

Closed-Door Discussion on Economic, Business Implications and Financial Costs of COVID-19

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Lecture Theatre, Faculty of Law, Block B

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COVID'S ECONOMIC FALLOUT – WHAT COMES NEXT?

March 2021

LOOKING FORWARD – THREE MAJOR UNCERTAINTIES



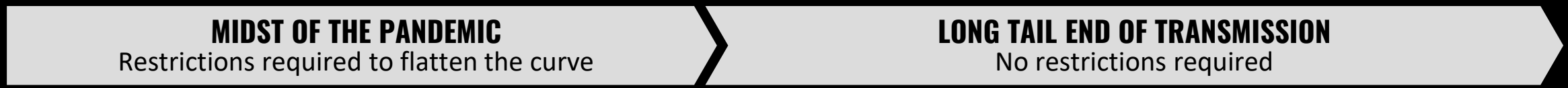
01 **“THE LONG HAUL TO NORMALCY”**
How long will this phase of Covid last?

02 **“ECONOMIC WHIPLASH”?**
What will be the medium term economic impact of Covid and government responses to it?

03 **“NEW NORMAL OR OLD NORMAL?”**
How persistent will behavioural changes from Covid be?

This is a theoretical curve under purely unconstrained conditions and assuming lifetime immunity

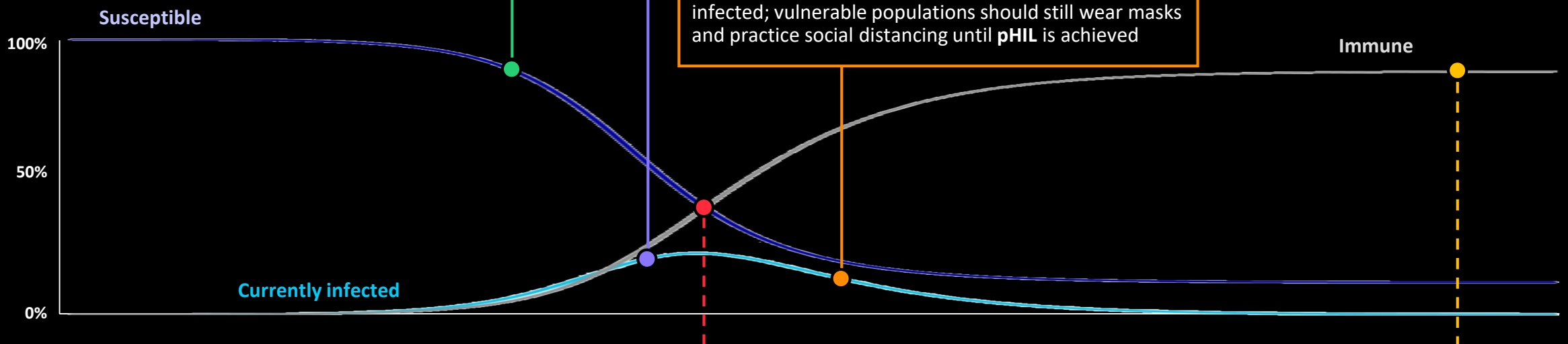
① RETURN-TO-NORMALCY TIMELINE DEPENDS ON HERD IMMUNITY



Susceptible population reduces over time through natural infection and vaccination (when available)

Exponential case growth will occur without constraints on human behavior (masks, social distancing, etc.)

Virus will still circulate, and individuals can still become infected; vulnerable populations should still wear masks and practice social distancing until **pHIL** is achieved

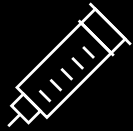


Possible Herd immunity threshold (pHIT)
Transmission rate naturally declines to 1, implying subsequently decreasing new case rates *Peak of an unconstrained case curve*

Possible Herd immunity level (pHIL)
Transmission rate naturally falls to 0, implying no further transmission *Y-intercept of an unconstrained case curve*

① VACCINATION COVERAGE OVER TIME DEPENDS ON A RANGE OF

variables and assumptions



EVENTUAL VACCINE COVERAGE

Total population that will ultimately be effectively vaccinated depends on variables like

