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INVESTMENT MANAGERS

Asia Policy Response

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POLICY RESPONSES IN ASIA

The US policy response to the economic effects of the COVID-19 pandemic was fast and aggressive, and helped form a bottom in credit spreads in Asian markets. Generally speaking, emerging markets (EM) are more constrained in their ability to respond to the ongoing COVID-19 crisis. **However, Asian economies have caught up in recent weeks with innovative, thoughtful policy responses that have a calibrated mix of direct and contingent fiscal impulses. We believe this will further support Asian credit markets.** Low oil prices and manageable FX debt obligations provide Asian investment grade economies with much more flexibility to respond, and we expect further policy flexibility in the coming weeks.

India announced headline stimulus worth 10.5% of GDP in May that included both fiscal (6.5% of GDP) and monetary easing (4% of GDP). Of these measures, the direct fiscal costs are just 1.3 ppt of GDP, while credit guarantees and special funding facilities account for ~4 ppt of GDP. The credit-linked measures supporting MSMEs and NBFCs[1] are an important backstop to prevent further economic deterioration. An asset quality clean-up in the financial sector will need to follow to normalise growth back to its potential.

Another positive surprise has been a commitment to use the crisis to implement much-needed structural reforms in agriculture, industry, labour, deregulation and privatisation of SOEs.[2] While these might not help revive demand in the near term, they are **an important anchor to India's investment grade sovereign rating to revive its medium-term growth potential**. Execution will be key, but we are cautiously optimistic so far.

China's response from the politburo meetings has been to prioritize employment, with the numerical growth target suspended due to the large uncertainty. The focus has turned to stimulating new infrastructure investment (such as 5G networks and data centres) and faster urbanization (renovating communities and services) to support domestic demand. Monetary policy will play a significant role, and M2 (money supply) and TSF[3] growth are likely to be significantly higher than last year.

This week, the People's Bank of China (PBOC) has rolled out measures to support SME financing linked to stable employment, and will likely follow with further creative measures. Such inward focused measures are unlikely to buoy commodity-linked EM countries in the same way as 2009. However, they will succeed in engineering a healthy recovery within China in our view.

Indonesia's policy announcements have amounted to ~3% of GDP so far, and there are indications that further rounds of fiscal and monetary easing will follow. More recently, Bank Indonesia announced its intention to directly fund a sizeable IDR 150 trillion of the government's economic recovery programme through a private placement, in effect decreasing the pressure on markets to absorb the large amounts of gross issuance. With recent FX stabilisation and low inflation, Indonesia has more breathing room to respond to the crisis.

In Section I below, we outline the policy responses announced so far in investment grade Asian economies. The more constrained Asian frontier market responses are outlined in Section II. We expect these to remain more constrained in the coming weeks.

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[1] MSMEs refers to Indian Micro, Small and Medium Enterprises. NBFCs refer to Indian Non Banking Financial Companies.
[2] SOE refers to state-owned enterprises.
[3] TSF refers to Chinese total social financing.

