



# **Fiscal Challenges Emerging From the Pandemic in Developing Asia: An Overview**

**IMF-JICA Conference. Recovery from the Pandemic in Developing Asia: Achieving Inclusive and Sustainable Growth with Sound Fiscal Management, February 14, 2023**

**Krishna Srinivasan, Asia & Pacific Department**

*Views expressed are those of the presenter and should not be attributed to the IMF*

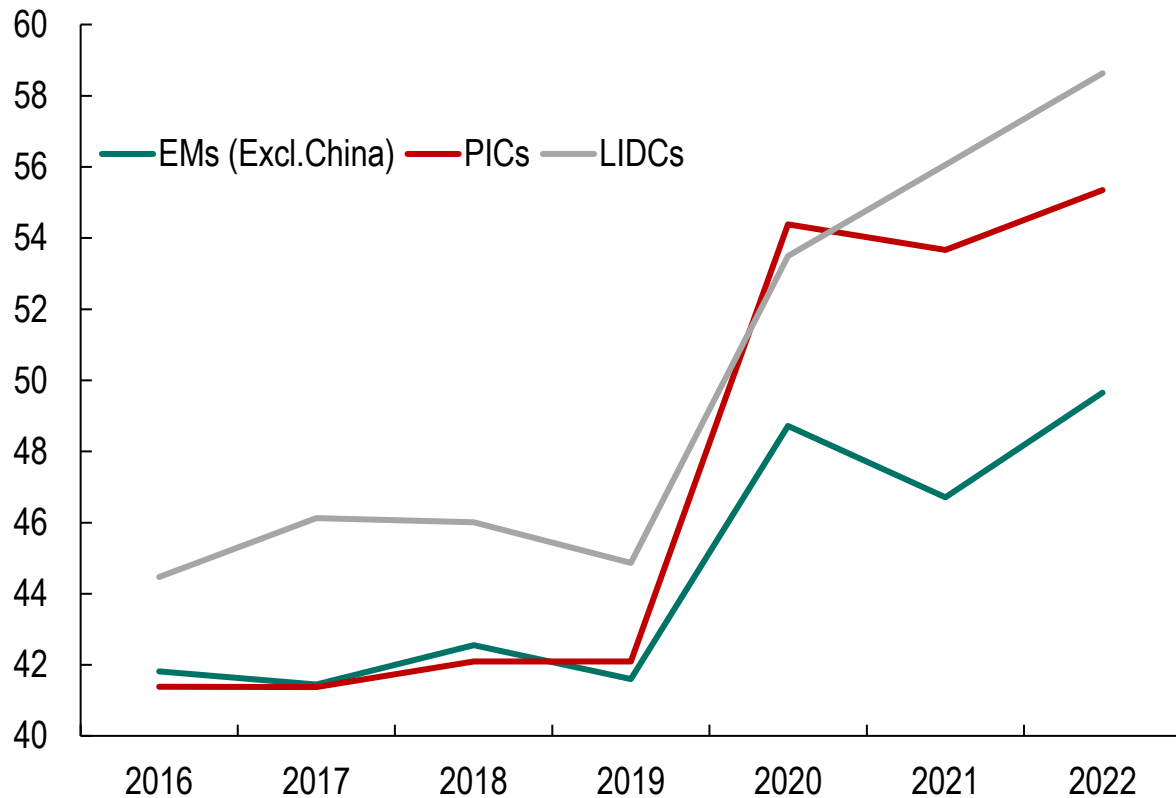
# Debt levels increased substantially during the pandemic...

Public debt-to-GDP ratios have significantly increased since 2019, ...

... as a result of unprecedented policy responses and output losses due to the pandemic

## Asia-Pacific: Debt Ratios

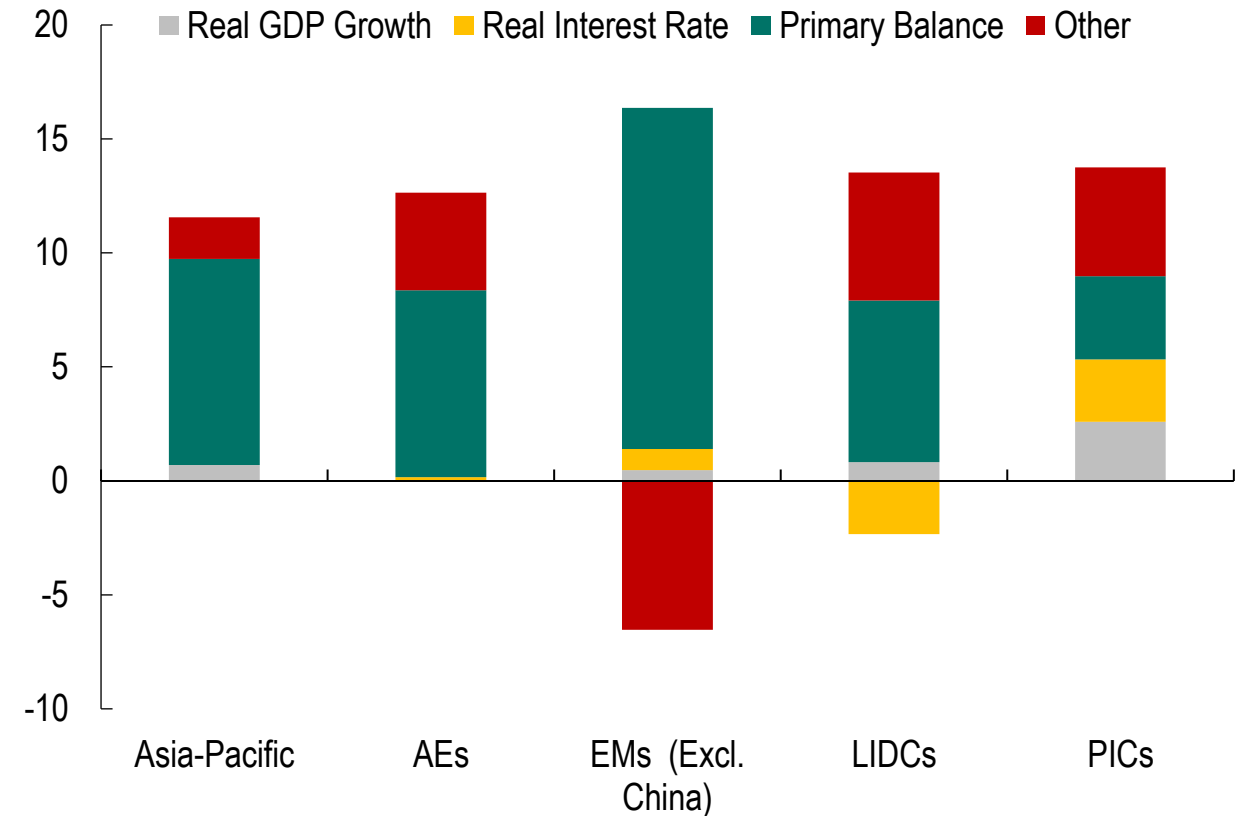
(Percent of fiscal year GDP; simple average)



Source: World Economic Outlook and IMF Staff calculations.

