

Coping with Rising Challenges

- Fiscal Policy in ASEAN+3 Countries -

Dr Junhong Chang (AMRO Director)

Tokyo Fiscal Forum 2017
June 5-6, 2017

1

20 Years After the Crisis

2

Recent Developments & Rising Challenges

3

Going Forward

1

20 Years After the Crisis

2

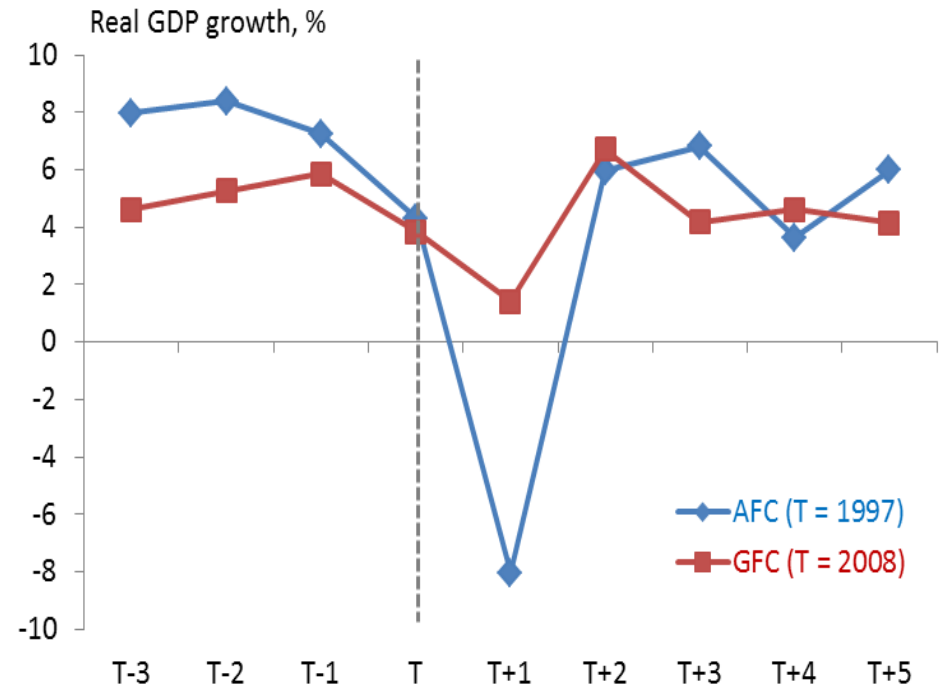
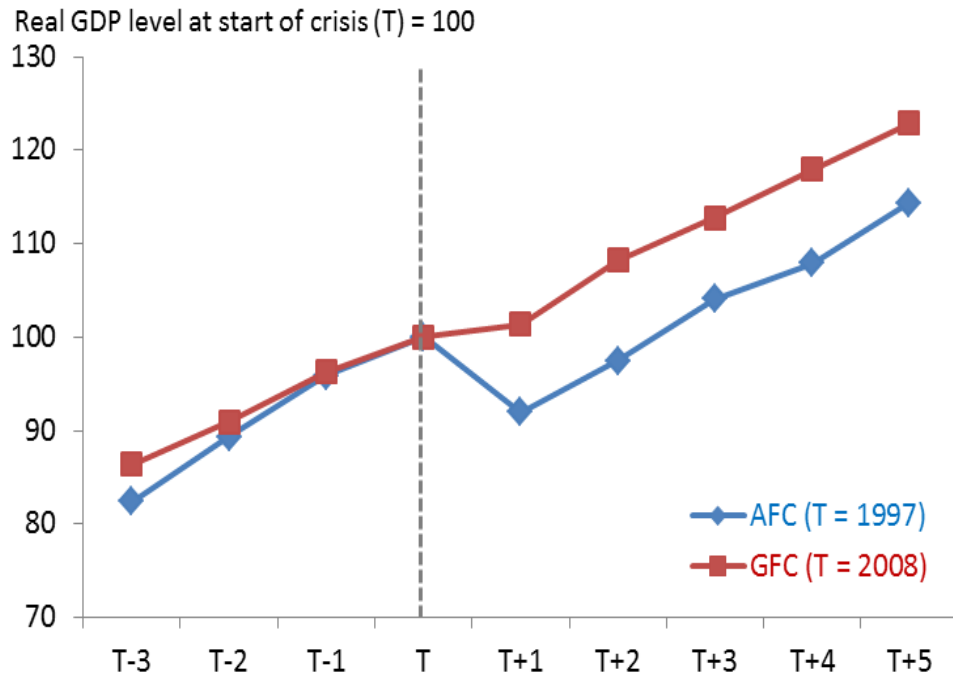
Recent Developments & Rising Challenges

3

Going Forward

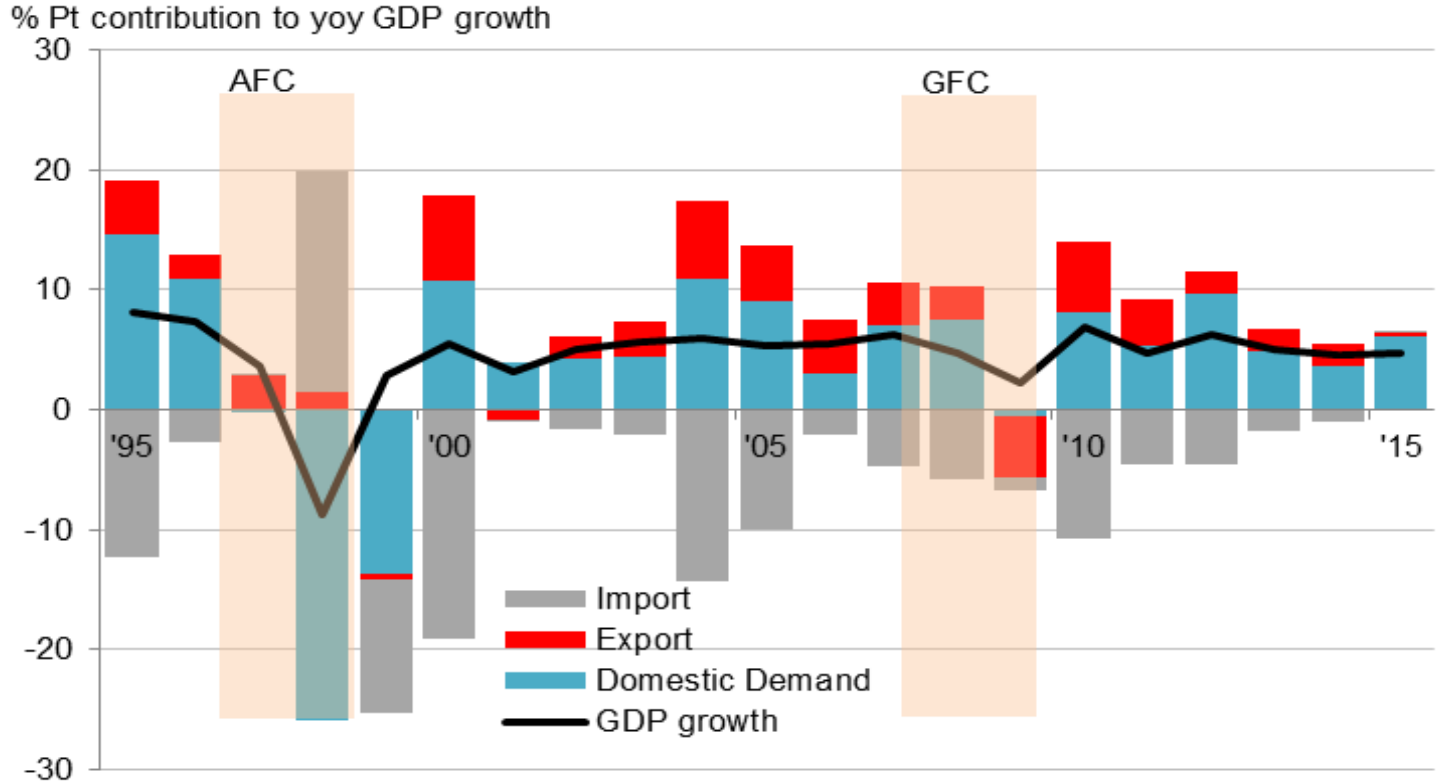
GDP level collapsed during the AFC, while during the GFC only dipped slightly and recovered close to the pre-crisis trend.

Comparison of Two Crises: ASEAN-4 + Korea GDP



Exports played an important role in the recovery process but its contribution tends to diminish in recent years

Contribution to GDP for ASEAN-5

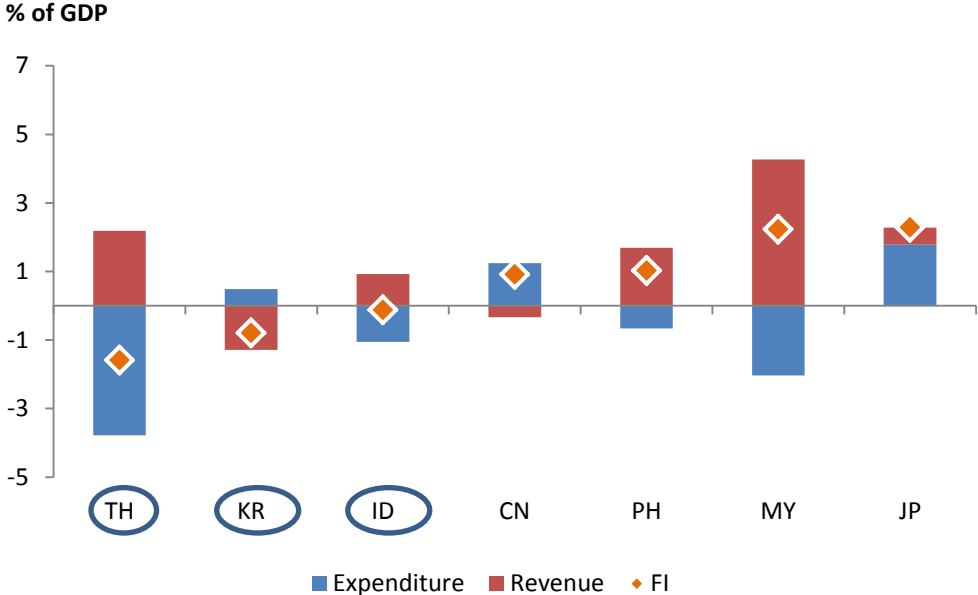


Note: ASEAN-5 refer to Indonesia, Malaysia, Philippines, Thailand and Vietnam. For simplicity, changes in stock and statistical discrepancies are omitted.

