

## ***Policy Perspectives***

# **Now What? Post-Pandemic Policy Considerations**

**The ASEAN+3 Macroeconomic Research Office (AMRO)**

July 2020

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## Table of Contents

I.	Introduction: Where are We Now?.....	3
II.	New Normal, Challenges and Opportunities: Where are We Heading? .....	7
III.	Policy Transition: What and How Should We Design.....	9
Appendix I. Overview of COVID-19 Cases .....		18
Appendix II. Manufacturing Purchasing Managers' Index (PMI).....		19
Appendix III. Main Policy Measures to Address the COVID-19 Pandemic in ASEAN+3.....		20
Appendix IV. Selected ASEAN+3 Economies: Phased Reopening of the Economy .....		21
Appendix V. ASEAN+3: Status and Timeline for Reopening, Selected Containment Measures .....		22
References .....		23

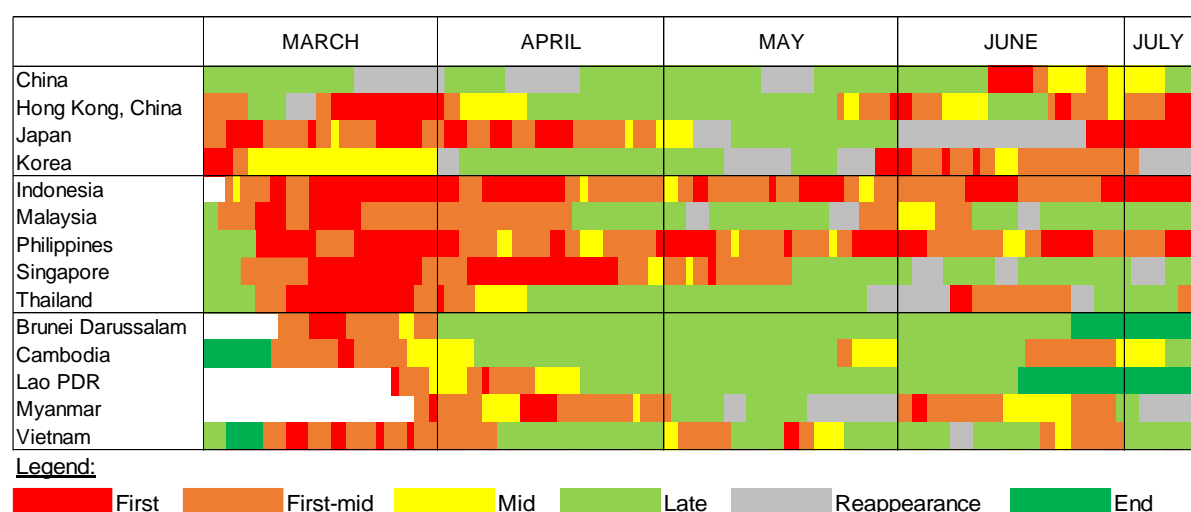
## Executive Summary

1. **Emergency responses to the COVID-19 pandemic have been generally effective, and some countries in the region have started to prepare post-pandemic strategies.** The grave health threat from the pandemic called for unprecedented crisis responses, and some stringent containment measures have proven to be effective in controlling the spread of virus. Although the pandemic is still ongoing in many countries, those countries where virus containment has been successful are envisioning the next phases after the pandemic.
2. **The need to improve resilience has emerged as one of the key principles for the post-pandemic economic system.** Amid unprecedented disruptions that the pandemic has brought about, a few new trends have emerged to mitigate the vulnerabilities of the existing economic system exposed by the pandemic. This so-called “new normal” brings significant changes in the way people work and interact with each other, transforming global value chains as well as business operations to be more resilient to global health crises.
3. **Recalibrating post-pandemic policy should prioritize resilience in the economic recovery, while carefully assessing the withdrawal of emergency response measures.** Responding to the COVID-19 pandemic, policymakers have embraced a variety of economic measures of unprecedented scope and depth in recent decades. Such measures should be reviewed for their continued relevance and need after the pandemic, to better reallocate limited fiscal resources towards emerging policy priorities of recovering economy and let the private sector retake the reins of the economy. A resilient recovery is the top priority, but the heterogeneity of pandemic experiences also indicates that country-specific pre-crisis structural priorities should be carefully assessed to be included in any post-pandemic policy package.
4. **For countries emerging from the pandemic crisis and facing new policy environments, eight general principles are proposed in the policy transition from emergency responses to robust recovery.** The fundamental changes brought about by the pandemic are extensive and still ongoing. Policymakers of countries emerging from the pandemic need to make important policy decisions for a smooth transition amid heightened uncertainties and untamed health risks. Although the policy details will depend largely on country-specific factors, policymakers are facing some common key policy questions as they move on to the next stage after the crisis.
5. **The proposed principles attempt to provide general guidance for post-pandemic policy decision-making in two groups – “how (4C)” and “what (4R)”.** Designing the post-pandemic policy needs to answer two key policy questions – how to design the policy transition and what areas to focus on in the post-pandemic period. The proposed principles attempt to highlight some key aspects that policymakers need to keep in mind and provide general guidance in two groups. The first group presents approaches that the authorities should take when recalibrating and implementing the policy measures in the post-pandemic period – Cautiousness, Comprehensiveness, Cooperation, and Communication (4C). The second group, meanwhile, addresses key four areas that policy measures need to focus on as the economy progresses out of the crisis – Recovery, Risk Management, Restructure and reform, and Rebuilding of the policy space (4R).

## I. Introduction: Where are We Now?

1. **After a rapid rise in the number of confirmed COVID-19 cases, many economies in the region have done well in curbing the spread of the virus.** The number of confirmed cases surpassed 11.8 million globally and 290,266 in this region as of July 7 (Appendix I). Despite the continued rise in the cumulative number of confirmed cases, the number of daily new cases has stabilized in many regional economies, while the recovery rate has improved compared to a month ago (Appendix I). According to the AMRO COVID Cycle<sup>1</sup>, Brunei and Lao PDR are at the end of the cycle with no new recorded cases, while five other countries are at the late-stage of the cycle (Figure 1).<sup>2</sup> Economies at the late-stage may consider cautiously easing their pandemic containment restrictions in preparation for resuming economic activity. Countries at the reappearance stage should remain vigilant to prevent the next wave of infections developing into another full-blown health crisis.

**Figure 1. ASEAN+3: Stage of COVID Cycle (as of July 8, 2020)**



Note: Change in number of persons per 1 million population. Data as of July7.  
Source: Haver Analytics, sourced from John Hopkins University; AMRO staff estimates

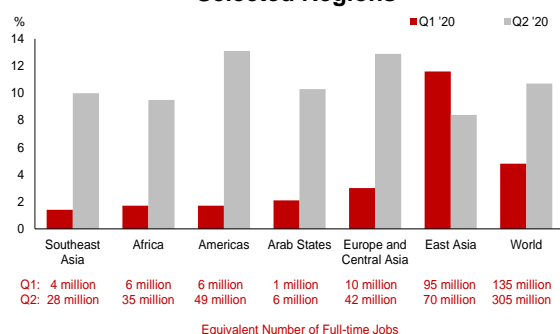
2. **The impact of the COVID-19 pandemic on the economy has been pervasive, casting a shadow on the region's near-term outlook.** According to the IMF (2020), the global economy is projected to register a sharp contraction of 4.9 percent in 2020, the worst economic downturn since the Global Financial Crisis in 2009, with a substantial decline in labor demand (Figure 2).<sup>3</sup> Given the increasingly interconnected global economy, this region indeed cannot go unscathed from the negative impact of the COVID-19 pandemic. Considering the current global and regional economic environment, AMRO staff has now revised ASEAN+3 regional growth for 2020 downward to only 0.3 percent in 2020 (Figure 3), down from 2 percent in its early April projection.

<sup>1</sup> See Hinojales, Oeking, and Ong (2020).

<sup>2</sup> Indonesia and Thailand more or less straddle the border between the first and mid stages. Hong Kong, Japan, and the Philippines, however, move back to the first stage as the countries continue to report high daily rise in new confirmed COVID-19 cases.

