ECONOMIST IMPACT

Covid-19's impact on personal finance in Asia

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About this report

Covid-19's impact on personal finance in Asia was researched and written by Michael Frank and Sakshi Tokas of Economist Impact. Home Credit is the sponsor of this report. The analysis and conclusions herein are the work of Economist Impact and do not necessarily reflect the views of Home Credit.

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- Sumit Agarwal, Professor of Finance, Economics and Real Estate and Low Tuck Kwong Distinguished Professor at the National University of Singapore
- Era Dabla-Norris, Division Chief of the Asian I Division in the IMF's Asia Pacific Department and mission chief for Vietnam
- Steven Kidd, Professional Adviser at UNICEF UK

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As the pandemic moves into its late stages, policymakers' attention is shifting from emergency public health and economic measures to dealing with the long-term financial consequences. The pandemic has taken a toll on government, corporate and household finances alike, weighing heavily on the global economic outlook.

The impact has been profound in Asia, which has featured some of the world's most stringent infection-control policies. Much of the regions' workforce is employed in jobs requiring the physical presence of workers, such as agriculture and logistics. Many governments in the region lack the administrative capacity to deliver effective economic rescue packages directly to households. While recovery is likely to be hampered by higher global food and energy prices caused by Russia's invasion of Ukraine, there is reason for hope as growth rebounds in the world's most economically dynamic region. This report delves into the pandemic's impact on household finances and takes stock of the damage, focusing on developing countries in Asia, as well as the prospects for recovery.

Personal finances have taken a hit across the region, particularly for lower-income households

Macroeconomic data can help to clarify how the pandemic's economic impact has varied across countries in Asia, but aggregate national statistics can also mask the pain felt by vulnerable groups in society. Real personal disposable income per head, a measure of households' ability to spend after taxes and deductions, fell in most countries, notably in Pakistan, India and the Philippines. A significant share of employment in these countries consists of lower-skilled service trades and informal work that cannot be done remotely. Each country experienced long lockdowns at the height of the pandemic; India's strict 68-day lockdown was among the most severe in the world.[1]

At the other end of the spectrum, China managed to achieve positive annual growth for personal disposable income throughout the pandemic even after implementing lockdown policies and closing its borders—measures which, while appearing relatively draconian at

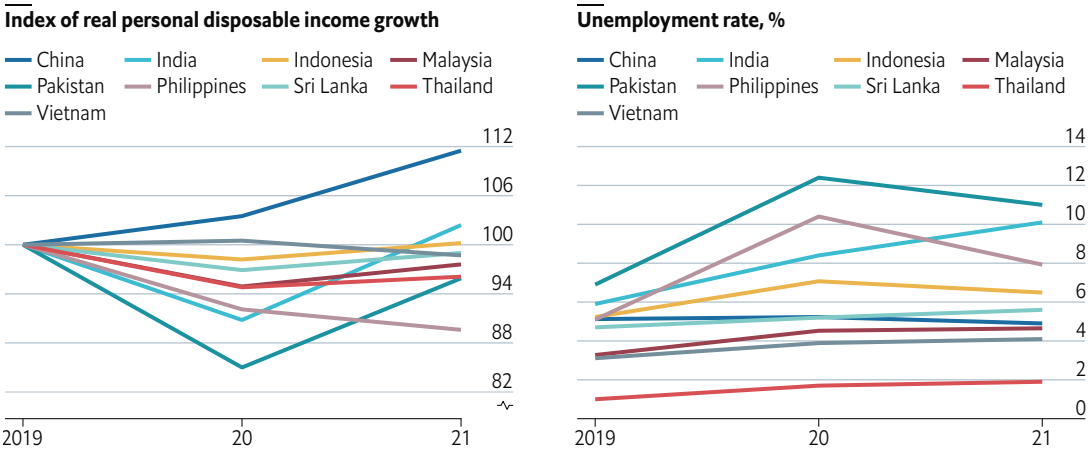
[1] Saaliq S. "Many Lives Were Changed by India's Lockdown a Year Ago". March 24th 2021. Associated Press. https://apnews.com/article/pandemics-health-india-coronavirus-pandemic-new-delhi-bba32aae3ea601c2efd783174da8270a.

the time, were shorter-lived than in other parts of the world. After the first quarter of 2020, China's economy was open for business as usual, with the exception of its restrictive entry policy. While exports in many Asian countries suffered from the impact of the pandemic in 2020, China's exports grew by 3.6% year on year, to US$2.6trn.[2] China's exporters benefited from the relatively early reopening of the country's economy, as well as demand for masks and other medical supplies. Robust demand from advanced economies, particularly the US, helped to make up for the economic damage of China's initial lockdown. China was the only major economy to record positive growth in 2020.