## Asia-Pacific: Change in Debt-to-GDP ratio (2019-2021)

(Percentage points; simple average)



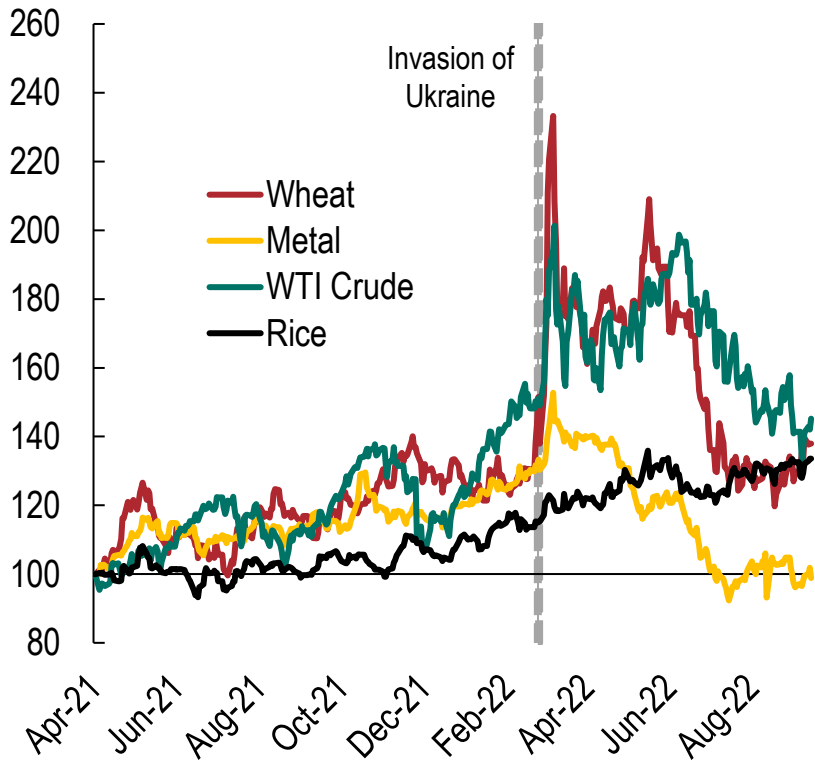
Source: World Economic Outlook and IMF Staff calculations.

# The cost-of-living crisis required additional fiscal responses

The War in Ukraine led to Spikes in Commodity prices and a rise in domestic inflation....

## Commodity Prices

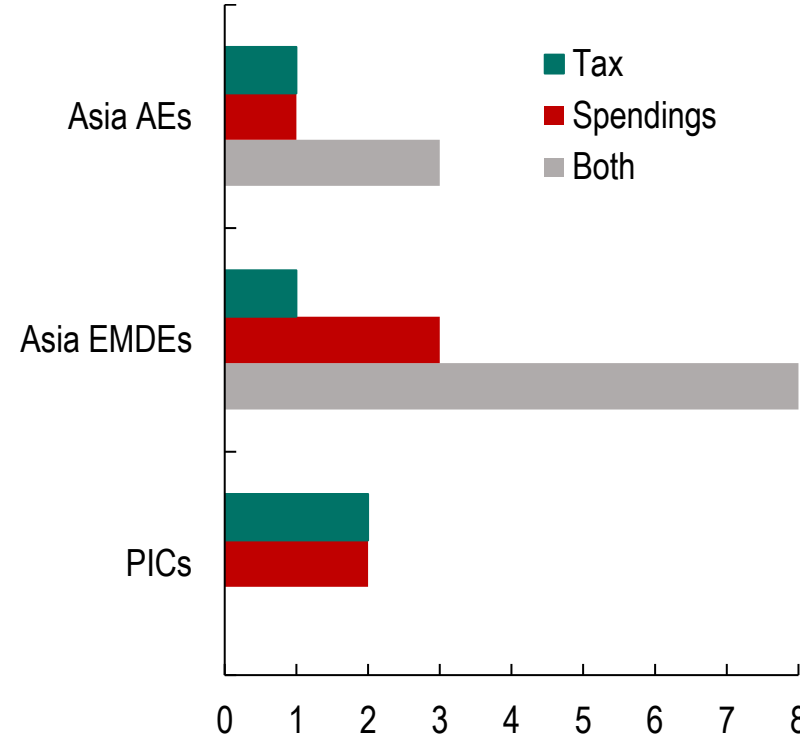
(Index = 100 April 2021)



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

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

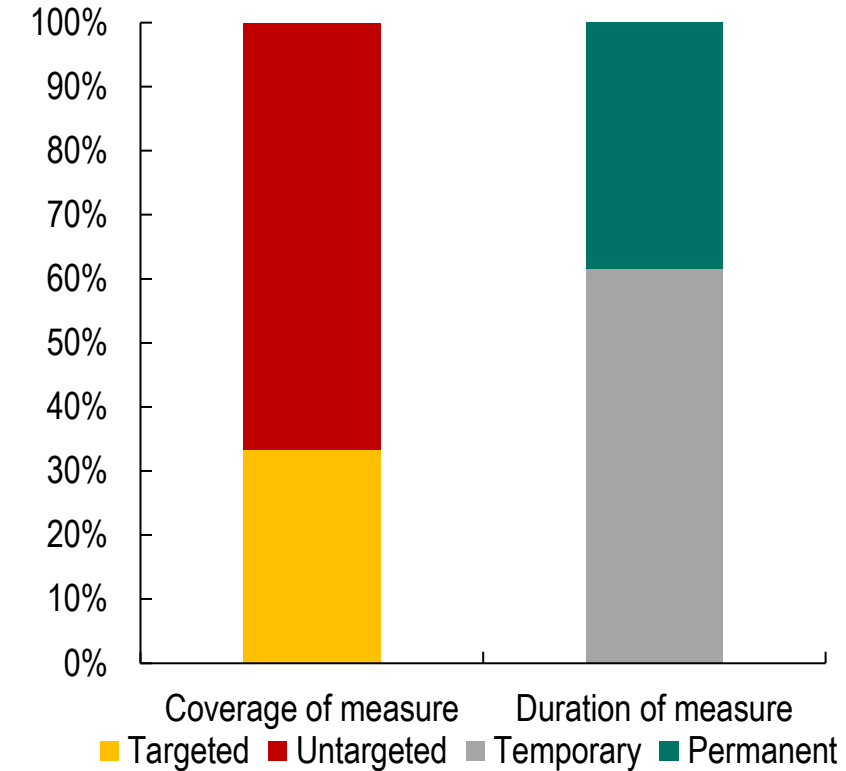
(Number of countries)



...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%).

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...

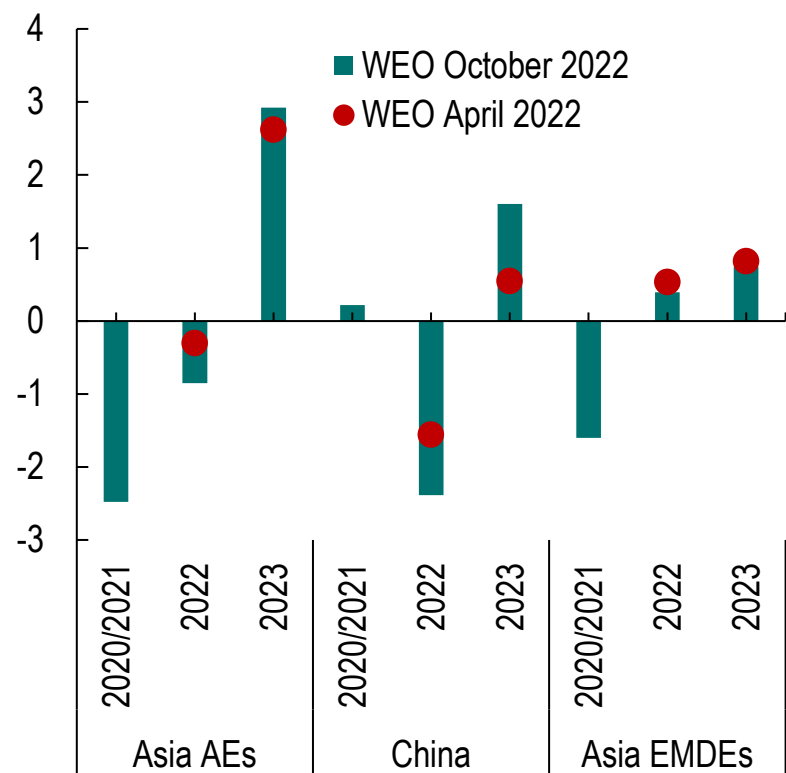
Projected unwinding of covid-related fiscal stimulus in 2023...