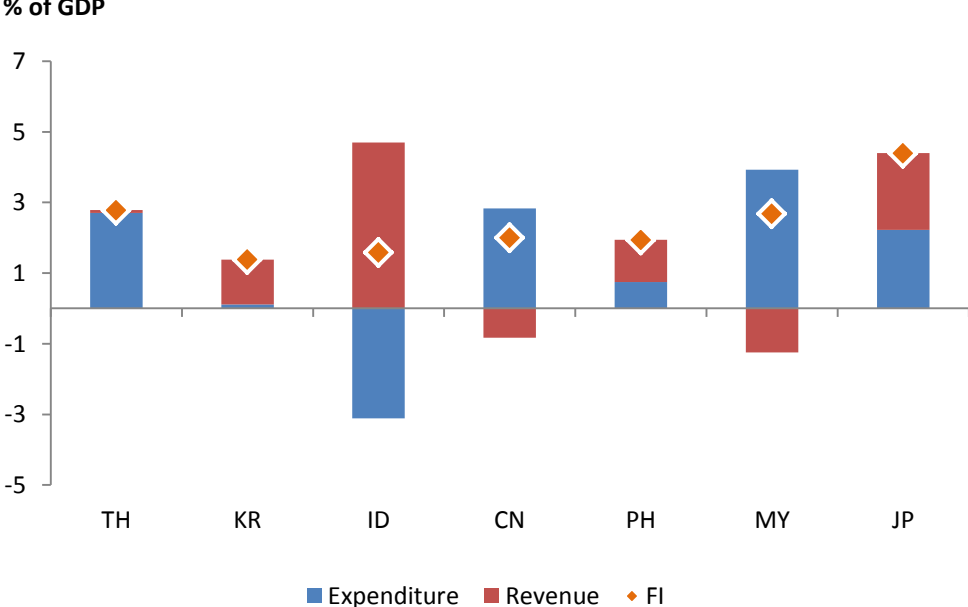
Source: World Bank

Contrary to the AFC period, stimulus fiscal policy was more actively used to counter sudden economic downturn during the GFC period

Fiscal Impulse during AFC (1998)



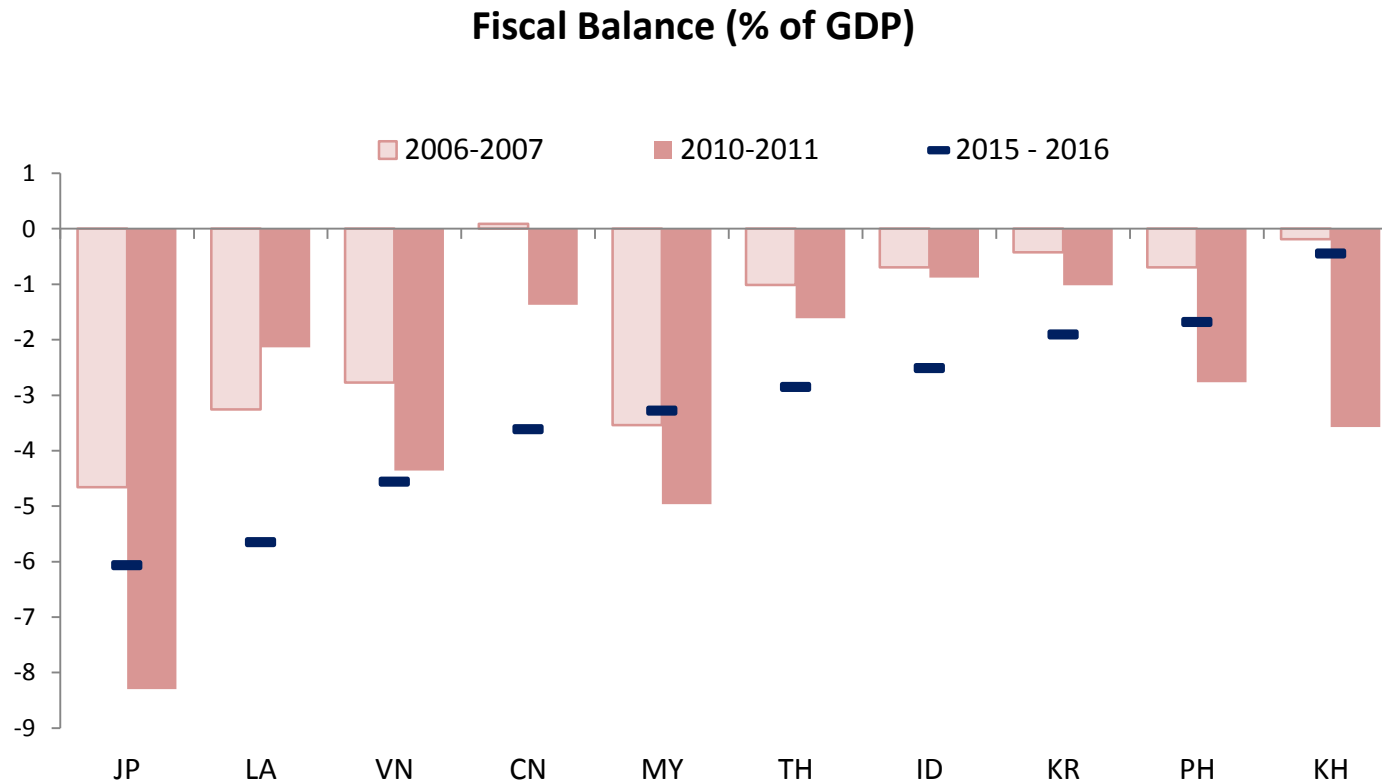
Fiscal Impulse during GFC (2009)



Note: For AFC, Fiscal Impulse (FI) figures are for 1998, except for Japan where FI refers to 1998 and 1999. For GFC, the FI refers to 2009, except for SG, MY and KR which refer to 2008 and 2009 and HK which refers to FY2008/09. Increases in expenditure are depicted as positive values providing additional fiscal stimulus. For revenue, the signs are reversed to enable a decrease in revenue to provide an additional fiscal stimulus.

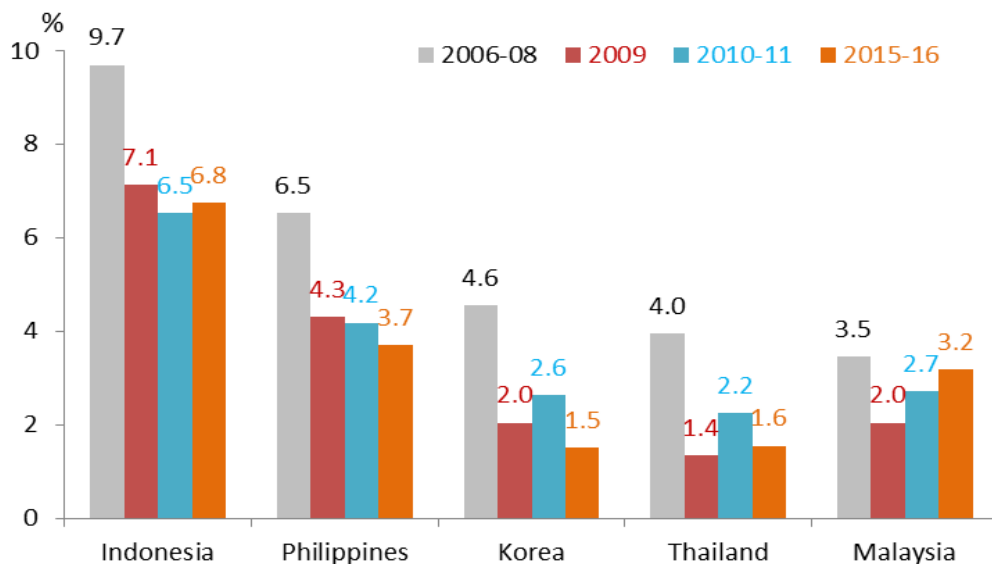
Source: AMRO staff calculations

With weaker than expected economic recovery after GFC, fiscal policy has remained expansionary in most economies

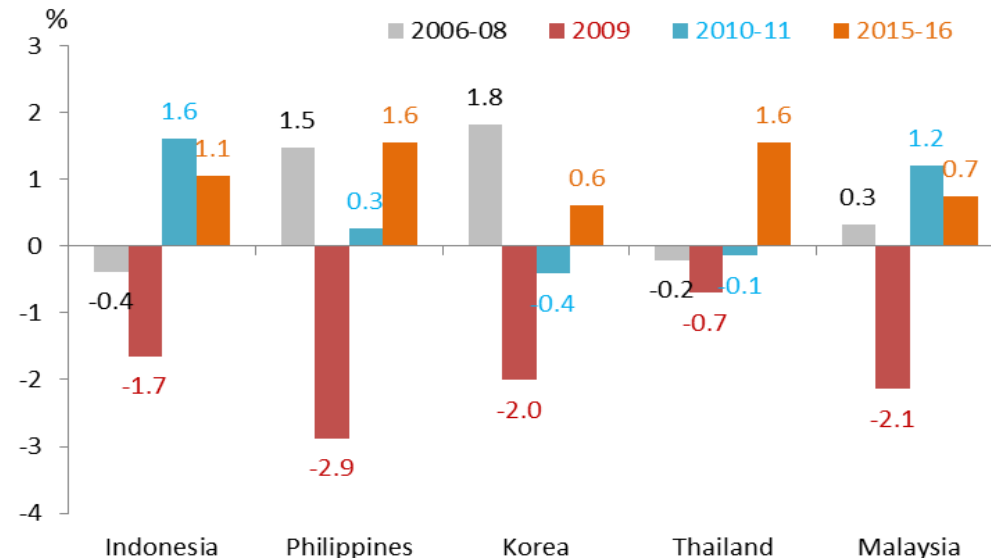


Monetary policy, although limited, shifted to become accommodative to buttress economic recovery, yielding negative real interest rates.

