

ERIA-Fiscal Issues Project FY2011

Date : February 11-12, 2011

Place : Mandarin Orchard Hotel, Singapore

Purpose : 2nd Workshop

Attended by:

1. Prof. Shujiro Urata
2. Prof. Takatoshi Ito
3. Dr. Friska Parulian
4. Dr. Seok Kyun Hur
5. Dr. Rajiv Kumar
6. Dr. Alamuru Soumya
7. Dr. Nguyen Ngoc Anh
8. Dr. Rosario G. Manasan
9. Dr. Rapeesupa Wangcharoengrung
10. Prof. Ling Shuangling
11. Dr. M. Chatib Basri
12. Dr. Seongtae Kim

The structure of paper

- Paper 1 by Prof. Ling Shuangling, Peking University and University of Nebraska Ohama
- Paper 2 by Dr. Rajiv Kumar and Dr. Alamuru Soumya, Indian Council for Research on International Economic Relations (ICRIER)
- Paper 3 by Dr. Sjamsu Raharja, World Bank – Jakarta and Dr. M. Chatib Basri, University of Indonesia
- Paper 4 by Dr. Prof. Takatoshi Ito, Tokyo University
- Paper 5 by Dr. Seok Kyun Hur and Dr. Seongtae Kim, Korean Development Institute
- Paper 6 by Dr. Rosario G. Manasan, PIDS
- Paper 7 by Dr. Kanit Sangsubhan and Dr. Rapeesupa Wangcharoengrung, FISPRI
- Paper 8 by Dr. Nguyen Ngoc Anh, DEPOCEN

Day 1 (February 11th 2011)

Paper 1 : China`s Expansionary Fiscal Policy and Fiscal Sustainability (by Prof. Ling Shuangling, Peking University and University of Nebraska Ohama)

Notes from presentation by Prof. Lin Shuanglin:

Overview of China`s Public Finance

1. Fiscal expansionary has been risen dramatically since 1997, after the Asian Financial Crisis (AFC), which led to increase in budget deficit. The trend started to decline after 2002. In 2007, the economic booms resulted in surge of government revenue and a budget surplus. However, Global Financial Crisis (GFC) in 2008 forced the Chinese government to run budget deficit again. The ratio of government budget deficit to GDP was 0.4% in 2008, 2.3% in 2009 and 1.6% in 2010.
2. China heavily relies on VAT and corporate income tax, business tax and consumption tax and VAT on imports. Meanwhile, the share of personal income tax in total tax revenue is still small and property tax has not been established.
3. The annual growth of government revenue has been extraordinarily high since 1994 and in 2010, the growth rate reached 21.3%.
4. Major government expenditures items are education (13.9% of total government expenditure), general public services (10.44%), social security and employment (10.14%), urban and rural community affairs (6.68%), public security (6.12%) and healthcare (5.3%).
5. Various fiscal reforms have succeeded to trim down the ratio of extra-budgetary revenue to budgetary revenue and the ratio of extra-budgetary revenue to GDP. On the other hand, off-budget revenues still exist everywhere. However, the central government does not really want to eliminate the off-budget revenue in order not to hurt the incentives of local governments. More responsibilities should be given to local public to monitor and supervise the revenues and expenditures of local government.
6. There exists central and local government fiscal disparity. The big imbalance incurred in local government`s fiscal revenues and expenditures. Thus, they rely on central government to close the gap.
7. Per capita government expenditures vary largely across regions.
8. The reliance on fees and charges as the source of local government revenues have been reduced. They switch to selling urban land to real estate developers and purchasing farm land from farmers and selling it to urban estate developers as means to raise revenue. Nevertheless, the reliance on land sales is not sustainable.
9. Although a mixed social security system of combining social pooling and individual account have been adopted, majority is still in the form of social pooling account. In the route of aging population, China will inevitably face social security payment crisis in the future.

2008-2010 Expansionary Fiscal Policy

GFC has decreased FDI, exports and imports, slowed down GDP growth and risen unemployment. Central government decided to implement stimulus package of:

1. Four Trillion Yuan Stimulus Package.
 - (a) Project Invested: Housing for low income groups, rural social safety net and rural infrastructures, other large infrastructures (e.g. railroads, etc), healthcare, culture and education, ecological and environmental projects, innovation and industrial structure changes and Sichuan earthquake reconstruction.
 - (b) Source of funds: Central government, local government, banks, individuals and firms.
2. VAT Reduction and Export Tax Rebate
From 1st January 2009, investment was excluded from VAT base for all areas and all industries in China. Besides, government increased tax rebates for some export goods and in July 2010, they eliminated tax rebates for some products, including steel and non-ferrous metals.

Effects of 2008-2010 Expansionary Fiscal Policy

1. Impact on GDP growth
The policy has greatly stimulated China's economic growth and GDP growth bounced back to 10.3% in 2010. Consumption was used to be the main drive of GDP growth from 1978-2000. However, the phenomenon has changed and the investment share in GDP becomes the largest.
2. Impact on Various Sectors
The figures show that the investment in fixed assets in the field of transport, storage and post, electricity, gas and water and education, healthcare, social securities and culture has increased due to stimulus package. In contrary, the growth rate of investment in fixed assets in manufacture industries have been declining.
3. Impact on Inflation
Based on official statistics, the CPI had decreased from early 2008 to mid 2009 and then started to increase with the growth rate of 4.6% in December 2010. However, the actual inflation could be much higher.

