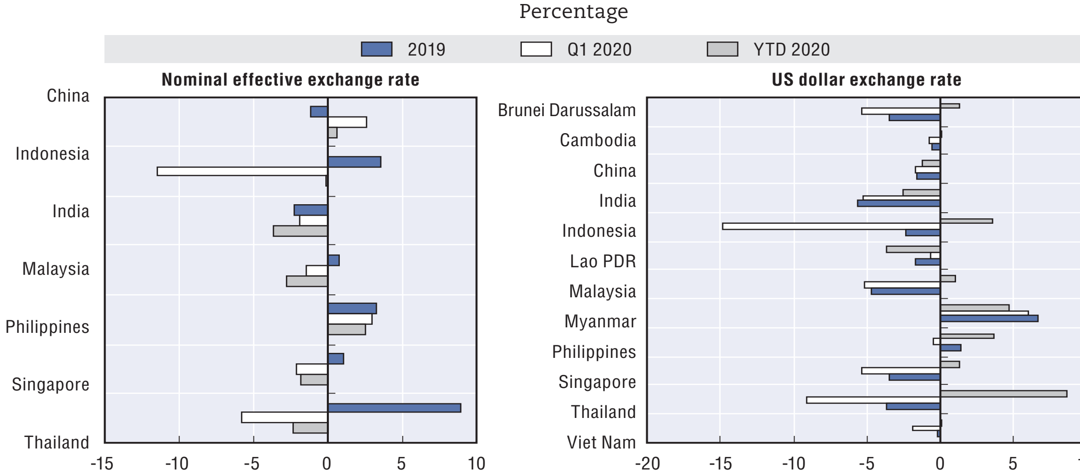
Meanwhile, the flood of liquidity into global financial markets – in a way that makes it appear almost like helicopter money – will have repercussions on the volatility of cross-border capital flows over the next few quarters. Lessons could be drawn from recent experience. Protraction of low interest rates puts pressure on institutional investors to take more risks. This includes social security and pension offices, which must try to keep pace with their fixed financial obligations. The "taper tantrum" panic of 2013 is a reminder of the importance of robust external positions when conditions tighten again. As described by Hofmann, Shim and Shin (2020), a deep stock of foreign reserves enabled central banks "to lean against currency depreciation and capital outflows" and is associated with smaller currency depreciations among emerging market economies, thus limiting financial stress.

Currency volatility can be a direct consequence of swings in capital flows. The adjustments made by monetary authorities have been effective in controlling currency pressures early in 2020. Emerging Asian currencies have mostly lost some ground against the fiat of their major trading partners to reverse the sustained strengthening since the latter part of 2019 (Figure 1.33). The Indonesian rupiah and the Thai baht, which were under heavy stress in Q1 2020, have recovered on strong policy signalling. The Chinese yuan renminbi and the Philippine peso, on the other hand, are appreciating. The weakness in the region's currencies is even starker against the US dollar (Figure 1.33). The exception is the Myanmar kyat, which has sustained its surge since January 2018. The country's current account balance has improved significantly in recent quarters owing to a smaller trade deficit and rising remittance inflows. Myanmar has also just transitioned to the market-determined reference exchange rate mechanism, which according to the IMF (2020d) is essential for effectively managing market expectations and informal market currency activities. Overall, volatility in the region's currencies has been relatively contained so far, even in an uncertain environment. Yet the risk of sharp disruptions in the coming months cannot yet be discounted.

Significant changes in the landscape from about a decade ago could complicate policy decisions on mitigating capital flow volatility and its impact in the region. These changes include the ongoing trade tension, the liquidity levels prior to the new rounds of quantitative easing and the low interest rates in many countries. The ability of policy makers to keep macroeconomic fundamentals sound during the recovery process, which may prove challenging given the circumstances, will be essential for smoothing cross-border capital movement. This will likewise have significant implications on exchange rate movements going forward.

Figure 1.33. **Changes in nominal effective and US dollar exchange rates in Emerging Asia, 2019-20**

Percentage



Note: YTD means year-to-date. Data are as of 23 June 2020 for the nominal effective exchange rate and 26 June 2020 for the US dollar exchange rate.

Source: OECD Development Centre based on BIS and Fusion Media Ltd, www.investing.com.

StatLink https://doi.org/10.1787/888934161121

Inflation in the region has moderated, but oil prices could surge anew

Headline inflation in the region has moderated overall, leaving some space for monetary accommodation. Price pressures that were building due to supply-side disturbances are slowly dissipating. However, low global oil prices, which weighed on overall inflation in the first few months of the year, are on an upward trend. The price controls instituted when tight quarantine measures were imposed are also being wound down.

Curtailment of the cross-border movement of key staples due to the pandemic has affected supply channels domestically and internationally. This was exacerbated by African swine flu, which is still spreading across a number of Asian countries, resulting in livestock losses. Outbreaks continued in March in China, Cambodia, Indonesia, Lao PDR, Myanmar, the Philippines and Viet Nam, according to the Food and Agriculture Organization (FAO, 2020), and the disease was still present in many localities across the region in June, according to the World Organisation for Animal Health (2020).

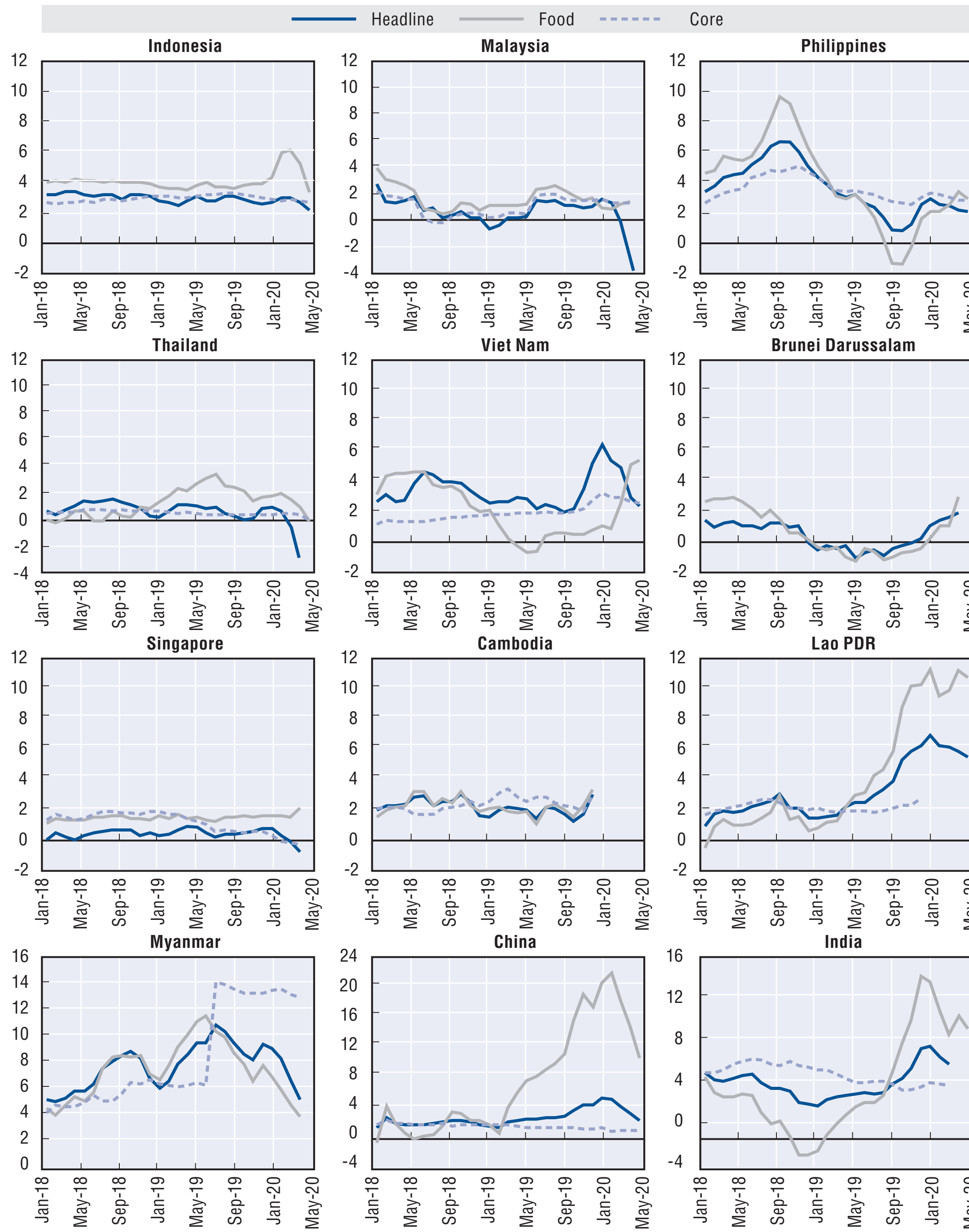
A severe drought in the lower Mekong area in the first few months of 2020 has likewise dampened the supply of key staples and countered the demand slowdown's effects on prices. Dry season is over in the area and conditions have improved, but scattered hotspots persisted in Cambodia and Thailand in early June, with isolated hotspots also detected in Myanmar, Lao PDR and southern Viet Nam (Mekong River Commission, 2020).

