



# The Sixth Tokyo Fiscal Forum

# **Macro-Fiscal Challenges in Asia:**

# **An Overview**

International Monetary Fund

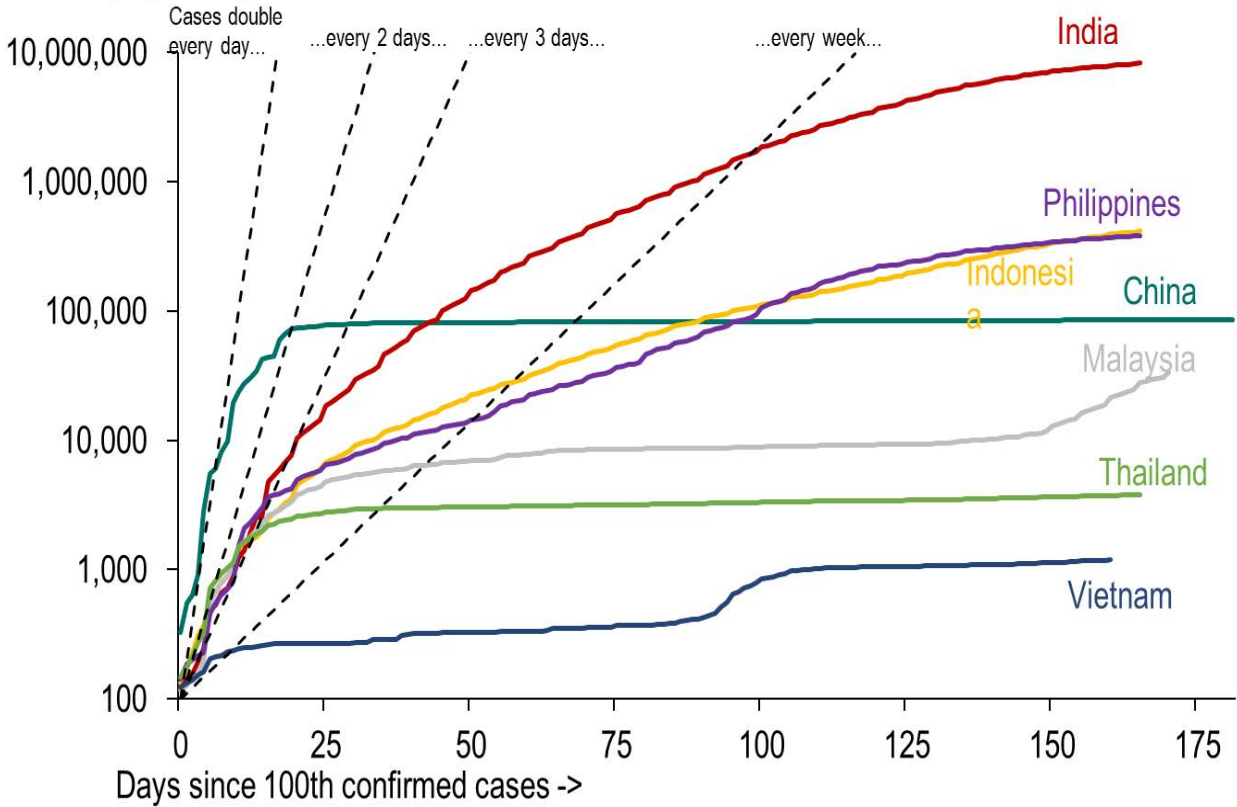
Asia & Pacific Department

December 4, 2020

# The pandemic is at different stages across Asia

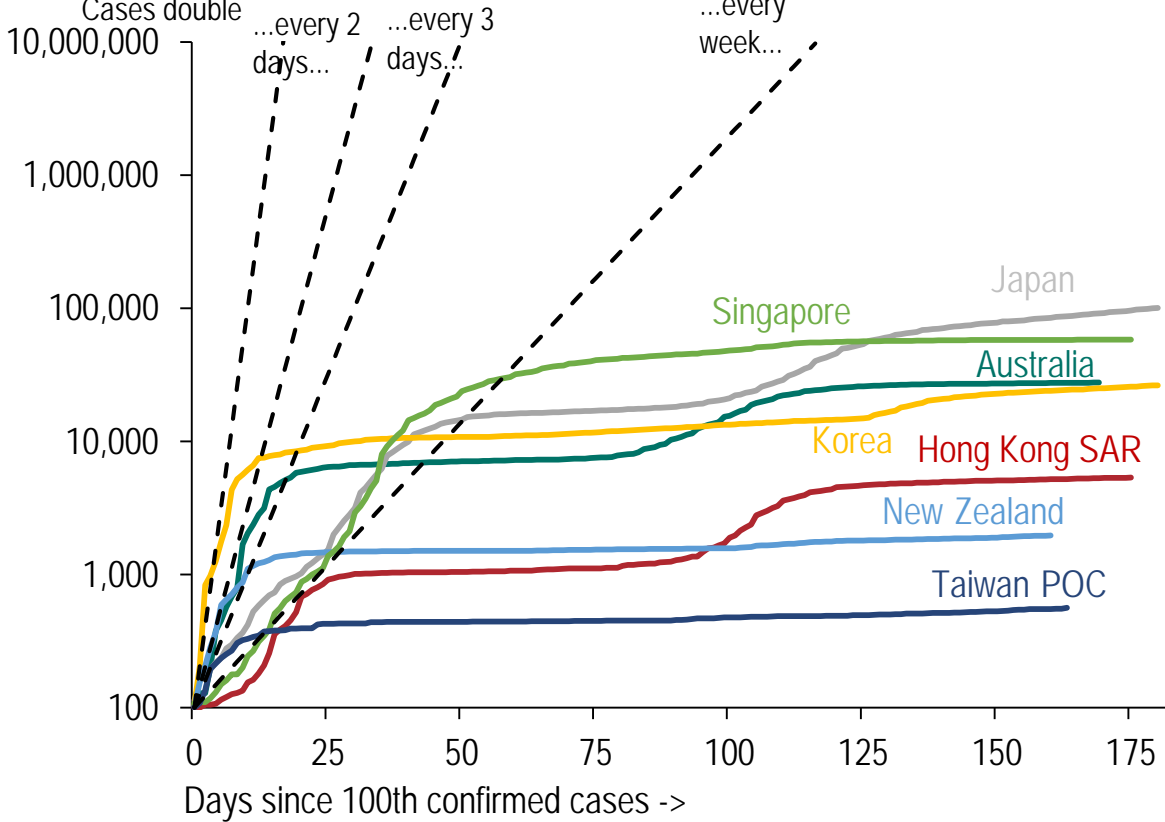
**Cumulative Confirmed Cases, Emerging Asia**

