

Asia week ahead: Stimulatory economic policy gains momentum

As investors continue to assess the economic damage of Covid-19, support for Asian economies from both the fiscal and monetary side is on the rise. For the same reason, Singapore's budget takes centre stage next week



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➔ Singapore budget FY20

Singapore government is preparing for a more detrimental fallout from the coronavirus than it did for SARS in 2003 and is expected to roll out a significant stimulus in the FY20 budget to be unveiled next Tuesday, 18 February.

The city-state's abundance of riches evident from several years of fiscal surplus recently (barring FY19 when the budget was programmed for a deficit of about 0.7% of GDP) will be put to use to reduce the impact of the virus on the economy. The impact mainly flows through tourism and trade as China is a big partner of Singapore in both these areas. The authorities are now expecting a 25-30% plunge in visitors this year, which together with a sharp slowdown in exports to China will certainly be bad for the small, open economy.

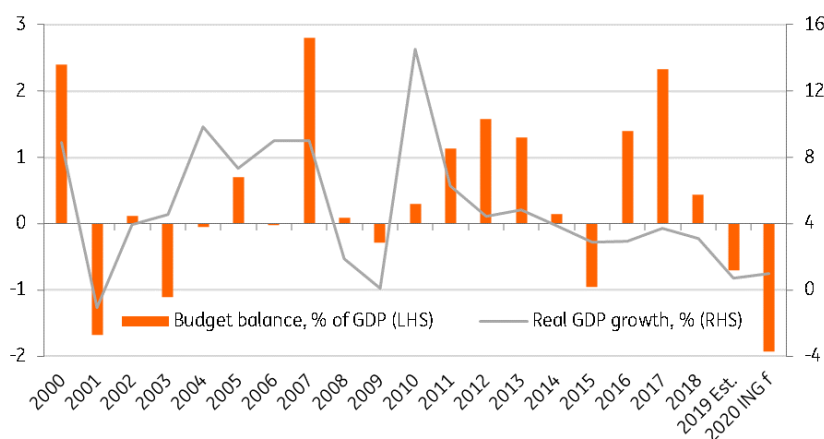
We recently cut our GDP growth forecast for 2020 to 1.0% from 1.6%, though this too hinges on the economy receiving fiscal support.

Even before the outbreak, the government flagged a growth-friendly budget for the economy already reeling under the trade war and tech slump for more than two years. And now the added whammy (Singapore is the third most affected country outside China) seems to have paved the way for a much bigger stimulus.

We anticipate close to 2% of GDP fiscal deficit, up from 0.7% planned for FY19 and the most in two decades (after 1.7% deficit during the burst of the tech bubble in FY01).

Taking cue from the SARS stimulus package, the Covid-19 package is likely to contain some income tax relief for both individuals and corporates, target reliefs measures for tourism and retail sectors, incentives for small and medium-sized enterprises to stay afloat without having to downscale operations, and probably some boost to real estate via rollback of some earlier tightening, besides the usual long-term initiatives supporting innovations and digital transformation.

Singapore: The bigger the crisis, the bigger is the fiscal thrust



Source: CEIC, ING

➔ More Asian central bank easing

Asian central banks are trying to get ahead of the curve of monetary easing to support growth as the rapidly spreading disease dampens the economic outlook.

The next one to join the race seems to be Indonesia's central bank, after counterparts in China, Malaysia, Philippines, and Thailand – cut their policy rates by 25 basis points recently. Consistent downside CPI inflation surprises for six months through to January (2.7%) and virtually stalled GDP growth at 5% suggests that Indonesia's central bank won't risk the wrath of the ongoing virus. Our house view is a 25bp rate cut at the next meeting on 20 February.

Elsewhere, Malaysia's CPI inflation data for January is expected to show continued low inflation coming into 2020, supporting our call of another 50bp rate cut while growth remains at the mercy of this epidemic. Thailand's GDP data for the fourth quarter of 2019 could nudge the Bank of Thailand for another rate cut this quarter too.

Asia Economic Calendar

Country	Time Data/event	ING	Survey	Prev.
Monday 16 March				
China	0130 Feb New home prices (YoY%)	-	-	0.27
	0200 Feb Fixed asset investment (YTD, YoY%)	-7	3.5	5.4
	0200 Industrial production (YoY%)	-9	-	6.9
	0200 Retail sales (YoY%)	-8.8	-	8
India	0630 Feb WPI (YoY%)	2.9	-	3.1
	- 4Q Current account balance (Q) (US\$bn)	-	-2.5	-6.254
	- Feb Trade balance (US\$mn)	-11.7	-	-15.2
	- Feb Exports (YoY%)	-4.5	-	-1.7
	- Feb Imports (YoY%)	2.2	-	-0.8
Indonesia	0400 Feb Trade balance (US\$mn)	-864.1	-	-864.2
	0400 Feb Exports (YoY%)	-5.6	-	-3.71
	0400 Feb Imports (YoY%)	-7.2	-	-4.78
Philippines	- Jan OCW remittances (YoY%)	3.7	-	1.9
Tuesday 17 March				
Singapore	0030 Feb Non-oil domestic exports (MoM/YoY%)	-4.3/-8.3	-/-	4.6/-3.3
Hong-Kong	0830 Feb Unemployment Rate	-	-	3.4
Thursday 19 March				
Indonesia	0720 BI policy decision (7-day reverse repo, %)	4.75	-	4.75
Philippines	0800 Overnight Borrowing Rate	3.50	-	3.75
Taiwan	- Benchmark Interest Rate	1.375	-	1.375
South Korea	2100 Feb PPI (YoY%)	-	-	1.0
Friday 20 March				
Taiwan	0800 Feb Export orders (YoY%)	-15.2	-	-12.8
China	0130 Loan Prime Rate 1Y	4.05	-	4.05

Source: ING, Bloomberg, *GMT