

REGIONAL ECONOMIC OUTLOOK

ASIA AND PACIFIC



**ASIA AND PACIFIC
DEPARTMENT**

UPGRADING FISCAL FRAMEWORKS IN ASIA-PACIFIC

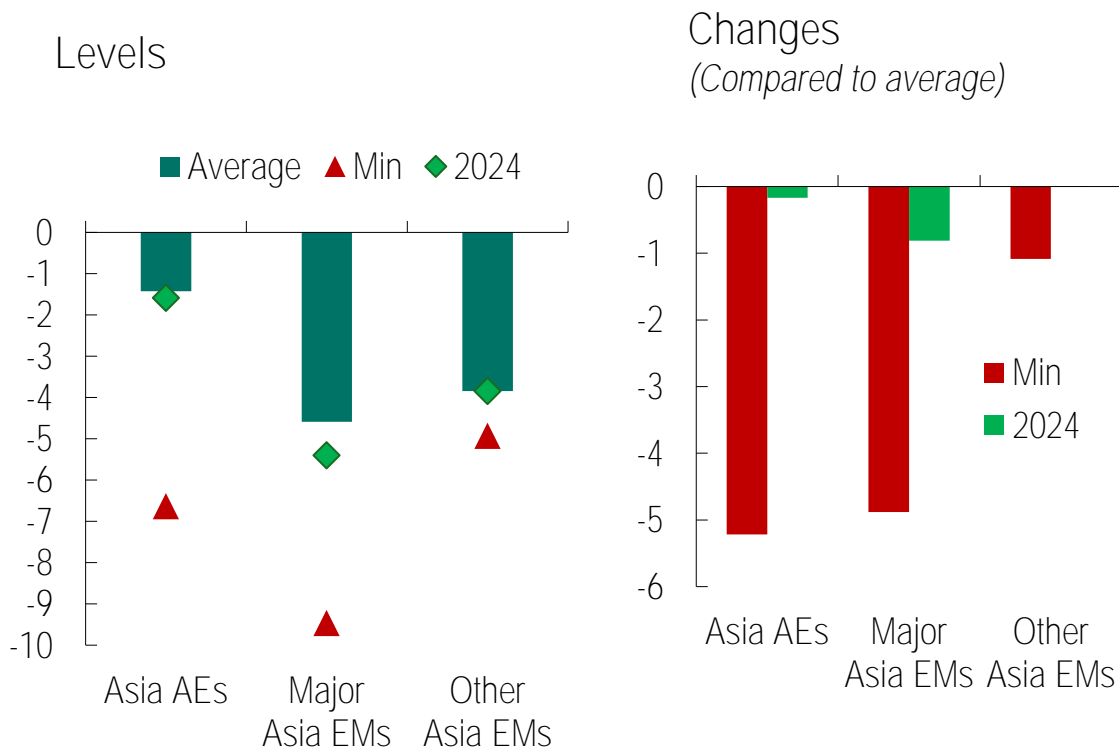
**The Tenth Tokyo Fiscal Forum
Tokyo, June 11-12, 2025**

LI CUI

The views expressed in this presentation are those of the presenter and should not be attributed to the IMF, its Executive Board, or IMF Management.

Fiscal space narrowed post pandemic

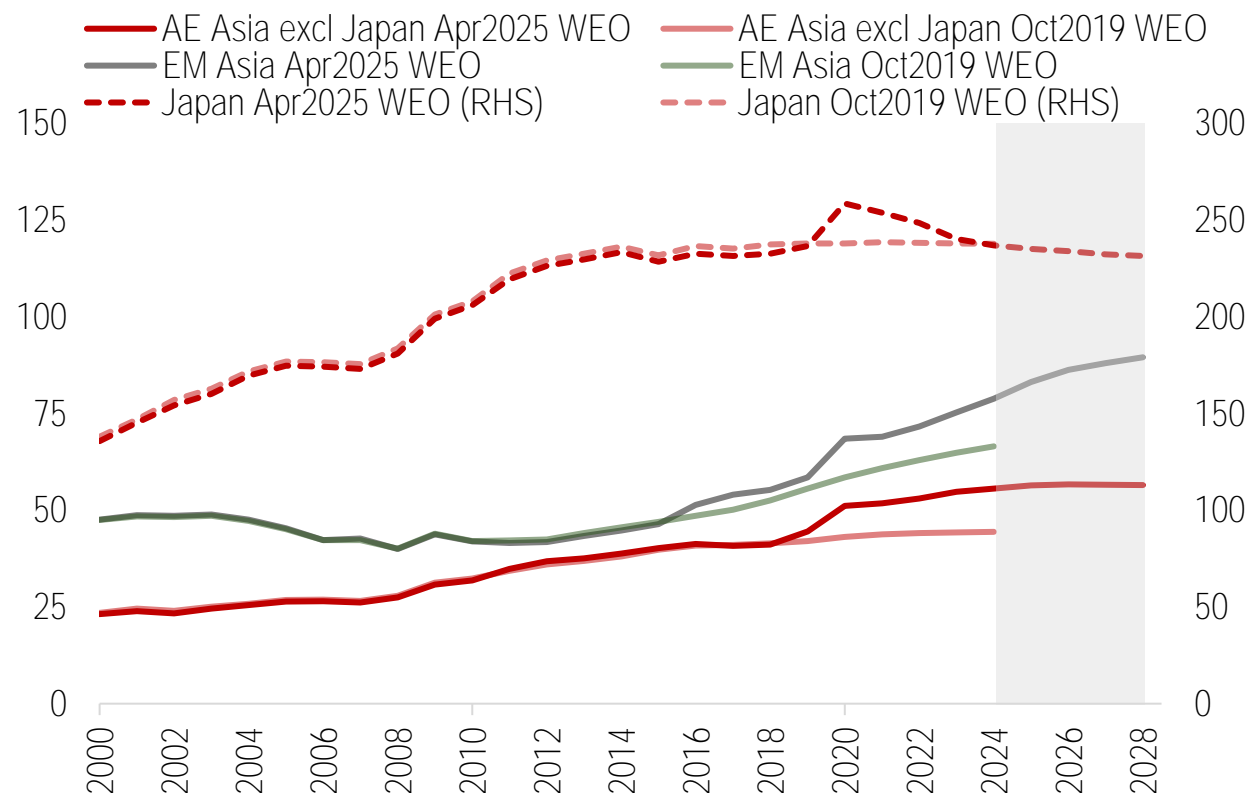
General Government Budget Balance
(In percent of GDP)



Source: IMF, World Economic Outlook database.

Note: Asia AEs, major Asia EMs and other Asia EMs are calculated by PPPGDP weighted average of countries. Average is for 2015-19. Min is the largest annual budget deficit in 2020-22. The 2023 values are IMF staff estimates. Changes show the difference relative to the 2015-19 average in percentage points. Asia AEs excludes Macao SAR. Major Asia EMs or other Asia EMs do not include China.

Asian General Government Gross Debt
(In percent of fiscal year GDP; PPPGDP weighted average)

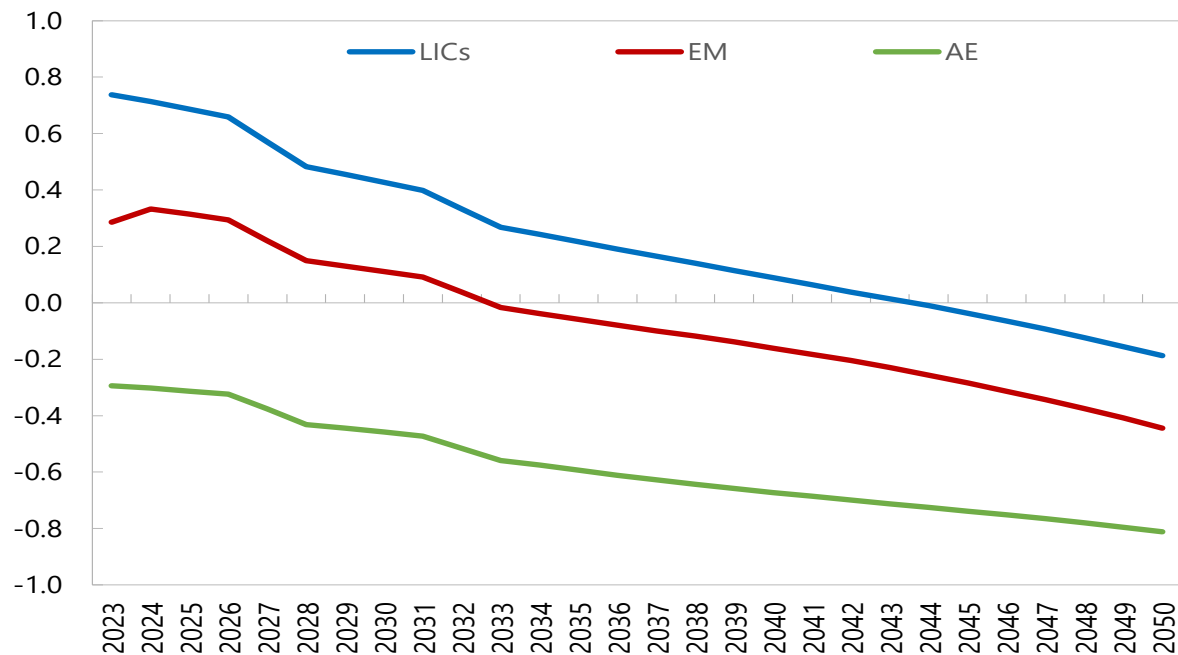


Source: World Economic Outlook.

