



Facultad de Ciencias Económicas y Empresariales



USAL
UNIVERSIDAD
DEL SALVADOR

Report on the Asia-Pacific Economies

Research Institute

Bimonthly Nº10

June 9th 2022

Inflation and Fiscal Balance

- The region had low inflation rates in 2020 and 2021, but it is estimated that in 2022 it will double the average of last years, reaching 2.6%. April and May figures show prices growing at even a faster pace: 3.2%
- The World Bank cut off 0.4 percentage points the estimated economic growth for the region in 2022. Vietnam would grow 1.3 points less than previously expected, while Indonesia and Philippines would not be affected.
- Asia-Pacific and India currencies devalued this year, with a decline larger than 10% for the Japanese yen and the Laotian kip.
- Fiscal deficit in the region was 6.1% of GDP in 2021, smaller than previously estimated. Despite this year would be 7%, by 2023 it is expected to be 5.7%.

Inflation, exchange rate and economic growth

The invasion of Ukraine by Russia led to widespread increases in prices of primary products, especially energy and food. Even though Asia Pacific and India have had a controlled inflation in the last years (close to 2% between 2018 and 2021), in 2022 the increase of prices will be above that average. April's inflation numbers show that those projections may fall short: the International Monetary Fund (IMF) estimated in April 2022 that inflation would reach 2.6% this year, almost doubling the 2021 rate. The projection presents an important variation from the one made in October 2021, when the estimated inflation for the current year in the region was 1.9%. In April, the average annual increase of prices was 3.2%.

The tightening of monetary policy by the Federal Reserve of the United States (FED) is prompting a revaluation of the US Dollar (USD), with a concomitant reduction in the value of Asian currencies, that have reduced their purchasing power

The region is the largest importer of energy in the world, and an increase in the price of petroleum (the barrel of Brent crude oil jumped 53% between January and June) and liquefied natural gas (a 116% hike in the MMBTU of Henry Hub's LNG in the same period) will have several impacts. First, there will be a worsening of the trade balance of the Asian countries in general. Second, there will be a hike in the proportion of their income that Asian citizens will use for the purchase of energy, which will reduce the disposable income for other uses. Finally, there will be an increase in the cost of manufacturing production, a pillar to the region's economy.

Growing inflation is gaining space in public opinion and in the agenda of Asian governments, whose policies to combat the hike of prices could lead to a mild reduction in the rate of growth for this year. In India, April inflation rate reached 7.8%, in Japan it was 2.1% and in China 2.1%. In May, annual inflation rate in Korea was 5.4%, in Philippines 5.4% and in Thailand 7.1%. In all these cases, the numbers are above the previous estimates, and projections from official institutions estimate that this year prices will continue growing at a quick pace.

Table 1. Inflation

	Inflation				April 2022 vs April 2021
	Average 2018/19	2020	2021	2022 (proy)	
Brunei	0.4	1.9	1.5	2	n.a.
Cambodia	2.2	2.9	3	3	n.a.
Philippines	3.9	2.4	3.9	4.3	5.4*
Indonesia	3	2	1.6	3.3	3.6*
Laos	2.7	5.1	3.8	6.2	9.9
Malaysia	0.9	-1.1	2.5	3.1	4.7
Myanmar	7.4	5.8	5.7	14.1	n.a.
Singapore	0.5	-0.2	2.3	3.5	5.4
Thailand	0.9	-0.8	1.2	3.5	7.1*
Vietnam	3.2	3.2	1.9	3.8	2.7
ASEAN	2.3	1.2	2.1	3.8	4.9
China	2.5	2.4	0.9	2.1	2.1
Korea	1	0.5	2.5	4	5.4*
India	4.1	6.2	5.5	6.1	7.8
Japan	0.3	0	-0.2	1	2.1
Taiwan	1	-0.2	1.8	2.3	3.4
CKJIT	2.1	2.1	1.3	2.4	2.9
TOTAL AP&I	2.1	2	1.4	2.6	3.2

Note: * May figures

Source: Research center, based on IMF and state official data.

Inflation growth is higher in ASEAN countries and India. In Singapore, Thailand, and Laos the figures are well above pre-pandemic levels. In Korea, that in the last decade has had a low inflation rate, it is estimated that this year will have the highest figure in 13 years; the same would happen in Thailand and Japan (except for 2014, when the growth of VAT led to a general increase in prices). In all the other countries, the increase in prices is the highest in the last five years.

The currencies of the region's countries have depreciated 5.6% against the USD between January 1st and June 1st. Laotian kip lost 18.5% of its value, while Japanese yen lost 10.5%. The depreciation and inflation rates generate a fall in the purchasing power of wages, so a reduction of the growth rate in private consumption is expected in the short run.

Table 2 shows a variation of the value of the currencies against the USD between 2017 and 2022. A revaluation of the Asian currencies of 4.2% can be seen, especially in non-ASEAN countries. This trend reverses during the first five months of this year, when the USD increases its value against Asian currencies.

The USD appreciation is chiefly the result of the tightening of monetary policy by the FED, that in the context of general increase in prices (8.3% in April) has started using this tool, ending with the 0% interest rate established at the beginning of the pandemic. The rate hikes would continue growing soon, and this could be an important threat for Asian countries' economic growth. The World Bank, for example, has cut in April its forecast of GDP growth in the region in 0.4 percentage points, compared to its own projections of last October. They were reduced from 5.4% to 5%.

"The war, financial tightening and China slowdown are likely to magnify existing post-COVID difficulties", the international organization said. Even though the growth projections are favorable, the global context would decrease the growth rate of the region.

