

Comments on
Covid Impact & Macroeconomic Policy in Asia
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ACAES / AEA : Covid & Recovery in Asia

The Message

- Extract from a macro text specifically aimed at Asia
- First draft of the story of open economy macro in the Covid era
- Application of the concepts we teach in our courses
 - Both internal & external balance matter for macroeconomic stability.
 - Exchange rate & interest rate work in tandem as policy instruments.
 - Policy space is constrained.
 - fiscal: debt sustainability
 - monetary: global capital flows

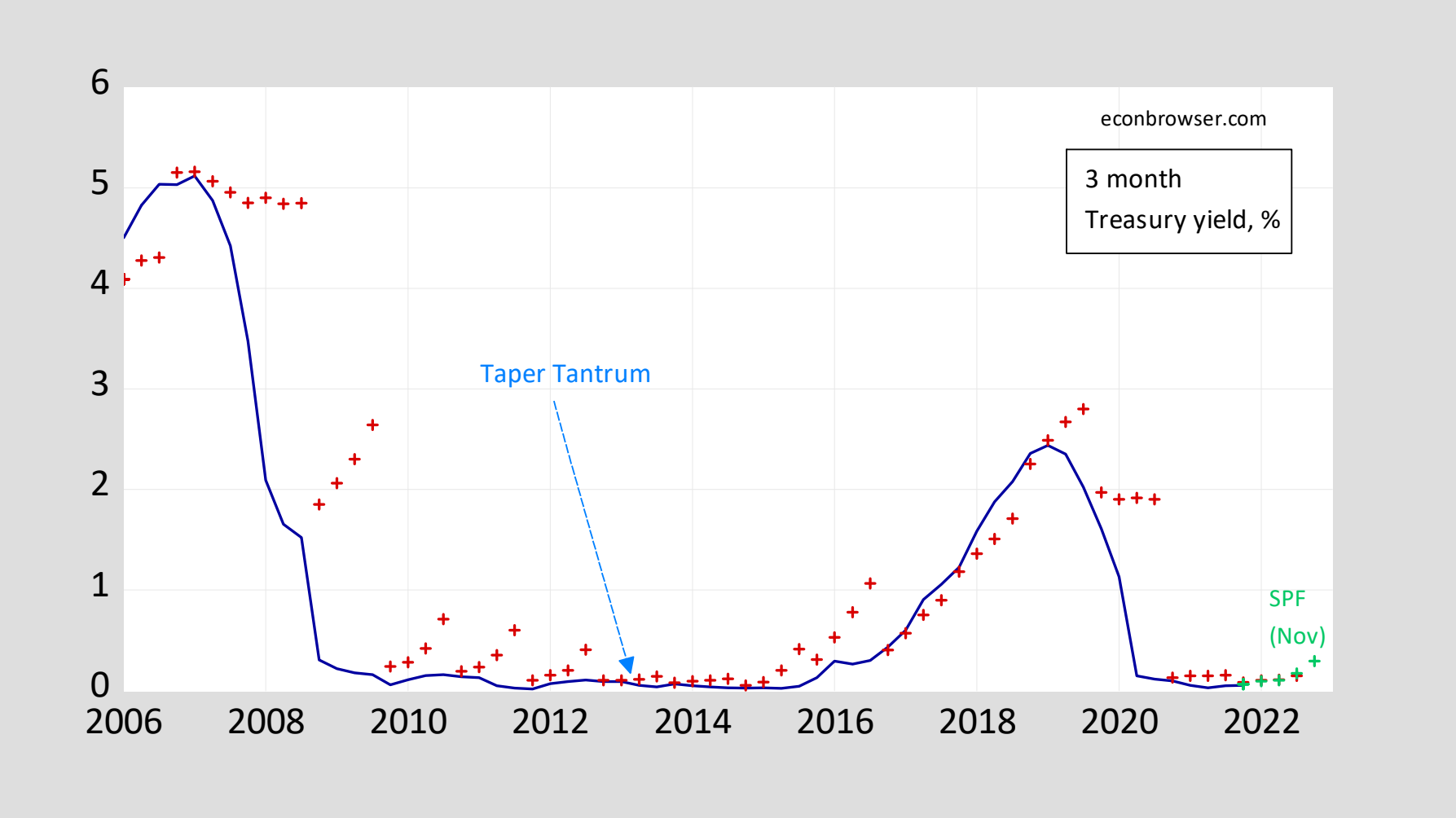
Outline

- What's New – linking mobility and case counts to GDP growth in 2020. But not in 2021 when macro policies take effect
- Speculation:
 - What happens when US interest rates rise
 - What happens to global imbalances?

