



Macro-Fiscal Challenges in Asia: An Overview

Tokyo Fiscal Forum: Towards Post COVID-19 Fiscal Policy and Digitalization in Asia, December 7, 2021

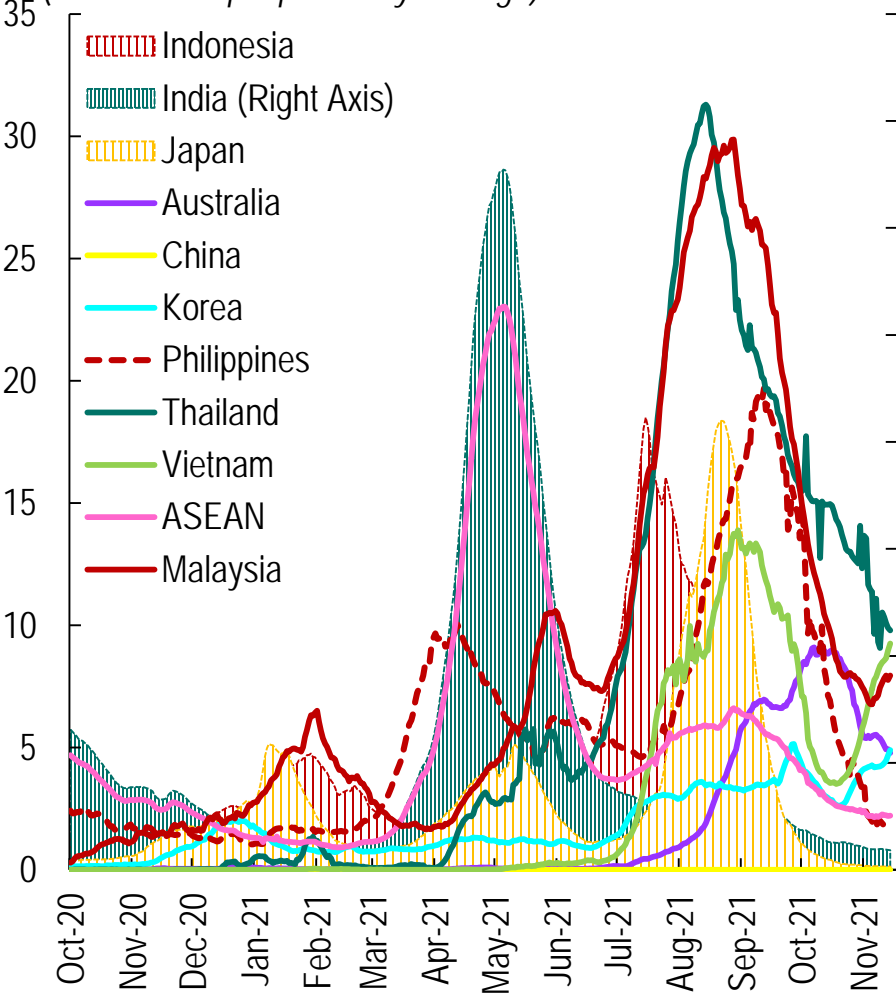
Odd Per Brekk, Asia & Pacific Department

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

Delta hit Asia amidst slow vaccination, and despite recent progress divergences in vaccination remain ...

Confirmed New Cases

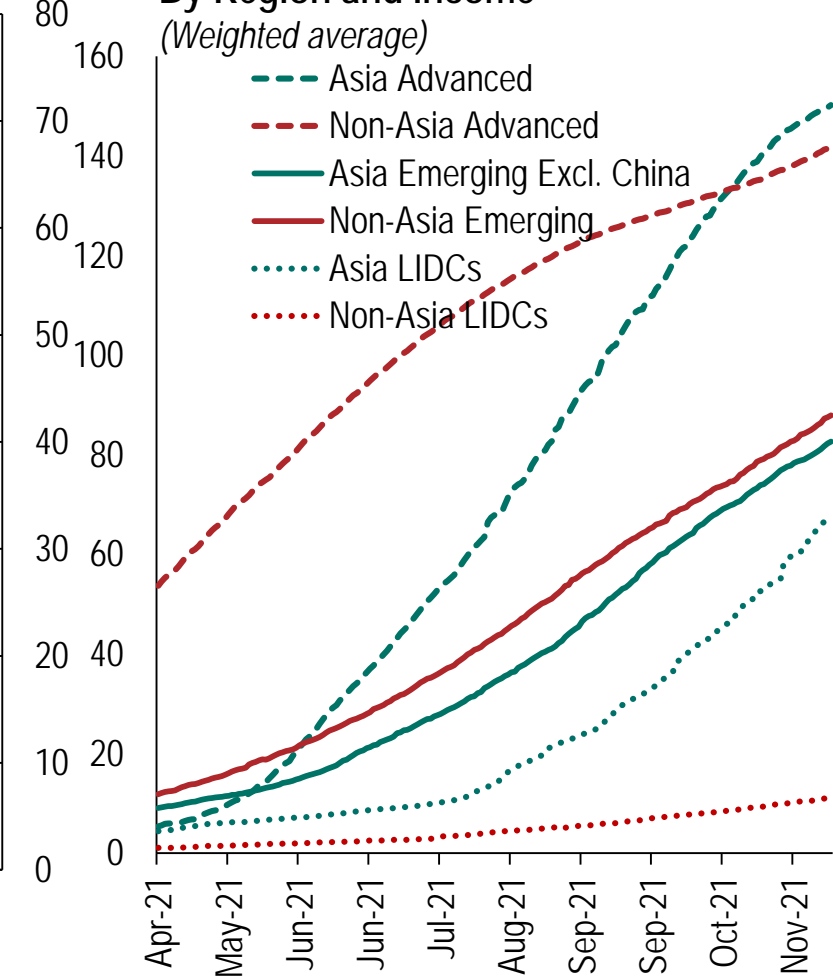
(Per 100 000 people. 7 day average)