...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

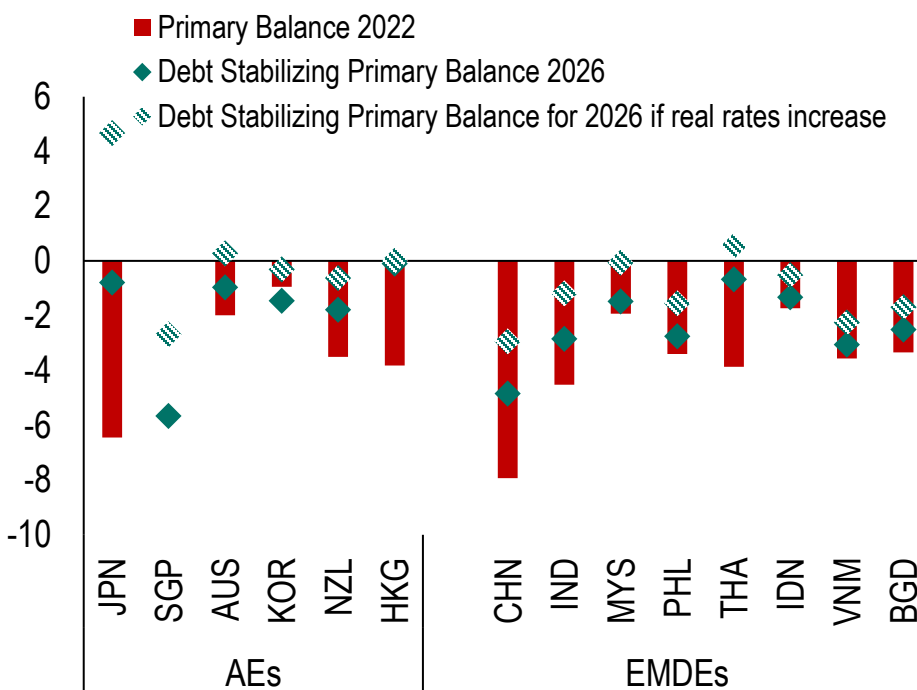
(Percent of potential GDP, weighted average)



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

## Debt Stabilizing Primary Balance

(Percent GDP)

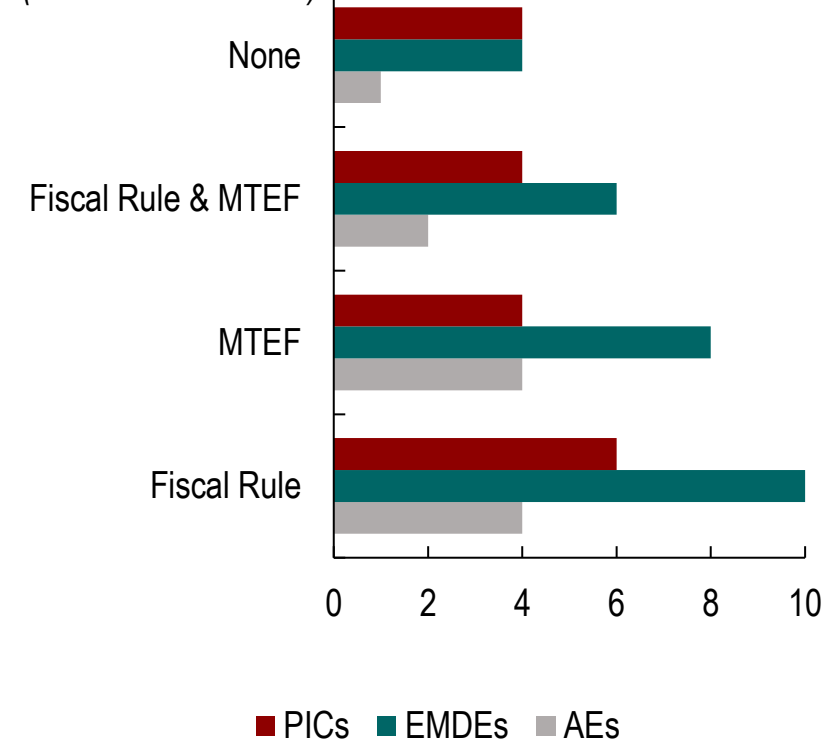


Source: World Economic Outlook and IMF Staff calculations.

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.

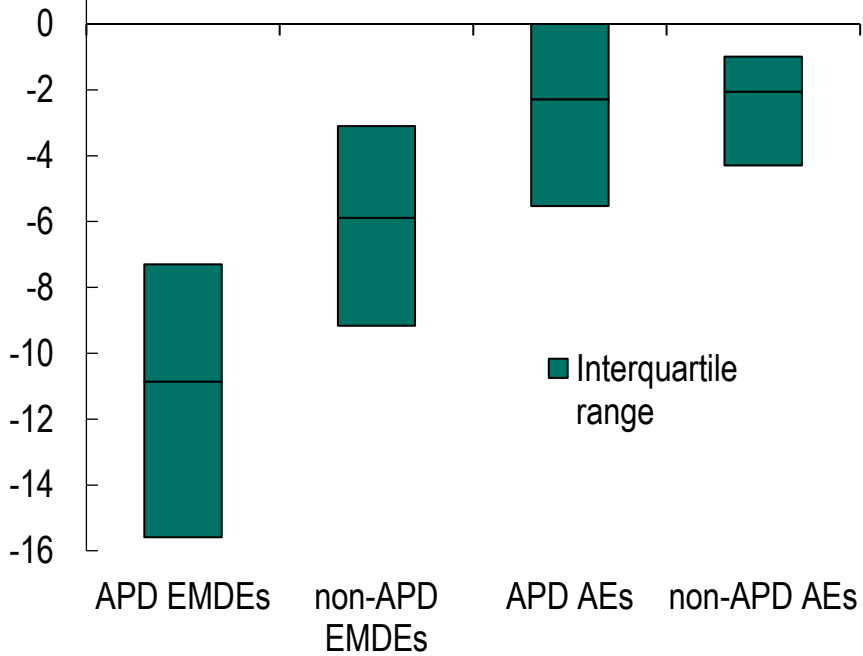
Notes: MTEF corresponds to Medium Term Expenditure Framework. AEs includes a total of 7 countries, EMDEs includes 16 countries and PICs includes 10 countries.

