Outlook and Macro-Fiscal Challenges in Asia: An Overview
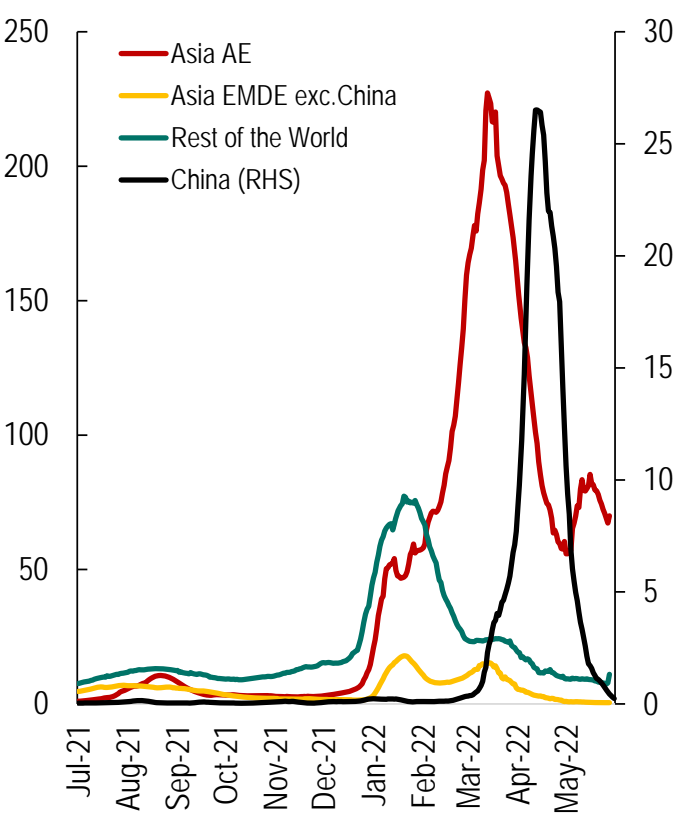
Tokyo Fiscal Forum: Fiscal Policy after the COVID-19 Crisis: Toward a Resilient, Inclusive and Digital Future in Asia, June 22-23, 2022

Sanjaya Panth, Asia & Pacific Department

Omicron wave had limited impact on mobility except in China; adding to supply/export disruptions…
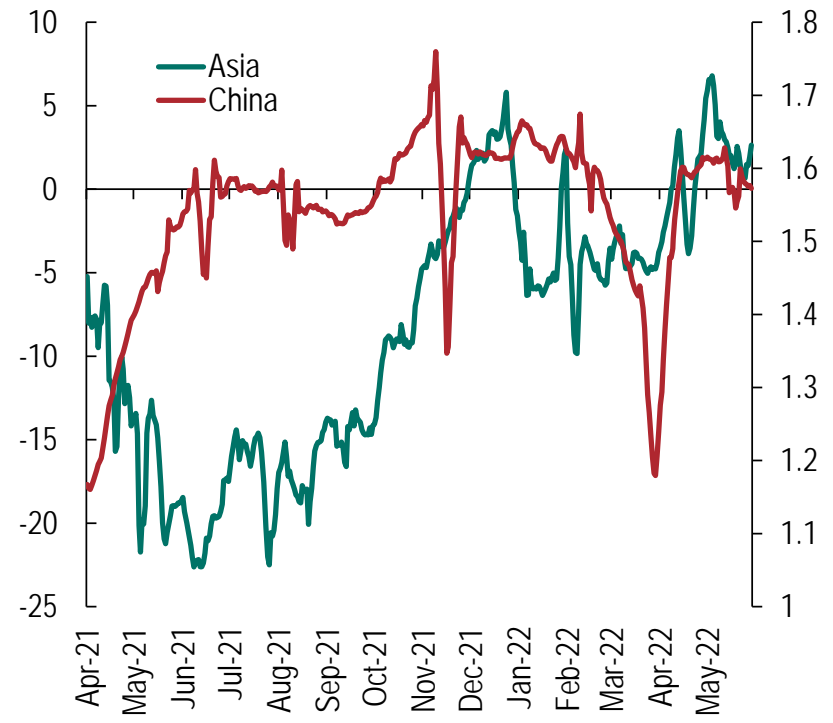
Covid-19 cases per 100,000 inhabitants
(7-day moving average)

Sources: Johns Hopkins University, CEIC, National Health Commission and IMF staff calculations.
Note: Data as of June 9, 2022.

Mobility
(LHS: Percent from baseline - median value during Jan 3 - Feb 6 2020, 7 day MA; RHS: ratio of actual trip time to trip time without traffic)

Source: Google COVID-19 Community Mobility Report, WIND daily congestion index and IMF staff calculations.
Note: The figure display the 7-day moving average of overall mobility, defined as percentage change from pre-pandemic baselines. Computed as the mean of the following categories: retail, grocery and pharmacy, parks, transit and workplaces. Median within regions.
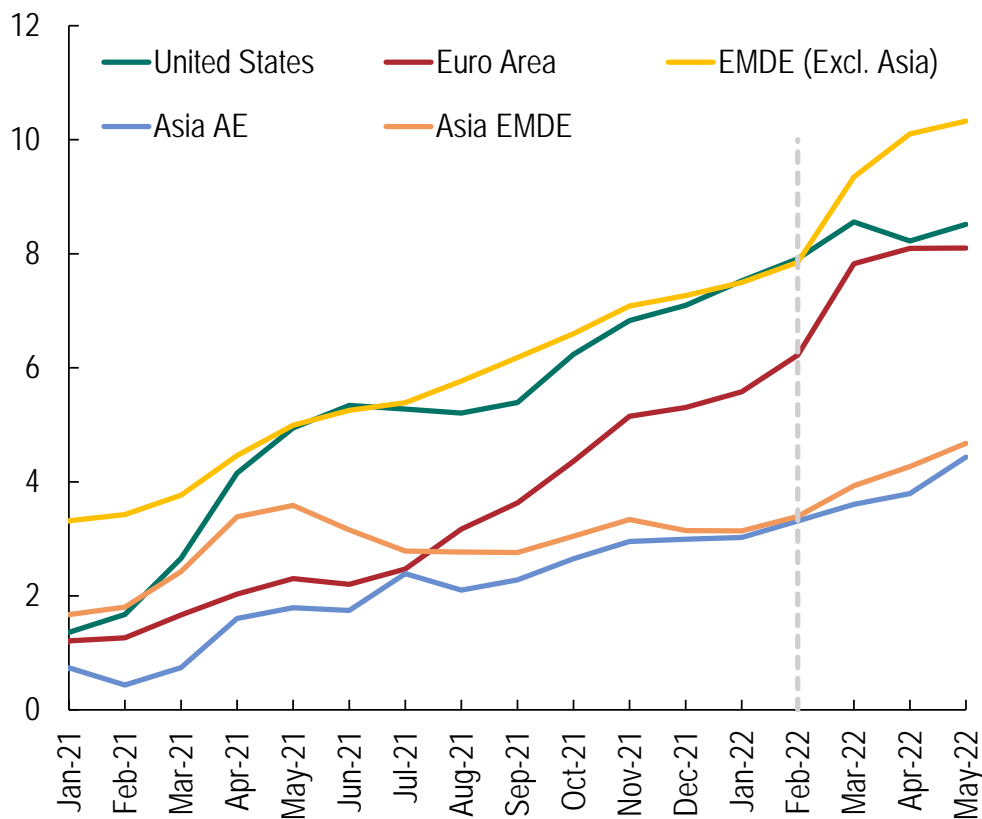
China Exports
(In percent y-o-y)

