

Allied Social Science Association Annual Meeting 2022

COVID IMPACT AND MACROECONOMIC POLICY IN ASIA

Calla Wiemer

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Spinoff from



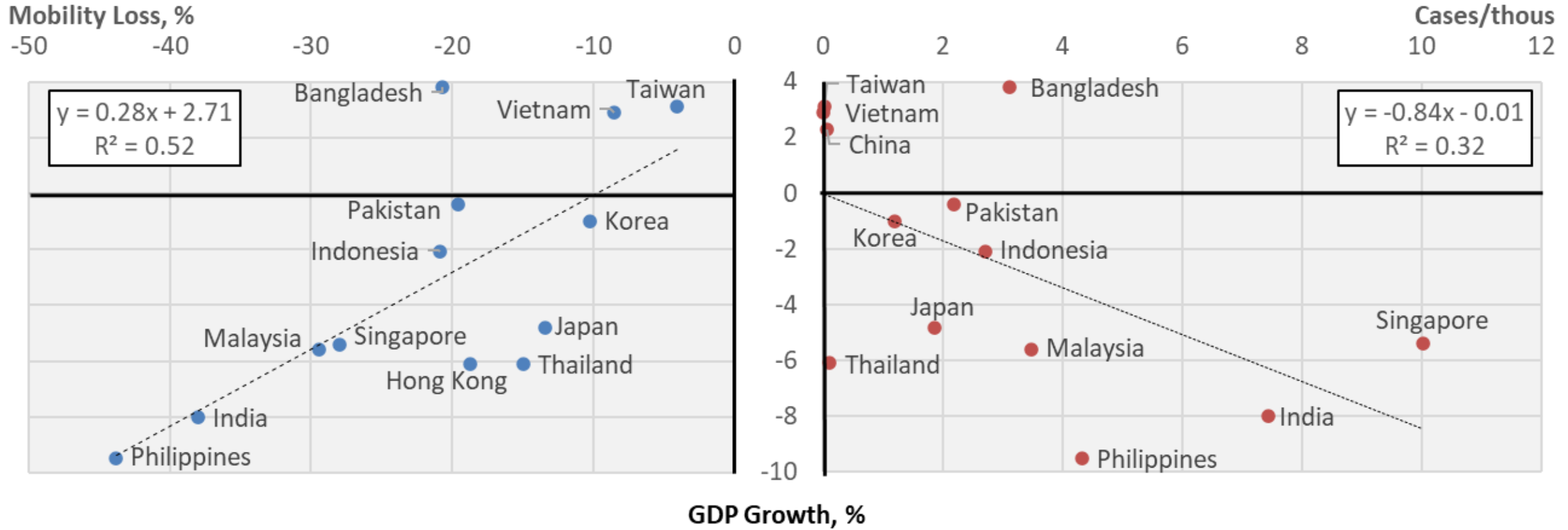
Textbook features

- Both internal & external balance matter for macroeconomic stability.
- Exchange rate & interest rate work in tandem as policy instruments.
- Policy space is constrained.
 - fiscal: debt sustainability
 - monetary: global capital flows

