

# APAC Regional Webinar: The Driver of Pandemic Recession

## **Speaker:**

Richard Koo

Chief Economist, Nomura Research Institute

## **Session Chair:**

Navneet Munot, CFA

Chief Investment Officer, SBI Funds Management

Chairman, CFA Society India



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Chief Investment Officer, SBI Funds  
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- All participants are muted, we welcome questions via the Q&A function on your screen
- Audience can use CHAT to share comments and to see what others are saying
- This webinar will be recorded and be available to view after the presentation concludes
- At the end of the webinar, please take a moment to complete the short survey. Your feedback is valuable to us.

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## SPEAKER

Richard Koo  
Chief Economist  
Nomura Research Institute

# Exhibit 3. Contrast between Balance Sheet Recession and Pandemic Recession (I): the Cause

## *Balance sheet recession* *2008 → 2019*

## *Pandemic recession* *2020 → ?*

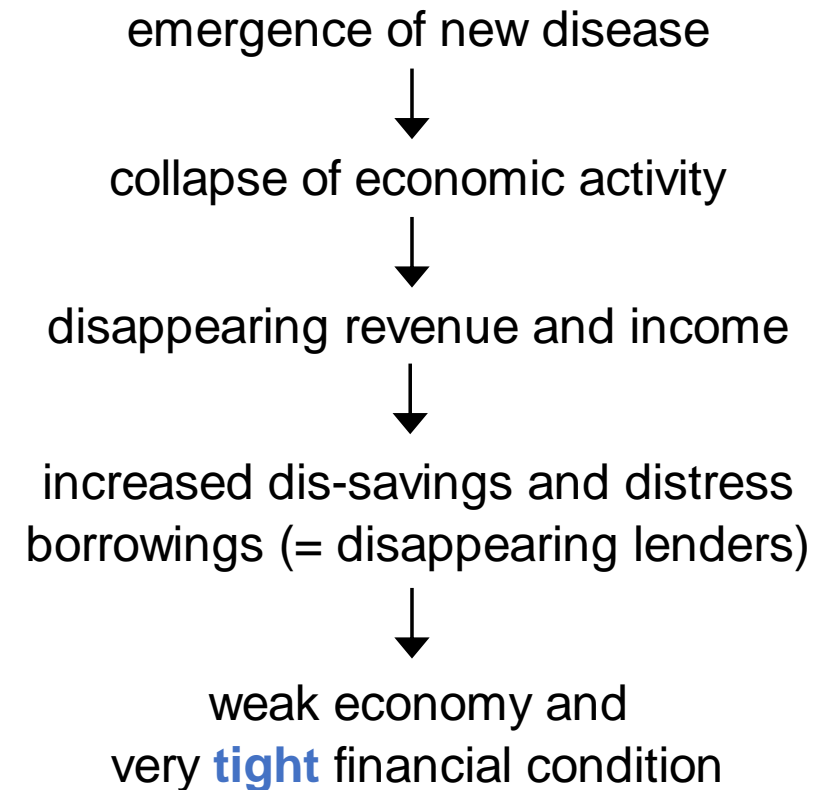
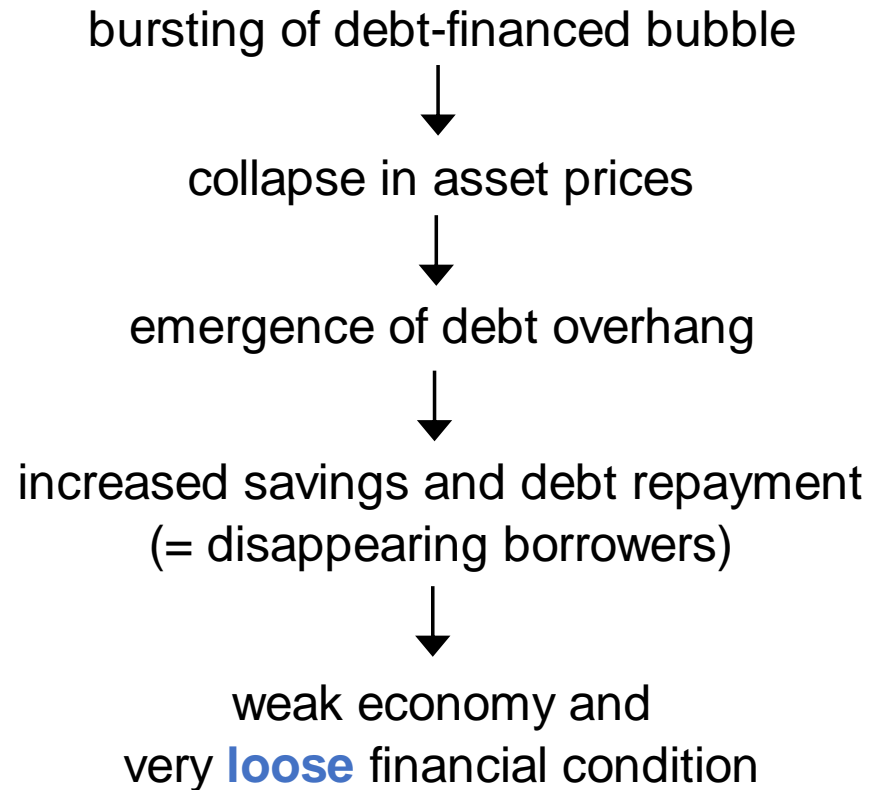
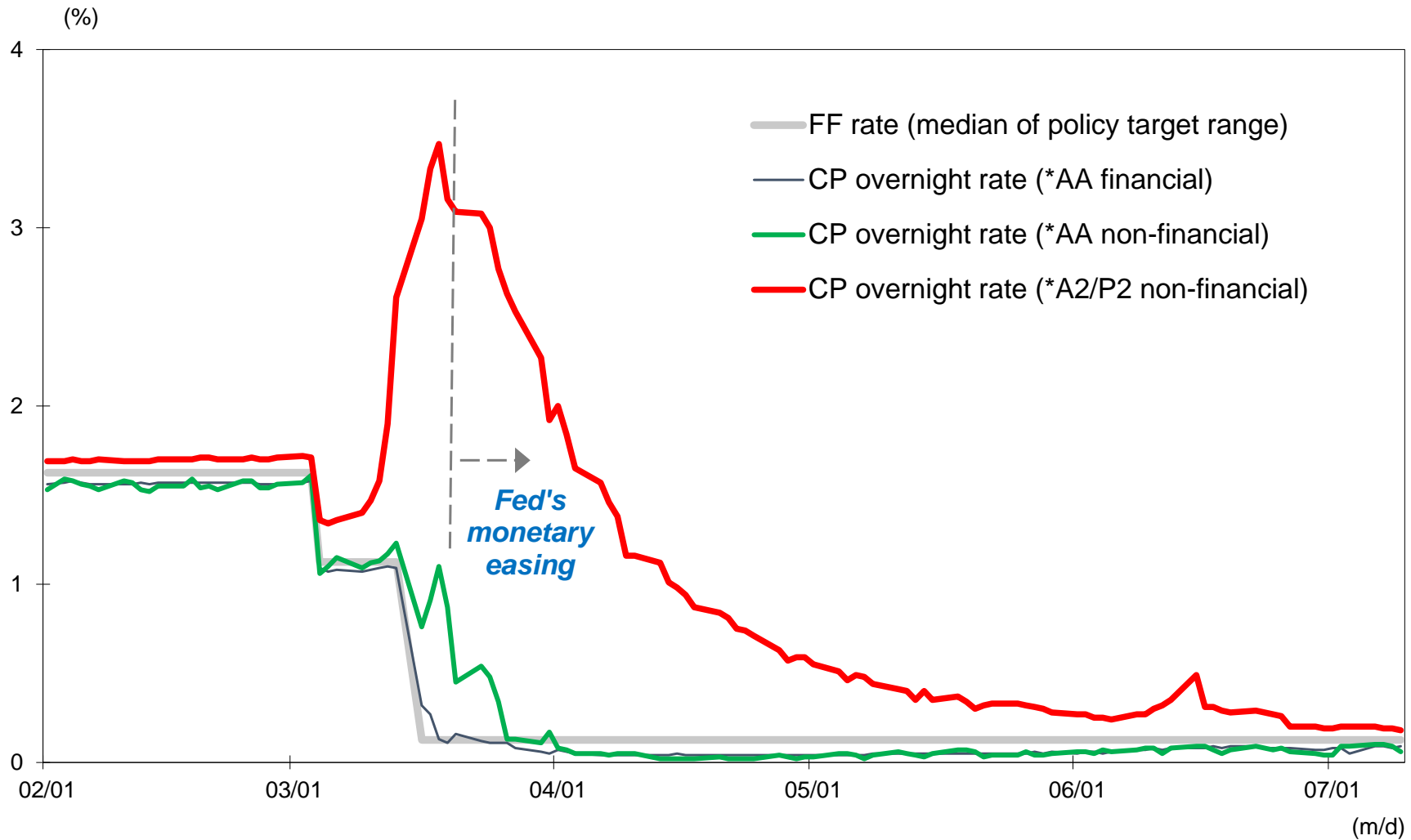
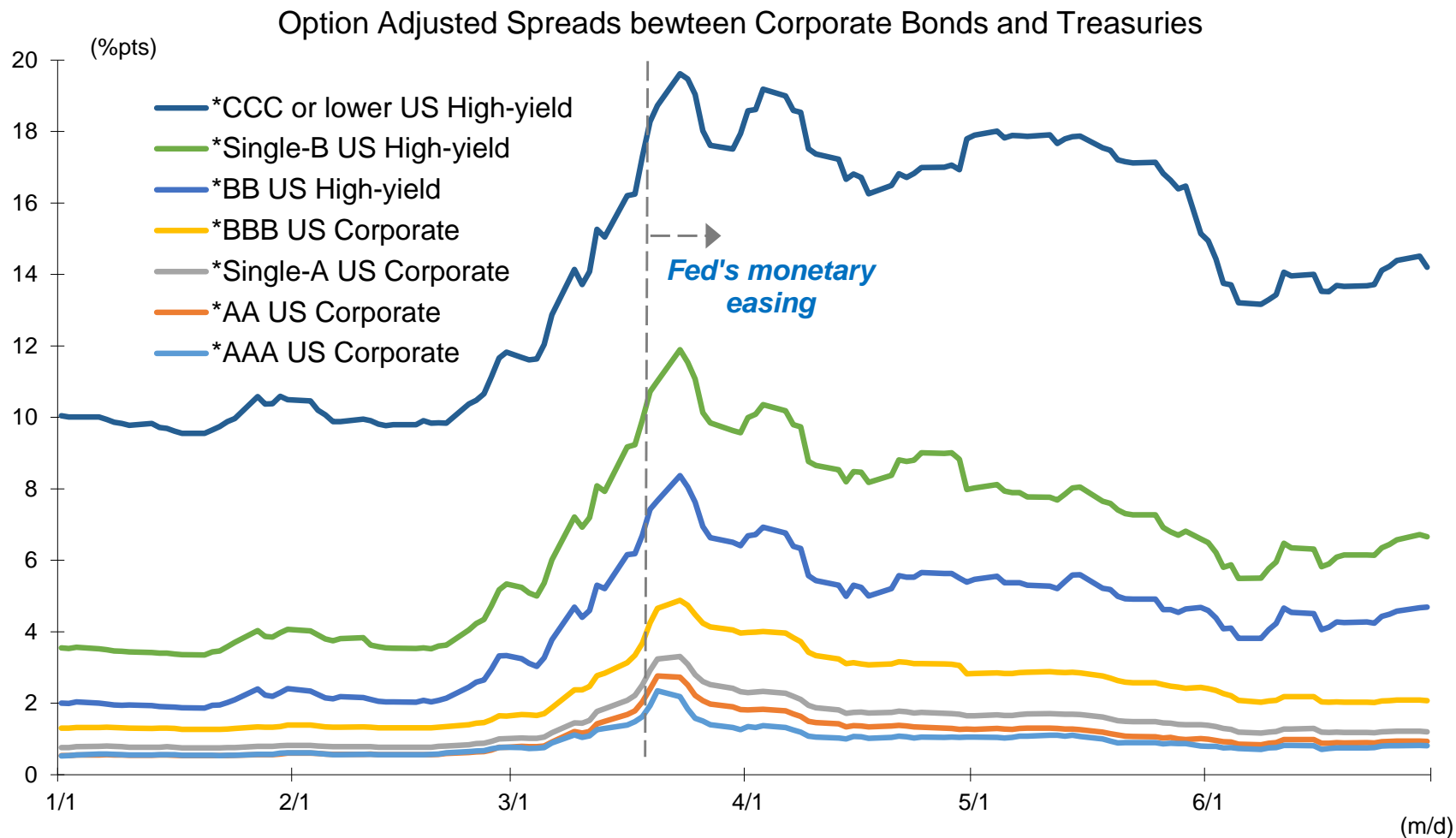