Policy Interest Rates around GFC



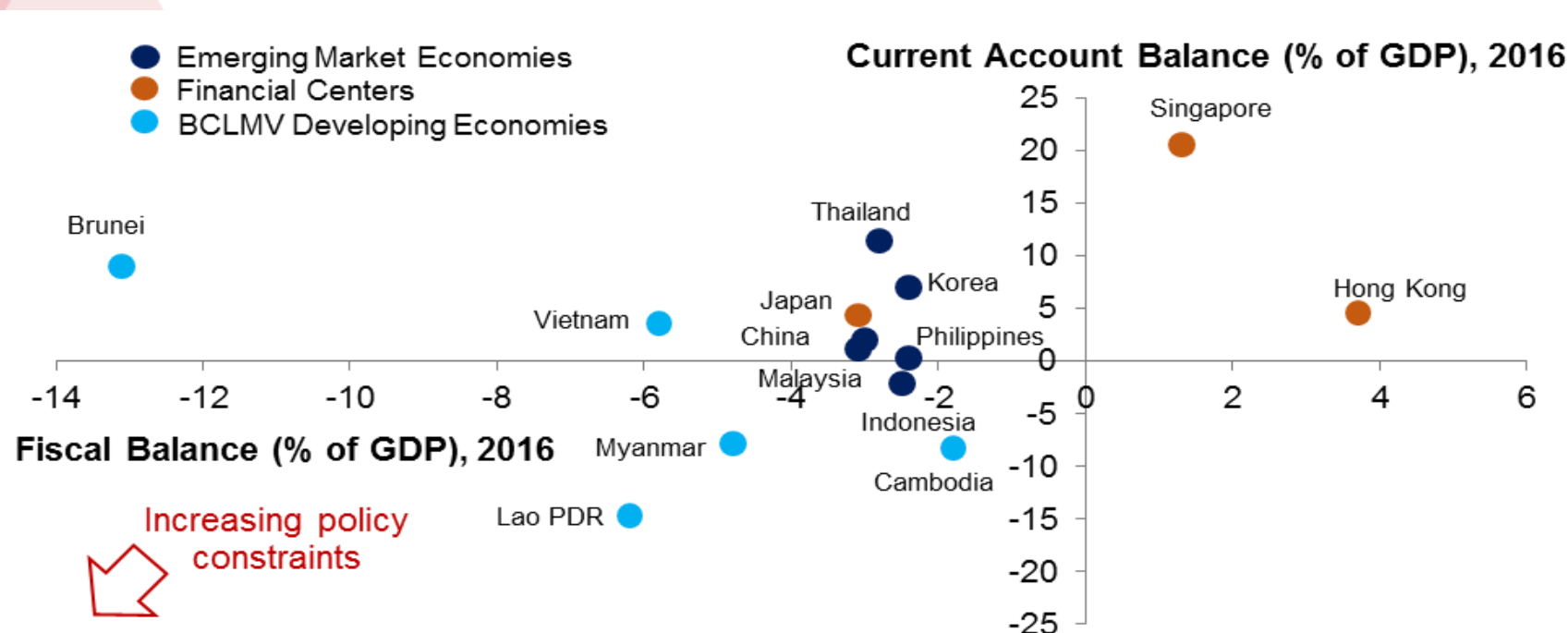
'Real' Interest Rates around GFC



Note: Real interest rates are calculated by subtracting backward-looking inflation expectations (proxied by a lagged 12-month MA inflation) from nominal policy rates.

Source: National Authorities, AMRO staff calculations

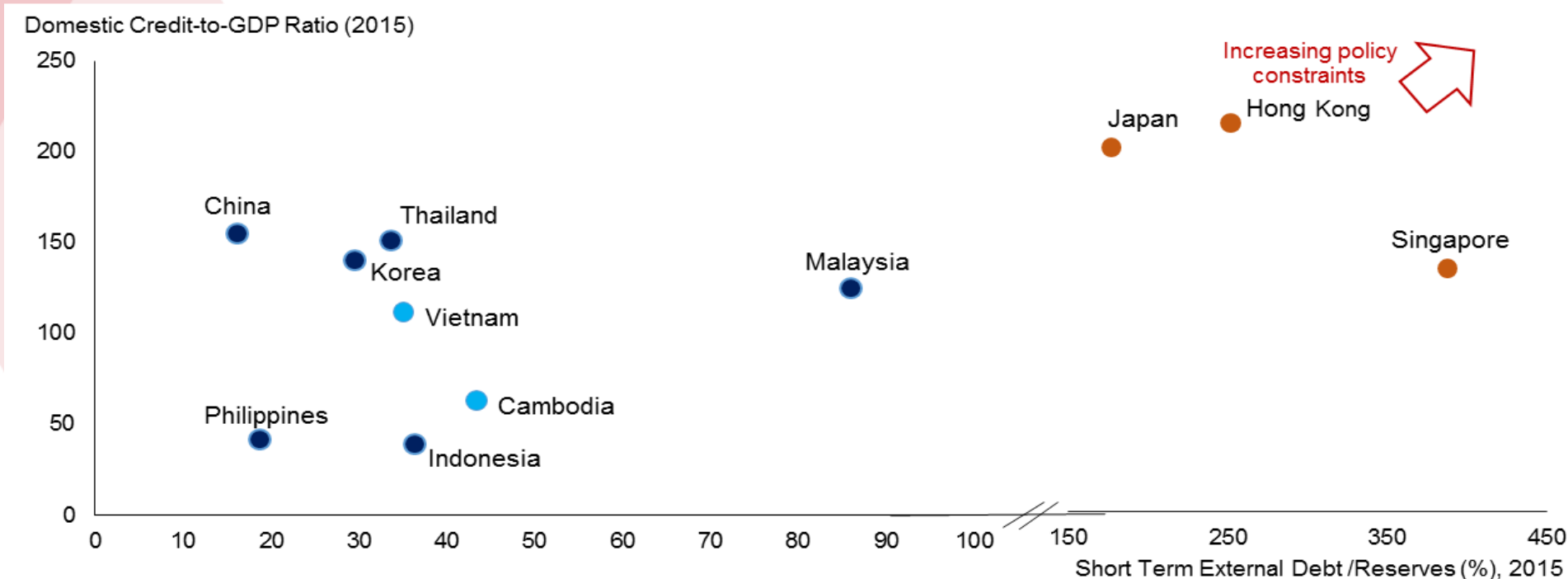
Fiscal policy space have generally narrowed already while it may have to play a greater role in the future to cushion downside risks



Note: Data for Cambodia, Lao PDR and Myanmar include grants. Korea's fiscal balance refers to the adjusted balance, which exclude Social security funds (SSF).

Source: National Authorities, AMRO staff calculations

Tightening global monetary conditions and rising inflation, albeit from a low base, will constrain monetary policy to support growth



Note: Domestic credit refers to private domestic private provided by financial sector. There are no short term external debt data available for Brunei, Lao PDR and Myanmar.

Source: National Authorities

1

20 Years After the Crisis

2

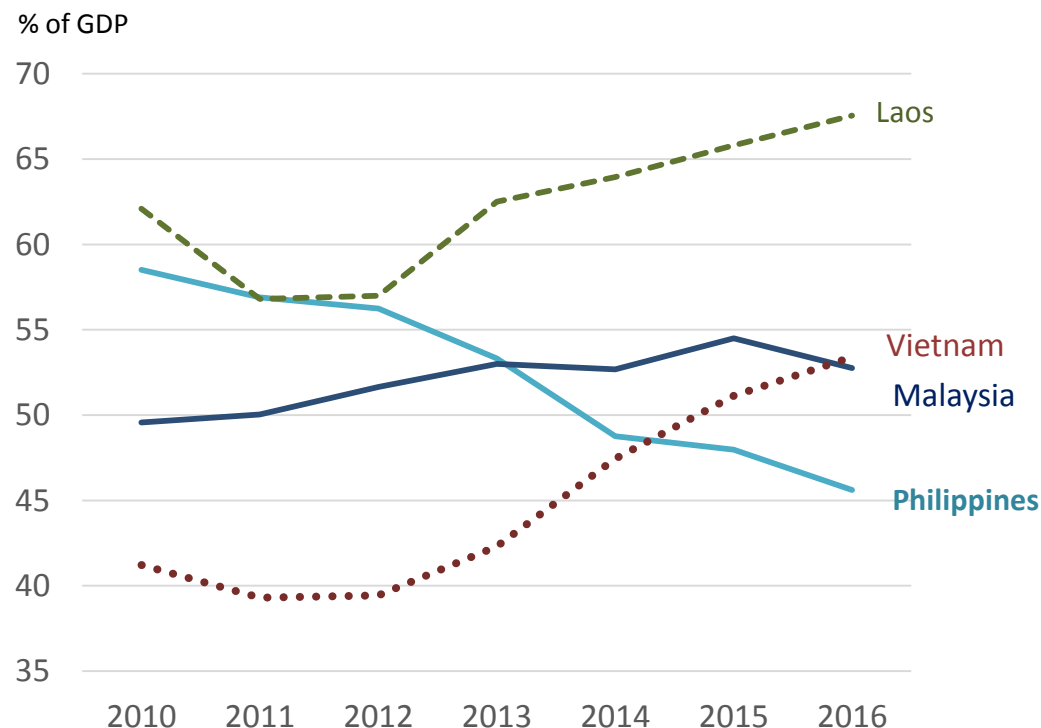
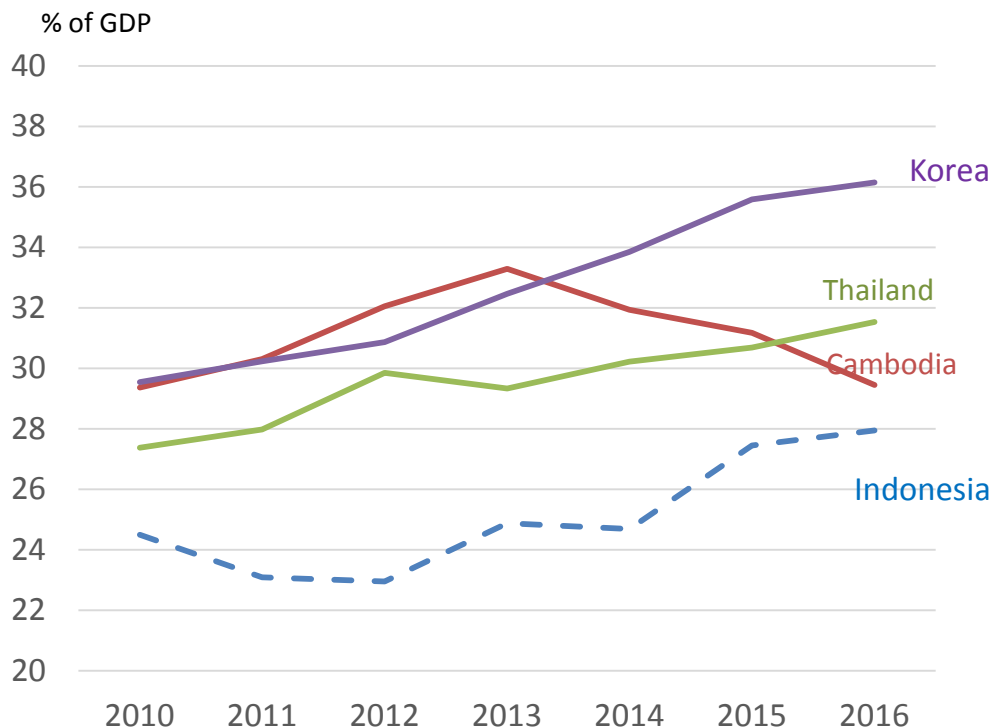
Recent Developments & Rising Challenges