(Log scale)



**Cumulative Confirmed Cases, Advanced Asia**

(Log scale)

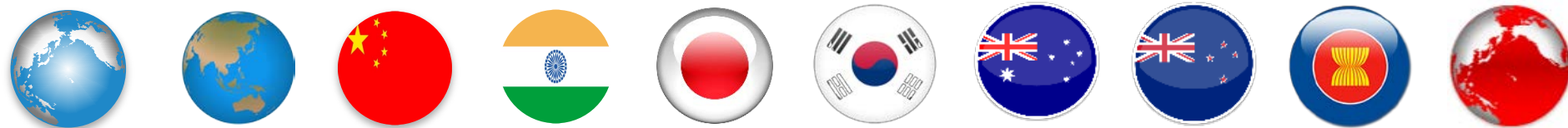


Sources: Johns Hopkins University, and IMF staff calculations.  
 Note: Data as of October 31, 2020.

# Looking ahead: A multi-speed recovery

## Growth projections: World and Asia

(Percent change from a year earlier)



World

Asia

China

India

Japan

Korea

Australia

New Zealand

ASEAN

Pacific Island Countries

2019	2.8	4.6	6.1	4.2	0.7	2.0	1.8	2.2	4.7	3.6
2020	-4.4	-2.2	1.9	-10.3	-5.3	-1.9	-4.2	-6.1	-3.4	-7.5
Revision from previous forecast	0.6	-0.6	0.9	-5.8	0.5	0.2	0.3	1.1	-2.7	-5.2
2021	5.2	6.9	8.2	8.8	2.3	2.9	3.0	4.4	6.1	4.2
Revision from previous forecast	-0.3	0.3	-0.0	2.8	-0.1	-0.1	-1.0	-1.5	-1.3	-0.6

Source: IMF *World Economic Outlook*.

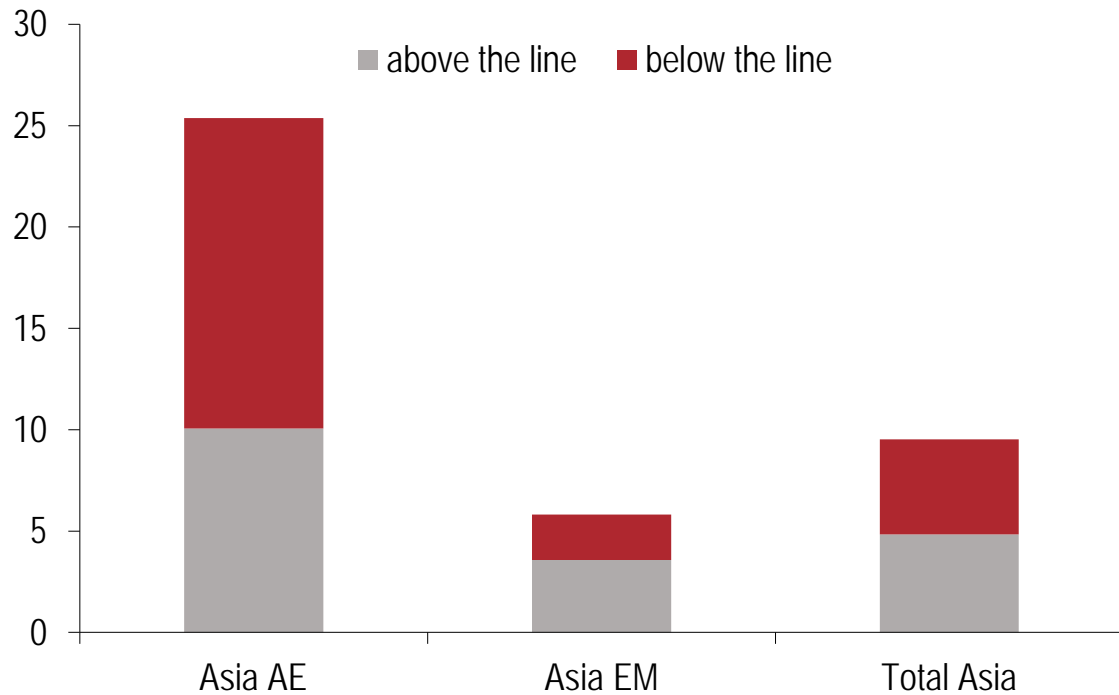
Note: Projections based on October 2020 Vintage of WEO. Figures for India are on a fiscal year basis. Previous forecast was April, and, for selected economies, there was a June update.