- Vaccine efficacy
- Population willingness to be vaccinated over time
- Likelihood of completing a multidose vaccination series
- Presence (or lack) of vaccination mandates
- Availability of pediatric vaccine



VACCINE APPROVAL AND EFFECTIVENESS

There are multiple different vaccine approval scenarios, which vary according to

- Which vaccines are ultimately approved and when
- How effective those vaccines are at stopping severe illness, and at stopping community transmission
- How effective they are against new variants

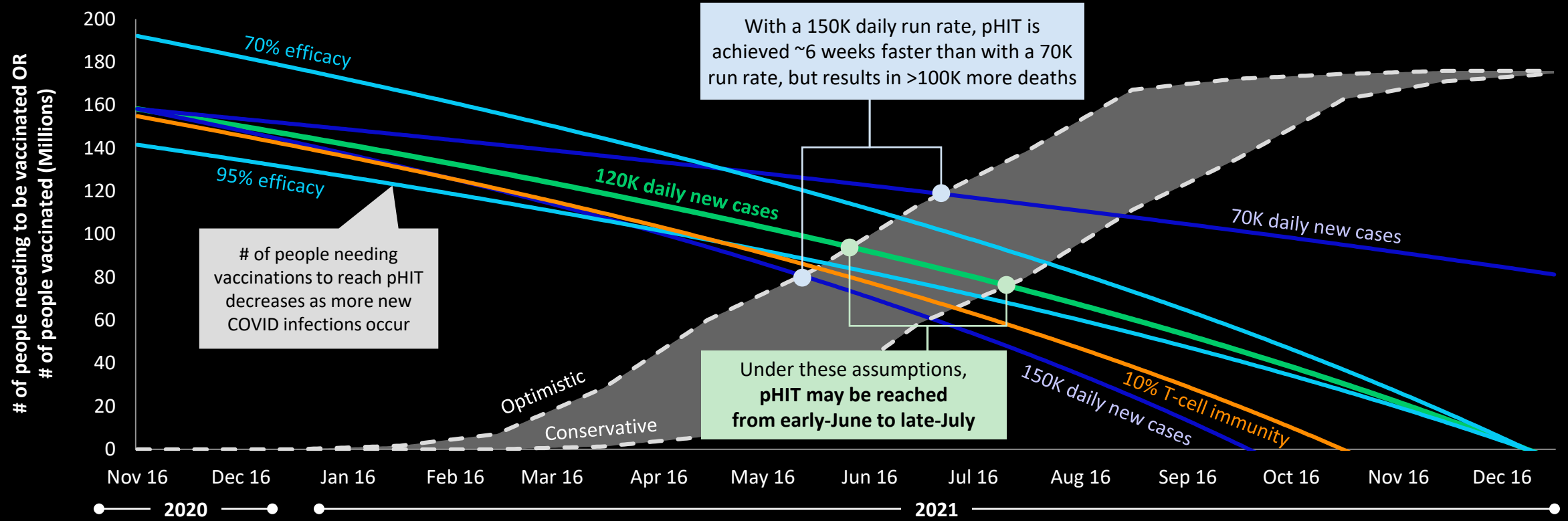


MANUFACTURING, DISTRIBUTION, AND ADMINISTRATION LIMITS

There is a maximal amount of possible vaccinations that can occur each month, limited by

- Total available supply and manufacturing capacity of approved vaccines over time
- US distribution and cold storage capacity limits
- US administration limits (e.g. labor, supplies)
- Externalities & potential limitations of distribution or administration

① US EXAMPLE OF ANALYSIS: SUGGESTS HERD IMMUNITY LIKELY IN MID-2021



of people needing to be vaccinated to reach pHIT

- "High case counts" scenario: 120K daily new cases, 85% vaccine efficacy, 0% pre-existing T-cell immunity, > 15 months duration of immunity
- Adjustment: Daily new cases
- Adjustment: Vaccine efficacy
- Adjustment: Pre-existing T-cell immunity