3

Going Forward

Debt ratio has been generally increasing due to tighter revenue conditions (esp. commodity-exporting countries) and continued fiscal policy support.

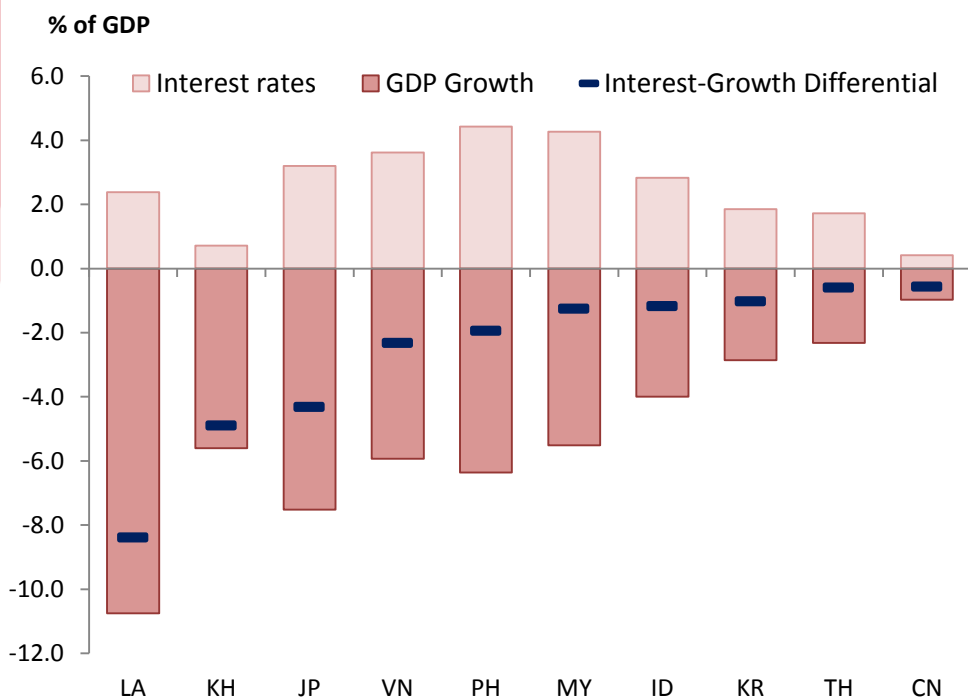
Debt to GDP Ratio (2010 – 2016)



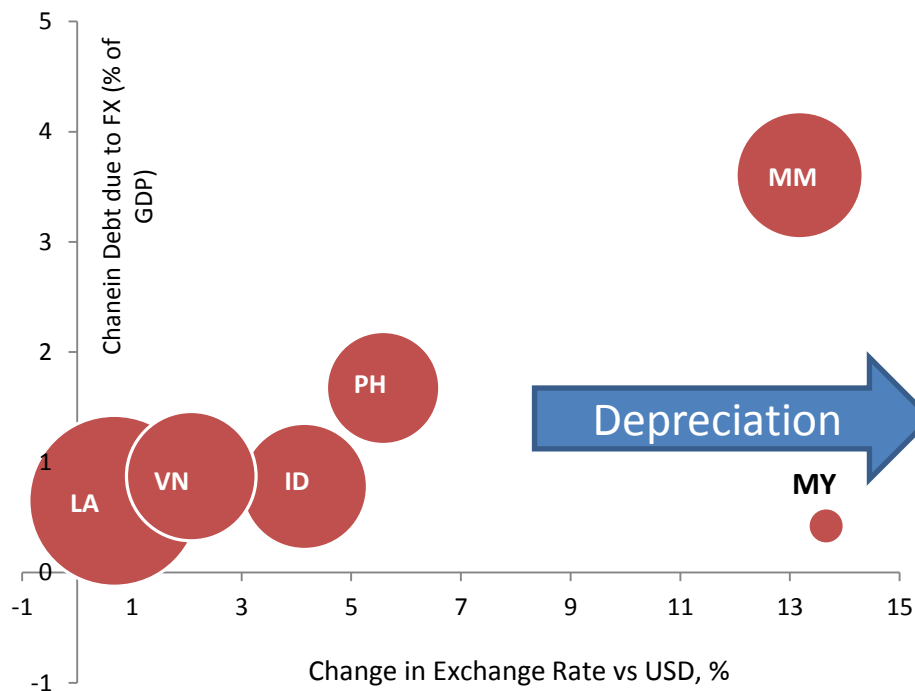
Source: National Authorities

Record low interest rates have contributed to lower debt ratio so far, but rising interest rate and USD strengthening could be the main risk factors.

Interest rate – growth differential contribution to debt ratio changes (2015 – 2016)



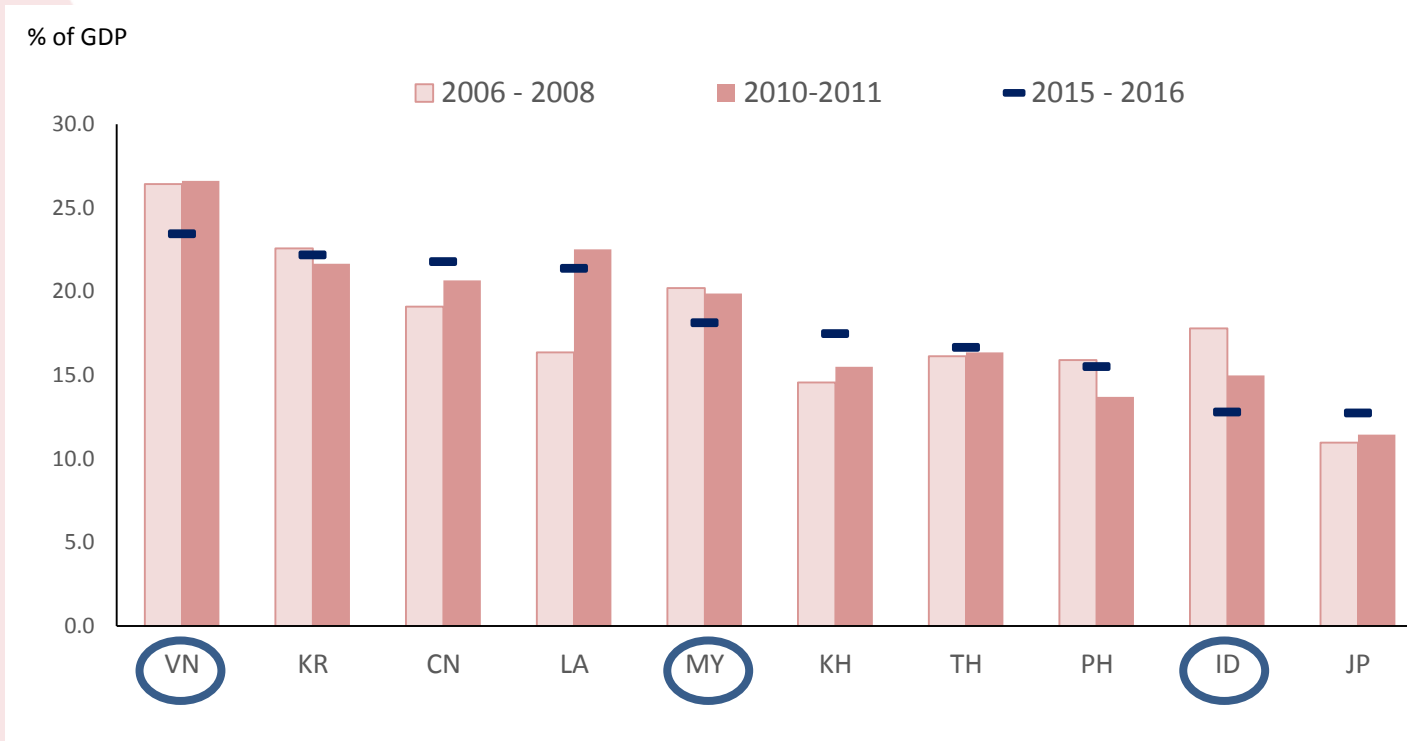
Exchange rate factor to debt ratio changes (2015 – 2016)



Note: Change in debt due to FX is in percent of GDP. Change in exchange rate in percentage change (positive value denote depreciation). Bubble size indicate foreign currency share as % of total debt
 Source: National authorities, AMRO Staff calculation

