

Sovereign Debt & Financial Risks in ASEAN+3 during the Pandemic

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3rd BSP Webinar Series “*Managing Systemic Risk in the time of Pandemic:
What has Changed since the Global Financial Crisis?*”

September 29, 2020

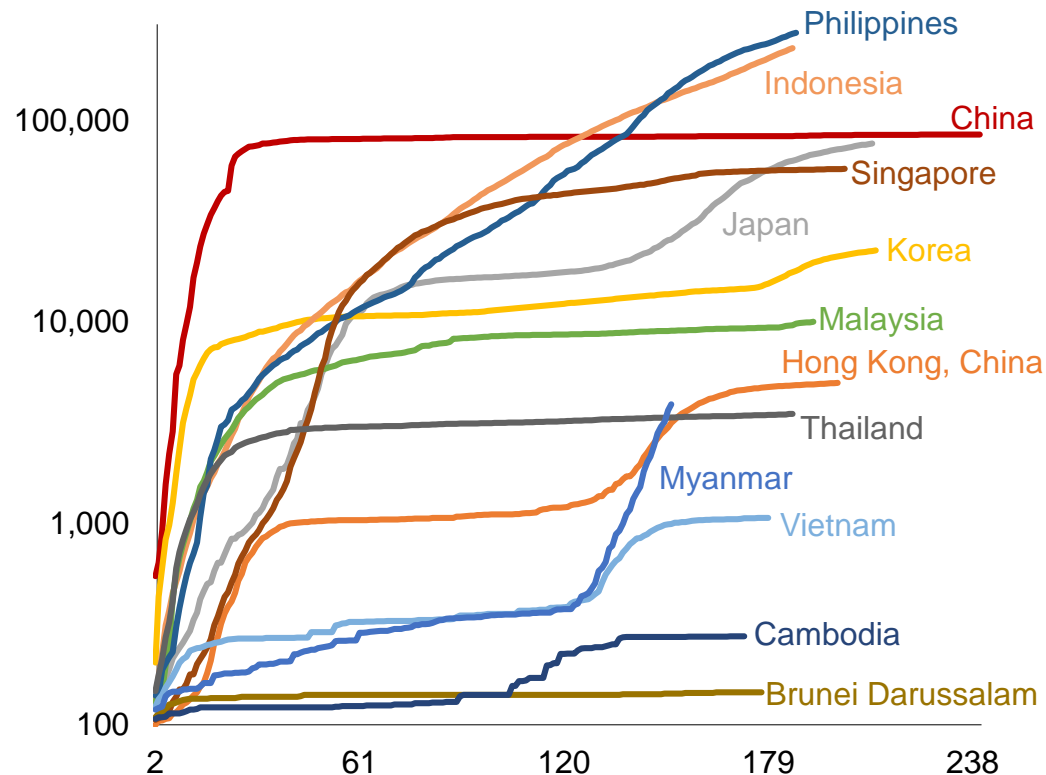


ASEAN+3 COVID monitor

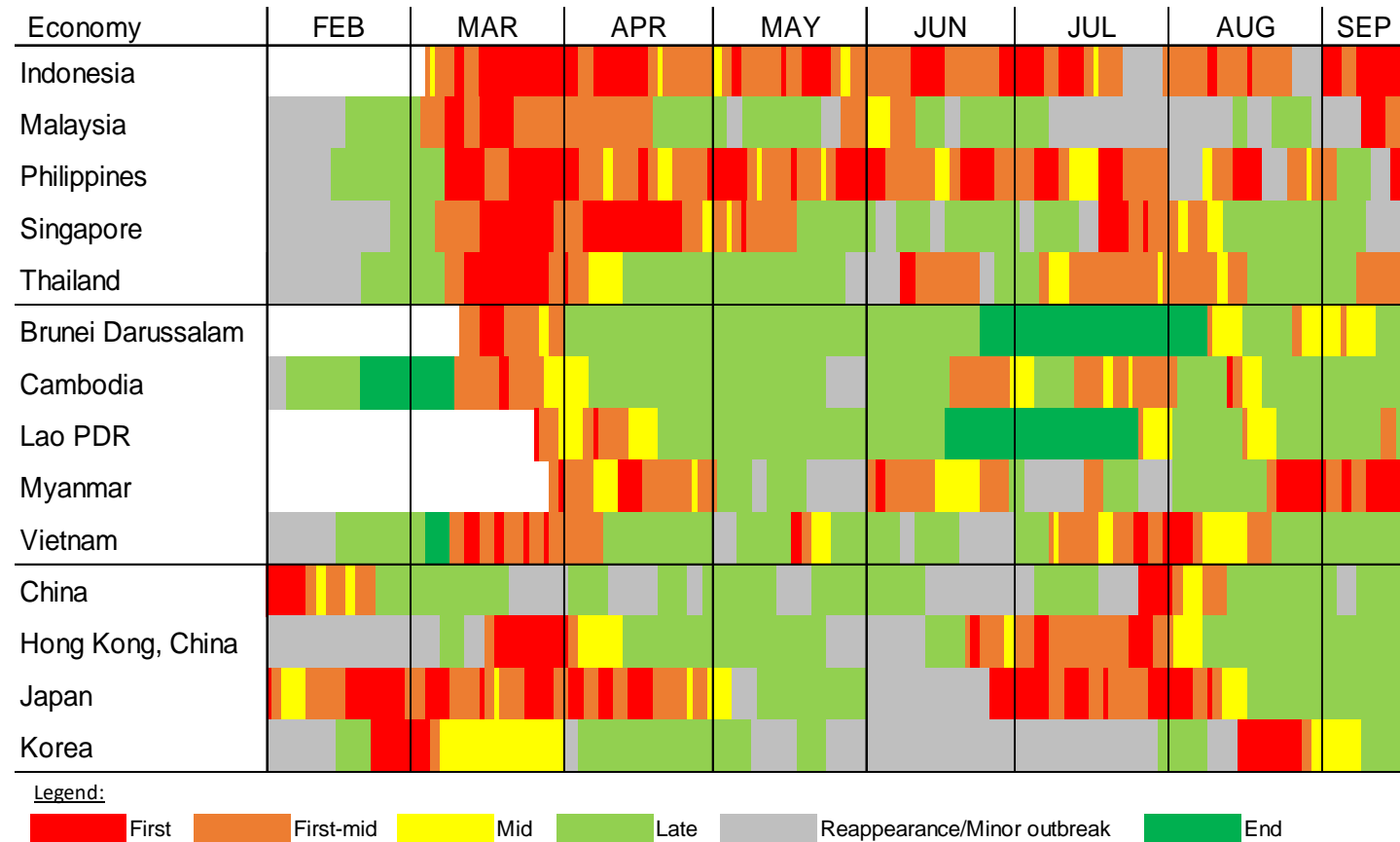
ASEAN+3 economies are gradually opening up, which bodes well for economic activity...

