

REGIONAL ECONOMIC OUTLOOK

ASIA AND PACIFIC



**ASIA AND PACIFIC
DEPARTMENT**

AN OVERVIEW OF FISCAL AND PUBLIC DEBT DYNAMICS, AND CURRENT FISCAL POLICY SETTINGS IN ASIA AND THE PACIFIC

**STI-OAP PEER-LEARNING WORKSHOP ON FISCAL AND PUBLIC DEBT
ISSUES IN ASIA AND THE PACIFIC**

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The views expressed in this presentation are those of the presenter and should not be attributed to the IMF, its Executive Board, or IMF Management.

Outline

- New macroeconomic challenges
- The fiscal situation in Asia and the Pacific
- Fiscal prospects and challenges

New Macroeconomic Challenges

Challenge 1: economic scarring

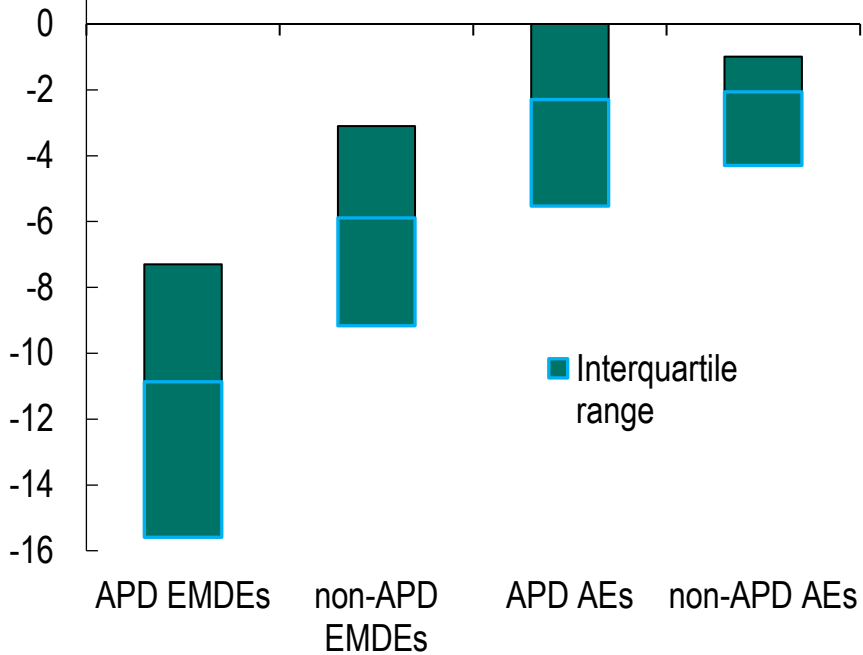
Medium-term output losses due to the pandemic are forecast to be large in Asia, especially in EMDEs,....

... partly driven by lower investment induced by the pandemic, and....

... learning losses due to protracted school closures during the pandemic

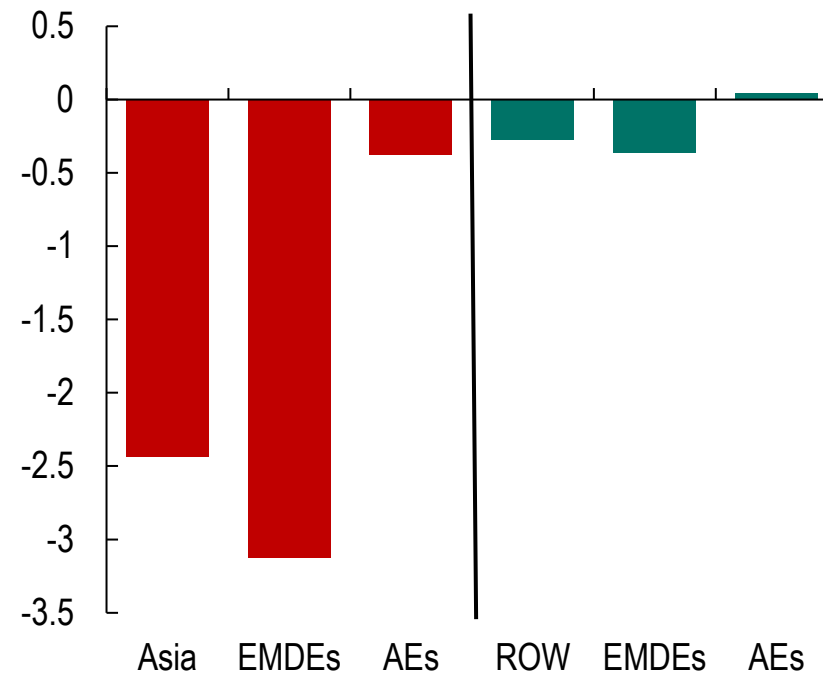
Output Losses: by Income Group

(Percent, deviation in GDP from pre-pandemic projections, 2024)



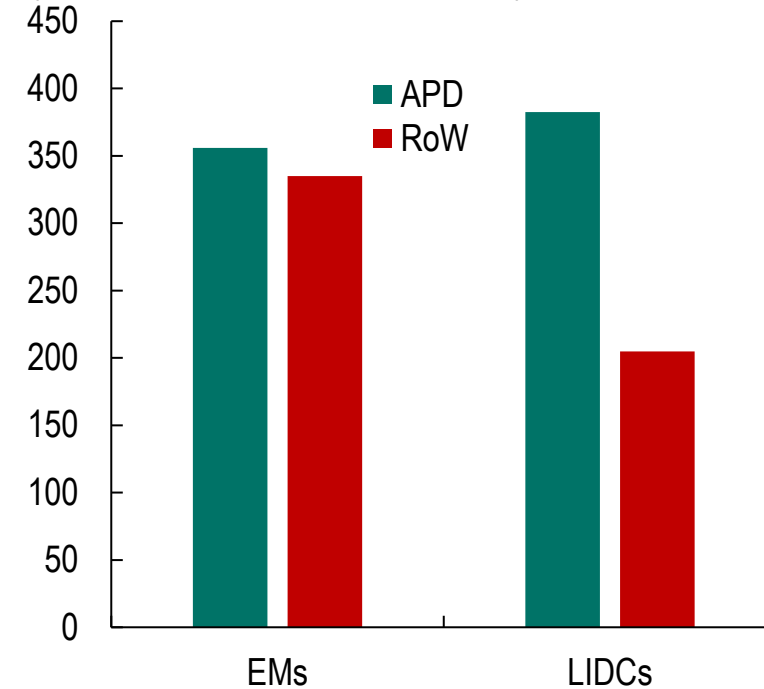
Capital Investment Losses from COVID-19

(Simple average, percentage points)



School Closures Due to COVID19

(Average Days with Closed Schools)



Source: World Economic Outlook and IMF staff calculations.