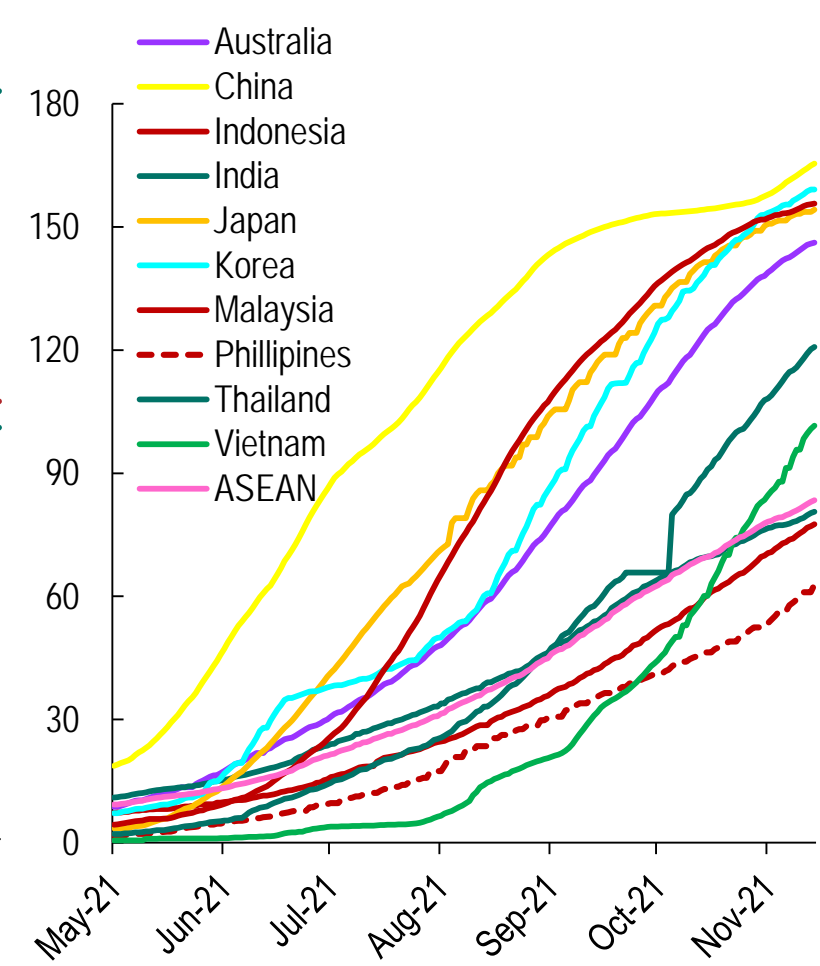
COVID-19 vaccine doses administered per 100 people:

By Region and Income

(Weighted average)



Asian Countries



Sources: Johns Hopkins University, and IMF staff calculations.

Note: Data as of Nov 18th, 2021. ASEAN aggregate is calculated using weighted average by population.

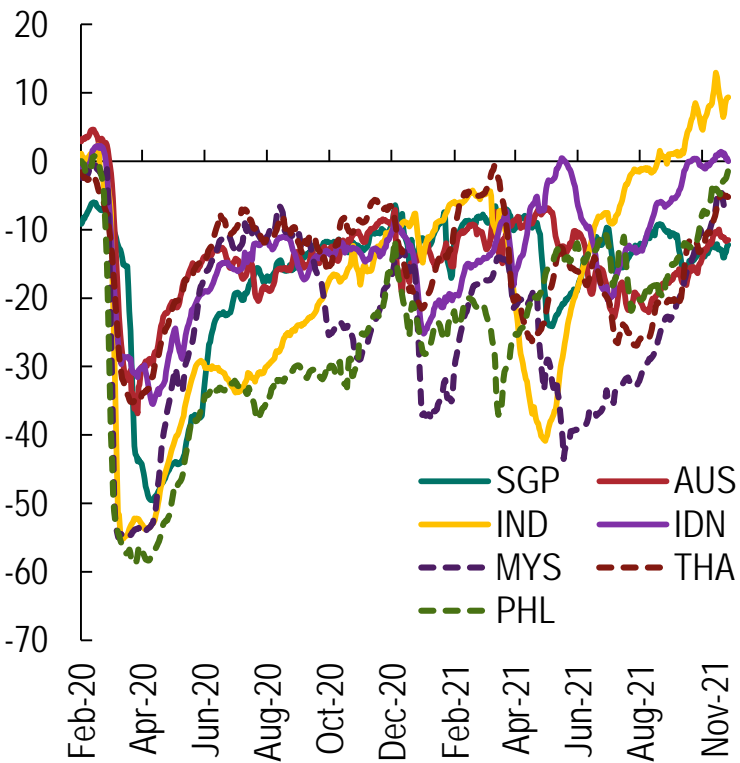
Sources: Our World in Data.

Note: Data as of Nov 18th, 2021. For vaccines that require multiple doses, each individual dose is counted. As the same person may receive more than one dose, the number of doses per 100 people can be higher than 100. ASEAN aggregate in RHS is calculated using weighted average by population.

... contributing to a multispeed regional recovery

Mobility

(Percent from baseline - median value during Jan 3 - Feb 6, 2020, 7 day MA)

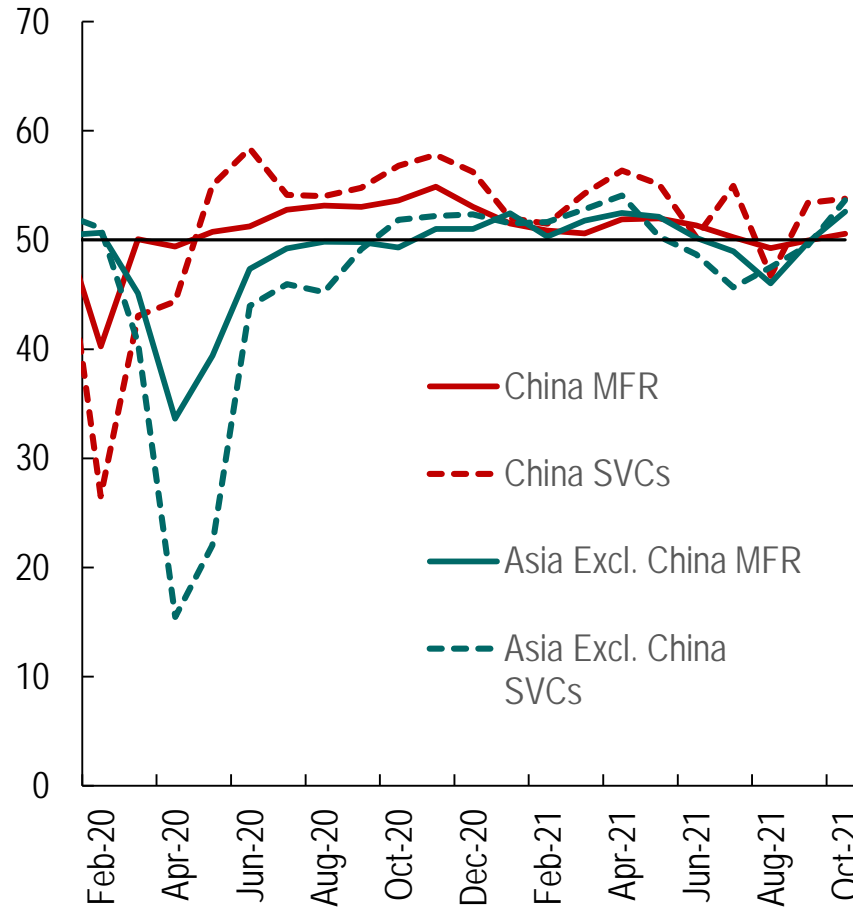


Source: Google COVID-19 Community Mobility Report and IMF staff calculations.