ASEAN+3: Confirmed Cases

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



ASEAN+3: Covid Cycle Heatmap, as of September 18, 2020 (Daily index)

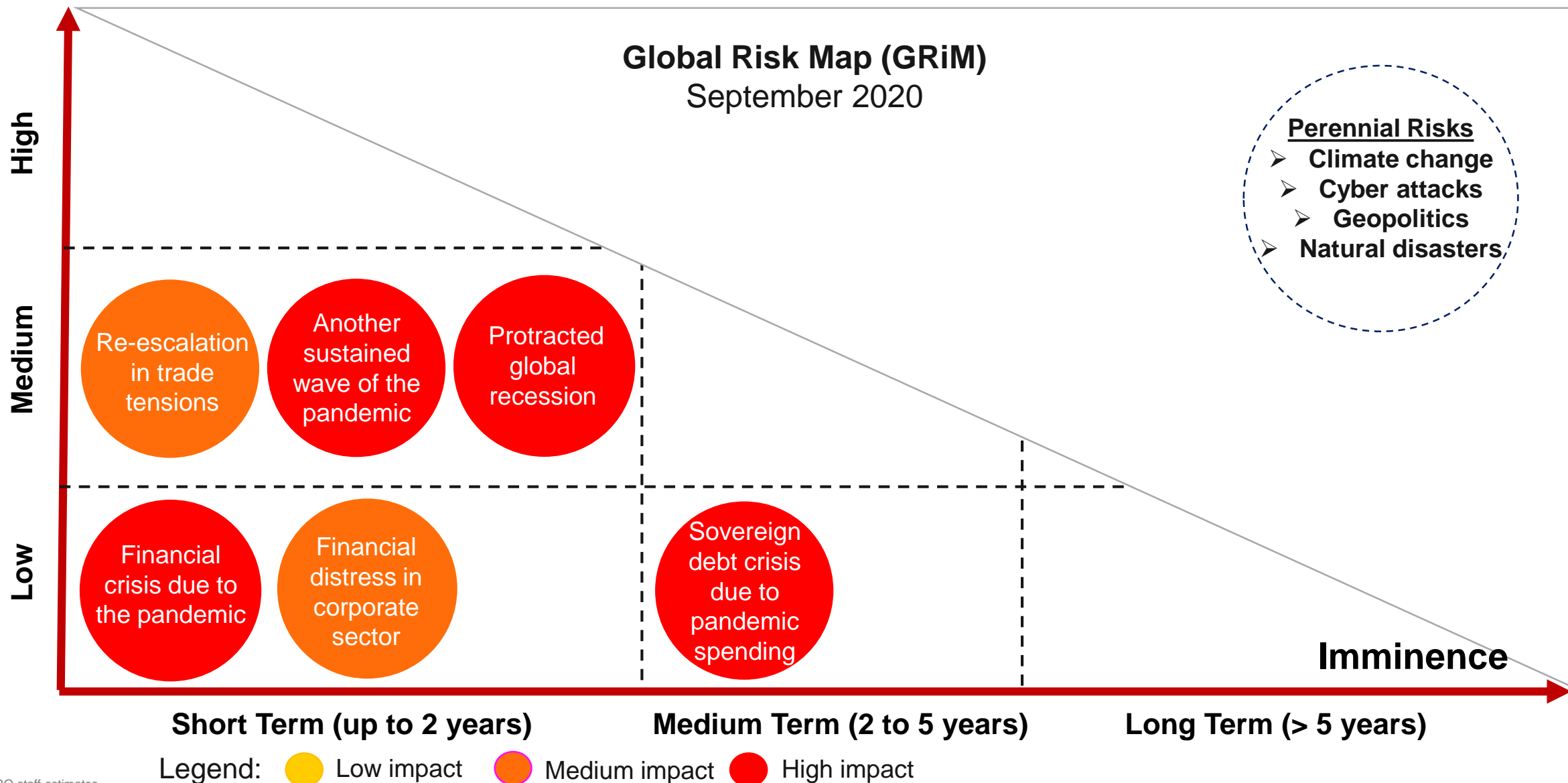


Sources: Haver Analytics, sourced from John Hopkins University; and AMRO staff calculations.

Note: Minor outbreaks are classified as outbreaks in the bottom 75th percentile of a country's 7-day average daily new cases. Outbreaks can retroactively be reclassified as non-minor if they breach the 75th percentile threshold at a later date.

Key macro-financial risks

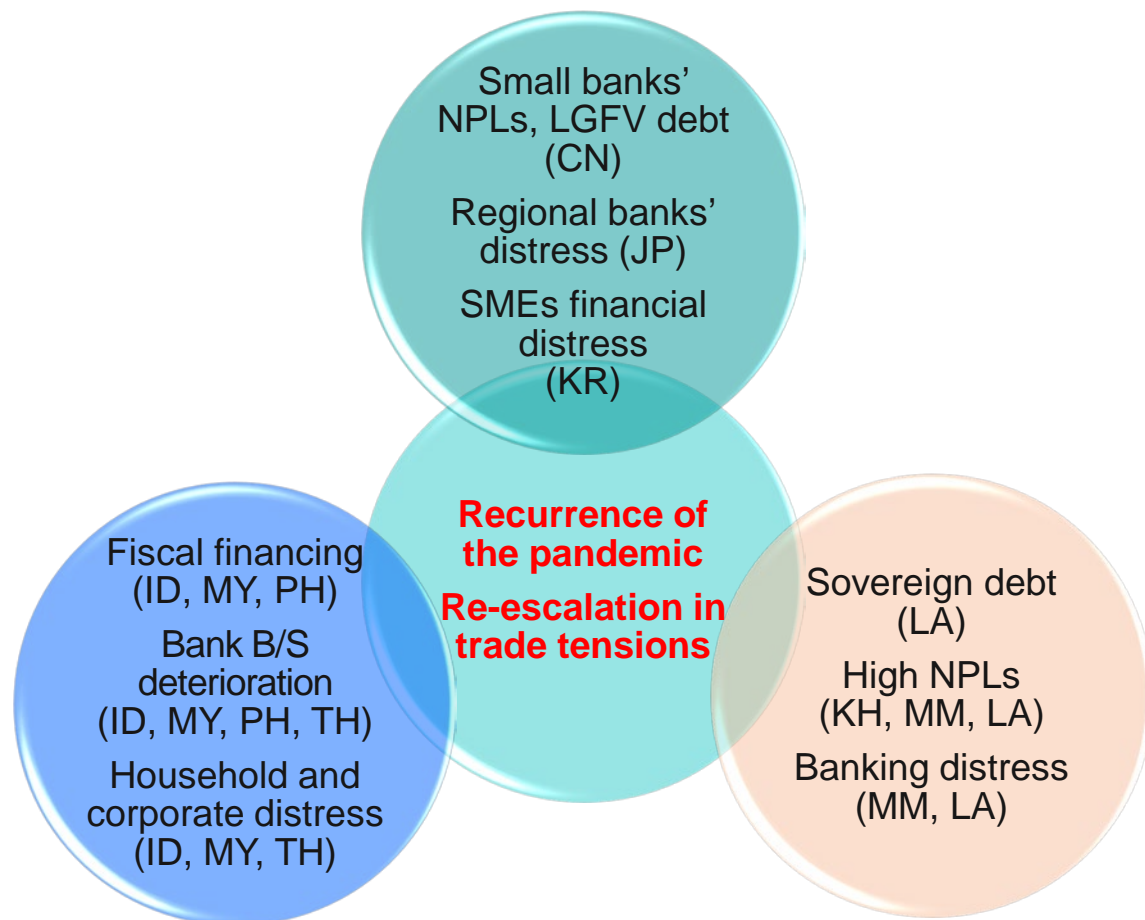
If they materialize over the next 12 to 24 months, regional growth will be hit even harder