Exhibit 4. Commercial Paper Rate in US Stabilized after Fed Easing



Notes: Asterisks (\*) show ratings given by unregistered rating agencies. Data as of July 9, 2020.  
 Source: FRB

# Exhibit 5. Credit Spreads on US Corporate Debt Stabilized after Fed Easing



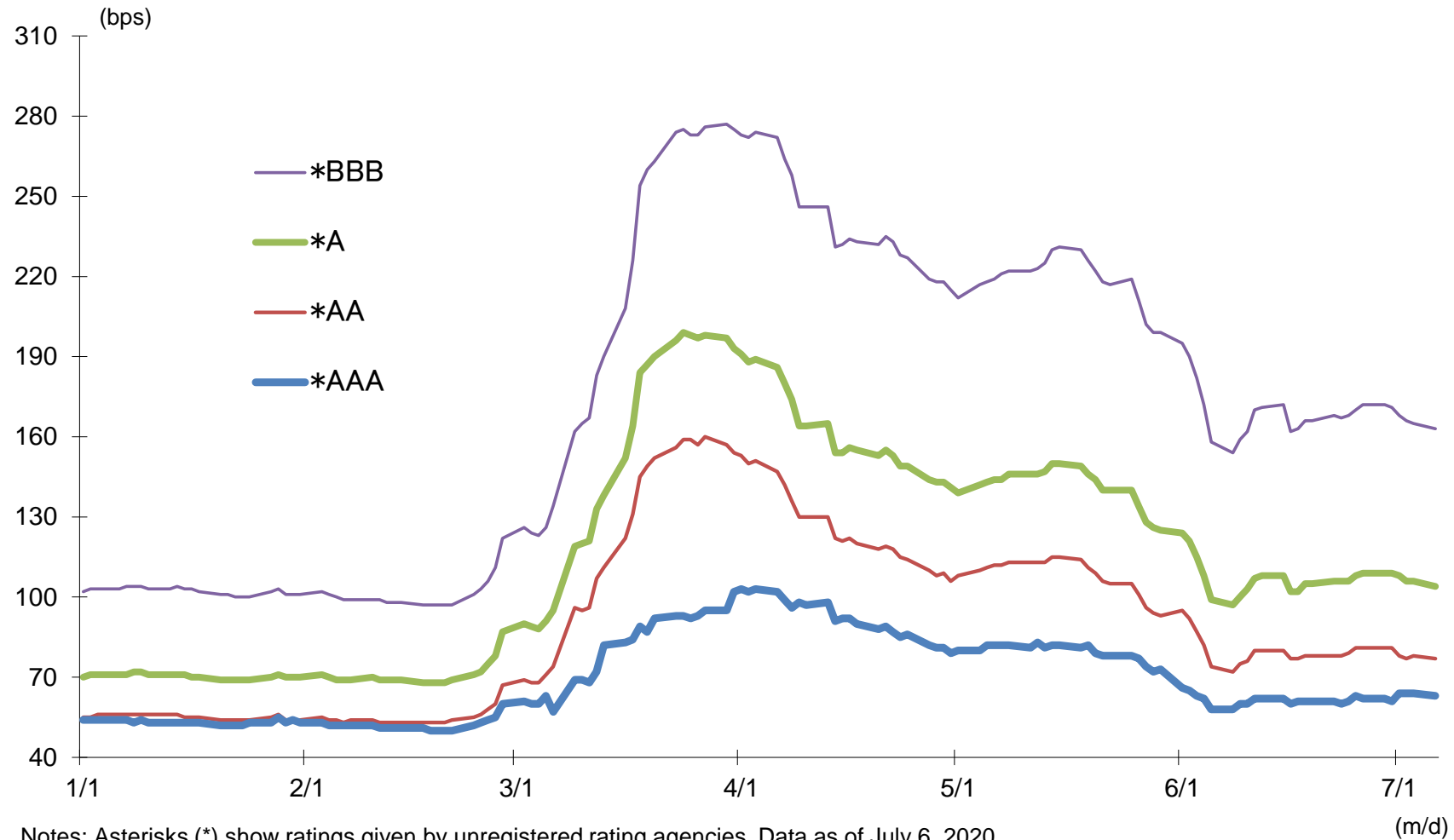
Notes: Asterisks (\*) show ratings given by unregistered rating agencies. Data as of June 30, 2020. The ICE BofAML Option Adjusted Spreads (OASs) are the calculated spreads between a computed OAS index of all bonds in a given rating category and a spot Treasury curve.

Source: Ice Data Indices, LLC, retrieved from FRED, Federal Reserve Bank of St. Louis



# Exhibit 6. ECB's Actions Brought Corporate Bond Yields Down Halfway

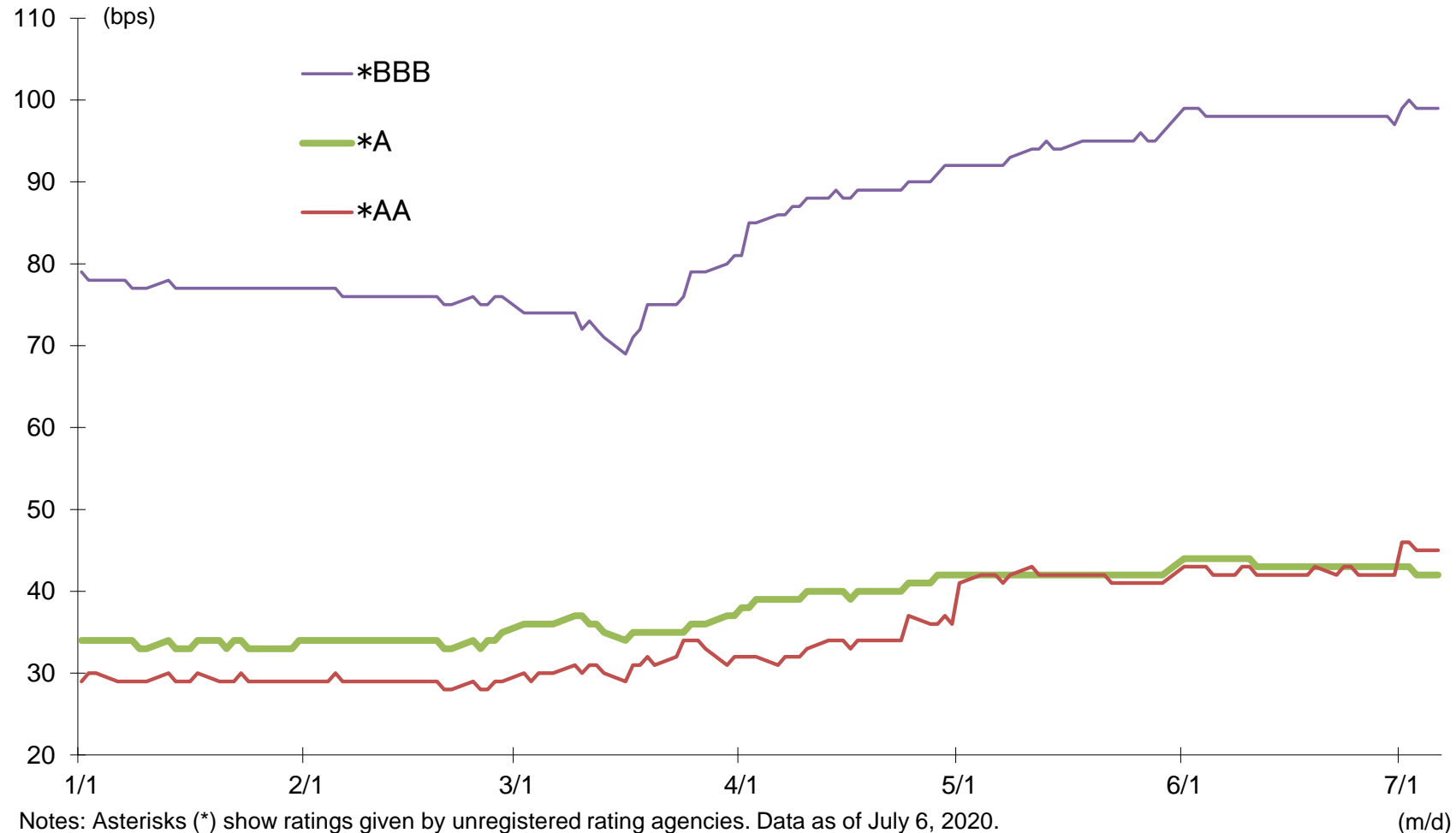
### S&P Eurozone Investment Grade Corporate Bond Index: Option Adjusted Spread



Notes: Asterisks (\*) show ratings given by unregistered rating agencies. Data as of July 6, 2020.  
Source: S&P Dow Jones Indices LLC