Source: Haver Analytics

Asia, like much of the world, is seeing inflation rise and tightening monetary policy albeit at a different speed....
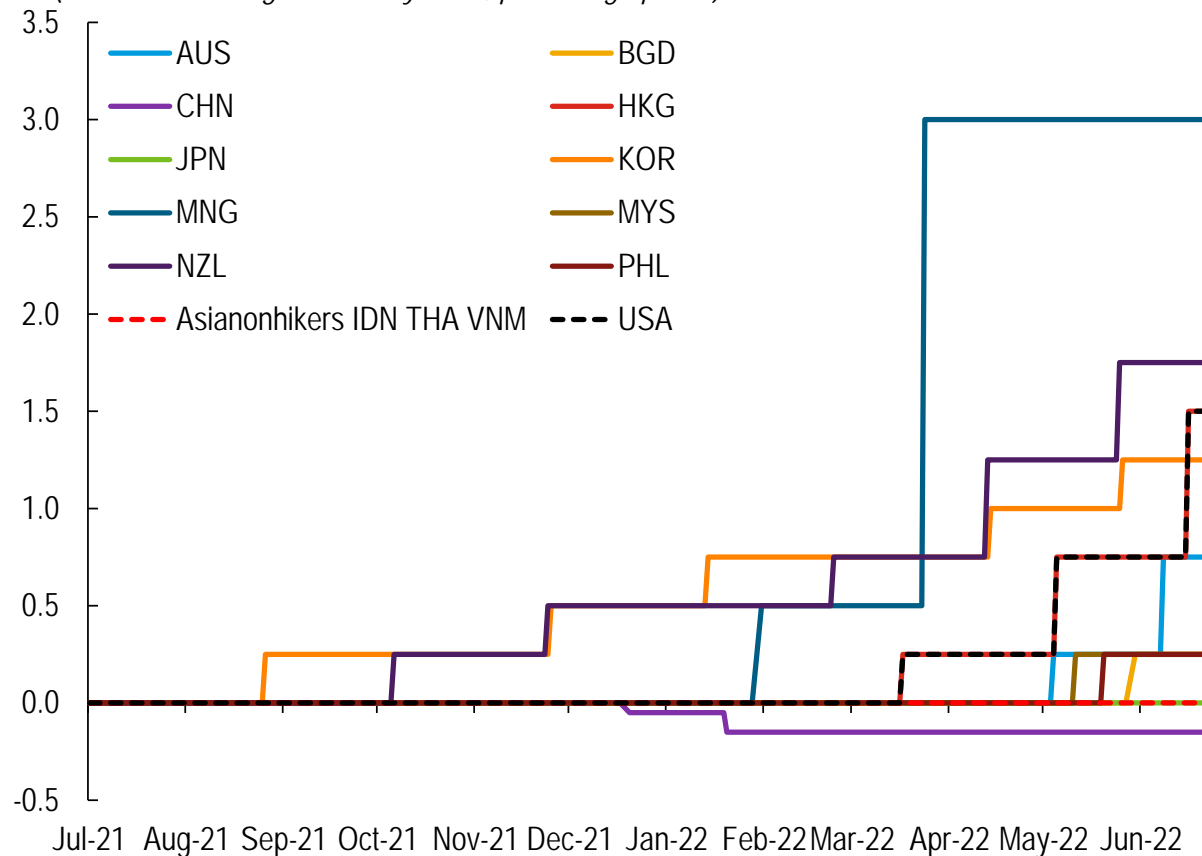
Inflation Spikes Globally
(Headline CPI Inflation; percent change Y-o-Y)

Legend: United States, Euro Area, EMDE (Excl. Asia), Asia AE, Asia EMDE

Source: Haver Analytics and IMF staff calculations.

Policy Rates
(Cumulative change since July 2021; percentage points)

Legend: AUS, CHN, JPN, MNG, NZL, Asianonhikers IDN THA VNM, BGD, HKG, KOR, MYS, PHL, USA

Source: Haver Analytics and IMF staff calculations.
Note: Data as of 21 June 2022.