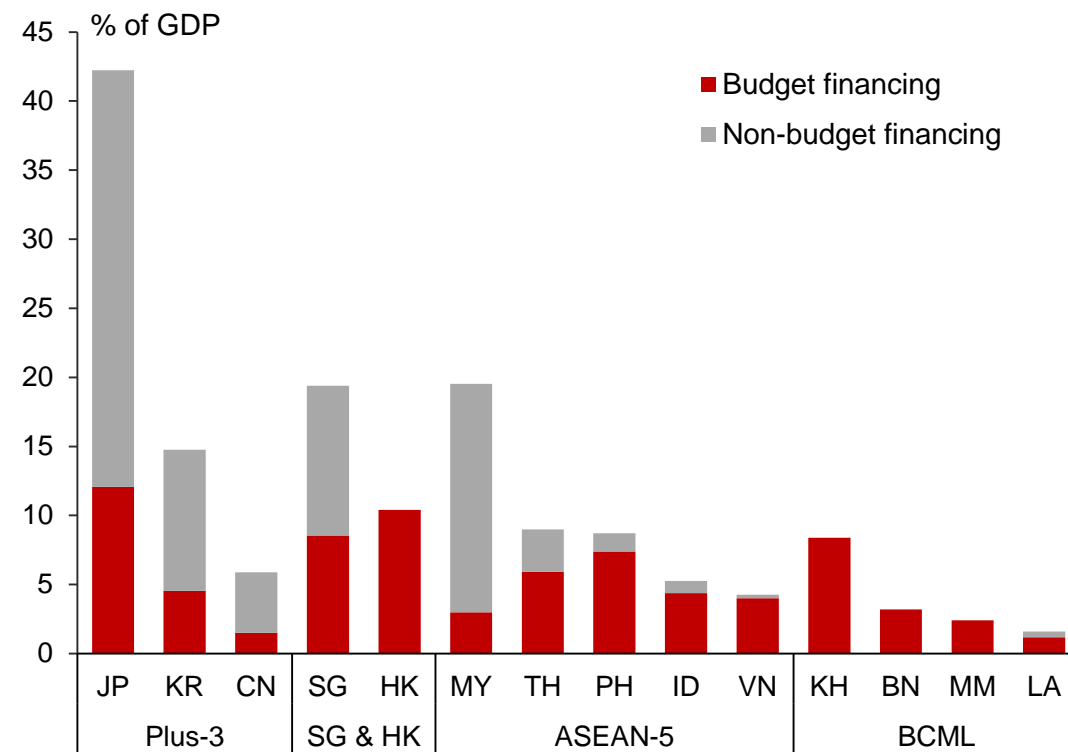
Risk (1): Sovereign debt crisis

Confronted with the pandemic and economic lockdowns, ASEAN+3 economies swiftly deployed sizable stimulus packages to secure human lives and mitigate economic losses...

Selected ASEAN+3: Country-specific Risks



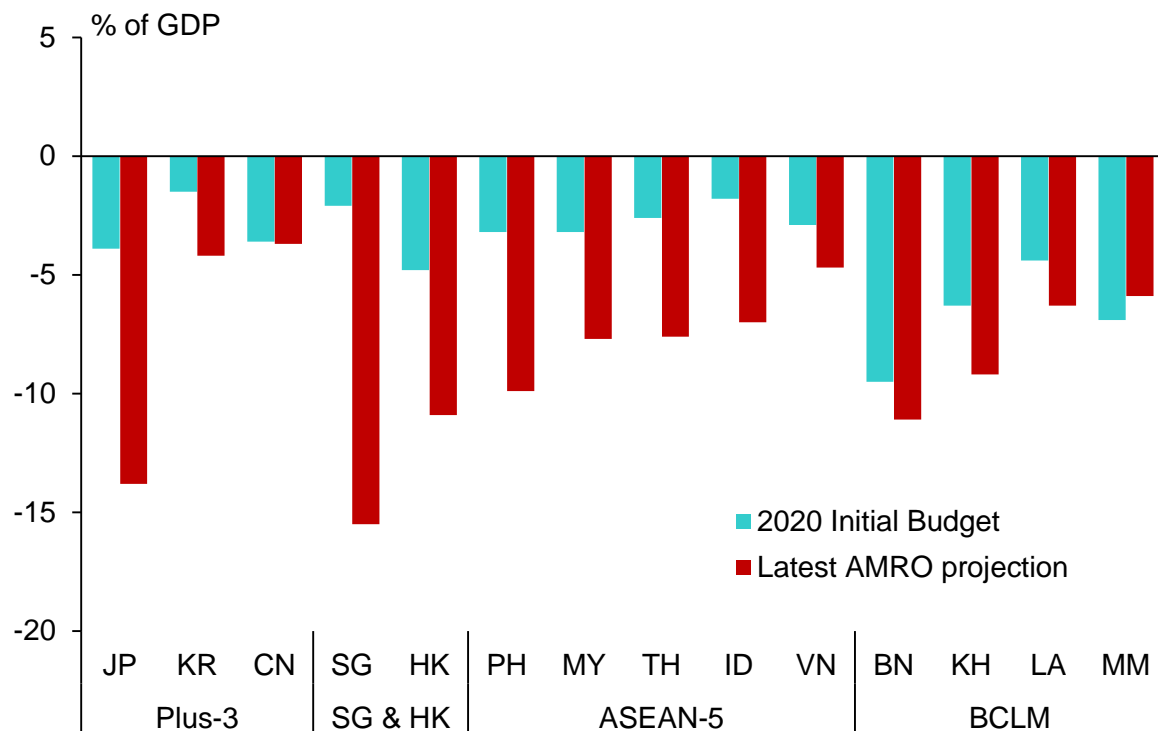
ASEAN+3: Announced Economic Stimulus (Percent of GDP)



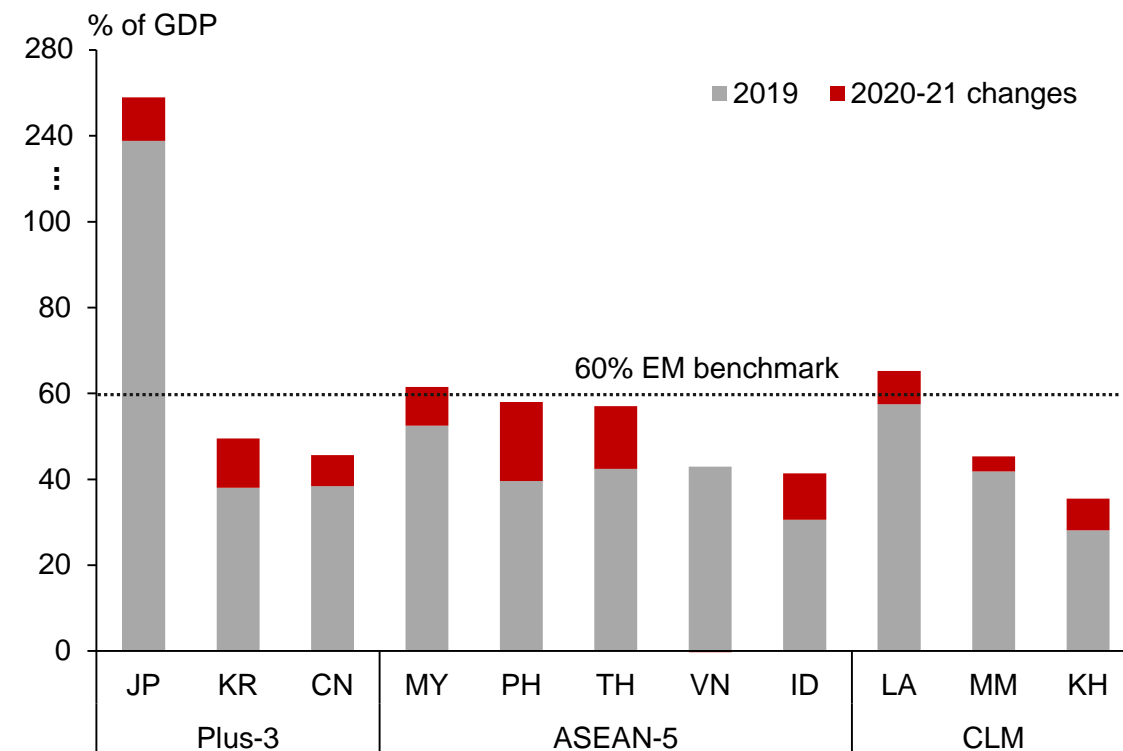
Risk (1): Sovereign debt crisis (cont'd)