Note: AE = advanced economies; EMs = emerging market, LICs= low -income countries; PICs= pacific island countries.

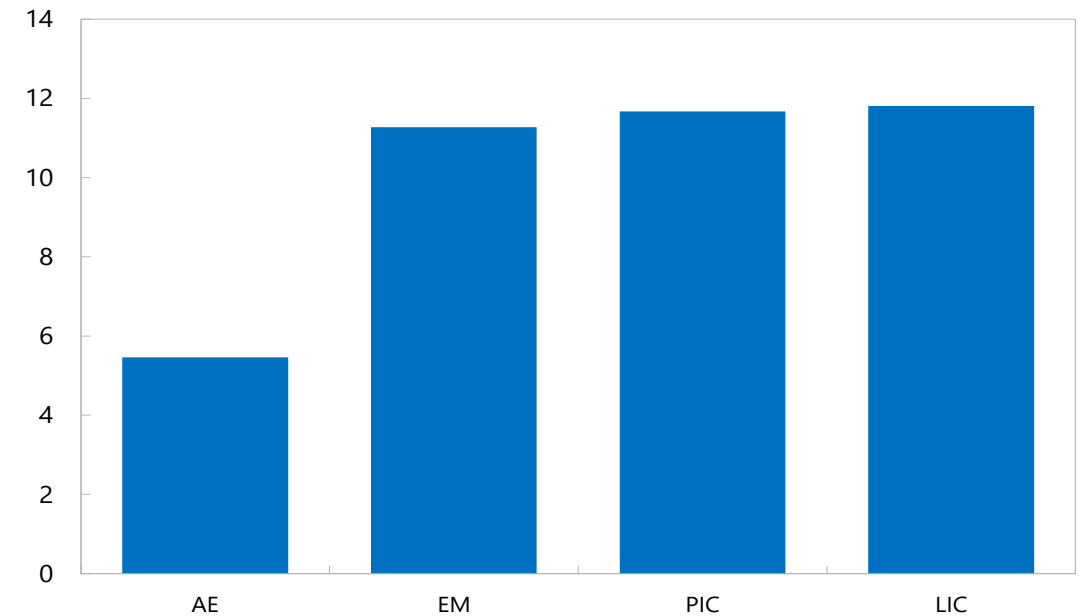
Pressures from climate change and demographics

Population growth in Asia
(percent)



sources: United Nations World Population Prospects,
and IMF staff calculations.

**Additional, climate-adjusted, cost to achieve the
SDGs** (Percent of 2030 GDP in 2020 prices)



Sources: Aggarwal, Carapella, Mogues, and Pico-Mejia (2024), World
Economic Outlook, and authors' calculations.

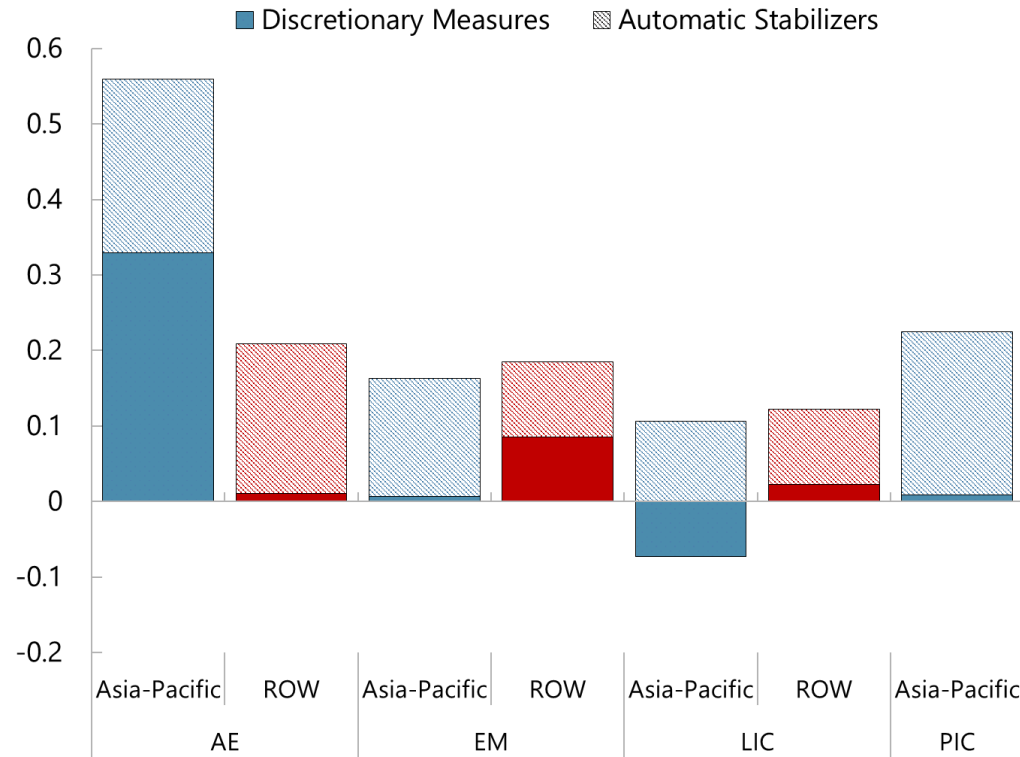
Outline

1. Role of Fiscal Policy in Asia-Pacific
2. Fiscal Frameworks: A Cross-Country Perspective
3. Upgrading Fiscal Frameworks

1. Role of Fiscal Policy in Asia-Pacific

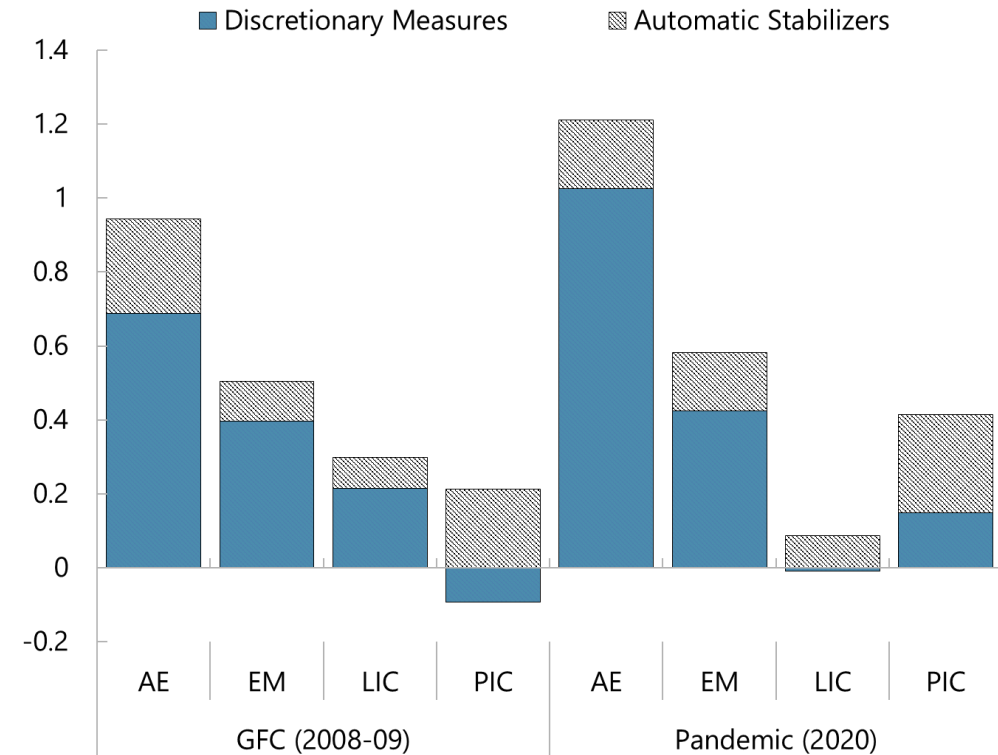
Fiscal countercyclicity varied across time and income groups

Asia-Pacific versus Rest of the World (ROW), post-GFC (Percent of GDP)



Source: Authors' calculations.
Note: Blue and red bars (solid and patterned) denote the estimated fiscal countercyclicity coefficients (for the discretionary measures and the automatic stabilizers).