<sup>3</sup> According to a recent estimate by the ILO (2020), the pandemic has already cut down global working hours by 4.8 percent (equivalent to 135 million full-time jobs) during Q1, and the working hour decline is expected to reach 10.7 percent in Q2. In East Asia and Southeast Asia, working hours in Q1 are estimated to have declined by 11.6 percent and 1.4 percent, respectively.

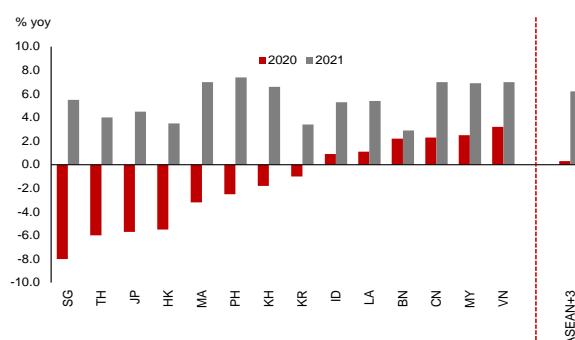
**Figure 2. Estimates of Drops in Working Hours, Selected Regions**



Note: ILO's estimates of the percentage drop in aggregate working hours relative to the pre-crisis baseline (Q4 2019, seasonally adjusted), assuming a 48-hour working week.

Source: International Labour Organization (ILO)

**Figure 3. ASEAN+3: Growth**

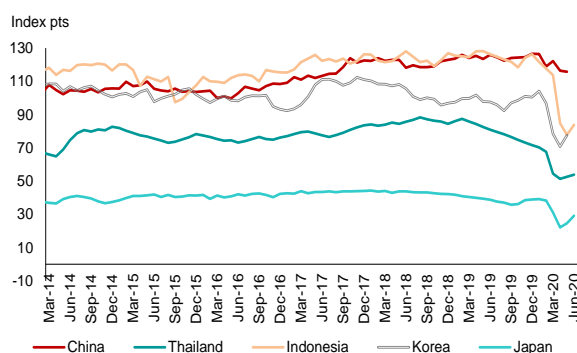


Note: 2020-2021 projection is as of 2 June. BN = Brunei Darussalam; CN = China; HK = Hong Kong<sup>4</sup>; ID = Indonesia; JP = Japan; KH = Cambodia; KR = Korea; LA = Lao PDR; MY = Malaysia; MM = Myanmar; PH = The Philippines; SG = Singapore; TH = Thailand; and VN = Vietnam.

Source: National authorities; AMRO staff calculations

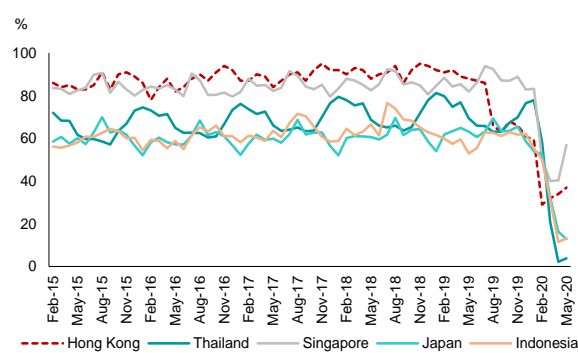
3. **The pandemic has disrupted both domestic and global channels of demand and supply.** Consumer and business confidence have been dragged down by unprecedented measures to lock down the economy to contain the spread of the virus (Figure 4). As the temporary closure of businesses and factories as well as more stringent border controls have disrupted supply chains, manufacturing activity has plunged into contraction in Q2 for most countries in the region (Appendix II). In addition, a significant economic slowdown in major economies will significantly constrain the ability of the region to rely on exports to buffer the adverse impact of the virus.<sup>5</sup> Meanwhile, due to the travel restrictions and strict border controls across the world, tourism-related service industries such as hotels and transportation have been hit the hardest (Figure 5), and countries with large tourism-related sectors—such as Thailand and Cambodia—are expected to suffer the worst economic contractions.

**Figure 4. Consumer Confidence Index**



Source: National authorities

**Figure 5. Hotel Occupancy**



Source: National authorities

4. **Increasing uncertainties have resulted in greater financial market volatility while worsening global economic prospects have aggravated the economic downturns in most countries, especially commodity exporters and remittance-dependent countries in the region.** The markets have become more volatile over the extremely uncertain global

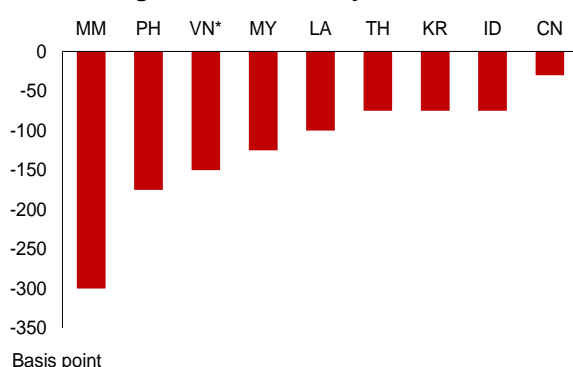
<sup>4</sup> For simplicity, Hong Kong, China will be referred to as Hong Kong hereafter.

<sup>5</sup> Exports in the region have already been generally shrinking due to the trade war, and the pandemic has further aggravated existing conditions. Countries such as Singapore and Hong Kong, which are deeply integrated in global trade and financial channels, are expected to be among the worst affected by trade disruptions.

economic prospects with several bouts of volatility already having been observed across the world.<sup>6</sup> The sharp pullback in economic activity has also led to a slump in commodity prices, which will continue to weigh on the recovery prospects of commodity-exporting countries in the region. Additionally, some countries with relatively large remittances will experience amplified domestic economic slowdowns as the recession spreads to rich countries where their migrant workers are employed.<sup>7</sup> In addition to lower remittances, a prolonged recession in rich countries could reduce FDI inflows and bilateral aid substantially,<sup>8</sup> exacerbating domestic economic downturns in recipient countries.

**5. Starting from the health crisis, the current economic downturn requires strong efforts to improve the health systems.** Initial conditions of public healthcare capacity have been important in assessing how vulnerable each economy is to the pandemic and to determine how strong the policy response should be to mitigate the health risk and its impact on the economy.<sup>9</sup> To mitigate the grave threat posed by the COVID-19 pandemic on public health and the economy, authorities in the region have rolled out unprecedented policy measures to protect lives and preserve livelihoods (Appendix III).

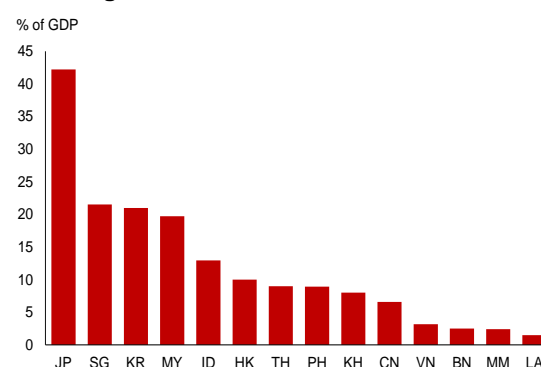
**Figure 6. Cut in Policy Rates 2020**



Note: A cut in policy rates refers to the basis points-change since the start of the year, except in the case of Vietnam, where it refers to the difference between May 2020 and the average rate for December 2019. The definition of key interest rate varies across economies, and could mean the policy rate, the refinancing rate, the discount rate or the overnight repo rate, among others. Brunei Darussalam, Singapore, Cambodia and Hong Kong are excluded as interest rates are not monetary policy tools in these countries.

Source: Haver Analytics; AMRO staff calculations

**Figure 7. Economic Stimulus in 2020**



Note: BN = Brunei Darussalam; CN = China; HK = Hong Kong; ID = Indonesia; JP = Japan; KH = Cambodia; KR = Korea; LA = Lao PDR; MY = Malaysia; MM = Myanmar; PH = the Philippines; SG = Singapore; TH = Thailand; and VN = Vietnam.

