Navigating the Pandemic: Asia’s Multi-Speed Recovery

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The Global Context
Unprecedented recession, with services hit especially hard

Sources: EU KLEMS; Organisation for Economic Co-operation and Development; US Bureau of Economic Analysis; and IMF staff calculations.

Note: Sectors are ISIC rev.4: A = agriculture, forestry, and fishing; B = mining and quarrying; C = manufacturing; D&E = utilities; F = construction; G = wholesale and retail trade; H = transportation; I = accommodation and food services; J = information and communication; K = financial and insurance activities; L = real estate; M&N = professional and administrative services; O = public administration and defense; P = education; Q = human health and social work; R&S = arts, entertainment, recreation, and other services; T = activities of households as employers and undifferentiated goods-and-services-producing activities of households for own use; U = activities of extraterritorial organizations and bodies.

1Excludes Japan due to lack of sectoral detail. 2020:Q1 year-over-year growth is used for the United States due to lack of data on 2020:Q2.
Latest Q3 GDP have had positive surprises

2020Q3 GDP Growth Surprises¹
(percentage points; annualized)

Source: Haver Analytics, June WEO, and IMF Staff calculations.
Note: ¹Covers about 48 percent of WEO World; *Haver Analytics estimate
However, the pandemic rages on and reopening has stalled.

**New COVID-19 Cases**

(per million population)

Sources: JHU Coronavirus Database.

**Strictness of Containment Policy and Mobility**

(index; March 1=100, 7-day moving average)

Sources: Google Mobility Index and OxCGRT.
Zooming in on Asia—Patches of Green Shoots
Pandemic at various stages in Asia

Cumulative Confirmed Cases, Emerging Markets
(Log scale)

Cumulative Confirmed Cases, Advanced Economies
(Log scale)

Sources: Johns Hopkins University, and IMF staff calculations.
Note: Data as of November 10, 2020.
Containment measures being eased at different speeds

**Domestic Containment Stringency**
(index, 0-1, 1=strictest)

- Peak Level
- Current Level

**Status of Containment Measures**

<table>
<thead>
<tr>
<th>Country</th>
<th>Travel</th>
<th>School</th>
<th>Retail</th>
<th>Services</th>
<th>Industry</th>
<th>Gathering</th>
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**Scale of opening:**
- Fully open
- Open with restrictions
- Partially closed
- Closed

**External Containment Stringency**
(index, 0-1, 1=strictest)

- Peak Level
- Current Level

Sources: IMF staff estimations.
Note: Data as of 09/08/2020. For some country’s restriction have been eased further since 09/08/2020 (e.g. Australia, New Zealand).

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Economic activity is picking up

Real GDP Growth (percent change, y-o-y)

Manufacturing and Services Purchasing Manager Index (index, 50+ = expansion)

Source: Haver Analytics, and IMF staff calculations.
Note: Q3 data for growth not available for all countries. Data as of November 10, 2020.

Source: Haver Analytics, and IMF staff calculations.
Note: Data as of November 10, 2020.
Financial conditions have eased but downside risks remain

Stock Market Performance
(Index, Jan-01-2020=100)

Asia EM Cumulative Portfolio Flows
(billions of USD)

Sources: Bloomberg, and IMF staff calculations. For USA we use SP500 Index. For EuroArea FTEF80 Index.

Sources: IIF and IMF staff calculations.
Note: t=0 for GFC is August 15th, 2008. t=0 for COVID-19 is December 21st, 2019 when first case reported. Data as of September 30, 2020.
Weak labor markets show signs of scarring

**Labor Force Participation Rate**

- **Latest** vs **GFC**

**Asia: Change in Unemployment Rate by Age Cohort, Latest versus Pre-COVID**

- Median; in percentage points

**Asia: Change in Labor Force Participation Rate by Gender during Crises**

- in percentage points

**Source:** Haver Analytics and IMF staff calculations.

Note: Labor force participation rate for Asia refers to REO14, where available. Data available as of September 30, 2020.

Source: Haver Analytics and IMF staff calculations.

Note: Pre-COVID is 2019Q4 where quarterly data is available and Dec 2019 where monthly is available. Latest is the latest data point available post Feb 2020. Asia refers to Korea, Japan, Australia, New Zealand, Taiwan POC, Thailand.

Source: Haver Analytics and IMF staff calculations.