Note: The figure displays the 7 day moving-average of the overall mobility index. Overall mobility index is computed as the average of the percentage changes from pre-pandemic baseline day in retail, grocery and pharmacy, parks, transit, workplaces and inverse of residential.

Manufacturing and Services PMI

(index, 50+ = expansion)

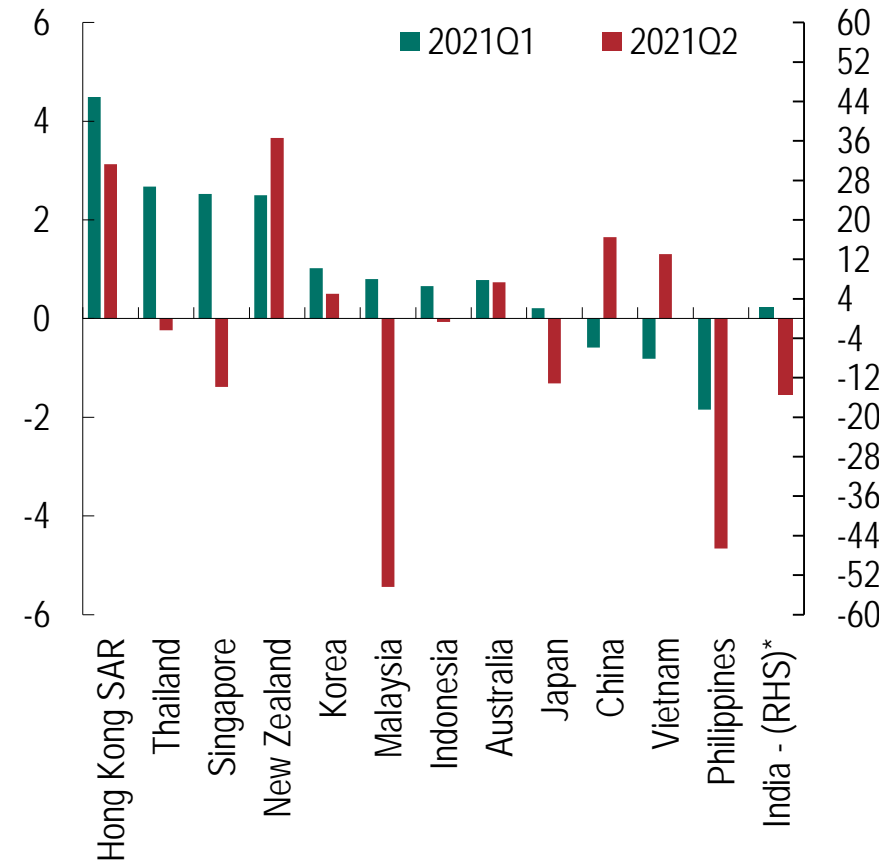


Source: Haver Analytics and IMF staff calculations.

Note: Asia excluding China includes Australia, India, Indonesia, Malaysia, Myanmar, Philippines, Thailand, Vietnam, Japan, Korea and New Zealand for manufacturing and Australia, India and Japan for services.

GDP Growth Surprises

(percentage points)



Source: World Economic Outlook and IMF staff calculations.

Note: *India RHS axis. Defined as surprise in 2021Q1/2021Q2 as the difference between the observed value and the projection in April 2021 WEO forecasts. RHS = right hand side.

Growth outlook: Selected Asia



World

Asia

Australia

New Zealand

China

Japan

Korea

India

ASEAN

PICs and Small States

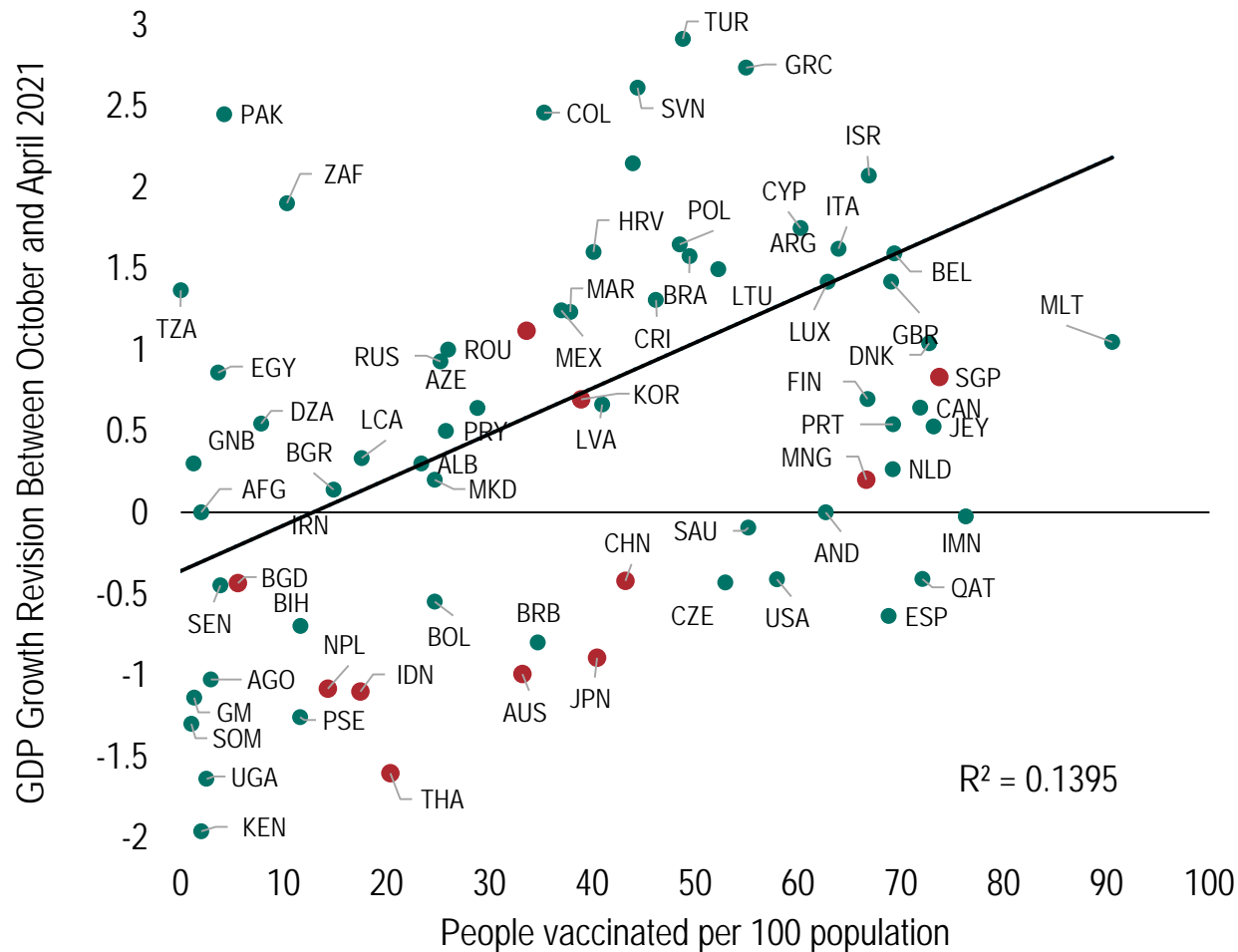
2020	-3.1	-1.3	-2.4	-2.1	2.3	-4.6	-0.9	-7.3	-3.3	-8.5
2021	5.9	6.5	3.5	5.1	8.0	2.4	4.3	9.5	2.6	2.0
Revisions from April WEO	-0.1	-1.1	-1.0	1.1	-0.4	-0.9	0.7	-3.0	-1.9	-2.5
2022	4.9	5.7	4.1	3.3	5.6	3.2	3.3	8.5	5.5	5.5
Revisions from April WEO	0.5	0.3	1.3	0.1	0.0	0.7	0.5	1.6	-0.3	-0.8