# In Asia, like elsewhere, the pandemic has prompted unprecedented fiscal responses

*Asia's overall fiscal actions amounted to around 10 percent of GDP...*

## Overall Fiscal Measures: Asia

*(Weighted average; percent of GDP)*

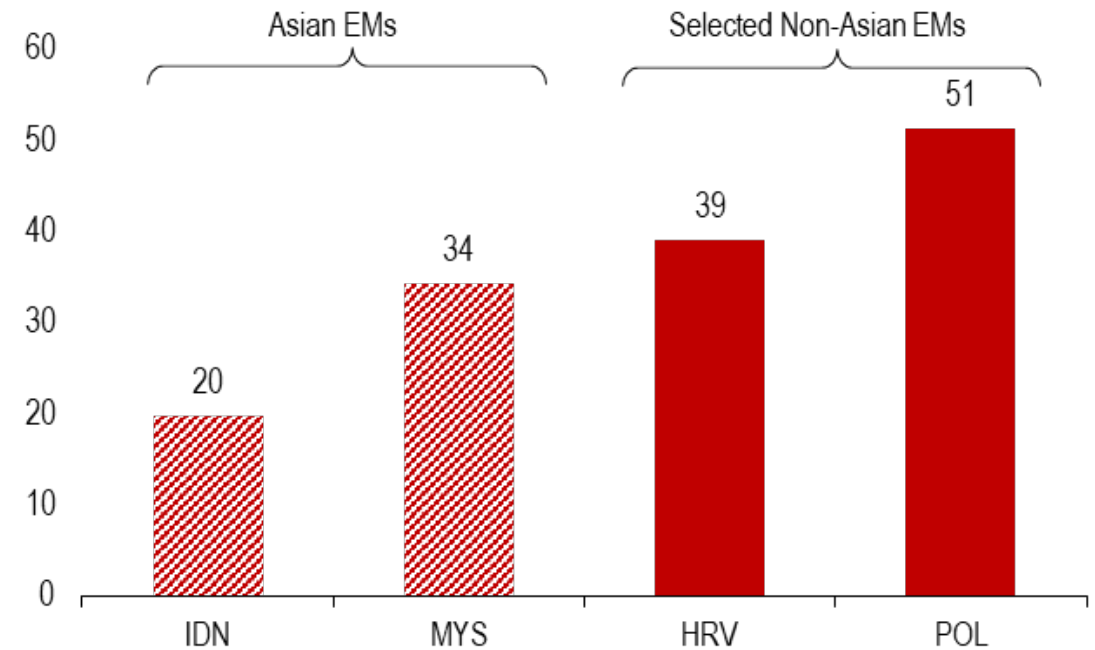


Source: World Economic Outlook, October 2020.  
Note: Data as of September 30, 2020.

*...while asset purchases by some Asian emerging market central banks, have facilitated fiscal expansion*

## Central Bank Purchases of Government Debt

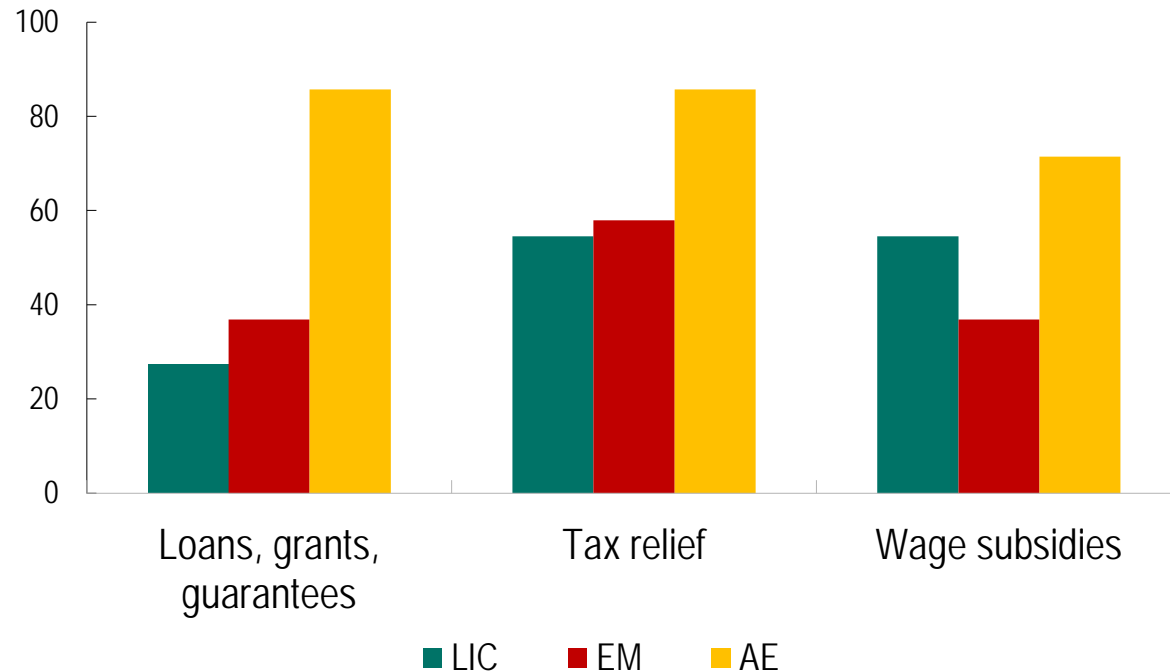
*(Percent of central government marketable securities or debt issued since Feb 2020)*



