

IMF Virtual Economic Issues Seminar

IMF Regional Office for Asia and the Pacific



IMF Response to COVID-19 Crisis – Exceptional Times Call for Exceptional Actions

Emergency Financing and Debt Service Relief

Rapid Credit Facility (RCF)
Rapid Financing Instrument (RFI)

Catastrophe Containment and Relief Trust (CCRT)

IMF Emergency Financing and Debt Service Relief (millions of US Dollars)
As of May 20, 2020

Region	RCF and RFI	#	CCRT	#
Asia and Pacific	265	3	4	2
Europe	1,035	5	--	--
Middle East and Central Asia	7,049	12	36	4
Sub-Saharan Africa	9,674	26	184	19
Western Hemisphere	4,019	13	6	1
Total	22,042		229	

Making More Lending Resources Available and Bilateral Debt Service Relief

- Aiming to raise \$17 billion more for PRGT zero-interest rate lending – almost there
- Fund is augmenting existing lending arrangements for COVID-19 response spending
- Fund Short-term Liquidity Line (SLL) approved--backstop for those with strong policies
- Advocating for bilateral debt service relief--G20 has responded with around \$11 billion

Capacity Development

- Provision of capacity development is continuing remotely when possible
- CD demand is expected to rise substantially and the IMF is preparing for this



International Monetary Fund

**WORLD ECONOMIC OUTLOOK
AND THE ASIA PACIFIC REGION
Spring 2020**

Chikahisa SUMI

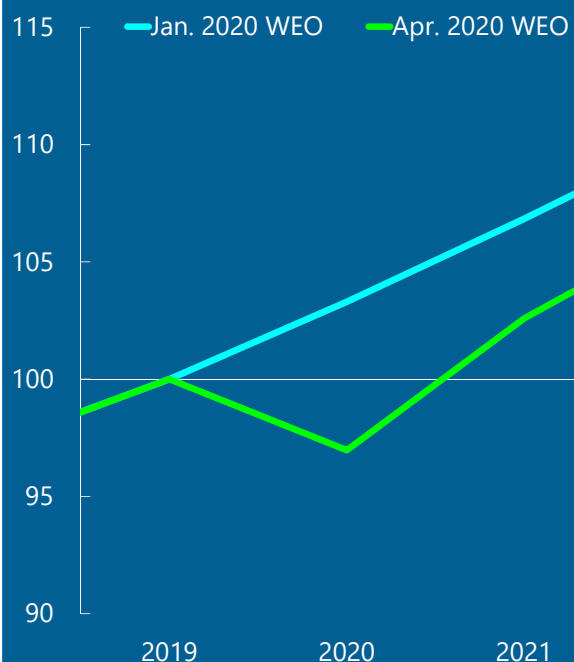
Director of the IMF Regional Office for Asia and the Pacific

OAP Economic Issues Seminar, May 28, 2020

The Great Lockdown: A crisis like no other – *Summary*

Growth

Contraction in GDP in 2020, partial recovery in 2021



Risks

Severe risks

- **Uncertainty on virus path, the possibility of virus mutation and required containment**
- **Larger outbreaks in EMDEs**
- **Lasting effects of supply and financial disruption, trade spillover, confidence effects, extended risk aversion**

Policies

Timely, large, coordinated

- **Support health systems**
- **Shield affected people and firms**
- **Reduce systemic stress, scarring**
- **Foster fast recovery**
- **International support for vulnerable countries. Strong global financial safety net**

Outline

Recent
Developments

Projections

Risks

Policies

Outline

Recent
Developments

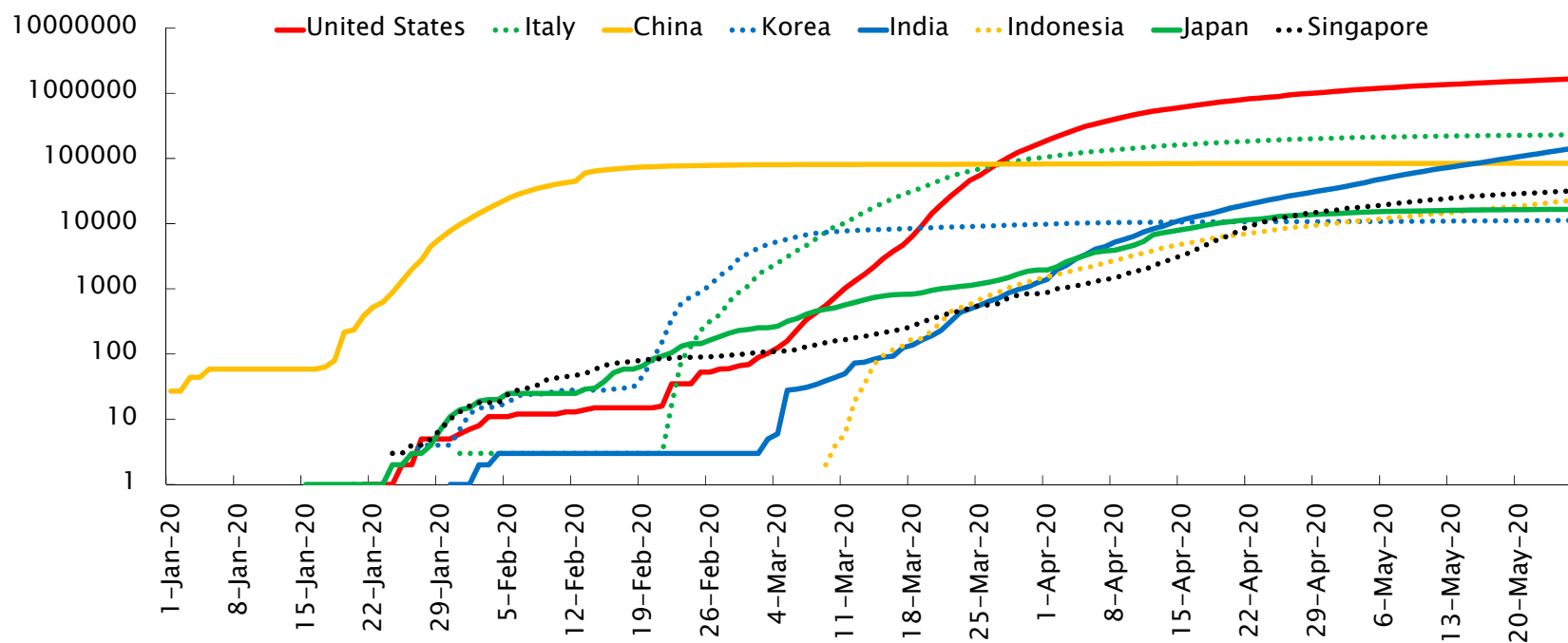
Projections

Risks

Policies

Spread of COVID-19: Disruption for different economies at different times.

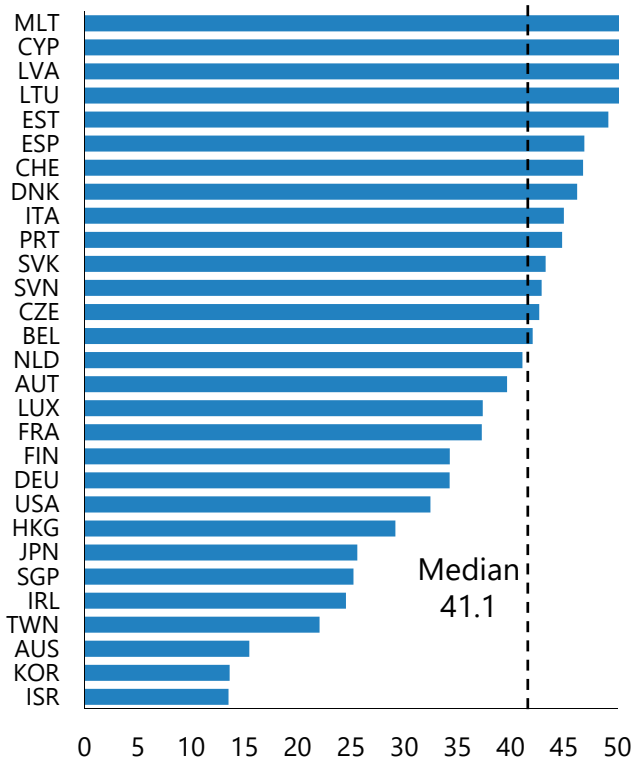
COVID-19 Cumulative Confirmed Cases



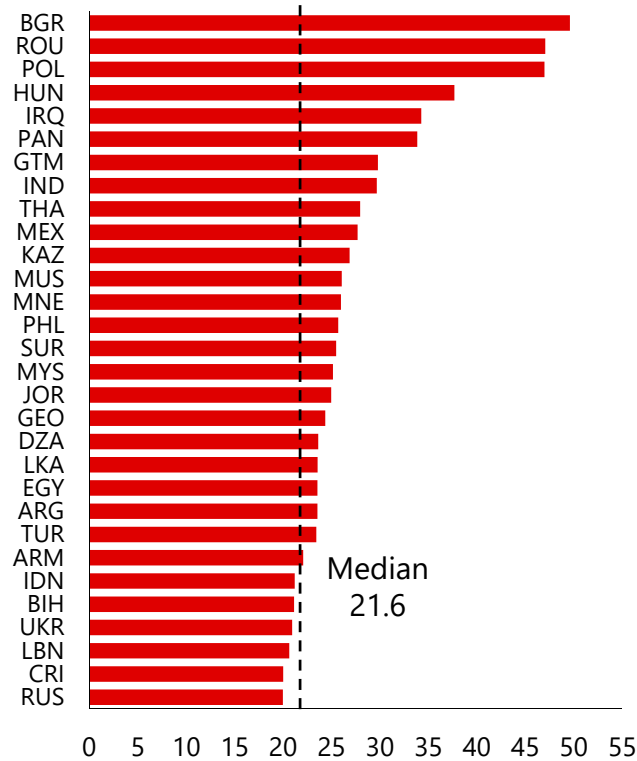
Sources: Our World in Data and IMF Staff Calculations

Directly affected parts of the service sector are large...

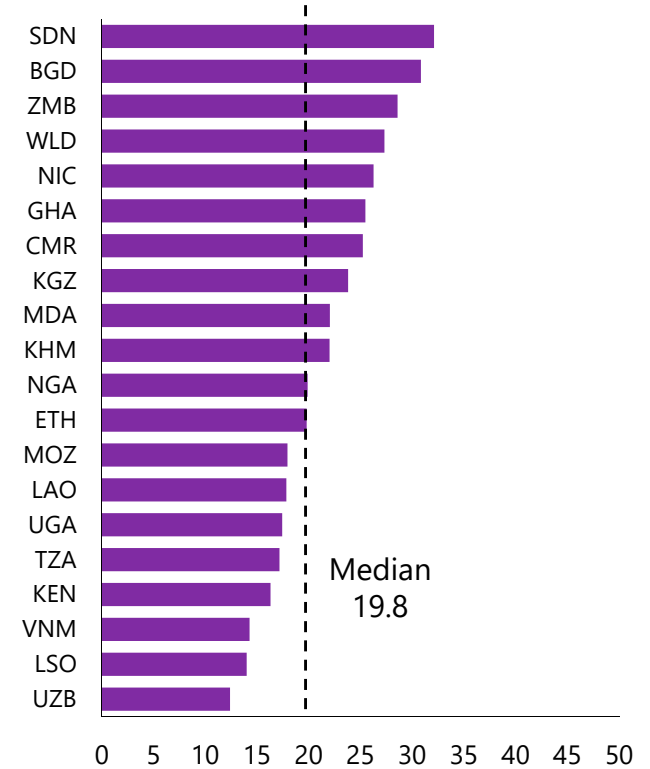
AE: Affected sectors
(percent of GDP)



EME: Affected sectors
(percent of GDP)



LIDC: Affected sectors
(percent of GDP)



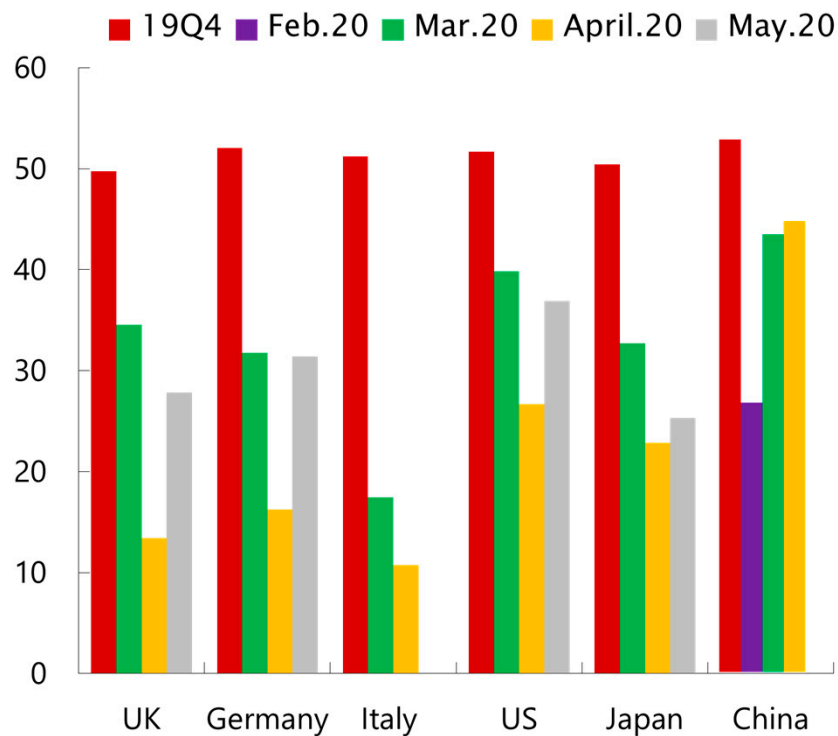
Sources: Haver Analytics; and IMF staff calculations.