China's Government Debt and Its Sustainability

1. Fiscal Debt
The fiscal debt has been rising, but still low, compared to many other nations. Debt-to-GDP ratio declined to 17.56% in 2008 and increased slightly to 17.81% in 2009
2. Foreign Debt
The ratio of debt to exports of goods and services (XGS), debt-GNP ratio and ratio of total debt service to export have been relatively low compare with other developing countries. Thus, the degree of risk exposure of China's foreign debt is very low. Moreover, China's foreign debt to foreign exchange reserves ratio has declined dramatically. China's savings rate has been extraordinarily high and it does not really need foreign savings to fill the savings and investment gap.
3. State Banks' NPL
NPLs of main commercial banks declined dramatically in the past decade due to tough commitment from central government.
4. Local Government Debt
Total local government debt has exceeded 8.55 trillion yuan in, accounting for 25% of GDP. The central government has taken tough measures to reduce local government debt, for instance, announcing regulation on local government financing platforms and cooperating with MOF, DRC and CBRC for the enforcement of the regulation.
5. Total Government Debt and Assets of SOEs
Total government debt would be around 53% of GDP which is relatively high compare to size of government debt in Japan and US in 1970 (during the time they enjoyed rapid economic growth).

Perspective Fiscal Policy and Policy Suggestion

1. Speech Delivered by Finance Minister Xie Xuren
Central government will continue the expansionary fiscal policy. This gives signal that government debt will continue to increase.
2. Policy Recommendation
 - (a) Give local government the right to establish their own tax based on specific local situations. Eventually, collecting property tax in China will be inevitable.
 - (b) Allow local government to issue bonds and in addition to that, appropriate law should be established in order to discourage rent seeking behavior.
 - (c) Reform tax systems. Government should increase direct taxes (e.g. personal income tax and personal property tax) and reduce indirect taxes (e.g. VAT, business tax and consumption tax). It should be lowering the tax rates, expanding the tax base and reducing tax evasion.
 - (d) Establish a new social security system of a large personal account.
 - (e) Reduce government budget deficit. Government should follow balanced budget principle in the long run.
 - (f) Increase fiscal transparency.

Q & A Session

Name	Questions/Comments
<p>1. Professor Takatoshi Ito (discussant)</p>	<ol style="list-style-type: none"> 1. A very good summary of Chinese fiscal situation, budget and expenditure and social security. The policy suggestions seem feasible. 2. What's the explanation behind fluctuation in government revenue share to GDP? 3. Elaborate more on the structure of social security system. Is individual account invested in the funds? 4. If there's shift in demographic change, how will it affect social security system? 5. Explain more on what constitutes extra budget revenues and off-budget revenue. 6. Good point that you explain the 4trillion stimulus. Is what announced then fully implemented? 7. Is the state bank lending part of the package? 8. It is very difficult to measure the effect of fiscal stimulus to GDP. The work presented may not be 100% true. The multiplier has to be measure carefully. Caution on the relationship between stimulus and GDP growth. 9. Is the real estate crisis coming up? If it burst, the what's going to happen, who gets hurt, will it lead to lending problem, local government problem or only private sector? What is the level of exposure of local government if they are involved in joint venture. Give some details. 10. Real-estate tax will be introduced in some cities. How it will be implemented? 11. Did they record the selling of land properly? <p>Answer:</p> <ol style="list-style-type: none"> 1. The raised of government revenue may be due to 1994's increase in VAT. Extra-budget revenue is declining as this form is converted to budget revenue. Another reason is due to economic growth. 2. For individual account, individuals contribute 8% of salaries to his personal account. Companies contribute 20% and this includes healthcare. Social security runs by local government. However, lots of individual accounts have no money, as they are used to pay for the retirees. There are discussions on privatization of soc security system. However, there's principal agent problem, hence government doesn't

	<p>want to change. Government also tries to engage farmers to be in the social security system.</p> <ol style="list-style-type: none"> 3. Extra budget revenue consists of money from fees, charges and land sales and generally found in local government. Off-budget revenues do not appear in central government. Difficult to get rid of that. 4. All fiscal stimulus has all been spent. The money comes from fiscal and monetary side-back lending to local government (which then lend it to local companies, private firms, etc. There's threat of inflation, thus government tries to control the money. We can figure out the proportion of money from fiscal and monetary. The approximately 3 trillion is extra back lending from monetary. The beginning projection of budget deficit is 1.5trillion. However, the actual figure shows 700bn. 5. Good input for multiplier. Will look into that. 6. After fiscal stimulus, real estate increase by 50%. However, the bubble is not a big problem at the moment. The real-estate price is lower than in Tokyo and Seoul. Government has many policies to control price of housing (regulation on lending, etc). Local government and real estate have the same vested interests. Hence, local government doesn't want it to be crashed. 7. Currently working on the project on land transaction. Will look into that.
<p>2. Dr. M. Chatib Basri</p>	<ol style="list-style-type: none"> 1. Government deficit is almost zero, relatively negligible. The saving is bigger than investment. Does the saving come from private or SOEs? 2. How the purchase of land will impact the economy growth? What's the reason of surge in China's GDP from 9 to 10%? Is it due to monetary, fiscal policy or other things? <p>Answer:</p> <ol style="list-style-type: none"> 1. Local government owns the urban land and sell it to developer at very high price. Developer then build the house and sell at high price. Nobody knows how much local government own the money. It's not transparent. However, land is limited. Lots of urban land is almost sold. Now, they reshuffle the land. 2. Strict regulation on farm land. Local government sometimes want to own farm