Source: IMF World Economic Outlook.

The largest growth downgrades amid low vaccination; medium-term scarring notable in Asian EMDEs

GDP Growth Revisions and Vaccination

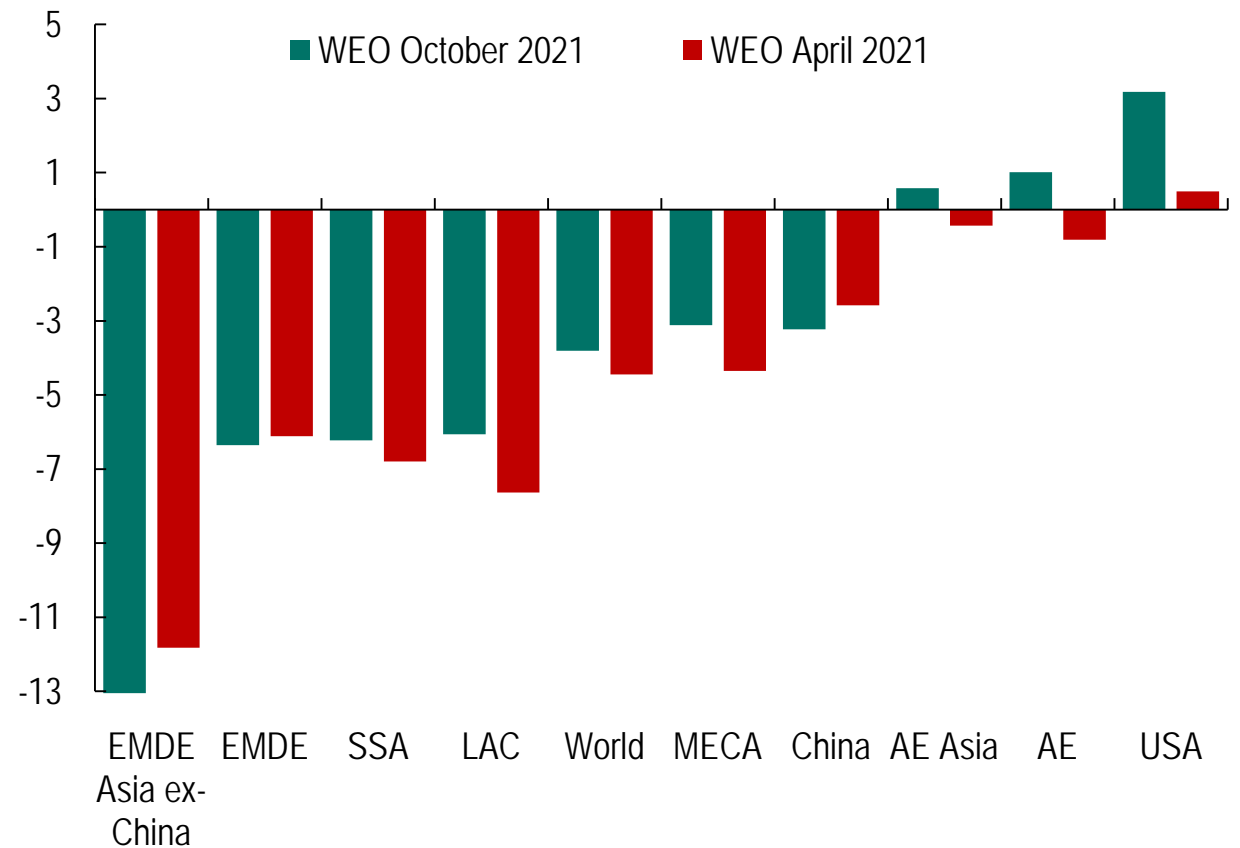
(vertical axis in percentage points)



Sources: Our World in Data, World Economic Outlook and IMF staff calculations.

Medium Term GDP Loss: Difference in Cumulative Growth Rates (2020-25)

(Current projection relative to pre-COVID-19 forecast, in percentage points. Weighted average)



Source: World Economic Outlook and IMF staff calculations.

Note: Current projections are based on October 2021 WEO and April 2021 WEO database.

Pre-COVID-19 forecast is based on January 2020 WEO database.

Risks and economic policy challenges

Risks are tilted to the downside ...