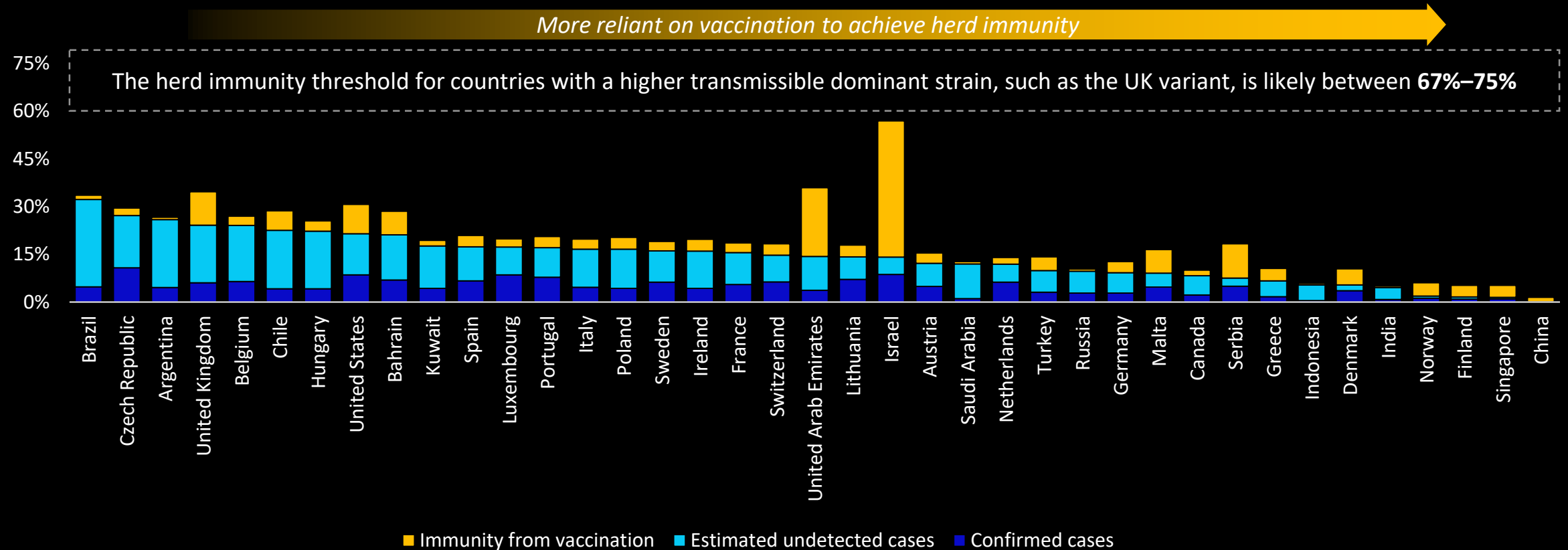
of people receiving vaccinations

- - - Shown for Optimistic and Conservative scenarios
- The range also accounts for vaccination scenarios where ramp-up delays occur, but pace of uptake thereafter is quicker than envisioned

① VACCINATION IS SPEEDING THE PATH TOWARDS HERD IMMUNITY

% population with immunity by natural infection or effective vaccination by country¹