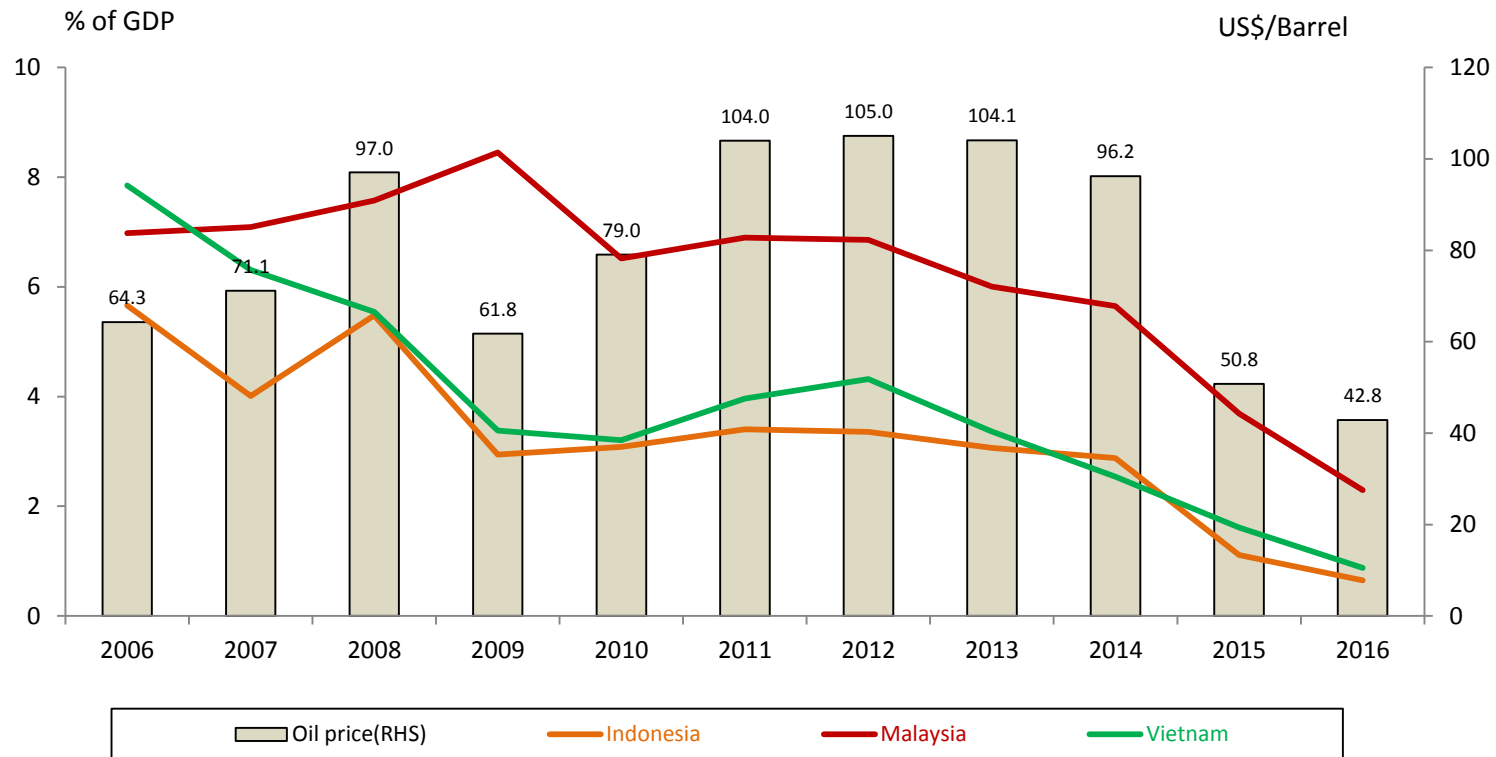
Revenue collection has recovered the pre-GFC level in most-non commodity exporting countries

Evolution of Revenue to GDP Ratio

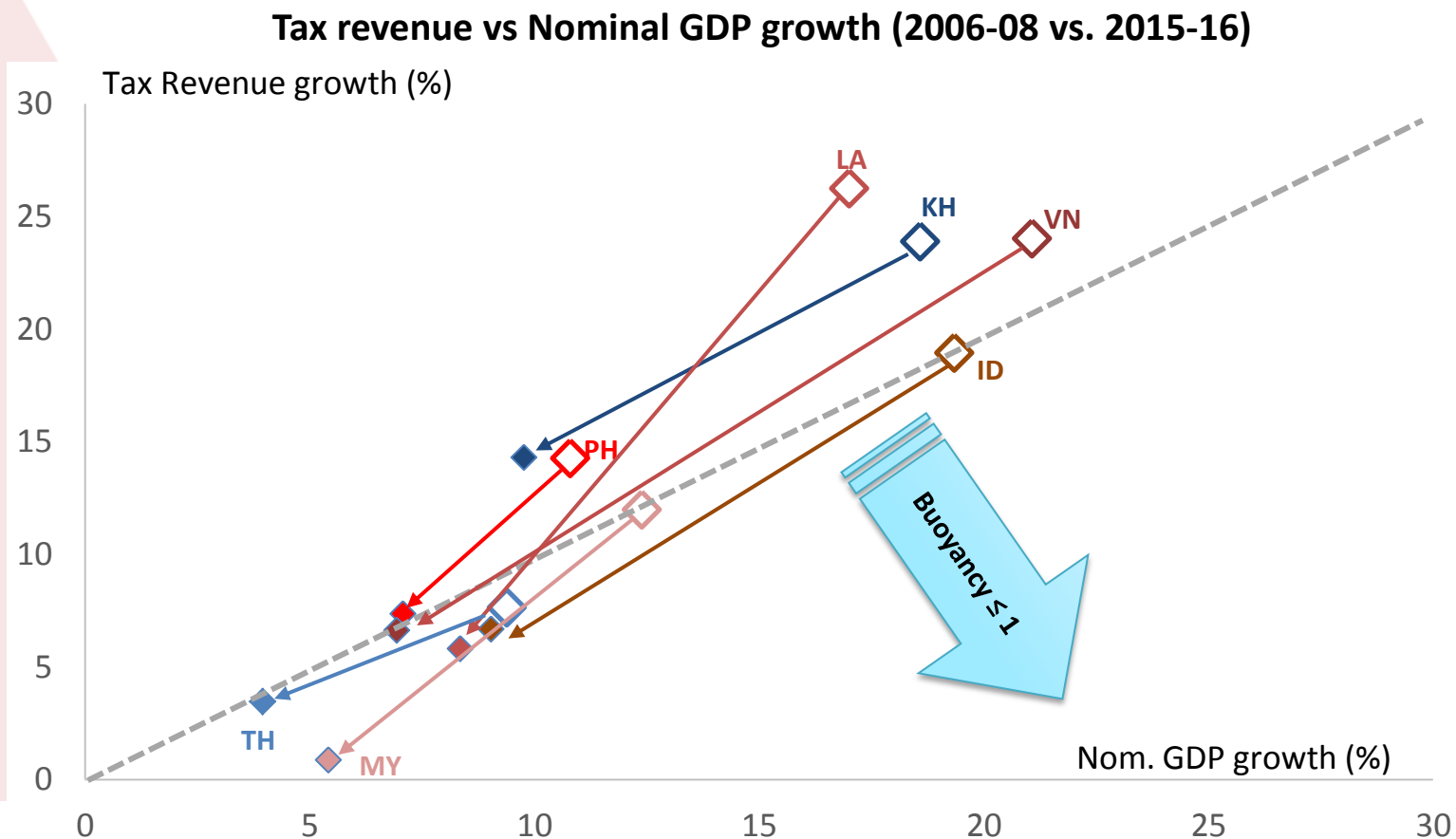


Falling commodity prices led to tighter revenue conditions in some commodity exporting countries

Resource revenue in selected countries



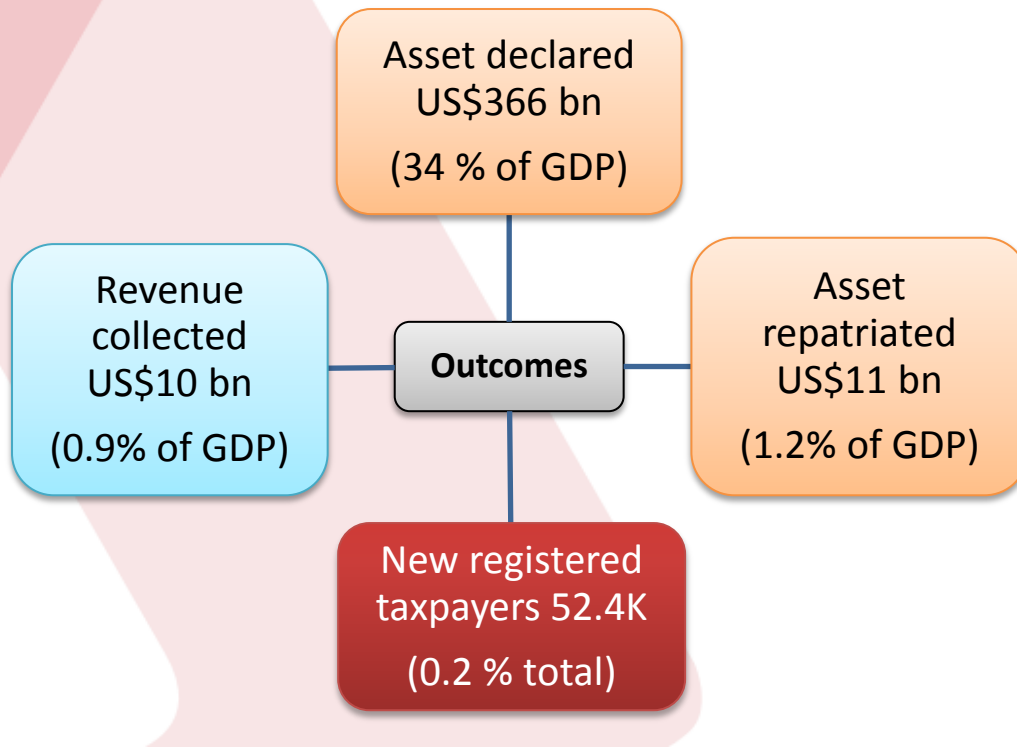
Generally, most countries in the region has faced a structurally weaker tax collection with falling tax buoyancy



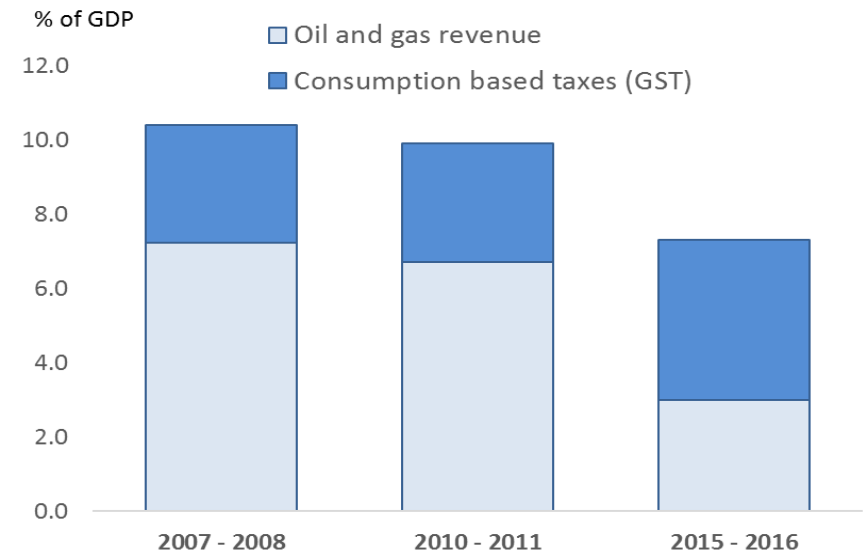
Note: Blue-marked countries showed improving tax buoyancy in the period 2015-16 compared to those in 2006-08 while red ones worsening.

