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2020-2021: The Years of High Fiscal Deficits

- Fiscal deficits in Asia Pacific countries and India deepened in 2020 and will remain high in 2021.
- Japan, India, China, Singapore, and Brunei have deficits ranging from 8.9% to 17.7% of their GDP.
- Deficits are generated to a lesser extent from a decline in government revenues (-1.4% of GDP) and to a greater degree from growth government expenditures (+4.4% of GDP).
- Due to the increase of fiscal deficits, total indebtedness of Asia Pacific and India grew 14.9 points of GDP between 2018 and 2020, moving from 89.9% to 104,8% of GDP.
- Average inflation in the region slightly declined in 2020 and the same is forecasted for 2021 (in the range of 1-2%).

Fiscal Deficit and Monetary Policy

Having originated in China, the CoViD-19 pandemic first impacted South East Asian countries. These were the first ones to shut down and to design measures to mitigate both the circulation of the virus and the economic effects of confinements. Restrictions to the movement of people (both domestically and internationally) and a collapse of tourism led to a decline in GDP for most Asia Pacific economies. Therefore, governments' revenues stumbled. To soften the impact of the lockdowns, governments have given subsidies and stipends to sectors that were heavily affected by these government decisions. On top of that, there were exceptional expenses in the healthcare systems. The combination of reduced income and increased expenditures led to a surge in fiscal deficits.

The negative fiscal result of ASEAN countries deepened from an annual 1.1% of GPD in 2018/2019 to 5.4% in 2020/2021. The bigger economies of the region (Korea, India, China, and Japan) moved from a deficit of 4.5% of GDP to over 10% for the same periods. The indebtedness level of South East Asian countries increased notoriously between 2018 and 2020 (see Table 2).

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The growth in fiscal deficits is a two-sided coin: on the one hand, a moderate decline of government revenues due to reduced economic activity and tax exemptions to some sectors (for example, several nations applied these to firms in the tourist sector); on the other, subsidies and stipends were implemented to foster demand in periods of low economic activity (a measure that has been applied in all the regions in the world).

Disparities between countries were also high; while revenues declined 5% in Cambodia and 14% in Brunei, the decrease was less than 1% in Philippines, Myanmar, Singapore, Thailand, Korea, and Japan. Expenses grew amazingly fast in those economies with highest levels of GDP per capita: 12.5% in Singapore, 9.5% in Japan, 3% in Korea. These countries implemented ambitious fiscal expansion programs that included fiscal benefits for the private sector – such as stipends for the payment of salaries and new job posts – as well as direct cash transfers to citizens, among other measures.

Table 1: Fiscal Balance

	Fiscal Balance (% of GDP)				Public Sector (points of GDP)	
					Revenues	Expenditures
	2021 (est.)	2020 (est.)	2019	2018	2020 vs 2019	2020 vs 2019
Brunei	-3.1	-17.7	-6.1	-3.6	-14	-3
Cambodia	-3.4	-1.7	3	0.7	-5	0
Philippines	-7.4	-5.5	-1.8	-1.6	-0.3	3.4
Indonesia	-6.1	-5.9	-2.2	-1.7	-1.8	1.9
Laos	-5.6	-6.5	-5	-4.7	-3.3	-1.8
Malaysia	-4.4	-5.1	-2.2	-2.6	-1	1.9
Myanmar	-6.8	-5.6	-3.9	-3.4	-0.3	1.4
Singapore	-0.2	-8.9	3.9	3.7	-0.3	12.5
Thailand	-4.9	-4.7	-0.8	0.1	-0.4	3.5
Vietnam	-4.7	-5.4	-3.3	-1	-3.4	-1.3
ASEAN	**-5**	**-5.9**	**-1.3**	**-0.9**	**-1.3**	**3.2**
China	-9.6	-11.4	-6.3	-4.7	-2.2	2.9
Korea	-2.9	-2.8	0.4	2.6	-0.2	3
India	-10	-12.3	-7.4	-6.3	-1	3.9
Japan	-9.4	-12.6	-3.1	-2.7	-0.1	9.5
CKJI	**-9.1**	**-11.2**	**-5.2**	**-3.9**	**-1.4**	**4.5**
TOTAL AP and I	**-8.6**	**-10.6**	**-4.8**	**-3.6**	**-1.4**	**4.4**

Note: Estimates to April 2021.
Source: Research institute, based on data from IMF.

Fiscal deficits for the group comprising Japan, India, China, and Korea were over 10% in 2020, and it is expected to be slightly lower in 2021. Something similar happens with ASEAN economies, despite that in that region five countries are expected to see larger deficits this year, while the other five are expected to see lower deficits than in 2020. Fiscal deficits in the previous years show the robustness of ASEAN economies that showed 4.3% of GDP growth in 2019 and 5% in 2018.

