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Go big with economic push to fight Covid-19

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Go big with economic push to fight Covid-19

Economic policymakers need to focus on taking bold and immediate action in order to tackle the pandemic crisis

20 May 2020

David G. Fernandez



Governments around the world need to persist with extraordinary fiscal and monetary measures if they are to succeed in mitigating the economic fallout from the Covid-19 outbreak. While markets and economies will only recover when infections from the virus slow, economic policy matters because it can both provide critical short-term support to people and businesses, and potentially improve the trajectory of the post-coronavirus recovery, said Dave Fernandez, Professor of Finance (Practice) and Director of the Sim Kee Boon Institute for Financial Economics at the Singapore Management University.

In the absence of a vaccine, attempts to control the Covid-19's spread quickly evolved from voluntary social distancing to legally-mandated lockdowns which have dramatically disrupted economic activity. "We all hope these lockdowns will be eased soon, but in the immediate term, the economic

policy responses should address the lockdown's disruption. So, the bottom line for policy is, go big," said Prof Fernandez.

A robust response in the US

With the highest number of Covid-19 cases, the United States is one example of a country that has gone big in its coronavirus response. Some forecasters expect the annualised contraction for the US in the second quarter this year to be around 30 per cent.

To deal with the severe downturn, the US federal government has so far passed three pieces of legislation that total more than US\$2 trillion, or roughly 9 per cent of GDP. However, the true policy support in the US could be two or even three times as big, noted Prof Fernandez. Not only is Congress looking to add to the fiscal package, but emergency lending through the US Federal Reserve could potentially exceed the measures already taken.

"It is too early to tell if these measures will be effective, but my base case is, with the US curve having flattened, that 3Q GDP will snap back and expand at close to the rate it is contracting now, though of course from a much lower base."

Asia shows more restraint

Meanwhile, Asian governments have generally been more restrained in their fiscal support. The leading example is China, which announced targeted fiscal support in early February before markets reopened after the extended Lunar New Year holiday, but this only amounted to around 1 per cent of its GDP.

While last month's Politburo meeting signalled a significant increase in China's fiscal support to be formally approved at this month's National People's Congress meeting, two places that acted quickly were Hong Kong and Singapore. With its latest announcement earlier this month, Hong Kong's fiscal packages now total about 10 per cent of GDP, whereas Singapore's three fiscal packages bring the total headline support to 12 per cent of GDP.

What has not happened yet in Asia is "immediate dislocation" in labour markets, said Prof Fernandez. Given the nature of this economic shock, he believed that governments should not only go big but they should do so in a way to keep workers employed and businesses open during the lockdowns.

“In the US, markets adjust quickly and brutally when business turns down and we’re seeing the immediate fallout with the millions of Americans filing for unemployment benefits. In Singapore and much of Asia, we do not see that yet, but we will if curves that have not flattened don’t flatten soon.”

Focus on the immediate crisis

In previous crises, economic policymakers discussed issues such as exit strategies, unintended consequences, and moral hazards, even as they were formulating and rolling out fiscal and monetary measures. In the case of the Covid-19 policy response, however, Prof Fernandez said that policymakers understand that the premium is on immediate action and that, later, these extraordinary measures will be rolled back.

“I will worry about those sorts of potential issues and problems later, not now. The priority now is first and foremost to address this medical crisis, bring the spread of the virus under control and eventually to find a vaccine,” he said.

More global coordination needed

Prof Fernandez is hoping for more global policy coordination across governments, although he believes that this is unlikely to happen. On the positive side, however, he noted that lines of communication continue to flow effectively across the relatively tight-knit global central bank community, with the important issue of potential stress in the US dollar market globally quickly addressed by the activation and expansion of Fed swap lines.

Looking ahead, policymakers should also take this opportunity to advance much needed structural changes. In particular, governments should work to address the shortcomings in their national healthcare systems that have been laid bare by this virus so that they are better prepared for the next medical challenge.

Furthermore, Prof Fernandez said the crisis could accelerate technology adoption across a wide range of industries, and throw a bigger spotlight on the need for sustainable solutions. “There is an opportunity to make big investments that move us toward more sustainable growth in the post-Covid-19 world.”