Income trends closely tracked unemployment. Unemployment rates were highest in Pakistan, India and the Philippines. Job losses and reduced working hours were exceptional even for lower-middle income countries. For example, in the Philippines, one out of five workers transitioned out of employment in Q2 2020; 6.5% became unemployed and another 6% exited the labour force, ceasing to seek employment completely.[3]

As incomes fall and unemployment rises, cash-strapped households have resorted to borrowing to meet immediate consumption needs. Countries with relatively mature consumer finance sectors where banks are actively lending to households, such as China, Malaysia and Thailand, saw upticks in household leverage in 2020. Countries with less-developed financial systems show a less dramatic change. This is true globally—the countries that saw the largest increases in household debt in 2020 are all high-income economies, with the exception of China (which has a rapidly-growing mortgage sector).

Figure 1: Income growth and unemployment, developing Asia



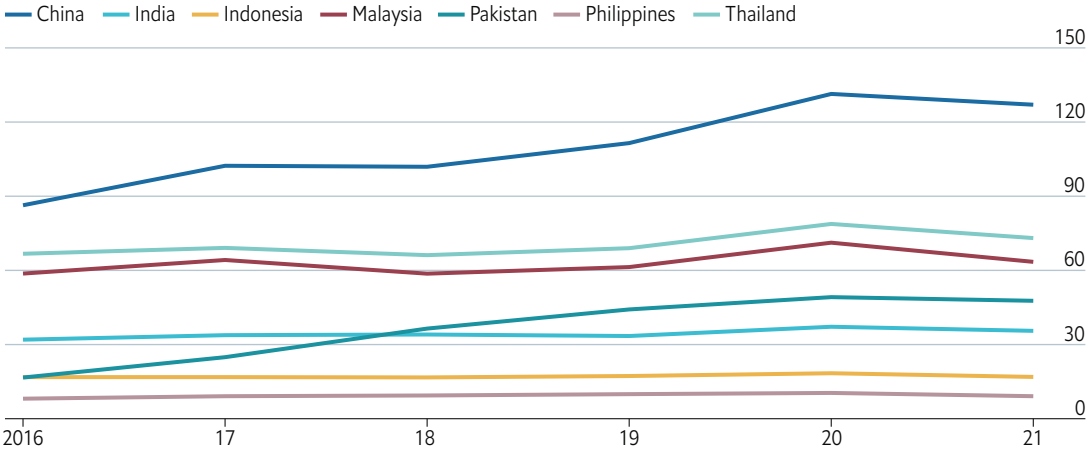
Source: EIU. Note: 2019 = 100.

Note: Recorded official unemployment as a percentage of total labour force.

[2] McDonald J. "China 2020 Exports Up Despite Virus; Surplus Surges To $535B". 2021. The Washington Times. https://www.washingtontimes.com/news/2021/jan/13/china-2020-exports-up-despite-virus-surplus-surges/?utm_source=RSS_Feed&utm_medium=RSS

[3] Asian Development Bank. "Covid-19 And Labor Markets In Southeast Asia Impacts On Indonesia, Malaysia, The Philippines, Thailand And Vietnam". 2021. ADB. https://www.adb.org/sites/default/files/publication/758611/covid-19-labor-markets-southeast-asia.pdf.

Figure 2: Household debt to GDP ratio, developing Asia
Ratio of household debt: GDP (%)



Source: EIU.

Note: Data represent the ratio of total liabilities of the household sector to nominal GDP in US$.

These statistics obscure the reality that many low-income or even middle-class households—particularly in developing economies—are simply unable to obtain credit through formal lending channels. People who work in blue-collar jobs, the informal economy or self-employment instead have had to draw down savings or borrow from friends and family to bridge liquidity challenges amid the height of the pandemic. "The rich are able to refinance mortgages and access cheaper credit, while the poor have no such benefit from macroeconomic conditions and monetary policy," says Sumit Agarwal, professor of finance at the National University of Singapore. Moreover, the scale of borrowing of poorer households is insufficient to move the needle in aggregate national statistics.