Note: Affected services include wholesale and retail trade, transport, accommodation, food service, and art and entertainment activities. For some countries, art and entertainment services are not available.

...and PMIs suggest a severe fallout.

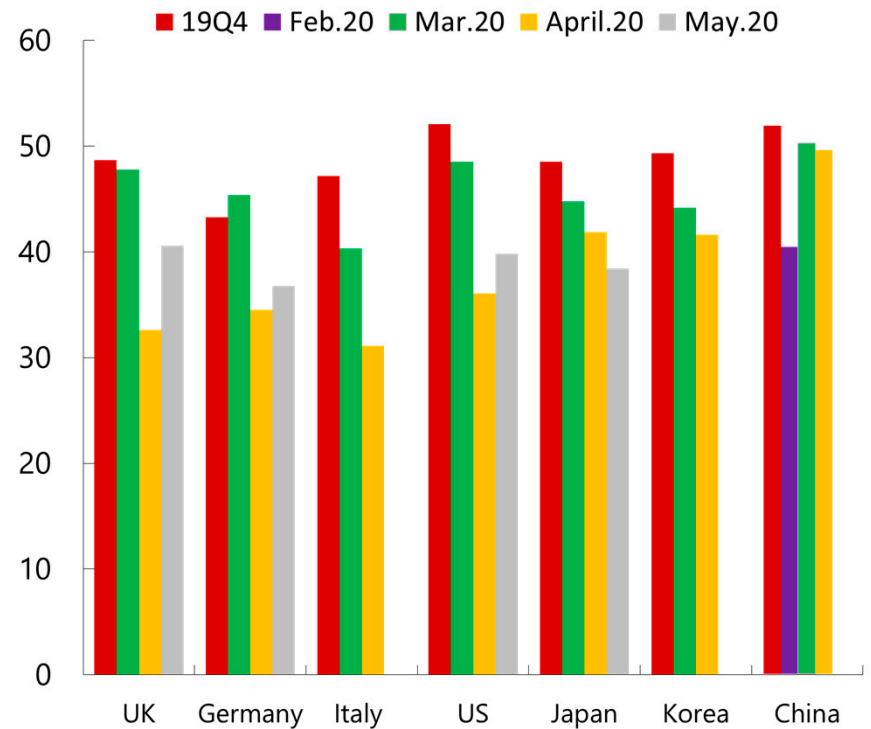
Services PMI

(index; >50 = expansion; sa)



Manufacturing PMI

(index; >50 = expansion; sa)

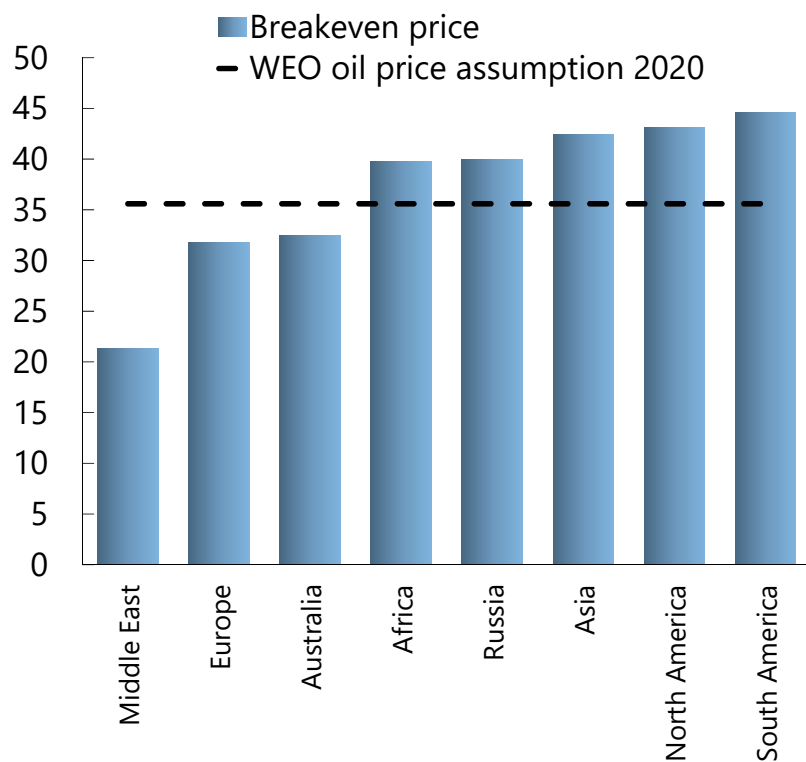


Sources: IMF, *World Economic Outlook*; IMF, *Global Data Source*; and Haver Analytics.

Oil prices collapsed and put pressure on exchange rates.

Breakeven oil price by region

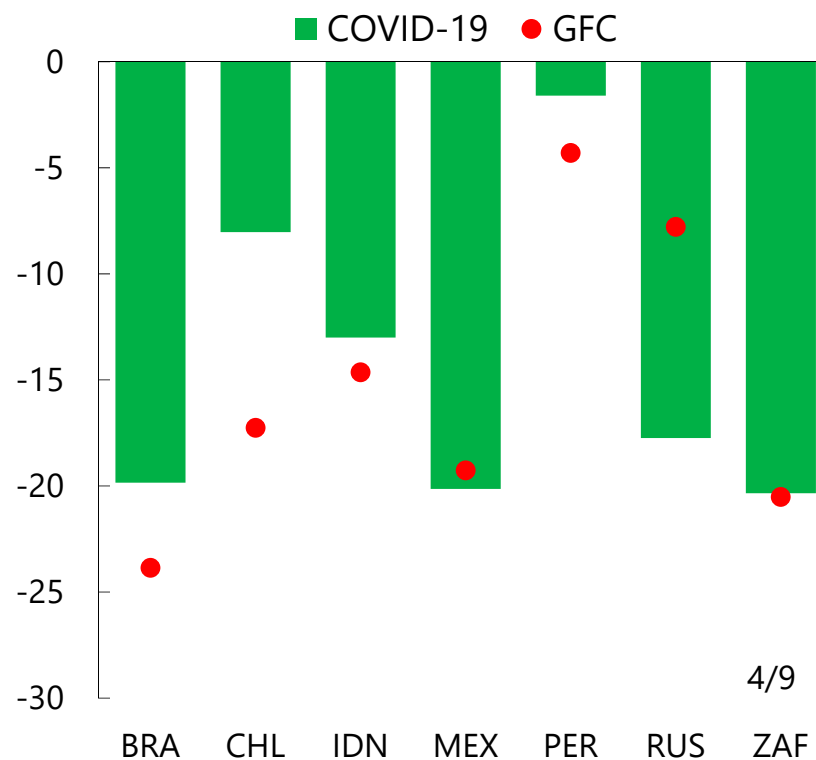
(US dollar per barrel)



Commodity exporters:

Exchange rates

(percent change since start of episode)



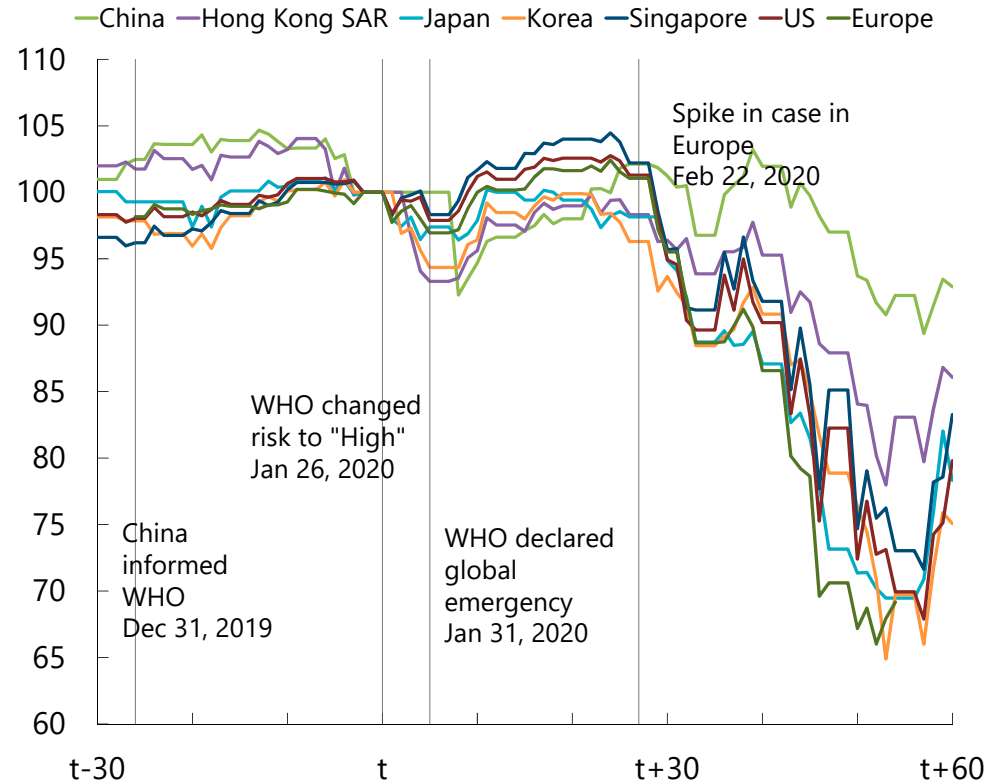
Sources: Bloomberg, L.P.; Argus; Rystad Energy; Thomson Reuters DataStream; and IMF staff calculations.

Note: Breakeven prices are based on 2017 estimates from Rystad Energy for operating projects. Average breakeven price weighted by production.

Financial conditions tightened, along with market selloffs, spikes in risk premia,...