Careful public financing plans are required to stably finance enlarged fiscal deficits and heightened debt service, while managing the market participants' sovereign risk perceptions...

Fiscal Balance: Budget vs. Projection for 2020
(Percent of GDP)



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



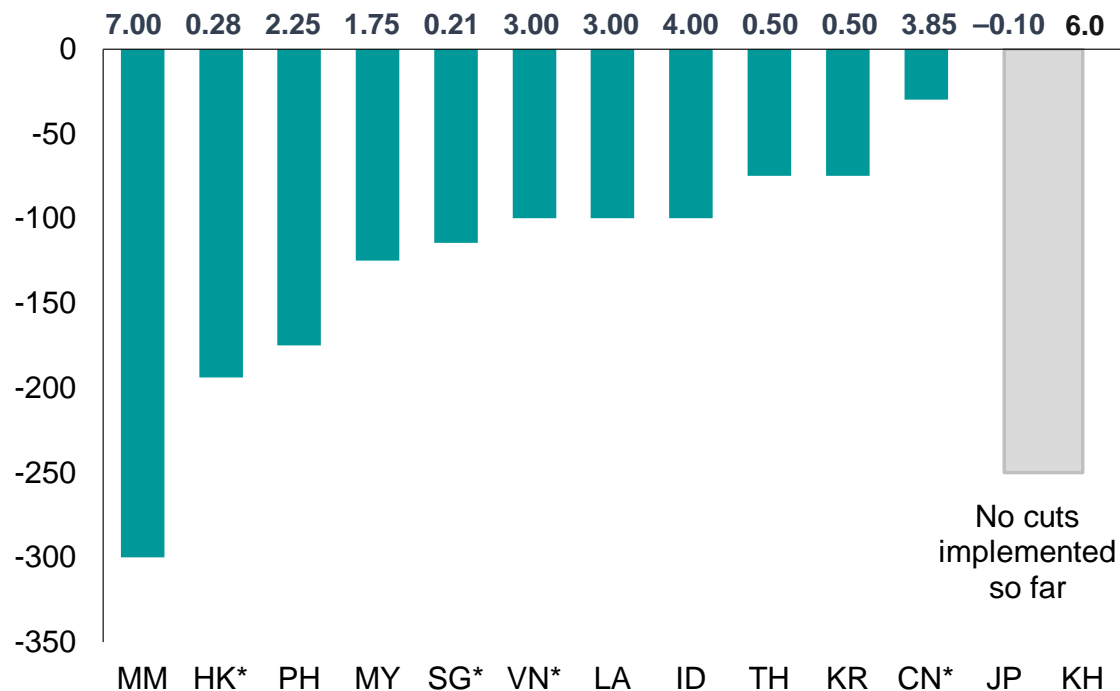
Sources: National authorities; AMRO staff projections

Source: AMRO staff projections
Note: The 2020-21 projections are based on the information available up to 18 Sep 2020.

Risk (2): Financial crisis

To combat the pandemic, central banks, together with governments, are supporting the corporate sector and financial markets, with financial institutions being key channels of policy transmission...

ASEAN+3: Cuts in Key Interest Rates
 (Basis point change between end-December 2019 and August 31, 2020)
 Current interest rate (percent)



Sources: Haver Analytics and AMRO staff calculations.

Note: Change for those with asterisk refers to the difference between the month of latest data and the average rate for December 2019. Definition of key interest rate varies across economies, and could mean the policy rate, the refinancing rate, the discount rate, the overnight repo rate, among others. Brunei Darussalam excluded given the current design of its monetary policy.

ASEAN+3: Selected Financial Support Measures
 (Latest measures introduced)

Households	<ul style="list-style-type: none"> • Cash transfers • Debt reliefs • Wage subsidies • Tax deferrals • Price freeze on basic necessities • Fee cuts
Corporates	<ul style="list-style-type: none"> • Employment retention subsidies • Provision of low-cost loans for SMEs • Income tax reductions • Moratoriums on debt payments • Lifting of import restrictions • Suspension of short-selling • Reduction or deferral of custom fees • Higher tax benefits • Waived transaction fees

Source: ASEAN+3 and COVID-19: Panoply of Pandemic Policies, AMRO staff.

Risk (2): Financial crisis (cont'd)

Regulatory forbearance measures provide some relief to borrowers, while corporate bankruptcies and rising unemployment are putting significant strain on the region's banking systems as credit risks rise.

ASEAN+3: Regulatory Forbearance for Financial Institutions (FIs)

(Measures introduced as of September 2020)

Capital Adequacy and Liquidity

- Lower required capital buffers
- Lower required liquidity buffers
- Relaxed penalties for reserve deficiencies

