COVID-19 Healthcare and Fiscal Response in Emerging Markets

A CEIC Insights Thematic Report

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Foreword

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On the eve of 2020, the usual time for drawing conclusions and making forecasts, the world was bracing for a continued economic slowdown, for a rise of protectionism amid the US-China trade tensions and for the opportunities and traps of the expanding digital economy. Little did the pundits expect that the next big economic downturn was only a quarter away. In Q2 2020 many economies (developed and emerging) are already reporting their worst contractions on record, at double-digit rates.

The new coronavirus (SARS-CoV-2) causing the COVID-19 disease prompted governments to put whole cities into strict lockdown, like Wuhan, the capital of the Chinese Hubei province. Soon after, Italy and France followed suit, imposing harsh nation-wide stay-at-home orders. The initial comparisons with the SARS outbreak in 2003 and the MERS one in 2012 were soon rendered obsolete, as the novel coronavirus cases were growing exponentially worldwide.

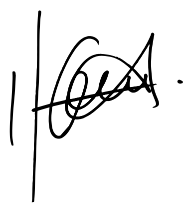
As of mid-August there were over 22mn total infections and over 770,000 COVID-19 related deaths worldwide. On a positive note, the number of recoveries keeps growing too, with more than 14.8mn people recovered. The notorious top three with the most cases globally includes the US, Brazil and India, followed by many more emerging markets.

Emerging markets were faced with specific issues long before the COVID-19 pandemic, such as sustained economic slowdown, structural and demographic problems. China for example was making an effort to strike a balance in its shift towards a slower, but more sustainable economic growth. All these challenges did not disappear with the onset of the current crisis, on the contrary, they will become more pronounced.

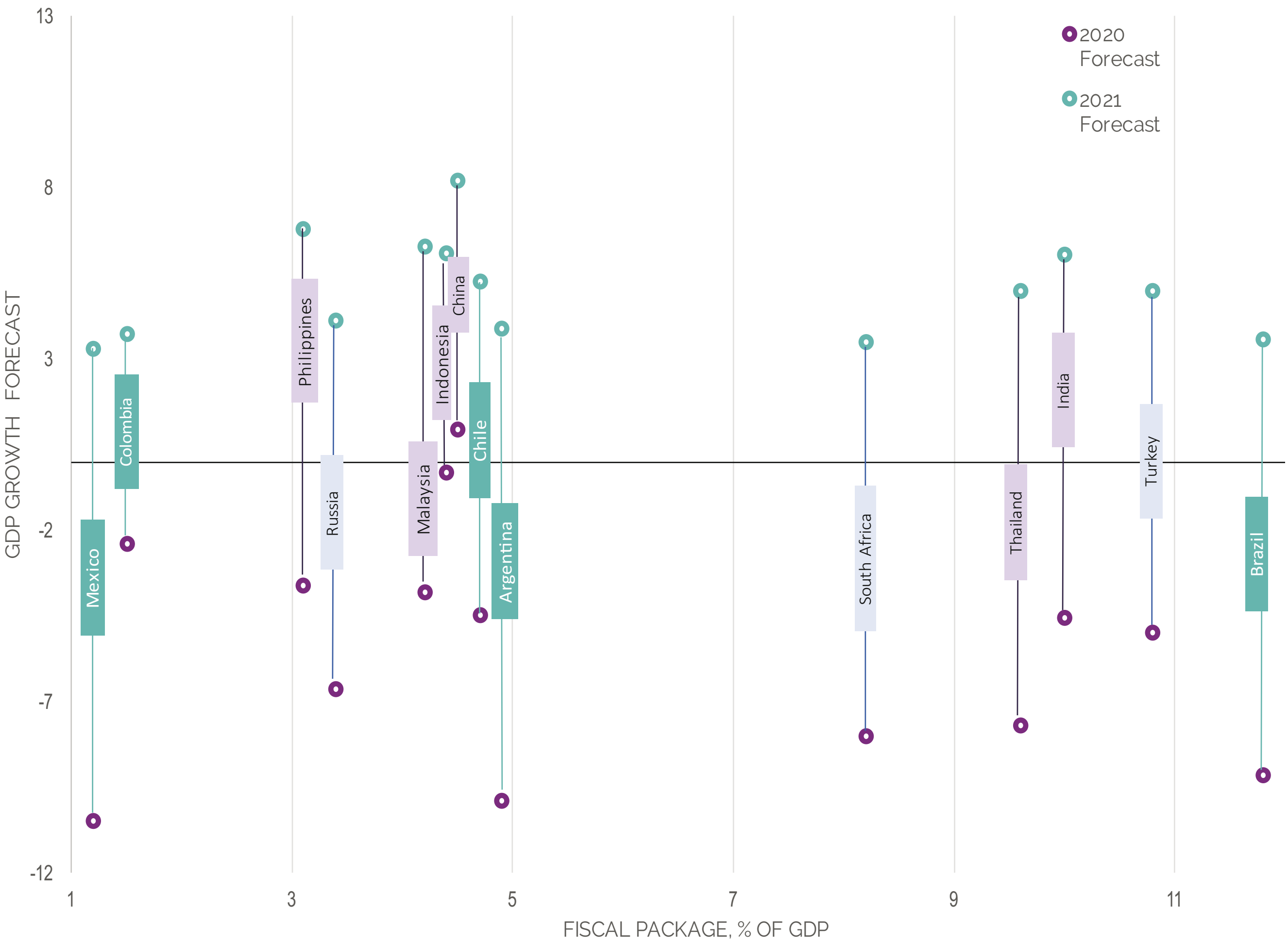
Ultimately, the COVID-19 pandemic took the world by surprise, putting healthcare systems and public finances in the emerging markets to a serious test. Faced with capital outflows and depreciating currencies, different emerging markets shared many similar problems, but also had to battle other country-specific ones in parallel. Brazil, for example, was committed to a sustainable public debt reduction, but the COVID-19 shock has already reversed part of that progress. India was undergoing a demand-led slowdown before the arrival of COVID-19. China, being the first country to face the virus in January, is already on a recovery path, returning to growth in Q2 2020 and setting the stage for a post-COVID-19 world economy.

However, this new economy was conceived in an environment of a variety of reactionary government policies, aggressive healthcare spending and fiscal stimulus packages, which in some cases exceeded 10% of a given country's GDP. This will ultimately put a strain on the emerging markets' public finances in the years to come. According to the latest IMF projections, released in June, emerging market economies will see overall fiscal deficit worth 10.6% of GDP in 2020, which will subsequently narrow down to 8.5% on average in 2021. The average gross debt-to-GDP ratio, however, will jump by more than 10 pp to 63.1% in 2020 and will keep piling up to 66.7% in the following year.

Most probably years will go by before the medical community can say with a high enough degree of certainty what was the proper healthcare response to COVID-19. The data itself, its interpretations and future economic impact indicators are set to fuel a wide range of speculations. As the world slowly approaches 2021 with the COVID-19 topic on top of the agenda, with data scientists and economists tempted to dive deep and find explanations for the ongoing crisis, it might be just as wise to make an effort to spot the next crisis lurking around the corner.



The COVID-19 pandemic took the world by surprise, putting healthcare systems and public finances in the emerging markets to a serious test. Faced with capital outflows and depreciating currencies, different emerging markets shared many similar problems, but also had to battle other country-specific ones in parallel



Source: IMF, Ministries of Finance, CEIC Data

CHINA

RMB 2tn

Central government's transfer payments to local governments

RMB 2.5tn

Tax excemptions and social security waivers on companies

RMB 19bn

Consumer voucher issues in more than 170 cities

INDIA

INR 8tn

Reserve Bank of India liquidity injection

INR 3.8tn

Stimulus for the agriculture sector

INR 5.94tn

Stimulus for micro, small and medium enterprises (MSMEs)

BRAZIL

BRL 152.6bn

Emergency aid for unemployed, informal workers and low-income families

BRL 51.6bn

Benefits to workers on unpaid leave or with reduced working hours

BRL 34bn

Corporate loans to finance payroll during the pandemic, for up to 2 months

RUSSIA

RUB 300bn

Financial reserve to mitigate the COVID-19 impact on the economy and to support quarantined citizens

RUB 80bn

Stimulus for small and medium enterprises

The new coronavirus prompted governments to put whole cities into strict lockdown

Source: Blavatnik School of Government, University of Oxford, CEIC Data

ARGENTINA

ARS 222bn
Transfers to low-income families

ARS 160bn
Unemployment insurance benefits and extra payments to minimum-wage workers and support for hard-hit sectors

MEXICO

MXN 645bn
Liquidity support by development banks

MXN 7.3bn
Subsidized unemployment insurance for 3 months workers with a Housing Institute mortgage

INDONESIA

IDR 123tn
Tax incentives for MSMEs and the business community

IDR 34.15tn
Interest rate subsidies for MSMEs

THAILAND

TBH 100bn
Financial assistance and tax relief to MSMEs

TBH 117bn
Extending the filing of tax returns for businesses and employees

COVID-19 in Emerging Economies Timeline

DEC

DEC 3
Wuhan Municipal Health Commission reported a cluster of pheumonia cases in the city.

JAN

JAN 13
The Chinese government imposed a lockdown in the city of Wuhan.

JAN 25-31
First confirmed COVID-19 cases in Indonesia, the Philippines, Russia and Malaysia.

JAN 26 - MAR 6
First confirmed COVID-19 cases in Brazil, Mexico, Indonesia, Argentina, Chile and Colombia.

FEB

FEB 3
China's stock exchanges reopenned after the extended New Year holidays. The Shanghai Composite Index dropped by 8%, the biggest fall in four years.

FEB 27
Malaysia's government approved a fiscal stimulus package of MYR 6bn (0.4% of GDP).

MAR

MAR 17
Colombia's government declated a state of emergency.

MAR 18
Malaysia introduced a strict Movement Control Order (MCO).

MAR 19
Chilean government presented a package of fiscal measures of up to USD 11.8bn (4.7% of GDP) aimed to support employment and firms' liquidity.

MAR 20
Argentina imposed full closure of borders and a nation-wide quarantine.

MAR 24
India lockdown started.

MAR 25
Colombia imposed a country-wide quarantine.

MAR 26
Thailand extended the state of emergency until the end of August. International flights transporting COVID-19 passengers are banned from transiting through Thailand.

MAR 27
Malaysia announced a second stimulus package of MYR 25bn (1.7% of GDP).

MAR 30
The Russian government imposed a quarantine in Moscow and closed non-essential businesses.

MAR 31
Indonesia's government announced an additional fiscal package of IDR 405tn (2.6% of GDP).

APR 3
Thailand imposed a night-time curfew.

APR 5
The Mexican president López Obrador announced a plan aimed to lift the economy out of the COVID-19 crisis by creating 2mn new jobs and boosting small business and housing lending.

APR 6
Malaysia's government announced a third stimulus package of MYR 10bn (0.7% of GDP).

APR 14
India's prime minister Narendra Modi extended the national lockdown until May 3. Two days later the government classified 733 districts into three zones - red, orange and green.

MAY 4
Malaysia started easing restrictions by allowing most businesses to reopen.

MAY 8
Argentina's government announced a gradual reopening.

JUN 4
Indonesia further expanded fiscal package to IDR 677.2tn trillion (4.2% of GDP). The city of Jakarta started to relax the large-scale social restrictions.

JUN 5
Malaysia's government announced a fourth stimulus package of MYR 21bn (1.4% of GDP).

JUN 10
A Recovery Movement Control Order (RMCO) took effect in Malaysia on June 10, lifting most restrictions on domestic activities and movement.

JUN 15
Colombia's government approved a temporary suspension of the 6.1% fiscal deficit rule for 2020 and allowed the deficit to increase to 8.2% of GDP in 2020 and 5.1% of GDP in 2021.

AUG 13
Russia became the first country to approve a COVID-19 vaccine. Brazil began talks with Russia to manufacture the vaccine.

APR 27
Construction and manufacturing sectors in Colombia were allowed to restart operations.

APR 29
India allowed inter-state movement of stranded tourists. The states were required to screen and quarantine people, if needed. On May 4, the government allowed graded relaxations in some economic activities in the orange and the red zones.

MAY 22
China unveiled a RMB 3.6bn fiscal package to mitigate the COVID-19 impact.

MAY 25
India restarted domestic flights.

JUN 24
Schools in Malaysia started gradually reopening.

JUN 26
Argentina tightened restrictions on mobility in Buenos Aires and the surrounding areas. The lockdown loosened on July 17.

JUL 7
Brazilian president Jair Bolsonaro was diagnosed with COVID-19.

JUL 16
Jakarta's governor extended the large-scale social restriction in the city until the end of July.

JUL 21
China required negative COVID-19 tests for all incoming passengers.

01

China

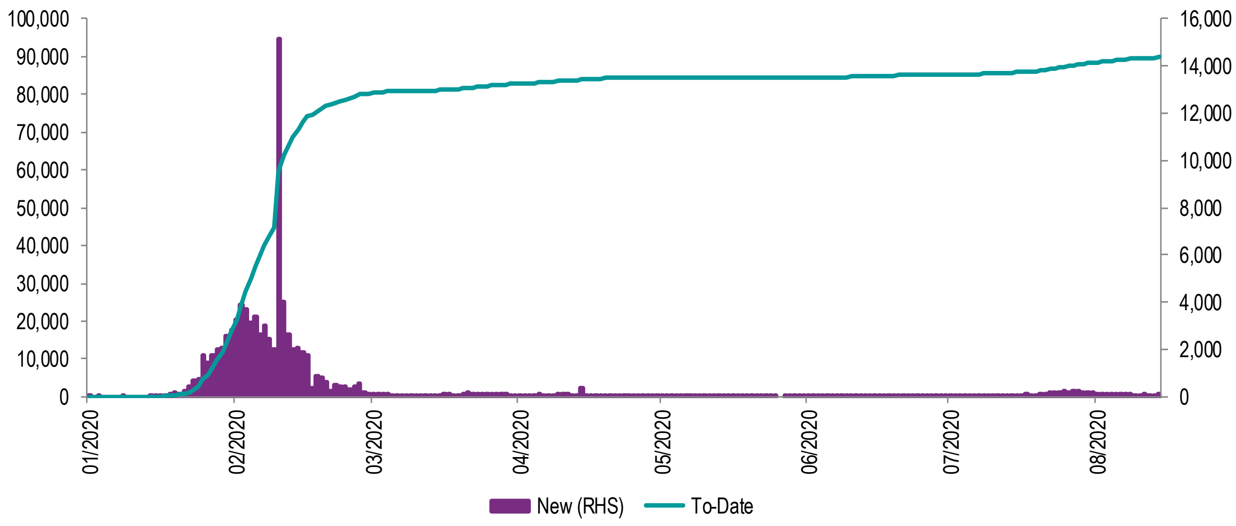
April Li
Research Analyst

The COVID-19 outbreak hit China in late 2019 and was declared a public health emergency almost two months later. The initial efforts to contain the spread of the virus in Wuhan, the capital of Hubei province, included imposing a strict lockdown, building makeshift hospitals, and mobilizing medical personnel from across the country to Hubei province. Meanwhile, medical supplies such as infrared thermometers, diagnostic kits, respirators, and protective suits flooded into Hubei, as authorities announced a resource allocation plan focused on the epicentre of the COVID-19 outbreak. Other regions of China implemented strict quarantines to curb people movement. The lockdown of Wuhan caught the city unprepared, as it was faced with shortages of medical supplies and staple goods. However,the situation improved after 42,600 medical workers entered Wuhan and the surrounding cities, and national and international donations started coming in.

With the peak of the COVID-19 epidemic already behind it, China's economy has been gradually returning back to normal since mid-February, albeit with significant caution. As of March 25, 98.7% of the manufacturing companies and 96.6% of the large and medium-sized enterprises have resumed production. This has allowed the government to shift its focus from short-term and interim issues to longer-term goals.

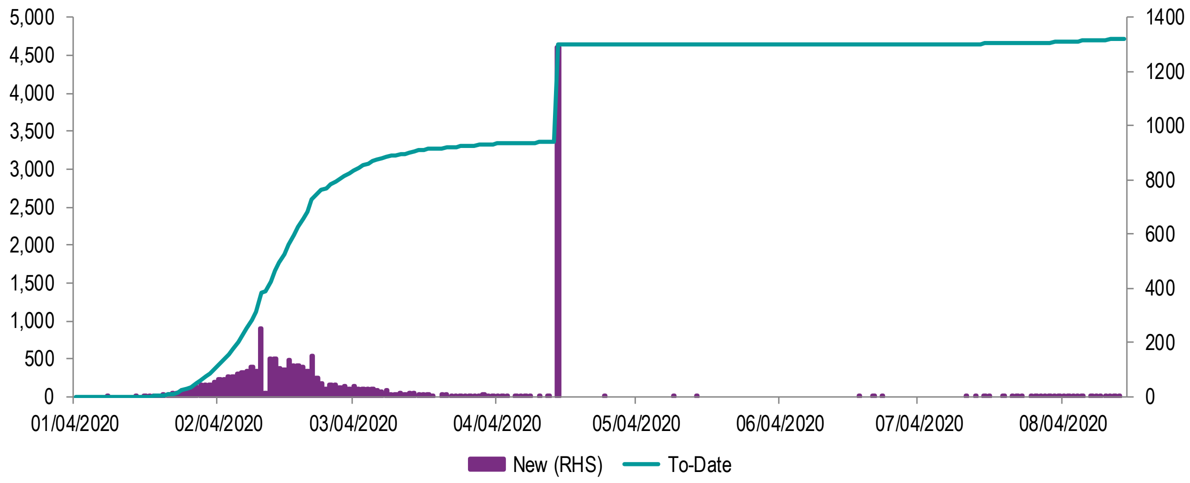
However, the resurgence of infections remains a cause for concern for China's authorities, especially taking into account the early June outbreak in Beijing's wholesale food market and the mid-July outbreak in Urumqi, which triggered nationwide panic. Social distancing is still recommended and masks are required in some public places such as hospitals or train stations. Overall, COVID-19 prevention measures still apply, although less strict than what they were a couple of months ago.

Confirmed COVID-19 Cases, China



Source: CEIC Data, WHO

COVID-19 Related Deaths, China



Source: CEIC Data, WHO

China's plan to combat COVID-19 was straightforward: restrain population mobility nationwide, lock down the most affected cities, cancel mass gatherings, and introduce health surveillance in public places. Over 10,000 hospitals were designated to accept only COVID-19 cases, and the number does not include the 16 newly built makeshift hospitals that treated 12,000 spill-over COVID-19 patients from other medical institutions.

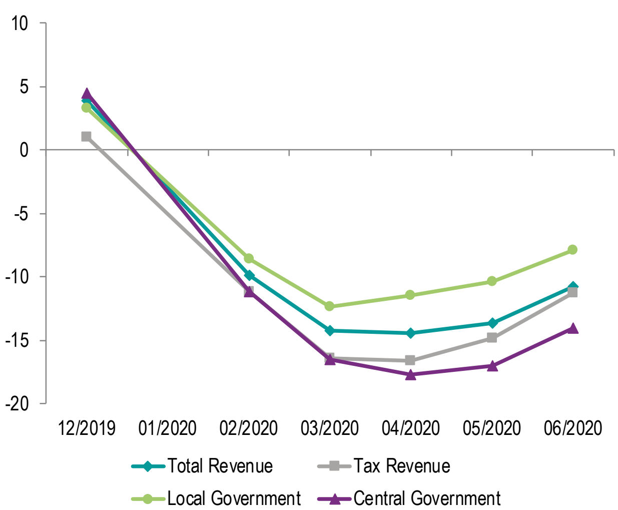
The finance ministry allocated RMB 162.4bn to prepay COVID-19 related medical costs. To further ease the finical burden on COVID-19 patients and their families, special reimbursement rules were introduced. The authorities covered for people with severe COVID-19 complications, who could not afford to pay the high treatment costs. Vulnerable population groups such as senior citizens, children and pregnant women received special care. The leading principle of the healthcare system was "one person, one treatment" based on each patient's individual health condition.

On July 28, the National Healthcare Security Administration announced statistics to July 19, showing that there were 135,500 medical insurance settlements for confirmed and suspected patients with COVID-19 across the country, involving medical expenses of RMB 1.8bn. Medical insurance paid out RMB 1.2bn, or 67% of total payment, and patients covered the remaining 33%.

This pandemic crisis set alarm bells ringing for China's public healthcare system. The government has indicated that investment in the system will have to be increased in order to improve healthcare technologies and capacity. The Internet of Medical Things (IoMT) is seen as a means to bridge the gap between the increasing demand for high-quality medical services and the uneven distribution of medical resources. On the individual level, the per capita annual government subsidy for rural and urban residents' medical insurance is expected to increase by RMB 30, raising the subsidy threshold to RMB 550.