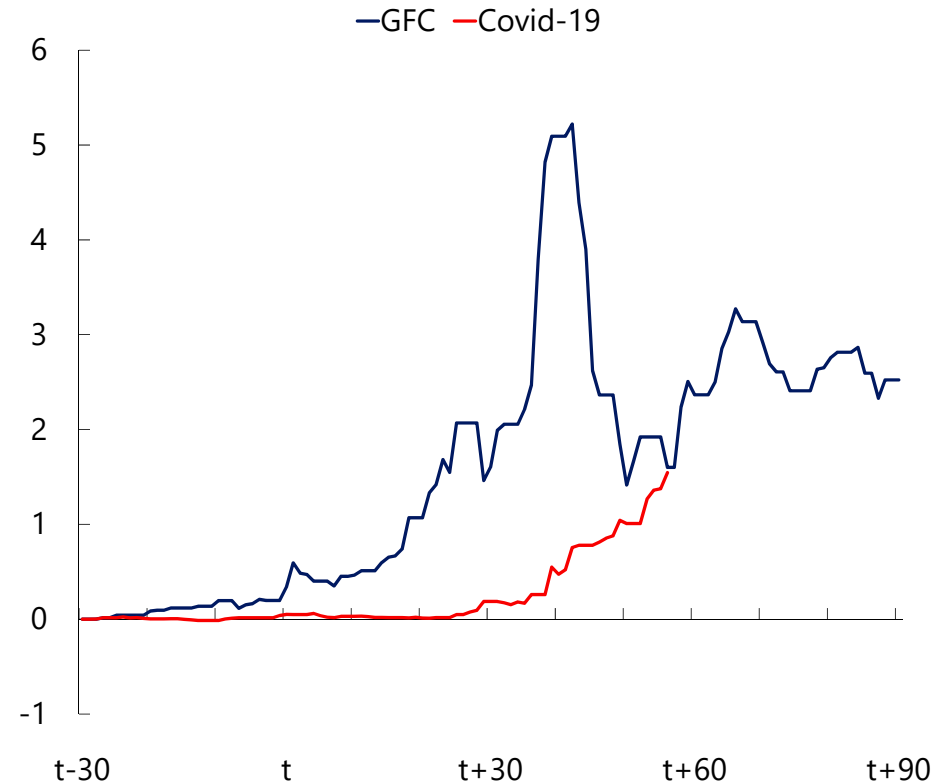
Equity Prices

(index, 26-Jan-2020=100; days on x-axis)



EM Asia: Sovereign Risk Premia

(Accumulative daily 5Y CDS spread, in percent)

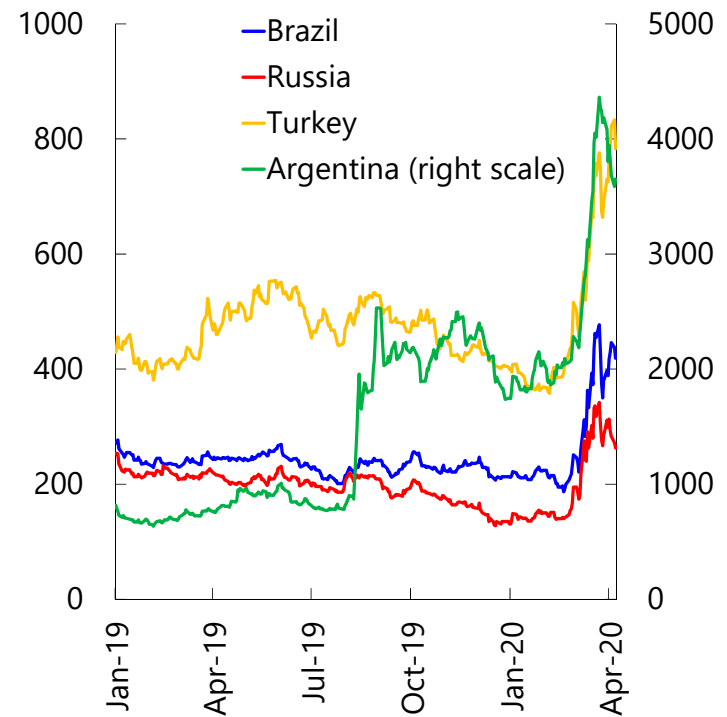
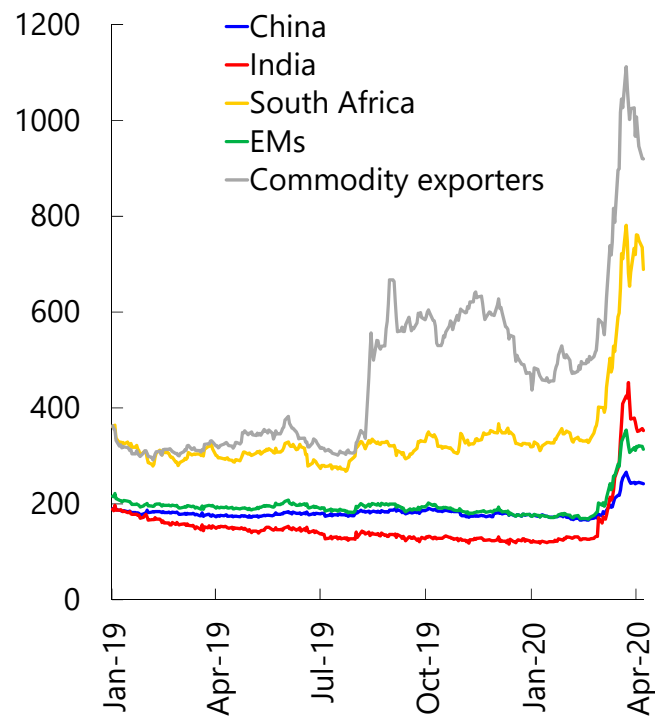


Sources: Bloomberg, JP Morgan.

Note: For GFC, t = Sep 15, 2008 (Lehman collapse), and for Covid-19, t = Jan 30, 2020 (WHO declared Covid-19 a global emergency).

...wider credit spreads,...

EMBI sovereign spreads in emerging markets (Basis points)

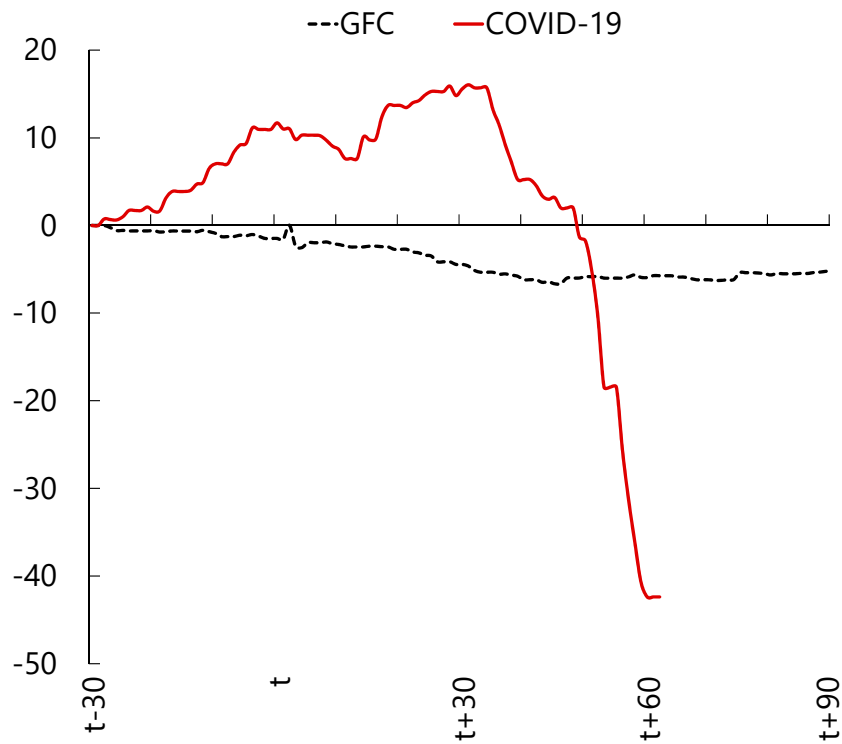


Sources: Bloomberg Finance L.P; Haver Analytics; Thomas Reuters Datastream; and IMF Staff calculations.
Notes: Ems = emerging markets. Data are through April 7, 2020.

...large capital outflows from emerging markets, ...

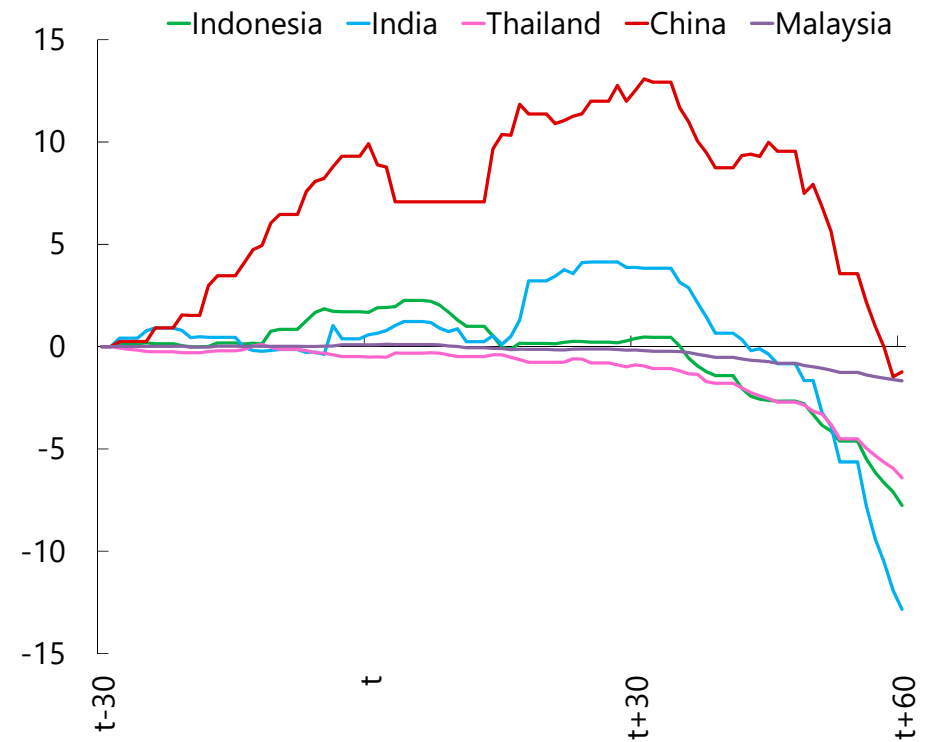
Asia EM Cumulative Portfolio Flows

(Billions of USD)



Cumulative Non-Resident Portfolio Flows to EMs

(USD Billions; Based on Daily Observations)



Sources: IIF and IMF Staff Calculations.

Note: For GFC, t = Sep 15, 2008 (Lehman collapse), and for Covid-19, t = Jan 30, 2020 (WHO declared Covid-19 a global emergency).

...and depreciation vis-à-vis the USD and widening cross-currency basis.

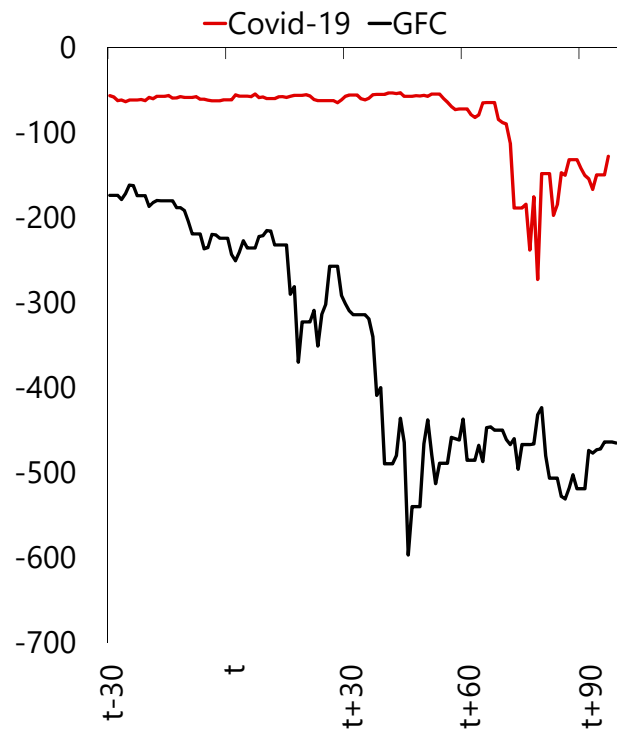
FX Against USD, Selected Asian Economies 1/

(index, $t-30=100$)



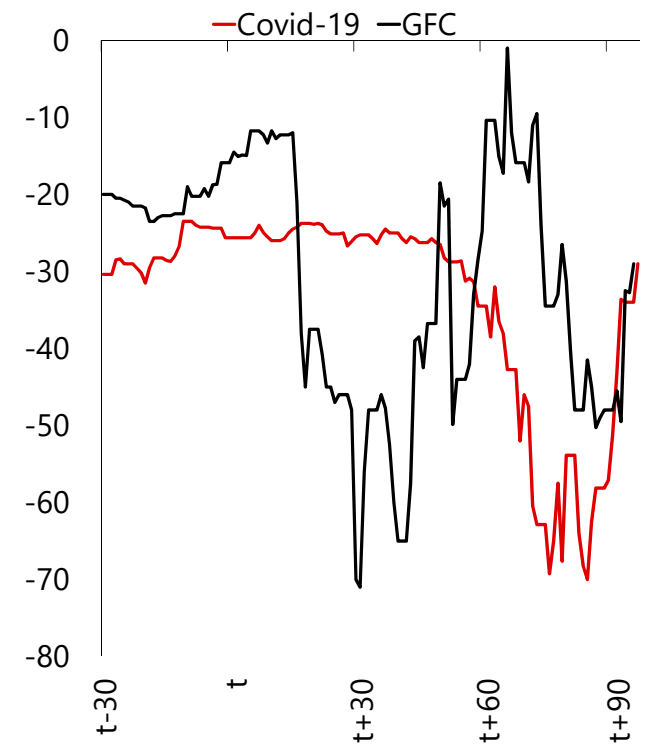
Korea: One-year Cross-currency Basis

(Basis point)



Japan: One-year Cross-currency Basis

(Basis point)



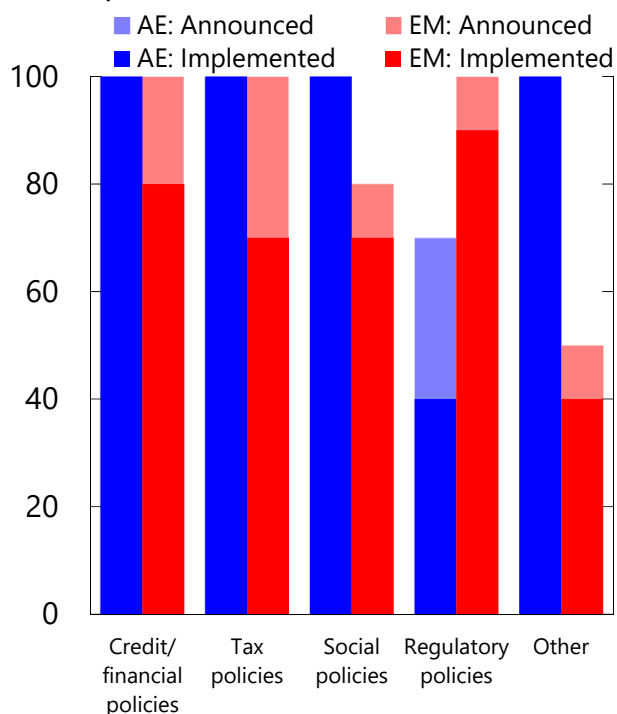
Sources: Bloomberg, and IMF staff calculations.

