



***Fiscal risks and
resilient fiscal
frameworks in Asia***

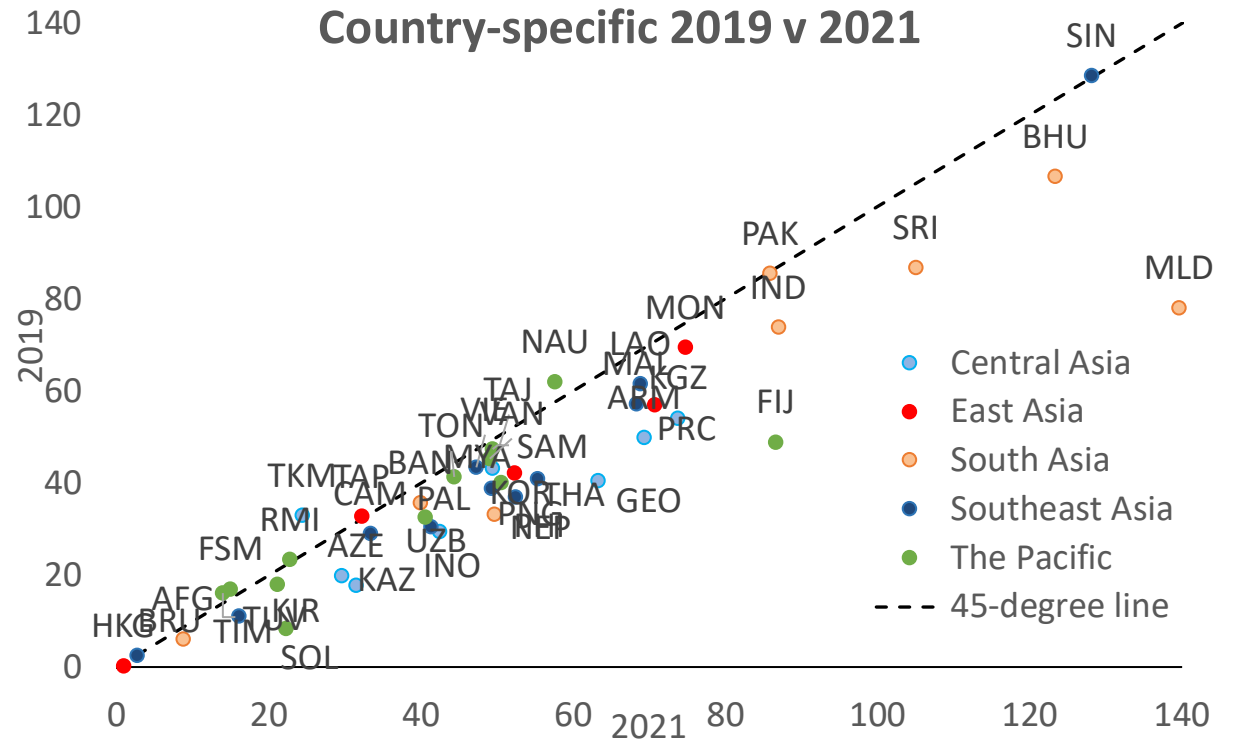
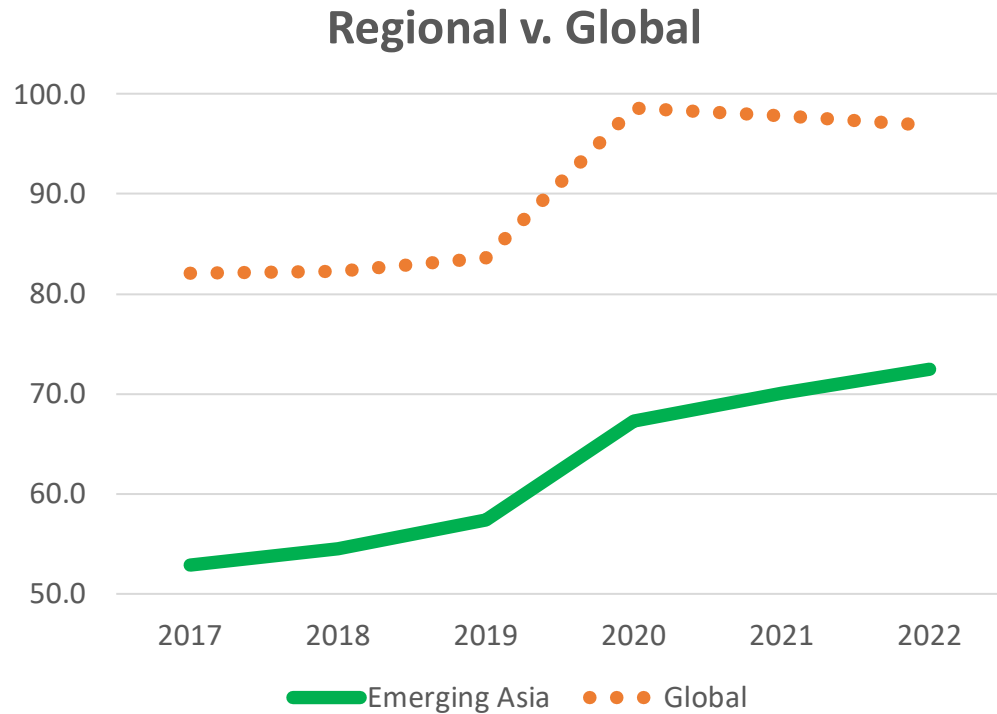
Draft slides