- ❖ Uncertain pandemic dynamics, vaccine efficacy against virus variants.
- ❖ Spillovers from a faster-than-anticipated normalization of AE monetary policy.
- ❖ Financial vulnerabilities, including corporate sector leverage and in the real estate sector.
- ❖ Concerns about inflation persistence and export resilience due to higher commodity prices and supply chain disruptions.
- ❖ Geopolitical risks.

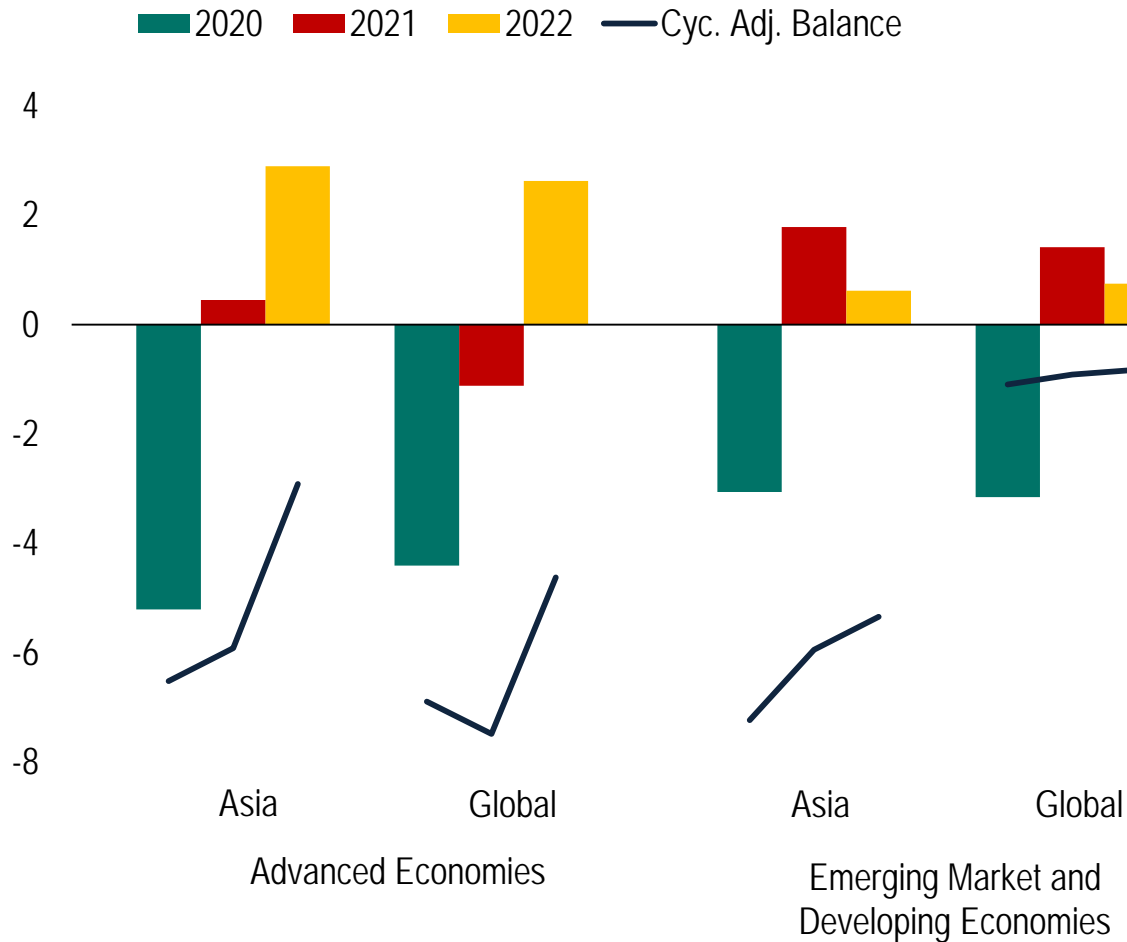
... pointing to important economic policy challenges

- ❖ Ending the pandemic by speeding up vaccine rollout and global cooperation.
- ❖ Navigating the monetary and fiscal policy exit amidst high macroeconomic uncertainty.
- ❖ Mitigating scarring, including through structural reforms, trade liberalization, and digitalization.
- ❖ Tackling adverse debt dynamics and facilitating balance sheet repair.
- ❖ Addressing inequality and loss of human capital.
- ❖ Mitigating and adapting to climate change.

Continue fiscal support and protect priority spending, while maintaining a focus on the medium term