Source: National authorities and AMRO staff estimates

**6. Fiscal policy has been at the forefront of supporting the economy while central banks have taken strong actions to maintain economic and financial stability.** As increasingly stringent containment measures nearly brought all economic activity to a halt in

<sup>6</sup> Massive capital outflows from the region towards the end of March 2020 led to plummeting stock markets and significant exchange rate depreciation; however, things have mostly recovered with big policy support coupled with expectations of a quick recovery.

<sup>7</sup> According to estimates from the World Bank, remittances this year could drop by as much as 20 percent, with serious implications on the economic, fiscal and social well-being of remittance-dependent countries, including those in the region (particularly the Philippines, Myanmar, Laos, Cambodia, and Vietnam).

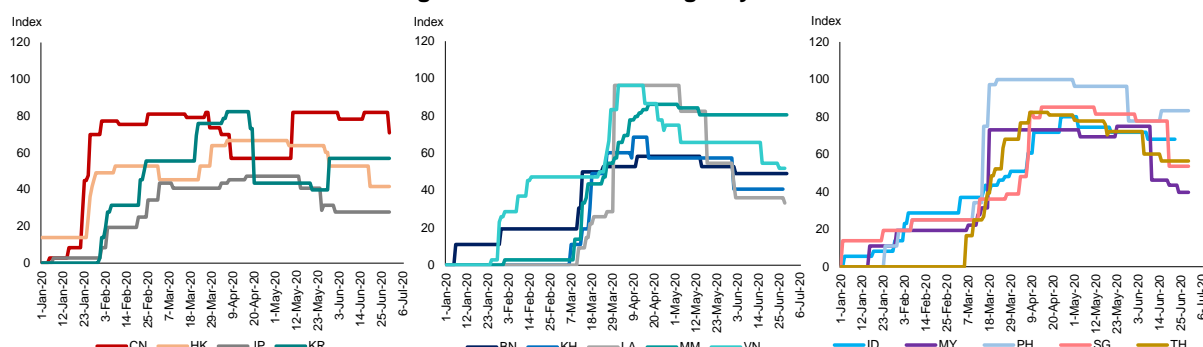
<sup>8</sup> On the other hand, multilateral agencies such as the IMF and World Bank, together with regional banks such as ADB, have ramped up lending to poor countries during the pandemic.

<sup>9</sup> Countries with relatively weak health systems have had to initiate stricter containment measures so that hospitals were not overwhelmed and to allow governments some time to boost health sector capacity. These containment measures have included restrictions on domestic and international travel, the closure of schools, bans on large gatherings, the closure of non-essential business establishments, and a full lockdown, among others.

most countries, governments quickly rolled out fiscal policy measures to expand healthcare capacity and provide a lifeline to households and businesses to ensure they can stay afloat in a challenging environment (Figure 7).<sup>10</sup> In addition, growing financial market uncertainties at the start of pandemic prompted the region's central banks to cut interest rates (Figure 6) and inject liquidity to ease market conditions.<sup>11</sup> To maintain bank soundness and financial sector stability in this region—which has generally improved in recent years prior to the pandemic—the authorities have proactively rolled out several counter measures<sup>12</sup>, as various forms of lockdown and the expected slowdown of the economy could lead to a wave of non-performing loans and bond defaults.

**7. Containment measures have proven to be effective in controlling the spread of the virus, and a gradual relaxation has been observed recently in the region.** The Stringency Index indicates that governments' containment measures in the region became more stringent as the outbreak intensified (Figure 8), helping slow down the spread of the virus. With positive developments in pandemic containment, some countries have gradually relaxed restrictions and prepared to reopen in phases (Figure 8, Appendix IV, Appendix V), to maintain a balance between saving lives and restarting the economy.<sup>13</sup> Without a vaccine, however, poorly planned lifting of the lockdown measures could become a big risk to both people's lives and the already crippled economy.

**Figure 8. ASEAN+3: Stringency Index**



Note: The Stringency Index records the strictness of governments' lockdown policies, which primarily restrict people's activities. BN = Brunei Darussalam; CN = China; HK = Hong Kong; ID = Indonesia; JP = Japan; KH = Cambodia; KR = Korea; LA = Lao PDR; MY = Malaysia; MM = Myanmar; PH = the Philippines; SG = Singapore; TH = Thailand; and VN = Vietnam.

Source: University of Oxford; Blavatnik School of Government (<https://www.bsg.ox.ac.uk/research/research-projects/coronavirus-government-response-tracker>)

<sup>10</sup> Fiscal measures to support households have included direct cash transfers, subsidies and enhanced unemployment benefits, while businesses have been provided soft loans, credit guarantees and tax breaks/ deferments. Some of the large-scale policy support has been maintained even as economies emerge from a strict lockdown to help workers and firms navigate the new challenges brought about by the pandemic and retool to prepare.

<sup>11</sup> Meanwhile in dollarized economies such as Cambodia and Lao PDR, support was mainly provided through reductions in reserve requirements and easing of liquidity coverage ratios.

<sup>12</sup> This includes a combination of regulatory forbearance measures such as the loosening of liquidity requirements and loan classifications, debt relief and restructuring; and easing of macro-prudential measures in terms of limits on credit growth and lending to particular sectors.

<sup>13</sup> Singapore, for instance, recently exited its circuit breaker starting June 1 and is reopening the economy in three phases (Appendix IV). In China, gradual and sequenced reopening started in mid-February by prioritizing essential sectors/ industries, regions, and population groups based on continuous risk assessments (Rhee and Thomsen, 2020). Phased reopening has also been implemented in other regional member economies, including Japan, Korea, Lao PDR, Malaysia and Thailand (Appendix IV).



## II. New Normal, Challenges and Opportunities: Where are We Heading?

8. **While the COVID-19 pandemic continues to inflict mass disruptions globally, some countries have started to prepare post-pandemic strategies.** As noted in the previous section, unprecedented public health challenges from the COVID-19 pandemic required an equally unprecedented level of policy measures and economic costs to contain the virus and properly manage the subsequent health risk. Although the pandemic is still ongoing in many countries, a small group of countries where virus containment has been successful, are cautiously reopening in phases. The challenges posed by the pandemic have exposed the fundamental vulnerabilities in many countries, which have amplified economic losses, leading to a breakdown of the economies. The careful consideration of such vulnerabilities should be an important first step in preparing post-pandemic policies.

### Emerging Trends toward New Normal

9. **Resilience has emerged as one of the key principles for the post-pandemic economic system.** The COVID-19 pandemic is creating unprecedented disruptions in our lives and in the global economy, and a few new trends have emerged to mitigate the vulnerabilities identified in many areas. Collectively dubbed the “new normal”, these new trends have brought significant changes to the way people live, work and interact with each other. Transforming the economic system and making it more resilient to health crises such as the current pandemic, these emerging trends in business operations, technology adoption, social norms, and consumer behavior, are expected to shape the new economic system beyond the crisis.

10. **Establishing more resilient global value chains is critical for effective business operations.** The COVID-19 outbreak revealed how easily traditional global value chains can break down during a health crisis. Optimized for cost-competitiveness, traditional supply chains collapsed as the pandemic spread, resulting in many companies ceasing their operations due to lack of input, especially those relying on a single supplier or a handful of suppliers concentrated in one country. Learning from this pandemic experience, businesses all over the world have begun to reconsider the reliability of global value chains and implemented changes in supply chain set-ups, such as increased resources in supply chain management and increased levels of inventories and reserves. In the medium to long term, companies may also need to further diversify their supplier bases—including using more domestic suppliers—with a view to flexibly switching between suppliers in different markets or multi-sourcing across regions.