1/ Economies include China, Hong Kong SAR, India, Indonesia, Japan, Korea, Malaysia, Philippines, Taiwan POC, Thailand and Vietnam. Simple average.

Swift and large policy responses.

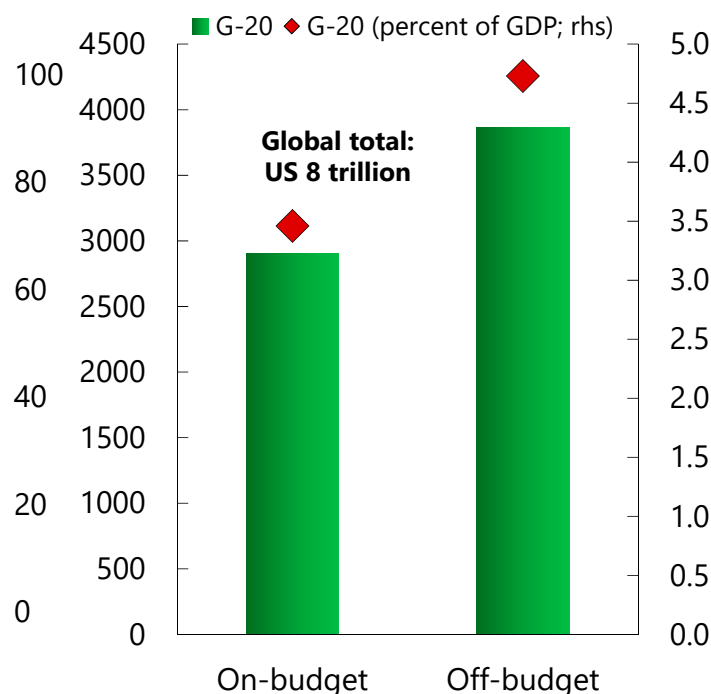
G-20+: Economic policy responses

(percent of countries)



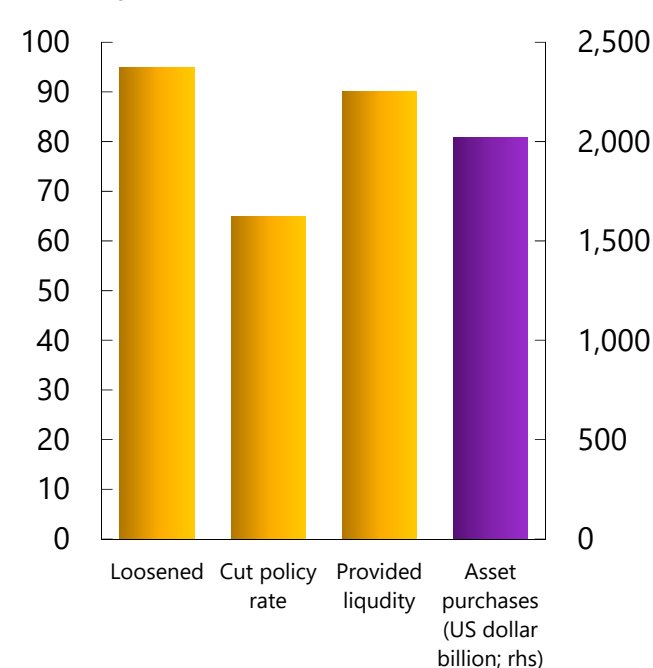
G-20+: Discretionary fiscal measures

(US dollar billion)



G-20+: Monetary policy measures

(percent of countries)



Source: IMF staff calculations.

Note: G20+ includes Spain. Policies are as of 4/1/2020 and fiscal measures are as of 4/8/2020. Discretionary fiscal measures shown for G-20 aggregate. Asset purchases indicates a lower bound for G-20 aggregate. Credit/financial policies include government guarantees, loans, forbearance, and easing regulation; tax policies include tax cuts/waivers/deductions/deferrals; social policies include unemployment benefits, sick leave, cash transfers; regulatory policies include price controls, employment/trade restrictions; other includes public investments and firm subsidies.

Outline

Recent
Developments

Projections

Risks

Policies

WEO baseline assumptions

Pandemic

- Pandemic fades in the second half of 2020, allowing gradual lifting of containment measures

Duration of shutdown

- Countries with severe epidemics: Approx. 8% working days lost in 2020
- Other countries: Approx. 5% working days lost
- Variation across countries

Financial conditions

- Tight financial conditions for AE and EMDEs remain in place for the first half of the year
- Financial conditions ease in the second half of 2020

Commodity prices

- Based on futures market pricing at the end of March 2020, the average petroleum spot prices (APSP) per barrel are \$35.6 in 2020 and \$37.9 in 2021. For the years thereafter, prices are expected to increase but stay below their average 2019 level (\$61.4).
- Metals prices are expected to decrease 15.0 percent in 2020 and 5.6 percent in 2021. Food prices are projected to decrease 1.8 percent in 2020 and then increase 0.4 percent in 2021.

Growth projections: Advanced economies

(percent change from a year earlier)



World



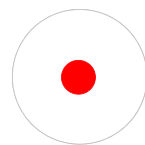
Advanced Economies



U.S.



Euro Area



Japan



U.K.



Canada



Korea



Other
Advanced
Asia

	World	Advanced Economies	U.S.	Euro Area	Japan	U.K.	Canada	Korea	Other Advanced Asia
2019	2.9	1.7	2.3	1.2	0.7	1.4	1.6	2.0	1.6
Revision from Jan. 2020	0.0	0.0	0.0	0.0	-0.3	0.1	0.1	0.1	0.2
2020	-3.0	-6.1	-5.9	-7.5	-5.2	-6.5	-6.2	-1.2	-5.1
Revision from Jan. 2020	-6.3	-7.7	-7.9	-8.8	-5.9	-7.9	-8.0	-3.4	-6.9
2021	5.8	4.5	4.7	4.7	3.0	4.0	4.2	3.4	4.5
Revision from Jan. 2020	2.4	2.9	3.0	3.3	2.5	2.5	2.4	0.7	2.0

Source: IMF, April 2020 *World Economic Outlook*.

Growth projections: Emerging markets and LIDCs

(percent change from a year earlier)



World



Emerging
Market and
Developing
Economies



China



India



Brazil



Russia



Commodity
Exporting
Economies



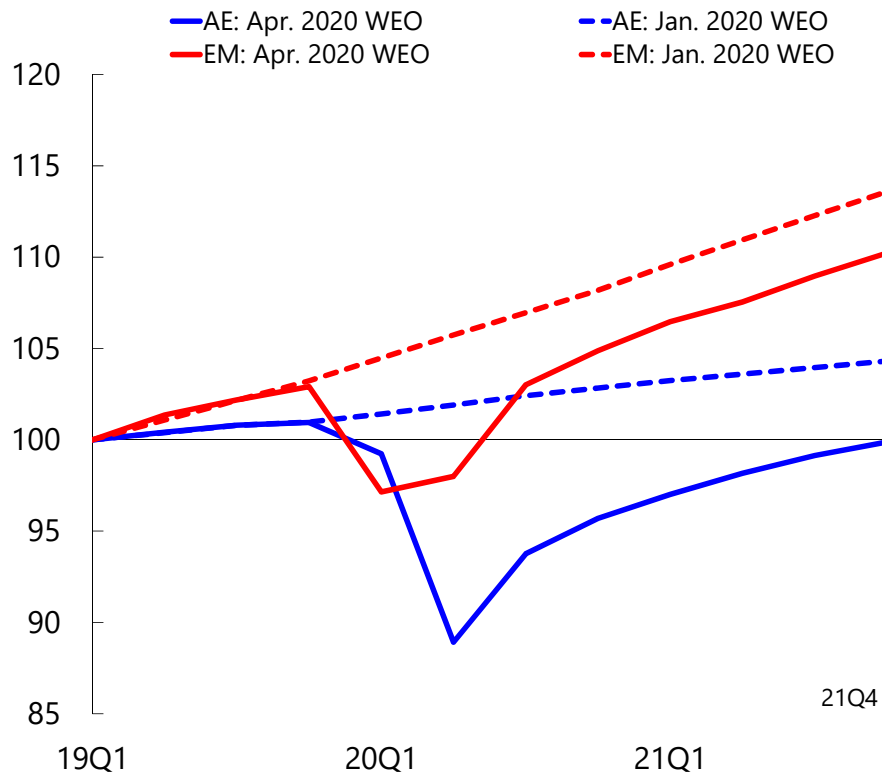
Low Income
Developing
Countries

2019	2.9	3.7	6.1	4.2	1.1	1.3	1.3	5.1
Revision from Jan. 2020	0.0	0.0	0.0	-0.6	-0.1	0.2	0.2	0.1
2020	-3.0	-1.0	1.2	1.9	-5.3	-5.5	-3.4	0.4
Revision from Jan. 2020	-6.3	-5.4	-4.8	-3.9	-7.5	-7.4	-6.0	-4.7
2021	5.8	6.6	9.2	7.4	2.9	3.5	4.7	5.6
Revision from Jan. 2020	2.4	2.0	3.4	0.9	0.6	1.5	1.8	0.5

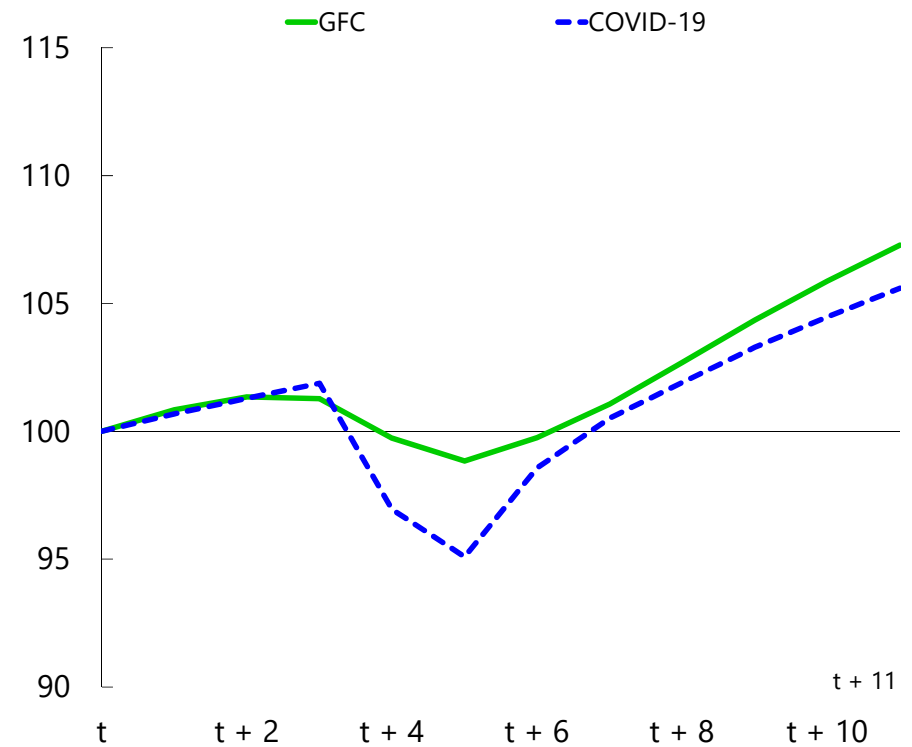
Source: IMF, April 2020 *World Economic Outlook*.

How bad is this crisis?