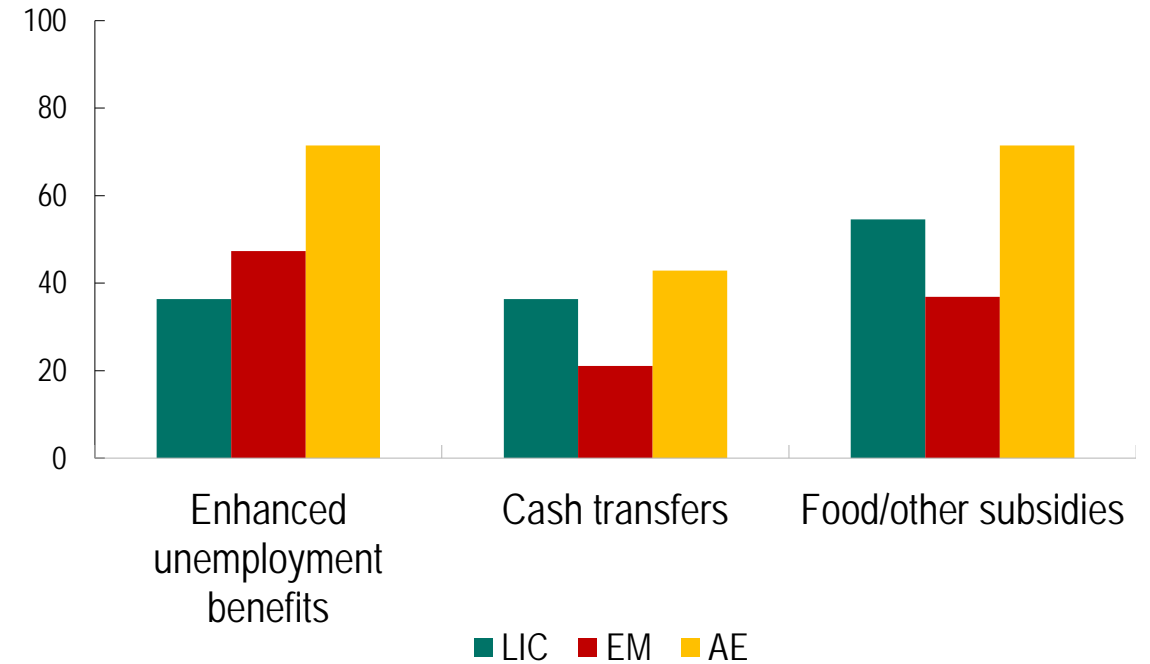
Source: Fiscal Monitor, October 2020.

# The size and composition of fiscal measures has varied across Asia

**Asia: Policy Measures Targeted to Help Firms**  
(Percent of countries implementing the policy)



**Asia: Policy Measures Targeted to Help Households and Workers**  
(Percent of countries implementing the policy)



Sources: IMF Survey of Policy Responses to COVID-19  
Note: Covers 27 countries in APD.

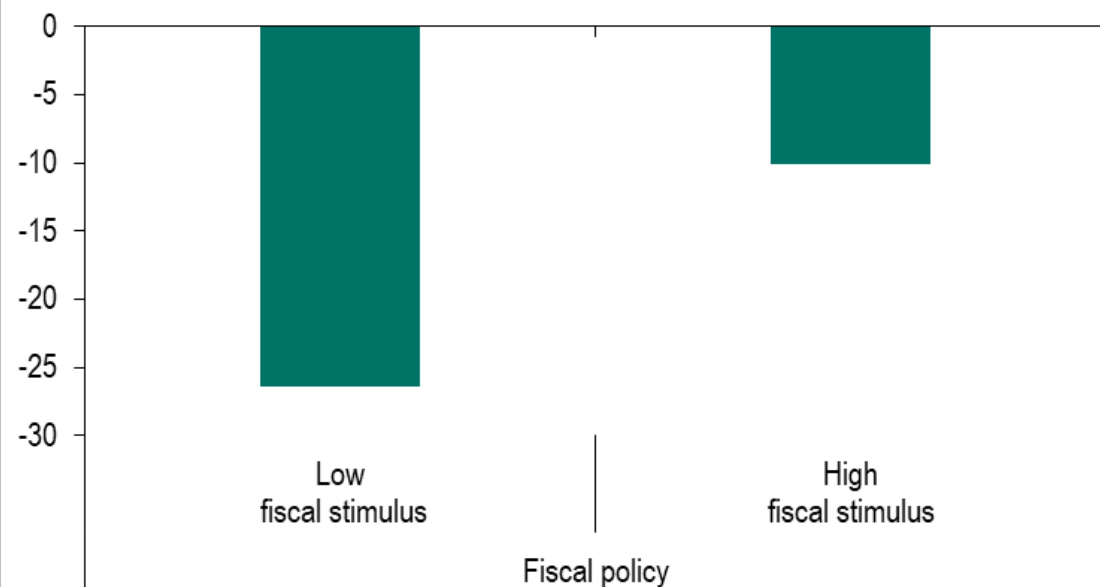
# Fiscal policies have been effective in mitigating downside risks

*Countries that announced larger fiscal stimulus saw a larger impact on economic activity...*

*..... although there are significant heterogeneities in the fiscal multipliers reflecting country characteristics and the stage of the pandemic.*

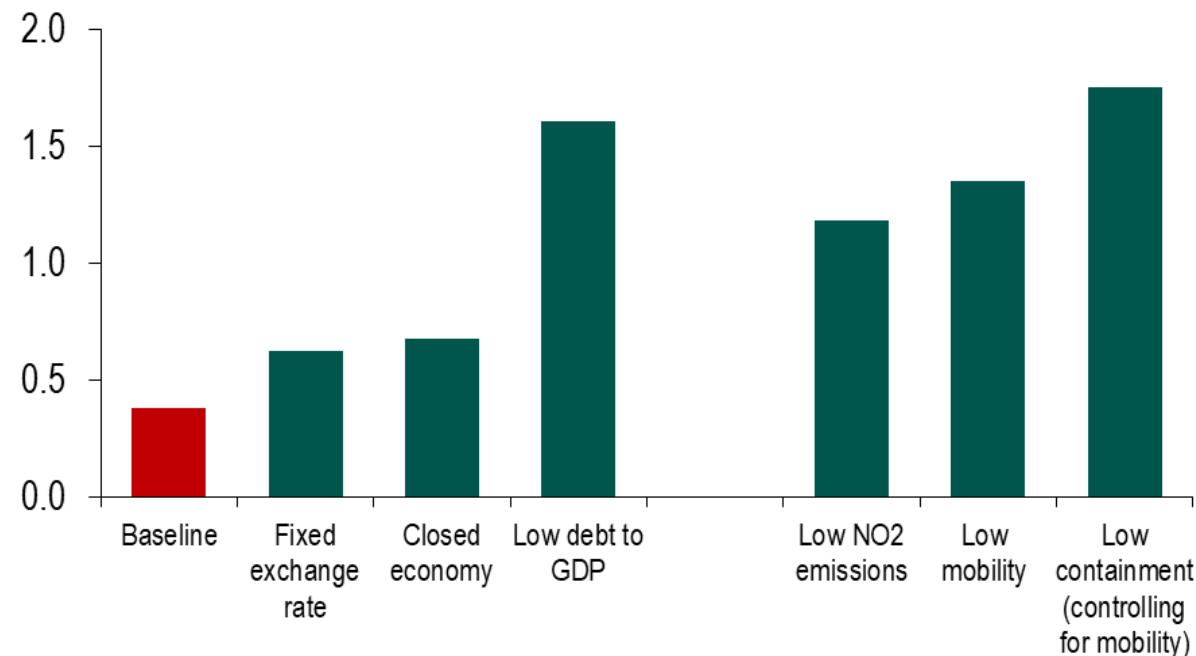
**Industrial Production, Deviation from Baseline after 30 Days**