According to one count, the pandemic has pushed 75m-80m into extreme poverty (defined as earning less than US$1.90 a day).[4] It has also stalled the growth of Asia's middle class, a phenomenon felt most acutely in India, where the number of people earning US$10-20 a day fell by 32m.[5]

Members of many middle-income households lost their jobs and had to cut consumption and remittances—an important economic driver for many countries in the region. According to a survey conducted in ASEAN countries by the Asian Development Bank Institute, a think-tank operated by the bank, 73% of households experienced a decline in income and 33% reported that their income fell between one-quarter and one-half in the first six months of the pandemic.[6] About 23% of respondents reported a decline of greater than 50%. Income from household businesses or self-employment declined the most, with more than 80% of households reporting declines. According to Era Dabla-Norris, division chief in the IMF's Asia and

[4] Asian Development Bank. 2021. "Key Indicators For Asia And The Pacific 2021". Asian Development Bank. https://dx.doi.org/10.22617/FLS210322-3.

[5] Kochhar, Rakesh. 2021. "The Pandemic Stalls Growth In The Global Middle Class, Pushes Poverty Up Sharply". Pew Research Center's Global Attitudes Project. https://www.pewresearch.org/global/2021/03/18/the-pandemic-stalls-growth-in-the-global-middle-class-pushes-poverty-up-sharply/.

[6] Morgan, Peter J., and Trinh Q Long. "Impacts Of COVID-19 On Households In ASEAN Countries And Their Implications For Human Capital Development". 2021. ADBI Working Papers. Asian Development Bank. https://www.adb.org/sites/default/files/publication/688271/adbi-wp1226.pdf.

Pacific Department, the income effects of the pandemic are consistent with the importance of the informal sector to Asia's economies—and the overlap with contact-intensive industries. "The informal sector's share of employment is much higher in Asia compared with other regions, accounting for an average of 60% of non-farm employment. In Cambodia, for example, it's over 80%." (Meanwhile, income from agriculture-related income emerged relatively unscathed).[7]

To cope, poorer households were more likely to sell productive assets, increase borrowing from friends or family, cut back on food consumption, or remove children from school. According to a study conducted by the World Bank across countries in East Asia and the Pacific in 2021, households in the bottom 20% were on average 16% more likely than those in the top 20% to rely on such methods.[8] On the other hand, the wealthiest quintile was 9% more likely than the poorest to use their savings to bridge financial challenges. An OECD study of ASEAN countries found that half of households suffering from a negative income shock resorted to drawing down on their savings, while more than a third deferred payments and debt repayments (35%) and a similar proportion sought government aid (34%).[9] The mechanisms adopted by the poor are likely to have deleterious impacts on human capital and long-term individual and household prospects, which could, in turn, have serious implications for future inequality.

While much of the negative impact was concentrated among lower incomes, the upper middle-class and the rich not only maintained their incomes but reduced spending while their real-estate and equity assets grew in value. The pandemic has exacerbated income and wealth inequality. "The educated and the wealthy could stay at home and continue to derive the same income as before the pandemic,' says Prof Agarwal. "So, in effect, their savings went up. Their wealth also increased as the real-estate and stock markets boomed." As a result of this uneven effect, inequality in most Asian economies is increasing.

The impact on different demographic groups has also varied. Ms Dabla-Norris highlights that women and young people have been disproportionately affected. Before the pandemic, the gender dynamics of the informal sector meant that many women worked at low wages and for long hours. According to estimates by the International Labour Organization (ILO), women's employment decreased by 3.8% in Asia and the Pacific in 2020, compared with a decline of 2.9% for men. The pandemic accelerated the decline seen in women's employment rates over the past 15 years, leading to only 41.2% of women being in employment in 2021.[10] Young people, on the other hand, have had to deal with reduced working hours, earnings and opportunities for both salaried workers and the self-employed; disruptions in education and training; and difficulties in transitioning from school to work and moving between jobs in a recession.[11] Young workers have lost more working hours than their older counterparts, and they have been more likely to lose their jobs

[7] Ibid.

[8] Kim Y, et al. "Inequality under Covid-19". November 2021. World Bank. https://openknowledge.worldbank.org/bitstream/handle/10986/36635/Inequality-under-COVID-19-Taking-Stock-of-High-Frequency-Data-for-East-Asia-and-the-Pacific.pdf?sequence=1

[9] OECD. "Financial Consumer Protection and Financial Literacy in Asia in Response to Covid-19". 2021. OECD. https://www.oecd.org/daf/fin/financial-education/Financial-consumer-protection-and-financial-literacy-in-asia-in-response-to-covid-19.pdf.