# Exhibit 7. Japanese Corporate Bond Yields Are Rising Gradually

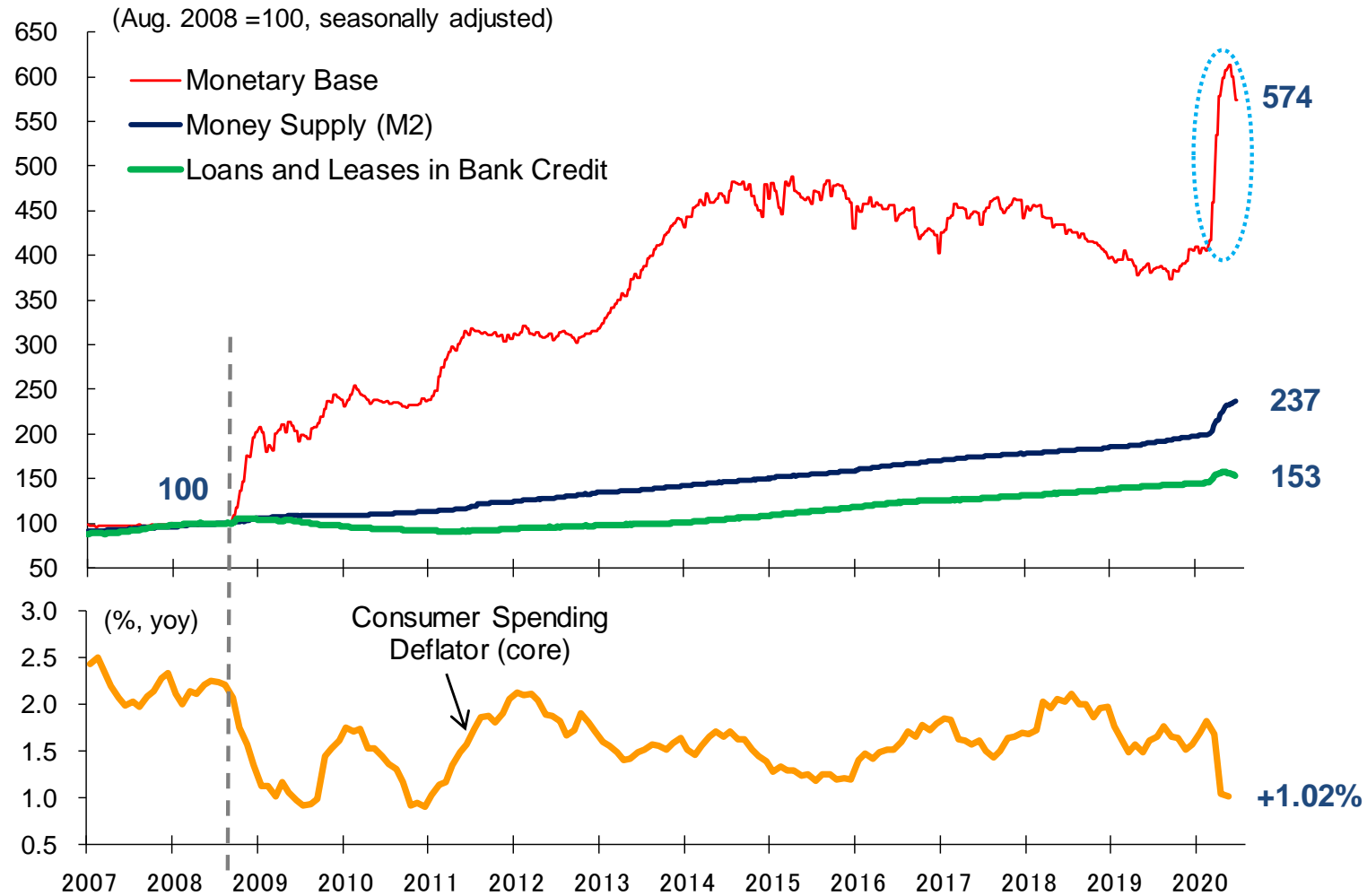
S&P Japan Investment Grade Corporate Bond Index: Option adjusted spread



Notes: Asterisks (\*) show ratings given by unregistered rating agencies. Data as of July 6, 2020.

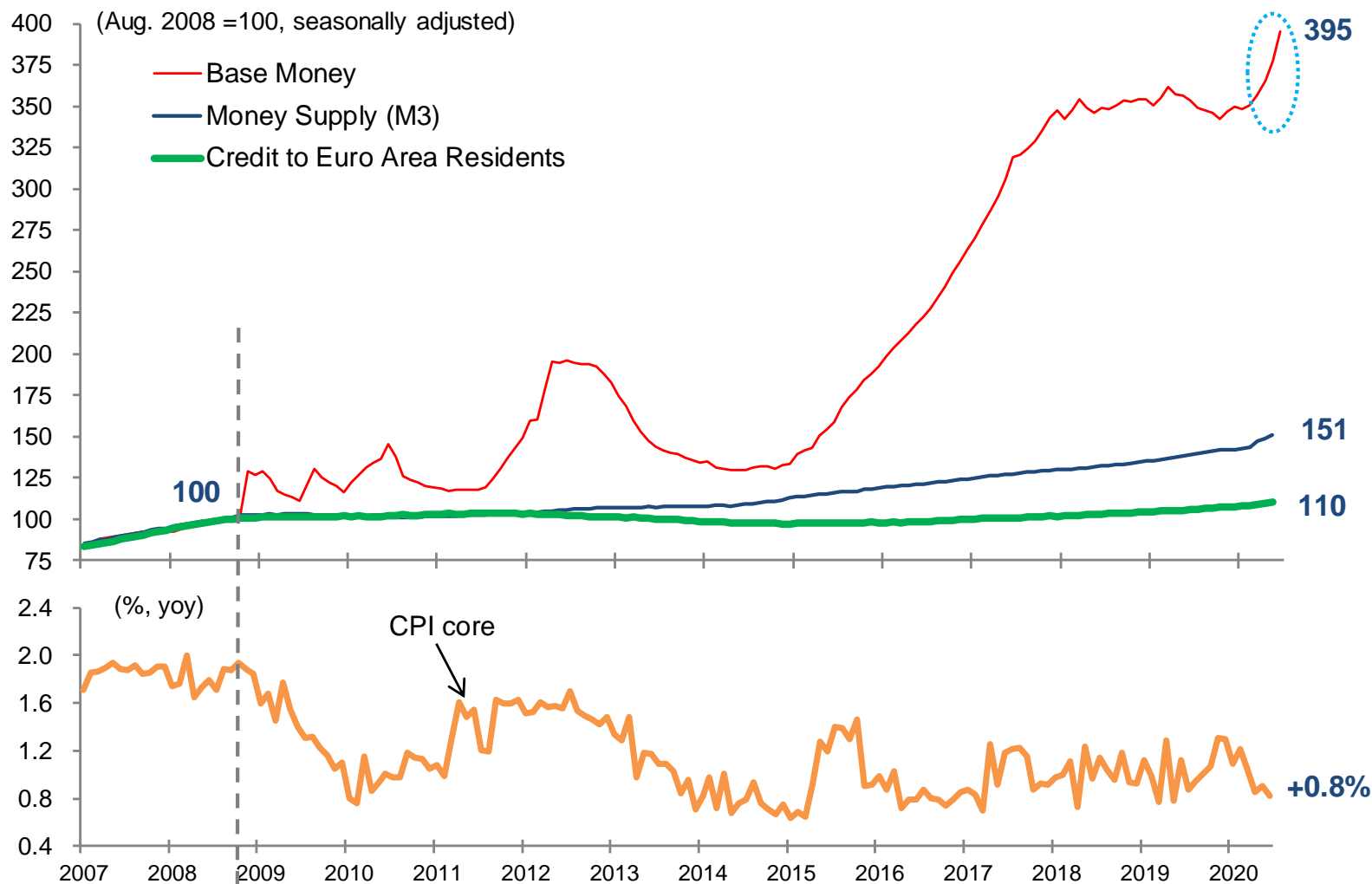
Source: S&P Dow Jones Indices LLC

# Exhibit 8. Central Banks Acting quickly to Pandemic, but Inflation Is unlikely in the Future (I): US



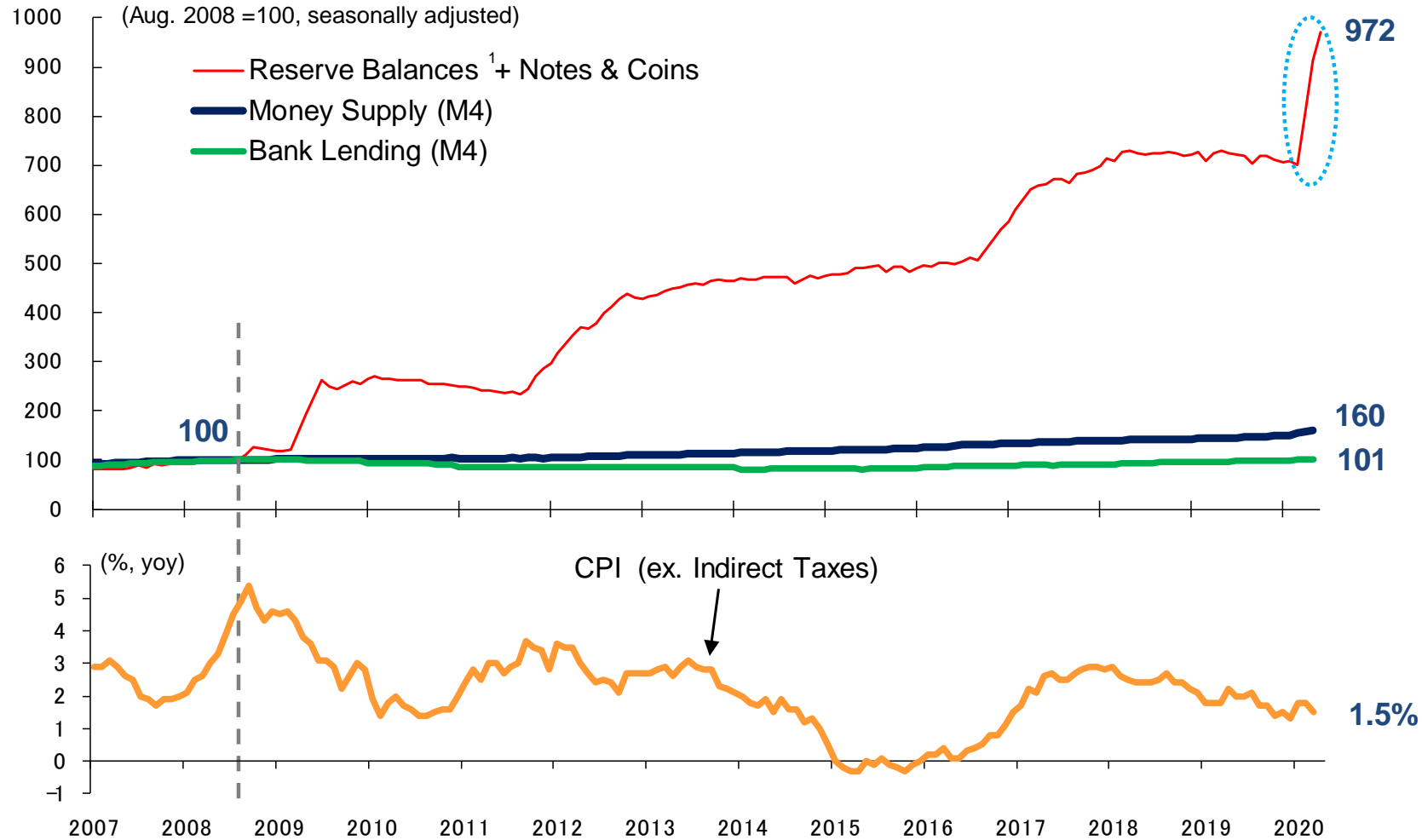
Note: Commercial bank loans and leases, adjustments for discontinuities made by Nomura Research Institute.  
Sources: Federal Reserve Board; US Department of Commerce