I. INVESTMENT GRADE ASIA POLICY RESPONSE

COUNTRY	FISCAL RESPONSE	MONETARY RESPONSE
China	**Pledged headline fiscal deficit:** RMB 3.6 trillion (3.7% of GDP) • Headline target employment increase of 9 million in urban employment, with survey unemployment of 6% • Reduction in tax and fee burden including VAT cuts (RMB 1400 trillion) – including extended tax subsidies and exemption for new-energy vehicles for new car purchases and reduced VAT for used-car dealers • Reduction in corporate social insurance (RMB 1100 billion) **Public investment (RMB 2000 billion):** • Strengthen new infrastructure build-up • Promote new urbanization led by hub cities and city clusters • Renovate 39K old residential districts • Additional RMB 100 billion in railway construction equity fund • **2020 fiscal deficit:** Augmented fiscal balance (including off-balance sheet deficit) likely to be ~14% of GDP • **Additional borrowing:** Total bond issues in 2020 to total 8.2% of GDP, of which (1) CNY 2.78 trillion of new central government general bonds, (2) CNY 0.98 trillion of new local government general bonds, (3) CNY 1 trillion of central government anti-epidemic special bonds and (4) CNY 3.75 trillion of new local government bonds	• Rate cut: 25 bps in benchmark deposit rate; 20 bps in 1y medium-term lending facility (MLF); 7d reverse repo by 20 bps • RRR cut by 50 bps for large, 100 bps for smaller banks – releasing RMB 1.75 trillion of liquidity • Bank interest on excess reserves cut by 37 bps to 0.35% • Guidance on M2 and TSF growth to be significantly higher than last year **Banking system support:** • Temporarily lowered the provision coverage ratio for small and medium-sized banks by 20ppt to increase lending to SMEs • Supply chain financing to SMEs: RMB 800 billion **Targeted support for SMEs:** • Set up of relending and rediscounting facilities to support bank lending to SMEs: RMB 1.8 trillion (RMB 300 billion for Covid-19 support and RMB 1.5 trillion in funding for small businesses) • Extension of deferred principal and interest payment for SME loans to March 2021 tied to stable employment • Big 5 SOE banks' inclusive finance growth to be 40% in 2020 (versus 30% in 2019) amounting to RMB 1 trillion of new inclusive finance loans • RMB 400 billion to fund unsecured SME loans via 'loan purchase' program – essentially 1Y interest free funding from PBOC to support lending • RMB 400 billion national guarantee fund for SME loans with 30% risk sharing for wholesale loan guarantee • Compensation to small banks up to 1% of moratorium loan principal (can support RMB 3.7 trillion in loans)
Indonesia	**Pledged headline stimulus:** IDR 654 trillion (4% of GDP) • Consumer spending support (IDR 175 trillion) which includes that Family hope program (IDR 37.4 trillion), staple food program (IDR 43.6 trillion), pre-employment card (IDR 20 trillion), social funds for Jabodetabek area (IDR 6.8 trillion) among other measures • Tax incentives for industry (IDR 123 trillion) including 3pp corporate tax cuts, manufacturing sector tax relief, income tax cuts for low-income workers etc. • Interest subsidy of MSME, guarantee for new SME working capital loan (IDR 40 trillion) • Temporary working capital support to non-SOEs – Bulog, Garuda, PTPN, KAI, KRAS, Perumnas (IDR 33 trillion) • Equity injection into SOEs – Hutama Karya, BPUI, PLN, PNM, ITCD (IDR 25.3 trillion) • Compensation payments to SOEs for existing payables – IDR 45 trillion for Pertamina and IDR 45.42 trillion for PLN (IDR 90 trillion) • Additional spending for regional administration and ministries such as tourism and housing (IDR 80 trillion) • **2020 fiscal deficit:** 5.1% of GDP, with upside risk • **Additional borrowing:** Domestic govt. bond supply is projected to increase by 90% versus initial budget. Eurobond issuance of around USD 8-10 billion is also likely, and up to USD 7 billion could come from multi-lateral agencies. Bank Indonesia plans to fund IDR 133 trillion government recovery programme through private placement at the 12m repo rate (4.9% versus market rate of ~8% on 10y) and will continue to buy bonds in the primary and secondary markets to fund the fiscal deficit	• Rate cut: 50 bps • Loan moratorium: 1-year selective loan relaxation including lower interest rate, tenor extension • Encouraging non-cash payment channels through reduced fees and non-cash disbursement of govt. programmes • Daily auctions to ease IDR liquidity and extension of SBN repo tenor to 12 months • FX intervention in spot, DNDF, bond markets to stabilise FX • Direct government bond buying: IDR 168.2 trillion so far through secondary market and IDR 1.7 trillion in govt. bonds in the primary market for the first time **Banking system support:** • Liquidity support for banking system: Govt. will place deposits in anchor banks, which will in turn lend to other banks requiring additional liquidity support as the banks restructure their micro SME portfolios (IDR 88 trillion) • Relaxation of credit scoring requirements – more flexibility to fund during current period • Relaxation of loan restructuring requirements – only timely payment to be used as criteria rather than business outlook and financial condition of the borrower • RRR cut by 200 bps but liquidity to be used for government bond purchases. • FX reserve requirement cut to 4% from 8%