Sources: World Economic Outlook, Penn World Tables and IMF staff calculations.

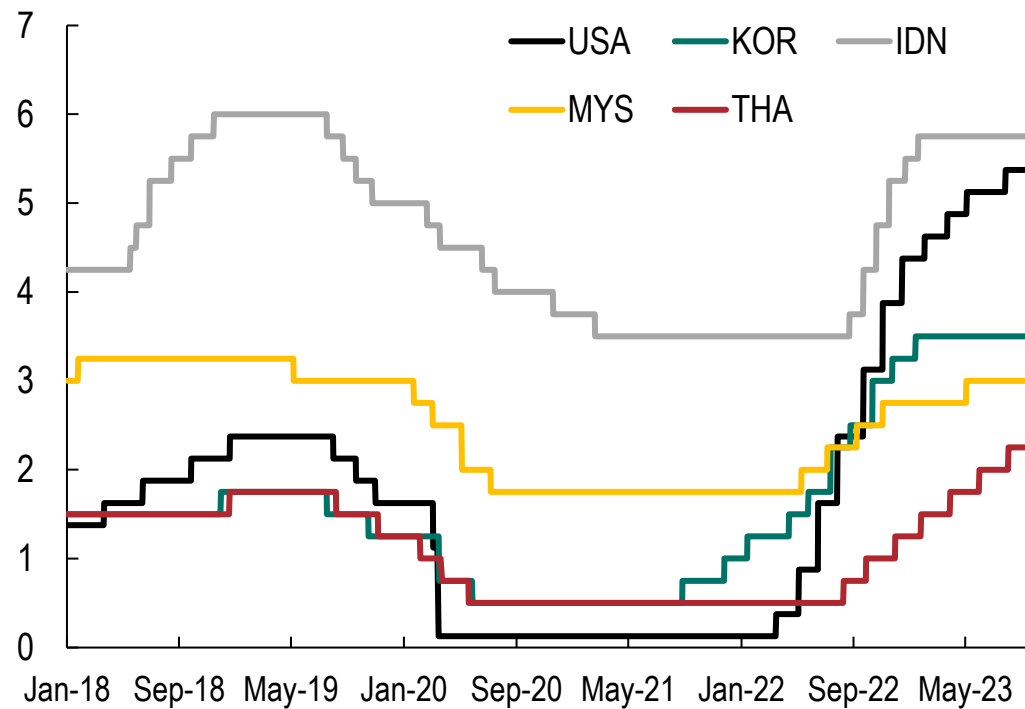
Source: UNESCO and IMF staff calculations. Note: Analysis excludes PICs.

Note: bars denote the difference between projected pre-pandemic and post-pandemic investment ratios for 2024.

Interest rates in the Asia and the Pacific are higher after the pandemic

Monetary policy tightening in Asia has not been as steep as it has been in AEs or some other EMs.

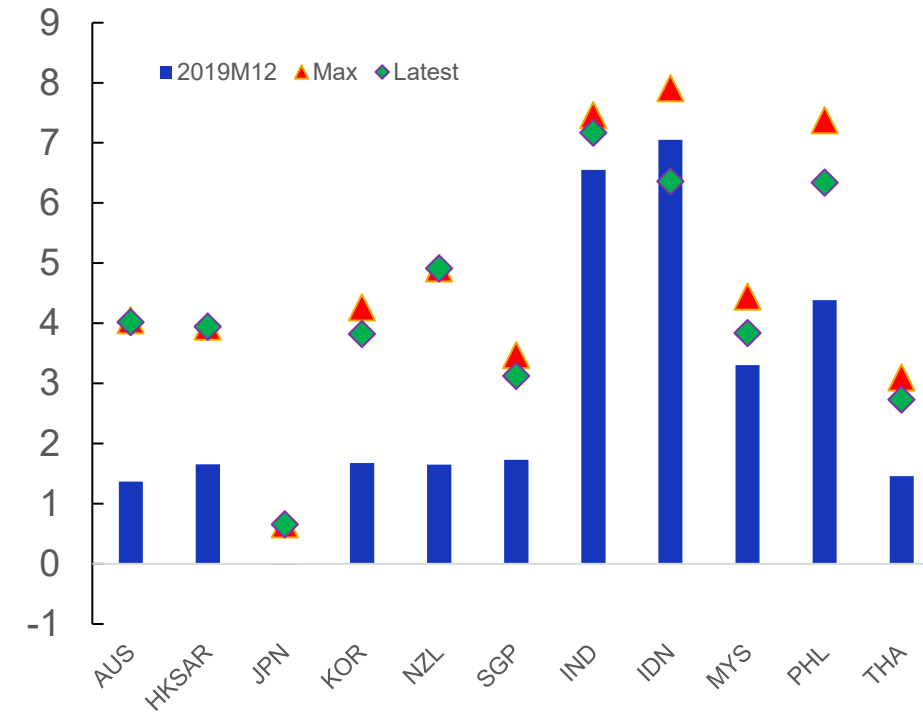
Policy Rates
(In percent)



Source: Haver Analytics.
Note: Data as of 14th September 2023.

Longer-term yields have increased less in Asia and the Pacific than elsewhere but they are still above pre-pandemic levels.

10-Year Government Bond Yields
(Local currency, In percent)