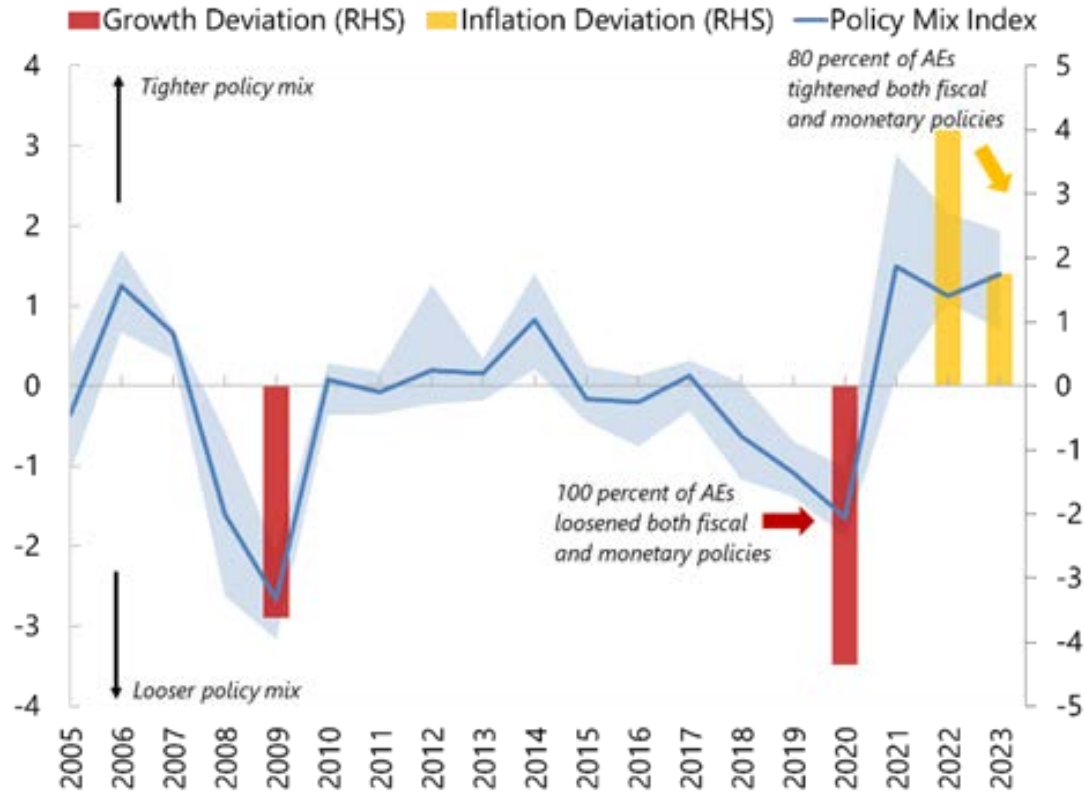
Fiscal Countercyclicity during the GFC and the Pandemic (Percent of GDP)



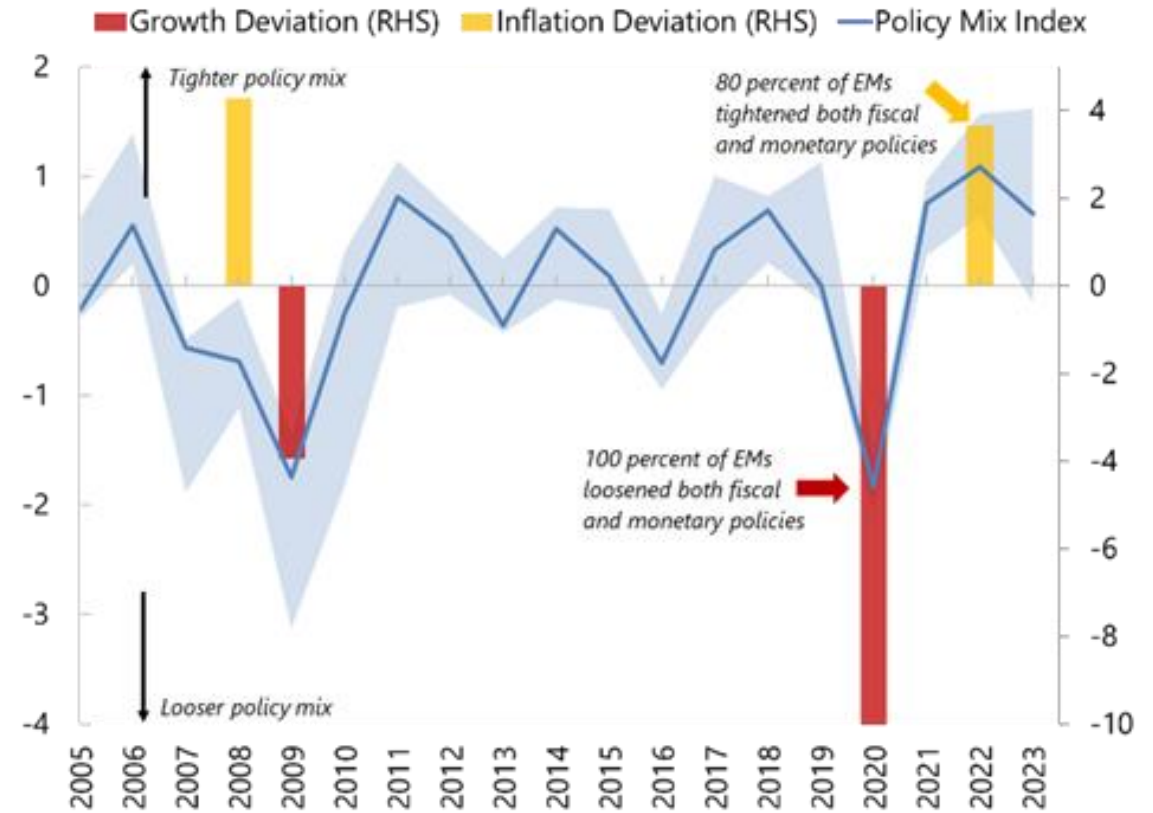
Source: Authors' calculations.
Note: Blue and patterned bars denote the countercyclicity coefficients based on 5-year windows that include the GFC (2008 and 2009) or the pandemic (2020).