GDP growth forecasts released in April 2022...
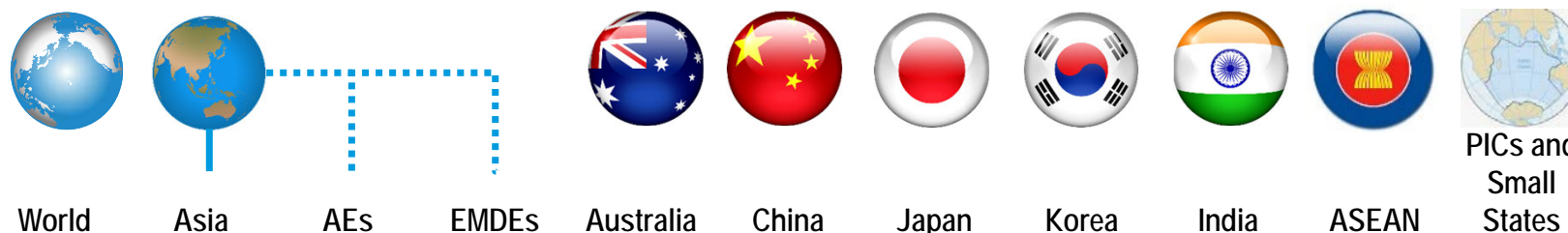
|	World	Asia	AEs	EMDEs	Australia	China	Japan	Korea	India	ASEAN	PICs and Small States
2021	6.1	6.5	3.6	7.2	4.7	8.1	1.6	4.0	8.9	3.1	4.2
2022	3.6	4.9	2.7	5.4	4.2	4.4	2.4	2.5	8.2	5.1	4.7
Revision of 2022: Jan. 2022 to Apr. 2022	-0.8	-0.5	-0.6	-0.5	0.1	-0.4	-0.9	-0.5	-0.8	-0.2	-0.8
Revision of 2022: Oct. 2021 to Jan. 2022	-0.4	-0.3	-0.1	-0.4	0.0	-0.8	0.1	-0.3	0.5	-0.2	0.0
2023	3.6	5.1	2.7	5.6	2.5	5.1	2.3	2.9	6.9	5.6	5.4

Source: IMF World Economic Outlook, April 2022.

Shaped by spike in commodity prices and weakness in external demand….

Spikes in commodity and food prices are passing through to inflation while…

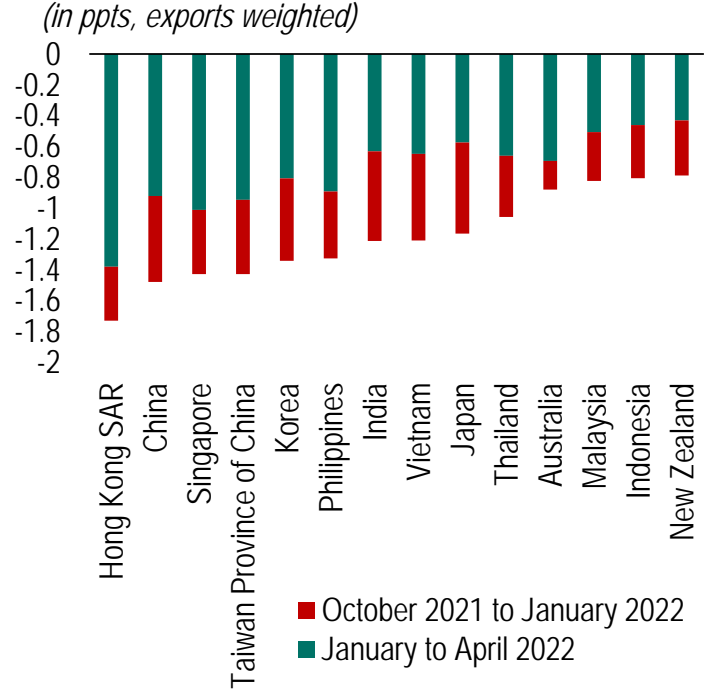Lower external demand, especially from Europe, compounded by a slowdown in China due to covid-19 lockdowns, and...

Negative terms of trade shock, weigh on growth.

Commodity prices
(Index; April 2021=100)

Legend:
- Wheat
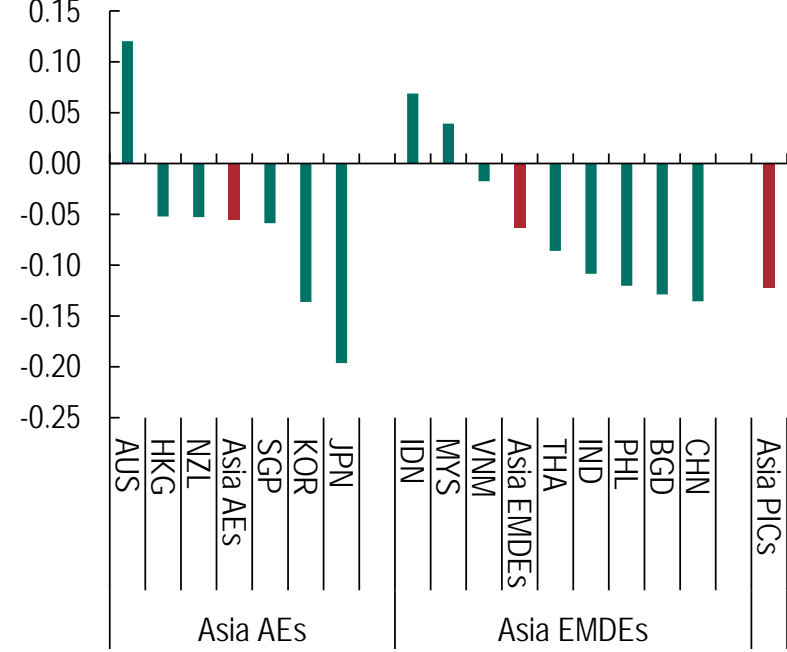- Metal
- WTI Crude
- Rice

Invasion of Ukraine
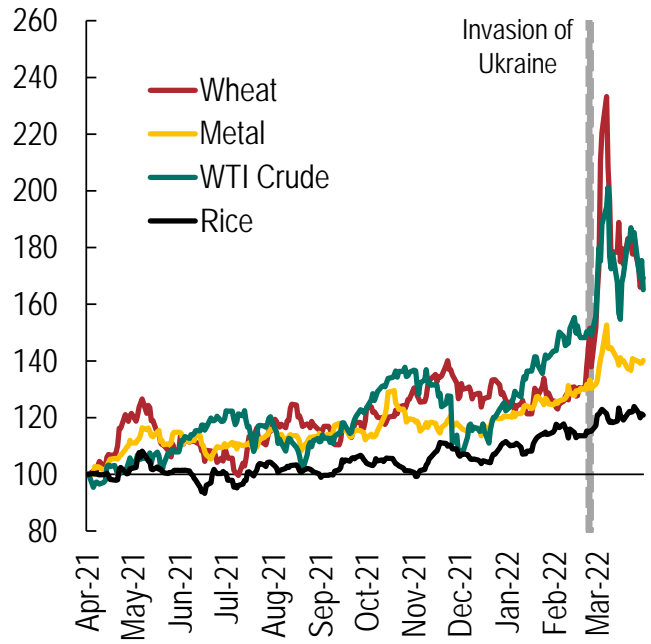
Source: Bloomberg LLP.
Note: Metals index based on Bloomberg Base Metals Spot Price Commodity Index with the following weights: Aluminum (45%), Copper (25%), Nickel (2%), Lead (12%), Zinc (15%), and Tin (1%). Data as of March 31, 2022.