Notes: Asia refers to Australia, Japan, Korea, Singapore, Thailand and Philippines. Data are seasonally adjusted. For COVID-19, data are up to June 2020.
Our Forecast: Uncertain, Multi-speed Recovery
Forecasts reflect a multi-speed recovery

Growth Projections: Asia-Pacific Region
(percentage change from a year earlier)

<table>
<thead>
<tr>
<th>Year</th>
<th>World</th>
<th>Asia</th>
<th>AE</th>
<th>EMDE</th>
<th>CHN</th>
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<th>IND</th>
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<td>2.8</td>
<td>4.6</td>
<td>1.3</td>
<td>5.5</td>
<td>6.1</td>
<td>0.7</td>
<td>2.0</td>
<td>4.2</td>
<td>4.7</td>
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<tr>
<td>2020</td>
<td>-4.4</td>
<td>-2.2</td>
<td>-4.0</td>
<td>-1.6</td>
<td>1.9</td>
<td>-5.3</td>
<td>-1.9</td>
<td>-10.3</td>
<td>-3.4</td>
<td>-4.4</td>
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<tr>
<td>Revisions from June 2020</td>
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<td>-0.6</td>
<td>0.8</td>
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<td>0.9</td>
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<td>2.8</td>
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<td>2.8</td>
<td>0.0</td>
<td>-1.1</td>
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Source: World Economic Outlook and IMF staff calculations.
Persistent drop in potential output

Asia Potential Output Forecast (2019=100)
(index)

Sources: World Economic Outlook, and IMF staff calculations.
Note: Asia aggregate includes Australia, China, Hong Kong SAR, India, Indonesia, Japan, Korea, Malaysia, New Zealand, Philippines, Singapore, Taiwan Province of China, and Thailand.
Risks
China-US tensions pose downside risks

High-Tech GVC Participation, 2017

Source: Asian Development Bank database.
Note: High-tech industries include aircraft and spacecraft, pharmaceuticals, office machinery, telecommunications equipment, and medical and precision instruments. Red bars plot the share of GVC related trade that is in the high-tech sectors. Green bars show high-tech related GVC trade as a share of GDP.

China-US: Technological Dislocation Scenario, Impact on GDP

Source: IMF staff estimations.
Note: Simulations based on IMF Global Integrated Monetary and Fiscal Model (GIMF) to estimate real GDP impact of a new steady state with lower China-OECD high-tech trade. Three channels: loss of trade, lower productivity due to resource misallocation, and forgone productivity gains due to lack of technology spillovers (diffusion channel).
Household and corporate balance sheets are leveraged

Sources: BIS and IMF staff calculations.
Note: Asia includes China, India, Indonesia, Malaysia, Thailand, Australia, Hong Kong SAR, Japan, Korea, New Zealand and Singapore. Data available as of November 10, 2020.

Profitability: Global Financial Crisis (GFC) and COVID
(percent, EBIT/Total Asset, weighted average)

Sources: Bauer, A. et. al, forthcoming.
Financial sector vulnerabilities are also rising

Capital Adequacy Ratio

<table>
<thead>
<tr>
<th></th>
<th>2020Q1</th>
<th>2019</th>
<th>2008Q1</th>
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<td>Asia EMDE</td>
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<td>Worldwide</td>
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Non-performing Loans (percent)

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<tr>
<th></th>
<th>2020Q1</th>
<th>2019</th>
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Source: Financial Soundness Indicators, IMF.
Note: Data available as of November 10, 2020.
Public debt sustainability is deteriorating

Sources: World Economic Outlook, and IMF staff calculations.
Note: The regional aggregates are calculated as median for a given year.

Sources: S&P, Moody's, and Fitch.
Rising inequality increases risk of social unrest

**Average response net Gini to a pandemic**
for 175 countries, 1961-2017
(with 90 percent CI; change in gini net; percent)

Note: The chart estimates the average change in net Gini associated with a pandemic (impulse response functions and 90 percent confidence bands estimated using a sample of 175 countries over 1961-2017).

**Marginal Effect of Net Gini on Civil Disorder**
(with 90 percent CI; ICRG sign inverted)

Source: ICRG and IMF staff calculations.
Note: Civil Disorder measures the potential risk to governance or investment from mass protest, such as anti-government demonstrations, strikes, etc. The score ranges from 0-4, where higher score means lower disorder. Given a non-linear relationship, the marginal effect of a 1-point (out of 100) increase in net Gini on Civil Disorder varies with the level with net Gini. Figure shows marginal effect of an increase in net Gini and 90 percent confidence intervals around the point estimates.
Early Lessons and Policy Recommendations
Better outcomes with faster public health response...

