Comments on Session 2.1: Spending Better

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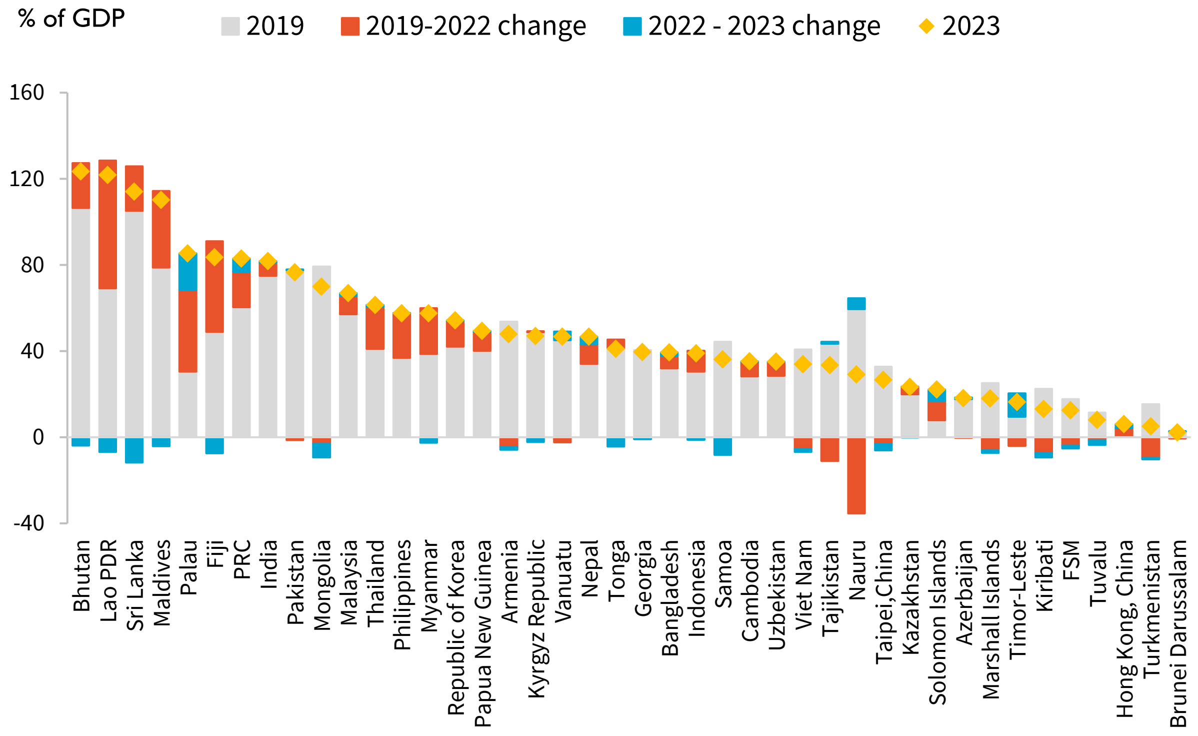
General comments for all presenters

- **Managing fiscal consolidation in a scenario of amplified fiscal risks**
  - May call for state-dependent guidelines for applying fiscal rules?
- **Raising tax revenue and mobilizing domestic financial resources**
  - What role for regional financial cooperation?
  - How can governments garner public support for carbon taxes?
- **Optimal design of medium-term fiscal frameworks is challenging:**
  - Credible macro assumptions needed in conjunction with a well-anchored fiscal path;
  - Alignment of framework with annual budgets;
  - Co-ordination with monetary policy is key: fiscal multipliers and (r-g) dynamics;
  - Fiscal institutions need to be strengthened to underpin transparency and accountability, and financial market implications;
  - Debt restructuring necessary in many cases (towards capital expenditure/sustainable infrastructure).