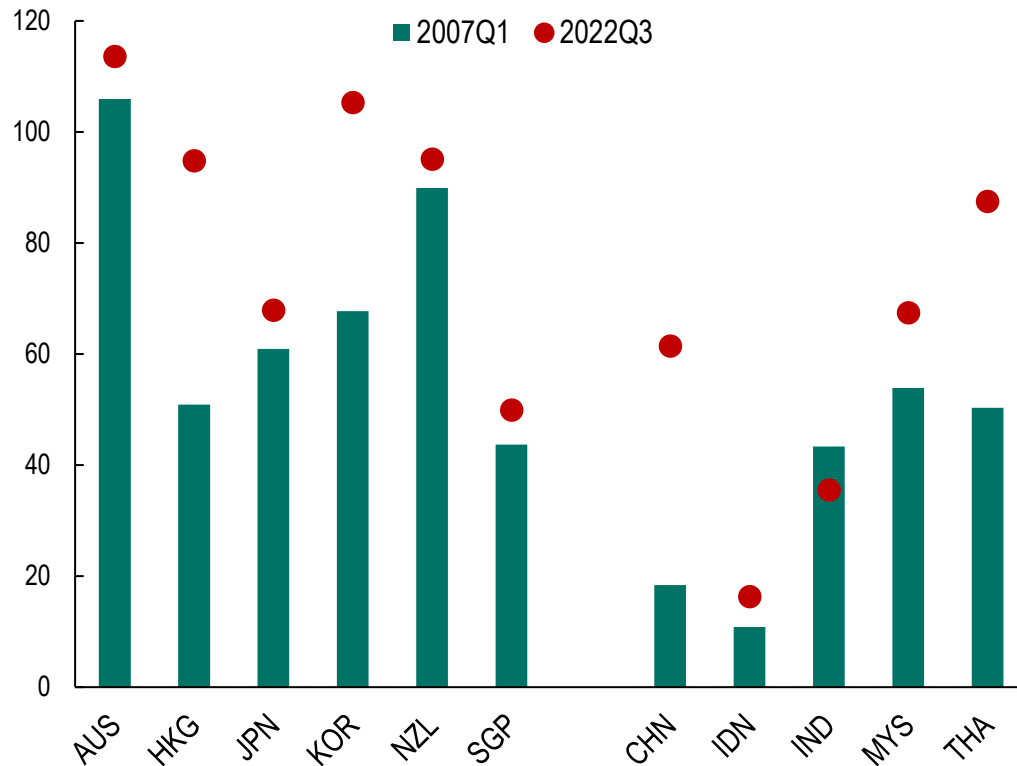


Source: Haver Analytics.
Note: Monthly data, end-period basis, latest is August 2023.

High initial debt levels create vulnerabilities

Vigilance is needed to monitor risks from rising private debt, including households.

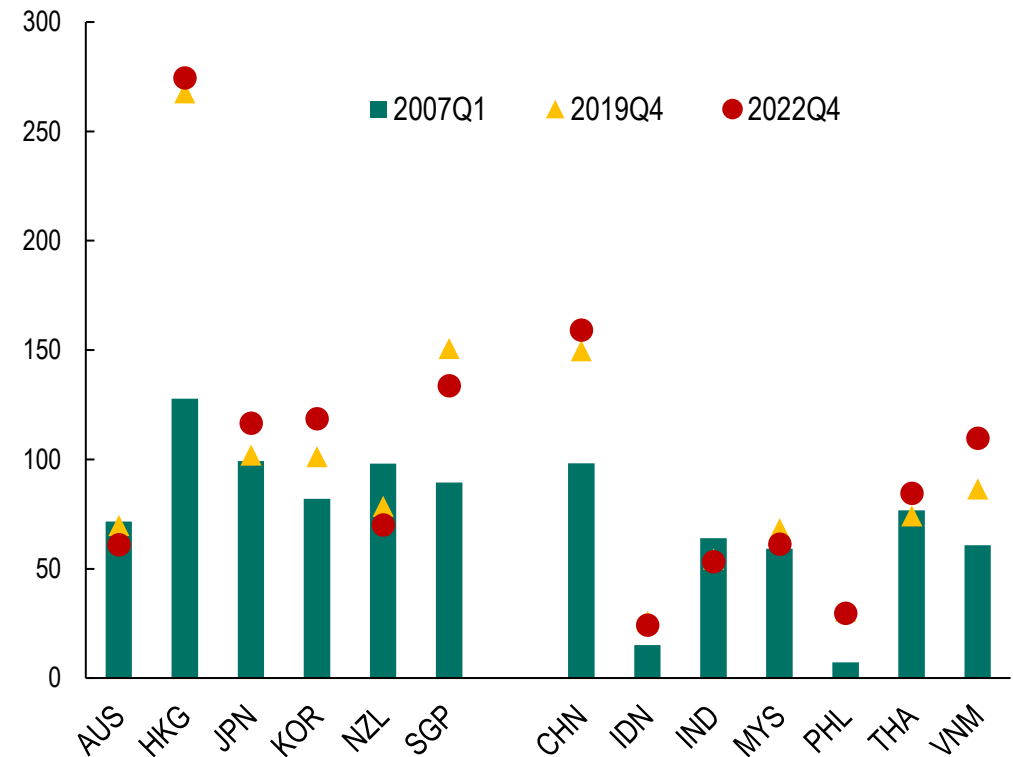
Household debt
(Percent of GDP)



Sources: IIF and IMF staff calculations.

Corporate debt burdens are elevated throughout the region, and generally above their pre-GFC levels.

Corporate debt
(Percent of GDP)



Sources: IIF Haver; BIS, WB EDS; IMF staff calculations.

Geoeconomic fragmentation may lead to further output losses

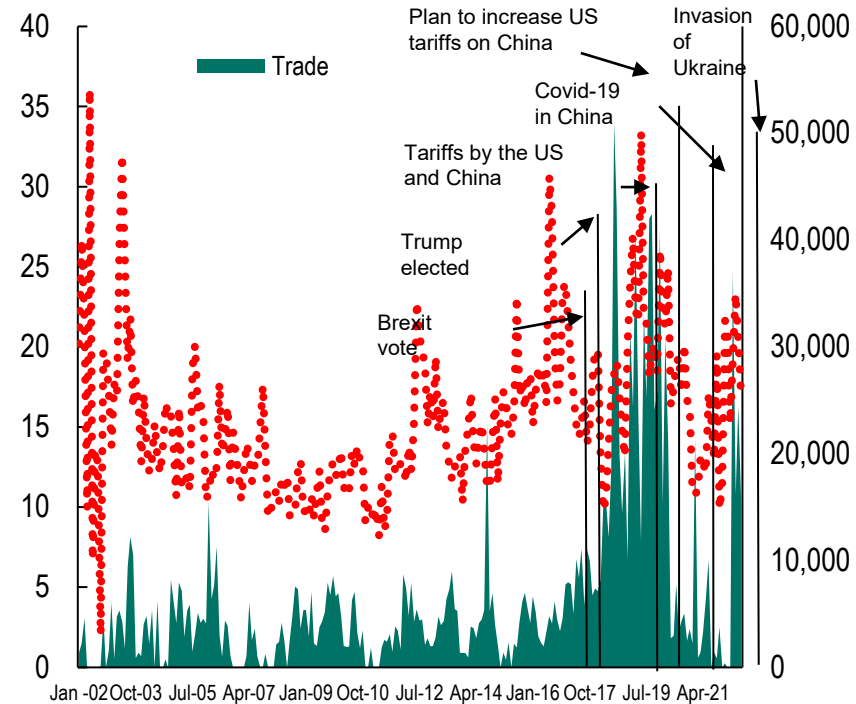
Signs of fragmentation are appearing, with trade-related uncertainty spiking...

...and the number of trade restrictions on the rise.