	land and sell it to real estate. But farm land owned by villagers. When this happens, farmers will not get much benefits as the majority of the share goes to local government and developer.
3. Professor Shujiro Urata	<p>1. Is there any fiscal policy aimed at addressing increasing income gap between or among regions or income groups? Does China have progressive income tax? How about regional transfer system?</p> <p>Answer:</p> <ol style="list-style-type: none"> 1. Regional gap is very high, however, it's not a big problem. Most farmers are happy, better off and they feel that they benefit from the growth. We cannot complain at central government about disparity. Some regions have more resources, some not. 2. Policy design has incentive system to local government to encourage their participation in poverty alleviation. 3. Income tax is even more progressive than US but its proportion to GDP is very small. China does not have personal property tax and inheritance tax. No effective tax system to transfer the income.
4. Dr. Friska Parulian	<ol style="list-style-type: none"> 1. It will be good to explain more on off budget expenditures and revenues. 2. Are there other contingent liabilities outside pension funds? It will be good if there's number in graph.
5. Dr. Seok Hyun Hur	<p>What's the highest marginal tax?</p> <p>Answer: It's 45%</p>
6. Dr. Rajiv Kumar	<p>Why the negative net exports are not matched by the existence of current deficits?</p> <p>Answer: The negative figure is actually the growth of net exports. The net exports is still positive, there's surplus, but the growth is declining.</p>

Paper 2 : Fiscal Issues in Asian Economy : Assessment of the Impact of Stimulus, Fiscal Transparency and Fiscal Risk : Evidences from India

Notes from presentation by Dr. Rajiv Kumar and Dr. Alamuru Soumya :

The Current Situation :

1. The study related to India had supported both the Keynesian-positive impact-crowding-in and neo-classical-adverse impact-crowding-out.
2. Introduction of the FRBM (Fiscal Responsibility and Budget Management) Act in July 2004 had led to lowered fiscal deficit, 4.2 per cent of GDP in 2007-2008 and turned the primary deficit to

surplus of 1.3 per cent of GDP, which indicating earlier achievement than targeted fiscal year 2008-2009 (except for the centre's revenue deficit target). Along with this, the public debt showed a steady decline until it stood at 74.7 per cent, but estimated increasing in 2010-2011 if the GDP growth slows down.

3. As the global crisis hit, in 2008-2009 the fiscal deficit ratio had a sharp rise to 8.5 per cent, which consequently lead to higher estimated debt to GDP ratio for 2009-2010 (72.4 per cent).
4. The government revenue expenditure was increased mainly because of a sharp rise in salaries and pensions which happens every 10 years, debt waiver on farm loans waiver and subsidies since the mid 1990s.
5. The impact of the global crisis has been transmitted through three distinct channels: the financial sectors, exports and exchange rates. In response to this, two fiscal stimulus packages were provided which has been largely in the form of a reduction in taxes and duties and, to some extent, incentives to the export sector.
6. Public Investment and savings have been improved but sharply decreased along with the global crisis impact.
7. The first fiscal stimulus package was introduced on 7th December 2008, the second one on 2nd January 2009 and the last one was on 24th February 2009, with total fiscal burden for these packages amounted to 1.8% of GDP in 2008-2009. Along with the expansion undertaken in the two budgets, the total fiscal stimulus in the last two years can be estimated as 3% of the GDP.
8. Major tax reforms initiated by the government were : the simplification and rationalization of the direct tax structure (1992) and a service tax to widen the tax base (1994)
9. There has been a steady improvement in the tax ratio over years. A major development at the state level is the adoption of value added tax (VAT) from 2005-06, which has evidently helped tax revenues to increase from 8.6 percent in 2005-06 to 9.6 percent in 2008-09
10. The introduction of GST regime supposed to be launched in April 2010 has been delayed due to political reasons.
11. The decline oct-dec 2008 was not hardly affected by lemon effect, there was endogenous policy making

The Rationale for Reform :

1. The FRBM Act had failed to set a cap on public debt and it did not have any provisions for protecting a decline in public investment. A sound fiscal system need to have in place measures to control the debt to GDP ratio.
2. Stimulus packages announced in India were discretionary in nature which may not help achieving fiscal sustainability in the long run. the government needs to concentrate on automatic stabilizers pertaining to permanent expenditure and tax rules to attain fiscal sustainability and macroeconomic stability.
3. The focus has shifted from managing the crisis to managing the recovery which means concentrate on long term policy scenarios to control the fiscal situation and improve GDP.
4. Fiscal policy action in terms of stimuli would not be effective as the already high (8.5% of GDP in 2008) consolidated fiscal deficit tends to rise in line with increasing in government borrowing and the debt/GDP ratio.

Feasible Reform Measures :

1. The key challenge is on balancing between public interventions and maintaining market confidence in the sustainability of public finances which includes efforts to improve investment climate, remove entry barriers to corporate investment in education and vocational training, improve the delivery of public goods and services, and expand physical infrastructure capacities
2. The government should take up long term projects to improve infrastructure facilities (key binding constraint on India's growth) and increase spending on primary education, primary health, R&D etc to improve human capital development, considered it as part of capital expenditure.
3. The need of governance improvement with a focus on minimizing rent seeking and the delivery of public services to generate sustained rapid and inclusive growth.

4. Fiscal policies should be formulated within medium-term fiscal frameworks (and supportive institutional arrangements) that envisage a gradual fiscal correction once economic conditions improve.
5. Another feasible fiscal exit is to increase or restore excise duties to previous levels. Partial reversing may help strengthening the government revenues without disrupting the growth prospects.
6. Broaden the tax base through the introduction of the new tax system of GST on Oct 2010 replacing CENVAT, state VAT and service tax. Another possible approach is the enactment of the Direct Tax Code (DTC) designed to greatly simplify the direct tax structure.

