

*Fiscal Deficits, Debt and Consolidation
in the Pacific Region:
Overview*

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Where Do We Stand?

- A decade ago, the Advanced and Latin American Economies were said to be in trouble in their fiscal positions, but not Japan and East Asian emerging economies.
- Ten years later, things changed by almost 180 degrees with Japan and some East Asian economies plunging into deep fiscal burdens.

Table. Fiscal Balance: PECC, 1990-99

(%of GDP)

	1990		1999
Singapore	10.6	Singapore	4.2
Thailand	3.9	Canada	2.2
Japan	2.6	New Zealand	1.8
Hong Kong	2.1	United States	1.0
Ecuador	0.5	Chinese Taipei	- 0.5
Chinese Taipei	- 0.1	Vietnam	- 0.9
Australia	- 0.5	Mexico	- 1.1
Colombia	- 0.5	Hong Kong	- 1.8
China	- 0.8	Australia	- 1.9
Korea	- 0.9	China	- 2.1
New Zealand	- 1.3	Korea	- 2.7
Mexico	- 2.2	Peru	- 3.1
Indonesia	- 2.6	Malaysia	- 3.4
Malaysia	- 3.0	Thailand	- 3.6
Philippines	- 3.5	Philippines	- 3.7
United States	- 4.3	Indonesia	- 3.9
Canada	- 4.5	Colombia	- 4.3
Vietnam	- 7.2	Ecuador	- 5.9
Peru	- 7.8	Japan	- 7.4

