ASIA-PACIFIC BEYOND COVID-19

October 22, 2020

Dear BGA Clients,

Our report this week surveys the effects of Covid-19 on finance across the Asia-Pacific. This report will highlight the effects in four markets — Australia, China, Japan and Vietnam — to illustrate the differing responses to the financial uncertainty the pandemic has caused.

In Australia, the government's fiscal response to the Covid-19 pandemic has included a mix of consumer-related financial incentives with direct cash payments. The government has largely foregone extensive use of financial reforms or tools to stimulate the economy but is using fair lending laws to prioritize the flow of credit to homeowners and small businesses to weather the economic storm. In particular, the government has eschewed potential large infrastructure outlays to boost current economic growth.

In China, the government has aggressively pursued financial strategies to boost domestic consumption amid the historic slowdown from the pandemic, including loan relief, tax breaks and easing access to credit. Beijing has dedicated over RMB 2 trillion ($300 billion) to fund these financial moves and has also encouraged the domestic banking sector to explore creative technologies to provide funding to the private sector. Simultaneously, the government has taken the opportunity to develop Shanghai as a global financial sector.

In Japan, Prime Minister Yoshihide Suga is moving ahead with his long-standing goal of reforming the country's domestic lending sector, especially regional banks. For years, these banks have been burdened by Japan's aging rural population and slow economic growth, and the pandemic has pushed a number of borderline cases closer to insolvency. The government has also allocated funding for cash injection programs aimed at SMEs and individual contractors, along with favorable loan terms to help manage the current downturn.

In Vietnam, the central bank has taken an aggressive posture to boost the domestic economy, slashing rates and encouraging banks to restructure loans at risk of default. At the same time, it has also encouraged moves including the adoption of new financial technologies to

circumvent limitations the pandemic has caused. Use of e-banking platforms has increased by well over 100 percent since the start of the pandemic, and the government is working on several reforms and regulations to facilitate the use of cashless payment technologies, e-KYC protocols and widespread mobile banking.

Questions and comments are welcome and can be directed to BGA Head of Research Murray Hiebert at mhiebert@bowergroupasia.com.

Best Regards,

Murray Hiebert
Director of Research, BowerGroupAsia

Social Intelligence Spotlight: **Vietnam**

This week's Social Intelligence Spotlight examines conversations in Vietnam's digital space on finance in the context of the country's post-Covid-19 recovery efforts. The majority of discussion focused on the increased popularity of online banking, e-payment and e-wallet services after the coronavirus pandemic placed limitations on people-to-people contact. There was also some conversation around the State Bank of Vietnam's approval for 10 banks piloting implementation of e-KYC in opening bank accounts, with detailed discussion on positive results and technical issues. There were also some reports on the National Payment Corporation of Vietnam's collaboration with some international payment schemes to process payment transactions.

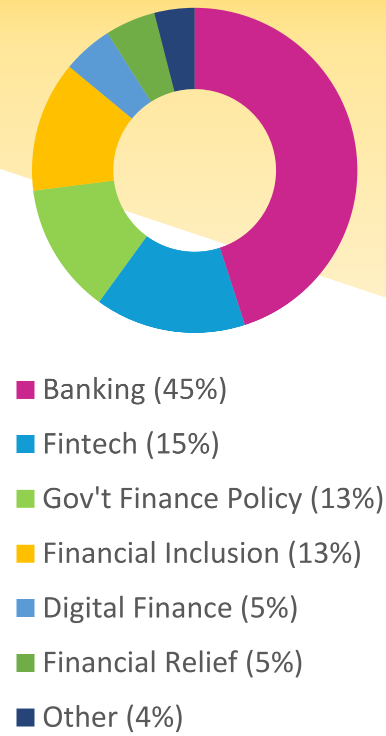
A significant number of media mentions focused on Vietnam's financial policy, with a focus on the measures taken by the State Bank of Vietnam to adapt regulations, adopt flexible monetary policy, maintain liquidity and offer credit incentives to businesses. There was also some conversation around related topics, such as how Vietnam has sought to increase public investment disbursement to fuel economic growth and development and how Vietnamese commercial banks use special individual credit packages to promote investment capital and local consumer needs in the wake of the Covid-19 pandemic.