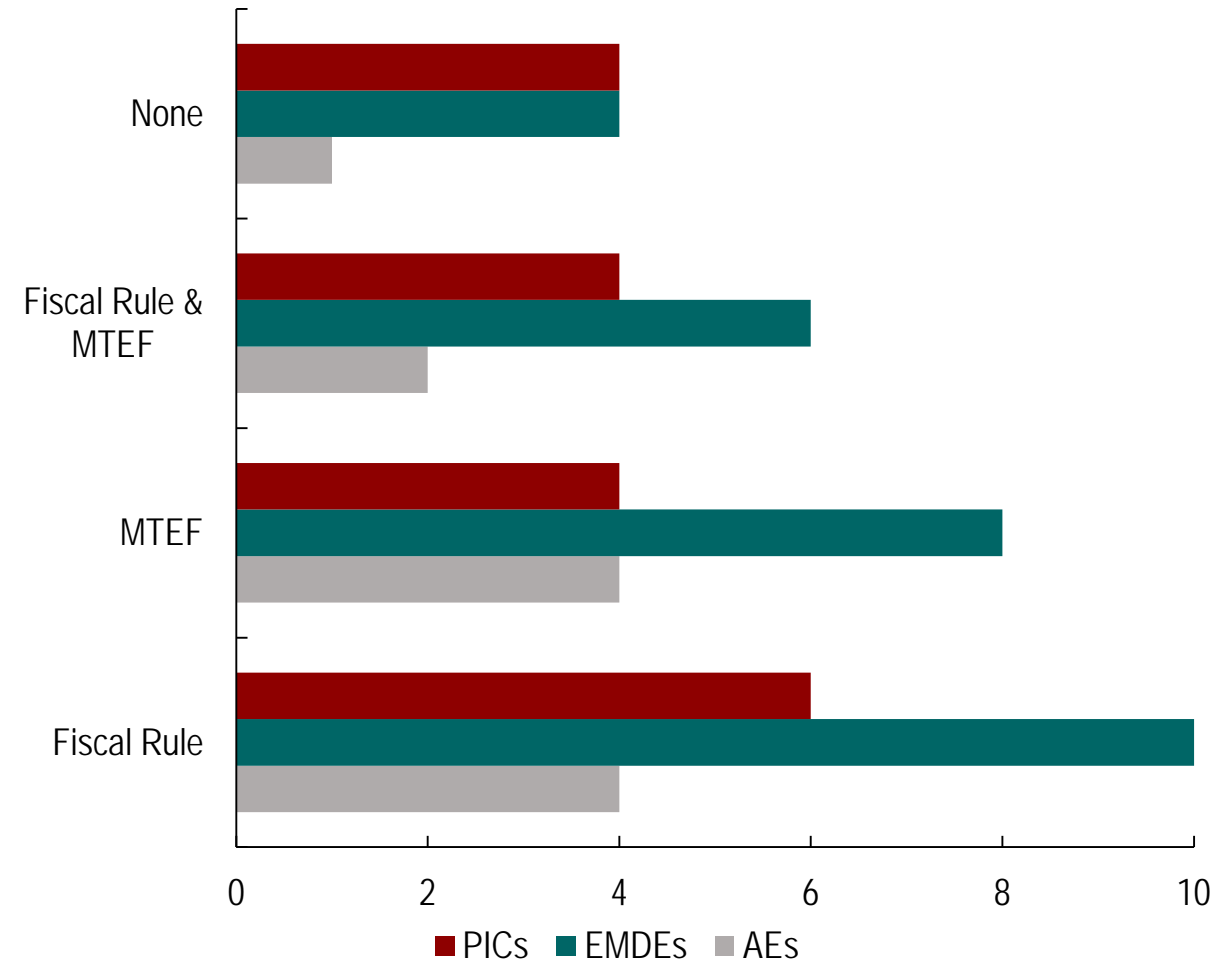
Fiscal Stance, 2020-22

(Change in structural primary fiscal balance, percent of potential GDP;
Cyclically adjusted balance, percent of potential GDP (black line))



Medium-term fiscal frameworks in Asia and the Pacific

(Number of countries)



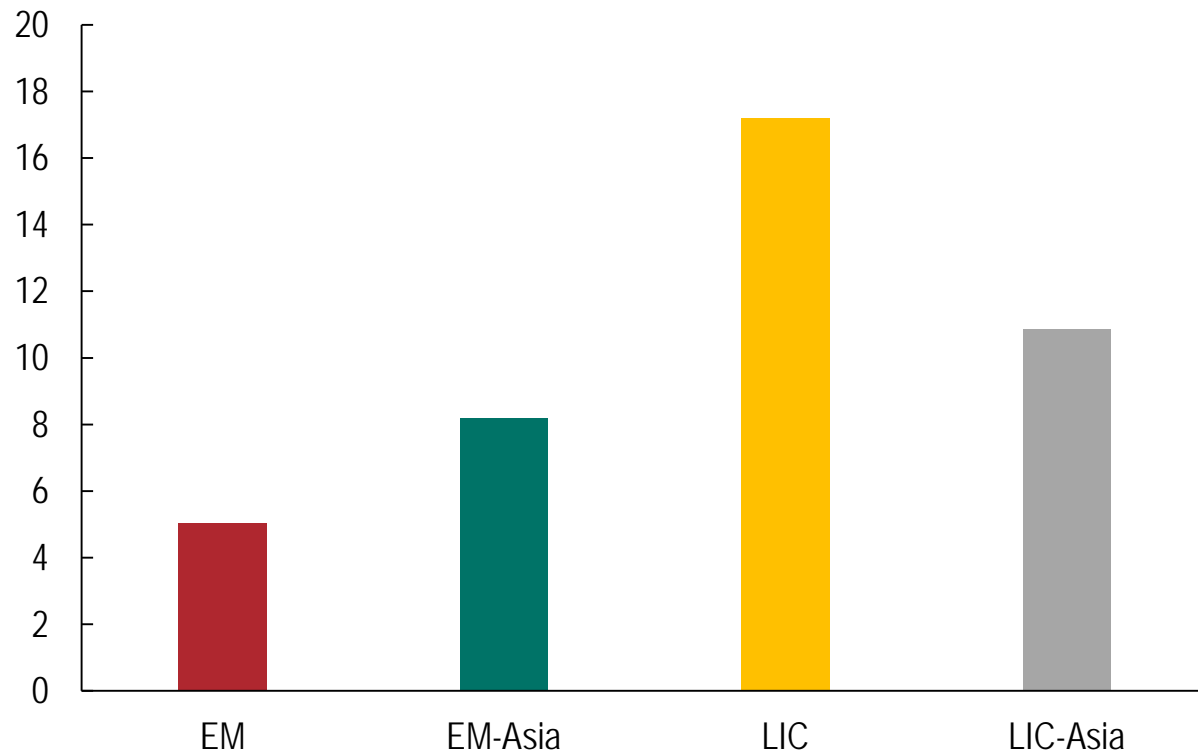
Source: IMF staff calculations.

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

Large spending needs to meet SDGs and significant scope to enhance revenue mobilization

Estimates of Additional Spending Needs for SDGs in 2030

(In percent of GDP)

