Box 2.1

Response measures by major economies to counter the COVID-19 pandemic

The COVID-19 disease has spread at alarming rates across the world since March 2020. On 11 March, the World Health Organization declared the outbreak a pandemic. The global economy worsened abruptly and plunged into a deep recession as travel restrictions, social distancing and other anti-epidemic measures have led to severe disruptions to production activity as well as a collapse in consumption demand. Financial markets became highly volatile as market participants examined the pandemic's duration and intensity and its impact on the economy, magnifying concerns about elevated debt levels in some major economies and the vulnerability of some emerging markets.

The severity of this unprecedented shock is plainly visible. In mid-April the International Monetary Fund (IMF) projected that the global economy would shrink by 3.0% this year, in stark contrast to the modest pick-up envisaged in January. This would represent the worst recession since the Great Depression in the 1930s, far worse than that during the global financial crisis in 2008-09. The Mainland economy, having registered its first ever contraction in the first quarter, was expected to gradually recover and grow by 1.2% for 2020 as a whole. Yet this already represented a substantial downward revision of 4.8 percentage points from the forecast in January. Other economies, which were still working to contain the pandemic, saw their forecasts marked down to an even greater extent. For instance, the IMF forecast sharper contraction of 5.9% and 7.5% in the US and the euro area respectively, though private sector forecasts issued at around the same time tended to be more optimistic (***Table 1***).

Table 1 : Growth forecasts for major economies in 2020 before and after the outbreak

	Pre-outbreak (January 2020)* (%)	**Post-outbreak (April 2020)*** (%)	**Post-outbreak (April 2020)^** (%)
World (PPP# weighted)	3.3	-3.0	-
Mainland	6.0	1.2	2.0
US	2.0	-5.9	-4.0
Euro area	1.3	-7.5	-5.7
France	*1.3*	*-7.2*	*-5.4*
Germany	*1.1*	*-7.0*	*-5.0*
Italy	*0.5*	*-9.1*	*-7.5*
UK	1.4	-6.5	-5.4
Japan	0.7	-5.2	-3.3
Korea	2.2&	-1.2	-0.5
Singapore	1.0&	-3.5	-3.5

Notes : (*) Forecasts from IMF World Economic Outlook.
(^) Average private sector forecasts as at April 2020.
(#) PPP refers to purchasing power parity.
(&) October 2019 forecast.

The IMF's April forecasts were based on the benign assumption that the pandemic fades in the second half of 2020 and containment efforts can be gradually unwound. However, the risks of a worse outcome predominated given the extreme uncertainty around the duration and intensity of the pandemic.

Box 2.1 (Cont'd)

In response to the huge adverse impact of the pandemic, major economies rolled out a series of fiscal and monetary measures. Fiscal measures were deployed to fight the COVID-19 outbreak directly and provide assistance to hard-hit businesses and households. Meanwhile, monetary measures were deployed to ease businesses' and household's debt burdens and calm financial markets. Some economies, including those facing more severe and protracted epidemic situations, have kept scaling up their response measures more recently.

In the Mainland, authorities made all-out efforts to combat the epidemic, and introduced a series of fiscal policies to stabilize the economy and employment and safeguard people's livelihood. The fiscal response consisted of three main components. *First*, the authorities allocated over RMB 140 billion directly to epidemic prevention and control. *Second*, the Mainland authorities offered considerable support to businesses by waiving various taxes and fees, including over RMB 1 trillion in social security contribution waivers. The hardest hit businesses, i.e. SMEs and enterprises in Hubei, have been offered the most assistance. *Third*, the central government put more funds in the hands of local authorities by increasing their fiscal revenue retention ratio and front-loading local bond issuance quotas. This was intended to allow local authorities to safeguard people's livelihood with programmes tailor-made to their individual circumstances and press ahead with their infrastructure investment projects.

The People's Bank of China (PBOC) also introduced a number of monetary and credit policy measures to support lending to hard-hit enterprises and ensure liquidity. These included introducing a special relending fund of RMB 300 billion to increase the supply of credit to producers of medical supplies and daily necessities, and expanding existing relending and rediscounting operations by RMB 1.5 trillion to increase the supply of credit to small, medium and micro enterprises and those in hard-hit sectors such as transport, tourism, and exports. The PBOC also added liquidity to the system by lowering the reserve requirement ratios for selected financial institutions, and lowered the policy rates through open market operations with a view to driving down the market-based 1-year and 5-year Loan Prime Rates (LPRs).