Q and A

Name	Question/Comment
<p>Dr. M. Chatib Basri (discussant)</p>	<p>Comments:</p> <ol style="list-style-type: none"> 1. Generally focus on current fiscal situation, evolution and the impact and strategy of exit, focus on the trends and pattern of India's fiscal policy 2. Comprehensive trend and pattern in India's fiscal policy until the GFC 3. Findings : Fiscal sustainability is critical issue, exit strategy need to be carefully designed, the chronic fiscal deficit mirrored in rising public debt level 4. Need more collaboration on the economic results, need more explanation between public debt and GDP correlation, fiscal deficit and GDP?, level not growth?, trend or correlation? , suggestion: better to look at growth than level 5. Why consumption remained strong during GFC? 6. If we look at the impact of fiscal stimulus, it is more likely that the role of the fiscal stimulus is not too strong 7. Public investment declined 8. Is the India's fiscal policy counter cyclical or pro cyclical? 9. Fiscal stimulus is sizeable, need to differentiate increment vs temporary spending? 10. India is facing supply constraint due to infrastructure, logistics, etc. need more expenditure on education. not much room from infrastructure. Is the growth sustainable? 11. Key challenges : quality of spending targeted subsidies (removing some of the subsidies), adjustment in tax system (extend tax base is more preferable), comparison with Indonesia , political pressure, anti corruption movement, 1998 IMF conditionalities
	<p>Answers :</p> <ol style="list-style-type: none"> 1. Dr. Basri's points are all well taken, we will incorporate these appropriately. 2. Long standing debate whether fiscal deficits is crowding in or crowding out. Do more regression on revenue deficits and GDP growth and this may help to eliminate the discrepancy between the long and short term 3. The real issue in India is how to bring down the cost of capital, because the main driver of growth is the private investment. 4. Infrastructure growth cannot be sustained only by PPP

	<p>schemes. The government will have to focus on public infrastructure especially in the rural sector and also on education and health. It is critical to improve the supply of public goods and services. Therefore, we suggest including expenditure on education and health as capital expenditure.</p> <p>5. The focus has to be on expenditure efficiency. The fiscal discussion will remain unclear, unless we have clarity on extent and growth at parallel economy</p>
Prof. Shujiro Urata	<p>1. Can single identification number system deal with the problem associated with the shadow economy?</p> <p>1. How to attract public/private money?, PPP?, do you give government guarantee?</p> <p>2. Private sector is heavily affected by political power (Tata case), something need to be done, how is your view regarding this matter?</p>
	<p>Answers:</p> <p>1. Every person will have social security number which will lead to the tax base expansion (agriculture transactions are excluded) the combination of GST and tax code is expected to bring positive impact on the government revenues by expanding this tax base.</p> <p>2. Government extends gap financing in PPP projects. This is based on some national minimum rate of return for infrastructure investment and this in effect guarantee a minimum rate of return. But this is driving the investment away from manufacturing capacity expansion. So it is perhaps unsustainable.</p> <p>3. India is a democratic country with complex political processes but progressing into better condition.</p>

Paper 3 : Mild Crisis, Half-Hearted Fiscal Stimulus: Indonesia During the GFC (by Dr. Sjamsu Raharja, World Bank – Jakarta and Dr. M. Chatib Basri, University of Indonesia)

Notes from presentation by Dr. M. Chatib Basri

The Impact of the GFC on Indonesia

1. Decline in exports, particularly agriculture, oil and gas and minerals. However, the impact was limited due to relatively lower reliance on exports as engine of growth compare to neighboring countries such as Singapore and Malaysia. Besides, the country's weak distribution network also helped to minimize the blow of GFC.
2. Surge in domestic demand also facilitated the country to be resilience from GFC.

Indonesian Government Budget in Nutshell

1. Important change taken place after AFC are increasing role of the parliament in the budgeting process and fundamental changes in the format of government budget.
2. Subsidies have taken a significant part of central government spending, it is pro-cyclical.
3. There's a tendency of small capital spending and purchase of goods and services at the beginning of fiscal year and surge of the spending towards the end of the year.
4. Tax revenue has been the main driver of increase in central government revenue.
5. When excluding salaries and subsidies, growth and in disbursement of government spending has been relatively stronger in episodes of downturn.

Fiscal Position before GFC

1. Indonesia has better fiscal conditions than many Asian countries (declining budget deficit/GDP and external debt, surplus in primary balance-except in 2009)

Fiscal Stimulus

1. MOF unveiled a stimulus package of US\$6.4bn for 2009 addressing three major areas: income tax cuts, tax and import duty waivers, subsidies and government expenditures.
2. The fiscal stimulus was relatively modest compare to other economies and mostly was in the form of tax cuts. Reasons for low stimulus package: State Financial Law and Government Regulation that limit budget deficits to 3%of GDP, financing issues (DDO) and mild impact of crisis.
3. Tax cuts are preferred due to young population and higher marginal propensity to spend.

Effectiveness of Fiscal Stimulus

1. Although by raising the non-taxable income threshold could have induced the consumption for low income people, the number of Indonesians who hold tax-file is still relatively small.

Assessment of Fiscal Stimulus

1. Estimate the potential impact of fiscal multiplier on economic growth using VAR approach.
2. Tax cuts has more pronounced impact to GDP.
3. Government spending is mostly driven by subsidies that is pro-cyclical.
4. Fiscal pattern was determined by oil price. As during the oil booms, economic activities outside Java increased and during the crisis, they were capable of making use of their accumulated savings to fund consumption.