Relatedly, social intelligence detected some traction on commentary from World Bank Country Director for Vietnam Carolyn Turk, who said that the World Bank is committed to working with Vietnamese ministries and agencies to hasten disbursement of public investment capital. Turk proposed that Vietnam further simplify disbursement procedures for projects. Recommendations from international financial institutions to improve Vietnam's financial footing also trended during the reporting period, as the Asian Development Bank suggested that Vietnam must develop a credible local rating industry to reduce risks to its corporate bond market and financial sector. Separately, there was discussion on a recently signed memorandum of understanding between the finance ministries of Vietnam and Hungary in which the two countries will strengthen cooperation on financial areas, including financial analysis, forecasting and macroeconomic issues.

Discussion on implementation of the National Financial Inclusion Strategy was also a focus of some ongoing conversation in Vietnam, as the Vietnamese government and the State Bank of Vietnam aim to have at least 80 percent of adults using bank accounts and plan to make financial services available to at least half of all Vietnam's communes by 2025. During the reporting period, there were also some conferences focusing on the supervision and prevention of black credit markets in Vietnam as well as the application of international payment security standards to protect financial information and data.

Social Media Discussion Topics in Vietnam

October 15 to 21



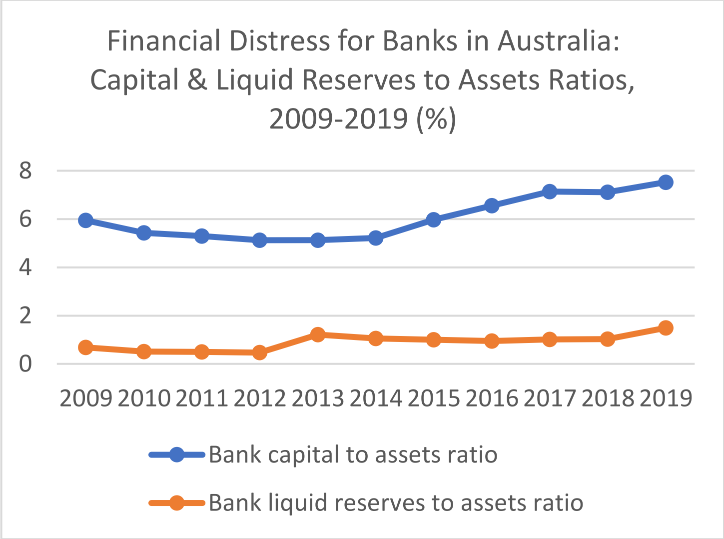
Australia

This year was supposed to constitute the first budget surplus for Australia in more than a decade. In December last year, Treasurer Josh Frydenberg predicted an AUD 5 billion (US$3.5 billion) surplus for the 2019-20 financial year. Instead Treasury is now expecting an AUD 213.7 billion ($151 billion) deficit for the coming financial year. This can be attributed in large part to the unprecedented government support for Australia's economy, especially its welfare and wage subsidy programs.

These programs faced a sunset clause at the end of September; whether it be the AUD 550 ($390) fortnightly Covid-19 supplement for welfare recipients, which was wound back to AUD 250 ($177), or the JobKeeper wage subsidy program that fell from AUD 1,500 to 1,200 ($1,062 to $849). The federal budget describes the JobKeeper program as "one of the largest fiscal and labor market interventions in Australia's history," and it was estimated to cost the government AUD 11 billion ($7.8 billion) each month.

The federal budget was released at the beginning of October, after a five-month delay to allow the government to grapple with the economic impact of the Covid-19 pandemic. The budget focused on jobs and AUD 50 billion ($35 billion) in personal and business tax cuts. Infrastructure was expected to feature heavily in the budget to usher Australia through the recession, but the government did not make any big-ticket infrastructure announcements. Instead, the government committed to a string of smaller announcements and increased the allocated infrastructure funding by AUD 10 billion ($7.1 billion) for the next 10 years.

The government is supporting the flow of credit to households and small businesses during the Covid-19 pandemic through the institutionalization of major reform to Australia's responsible lending laws. The changes will allow more Australians to take out mortgages and refinance their home loans and will help small businesses access more money. Changes to the credit laws will remove some of the burden on banks by reducing verification procedures, shortening the time it takes to secure loans. These laws are planned to come into effect in March 2021.