Fiscal and Monetary policies complemented each other during crises

Policy mix in AEs



Policy mix in EMs

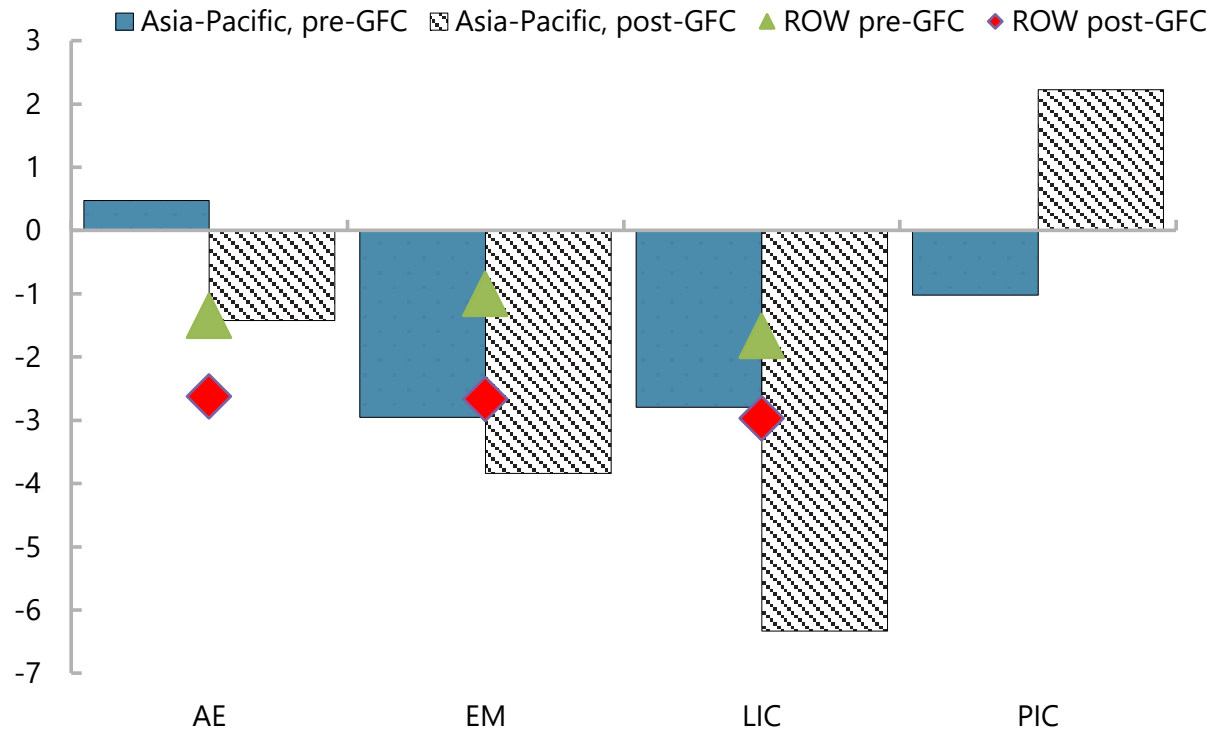


Source: Authors' calculations.

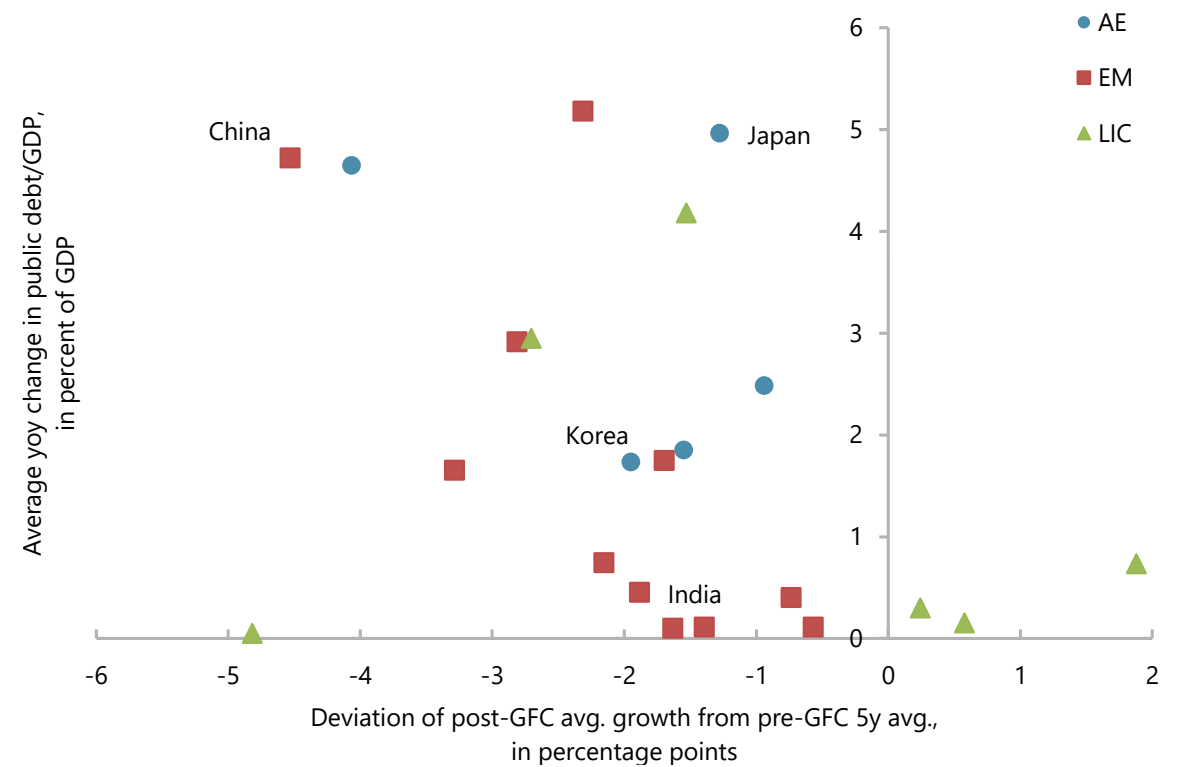
Note: Blue lines denote the median of all countries' policy consistency index in each year, where the index is constructed as the sum of year-on-year change in a country's primary balance and policy rate (after standardizing). The more positive (negative) the index, the more consistent tightening (loosening) the fiscal and monetary policies. The shaded area denotes the interquartile range between 25th and 75th percentile of distribution in each year. Red and orange bars denote the average of deviation in growth and inflation from their previous three-year averages, when average growth and inflation is in the bottom and top decile of the sample distribution, respectively.

Debt rose significantly amid weaker growth and larger deficits

Fiscal Balances in Asia-Pacific
(Mean of respective group, percent of GDP)



Post-GFC Change in Debt and Growth in Asia-Pacific



Sources: IMF, World Economic Outlook database; and authors' calculations.

2. Fiscal Frameworks: A cross-country perspective

Fiscal frameworks across the Asia-Pacific Region

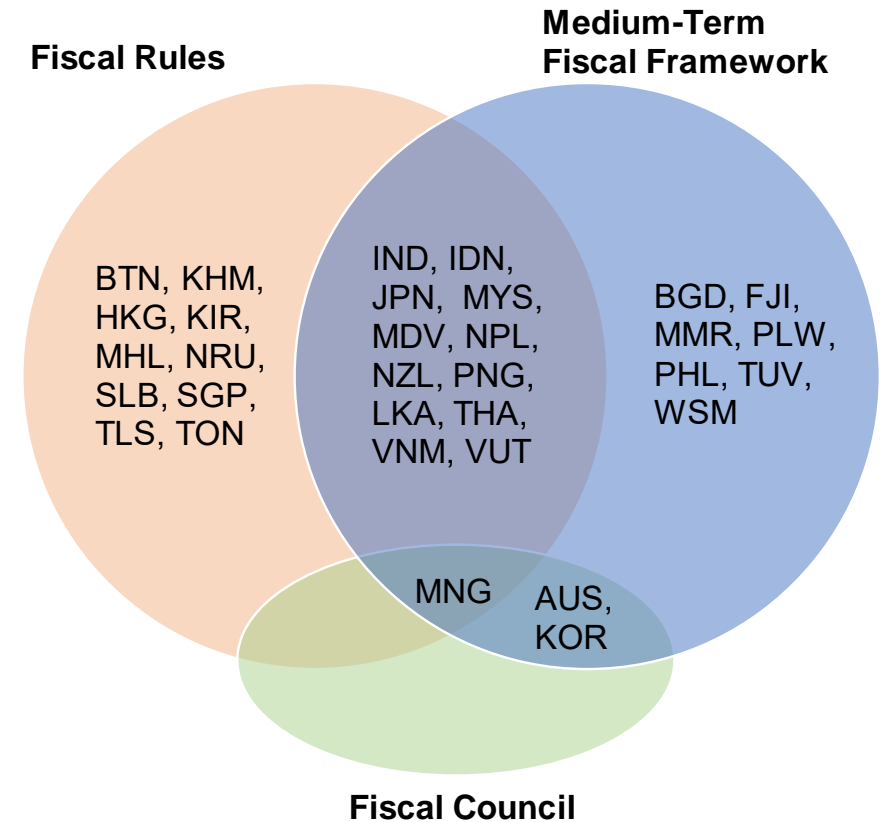
- **Overview of Fiscal Frameworks**

- Fiscal rules
- Medium-Term Fiscal Frameworks (MTFFs)
- Independent Fiscal Councils

- Diversity across 37 economies

- The effectiveness of fiscal rules and development of MTFFs differ significantly.