The fiscal deficit in 2020-2021 is financed both through issuing debt and through increases in the monetary base. As a reference, the M0 (which shows the amount of money circulating in the economy), grew 8% in China, 10% in Japan and Singapore, 12% in Indonesia, 13% in the Philippines, 14% in Thailand, 18% in Korea, 21% in India and 22% in Malaysia during 2020.

2020-2021: The Period of Helicopter Bond

The CoViD-19 found the ASEAN nations with a relatively low level of indebtedness, except for Singapore (128% of its GDP). The region had a 47% of debt to GDP, and by 2020 it increased by 8.4 points.

The level of indebtedness is particularly complicated for Japan (256%), where its structural deficit and low level of inflation in the last 20 years have been a persistent issue. Japan is the country with the highest level of indebtedness within OECD countries. India also shows an important increase in its level of debt between 2018 and 2020 (20 points of GDP), as well as Singapore (18 points) and Malaysia (12 points). In the latter, the World Bank warned: "the ongoing political uncertainty and a significant increase in government debt to finance the large economic policy response to the pandemic may potentially act as a drag on the economy for years to come"[1].

Table 2. Inflation and Debt

	Inflation				Public Debt	
	2021 (est.)	2020 (est.)	2019	2018	Gross Debt of GDP, 2020	2020 vs 2018 (points of GDP)
Brunei	0.8	1.9	-0.4	1.1	3	0
Cambodia	3.1	2.9	2	2.4	32	+3
Philippines	3.4	2.6	2.5	5.2	47	+10
Indonesia	2	2	2.8	3.3	37	+6
Laos	4.9	5.1	3.3	2	68	+8
Malaysia	2	-1.1	0.7	1	68	+12
Myanmar	5	5.8	8.7	6	39	-1
Singapore	0.2	-0.2	0.6	0.4	128	+18
Thailand	1.3	-0.8	0.7	1.1	50	+8
Vietnam	3.9	3.2	2.8	3.5	47	+3
ASEAN	**2.1**	**1.2**	**2.1**	**2.6**	**55.3**	**+8.4**
China	1.2	2.4	2.9	2.1	66	+13
Korea	1.4	0.5	0.4	1.5	48	+8
India	4.9	6.2	4.8	3.4	90	+20
Japan	0.1	0	0.5	1	256	+23
CKJI	1.4	2.2	2.4	2	111.2	+15.8
TOTAL AP and I	**1.5**	**2.1**	**2.4**	**2**	**104.8**	**+14.9**

Source: Research institute, based on data from IMF.

[1] World Bank (2021), "Aiming High", p. 9

Fiscal deficit was financed mainly by issuing debt (see tables 1 and 2). Years of economic growth, sound monetary policy, increasing integration and limited deficit have facilitated a convenient access to international financial markets for ASEAN economies, paying an annual interest for their 10-year sovereign bonds that ranges between below 3% (Thailand, Singapore, Malaysia, Vietnam) and 4% (Philippines) to 6.5% for Indonesia.

Between 2019 and 2020 there was a decline in the rate of inflation in half of the countries of the region. The IMF estimates that in 2021 the inflation rate will continue to decline, despite the expected rebound of economic activity. An easy access to financial markets and low inflation rates will allow even with the fiscal deficits previously showed and the continuity of the short-term expansive fiscal policies in most of the countries in the region.

Points of Interest and Perspectives

- Vaccination campaigns are progressing at a slow pace in Asia Pacific, compared to other regions. Singapore, with 23% of the population with at least one dose by April 28th, stands out. India and Cambodia vaccinated 8% of their population, Indonesia, and Korea 4%, while Malaysia, Japan, Philippines, Vietnam, Laos, and Thailand show even lower figures.
- The municipal government of Tokyo, the Japanese national government, and the International Olympic Committee repeatedly said that the Olympic Games will not be suspended. They will be held from July 23rd to August 8th, and they will not change the original name: Tokyo 2020.
- Fertility rate has reached historical minimums in Korea, India, Indonesia, Thailand, and Philippines in 2020. In Japan there were 25,000 less births than in 2019 (-3% YoY). If these trends continue, Japan's demographic crisis will further deepen.
- China surpassed the USA as the main destination for foreign direct investment. Even though the growth in FDI in China was small (4%), the United States saw a collapse of 49% in FDI, due to the pandemic. India also shows a strong increase in foreign investments (13% annual growth).
- Foreigners who have received two doses of vaccines against CoViD-19 will be allowed to enter the most popular tourist destinations in Thailand. Until July, they must do seven-day quarantine at a hotel or resort; from July onwards, the quarantine will not be mandatory. Indonesia plans to create touristic "green zones" (areas with low levels of infections and high proportion of people vaccinated), to receive foreign tourists from late July.
- There is a growing political instability in Myanmar. The opposition to the military regime has created a National Unity Government to confront the government, in a context of increasing protests and violence. The European Union has toughened sanctions against some Myanmar nationals and firms controlled by the armed forces.