What's New (or Not)? Macro Policy Matters

- Supportive fiscal and monetary policy “works”
- But depends on fiscal space – which in turn depends on “legacy” issues
- This will be important going forward as Covid becomes a chronic vs. crisis condition

Speculation 1: When US Rates Rise (sooner rather than later)



Will Asia Be Hard Hit? (Taper Tantrum II?)

Table 2 Factors Affecting the Estimated Financial Sensitivity, 1998–2014

	LDC (1)	EMG (2)
Exch. Rate Stability	−0.016 (0.263)	−0.070 (0.335)
Financial Openness	0.386 (0.212)*	0.493 (0.239)**
IR Holding	0.167 (0.611)	0.135 (0.846)
CA balance (%)	−0.318 (0.829)	−1.140 (1.348)
Gross debt (%)	0.107 (0.121)	0.182 (0.138)
Trade Comp.	−1.897 (0.896)**	−1.318 (1.048)
Trade demand	2.365 (1.093)**	1.265 (1.080)
Bank Lending	0.324 (0.619)	0.347 (0.582)
Fin. Dev.	0.755 (0.447)*	0.638 (0.526)
Macro-prudential	−0.039 (0.044)	−0.029 (0.044)
<i>N</i>	851	532
Adj. R2	0.05	0.01
# of countries	61	35

Aizenman, Chinn, Ito,
Financial Spillovers and
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Open Economies Review
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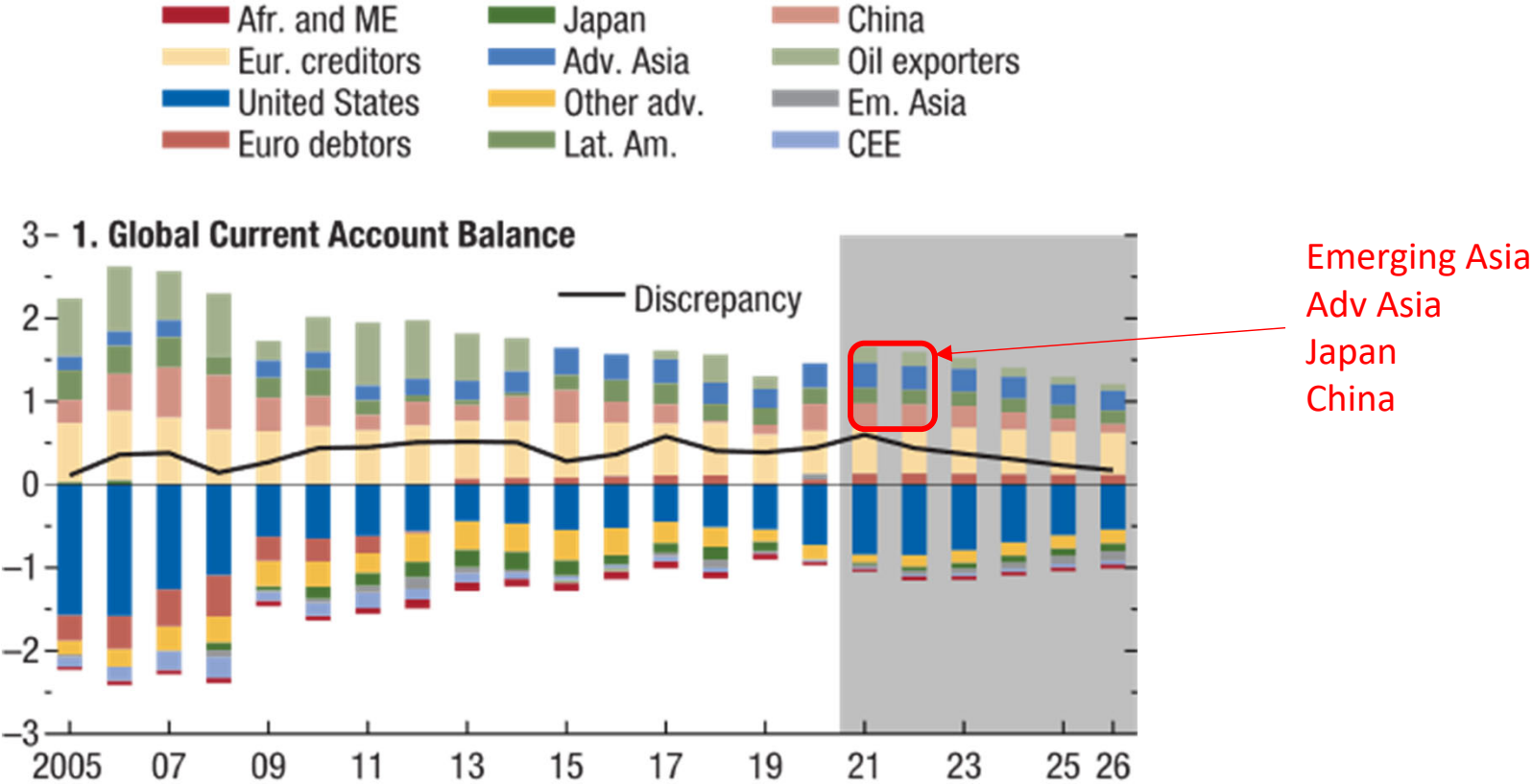
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Speculation 2: Global Imbalances