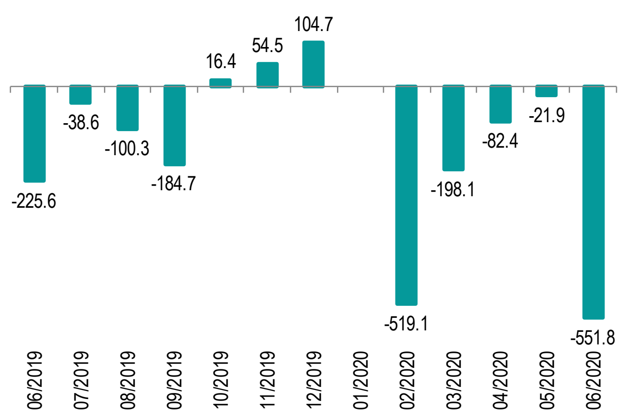
Package	Details
Front-line medical workers subsidy and income tax exemption	Eligible: Front-line medical workers in Hubei province, including dispatched medical teams from other regions. Wage doubled during the outbreak. Any subsidies, bonus or in-kind supports are tax-exempt and depend on the specific province and on the risk exposure.
Allowance on delayed social security payments	Eligible: Employees affected by COVID-19 can delay their payment to the Housing Provident Fund. (Housing Provident Fund is a type of social security fund that contributes to housing debt repayment). The employer can postpone social security payments for up to six months.
Micro, small and medium size enterprises loans	Eligible: Micro, small and medium size businesses that are affected by COVID-19 receive special support like extension of the loan repayment period.
Subsidized loans to COVID-19 related resource manufacturers	Eligible: Manufacturers of infrared thermometers, disinfectants, negative pressure ambulances, diagnostic kits, protective suits, facemasks, goggles, medicines, along with manufacturers of related raw materials and transportation companies in charge of transporting resources.
VAT exemption for seriously affected industries	The carry forward period for enterprises that suffered extreme loss was extended from five to eight years. VAT exemptions were introduced for transportation, accommodation, and catering trade
Transfer payments to local government and special central government bonds	Transfer payments from central to local government to ensure the operation of the public healthcare system, stable employment and government directed investment. As of March 20, the total transfer payments to local governments amounted to RMB 6.2tn, RMB 1.26tn more compared to the same period last year. As of July 24, four rounds of special government bonds were issued, worth RMB 1tn in total.

Government Revenue, China, % y/y change



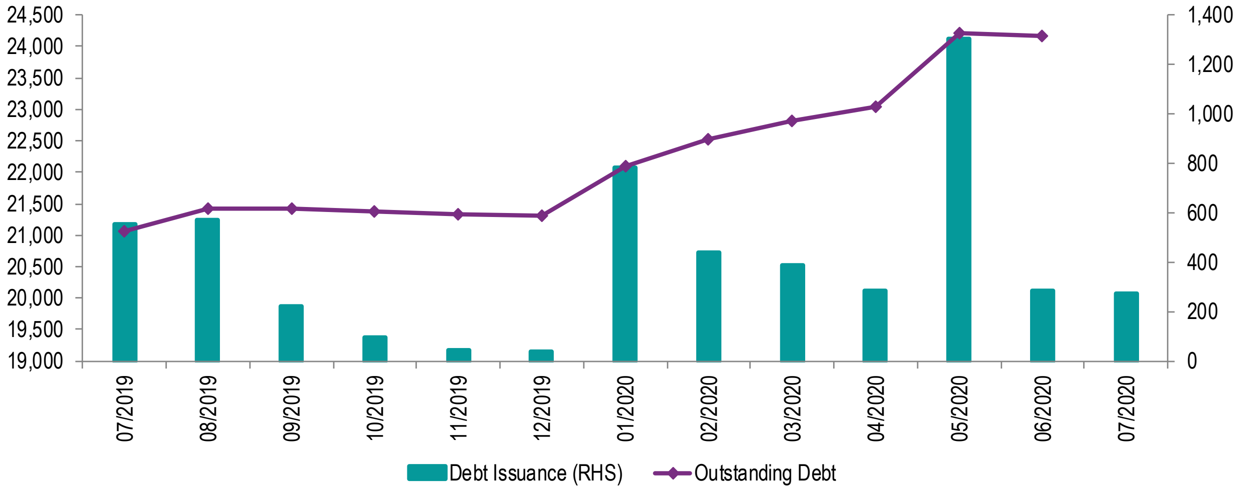
Source: CEIC Data, Ministry of Finance

Government Fund Balance, China, RMB bn



Source: CEIC Data, Ministry of Finance

Local Government Debt, China, RMB bn



Source: CEIC Data, Ministry of Finance

Real GDP contracted by 6.8% y/y in Q1 after being hit hard by the COVID-19 outbreak and rebounded to a growth of 3.2% y/y in Q2 as the pandemic has largely been put under control. The tertiary industry is deeply affected by the strict lockdown measures: its contribution to GDP growth plunged from 55% in December 2019 to 32.7% in June 2020. In sharp contrast to the tertiary industry, the secondary industry has gained a massive growth momentum and its GDP contribution rose to 60.8% compared to 39.2% in December 2019. The primary industry, although also affected, remains stable. Since agriculture is the very foundation of a country's stability, President Xi Jinping has stressed the importance of spring planting amid the pandemic to ensure adequate food supply.

According to the National Bureau of Statistics, the mining, manufacturing, and energy (including electricity, heat, gas, and water) sectors posted growths of 1.1%, 5.1%, and 3.2%, respectively, in Q2 2020. The equipment manufacturing industry experienced robust growth that boosted industrial production. Among all subcategories, the automobile industry was the best performer: changes in environmental protection standards, subsidies for car purchases, and accelerated infrastructure construction were all favourable external factors. In June, automobile production output growth accelerated to 13.4% y/y, a record high for the past two years. While COVID-19 keeps spreading around the globe, China resumed production and is meeting the demand for pharmaceuticals and electronics overseas. In Q2 2020 the value of pharmaceutical exports alone rose by 52.3% y/y. Although the consumer goods industry has yet to recover to the levels of Q2 2020, it improved significantly, growing by 8.3% from Q1. The registered unemployment rate peaked on February 20 at 6.2%, and gradually dwindled to 5.7% in June. The Purchasing Managers' Index (PMI), published by Caixin/IHS Markit, shows that production is back to pre-coronavirus levels.

In its June 2020 World Economic Outlook report, the IMF projects that the world's GDP would slump by 4.9% in 2020 amid this unprecedented lockdown, however, emerging markets and developing economies will suffer 3% drops in real GDP compared to 8% declines for advanced economies. China's economy will outperform the world average and is expected to grow by 1% in 2020. Fiscal packages do indeed boost recovery, but inevitably lead to government deficits. The IMF estimated that the overall government deficit would reach 12.1% of GDP.

Given that major economies such as the US, India, Brazil, and some European countries have not yet put the COVID-19 outbreak under control, the global economic outlook is unclear. External disturbances such as the recently escalated China-US trade conflicts may prove challenging to China's exports.

This pandemic crisis set alarm bells ringing for China's public healthcare system. The government has indicated that investment in the system will have to be increased in order to improve healthcare technologies and capacity

02

India

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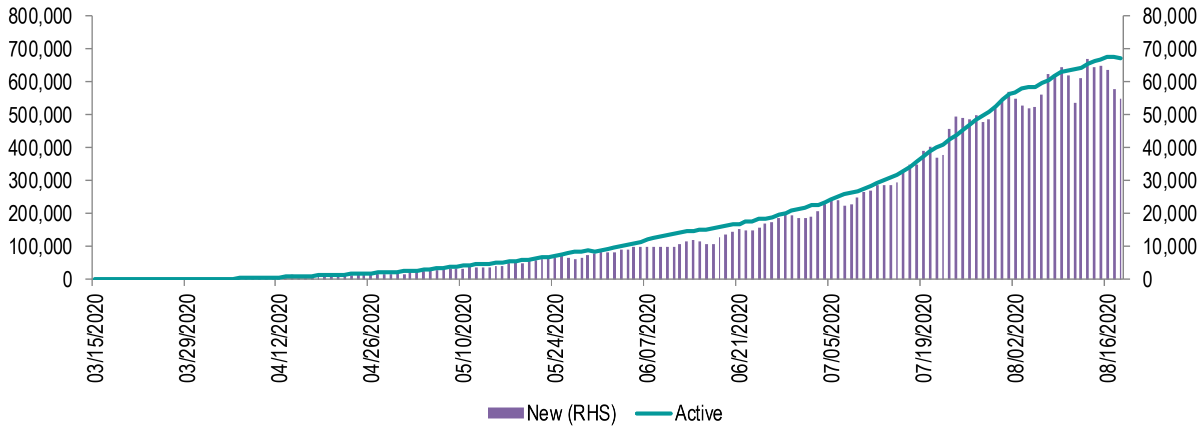
India

The COVID-19 pandemic has had a devastating effect on economies across the world and India is no exception. The cases in India started escalating at an alarming rate in mid-March, which led the government to instate a pre-emptive 40-day complete lockdown. Despite these measures, India's confirmed cases exceeded 2mn in early August. While the lockdown was successful in flattening the COVID-19 curve and in relieving the burden on healthcare system, it effectively paralyzed India's already slowing economy. During the lockdown, only essential activities such as healthcare, pharmacies, and groceries were allowed to operate. The economy suffered both demand and supply shocks and the financial system was hit hard too. During the strict lockdown between March 25 and May 3, the Indian government focused on policy changes to ease the stress on the economy by boosting public expenditure. From May 3 onwards, the state governments were made responsible for handling the disease outbreak, under the guidance of the central government. The lockdown measures were eased step by step, balancing between the spread of the disease and the loss of livelihoods.

COVID-19 Cases, India



Source: CEIC Data, Ministry of Health and Family Welfare

Alongside the announcement of the lockdown on March 24, 2020, Prime Minister Narendra Modi committed INR 150bn as emergency healthcare response to limit the spread of the disease. Over the short run, the package is aimed at developing diagnostics and COVID-19 treatment facilities, providing protective gear to medical professionals, procuring essential medical equipment and drugs for the treatment of infected patients. The scope of the package was widened to strengthen the overall healthcare sector through supporting prevention and preparedness for future disease outbreaks; setting up laboratories and bolstering surveillance activities, bio-security preparedness, and pandemic research; and proactively engaging communities and conducting risk communication activities.

On the same day, another set of short-term measures was announced by the Ministry of Finance. In order to boost demand, the government extended the deadline to file income tax and goods and services tax returns, lowered the tax deducted at source (TDS), ntroduced a 24/7 customs clearance, and waived the minimum balance maintenance fee in banks.

Businesses, especially the micro, small and medium enterprises (MSMEs), were provided with additional relaxations, such as raising the threshold for defaults on liabilities under the Insolvency and Bankruptcy Code 2016 from INR 100,000 to INR 10mn. The revenue loss from this reform is estimated to be INR 78bn. In addition, the loss from lowering TDS and TCS (tax collected at source) rates has been factored in at INR 500bn.

However, the major set of relief measures came through a fiscal stimulus on March 26, 2020, under the INR 1.7tn Pradhan Mantri Garib Kalyan Yojana Scheme. This was largely aimed at addressing the short-term challenges posed by the pandemic, both in terms of demand and protection of lives. The stimulus was a mixture of measures such as insurance cover of INR 5mn per healthcare worker, food supplies for 800mn poor individuals for three months from the date of lockdown, and direct transfer of INR 500 to 200mn women account holders under the Pradhan Mantri Jan-Dhan Yojana, a national mission for financial inclusion. Furthermore, wages were increased under the Mahatma Gandhi National Rural Employment Guarantee Scheme (MNREGS) to INR 202 per day from INR 182.

The Reserve Bank of India (RBI) released a separate set of relief measures on March 27, 2020, alongside the monetary policy, primarily for the financial and business sector, including lowering the cash reserve ratio, conducting long-term repo operations, and increasing the marginal standing facility under which banks can borrow overnight. The RBI also allowed a three-month moratorium on term loans along with changes in asset classification norms, which helped businesses retain their creditworthiness while staying out of banks' non-performing asset lists. Furthermore, RBI's accommodative stance allowed for a sharp decrease in the policy rate by 115 bps.

On May 12, India's Prime Minister Modi announced a fiscal stimulus package worth INR 20tn, roughly around 10% of India's GDP. This was inclusive of the stimulus from the previous announcement in March, essentially making the second package worth INR 18.3tn. The announcement was accompanied by two major missions - the need for a self-reliant India or Atmanirbhar Bharat, and Vocal for Local, urging the citizens to support local businesses instead of imported products. Out of the total fiscal stimulus, the largest portion was dedicated to RBI's measures amounting to INR 8tn, or approximately 40%. Liquidity was a great concern for the financial sector, and hence, to supplement the RBI measures the government introduced a special liquidity scheme of INR 300bn to the shadow banking sector comprising of Non-Bank Financial Institutions (NBFIs), Housing Finance Companies (HFCs), Micro Finance Institutions (MFIs), and mutual funds. Furthermore, the sector also stands to benefit from the INR 450bn partial credit guarantee scheme to cover borrowings such as bonds and commercial papers.

In this second round of stimulus, the focus of the government was more on strengthening the supply side, which would in turn help generate employment, and subsequently, demand. Therefore, the goal was to revive businesses, and in particular MSMEs, with a total stimulus of INR 5.94tn. Under this, collateral free automatic loans worth INR 3tn have been made accessible to businesses. In addition, affected MSMEs would also be eligible for subordinate debt, for which INR 200bn has been earmarked. Finally, MSMEs with growth potential and viability that are facing severe shortage of equity would stand to benefit from a separate fund of INR 500bn. A separate liquidity injection of INR 900bn was also made for power distribution companies since they were riddled with unprecedented cash flow problems worsened by demand reduction. The real estate sector has also been adversely impacted as a result of COVID-19, and hence, the projects are at risk of defaulting their Real Estate Regulatory and Development Act (RERA) timelines. To tackle this, the government has provided a substantial extension to all real estate companies.

> During the strict lockdown between march 25 and may 3, the indian government focused on policy changes to ease the stress on the economy by boosting public expenditure

Agriculture and allied activities remain an important work generator in India, and the sector was provided a stimulus of INR 3.8tn. The main highlight in the series of measures was the allocation of INR 2tn in concessional credit through credit cards to farmers, fishermen and animal husbandry farmers, under the PM-KISAN scheme. The government of India has also pledged INR 1tn in support of agricultural infrastructure. Currently, there are no adequate cold chain facilities or post-harvest management infrastructure in the vicinity of the farms, which causes gaps in value chains. An additional emergency working capital funding for INR 300bn has been extended for small and marginal farmers through the National Bank for Agriculture and Rural Development. A total INR 200bn were allocated for integrated development of marine and inland fisheries under the Pradhan Mantri Matsya Sampada Yojana scheme. Another INR 100bn will be extended through the Animal Husbandry Infrastructure Development Fund to boost private investment in dairy processing and cattle feed.

Besides these, there is also focus on formalization of Micro Food Enterprises under the Vocal for Local mission, and the government has committed INR 100bn to this.

India has a large informal economy, with approximately 80% of the working population engaged in non-formal work, such as household help or working at small roadside establishments. Many workers are daily wage labourers who have no source of income other than their day jobs. These people were severely affected by the lockdown measures. Hence, a considerable amount of funding has been dedicated to the protection of the lives and dignity of the poor, including those of migrant workers. Many of the measures were already underway from the first stimulus announcement in March, but some of the key reforms introduced under the second stimulus package were INR 700bn for provision of affordable housing to the middle-income group, a INR 50bn special credit facility for street vendors with monetary incentives for using digital payments, INR 35bn worth of free food grains to migrant workers, and INR 15bn worth of interest subvention for small businesses borrowing under the MUDRA-Shishu microfinancing facility.

The pandemic has highlighted the need for strong social infrastructure and the government has committed a total outlay of INR 81bn to develop such infrastructure.

The disease outbreak and the subsequent lockdown have raised unemployment, which has resulted in demand slowing down more sharply than it did prior to COVID-19. In an attempt to increase employment and boost rural demand, an additional INR 400bn have been allocated under MNREGS. The government has also reduced the provident fund contribution from employers and employees, to support both business production and disposable income, although the benefits of this policy will be applicable only to formal channels of work. In addition, income tax refunds of up to INR 500,000 have been issued to help increase disposable income.

India was in dire need of policy reforms even before COVID-19 hit the country, due to the slowing economic growth. The pandemic has urged the adoption of pending reforms to jump start the economy post lockdown. The fiscal stimulus was kicked off with a major push to reform MSMEs. The government revised the definition of MSMEs by increasing the investment limit and introducing turnover criteria for each type of enterprise – micro, small and medium. This would not only help many large firms that were earlier too big for being considered an MSME enjoy the benefits, but also help the enterprises grow from micro to medium. Furthermore, the government would end the distinction between the manufacturing and the services sectors, and ban non-Indian companies from competing in tenders of up to INR 2bn, in line with the self-reliant India mission.

There is also an active move towards improving the ease of doing business to help India climb up from its current rank of 63, as per the World Bank's Ease of Doing Business Index 2019. Certain corporate laws had already been amended prior to the pandemic to make India lucrative for business, but the government is now looking at the next phase of reforms consisting of easy registration of property, fast resolution of commercial disputes, and a simpler tax regime.

The amendment to the Essential Commodities Act would help farmers get better prices for their produce categorized as cereals, edible oils, oilseeds, pulses, onions and potatoes. Further, the government has proposed other marketing reforms such as free inter-state trade, and even a framework for e-trading of agricultural produce.

Some long awaited reforms in labour laws were introduced that include universalization of minimum wages to all labourers, national floor wage to reduce disparity across states, greater formalization of work, focus on occupational safety and health of employees engaged in jobs of hazardous nature, social security and annual health checks. Additional rules for protection of migrant workers have been introduced such as portability of welfare benefits, and extension of Employees' State Insurance Corporation (ESIC) coverage to include all of India. Most importantly, there is a renewed interest in skill development for workers with the introduction of reskilling fund for retrenched employees, and skill mapping to provide migrant workers with jobs in their native villages.

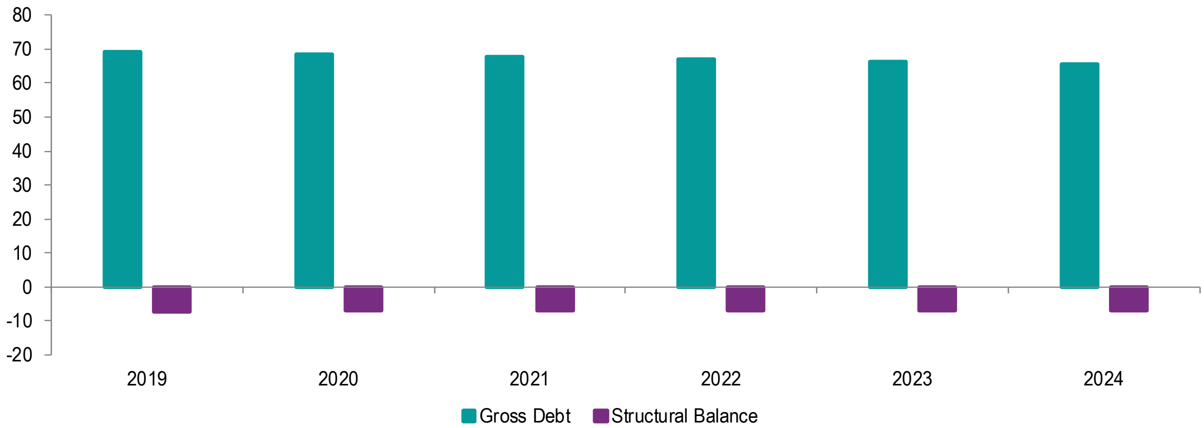
On board the self-reliance mission, the government is aiming to develop several industries to cater to internal demand with the help of greater private participation, such as mining of minerals and coal, defence equipment, atomic energy and space exploration. In defence production, the FDI limit under automatic route will be raised from 49% to 74%. In the mining and minerals category, the distinction between captive and non-captive mines has been removed, and entry norms for the coal sector have been eased to encourage greater private participation. India is also preparing to become a global hub for aircraft maintenance, repair and overhaul (MRO), by rationalizing its tax regime. In addition, the MROs will serve both defence and civil sectors, and will create economies of scale.

The healthcare and education sectors have been brought back to the forefront in the wake of COVID-19. In India, the urban and semi-urban schools were able to quickly switch to online lessons, thanks to technology and digital penetration. However, digital penetration in rural areas is still insufficient, and on top of that, lack of smartphones amongst the poorer strata make online classes a challenge. Therefore, the government has launched direct-to-home (DTH) channels called Swayam Pradha to reach those who do not have internet access.