11. **Adopting enabling technology becomes essential in maintaining critical service provision.** The COVID-19 pandemic has forced a sudden economic shift from physical to contactless interactions through digital technology. The crisis offers a unique environment in which technological systems are tested for resilience and performance in enabling such a shift. Traditional businesses need to adopt digital technology to enhance or reinvent their service delivery to meet changing consumer needs and behavior, accelerating the growth of online shopping, digital payments and online banking. In fact, the health and education sectors are experiencing fundamental changes in their service delivery.<sup>14</sup> To ensure business continuity,

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<sup>14</sup> Digital health apps and telemedicine have seen tremendous growth in users, replacing traditional physical visits to doctors. Separately, schools and universities are trying to ensure continuity of curriculum through remote learning platforms.

employers in various sectors are prompted to adopt enabling technology, which has experienced rapid advances that have made different types of service delivery feasible.

**12. The COVID-19 crisis highlighted the importance of public healthcare capacity as a key element for economic resilience.** The overall capacity of a country's public healthcare system determines how effectively it can manage a rapid surge in the number of patients and contain the spread of a virus during a pandemic. Without a proper public healthcare system, the probability of another health crisis will increase, one with potentially greater damage. In most emerging economies, the majority of the people lack health coverage, and thus may not be tested even when necessary. In addition, the lack of social benefits such as paid sick leave raises concerns that workers would continue going to work regardless of their health condition. For some low-income economies, policies to strengthen the core capacity of the public healthcare system are needed to alleviate the shortage of medical supplies, medical personnel and hospital capacity.

### **Expanded Role of Government**

**13. Enhancing resilience and boosting recovery should be the top priorities in recalibrating the governments' expanded policy scope, while ensuring proper management of public health risk.** Responding to the economic fallout from the COVID-19 pandemic, policymakers have embraced a variety of economic measures that are unprecedented in scope and depth in recent decades. Such measures should be reviewed for their continued relevance after the pandemic, in order to scale back the stimulus and reallocate limited fiscal resources towards emerging policy priorities of the economy and to let the private sector retake the rein as the main driver of growth in the economy. Finally, a key consideration that has become more critical than ever is to build up the public healthcare system.

**14. In addition to the economic recovery, the policy framework needs to consider a wide range of priorities, along with country-specific characteristics.** The experiences of countries that have gone through (or are still in the midst of) the pandemic crisis have not been the same, including their policy responses, which were influenced by different initial conditions and institutional and economic environments. Going forward, in recalibrating the government's policy directions, country-specific characteristics—such as the country's level of economic development and the government's objectives and policy constraints—should be considered carefully.

**15. For example, the COVID-19 health crisis has highlighted different aspects of policy needs depending on the level of economic development.** While the unprecedented scale of policy support underscores the importance of sufficient policy space and effective institutions, the crisis also has exposed deficiencies in the social security and public health systems. For advanced economies and some emerging economies, well-functioning social security systems have proven an effective tool to enhance economic resilience during the crisis. However, that has not been the case in many countries, and substantial gaps in the current social insurance/security framework should guide future policy priorities.<sup>15</sup> For low-income economies, most of the existing development priorities remain justified, while emerging priorities, such as a stronger healthcare system for effective management of health risks, should be a priority.

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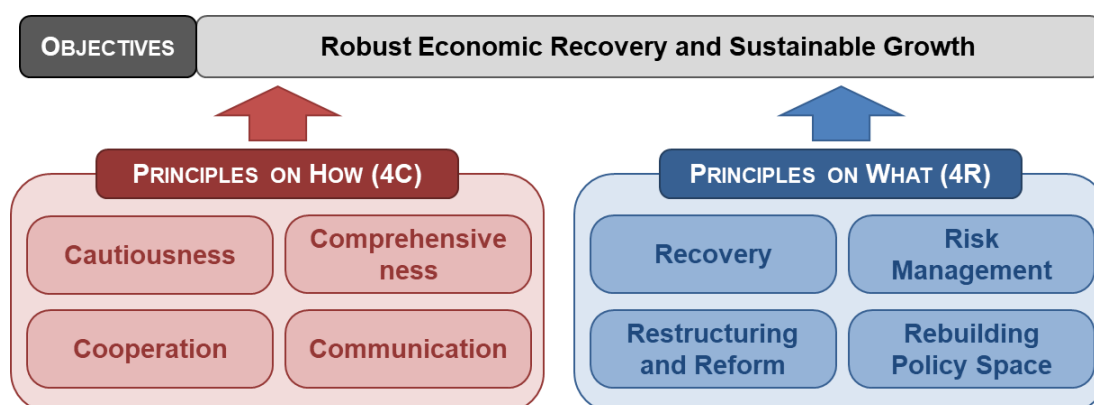
<sup>15</sup> In the case of Korea, unlike its comprehensive public healthcare system, its pension and unemployment benefits have been found to be relatively insufficient during the crisis. Similarly, unemployment benefits in Japan have also been found to be limited.

16. **Policymakers have to redesign policy frameworks in line with the strategic role of government in different policy areas.** In particular, they need to reposition the government in the new environment after expanding its role during the crisis. The government's priorities and constraints, as well as country-specific characteristics, should dictate what the government's role should be in each area. In the new normal, the government may need to assume a more strategic and proactive role in some areas, leading necessary changes by using the current situation as an opportunity. In some other areas, the government may be better-suited as a facilitator, supporting changes led by the private sector while trying to minimize social and economic costs. Focusing on a smooth transition from the crisis towards a robust and resilient recovery, the government needs to draw the boundaries of its continued active intervention and design effective modalities under which the public sector works in partnership with the private sector.

### III. Policy Transition: What and How Should We Design

17. **For countries emerging from the pandemic, we propose general principles on how and what the authorities should do in the policy transition from emergency response to robust recovery.** With ballooning economic damages from the unprecedented crisis responses, some economies with positive signs of containing the pandemic have started to consider exiting from the lockdown and restarting the economy. Even though the post-pandemic policies will depend largely on country-specific factors, we attempt to present some fundamental building blocks that can help the decision-makers answer some key policy questions. First, *principles on "how" (4C)*—Cautiousness, Comprehensiveness, Cooperation and Communication—outline approaches the authorities should consider when recalibrating and implementing the policy measures. Second, *principles on "what" (4R)*—Recovery, Risk management, Restructure and reform, and Rebuilding of the policy space—present key four areas that policy measures need to focus on in the post-pandemic period.

Figure 9. Principles on How and What Should Be Done: 4C and 4R



Source: AMRO staff illustration

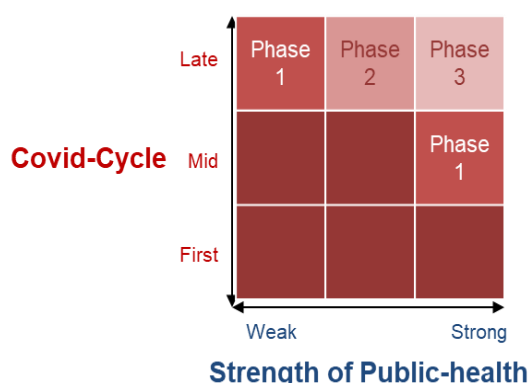
#### Principles on How: 4C

18. **Cautiousness:** Amid a high level of uncertainty, great caution should be exercised in withdrawing short-term emergency measures and restarting the economy. As the prospect of successful virus containment as well as the economic recovery path remain

highly uncertain, post-pandemic policies should be carefully reviewed and recalibrated to ensure overall economic resilience, with careful considerations for various constraints and priorities of the country.