Simulations find that output losses from deeper trade fragmentation would be large for Asia

Trade Uncertainty

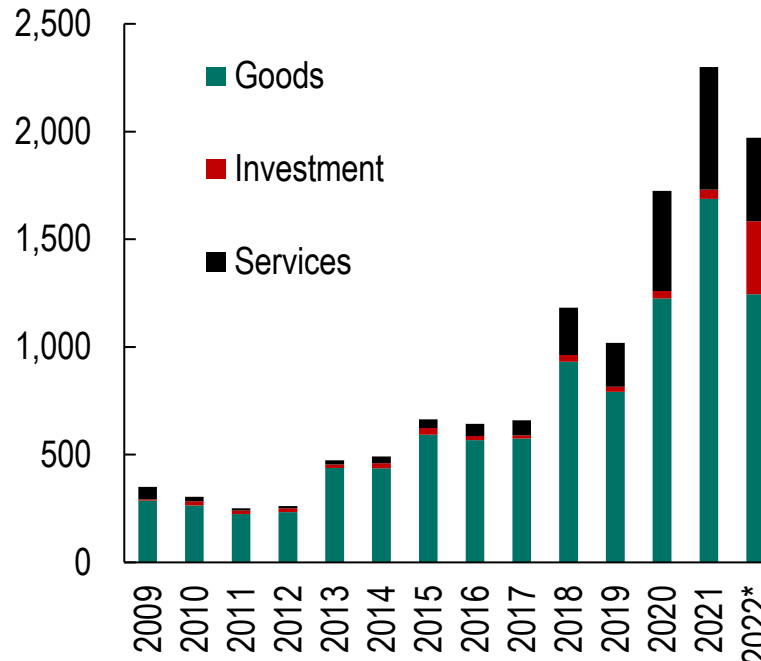
(LHS Contributions to index; RHS: Overall index)



Source: Ahir, Bloom, and Furceri (2022).
Note: LHS = left-hand scale; RHS = right-hand scale.

Harmful Trade Restrictions Imposed

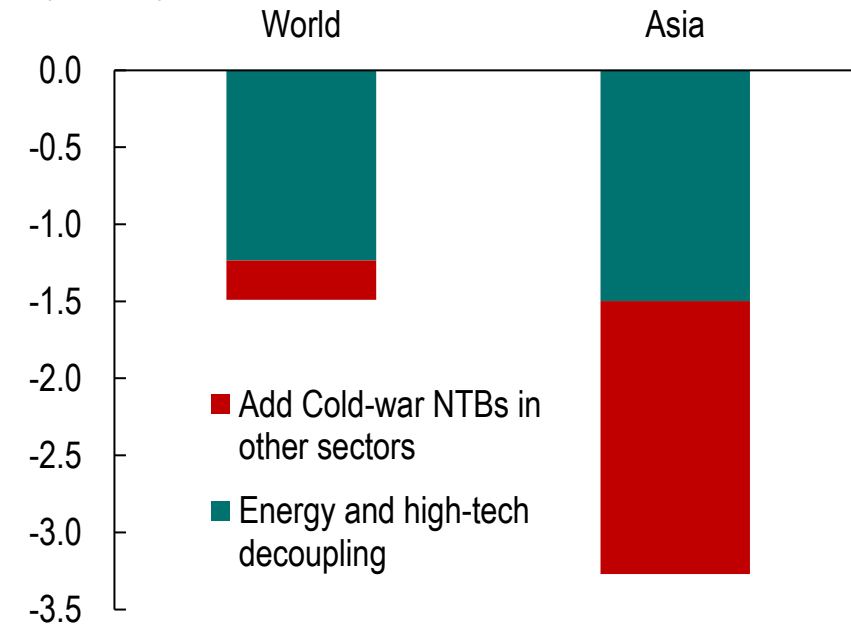
(Number)



Source: Global trade alert. Note: Data for all years adjusted for reporting lag as of the last day of the year. For 2022, data as of July 29 is scaled up based on number of measures reported by the same day in 2021 relative to total measures reported for 2021.

Estimated Aggregate GDP Losses

(Percent)



Sources: IMF staff calculations; EORA Global Input-Output.
Note: Simulations reported in Chapter 3 of Regional Economic Outlook: Asia and Pacific, based on the model by Caliendo and others (2017). Simulations are based on two illustrative scenarios: (1) green bar: countries abstaining or voting negative to UN resolution form a bloc that fragments from the positive voters were only high-tech and energy sectors impacted; and (2) red bar: scenario 1 plus also other sectors see NTBs revert to cold war levels.

The fiscal situation in Asia and the Pacific

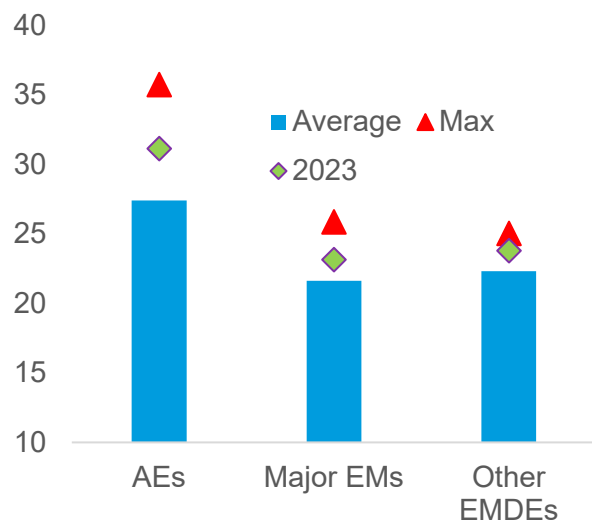
The pandemic required exceptional policy responses and led to large shifts in budgetary expenditure and deficits ...

Government expenditure rose noticeably during the pandemic in many countries. The increase is not yet fully reversed everywhere.

General Government Expenditure

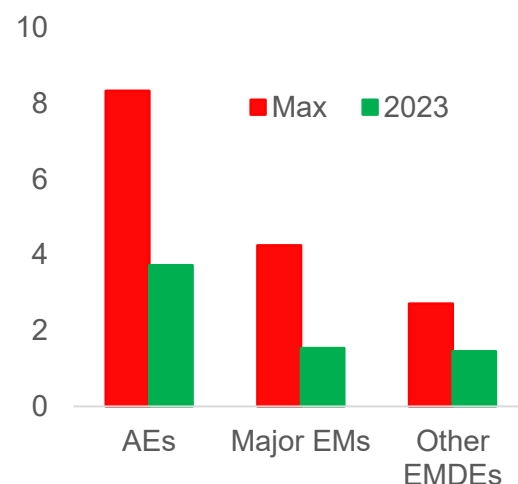
(In percent of GDP)

Levels



Changes

(Compared to average)



Source: IMF, World Economic Outlook database.

Note: Average is for 2015-19. Max is the largest annual expenditure ratio in 2020-22.