The fiscal stimulus and the RBI measures seem to have softened the COVID-19 and the lockdown impact to some extent. Many economic indicators are showing signs of recovery, such as automobile sales, industrial production index, and the major equity indices - the Bombay Stock Exchange Sensex and the National Stock Exchange NIFTY 50. However, as much as the fiscal stimulus was necessary, it will exert upward pressure on the fiscal deficit of the country. There has already been ample debate about the fiscal pressure that India has been under, even prior to the pandemic.

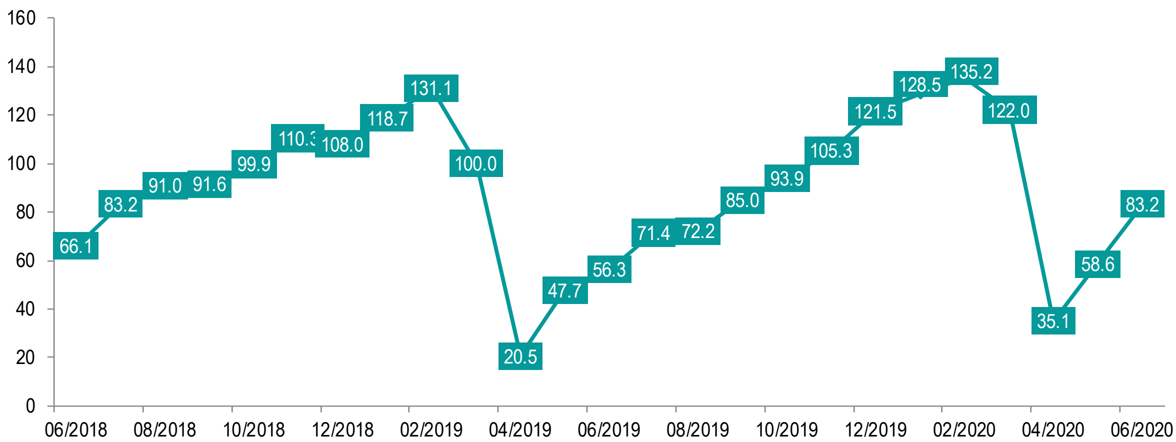
The deficit target of 3% by March 2020, as set by the Fiscal Responsibility and Budget Management (FRBM) Act, has been effectively breached as a result of the massive fiscal stimulus. The fiscal deficit is currently at 83.2% of the budgeted deficit for the year. The first round of fiscal stimulus at the end of March has pushed the fiscal deficit for FY2020 (ending on March 31, 2020) to 4.6% of GDP. For the fiscal year ending March 2021, the government is likely to fall short of the budgeted tax collections due to the severe damage to economy. However, a fiscal stimulus was required to mitigate the adverse impact of COVID-19. Despite the USD 1bn aid from the World Bank, and the setting up of a crowd fund called Prime Minister's Citizens Assistance and Relief in Emergency Situations Fund, the government will need to borrow heavily to finance the additional expenditure. While this can cause government yields to move up and negatively impact the cost of borrowing for companies, responsive action by the RBI, such as purchasing government securities, has increased the government bond prices and lowered the yield, keeping the cost of borrowing in check. However, the Indian government's major challenge will be to conduct a balancing act between austerity measures to reduce fiscal deficit and increasing public expenditure to support the economy.

Central Government Debt and Structural Balance, India, % of GDP



Source: CEIC Data, IMF

Fiscal Deficit, India, ytd as % of budgeted



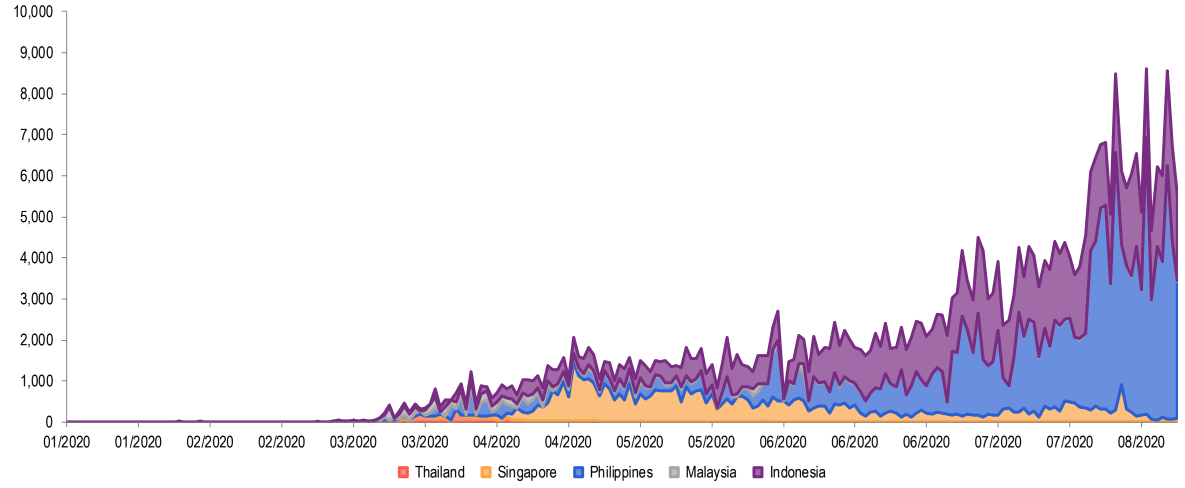
Source: CEIC Data, Comptroller General of Accounts, Ministry of Finance

03

ASEAN

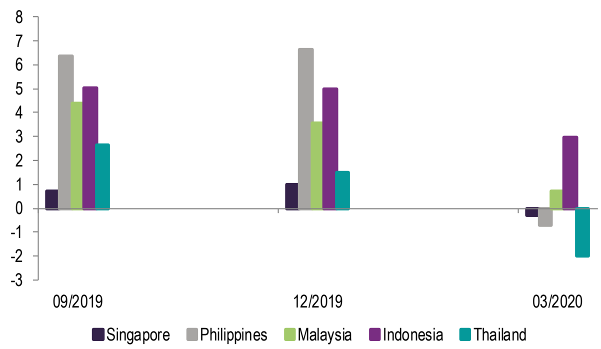
Beatrice Tanjangco
Research Analyst
ASEAN

ASEAN- 5 Epidemic Curve



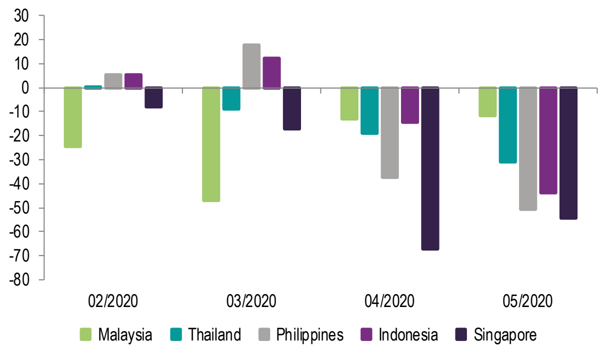
Source: CEIC Data, WHO

Real GDP, ASEAN, % y/y change



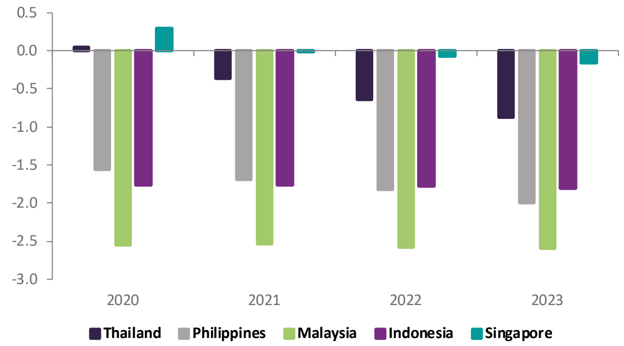
Source: CEIC Data

Government Revenue, ASEAN, % y/y change



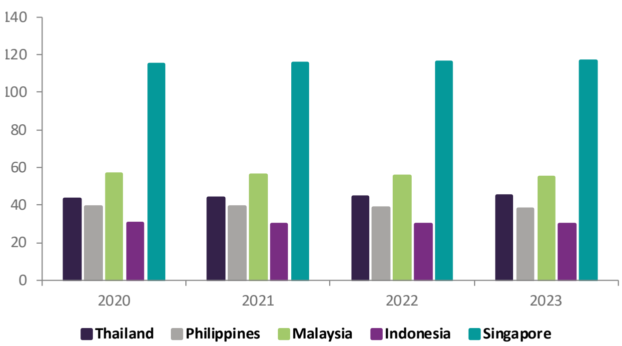
Source: CEIC Data

General Government Structural Balance, ASEAN, % of GDP



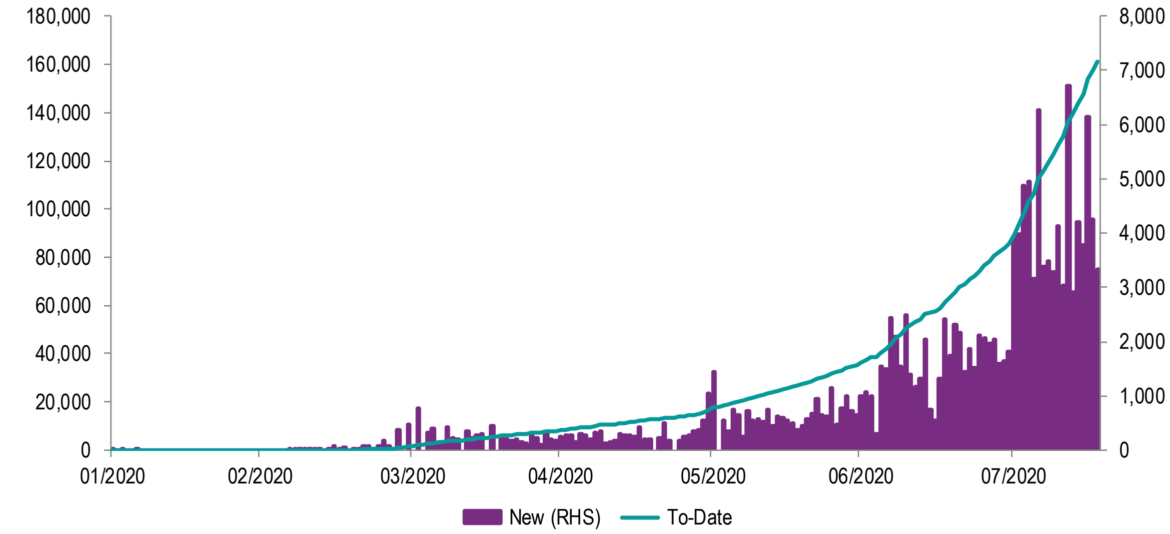
Source: CEIC Data, IMF

General Government Gross Debt, ASEAN, % of GDP



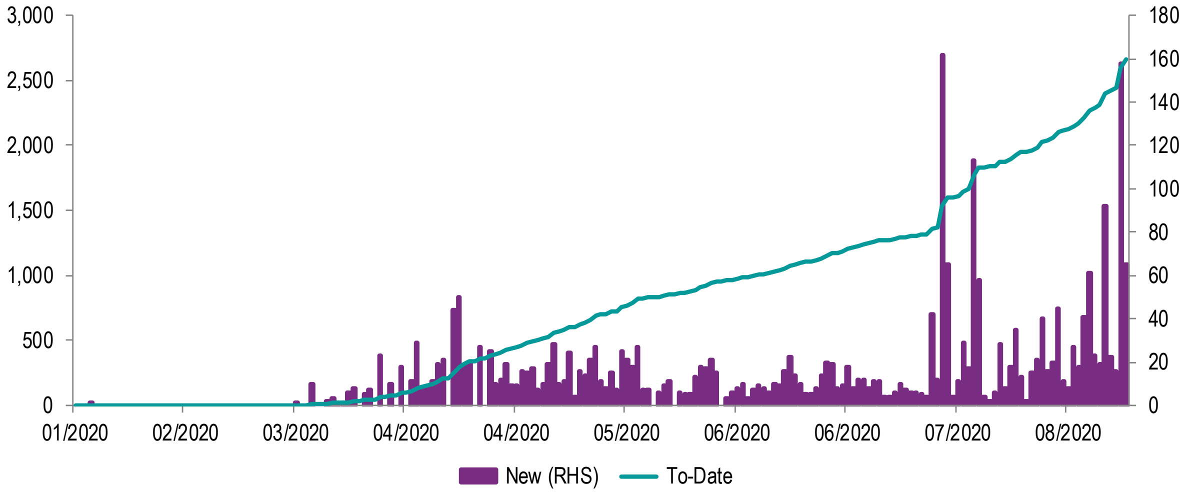
Source: CEIC Data, IMF

Confirmed COVID-19 Cases, Philippines



Source: CEIC Data, WHO

COVID-19 Related Deaths, Philippines



Source: CEIC Data, WHO

Philippines

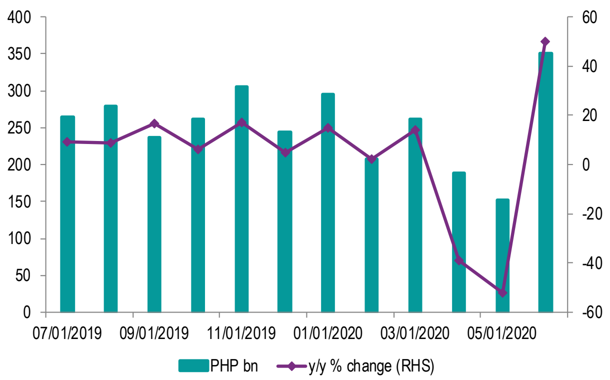
The Philippine government's response to the pandemic is based on four pillars. A total of PHP 595.6bn were allotted under Pillar 1 (emergency support for vulnerable groups), while around PHP 58.6bn were allocated for Pillar 2 (resources to fight COVID-19). Pillar 3 (fiscal and monetary actions) includes a PHP 436.9bn injection in Official Development Assistance and PHP 119.4bn worth of 10-year and 25-year global bonds sold by the Bureau of the Treasury to help the COVID-19 response. As of the beginning of July, Pillar 4 has yet to be fleshed out but it will be largely funded by Pillar 3. It is this last pillar that focuses on long term economic recovery, intending to create jobs and make growth sustainable.

The Development Budget Coordination Committee (DBCC) forecast for 2020, as of May 27, was a fiscal deficit of 8.4% of GDP, significantly wider than the 3.4% recorded in 2019 and above the fiscal cap of 3%. DBCC expects revenues to fall by 16.7% and disbursements to increase by 11.3% in 2020 compared to 2019. The deficit is to remain wider than anticipated in 2021 and 2022 at 6.6% and 5%, respectively, with revenues only returning to 2019 levels in 2022.

Revenue was down 39.17% y/y in April and 52.25% y/y in May 2020 to just PHP 187,776mn and PHP 151,493mn, respectively. Expenditures, on the other hand, rose by 108.14% y/y in April 2020 and by 12.38% in May to PHP 461.7bn and PHP 353.6bn, respectively. The declines in tax and customs revenue were particularly strong on the back of postponed tax collection date and sluggish global trade.

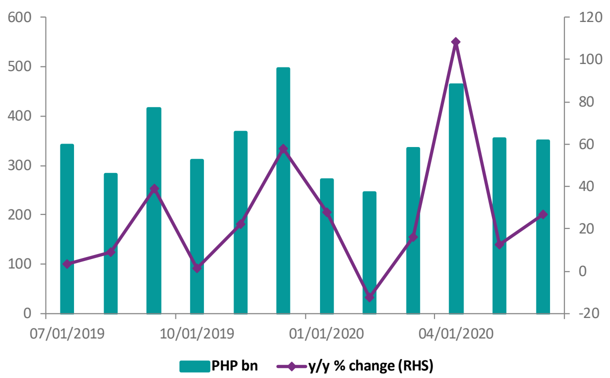
With economic pressures mounting, the country has slowly started to ease restrictions. In Metro Manila, the measures were eased from a modified enhanced community quarantine in May to a general community quarantine in June. The next step would be to shift more of the country towards a modified general community quarantine, which is the last step before shifting to the new normal phase.

Government Revenue, Philippines



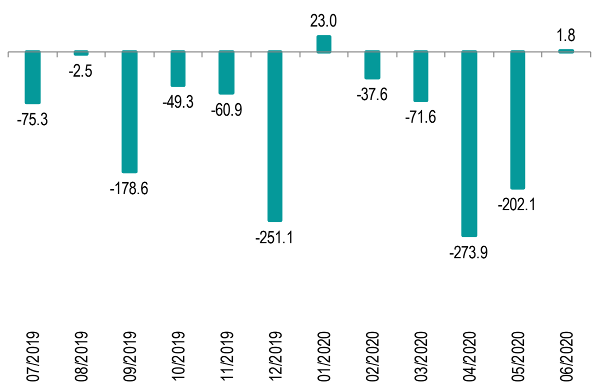
Source: CEIC Data, Bureau of the Treasury

Government Expenditure, Philippines



Source: CEIC Data, Bureau of the Treasury

Fiscal Balance, Philippines, PHP bn

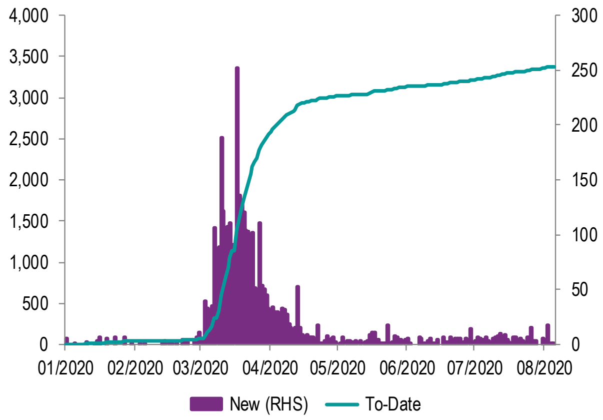


Source: CEIC Data, Bureau of the Treasury

จินฮั้วเฮง
振和興大金行
TAXI
สก 6226
กรุงเทพมหานคร

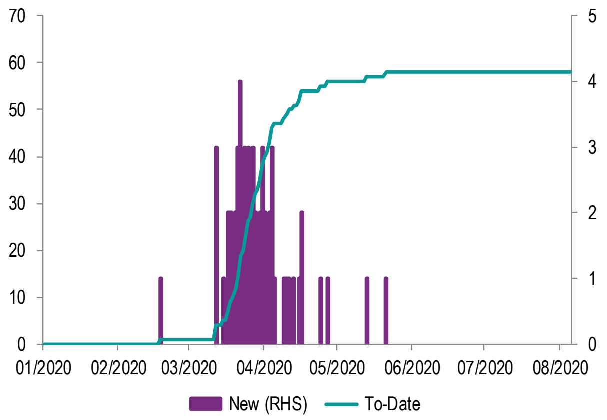
Thailand

Confirmed COVID - 19 Cases, Thailand



Source: CEIC Data, WHO

COVID - 19 Confirmed Deaths, Thailand



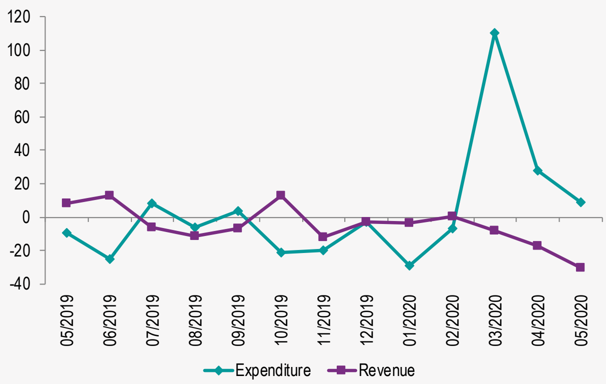
Source: CEIC Data, WHO

The government's initial fiscal response was to launch a stimulus package distributed in three phases. The first and second phases were slated for March 10 and March 24, respectively. The injection of cash from the first two packages was worth THB 461.1bn (2.8% of GDP). The packages included provisions for soft loans (THB 252bn or 1.5% of GDP), cash transfers and expenditure reduction (THB 128bn or 0.8% of GDP), tax deductions (THB 84.1bn or 0.5% of GDP), and tax deferrals and other government expenditures. This should help cushion the lackadaisical private consumption and investment. The third phase was approved on April 7 and is valued at THB 1.9tn, with THB1tn to provide financial aid for households, such as farmers and temporary workers, THB 500bn to provide financial support to SMEs so commercial banks can provide accessible loans, and THB 400bn to help stabilize the financial market, ensuring there is ample liquidity.