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Rising post-pandemic government debt in Asia

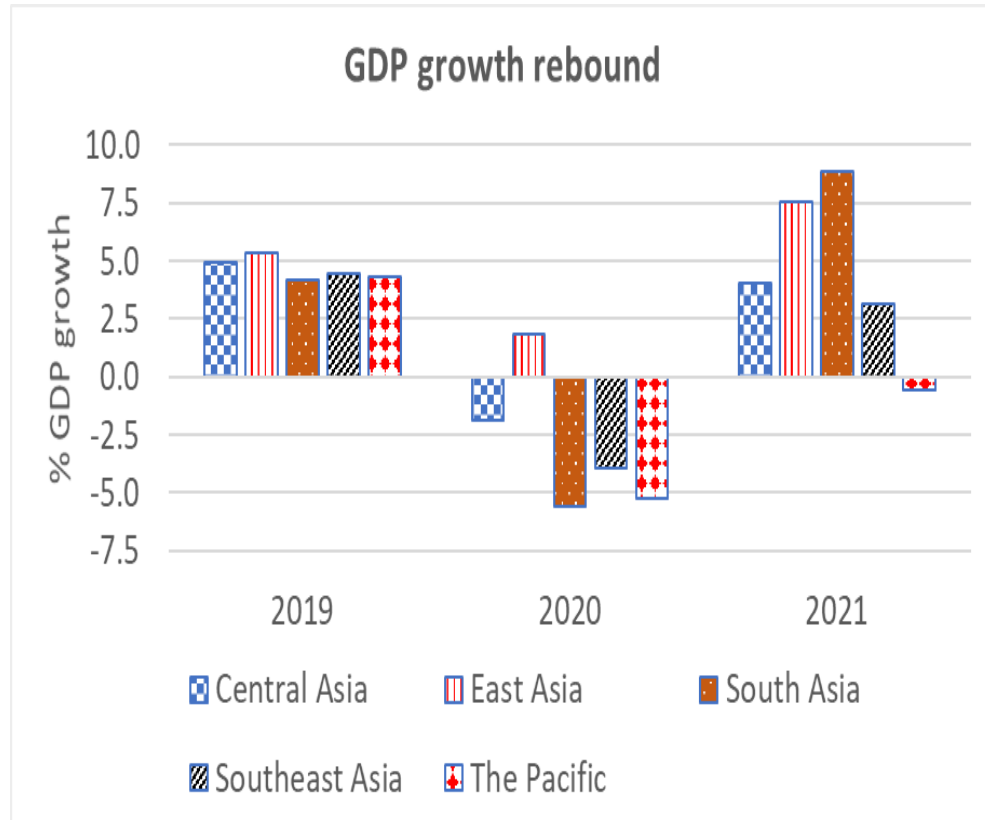


Source: IMF Fiscal Monitor, October 2021.
 Note: Gross government debt/GDP reported; forecasted data for 2021 and 2022.

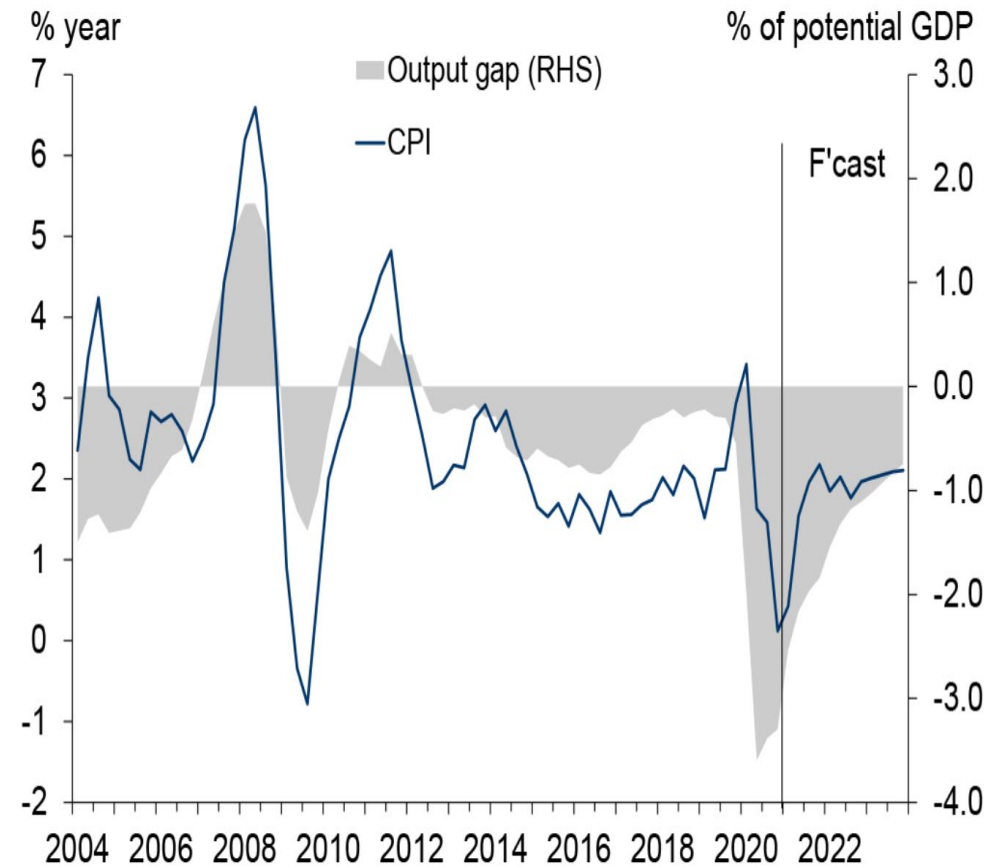
Source: Sawada, Y. and L. R. Sumulong, 2021, "Macroeconomic Impacts of the COVID-19 Pandemic in Developing Asia", in Beirne, J., P. J. Morgan, and T. Sonobe (eds.). *COVID-19 Impacts and Policy Options: An Asian Perspective*. ADBI Press: Tokyo.