*(Implied impact on industrial production after 30 days, percent)*



**Impact of Fiscal Shocks on Industrial Production**

*(betas, percent)*



Source: Deb and others (2020).

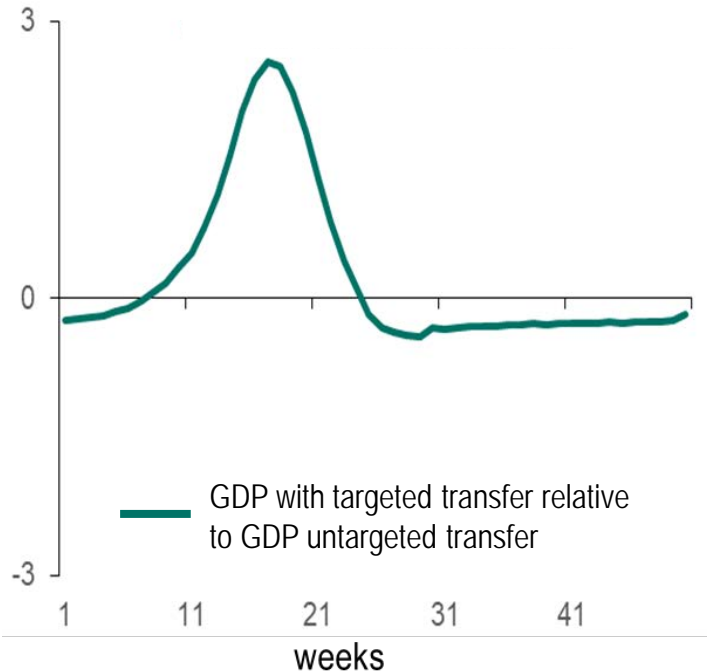
Source: Deb and others 2020.

Note: The bars denote the impact (coefficients) of fiscal shocks on industrial production obtained from a panel regression of 39 countries from January 2020 to July 2020

# Targeted fiscal measures not only mitigate the economic cost of the pandemic but can also significantly reduce the number of infections

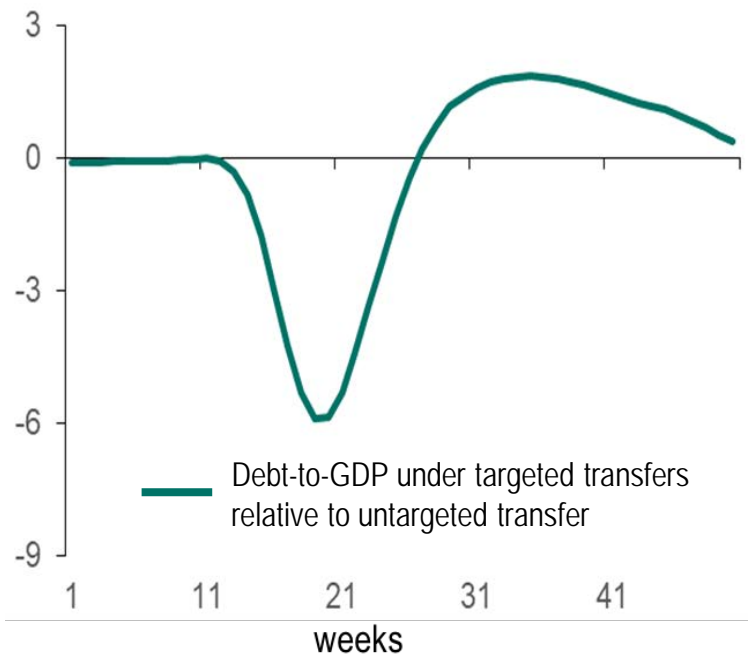
*Optimal policy with targeted transfers results in a higher GDP relative to the one with untargeted transfers ...*