Global oil prices have regained substantial ground since the end of April after a sharp downturn in the first four months of the year. Brent futures prices have more than doubled since hitting a trough just over two months ago. While oil prices are still down by more than 30% from the same period in 2019, their upward trajectory – driven by oil supply cuts agreed by the major oil-producing countries – could reignite overall inflation. At the same time, countries have started to lift temporary price controls or freezes that were imposed on essential goods in response to COVID-19. This shift is underpinned by stability in supplies and the gradual re-opening of mainstream business sectors.

In China, food inflation has ebbed after pushing headline inflation to a multi-year high at the start of the year (Figure 1.34). The livestock industry has incurred heavy losses from the swine flu outbreak, which began more than a year ago. Moreover, lockdowns have disrupted the flow of goods, but stability in the prices of other commodity groups has anchored overall price momentum. Moving forward, the re-opening of supply lines should help mitigate upward price pressure, but stimulus measures to lift consumer demand will produce pressure in the opposite direction.

Figure 1.34. **Headline, core and food inflation in Emerging Asia, 2018-20**

Percentage



Note: Indonesia revised its inflation series starting January 2020. While the backseries of the CPI was made available, the new food and core inflation data only start in January 2020 (series break) and the back series of the corresponding indices only begins in January 2019. Food inflation refers to "Food, Beverage and Tobacco". The back series of the previous "Food" inflation has not yet been published to calculate the changes. All-India General CPI has not been compiled for the months of April and May 2020. Only selected price indices are published (e.g. food). India's core inflation refers to CPI excluding food and beverages and fuel and light. Lao PDR's core inflation data have not been updated since the release of October 2019 data. Data are as of 21 June 2020.

Source: OECD Development Centre based on CEIC and national sources.

StatLink https://doi.org/10.1787/888934161140

India's headline consumer price index (CPI) has also lost steam in recent months. CPI growth from December 2019 to February 2020 breached the upper limit of the central bank's inflation target band of 2% to 6%. Food prices began a steep climb due to supply issues affecting some farm products, but a recent pullback in these prices has helped contain headline CPI. Growth in the housing price index has remained on a downward path, though the relaxation of lending limits for property and other items is expected to cushion wavering demand. A cash reserve ratio exemption rule on incremental credit, favouring sectors including housing, was due to remain in effect until end of July (RBI, 2020b).

In Southeast Asia, Lao PDR and Myanmar were hurt by high headline inflation, though recent data indicate that it has peaked. Rising food prices have moderated in Myanmar but remain a concern in Lao PDR. However, the price indices of non-food items, such as housing, utilities, alcoholic beverages and tobacco and health, continue to rise sharply in Myanmar, in contrast to Lao PDR. A one-off tariff hike initiated by the Myanmar government in mid-2019 to prop up revenues of state enterprises is feeding price pressures. Food prices are similarly rising fast in Viet Nam, though the price indices of the other commodity groups have increased more slowly. Housing and construction prices, which were coming in strong just before the COVID-19 lockdown, have since retreated.

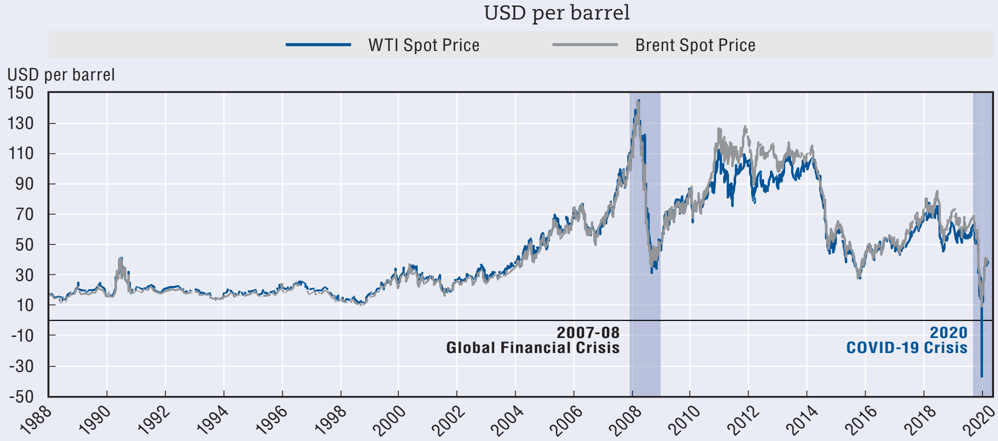
Elsewhere in Emerging Asia, headline CPI is somewhat moderate. Increases in food prices have been relatively benign in Brunei Darussalam, Cambodia, Indonesia, Malaysia, the Philippines, Singapore and Thailand. Higher "sin taxes" in the Philippines have kept the price index growth of alcoholic beverages and tobacco in double digits. This is offset by a contraction in the transportation index from March to May 2020.

Box 1.11. **Oil prices add to the pressure on Emerging Asian economies**

The spot price of World Texas Intermediate (WTI), the US benchmark, moved into negative territory for the first time in its history during the pandemic, closing at USD -36.98/barrel on 20 April (Figure 1.35). The drop reflected the glut in US inventories and the fundamental weakening of global demand, which was already apparent before the COVID-19 crisis. Although Brent crude held up better, on 21 April the international benchmark traded at its lowest level in more than three decades. Oil prices have bounced back since then. However, the daily production cut decided by the Organisation of Petroleum Producing Countries (OPEC) may be insufficient to offset the decline in demand as a result of lower economic activity worldwide.

Figure 1.35. **Crude oil spot prices, 1988-2020**

USD per barrel



Note: The cut-off date is 29 June 2020.

Source: OECD Development Centre based on data from the US Energy Information Administration.