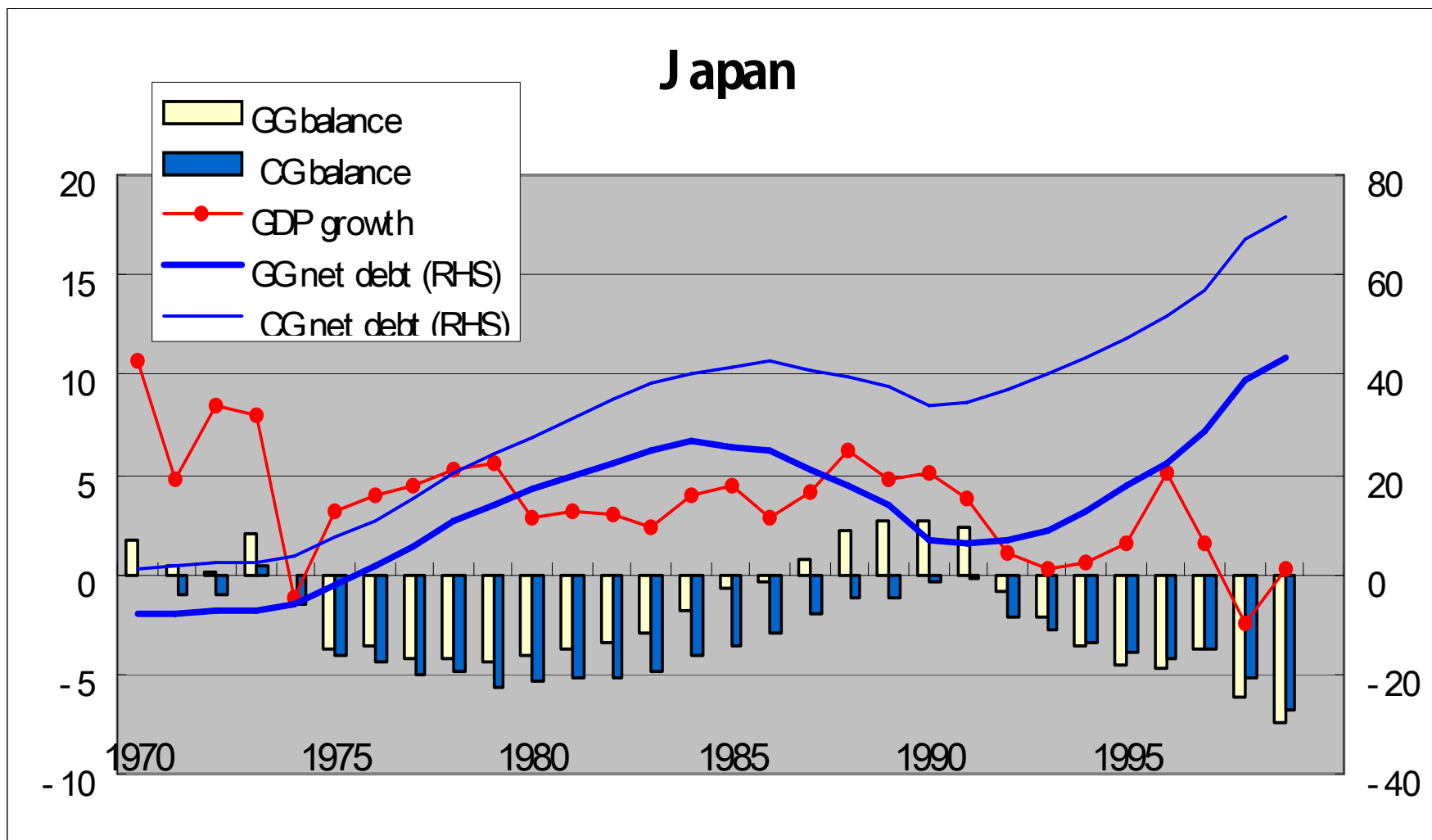
Fiscal Structure

- The economies in the Pacific region are diverse in fiscal structure
 1. Degree of centralization
 2. Size of government
 3. Revenue and expenditure

Fiscal Dynamics across Business Cycles

- Distinct patterns in fiscal dynamics in the advanced and developing economies
- Counter-cyclical fiscal management has led to debt cycles in the advanced economies
- Developmental expansion and fiscal adjustment have appeared to alternate in the developing economies

Figure. Fiscal Dynamics: Japan



Fiscal Consolidation in the Advanced Economies

- Reduction in expenditure, particularly on subsidies/transfers with strengthened *fiscal framework*
- Strengthening revenue bases
- Impact of fiscal consolidation on domestic demand in the short run?
- Not only Japan, but Canada and the United States are not yet free from potential risks