Presentation: application to Covid crisis

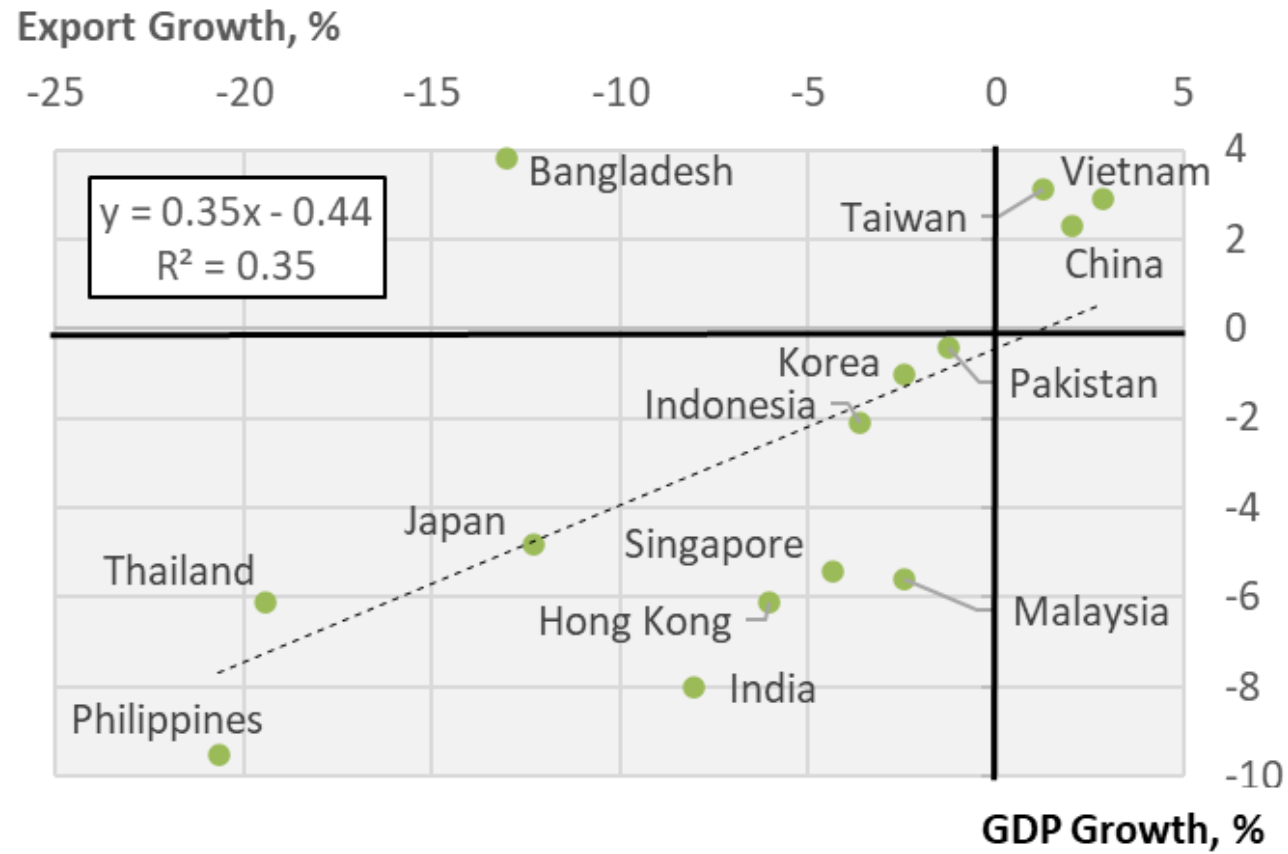
see [Asia Economics Blog](#)

Impact on GDP Growth of Case Numbers & Mobility Loss, 2020



- Mobility loss $\uparrow \Rightarrow$ GDP growth \downarrow
- Case numbers $\uparrow \Rightarrow$ GDP growth \downarrow