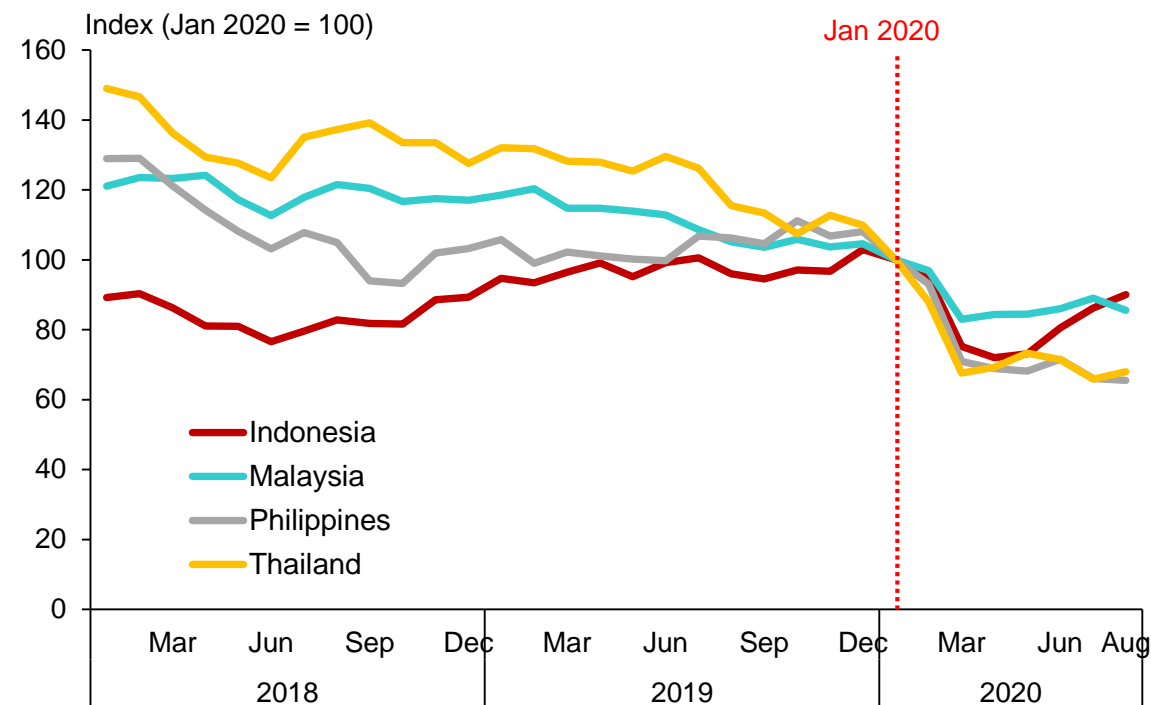
Lending and Borrowing

- Flexible treatment of NPLs
- Eased loan restructuring and Know-Your-Customer rules
- Permission to draw down on capital and liquidity buffers to support lending activities

Other Activities

- Delay of new, tighter rules on asset management activities
- More flexible timelines for bank reporting requirements

ASEAN-4: Banking/Finance Stock Market Indices (January 2020 = 100)



Risk (3): Policy space against another wave of the pandemic

To combat any recurring outbreak of the virus, policymakers need to carefully manage their existing policy buffers amid challenging external and fiscal environment...

ASEAN+3: Assessment of Policy Space
(Pre-COVID-19)

Policy Space		Fiscal		
		Ample	Moderate	Limited
Monetary	Ample		Philippines <i>Vietnam</i>	
	Moderate	Korea Singapore Thailand	China Indonesia Malaysia <i>Myanmar</i>	
	Limited	Hong Kong <i>Cambodia</i>	<i>Brunei</i>	Japan <i>Lao PDR</i>

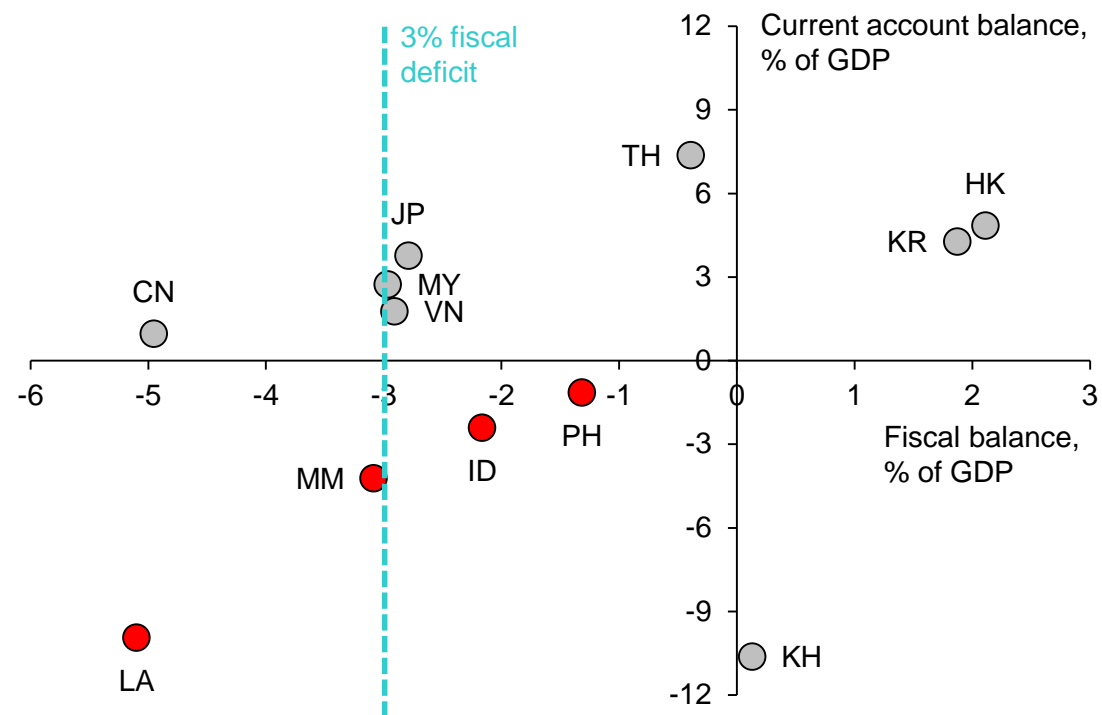
Source: AMRO staff estimates.

Note: The assessments for Brunei, Cambodia, Lao PDR, Myanmar, and Vietnam are based on initial frameworks that will need to be further developed. At this stage, their fiscal space assessments are based on debt sustainability indicators and desk judgement, taking into account country specific factors; monetary space assessments are based on the degree of monetary autonomy according to policy regimes, policy rates, external and financial stability indicators, and judgement that take into account country specific factors.

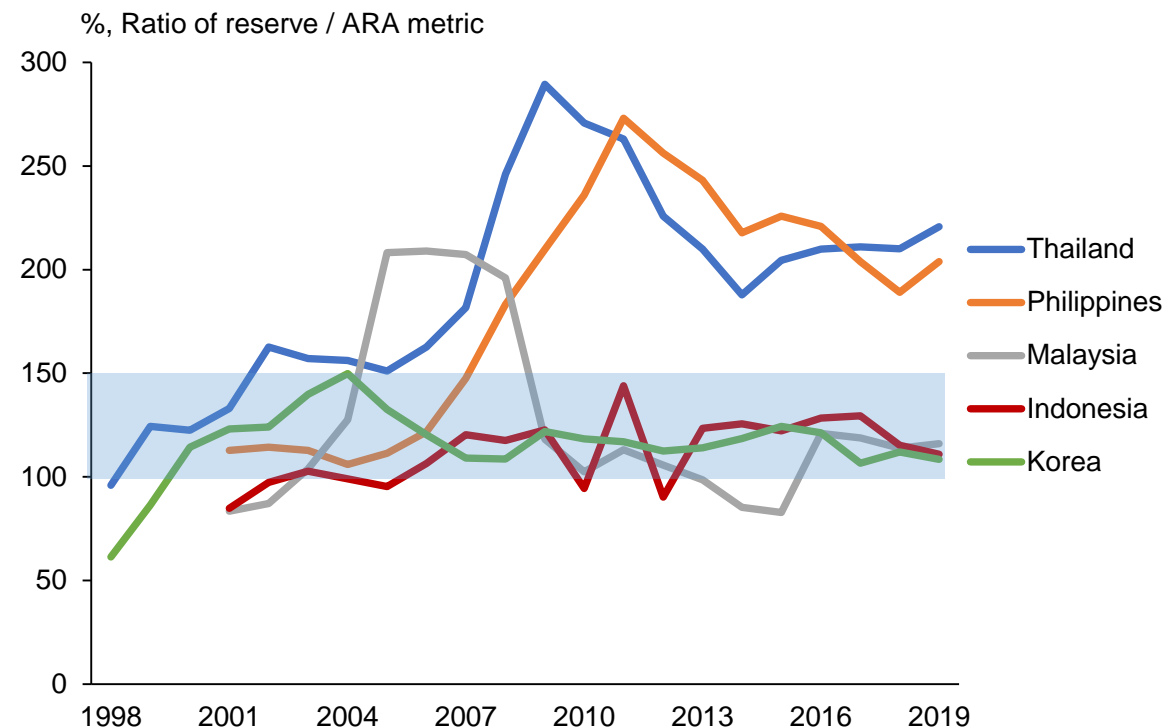
Balancing factors to key risks (1)

Strengthened fiscal prudence and accumulating foreign reserves would help mitigate the adverse impact of foreign investors' risk aversion and capital outflows on external stability...