# Challenge 1: Scarring partly driven by lower investment and school closures, ...

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

## Output Losses: by Income Group

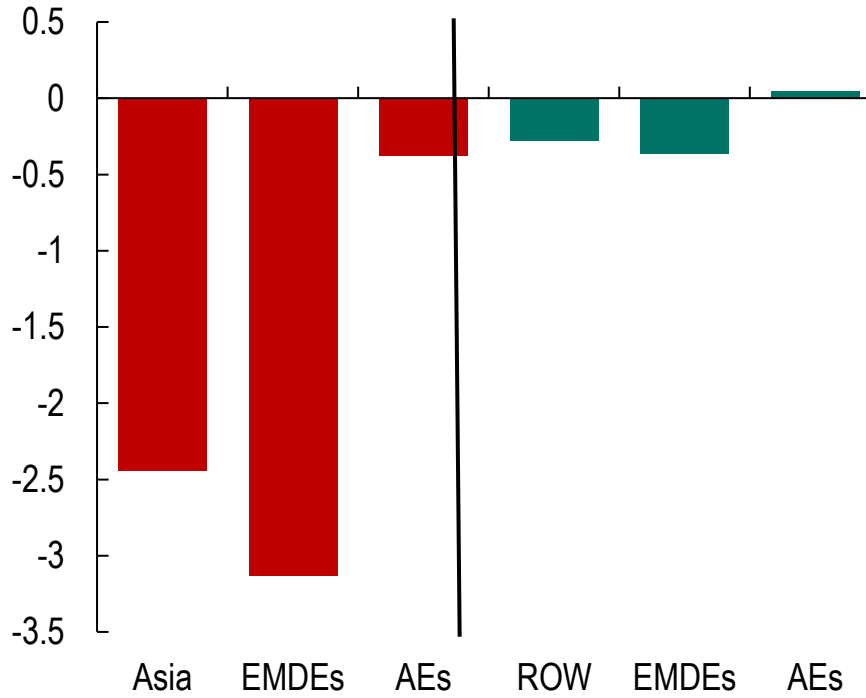
(Percent, deviation in GDP from pre-pandemic projections, 2024)



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

## Capital Investment Losses from COVID-19

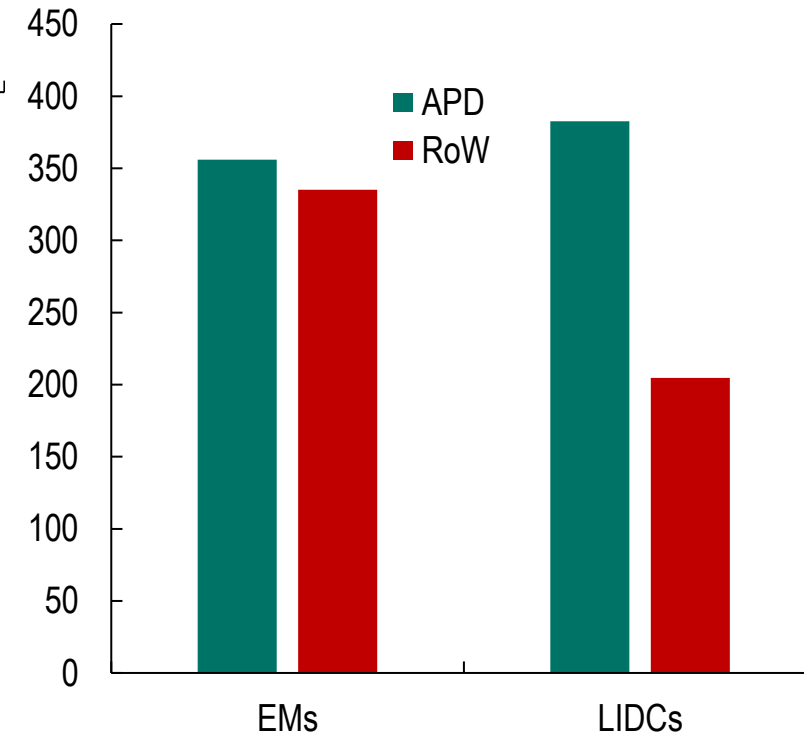
(Simple average, percentage points)



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

## School Closures Due to COVID19

(Average Days with Closed Schools)



Source: World Economic Outlook and IMF staff calculations.

Source: Regional Economic Outlook October 2022.

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

Source: UNESCO and IMF staff calculations.

Note: Analysis excludes PICs.

# Challenge 2: Rising geoeconomic fragmentation which may lead to further output losses

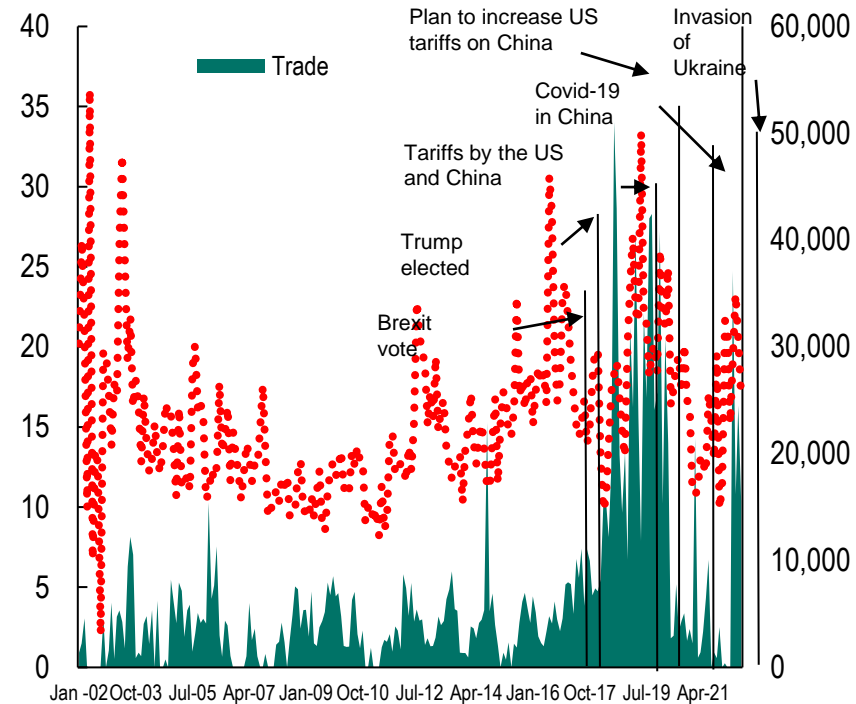
Signs of fragmentation are appearing, with trade-related uncertainty spiking...