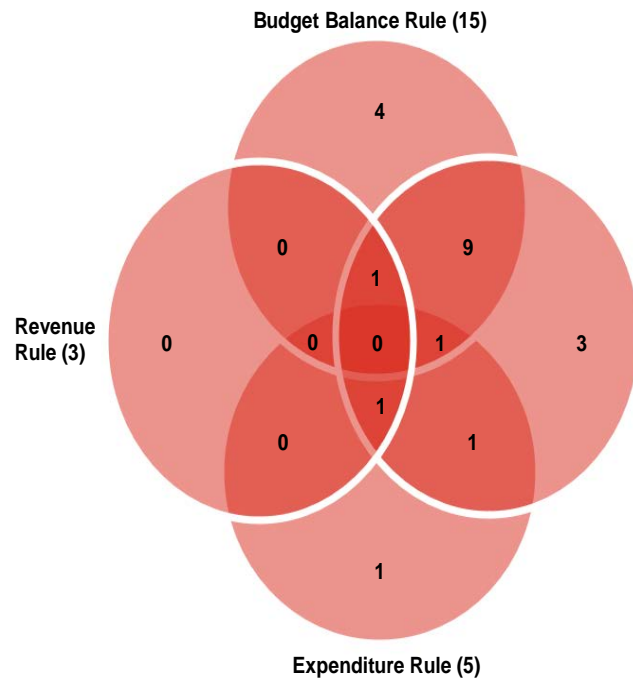
Fiscal Frameworks in Asia-Pacific



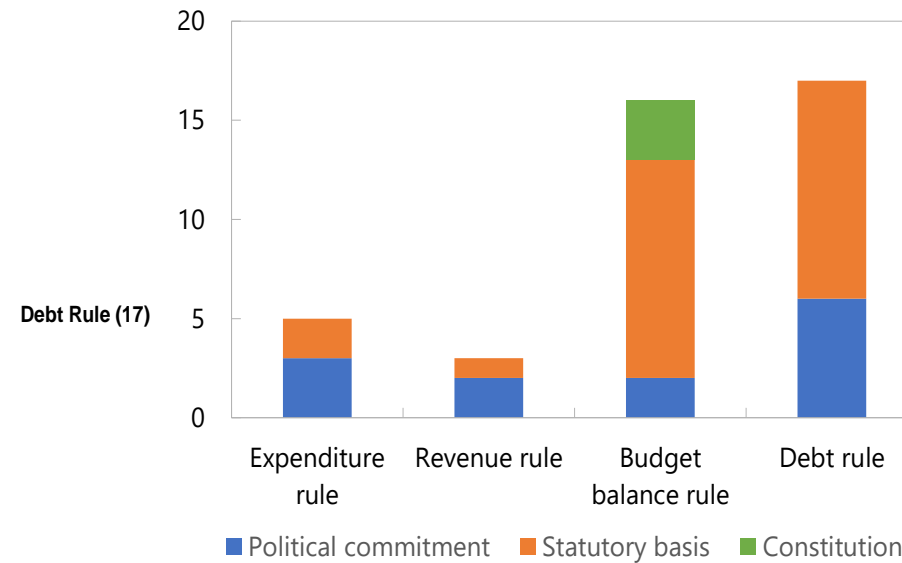
Sources: Survey of IMF country teams and authors' calculations..

Key characteristics of fiscal rules

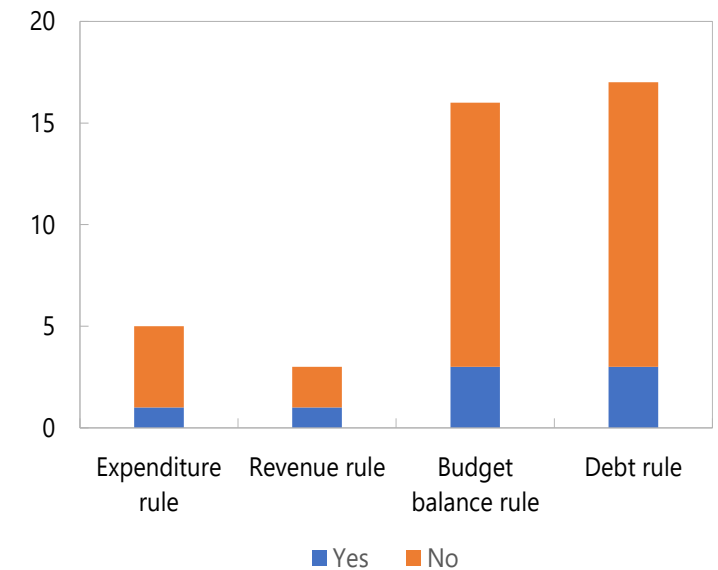
Number of Fiscal Rules



Legal Basis of Fiscal Rules (Number of countries)



Formal Enforcement Procedure (Number of countries)

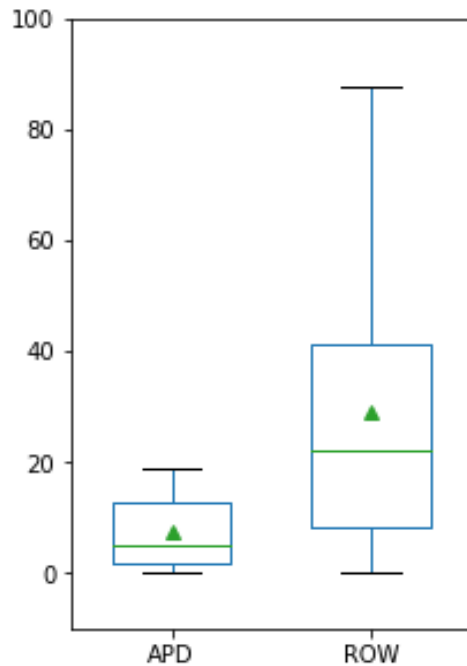


Sources: Survey of IMF country teams and staff estimates.

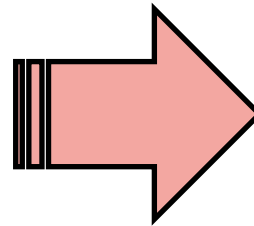
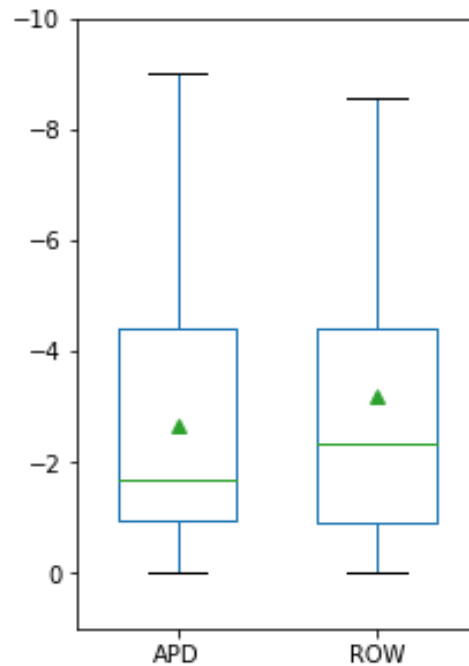
Compliance with fiscal rules worsened as the pandemic hit

Pre-pandemic deviations (percent of GDP)

Debt Rule

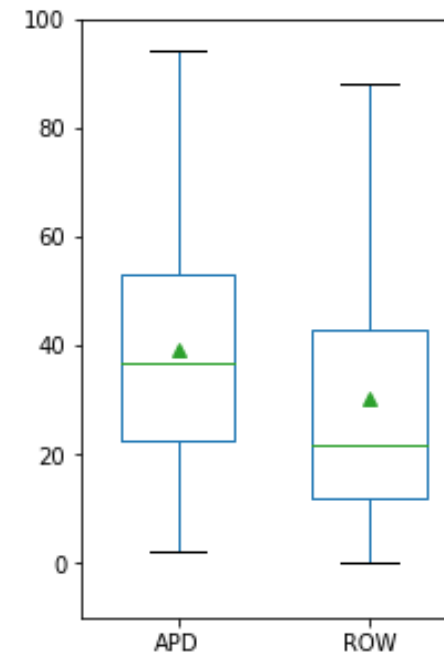


Budget Balance Rule

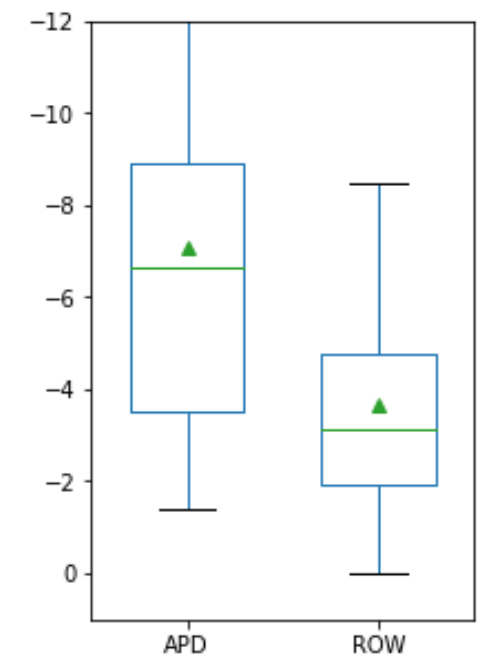


Post-pandemic deviations (percent of GDP)