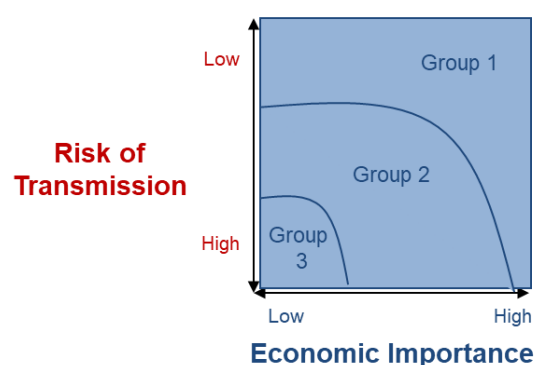
- **Phased relaxation:** When to relax the containment measures such as lockdowns and border closures is the most pressing issue policymakers face. It is recommended that they follow a phased approach based on two key indicators – stages of virus transmission and capacity of public health systems (Figure 10). Understanding which stage of the virus transmission cycle a country is in, will help determine the policy priorities to prepare for the next stages of evolution. The strength of a public health system should be assessed by national authorities, considering various factors including hospital capacity, diagnostic test ability, contact-tracing and isolation facilities.
- **Prioritized reopening:** Reopening all businesses at once in all regions is neither possible nor desirable. Authorities should prioritize the groups of sectors and regions for reopening by taking account of virus transmission risk and the economic importance of each sector (Figure 11). Phases of reopening each group can then be determined collectively with additional considerations of economic interlinkages between them.
- **Check and proceed versus back and forth adjustment:** The withdrawal of emergency support measures should proceed after carefully assessing their effects and side-effects in a changing environment, because it is difficult to reverse the decision. In addition, the decision on phased relaxation and reopening should be adjusted flexibly based on the development of virus transmission and the strength of the public health system. The reinstatement of some phased containment measures will need to be considered if the virus starts to spread again.

Figure 10. Example of Phased Approach



Source: AMRO staff illustration

Figure 11. Example of Prioritized Reopening



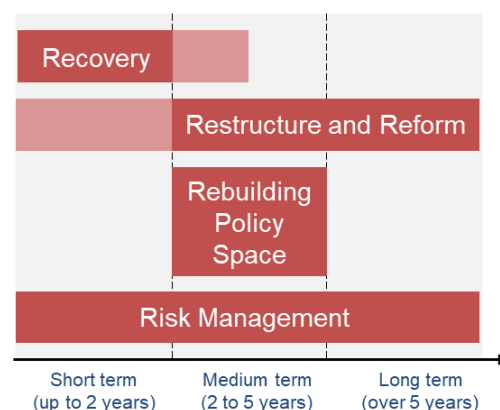
Source: McKinsey and Company (2020); AMRO staff illustration

19. **Comprehensiveness:** Various policy objectives should be considered comprehensively to avoid conflict and to maximize policy effects. The current crisis has brought multidimensional challenges to policymakers. While containing the potential health risk of COVID-19, a swift but well-planned transition to economic recovery is needed to minimize the economic scars from the prolonged economic downturn. New policy priorities that have emerged during the pandemic need policymakers' attention, and post-pandemic

policy measures need to address these properly together with existing structural issues, while rebuilding the used-up policy space in the medium term. Unfortunately, all these policy priorities are not necessarily well-aligned and may even contradict one another in different aspects or across different time horizons.<sup>16</sup>

- **Timeframe of 4R:** A comprehensive policy package should take account of the evolving policy priorities of different policy areas (4R) after the crisis. Recovery packages are aimed mostly at short-term effects, while policies for restructure and reform are targeted at the medium- to long-term priorities. Amid a continued need for policy support after the pandemic, efforts to rebuild the policy space will be feasible only in the medium term. Risk management policies need to consider risk factors across all time horizons (Figure 12).

Figure 12. 4R Timeframe



Source: AMRO staff illustration

- **Complementarity versus trade-off among 4R:** 4R policies need to be carefully designed to maximize complementarities and minimize conflicts among different policies and priorities. The economic recovery will become more robust if health and market risks are well managed, while a quick economic recovery will help reduce the economic risks from a prolonged recession. Economic restructuring and institutional reforms can solidify robust economic recovery and facilitate policy space rebuilding, which will help better risk management and more resilient economic development.

20. **Cooperation:** Strong cooperation between public and private sectors and among countries will make policy efforts more effective. In addition to the overall capacity of public healthcare systems, the pandemic has revealed the importance of cooperation in containing the health risk. International coordination and cooperation have also helped manage ongoing health and economic crisis. To achieve the goal of robust economic recovery toward sustainable growth, both internal and international cooperation at the recovery stage will be crucial.

- **Internal cooperation:** The private sector has played an important role in the effective implementation of emergency response policies. In recalibrating the post-pandemic policies, the private sector's participation is particularly important to contain health risk and maximize policy impact. For example, restarting the economy crucially depends on the adequate control of public health risk, which needs a good public health policy supplemented by the preventive hygiene efforts of individuals and corporates.

<sup>16</sup> For example, a support-oriented recovery plan may distort resource allocation, delaying the economy's structural changes in the long-run. In this perspective, it is preferable to design a comprehensive and carefully sequenced policy package which is reviewed and recalibrated regularly.

- **Regional cooperation:** ASEAN+3 countries can expand strategic cooperation on various fronts to cope with the pandemic and overcome the economic crisis. As the COVID-19 situation is relatively well-contained in the region, a coordinated travel control policies will facilitate selective border reopening of individual countries and help rebuild broken global value chains (GVC) in this region, diversifying the supply chain to the region. The further strengthening of regional financial arrangements (such as the CMIM) can help manage financial stability risk.

21. **Communication: Building public trust through effective communication strategy is a necessary condition for successful policy implementation.** Providing clear messages in a predictable and transparent manner will help the private sector's engagement in policy implementation, which can affect the policy impact and sometimes even the viability of policy measures. Risk management depends greatly on market confidence while the short-term recovery path depends largely on the private sector's responses. The longer-term policy instruments may not be viable nor effective if they are not well accepted by the public, where public trust building is particularly important.

- **Predictability:** Policy schemes through public announcements and frequent updates tend to be better accepted by the public. For example, well-announced phased relaxation of containment measures will help the public prepare for the changes in advance, so that the policy change can have full impact quickly.
- **Transparency:** Transparent disclosure of policy details and reliable data will help build public trust in government policies. The success of the policy packages and cooperation from the public cannot be achieved without full sharing of the relevant information.
- **Commitment:** A strong commitment of policymakers can help enhance policy credibility to market participants by minimizing the time-inconsistency problem. A successful post-pandemic policy transition such as the withdrawal of exceptional support measures, the normalization of unconventional monetary policy, and fiscal consolidation will require a high level of policy credibility and strong commitment on the part of the authorities.

### Principles on What: 4R

22. **Recovery: Near-term economic policy should focus on the smooth transition from crisis survival to recovery support.** The phased relaxation and prioritized reopening of economies implies that emergency measures supporting survival will fade out, while recovery packages that seek to revitalize economic activities will kick in across different sectors and/ or regions. A "whatever it takes" approach at the emergency stage is not sustainable, and a "what can serve best" approach based on the national agenda and priorities will help design a more effective recovery package.

- **Expansionary policy stance for the time being:** Macroeconomic policies need to remain expansionary until economic momentum picks up. However, resource constraints must be taken into account, especially in view of the narrowed policy space owing to the pandemic-induced crisis. A gradual transition to a more targeted policy support is required, by expanding targeted support as well as by



facilitating a private sector recovery through liquidity support and improving infrastructure.

- **Employment matters:** A huge drop in employment during the pandemic is a key policy concern, directly related to subdued domestic demand through lower household incomes. If this continues, it will also have an increasingly negative effect on human capital accumulation, damaging growth potential in the long-run. Therefore, employment policies need to focus more on supporting job creation and improving labor mobility through training and reskilling, than temporary income support during the crisis.
- **Tailored recovery plan:** Recovery policy needs to consider an evolving policy environment and priorities in the phased restarting plan. Careful consideration of country specific aspects, including the size of informal sector<sup>17</sup>, industry structure<sup>18</sup> and public sector institutions<sup>19</sup>, will determine some key parameters and directions in policy design. In addition, it will be important to assess policy impacts and fine-tune policy targets on a regular basis during the recovery process, so that policy measures remain relevant and effective in different phases and across different sectors.
- **Withdrawal of emergency measures based on careful assessment:** Various crisis response measures need to be reviewed carefully for their continued relevance and need before withdrawal. Some measures with an explicit time limit need to be assessed for their need for extension before they naturally expire, while others without an explicit time limit also need to be reviewed for their effectiveness and needs. In particular, withdrawal of emergency direct support measures should be carried out in a way that minimizes the sudden shocks to the market.<sup>20</sup>