StatLink https://doi.org/10.1787/888934161159

Box 1.11. **Oil prices add to the pressure on Emerging Asian economies** *(cont.)*

The combined share of ASEAN, China and India in global crude oil production amounted to approximately 7.7% at the end of 2019, according to US Energy Information Administration data. The largest producers in the region are China, with 4.6% of global crude production, followed by Indonesia (0.9%), India (0.8%) and Malaysia (0.8%). While Malaysia and Brunei Darussalam account for only 0.8% and 0.1% of global production, respectively, they are net oil exporters to the rest of the world. Brunei Darussalam runs the largest oil trade balance surplus in ASEAN: in 2017, the Sultanate exported USD 2.71 billion worth of crude petroleum and imported USD 272 million. Malaysia's crude exports amounted to USD 6.4 billion in 2019, while imports stood at USD 6.2 billion.

Lower prices stand to reduce export earnings and fiscal revenues, with significant spillovers to the other sectors of the economy, but the net effect of the oil price decline in Emerging Asia is not yet clear. As densely populated large consumers, China and India are likely to benefit from the standpoint of consumption, even though they are also oil producers. China imported a record 11.34 million barrels a day in May 2020 (General Administration of Customs, People's Republic of China, 2020), while India spent USD 112 billion on oil imports in FY 2018-19, up from USD 88 billion in the previous fiscal year (CEIC data). More generally, industrial sectors that rely heavily on oil will see their energy bills shrink. The largest gainers are air and road transport companies as well as producers of petroleum-derived products. The fall in oil prices could also benefit consumers, providing producers of non-energy goods adjust their prices (ECB, 2018).

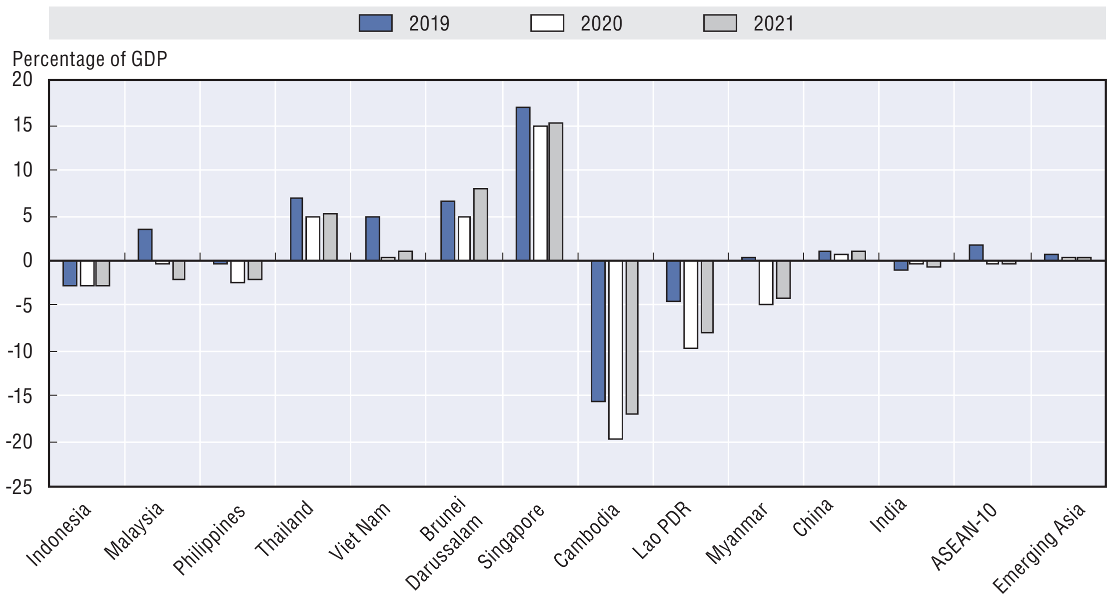
The sharp oil price drop in April took its toll on global risk assets. Equity markets reacted first, with declines of 3.2% in India, 2.2% in Malaysia and 1.6% in Indonesia. Access to funding through global financial markets is likely to tighten in the near to medium term, to the extent that credit ratings are an indication of credit risk. Credit rating agencies have reviewed their sovereign rating outlook downwards for several oil producers in Emerging Asia. On 9 April, Fitch Ratings changed Malaysia's long-term sovereign rating to "negative" from "stable"[9], citing the effects of the COVID-19 crisis on domestic economic activity and a deterioration in export earnings. Indonesia's sovereign rating was revised to "negative" from "stable" by S&P Global Ratings on 17 April, while PT Saka Energi, one of Indonesia's largest oil and gas companies, was downgraded by Moody's on 30 April. Further such actions cannot be ruled out as credit rating agencies adjust their outlook for energy markets.

Current account balances head downwards

Emerging Asia's current account balances held up well in Q1 2020, although readings are expected to be generally weaker this year than in 2019 (Figure 1.36). With the exception of China, there has been no significant deterioration in positions so far in countries where data are available. The stability has helped to contain depreciation risks to domestic currencies. It is also crucial for keeping investor pessimism regarding economic fundamentals at bay.

Figure 1.36. **Current account balances in ASEAN, China and India, 2019-21**

Percentage of GDP



Note: Data are as of 26 June 2020. Data for India and Myanmar relate to fiscal years. Data for 2019 are based on CEIC and national sources. The 2019 nominal GDP of Lao PDR is from the *IMF World Economic Outlook* April 2020. The projections for China, India and Indonesia for 2020 and 2021 are based on the OECD Economic Outlook 107 (database). The projections assume "single hit" scenarios, in which a second big outbreak is avoided. They also assume that world GDP is declining in 2020 but will almost regain pre-crisis level (2016 level) in 2021.

Source: OECD Development Centre.

StatLink https://doi.org/10.1787/888934161178

China recorded a current account deficit for the first time in seven quarters as net trade turned negative. While trade flows declined both ways, export revenues posted a much larger decline than import payments. Indonesia's current account deficit moderated. The robustness of non-oil and gas exports moved trade into a surplus from a deficit in the previous quarter, but net outflows of primary income remained substantial. In contrast, Malaysia and Thailand maintained a fairly stable level of current account surplus in Q4 2019. In Malaysia, the trade surplus remains large despite a recent fall. The decrease in net trade was also compensated by a reduction in the net primary income deficit. In Thailand, a current account surplus was mainly supported by the large net trade position.

In the coming months, continuing tight border restrictions for shipments will be a significant dampening factor for cross-border trade, while a flare-up of trade tension could further complicate the environment. The erosion of trade could be accompanied by firm closures, with potential longer-term implications on trade capacity. Nonetheless, the recovery in real-sector conditions in advanced economies, even if slow, augurs well for external activities. Potential changes in the partial suspension of Cambodia's trade privileges with the European Union, its largest export market, will also be material.

Furthermore, remittances from foreign workers are likely to decline significantly, with many lost jobs unlikely to be restored in the short-term. In Cambodia, Myanmar, India, the Philippines and Viet Nam, the current account support provided by offshore workers' remittances could dissipate. For overseas contractual workers and shipboard workers, renewal of work arrangements will not be straightforward (Box 1.3). The business climate facing the cargo shipping and cruise tourism industries understandably remains grim. Cross-border controls for land-based workers have likewise tightened significantly.

Conclusion

The COVID-19 pandemic will weaken economic performance across Emerging Asia in 2020 relative to the previous year, but significantly stronger GDP growth is expected in all 12 economies in 2021 if crippling new waves of infection do not take place.