These additional expenditures will be paired with falling revenues, adding pressure on the government budget. The revenue department granted an extension for filing taxes, moving the deadline to August 31 from March 31. People were also advised to file their taxes from home. Statistics show revenue collections from January 2020 have consistently fallen below forecasts. Revenue for March stood at THB 199.25bn, a 7.89% decrease y/y. Expenditures, on the other hand, rose by 110.1% y/y for March 2020, amounting to THB 473.02bn. With these added pressures, the World Bank expects the fiscal deficit to go up to 1.9% of GDP in 2020, wider than the estimated 1.9% of GDP in 2019.

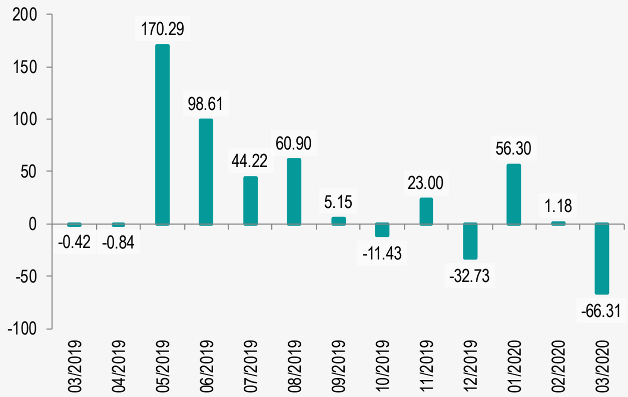
Fiscal Package	Date	Value	General Focus Area
Phase 1	4 March 2020	TBH 100bn (USD 3.2bn)	Financial assistance to small and medium-sized (SMEs) businesses as well as tax relief.
Phase 2	24 March 2020	TBH 117bn (USD 3.56bn)	Enhancing the inducements provided in Phase 1 in addition to extending the filing of tax returns for businesses and employees.
Phase 3	7 April 2020	TBH 1.9tn (USD 58bn)	Easing the economic consequences caused by the COVID-19 outbreak

Government Revenue and Expenditure, Thailand, % y/y change



Source: CEIC Data, Fiscal Policy Office

Government Net Operating Balance, Thailand, THB bn



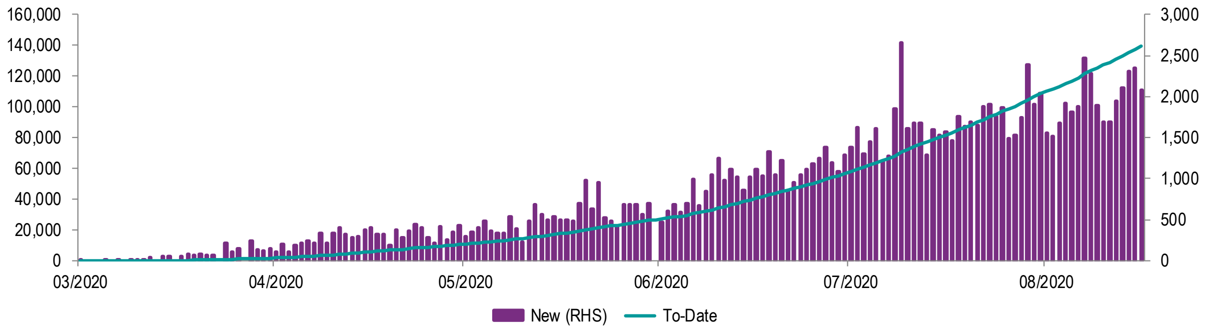
Source: CEIC Data, Fiscal Policy Office

Indonesia

The number of confirmed positive COVID-19 cases in Indonesia reached 88,214 as of July 21, 2020, with new confirmed cases staying over 1,000 since end-June. The death cases have been accelerating too. Amid this steady rise of new cases, the country has been enforcing large scale social restrictions. Since April 10, 2020, measures that include closures of schools and workplaces, restrictions on religious activities, public gatherings, social and cultural events, and limitations on the capacity of private and public modes of transportation and the types of goods that can be transported, among others, were imposed. This has consequently dampened economic activity, mounting pressures on an economy largely dependent on domestic demand.

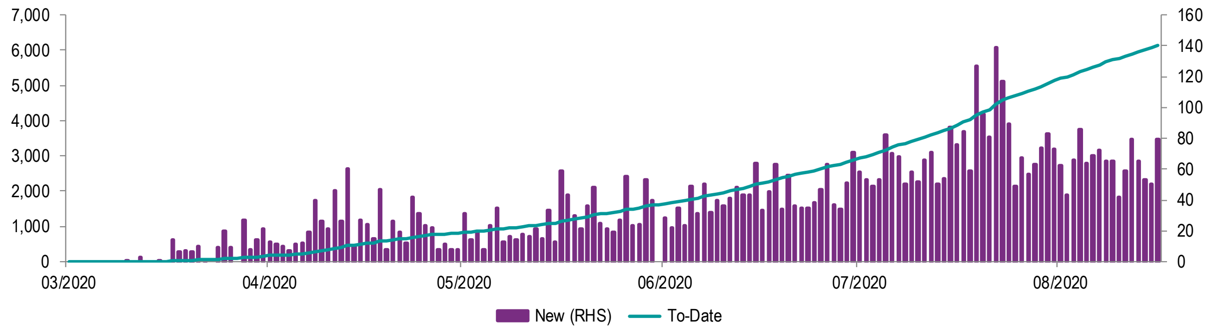
To cushion the impact on the economy and the financial system, as well as to support the healthcare response to the outbreak, the Indonesian government budgeted an additional IDR 405.1tn. Of this budget, IDR 150tn were allotted for the national economic recovery plan, IDR 75tn for the healthcare sector, IDR 110tn for the social safety net programme, and IDR 70.1tn for tax incentives and aid to small businesses.

Confirmed COVID - 19 Cases, Indonesia



Source: CEIC Data, WHO

COVID - 19 Confirmed Deaths, Indonesia



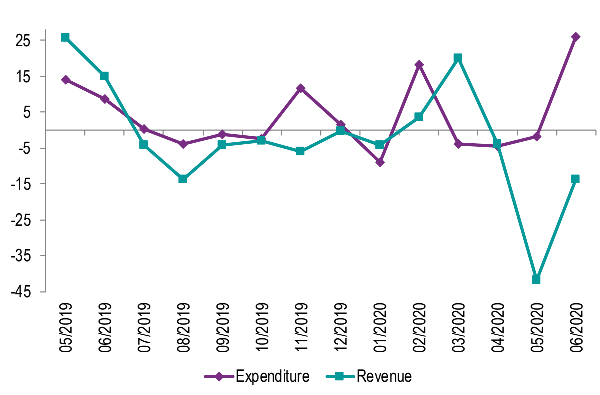
Source: CEIC Data, WHO

Given these extraordinary expenditures and circumstances, the Indonesian government removed its budget deficit cap of 3% of GDP for the next three fiscal years (2020, 2021, and 2022). The government revenue expectations for 2020 have been adjusted to 78.9% of the initial target or just IDR 1,760.9tn. And this shortfall will ultimately be met with higher spending. According to finance minister Sri Mulyani Indrawati, the budget deficit is expected to reach 6.34% thanks to the national economic recovery programme. The programme is expected to allocate IDR 123tn in tax incentives for micro, small and medium enterprises and the business community, building in relief from the corporate income tax rate of 25% by gradually reducing it to 22% in 2021 and then finally to 20% by 2022. This will likely dampen revenue collections even further. To add, the package will also include interest subsidies for MSMEs amounting to IDR 34.15tn, funding support for banks, and providing working capital for crucial state-owned enterprises.

As of May 2020, the year-to-date fiscal balance of Indonesia posted a deficit of IDR 179.6tn, with government revenue at IDR 664.30tn and expenditures at IDR 843.9tn. Revenues are already 8.8% lower compared to 2019 and the deficit around IDR 52tn wider than in the previous year.

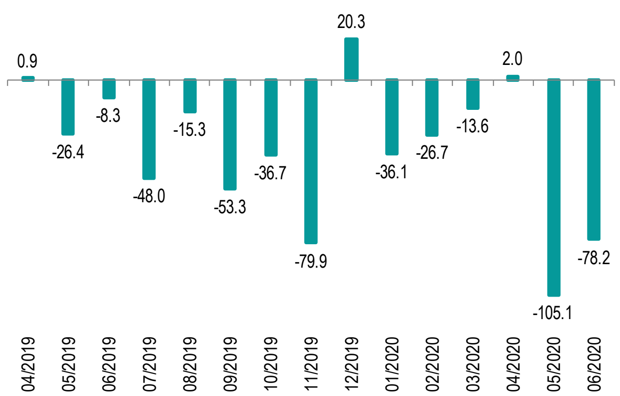
With economic pressures rising, the government announced a transitional period to start easing social distancing measures throughout June. This comes as President Joko Widodo told citizens "we must co-exist with COVID-19." Jakarta issued guidelines for this process, coming into effect June 4, 2020. They include the gradual re-opening of places of worship, outdoor sports facilities, offices, restaurants, factories, warehouses, non-food markets and shopping centres, and other establishments, at half-capacity. General protocols that instruct the public to wear a mask outside the home, keep a one-meter distance between people, and wash their hands regularly are a given. As an added precaution, there will be an emergency brake policy included, if a second wave of infections occurs and positive cases increase.

Government Revenue and Expenditure, Indonesia, % y/y change



Source: CEIC Data, Bank of Indonesia

Fiscal Balance, Indonesia, IDR bn



Source: CEIC Data, Directorate General of Treasury

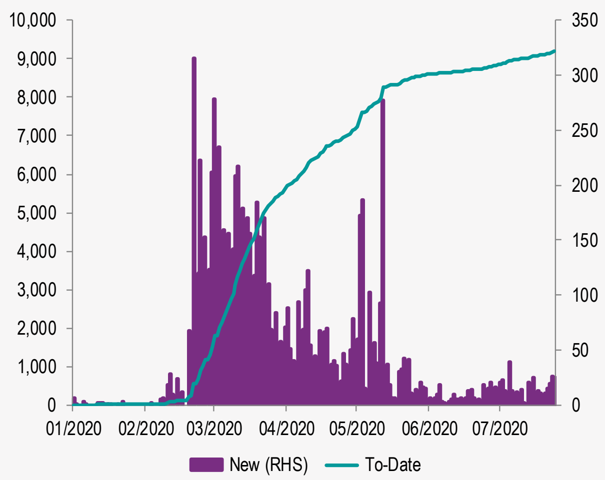
Malaysia

Confirmed COVID-19 cases in Malaysia reached 8,800 as of July 21, 2020. The incremental increase of new cases has fluctuated between double- and single-digit growth, but it has generally come down, with the last spike of 277 cases recorded on June 5.

In response to the spread of the virus, the government issued a movement control order (MCO) on March 18 and it was extended several times until the conditional movement control order (CMCO) was put in place from May 4 to June 9. It was then replaced by the recovery movement control order (RMCO) which is expected to last until August 31, 2020. In the RMCO, interstate travel is finally permitted and many business activities (social, educational, sports, recreation) are re-opened. This gradual opening comes as the first quarter of 2020 records its slowest pace of growth since 2009, a mere 0.7% y/y increase.

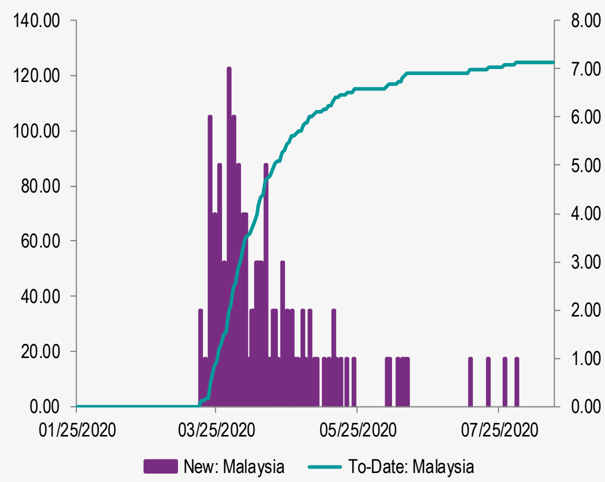
Malaysia's government approach to the crisis is focused around six stages - Resolve, Resilience, Restart, Recovery, Revitalize, and Reform

Confirmed COVID-19 Cases, Malaysia



Source: CEIC Data, WHO

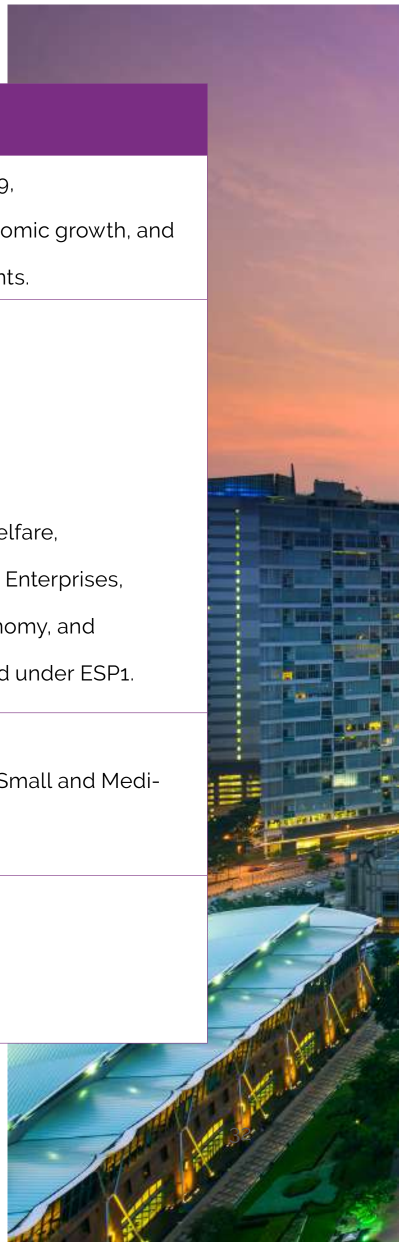
COVID-19 Related Deaths, Malaysia



Source: CEIC Data, WHO

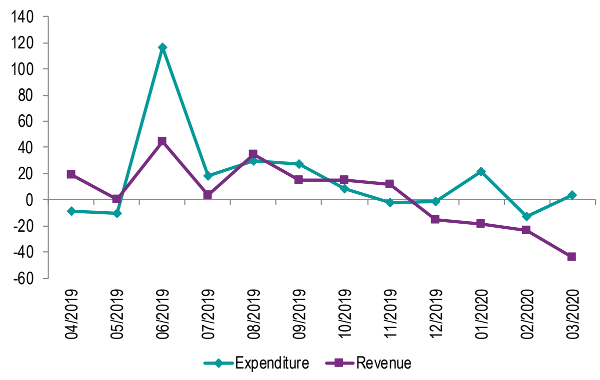
The impact of the virus and its chokehold on economic activity is exacerbated by the collapse in commodity prices. Given that Malaysia is an oil exporter, the slump in commodity prices deals a second blow to the economy. The original budget expectations were based on average oil prices of USD 62 per barrel and the lower than expected oil prices should push the government to rethink the 2020 financial projections. Indeed, before the virus, estimates for the 2020 budget deficit stood at 3.2% of GDP, already slightly wider than the 3% in 2019 due to additional public investment. Revenues are expected to be lower than originally estimated with the slump in the economy and the elevated expenditures due to the additional stimulus packages, resulting in a wider than forecasted deficit. Already in the first quarter, government revenues saw a 28.8% y/y drop to MYR 45.3bn. This was on account of lower tax revenues and low direct tax collection, in part due to lower petroleum income taxes as oil prices slipped to USD 50.5 per barrel. Concurrently, expenditures increased to MYR 73.5bn from MYR 70.8bn with the implementation of economic stimuli.

The government's approach to the crisis is focused around six stages - Resolve, Resilience, Restart, Recovery, Revitalize, and Reform. The first phase (Resolve) saw the implementation of the MCO, the second phase (Resilience) saw the PRIHATIN Economic Stimulus packages outlined and released, while the third phase (Restart) was related to the gradual re-opening of the economy and relaxing of the movement control orders. The fourth phase (Recovery) comes with the introduction of the National Economic Recovery Plan or PENJANA (Pelan Jana Semula Ekonomi Negara).



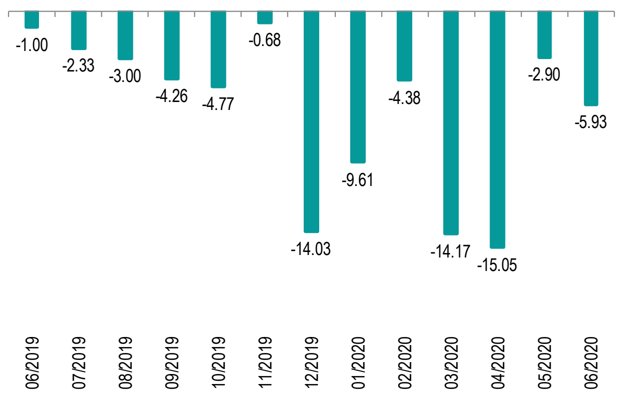
Fiscal Package	Date	Value	General Focus Area
2020 Economic Stimulus Package	27 February 2020	RM 20bn	Strategy I: Mitigating impact of COVID-19, Strategy II: Spurring rakyat-centric economic growth, and Strategy III: Promoting quality investments.
Prihatin Rakyat Economic Stimulus Package (PRIHATIN)	27 March 2020	RM 250bn	Objective I: Protect the Rakyat, Objective II: Support Businesses, and Objective III: Strengthen the Economy. RM128bn for the protection of Rakyat welfare, RM100bn to support Small and Medium Enterprises, RM2bn to strengthen the country's economy, and RM20bn to pursue measures announced under ESP1.
Prihatin Package for SMEs (Additional Measures) (PRIHATIN SME+)	6 April 2020	RM 10bn	Allotted to ease the financial burden of Small and Medium-sized Enterprises.
PENJANA	5 June 2020	RM 35bn	Objective I: Empower People Objective II: Propel the Economy Objective III: Stimulate the Economy

Government Revenue and Expenditure, Malaysia, % y/y change



Source: CEIC Data, Bank Negara Malaysia

Fiscal Balance, Malaysia, MYR bn



Source: CEIC Data, Bank Negara Malaysia

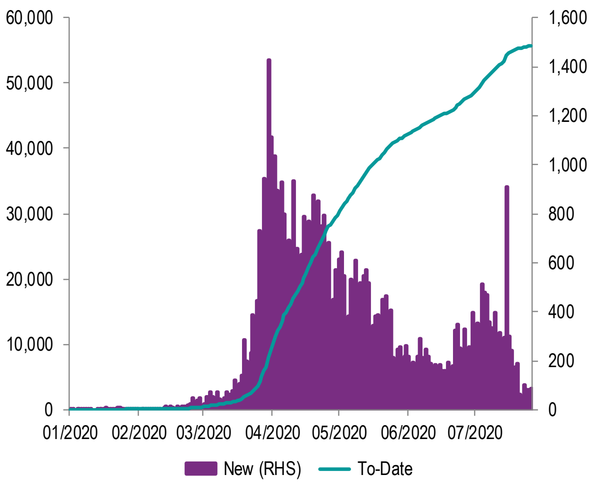
Singapore

As of July 21, 2020, Singapore recorded 48,036 confirmed cases of COVID-19, making it the country in Southeast Asia with the most cases, only closely followed by Indonesia which has reported 37,420 cases. Notably, the number of new cases in the country has been on a steady decline, with its peak in April where a single day (April 26, 2020) recorded 1,426 new cases.

With the spreading pandemic gripping the world, Singapore imposed 2020 Circuit Breaker Measures on April 3, 2020, just shortly before migrant cluster cases in foreign worker dormitories started to spike. The measures were implemented to limit the transmission of the virus by reducing human interactions in both private and public spaces. The programme closed workplaces and encouraged telecommuting, shifted schools to home-based learning, closed attractions as well as recreational and gathering places, and limited interactions to members of the immediate family within the same household. The use of reusable masks was also encouraged. The Circuit Breaker was eventually eased on May 12 and ended on June 1. The country is now embarking on a three-part approach to resuming to normalcy – safe re-opening, safe transition, and safe nation.