India	**Pledged headline stimulus:** INR 21 trillion (10.5% of GDP) includes INR 13 trillion (6.5% of GDP) in fiscal costs and INR 8 trillion (4% of GDP) in monetary policy easing through the RBI
	• MSME support: collateral-free automatic loan (INR 3 trillion), sub-ordinated debt provision for stressed MSMEs (INR 0.2 trillion), fund to support expansion (INR 0.5 trillion)
	• Farmer support: Concessional credit to PM-KISAN beneficiaries (INR 2 trillion) and working capital credit through NABARD (INR 0.3 trillion)
	• Agriculture and allied infrastructure support (INR 1.4 trillion)
	• Power distribution company support: Emergency liquidity infusion (INR 0.9 trillion)
	• NBFC support: special liquidity scheme (INR 0.3 trillion), partial credit guarantee scheme (INR 0.45 trillion)
	• Affordable housing for middle class (INR 0.7 trillion)
	• Rural employment initiatives through MGNREGA (INR 0.4 trillion)
	• Healthcare, social and manufacturing infrastructure investment (INR 0.3 trillion)
	• Tax relief measures such as tax at source (TDS) rates reduced by 25% until March 2021 and others (INR 0.58 trillion)
	• Direct transfers (income support, saving support, fuel subsidy), food security and other measures (INR 1.9 trillion)
	• **2020 fiscal deficit:** 10% of GDP
	• **Additional borrowing:** Measures announced have very small direct fiscal cost (1.3% of GDP). However, the govt.'s borrowing plan has increased by INR 4.2 trillion to INR 12 trillion for FY21 to finance its expected revenue shortfall. We expect a strong likelihood of higher OMO financing to meet this
		• Rate cuts: Repo cut by 115 bps, reverse repo cut by 155 bps
		• Loan moratorium: 3 months on all term loans outstanding on 1 March 2020 and on deferred interest payments for working capital loans
		• RBI increased states'/UTs' ways and means advances (short-term borrowing) limit by 60% until September 2020; also raised this limit for the central government to an all-time high of INR 2 trillion in H1 FY21
		• RBI liquidity support measures included in headline (INR 8 trillion)
		  • Cash reserve ratio (CRR) cut of 100 bps: INR 1.4 trillion
		  • Marginal standing facility (MSF) i.e. bank borrowing against govt. bonds raised by 1% to 3% of deposits: INR 1.4 trillion
		  • TLTRO: Up to 3y tenor at floating repo rate to be invested in fresh acquisition of IG corporate paper in primary and secondary markets, and placed in HTM portfolios: INR 1 trillion
		  • Special facility for AIFIs funding to NABARD (INR 250 billion), SIDBI (INR 150 billion) and NHB (INR 100 billion) at repo rate: INR 0.5 trillion
		  • Special facility for mutual funds: INR 0.5 trillion
		  • TLTRO 2.0 for NBFCs (non-banking finance companies) and MFIs (micro-finance institutions) – although had poor take-up in the first auction. Facility size: INR 0.5 trillion
		  • LTRO: INR 1 trillion and sell/buy swaps of USD 2 billion
		  • OMO purchases (INR 0.4 trillion) and Operation Twist
		  • CRR requirement exemption for auto, MSME, residential real estate sectors
		Banking system support:
		• Ban on dividend payments
		• NPL classification now 180 days past due (versus prior 90 bps)
		• Reduction in liquidity coverage ratio to 80% from 100%

Hong Kong	**Pledged headline stimulus:** HKD 290 billion (10% of GDP) • Employment support where govt. covers 50% of wages up to HKD 18k per month for 6 months (HKD 81 billion) • Additional employment support initiatives (HKD 10 billion) • Cash handout programme where each resident receives a HKD 10k one-off handout (HKD 71 billion) • Household tax breaks and relief measures (HKD 45 billion) • Loan support for SMEs at concessional rates: HKD 32 billion • Specific industry (aviation, catering, construction, transport, real estate agents etc.) relief measures (HKD 40 billion) • Enhancing anti-epidemic capability (HKD 10 billion) • **2020 fiscal deficit:** 9.5% of GDP • **Additional borrowing:** Direct fiscal spend: 10% of GDP to be financed by government's fiscal reserves (25% draw on total reserves) and green bond borrowing	• Rate cut: 50 bps • Loan moratorium: Principal payment holiday on residential mortgages; pre-approved tenor extension/principal repayment holidays to qualifying SMEs **Banking system support:** • Lowered regulatory reserve (RR) by 50% to release liquidity, and will improve bank CET1 ratio • Lowered countercyclical capital buffer by 1.5% • Injected HKD 1.55 billion into the banking system to defend the peg