Data as of Feb 22nd, 2021

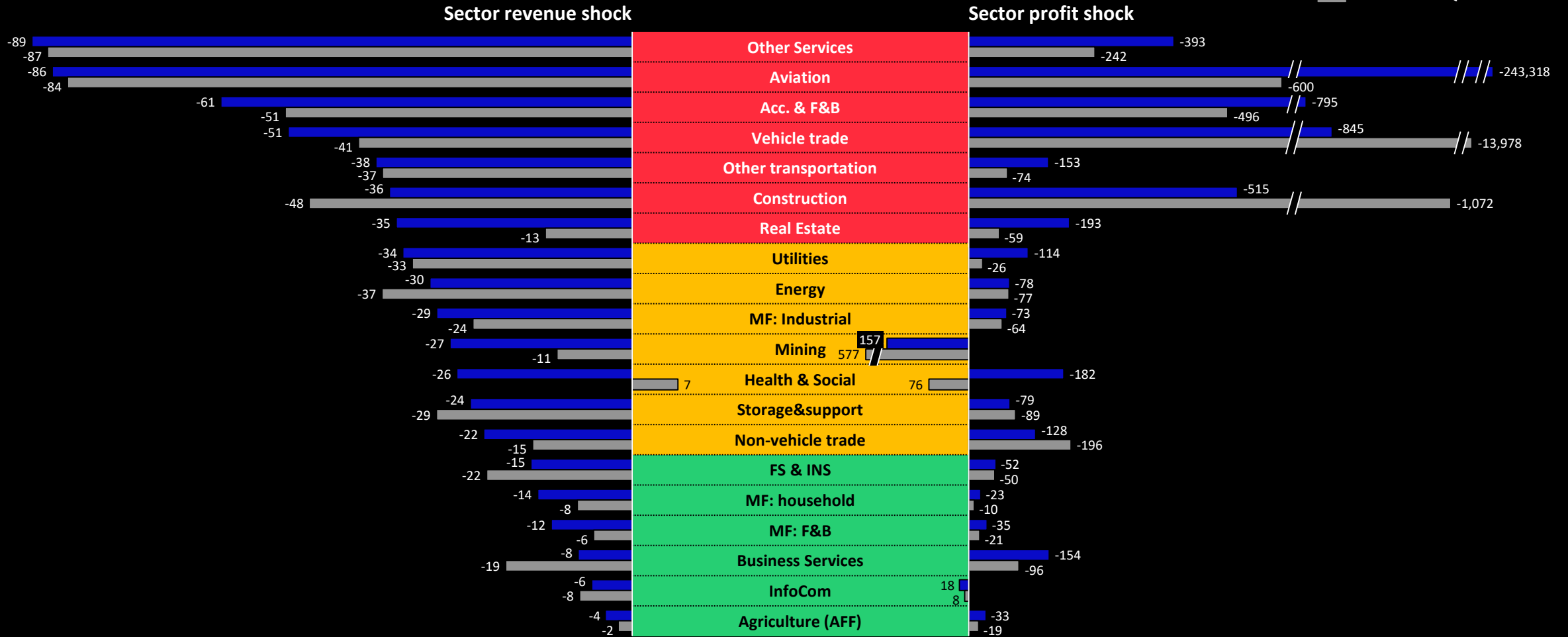


1. Undetected cases vary by region and are estimated based on IFR data and deaths. Effective vaccination counts assume a 50% efficacy rate for the first injection and that some dosages will be used on those already with natural immunity (assumes those with confirmed infections are 75% as likely as the noninfected population to receive a vaccination and those with undetected infections are 98% as likely as the noninfected population to receive a vaccination), which are not included in the effective vaccination totals above. Vaccination data from [Bloomberg](#) uses latest available data

① THE ECONOMIC COST HAS BEEN ENORMOUS – EVERY EXTRA PERIOD OF LOCKDOWN IS VASTLY EXPENSIVE

Indonesia example

Indonesia Q2 results
Indonesia Q3 results



① WHAT DOES THIS MEAN ECONOMICALLY?



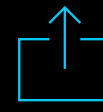
For Singapore – Covid-19 is still a *novel* Coronavirus

- Burden on the vaccination programme
- Low infection rates creates take-up challenge
- More importantly – challenge to come out of lockdown, with associated
- Travel critical for Singapore as a hub economy



For the world – high chance of lasting inequality in Covid emergence

- Our analysis suggests most of developed world likely to reach herd immunity in H2
- Emerging markets are much further off
- Threat of variants and need for regular “booster” shots could create lasting inequality