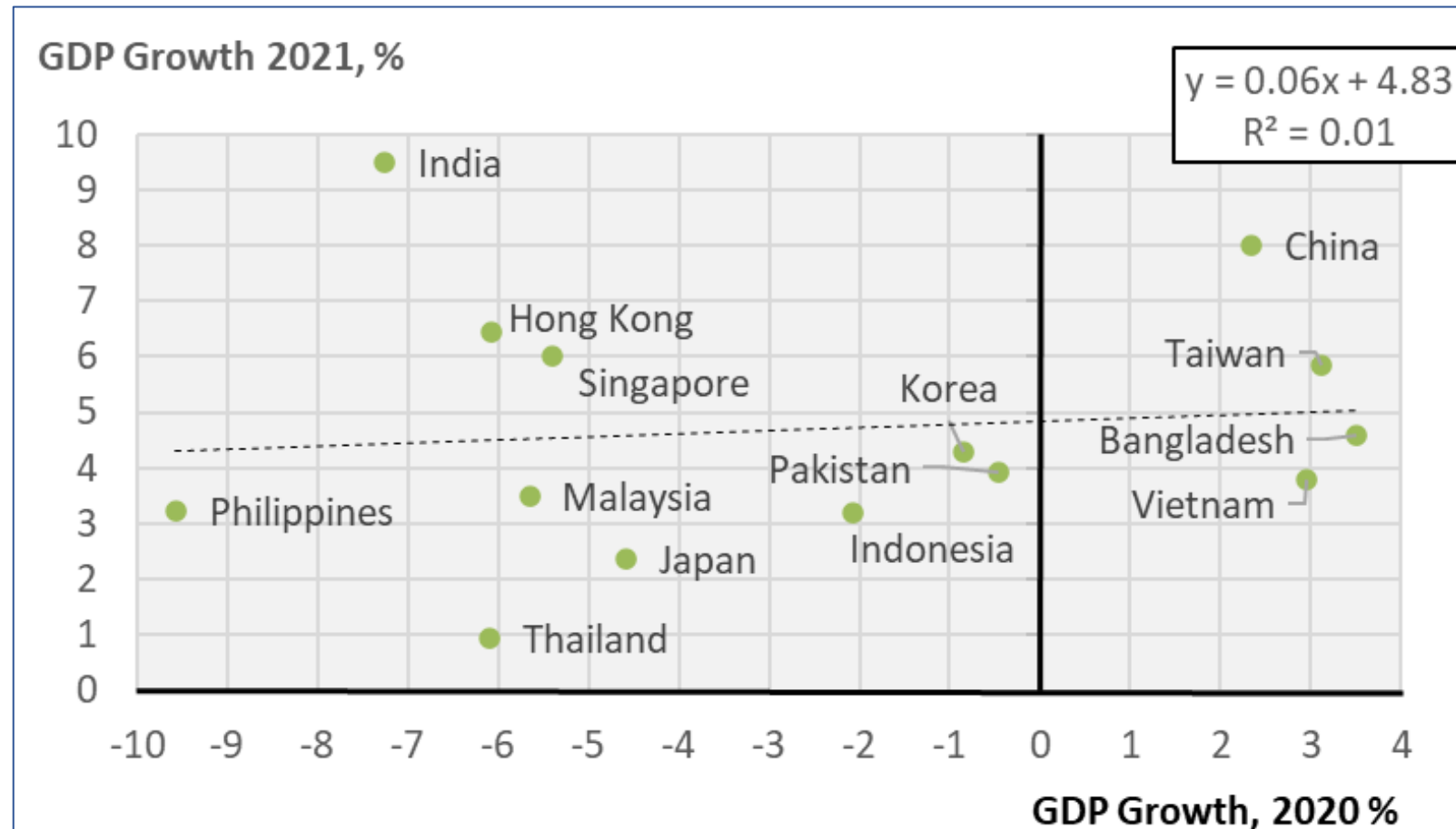
Impact on GDP Growth of Exports, 2020



- Exports ↓ ⇒ GDP growth ↓

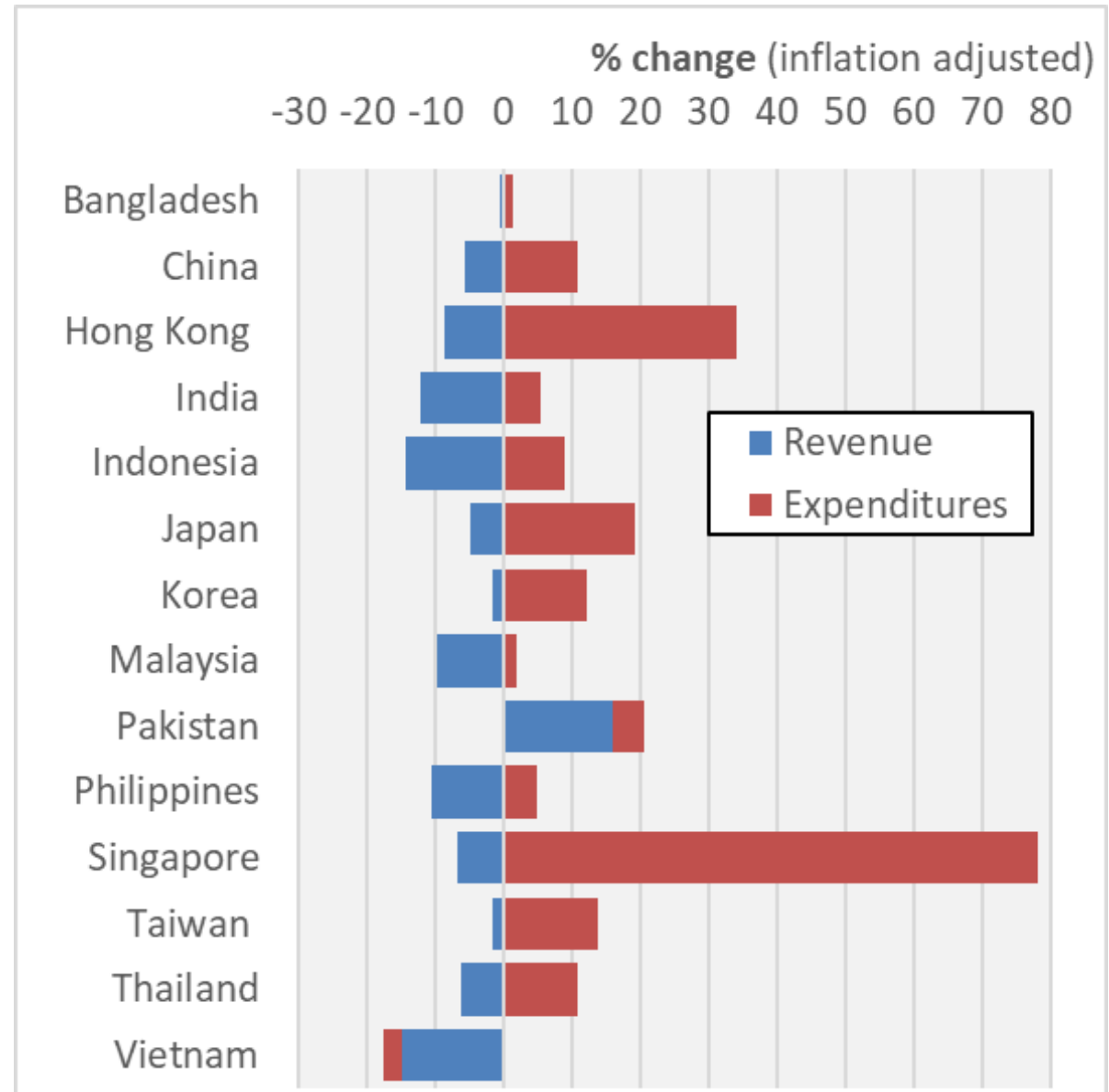
What happened in 2021?

- Connections lost between GDP growth & case numbers, mobility loss, and exports.
- Is this due to base effects?
(contraction in 2020 makes a rebound in 2021 appear as fast growth)
- No, growth in 2021 is unrelated to growth in 2020.
- ... Policy enters in by 2021.