Korea	**Pledged headline stimulus:** KRW 356 trillion (19% of GDP)
	• Emergency liquidity and financial stability (KRW 190 trillion):
	  • SME subsidised loans and loan guarantees: KRW 60 trillion
	  • Cash-strapped company and exporter support: KRW 70 trillion
	  • Bond market stabilisation fund: KRW 20 trillion
	  • Purchase of low-rated corporate bonds/CPs: KRW 30 trillion
	  • Equity market stabilisation fund: KRW 10 trillion
	• Direct budget support (KRW 166 trillion)
	  • Key sector support for 7 industries: KRW 40 trillion through govt-guaranteed KDB issuance to last 5 years
	  • Employment fund and wage subsidy programme: KRW 34 trillion
	  • 5 year K-style "New Deal" reform program: KRW 7.6 trillion
	  • Consumption boosting measures including tax relief on consumption, rent reduction: KRW 22.7 trillion
	  • Public health support: KRW 17 trillion
	  • Cash handouts to all households: KRW 12.2 trillion
	  • Payment delays on tax and demand support: KRW 33 trillion
	• **2020 fiscal deficit:** 5.8% of GDP
	• **Additional borrowing:** Direct measures: to be financed through a domestic bonds gross issuance increase and tapping into reserve funds
		• Rate cut: 50 bps
		• BOK considering more active purchase of long-term KTB bonds
		Banking system support:
		• "Unlimited" liquidity to banks through repo operations for 3 months to fund financial market support package
		• Complemented by broader range of OMO eligible securities – now accepts policy bank bonds and MBS as collateral
		• BOK launches special loan programme to banks at 8 5bps above monetary stabilisation bonds and accepts AA- rated corporate bonds as collateral
		• Government eased FX liquidity rules for banks – FX liquidity coverage ratio to be lowered to 70% from 80%, future forward position raised to 50% (from 40%) for domestic banks
		• FX liquidity eased through USD 60 billion currency swap with the Fed

Singapore	**Pledged headline stimulus:** SGD 93 billion (19.2% of GDP) • Increased wage subsidy for local workers to protect jobs and foreign worker levy waivers • Loan capital set aside to support corporates through SME bridge loan finance, 90% govt. risk share on trade finance • Targeted relief for aviation and tourism sectors • Cash handouts for households • **2020 fiscal deficit:** 8.9% of GDP (from 2.1% initially) • **Additional borrowing:** Government has tapped SGD 21 billion of past reserves	• S$NEER slope to zero, re-centred midpoint by 100 bps • Loan moratorium: Residential property payment deferral until 31 December 2020; conversion of unsecured credit balances to term loans (up to 5y) with 8% cap on interest rates; secured SME loan principal deferral • SME support: MAS SGD facility available for banks to provide credit at lower rates **Banking system support:** • NSFR adjusted from 50% to 25% for loans to individuals and businesses with <6 months left • Banks encouraged to utilise capital buffers to lend, not carry additional loan losses if borrower availed of COVID-19 relief
Thailand	**Pledged headline stimulus:** THB 2,100 billion (13.3% of GDP) • Cash hand-outs to households and farmers (THB 550 billion) • Healthcare spending (THB 50 billion) • Support measures post September 2020 to include infrastructure investment, increasing competitiveness etc. (THB 400 billion) • **2020 fiscal deficit:** 5.9% of GDP • **Additional borrowing:** Planned additional THB 1,000 billion of borrowing and will involve diverse borrowing sources so as to not crowd local govt. bonds. Additional sources: T-bills, loans, savings bonds and foreign currency borrowing	• Rate cut: 50 bps cut to all-time low of 0.75% in 2020 • Loan moratorium: 6 months' principal and interest holiday for SMEs (up to TBH 100 million credit line); lower min. credit card payments; 3-6 month grace period on principal and interest payments for personal, auto and housing loans • Soft loan financing for subsidised SME loans (THB 500 billion) • Fund for corporate debt refinancing (THB 400 billion) • Continued bond buying through OMO operations **Banking system support:** • FIDF (levy on deposit) rate of 0.23% (from 0.46%) • NPL stage migration during grace period suspended