In the US, the government's fiscal response can also be divided into three components. *First*, authorities provided grants for federal agencies and healthcare providers to cope with the COVID-19 outbreak. *Second*, the government offered direct fiscal assistance to hard-hit businesses and individuals. For businesses, the fiscal assistance was mainly in the form of grants largely targeted towards small businesses and the airline industry, as well as forgivable loans and tax reductions. Individuals received direct cash payments, expanded unemployment benefits, and, for those employed by SMEs, subsidized medical leave. *Third*, state and local governments were given additional funds to mount their own responses to the outbreak. These measures, reflecting the severity of the outbreak in the US, summed up to around US$2.4 trillion, or around 11% of GDP[(1)] as at early May.

On monetary and credit policy, the US response, like the Mainland's, also included elements aimed at providing additional liquidity to hard-hit sectors. For instance, the US Treasury was allocated US$454 billion which the Federal Reserve (Fed) could leverage to backstop up to US$4.5 trillion of loans to businesses, states and municipalities if needed. For households and local governments, the Fed expanded its purchases of mortgage-backed securities and established a facility to provide liquidity to states and municipalities. Finally, the Fed slashed the target range for the federal funds rate twice in March by a total of 150 basis points to 0.00% to 0.25%, a low level last seen during the global financial crisis. The Fed also announced unlimited quantitative easing to further support smooth market functioning and the effective transmission of monetary policy.

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(1) Ratios of fiscal measures to GDP presented in this box exclude credit measures and may differ from other estimates reported by the media.

Box 2.1 (Cont'd)

In Europe, which also experienced a severe outbreak, the EU acted to free up funding to fight the pandemic through introducing credit measures to assist SMEs and facilitate member states' own fiscal responses. Key credit measures comprised €100 billion for national short-time work and unemployment schemes through a new instrument, €200 billion for SME lending via the European Investment Bank, and around €240 billion for euro area governments via the European Stability Mechanism. The European Commission also took a flexible approach to various rules and regulations with a view to allowing greater scope for member economies to deploy their fiscal resources, though the prevailing institutional constraints were still relatively stringent than in the US. At the national level, European economies unveiled a host of fiscal and liquidity measures to shore up their respective economies. Fiscal measures in major European economies, as a ratio to GDP, ranged from 4% (United Kingdom) to 6% (Germany). Notably, France, Germany, Italy and Spain all extended existing wage subsidy schemes, while Ireland and the UK introduced new ones.

On monetary policy, the ECB acknowledged that health and fiscal policies needed to be front and centre in Europe's coordinated response, but affirmed that it had a vital role to play in keeping the financial sector liquid and ensuring supportive financing conditions for all sectors of the economy. To this end, the ECB announced it would lower the interest rate on its targeted longer-term refinancing operations (TLTRO-III) by 25 basis points, such that banks lending to non-financial corporations and households could borrow at rates as low as -1.0%. The ECB also announced a new round of quantitative easing, expanding its regular asset purchases by €120 billion through the end of the year and introducing a new €750 billion Pandemic Emergency Purchase Programme which will extend through at least the end of this year.

Other major Asian economies also responded to the COVID-19 outbreak with a mix of fiscal and monetary policies. As at early May, Japan's fiscal measures, summing up to around 9% of GDP, included cash payments to households and SMEs facing hardships; additional measures included allowing SMEs to borrow at zero interest and struggling companies to defer tax payments and social security contributions. Singapore's fiscal measures, summing up to around 7% of GDP, included among others cash payments to individuals, and a substantial jobs support scheme with wage subsidies ranging from 25% to 75%; credit measures included a substantial injection of loan capital to further support businesses' credit needs. In South Korea, fiscal measures summed up to about 4% of GDP and included cash payments for households and tax concessions for individuals and small businesses; credit measures included providing additional liquidity to exporters, and stabilising financial markets.

Alongside these measures, central banks in the region acted to ease monetary policy and meet needs for liquidity. The Bank of Japan increased its purchases of corporate debt and exchange-traded funds and offered increased liquidity support for businesses. The Monetary Authority of Singapore eased its exchange rate policy. The Bank of Korea cut its policy rate by 50 basis points and purchased government bonds to stabilise the bond market.

In sum, the COVID-19 pandemic has dealt an unprecedented and severe blow to the global economy. Concerted action is needed to fight against the pandemic, and the world's major economies have already announced a raft of measures to do so, many of them unprecedented. At this juncture, sustained and effective anti-epidemic efforts remain the most crucial for creating a favourable environment for a full recovery of the global economy.