The high global socio-economic toll of the pandemic is still rising, and will likely end decades of uninterrupted positive growth in many Emerging Asian countries. The health crisis has virtually shut down the global travel and tourism industry. Lockdown measures and business uncertainties have weighed on private consumption and investment. Firms have closed and people have lost jobs. To limit economic damage, restrictions have been eased in many parts of world, even in countries that still confront rising cases of infections. This convolutes the recovery process, especially when health systems are already stressed beyond their limits.

Emerging Asian economies have generally addressed the pandemic through tight quarantine measures coupled with fiscal and monetary support. The impact of these policy actions has been mixed, given variations in execution. As of mid-July, India, Indonesia and the Philippines were still struggling to slow virus transmission. Under these circumstances, business sectors cannot take full advantage of the easing of restrictions to recoup their losses and jumpstart job market recovery. Government delivery on additional fiscal commitments is also limited by the pandemic's impact on fiscal revenue intake in light of the economic slowdown.

Financial markets in the region have been under immense stress in the last few months, yet they have withstood the headwinds arguably well thus far. The concern is that the risks associated with capital flow volatility, banking sector profitability and solvency may continue to broaden in the absence of a clear way out of the crisis. Countries with outstanding banking stability issues, like India and to some extent Lao PDR, Myanmar and Viet Nam, may be more susceptible to additional shocks. However, any country in the region would face major problems if unemployment and firm closures were to rise to uncomfortable levels. Consequently, the macroeconomic fundamentals in the next few months could influence vulnerability to cross-border capital flow disruption.

Notes

1. Lockdowns are defined and implemented differently across jurisdictions.
2. National government support pertains to measure 5 in the policy tracker. Monetary and credit market support pertains to measures 1 to 4. International assistance and packages with no breakdown pertain to measures 9 and 10. The data are as of 21 June 2020.
3. A COVID-19 fund for the countries of the South Asian Association for Regional Co-operation (SAARC) was proposed by India's leadership and it obtained pledges from the subregional members. The SAARC Disaster Management Centre was likewise set up and development of the SAARC COVID-19 Information Exchange Platform was set in motion.
4. Estimate based on the assumption of a 21-day lockdown period.
5. The credit ratings pertain to the long-term foreign currency credit ratings assessed by Standard & Poor's, Moody's and Fitch Group.
6. The data of China, Indonesia and the Philippines are as of May; Cambodia, India and Malaysia are as of April; and Thailand as of March. The other Emerging Asian economies do not publish or have not yet published monthly data in the period of March to May 2020.
7. The sources of country-level policy actions are central banks and IMF (2020a).
8. China, India, Indonesia, Korea, Malaysia, the Philippines and Thailand.
9. While the outlook has been revised downwards, Malaysia's Long-Term Foreign-Currency Issuer Deafult Rating was maintained at "A-".

References

Acuité Ratings & Research (2020), "Impact of COVID-19 on GDP growth of FY21", https://www.acuite.in/Sector-alert-Impact-of-COVID-19-on-GDP.htm.

ADB (2020), *ADB COVID-19 Policy Database*, Asian Development Bank, Manila, https://covid19policy.adb.org/ (accessed on 21 June 2020).

ADB (2018), *Economic Indicators for Eastern Asia: Input–Output Tables*, Asian Development Bank, Manila, http://dx.doi.org/10.22617/TCS189778-2.

Bangko Sentral ng Pilipinas (2020a), "Consumer confidence remains optimistic for Q1 2020, less upbeat for the next quarter and the next 12 months", Bangko Sentral ng Pilipinas, Manila, http://www.bsp.gov.ph/downloads/Publications/2020/CES_1qtr2020.pdf.

Bangko Sentral ng Pilipinas (2020b), "BSP Announces Extraordinary Measures to Support Domestic Liquidity", Bangko Sentral ng Pilipinas, Manila, http://www.bsp.gov.ph/publications/media.asp?id=5352.

Bangko Sentral ng Pilipinas (2020c), "BSP cuts RRR by 200 Bps to boost domestic liquidity amidst COVID-19 pandemic", Bangko Sentral ng Pilipinas, Manila, http://www.bsp.gov.ph/publications/media.asp?id=5331.

Bank Indonesia (2020), "BI issued implementing provisions for auction of government debt securities (sun) and/or government Islamic securities (SBSN) in the primary market", Bank Indonesia, Jakarta, https://www.bi.go.id/en/ruang-media/info-terbaru/Pages/BI-Terbitkan-Ketentuan-Pelaksanaan-Lelang-SUN-dan-atau-SBSN-Jangka-Panjang-di-Pasar-Perdana.aspx.

Bappenas (2020a), "SDGs: Solusi Bersama Pulihkan Indonesia Pascapandemi Covid-19", 15 May, Jakarta, https://www.bappenas.go.id/id/berita-dan-siaran-pers/sdgs-solusi-bersama-pulihkan-indonesia-pascapandemi-covid-19/.

Bappenas (2020b), "Atasi Kontraksi Pertumbuhan Ekonomi Akibat Covid-19, Menteri Suharso Bahas Jaring Pengaman Sosial, Stunting, hingga IKN", 11 May, Jakarta, https://www.bappenas.go.id/id/berita-dan-siaran-pers/atasi-kontraksi-pertumbuhan-ekonomi-akibat-covid-19-menteri-suharso-bahas-jaring-pengaman-sosial-stunting-hingga-ikn/.

Bauwens, M., et al. (2020), "Impact of coronavirus outbreak on NO2 pollution assessed using TROPOMI and OMI observations", Vol. 47/11, American Geophysical Union, Washington, DC, http://dx.doi.org/10.1029/2020GL087978.

Borio, C. (2019), "Central banking in challenging times" (speech), Bank for International Settlements, Basel, https://www.bis.org/speeches/sp191108a.pdf.

Bown, C. (2020), "US-China phase one tracker: China's purchases of US goods", Peterson Institute for International Economics, Washington, DC, https://www.piie.com/research/piie-charts/us-china-phase-one-tracker-chinas-purchases-us-goods.

CSIS (2020), *Southeast Asia Covid-19 Tracker* (web page), Center for Strategic and International Studies, Washington, DC, https://www.csis.org/programs/southeast-asia-program/southeast-asia-covid-19-tracker-0 (accessed on 22 May 2020).

ECB (2018), "Economic and monetary developments", *ECB Economic Bulletin,* Issue 6/2018, European Central Bank, Frankfurt, https://www.ecb.europa.eu/pub/economic-bulletin/html/eb201806.en.html#IDofOverviewes_Eb.

European Commission (2020), "Trade/Human Rights: Commission decides to partially withdraw Cambodia's preferential access to the EU market", Brussels, https://trade.ec.europa.eu/doclib/press/index.cfm?id=2113#:~:text=The%20European%20Commission%20has%20decided,on%20Civil%20and%20Political%20Rights.

FAO (2020), "ASF situation in Asia update" (5 March), Food and Agriculture Organization of the United Nations, http://www.fao.org/ag/againfo/programmes/en/empres/ASF/situation_update.html.

Flemming, S. (2020), "Viet Nam shows how you can contain COVID-19 with limited resources", World Economic Forum, Geneva, https://www.weforum.org/agenda/2020/03/vietnam-contain-covid-19-limited-resources/.

Friedman, M. (1969), "The Optimum Quantity of Money." *The Optimum Quantity of Money and Other Essays*, 1-50, Aldine Transaction, Chicago.

Hofmann, B., I. Shim and H.S. Shin (2020), "Emerging market economy exchange rates and local currency bond markets amid the COVID-19 pandemic", *BIS Bulletin* No. 5, Bank for International Settlements, Basel, https://www.bis.org/publ/bisbull05.pdf.