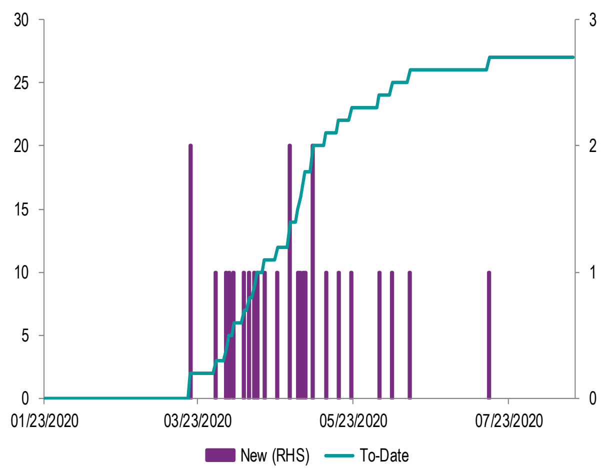
The lockdown and restrictions on mobility, coupled with sluggish external demand and disruptions to supply chains have taken a toll on the open economy of Singapore. GDP contracted by 0.7% y/y in the first quarter and the government adjusted its 2020 forecast to a contraction of between 4% and 7%. In light of these developments, the government has issued four budgets – the so-called unity, resilience, solidarity, and fortitude budgets – worth SGD 92.9bn or 19.2% of GDP (see table below). The unprecedented magnitude of the package is expected to push the deficit to SGD 74.3bn or 15.4% of GDP. The government forecast for operating revenues in 2020 is down to SGD 68.8bn from SGD 76bn originally, with total expenditures up to SGD 110.5bn from the initially expected SGD 83.6bn.

Confirmed COVID-19 Cases, Singapore



Source: CEIC Data, WHO

COVID-19 Related Deaths, Singapore



Source: CEIC Data, WHO

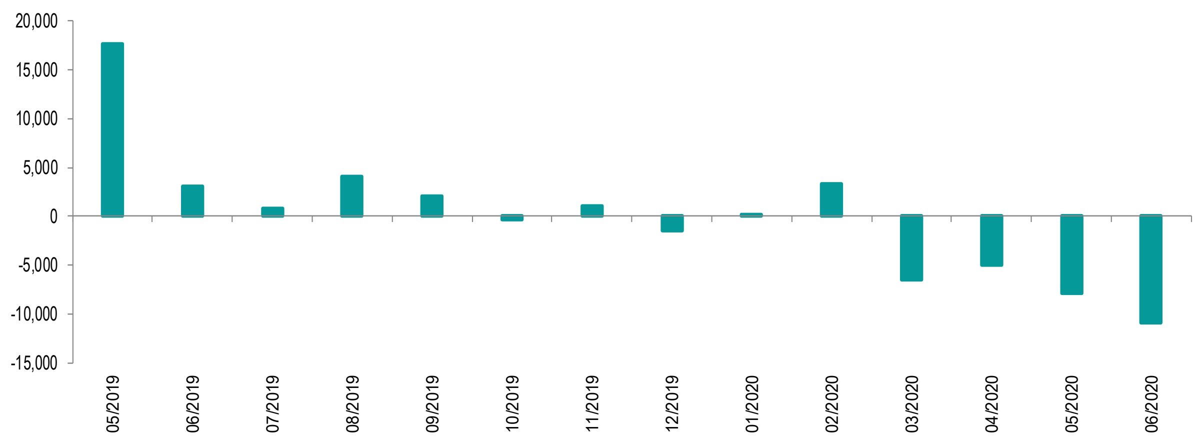
With the future in mind, the country keeps a contingency fund. Every year the government allots SGD 3bn in the annual budget for contingencies. Given the heightened uncertainty with COVID-19, Singapore has put aside an additional SGD 13bn to prepare for any eventuality.

The current government deficit for FY2021 (ending March 2022) is projected at SGD 10.9bn, significantly wider than the SGD 1.7bn posted in FY2020. Although total operating revenue is projected to increase by 1.7% y/y to SGD 76bn in the fiscal year 2021, total expenditure is set to grow by 7% y/y to SGD 83.6bn from SGD 78.2bn in 2020. In a bid to remain fiscally responsible, much of these expenditures will be funded by reserves of the country, but looking ahead, the long-term infrastructure spending may be financed by borrowing as recurrent expenditures will be financed by recurrent revenues.

4%-7% is the expected economic contraction, which Singapore is going to experience in 2020

Budget	Value	General Focus Area
Unity	SGD 6.4 bn	The budget was allotted for the Stabilization and Support Package and the Care and Support Package.
Resilience	SGD 48.4bn	The budget was allotted for initiatives to: a. Save jobs, support workers, and protect livelihoods. b. Help enterprises overcome immediate challenges. c. Strengthen economic and social resilience so that the country can emerge intact and stronger.
Solidarity	SGD 5.1bn	The budget of SGD4 billion was allotted for the additional support for businesses and workers and SGD1.1 billion was allotted for the Solidarity Payment.
Fortitude	SGD 33bn	The budget was allotted for creating jobs, additional support to households and communities, and funding to frontline agencies.

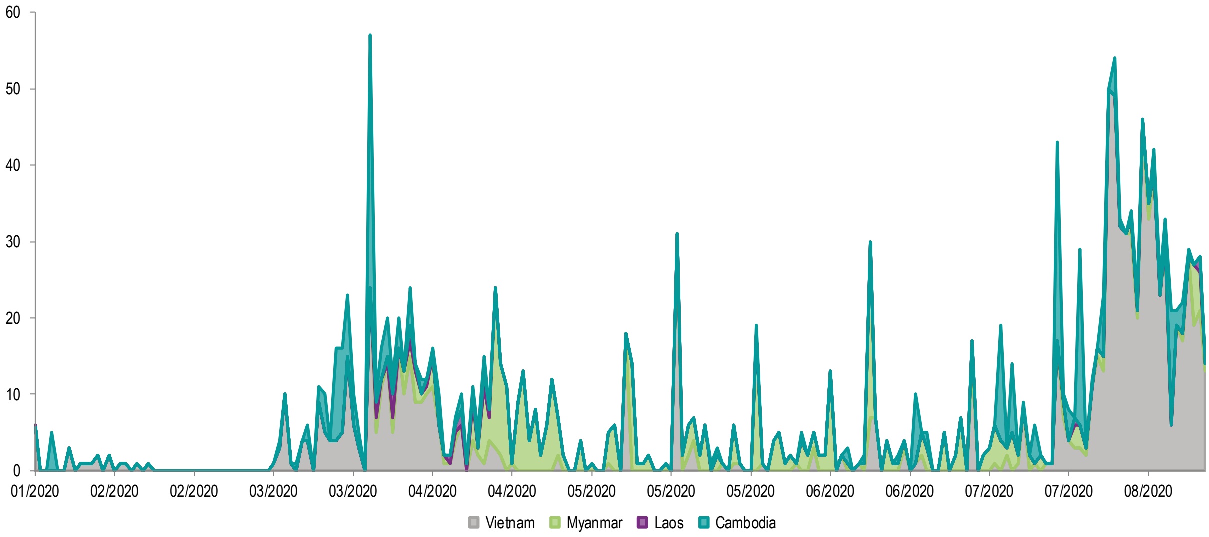
Government Budget Balance, Singapore, SGD bn



Source: CEIC Data, Department of Statistics

Cambodia, Myanmar, Vietnam, Laos

CMVL Epidemic Curve



Source: CEIC Data, WHO

The CMLV countries have all reported lower rates of confirmed positive cases. As of July 19, 2020, Cambodia, Myanmar, Laos, and Vietnam each have reported 171, 341, 19, and 382 total confirmed positive cases of COVID-19, respectively. This is significantly lower compared to the rest of Southeast Asia where some countries would report daily cases in the thousands at their peak (Indonesia, Philippines, Singapore). For the CMLV bloc, daily new cases in June and July were generally in the single digits, with some days even reporting no new cases.

Like most countries, CMLV countries embarked on their respective versions of a nationwide lockdown. Vietnam imposed a nationwide isolation on April 1 but was one of the first to re-open on April 23, though social distancing was still to be observed and there were restrictions on public events and non-essential public services. Laos issued a stay-at-home decree for March 30 to April 19, public gatherings of more than 10 people were prohibited. Yangon in Myanmar issued a stay-at-home order for several townships in the Yangon region and imposed a curfew on April 18. Stay-at-home orders are slowly being lifted per township. Cambodia did not impose a lockdown but asked arriving travellers to quarantine 14 days upon arrival.

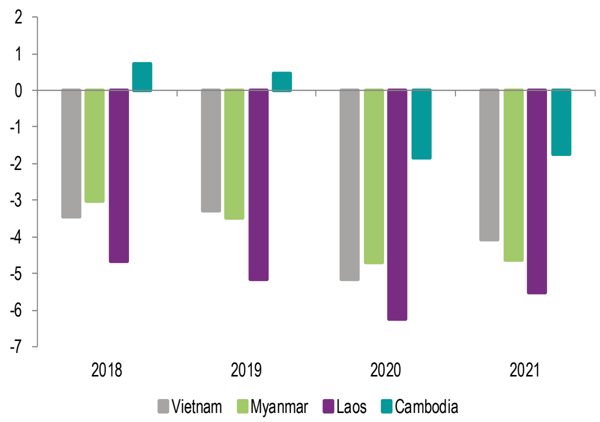
Despite the relatively low number of cases, the economies have not been shielded from the impact of COVID-19. CMLV countries had to issue certain fiscal measures to relieve individuals and businesses from their tax obligations. Laos gave individuals earning less than LAK 5mn per month tax exemptions. Vietnam deferred payment of corporate VAT, corporate income taxes and land use fees, Cambodia granted tax exemptions for hard-hit sectors like aviation and tourism, Laos gave microenterprises profit tax exemptions for several months. The countries provided support for health initiatives and for hospital equipment. Import taxes were waived for medical equipment in Myanmar, Vietnam, and Laos. Cambodia's government is issuing low-interest loans to SMEs and Vietnam issued cash transfers to poor affected households.

With these additional expenditures, government deficits are expected to widen across the CMLV. As of June 2020, the World Bank forecasts a deficit of 9% of GDP for Cambodia, a turnaround from the expected surplus in 2018 and 2019 and wider than the 3% deficit initially predicted just in April. The bank sees Vietnam's deficit widening to 6% of GDP, against an initial target of 4% for 2020. The expectations for the government balances for Laos and Myanmar are equally grave, with predictions for deficits of 7.5% and 9.1%, respectively.

The fiscal health of Vietnam and Cambodia has been good so far, while data for Myanmar and Laos are not yet available. As of March 2020, the state budget balance of Vietnam was in the positive at VND 15.97tn, with revenues at VND 130.3tn and expenditure (excluding principal payment) at VND 114.4tn. The balance posted consistent surpluses for most of 2019, only shifting to a deficit in the last quarter before turning back to a surplus in Q1 2020. In Cambodia, year-to-date revenue collections in April saw a 10.3% y/y increase, but there was also a 34.5% y/y increase in expenditures. Expenditures in February, in particular, were 108.3% higher y/y. Data for Myanmar and Laos are less up-to-date. Myanmar saw a budget deficit at the end of 2019, with total revenue of MMK 21.7tn and expenditure of MMK 25.2tn.

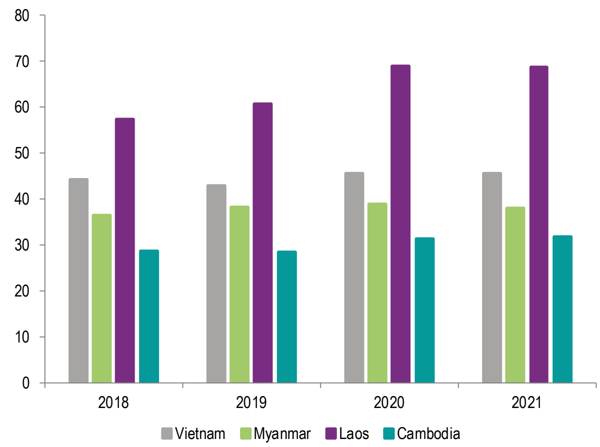
Despite the relatively low number of cases, the economies of Cambodia, Myanmar, Laos, and Vietnam have not been shielded from the impact of COVID-19

Government Government Balance, CMVL, % of GDP



Source: CEIC Data, IMF

General Government Gross Debt, CMVL, % of GDP



Source: CEIC Data, IMF

04

Russia

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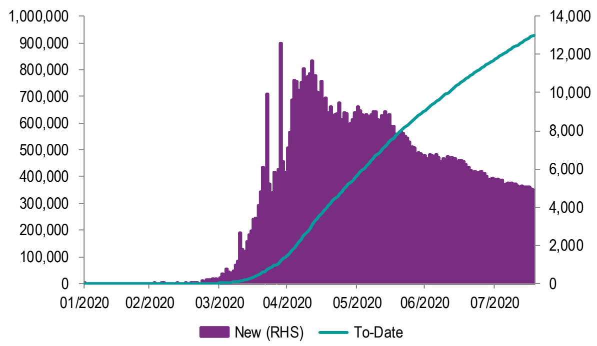
The COVID-19 outbreak reached Russia with a slight delay compared to Europe and Asia. Most countries around the globe had already started testing and reporting positive cases by the end of February 2020 but not Russia. At the beginning of March 2020 the situation in the country was still under control according to official government declarations. However, things escalated quickly and by the end of March the number of COVID-19 cases was rising at an alarming pace. The crisis got even worse in April as the number of daily new cases in Russia went from a still manageable less than 1,000 to over 12,000 at the end of the month. As of end-July Russia has reported a total of 839,981 COVID-19 cases. The number of COVID-19 deaths exceeded 11,000 between mid-March and mid-July 2020, making Russia the fourth most affected country after the US, Brazil and India.

The city of Moscow has been the most affected by the disease with a total count of 230,029 infected people as of July 13, followed by the Moscow region with 60,688 people and St. Petersburg city with 27,861. Out of the eight main districts in Russia (Central Federal District, Far East Federal District, North Caucasian Federal District, North-Western Federal District, Siberian Federal District, Southern Federal District, Ural Federal District, Volga Region Federal District), the one that has been hit the most is the Central Federal District, which includes both Moscow city and Moscow region.

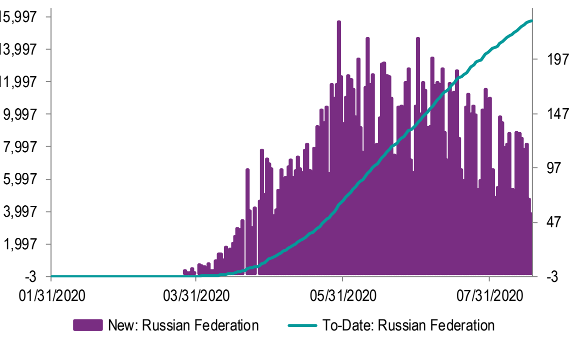
The pandemic is taking its toll on Russia's economy too. The GDP in the first quarter of the year fell to USD 382tn from USD 467.9tn in Q4 2019. According to the Bank of Russia, the GDP is expected to decrease by 4%-6% in 2020 and the recovery from that drop might extend past 2021 and continue in 2022. The economic activity in the country has also dropped considerably. Services and manufacturing were the most affected sectors, as both external and domestic demand for goods and services decreased and businesses activity slowed down. Services PMI fell from 52 in February to 37.1 in March and plummeted further to 12.2 in April. Manufacturing PMI declined from 48.2 in February to 47.5 in March and 31.3 in April. Domestic consumption and retail sales have also been declining since February 2020. The monthly unemployment rate reached an eight-year high of 6.1% in May 2020 and the average monthly wage dropped from USD 755.48 in January to USD 655.52 in April 2020.

Confirmed COVID-19 Cases, Russia



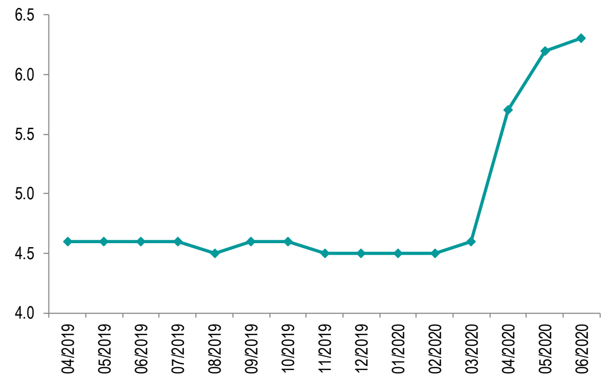
Source: CEIC Data, WHO

COVID-19 Related Deaths, Russia



Source: CEIC Data, WHO

Unemployment Rate, Russia, %

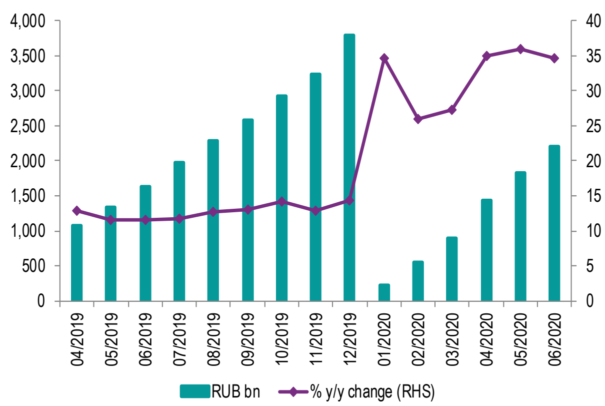


Source: CEIC Data, Ministry of Economic Development

The Russian authorities responded to the COVID-19 outbreak with a number of actions and restrictions imposed on citizens. While the official crisis was declared at a later stage, Russia was fairly quick in creating a special COVID-19 taskforce on January 27. By mid-March, the situation had dictated new rules and on March 18 and 19 the government imposed a nation-wide restriction on all foreign nationals entering the country and declared a state of high alert. All schools went on a three-week long vacation from March 23 until April 12 and on March 27 the country declared a week-long national "work holiday". Public events and gatherings were soon banned, national landmarks, libraries, theatres, recreational centres and night clubs were closed, followed by restaurants, cafes, bars and shops except for grocery stores and pharmacies. All employers around the country were urged to allow their employees to start actively working from home.

When the number of infected people started growing exponentially, the healthcare system pushed for more tests to ensure accurate monitoring of the situation in the country. The number of tests per day went from barely over 2,000 in March to more than 200,000 in mid-May. In order to combat the spread of the disease, apart from mass testing Russia also relied on isolating patients at designated medical facilities or at their homes, depending on conditions and symptoms. In order to facilitate faster progress, the government allocated a larger budget to the state health insurance fund in Russia, focusing on Moscow where the number of infected people was the highest. The government started providing RUB 200,000 (around USD 2,500) per COVID-19 patient to help hospitals cover care and medications costs. The total year-to-date consolidated federal expenditure on healthcare in May, year-to-date, stood at RUB 1.8tn, increasing by 35.9% y/y.

Consolidated Government Expenditure on Healthcare, Russia



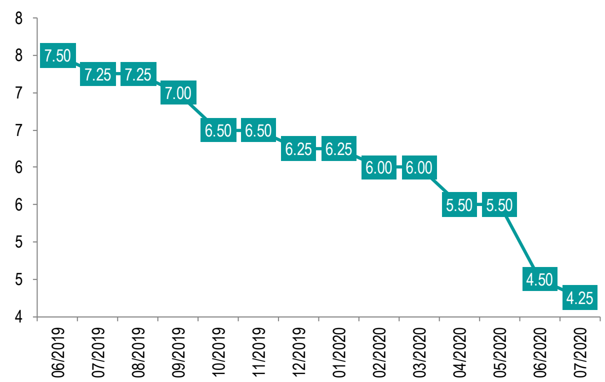
Source: CEIC Data, Federal Treasury

Services sector activities, especially the tourism and travel, aviation, sports, culture and recreation segments, heavy machine industries, and oil production and trade bore the brunt of the COVID-19 outbreak. These were also the main focus points for government aid. Even though Russia was more prepared to accommodate the sudden changes around the globe and the unprecedented collapse in the price of oil than other oil-producing countries, the drastic fall in oil demand and prices still had a negative impact on the Russian economy.

In response to that, the Russian government has set a series of fiscal policies to aid the affected industries by means of tax holidays for companies which answer to specific conditions such as strategic importance of the industry the company operates in, reduced earnings of more than 10%, sustained losses due to the COVID-19 crisis and the accompanying restrictions. The tax relief is to be requested as a more limited aid for a period of three months to one year or tax deferral in periodic instalments which can continue from three to five years, depending on the company and its specific situation. As of April 1, the government has reduced the social security contribution payments of small and medium-sized enterprises (SMEs) for salaries above the minimum wage. If the SMEs operate in a sector or industry more affected by the crisis or have strategic importance to the country, they can also apply for a delay of their income tax payment for business conducted in 2019 and during Q1 2020 for no more than six months. As for any income from business conducted during Q2 2020, the tax delay can be extended to no more than four months. SMEs can delay their social security contribution payments under a scheme similar to that for tax payments. SMEs can also be exempt from paying tax on any subsidies received during the pandemic.