# Exhibit 9. Central Banks Acting quickly to Pandemic, but Inflation Is unlikely in the Future (II): Eurozone



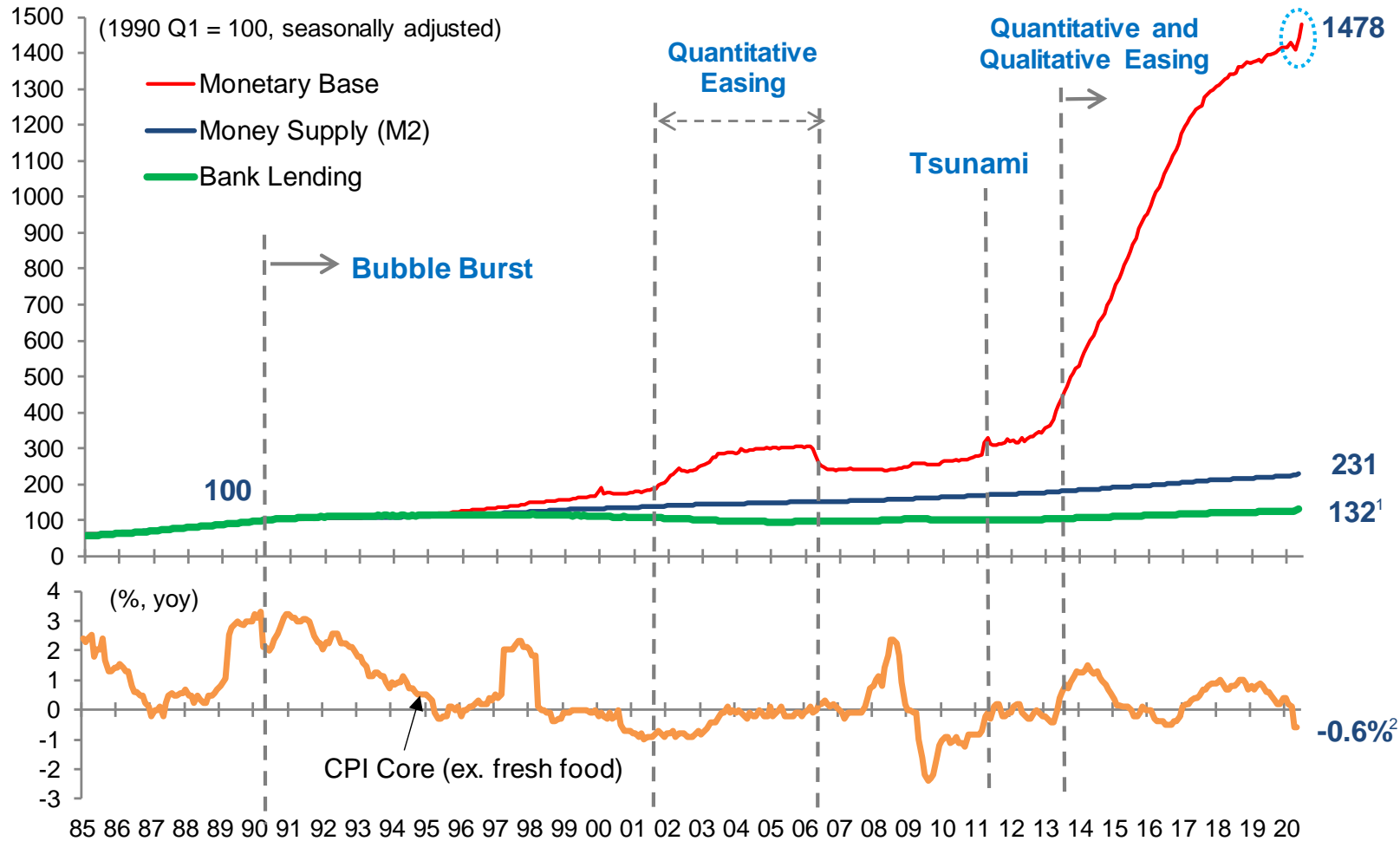
Note: Base money's figures are seasonally adjusted by Nomura Research Institute.  
Sources: European Central Bank; Eurostat

# Exhibit 10. Central Banks Acting quickly to Pandemic, but Inflation Is unlikely in the Future (III): UK



Notes: 1. Reserve balances data are seasonally unadjusted.  
 2. Money supply and bank lending data exclude intermediate financial institutions.  
 Sources: Bank of England; Office for National Statistics, UK

# Exhibit 11. Central Banks Acting quickly to Pandemic, but Inflation Is unlikely in the Future (IV): Japan



Notes: 1. Figures for bank lending are seasonally adjusted by Nomura Research Institute.

2. Excluding the impact of consumption tax.

Source: Bank of Japan

## Exhibit 12. Necessary Policies before, during and after Pandemic

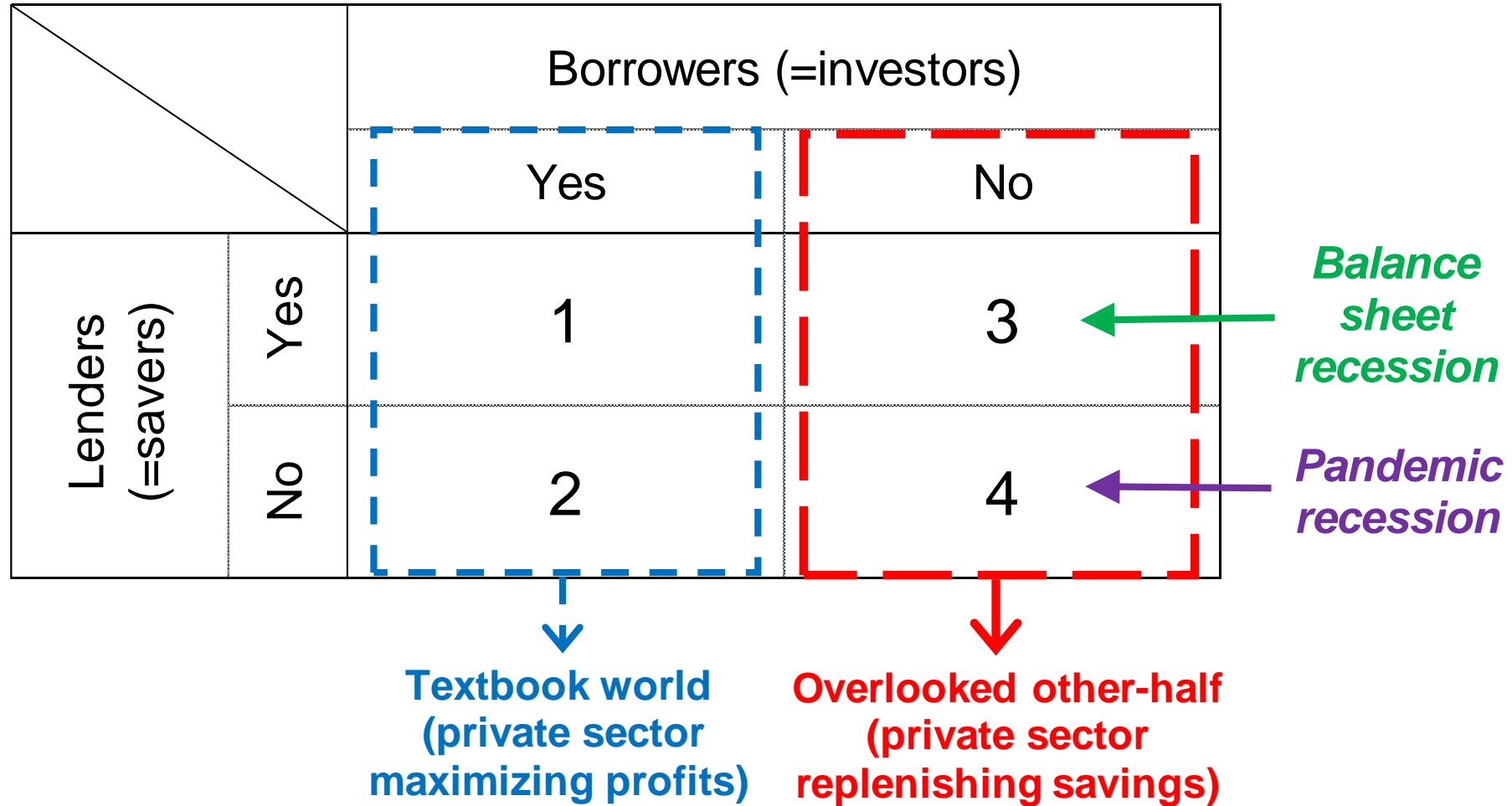
	during balance sheet recession 2008 → 2019	during pandemic (similar to natural disaster)	after pandemic (similar to balance sheet recession)
Monetary policy	Not effective in restoring economic growth	Must be extra-accommodative to keep interest rates low (=lender of last resort)	Gradual return to normalcy while the private sector is replenishing savings
Fiscal policy	Must act as "borrower of last resort" to forstall deflationary spiral	Direct payments to households and businesses until medical solutions are found	Less direct payments, more public works if the private sector is a net saver (=borrower of last resort)

## Exhibit 13. Three Reasons for Not Borrowing Money

- 1) Bursting of a debt-financed bubble left the private sector with debt-overhang  
**(=*balance sheet recession*)**
  
- 2) Return on capital higher in emerging countries  
(=pursuing economies) than at home  
**(=*pursued economies*)**
  
- 3) Savings depleted or considered inadequate  
**(=*post-pandemic recession*)**



# Exhibit 14. Economic Textbooks Covered only Two out of Four Macro Economic Possibilities



# Exhibit 15. Private Sector<sup>1</sup> Borrowers Disappeared<sup>2, 4</sup> after 2008

Average Annual Private Sector Financial Surplus(+) or Deficit(-)

	5 years to Q3 2008	from Q4 2008 to present <sup>4</sup>	latest 4 quarters	(% of GDP)
UK	-0.15	1.33	-2.84	
US	3.55	5.94	7.50	
Canada	-0.02	-1.77 <sup>5</sup>	-1.21	
Japan	7.62 <sup>2</sup>	7.84	5.79	
Korea	-1.80	3.19	1.35	
Australia	-7.35	0.68	3.34	
Eurozone	1.25	4.52	2.98	

	5 years to Q3 2008	from Q4 2008 to present <sup>4</sup>	latest 4 quarters	(% of GDP)
Germany	8.42 <sup>3</sup>	6.30	2.16	
France	2.83	3.52	2.68	
Italy	1.21	3.08	4.20	
Spain	-7.93	7.21	5.17	
Greece	0.33	0.45	-5.33	
Ireland	-4.94	2.04	-18.05	
Portugal	-3.79	4.17	0.69	