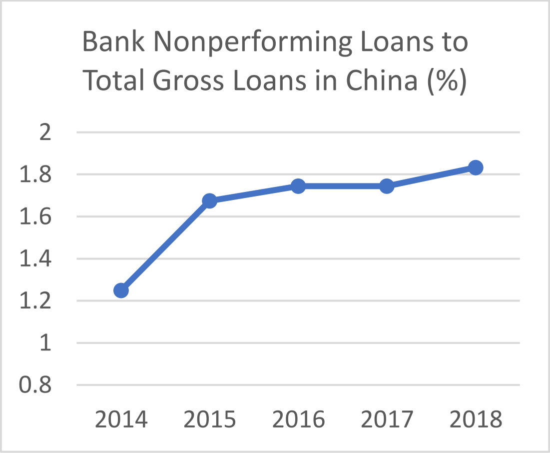
Source: World Bank, 2020

Australia's trade with East Asia has been growing faster than its GDP or overall trade for many decades, with more than one-sixth of Australia's total GDP coming from exports to East Asia and China being the market for more than a third of Australian exports. Moreover, the largest share of foreign tourists and international students are from China. Australia's relationship with China has deteriorated during the pandemic, a trend that began when Australia called for an investigation into the origins of Covid-19 at the beginning of the outbreak. Since then, China has imposed increasingly high tariffs on some exports and suspended others.

China

Chinese policymakers are prioritizing the stability of the financial system and access to finance for private enterprise in the latter half of 2020 and heading into 2021. Recognizing the hardship that the pandemic has wrought on small-and-medium enterprises (SMEs), Beijing announced a series of stimulus measures, including RMB 2.5 trillion ($380 billion) in tax relief, delays on loan and interest payments and liberal access to credit. The emphasis on support for SMEs aligns with the recently announced "dual circulation" strategy and the goal of transitioning to domestic consumption-led growth.

In May, the central government also provided an RMB 2 trillion ($300 billion) stimulus package to mitigate local government fiscal expenditure gaps. However, and notably, compared to its response to the 2008 financial crisis, the Chinese government has restrained direct fiscal stimulus injections to only critical sectors, rather than the economy writ large, to prevent the expansion of local government debt risks. Policymakers in Beijing have also mandated more supervision to prevent local governments from misusing antivirus special debt issuances or illegal borrowing. The results thus far have been mixed — some local governments are still treading the worn path of infrastructure development and credit expansion to boost nominal growth.



Source: World Bank, 2020

For financial services, aligning with these objectives — increasing credit access to SMEs without exacerbating China's debt risks — is essential and pays dividends. China has accelerated financial sector reform to open the industry more widely to foreign investors. Chinese financial regulatory authorities have also repeatedly stated that Covid-19 will not impede the implementation of reform efforts to improve market infrastructure connectivity, liberalize ownership barriers or enhance RMB internationalization.

In February, the Chinese government issued a reform plan for Shanghai's financial sector, which includes measures such as the exploration of cross-border bilateral RMB cash-pooling to ease capital transactions for foreign investors. The pilot experiment will also allow foreign companies to set up subsidiaries with business portfolios in wealth management, securities and futures. Beijing and Shenzhen introduced similar deregulation plans in September and October, respectively. At least 10 major financial institutions have opened new wholly owned subsidiaries or joint ventures with majority holdings in China in 2020. More foreign investors are waiting for approval for their new entities involved in securities, public equity funds and consumer finance.

Digital currency and electronic payments (DC/EP) are another focus of the Chinese financial system in 2020, and the People's Bank of China is pushing forward its RMB digitalization agenda by initiating pilot projects in five cities this year. Although the central bank has stated that its digital currency experiments will not impact China's financial market, the RMB's digitalization creates uncertainties for traditional banks' future roles and existing online payment platforms, including Alipay and WeChat Pay. DC/EP may eventually link to China's cross-border payments system and further digitalize RMB internationalization, but will remain limited until paired with capital account liberalizations.

Japan

On September 30, the Ministry of Finance compiled the budget request from the government ministries and agencies for fiscal year 2021, which topped JPY 100 trillion ($950 billion) for the seventh consecutive year. While the Finance Ministry's guidelines direct that non-Covid-19 related budgets should remain the same as the previous budget, the latest plan does not include actual figures to cope with the pandemic; therefore, the finalized budget later this year will most likely surpass the record high of JPY 102.7 trillion ($973 billion) from this current fiscal year.

Prime Minister Yoshihide Suga

Even during his previous role as chief cabinet secretary, Prime Minister Yoshihide Suga had vowed to see through the consolidation of regional banks, which today number more than 100. The Bank of Japan's long-lasting quantitative easing policy has significantly affected the regional banks' top lines, which were already suffering from a rapidly aging and shrinking rural economy. The coronavirus had further weighed down on banks' earnings by slashing revenue from the retail sales of financial products. Antitrust statutes resulting from a potential merger between those banks would likely be avoided using a special exemption to the antitrust law that was introduced earlier in the year.

