FitchRatings

Coronavirus Macro Policy Responses Unprecedented

Tracking Policy Easing in the Fitch-20 Countries

Highlights

- Historic macro policy response will help post-crisis recovery
- Fiscal support is equivalent to 12.8% of combined Fitch-20 2019 GDP including guarantees of 5.7%
- Direct fiscal stimulus of 7.1% significantly exceeds post-global financial crisis response
- Unprecedented new quantitative easing (QE) and liquidity support in the eurozone, US and UK
- Emerging-market macro policy response smaller, except in Brazil, Poland and South Africa
- Mexico and India announced less than 2% of GDP direct fiscal support measures
- China’s restrained approach to policy response relies on moderate fiscal stimulus
- Widespread policy rate cuts across emerging markets, with sharp cuts in Turkey, South Africa, Mexico, Brazil and India

Unprecedented Macro Policy Easing

Macro policy responses to the coronavirus pandemic have already reached historically unprecedented levels and could still be expanded further. Aggregate direct fiscal stimulus measures totalling USD5 trillion (7.1% of 2019 GDP) for the Fitch-20 countries covered in the Global Economic Outlook have already been announced. This outweighs the scale after the global financial crisis, when the advanced economies undertook a fiscal easing of 3% to 4% of GDP. Massive policy easing will help the pace of economic recovery after the health crisis.

Nevertheless, responses have been strikingly uneven across the Fitch-20 countries. Most developed markets have adopted large fiscal packages including sovereign credit guarantees, launched new credit facilities and revived, expanded or introduced quantitative easing. Meanwhile responses in many emerging markets have been less aggressive, except for Brazil, South Africa and Poland.

Responses entail a wide set of instruments from direct fiscal support to households and businesses, to fiscal guarantees granted by the government or quasi-fiscal measures borne by public agencies. Monetary easing, asset purchase programmes, and launching of new liquidity or refinancing facilities have also been adopted by various central banks to support the real economy including via the banking sector. The speed and size of macro policy easing will influence both the intensity of the immediate coronavirus-related macro shock and the pace of economic recovery after the health crisis. Fitch's Economics team has drawn up an aggregated list of these instruments to help inform its economic forecasts for the 20 large countries covered in its Global Economic Outlook.

G7 at the Forefront

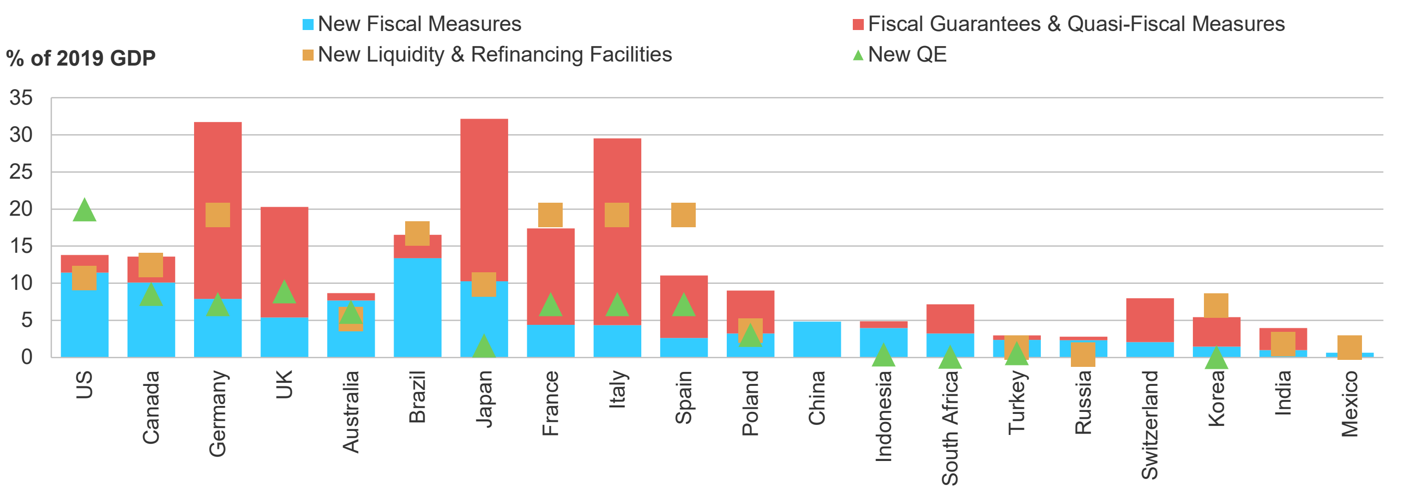
On a broad definition of fiscal support including direct fiscal easing measures and guarantees, Germany, Italy and the UK have announced more than 20% of GDP overall fiscal support, followed closely by France (17.5%). More than 70% of the total fiscal response in the largest four eurozone countries and the UK is composed of government guarantees, aimed primarily at protecting the private sector from financial pressures through the health crisis.