Changes show the difference relative to the 2015-19 average in percentage points.

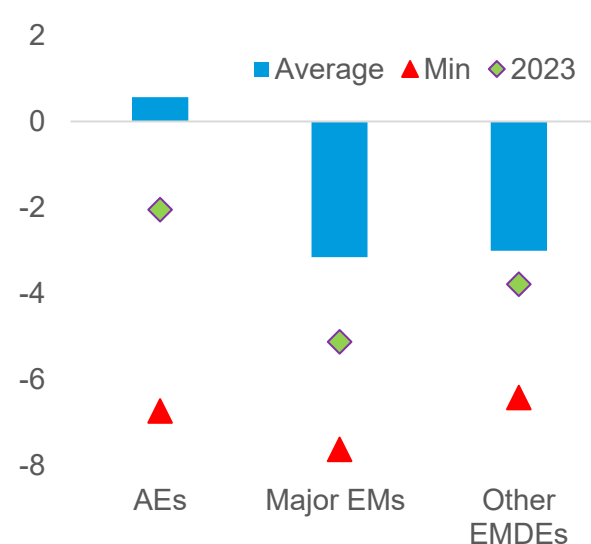
Major EMs or other EMDEs do not include China.

Budget deficits are also larger than pre-pandemic averages.

General Government Budget Balance

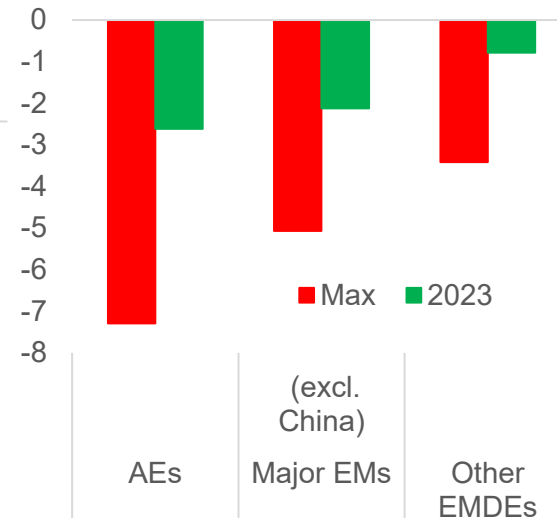
(In percent of GDP)

Levels



Changes

(Compared to average)



Source: IMF, World Economic Outlook database.

Note: Average is for 2015-19. Min is the largest annual budget deficit in 2020-22. The 2023 values are IMF staff estimates.

Changes show the difference relative to the 2015-19 average in percentage points.

Major EMs or other EMDEs do not include China.

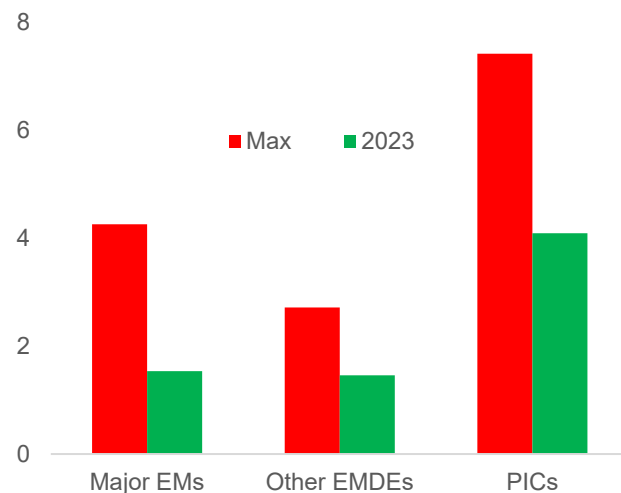
...also in Pacific Islands and small states...

The increase in expenditure ratios in Pacific Island countries was even larger, although this also reflected much larger GDP declines.

Budget deficits are still above pre-pandemic averages.

General Government Expenditure (In percent of GDP)

Changes (Compared to average)

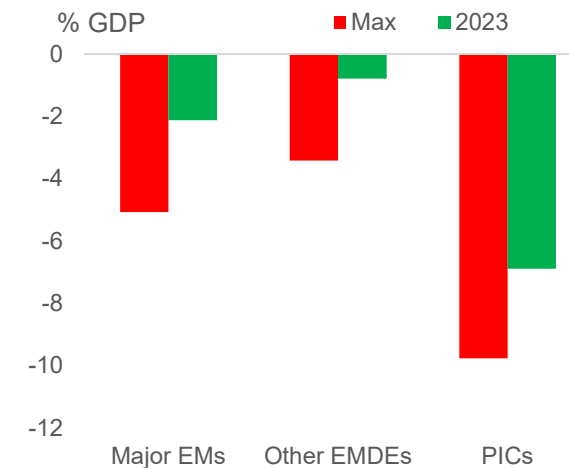


Source: IMF, World Economic Outlook database.

Note: Average is for 2015-19. Max is the largest annual expenditure ratio in 2020-22. Changes show the difference relative to the 2015-19 average in percentage points. Major EMs or other EMDEs do not include China.

General Government Budget Balance (In percent of GDP)

Changes (Compared to average)



Source: IMF, World Economic Outlook database.

Note: Average is for 2015-19. Min is the largest annual budget deficit in 2020-22. The 2023 values are IMF staff estimates. Changes show the difference relative to the 2015-19 average in percentage points. Major EMs or other EMDEs do not include China.

... and public debt levels increased substantially as result

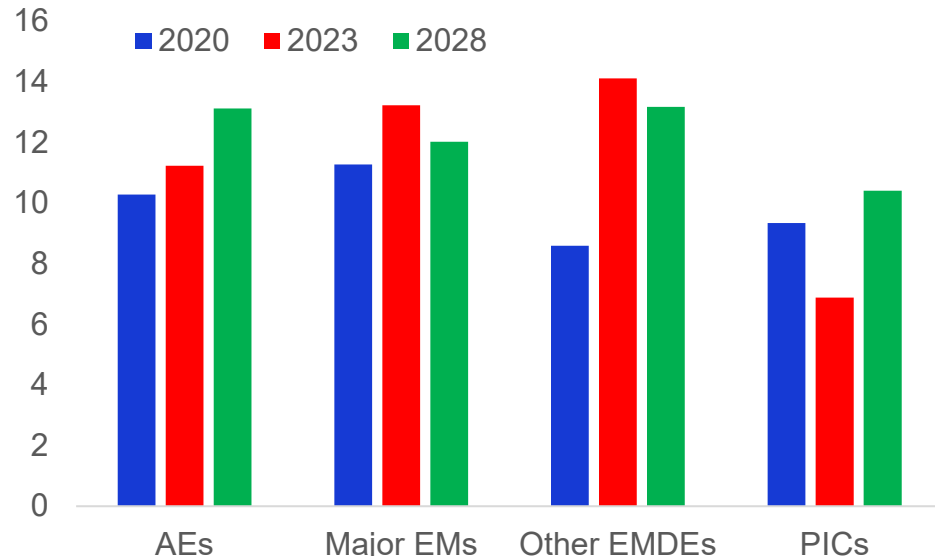
Public debt ratios increased substantially in the first year of the pandemic and are projected to remain above 2019 levels in 2028.