**Table 1. Transition in Policy Focus**

	<b>Crisis Survival</b>	<b>Recovery Support</b>
<b>Policy Focus</b>	<ul style="list-style-type: none"> <li>• Containing health crisis at whatever cost</li> <li>• (Universal) emergency economic support for swift implementation</li> </ul>	<ul style="list-style-type: none"> <li>• Efficient management of health risk</li> <li>• Well-targeted support to specific policy groups for better boosting effect</li> </ul>
<b>Some of Key Policy Measures</b>	<ul style="list-style-type: none"> <li>• Tax break/ deferral</li> <li>• Universal cash transfer</li> <li>• Subsidies in-kind</li> <li>• Loans/ guarantees</li> <li>• Debt relief</li> </ul>	<ul style="list-style-type: none"> <li>• Temporary incentives to accelerate recovery</li> <li>• Direct investment in productivity enhancing public goods</li> <li>• Support job creation</li> <li>• Job training and transfer support</li> </ul>

Source: AMRO

<sup>17</sup> Household support targeting low-income families is likely to have a higher multiplier effect on consumption, and on supporting an inclusive recovery (OECD, 2020), where effective delivery to the informal sector is important.

<sup>18</sup> Some industries such as tourism and hospitality are structurally more vulnerable to the pandemic and their projected recovery is particularly slow, which requires strategic rebalancing of economic resources in the medium term.

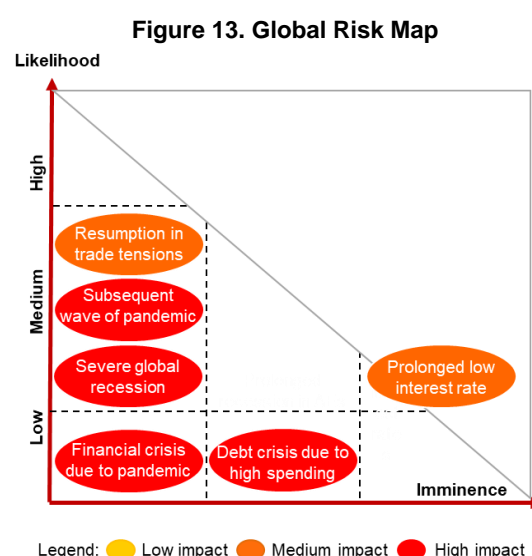
<sup>19</sup> Some regional economies have also pushed forward tax reforms in the form of raising the minimum taxable income threshold (in Vietnam) or lowering the corporate income tax (in Indonesia), which could provide a boost to consumption in the former case, and investment in the latter case.

<sup>20</sup> For example, measures that have provided liquidity support to those groups hit more extensively by the pandemic, including the informal sector and Micro, Small and Medium Enterprises (MSMEs), may need to continue for an extended period of time during the phased recovery.

23. **Risk management:** Risk management is critical for a robust recovery and economic resilience. With uncertainties likely to remain high in the post-pandemic period, the successful implementation of the recovery plan and reform strategy requires an effective containment of key risk factors. Another wave of infections remains the key risk in the near term, while economies' structural vulnerabilities—which emerged during the pandemic—need to be addressed carefully so they do not constrain the progress of the recovery.

- **Controlling the risk of new waves of pandemic:** As long as the pandemic continues to rage in certain parts of the world, the risk of pandemic reappearance remains high for the time being – until a vaccine is widely available. The economic recovery process is susceptible to the spread of virus as reinstatement of containment measures will be inevitable. In this regard, efforts to strengthen the public health system as well as enhance economic resilience should be continued to protect the lives and livelihood of people.<sup>21</sup>

- **Addressing macro-financial risk factors:** There are various sources of risk across short- to long-term horizons, most of which will have high impact on the regional and national economies (Figure 13). Poor management of such risks and vulnerabilities could substantially complicate the planned recovery, wipe out the progress made or even foment another crisis.<sup>22</sup> While efforts to enhance the fundamentals should be the core of risk management, effective communication and strong international cooperation are needed to build market confidence and deal with global risk factors.



Source: AMRO

- **Monitoring financial stability and unwinding unconventional policies:** To mitigate the impacts of the pandemic, financial authorities of member countries have introduced regulatory forbearances and eased macro-prudential measures – such as loosening capital requirements, loan classification, and debt relief (Appendix III). As these measures increase the risks to financial stability, financial authorities should closely monitor the signs of financial imbalance and refine their contingency plans for prompt policy responses. More importantly, with careful assessment of policy needs and financial stability risk, the authorities need to be well prepared for the unwinding of exceptional measures, which should be well-communicated to market participants.

<sup>21</sup> In addition to directly expanding healthcare capacity, most member economies have established and maintained an “emergency” fiscal reserve at the central government level in response to next waves of the pandemic. Moreover, support to local/ regional governments whose revenue has been severely affected by the pandemic and containment measures could help rebuild their resources to cope with future shocks.

<sup>22</sup> For example, with prolonged economic recession, increasing bankruptcies in vulnerable sectors such as hospitality and transportation could translate into higher NPLs and bond market defaults, posing a threat to banking sector soundness and financial stability as a whole.



24. **Reform and Restructure: Structural reform policies need a balance between economic resilience and pre-crisis structural priorities.** As discussed in Section II, economic resilience has become one of the key principles of the post-pandemic economic system. While more policy efforts should be put to achieve this new principle in the short term, structural policies for sustainable and inclusive growth also should be carefully reviewed and amended reflecting the so-called “new normal” trends.

- **Key factors determining economic resilience – adaptability, absorbability, vulnerability:** To enhance the resilience of the economic system, good coordination between structural and macroeconomic policies is critical. Structural policy is essential for adaptability enhancement and vulnerability reduction by reforming institutional framework and correcting the incentive design. Macroeconomic policy can strengthen absorbability by providing additional buffers to help a smooth transition from the shock.

**Table 2. Adaptability, Absorbability, and Vulnerability**

Area	Key Aspects	Policies
<b>Enhancing Adaptability</b>	The capacity to adjust itself to sudden changes	<ul style="list-style-type: none"> <li>• Create institutional environment<sup>23</sup> to increase mobility of factors and flexibility of prices <ul style="list-style-type: none"> <li>- Resources will be reallocated efficiently to productive firms and sectors when hit by shock</li> <li>- Significant decline in capacity for providing essential goods and services will be quickly restored</li> </ul> </li> </ul>
<b>Strengthening Absorbability</b>	The capacity to cushion the impact of shock	<ul style="list-style-type: none"> <li>• Encourage private sector to equip itself with appropriate buffers to be better prepared for future shocks</li> <li>• Enhance the government's own macroeconomic policy room and efficacy</li> </ul>
<b>Reducing Vulnerability</b>	The frequency and likelihood of being hit by shocks :	<ul style="list-style-type: none"> <li>• Diversification, restoration of balance, and mitigation of deficiency<sup>24</sup></li> <li>• Identify the areas unable to adjust the distorted incentives in the economic system, assess the root causes, and deploy corrective measures<sup>25</sup></li> </ul>

Source: AMRO

- **Supporting structural changes toward new normal:** For the economy to survive and thrive in the rapidly changing economic environment toward a new normal, the government needs to facilitate the necessary changes through policy support. Enhancing the resilience of the manufacturing sector's supply chains can be expedited through policy incentives for diversification, near-shoring and re-

<sup>23</sup> Governments should foster a more business-friendly environment and provide an efficient judicial system and bankruptcy process to facilitate entry, operation and exit of firms. Market competition should be further promoted to increase the flexibility of price and wages.

<sup>24</sup> Concentration, imbalance and deficiency are the three most pronounced characteristics of vulnerability. Common concentration includes overreliance on a few markets, sectors, suppliers, etc., which can make an economy more susceptible to idiosyncratic shocks and less capable of adjusting. A significant imbalance indicates that the current status is not sustainably stable and can be easily destabilized. Most common source of imbalance is found in the external sector, such as large current account deficit. Deficiency is related to resource and ability to adjust to mitigate the shock impact. Significant deficiency in such resource and ability will make the shock impact more easily transmitted through vulnerable links, as demonstrated during the pandemic in a public health system.