**Targeted vs. Untargeted Fiscal Support**  
(Differences, percent of GDP)



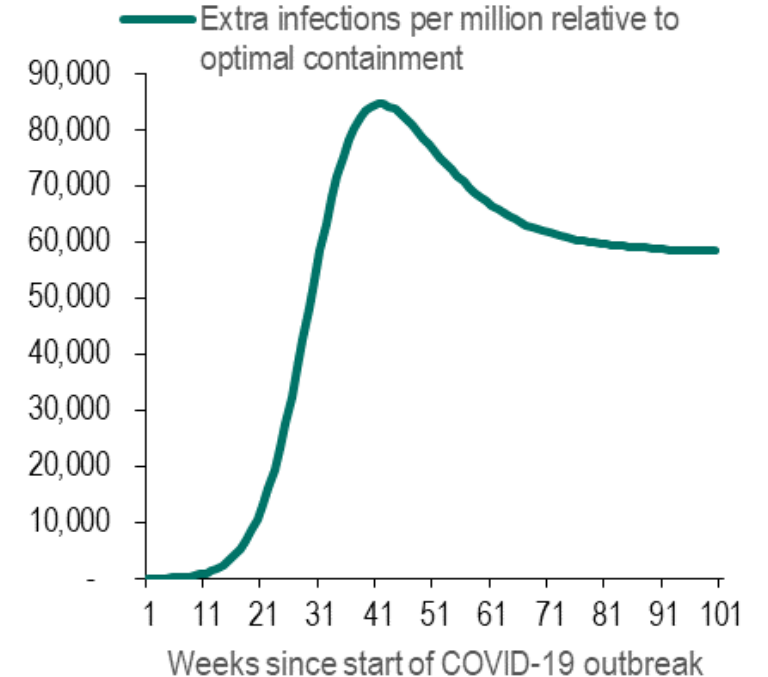
*... which leads to lower debt accumulation*

**Targeted vs. Untargeted Fiscal Support**  
(Differences, percent of GDP)



*Targeted fiscal transfers also help to reduce the number of infections*

**Confirmed Cases without Transfers**  
(Relative to Optimal Containment (per million))



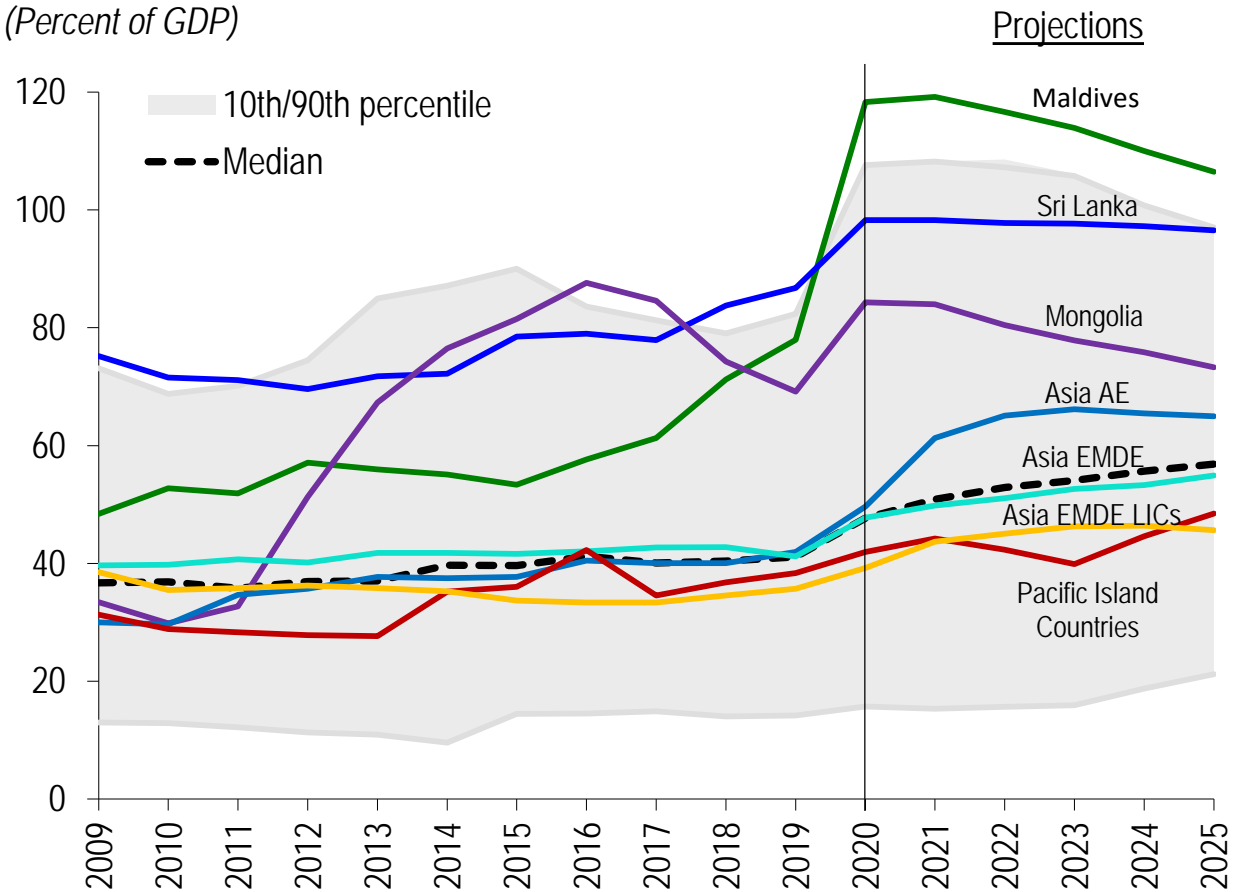
Source: Engler and others 2020.

Note: The chart shows additional weekly infections per million under the scenario with no transfers relative to the optimal policy scenario. Positive difference indicates higher cumulative cases.

