Emerging Market Country Profiles

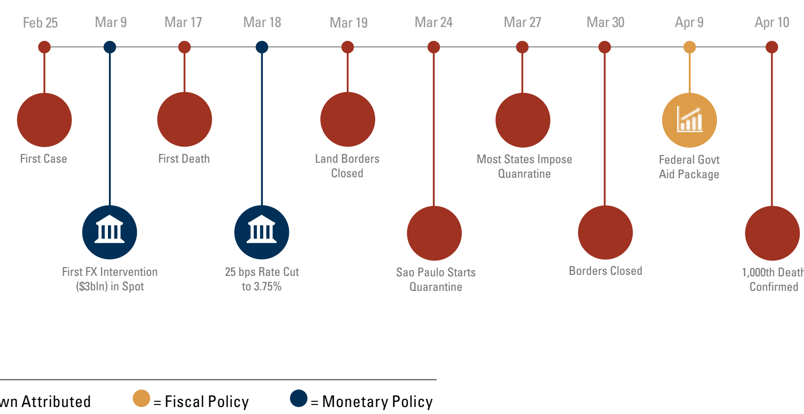
By Dr. Win Thin

Brazil

The first case of COVID-19 in Brazil was recorded on February 25, and the government has been widely criticized domestically and internationally for being behind the curve. It declared a state of "public calamity" on March 20 and subsequently lifted expenditure limits. As of April 30, about 5,500 people have died, and the number of confirmed cases stands at 77,000.

Fiscal measures taken so far add up to around 6.5% of GDP. They include direct support for families, informal workers, states and municipalities, expending existing transfer programs, as well as tax breaks and credit lines via state banks.

The Central Bank of Brazil (BCB) cut rates by 75 basis points (bps) so far this year to 3.75%, an all time low. Like most other central banks, the BCB cut reserve requirements to 17% from 25% and relaxed capital buffer rules to ensure ample liquidity. They also created a lending facility for financial institutions to pledge corporate bonds as collateral. Separately, the bank also announced a $7.7 billion emergency line to help companies finance payrolls. On the dollar funding side, the BCB can rely on the Fed swap facility (for up to $60 billion). They have also been intervening in both spot and forward to contain volatility in the real but had limited success so far. We think this is less a question of capacity or commitment and more a policy decision: the BCB seems content to allow the currency to help with the adjustment give inflation trends remain contained. The BCB have continued with repo operations of sovereign bonds which has the potential to introduce up to $10 billion into money markets.

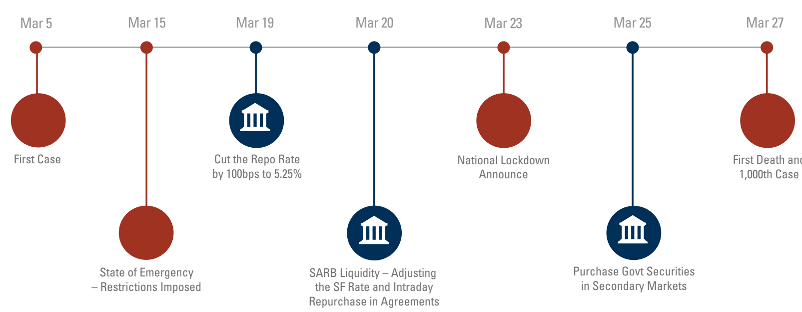


South Africa

South Africa's first confirmed case was announced on March 5 and the nation-wide lockdown started on March 26, effective until April 16. As of April 30, about 100 people have died, and the number of confirmed cases stands at 5,500.

The government's fiscal response has been very timid so far. It announced measures to help small and medium-sized enterprises (SMEs) and the farming sectors, tax breaks to low income works, and tax deferrals to small companies. More is likely to come — the fiscal measures implemented so far are estimated at around 1% of GDP. We see a significant chance that South Africa will have to go to the International Monetary Fund (IMF), even if with a face-saving "health funding" label.

It's no surprise that monetary policy has taken much of the burden in counter-cyclical measures, resulting in more pressure on the rand. The South African Reserve Bank (SARB) cut rates 100 bp to a record low 4.25% in an unscheduled meeting on April 14, bringing the year-to-date total easing to 225 bps. Before that, the SARB started an asset purchase program in the secondary debt market. The SARB will keep to the usual policy of no intervention within the foreign exchange market.