Debt Rule



Budget Balance Rule

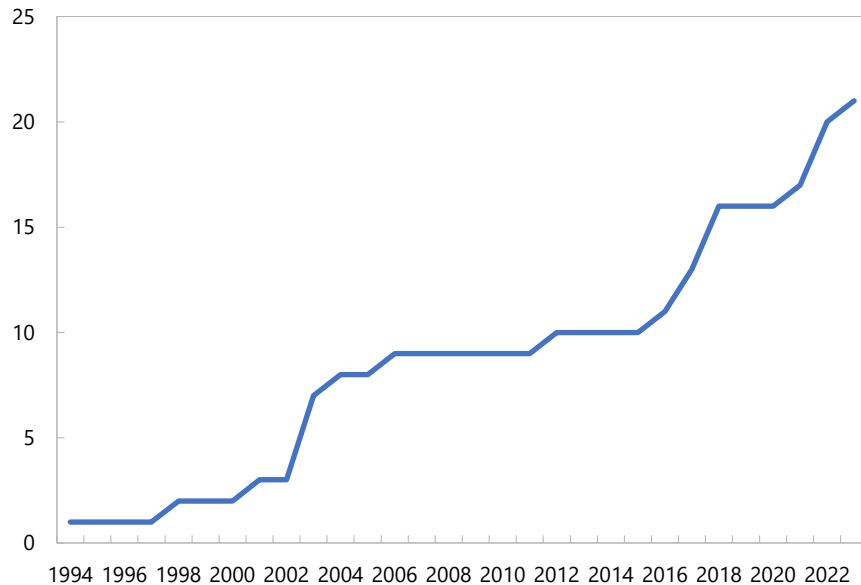


Note: The box indicates the interquartile range from the first to third quartiles, the line inside the box represents the median, the marker represents the mean. The covering periods are 2004-2019 for the pre-pandemic and 2020-2022 for the post-pandemic.

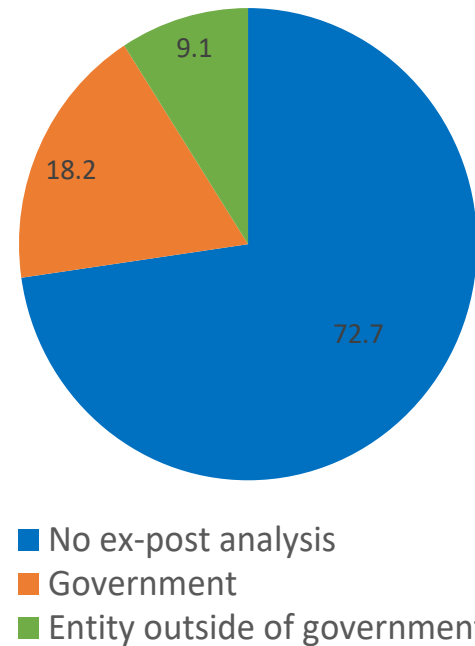
Sources: Survey of IMF country teams and staff estimates.

Growing number of MTFFs, but link with annual budgets remains weak

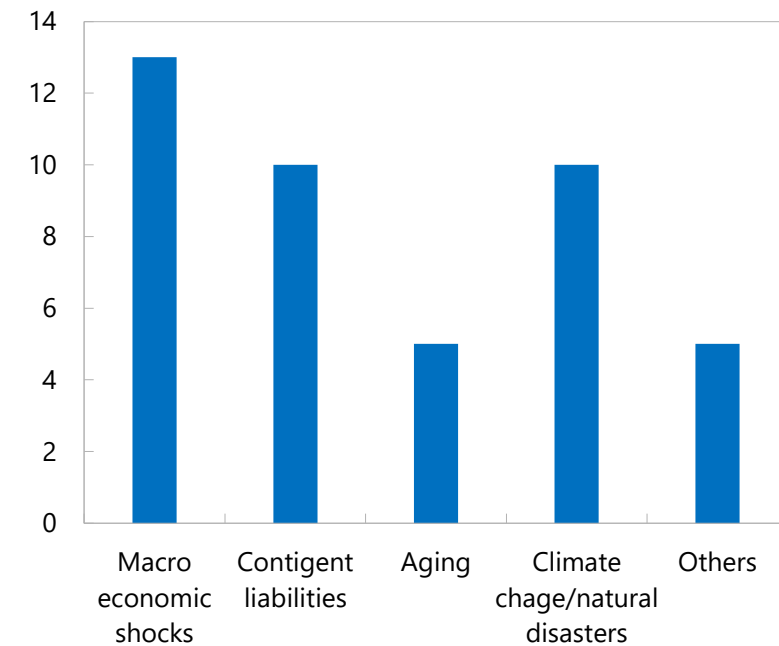
Countries in Asia with MTFF
(Number of countries)



Ex-post analysis of a MTFF
(In percentage)



Risk Consideration in MTFF
(Number of countries)



Sources: Survey of IMF country teams and staff estimates.

3. Upgrading Fiscal Frameworks

Comprehensive, risk-based approach to public finances

1. Strengthen medium-term orientation of fiscal policy:

- Credible medium-term fiscal plans.
- Fiscal anchors/rules to link MT strategy and annual budgets.

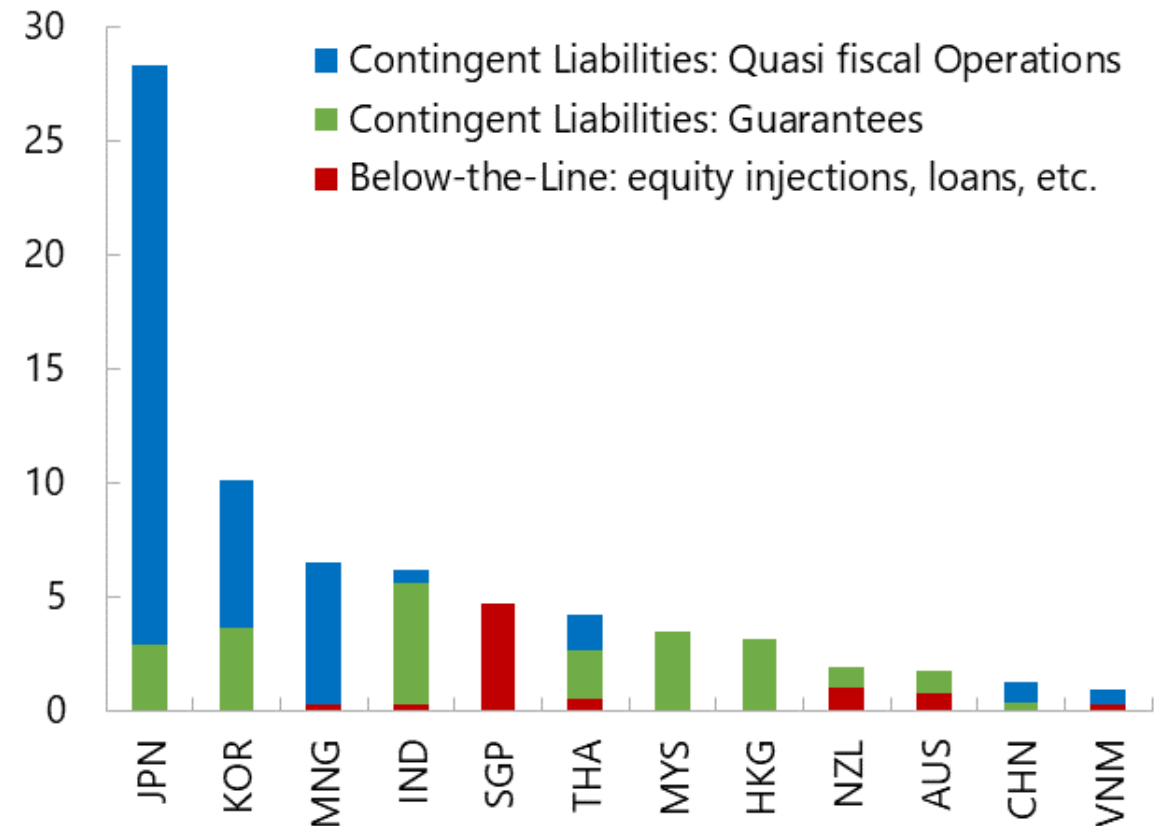
2. Broader view of the public sector:

- many tools used, including off-budget.
- Improving fiscal statistics.