Trading Partner's GDP Growth Revisions for 2022
(in ppts, exports weighted)

Countries: Hong Kong SAR, China, Singapore, Taiwan Province of China, Korea, Philippines, India, Vietnam, Japan, Thailand, Australia, Malaysia, Indonesia, New Zealand

Legend:
- October 2021 to January 2022
- January to April 2022

Source: WEO and IMF staff calculations.

Projected change in commodity ToT
(Percent change; March-May 2022 compared to Dec 2021-February 2022)

Asia AEs: AUS, HKG, NZL, Asia AEs, SGP, KOR, JPN
Asia EMDEs: IDN, MYS, VNM, Asia EMDEs, THA, IND, PHL, BGD, CHN, Asia PICs

Source: Gruss and Kebhaj (2019) and IMF staff calculations.
Note: Commodity Terms of Trade (ToT) based on international prices of 45 commodities which are weighted using commodity-level trade data for each country.

With the persistent inflation spike raising concerns of more aggressive tightening more recently...

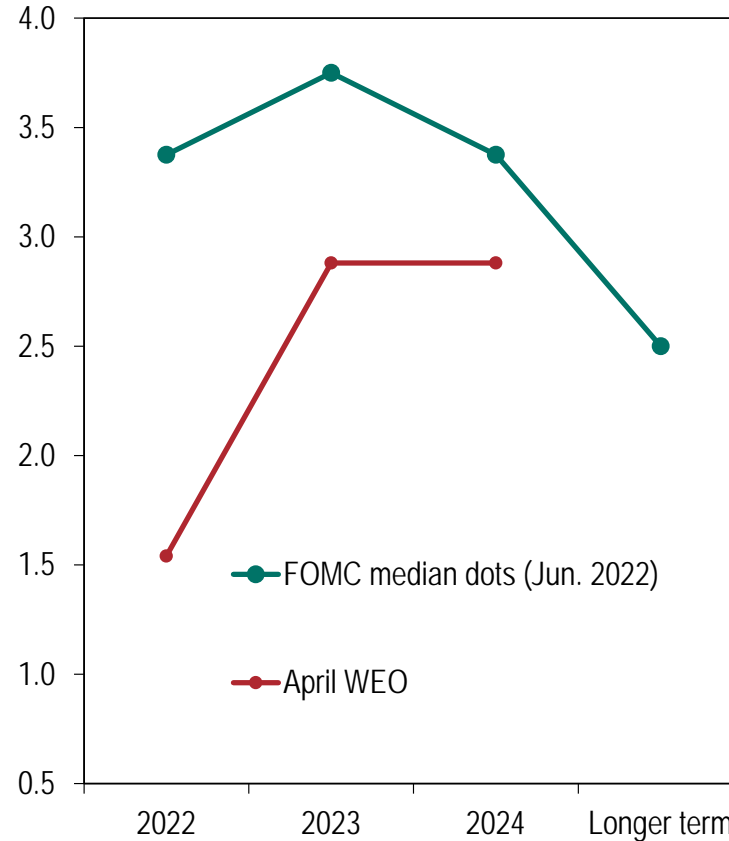## Headline inflation outturns and forecasts
(Percent; year over year)

Oct. 21 WEO · · · · · ·   Jan. 22 WEO - - - -   Apr. 22 WEO ——

US

EURO AREA
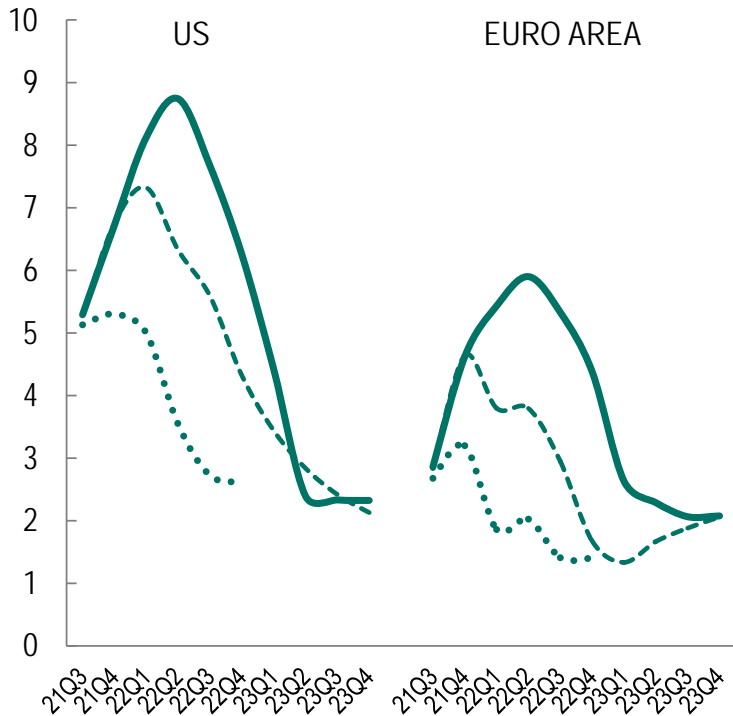
Source: "War dims global economic outlook as inflation accelerates",
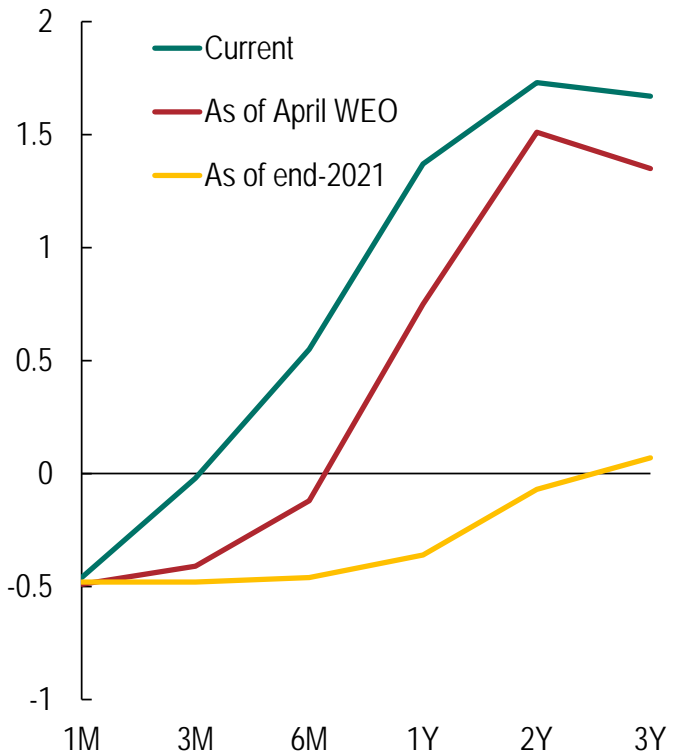by P.O. Gourinchas, April 19th 2022.