**Public Health Response Time**
(number of days)

**Confirmed Cases, Deviation from Baseline**
(log percentage points)

Source Deb, Furceri, Ostry and Tawk (2020a).
Note: Public Health Response Time (PHRT) is measured as the number of days it took a country to implement containment measures (excluding restrictions on international travel) after a significant outbreak. The horizontal line inside each box represents the median; the upper and lower edges of each box show the top and bottom quartiles, respectively. X is the mean.

Source: Deb, Furceri, Ostry and Tawk (2020a).
Note: The bars show the cumulative impact after 30 days on the number of coronavirus disease infections to a unitary tightening of containment measures relative to a baseline of no containment.
...and well-timed exits

**New Cases at Time of Exit**
(per million people, 7-day moving average)

**Industrial Production, Deviation from Baseline**
(implied impact on industrial production 30 days after reopening, percent)

Source: Deb, Furceri, Ostry and Tawk (2020b).
Note: The horizontal line inside each box represents the median; the upper and lower edges of each box show the top and bottom quartiles, respectively. X is the mean.

Source: Source: Deb, Furceri, Ostry and Tawk (2020b).
Note: The bars show the impact after 30 days on industrial production (implied by changes in NO2 emissions) to a unitary easing of containment measures relative to a baseline of no change. Lighter shade indicates effects not statistically significant at 95% level.
Effective containment, testing/tracing, healthcare are vital

Policy recommendations

❖ Strong containment (social distancing, enforceable self-quarantines)
❖ Increased capacity for accurate testing and timely and effective contact tracing
❖ Better healthcare systems: hospital capacity, medical equipment and service providers
❖ Vaccine distribution strategy

Confirmed Cases, Deviation from Baseline
(30 days after relaxation of containment measures, log percentage points)

Source: Deb, Furceri, Ostry and Tawk (2020a).

Note: The bars show the impact after 30 days on the number of COVID-19 coronavirus disease infections to a unitary easing in the containment measures relative to a baseline of no change. The first bar shows the average effect, and the other two bars highlight the impact under strong and weak testing and tracing policies at the time of easing of lockdowns. The figure is displayed in log percentage points.
Large policy support provided, partly based on lessons from GFC


Fiscal Measures
(weighted average; percent of GDP)
- above the line
- below the line

Central Bank Policy Actions, Selected Asia
(number of central banks)

Note: Data sample includes 11 Asian economies: China, India, Indonesia, Sri Lanka, Laos, Malaysia, Mongolia, Philippines, Thailand, Vietnam and Papua New Guinea.
Timely support has helped mitigate economic losses

Impact of Containment Policy on Industrial Production
(implied impact on industrial production after 30 days, percent)

Source: Deb, Furceri, Ostry and Tawk (2020b).
Note: The bars show the impact after 30 days on industrial production (implied by changes in NO\textsubscript{2} emissions) to a unitary tightening of containment measures relative to a baseline of no change.

Impact of Fiscal Shocks on Industrial Production
(betas, percent)

Source: Deb, Furceri, Ostry, Tawk and Yang (2020).
Note: Bars denote the impact (coefficients) of fiscal shocks on industrial production obtained from a panel regression of 39 countries from January 2020 to July 2020.
Macroeconomic policy priorities

- Too much support is better than too little
- Target fiscal support to the most vulnerable
- Monetary policy, conventional and unconventional, remain supportive
- Preempt debt problems early
- Strategy to address corporate sector vulnerabilities
Strategy to reduce scarring, support resource reallocation

Asia: Change in Employment by Industry Classification During Crises

(Percent)

❖ Active labor market policies to encourage participation, reduce skill mismatch
❖ Upgrade insolvency frameworks to support corporate restructuring
❖ Prioritize green investment and technological infrastructure

Source: Haver Analytics and IMF Staff Calculations.
Note: Data available as of September 30, 2020.
International cooperation

- Make vaccines and treatment available
- For countries with limited healthcare capacity, provide assistance with medical equipment and knowhow
- Financial assistance for the most vulnerable countries, notably the Pacific islands in the Asia-Pacific region
- Defuse trade tensions
Main Conclusions

A multi-speed recovery but the pandemic is far from over. Downside risks are large.

Policy support needed until recovery entrenched:
strong healthcare and containment; targeted, sustainable public spending; supportive monetary policy.

Important to monitor elevated credit risks and tighten macroprudential policies in line with recovery.

Imperative to reduce scarring by facilitating resource reallocation and promote green and inclusive growth.
Thank you