Figure. Fiscal Consolidation: United States

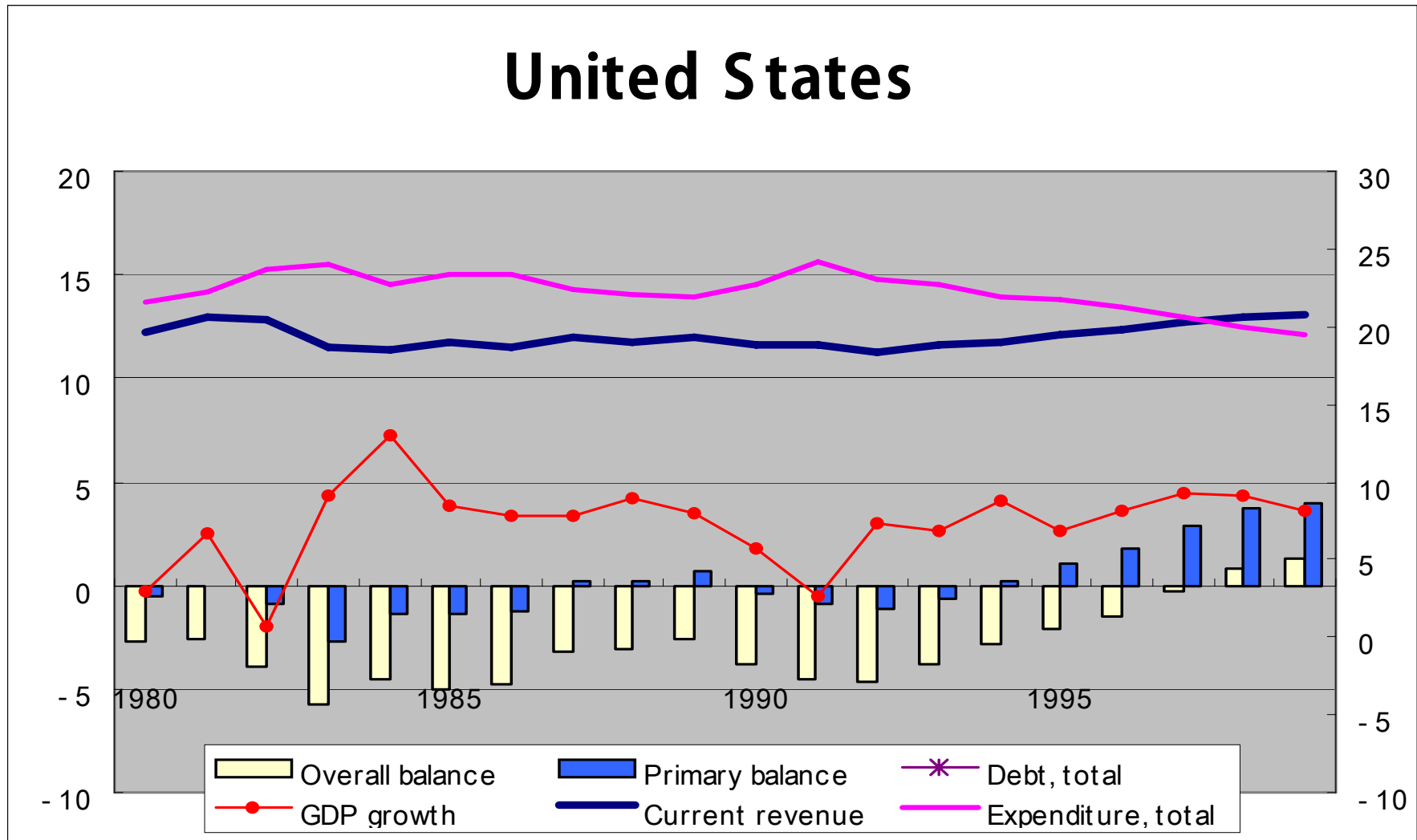
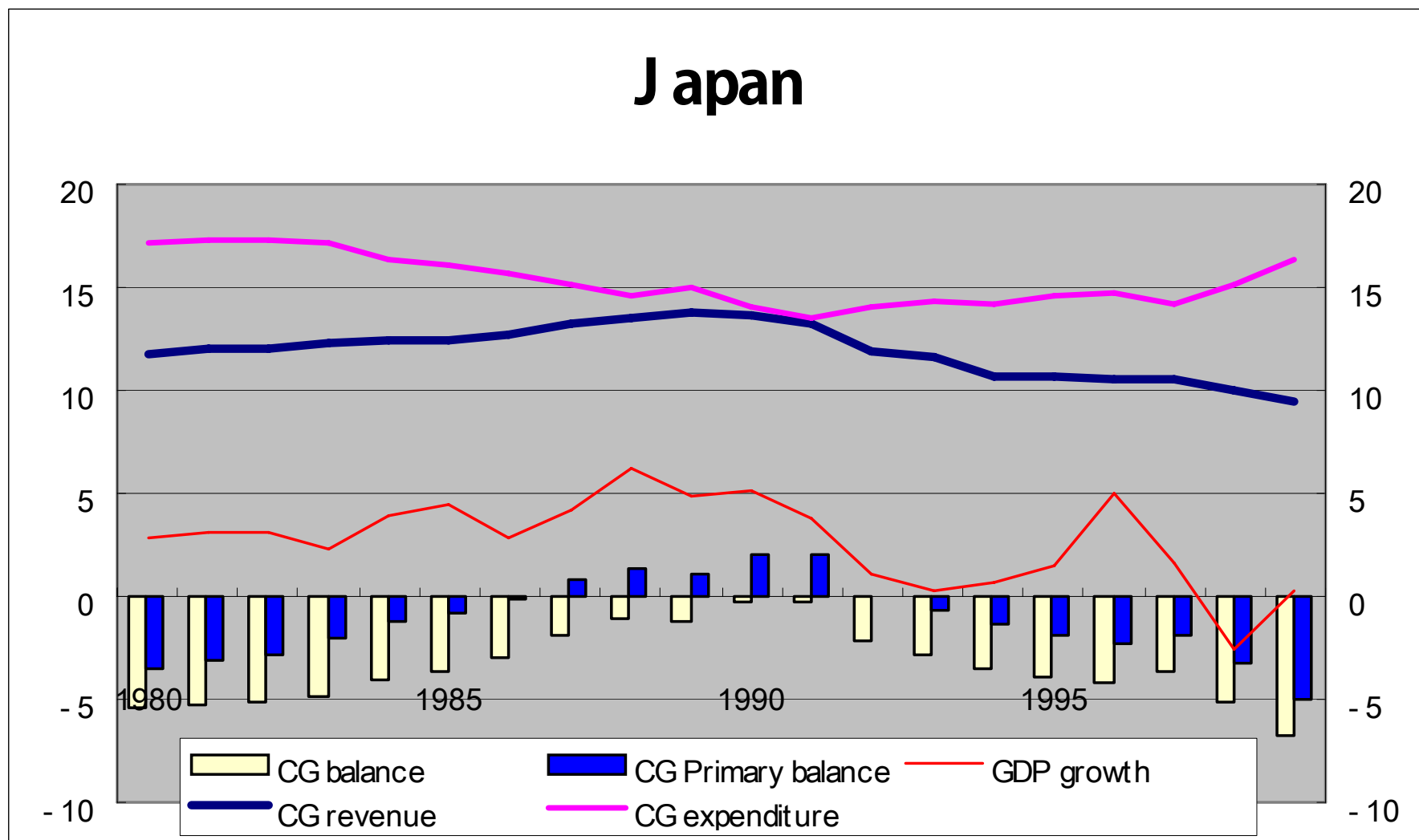