1. private sector = household + corporate + financial sectors

2. Entered balance sheet recession in 1990

3. Entered balance sheet recession in 2000

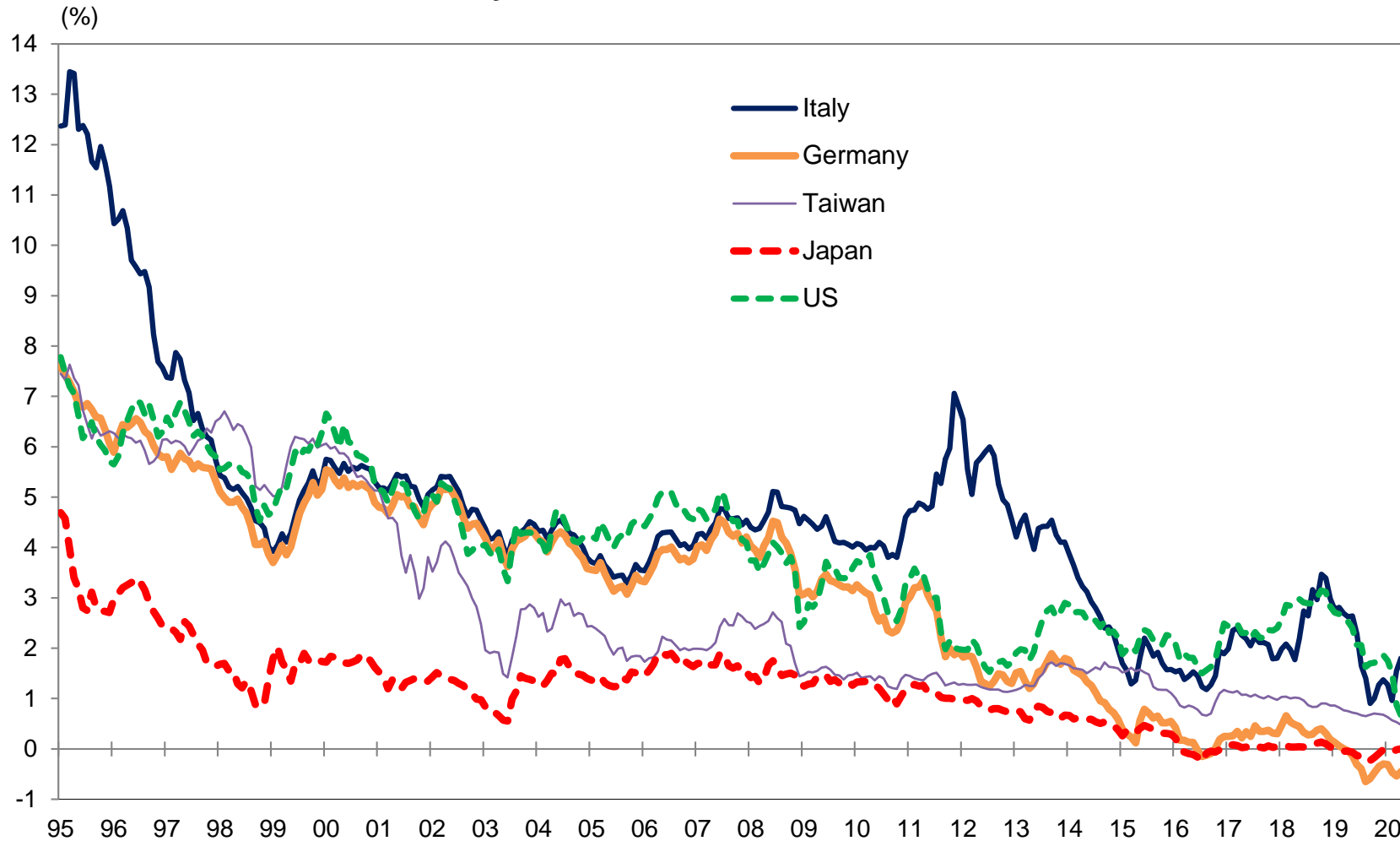
4. Until Q4 2019. Only for UK, US, Canada, Japan and Australia, until Q1 2020.

5. Except Canada

Source: Nomura Research Institute, based on these countries' flow of funds and national accounts data

# Exhibit 16. Pursued Economies with Super-Low Bond Yields Should Be Able to Find Self-Financing Public Works Projects

## 10-year Government Bond Yields



Source: Nomura Research Institute, based on the data from ECB, CEIC, FRB and Ministry of Finance, Japan

## Exhibit 17. Trade Theories Inadequately Taught (1)

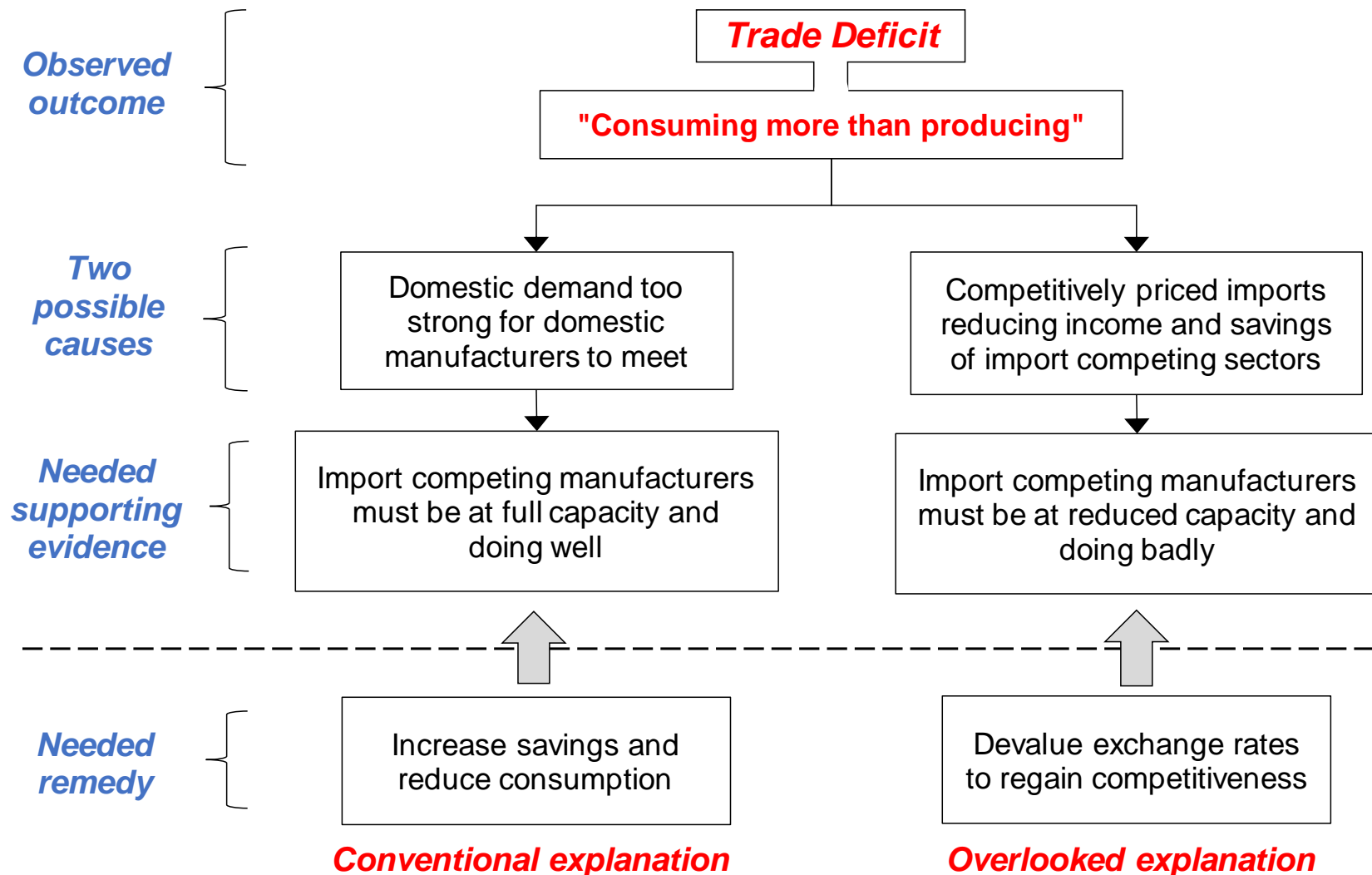
*What we were taught:*

“Free trade creates both winners and losers in a country. But the gains the winners obtain is so much larger than the losses the losers sustain, so the economy as a whole gains much from free trade.”

*What was in fact true:*

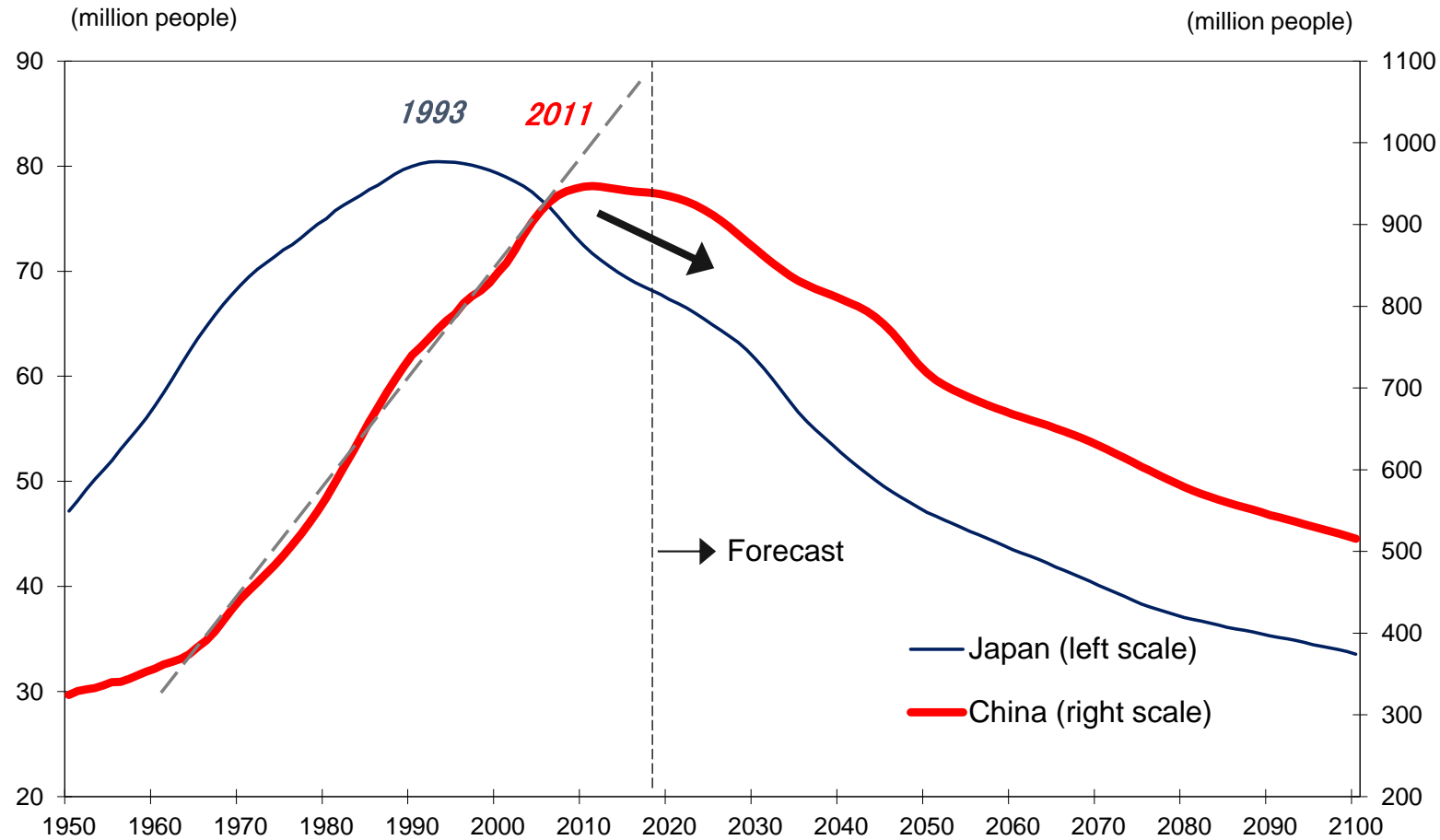
“Free trade creates both winners and losers in a country. But the gains the winners obtain is so much larger than the losses the losers sustain *if* the trade is *balanced*. If the country continues to run deficits, the number of losers may grow until they are numerous enough to elect protectionist leaders.”