- **Step change in public debt to GDP from 2019 to 2020 in emerging Asia, in line with global developments.**
 - At 67.3% in 2020, the level in emerging Asia remains substantially lower than the global average, although with a slight upward forecasted trajectory.

GDP growth and output gap in Asia

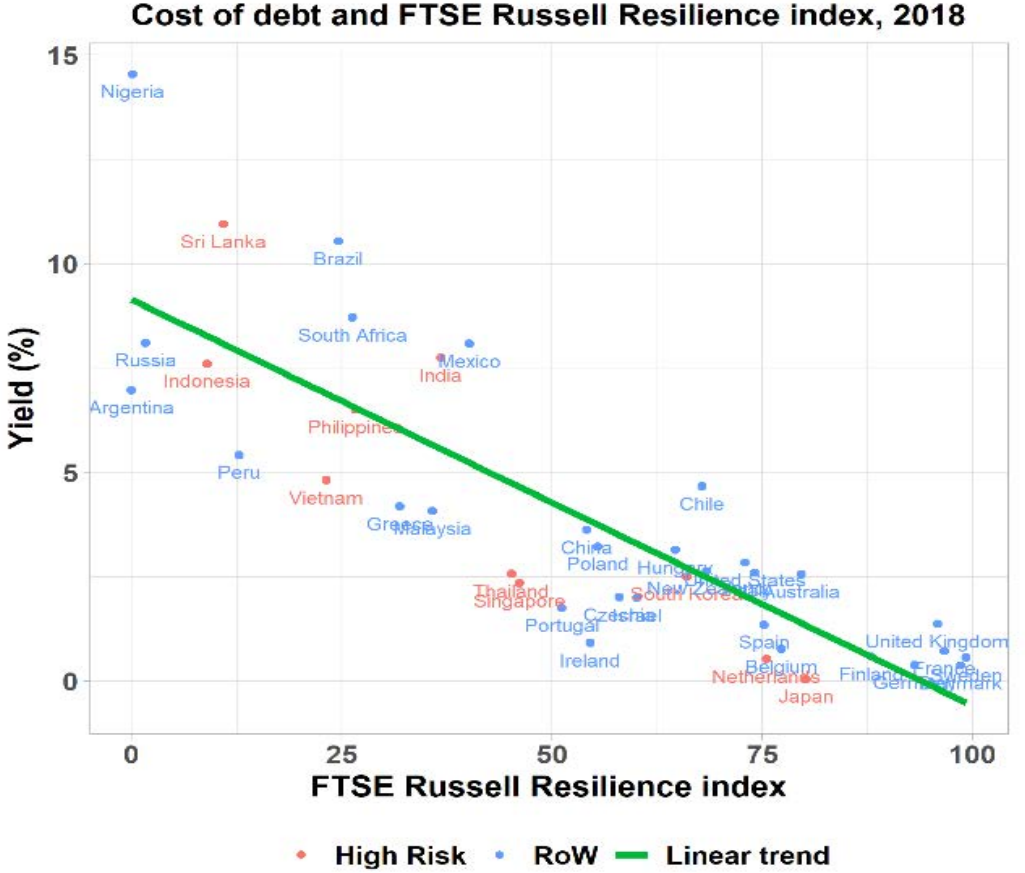
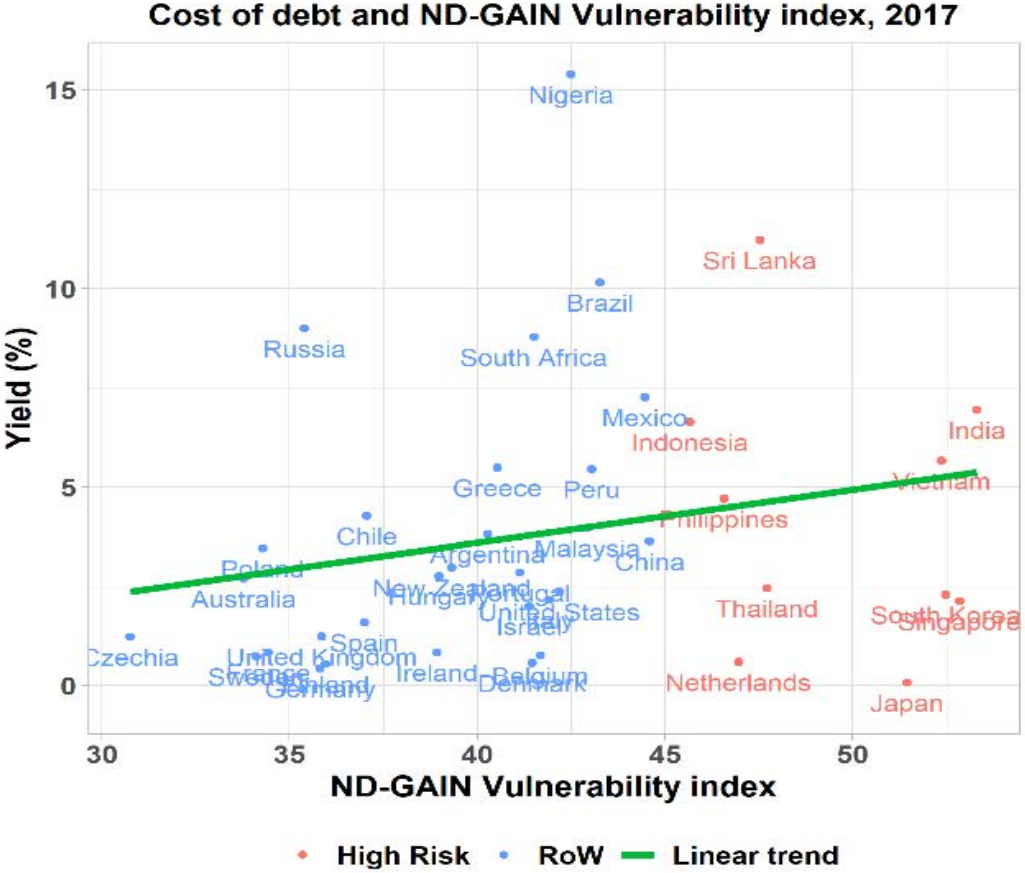