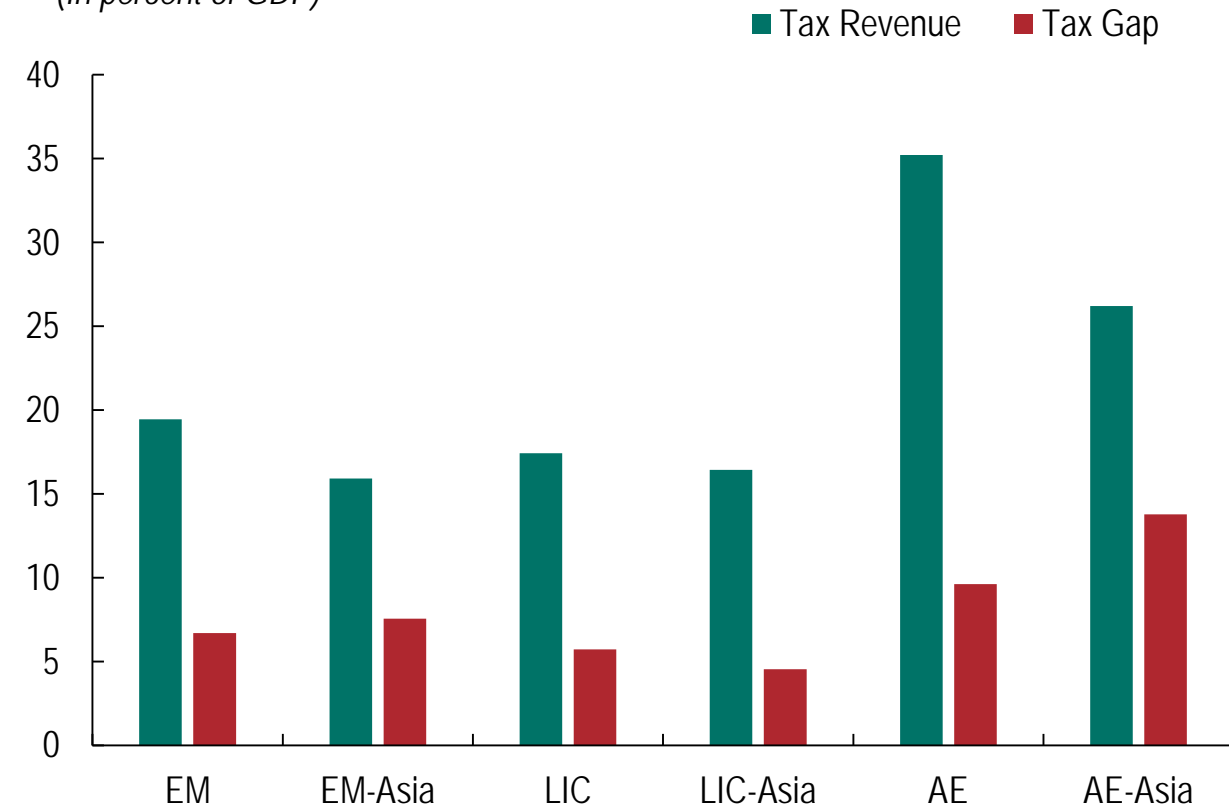


Source: IMF staff calculations based on the methodology outlined in Gaspar et al. (2019) "Fiscal Policy Development: Human, Social, and Physical Investment for the SDGs", IMF Staff Discussion Note.

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. Emerging Market Economies (EM-62); Emerging Asia (EM-Asia, 8); Low Income Developing Economies (LIC-49); and Low-Income Developing Economies Asia (LIC-Asia- 8).

Tax Revenue and Tax Capacity Gap

(In percent of GDP)

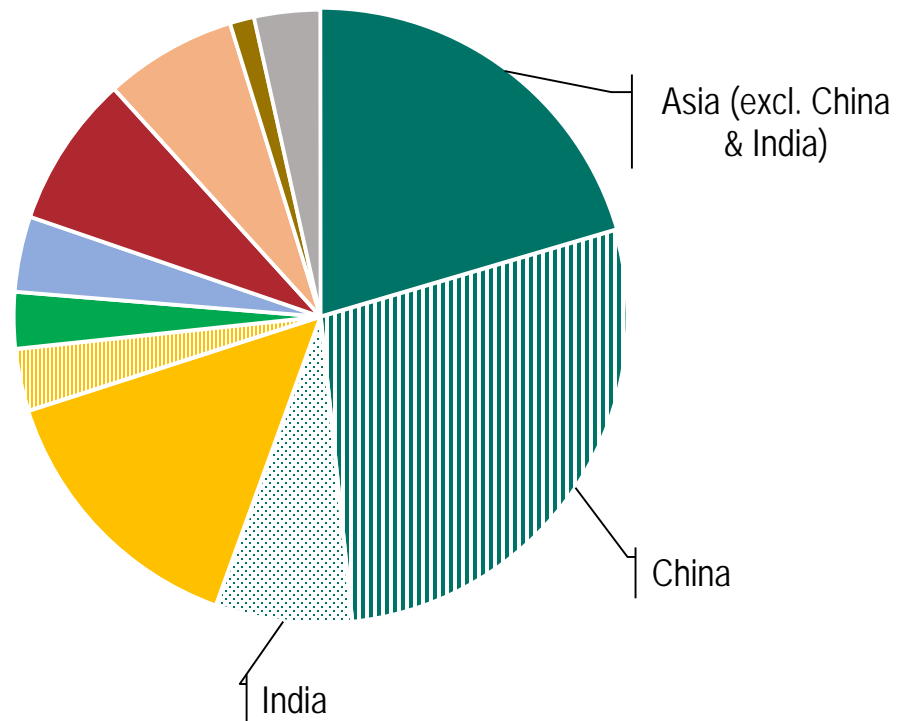


Sources: IMF staff calculations based on Fenochietto and Pessino (2013).

Notes: 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 has an important role to play in curbing emissions