## Exhibit 18. Trade Theories Inadequately Taught (2)



# Exhibit 22. China May Grow Old before It Grows Rich: Working Age Population\* Has Started to Contract in China

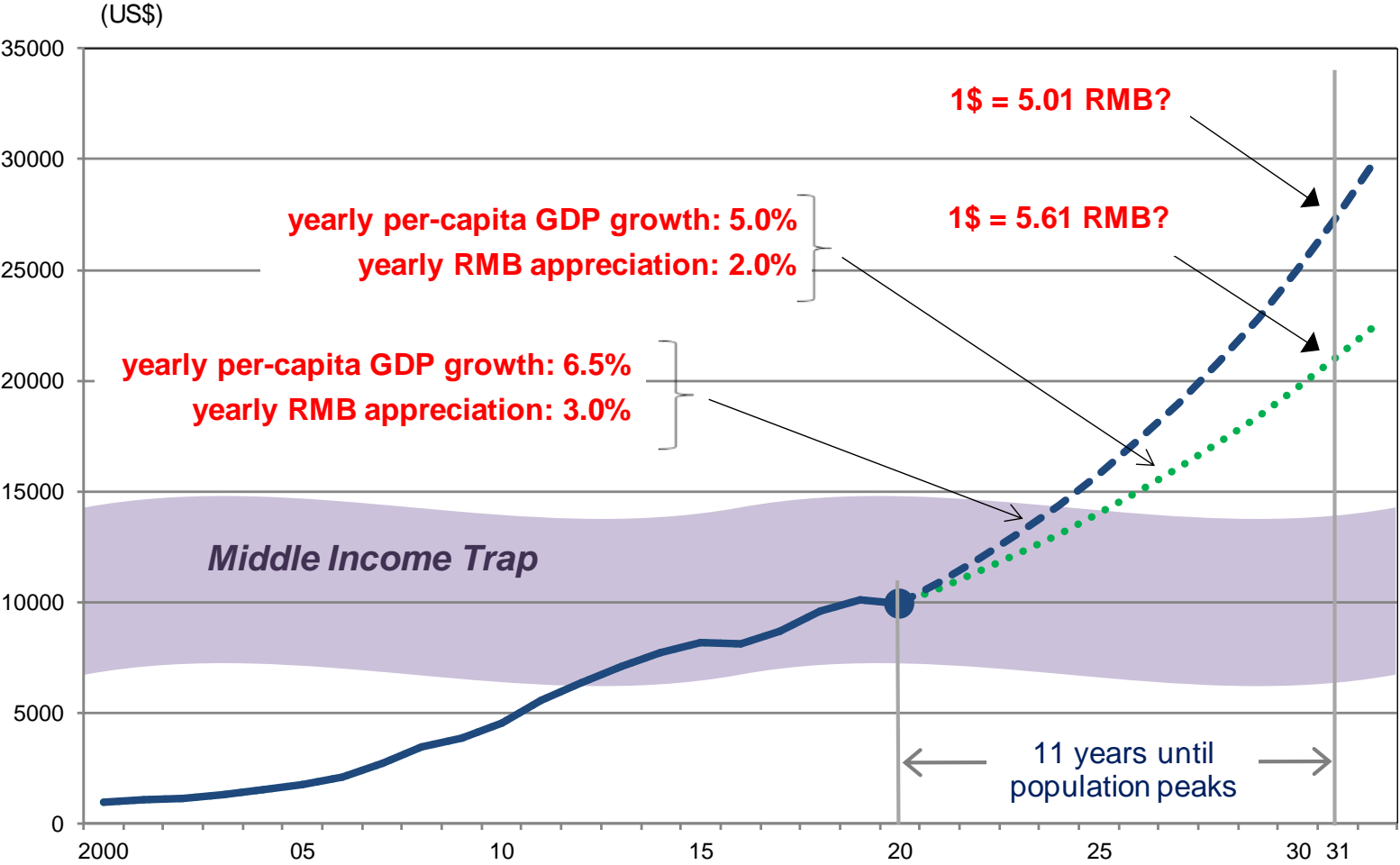
## The Working Age Population (15-59) in China and Japan, Actual and Forecast



Note: The Chinese National Statistical Office defines the working age population as the people from 15 to 59.  
 Source: United Nations, Department of Economic and Social Affairs, Population Division (2019). World Population Prospects 2019, Online Edition.

# Exhibit 23. China only Has 11 Years to Reach First-World Living Standard to Reach First-World Living Standard

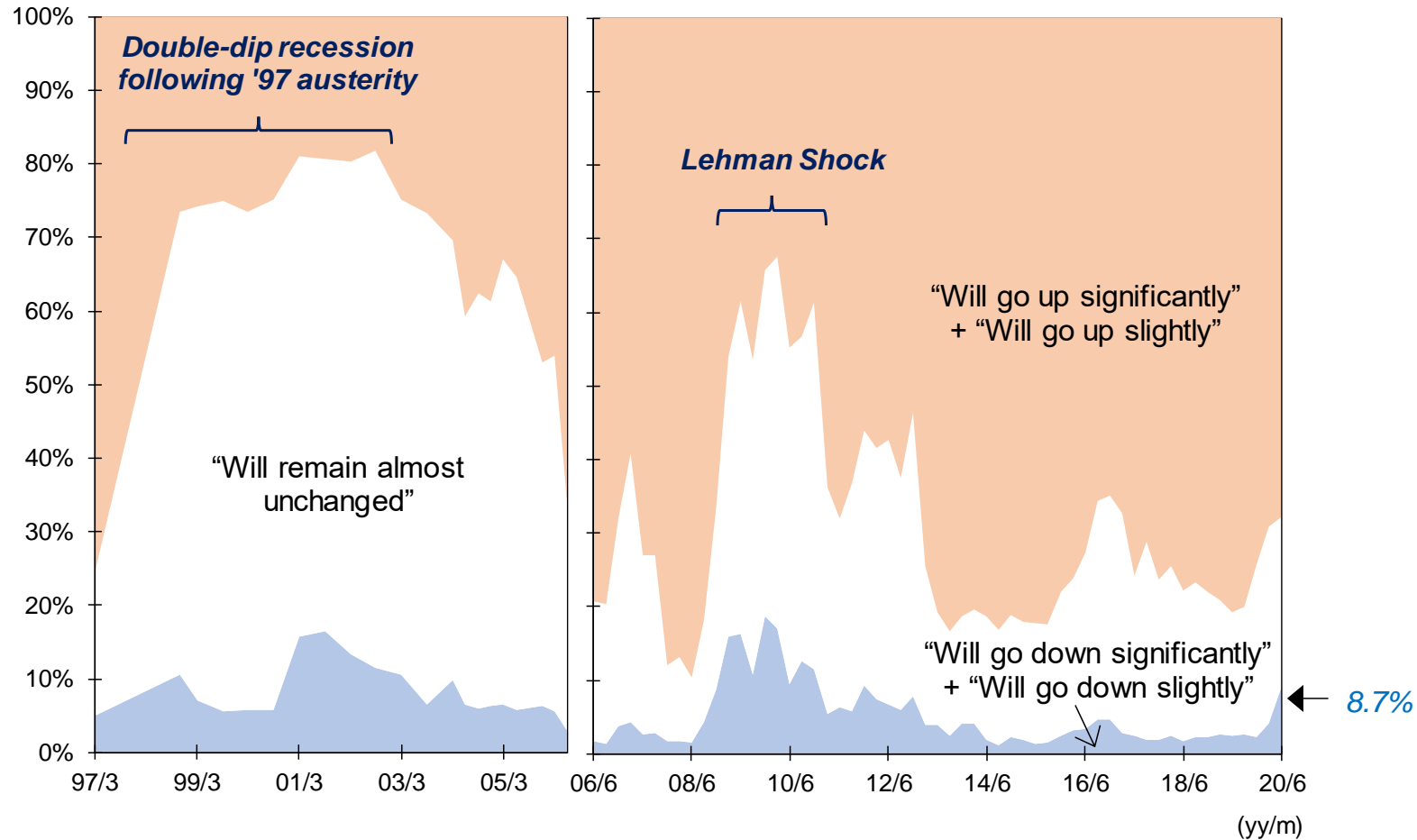
## China's Per-Capita Income



Note: Per-capita GDP in 2020 is estimated by NRI along these assumptions: real GDP growth = 1.18%, inflation = 1.0% and 1\$ = 7.0 RMB. Source: Nomura Research Institute, based on the data from IMF, *World Economic Outlook October 2019 and April 2020*.

# Exhibit 24. Japanization Myth (1): Vast Majority of Japanese Have Never Expected Deflation

Answer to question: How will prices change over the next year?



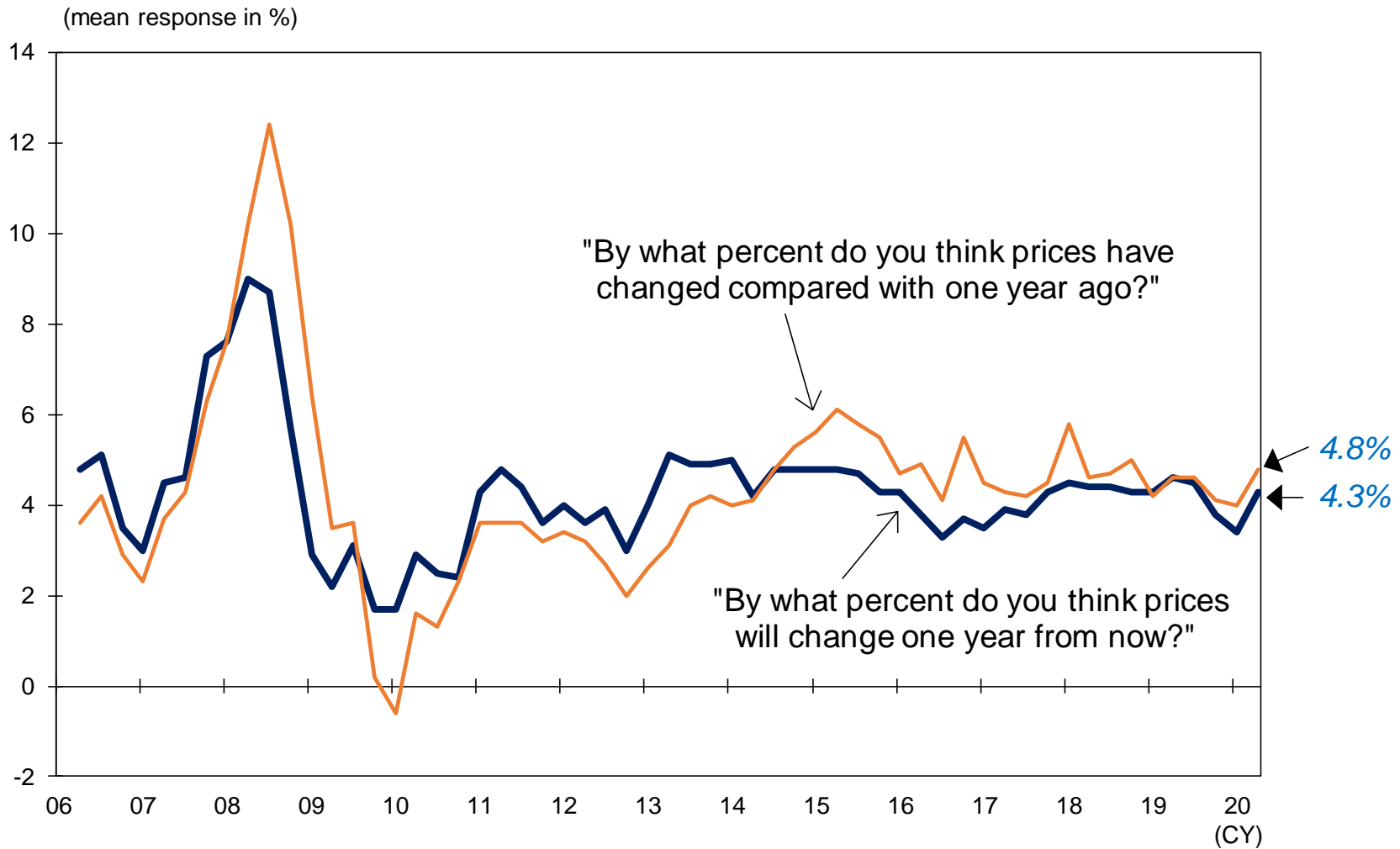
Note: Data are discontinuous because survey methodology and wording were changed in June 2006.