...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

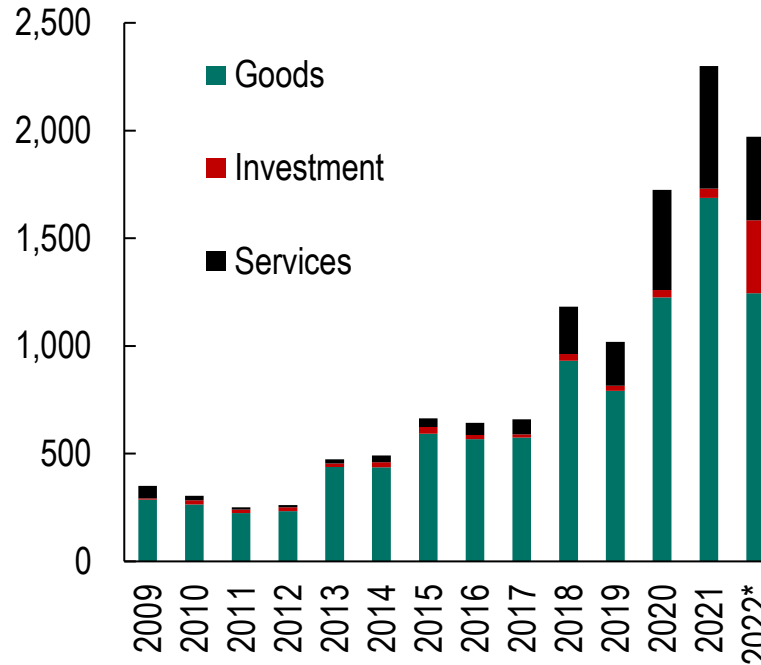
(LHS Contributions to index; RHS: Overall index)



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

## Harmful Trade Restrictions Imposed

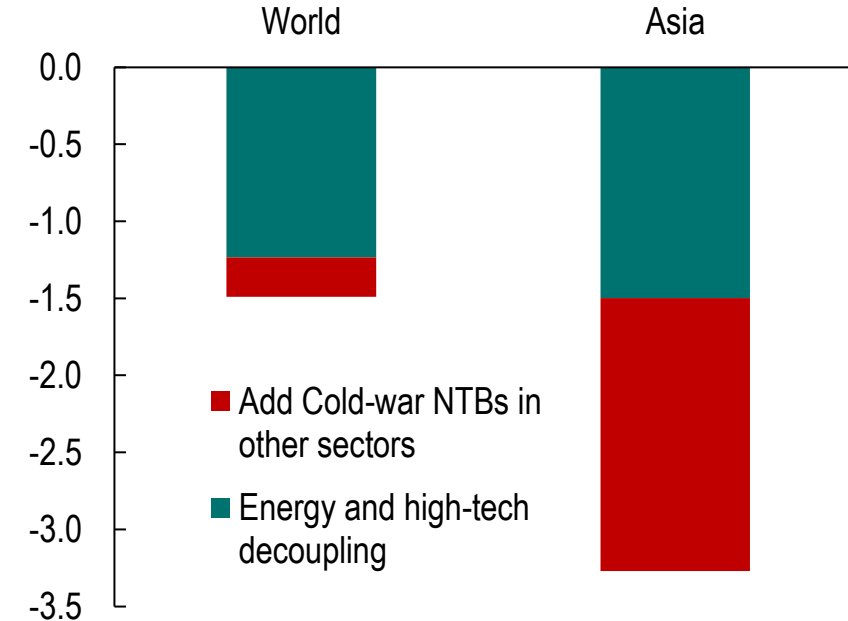
(Number)



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)



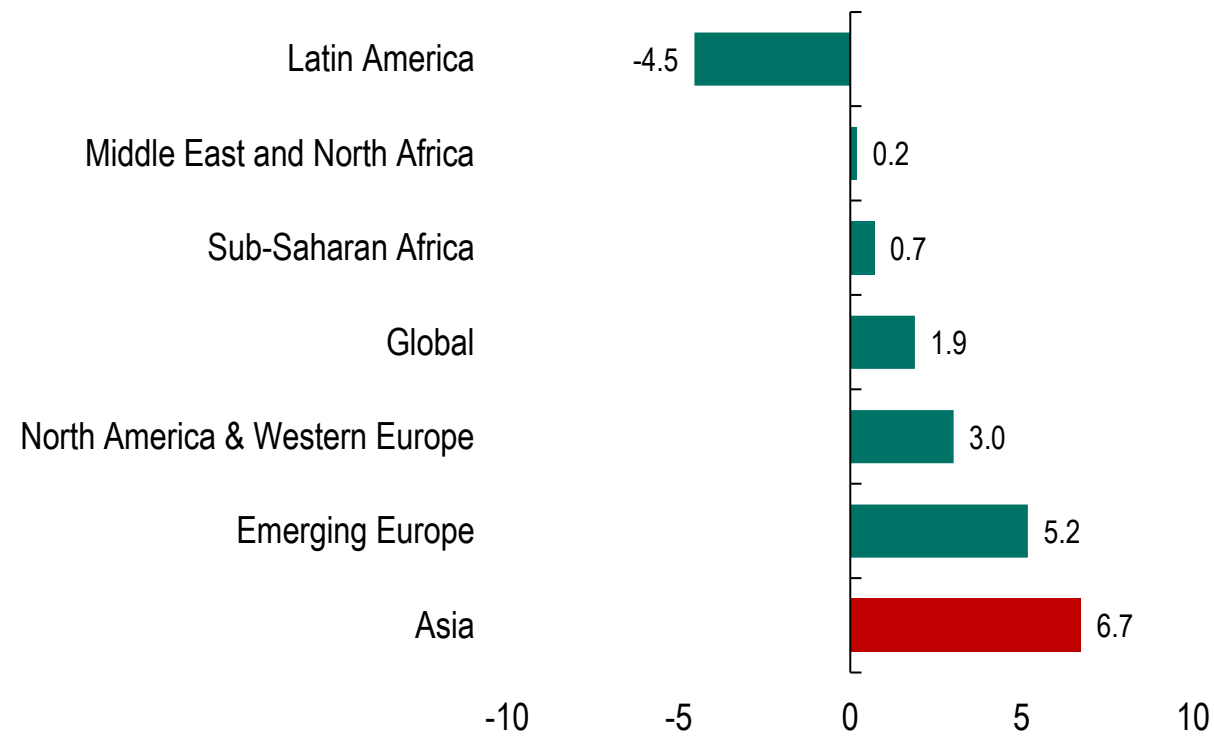
Sources: IMF staff calculations; EORA Global Input-Output.  
Note: Simulations reported in Chapter 3 of Regional Economic Outlook: Asia and Pacific, based on the model by Caliendo and others (2017). Simulations are based on two illustrative scenarios: (1) green bar: countries abstaining or voting negative 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.

# Challenge 3: Addressing rising inequality would require stronger redistribution...

Inequality was on the rise in Asia before the covid-19 pandemic

## Change in Income Inequality: Regional Comparison

(Net Gini index, in Gini points; average across region, 2000-2019)