Federal Funds Rate
(Percent; year over year)

FOMC median dots (Jun. 2022)

April WEO

2022   2023   2024   Longer term

Source: Bloomberg.

Implied policy rate - Eurozone
(In percent)

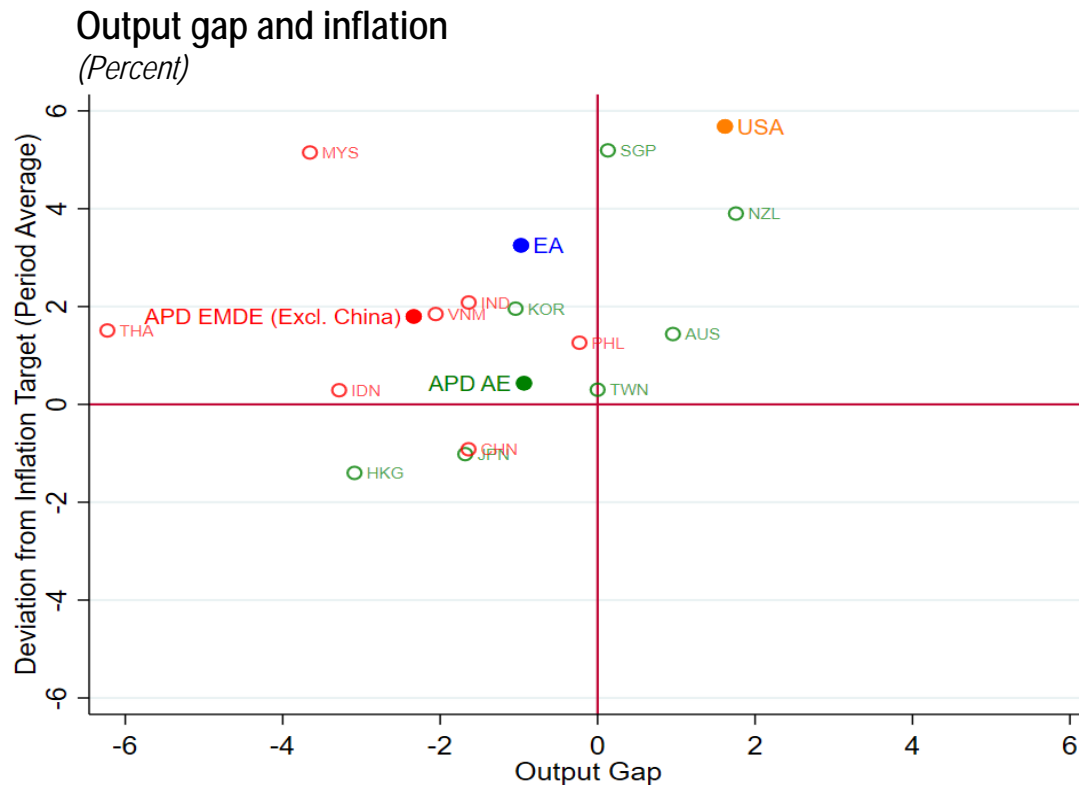Current

As of April WEO

As of end-2021

1M   3M   6M   1Y   2Y   3Y

Source: Bloomberg.
Note: Data as of June 2, 2022.

Leading to more difficult monetary policy trade-offs...

As post-covid global recovery remains incomplete, especially in EMDEs, inflation rates are rising above policy targets

While financial conditions are tightening due to tightening in monetary policy in AEs.

Output gap and inflation
(Percent)

Source: IMF World Economic Outlook Databases for April 2022 and January 2022, and IMF staff calculations.
Note: For inflation targeting countries, deviation from target or midpoint of the inflation target range is used. For countries without an inflation target (Hong Kong SAR, Malaysia, Taiwan Province of China and Singapore) an implicit target is calculated using the long-term average inflation between 2010-19.