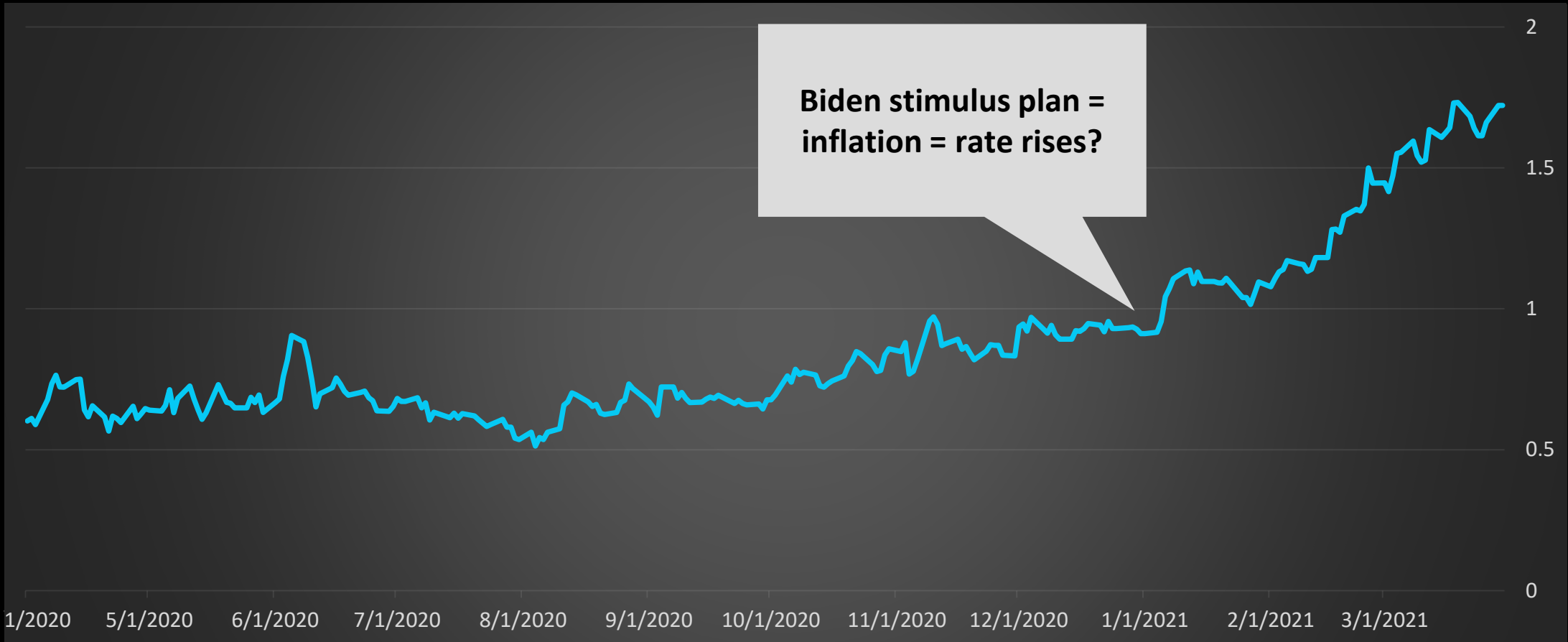


Release of stimulus and moratorium schemes will bring a point of reckoning

- Potential for widespread insolvency and employment impact
- Knock-on impact to financial sector still to be tested
- How fast we move back to Normalcy still matters!

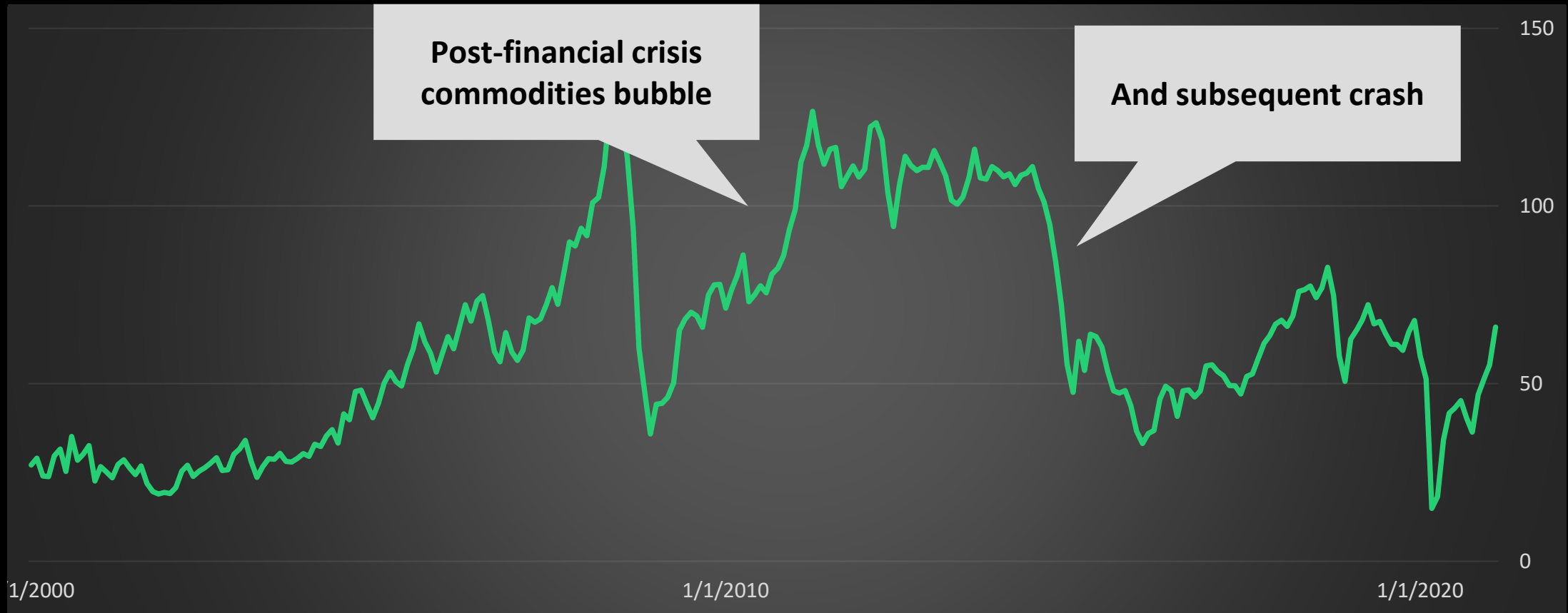
② WHAT COMES NEXT?