Question asks respondents to ignore changes in prices due to consumption tax hike.

Source: Nomura Research Institute, based on BOJ's Opinion Survey on the General Public's Views and Behavior.

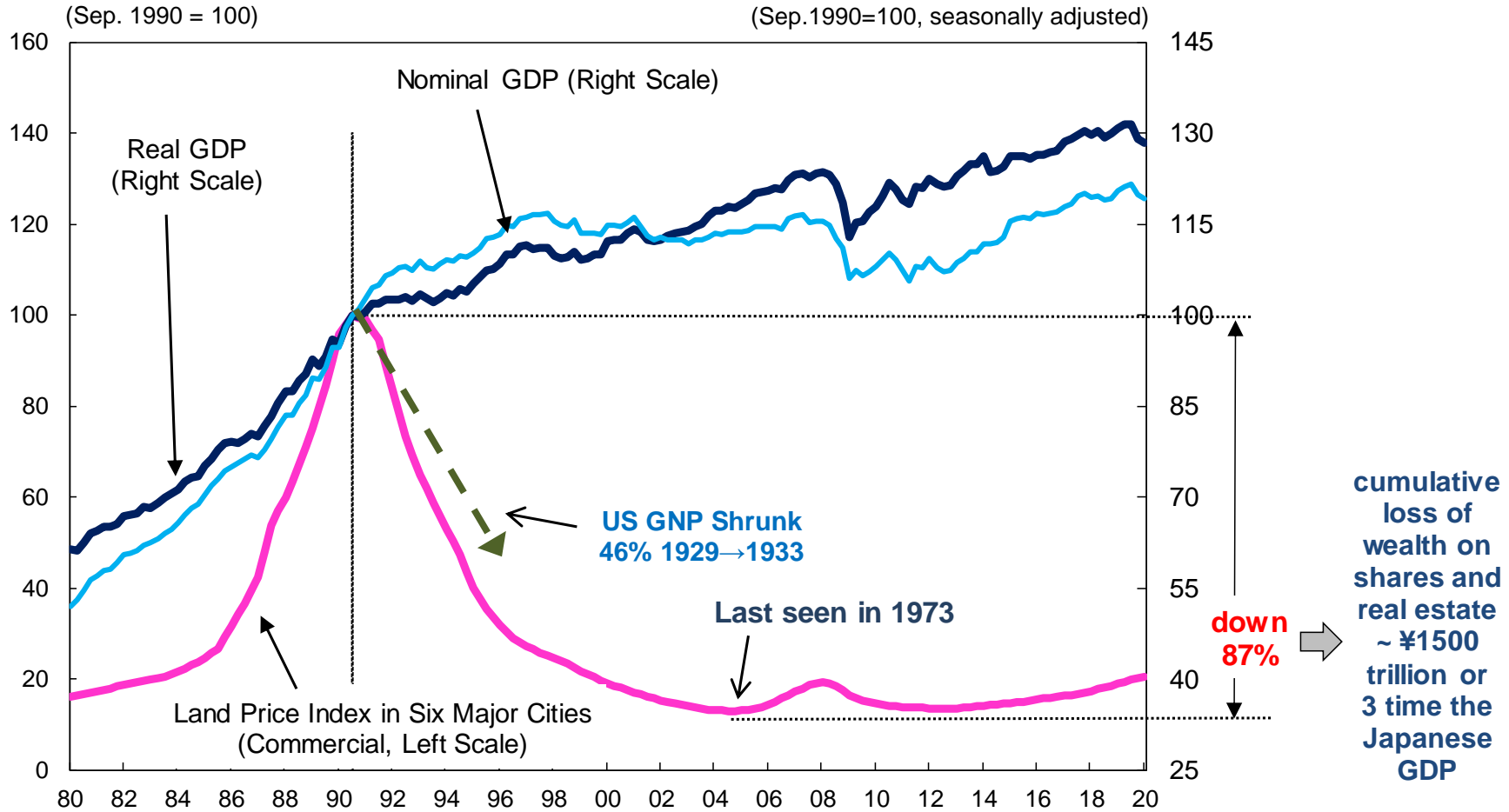


# Exhibit 25. Japanization Myth (2): Vast Majority of Japanese Have Never Expected Deflation



Source: Nomura Research Institute, based on BOJ's Opinion Survey on the General Public's Views and Behavior.

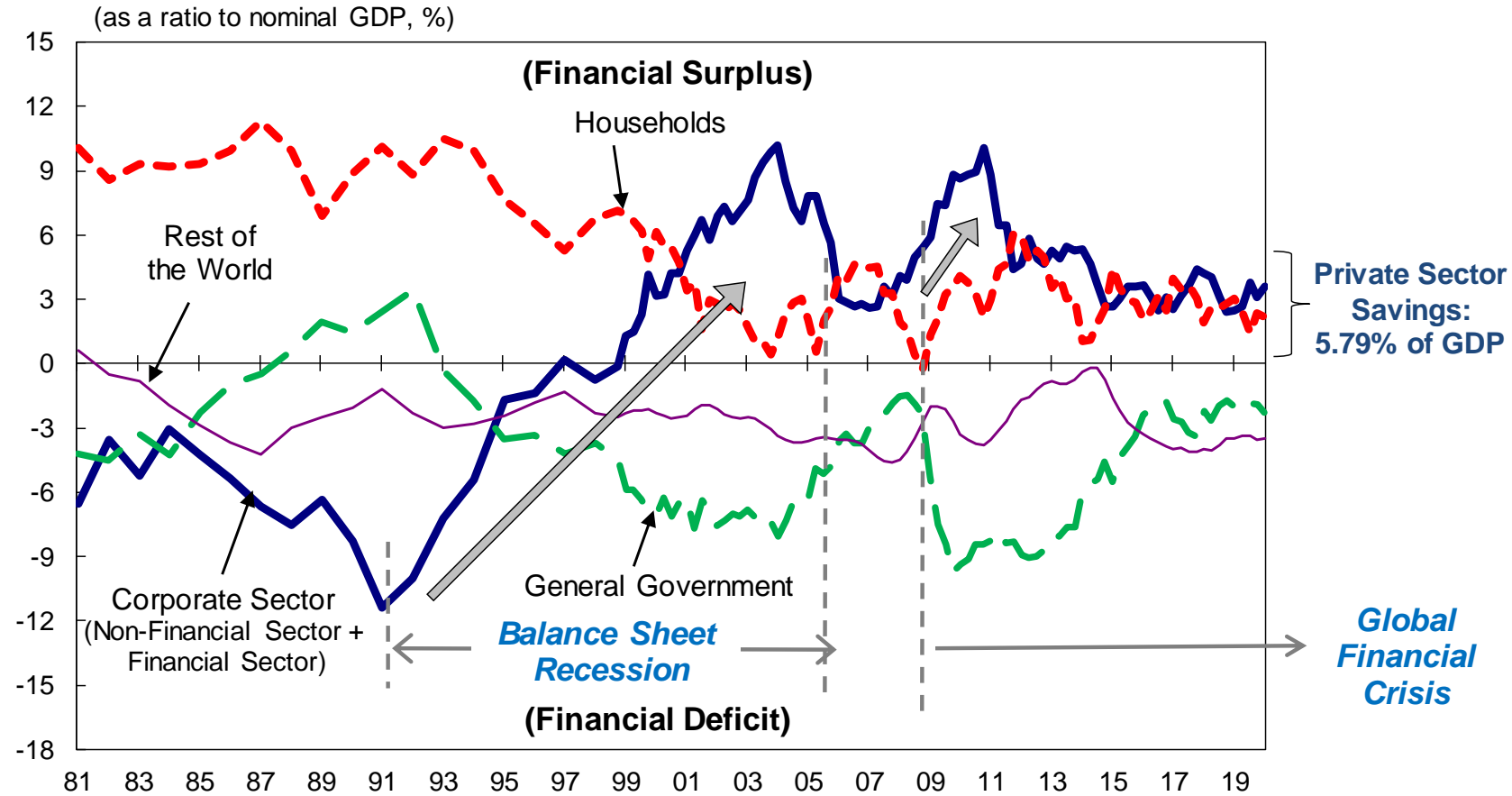
# Exhibit 26. Japanization Myth (3): Japan's GDP Never Fell below the Bubble Peak despite De-leveraging



\* GDP returning to the pre-bubble level of 1985  
 Sources: Cabinet Office, Japan; Japan Real Estate Institute