Horn, S. J. Meyer and C. Trebesch (2020), "European Community bonds since the oil crisis: Lessons for today?", *Kiel Policy Brief No. 136*. Kiel Institute for the World Economy, Kiel, https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/-ifw/Kiel_Policy_Brief/kiel_policy_brief_136_en.pdf.

IATA (2020), "25 million jobs at risk with airline shutdown", Press Release, International Air Transport Association, Geneva, https://www.iata.org/en/pressroom/pr/2020-04-07-02/.

IHS Markit (2020), "IHS Markit Malaysia Manufacturing PMI: Manufacturing downturn eases sharply during May", IHS Markit, London, https://www.markiteconomics.com/Public/Home/PressRelease/bcc5d8dc30944e3894c609c899d0d548.

IIF (2020), "Capital flows report: Sudden stop in emerging markets", 9 April 2020, Institute of International Finance, https://www.iif.com/Portals/0/Files/content/2_IIF2020_April_CFR.pdf (accessed on 24 April 2020).

IMF (2020a), *Policy Responses to COVID-19 Policy Tracker* (database), International Monetary Fund, Washington, DC, https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19 (accessed on 21 June 2020).

IMF (2020b), World Economic Outlook April 2020 (database), International Monetary Fund, Washington, DC, https://www.imf.org/external/pubs/ft/weo/2019/02/weodata/index.aspx (accessed on 24 May 2020).

IMF (2020c), Fiscal Monitor (database), International Monetary Fund, Washington, DC, https://www.imf.org/en/Publications/FM/Issues/2020/04/06/fiscal-monitor-april-2020 (accessed on 24 May 2020).

IMF (2020d), "Myanmar: 2019 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Myanmar", International Monetary Fund, Washington, DC, https://www.imf.org/~/media/Files/Publications/CR/2020/English/1MMREA2020003.ashx.

Johns Hopkins (2020), *COVID-19 Map* (database), Coronavirus Research Center, Johns Hopkins University & Medicine, Baltimore, MD, https://coronavirus.jhu.edu/map.html.

Mekong River Commission (2020), "Weekly dry season situation report for the Mekong River Basin", week of 26 May to 1 June 2020, Regional Flood and Drought Management Centre, Mekong River Commission, https://reliefweb.int/sites/reliefweb.int/files/resources/2020-06-02%20Weekly%20Dry%20Season%20Situation.pdf

Ministry of Economy and Finance-Cambodia (2020), "Flash report for April 2020: Socio-economic trends", Phnom Penh, https://www.mef.gov.kh/documents/shares/publication/flash_report/Flash_Report_202004_EN.pdf.

Ministry of Finance and Economy-Brunei Darussalam (2020), "Measures undertaken by the government in addressing the impact of COVID-19 in Brunei Darussalam", Bandar Seri Begawan, https://www.mofe.gov.bn/Shared%20Documents/MEASURES%20UNDERTAKEN%20BY%20THE%20GOVERNMENT%20IN%20HANDLING%20THE%20IMPACT%20OF%20COVID-19%20%20issued%2027.04.2020%20v7.pdf.

Ministry of State Secretariat-Indonesia (2020), "Peraturan pemerintah Republik Indonesia tentang pelaksanaan Program Pemulihan Ekonomi Nasional", Jakarta, https://jdih.setneg.go.id/viewpdfperaturan/P18872/PP%20Nomor%2023%20Tahun%202020.

Moody's (2020), "Rating action: Moody's downgrades India's ratings to Baa3, maintains negative outlook", Moody's, New York, https://www.moodys.com/research/Moodys-downgrades-Indias-ratings-to-Baa3-maintains-negative-outlook--PR_424605.

MTI Singapore (2020), "MTI downgrades 2020 GDP growth forecast to '-7.0 to -4.0 Per Cent'" (press release),Ministry of Trade and Industry, Singapore, https://www.singstat.gov.sg/-/media/files/news/gdp1q2020.pdf.

National Bureau of Statistics of China (2020a), "The performance of national economy continued to improve with major indicators manifesting positive changes in April", Beijing, http://www.stats.gov.cn/english/PressRelease/202005/t20200515_1745635.html.

National Bureau of Statistics of China (2020b), "National economy continued to recover in May", Beijing, http://www.stats.gov.cn/english/PressRelease/202006/t20200615_1760170.html.

NEDA (2020), *We Recover as One*, Inter-Agency Task Force Technical Working Group for Anticipatory and Forward Planning, National Economic and Development Authority of the Philippines, Manila, www.neda.gov.ph/wp-content/uploads/2020/05/We-Recover-As-One.pdf.

Pearce, B. (2020), "COVID-19: Assessing prospects for domestic markets", International Air Transport Association, Geneva, https://www.iata.org/en/iata-repository/publications/economic-reports/covid-19-assessing-prospects-for-domestic-markets/.

Prime Minister's Office of Malaysia (2020a), "All hands on deck to revive the economy–PM", 25 April 2020, Kuala Lumpur, https://www.pmo.gov.my/2020/04/all-hands-on-deck-to-revive-the-economy-pm/.

Prime Minister's Office of Malaysia (2020b), "PRIHATIN Economic Stimulus Package", Kuala Lumpur, https://www.pmo.gov.my/prihatin-economic-stimulus-package/.

RBI (2020a), "RBI announces 50,000 crore Special Liquidity Facility for Mutual Funds (SLF-MF)" (press release),Reserve Bank of India, Mumbai, 27 April 2020, https://rbidocs.rbi.org.in/rdocs/PressRelease/PDFs/PR22761B4E43FCBED94A12955FD65458EBEEDA.PDF.

RBI (2020b), "Edited transcript of Reserve Bank of India's sixth bi-monthly monetary policy press conference", Reserve Bank of India, Mumbai, https://rbidocs.rbi.org.in/rdocs/Content/PDFs/CALL07022020A7E2053D4B2744779271EA49D7EEA88C.PDF

RBI (2019), Financial Stability Report, Issue 20, Reserve Bank of India, Mumbai, https://rbidocs.rbi.org.in/rdocs//PublicationReport/Pdfs/0FSRDECEMBER20198C840246658946159CB3B94E8516F2EC.PDF.

Shi, X. and G.P. Brasseur (2020), "The response in air quality to the reduction of Chinese economic activities during the COVID-19 outbreak", Vol. 47/11, American Geophysical Union, Washington, DC, https://doi.org/10.1029/2020GL088070.

Tanaka, K. and M. Pezzini (2020), *The Economic Implications of Lockdown in Emerging Asia*, OECD Development Matters blog post, https://oecd-development-matters.org/2020/04/15/the-economic-implications-of-lockdown-in-emerging-asia/.

UNCTAD (2020), *UNCTAD-Eora GVC* (database), United Nations Conference on Trade and Development, New York, https://www.worldmrio.com/unctadgvc/.

University of Oxford (2020), *COVID-19 Government Response Tracker* (database), Blavatnik School of Government, Oxford, England, https://www.bsg.ox.ac.uk/research/research-projects/coronavirus-government-response-tracker#data (accessed on 28 June 2020).

UNWTO (2020a), UN World Tourism Organisation, Madrid, https://doi.org/10.18111/9789284421459.

World Organisation for Animal Health (2020), "Situational updates of ASF in Asia and the Pacific" (web page), Tokyo, https://rr-asia.oie.int/en/projects/asf/situational-updates-of-asf/ (accessed on 27 June 2020).