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



Foreign Reserve Adequacy
(Percent)



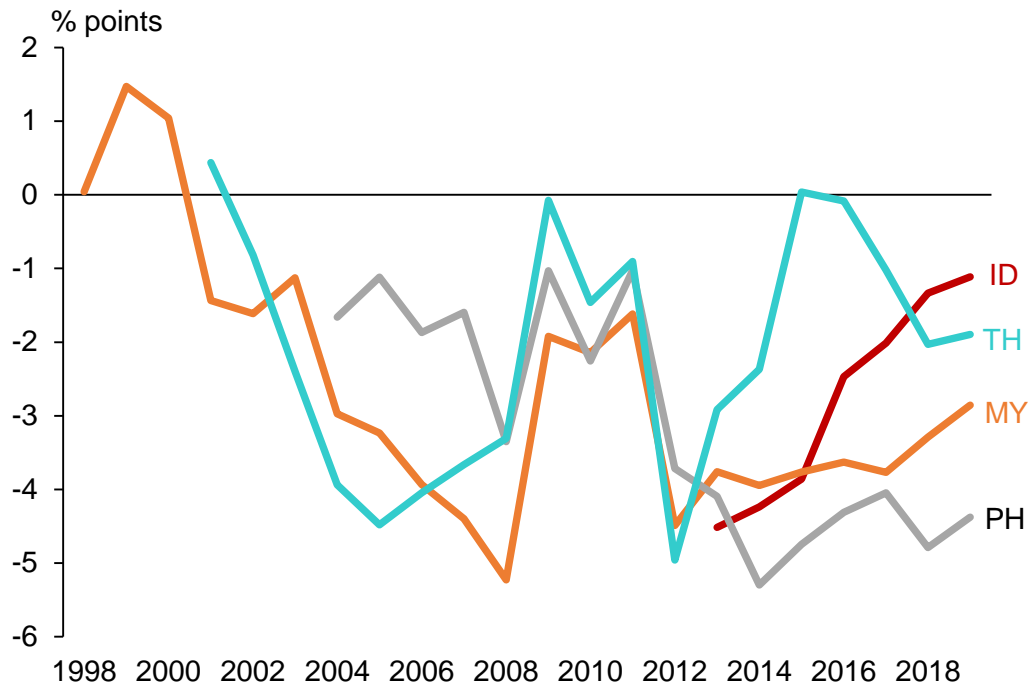
Source: National authorities; and IMF (WEO Database, April 2020)
Note: Fiscal balances are based on general government net lending/borrowings.

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

Balancing factors to key risks (2)

Globally low interest rate environment, rising domestic savings rates, and the ongoing progress of the COVID-19 vaccine development would provide additional offsetting factors to the key risks...

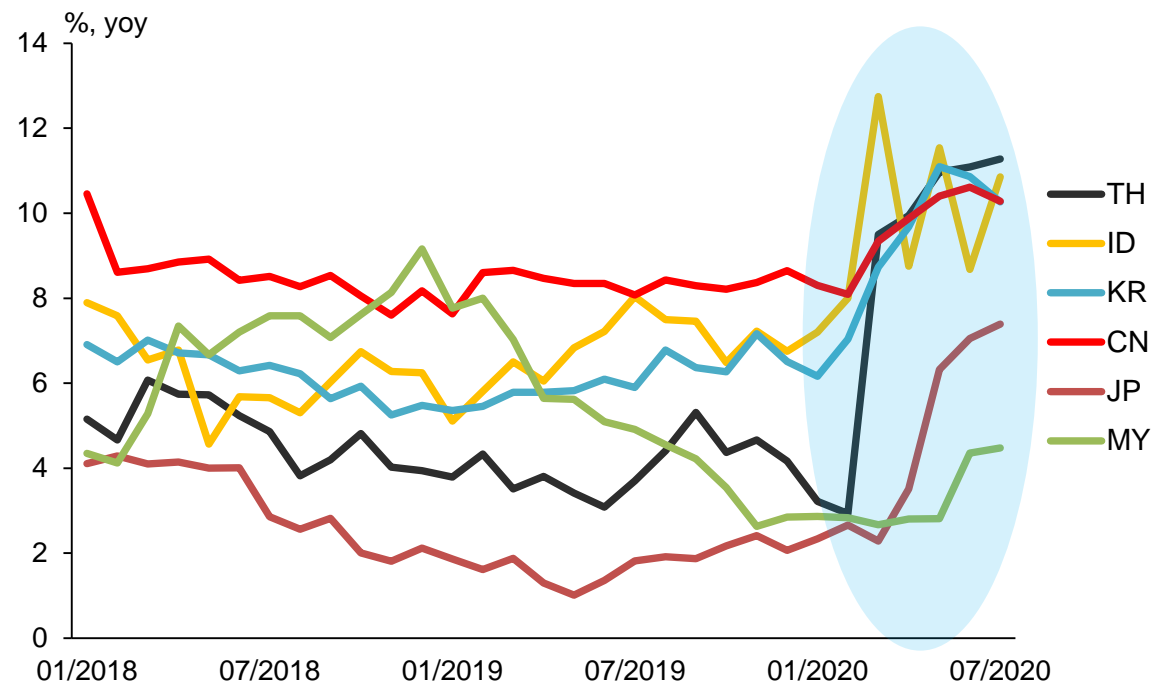
ASEAN-4: Interest Rate - Growth Differential
(Percentage points)



Sources: National authorities; IMF; AMRO staff calculations

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

Selected ASEAN+3: Bank Total Deposits Growth
(Percent year-over-year)