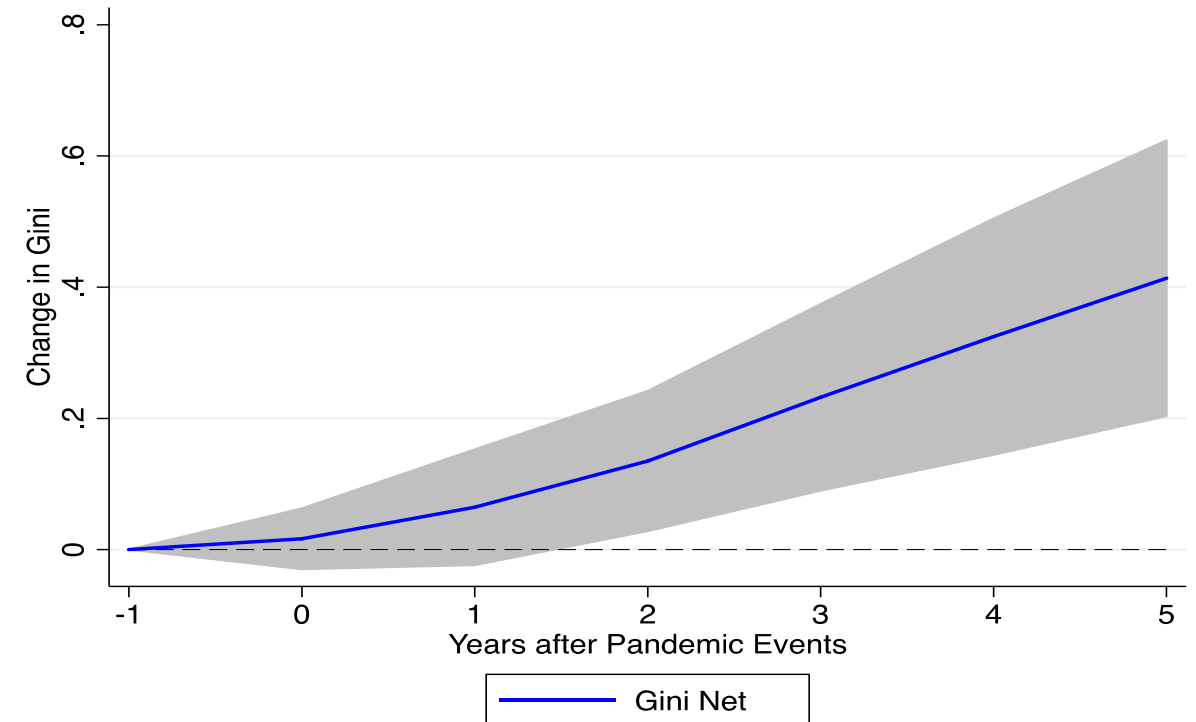
Source: SWIID v8.2, IMF staff calculations.

Note: Regional aggregations are based on population-weighted average.

The covid-19 pandemic will likely worsen inequality, calling for stronger redistribution

## Change in Income Inequality after pandemics

(Net Gini index, in Gini points; average across region)



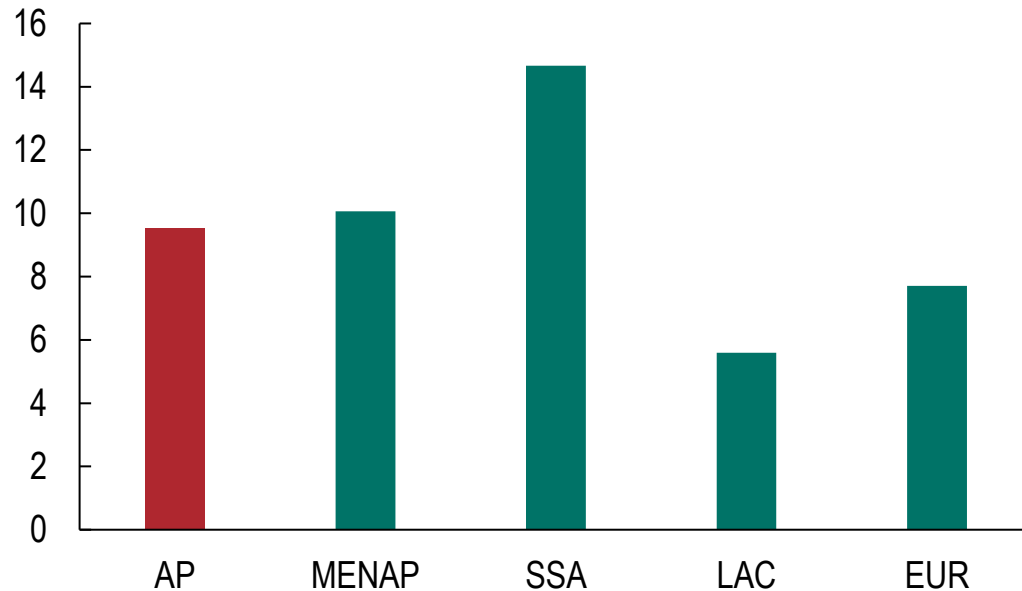
Source: Furceri et al. (2022).

The chart shows the estimated effect of previous pandemics on net Gini (blue line) together with 90 percent confidence bands (shaded area).

# Challenge 4: Reaching the SDGs and the Paris Agreement goals will also require greater fiscal resources, especially in LICs/PICs.

## Additional Spending Needs for SDGs by Regions

(Percent of GDP, simple average)



Source: IMF staff calculations based on the methodology outlined in Gaspar et al. (2019) "Fiscal Policy Development: Human, Social, and Physical Investment for the SDGs", IMF Staff Discussion Note.

Notes: Estimates reflect additional total spending required in 2030 to make substantial progress (achieve high performance) toward the SDGs in five areas (education, health, roads, electricity, water and sanitation). Simple average across regions. AP = Asia and Pacific, MENAP = Middle East, North Africa, Afghanistan, and Pakistan; SSA = Sub-Sahara Africa; LAC = Latin America and the Caribbean; EUR = Emerging and Developing Europe.

## Climate change adaptation costs and pre-pandemic fiscal space in Asia

	All least some fiscal space or moderate/low risk of debt distress	At-risk space or high risk of debt distress
Public adaption costs above 1 percent of GDP	China, Bangladesh, Cambodia, Indonesia, Japan, Korea, Myanmar, PNG, Philippines, Solomon Islands, Timor-Leste, Vanuatu, Vietnam	Fiji, Kiribati, Laos, Malaysia, Maldives, Marshall Islands, Micronesia, Tonga, Tuvalu, Samoa
Public adaptation costs below 1 percent of GDP	Australia, Bhutan, Nepal, New Zealand, Singapore, Thailand	India

Source: Hallegatte et al. (2019); Nicholls et al. (2019); Rozenberg and Fay (2019); and IMF staff reports and staff calculations.

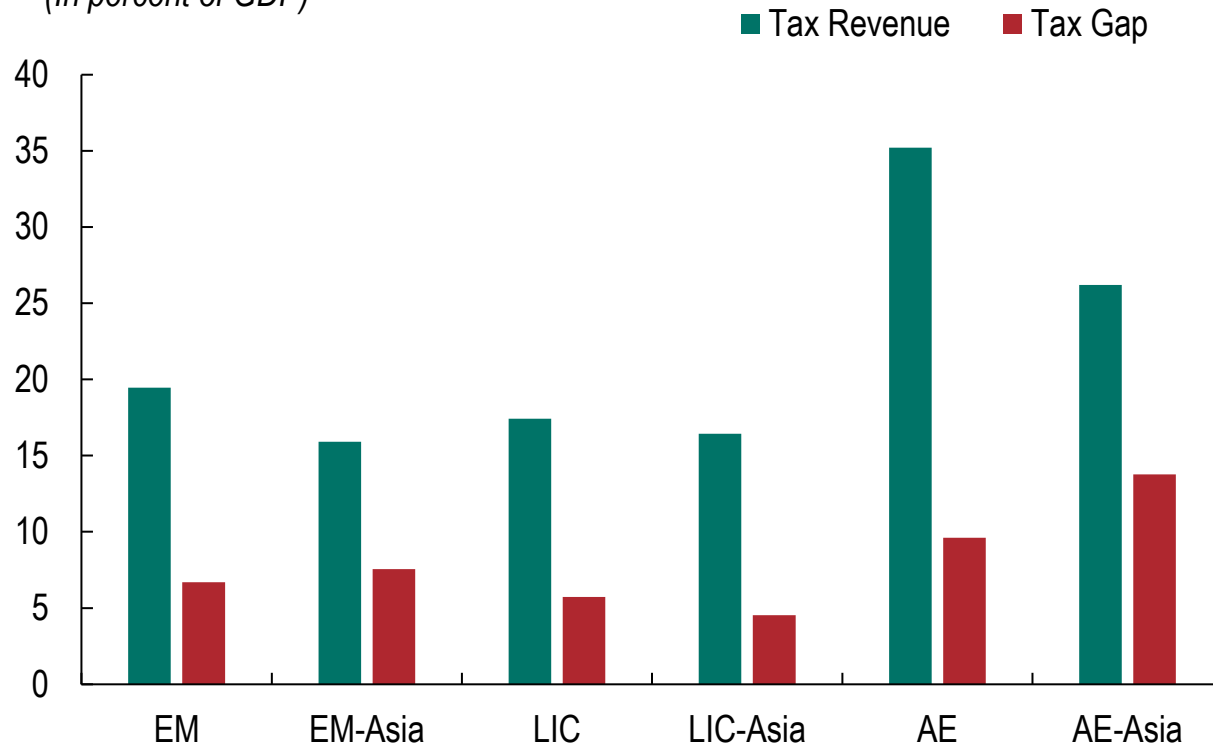
Note: Fiscal space assessments are estimated for advanced and emerging market economies and are based on the last published IMF Article IV debt sustainability assessment; risks of debt distress estimated for low-income countries and are taken from the last published debt-sustainability assessment. These assessments were performed pre-COVID and do not reflect the developments since the outset of the pandemic.