3. Enabling a better response to large crises and management of fiscal risks.

- Manage fiscal risks.
- When to adopt exceptional support

Off-Budget Measures, 2020-21
(Percent of GDP)

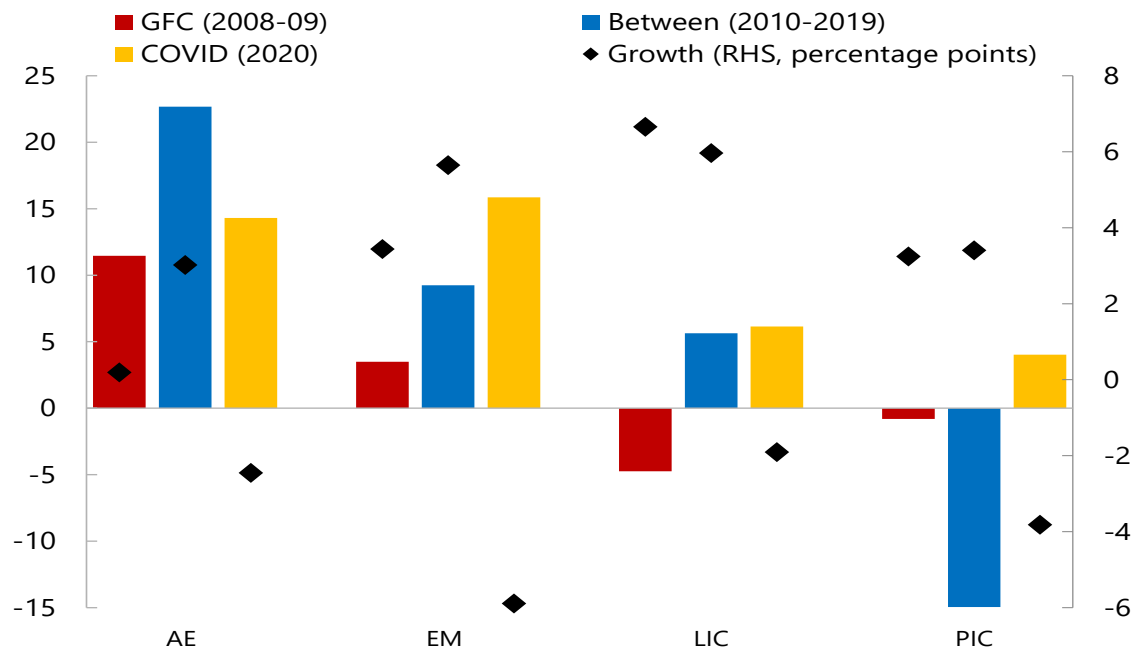


Source: International Monetary Fund Fiscal Measures in Response to COVID-19 Pandemic Database, and authors' calculations.

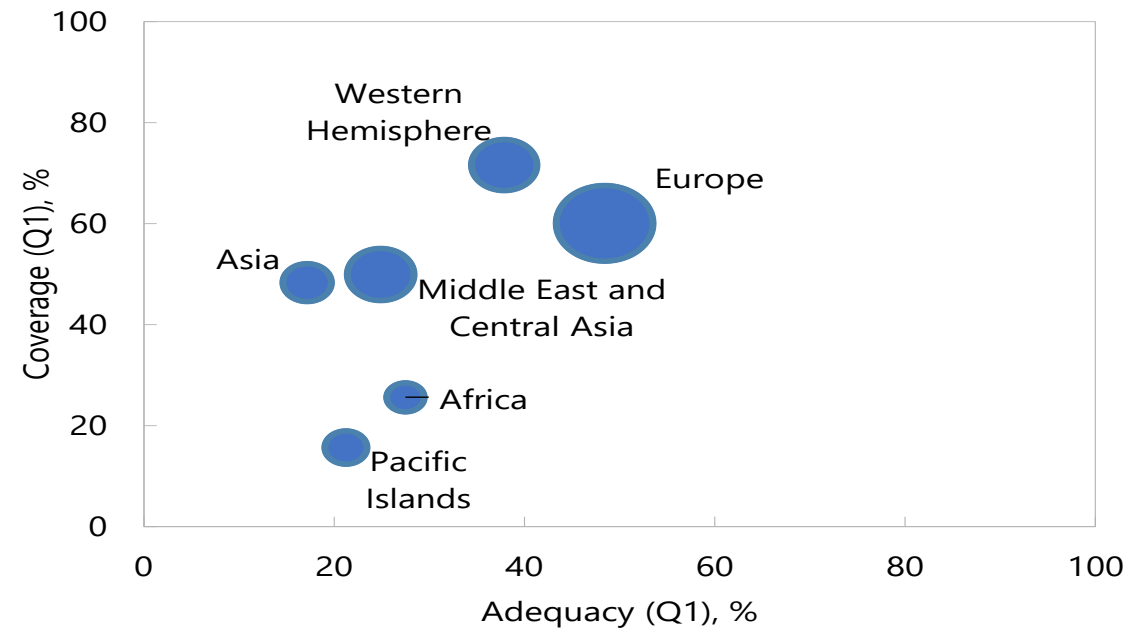
Note: Countries with responses of at least 1% of GDP are included. Quasi-fiscal activities are those undertaken by public financial and on-financial corporation on behalf of the government.

Enhancing Response to Crises and Managing Risks

Changes in Public Debt during crises and normal times (percent of GDP)



Social safety nets in Asia-Pacific

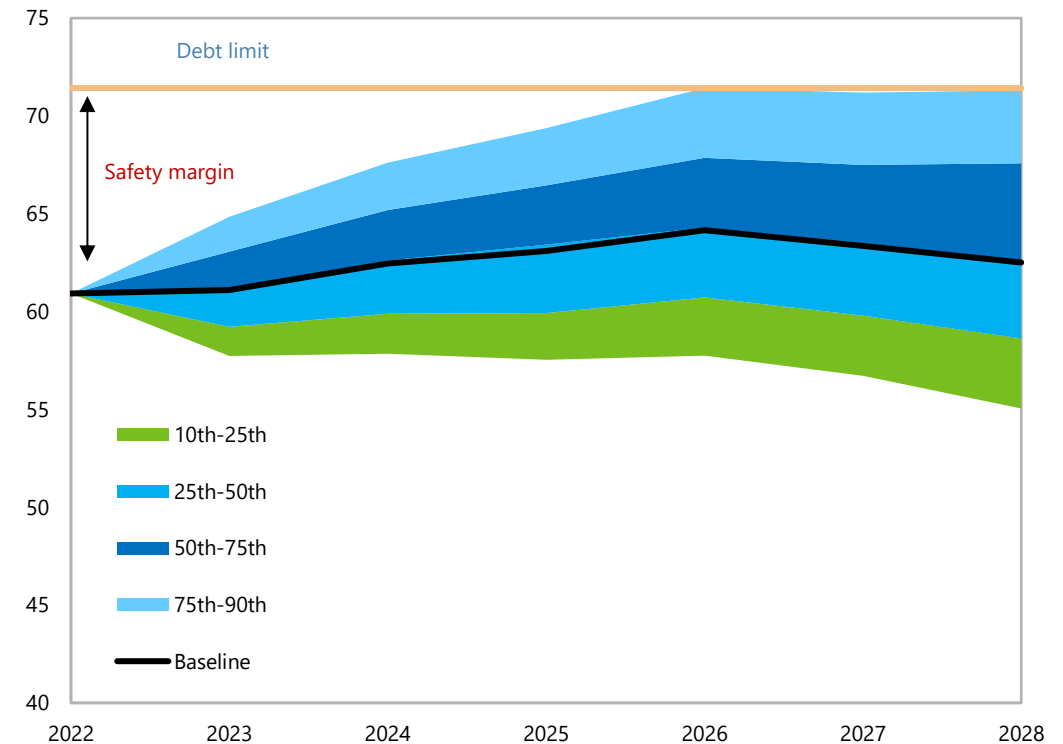


Sources: IMF, World Economic Outlook database; World Bank, ASPIRE database; and authors' calculations.

New Fiscal Rules?