COVID-19: Real GDP
(index)



Global real GDP: April 2020 WEO and GFC
(index)



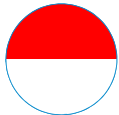












Sources: IMF, *World Economic Outlook*; and IMF staff calculations.

Note: Specific initial shock dates by event are: COVID-19 = Coronavirus Disease 2019 (2019Q1) and GFC = Global Financial Crisis (2007Q4).

Focus on Asia: country-by-country

Growth projections: Emerging Markets and Developing Economies

(Percent change from a year earlier)

													
	Indonesia	Lao P.D.R.	Malaysia	Myanmar	Mongolia	Nepal	Philippines	Sri Lanka	Thailand	Vietnam	Bangladesh	Brunei Darussalam	Cambodia
2019	5.0	4.7	4.3	6.5	5.1	7.1	5.9	2.3	2.4	7.0	7.9	3.9	7.0
2020	0.5	0.7	-1.7	1.8	-1.0	2.5	0.6	-0.5	-6.7	2.7	2.0	1.3	-1.6
Revision from Jan. 2020	-4.4	-5.8	-6.2	-4.5	-6.4	-3.8	-5.7	-4.0	-9.2	-3.8	-5.4	-3.4	-8.4
2021	8.2	5.6	9.0	7.5	8.0	5.0	7.6	4.2	6.1	7.0	9.5	3.5	6.1
Revision from Jan. 2020	3.2	-1.1	4.1	1.5	2.9	-0.8	1.2	-0.1	2.6	0.5	2.2	-0.1	0.6

Source: IMF *World Economic Outlook*.

Note: Projections based on April 2020 Vintage of WEO.

Focus on Asia: country-by-country

Growth projections: Pacific Island Countries and Other Small States

(Percent change from a year earlier)



Bhutan Fiji Kiribati Maldives Marshall Islands Micronesia Nauru Palau PNG Samoa Solomon Islands Timor-Leste Tonga Tuvalu Vanuatu

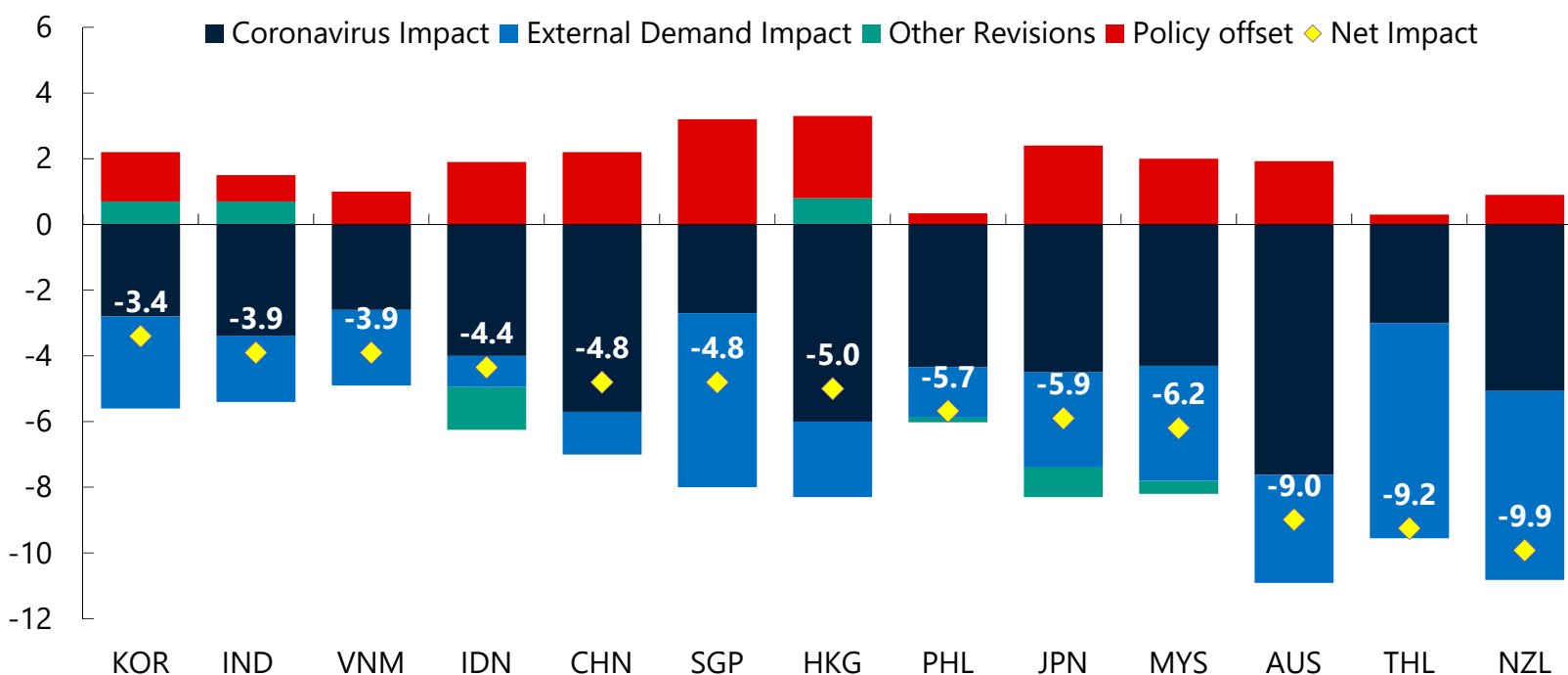
	Bhutan	Fiji	Kiribati	Maldives	Marshall Islands	Micronesia	Nauru	Palau	PNG	Samoa	Solomon Islands	Timor-Leste	Tonga	Tuvalu	Vanuatu
2019	5.3	0.5	2.3	5.7	2.4	1.2	1.0	0.5	5.0	3.5	1.2	3.1	-0.1	6.0	2.9
2020	2.7	-5.8	0.0	-8.1	-0.2	-0.4	-1.7	-11.9	-1.0	-3.7	-2.1	-3.0	-1.2	-1.0	-3.3
Revision from Jan. 2020	-4.5	-8.8	-2.3	-14.1	-2.5	-1.2	-2.4	-13.7	-3.6	-8.1	-5.0	-8.0	-4.9	-5.4	-6.4
2021	2.9	7.0	2.2	13.2	3.2	1.4	1.3	14.4	2.9	0.5	3.8	3.8	1.2	3.5	4.9
Revision from Jan. 2020	-3.0	3.8	0.2	7.7	1.2	0.7	0.0	12.2	0.4	-1.7	1.1	-1.0	-1.7	-0.7	2.1

Source: IMF *World Economic Outlook*.

Note: Projections based on April 2020 Vintage of WEO.

Focus on Asia: Downward revisions are due to Covid-19 and global demand...

Revision to 2020 Growth Projections (relative to January)
(Percentage Points)



Source: IMF WEO and staff calculations.

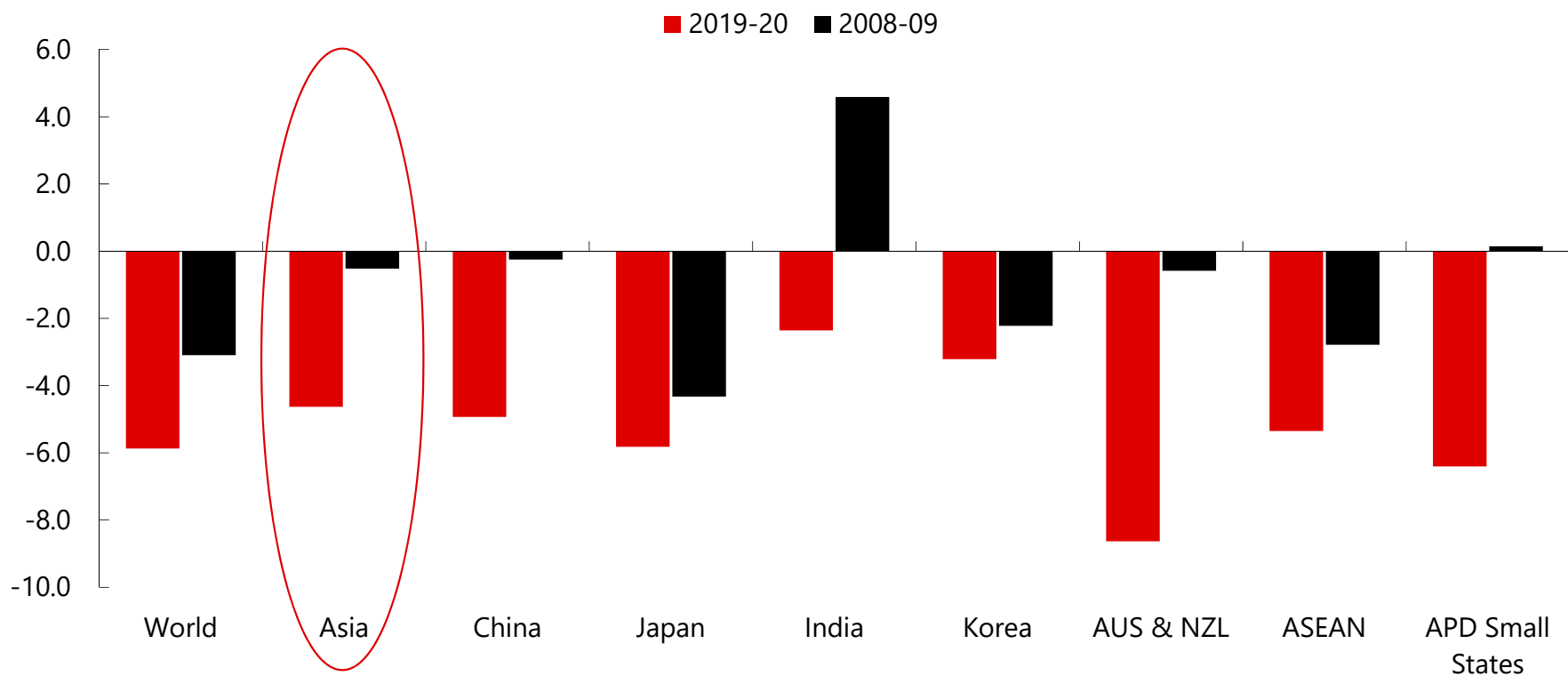
Note: Figures for India are on a fiscal year basis. Coronavirus impact refers to impact from domestic containment measures and social distancing.

External demand impact includes disruptions from travel and trade, and spillovers from financial markets. Other revisions include impact from changes in commodity prices.

Focus on Asia: ...with a sharper slowdown than in the Global Financial Crisis...

Growth Decline Comparing Now and GFC

(Percentage points difference in growth rates; 2020 minus 2019, 2009 minus 2008)



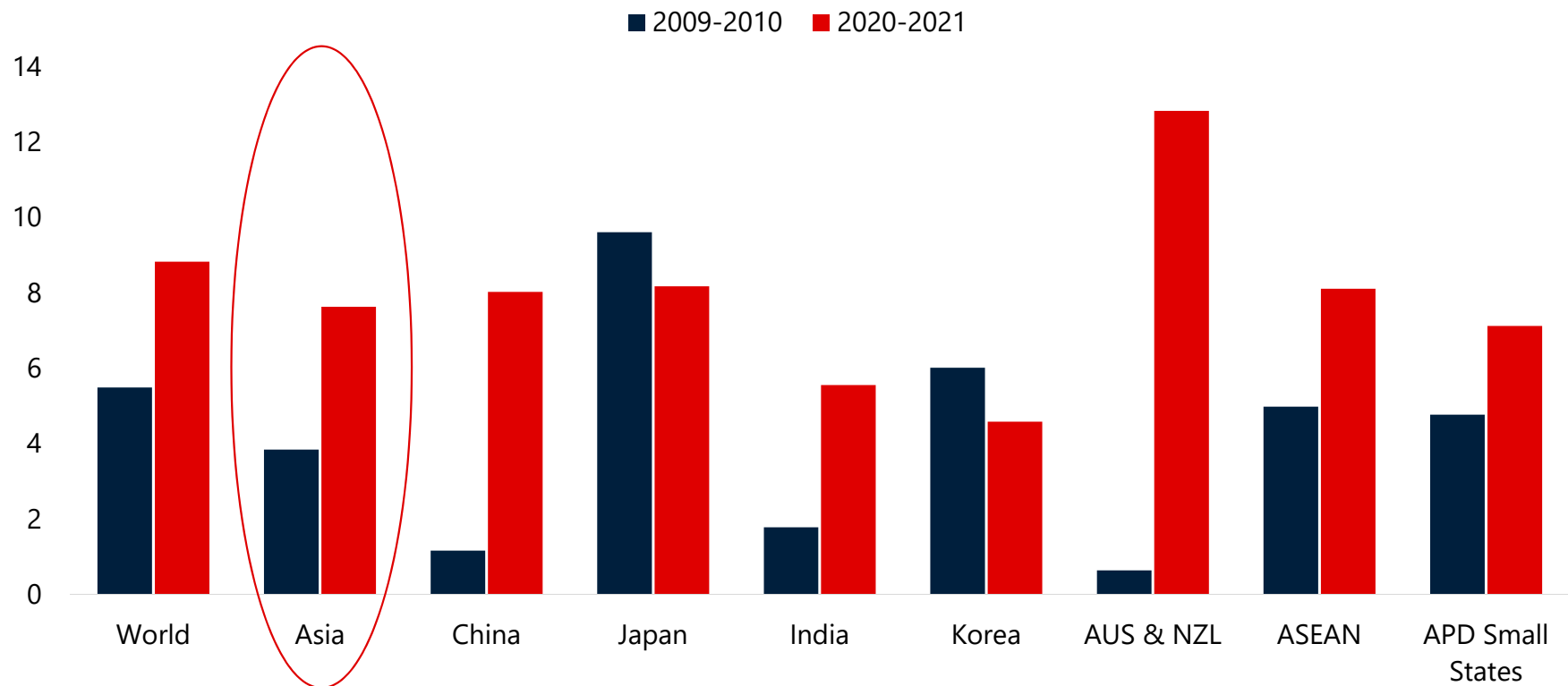
Source: IMF WEO and staff calculations.