US 10-year Treasury yields



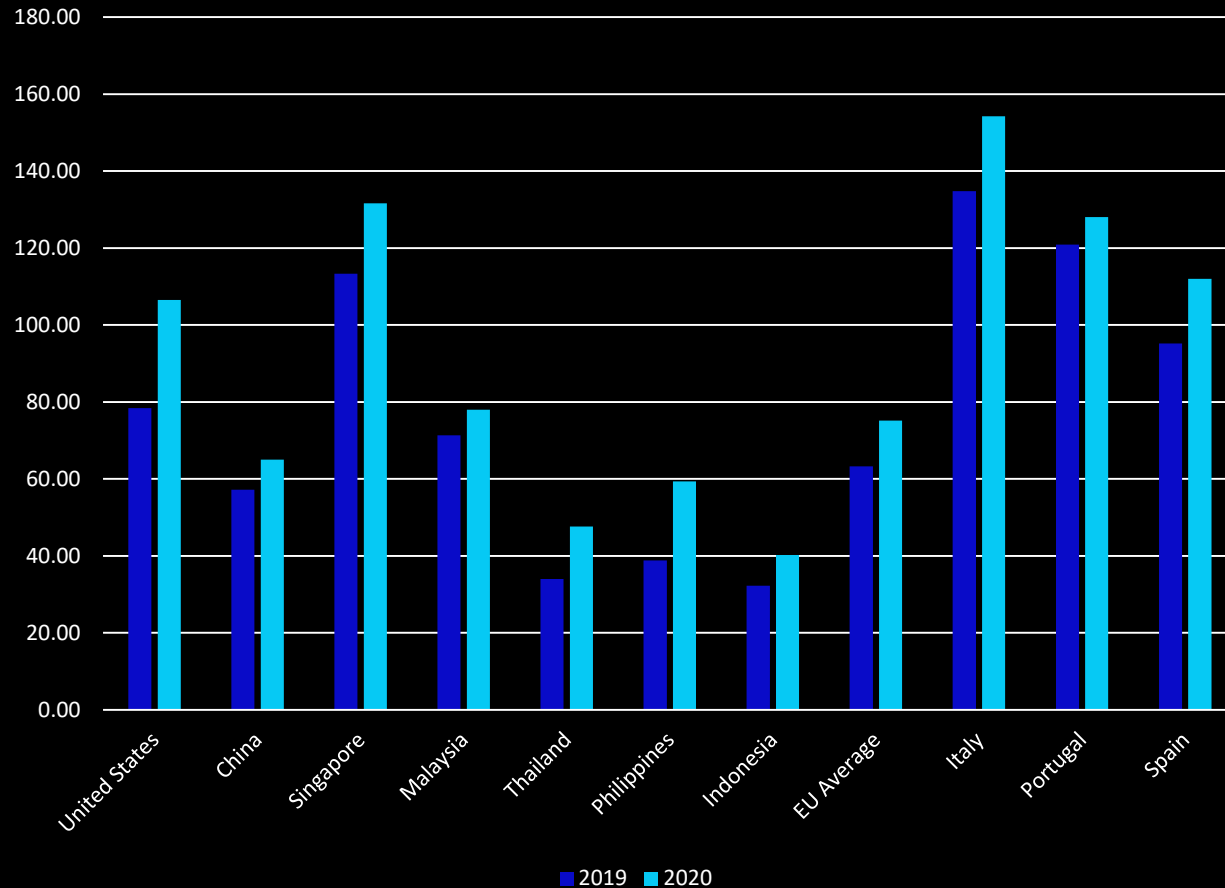
② EXTREMELY LOOSE MONETARY POLICY CREATES A RISK OF ASSET PRICE BUBBLES – EMERGING MARKETS BEWARE!