[10] International Labour Organization. "Building Forward Fairer: Women's Rights To Work And At Work At The Core Of The COVID-19 Recovery". 2021. ILO. https://www.ilo.org/wcmsp5/groups/public/---dgreports/---gender/documents/publication/wcms_814499.pdf

[11] International Labour Organization. "Preventing Exclusion From The Labour Market: Tackling The Covid-19 Youth Employment Crisis". 2020. ILO. https://www.ilo.org/wcmsp5/groups/public/---ed_emp/documents/publication/wcms_746031.pdf

outright rather than being temporarily laid off.[12] Despite the best efforts of governments, many people are falling through social safety nets. There is a significant for charities, development organisations and corporate social responsibility to play in filling the gaps.

Fiscal relief has been narrower in Asia than in advanced economies

To tackle the economic crisis, countries rolled out large-scale fiscal and monetary packages. These measures aimed to stimulate the economy, ensure a minimum level of income security, protect businesses (especially SMEs), support the normal functioning of money markets and minimise the risk of social unrest. Even advanced economies struggled with liquidity crises and unveiled unprecedented forms of relief. For example, Japan's Special Cash Payment (SCP) programme transferred the equivalent of US$950 to every individual who applied. Immediate increases in spending suggest that the SCP was sorely needed among a beleaguered population.[13] For their part, low- and middle-income Asian countries responded by either expanding existing social security programmes or introducing new schemes. For example, India announced one of the world's largest fiscal relief packages, estimated to cost up to 10% of the country's 2019 GDP. Most of the support was to enable businesses and organisations to survive by, for example, helping small and medium-sized businesses access unsecured state guaranteed loans, ensuring liquidity in banks and subsidising state power companies.[14] Only 0.8% of India's GDP was directed at providing support to households. Outside of India, fiscal support has generally been smaller or more narrowly targeted. For example, the Sri Lankan government designed a programme at the outset of the pandemic that delivered almost 5.4m cash transfers of LKR5,000 (US$26.30) to households across Sri Lanka in April 2020. It was repeated for a second time in May 2020, expanding the number to around 5.7m transfers following appeals from households who had been excluded. The total cost of this support was around LKR55bn, or 0.33% of GDP.[15] Short-term benefits in Malaysia, the Philippines and Timor-Leste reached a majority of households, while Mongolia's child benefit reached 80% of families with children. However, the magnitude of these fiscal responses was generally too small for them to constitute effective economic stimulus packages, according to Stephen Kidd, professional advisor at UNICEF. Fiscal stimulus in these developing economies represented 2% of GDP at most.

Governments are considering the extension of relief efforts into the post-pandemic period. For example, Thailand implemented policies aimed at shoring up the finances of households and small businesses, such as debt restructuring and consolidation without penalties.[16] Those programmes will continue even after the Thai economy fully re-opens and the omicron wave

[12] ILO and Asian Development Bank. "Tackling The COVID-19 Youth Employment Crisis In Asia And The Pacific". 2020. ILO/ADB. https://www.adb.org/sites/default/files/publication/626046/covid-19-youth-employment-crisis-asia-pacific.pdf

[13] Kubota S, Onishi K, Toyama Y. "Consumption Responses to Covid-19 Payments: Evidence from a Natural Experiment and Bank Account Data". August 2021. Journal of Economic Behaviour and Organization. https://www.ncbi.nlm.nih.gov/pmc/articles/PMC8450669/

[14] Mulye P. "Who Benefits, And By How Much, From India's $266 Billion Economic Stimulus". 2022. Quartz. https://qz.com/india/1856488/details-of-modis-corona-virus-package-atmanirbhar-bharat/

[15] Kidd S, Moreira Daniels L, Athias D. "Tackling The COVID-19 Economic Crisis In Sri Lanka: Providing Universal, Lifecycle Social Protection Transfers To Protect Lives And Bolster Economic Recovery". 2020. UNICEF. https://www.unicef.org/srilanka/media/1501/file/UNICEF_Brief_SocialProtectionResponseSL_Summary_2020Jul30.pdf

[16] IMF. "Policy Responses to Covid-19". IMF. Accessed March 23rd 2022, https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#T

of spring 2022 recedes. Meanwhile, Vietnam has issued guidance to financial institutions on loan forbearance until at least 2024.[17] Both countries, and many regional peers, are combining fiscal support with monetary policy that is at least in part aimed at improving personal finances. There may be options for re-allocating other government spending from inefficient investments to stimulus packages. Multiple Asian governments have propped up national airlines that were loss-makers before the pandemic. Although governments may be reluctant to spend more on stimulus packages, not doing so runs the risk of getting stuck in a longer-term economic malaise that derails the development of the middle class.[18] Rising prices are likely to inflate away some household and commercial debt and help borrowers, both institutional and informal, to get their finances in order.