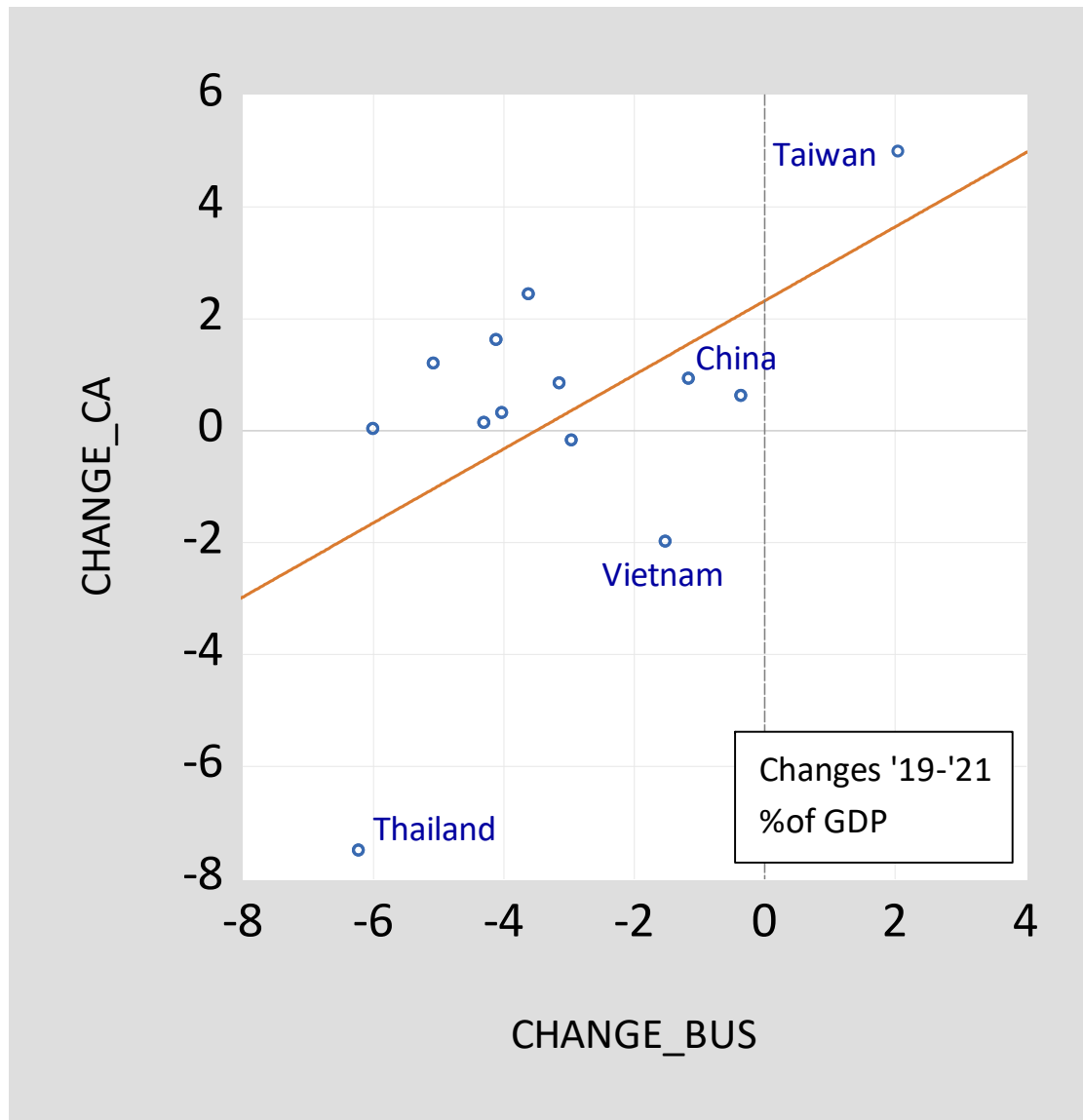
Figure 1.17. Current Account and International Investment Positions
(Percent of global GDP)

Current account balances are expected to narrow over 2022–26, while global stocks of external assets and liabilities are anticipated to remain near their historical highs.