Brent Oil prices 2000–2021



② STIMULUS PROGRAMMES HAVE BALLOONED GOVERNMENT DEBT

Debt to GDP ratio 2019-2021



Source: Official statistics, IMF, Fitch Solutions

What comes next?

- The return of austerity?
- The return of sovereign stress?
- The return of Keynesian economics?
- The return of 1970's inflation?
- Lower-forever interest rates?

② WHAT DOES THIS MEAN FOR SINGAPORE AND SOUTH-EAST ASIA?



Commodities-heavy economies – boom and bust risk is high

- Similar pattern played out after 2008
- Sustainability push creates doubly-dangerous scenario



Watchout for financial stability

- Many banks will emerge from Covid with damaged balance sheets and depleted capital reserves
- Over-exuberance in following a commodities or other asset-price rush could lead to a further round of credit losses



Government policy after Covid will shape the next decade

- Risk of a return to the post-2008 austerity era...
- ...Or of a return to 1970's inflation?





Geopolitics and currency


- Asia has largely had a better pandemic than the West – and a smaller fiscal response
- This exacerbates a long-term trend of higher real GDP growth, and long-term geopolitical trends
- Currency moves seem a likely outcome as US and China adopt opposite short-term monetary policies

③ NEW NORMAL OR OLD NORMAL? COVID HAS LARGELY BEEN THE GREAT ACCELERATOR OF EXISTING TRENDS

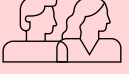
Demographic asymmetries

Growing world population 


Urbanization & densification 


Rise of Asian & African middleclass 


Aging societies 


Gender gap decrease 


Economic globalization

Selective deindustrialization 


Changing balance of economic power 


Global mobility 


Usage economy 


Rise of digital disruptors 


Resources constraints

Scarcity of natural resources 


Energy revolution 


Ecosystem at risk 


Natural disorders 


War for talents 


Innovation acceleration

Digital & data 


Smart devices & infrastructures 


Life sciences booming 


Industry 4.0 


Autonomous vehicles 


New governance models

Public debt crisis 


Asymmetric conflicts 


NGOs and citizenship 


Global cooperation 

Knowledge society 

Evolving consumption

Health and wellness 

New social networks 

Low/cost premium polarization 

Anxiety 

Homing 

Decelerated trends

Accelerated trends

Neutral

Low

Medium

High

Low

Medium

High

③ BEHAVIOURAL CHANGE HAS THE POSSIBILITY TO BE TRANSFORMATIVE – BUT IS IT STILL TOO EARLY TO SAY?



Digital adoption in business looks an irreversible trend accelerated by Covid

- Almost all the industries saw massive increases in online adoption during lockdown
- Global experience suggests much of this is persistent



Sectoral winners look likely to emerge

- E.g. Health and Wellness



Government spending driving – and thus skewing – the recovery

- Once in a lifetime opportunity for governments to reshape economies



Other trends far from certain

- Working from home – business community split
- Travel – permanent change vs. pent-up demand?
- The future of Commercial Real Estate?

