EMERGING ASIA CHART BOOK

Assessing the impact so far

• We still don’t have much in the way of hard data, but the figures that have been published so far suggest the coronavirus and the measures that China has taken to contain it, are having a severe economic impact. Tourist arrivals into Thailand have fallen by around 50% since the crisis began. Trade also looks to have been hit hard. Korean exports to and imports from China fell by 22% and 35% y/y respectively in the first 20 days of the month. Finally, consumer confidence in Korea in February suffered its largest drop in five years. We should start to get a clearer picture of how the region’s economies have been affected by the crisis next week, with the publication of February trade data for a number of countries as well as the PMIs.

• Meanwhile, stimulus measures are being stepped up. Over the past month, central banks in China, the Philippines, Thailand and Indonesia have cut interest rates. Further easing is likely, and we are expecting the Bank of Korea to cut interest rates at its meeting on Thursday. Fiscal support is also being increased. Singapore unveiled a support package last week worth 1.3% of GDP, while Taiwan today announced a series of measures worth 0.3% of GDP. Indonesia, Korea, Hong Kong and Malaysia are all due to unveil measures of their own over the coming week. Debt levels across Asia are relatively low compared with elsewhere in the world, and most countries in the region are in a position to loosen policy.

• Domestic demand in Korea is likely to be hit hard given the number of new cases of coronavirus has surged in recent days. Singapore included a big fiscal stimulus in its 2020 budget, which should help cushion the economic impact of the virus outbreak. Taiwan’s government has announced a support package worth 0.3% of GDP.

• The equity market in Bangladesh has rebounded strongly since the start of the year. While external vulnerabilities have eased in Pakistan, we are becoming more concerned about inflation which was more than double the central bank’s target in January. The rebound in tourist arrivals in Sri Lanka is likely to be held back by the virus outbreak – Chinese visitors make up around 10% of arrivals.

• In Indonesia, the central bank cut its main policy rate to support the economy, but with the rupiah having dropped back in recent days, we doubt this marks the start of a prolonged loosening cycle. Political turmoil in Malaysia following the Prime Minister’s sudden resignation threatens to limit the government’s ability to act decisively to support growth. Inflation reached an eight-month high in the Philippines in January but is still comfortably within the central bank’s target range. Thailand’s economy is being hit hard by the economic fallout from the virus, mainly through a collapse in tourist arrivals. The economy in Vietnam is facing an additional headwind from high inflation, which is being pushed up by the impact of African swine fever on pork prices.
Emerging Asia Overview

- The coronavirus outbreak and the measures China has taken to stop it spreading will cause economic growth in the rest of the region to slow sharply in Q1 (1).
- There are three main channels through which the rest of the region is being affected. The first is a slump in tourist arrivals. Daily data from Thailand suggests international arrivals have dropped by around 50% since the start of the crisis (2). Spending by Chinese visitors now accounts for a sizeable share of some countries’ GDP (3). Second, industry has been disrupted by factory closures in China which is leading to supply shortages and production outages across the rest of the region. Korean imports fell sharply in the first 20 days of February (4), led by a 35% y/y decline in imports from China. Third, the sharp slowdown in China’s economy will hit demand for the region’s exports.
- The economic impact could start to affect domestic demand if the number of cases outside China continues to climb (5). This already looks likely in Korea – cases have grown from 29 to over 800 in just a week. Financial markets have fallen further in recent days on the worsening news (6).

Sources: Refinitiv, Capital Economics, Bloomberg, WHO, Korea Customs
Korea

- The economy rebounded more strongly than expected in the final quarter of the year – growth picked up to 1.2% q/q in Q4, from 0.4% in Q3 (7). In y/y terms, growth rose to 2.2%, from 2.0% in Q3. But this won’t last – the coronavirus outbreak is likely to cause a sharp contraction in the economy this quarter.

- The total number of cases is now over 800, up from just 29 a week ago (8). People now exercising much more caution by avoiding public spaces such as restaurants, shops and concerts. This is likely to weigh heavily on private consumption, which accounts for around 50% of GDP. Consumer confidence in February dropped back sharply but was still higher than the middle of last year (9). That said, the survey period ended on 17th February, pre-dating the latest jump in cases.