Fiscal Policy post GFC

1. Reduction in corporate tax rates, personal income taxes and broader income tax-free bands are seen as permanent rather than temporary. While stimulus in the form of reduction in the price of diesel oil and electricity billing for industrial uses are seen as quasi-permanent. Indonesia will have the *new normal* pattern.
2. Government will still be committed in building more expenditure. Thus, fiscal policy has not been undergone much change after GFC.
3. It is difficult o discern a practical exit strategy from the fiscal stimulus due to permanent nature of fiscal policy. Luckily, government is unable to spend the fiscal budget as planned.

Agenda for further reform

1. Improving transparency and managing fiscal risk. The measures include managing contingent liability which requires continuous effort to increase operational capacity and transparency on loans or fiscal arrangement of SOEs and managing risk from short term capital inflow.
2. Handling of principal-agent problems between the central and local governments. Introduce larger special allocation fund in order to create reward and punishment system.
3. Maintain efforts to deal with corruption and effectiveness in disbursing government budget.
4. Improvement in fiscal space and quality of spending.

Q & A Session

Name	Questions/Comments
7. Dr. Rajiv Kumar (discussant)	The paper is informative and really analytical. 1. It will be good to provide description of what is holding up the exports, how much is the volume increase and what is the composition of export goods. 2. Which markets absorbed the increase in exports, since the global economy is shrinking? China? Japan? 3. Asking for clearer analysis of how high domestic demand and low export dependence help Indonesia to escape from GFC. What's contribution of net exports to

growth. Which one is preventing GFC? Exports or domestic demand? Is it public or private demand?

4. Why government does not want to ramp up economic growth by borrowing more? They should expand discretionary spending to push the growth. What prevents government from doing so? There's bias against running fiscal deficits. There is fiscal space because fiscal deficit is less than 3%.
5. Struck by public expenditure charts that is fluctuating. The figure is small at the beginning and big at the end of fiscal year. What measures can be taken to make expenditure not so seasonal?
6. Explain the crowding out more rigorously. Does fiscal expenditure raise GDP growth? The paper gives both the 'crowding in' and 'crowding out' argument. This needs to be clarified.
7. Provide the data on domestic demand and resilience until 2009 to show the effect of GFC.
8. Why government does not enter borrowing market? Is it because excessive fiscal prudence?
9. Is the energy subsidy big? Not so averse with that. Since Indonesia is an oil producer, why not share the gain with the people? Make sure where it is used for capital formation and not consumption. There's a need to shift public expenditure from consumption to capital formation.

Answer:

All points are well-taken. Will revise paper based on your suggestions.

1. Role of fiscal stimulus is rather small but Indonesia survived from GFC. The strong consumption is due to lag of export-commodity booms. Lots of people from outside java use the savings accumulated during the booms to smooth the consumption.
2. Share of government spending to GDP is only 10%. Hence, we cannot rely on government spending to expand economic growth. The improvement of investment climate is a better option.
3. Quality of spending is important rather than subsidy for energy or fertilizer. It is better to direct to education, health or direct cash transfer. Subsidy for fuel and gas is biased toward middle income.

	<ol style="list-style-type: none"> 4. The 3% choice is rather unclear. Once change the fiscal law, it can be dangerous. Politicians accused that the fiscal money is used for pork barrel. 5. Reduction of fuel subsidy is important. It will make fiscal spending more effective.
<p>8. Professor Takatoshi Ito</p>	<ol style="list-style-type: none"> 1. The energy subsidy should be minimal as the largest energy consumer is middle income families. The subsidy should be in the form of income support. 2. It is good that government maintain the deficit under 3%. If they want to expand infrastructure, they can do it through Public Private Partnership (PPP). 3. Recommend to keep prudence fiscal policy. Once government change the law or expand the deficit, some parties may misuse it. Law should be there. 4. Why government chose 3%? <p>Dr. Rajiv's response:</p> <ul style="list-style-type: none"> - The whole thing should be aimed to emphasize on capital formation. The rule to focus will be to ensure zero revenue deficit and primary surplus. Then size of fiscal deficit really does not matter. Fiscal deficit should be used for building infrastructure. - Supporting argument for energy subsidy: you cannot export all the oil. If you sell more, currency may appreciate and there could be <i>Dutch disease</i> affecting other exports.
<p>9. Friska Parulian</p>	<ol style="list-style-type: none"> 1. How was reallocation of decreasing fuel subsidy that had been done? 2. Decreasing fuel subsidy may lead to surge in logistical costs. It may increase the price disparity between regions. Besides, there will be inflation threat. Why not allocating it to build infrastructure? <p>Answer:</p> <ol style="list-style-type: none"> 1. During Megawati's era, there was adjustment of fuel subsidy which then be used for education purpose. The recent adjustment is used to support direct cash transfer. 2. There is a need to improve public expenditure for infrastructure. Redirect the fiscal spending from energy subsidy to building infrastructure will give more room to fiscal policy. PPP is feasible if the project is commercially feasible. If not, like the case in Eastern Indonesia, government should step in and infrastructure spending

	should be financed from fiscal policy.
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Paper 4 : Japan Country Paper : Fiscal Sustainability of the Japanese Debt Problem

Notes from presentation by Prof. Takatoshi Ito, Tokyo University

The Current Situation :