On June 19, as part of the country's response to the COVID-19 crisis, the Bank of Russia cut the key rate by 100 bp to a record low of 4.5% on the back of an expected drop in inflation, whose current target is set at 4%. The rate cut aims to limit risks and keep the inflation rate close to the target one. The central bank does not exclude further rate cuts in case continuous efforts are needed to balance and maintain the inflation rate.

Benchmark Policy Rate, Russia, % pa



Source: CEIC Data, The Central Bank of the Russian Federation

Consolidated Fiscal Balance, Russia, RUB bn

Source: CEIC Data, Federal Treasury, Federal State Statistics Service

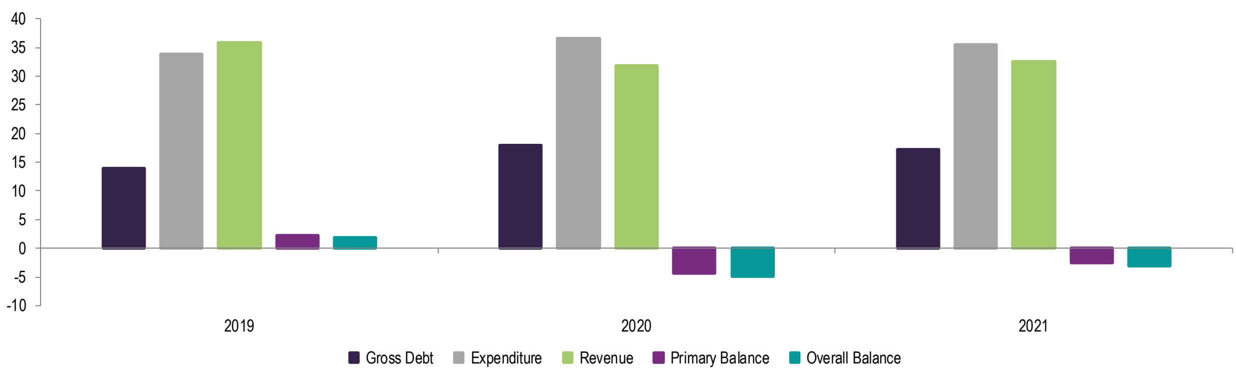
According to the latest forecast by the Bank of Russia, as of July 24, the 2020 GDP might contract by between 4.5% and 5.5% which would be an 11-year low. Subsequently, a moderate recovery might follow in 2021 and 2022 with GDP growth of 3.5%-4.5% and 2.5%-3.5%, respectively. A full blown recovery by 2021 is highly unlikely but the economic situation and the low consumer sentiment are expected to slowly improve. Should this scenario play out, household consumption will gradually recover and grow by 3% y/y in 2021.

The economic and fiscal outlook depends mainly on the allocation of resources to mitigate the COVID-19 crisis and address the sudden and unprecedented drop in oil prices worldwide. Currently, the government spending on the containment and management of the COVID-19 situation is expected to reach around 2.8%-2.9% of GDP, which is significantly less than what other countries and regions around the globe have planned on spending. The Euro Area, for instance, will spend between 10% and 20% of its GDP in the form of a fiscal package to manage the crisis. The plummeting international oil prices spell trouble for Russia's federal budget.

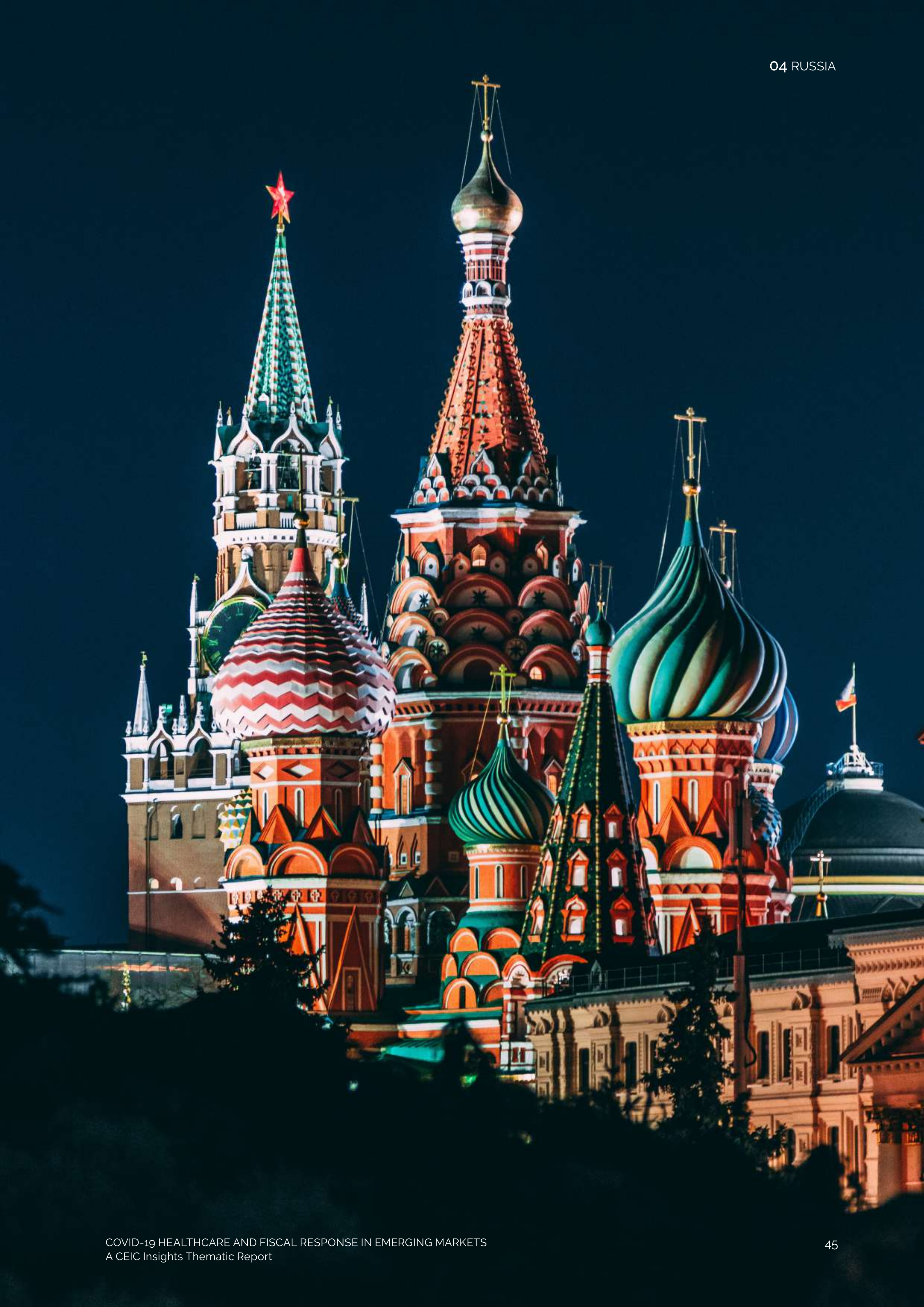
The main concerns for the Russian economy come from a prolonged pandemic and inability to manage the crisis. The recent announcement of the Russian government that the Center for Clinical Research on Medications at Sechenov University has developed a COVID-19 vaccine and completed its human trials might make a difference but it is still early for excessive optimism. Even with the rapid speed of medical research and work on the development of a vaccine, it is still possible that an extended crisis could trigger an escalation of already present financial sector weaknesses and cause an even bigger y/y drop in GDP.

Bank of Russia's Medium-Term Baseline Forecast	2019 (actual)	2020	2021	2022
GDP, % y/y change	1.3	- (4.5 - 5.5)	3.5 - 4.5	2.5 - 3.5
Average Annual Inflation, %	4.5	3.1 - 3.3	3.3 - 4.0	4.0

Public Finance Projections, Russia, % of GDP



Source: CEIC Data, IMF



05

Brazil

Adriano Morais
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Brazil

The first cases of COVID-19 in Brazil were reported in the end of February. From mid-March onwards, the number of infections grew faster and the most populous states adopted social distancing measures, such as suspending social and cultural events, closing non-essential stores and shopping centres, and cutting down bars' and restaurants' capacity to a maximum of 30%. Many companies in urban areas adopted voluntary quarantine measures, remote work in the services sector increased, and some factories suspended operations. Tourism was also affected, as the federal government banned foreign tourists from entering the country at the end of March, extending a measure that was initially targeted at East Asian, European and Australian nationals.

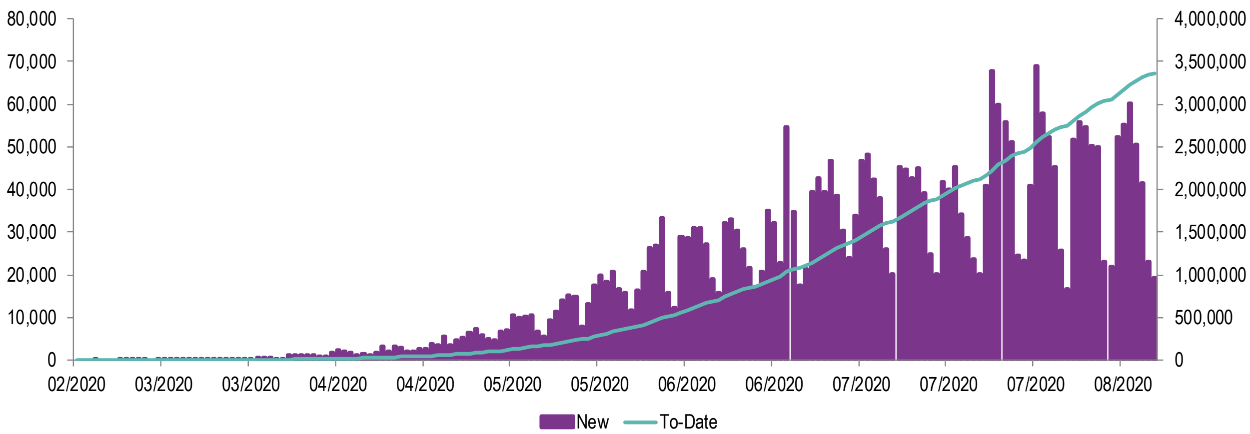
To cope with the potential impact on the healthcare system, the federal government allocated additional resources to increase testing and provide better care for patients with COVID-19. Moreover, the authorities also announced economic measures to support vulnerable households, companies and local governments. The economic and healthcare assistance package is expected to reach 7.7% of GDP in 2020. It will also generate a primary budget deficit of around 9.9% of GDP, well above the target of 1.7% of GDP, which the government had to give up in order to cope with the pandemic. As a consequence, the general government gross debt, which hit a record of 79.7% of GDP in April, might surpass 93% of GDP in 2020.

Brazil has the second highest number of COVID-19 cases globally after the US. On June 18, Brazil registered 22,765 new cases in 24 hours, thus bringing the total to 978,142 confirmed cases. However, unlike other countries with high infection levels, Brazil experienced a rapid acceleration, as the number of cases rose over fourfold in 30 days, which means over 720,000 new cases diagnosed between May 18 and June 18. The number of COVID-19 related deaths reached 47,748 on June 18, of which 1,238 were registered during the previous 24 hours, ranking Brazil first in terms of deaths per day.

The deaths-to-confirmed cases ratio in Brazil – the fatality rate – was 4.9% on June 18. The state of Rio de Janeiro has fatality rate of 9.6%, the highest in the country. The states of Pernambuco and Ceara, in the Northeast, had rates of 8.3% and 6.2%, respectively. The fourth highest fatality rate was registered in the state of Sao Paulo - 6.1%. Sao Paulo is the country's most populous state, and has the highest number of confirmed COVID-19 cases and deaths - 192,628 and 11,846 as of June 18, respectively.

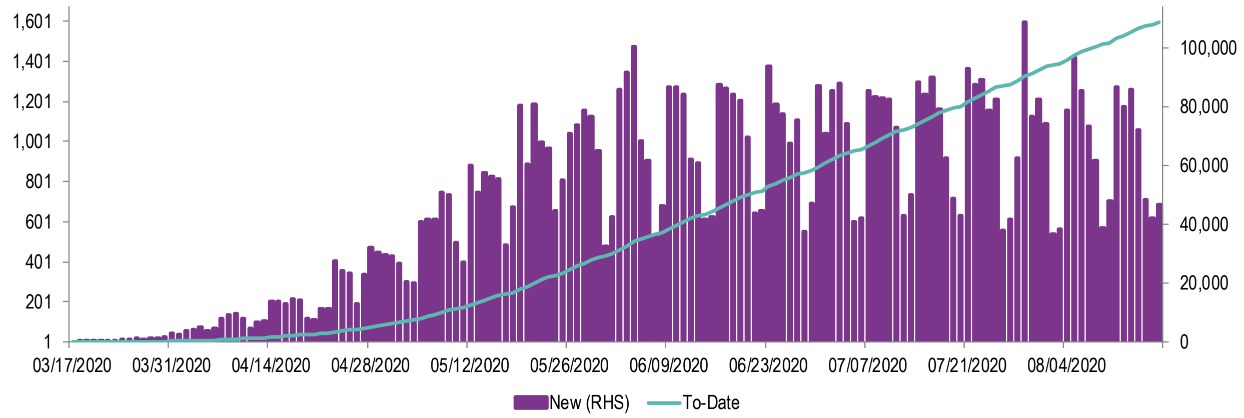
In the second half of March, as the number of cases started growing faster, the most populous states adopted social distancing measures and subsequently extended them into April and May, causing a strong negative impact on business activity. Employment declined by 3.38% y/y in April or by 3.1 million jobs. Real overall earnings declined by of BRL 1.6bn in April.

Confirmed COVID-19 Cases, Brazil



Source: CEIC Data, Ministry of Health

COVID-19 Related Deaths, Brazil

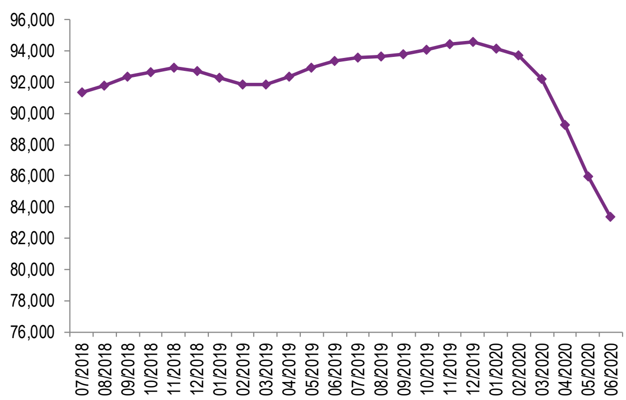


Source: CEIC Data, Ministry of Health

To combat the health and economic effects of the pandemic, the federal government allocated an additional expenditure package worth BRL 404bn from mid-March to June 18. Together with the tax waivers and exemptions, the fiscal stimulus package amounts to 5.8% of GDP. Out of these BRL 404bn, the health ministry received BRL 39.3bn for the entire 2020 to tackle the COVID-19 epidemic. The resources would be used to acquire diagnostic tests, medicines, vital signs monitors, and lung ventilators; to provide care to ICU and non-ICU patients; to pay scholarships to fifth and sixth year medical students and last year nursing, physiotherapy and pharmacology students to reinforce the ranks of healthcare workers. The economy ministry also exempted medicines and hospital goods from taxes.

The federal government provided financial relief to states and municipalities to maintain funding to their healthcare systems, as tax collection fell due to the economic freeze. It transferred BRL 76.2bn as direct aid to states and municipalities, of which at least BRL 10bn had to be allocated to health and social assistance. It also allowed local governments to postpone debt payments to the central government, federal institutions and international organisations, backed by the central government. The resources were allocated to local governments proportionally to their population and tax collection rate. The bulk of the resources provided by the federal government involve financial support to vulnerable households and companies to tackle the virtual freeze of business activity due to the pandemic.

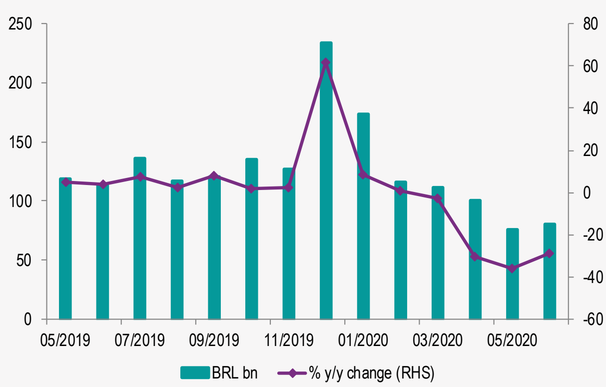
Employment, Brazil, thou



Source: CEIC Data, Brazilian Institute of Geography and Statistics

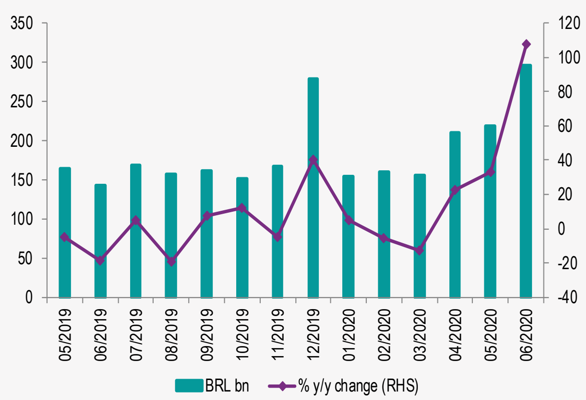
Measure	Amount	Resources Allocated	Eligible Entities
Emergency Aid	BRL 600 per month, up to 3 months	BRL 152.6bn	Unemployed, informal workers and self-employed with household monthly income up to BRL 3,135.
Emergency Employment and Income Preservation Benefits	Between BRL 261 and BRL 1,813 per month, up to 3 months	BRL 51.6bn	Workers on unpaid leave or with reduced working hours and wages. In return, the company must not fire any employee on the programme.
Loans to finance payroll during the pandemic, for up to 2 months.	N/A	BRL 34bn	Companies with annual revenues between BRL 360,000 and BRL 10mn. They will have 30 months to repay the loan, with interest rate of 3.75% per year. In return, companies must not fire any employee for at least 2 months.
Expansion of the Income Transfer Programme (Bolsa Familia)	N/A	BRL 3bn	Poor households with income per capita under BRL 178 per month.

Central Government Revenue, Brazil



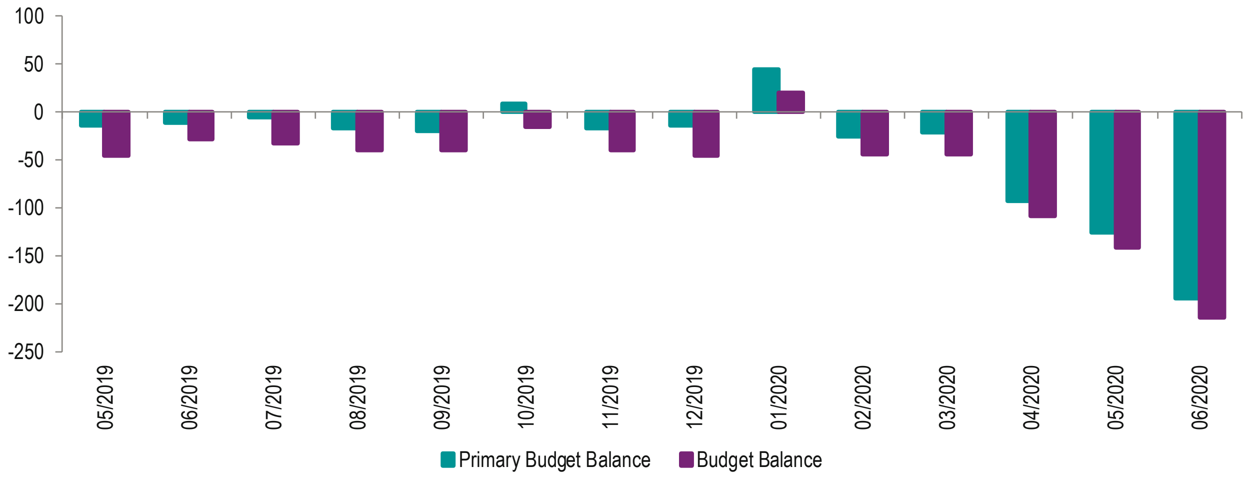
Source: CEIC Data, Central Bank of Brazil

Central Government Expenditure, Brazil



Source: CEIC Data, Central Bank of Brazil

Central Government Budget Balance, Brazil, BRL bn



Source: CEIC Data, Central Bank of Brazil

The general government expects a primary deficit of 9.9% of GDP in 2020. The central government allocated funds equivalent to 7.7% of GDP in 2020 to deal with the pandemic: the announced package of measures equivalent to 5.8% of GDP, and a provision of 1.9% of GDP to pay for the delayed effects of the measures. Without considering the COVID-19 extraordinary expenditures, the central government still plans to meet the primary deficit target for 2020, set at BRL 124.1bn (1.7% of GDP) before the pandemic. Moreover, the local governments are expected to have a deficit of 0.4% of GDP in 2020.

