

22 Fiscal balance

Since the Asian economic crisis, Governments in Asia and the Pacific have managed to improve their fiscal positions significantly. In 1998, for the region as a whole the annual budget deficit as a proportion of GDP was 7.2 per cent, but by 2007 this had come down to 0.9 per cent.

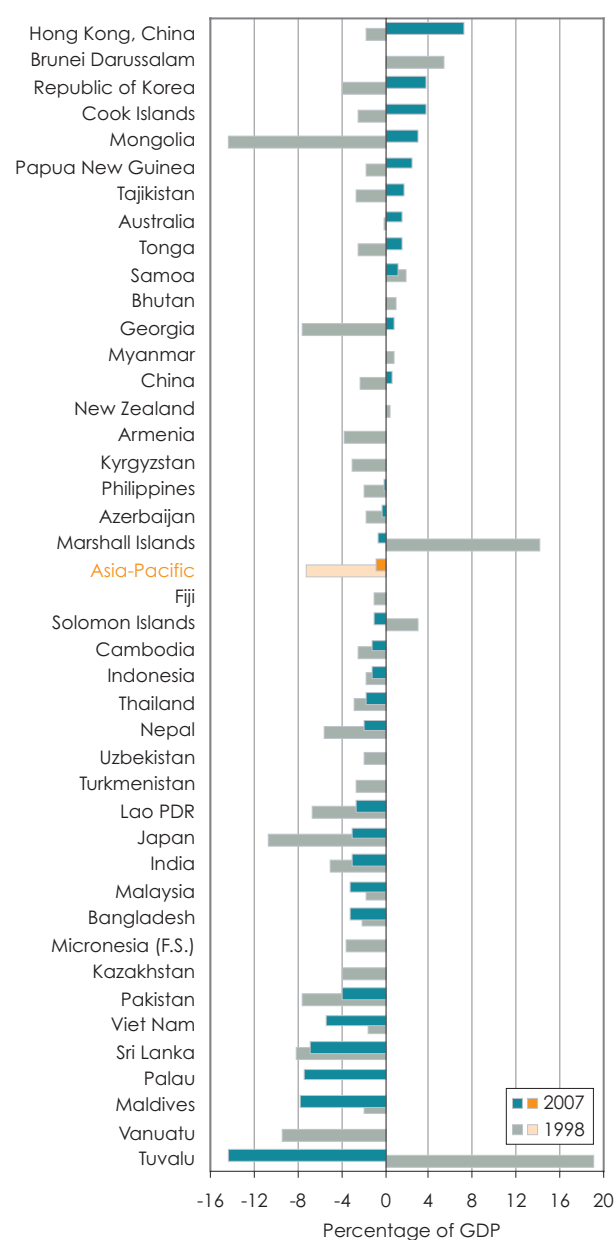
Across Asia and the Pacific many countries have improved their fiscal positions, particularly during the past couple of years – reducing deficits to less than 1.0 per cent of GDP, levels not seen since the early 1990s. They have done so largely by steadily boosting government revenue while keeping government expenditures stable, so the gap between the two has narrowed. Between 2006 and 2007, the fiscal situation remained unchanged in all subregions, except South-East Asia which went from a surplus of 0.2 per cent to a deficit of 1.7 per cent.

Compared with the difficult situation in 1998 following the Asian crisis, the 2007 fiscal situation represents a major improvement. In East and North-East Asia, governments managed to boost their revenues and restrain expenditures. As a result, between 1998 and 2007 they cut their fiscal deficit from 8.4 to 0.6 per cent of GDP. Other subregions also recorded significant improvements over the same period. South and South-West Asia reduced its deficit from 5.3 to 3.3 per cent. The Pacific went from a balanced budget to a surplus of 1.6 per cent. South-East Asia also reduced the deficit, though only marginally, from 2.0 to 1.7 per cent of GDP.

Among individual economies, the most notable fiscal improvements were in China, the Republic of Korea and India. In the late 1990s, China had budget deficits between 2 and 3 per cent of GDP, but in 2007 the country recorded its first fiscal surplus since 1990, largely by boosting government revenue. In the same year the Republic of Korea recorded its highest surplus since the beginning of the 1990s, 3.8 per cent of GDP. India also made progress: between 2006 and 2007 it further reduced its deficit, from 3.4 to 3.1 per cent of GDP in 2007 – also its best fiscal position since 1990.

Figure 22.1

Fiscal balance relative to GDP, Asia and the Pacific, 1998 and 2007



In Japan on the other hand the situation deteriorated. Between 2006 and 2007, the fiscal deficit grew from 1.1 to 3.0 per cent of GDP. This reflected a fall in government revenue, which as a proportion of GDP fell from 14.5 to 11.5 per cent.

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Government expenditure also fell, but rather less – from 15.5 to 14.5 per cent of GDP.

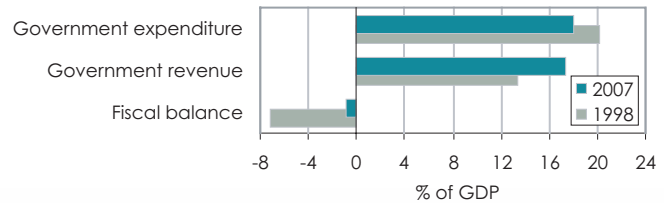
The most dramatic improvement, however, occurred in Timor-Leste as a result of taxes and royalties received from gas and oil in the Timor Sea. In 2007, the country achieved an unprecedented fiscal surplus of 220 per cent of GDP.

This is all very different from the region's situation during and immediately after the 1997/98 financial crisis. Between 1998 and 2007, overall government revenue went from 13.3 to 17.3 per cent of GDP, while government expenditure fell from 20.3 to 18.1 per cent. As a result, governments were in a better position to invest in infrastructure and improve social services. Healthy

government accounts meant they had less need to borrow, reducing the competition for domestic credit and thus opening up opportunities for the private sector.

Figure 22.2

Fiscal balance, expenditure and revenue relative to GDP, Asia and the Pacific, 1998 and 2007



Government revenue (% of GDP)

Total current and capital revenues received by the central Government. **Aggregates:** Averages are calculated using total GDP in US dollars as weight. **Source:** Asian Development Bank, Key Indicators 2008 (online database, accessed in September 2008).

Government expenditure (% of GDP)

The sum of current and capital expenditures of the central Government. **Aggregates:** Averages are calculated

using total GDP in US dollars as weight. **Source:** Asian Development Bank, Key Indicators 2008 (online database, accessed in September 2008).

Fiscal balance (% of GDP)

The difference between total revenues and total expenditures of the central Government. **Aggregates:** Averages are calculated using total GDP in US dollars as weight. **Source:** Asian Development Bank, Key Indicators 2008 (online database, accessed in September 2008).