However, new discretionary direct fiscal measures from European governments are still fairly substantial, from 4.5% of GDP (Italy and France) up to 8% of GDP (Germany). Moreover, a EUR750 billion EU joint fiscal package (6.3% of eurozone GDP) has been proposed by the European Commission following an initiative by France and Germany to finance the economic recovery, but has yet to be agreed at the EU level (and is not included in our table).

Fiscal expansions in the eurozone and the UK have coincided with the announcement of additional quantitative easing purchases by the European Central Bank and the Bank of England, helping to maintain cheaper sovereign borrowing costs. In the UK, the Bank of England has announced an asset purchase programme of up to 9% of GDP while the ECB has pledged to buy EUR870 billion of corporate and sovereign assets (7.3% of eurozone GDP) by the end of the year through the Pandemic Emergency Purchase Programme.

The ECB has also improved the terms and availability of its Targeted Long-Term Refinancing Operations (TLTRO III) and launched the new Pandemic Emergency Long-Term Refinancing Operations. Up to EUR3 trillion of liquidity (25% of GDP) will be made available, compared to the outstanding amount of around EUR700 billion before the pandemic.

Macro Policy Response - Fitch 20



Source: Fitch Ratings, IMF

The US has also announced an enormous stimulus package and established a very wide range of support instruments. Direct fiscal measures total 11.5% of GDP, including tax rebates, a pay cheque protection programme, unemployment benefits, Small Business Administration loans, health care spending and transfers to states. Guarantees add a further 2.4% of GDP to the fiscal package.

The Federal Reserve has deployed the largest monetary apparatus among developed markets with unlimited asset purchases pledged under its new QE programme. We anticipate a total of over USD4 trillion in new QE asset purchases in 2020. In addition, 14 new liquidity facilities have been set up to support the real economy and the banking sector amounting to a total of 10.7% of GDP, while the Fed cut fed fund rates by a cumulative 150bp since 1 February 2020 in two emergency monetary policy decisions. Congress is also discussing further fiscal support measures.

Japan has announced a large set of measures through two supplementary budgets and a support package. Fitch estimates actual new discretionary measures will total 10.4% of GDP, while guarantees and quasi-fiscal measures such as loan programmes, investments and regional outlays announced by the government account for 21.9% of GDP. The Bank of Japan has increased the frequency of government bond purchases and extended the annual flows targets of corporate bonds/commercial papers and exchange-traded funds purchases to JPY20 trillion and JPY12 trillion, respectively (5.8% of GDP). The Bank of Japan is also using yield curve control, a policy adopted in 2016.

Australia's fiscal response to the crisis amounts to 8.8% of GDP including three stimulus packages adopted by the federal government, with a large part composed of wage and cash flow support to households and businesses, and further fiscal support measures announced by states and territories. The Reserve Bank of Australia has for the first time launched a QE programme, through the adoption of a yield curve control policy that targets government yields. The Bank of Canada has also launched a QE programme, which we anticipate will reach 9% of GDP.

Emerging Markets More Restrained

In many emerging markets, the macro policy response to the coronavirus crisis has been much less aggressive. In Mexico and India, direct new discretionary fiscal measures and new refinancing and liquidity facilities adopted by the central banks account for less than 2% of GDP. Despite its large fiscal space relative to other emerging markets (with gross general government debt to GDP at 14.7% at end-2019), Russia's response to the crisis appears modest, with announced fiscal measures totalling 3% of GDP and new facilities for SME lending accounting for a small 0.5% of GDP.

Most of China's stimulus package relies more on fiscal measures than large credit loosening. However, the Chinese approach to policy stimulus has been restrained so far with fiscal measures, including increased healthcare spending, various tax relief measures, and more rapid disbursements of unemployment insurance totalling 4.9% of GDP.

Fiscal support packages in Indonesia and Korea appear larger, at 5% and 5.6% of GDP respectively, and Korea has further proposed a third supplentary budget of 1.8% of GDP, although 70% of its current fiscal stimulus is through quasi-fiscal measures targeted at the export sector, and fiscal guarantees to Korea Development Bank. The Bank of Korea's liquidity support to the real sector totals 7.1% of GDP, including increased funding for SMEs, a financial stabilization plan and purchase of corporates bonds and commercial papers.