These estimates were made under the hypothesis that the GDP will decrease by 4.7% in 2020, which was revised further down by many independent financial institutions. As of June 12, the focus market survey, conducted by the central bank among 140 entities, resulted in a median forecast for a 6.51% contraction of GDP in 2020. Since the lower GDP reduces tax collection and results in prominent increases in all variables measured as percentage of GDP, there is a risk that the effective primary deficit may be higher than the currently expected 9.9% of GDP. In an alternative scenario, under the hypothesis that the GDP would decline by 6.7% in 2020, the ministry of economy estimates that the primary deficit would be 10.4% of GDP.

	Scenario 1	Scenario 2
GDP change in 2020	-4.7% y/y	-6.7% y/y
Fiscal Indicators		
General Government Nominal Balance	-14.5% of GDP	-15.1% of GDP
General Government Primary Balance	-9.9% of GDP	-10.4% of GDP
Central Government Primary Balance	BRL -675.7bn	BRL - 695.4bn
Debt Indicators		
General Government Gross Debt	93.5% of GDP	95.9% of GDP
General Government Net Debt	67.6% of GDP	69.3% of GDP

According to the Central Bank's market survey, the markets in Brazil are more optimistic than the ministry of economy about the fiscal performance at the end of the year. In the survey dated June 12, the median forecast for the primary deficit was 9.96% of GDP, and 14.3% of GDP for the nominal deficit. A similar survey conducted by the ministry of economy came up with a median forecast of 92.7% of GDP for the gross public debt of the general government.

On the other hand, the Independent Fiscal Institution (IFI) supported by the Brazilian senate has made some more pessimistic forecasts. As of June 15, the IFI expected a primary deficit of 12.7% of GDP in 2020, of which 8.7% of GDP (corresponding to BRL 600bn) will be related to measures to combat COVID-19 and its economic effects. The institution expects that the general government gross debt will reach 96.1% of GDP in 2020, under the hypothesis that GDP will contract by 6.5%.

In 2021, the markets expect the primary deficit to decrease gradually, eventually reaching 1% of GDP by 2023. The nominal deficit – the primary deficit plus interest expenses - is expected to decrease to 5.65% of GDP in the same period. The slower pace of reduction in the nominal deficit is explained by the interest expenses, as both interest rates and the net debt are expected to increase in the long run. The net debt is the gross debt minus credits that the government owes other governments and institutions. In other words, the bigger the net debt and the higher the domestic interest rate, the greater the country's interest payment compared to what it receives as an interest from other countries. The markets forecast that net debt will climb to 67.8% of GDP, from 65.61% of GDP in 2020, while the Selic rate is expected to climb back up to 6% by 2023.

The IFI highlights that Brazil will face an increasing fiscal risk in the coming years and that the government needs to balance efficient actions to tackle the pandemic with the return to a fiscal austerity agenda after the crisis. The ministry of economy wants to keep the growing COVID-19 related expenditures under control in 2020 and to resume the reform agenda when the Congress fully returns to work.

After the pandemic, the ministry of economy intends to prioritise two reforms. The administrative one is expected to reduce mainly the expenditures on civil servants. Along with the pension reform, approved in the second half of 2019, the administrative reform intends to stabilize the mandatory public expenditures in the long run. Another priority is the tax reform, aiming to simplify the complex tax system of Brazil, thus increasing the country's competitiveness and stimulating business activity in the long run.

GDP, % y/y change
Market Expectations

	Unit	Jan-20	Feb-20	Mar-20	Apri-20	May-20	Jun-20
Current Calendar Year	%	1.15	1.12	-0.90	-3.76	-6.25	-6.60
Next Calendar Year	%	2.30	2.17	2.50	3.20	3.50	3.50
1 Year Ahead	%	2.50	2.50	2.50	2.50	2.50	2.50
2 Years Ahead	%	2.50	2.50	2.50	2.50	2.50	2.50
Long Term	%	2.50	2.50	2.50	2.50	2.50	2.50

Source: Central Bank of Brazil, CEIC Data

Primary Budget Balance, % of GDP
Market Expectations

	Unit	Jan-20	Feb-20	Mar-20	Apri-20	May-20	Jun-20
Current Calendar Year	%	-1.10	-1.10	-1.50	-3.76	-8.00	-10.20
Next Calendar Year	%	-0.50	-0.50	-0.79	3.20	-2.06	-2.30
1 Year Ahead	%	-0.06	-0.10	-0.30	2.50	-1.30	-1.50
2 Years Ahead	%	0.25	0.20	0.10	2.50	-0.80	-1.00
Long Term	%	0.50	0.50	0.35	0.00	-0.25	-0.50

Source: Central Bank of Brazil, CEIC Data

Nominal Budget Balance, % of GDP
Market Expectations

	Unit	Jan-20	Feb-20	Mar-20	Apri-20	May-20	Jun-20
Current Calendar Year	%	-5.50	-5.50	-6.45	-11.30	-12.00	-14.85
Next Calendar Year	%	-5.05	-5.00	-5.40	-5.70	-6.00	-6.50
1 Year Ahead	%	-5.23	-5.10	-5.00	-5.45	-5.50	-5.65
2 Years Ahead	%	-4.90	-4.80	-4.85	-5.05	-5.25	-5.65
Long Term	%	-4.63	-4.30	-4.40	-4.95	-5.00	-5.20

Source: Central Bank of Brazil, CEIC Data

Net Public Debt, % of GDP
Market Expectations

	Unit	Jan-20	Feb-20	Mar-20	Apri-20	May-20	Jun-20
Current Calendar Year	%	56.90	56.90	56.63	62.10	64.28	66.30
Next Calendar Year	%	58.00	57.82	58.72	64.98	65.20	68.06
1 Year Ahead	%	59.05	59.00	58.70	64.75	66.65	67.50
2 Years Ahead	%	59.10	59.70	57.20	65.75	67.45	67.80
Long Term	%	59.40	59.50	57.80	65.20	67.85	68.70

Source: Central Bank of Brazil, CEIC Data

06

Latin America

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Research Analyst
Latin America

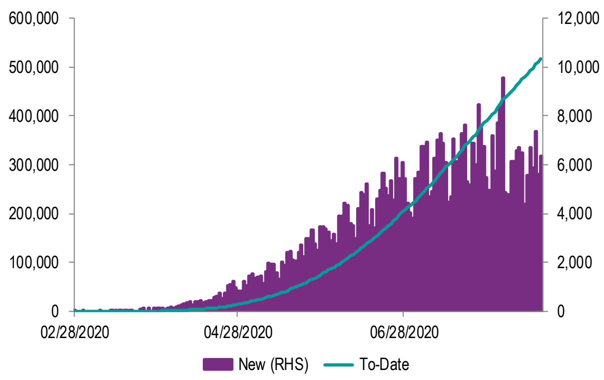
Mexico

In Mexico, the first case of COVID-19 was diagnosed on February 28 in Mexico City. In a bid to contain the spread of the virus, the government restricted mass events (with more than 100 attendees), urged non-essential workers to work from home as much as possible, and suspended schools. However, COVID-19 continued to spread across the country, with Mexico City remaining the most affected area.

In the second half of April, the federal government decided to tighten the measures in response to the 10,000 cases and more than 700 deaths. The new phase of the lockdown involved restrictions on car transport and a full restriction on non-essential businesses. The authorities refrained from closing borders (except for non-essential travelling across the border with the US) and did not restrict international air travel. However, travellers from certain countries were examined and quarantined if necessary. Daily new cases and deaths continued to rise steeply and total COVID-19 related deaths surpassed 40,000 as of end-July.

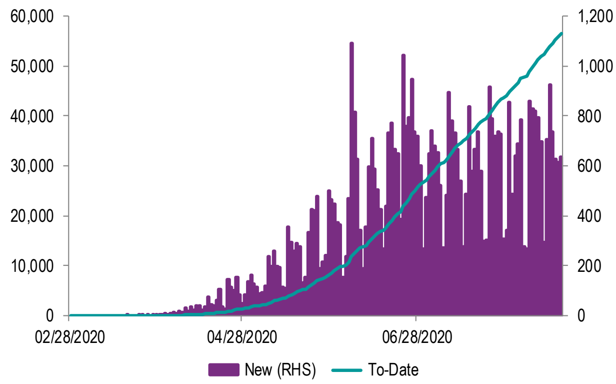
Despite the acceleration of confirmed cases and deaths, the government opted to ease restrictions in areas with fewer infections. On June 1, the construction sector and automobile manufacturers resumed operations, and parks in Mexico City re-opened to a third of their capacity. Some non-essential businesses were allowed to reopen in the beginning of July in Mexico City. Against this background the total COVID-19 cases in Mexico approached 400,000 in the end of July. Mexico City and its surroundings (Estado de Mexico) account for roughly a third of the total cases in the country.

Confirmed COVID-19 Cases, Mexico



Source: CEIC Data, WHO

COVID-19 Related Deaths, Mexico

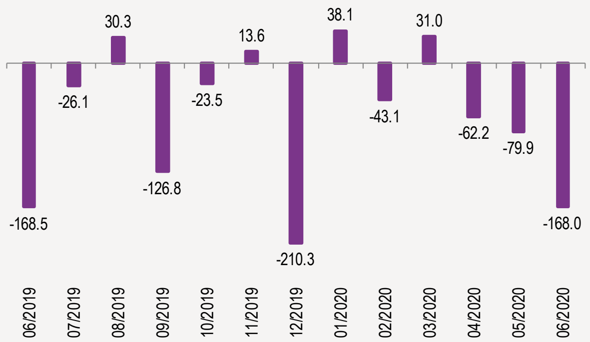


Source: CEIC Data, WHO

Mexico's response to COVID-19 was particularly focused on the healthcare sector and the informal sector of the economy. The main objectives were to ensure that the healthcare system has sufficient resources to acquire the necessary medical equipment and to provide support to the most vulnerable households and firms through tax deferral programmes and low-interest rate loans. At the same time, the fiscal cost of the package is relatively low. While the size of the package is 1.2% of GDP, the cost is even lower because, at the same time, President Andres Manuel Lopez Obrador announced an austerity programme for public spending, including reallocation of non-priority expenditure and wage reductions for high-ranked public servants.

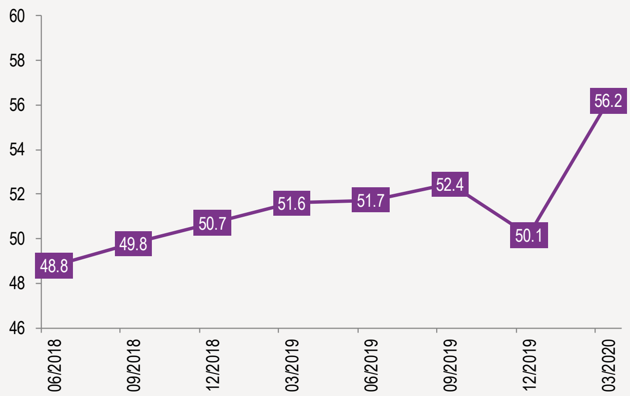
COVID-19 impacted Mexico's economic activity severely and the GDP might see a contraction of over 8% in 2020. In such a scenario, the reduction of fiscal revenue (especially oil-related revenue) and the expansion of expenditures to help businesses and households will definitely impact public finances and the results are already visible. In April, the government estimated an overall deficit of 3.3% of GDP for 2020 (compared to 2.1% of GDP pre-COVID-19). In 2020, Mexico's primary budget balance is also expected to turn slightly negative. However, recent forecasts of the International Institute of Finance show that overall deficit could further widen to 5% of GDP, given the potential long-term implications of the pandemic. Public debt-to-GDP ratio could increase by 10 pp this year, exceeding the threshold of 55% of GDP. However, the deterioration of fiscal indicators would be less pronounced than in other Latin American countries, given the small size of the fiscal package and the relaxed quarantine measures imposed by the authorities. According to the official government estimates for 2021, overall fiscal deficit would remain at 3.5% of GDP (primary deficit close to 1% of GDP), despite an expected recovery of the economy to a 2.5% growth rate.

Federal Government Budget Balance, Mexico, MXN bn



Source: CEIC Data, Ministry of Finance

Government Debt, Mexico, % of GDP



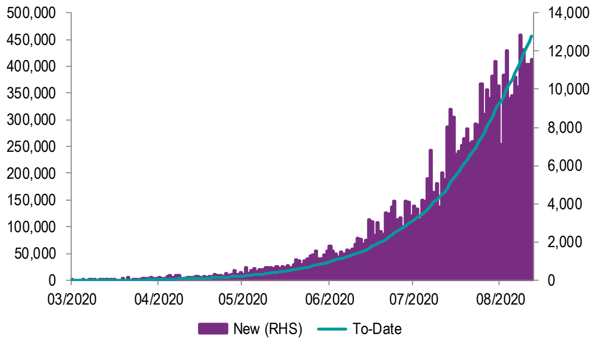
Source: CEIC Data, Ministry of Finance

Colombia

Colombia confirmed its first COVID-19 case on March 6, 2020. The government declared a state of emergency on March 17, and a quarantine was put in place on March 25 with strict restrictions on citizens' mobility and private vehicle transport and with public transportation working at only 20% of capacity. Restrictions also included a ban on intercity and air transport. On April 27, the manufacturing, construction, and retail sectors were allowed to gradually resume activity and public transportation was allowed to operate at 30% of capacity. Work from home was actively encouraged in both the private and the public sectors. The mandatory quarantine for people aged 70 and above is expected to last until the end of August.

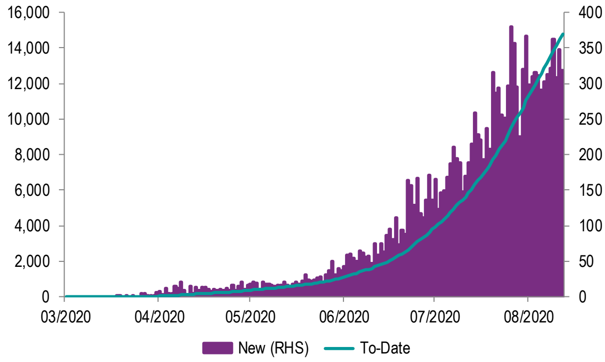
The number of COVID-19 cases in Colombia reached one million in the beginning of July. Bogota (32% of cases), Barranquilla (11%) and Cartagena (6%) are the most affected cities. From June onwards, the government has been easing some restrictions on private mobility. In areas mildly affected by COVID-19, local authorities could request a suspension of the lockdown, while at the same time making sure necessary measures are put in place to prevent the spreading of the disease. As of end-July daily new cases and deaths continued to accelerate without any sign of slowing down.

Confirmed COVID-19 Cases, Colombia

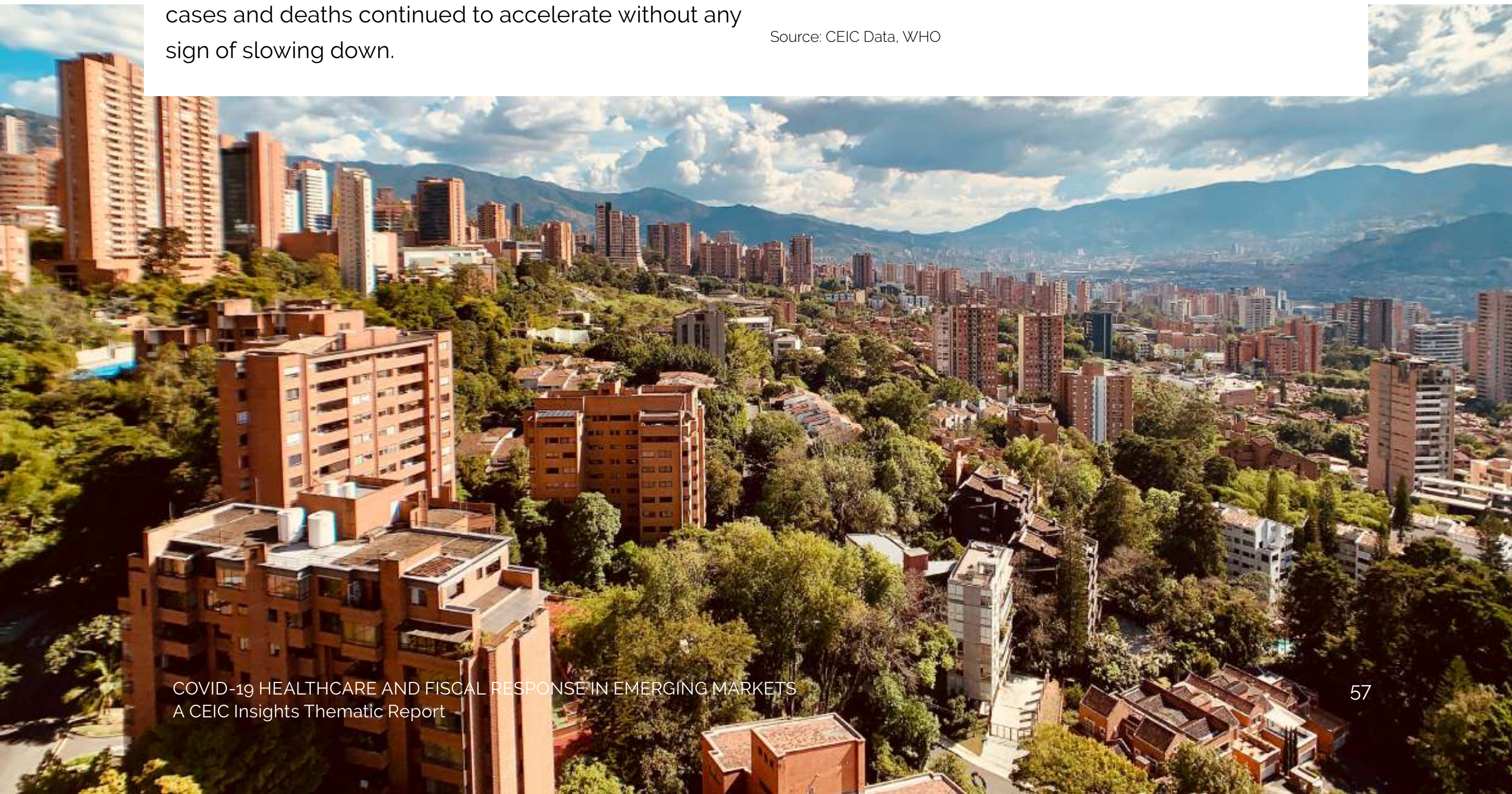


Source: CEIC Data, WHO

COVID-19 Related Deaths, Colombia

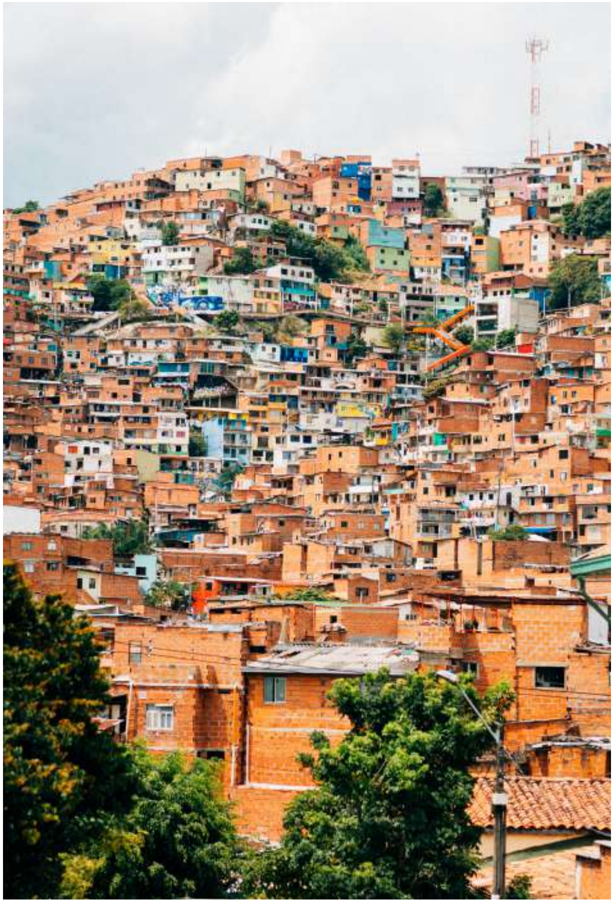


Source: CEIC Data, WHO

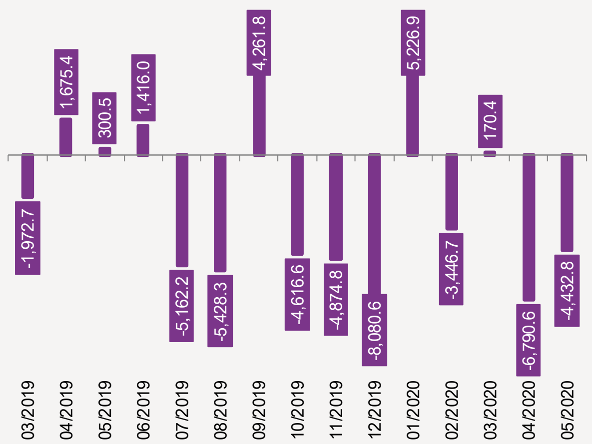


On March 21, President Ivan Duque Marques announced the creation of the National Emergency Mitigation Fund (1.3% of GDP), which is going to be partially funded from the Savings and Stabilization Fund of Colombia and other budget resources. The total fiscal package (COP 20tn) includes purchasing of medical equipment (COP 6tn), VAT reimbursements (COP 2tn), subsidies of payrolls (COP 6tn) and a three-month suspension of pension contributions (COP 3tn). The fiscal package amounts to 1.8% of GDP, although there is room for new measures. Additional support through credit lines is directed to the most vulnerable sectors and the enterprises most affected by the supply shocks caused by the pandemic.