Source: ADB Asian Development Outlook Update September 2021.
 Note: Annual GDP growth rates are reported, with forecasts for 2021.



Source: Oxford Economics, Haver Analytics

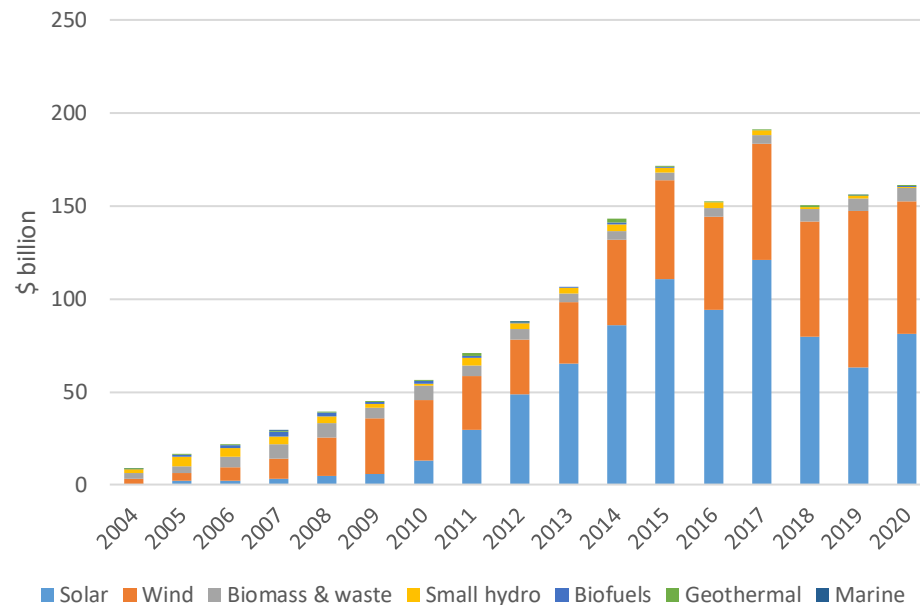
Fiscal risks exacerbated by mounting climate risks