Note: Figures for India are on a fiscal year basis.

Focus on Asia: ...but potentially also a stronger recovery.

Post-recovery comparison, GFC vs. COVID-19

(Percentage points difference in growth rates; 2021 minus 2020, 2010 minus 2009)



Source: IMF WEO and staff calculations.

Note: Figures for India are on a fiscal year basis

Outline

Recent
Developments

Projections

Risks

- **Covid-19**
 - ...
-

Policies

Covid-19: three scenarios worse than the baseline

Scenario 1	Roughly 50% longer outbreak in 2020 than in baseline scenario.
Scenario 2	Second, but milder outbreak in 2021.
Scenario 3	Longer outbreak in 2020 (as above) <u>and</u> second outbreak in 2021.

Transmission channels: containment measures, tighter financial conditions, policies, scarring effects that policies cannot offset.

Some scenario assumptions in detail

Longer outbreak in 2020

- Outbreak lasting roughly 50% longer than in the baseline.
- tighter financial conditions: average sovereign risk premia +25 bp in EM; average corporate risk premia +75 bp in EM and +50 bp in AE;
- Fiscal and monetary policy responses stronger;
- More scarring effects both in AE and EMs;

New outbreak in 2021

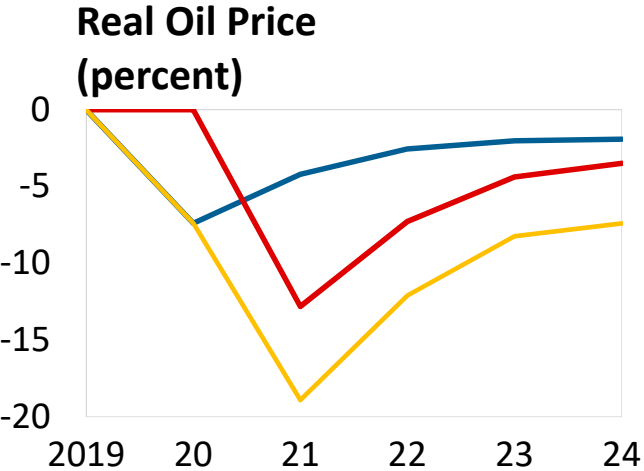
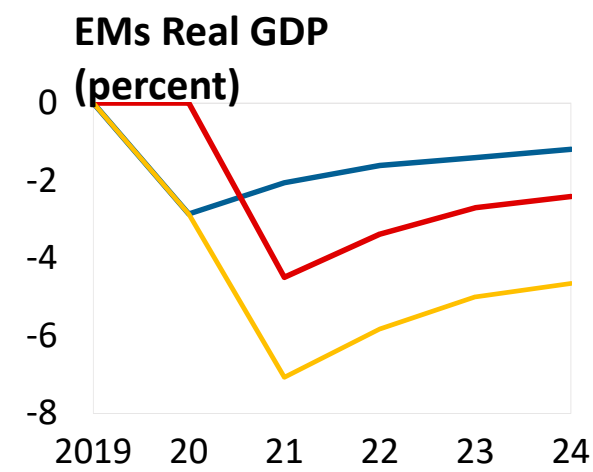
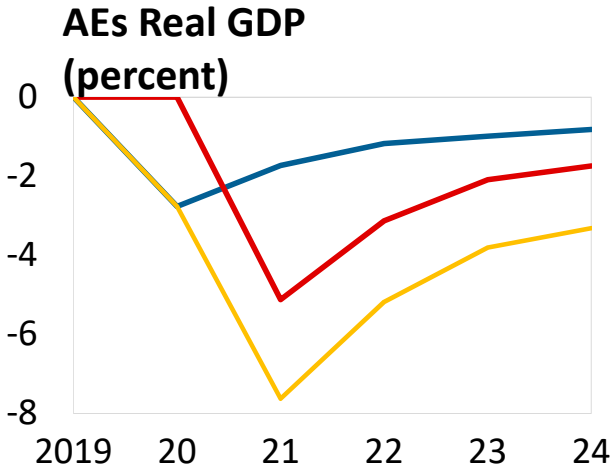
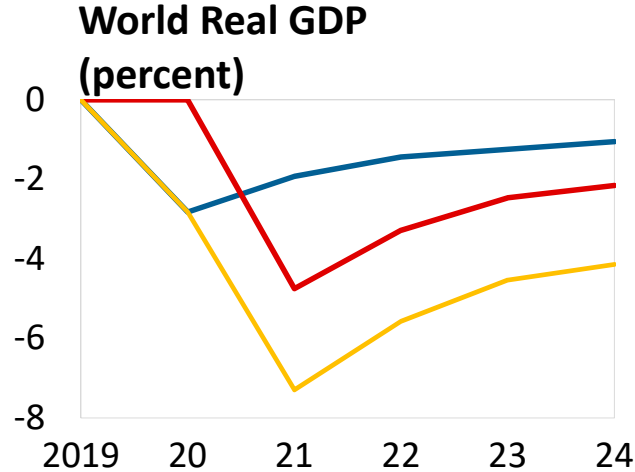
- Second outbreak roughly two-thirds as severe as in the baseline;
- Financial tightening twice as much as in first scenario above;
- Scarring roughly twice as large as in the first scenario.

Longer outbreak in 2020 and new outbreak in 2021

- Financial conditions tighten by a further 50%
- Scarring from the second outbreak increases by 50%.

Worse Covid-19 scenarios: Impact on GDP and oil prices

(Deviation from baseline in percent)

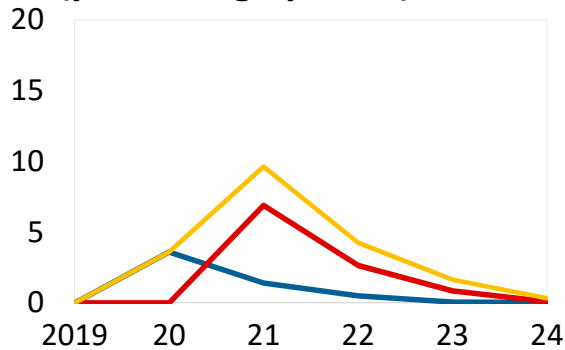


- Longer outbreak in 2020
- New outbreak in 2021
- Longer outbreak in 2020 plus new outbreak in 2021

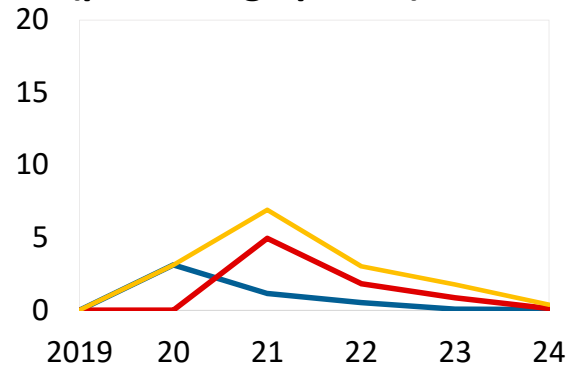
Worse Covid-19 scenarios: Impact on public finances

(Deviation from baseline)

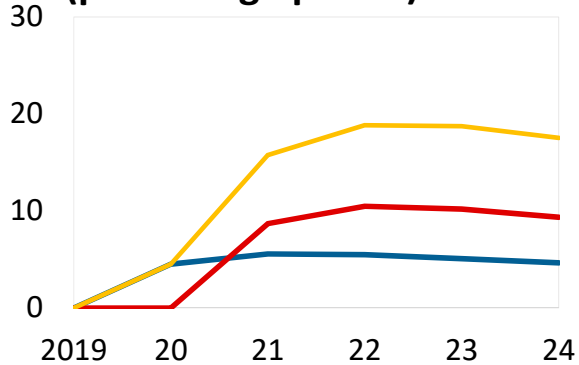
AEs Government Spending/GDP (percentage points)



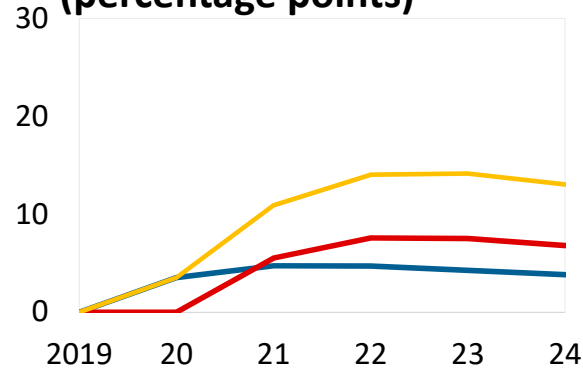
EMs Government Spending/GDP (percentage points)



AEs Government Debt/GDP (percentage points)



EMs Government Debt/GDP (percentage points)



— Longer outbreak in 2020

— New outbreak in 2021

— Longer outbreak in 2020 plus new outbreak in 2021

Outline

Recent
Developments

Projections

Risks

- ...
- **Financial risks**

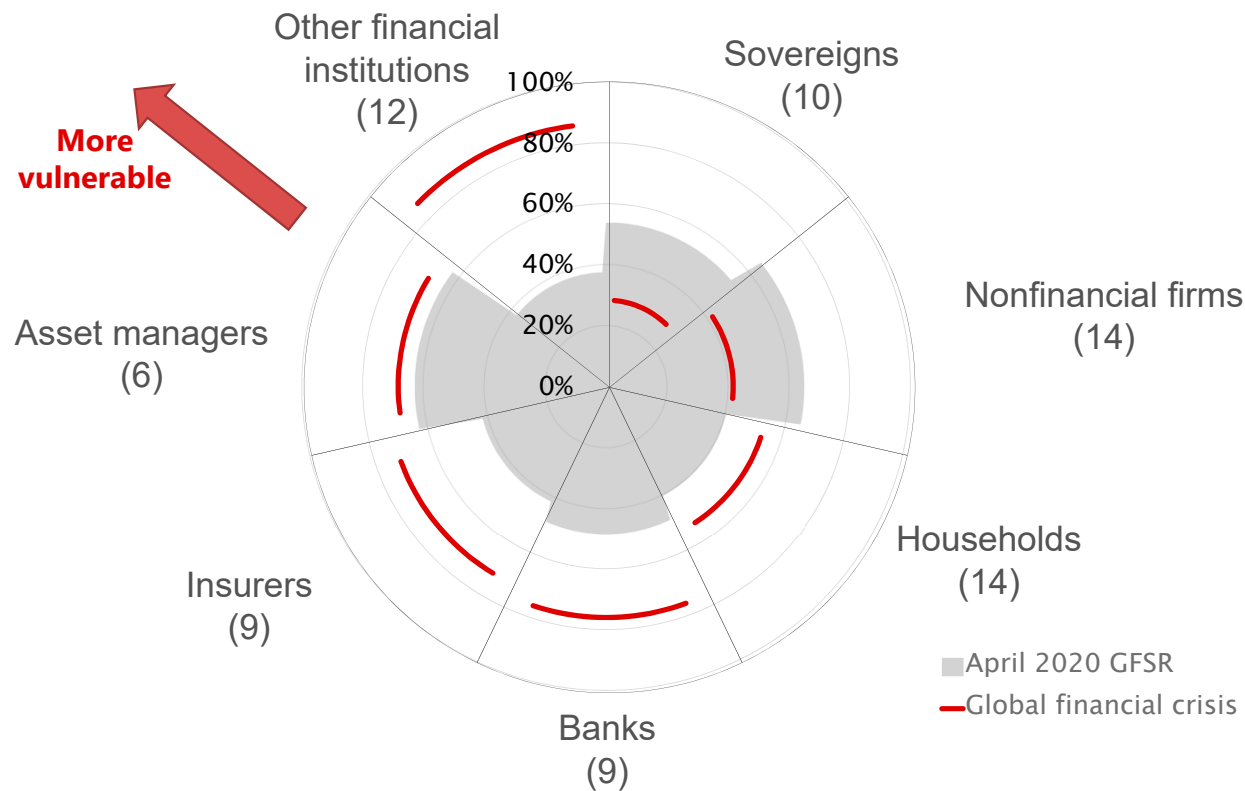
Policies

Global financial vulnerabilities by sector

Vulnerabilities are elevated in the corporate and sovereign sectors (as global nonfinancial sector debt has reached new highs), while asset managers have taken on more risks in the low-yield environment.