Brazil, Poland and South Africa have by far made the largest policy responses to the crisis among emerging-market economies. Brazil has announced an overall fiscal package of 16.6% of GDP, including 3.1% of GDP of quasi-fiscal measures to support credit expansion to be borne by public banks, although the deficit impact from Brazil's support package is expected to be around 6% of GDP. The Central Bank of Brazil has also pledged liquidity injections of 16.8% of GDP. In Poland, new budgetary measures total 3.4% of GDP, while new credit guarantees and micro loans for entrepreneurs add 5.8% of GDP to the fiscal support and the Polish Development Fund is set to provide liquidity for businesses for up to 3.7% of GDP. South Africa's fiscal support accounts for 7.3% of GDP, although 54% of the stimulus will be in the form of credit guarantees to support SMEs.

One common feature of the emerging-market policy response to the crisis has been policy rate cuts, despite large currency shocks across the board. All emerging-market Fitch-20 countries have cut rates since 1 February, with the largest in Turkey, where the central bank slashed rates by a cumulative 300bp, South Africa (250bp), Mexico (175bp), Brazil (150bp) and India (115bp).

Turkey, South Africa, Korea, Indonesia and Poland have also launched bond-buying programmes, although the scale of asset purchase has been limited so far as it mostly aims at smoothing spikes in money markets and bond yields with the focus on stabilising financing conditions rather than supporting lending. In Brazil, the congress approved a law to give power to the central bank to buy private and public sector securities, although the bond-buying programme has not yet been launched.

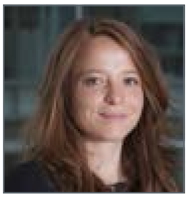
Coronavirus Macro Policy Responses in Fitch-20 Countries

	New Fiscal Measures (% of GDP)	Fiscal Guarantees & Quasi-Fiscal Measures (% of GDP)	Monetary Policy and Liquidity Support		
			Monetary Easing (Cumulative Rate Cut since Feb 1 - bps)	New QE (% of GDP)	New Liquidity & Refinancing Facilities (% of GDP)
US	11.5	2.4	150	20.1	10.7
China	4.9	--	30	--	--
Japan	10.4	21.9	0	1.7	9.9
UK	5.5	14.9	65	9.0	--
Germany	8.0	23.8	--	--	--
France	4.5	13.0	--	--	--
Italy	4.5	25.2	--	--	--
Spain	2.8	8.4	--	--	--
Eurozone	**--**	**--**	**0**	**7.3**	**19.3**
Switzerland	2.2	5.9	0	--	--
Australia	7.8	1.0	50	6.3	5.3
Canada	10.2	3.5	150	8.7	12.6
Brazil	13.5	3.1	150	--	16.8
Russia	2.5	0.5	75	--	0.5
India	1.1	3.0	115	--	1.8
Korea	1.6	4.0	75	0.2	7.1
Indonesia	4.1	0.9	50	0.5	--
Mexico	0.7	--	175	--	1.4
Poland	3.4	5.8	140	3.2	3.7
Turkey	2.5	0.6	300	0.7	1.4
South Africa	3.3	3.9	250	0.2	--
Total USD Bil.	**4,927**	**3,907**		**5,676**	**5,638**
Total % 2019 GDP	**7.1**	**5.7**		**8.2**	**8.2**

Source: Fitch Ratings, IMF
Notes: Fitch does not include short-term repo operations or facilities but does include increment to ECB long-term refinancing facilities (EUR3trn minus TLTRO amount outstanding prior to March 2020)
Fitch does not include FX swap arrangements set between the Federal Reserve and a number of other central banks
Fiscal guarantees refers to maximum amounts announced by governments
New quantitative easing amounts are Fitch forecasts for Japan, Australia, Canada and US and refers to assets purchased since the beginning of the crisis in Indonesia, South Africa, Korea, Turkey and Poland; for Germany, France, Italy and Spain, new QE refers to EUR870billion bond buying program by the ECB, which is equivalent to 7.3% of eurozone GDP
Quasi-fiscal measures include lending and support packages to be financed by various public sector institutions and agencies such as national development banks, and which are not guaranteed by or part of the government
Table and commentary do not incorporate macro-prudential easing measures announced in response to crisis.

Contacts

Economics



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