Annex 1.1. Detailed summary of key macro-policy responses to COVID-19

	Fiscal policy measures (including income support schemes)	Monetary policy measures	Data sources
ASEAN-5			
Indonesia	• First stimulus package worth USD 725 million in February 2020, to support the tourism, aviation and property industries. The package also allocated USD 324 million for low-income households. • Second emergency stimulus package, worth USD 8.1 billion, which included exempting some workers in manufacturing from income tax and giving manufacturing companies a discount on corporate tax payments. • Third stimulus package worth nearly USD 24.5 billion for healthcare spending, social protection and tax incentives. Increased benefits and broader coverage of existing social assistance to low-income households, such as food aid, conditional cash transfers and electricity subsidies, and expanded unemployment benefits. • On 18 May, USD 43 billion economic stimulus to support 12 state-owned enterprises, subsidise loan repayments for about 60 million borrowers and strengthen social safety net programmes. • Tax relief and exemptions, and acceleration of VAT refund. • Cuts on corporate tax payments: from the current 25% in 2020 to 22% in 2021, and 20% for financial year 2022 onwards. • Fiscal stimulus package amounting to USD 75.7 billion with allocated direct income support of USD 67.6 billion, as above.	• Reduction in the policy rate by 25 bps to 4.75% in February, by 25 bps to 4.5% in March and by another 25 bps to 4.25% in June. • Daily rupiah reserve requirement lowered by 50 bps in March. • Maximum duration for repo and reverse repo operations increased (up to 12 months) and introduction of daily repo auctions. • Increased frequency of FX swap auctions for 1, 3, 6 and 12-month tenors from three times per week to daily auctions. • Relaxation of loan classification and restructuring procedures.	• Bank of Indonesia, Bank Indonesia, https://www.bi.go.id/en/ruang-media/siaran-pers/Pages/sp_223020.aspx • Bank of Indonesia, Bank Indonesia, https://www.bi.go.id/en/ruang-media/siaran-pers/Pages/sp_224620.aspx • Bank of Indonesia, Bank Indonesia, https://www.bi.go.id/en/ruang-media/siaran-pers/Pages/SP_222220.aspx • Bank of Indonesia, Bank Indonesia, https://www.bi.go.id/en/ruang-media/info-terbaru/Pages/Bank-Indonesia-Sempurnakan-Ketentuan-GWM--Dalam-Rupiah-dan-Valuta-Asing.aspx • CSIS, https://www.csis.org/programs/southeast-asia-program/southeast-asia-covid-19-tracker-0#ASEAN • KPMG, https://home.kpmg/xx/en/home/insights/2020/04/indonesia-government-and-institution-measures-in-response-to-covid.html
Malaysia	• First economic stimulus packages worth USD 4.6 billion announced on 27 February to cushion the impact of COVID-19 for the tourism sector and other industries. • Second package includes USD 23.1 billion for businesses and USD 2.3 billion in direct cash payments for 4 million low-income households. • Third stimulus package on 6 April, worth USD 2.2 billion, includes wage subsidies, grants and loans for SMEs, and tax deductions. • Measures aimed at easing the cash flow of affected businesses and sectors (tourism, agriculture) and providing financial aid to private and government employees. • Deferral on the payment of monthly income tax instalments • Retirement scheme exemption and postponement on rental payments for housing and business premises.	• Monetary stimulus response to support credit financing and liquidity flows. • Lowered the Overnight Policy Rate (OPR) by 25 bps to 2.50% in March. • Lowered the Statutory Reserve Requirement (SRR) Ratio by 100 bps to 2% effective 20 March. • Easing regulatory and supervisory compliance on banks to enable them to support loan deferment and restructuring. • Defer loan repayment under Skills Development Fund Corporation (PTPK) for 6 months to 174 500 borrowers and National Higher Education Fund (PTPTN) loan repayments.	• Bank Negara Malaysia, https://www.bnm.gov.my/index.php?ch=en_press&pg=en_press&ac=5046&lang=en • CSIS, https://www.csis.org/programs/southeast-asia-program/southeast-asia-covid-19-tracker-0#ASEAN • Malaysia, Prime Minister's Office, https://www.pmo.gov.my/2020/03/speech-text-prihatin-esp/ PRIHATIN. https://www.pmo.gov.my/2020/04/langkah-tambahan-bagi-pakej-rangsangan-ekonomi-prihatin-rakyat-prihatin/ • KPMG, https://home.kpmg/xx/en/home/insights/2020/04/malaysia-government-and-institution-measures-in-response-to-covid.html

	Fiscal policy measures (including income support schemes)	Monetary policy measures	Data sources
Philippines	• Expansionary budget, with a planned 12% year-to-year increase of spending. • Fiscal stimulus amounting to USD 11.9 billion (PHP 595 billion) to provide economic relief to businesses and households affected by COVID-19. Includes cash aid programme for 18 million low-income households, social protection measures for vulnerable workers including displaced and overseas workers, and related health medical response. • Financial assistance for affected MSMEs and vulnerable households including wage subsidies.	• Lower policy rate in 2020 by a cumulative 175 bps, to 2.25% (25 bps on 6 February, 50 bps on 19 March, 50 bps on 16 April and a further 50 bps on 25 June). • The minimum liquidity ratio (MLR) for stand-alone thrift banks, rural banks and cooperative banks was reduced from 20% to 16%. • Purchase PHP 300 billion worth of government securities to support government programme to counter the impact of COVID-19. • Temporary relaxation of requirements on compliance reporting, penalties on required reserves, and single borrower limits. • Easier accessibility to rediscounting facility. • Temporary relaxation of provisioning requirements. • Temporary grace period for loan payments. • Suspension of all fees and charges imposed on online banking platforms during the period of regulatory relief.	• Department of Finance, the Philippines, https://www.dof.gov.ph/the-duterte-administrations-philippine-program-for-recovery-with-equity-and-solidarity-ph-progreso/ • BSP, http://www.bsp.gov.ph/downloads/regulations/attachments/2020/m020.pdf • BSP, http://www.bsp.gov.ph/publications/media.asp?id=5322 • BSP, http://www.bsp.gov.ph/publications/media.asp?id=5358 • BSP, http://www.bsp.gov.ph/publications/media.asp?id=5425 • CSIS, https://www.csis.org/programs/southeast-asia-program/southeast-asia-covid-19-tracker-0#ASEAN
Thailand	• Reduction of withholding taxes for businesses, from 3% to 1.5%. • Tax deduction for businesses of 1.5 times the interest rate paid from 1 April 2020 to 31 December 2020 and 3 times the wage expenses paid from April 2020 to July 2020. • Reduction or postponement of utility bills. • Increase infrastructure and jobs investment. • Fiscal package with 3 phases amounting to at least THB 1.9 trillion (USD 41.6 billion) including health-related spending; assistance for workers (including 3 million workers outside the social security system), farmers and entrepreneurs affected by COVID-19; support for individuals and businesses through soft loans from Specialised Financial Institution (SFI) and Social Security Office.	• Policy rate was reduced by 25 bps on 5 February, by 25 bps on 20 March and by another 25 bps on 20 May. • Reductions in interest and/or fees. • Relaxation of repayment conditions and debt restructuring by suspending the principal and reducing the interest rate for debts. • Low interest loans at 3% for the first 2 years provided to affected SME entrepreneurs until 30 December 2020, and relaxation of the maximum limit of personal loans for emergency cases. • Reduced and cancelled BOT bond issuance.	• Bank of Thailand, https://www.bot.or.th/English/PressandSpeeches/Press/2020/Pages/n0563.aspx • Bank of Thailand, https://www.bot.or.th/English/PressandSpeeches/Press/2020/Pages/n1463.aspx • Bank of Thailand, https://www.bot.or.th/English/PressandSpeeches/Press/2020/Pages/n2763.aspx • ASEAN Briefing, https://www.asean-briefing.com/news/thailand-issues-third-covid-19-stimulus-package/ (accessed 30 April 2020) • KPMG, https://home.kpmg/us/en/home/insights/2020/03/tnf-thailand-withholding-tax-rate-reduction-tax-relief-covid-19.html • KPMG, https://home.kpmg/xx/en/home/insights/2020/04/thailand-government-and-institution-measures-in-response-to-covid.html • Mazars, https://www.mazars.co.th/Home/Doing-Business-in-Thailand/Tax/Tax-Measures-on-COVID-19 • CSIS, https://www.csis.org/programs/southeast-asia-program/southeast-asia-covid-19-tracker-0#ASEAN • Nikkei Asian Review, https://asia.nikkei.com/Economy/Thai-cabinet-approves-58bn-stimulus-to-weather-coronavirus