Primary deficits and interest payments contributed much of the increase in public debt ratios in the pandemic years.

General Government Debt (In percent of GDP)

Changes

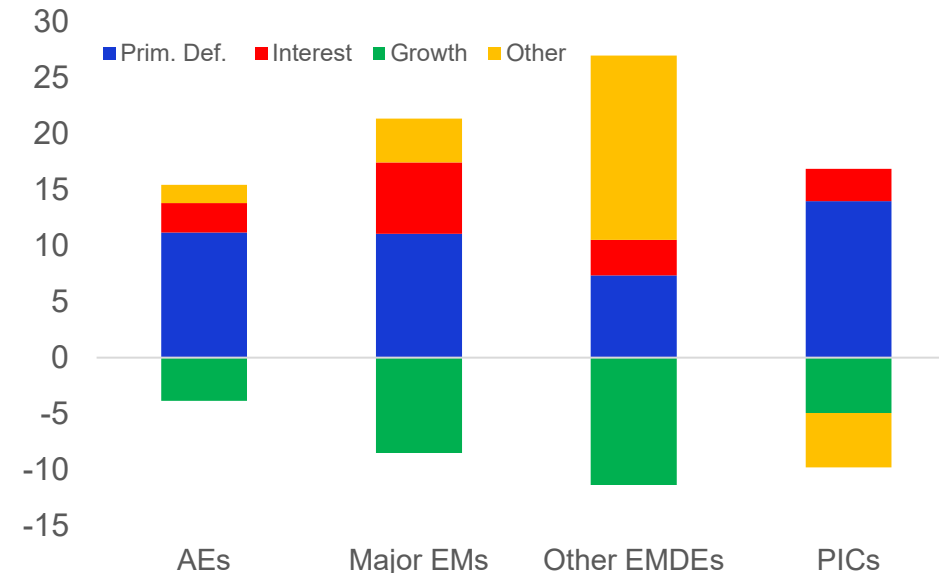
(Compared to 2019)



Source: IMF, World Economic Outlook database.

Note: Average is for 2015-19. Changes show the difference relative to the value of the 2019 ratio.

Change in Debt-to-GDP ratio (2020-22)



Source: IMF, World Economic Outlook database.

Note: Average is for 2015-19. Min is the largest annual budget deficit in 2020-22. The 2023 values are IMF staff estimates. Changes show the difference relative to the 2015-19 average in percentage points. Major EMs or other EMDEs do not include China.

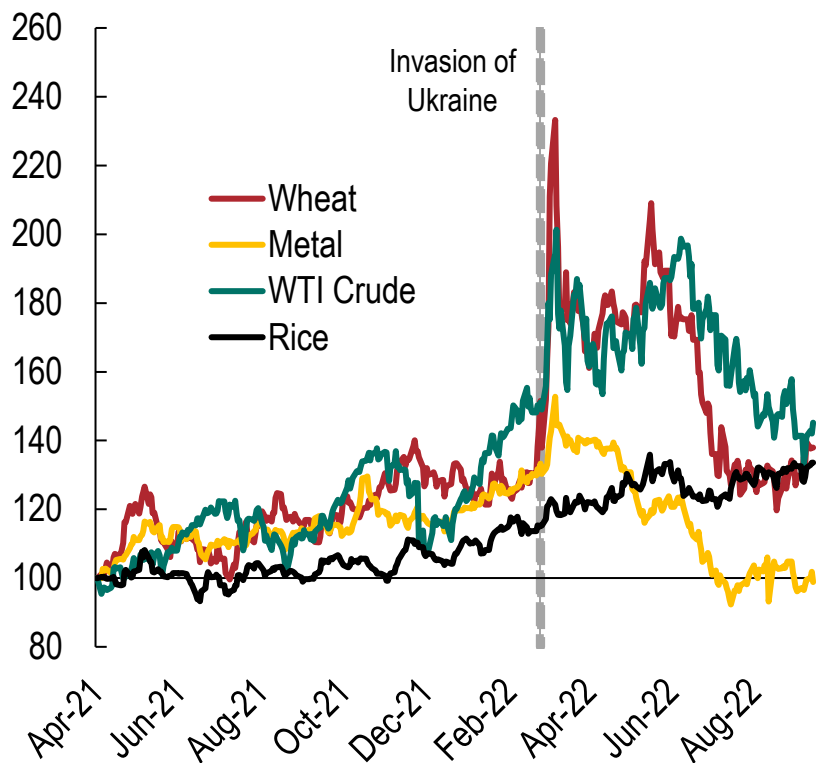
The challenges ahead

The cost-of-living crisis required additional fiscal responses

The War in Ukraine led to spikes in commodity prices in 2022 and a rise in domestic inflation....

Commodity Prices

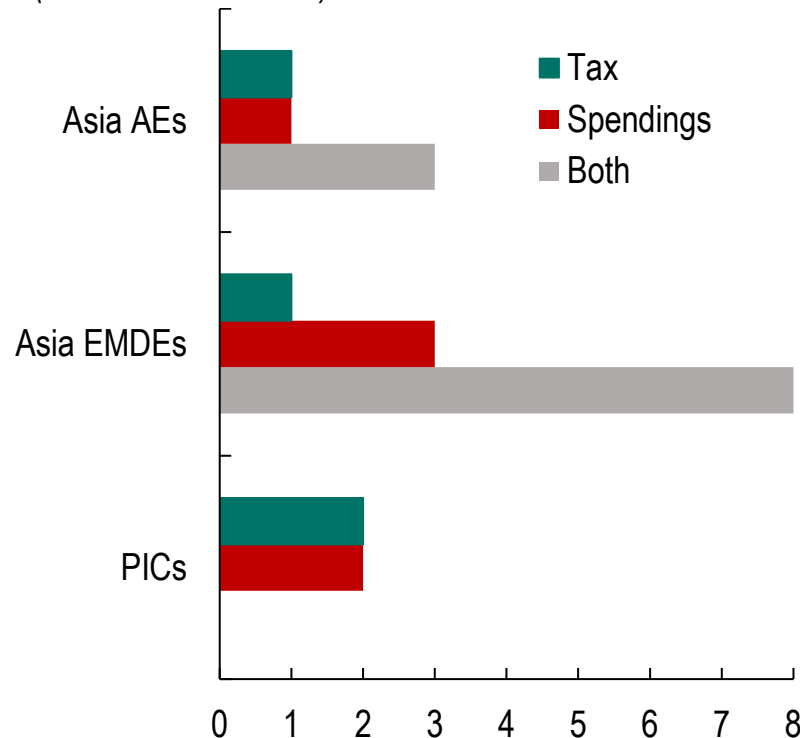
(Index = 100 April 2021)



...leading to an introduction of fiscal measures to support the vulnerable, ...