Source: IMF, WEO, October 2021

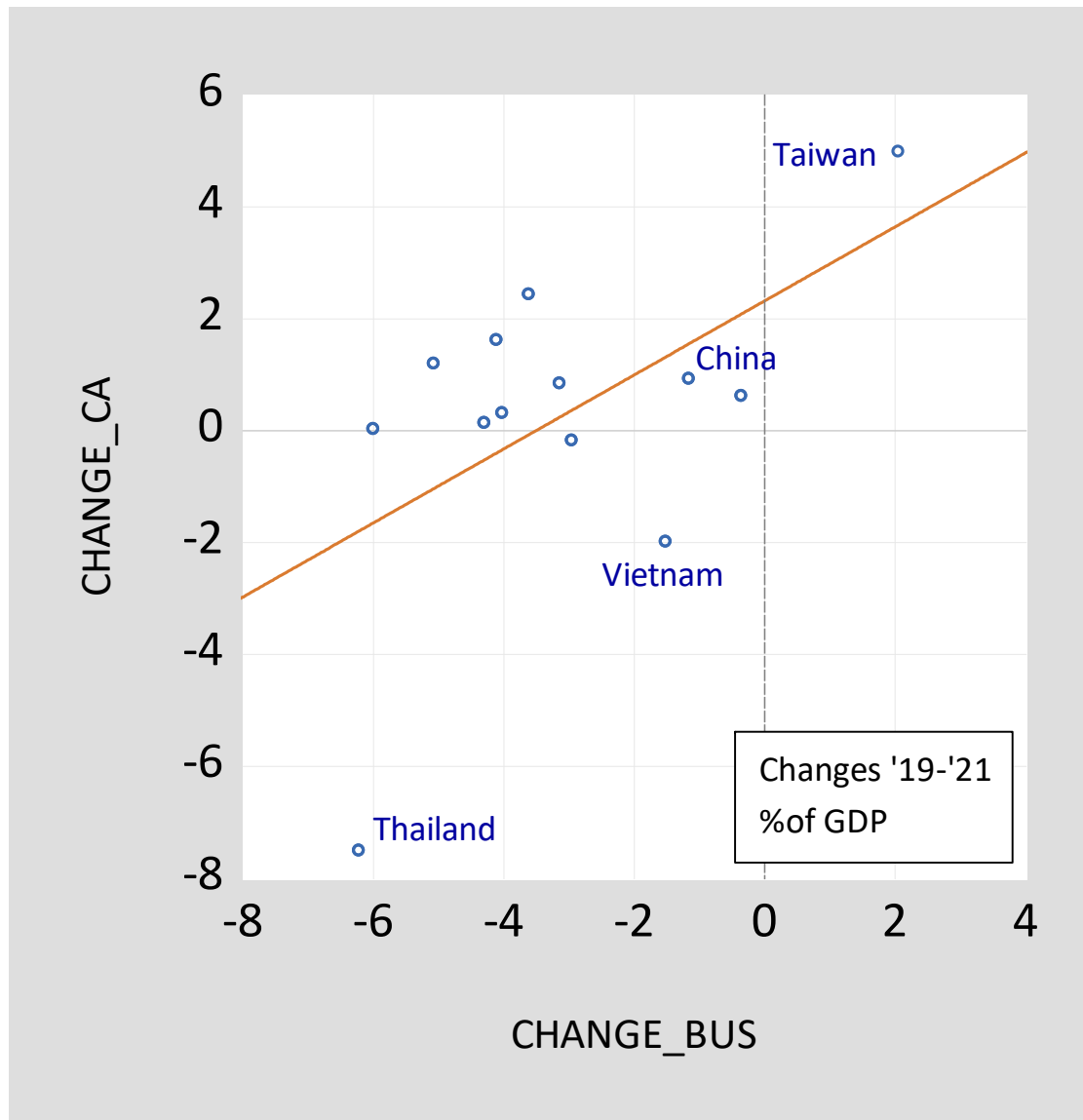
Current & Budget Balances in Asia



$$\Delta CA = 2.3 + 0.66 \Delta BuS$$

Adj-R2 = 0.24

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Chinn, Ito,
"Requiem..." *JIMF*
2021:
Coeff: = 0.5 for LDCs
Coeff: = 0.3 for EMGs

Conclusion

- Clear exposition of open economy macro
- Application to Asia's Covid experience
- Fiscal space will be key to future
- Factors that determine fiscal space persist limiting the response
- Rest-of-world will increasingly important (global financial cycle, demand)