Public Revenue & Expenditure, 2020

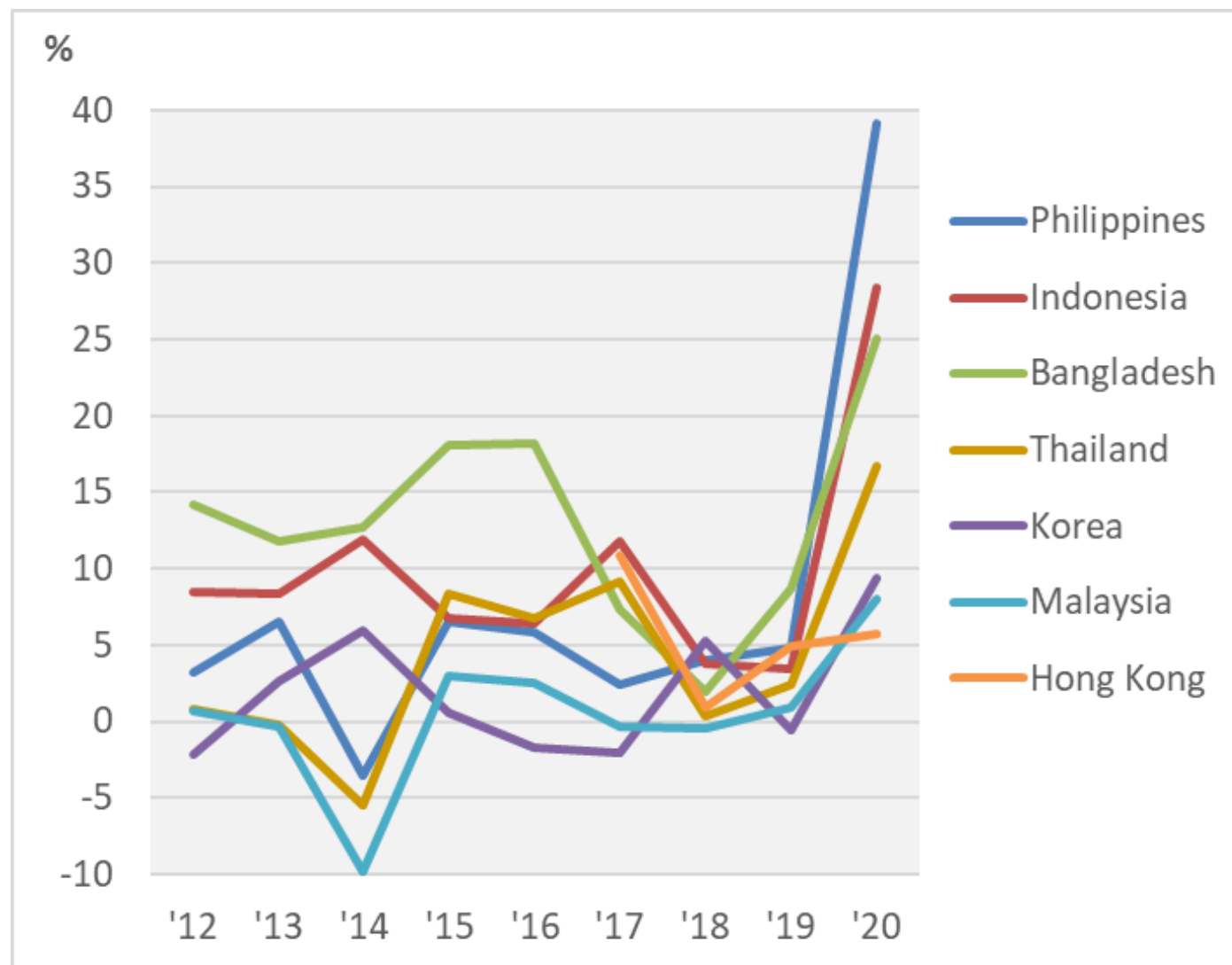
- Revenue ↓ ... except Pakistan
- Spending ↑ ... except Vietnam
 - Singapore +78%
 - Hong Kong +34%
 - Japan +19%



Central Bank Asset Growth, 2020

Central bank asset growth ↑

- Philippines: buying government debt
- Bangladesh: buying remittance inflows



Macro Policy Space

FISCAL POLICY

Fiscal stimulus

⇒ debt/GDP concerns

Fiscal space depends on Debt/GDP sustainability, which in turn depends on:

r = real interest rate

g = GDP growth rate

d = debt/GDP

MONETARY POLICY

Monetary stimulus

⇒ interest rate ↓

⇒ capital outflows

⇒ currency value ↓

⇒ debt service difficulty

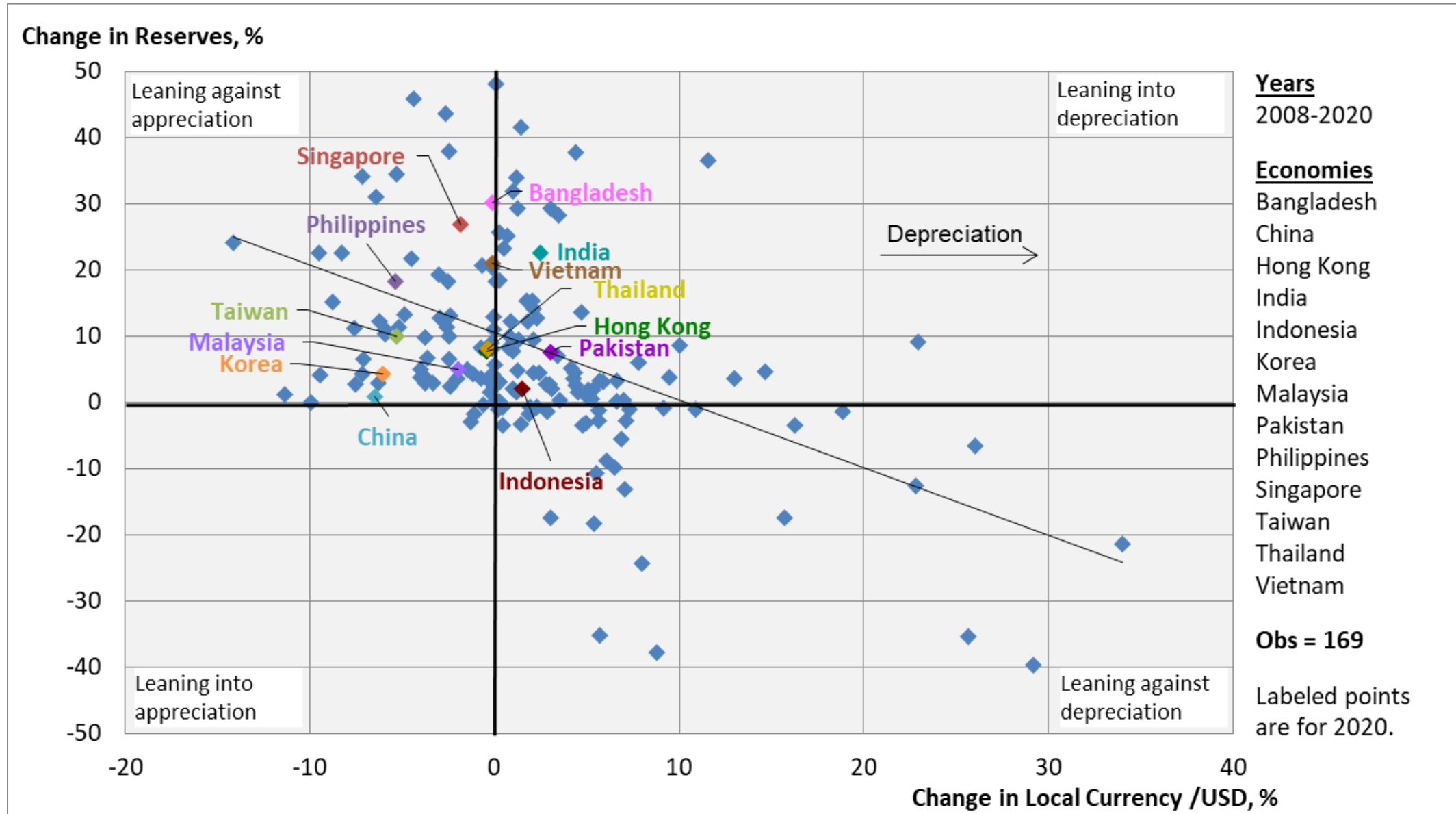
Monetary policy space depends on currency buoyancy as revealed by:

- exchange rate movement
- reserve item on balance of payments

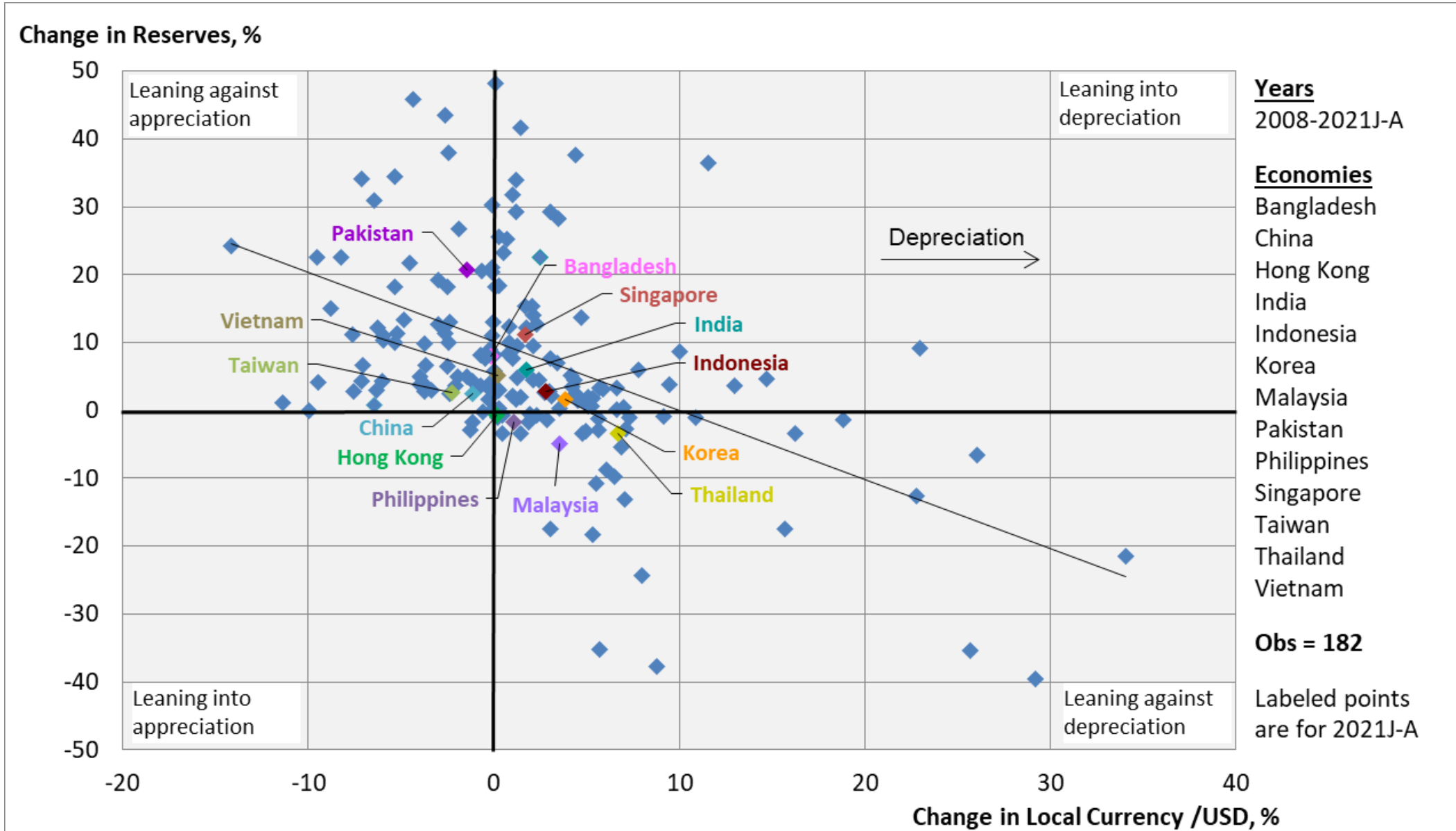
Fiscal Policy Space

	Interest Rate		GDP Growth (g)	Debt/GDP (d)	Primary Balance/GDP			
	Nominal	Real (r)			Sustainable $d(r-g)/(1+g)$	Actual 2020	Projected	
	11/2021	2021-25	2021-25	2020			2021	2022-2025
Bangladesh	7.6	2.0	6.5	38.9	-1.7	-5.5	-5.9	-5.6
China	2.9	0.9	5.9	66.3	-3.1	-11.2	-7.5	-5.9
Hong Kong	1.5	-0.9	3.7	1.0	0.0	-9.2	-3.7	-1.3
India	6.3	1.8	7.4	89.6	-4.7	-12.8	-11.3	-8.7
Indonesia	6.3	3.4	5.3	36.6	-0.6	-5.9	-6.1	-3.3
Japan	0.1	-0.7	1.7	254.1	-5.8	-10.3	-9.0	-2.5
Korea	2.4	0.5	3.1	47.9	-1.2	-2.2	-2.9	-2.3
Malaysia	3.6	1.5	5.1	67.4	-2.3	-5.2	-5.9	-4.1
Pakistan	11.1	3.2	4.5	87.6	-1.1	-8.0	-7.1	-4.6
Philippines	5.1	2.1	5.9	51.7	-1.9	-5.7	-7.6	-4.5
Singapore	1.8	0.3	3.4	154.9	-4.7	-8.9	-0.2	2.0
Taiwan	0.6	-0.9	3.2	32.7	-1.3	-2.9	0.3	2.0
Thailand	1.9	0.6	3.3	49.6	-1.3	-4.7	-6.9	-3.4
Vietnam	1.9	-1.5	6.3	46.3	-3.4	-3.9	-4.7	-4.3

Monetary Policy Space, 2020



Monetary Policy Space, 2021



Conclusions

- Pandemic impact on GDP growth
 - 2020: clear negative impact of
 - mobility loss
 - Covid cases
 - export declines
 - 2021: associations not clear
- Fiscal policy space
 - domestic legacy the main determinant
 - varies greatly by economy
 - exploited as available in 2020
- Monetary policy space
 - global capital markets the main determinant
 - 2020 buoyant
 - 2021 less buoyant
 - 2022 ?