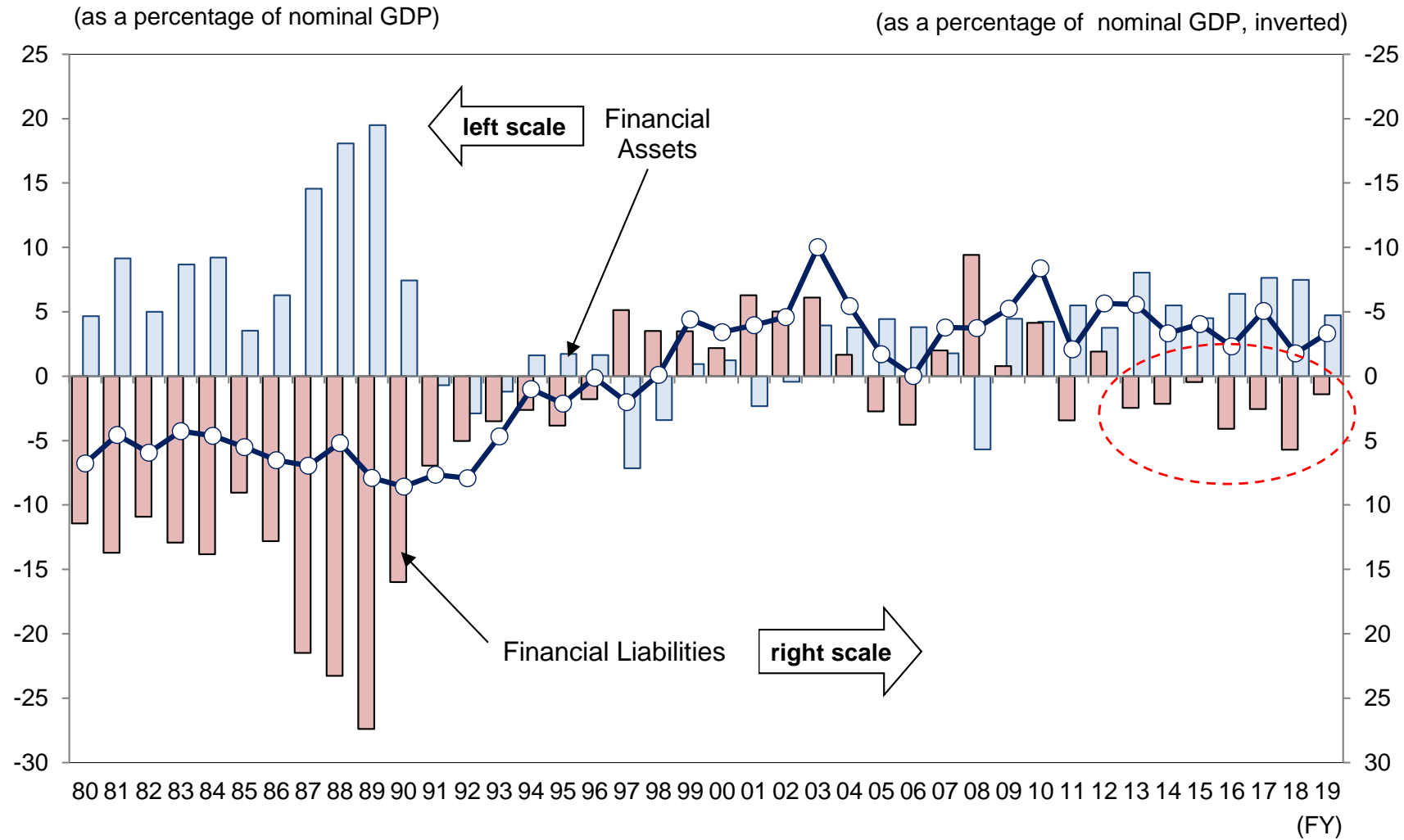
# Exhibit 27. Japan's Challenge: Overcoming Problems of Debt Trauma and inferior Return on Capital relative to Emerging Markets

## Financial Surplus or Deficit by Sector



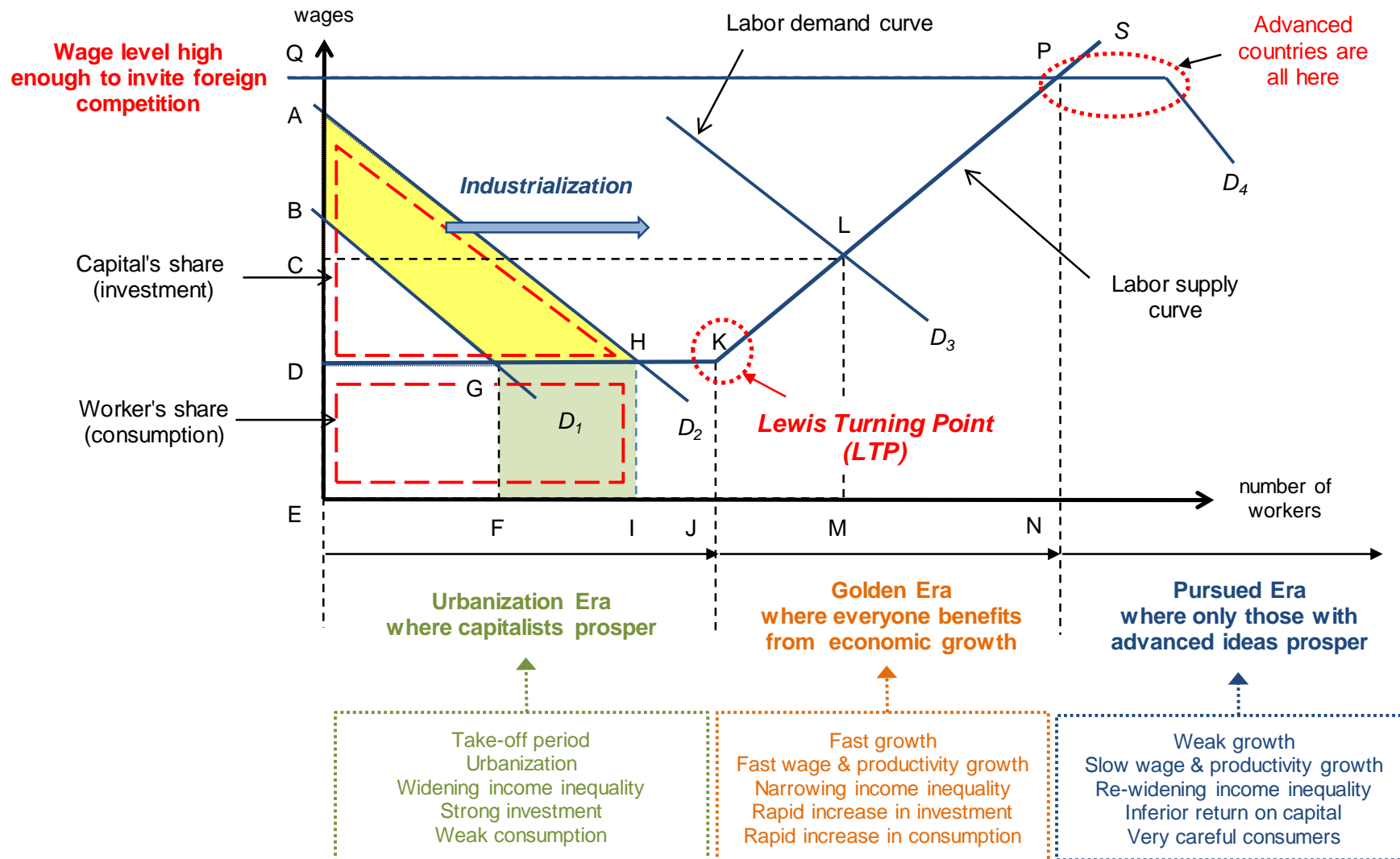
Note: All entries are four-quarter moving averages. For the latest figures, four-quarter averages ending in 2020 Q1 are used.  
 Sources: Bank of Japan, *Flow of Funds Accounts*, and Government of Japan, Cabinet Office, *National Accounts*

# Exhibit 28. Japanese Non-financial Companies Are finally Beginning to Borrow, but Are still Net Savers



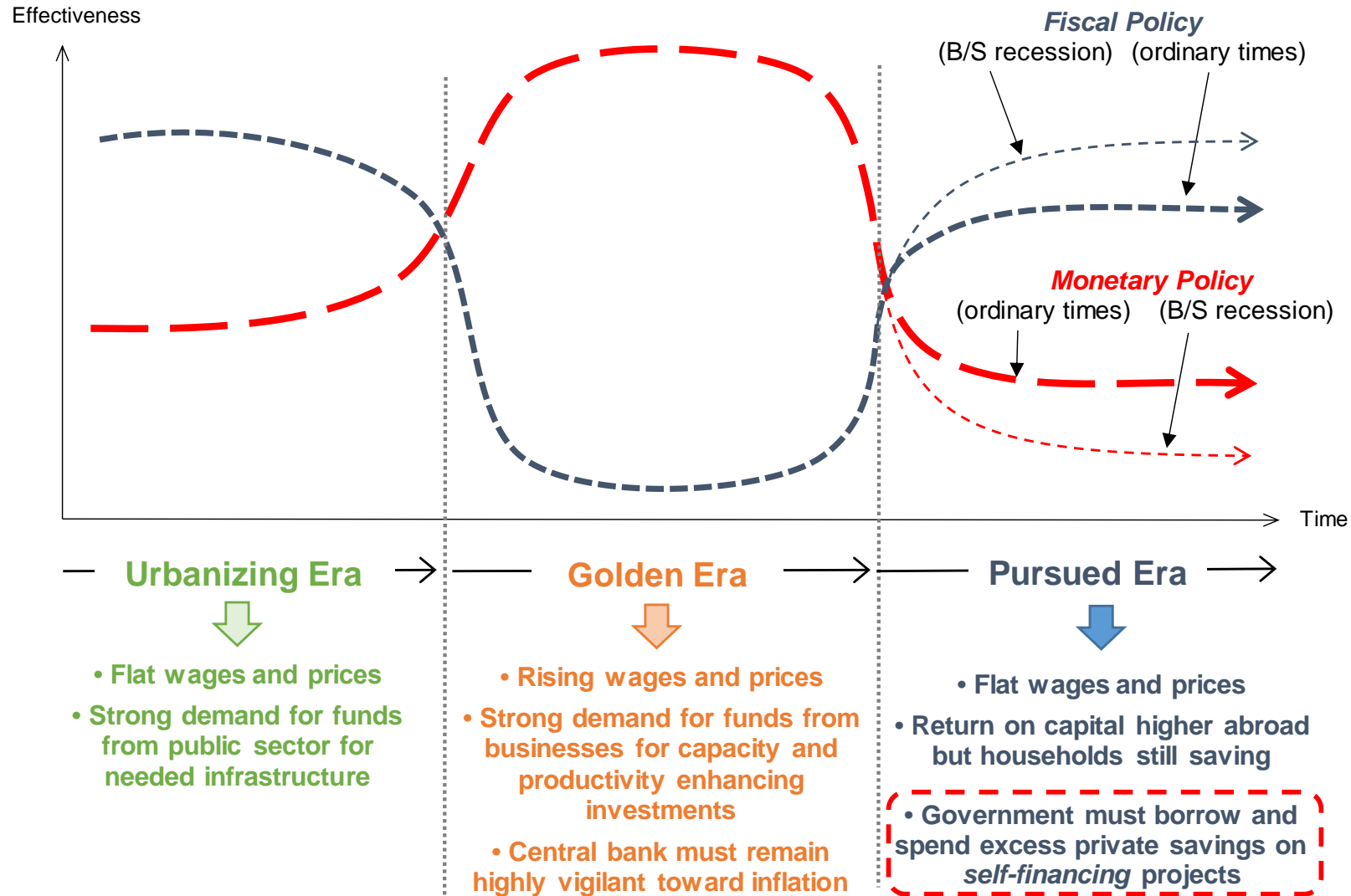
Sources: Bank of Japan, *Flow of Funds Accounts*, and Government of Japan, Cabinet Office, *National Accounts*

# Exhibit 29. Labor Market in Three Stages of Economic Development



Source: Nomura Research Institute

# Exhibit 30. Effectiveness of Monetary & Fiscal Policies in Three Stages of Economic Development



## Appendix A-1

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Standard & Poor's

-Name of the rating agency group and registration number

Name of the rating agency group: S&P Global Ratings (S&P)

Name of the registered credit rating agency within the group and its registration number:

S&P Global Ratings Japan Inc. (Financial Services Agency Commissioner 5)

-The way of obtaining summary information on the policies and methods used for assigning credit ratings

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-Assumptions, Significance and Limitation of Credit Ratings

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-Name of the rating agency group and registration number

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Moody's Japan K.K. (Financial Services Agency Commissioner 2)

-The way of obtaining summary information on the policies and method used for assigning credit ratings

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-Name of the rating agency group and registration number

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Name of the registered credit rating agency within the group and registration number:

Fitch Ratings Japan Limited. (Financial Services Agency Commissioner 7)

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