Table 2. Fiscal Balance in Asia Pacific and India

	Fiscal Balance in percentage of GDP						Local currency vs USD	
	2018	2019	2020	2021	2022 (e)	2023 (e)	1-1-2022 vs 1-1-2017	6-1-2022 vs 1-1-2022
Brunei	-3.6	-6.1	-15.7	-1.1	19.3	9.6	2.9	-1.5
Cambodia	0.7	3	-3.5	-5.6	-4.1	-3.9	-1.2	0.5
Philippines	-1.6	-1.8	-5.7	-6.4	-5.5	-4.6	-2.8	-2.3
Indonesia	-1.7	-2.2	-6.1	-4.6	-4	-2.9	-6	-1.9
Laos	-4.7	-5	-5.6	-5.5	-5.2	-4.8	-36.5	-18.5
Malaysia	-2.6	-2.2	-4.6	-5.5	-4.9	-3.3	6.5	-4.5
Myanmar	-3.4	-3.9	-5.6	-7.8	-6.8	-6.3	-31.6	-3.8
Singapore	3.7	3.9	-5.9	-0.2	1.4	2	6.9	-1.5
Thailand	0.1	-0.8	-4.7	-7.8	-6.1	-3	7	-2.7
Vietnam	-1	-3.3	-3.9	-4.2	-5	-5.1	-2.1	-1.5
ASEAN	-0.9	-1.4	-5.4	-5	-4.1	-2.9	-0.8	-2.3
China	-4.7	-6.3	-10.7	-6	-7.7	-7.1	8.5	-5
Korea	2.6	0.4	-2.2	-0.6	-1.6	-1.1	0.9	-5.1
India	-6.3	-7.4	-12.8	-10.4	-9.9	-9.1	-9.3	-4.2
Japan	-2.7	-3.1	-9	-7.6	-7.8	-3.5	1.5	-10.3
Taiwan	-1.9	-1.8	-2.9	-1.2	-1.2	-1.1	13.4	-5.6
CKJIT	-3.9	-5.2	-9.7	-6.3	-7.3	-6	4.4	-5.9
TOTAL AP&I	-3.5	-4.7	-9.3	-6.1	-7	-5.7	4.2	-5.6

Source: Research center based on IMF "World Economic Outlook" of April 2022

Towards the reduction of fiscal deficit

In 2020 the COVID pandemic generated a steep decline in global economic activity and in Asia Pacific, with strong variations in each country. To face the collapse and fulfill the necessity of assistance of large parts of the population, the governments have implemented a series of social programs that resulted in a transitory increase in expenditures. The quick recovery in 2021 increased government revenue and led to a gradual reduction of government expenses. Last year, the region reduced 2.1% of its GDP in government expenditures, while it increased 1 percentage point its total

government revenues. In 2020, the increase of expenses had been of 4.2% of GDP, while revenues had fallen 1.4% of GDP.

Table 2 shows the recent evolution of fiscal result of Asia Pacific nations. A strong deterioration of fiscal numbers in 2020 and the quick recovery of 2021 can be seen, and the estimates for 2022 and 2023 are presented. Next year, fiscal deficits would decrease and start a long way towards converging with pre-pandemic numbers. This trend is more important in ASEAN, where the fiscal deficit of 2020 quadrupled that of the previous year. It should be considered that the region saw a collapse of 3.9% of its GDP that year, compared to 0.3% of the other nations. The projected growth rate, despite the conflicts and uncertainties, and the elimination or reduction of social programs and extraordinary expenses due to the pandemic, will improve governmental accounts.

Points of interest and general perspectives for the region

- India decided to ban the export of wheat, due to the recent increase in its price. The country is undergoing a strong drought, and together with a strong increase in global demand due to the invasion of Ukraine, local and international prices have skyrocketed. Inflation rate in the Asian giant, which was estimated at 6% at the beginning of the year, reached an annual rate of growth of 7.8% in April, being 8.4% for food. India is the second largest producer of wheat, and it was expected to export close to 10 million tons, but the harsh meteorological conditions led to a 7% reduction in the crop's harvest.
- No car was sold in Shanghai in April, and the total sales of automobiles in China declined 46% year on year. Restrictions on mobility in the megalopolis and the closing of shops are some of the measures implemented by the government, that has a "zero COVID" policy. Beijing and Tianjin are the other big cities that currently applied strict restrictions to prevent the spread of the virus.
- Japan allows the entrance of tourists after two years. Foreign residents living in Japan, students and business travelers were already permitted, but now the Japanese government looks for a revitalization of one of the most dynamic sectors in pre-pandemic times: tourism. Foreign visitors surpassed 30 million in 2019, and that number was expected to be surpassed in 2020 due to the Olympic games. Entrance to the country will be limited to group tours and depending on the situation in the country of origin, it may include quarantine.
- Samsung announced an investment of over 350 billion dollars in the next five years, in the semiconductor and biopharma sectors. 80,000 jobs are estimated to be created, most of them in Korea. Samsung is advancing in the development of 6G technology, and in May presented a detail on how it will secure the frequencies needed to implement the system.
- Thai's O&G conglomerate PTTEP and Malaysia's Petronas announced their retirement from their joint investments in Myanmar. This decision follows a similar one taken by Chevron and Total at the beginning of this year, citing concerns on human rights abuses.
- On May 9th there were presidential elections in the Philippines, and Ferdinand "Bongbong" Marcos Jr won by a landslide (58% of the votes). The son of dictator Ferdinand Marcos will appoint Sara Duterte, daughter of the current president, as vice-president.