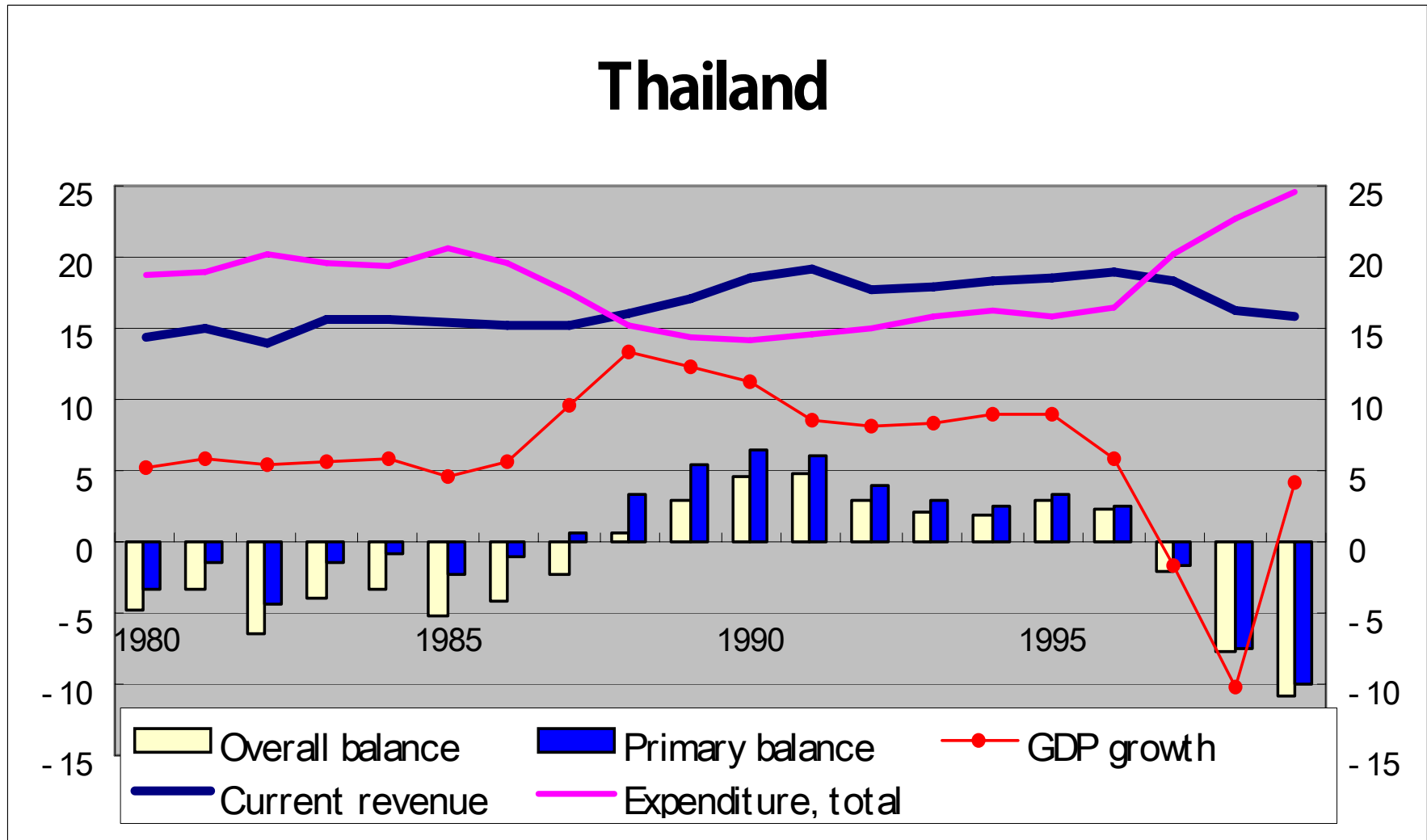
Figure. Fiscal Challenges: Japan



Fiscal Consolidation in the Developing Economies

- Progresses in fiscal consolidation in the 1990s, but the impact of the Asian Financial Crisis
- How to reconcile the short-run accommodative fiscal policy with the longer-run fiscal consolidation
- Colombia, Ecuador, Indonesia, Peru, the Philippines and Thailand are facing these challenges

Figure. Fiscal Challenges: Thailand



Challenges to Future Fiscal Management

- Ever-increasing fiscal needs along with the globalization trend and demographic changes: social safety net, infrastructure and education
- How to build up a fiscal framework for balancing fiscal consolidation with short-run macroeconomic stabilization?