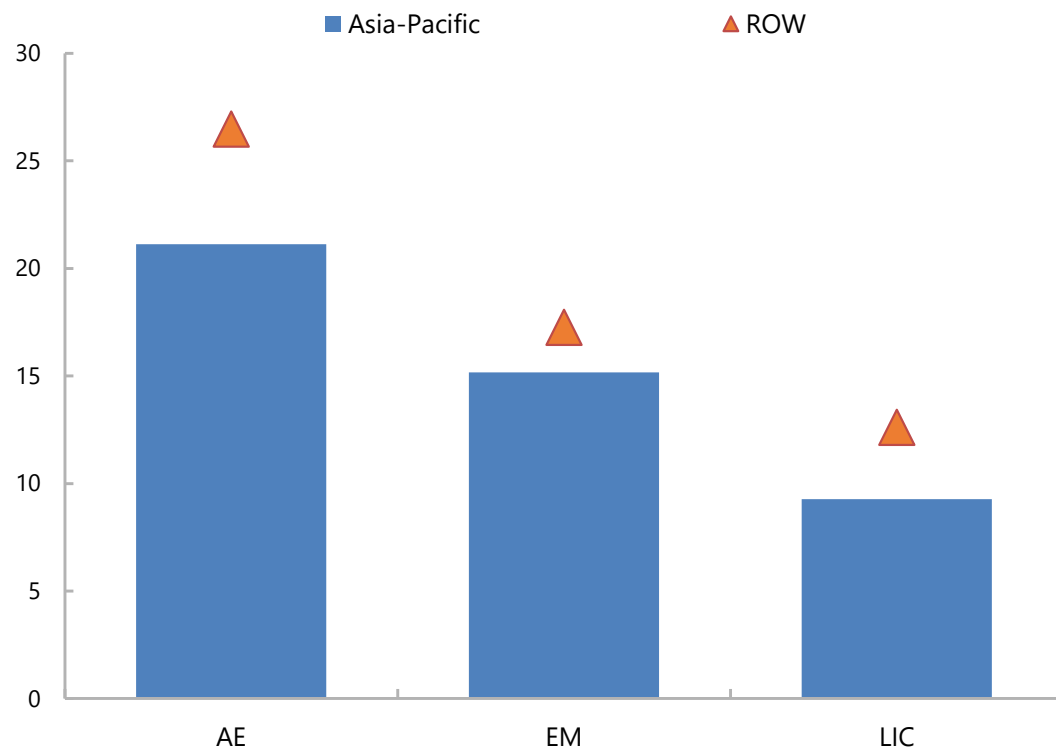
- Simple and transparent rules as part of a MTFs (New Zealand).
- Link rules, MT plans to debt sustainability risks (EU)
- Incentives to build fiscal buffers during normal times
 - Buffers based on assessment of risks
 - Correction mechanisms (Colombia)
- Fiscal rules design can be country-specific:
 - Debt limits (vary over time).
 - Medium-term anchors
- Escape clauses
 - MT plan to return to rules; transparency, communication

Setting a debt anchor
(percent of GDP)

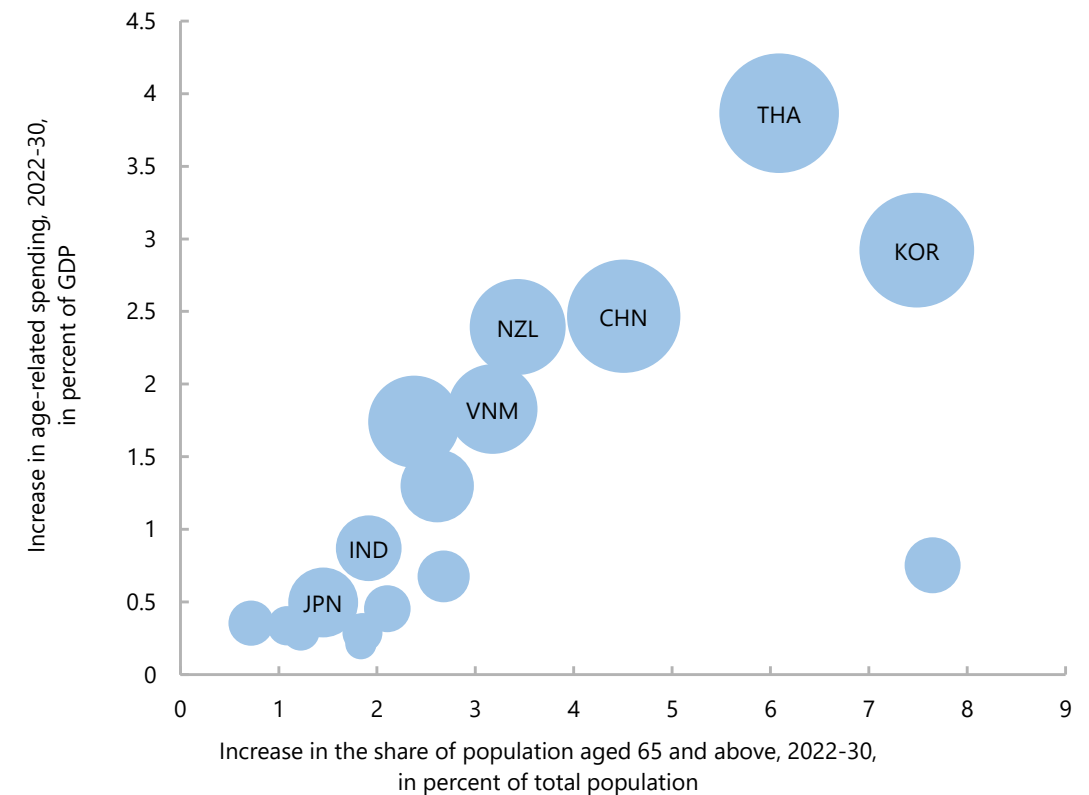


Need to address pressures from demographics and climate change

Tax revenues are relatively low in Asia-Pacific
(Median 1995-2023, percent of GDP)



Increases in age-related spending and the elder population share in Asia-Pacific



Sources: IMF, World Economic Outlook database; IMF, Fiscal Monitor database; United Nations, World Population Prospects database; and authors' calculations.
Note: For right chart: bubble sizes show the net present value of the increase in age-related spending over 2022–50. Data labels in the figure use International Organization for Standardization (ISO) country codes.

Conclusions

- Governments in Asia used countercyclical policies to support households and firms, and the response intensified since Covid in AM and EM Asia, less so in LICs.
- Fiscal buffers have been reduced or depleted. Debt levels reached record highs, and fiscal rules were breached.
- Longer-term pressure to address climate and aging (intergenerational tradeoffs) has risen.
- Fiscal frameworks need to be upgraded to address rising vulnerabilities and emerging spending pressures.
- Need a more comprehensive, risk-based, approach to public finances.
 - Strengthen medium-term orientation of fiscal plans; broader public sector.
 - Enhance capacity to manage crises and contain fiscal risks.
 - More effective, and simple, fiscal rules: *build appropriate buffers*.

The background of the slide is a teal color with a white grid pattern that creates a wavy, 3D effect. The grid lines are thin and intersect to form a mesh. The overall shape of the grid is undulating, giving it a sense of depth and movement.

Thank You!

Extra slide: Fiscal Rules

Table 1. Main types of fiscal rules

| Type of rule | Description | Main goals | Implications as an operational rule | Implications as a medium-term anchor |
|--------------------------|-------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------|
| Debt ceiling | Limit on total (or external) stock of public debt (as share of GDP). Usually set for the central or general government. | Debt sustainability | Can lead to procyclical policies if debt levels near the ceiling. Debt can be volatile for reasons outside the government control (e.g., | Allows flexibility in any given year, only need to converge to anchor over time. Needs to be calibrated with sufficient buffers and preferably |
| Deficit ceiling | Limit on overall or primary balance as share of GDP | Debt sustainability | Effective if priority is to contain or reduce debt risks but could lead to procyclical policies. | Allows flexibility as only need to converge to anchor over time. Should be done with an operational rule. |
| Expenditure ceiling | Multi-year limit on the level (or growth rate) of total or primary expenditures. | Debt sustainability; stabilization; control size of expenditures. | Easy to implement. Spending levels in the budget should include buffers for frequent shocks (e.g., inflation). | Should be set consistent with an anchor closely linked to debt sustainability (e.g., debt or deficit limits). |
| Revenue floor or ceiling | Either minimum level of revenue or ceiling. | Ensure desirable level of revenues to fund the budget | Will not ensure debt sustainability or stabilization on its own. | Will not ensure debt sustainability or stabilization on its own. |
| Structural balances | Balances corrected by the business cycle or commodities | Debt sustainability and stabilization | Have the advantage of being countercyclical but can be complex and lack transparency. | Needs to be calibrated to achieve safe debt levels. |