Introduction of fiscal measures in response to rise in energy and food prices

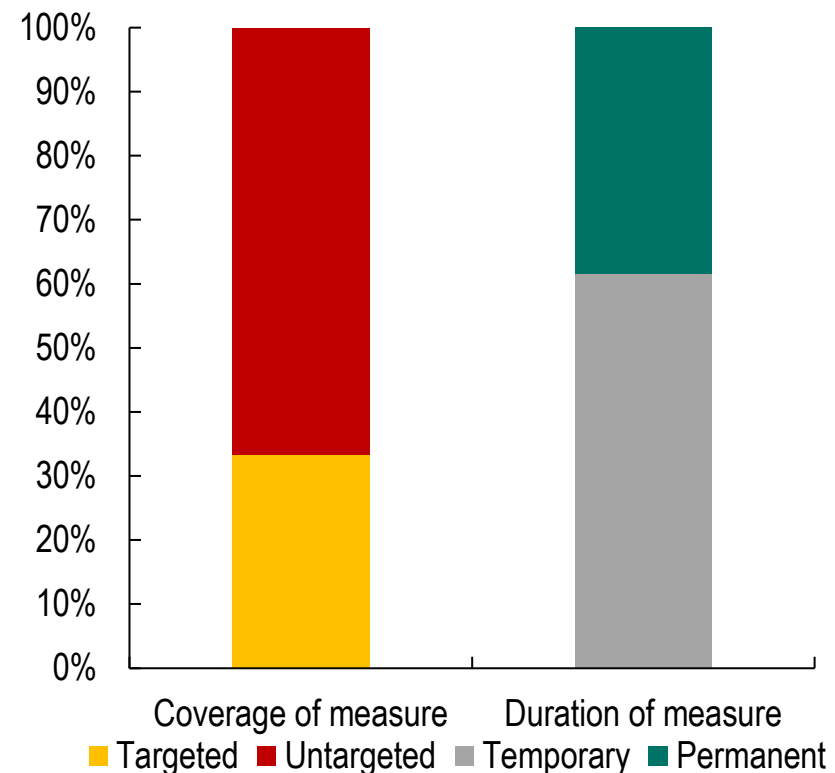
(Number of countries)



...with some of the measures untargeted and permanent

Coverage and duration of fiscal measures since March 2022

(Percent of total measures)



Source: Bloomberg Finance L.P. and IMF staff calculations.

Note: Metals index based on Bloomberg Base Metals Spot Price Commodity Index with the following weights: Aluminum (45%), Copper (25%), Nickel (2%), Lead (12%), Zinc (15%) and Tin (1%).

IMF | Asia and Pacific Department - Regional Economic Outlook

Sources: IMF desk survey and IMF staff calculations.

Note: Based on a survey of 16 Asian economies. Bars show the share of economies in the group that have introduced discretionary tax or spending measures in 2022 as a response to the rise in energy and food prices.

Sources: IMF FAD Database of Energy and Food Price Actions Survey and IMF staff calculations.

Fiscal consolidation and adherence to revised medium term fiscal frameworks is key to debt sustainability but challenges remain...

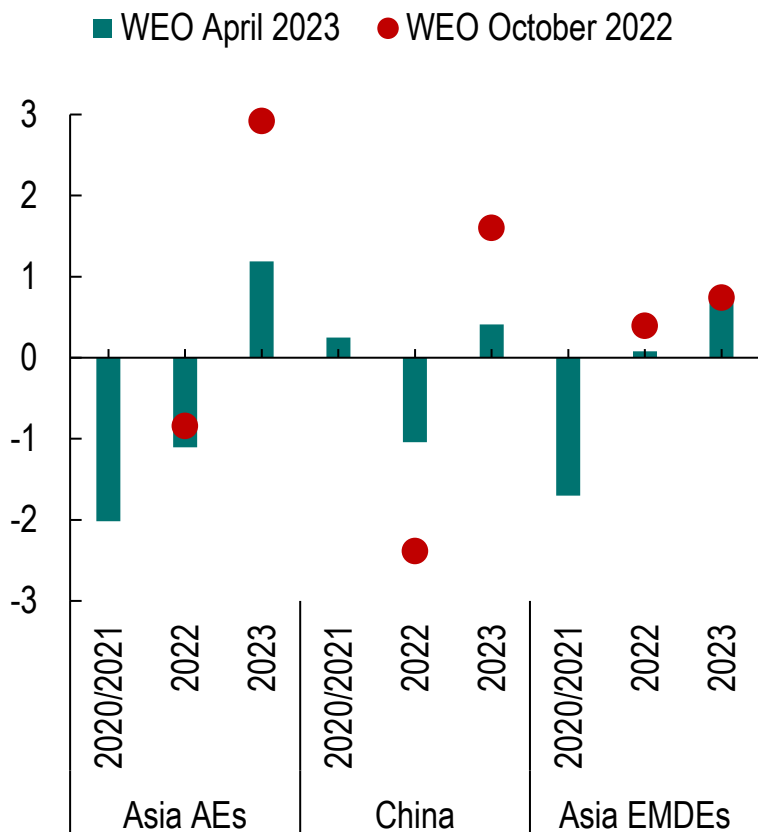
Projected unwinding of covid-related fiscal stimulus in 2023...

...but rising long term real rates will make fiscal consolidation more challenging...

...underscoring the need to recommit to credible fiscal frameworks across the region.