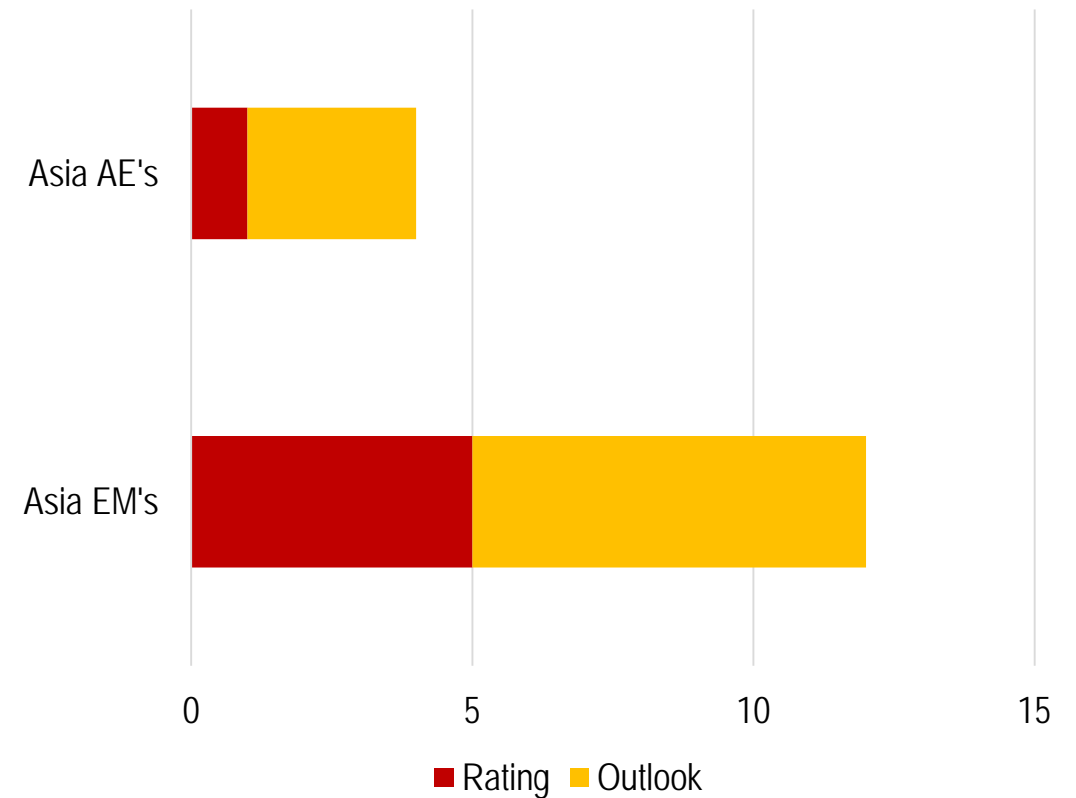


# Public debt positions have deteriorated in Asia

**Asia: Public Debt**  
(Percent of GDP)



**Asia: Downgrade in Sovereign Ratings or Outlook**  
(Number of countries)



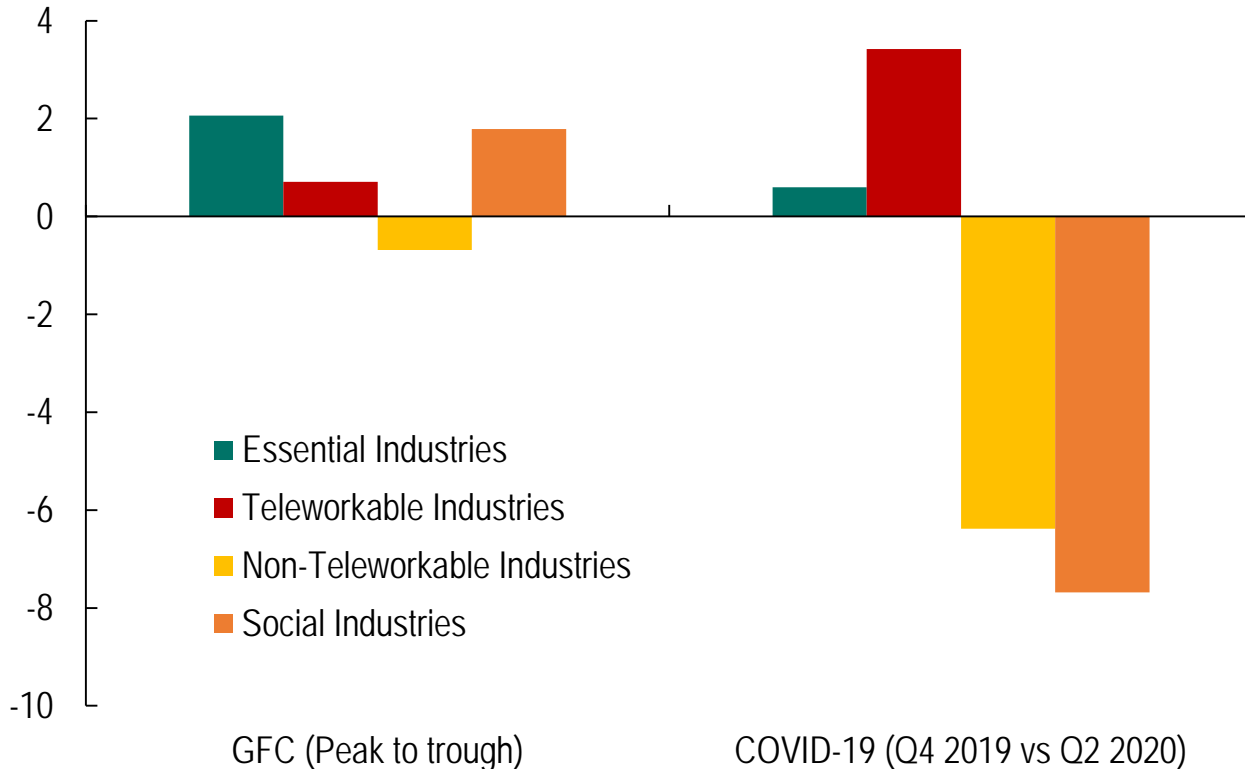
Sources: World Economic Outlook, and IMF staff calculations.  
Note: The regional aggregates are calculated as median for a given year.

Sources: S&P, Moody's, and Fitch.  
Note: Data as of September 30, 2020.