Some of Asia's key industries have struggled mightily during the pandemic

According to the ILO, 1.3bn people work in the informal sector in Asia, accounting for 65% of the world's informally employed.[19] Informal employment, coupled with the lack of public social security in many countries, leaves many workers at risk during disruptions. The informal sector mostly comprises micro, small and medium-sized enterprises (MSMEs), which are highly vulnerable to economic shocks owing to limited capital, tight cash flow and informality of operations. MSMEs in South Asia were severely hit by the pandemic, albeit with varying impact across countries. In India—where the informal economy dominates—about 400m workers were at risk of being pushed into poverty in 2020.[20] In Bangladesh the MSME sector employs more than 40% of the labour force; 96% of MSMEs reported a significant decrease in income in the first six months of the pandemic.[21] In Pakistan, 31% of MSMEs shut down completely, while 19% partially closed. They tackled cash flow shortages by laying off 43% of employees and reducing staff salaries by 12%.[22]

These trends are also distributed unevenly across sectors. Some of Asia's most important industries—including textiles and apparel, as well as travel, tourism and hospitality—have been uniquely vulnerable to pandemic-related disruptions. Asia's textiles and apparel industry is worth US$668bn annually, accounting for 63.7% of global exports.[23] The sector is an important source of income and employment, especially for informal workers. In 2019 the sector employed an estimated 65m workers in Asia—over half of whom were women—accounting for around 75% of all garment sector workers worldwide.[24] Retail sales in key export markets fell sharply in the first

[17] Ibid.

[18] Kidd S, Athias D, Tran A. "Addressing The Covid-19 Economic Crisis In Asia Through Social Protection". 2020. UNDP. https://www.undp.org/sites/g/files/zskgke326/files/publications/UNDP-RBAP-Addressing-the-COVID-19-Economic-Crisis-in-Asia-through-Social%20Protection-2020.pdf

[19] International Labour Organization. "More Than 60 Per Cent Of The World's Employed Population Are In The Informal Economy". 2018. ILO. https://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_627189/lang--en/index.htm

[20] International Labour Organization. "ILO Monitor. Covid-19 And The World Of Work. Second Edition." 2020. https://www.ilo.org/wcmsp5/groups/public/@dgreports/@dcomm/documents/briefingnote/wcms_740877.pdf

[21] MicroSave Consulting. "Impact Of Covid-19 Pandemic On Micro, Small & Medium Enterprises (Msmes) Bangladesh Report". 2020. MicroSave Consulting. https://www.microsave.net/wp-content/uploads/2021/01/210125_MSME_R23_Bangladesh_v2.0-1.pdf

[22] Shafi M, Junrong L, Wenju R. "Impact Of Covid-19 Pandemic On Micro, Small, And Medium-Sized Enterprises Operating In Pakistan". 2020. Research In Globalization. 2:100018.

[23] International Labour Organization. "World Employment And Social Outlook Trends 2022". 2022. ILO. https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_834081.pdf

[24] International Labour Organization. "World Employment and Social Outlook Trends 2020". 2020. ILO. https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_734455.pdf

six months of 2020 and major buyers cancelled orders. US garment imports declined by 26% from January to June, compared with the same time period in 2019. Similarly, garment imports declined by 25% in the EU and by 17% in Japan.[25] As the global demand for garments fell, factories were forced to halt operations, affecting workers. A typical garment worker in Asia lost out on at least two to four weeks of work in the first six months of 2020 and was likely to not have been called back to work at all by the second half of the year.[26]

Bangladesh is the second largest exporter of textiles in the world and is heavily dependent on the sector for the socio-economic stability of the country. According to the Bangladesh Garment Manufacturers and Exporters Association, the pandemic had an immediate impact on 1,150 factories that reported US$3.18bn worth of order cancellations. As demand declined, factories laid-off workers or reduced wages to manage losses. According to a survey from Microfinance Opportunities, a non-profit, and the South Asia Network on Economic Modelling (SANEM), workers in Bangladesh reported a median salary of roughly US$65 in May 2020, nearly half of the value of just one month prior (US$113).[27] Lower wages played a role in food insecurity: 77% of respondents in June 2020 reported being food insecure because of insufficient income.[28]