- Other parts of the economy are also likely to be hit hard. Factory closures in China have led to production outages in Korea because of parts shortages. This is reflected by a drop in imports from China, which fell 35% y/y over the first 20 days of February (10). Demand for Korean exports also looks to have been hit (11), with a sharp drop in those to China. With the outlook for growth worsening, the Bank of Korea is set to cut its main policy rate by 25bps to 1.00% on 27th February. Inflation concerns will not stand in the way, core inflation was just 0.9% last month (12). The government will also loosen policy soon and is currently drawing up a supplementary budget.
Singapore

- Before the coronavirus hit, Singapore’s economy was starting to show signs of recovery. GDP growth nudged up to 1.0% y/y (advanced estimate: 0.8%), from 0.7% in Q3. Our GDP Tracker, which is based on the monthly data, suggests that growth was gaining momentum at the end of the quarter (13).

- Tourist arrivals, which were growing strongly before the virus hit (14), are likely to be hit hard by the virus. The government has estimated that visitor numbers will fall by 25-30% this year. The sector accounts for around 4% of GDP. Otherwise, January export data gave few hints about how factory shutdowns in China are disrupting Singaporean trade and industry. Non-oil domestic export growth did slow (15), but it’s hard to disentangle any impact of the coronavirus from seasonal effects of the timing of Chinese New Year.

- The Monetary Authority of Singapore (MAS) hinted at the end of January that it had room to loosen policy in response to the worsening outlook by lowering its target rate of appreciation for the nominal effective exchange rate, which has fallen sharply in the last month (16). Inflation is unlikely to be any impediment – the MAS measure of core inflation was just 0.3% in January (17). Meanwhile, the government responded to the virus by unveiling a large fiscal stimulus in its 2020 budget (18). This should help businesses weather the storm and help the economy to rebound quickly once the virus is contained.
Taiwan

- GDP growth in Taiwan accelerated to a revised 3.3% y/y last quarter, from 3.0% in Q3 (19). But growth is likely to have slowed sharply this quarter due to the coronavirus. The stock market has sold off in response to the worsening prospects for the economy (20).

- There are three main channels through which the crisis will affect Taiwan’s economy. The first is a fall in exports to China. Intermediate exports to China are equivalent to around 18% of Taiwan’s GDP. A higher share than in any other country (21). The second is supply chain disruptions caused by factory shutdowns in China which will make it difficult for Taiwanese companies to import intermediate goods. The third is a fall in tourism arrivals from China. However, it is important to note that arrivals from mainland China had already fallen sharply following the travel ban introduced by the Chinese government last year (22).

- Meanwhile, headline inflation jumped to a twenty-two-month high of 1.9% y/y in January, while the core rate leaped to 1.3% (23). The jump was due to a shift in the timing of the Chinese new year, and should reverse in February. The poor outlook for growth means the central bank is likely to cut interest rates at its next meeting in March (24). Fiscal policy is also set to become more supportive. On Tuesday the government unveiled a US$2bn (0.3% of GDP) fiscal support package to support the economy.
Bangladesh

- GDP growth in Bangladesh has accelerated in recent years and we expect it will remain robust throughout the forecast period (25). The latest data for the end of 2019 has been positive. Exports seem to turn a corner in December, growing by 2.9% y/y. This followed four consecutive months of contraction (26). Remittances have remained very strong in Q4, growing by an average of 35% y/y.

- However, the effect of coronavirus is not yet captured in these figures. There are no confirmed cases of the virus in Bangladesh. Instead the greatest impact will be through supply chain disruptions. Many intermediate goods for the garment industry, which accounts for 85% of exports from Bangladesh (27), are imported from China. We expect a big hit to export and GDP growth in Q1 and possibly beyond if shutdowns in China are extended. However, Bangladesh’s government debt is relatively low (28), meaning there is scope for fiscal loosening if GDP takes a hit.