# Opportunities: Digitalization can help enhance revenue mobilization gaps

## Tax Revenue and Tax Capacity Gap

(In percent of GDP)

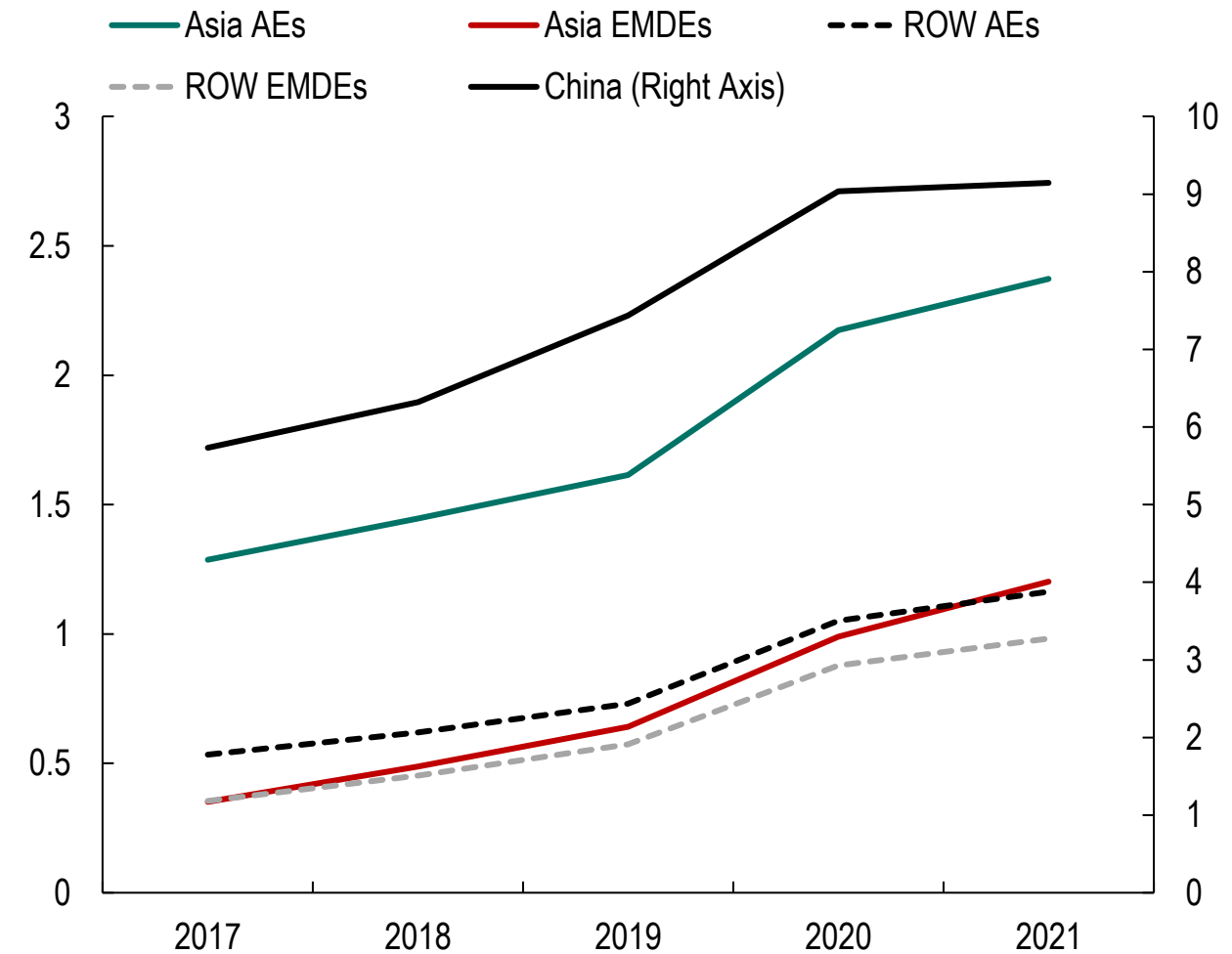


Sources: IMF staff calculations based on Fenochietto and Pessino (2013).

Notes: Tax capacity is an estimate of the maximum level of tax revenues that a country can achieve given its characteristics. Simple average across regions. Emerging Market Economies (EM-83); Emerging Market Economies Asia (EM-Asia- 11); Low Income Developing Economies (LIC-29); Low Income Developing Economies Asia (LIC-Asia-8); and Advanced Economies(AE-33); and Advanced Market Economies Asia (AE-Asia- 5). Gap defined as the difference between tax capacity and tax revenue. Tax revenue defined as 1) tax and social contributions as a percent of non-resource GDP for natural resource dependent countries (56) and on percent of GDP for the rest of the sample. Estimates for 2017 and 2016.

## Asia: E-Commerce Revenue

(Percent of GDP)