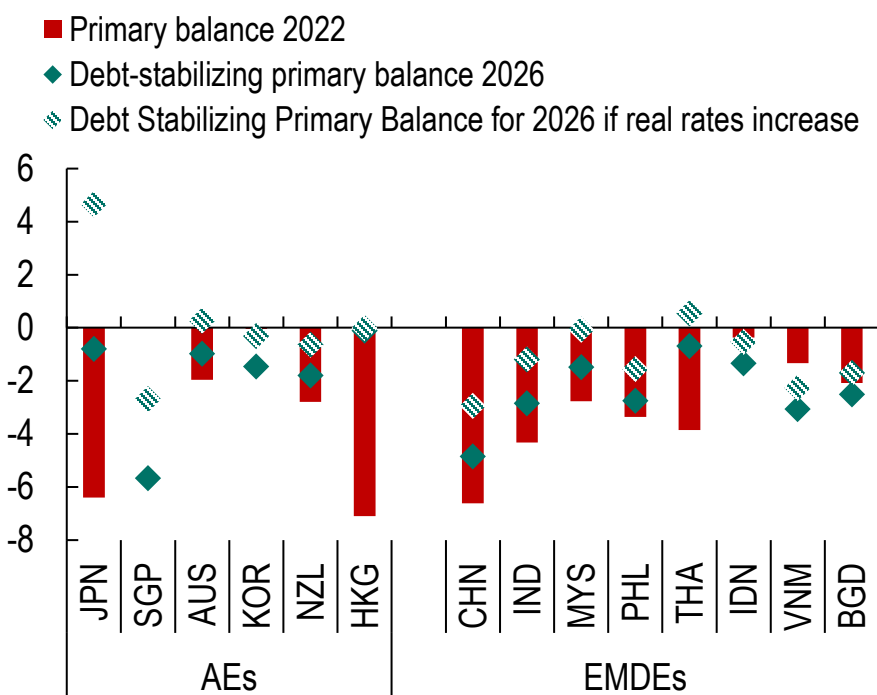
Change in Structural Primary Balance

(Percent of potential GDP, weighted average)



Debt Stabilizing Primary Balance

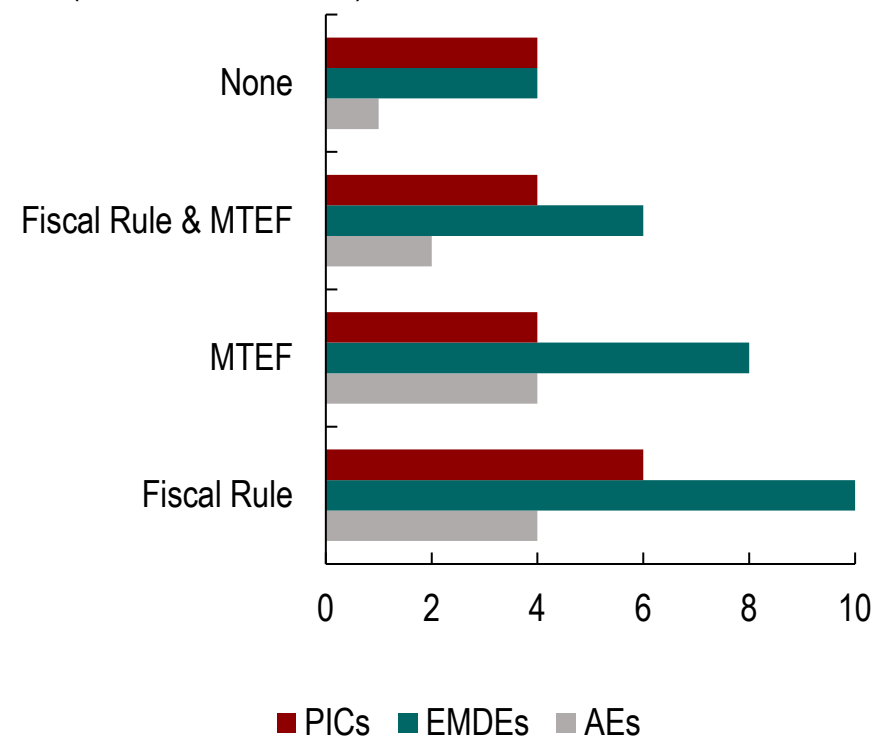
(Percent GDP)



Source: World Economic Outlook and IMF Staff calculations.
 Note: Shows impact on long-term debt stabilizing primary balance assuming a level shift in the yield curve of 210 basis points (difference between US 10-year real rates during the pandemic and the long-term average between 1998 and 2019). Assumes the entire debt stock is refinanced at higher yields—to the extent that maturity structure differs across countries, the impact on debt stabilizing primary balance may occur over different time horizons.

Medium-term Fiscal Frameworks in Asia and the Pacific

(Number of countries)



Source: IMF staff calculations.
 Notes: MTEF corresponds to Medium Term Expenditure Framework. AEs includes a total of 7 countries, EMDEs includes 16 countries and PICs includes 10 countries.

Source: World Economic Outlook and IMF staff calculations.

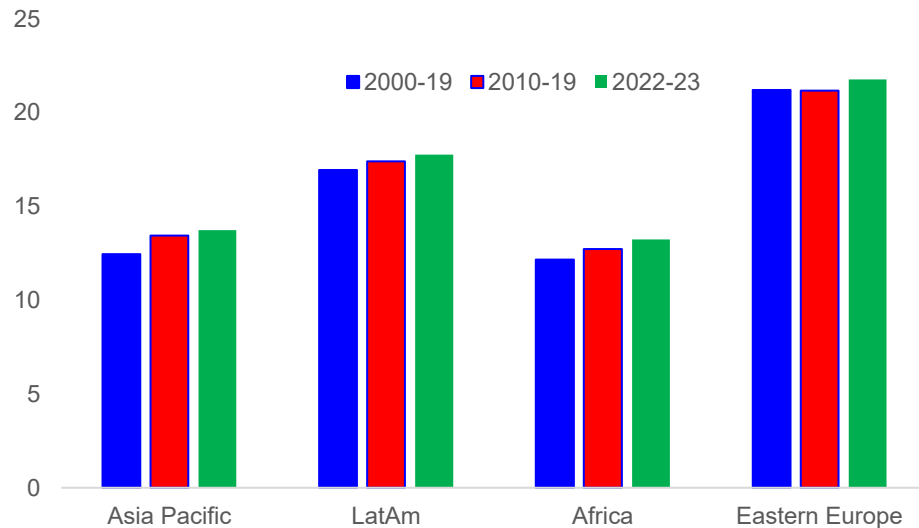
Note: 2020/2021 is cumulative change.

Recommendations and considerations for fiscal consolidation

There is scope to increase tax revenue ratios in emerging market and developing economies in Asia and the Pacific.

Tax Revenue

(In percent of GDP, period averages)



Source: IMF, World Economic Outlook database.

Note: Figure shows averages across of period averages across countries in each region.

Fiscal Consolidation—Considerations

- Improving revenue mobilization should be a priority to avoid reducing productive expenditure.
- Substantial scope for revenue mobilization when comparing to other EMDEs.
- Expanding tax bases and reducing tax expenditure in addition to tax rate increases. Tax administration reforms and digitalization.
- Targeting subsidies and social safety nets. Digitalization can improve efficiency.
- Reducing energy subsidies, with cash transfers to compensate the poor.

Thank you!