<sup>25</sup> For example, high debt levels in the private sector is a common concern, and macroprudential policy can help curb the speed of debt buildup. However, effectively lowering it to safe levels requires the restoration of distorted incentives embedded in the current policy setting and economic and financial structures, such as protracted loose monetary policy conditions, implicit guarantees, a tax regime favoring debt financing and underdeveloped capital markets, etc.

shoring. New industries suitable for contactless economy or traditional industries upgradable by new technologies will benefit from public investment in common infrastructure such as ICT system and logistics. Specific policy measures can be developed based on country-specific characteristics, including the development stage, the national agenda and the policy constraints.

- **Strengthening healthcare and social security reform:** The current pandemic has revealed that a country's public healthcare capacity is the key determinant in health crisis management, while a comprehensive and effective social security system helps to support the livelihood of those in need and, as an automatic stabilizer, to reduce required policy interventions. The authorities should commit to improving their healthcare systems and expanding social security programs to strengthen resilience to health risks. Regional and international support for the Low-Income Developing Countries (LIDCs) is also important, considering their weakness in their health care system.

25. **Rebuilding Policy Space:** The need for continued policy support after the pandemic demands the authorities' strong commitment to rebuilding the policy space in the medium term. According to AMRO's latest assessment<sup>26</sup>, most economies in the ASEAN+3 region had moderate to limited fiscal and monetary policy space before the COVID-19 crisis, and their policy rooms are expected to become more constrained in the post-pandemic period. Restoring policy space has become an imperative for each economy, particularly given the elevated uncertainty and the likely profound changes ahead. However, past crisis experiences show that it usually takes several years or even decades to restore policy space to pre-crisis levels. A strong commitment to the medium-term plan for rebuilding fiscal and monetary policy space is required to ensure the implementation of scheduled initiatives and to maintain market confidence.

- **Enhancing fiscal consolidation and expanding debt management capacity:** Fiscal consolidation looks indispensable to keep debt on a sustainable path, particularly for emerging market economies and low-income countries. Considering the higher fiscal deficits during the pandemic, governments need to formulate a medium-term consolidation plan to rebuild the fiscal space while promoting robust economic growth. Although immediate consolidation may not be desirable during the recovery process, some options to strengthen revenue potential and spending capacity can be adopted and pursued in advance. Moreover, efforts can also be made to expand governments' debt management capacity. Effective debt management will help rebuild fiscal space by enhancing the management of government debt-related risks, such as securing sufficient financing in a cost-efficient way.
- **Enhancing price and financial stabilities:** While phasing out unconventional policy measures, rebuilding monetary policy space tends to depend on the policy rates as well as many non-monetary structural factors such as price stability, FX regime, market structure, and external stability, so that strengthening structural

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<sup>26</sup> Chaipat et. al. (2020).

measures will also help.<sup>27</sup> In particular, in seeking financial stability, governments need to put more efforts to enhance their economies' structural resilience<sup>28</sup>, which is more fundamental. In the short term, some operational policy options can be considered, such as strengthening the macroprudential policy framework and policy coordination. Meanwhile, in the medium to long term, the authorities need to focus on drafting a well-thought strategy and laying out a clear implementation plan to deal with more structural stability issues.

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<sup>27</sup> Besides, enriching central banks' toolkits through means such as unconventional monetary policy tools can also provide some leeway in monetary policy under exigent situations like during pandemic.

<sup>28</sup> For example, governments need to improve the robustness of their domestic financial systems, reduce financial vulnerabilities in the economy and let exchange rates better absorb external shocks.

## Appendix I. Overview of COVID-19 Cases, Data as of July 7, 2020

Economy	Total Cases	Cases per 1M Population	New Cases	New Cases per 1M Pop.	New Cases (7-day avg) <sup>1</sup>	ΔNew Cases	Δ% New Cases	Total Deaths	New Deaths	Fatality Rate (%)	Total Recovered	Recovery Rate (%) <sup>2</sup>	Active Cases
Global	11,829,602		209,506			39,117	1.8	544,163	6,105	4.6	6,447,656	54.5	4,837,783
ASEAN+3	290,266		3,271			-469	1.1	10,739	77	3.7	205,339	70.7	74,188
Plus-3	118,170		298			56	0.3	5,907	3	5.0	108,736	92.0	3,527
ASEAN	172,096		2,973			-525	1.8	4,832	74	2.8	96,603	56.1	70,661
China	83,572	60	14	0.0		13	0.0	4,634	0	5.5	78,548	94.0	390
Hong Kong, China	1,299	170	14	1.8		-3	1.1	7	0	0.5	1,161	89.4	131
Japan	20,055	159	207	1.6		27	1.0	981	3	4.9	17,057	85.1	2,017
Korea	13,244	254	63	1.2		19	0.5	285	0	2.2	11,970	90.4	989
Indonesia	66,226	245	1,268	4.7		59	2.0	3,309	68	5.0	30,785	46.5	32,132
Malaysia	8,674	261	6	0.2		1	0.1	121	0	1.4	8,481	97.8	72
Philippines	47,873	435	1,540	14.0		-539	3.3	1,309	6	2.7	12,386	25.9	34,178
Singapore	45,140	7,917	157	27.5		-26	0.3	26	0	0.1	41,002	90.8	4,112
Thailand	3,197	47	2	0.0		-3	0.1	58	0	1.8	3,074	96.2	65
Brunei Darussalam	141	313	0	0.0		0	0.0	3	0	2.1	138	97.9	0
Cambodia	141	8	0	0.0		0	0.0	0	0	0.0	131	92.9	10
Lao PDR	19	3	0	0.0		0	0.0	0	0	0.0	19	100.0	0
Myanmar	316	6	0	0.0		-3	0.0	6	0	1.9	245	77.5	65
Vietnam	369	4	0	0.0		-14	0.0	0	0	0.0	342	92.7	27
Belgium	62,058	5,388	0	0.0		-42	0.0	9,774	0	15.7	17,122	27.6	35,162
France	197,089	3,032	341	5.2		-503	0.2	29,847	11	15.1	72,363	36.7	94,879
Germany	198,343	2,390	279	3.4		-262	0.1	9,032	10	4.6	182,661	92.1	6,650
Italy	241,956	4,017	137	2.3		-71	0.1	34,899	30	14.4	192,815	79.7	14,242
Netherlands	50,694	2,934	37	2.1		1	0.1	6,132	4	12.1	-	-	-
Spain	252,130	5,380	341	7.3		-903	0.1	28,752	4	11.4	150,376	59.6	53,521
Switzerland	32,369	3,743	54	6.2		7	0.2	1,966	1	6.1	29,300	90.5	1,103
United Kingdom	287,874	4,280	584	8.7		225	0.2	44,476	155	15.4	-	-	-
Brazil	1,668,589	7,894	45,305	214.3		25,076	2.8	66,741	1,254	4.0	1,107,012	66.3	494,836
Canada	108,023	2,857	208	5.5		-213	0.2	8,765	17	8.1	71,418	66.1	27,840
Chile	301,019	15,470	2,462	126.5		-563	0.8	6,434	50	2.1	268,251	89.1	26,334
Mexico	268,008	2,109	6,258	49.2		1,356	2.4	32,014	895	11.9	209,437	78.1	26,557
Peru	309,278	9,422	3,575	108.9		590	1.2	10,952	180	3.5	200,938	65.0	97,388
United States	2,986,934	9,023	59,886	180.9		13,135	2.0	131,310	1,193	4.4	936,476	31.4	1,919,148
Australia	8,886	342	131	5.0		-41	1.5	106	0	1.2	7,487	84.3	1,293
India	742,417	542	22,753	16.6		502	3.2	20,642	483	2.8	456,831	61.5	264,944
Iran	245,688	2,920	2,637	31.3		24	1.1	11,931	200	4.9	207,000	84.3	26,757
Russia	693,215	4,728	6,363	43.4		-206	0.9	10,478	198	1.5	463,103	66.8	219,634
Saudi Arabia	217,108	6,245	3,392	97.6		-815	1.6	2,017	49	0.9	154,839	71.3	60,252
Turkey	207,897	2,474	1,053	12.5		-33	0.5	5,260	19	2.5	185,292	89.1	17,345

Note: New cases since previous day. Δ% refers to percentage change since previous day. Fatality rate measured as deaths per confirmed infections.