Source: Beirne, J., Renzhi, N. and Volz, U. 2021. “Feeling the Heat: Climate Risks and the Cost of Sovereign Borrowing”, *International Review of Economics and Finance*, Vol. 76, pp. 920-936.

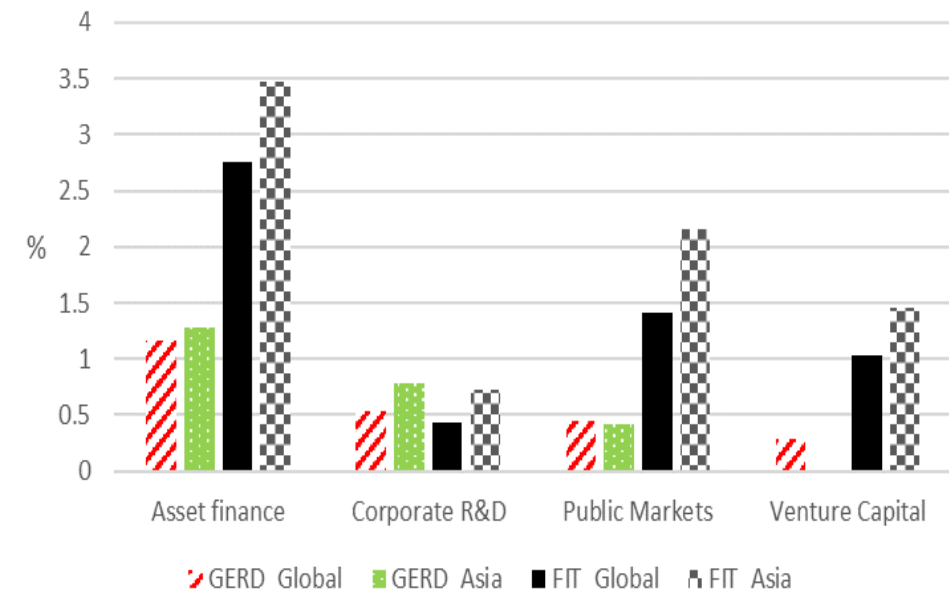
Targeted fiscal support to stimulate private investment in renewable energy

Investment in renewable energy in Asia-Pacific



Source: BloombergNEF (2020)

GERD and FIT estimated elasticities on private investment



Note: Reported are the coefficients on government expenditure on R&D (GERD) and feed-in-tariffs (FIT) from panel regressions on the drivers of private investment in renewable energy by sourcing of finance globally and in Asia.
Source: Azhgaliyeva, Beirne, and Mishra (2021)

Fiscal governance in the Asia Pacific region

Fiscal rules in Asian economies (ratio to GDP)

Member	Debt	Budget Balance	Expenditure	Revenue	Legal Basis
Armenia	60%				
Australia	√	√	2% annual cap	√	√
Georgia	60%	3%	30% of GDP*		√
Hong Kong, China		√			√
India		3%			√
Indonesia	60%	3%			√
Japan		√	√		√
Malaysia	55%	3%** Golden Rule			√
Maldives	60%	3.5%			√
Mongolia	40%	2%	√		√
Pakistan	60% (until FY2018) 50% (after FY2018)	4% (FY2020) 3.5% (after FY2020)			√
Singapore		√	√		√ (Constitution)
Sri Lanka	85% (until 2019) 60% (from 2020)	5%			√

FY = fiscal year, GDP = gross domestic product.