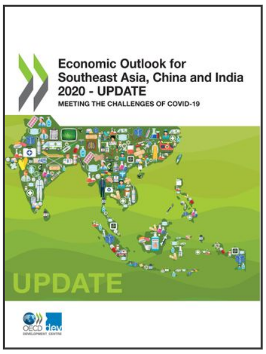
	Fiscal policy measures (including income support schemes)	Monetary policy measures	Data sources
Viet Nam	• Stimulus package estimated at USD 12.8 billion to support health and non-health services, including purchase of medical equipment and materials; special allowances for forces engaged in epidemic prevention and control; expenses for isolated people, medical examination and treatment during the isolation period, and other cash transfer packages. • Tax relief on delayed payments, tax exemptions, streamlined tax and custom audit and inspection at firms. • Increased government spending on infrastructure.	• Benchmark policy rates cut by 50-100 bps, the short-term deposit rates cap by 25-30 bps, and the short-term lending rates cap for priority sectors by 50 bps. • Raised remuneration rates on required Vietnamese dong (VND) reserves by 20 bps, raised interest rates by the same amount on Vietnam Deposit Insurance, Social Policy Bank, Vietnam Development Bank, People Credit Funds and microfinance institutions' deposits at the SBV. • Exemptions and reduced interest on existing debts; reduced fees (including interbank transaction fees for small amounts, and credit information subscription fees).	• State Bank of Vietnam, https://www.sbv.gov.vn/webcenter/portal/vi/menu/trangchu/ttsk/ttsk_chitiet?centerWidth=80%25&dDocName=SBV410650&leftWidth=20%25&rightWidth=0%25&showFooter=false&showHeader=false&_adf.ctrl-state=7602hkl89_340&_afrLoop=887657239163664 • CSIS, https://www.csis.org/programs/southeast-asia-program/southeast-asia-covid-19-tracker-0#ASEAN • Ministry of Foreign Affairs, http://www.molisa.gov.vn/Pages/tintuc/chitiet.aspx?tintucID=222573; https://www.mof.gov.vn/webcenter/portal/tttc/r/l/cm1913?dDocName=MOFUCM176202&dID=184148; https://www.mof.gov.vn/webcenter/portal/tttc/r/l/cm1913?dDocName=MOFUCM176327&dID=184276 • ADB, https://covid19policy.adb.org/policy-measures/VIE
Brunei Darussalam and Singapore			
Brunei Darussalam	• Additional financial support measures amounting to an estimated BND 250 million (USD 176.8 million), effective 1 April. • Measures to support the private sector, including a 30% discount on rental rates of government buildings for MSMEs in the most affected sectors, a 50% discount on corporate income tax for 2020 for the most affected sectors and a 15% discount on water and electricity bills to firms in the most affected sectors.	• Six-month deferment of loan repayments for all affected sectors including importers of food and medical supplies. • Restructuring and deferment of principal amounts on personal loans and hire-purchase facilities such as car loans or financing (for not more than ten years). • Deferment of principal amount or financing for real estate. • USD 1.7 million deferment of loan repayments and exemption of charges for SMEs. • Restructuring the outstanding credit card balance. • Coupled with fiscal assistance, these measures increase the value of the stimulus package to BND 450 million (USD 318.1 million).	• Monetary Authority of Brunei Darussalam, https://ambd.gov.bn/Site%20Assets%20%20News/2020-Press-Statement-Banking-Sector-Interim-Measures-FINAL.pdf • Ministry of Finance and Economy, Brunei Darussalam, https://www.mofe.gov.bn/Lists/News/NewDispForm.aspx?ID=101 • Ministry of Finance and Economy, Brunei Darussalam, https://www.mofe.gov.bn/Lists/News/NewDispForm.aspx?ID=108
Singapore	• Increased budget support and spending. • Four packages worth SGD 63.7 billion (USD 45.2 billion). Funds allocated for containing the outbreak amount to about SGD 800 million). A Care and Support Package provides support for households (SGD 5.7 billion), including a cash payout to all Singaporeans and additional payments for lower-income individuals and the unemployed. A Stabilisation and Support Package for businesses (SGD 35.3 billion) includes wage subsidies, enhanced financing schemes and additional support for industries directly affected and the self-employed. • A fourth stimulus worth USD 23.2 billion, the Fortitude Budget, was unveiled on 26 May to support workers and businesses affected by border closures and social distancing measures.	• Extension of payment terms for trade finance facilities. • Additional financing for working capital. • Establishment of a USD 60 billion swap facility with the US Federal Reserve in March 2020, for at least six months, with the aim of providing USD liquidity to financial institutions in Singapore. • Altered its exchange rate-based policy stance by adopting a 0% per annum rate of appreciation of the policy band and by reducing the mid-point to the prevailing level of the SGD Nominal Effective Exchange Rate (NEER). • Selected regulatory requirements and supervisory programmes adjusted by MAS on 7 April to enable financial institutions to better deal with pandemic-related issues. An SGD 125 million support package to sustain and strengthen financial services and FinTech capabilities, funded by the Financial Sector Development Fund, with three main pillars: supporting workforce training and manpower costs; strengthening digitalisation and operational resilience; and enhancing Fintech firms' access to digital tools.	• ASEAN Briefing, https://www.asean-briefing.com/news/singapore-announces-second-covid-19-stimulus-package-salient-features/ • CSIS, https://www.csis.org/programs/southeast-asia-program/southeast-asia-covid-19-tracker-0#ASEAN • Ministry of Finance, https://www.mof.gov.sg/newsroom/press-releases • MAS, https://www.mas.gov.sg/news/media-releases/2020/new-grant-scheme-to-support-singapore-fintech-firms • MAS, https://www.mas.gov.sg/news/media-releases/2020/mas-announces-swap-facility-with-the-us-federal-reserve • MAS, https://www.mas.gov.sg/news/monetary-policy-statements/2020/mas-monetary-policy-statement-30mar20