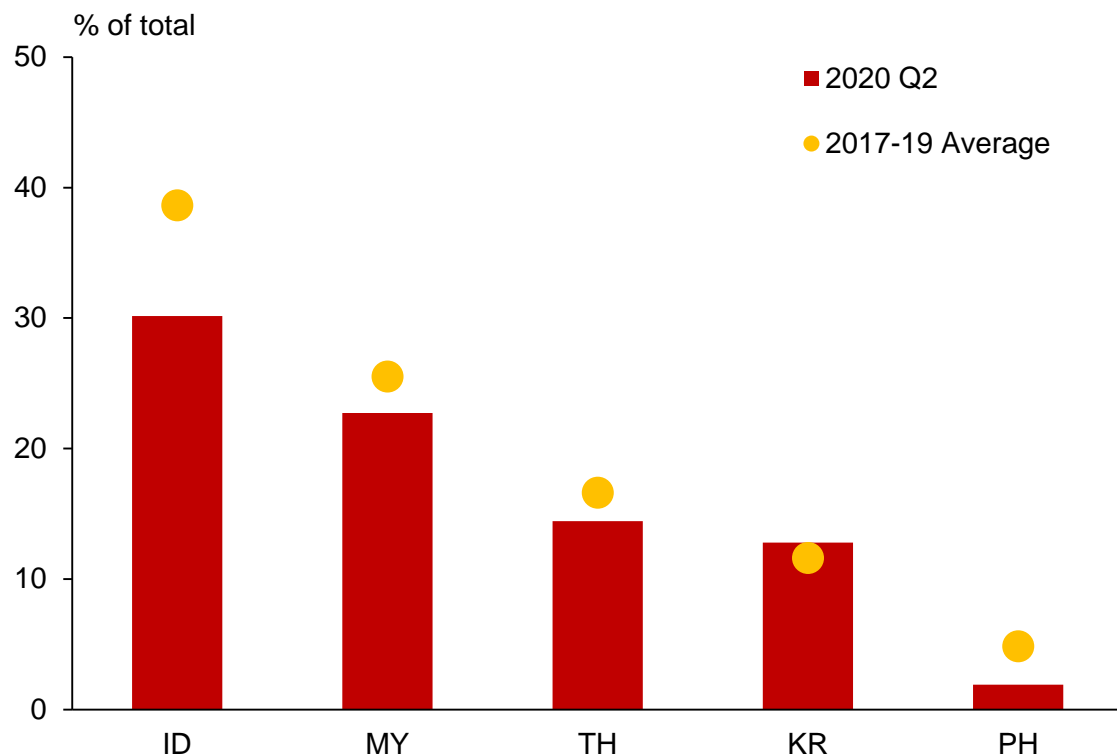


Sources: National authorities; CEIC

Balancing factors to key risks (3)

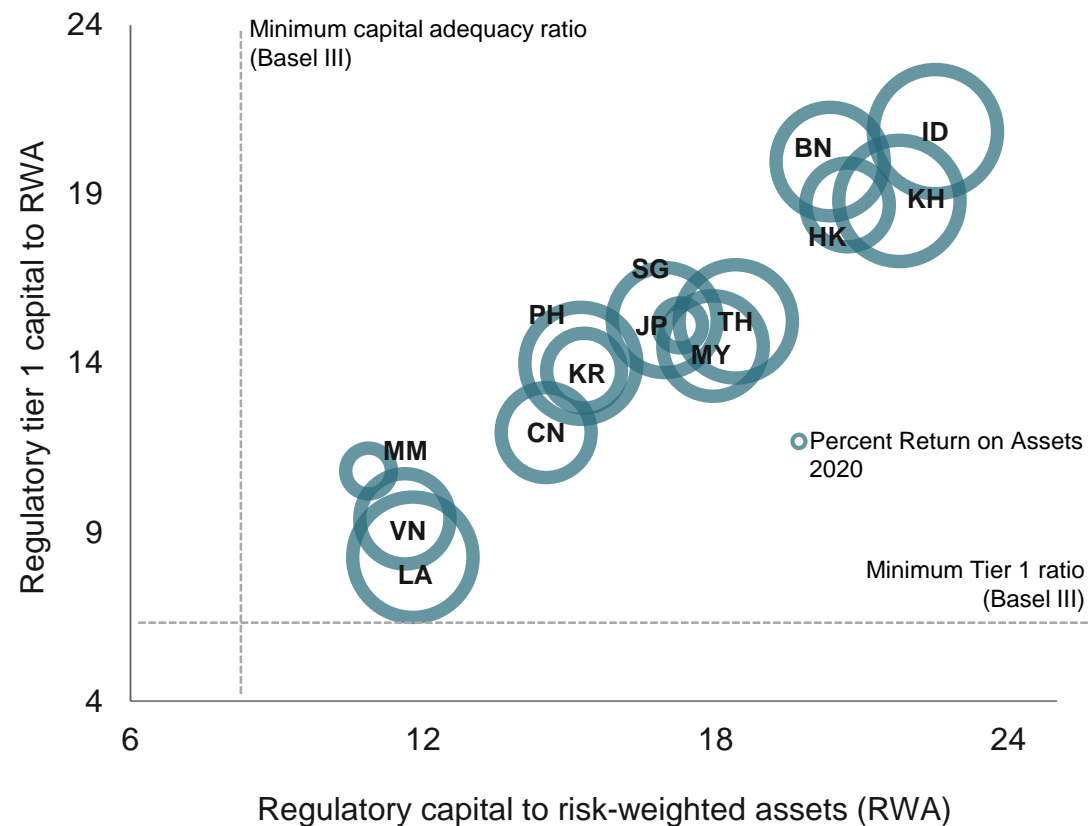
Emerging ASEAN economies have recently made a significant progress in reducing their dependence on foreign investors in LCY government bond markets, while the region's banks building up strong capital buffers...

Foreign Holdings of LCY Government Bonds
(Percent)



Sources: AsianBondsOnline; National authorities; AMRO staff calculations

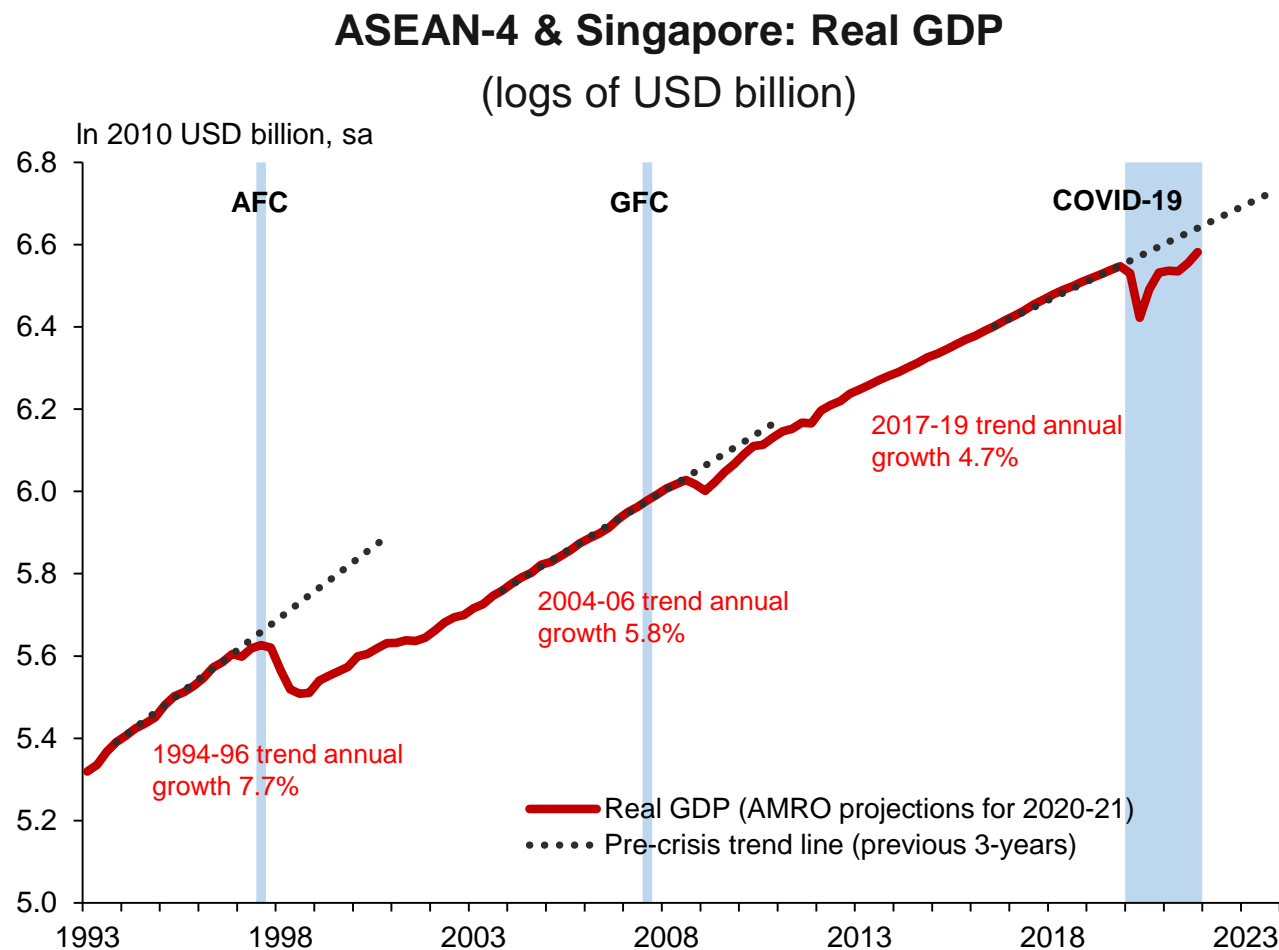
ASEAN+3: Financial Soundness Indicators, 2020
(Percent to risk-weighted assets (RWA))