Notes:

* For Georgia, 30% of GDP is applied to the expenditure in nonfinancial assets.

** For Malaysia, the International Monetary Fund does not consider this 3% rule a fiscal rule because there are no formal sanctions even if the government does not follow the rule.

Sources: Lledó et al. (2017), Kim et al. (2020).

Medium-term Expenditure Framework

Country	Legal Basis	Length of Ceilings	Frequency of Ceiling Revision
Indonesia	√	4 years	Annually
Korea, Republic of	√	5 years	Annually
Malaysia		3 years	Annually
Myanmar		3 years	Annually
Philippines		6 years or more	Annually
Singapore		5 years	Every 5 years
Thailand	√	3 years	Annually
Viet Nam		3 years	Annually
Australia		4 years	More than once per year
Japan		3 years	Not revised
New Zealand		4 years	Annually

Some examples of fiscal governance in Asia

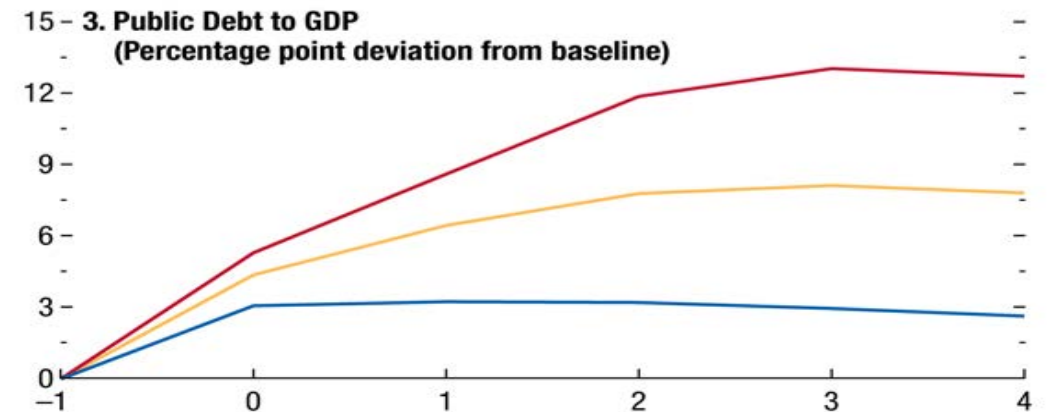
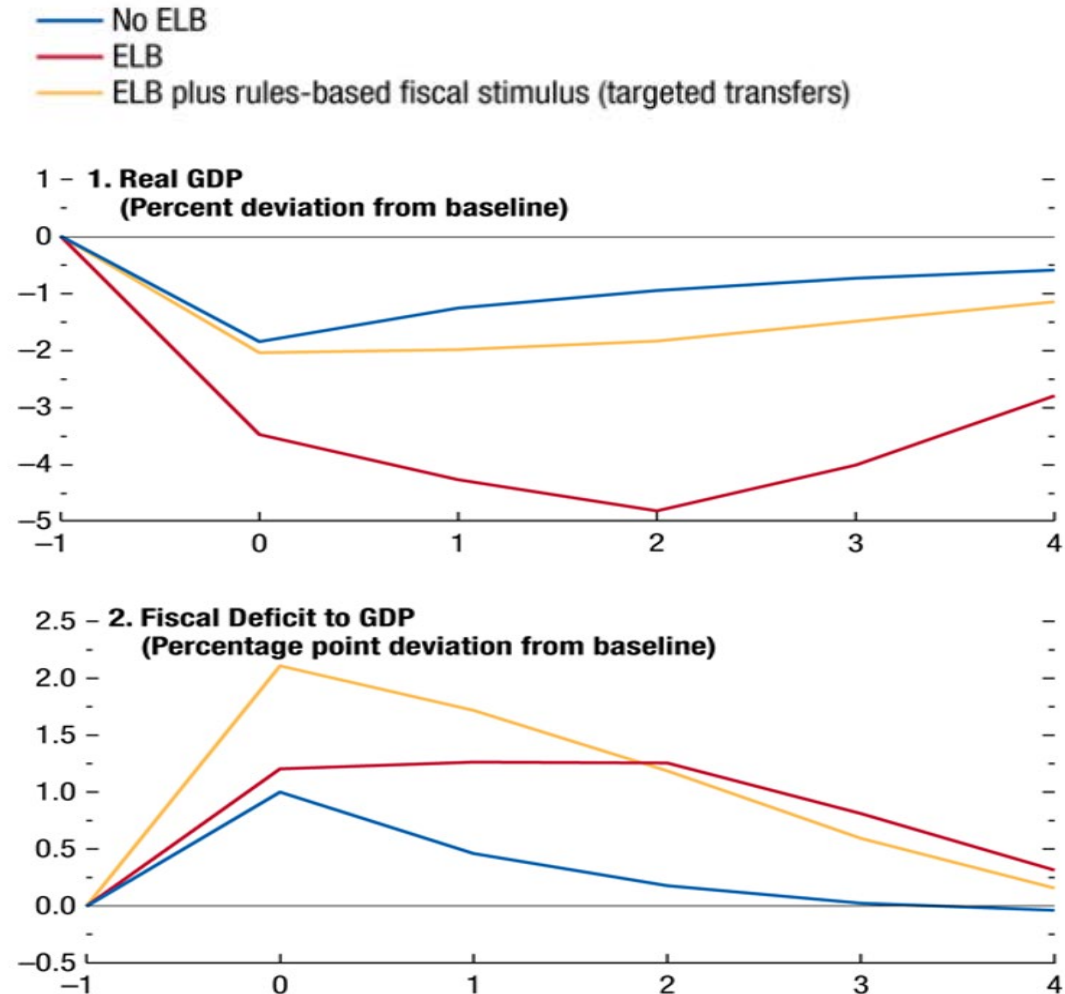
Fiscal rules