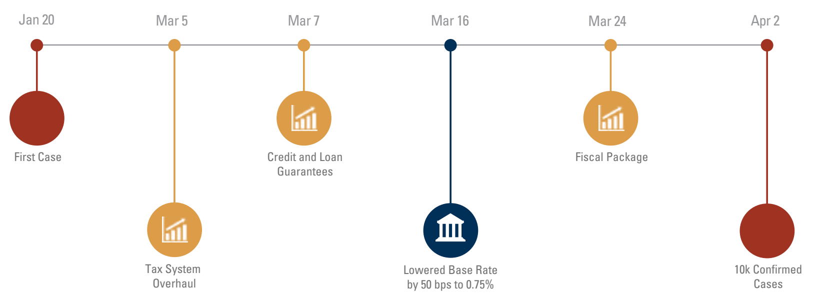
South Korea

The first confirmed case was on January 20 and by February 4 a travel ban was in place and mass testing swiftly implemented. As of April 30, about 250 people have died, and the number of confirmed cases stands at 11,000.

The government's first fiscal package came on March 3 and on March 17 a supplementary budget was approved. The combined amount adds up to some $13 billion, or 0.8% of GDP. The measures targeted SMEs, child-care subsidies, and job retention and retraining programs. This was followed by 5.3% of GDP package of measures with various components: (1) Financing support for businesses; (2) corporate bond market and money market stabilization; and (3) stock market stabilization measures.

On the monetary front, the Bank of Korea (BoK) adopted a relatively contained position towards rate cuts due to financial stability concerns. It cut only 50 bps so far to 1.25% and refrained to cut again in the April meeting. However, it has been providing unlimited liquidity (effectively QE) through open market operations, including to non-bank financial institutions and

= Lockdown Attributed = Fiscal Policy = Monetary Policy through a wider range of collateral. On the dollar funding side, the BOK can rely on the recently established Fed swap facility (for up to $60 bln). Other measures to facilitate funding in FX markets include suspending the 0.1% tax on short-term non-deposit FX liabilities of institutions, increasing the cap on FX forward positions. The BOK also reduced the minimum foreign exchange liquidity coverage ratio by 10% to 70%.

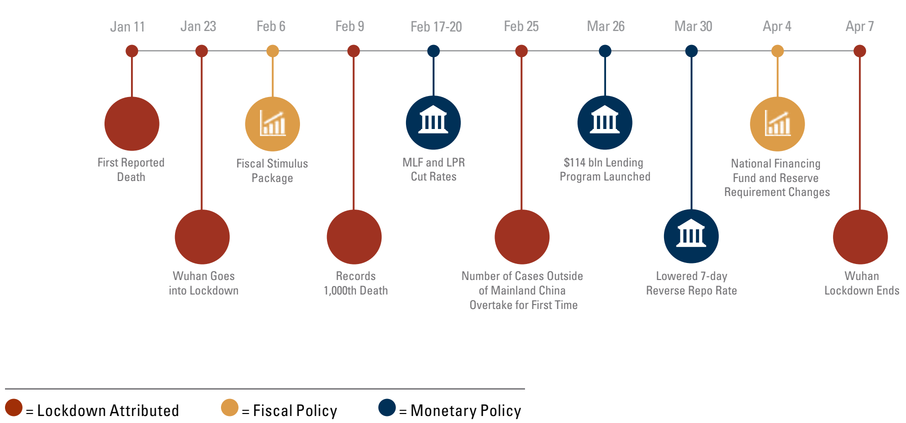


China

China's first reported death by COVID-19 was on January 11 and the infamous Wuhan lockdown was implemented on January 23. As of April 30, about 4,500 people have died and the number of confirmed cases stands at 84,000.

On the fiscal side, China central has launched a fiscal stimulus estimated at $370 billion, or 2.5% of GDP, according to the IMF. But not all of it has been implemented at this point. The new funds are earmarked for research, medical equipment, unemployment insurance, and tax relief. Local government will also be able increase borrowing to boost spending, resulting in a far greater total fiscal effort in the end.

Monetary stimulus came in fast and focused on ensuring ample liquidity during the initial stages of the crisis. Officials leaned heavily in open market operations, repos, its medium-term lending facility. The Peoples Bank of China (PBoC) has also adopted a relatively gradual (and appropriately so, in our view) approach to easing benchmark rates. In its latest move, the PBoC rate on its 1-year Medium-Term Lending facility (MLF) rate by 20 bp to a record low 2.95%, the largest single move for the facility, which has been cut two other times (5 and 10 bp) in this cycle. Last week, the 1-year Loan Prime Rate (LPR) fell 20 bp to 3.85%, while the 5-year rate fell 10 bp to 4.65%, which effectively lowers the cost for new loans and variable-rate ones. Regulators have also taken a series of measures to improve credit conditions and help firms facing difficulties, including credit guarantees, delay of loan payments for SMEs, and allow for a greater NLP tolerance by lenders. A ceiling on cross-border financing was raised by 25% for banks and enterprises.



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