Philippines	**Pledged headline stimulus:** PHP 1,171 billion (6.3% of GDP)
	• Low-income family support (PHP 325 billion)
	• Credit guarantee for SMEs (PHP 120 billion)
	• Wage subsidy for SMEs (PHP 51 billion)
	• Tax benefits: NOL carryover for 5 years (PHP 139 billion)
	• Expanded medical support (PHP 36 billion)
	• Remaining package details still awaited
	• **2020 fiscal deficit:** 6.2% of GDP
	• **Additional borrowing:** Direct bond buying from central banks, USD 6.9 billion of funding from multi-lateral sources secured
		• Rate cut: 125 bps
		• RRR cut: 200 bps
		• Bond purchase from Treasury: PHP 300 billion (1.5% of GDP)
		Banking system support:
		• Banks can operate below 100% LCR
		• Bank capital ratio can dip into capital conservation buffer of 2.5% but with capital distribution restrictions
		• Regulatory forbearance for banks:
		  • NPL ratio to exclude affected borrowers for one year
		  • Staggered provisioning for probable loss over five years

Malaysia	**Pledged headline stimulus:** MYR 295 billion (20% of GDP) • Working capital loan guarantees, 80% risk share by government and SME support (MYR 60 billion) • Access to personal savings in EPF funds (MYR 40 billion) • Reduced employee savings contribution, rescheduling of employer contribution, wage subsidies and reskilling programs (MYR 30 billion) • MYR 25 billion fiscal budget expansion to fund cash handouts • National services from govt-linked companies (GLCs) such as electricity rebates through Tenaga etc. • **2020 fiscal deficit:** 5.9% fiscal deficit (from 3.0%) • **Additional borrowing:** Additional direct fiscal spend to be funded likely through a combination of local borrowing and dividends from GLCs	• Rate cut: 100 bps in 2020 • Loan moratorium: automatic 6-month deferral of all individual and SME loans (MYR 100 billion). Credit card loans can be converted to three-year term loan at lower rates. • SME support: MYR 13.1 billion fund for SMEs by BNM to offer wage subsidies and grants **Banking system support:** • RRR cut: 100 bps (released MYR 46 billion in liquidity) • Banks can operate below 100% LCR, NSFR minimum lowered to 80% effective 1 July, 100% from September 2021 • Bank capital ratio can dip into capital conservation buffer of 2.5%

II. FRONTIER ASIA POLICY RESPONSE

COUNTRY	FISCAL RESPONSE	MONETARY RESPONSE
Vietnam	**Pledged headline stimulus:** VND 268 trillion (4% GDP) • Tax relief: 5-month extension on VAT, corporate tax etc. (VND 180 trillion) • Direct transfers: furloughed worker and unemployment support (VND 20 trillion), low income household support (VND 16 trillion) • Interest free loans by Vietnam Social Policy Bank (VND 16 trillion) • Discounts on electricity and telecom bills (VND 26 trillion) • Additionally: Accelerated public investment disbursement of VND 696 trillion (10.4% of GDP) • **2020 fiscal deficit:** 5.1% fiscal deficit (from 3.4%) • **Additional borrowing:** USD 1 billion (VND 23.6 trillion) of preferential loans from ADB, IMF and World Bank	• Rate cut: 150 bps **Banking system support:** • Cut caps on deposit rates and raised interest on banks' VND compulsory reserves by 20 bps
Sri Lanka	Limited fiscal response given lack of space. IMF assistance being sought, and several multi-lateral sources being sought to fund even the current fiscal obligation and external repayments • **2020 fiscal deficit:** 10% of GDP • **Additional borrowing:** Predominantly from multi-lateral institutions to address existing shortfall	• Rate cut: 150 bps in 2020 **Banking system support:** • Reduction in the capital conservation buffer, a cut in statutory reserve requirements by 100 bps
Pakistan	**Pledged headline stimulus:** PKR 1.2 trillion (3% of GDP) • Measures include emergency response (PKR 190 billion), employment support (PKR 200 billion), vulnerable family cash transfers (PKR 150 billion), payment to farmers (PKR 280 billion), relief to exporters (PKR 100 billion), deferral of SME loan payments (PKR 100 billion), reduction in fuel prices (PKR 170 billion) • Further, govt. will bear 40% first loss on SME lending • **2020 fiscal deficit:** 9.2% of GDP (from 7.5%) • **Additional borrowing:** USD 2 billion in support from IMF, World Bank, ADB	• Rate cut: 525 bps so far • The SBP to provide loans at up to 4-5% interest rate to those business entities that do not lay off their workers, along with 3 months of wage support

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