- **Thailand:** capital expenditure must account for no less than 20% of the annual budget and must not be less than the fiscal year budget deficit. Public debt should be less than 60% of gross domestic product, and foreign-denominated debt should be less than 10% of total public debt.
- **Malaysia:** limits on offshore borrowings, issuances of conventional treasury bills, and debt service charges. Some ceilings are set as absolute amounts rather than specific ratios (e.g. offshore borrowing should not exceed RM35 billion, and issuances of conventional treasury bills should not exceed RM10 billion. In addition, debt service charges should be less than 15% of revenue or operating expenditure.

MTEF and Annual Budget

- **Nepal:** MTEF, as a 3-year rolling budget, identifies factors affecting alignment between strategic plans and the annual budget.
- **Republic of Korea:** 1-day National Fiscal Strategy Meeting, chaired by the President - annual meeting of government ministers to discuss national development strategies and priorities for resource allocation. Outcome informs the 5-year National Fiscal Management Plan.

Rules-based fiscal policy and the stance of monetary policy: Responses to negative demand shocks



Key issues for post-pandemic fiscal resilience in Asia

- **Balancing short-term need for fiscal accommodation with longer term consolidation needs.**
- **US monetary policy normalization.**
 - Vulnerability of external debt profiles and capital flow dynamics
- **Raising tax revenue and mobilizing domestic financial resources**
 - Strengthen regional financial cooperation (e.g. Chiang Mai Initiative)
 - ADB's Asia Pacific Tax hub
- **Careful design of medium-term fiscal frameworks.**
 - Pre-COVID-19 fiscal rules may require adjustment
 - Credible macro assumptions needed in conjunction with a well-anchored fiscal path
 - Alignment of framework with annual budgets
 - Co-ordination with monetary policy: fiscal multiplier and $r-g$ dynamics
 - Fiscal institutions to underpin transparency and accountability: financial market implications
 - Debt restructuring (towards capital expenditure/sustainable infrastructure)