- Meanwhile, headline inflation fell a touch from 5.7% y/y in December to 5.6% y/y in January. The increase in non-food inflation to 6.4% y/y was offset by a further fall in food inflation (29). On the financial markets front the Dhaka Stock Exchange has made a recovery from its trough earlier in the year (30).
Pakistan

- Tighter monetary and fiscal policy have contributed to a sharp slowdown in economic growth in Pakistan. While the economy is now probably over the worst, the recovery will be slow-going (1). Fiscal policy has been tightened as part of Pakistan’s agreement with the IMF to reduce its primary budget deficit. The policy rate has been raised by a cumulative 750bps since the start of last year (32). However, the central bank appeared to signal an end to the tightening cycle in the middle of last year, and interest rates have been left unchanged since a 100bp hike in July. We doubt the coronavirus outbreak will prompt the central bank to cut interest rates. Pakistan’s direct ties to China are relatively small. There is also a risk that a rate cut will prompt capital outflows and put downward pressure on the currency.

- The slowdown in the domestic economy and a weaker currency (33) have helped to reduce Pakistan’s external vulnerabilities. The trade deficit has narrowed significantly over the past year or so (34). The improvement in the external position should make the economy less vulnerable to sudden shifts in global capital flows, especially given the country’s low level of foreign exchange reserves (35).

- However, other vulnerabilities are starting to emerge. We are becoming increasingly concerned by rising inflation. The headline rate was 14.6% y/y in January – more than double the SBP’s 6.0% target (36).

Sources: Refinitiv, Capital Economics
Sri Lanka

- After slowing to 1.5% y/y in Q2, economic growth in Sri Lanka experienced a modest rebound in Q3 to 2.7% (37). The rebound has been driven by a recovery in the tourism sector, which has bounced back strongly from last year’s terrorist attacks (38). The sector is likely to be affected by the spread of the coronavirus and a slump in Chinese tourist arrivals, who make up around 10% of total arrivals.

- In order to boost the economy, the Central Bank of Sri Lanka (CBSL) cut its main policy rates in January. The lending and deposit rates were lowered to 7.50% and 6.50% respectively (39). We don’t think the CBSL will cut again this year. Sri Lanka’s deteriorating fiscal position (40) is set to put a strain on its relationship with the IMF, which could weigh on the rupee. Although the currency has held up well in recent months (41), we expect it to fall back again this year. Given Sri Lanka’s large burden of foreign denominated debt, the CBSL will be wary of allowing the rupee to fall by too much.

- The central bank will also need to keep an eye out on inflation. Headline inflation reached 5.7% y/y in January, which is at the upper limit of the CBSL’s 4-6% target band (42). The rise in inflation has been mainly caused by a surge in food inflation, which rose from 6.3% y/y in December to 12.4% in January.

Sources: Capital Economics, Refinitiv, CBSL
Emerging Asia Economics

Indonesia

- We don’t have much faith in Indonesia’s official GDP figures, which have been suspiciously stable over the past few years. Nevertheless, the figures show that GDP growth was 5.0% y/y in Q4, unchanged from the quarter before (43). Consumption growth held steady, but investment and government spending nudged down (44). In contrast, our Indonesia Activity Tracker suggests that growth has slowed and that the economy is expanding at a slower pace than the official figures show.

- In response to the spread of the coronavirus, Bank Indonesia (BI) cut interest rates by 25bp to 4.75% at its February meeting. While BI left the door open to further cuts, Indonesia’s direct ties to China are relatively small, and we doubt the cut will mark the start of a prolonged easing cycle (45). BI will also be keeping one eye on the rupiah, which has weakened since the rate cut (46). The central bank will hope that the rate cut helps to reverse the recent slowdown in private sector credit growth (47).

- Indonesia’s long-term growth prospects received a boost this month after the government submitted to parliament a list of measures that could transform the country’s manufacturing sector. The reforms contained in the so-called omnibus bill includes steps to cut red tape, lower taxes and most importantly free up the labour market by making it cheaper for employers to fire workers (48).

Sources: Refinitiv, CEIC, Capital Economics
Malaysia

- GDP growth in Malaysia slowed to 3.6% y/y in Q4, from 4.4% in Q3 (49), marking the weakest quarter of growth since the global financial crisis. This was driven by a deeper contraction in exports, due to supply disruptions in the commodities sector. Otherwise, government spending growth rose and the contraction in investment eased. Consumption growth was surprisingly strong (50).