1/ Since January 31, 2020. 2/ Recovery rate is a proxy for the stage of the cycle.

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

## Appendix II. Manufacturing Purchasing Managers' Index (PMI)

Economy	2018	2019	2020						Change from Prev Month	Trend (with min and max pts)
	Jan to Dec	Jan to Dec	Jan	Feb	Mar	Apr	May	Jun		
<b>Global</b>									↑ 5.3	
<b>Developed Markets</b>									↑ 6.9	
United States									↑ 10.0	
United Kingdom									↑ 9.5	
Eurozone									↑ 8.0	
<b>Emerging Markets</b>									↑ 4.2	
<b>PLUS-3</b>									↑ 1.1	
China									↑ 0.5	
Hong Kong*									↑ 5.6	
Japan									↑ 1.7	
Korea									↑ 2.1	
<b>ASEAN</b>									↑ 8.1	
Indonesia									↑ 10.4	
Malaysia									↑ 5.4	
Philippines									↑ 9.6	
Singapore*									↑ 16.2	
Thailand									↑ 1.9	
Myanmar									↑ 9.8	
Vietnam									↑ 8.4	

Note: 1) Change in PMI is rounded to one decimal place after calculating the difference.

2) These seasonally adjusted PMI readings are color-coded:

- Darker shades of red in the reading denote readings further below (< 45) the diffusion level of 50; conversely, greener shades in the readings denote readings further above (> 55) the diffusion level of 50.
- The trend lines shown in the right-most column represent the PMI readings since January 2015, the red dots denote minimum and maximum points in that period.
- Global PMI is as aggregated by JP Morgan. China's PMI refers to Caixin/ Markit PMI.
- (\*) denotes the whole economy's PMI.

Source: IHS Markit; JPMorgan

## Appendix III. Main Policy Measures to Address the COVID-19 Pandemic in ASEAN+3

Policy Measures		BN	CN	HK	ID	JP	KH	KR	LA	MY	MM	PH	SG	TH	VN
Fiscal	Enhance Health System	√	√	√	√	√	√	√	√	√	√	√	√	√	√
	Support for Households	Cash transfers	√	√		√	√	√		√		√	√	√	√
		Expanded unemployment benefits, subsidies on food, utilities, others	√	√				√	√	√					√
	Support for Firms	Tax Breaks/Deferment	√	√			√	√	√		√			√	√
		Loans/Guarantees			√		√	√	√	√	√	√	√	√	
		Direct cash transfer to firms, others			√	√	√	√					√		
Monetary	Conventional	Policy rate easing	√	√	√		√	√	√	√	√	√		√	√
		RRR easing	√	√	√		√		√	√	√	√			
		Expansion/introduction of new lending windows for banks, others	√		√			√			√	√		√	√
	Non-Conventional	Central Bank purchase gov't bonds			√	√						√		√	
		Central Bank purchase of corporate bonds, others				√								√	
Financial	Regulatory Forbearance/Ease Macro Prudential measures	Loosen Capital or Liquidity Req't		√	√		√	√		√	√				
		Loosen loan classification		√		√			√					√	√
		Debt relief/restructuring	√	√			√		√	√	√		√	√	√
		Others	√			√		√							

Note: BN = Brunei Darussalam; CN = China; HK = Hong Kong; ID = Indonesia; JP = Japan; KH = Cambodia; KR = Korea; LA = Lao PDR; MY = Malaysia; MM = Myanmar; PH = the Philippines; SG = Singapore; TH = Thailand; and VN = Vietnam.

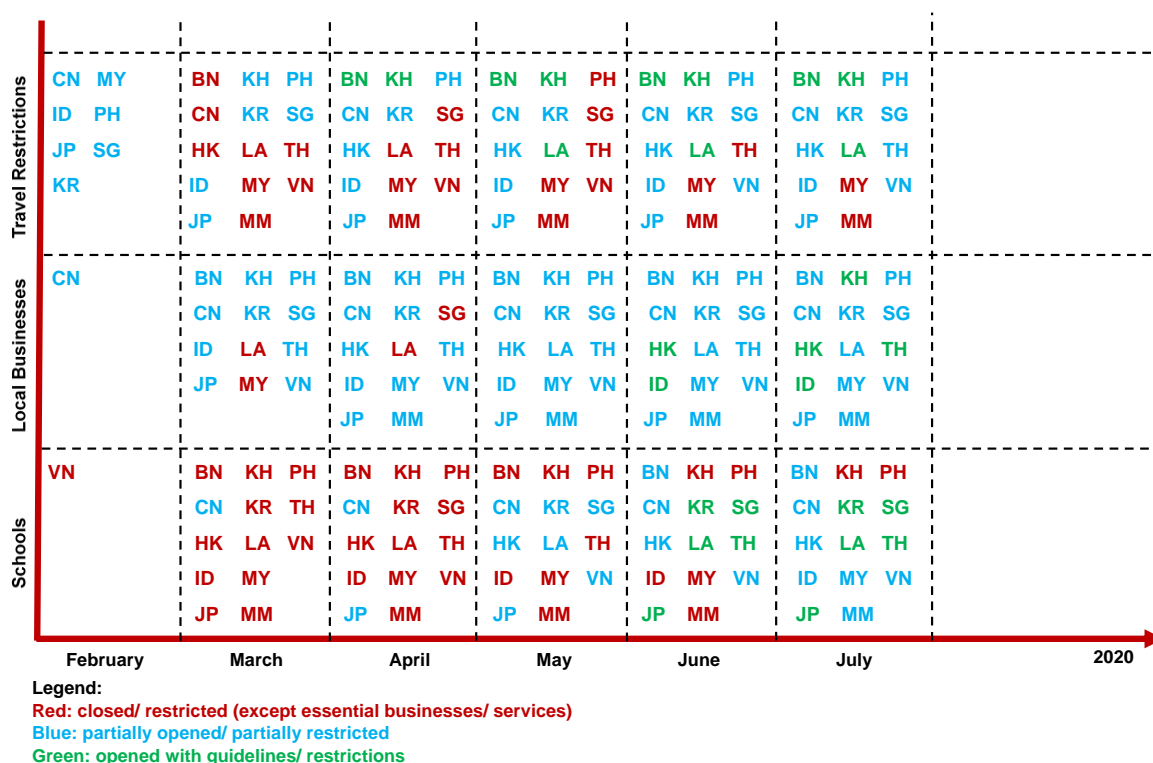
Source: AMRO staff compilation

## Appendix IV. Selected ASEAN+3 Economies: Phased Reopening of the Economy



Source: ASEAN+3 and COVID-19: Panoply of Pandemic Policies by AMRO; various media

## Appendix V. ASEAN+3: Status and Timeline for Reopening, Selected Containment Measures



Note: Information was extracted as of July 8. Local businesses include retailers, eateries, leisure facilities, and services. Essential businesses/ services include food establishments, markets and supermarkets, clinics, hospitals, pharmacies, utilities, transport, telecommunications, stock exchange, garbage collection and treatment, and key banking services. Travel restrictions refer to travel restrictions on foreign visitors. In Myanmar, schools will reopen in late July, with high schools resuming from July 27, followed by middle and primary schools two weeks after. BN = Brunei; CN = China; HK = Hong Kong, China; ID = Indonesia; JP = Japan; KH = Cambodia; KR = Korea; LA = Lao PDR; MY = Malaysia; MM = Myanmar; PH = The Philippines; SG = Singapore; TH = Thailand; and VN = Vietnam  
 Source: ASEAN+3 and Covid-19: Panoply of Pandemic Policies by AMRO; various media



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