Though financial inclusion has not been a major issue in Japan, SMEs and individual business owners were the most adversely affected from the pandemic. In response, the government introduced an emergency cash injection program that extended cash payments of JPY 2 million ($18,000) to SMEs and JPY 1 million ($9,000) to individual business owners as well as freelancers. Furthermore, interest-free and unsecured loans, alongside the refinancing of outstanding debt obligations with interest-free loans, were also offered to alleviate the financial difficulties those business owners faced.

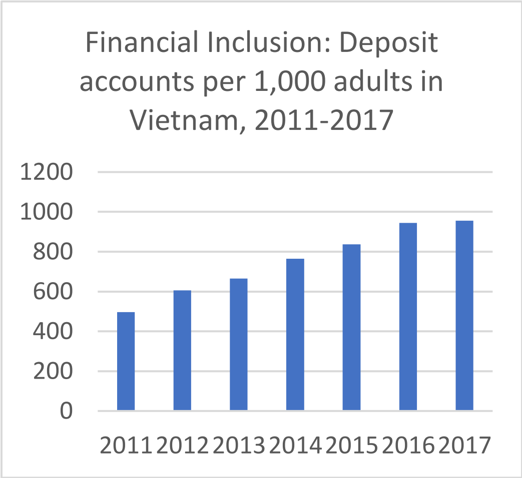
The government extended additional funding in the amount of $150 million to the Asian Development Bank from its Japan Fund for Poverty Reduction (JFPR) and the Asia Pacific Disaster Response Fund (APDRF) programs in April to help provide support for ADB member developing countries.

A number of American and European private equity and buyout funds have recently raised Japan-focused funds of over $1 billion as they expect Japanese companies to shed non-core operations to lighten their balance sheets and to improve their bottom lines. Investors with track records of investing in Japanese assets in the past are taking advantage of the excess liquidity in the market to enable them to then capitalize on these investment opportunities, which will likely be present across all industries.

Vietnam

In general, during the pandemic, financial policies have been part of the solution to the Covid-19 slowdown in Vietnam, rather than part of the problem. The State Bank of Vietnam (SBV) has eased monetary and credit policies to rescue affected business and households. Apart from successive cuts in its major rates (refinance, repurchase and discount), the SBV has taken a series of actions to guide credit institutions to restructure loans, reduce lending rates, maintain the same risk category for restructured loans and grant new loans in order to support businesses and individuals coping with Covid-19. While these policies are necessary to immediately support affected business and households, there is also recognition that they have some negative impacts on the whole sector in the short and medium terms. Additionally, the easing of monetary and credit conditions by the SBV could result in a spike in inflation. The extension of credit by commercial banks to businesses in difficulty will most likely increase the proportion of delinquent loans in their portfolios and potentially lead to significant losses.

At the same time, the Vietnamese government has also undertaken substantial efforts to leverage the pandemic's restrictions on mobility into motivation for cashless payment and online banking. In the first six months of 2020, the inter-banking e-payment system safely processed transactions worth about $554.8 billion, up 36 percent in value compared to the same period in 2019. Between January and June, the number of transactions via smartphones rose by 177 percent compared to the same period of 2019.



Source: World Bank, 2020

The SBV is likely on the right track to enhance the digital transformation in the banking and finance sector amid the pandemic. It aims to issue a number of new policies in 2020, including an amendment of Decree 101/2012/ND-CP on cashless payment; an amendment of Circular 23/2014/TT-NHNN guiding the opening and use of payment accounts that enable the e-KYC application in opening payment accounts; and a new decree on fintech regulatory sandboxes. The fintech reforms aim to support the rapid emergence and development of fintech companies such as those in the areas of P2P lending, Open APIs, new payment services and platforms, and cross-border money transfer. Further into the future, the SBV is preparing to supplement the Law on Credit Institutions with new regulations on technology applications and tech-based solutions to create a comprehensive legal framework for digital banking in 2022.

Furthermore, the Covid-19 pandemic has strengthened the implementation of financial inclusion in Vietnam. The SBV is working on a mobile money pilot plan by the end of 2020. Under this plan, the central bank aims to improve the access and use of financial services in rural and remote areas, especially the areas where the banking and finance system has not been fully developed and people have no access or limited access to banking services. Telecommunications companies will also be licensed to provide mobile money nationwide for small-value payments in a pilot period of two years.