- Even before the coronavirus hit, we had expected Malaysia’s economy to slow further. But the slump in Q1 is now likely to be much larger. Due to the size of its tourism industry (51) and its close links with Chinese supply chains, Malaysia stands to be one of the countries in the region hit hardest by the measures the Chinese government has taken to contain the spread of the coronavirus.

- It’s no longer clear when the government will outline its response to the crisis, following Prime Minister Mahathir’s shock resignation on Monday. The decision has plunged the country into political turmoil which threatens to undermine the government’s ability to act at a crucial time. In any case, the need to reduce the deficit (52) and a high debt burden will limit the space for a large spending boost. Markets have reacted badly to the political news, with both the currency and equities dropping sharply (53 & 54). Construction stocks were worst hit, as the future of infrastructure projects came into question once again.
Philippines

- GDP growth picked up to 6.4% y/y in Q4, from a downwardly revised 6.0% in Q3 (previously 6.2%) (55). This was driven by a temporary spike in government spending. The coronavirus outbreak will weigh on growth this quarter. The Philippines is more insulated than most in the region, but its tourism sector will be hit hard. Arrivals from China had been growing strongly before the virus hit (56).

- The central bank (BSP) cut its main policy rate to 3.75% on 6th February (57), partly in response to the virus. The BSP described the cut as a “pre-emptive” measure, to “ward off potential spill overs associated with external headwinds”. We think another cut is likely over the coming months. Inflation, which reached an eight-month high of 2.9% in January, remains comfortably within the central bank’s 2-4% target range (58).

- On the financial markets front, the equity market has continued to underperform the rest of the region so far this year (59), even though the economy is less exposed to the coronavirus than most. Meanwhile, the peso has held broadly steady against the US dollar, as other regional currencies have lost ground (60).

Sources: Refinitiv, Capital Economics
Thailand

- The Q4 GDP figures show that Thailand’s economy was in a poor state even before the coronavirus hit. GDP growth slowed to 1.6% y/y in Q4, from 2.6% in Q3. The weakness was broad based. Private consumption growth edged down, government consumption fell and exports contracted, led by a 5.1% y/y fall in goods exports. Imports also fell sharply.

- The economy is likely to slow sharply this quarter. The main hit is likely to be through a plunge in tourist arrivals. Tourist spending is the equivalent of around 12% of GDP, with approximately one-third of that coming from China. The latest airport arrivals data suggest that visitor numbers in Thailand have fallen by around 50% since the crisis started.

- In response to the worsening outlook, the Bank of Thailand cut interest rates to an all-time low of 1.0% at its February meeting. Further cuts are likely if the crisis continues. The worsening outlook for the economy has led to a drop in the value of the baht. This will ease the concerns of exporters, who have been hit hard by the strong baht over the past year.

Sources: Refinitiv, Capital Economics
Vietnam

- Vietnam’s GDP grew by 7.0% in 2019, down slightly from the 7.1% expansion recorded in 2018 (67). However, the spread of the coronavirus means economic growth will slow this year. We recently cut our growth forecast to 6.0% (from 7.0%). For now, the government is keeping its forecast unchanged at 6.8%. The virus is leading to a slump in tourist arrivals from China, which account for over 1% of GDP. Weaker demand from China – which is Vietnam’s third biggest export market after the US and EU (68) – and disruption to supply chains are the main channels through which the virus will disrupt economic activity.

- Another drag to the economy is likely to come from higher inflation which in January reached 6.4% y/y, up from just 2.0% in September (68). The jump has been driven primarily by a sharp rise in pork prices which has been caused by the spread of African swine fever (ASF) across the country. Despite the rise in inflation a rate hike is very unlikely (69). Rate cuts are probably more likely after the central bank ordered commercial banks to delay interest payments on loans from struggling companies.

- The recent economic data have been downbeat. Exports fell by 17% y/y in January – the worst performance since 2010. Sales of automobiles plummeted by 50% y/y in January. The biggest drop since 2012.

Sources: Refinitiv, Capital Economics
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