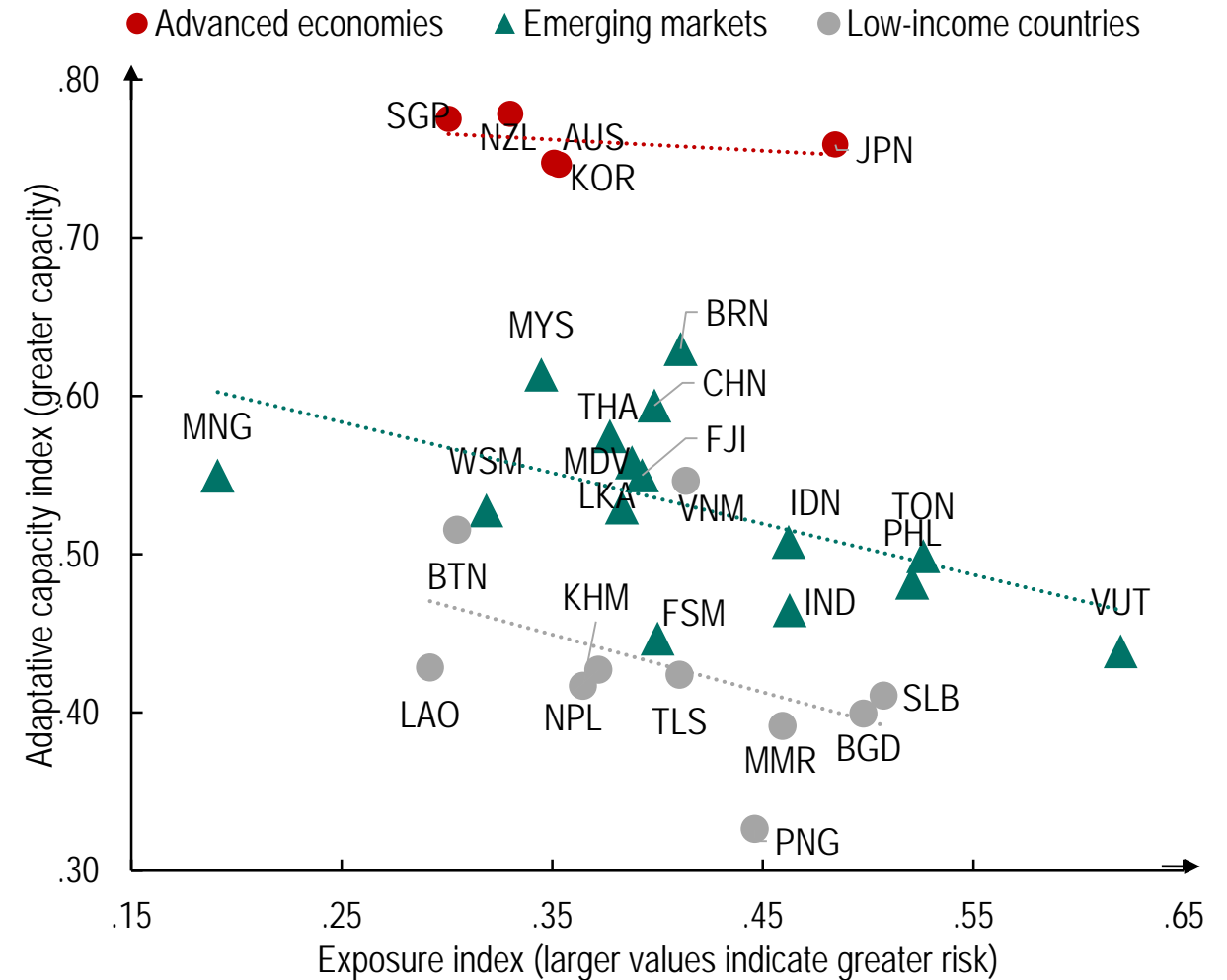
Annual CO2 emissions by region in 2019



- Asia (excl. China & India)
- China
- India
- United States
- North America (excl. USA)
- South America
- Africa
- EU-27
- Europe (excl. EU-27)
- Oceania
- International transport

Source: Our World in Data.

Asia: Adaptive capacity and physical exposure



Source: IMF staff calculations based on 2015-18 data from the EU commission, the United Nations University Institute for Environment and Human Security, the University of Notre Dame, and the WEO.

Digitalization offers opportunities but also entails risks

- ❖ Digitalization extends well beyond the large ICT sector, with high levels of e-commerce and automated digital services.

- *Rapid growth of Asia's homegrown tech giants plus US MNEs.*

- ❖ The pandemic has accentuated the effects of digitization.

- ❖ Potential to become an engine of growth.

Harness Opportunities

- ❖ Boost productivity growth across sectors.

- ❖ Improve government operations and public service delivery.

- ❖ Boost revenue mobilization:

- *Enhance CIT and VAT collection on digital services.*

- *Lower cost, enhance compliance and transparency.*

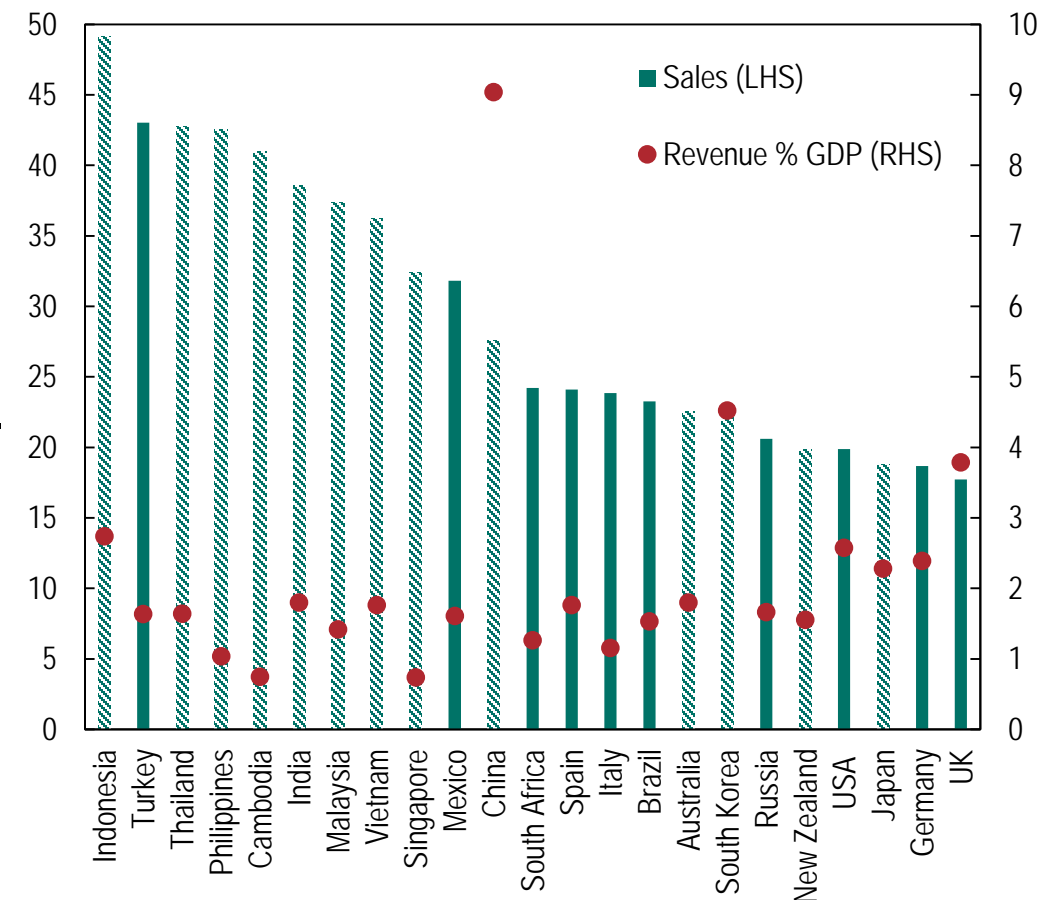
Manage Risks

- ❖ Structural unemployment.

- ❖ Privacy issues.

E-Commerce Sales and Revenue - 2020

(Annual percentage change - LHS; in percent of GDP - RHS)



Source: Statista Digital Market Outlook; Dabla-Norris et al. and IMF staff calculations.

Notes: Pattern dashed lines depict Asian countries.



Thank you !

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