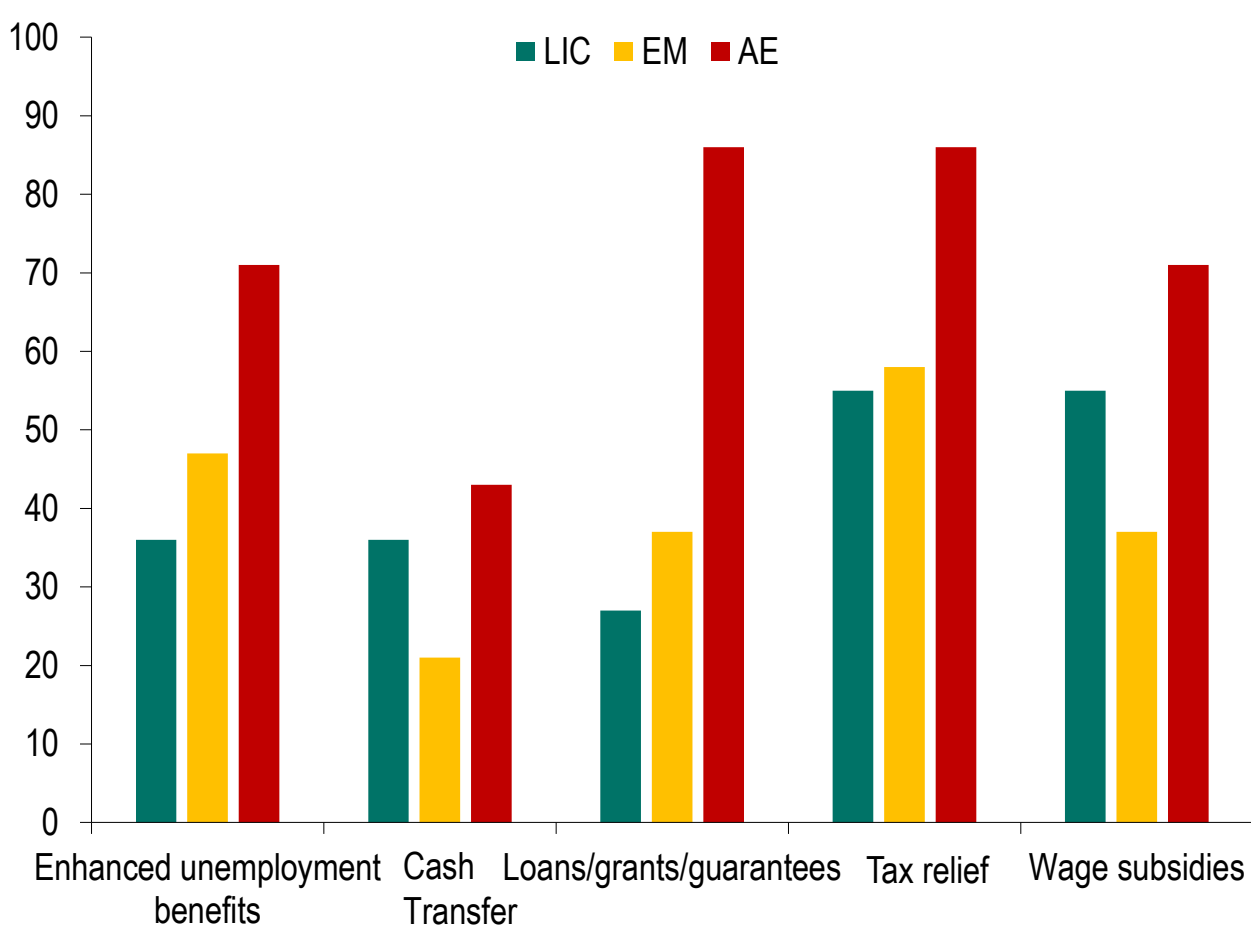


Source: Statista; Dabla-Norris et al. (2023)

# Opportunities: Expenditure prioritization and strengthening social safety nets would support greater inclusion

## Asia: Targeted Help to Households and Workers

(percent of countries implementing the policy)

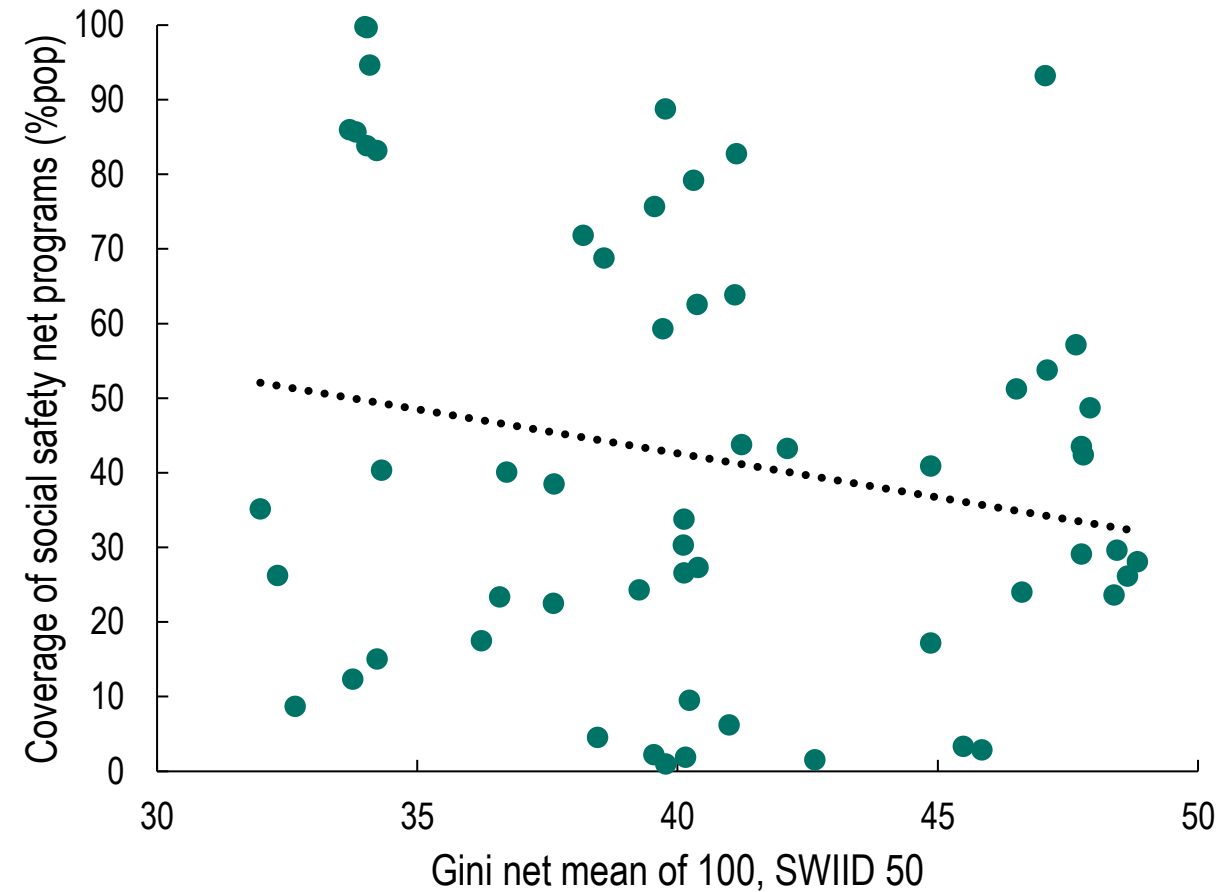


Sources: IMF Survey of Policy Response to Covid-19.

Note: Data as of September 30, 2020.

## EMDE Asia: Social Safety Nets and Inequality

(Percent of total population, GINI Index)



Source: SWIID 9.4, World Development Indicators and IMF Staff calculations.

# Conclusion & Recap of Policy Priorities

The exceptional fiscal responses and output losses induced by the pandemic shock led to rising debt vulnerabilities. Expected scarring from the pandemic, the war in Ukraine and new recent global headwinds will compound both these fiscal and structural policy challenges.

## **In the near term, rebuilding fiscal buffers is crucial to achieving fiscal sustainability**

- Start unwinding pandemic-era support; if space is available, the speed of consolidation may be slowed to alleviate new headwinds
- Credible medium-term fiscal frameworks will be critical to stabilize debt

## **Structural Policies to boost inclusive medium-term growth**

- Boosting long-term growth remains critical, given short-term challenges and expected scarring
- Priorities include: investing in human capital, digitalization, strengthening social safety nets, fiscal reforms to enhance the quality of spending, and facilitating a green transition



**Thank you !**

Krishna Srinivasan  
Asia & Pacific Department  
IMF