Indonesia's Tax Amnesty led to significant extra revenue and widened tax base. Malaysia's GST introduction to compensate the resource revenue decline.

The 2016 Tax Amnesty in Indonesia

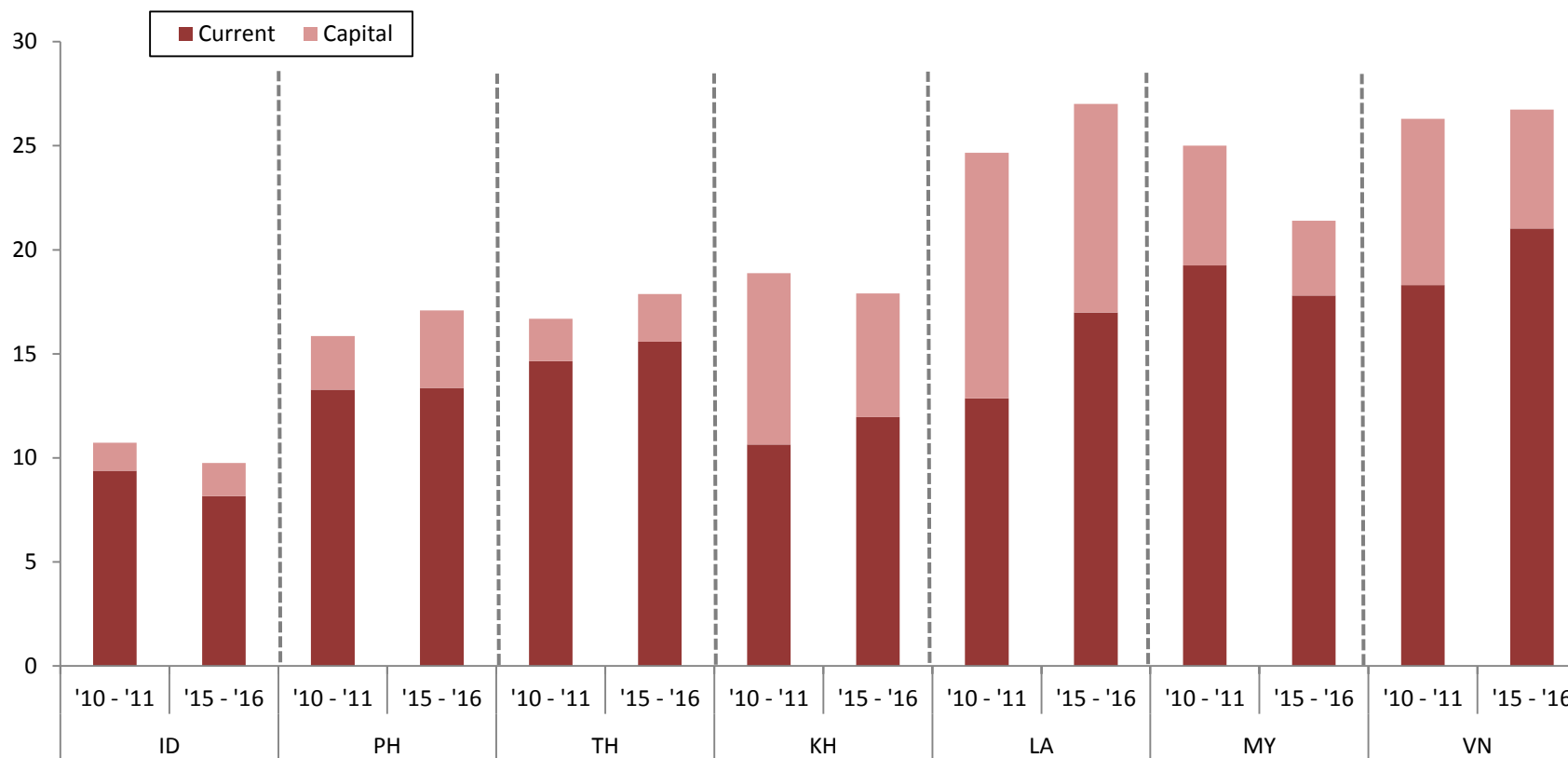


Oil and gas revenue and consumption tax revenue in Malaysia



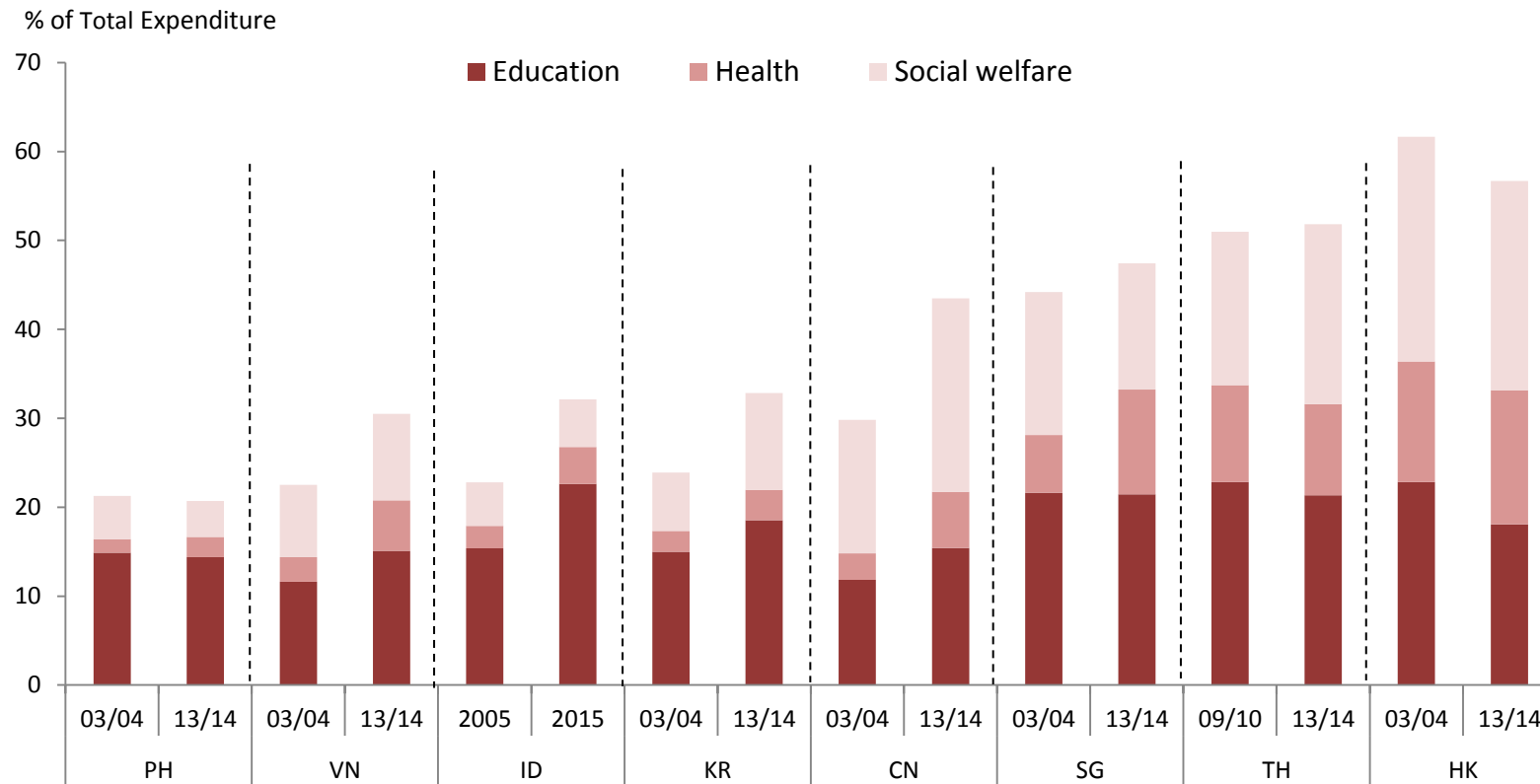
Spending needs remain elevated amid tighter revenue prospect.
Current expenditure has increased at the expense of capital spending.