# Short term policy priorities: Supporting recovery, reducing scarring and protecting debt sustainability

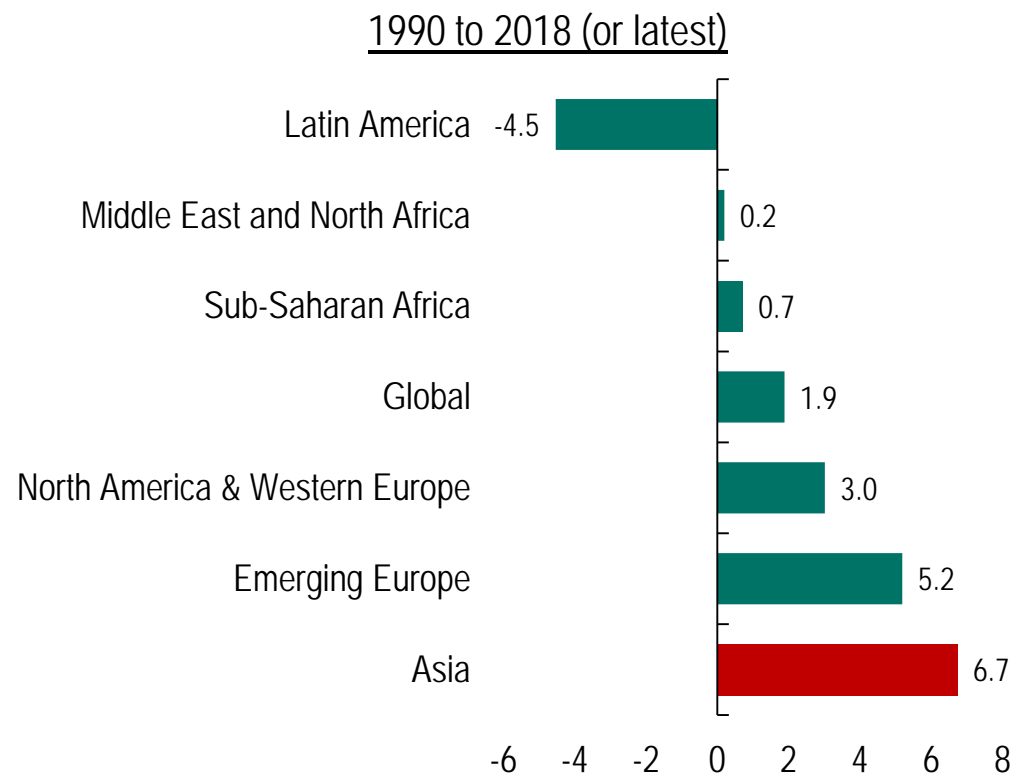
Asia: Change in Employment by Industry Classification During Crises  
(Percent)



- More direct budget support focused on:
  - (1) Health and healthcare spending
  - (2) Better-targeted social protection and assistance for vulnerable households and viable SMEs
- High debt countries should commit to credible medium-term fiscal strategy
- Seek concessional donor funds for low-income countries

# Longer term policy priorities for sustainable growth: Inequality, green investment, inclusiveness

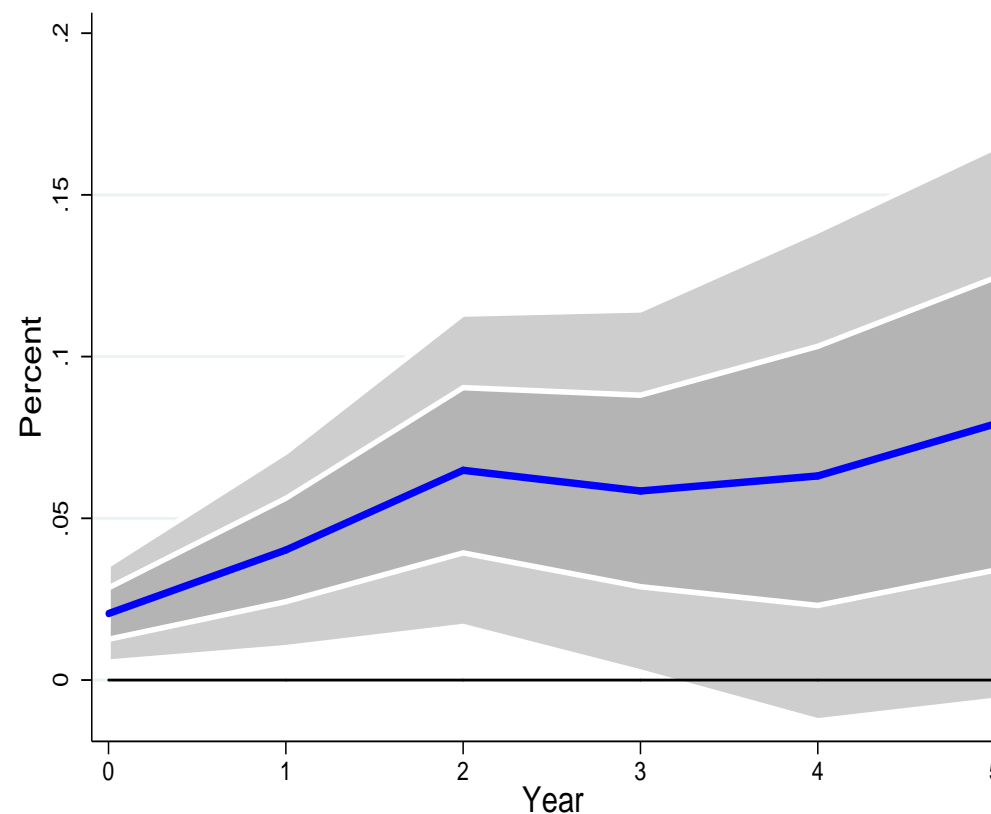
**Change in Income Inequality: Regional Comparison**  
(Net Gini index, in Gini points; average across region)



Source: SWIID v8.2, IMF staff calculations

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

**Asia: Output Response of Public Investment**  
(Percent)



Source: IMF staff calculations.

Note: Blue line denotes estimated response. Dark (light) gray are 90 (66) confidence bands. T denotes time horizon in years. T=0 denotes time of the shock.



**Thank You!**

International Monetary Fund

Asia & Pacific Department

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