1. Budget deficit and government debt have increased dramatically in Japan and these showed deteriorating trend. This is mostly because of declining in tax revenue and the countercyclical policies. At the same time, bond yield has declined steadily. This also raises a question on how to understand the apparent negative relationship between increasing debt and declining interest rate. Although Takuoka (2010) attempted to answer this puzzle, we plan to construct a different kind of model to explain the JGB (Japan Government Bond) yield. Further, although, there are several reasons why long term bond interest rate remains low in Japan, but we do not know how long this situation will continue.
2. Global financial crisis (GFC) hit Japan hardly through the trade link. Large fiscal stimuli were provided in the fall of 2008 and the spring 2009. This lead to large fiscal deficit in Japan that approaches 8% of GDP in FY 2010 or 2011. With this situation, it is difficult for Japan to cut deficit by half in 2013 following Toronto G20 Summit on June 2010. Further, although the Japanese government announced the Medium term Framework on 22 June 2010, there has not been decided a real plan both on revenues and expenditure sides.
3. Possible reasons of deficits :
 - Tax revenues have declined steadily due to deflation and income declines : corporate and personal income taxes have declined sharply, partly as an automatic stabilizer, consumption tax revenues have been flat as expected
 - Expenditures were increasing : Social security related expenditures were structurally increasing, automatic stabilizers, political pressure to spend (discretionary spending), partly due to not realizing the permanent shift in lower potential growth rate and over stimulate.
4. Countercyclical policy:
 - problems : Discretionary spending, automatic stabilizer, and temporary tax cut may work in recession, difficulty in identifying automatic stabilizer and discretionary spending.
 - possible solutions : to compare, initial estimate (budget, and budget assumption) and mid-year correction, to examine "stimulus packages" (the size of the package may not be genuine) followed by supplementary budget.
5. Bond yield Puzzle :
 - It is low because : domestic saving surplus, domestic investors' home bias, domestic investors' risk aversion, low policy (short-term) interest rate, deflation, trust: "the government will solve the problem sometime in the future", room to increase the consumption tax
 - When the fiscal variable (main explanatory variable) is the primary deficit, the coefficient is relatively small (at most 0.1) and statistically insignificant. When net or gross debt is included as the main explanatory variable, the coefficient turns negative.
 - Credit rating agency has downgraded JGBs in the past, but the interest rate does not respond
6. Sustainability :
 - Domestic savings will be decreasing
 - Debts are increasing
 - Banks can continue to absorb JGBs, (if Banks' lending to corporate sectors continue to decline, households and corporations continue to place their deposits to banks.

The Rationale for Reform :

1. The Keynesian theoretical framework is going to be used to address critical issue in the countercyclical fiscal policy or fiscal stimulus such as why we need fiscal stimulus, how effective it is, do we need it in the future. Generally speaking effectiveness of the Keynesian approach will depend on the magnitude of multiplier scalar, the crowding out effect, and the Ricardian equivalence.
2. In investigating fiscal stimulus, we need to consider not only total expenditure, but also the pure incremental (real water).

3. There is another terminology namely is supplementary budget or mid-year correction of budget. The budget usually devotes for natural disaster, unforeseen budget items, and in conducting the Keynesian fine-tuning.
4. It is also important to note the terms of „fiscal reaction function“. This means to measure the impact of fiscal stimulus on economic growth is difficult because it is related to the endogenous, causality and effectiveness issues.
5. In terms of fiscal sustainability, this study aims to conduct simulation based on several previous studies such as Tokuoka (2010).
6. There is also a demand to improve transparency and to simplify government budget
7. It is important to do decoupling fiscal consolidation from political meddling. Several options can be applied to enhance a strong fiscal rule. This study aims to investigate the good and the bad parts from various options

Feasible Reform Measures :

1. Learn from the stimulus package in the 1990s such as the Shopping voucher plan in 1999; it showed limited success because it was tax rebate and not public spending.
2. Further, studying the fiscal contraction on April 1997 that leded recession came to two conclusions such effective camp and ineffective camp.
3. The helicopter plan 2009 gave different amount of money for different ages. However, more than 70% of surveyed persons were against this plan. If the MPC (marginal propensity to consume) is 0.32, thus 2 trillion Yen, would result in increase of 0.64 trillion Yen, mere 0.12% of GDP, of increase in consumption. However, by constructing different scenario for the same amount of money will lead to lower impact on economic growth (see Hori, Masahiro, et al. 2002).
4. Need for Fiscal Rule : In order to make fiscal consolidation undisturbed by the political meddling, a strong fiscal rule is needed
 - Automatic expenditure cut
 - No new programs without abolition another
 - Scheduled VAT (consumption tax) increase
 - Scheduled retirement age extension

Q and A

Name	Question/Comment
Prof. Ling Shuanglin (discussant)	<ol style="list-style-type: none"> 1. Deficits come from infrastructure development and tax cuts. Do you think that Japanese is over constructed? If yes, in what areas? 2. Western economy has bad influence on japan? Is japan following western too closely? 3. VAT as main revenue sources , data on national wealth per capita? 4. In 1980's and 1990s invested a lot of abroad. What is the rate of debt to GNP? 5. What is the key reason for Japanese slow growth recently?
	Answers: <ol style="list-style-type: none"> 1. Infrastructure is over-constructed, too many airports, highways (agricultural and forestry). It's basically a subsidy for construction companies and labors. 2. VAT was introduced in 1989 after 3 failures. 1994, there was tax cut with the promise that 2 years later there will be increased in consumption tax. Shifting income tax to consumption tax. Japanese bank went bust,