Total Expenditure (% of GDP)



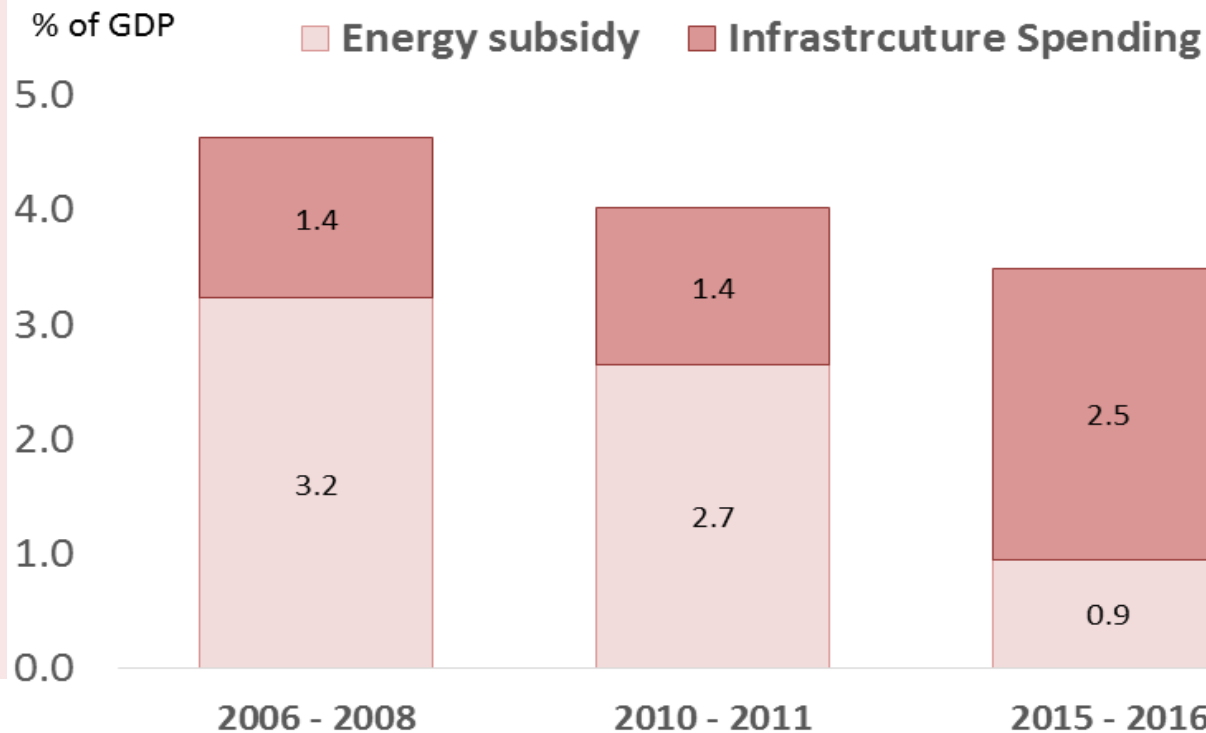
For many developing countries, spending on human capital development will improve long-term growth potentials

Spending for Future ('03-'04 vs. '13-'14)



Indonesia's fuel subsidy reform in 2015 freed up sizeable resources to be reallocated to infrastructure spending.

Subsidy Reform and Infrastructure Spending (Indonesia)



1

20 Years After the Crisis

2

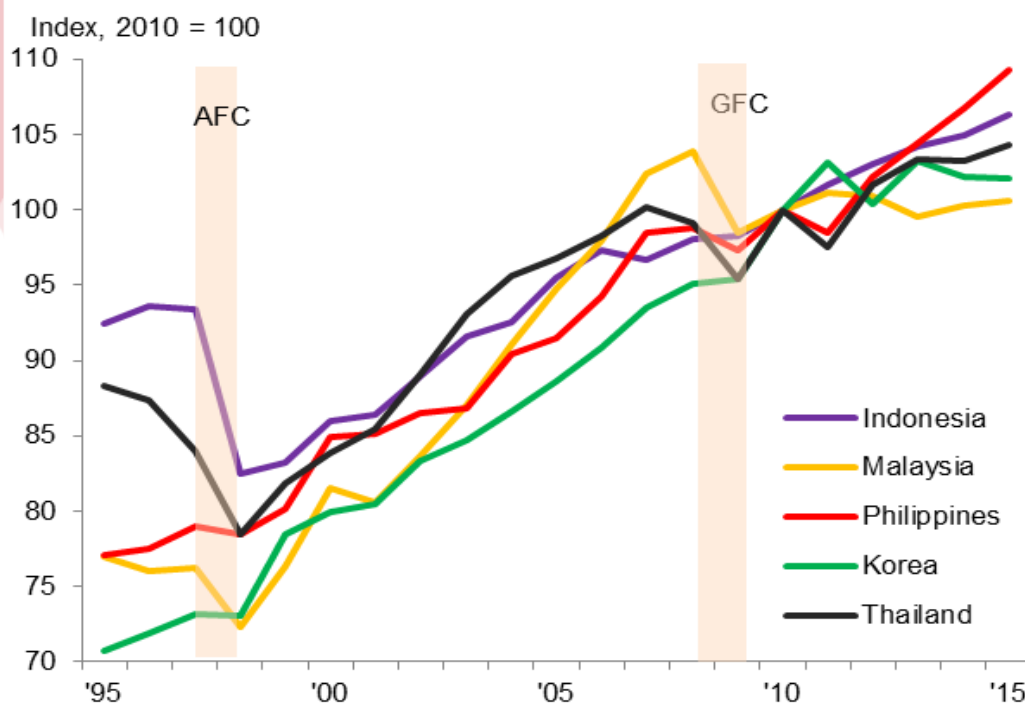
Recent Developments & Rising Challenges

3

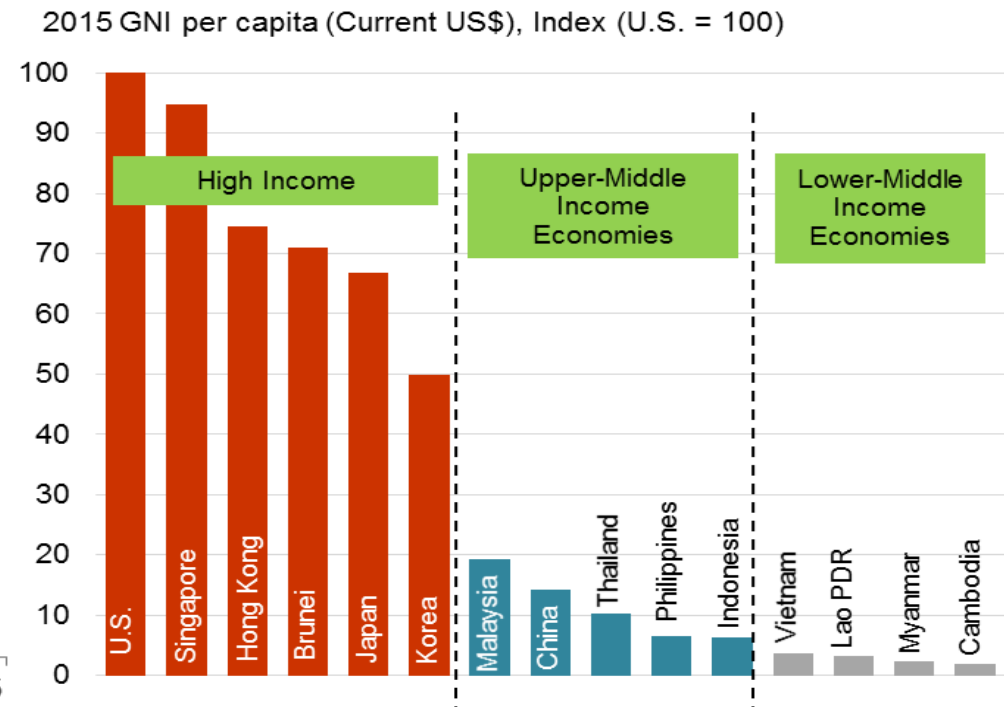
Going Forward

Looking ahead, accelerating structural reforms to foster growth potential and income convergence, and strengthening financial cooperation in the region to has become more important