10-year yields and their long-term average
(Percent)
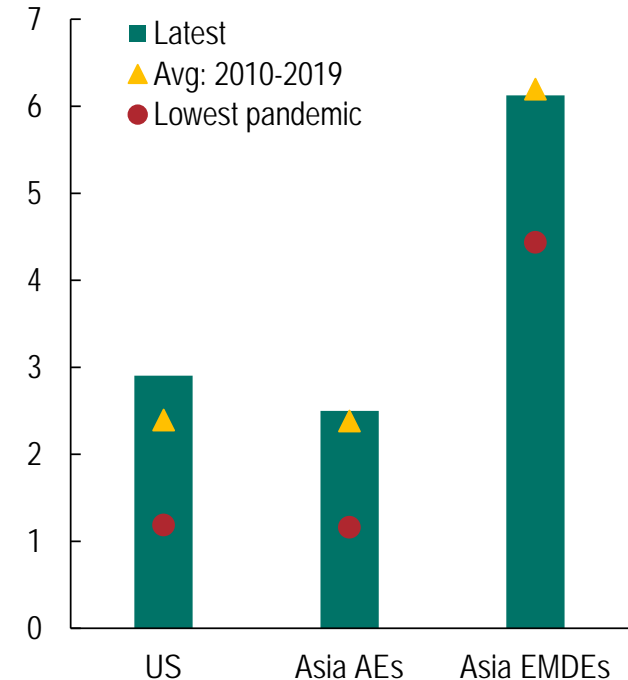
Source: Bloomberg LLP and IMF staff calculations.
Note: Simple average of 10-year yields. Asia EMDEs includes China, India, Indonesia, Malaysia, Philippines, Sri Lanka, Thailand and Vietnam. Asia AEs includes Australia, Hong Kong SAR, Japan, Korea, New Zealand, Singapore, and Taiwan Province of China. Data as of April 22, 2022.
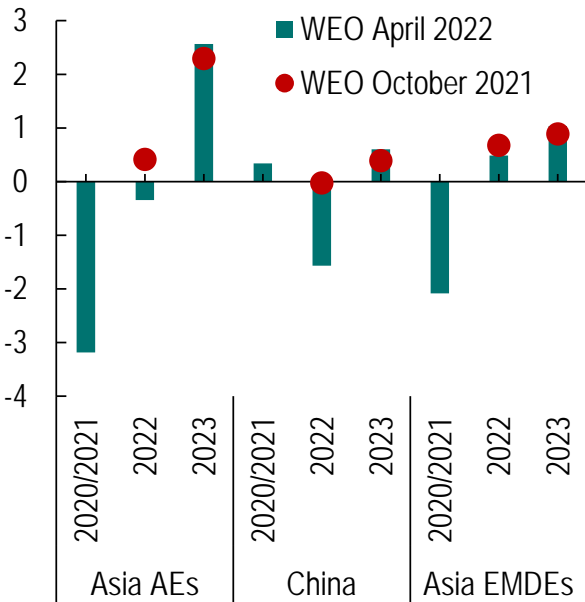
As fiscal stimulus is unwound to anchor debt sustainability following the sharp rise in public debt..

Projected unwinding covid-related fiscal stimulus …

…to stabilize public debt ratios will be more challenging

…and require credible fiscal frameworks across the region.

Change in structural primary balance
(Percent of potential GDP, weighted average)

Legend:
- ■ WEO April 2022
- ● WEO October 2021

x-axis groups: Asia AEs (2020/2021, 2022, 2023), China (2020/2021, 2022, 2023), Asia EMDEs (2020/2021, 2022, 2023)

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

Debt ratios
(Percent of fiscal year GDP; weighted average)
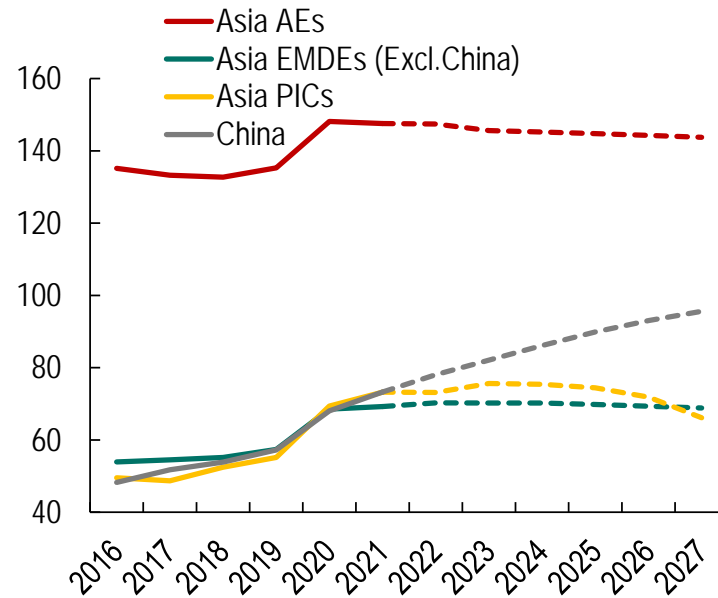
Legend:
- Asia AEs
- Asia EMDEs (Excl.China)
- Asia PICs
- China

Source: : IMF World Economic Outlook Databases for April 2022 and January 2022, and IMF staff calculations.
Note: For inflation targeting countries, deviation from target or midpoint of the inflation target range is used. For countries without an inflation target (Hong Kong SAR, Malaysia, Taiwan Province of China and Singapore) an implicit target is calculated using the long-term average inflation between 2010-19.