	<p>negative growth rate. Politicians became very timid to increase consumption tax.</p> <ol style="list-style-type: none"> 3. Fiscal deficit now is 43 Trillion Yen, consumption tax 5%, if we can raise consumption tax (up to 15%-25%) in the level of Sweden, there'll be no fiscal deficits 4. During inflation period incentive has to be given regularly to prevent tax bracket, growth economy mentality is still present in the 1990s, suddenly there's a negative change in growth rate trend
Dr. Rajiv Kumar	<ol style="list-style-type: none"> 1. Raise consumption tax to 25% , what will government do with this? 2. If u look at the supply side, productivity matters, how to get GDP growing if there's no supply policy response?
	<p>Answers:</p> <ol style="list-style-type: none"> 1. Debt to GDP ratio will increase, Japanese wealthy retiree keep consuming, so it is better to implement consumption rather than income tax (as a strategy to reduce social security benefits) 2. GNP is higher than GDP by 1-2%, one factor is demography, labor force is declining (-0.5 contribution). 3. Need to liberalize service sector (education, health) and recognize them as profit business, growth should come from the structural reforms as well.
Dr. Friska Parulian	<ol style="list-style-type: none"> 1. Do you think corporate income tax rate will be lowered? 2. Why not opening labor market?
	<p>Answers:</p> <ol style="list-style-type: none"> 1. Keep investment from flooding out of Japan 2. Inviting foreign nurses, less than 3% succeeds in exam entry because of the lack of capacity skills

Paper 5: Efficacy and Sustainability of Fiscal Policies: A case of Korea (by Dr. Seok Kyun Hur and Dr. Seongtae Kim, Korean Development Institute)

Notes from presentation by Dr. Seok Kyun Hur:

Assessment of Fiscal Position: Before and After the GFC

1. The estimated size of Fiscal Stimulus Package in Korea varies from a source to another. An official report from MOSF (April, 2010) confirmed that the size of fiscal stimulus package was 38.8 trillion. won (3.6% of GDP) in 2009. It also announced that additional 17.1 trillion. won (1.5%) would be used in 2010. The fiscal stimulus package consists of various fiscal items but seems to concentrate more on tax cut, SOC building and support for SMEs and self-employed (Items known to have bigger or more persistent multiplier effects)
2. Fiscal stimulus package includes automatic stabilizer and discretionary policy. Though conceptually clear, it is a very intriguing task to decompose changes in fiscal variables into the two parts empirically (FI and FIS, which are commonly used as proxies for "discretionary" fiscal stimulus for their simplicity-both follow the IMF method).
3. The graph indicates that automatic stabilizer works slightly stronger against the discretionary part in revenue side (less responsiveness of tax policy to business cycle)
4. Compared with the current expenditure, capital expenditure and tax reduction seem to have more persistent impact on the economy.

Impact of Fiscal Stimulus Package, Exit strategy, and Identification of Future Fiscal and Macroeconomic Risk

- T
1. From 2008 Q3 to 2009 Q3, net export was considered as the biggest component of the national income contributed to economic growth (due to rapidly depreciating Won which eventually improve trade balance dramatically)
 2. Since 2009 Q4, domestic components led the economic recovery of Korea replacing trade sectors. This may be a sign of lagged boosting effect from the fiscal stimulus package, considered that most of fiscal stimulus package were concentrated before 2009 Q4.
 3. On the efficacy of fiscal policies in Korea, the existing literature haven't reached unanimous decision. The simulation results of evaluating the effects of the fiscal stimulus package using KDI macroeconomic model, which consists of 17 simultaneous equations which assessed that fiscal stimulus had a major role for Korean economy to record positive growth rate in 2009.
 4. Korean government declared a number of specific exit strategy to secure fiscal sustainability via budget for fiscal year 2011 and the MFMP for 2010~2014.
 - A soft fiscal rule is temporarily introduced until operational fiscal deficits returns to balance in 2014.
 - The keynote of fiscal policy moves to improvement of efficiency of expenditure from encouragement of advance expenditure.
 - For tax exemption and reduction, the government will strictly manage the scope and level based on assessment and will confirm if initial objectives are still meaningful.
 5. Several critiques on exit strategy and the MFMP for 2010~2014
 - The medium term fiscal balance and the government debt to GDP ratio are based on too optimistic economic growth forecast.
 - More active policy efforts are required for success of the fiscal rule introduced recently, because the government has no incentive to obey it without any enforcement such as performance evaluation.
 - More specific plans need to be made on expanding the revenue base and the restructuring expenditure in order to secure fiscal soundness.
 6. The fiscal expenditure to GDP will not exhibit a radical increase in the medium term, but it will grow gradually and permanently.

Fiscal Transparency and Anticipating Policy for Future Crisis


1. Government guaranteed debts are not included in the reported public debt by following GFSM 2001(Government Financial Statistics Manual 2001, IMF) leading to threat of hidden debts.
2. The future of Social Security is bleak. Without raising contribution rate and lowering income replacement ratio, the National Pension Fund will be exhausted in somewhere between 2040 and 2050.
3. Although debts of SOEs are not included in the reported public debt, realization of credit defaults of SMEs will have magnificent negative impact to whole economy and demand huge amount of government funds. It implies financial consolidation of SOEs is required urgently. The followings are recommended for SOEs' soundness: voluntary de-leveraging by focusing on proper level of profit, actualization of public fares, reform of SOEs evaluation frame and detailed disclosure of financial statements of SOEs.
4. In a short and medium term perspectives, Korea government will continue to establish fiscal foundation as well as enforcement of SOEs debts reduction.
5. In a long term perspective, institutional reform associated with social welfare such as public pension is required.

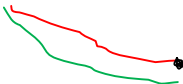
Concluding Remarks

- 1) In light of the long trend of fiscal consolidation, the fiscal stimulus package during the crisis is unusual and unprecedented both in terms of timing and magnitude.
- 2) Korean government perceives clearly the need of returning to normalcy and has reflected already on the National Medium-Term Expenditure Plan.
 - However, the plan is based on too optimistic economic growth forecast and needs more detailed sub-programs.