Proportion of Systemically Important Countries with Elevated Vulnerabilities, by Sector

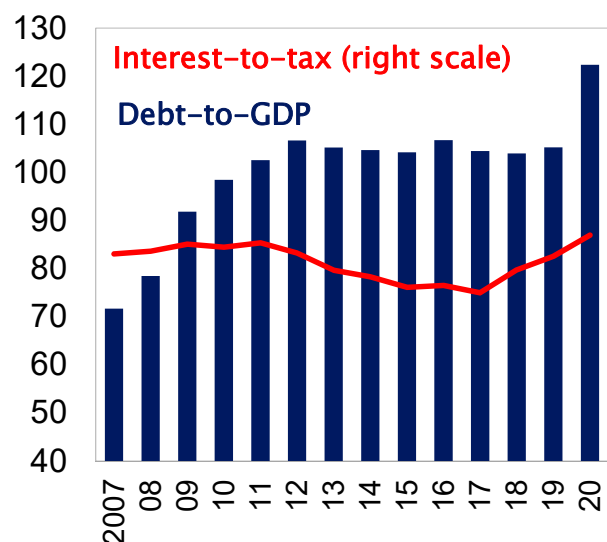
(Percent of countries with high and medium-high vulnerabilities, by GDP [or assets for banks, asset managers, other financial institutions and insurers]; number of vulnerable countries in parentheses)



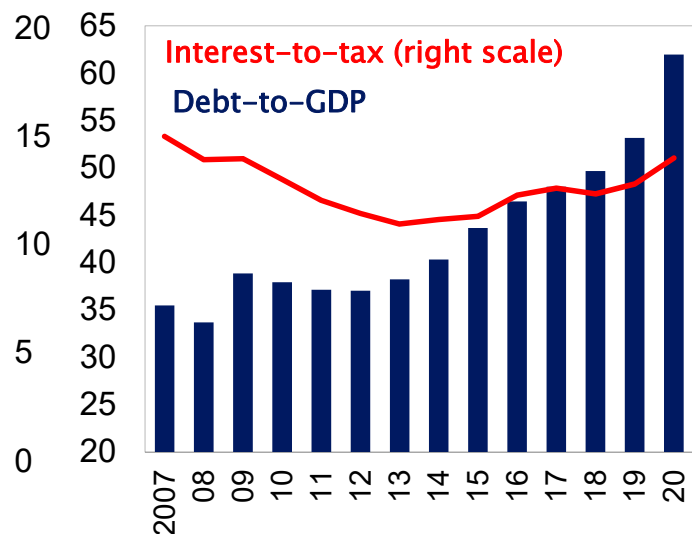
Sovereigns: Public debt vulnerabilities persist ...

General Government Gross-Debt-to-GDP and Interest-Expenditure-to-Tax-Revenue Ratios, 2007–20 (Percent)

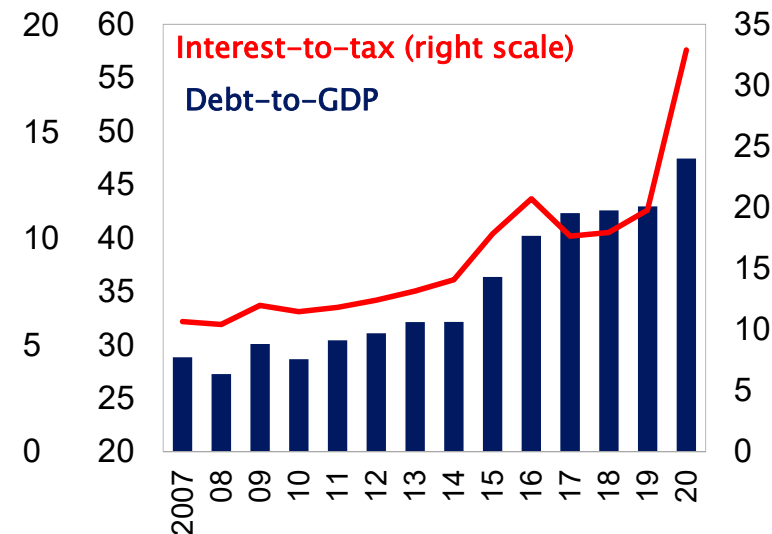
1. Advanced Economies



2. Emerging Market and Middle-Income Economies



3. Low-Income Developing Countries

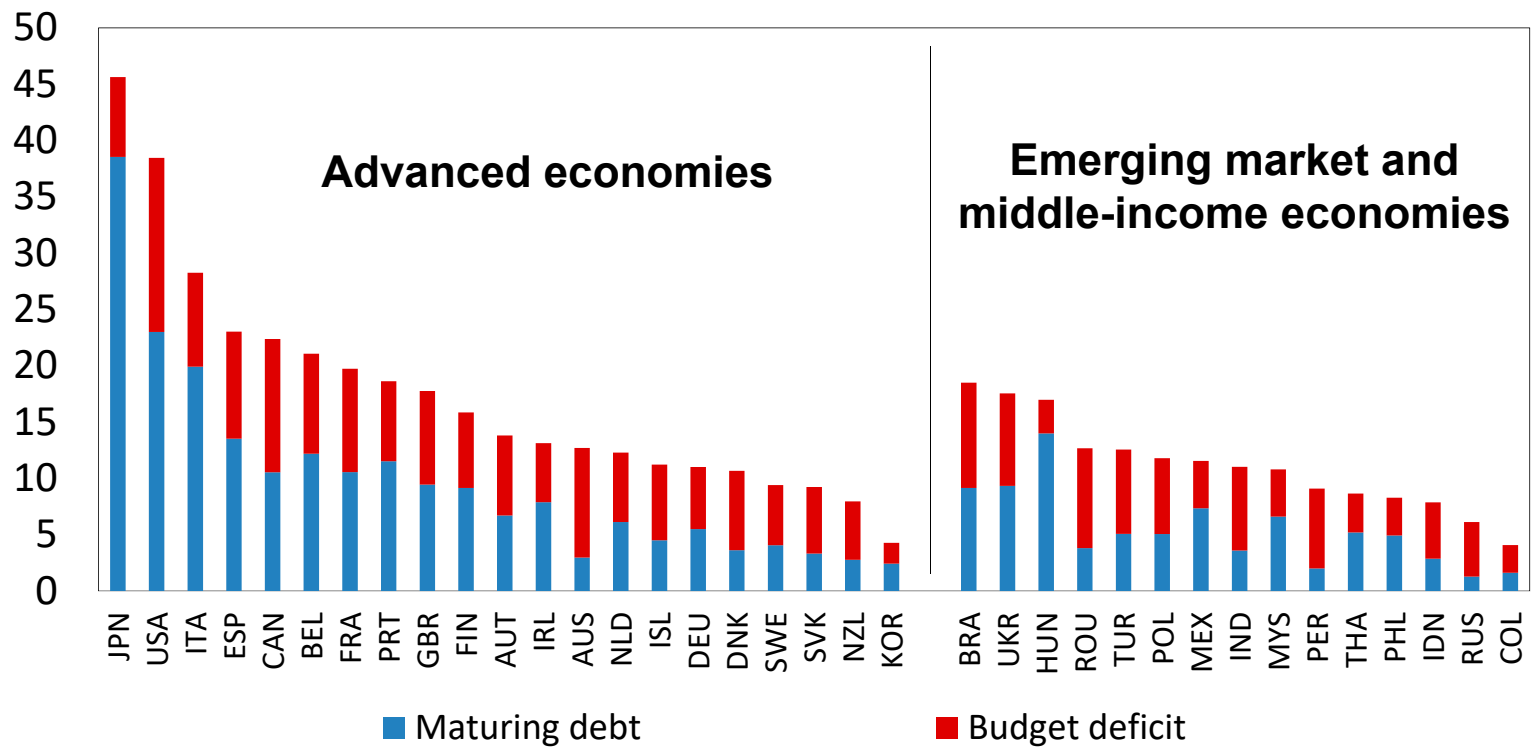


Source: IMF, World Economic Outlook database.

Note: Interest-to-tax ratios are weighted averages among countries in the income group. The rise in the average interest-to-tax ratio of low-income-developing countries in 2020 is largely driven by a few countries, such as Nigeria and Zambia, that are expected to experience sizable increases in their ratios.

...and several countries face sizable gross financing needs.

Gross Financing Needs, 2020
(Percent of GDP)



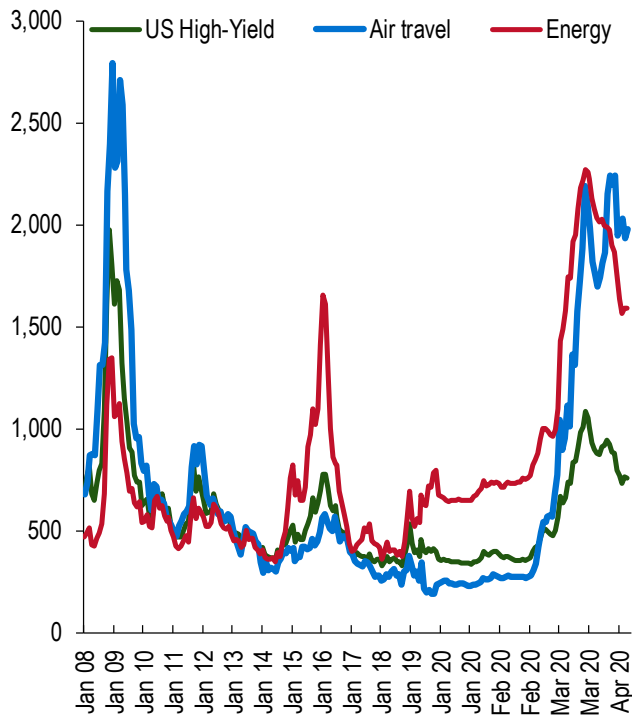
Sources: Bloomberg Finance L.P.; IMF, World Economic Outlook database; and IMF staff estimates.
Note: Data labels use International Organization for Standardization (ISO) country codes.

Non-financial firms: Sharp Increase in Credit Risk in Corporate Debt Markets.

Corporate credit market spreads have widened sharply to half the levels in the GFC...