Perhaps most infamously, Asia's growing travel, tourism and hospitality industry has suffered greatly, given the abrupt decline in international tourist arrivals amid prolonged travel restrictions. As tourist arrivals reduced from early 2020, the revenue from the sector fell drastically, leading to widespread closure of businesses, wage cuts and layoffs. With data available for 14 countries in the Asia-Pacific region, a 2021 ILO study of five countries in the region found that the pandemic had threatened the jobs and livelihoods of at least 15.3m workers—6.4m women and 8.9m men—directly engaged in the tourism sector.[29] While the impact varied across countries depending upon the employment share of the sector, each instance constituted significant losses. Employment in the sector declined by 28.4% in the Philippines and 16.9% in Mongolia.[30] The decline in average wages of workers in the sector was the highest in Vietnam (17.6%), followed by Thailand (9.5%).

Despite losses, personal finances will recover in the next decade

The good news is that, despite this damage, incomes should recover as the region settles into its post-pandemic normal. In most countries, growth rates should generally return to pre-pandemic trends. In the decade following the financial crisis, real personal disposable income in developing Asia grew at an average yearly rate

[25] International Labour Organization. "The Supply Chain Ripple Effect: How Covid-19 Is Affecting Garment Workers And Factories In Asia And The Pacific". 2020. ILO. https://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/documents/briefingnote/wcms_758626.pdf

[26] International Labour Organization. "World Employment and Social Outlook Trends 2020". 2020. ILO. https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_734455.pdf

[27] Workerdiaries.org. "Two Months On—The Impact of Covid-19 on Workers: Garment Worker Diaries". 2020. Workerdiaries.Org. https://workerdiaries.org/two-months-on-the-impact-of-covid-19-on-workers/

[28] International Labour Organization. "The Supply Chain Ripple Effect: How Covid-19 Is Affecting Garment Workers And Factories In Asia And The Pacific" 2020. ILO. https://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/documents/briefingnote/wcms_758626.pdf

[29] International Labour Organization. "Covid-19 And Employment In The Tourism Sector In The Asia–Pacific Region". 2020. ILO. https://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/documents/briefingnote/wcms_827495.pdf

[30] Ibid.

of over 5.6%. Growth was the fastest in China, averaging 7.5% on a year-on-year basis, followed by India at 7.1%. Thailand saw moderate growth in personal finance of around 3.1%. Most countries will experience robust growth rates, if slightly lower than the previous decade. In Vietnam, for example, the EIU forecasts that real disposable income will grow at a yearly average of 7.3%, compared with 6.5% in 2010-19. India and China will continue to lead the growth trajectory, with growth rates of 7.5% and 5.7% respectively.

However, just as in the crisis itself, macroeconomic statistics paint an overly rosy picture of the post-pandemic recovery. It is incumbent on the region's creditors to recognise the stress that consumers have suffered. Creditors must work to help consumers restore their credit and undo the damage of the pandemic. Historically high inflation is regressive, disproportionately harming lower-income households. As the Federal Reserve (the US central bank) lifts increase rates, borrowing costs are going to rise. Those dynamics, coupled with higher asset prices, will reinforce pandemic-induced inequality in the years to come. Policymakers will have to consider how economic policies can roll back widening inequality without harming the recovery—or further exacerbating inequality. For example, while inflation may help to improve household finances in the short term by reducing debt in real terms, the regressive impact on wages would widen the income gap in the medium term. Job dislocations could become permanent in sectors that never fully recover—such as tourism—barring targeted reskilling programmes that have few demonstrated successes at a national level. A recovery in the tourism sector will help to undo some of the dislocation, but as long as China continues to force its citizens to endure lengthy quarantines upon entering the country, the main driving force behind pre-pandemic growth in global travel—Chinese tourists venturing overseas—will remain muted.

The new normal is going to take time to arrive. There will continue to be short-term disruptions driven by new variants that inevitably emerge. The good news is that many Asian countries have vaccinated a majority of their populations and have built up natural immunity; the worst damage of the pandemic is in the past. Regressive trends, such as inflation and income inequality, will persist, but the reopening of borders and the return of investment in sectors like tourism and hospitality will have a positive secondary effect for many households in the region. Asia's key advantage is that it remains the world's fastest-growing region economically. In the long term, this may prove to be the best medicine.

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