Context (1): Recent stabilization in debt levels and improved fiscal positions, but risks persist

Public debt was mostly flat in 2023 but remains elevated for some economies

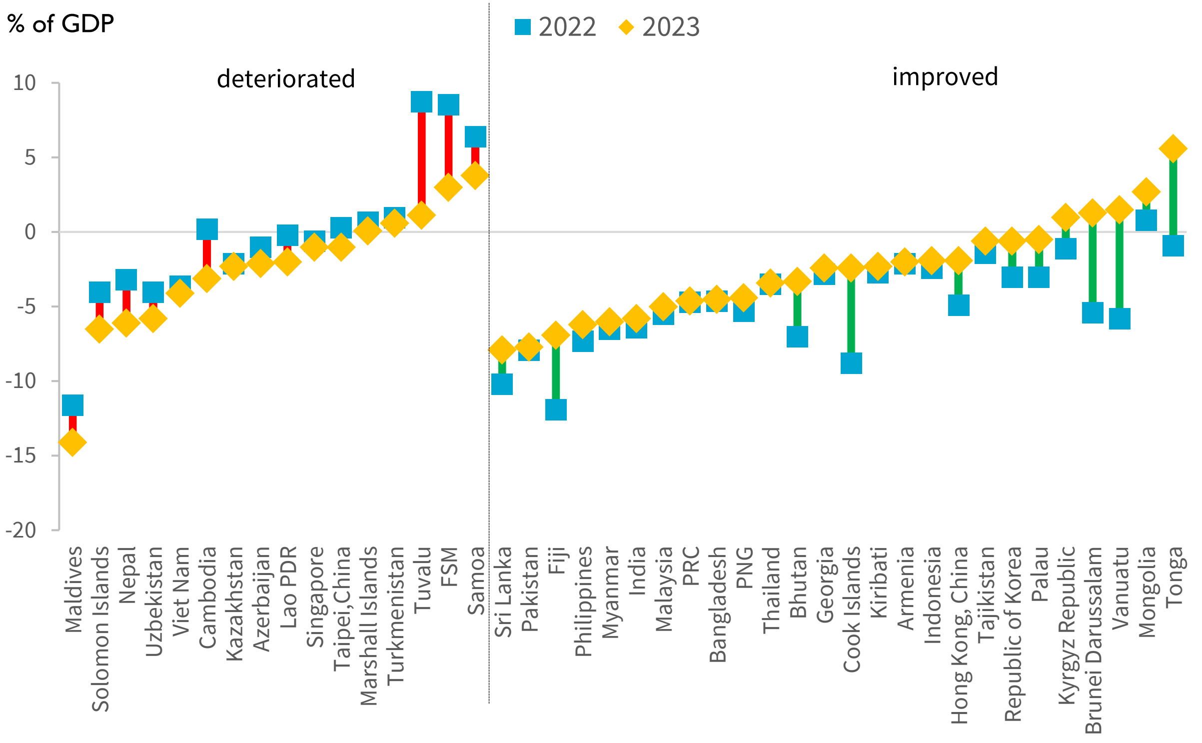
Public Debt



FSM = Federated States of Micronesia, Lao PDR = Lao People's Democratic Republic, PNG = Papua New Guinea, PRC = People's Republic of China
Source: IMF World Economic Outlook

Fiscal positions improved for most economies, but deficits remain sizeable for some

Fiscal Balance



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Source: *Asian Development Outlook* database.

Context (2): Fiscal governance in Asian economies

Fiscal rules in ADB member countries (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.

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

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

Questions to each presenter (1)

- **Roel Beetsma**
  - What key elements can developing economies adopt from the proposed new fiscal framework outlined (**desirability v. feasibility**)?
  - What mechanisms can support the **mainstreaming of fiscal risks** in the budgetary and medium-term fiscal framework?
  - Better spending could be achieved through **boosting fiscal multipliers**, such as on leveraging private investment. What are the main related challenges faced by developing economies?
- **Jón R. Blöndal**
  - What are the **options for optimally using fiscal revenues** generated by carbon taxes (as well as emission trading schemes), including accelerating the transition through incentives, subsidies, and public investment?
  - Mechanisms for **prioritizing expenditure options**?
  - What are your thoughts on the **scope for AI** in enhancing spending efficiency. Any risks?

Questions to each presenter (2)

- **Sailendra Pattanayak**
  - ➢ How can fiscal policy **smoothly transition** to its more fundamental role and away from crisis mode? **High real interest rates** in many Asian economies may be a hurdle?
  - ➢ What **fiscal risks** do you see as most pertinent for Asian economies? Thoughts on "**green fiscal rules**"?
  - ➢ What can be done to **mitigate negative feedback loops** in the proposed framework, e.g. the materialization of fiscal risks triggering spending inefficiency?
  - ➢ **Capacity constraints** in many developing economies may hamper the implementation and evaluation of "better spending" practices and monitoring of fiscal risks. What are the interim solutions?

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