The Outlook for Asian Economies

Asian countries introduce large-scale economic policies yet large economic dip and slowing are inevitable

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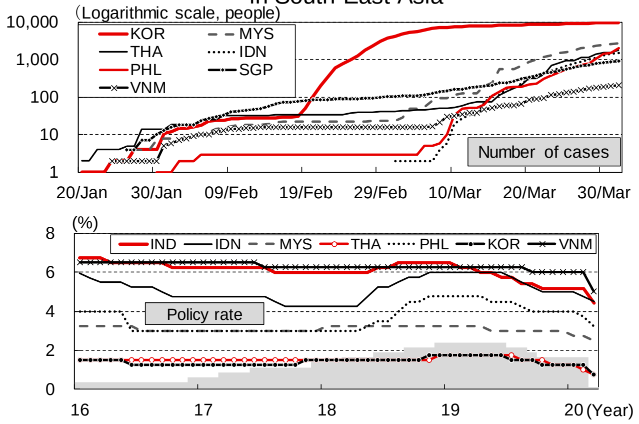
The number of cases of Covid 19 infection across Asia (excluding China) shows current measures to prevent the spread of the virus in South Korea – which saw a sharp rise in cases in February – appear to be having a response (Chart 1). Meanwhile, cases have risen sharply at the start of March in ASEAN where countries are strengthening various measures in accordance with the extent of the spread of infection, such as prohibiting or limiting movement, prohibiting entrance to the country, shutting down the operation of public transport institutions and closing leisure facilities.

At first, there were concerns about the impact from foreign demand, such as inbound consumption and exports of goods, as ASEAN countries are geographically close to and have strong economic links with China – the epicentre of the infection. However, as the infection spreads to these countries and measures to prevent an epidemic become stricter, there will be an unavoidable shock to domestic demand, which had been underpinning the economy by offsetting foreign demand, which had been soft last year. The real GDP growth rates for Singapore and Vietnam (who have already published their figures) in the January-March quarter show a significant deterioration: -2.2% YoY (preliminary) and 3.8% YoY respectively. In Singapore, there was negative growth across the manufacturing, services and construction sectors. There also appears to have been a large slowing of growth regardless of sector in Vietnam (real GDP growth rate of 7.0% YoY for 2019). Even in countries and regions which have not published data, it is certain that economic activities are falling drastically based on local news reports of disruption to traffic due to measures to prevent the spread of infection and a suspension of production in many factories excluding those manufacturing necessary medical and daily necessities.

In response to this situation, ASEAN countries have introduced large-scale economic policies such as lowering the cost of utility bill payments or reducing tax rates to provide financial support for small and medium-sized businesses and to support households while members are not at work (Table 1). In addition, the US carried out a large interest rate cut at the start of March and multiple countries followed suit and lowered their interest rates. However, even if countries undertake monetary and financial aid, there will be a negative impact from physically stopping economic activities. Taking into account the Covid 19 pandemic, the real GDP growth rate forecast for NIEs will be -1.0% YoY and for ASEAN will be 0.5% YoY. Those which will achieve positive growth will probably be limited to Taiwan, Indonesia, the Philippines and Vietnam. On the other hand, there is a strong possibility that growth will turn negative in Thailand, where the tourism industry (easily affected by Covid 19) accounts for around 20% of

GDP and which has suffered drought, and Malaysia, which is facing a headwind from the fall in resource prices.

Chart 1: Cases of Covid 19 Infection and Policy Rates in South East Asia



Note: Shaded area denotes the US Fed's median FF rate
Source: Each country's national statistics, MUFG Bank Economic Research Office

Table 1: Major Asian Countries' Economic Policies
(Fiscal measures, financial support and monetary policies)

Country	Total (% of GDP)	Policies
South Korea	KRW 100 trillion (5.2%)	■ Purchase corporate bonds and commercial papers ■ Low-interest loans for self-employed ■ Financial support for small and mid-sized businesses
Singapore	SGD 55 billion (11%)	■ Employees' wages partially subsidised by government ■ Defer businesses' income tax payments for 3 months ■ Property tax rebate for some commerical properties
Indonesia	IDR 120 trillion (0.8%)	■ Tax exemptions for hotels and restaurants ■ Income tax exemption for manufacturing sector workers with an annual income below IDR 200 million
Thailand	THB 450 billion (2.6%)	■ Low interest loans with interest rate of 2.0% ■ Reduce withholding tax rate (3.0% →1.5%) ■Lower electricity and water bills, return meter deposits
Malaysia	MYR 250 billion (16.3%)	■ Temporary funding to purchase medical equipment ■ Assistance for businesses including small and mid-sized ■Low-interest rate loans, promote public investment

Source: Each country's media, MUFG Bank Economic Research Office

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