## Medium-term fiscal frameworks in Asia and the Pacific
(Number of countries)

Categories: None, Fiscal Rule & MTEF, MTEF, Fiscal Rule

Legend:
- ■ PICs
- ■ EMDEs
- ■ AEs
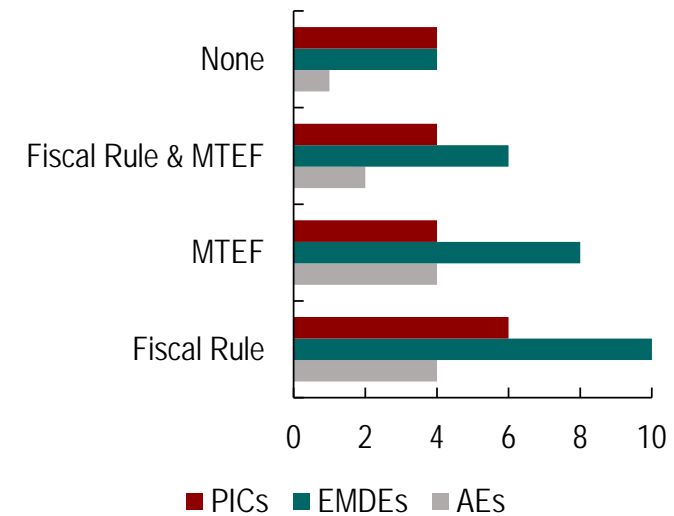
Source: IMF staff calculations.
Notes: MTEF corresponds to Medium Term Expenditure. Framework. AEs includes a total of 7 countries, EMDEs includes 16 countries and PICs includes 10 countries.
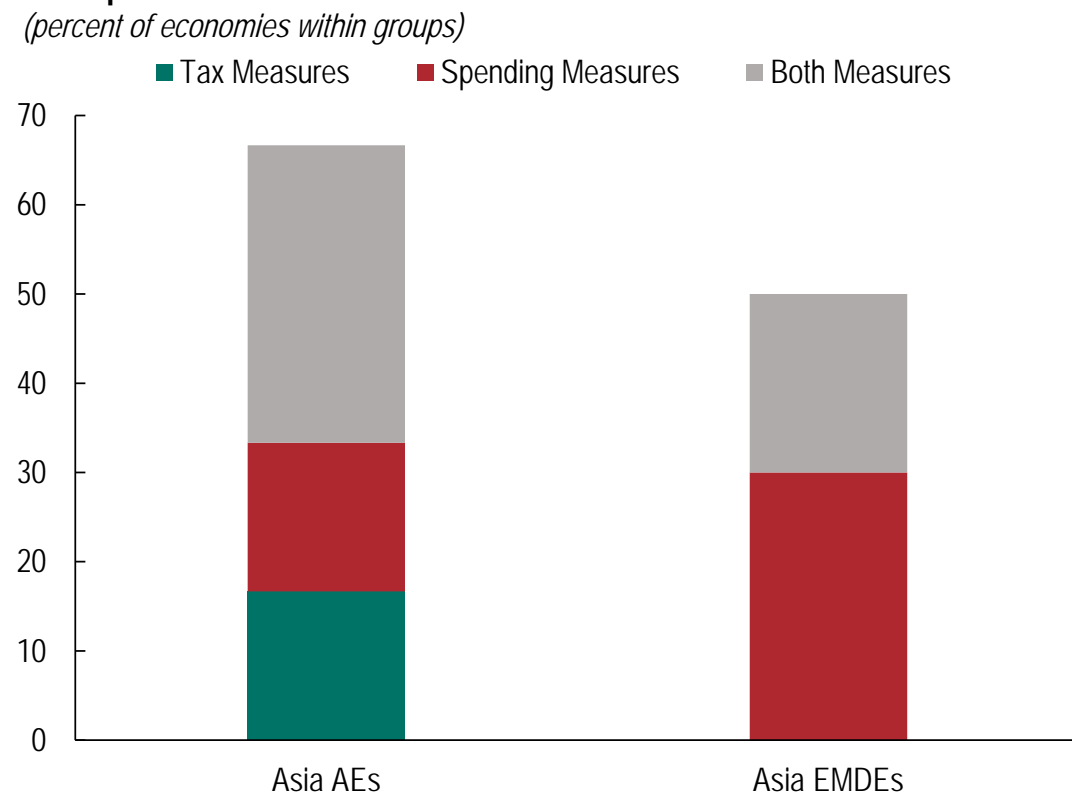
Amidst high and rising food and oil prices affecting the vulnerable and putting pressures on public finances...

Share in CPI basket
(percent)

Legend: Asia EMDEs (teal), Asia AEs (red)

Categories: Food, Oil/Energy, Transport
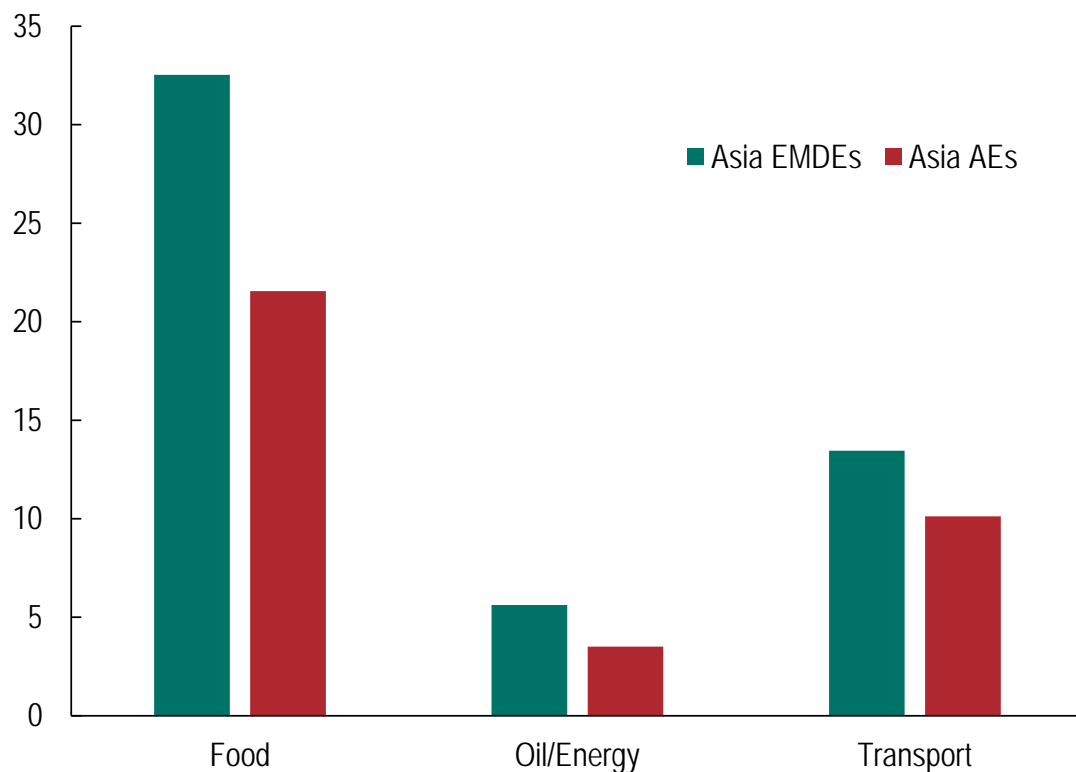
Sources: Haver Analytics and IMF staff calculations.