Total Factor Productivity, Selected Economies

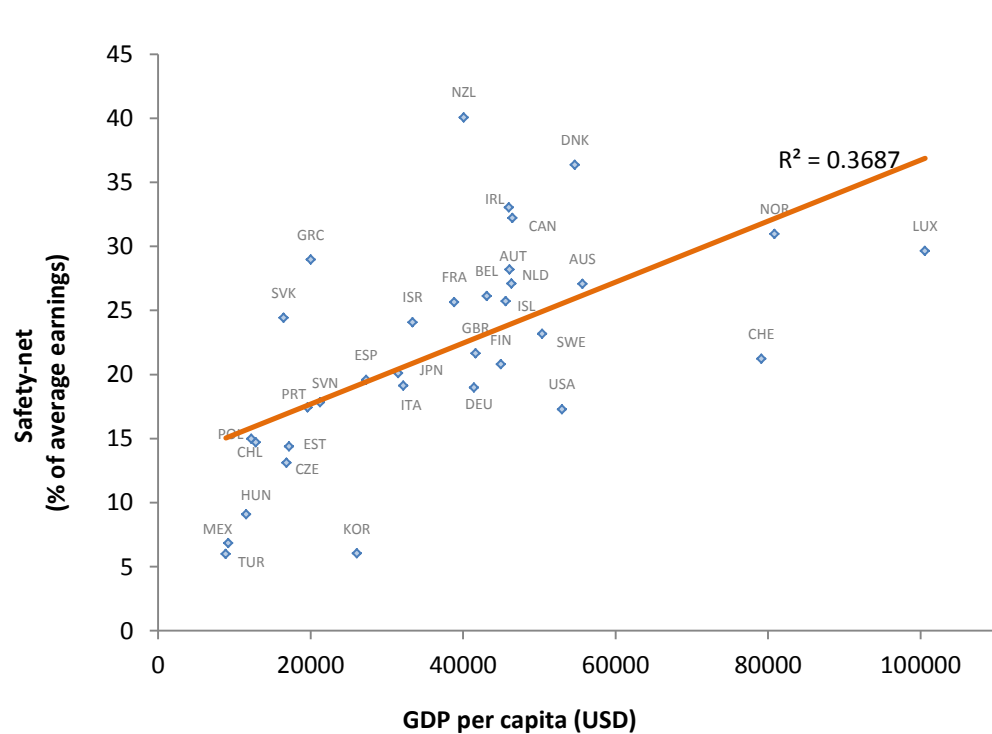


GNI per Capita

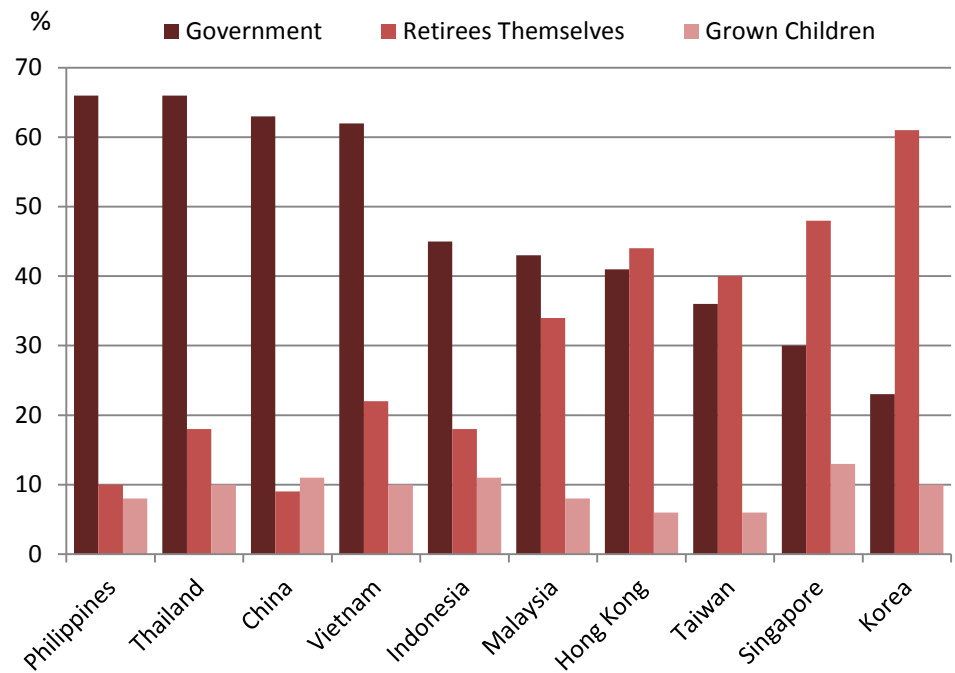


New priorities can emerge from economic development, often with higher public expectations and uncertain longer-term implications

Social Safety Net Spending Tends to Increase with Economic Growth



Responses to “Who should support the retirees?”

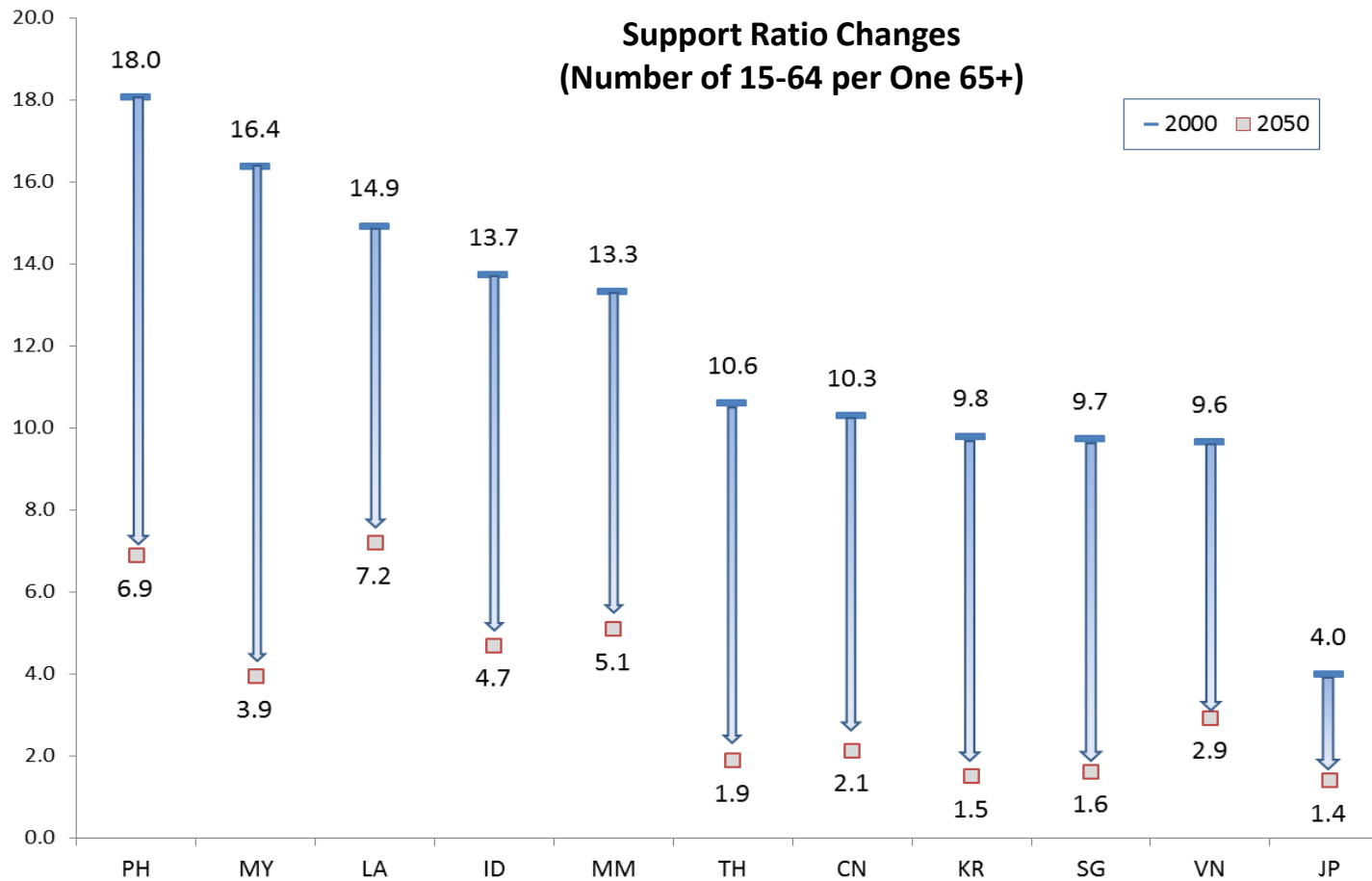


Note: : Note: Safety-net benefits are the total amount of benefits that individuals receive without contribution.

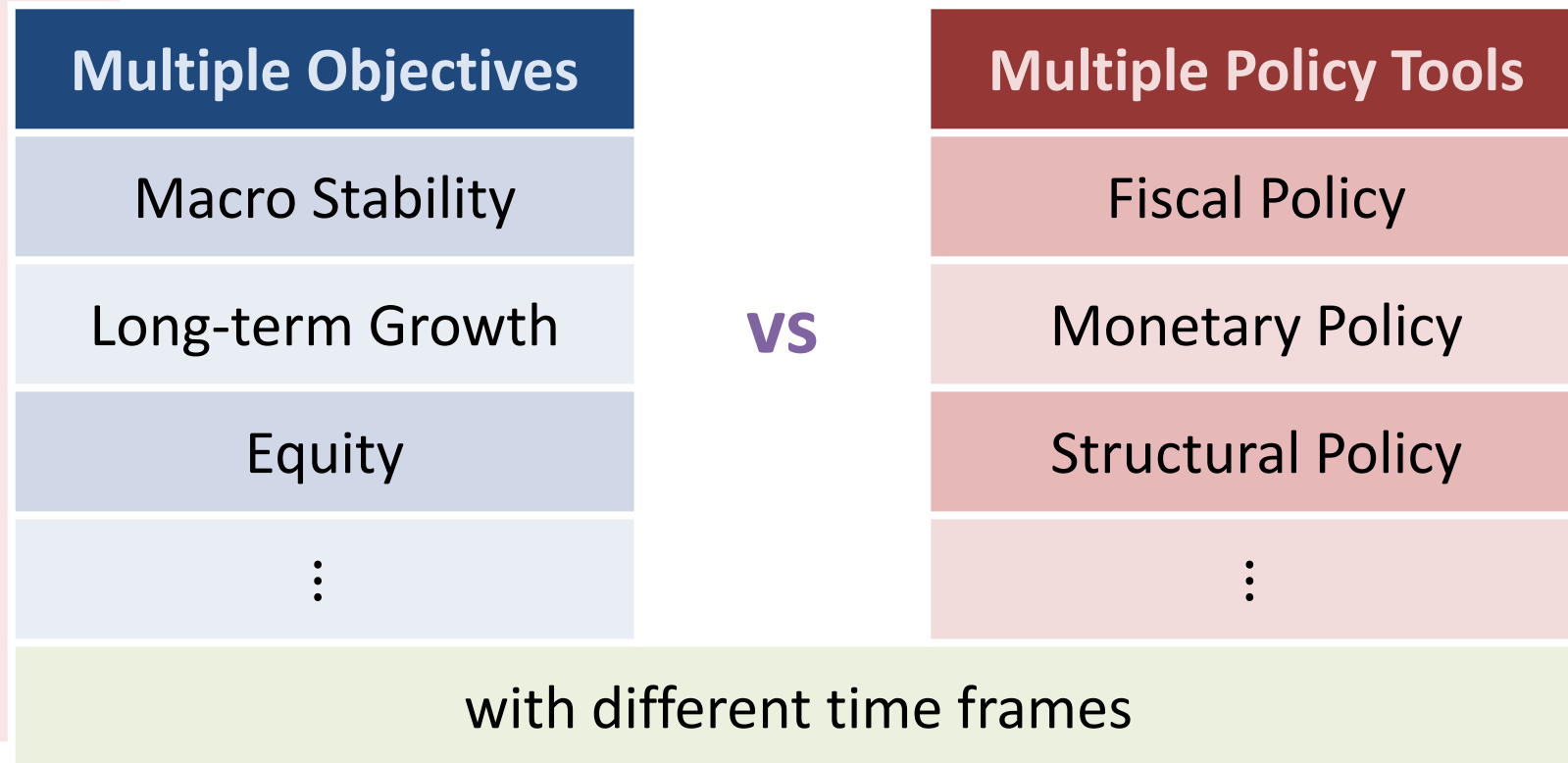
Sources: OECD, EU & Global Aging Institute (2014 Survey)

More Challenges Going Forward

Countries in this region are not free from population issues and most countries are expected to face the drastic changes



Need to enhance the effective mixture of available policy tools to meet more diverse and dynamic policy objectives



Thank You

Contact Us:

ASEAN+3 Macroeconomic Research Office (AMRO)
Address: 10 Shenton Way, #15-08/9 MAS Building,
Singapore 079117

Tel : +65 6323 9844

Fax : +65 6323 9827

Email : luke.hong@amro-asia.org

Website : www.amro-asia.org