	Fiscal policy measures (including income support schemes)	Monetary policy measures	Data sources
Cambodia, Lao PDR and Myanmar			
Cambodia	• Fiscal resources to the health sector of around USD 60 million. • Targeted capital injection to support smaller firms and microfinance institutions, and additional capital injection for the Rural Development Bank. • Suspended workers provided with income payments co-funded by firms and government. • A package including tax concessions, wage subsidies and, streamlined capital spending.	• Credit support in the form of low-interest loans; lower interest rate on Negotiable Certificates of Deposit. • Interest rate cut in Liquidity Providing Collateralised Operations. • Decreased bank funding costs in domestic currency. • Lowering of required reserves for local and foreign currencies.	• CSIS, https://www.csis.org/programs/southeast-asia-program/southeast-asia-covid-19-tracker-0#ASEAN • KPMG, https://home.kpmg/xx/en/home/insights/2020/04/cambodia-government-and-institution-measures-in-response-to-covid.html • ADB, https://covid19policy.adb.org/policy-measures/CAM
Lao PDR	• Stimulus response amounting to USD 10.3 million. • New electricity tariff to ensure supply of electricity, in effect from 1 May 2020 to 31 December 2025. • Revenue collection ensured through automated platforms and inspections targeting stockpiling of essential goods. • Tax relief and exemptions. • Measures to cut non-essential spending.	• Policy rate cuts from 4% to 3% or one-week loans; from 5% to 4% for one-two week loans; and from 10% to 9% for two-week to one-year loans. • Reduction in reserve requirements, from 10% to 8% on foreign exchange, and from 5% to 4% on local currency. • Loan restructuring and new loans to businesses affected by the outbreak. • Regulatory forbearance on loan classification and provisioning.	• Bank of Lao PDR, https://www.bol.gov.la/en/interestRate • CSIS, https://www.csis.org/programs/southeast-asia-program/southeast-asia-covid-19-tracker-0#ASEAN • ADB, https://covid19policy.adb.org/policy-measures/LAO
Myanmar	• Extension on income and commercial tax payments • Exemption for the 2% advance income tax on exports; reduced duties for businesses operating with the Myanmar Automated Cargo Clearance System • Provide for 40% of the social security fees for about 1.3 million insured workers from factories and workshops that are temporarily suspended for health inspections • Fiscal support measures for Ministry of Health and Sports for additional health-related expenditures. • SMEs, hotels and tourism sectors are receiving support with a capital of MMK 100 billion, composed of MMK 50 billion from the national Revolving Fund approved by the Union Government and MMK 50 billion from the Social Security Fund.	• Cuts in policy interest rate by 0.5 percentage points on 12 March and by 1 percentage point on 24 March, followed by a further reduction of 1.5 percentage points effective on the 1st of May. • Deposit rates will be subject to a lower minimum rate of 6.5%, secured lending rates will be lowered to a maximum of 11.5%, while unsecured lending will be subject to a lower maximum rate of 14.5%. • Deposit auctions have been halted to maintain adequate liquidity in the interbank market.	• Central Bank of Myanmar, https://www.cbm.gov.mm/content/3912 • CSIS, https://www.csis.org/programs/southeast-asia-program/southeast-asia-covid-19-tracker-0#ASEAN • ADB, https://covid19policy.adb.org/policy-measures/MYA
China and India			
China	• Initial package of CNY 3.6 trillion of fiscal measures or financing plans to support spending on epidemic prevention and control, production of medical equipment, accelerated disbursement of unemployment insurance and its extension to migrant workers, tax relief and waived social security contributions. • Measures to ease SME liquidity constraints. • VAT exemption for small-scale taxpayers in Hubei province, and reduction from 3% to 1% for those in other provinces. • Lowered/exempted employers' contributions to social insurance. • Tariff exemption on imported supplies for COVID-19 control. • Additional stimulus response estimated at CNY 4 trillion on 28 May to further support employment and jobs, and to provide assistance to factories and hard-hit companies.	• Reduction in policy rates, from 4.15% in February to 4.05% in March and 3.85% in April. • Liquidity injection into the banking system via medium-term lending facility, up to a total of CNY 1 trillion since January 2020. • Reduction of the 7-day and 14-day reverse repo rates by 30 and 10 basis points (bps), respectively. • Cuts in reserve requirement ratio by 50-100 bps. • Reduction of the interest on excess reserves from 72 to 35 bps. • Reduction of the one-year interest rate charged by the People's Bank of China (PBoC) on lending to financial institutions that take deposits, called the re-lending rate, by 0.25 percentage points to 2.25%, aimed especially at increasing cheaper credit for agricultural and small firms.	• People's Bank of China, http://www.pbc.gov.cn/en/3688110/3688181/4026459/index.html • People's Bank of China, http://www.pbc.gov.cn/en/3688110/3688172/4028850/index.html • BIS, https://www.bis.org/statistics/cbpol.htm • KPMG, https://home.kpmg/xx/en/home/insights/2020/04/china-government-and-institution-measures-in-response-to-covid.html • South China Morning Post, https://www.scmp.com/economy/china-economy/article/3086569/china-pledges-largest-ever-economic-rescue-package-save-jobs • ADB, https://covid19policy.adb.org/policy-measures/PRC

	Fiscal policy measures (including income support schemes)	Monetary policy measures	Data sources
India	• Three direct support measures, estimated at USD 142.6 billion out of a government support package worth USD 266 billion, covering health (INR 150 billion), non-health initiatives (around INR 2 trillion) and fiscal support (USD 112.50 billion). • Package includes health infrastructure such as COVID-19 testing facilities, personal protective equipment, isolation beds, intensive care unit beds and ventilators. • Other key elements are in-kind (food, cooking gas) and cash transfers to lower-income households; insurance coverage for healthcare workers; and wage support for low-wage workers, including eased criteria for benefits in the event of job loss. • Measures to ease tax compliance across a range of sectors, including postponement of filing and other compliance deadlines. • Measures by state governments to support the health and well-being of lower-income households, primarily in the form of direct transfers. The magnitude varies by state.	• Repo and reverse repo rates reduced on 27 March by 75 and 90 bps to 4.4% and 4.0%, respectively. Liquidity measures worth INR 3.7 trillion covering Long Term Repo Operations, a cash reserve ratio cut of 100 bps and an increase in marginal standing facility to 3% of the Statutory Liquidity Ratio. • Open market operations and special refinance facilities for rural banks, housing finance companies and small enterprises.	• Financial Times, https://www.ft.com/content/5734f333-e4d7-4ebf-9de2-220e537da3f0?accessToken=zwAAAXIRWB3Ykc9XNPMz5NdOv9Od4ilOU32j8A.MEQCIE1obkN05q4qkjoiB-gF6riG66o6ocs0SQWfl2AsFlikHAi-ADu_DmNRDP9bo3QfxgYpytmLV8FGnE-HOa8g66dgBdahQ&sharetype=gift?token=4a849e3f-c1b7-487d-ba1d-e73f283cd8c8 • KPMG, https://home.kpmg/xx/en/home/insights/2020/04/india-government-and-institution-measures-in-response-to-covid.html • Reserve Bank of India, https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11894&Mode=0; https://www.rbi.org.in/scripts/Annualpolicy.aspx • ADB, https://covid19policy.adb.org/policy-measures/IND

Notes : BIS = Bank for International Settlements; BOT = Bank of Thailand; BSP = Bangko Sentral ng Pilipinas; CSIS = Center for Strategic and International Studies; IMF = International Monetary Fund; KPMG = Klynveld Peat Marwick Goerdeler; MAS = Monetary Authority of Singapore; PBoC = People's Bank of China.

Figures above do not include foreign borrowings and loans. Some figures and policy measures may change following new developments in the countries. Currency conversions used are based on OECD exchange rates (https://data.oecd.org/conversion/exchange-rates.htm).



From:

Economic Outlook for Southeast Asia, China and India 2020 – Update

Meeting the Challenges of COVID-19

Access the complete publication at:
https://doi.org/10.1787/e8c90b68-en

Please cite this chapter as:

OECD (2020), "Macroeconomic assessment and economic outlook", in *Economic Outlook for Southeast Asia, China and India 2020 – Update: Meeting the Challenges of COVID-19*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/8a7635fd-en