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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Thomas Helbling

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

**Output Losses: by Income Group**

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

- APD EMDEs
- non-APD EMDEs
- APD AEs
- non-APD AEs

Source: World Economic Outlook and IMF staff calculations.

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

**Capital Investment Losses from COVID-19**

(Simple average, percentage points)

- Asia
- EMDEs
- AEs
- ROW
- EMDEs
- AEs

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

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

**School Closures Due to COVID19**

(Average Days with Closed Schools)

- EMs
- LIDCs

Source: UNESCO and IMF staff calculations.

Note: Analysis excludes PICs.
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)

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

Corporate debt
(Percent of GDP)

Sources: IIF and IMF staff calculations.

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...

 Trade Uncertainty (LHS Contributions to index; RHS: Overall index)

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

 Harmful Trade Restrictions Imposed (Number)

 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.

 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.
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**

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**Changes** *(Compared to average)*

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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**

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

Coverage and duration of fiscal measures since March 2022

Introduction of fiscal measures in response to rise in energy and food prices (Number of countries)

Commodity Prices
(Index = 100 April 2021)

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%).
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)

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<th>WEO April 2023</th>
<th>WEO October 2022</th>
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<tr>
<td>2020/2021</td>
<td>-0.1</td>
<td>-0.5</td>
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<tr>
<td>2022</td>
<td>0.5</td>
<td>0.3</td>
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<td>2023</td>
<td>1.0</td>
<td>0.7</td>
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Debt Stabilizing Primary Balance
(Percent GDP)

Medium-term Fiscal Frameworks in Asia and the Pacific
(Number of countries)

Source: World Economic Outlook and IMF staff calculations.
Note: 2020/2021 is cumulative change.

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.

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

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.

Source: IMF, World Economic Outlook database.
Note: Figure shows averages across of period averages across countries in each region.
Thank you!