...and speculative-grade default forecasts have been revised up to recessionary levels

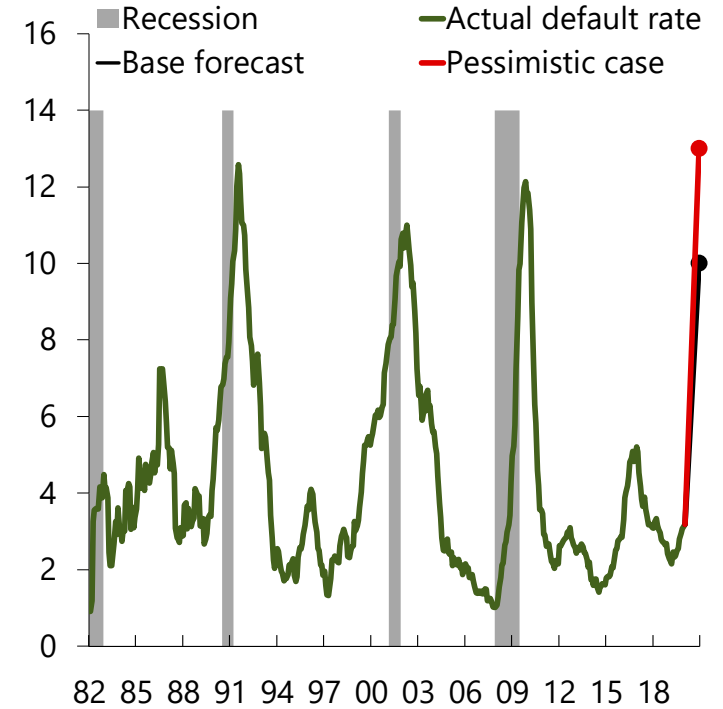
US High Yield Spreads
(Basis points)



Euro High Yield Spreads
(Basis points)



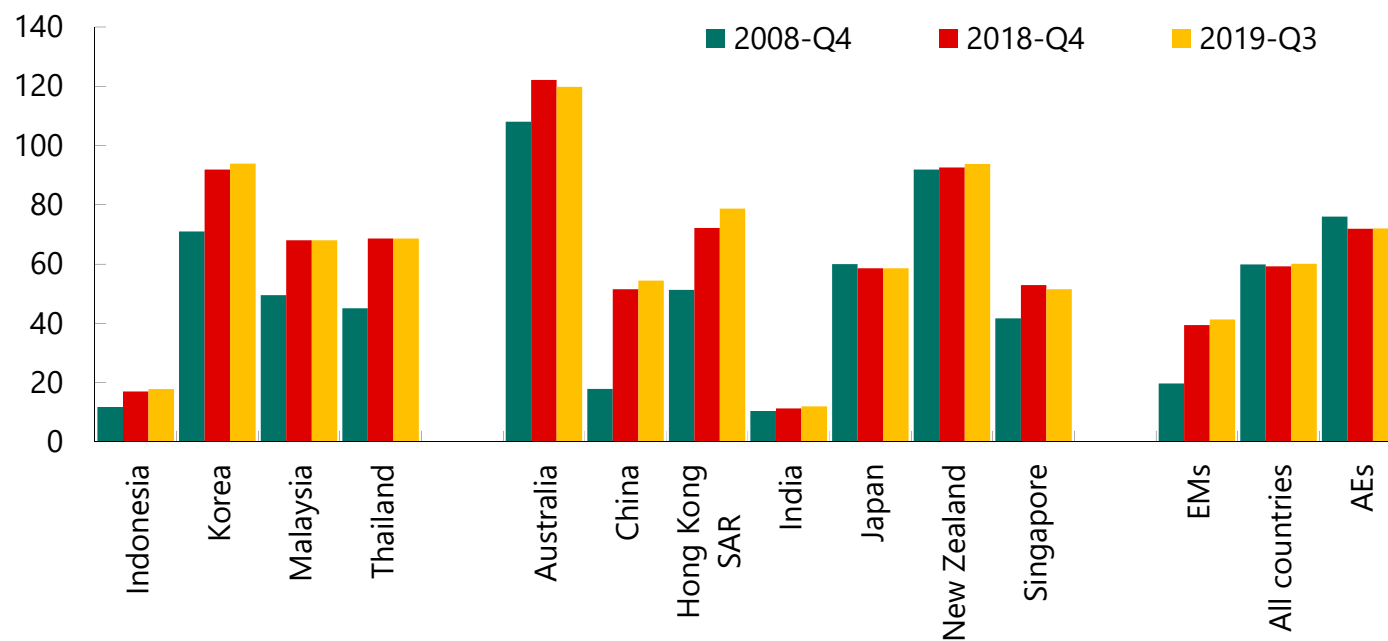
S&P US Speculative Grade Default Rates
(Percent of issuers)



Households: In some Asian countries, household debt remains relatively high.

Households Credit

(Percent of GDP)



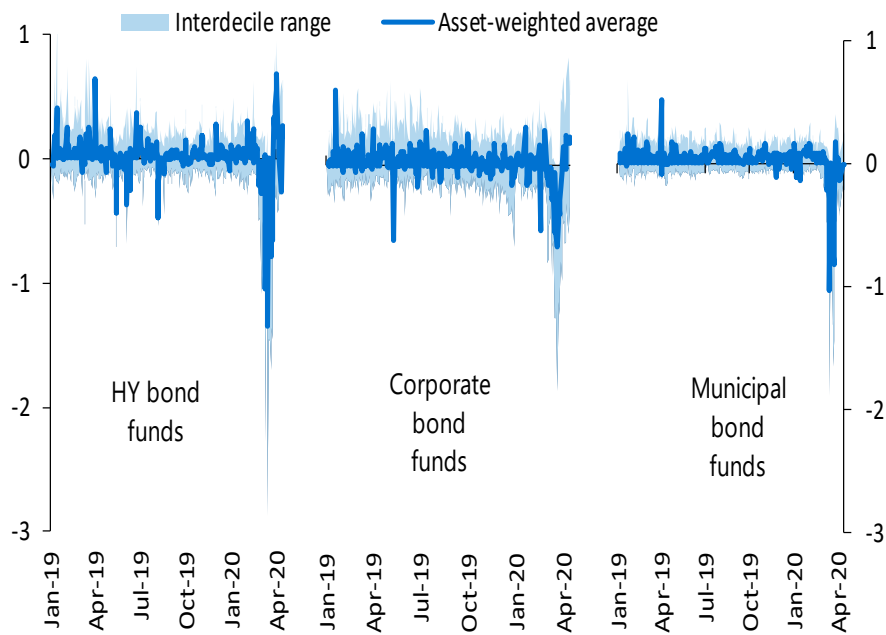
Note: AEs: Advanced Economies; EMS: Emerging Markets.
Source: Bank for International Settlements

Institutional Investors: Under Pressure

Fixed income funds facing rapidly growing outflows...

Daily fixed income fund flows

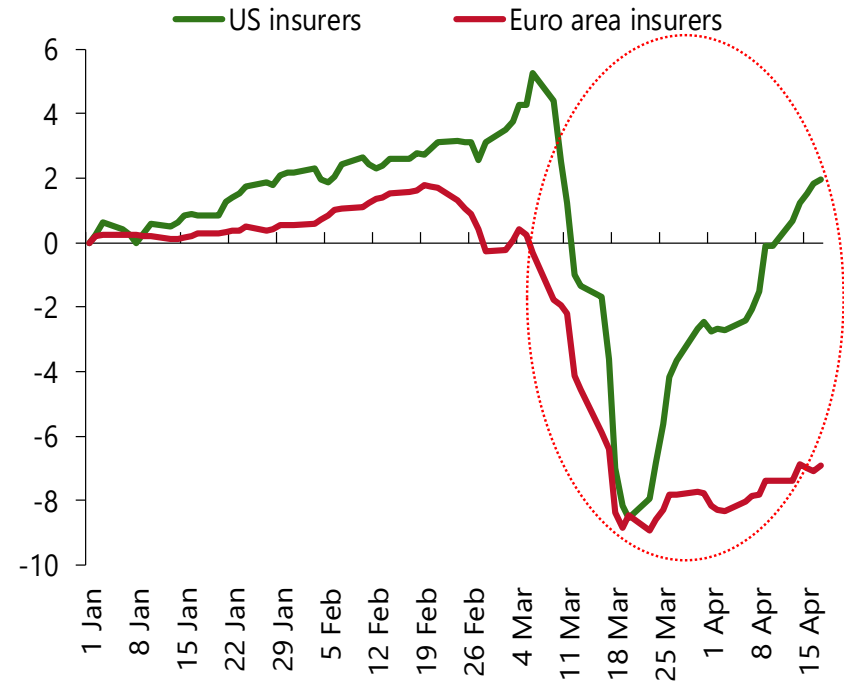
(Percent of assets)



... as traditional "buyers of last resort" also come under pressure

Estimated Profit and Loss of Insurance Portfolio

(Percent, Year-to-Date)



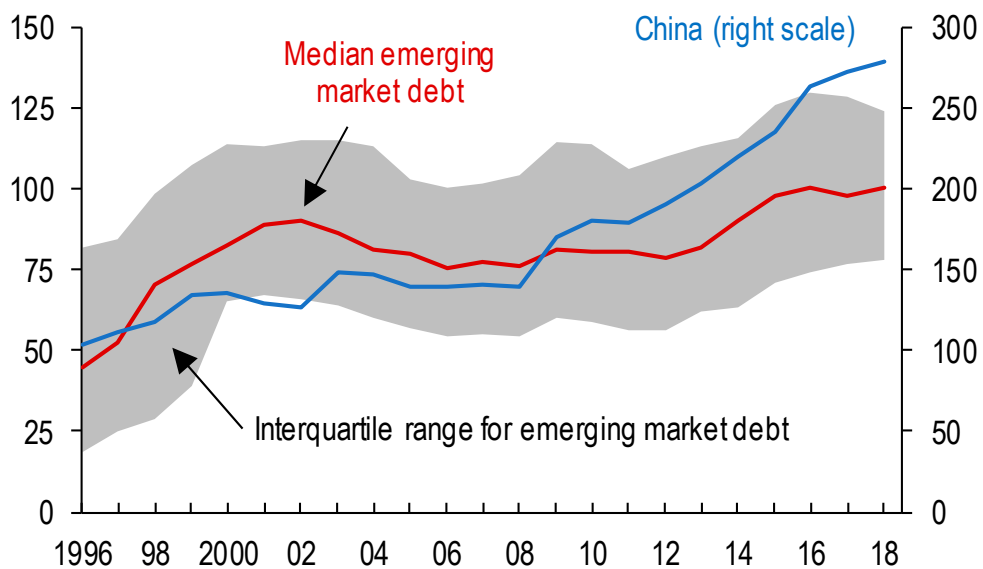
Emerging Markets Are More Vulnerable Now Than During the GFC

Emerging market are a lot more levered now...

... and rely a more on foreign portfolio flows

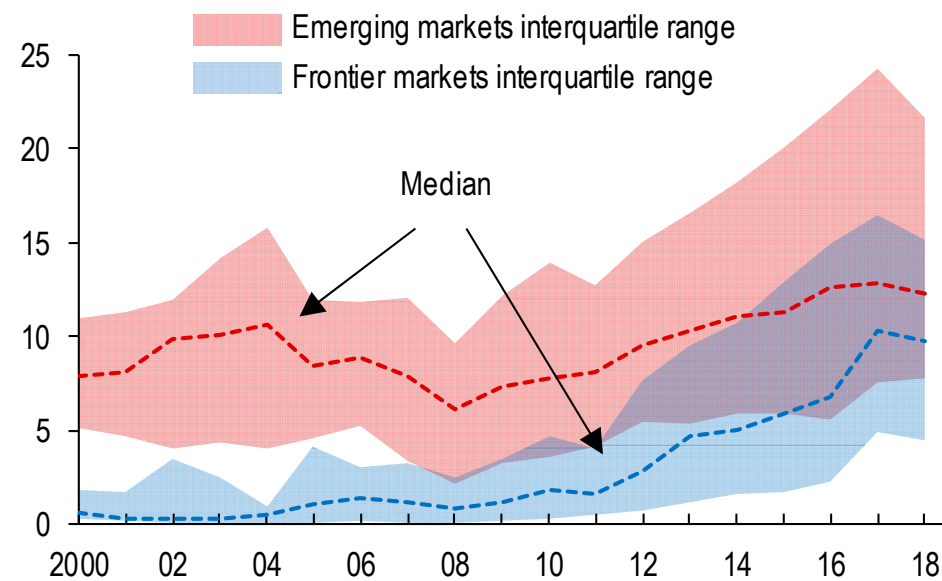
Public and Private Sector, Emerging Market Debt

(Percent of GDP)



Portfolio Debt Liabilities

(Percent of GDP; international investment position)



Outline

Recent
Developments

Projections

Risks

Policies

Policy recommendations

The priority is to save lives and to implement appropriate containment measures to avoid overwhelming health systems. Controlling the pandemic requires globally coordinated actions.

Measures are needed to mitigate the economic impact of containment measures:

- **Support health systems** with more funding and prioritize health spending where space is limited
- **Shield affected people and firms** with large, timely, targeted fiscal and financial sector measures
 - Cash transfers, wage subsidies, unemployment benefits, credit guarantees
 - Supervisors: encourage prudent, temporary adjustments to bank loan terms
 - EMDEs with limited financing: prioritize key public services, social protection spending
- **Reduce systemic stress, lift confidence, and limit shock propagation** with monetary stimulus and liquidity facilities
 - EMEs: use flexible exchange rates to absorb external shocks, where feasible. FXI and temporary CFM may be needed in some cases
- **Foster recovery once business operations normalize:** coordinated fiscal stimulus, consistent with countries' financing constraints

International cooperation is essential:

- **International coordination on vaccine and testing is needed**
- **Help low health capacity countries and those with financing constraints:** expertise, equipment funded with grants, concessional loans
- **Bilateral creditors should consider debt moratoria for IDA-eligible countries**
- **Bilateral and multilateral central bank swap lines should be provided to a broader range of economies**
- **The IMF is actively supporting member countries**



Thank you!

IMF Regional Office for Asia and the Pacific