In 2020 economic activity could contract by more than 5% y/y according to different private and government estimations. Given the unprecedented shock to the Colombian economy, the Fiscal Rule Consultative Committee first allowed an overall fiscal deficit of 6.1% of GDP in 2020, although afterwards it gave the government the green light to temporarily suspend this limit in 2020 and 2021 due to the extraordinary circumstances. The latest estimates of the Ministry of Finance show that the overall fiscal deficit would reach 8.2% of GDP in 2020, 6 pp higher than the pre-pandemic forecasts. Thus, public debt is expected to rise by more than 10 pp but would remain below 60% of GDP. In 2021 the economy could grow by more than 5%, recovering robustly from 2020. Nevertheless, the fiscal deficit would remain above 5% of the GDP due to continued relief for the most severely hit sectors.

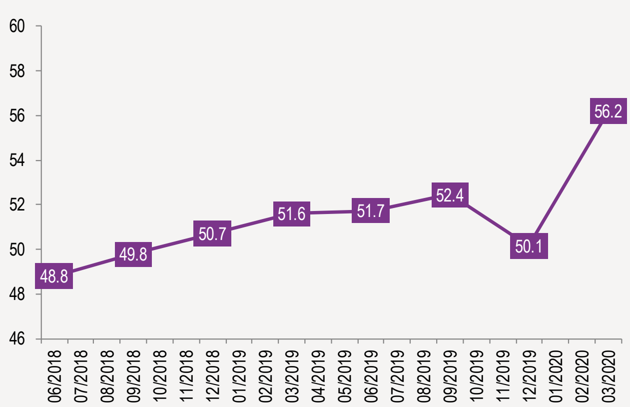


Government Budget Balance, Colombia, COP bn



Source: CEIC Data, Ministry of Revenue and Public Credit, National Statistics Administrative Department

Government Debt, Colombia, % of GDP

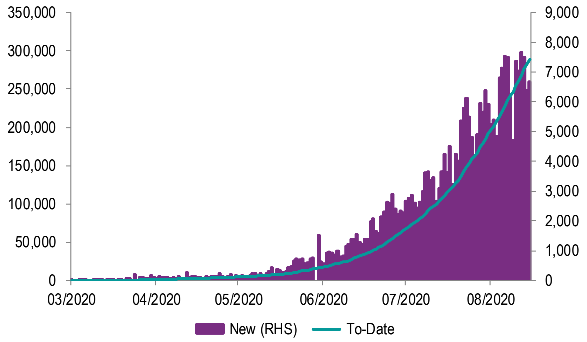


Source: CEIC Data, Ministry of Revenue and Public Credit, National Statistics Administrative Department

Argentina

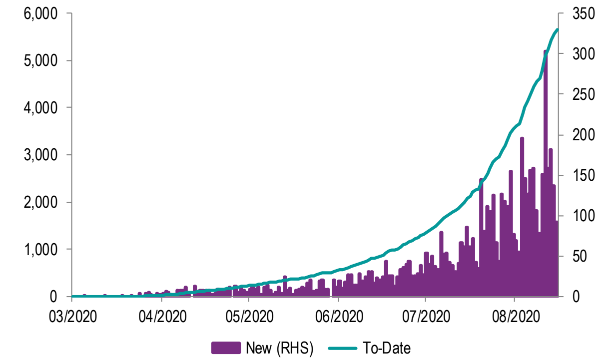
Argentina has been under a mandatory lockdown since March 20, one of the longest quarantine measures in the world, despite the substantial easing in end-July. Initially there was a full restriction on non-essential businesses activity, full closure of borders and suspension of private gatherings. Also non-essential workers were highly encouraged to work from home if possible. A month after the lockdown was implemented the government started to ease the restrictions, allowing local governments to decide which measures could be relaxed and to what extent. Some shops and industries were given the green light to resume business activities and people were allowed to travel in and between cities for non-essential purposes. However, on July 1, authorities tightened some restrictions in Buenos Aires, the Greater Buenos Aires area and some other provinces due to a spike in the number of COVID-19 patients in intensive care. In most regions of the country a gradual reopening of the economy is still taking place, with liberal professions resuming work and small gatherings of people allowed, with each province providing its own definition of a small gathering. As of end-July, the lockdown in Buenos Aires and in the most affected areas was relaxed, as Argentinians were growing tired after over 100 days of quarantine in the capital and the surrounding regions.

Confirmed COVID - 19 Cases, Argentina



Source: CEIC Data, WHO

COVID - 19 Related Deaths, Argentina



Source: CEIC Data, WHO

Between March and May 2020 the government announced a fiscal package of ARS 2.06tn (4.9% of GDP) to fight the COVID-19 impact. One of the main measures from this package is ARS 25.1bn in extraordinary healthcare spending to improve testing and diagnosis, to purchase hospital equipment and to construct clinics and hospital facilities. Transfers to poor families amounted to ARS 222bn, while ARS 160bn covered unemployment insurance benefits and extra payments to minimum-wage workers and support for hard-hit sectors, including exemptions from social security contributions and grants to cover payroll costs, known as ATP programme.

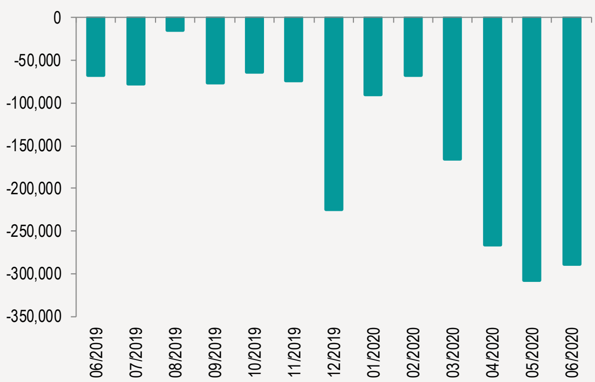
Other initiatives to enhance resilience to the pandemic are subsidized loans for construction-related activities (Plan Procrear) and for provinces (ARS 120bn), as well as demand support, including spending on public works. Some social benefits were extended in June and July, so the total amount of the COVID-19 fiscal package is growing over time as restrictions continue in some urban areas.

The economic slowdown had a great negative impact on government revenue, with public spending skyrocketing since March. The primary budget balance reached 2.2% in the first five months of 2020, the bulk of which was financed with transfers from the central bank. Given the slow recovery of the economic activity, primary deficit in 2020 is expected to grow to 7.5% of GDP (1.5% before the pandemic) and overall deficit could reach 10% of GDP, according to the latest estimates from the Ministry of Finance.

In 2021, according to a survey by the central bank, primary deficit is expected to go back to 2%-3% of GDP due to a potential increase in revenue thanks to recovering economic activity. However, some support measures for low- and middle-income households (like government aid and energy subsidies) could be extended into next year, ultimately leading to further increased expenditures. Other challenges are the health and pension costs that are inevitably set to rise. A new draft law on pensions, which envisages an increase in pension benefits in order to support purchasing power, is to be discussed in the Parliament before the end of 2020.

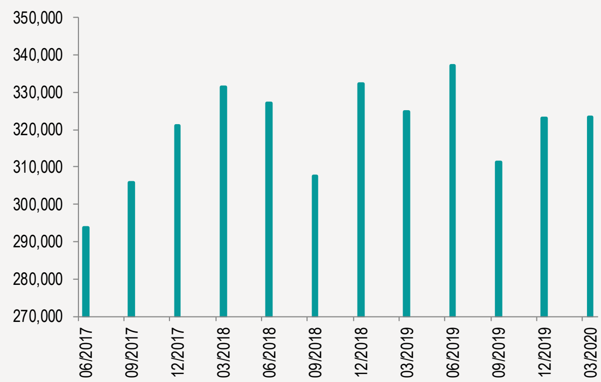
Some support measures for low- and middle-income households like government aid and energy subsidies could be extended into next year, ultimately leading to further increased expenditures

Government Budget Balance, Argentina, ARS mn



Source: CEIC Data, Ministry of Treasury

Government Debt, Argentina, USD mn



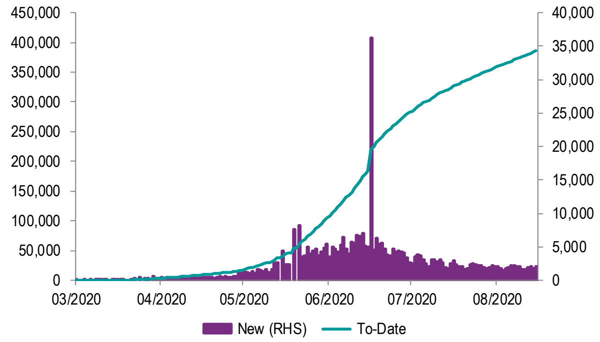
Source: CEIC Data, Ministry of Treasury

Chile

As of August 5, Chile was the country ranked eighth in terms of total COVID-19 cases globally. The first COVID-19 cases were reported in early March. After the first 155 cases, the Chilean government declared a national emergency, closed the borders, suspended international travel by air and sea, and introduced a so-called smart lockdown in the most affected areas. The smart lockdown applies a more targeted approach, focused on specific vulnerable groups or certain areas, cities or provinces. However, the number of COVID-19 cases and deaths continued to grow, requiring lockdown extension in Santiago and some other regions, with strict restrictions of mobility, curfew, cordon sanitaire in more affected areas, and special measures targeted towards the elderly (aged 75 years and above).

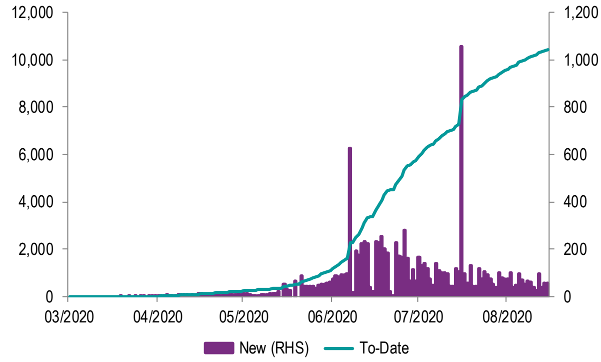
After reaching a peak in the epidemic in mid-June, the government announced a plan of gradual reopening consisting of five phases. The metropolitan area, which includes Santiago de Chile and its suburbs, remains the region with the highest number of cases, but they are decreasing steadily. In the North (Arica, Antofagasta, Atacama and Tarapaca provinces) cases are still growing. The southern part of the country has transitioned to an almost pre-crisis environment. The government plans to continue easing restrictions, if the number of new cases keeps declining.

Confirmed COVID - 19 Cases, Chile

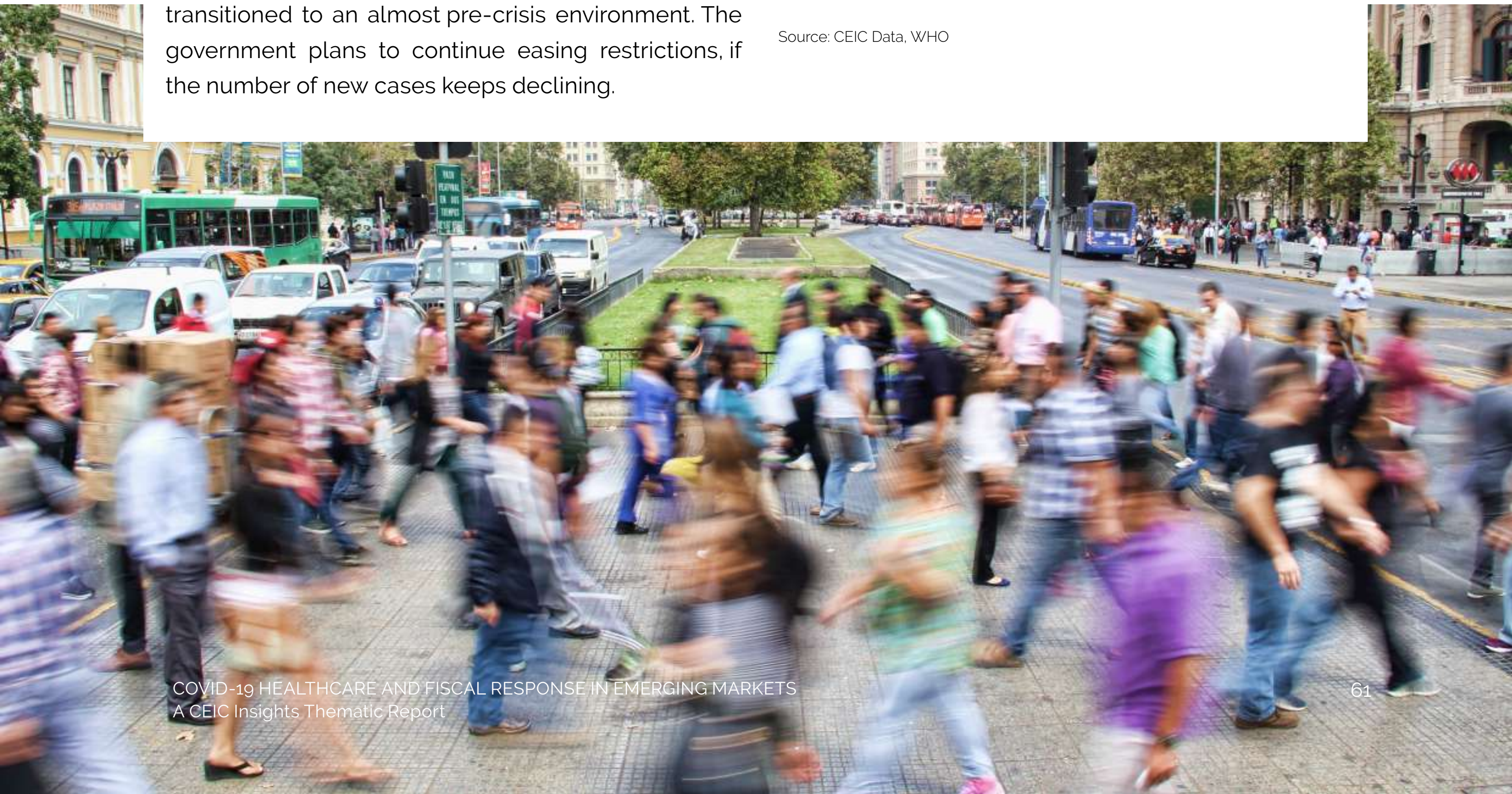


Source: CEIC Data, WHO

COVID - 19 Related Deaths, Chile



Source: CEIC Data, WHO



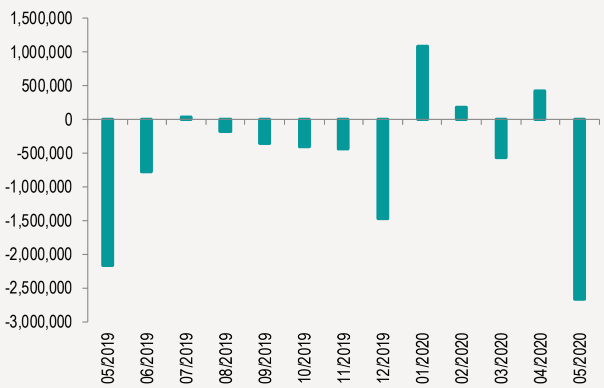
On March 19, President Sebastian Pinera announced a fiscal package of about 4.7% of GDP, focused on supporting employment and providing liquidity to companies. The measures included tax payments deferral and reduction of social security contributions of affected businesses. On April 8, the authorities announced an extension of the original package including a credit-guarantee scheme and additional support for independent workers. On May 17, they announced a programme to distribute 2.5mn food donations with a fiscal cost of CLP 78.9bn. Yet another package followed, worth CLP 9.5tn for the next 24 months focused on economic recovery. All packages combined amount to 10% of GDP, one of the largest packages in Latin America. The Chilean Congress passed a law that allows workers to withdraw 10% of their pension savings to help households mitigate the reduced income.

COVID-19 hit Chile's public finances severely. According to the latest official estimates, revenues will contract by 16.1% y/y in 2020 and expenditure is expected to grow by 11.4%. The negative COVID-19 impact on international prices of copper, Chile's key export commodity, and on taxes linked to economic activity are the main factors, which drive the decrease in revenues. Expenditures, on the other hand, are growing due to the various measures to support the economy. Consequently, the primary deficit is expected to reach 8.8% of GDP, which is 5.8 pp more than the pre-COVID-19 forecasts. Official estimates of overall deficit deteriorated as well, reaching an expected deficit of 9.6% of GDP in 2020, which, if materialised, would be a 20-year high. The debt-to-GDP ratio might also climb to 34.8% of GDP by the end of 2020, perhaps the lowest in Latin America.

Despite the unprecedented fiscal expansion in 2020, Chile plans to gradually return to a more neutral fiscal stance. In this scenario, the primary deficit would decrease to 1.1% of GDP in 2024. However, public debt will rise in the coming years to 45.4%-49.5% of GDP in 2024, according to the latest official estimates.

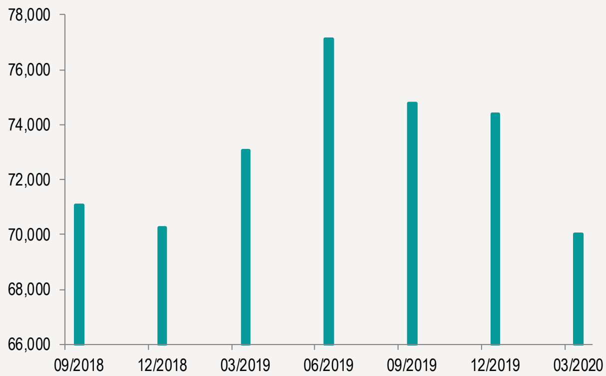
According to the latest official estimates, revenues will contract by 16.1% y/y in 2020 and expenditure is expected to grow by 11.4%

Government Budget Balance, Chile, CLP mn



Source: CEIC Data, IMF

Central Government Debt, Chile, USD mn



Source: CEIC Data, Chilean Budget Estimation Directory

In, On and For Emerging Markets

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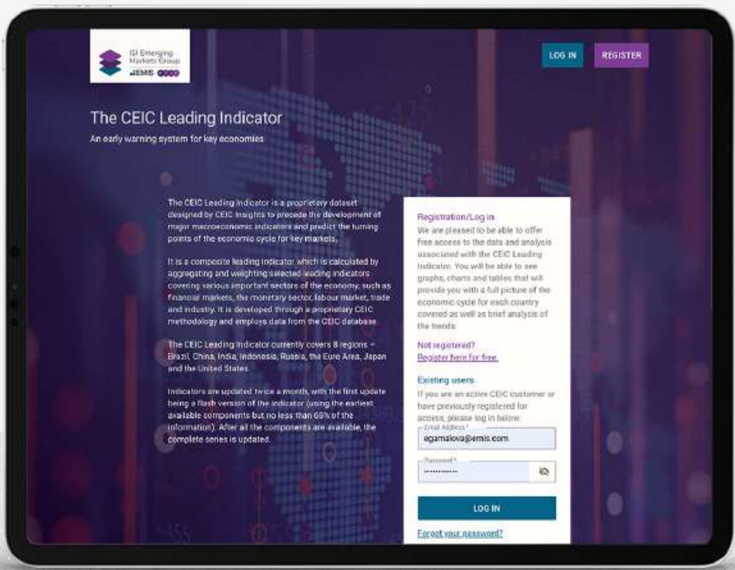

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