Sources: Haver Analytics, sourced from International Monetary Fund; national authorities; and AMRO staff calculations.
Note: Capital adequacy ratios are as of Q4 2019, except for HK and ID (Q2 2020), CN, BN, MY and TH, (Q1 2020), JP (Q3 2019); VN (Q2 2019) and MM (Q4 2018);. Return on Asset ratios for each economy follow the same end-dates, except for KR (as of Q4 2017).

ASEAN+3 regional economic outlook (1): GDP trajectory

The region is highly unlikely to recover the pre-COVID crisis GDP level by the end of the next year...



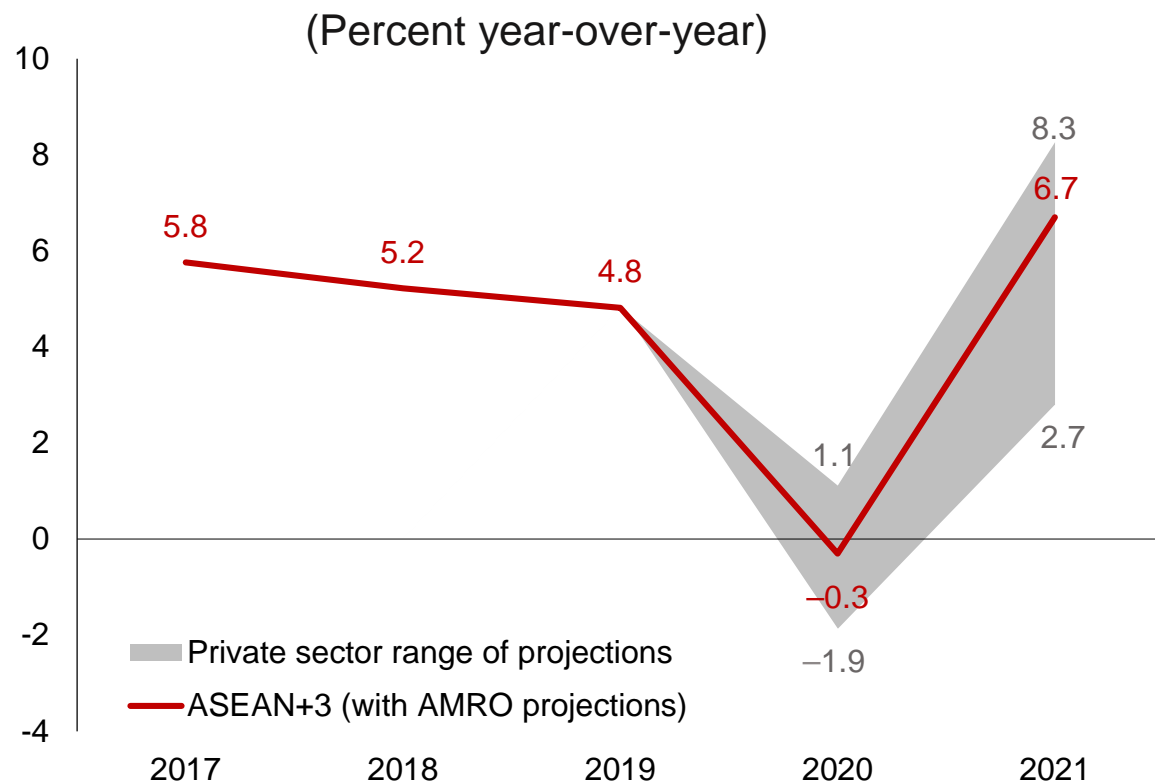
Sources: National authorities; Haver Analytics; AMRO staff calculations

Note: 'ASEAN-4 & Singapore' include the original 5 members: Malaysia, Indonesia, Philippines, Singapore and Thailand.

ASEAN+3 regional economic outlook (2): Growth

The region is projected to show a “V-shaped” recovery in 2021, but it is by no means assured if there is another sustained wave of the pandemic...

ASEAN+3: Growth Estimates and Projections, 2020–2021



ASEAN+3: AMRO Growth Projections
(Percent year-over-year)

Economy	2018	2019	2020 ^p	2021 ^p
ASEAN+3	5.2	4.8	-0.3	6.7
Plus-Three	5.2	4.9	0.4	6.9
China	6.6	6.1	2.1	8.1
Hong Kong, China	2.8	-1.2	-7.5	4.5
Japan	0.3	0.7	-5.9	2.9
Korea	2.7	2.0	-1.9	3.0
ASEAN	5.2	4.7	-3.3	6.0
Brunei Darussalam	0.1	3.9	1.6	3.1
Cambodia	7.5	7.1	-4.5	5.4
Indonesia	5.2	5.0	-1.7	5.1
Lao PDR	6.3	5.5	0.5	4.6
Malaysia	4.7	4.3	-5.5	9.0
Myanmar	6.8	6.8	1.1	6.2
Philippines	6.2	5.9	-7.6	6.6
Singapore	3.4	0.7	-6.0	7.5
Thailand	4.2	2.4	-7.8	4.6
Vietnam	7.1	7.0	3.1	7.0

Sources: Bloomberg Finance L.P.; and AMRO staff calculations.

Source: AMRO staff estimates

Note: BBG estimates are those submitted between September 01 and September 15, 2020; accessed September 17.

Note: p = projections.

Key takeaways

- *The region's systemic risks include sovereign debt and financial crisis due to the pandemic:*
 - *Fiscal deficits are expected to increase this year and the next because of massive stimulus measures, while debt stock expected to rise.*
 - *Once regulatory forbearance and the moratorium on debt servicing are lifted, a spike in bad loans from corporate bankruptcies may put significant strain on banking systems.*
- *To mitigate the risks, policymakers need to manage the exit from the stimulus policies carefully to avoid a cliff effect and to provide targeted support to facilitate a smooth transition to the new normal.*
- *The likelihood of systemic fiscal and financial crises remain very low, mainly due to:*
 - *Growing reliance on domestic funding, adequate foreign reserves, accommodating external environment, increasing domestic savings, banks' strong capital buffers, and the progress in the vaccine development.*
- *The region is projected to show a "V-shaped" recovery in 2021.*

Thank you.



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