Introduction of fiscal measures in response to rise in energy and food prices
(percent of economies within groups)

Legend: Tax Measures (teal), Spending Measures (red), Both Measures (gray)
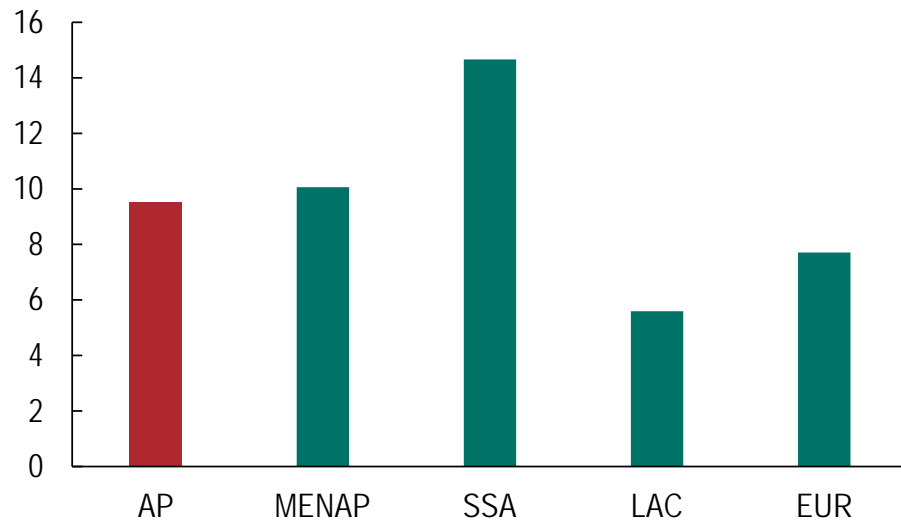
Categories: Asia AEs, Asia EMDEs

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.

While reaching the SDGs and the Paris Agreement goals will require additional fiscal space, especially in LICs/PICs.

Additional Spending Needs for SDGs by Regions
(Percent of GDP, simple average)

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

	At 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: 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.

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.

Digitalization brings opportunities but also raises new challenges for policymakers

The Pandemic has further accelerated digitalization in Asia,…

raising the potential for boosting productivity and improving tax revenue collection, especially for middle- and high-income countries.

E-commerce Sales in 2020
(Annual percentage change; in percent of GDP)

Legend:
- Sales growth rate, 2020 (%)
- Revenue 2019, %GDP (RHS)
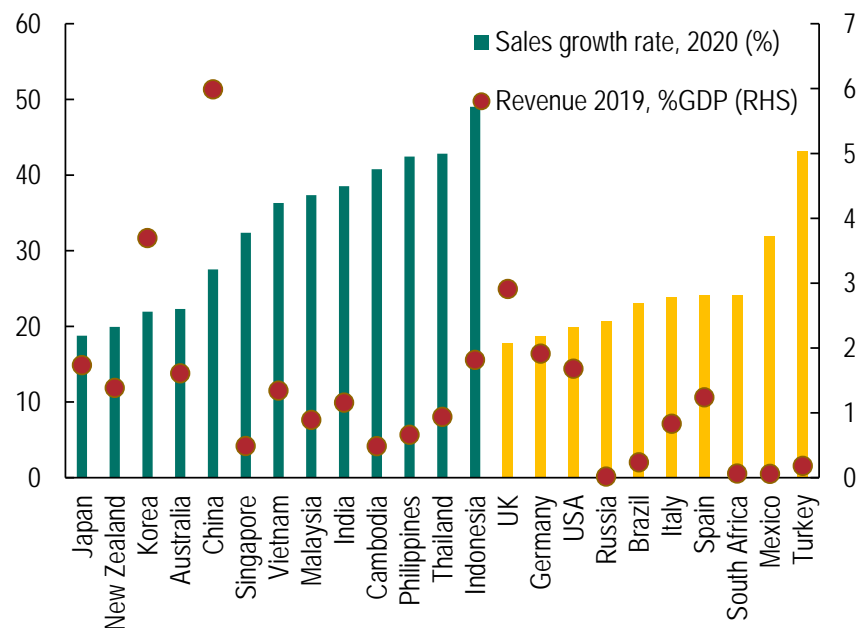
Source: Statista Digital Market Outlook 2020; Dabla-Norris et al. and IMF staff calculations.
Notes: Blue bars depict Asian countries and yellow bars non-Asian countries.

Digital Services Tax base in 2020

Legend:
- Digital Advertising
- Digital Media
- Ecommerce
- E-Services
- Digital Revenue (% of GDP) RHS
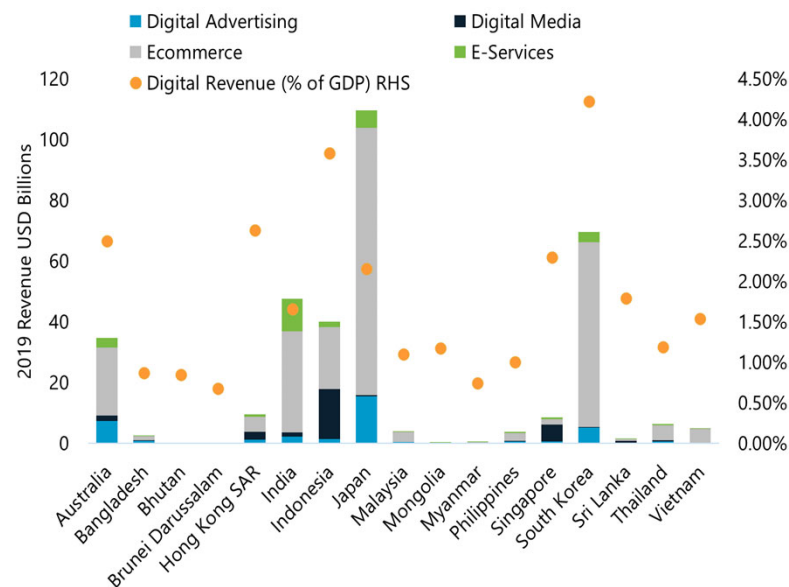
Source: Statista (2020); Dabla-Norris et al. (2021)

Thank you !

Sanjaya Panth
Asia & Pacific Department
IMF