- 3) It is clear that social welfare and health expenditure are major risk components.
- For fiscal sustainability, institutional reform related to social safety net including NPS and/or increase of tax burdens are required.
 - In addition to rapidly aging demography, it is worth noting that the cost of reunification of North and South Korea may add the fiscal burden seriously.

Q & A Session

Name	Questions/Comments
<p>10. Dr. Rapeesupa (discussant)</p>	<p>It is a comprehensive paper.</p> <ol style="list-style-type: none"> 1. It would be good to provide information about the tax cut that already being implemented, this would be useful in assessing impact of automatic stabilizer or discretionary spending, what kind of supports given to SMEs (is it in the form of loans or special tax reduction)? 2. The methodology used to assess the impact of automatic stabilizer gives insights to an alternative way aside from using the before and after expected growth for the case of Thailand. 3. It would be good to provide more information about MFMP (maybe, summarize it into tables). 4. The exit strategy is roughly similar with Thailand. 5. If the social security fund depletes, is it an obligation to finance until the last pensioners? Is there any protection of liability or explicit guarantee for the social security fund? For Thailand, its written by the law. 6. Is there any attempt of changing the defined contribution system? The risk would decrease. Are all pensions in Korea using defined benefit system? 7. Definition of public debt in Korea does not include debt of SOEs (while Thailand does), hence, we should be careful when comparing the public debt across countries. 8. Thailand has already started to introduce defined contribution system. <p>Answer:</p> <ol style="list-style-type: none"> 1. It is difficult to introduce defined contribution to defined benefits system. 2. For the explicit guarantee for social security fund, it is written by law.
<p>11. Prof. Takatoshi Ito</p>	<ol style="list-style-type: none"> 1. Given the chart on <i>Estimation Strategy</i>, shouldn't the GDP growth become negative? How you measure fiscal contribution which is less than expected? <p><u>Illustration:</u></p> 

	 <p>How to get the figure for this point (when the difference between the red and green line is unknown?)</p> <ol style="list-style-type: none"> 2. Shouldn't the biggest shock have taken place in Q3 YR2008? 3. How do you measure the contribution of fiscal stimulus to GDP growth? 4. Regarding the third identification strategy model on slide 12, is it the case for the whole period? 5. Regarding the filter, there may be huge difference when the sample size gets bigger. <p>Answer:</p> <ol style="list-style-type: none"> 1. The chart given in <i>Estimation Strategy</i> is the forecasted result, not the actual figure. 2. It is built under assumption that the biggest shock happened in Q1 YR2009. 3. The third identification strategy includes the whole period since 1999 until the latest data of Q2 YR2010.
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Paper 6 : Assessment of the Impact of the Fiscal Stimulus, Fiscal Risk, and Fiscal Transparency : The Philippines

Notes from presentation by Dr. Rosario G. Manasan :

The Current Situation :

12. Between 2002 and 2007, national government could reduce the budget deficit from 5.4% to 0.2%. While debt to GDP ratio decreased from 78.2% of GDP in 2004 to about 55.8% of GDP in 2007. Similarly, consolidated public sector fiscal position improved from a deficit of 5.7% of GDP in 2002 to surplus of 0.3% of GDP in 2007. Consolidated public sector debt to GDP ratio went down from 117.6% of GDP in 2003 to 71.8% of GDP in 2007. Thus, this condition improves fiscal space prior to the global financial crisis (GFC).
13. There were two important events that affect Philippines namely a rapid increased in food and oil prices in 2008 and GFC (lead to adverse impact on exports and remittances) in 2008/09. As a result, government needs to postpone a balance budget target in 2010. In expenditure side, government increased infrastructure spending and social protection programs. In tax side, government provided tax exemption for personal tax. Reduction in corporate income tax is not part of response from GFC.
14. In response to the surge of oil and food prices, government expanded the rice subsidy program and launched a number of one time cash grant. As for the contraction of exports and remittances the government formulated the Economic Resiliency Plan (ERP) : 2009 budget interventions, tax cuts, off budget interventions.
15. As a result, revenue declined from 17.1% of GDP in 2006 to 16.2% in 2008 and 14.6% in 2009, while government expenditure increased from 17.3% of GDP in 2007 and 17.2% in 2008 and to 18.5% in 2009. Thus, national government budget deficit increased from 0.2 of GDP in 2007 to about 0.95 in 2008 and 3.9% in 2009.
16. The announced fiscal stimulus may not necessarily reflect the real size of discretionary policy.
17. Non interest expenditure is moving faster than interest expenditure
18. Rising budget deficit hand in hand with rising in public debt
19. GDP major contributors in 2009 are personal consumption expenditures, government consumption and government construction as for 2010 GDP are personal consumption, capital formation and net exports. Thus, tax cuts might have worked its way largely through increased household consumption in 2009 rather than through the private sector investment channel while the opposite is true in 2010

The Rationale for Reform :

1. This study plans to analyze fiscal stimulus more closely. Assessment on fiscal stance between 2006 and 2009 will be done both from tax and revenue items. Further, fiscal multipliers both for tax cuts and expenditure side will be estimated. Analysis on fiscal risk will be conducted in relation with fiscal sustainability. Finally, assessment on fiscal transparency and whether fiscal trend changed because of GFC will be investigated.
2. Tax cuts are particularly problematic in the Philippine context due to poor tax administration and problems in tax structure

Feasible Reform Measures :

1. Challenges that need to be considered such as a target to reduce deficit to about 2% of GDP in 2016, increase national government revenues, improve tax administration system as well as efficiency of expenditure, increase in government salaries bill because of salary standardization (part of public service reform) and improve fiscal transparency.
2. Approaches in generating revenues: introduction of new tax measures, simplification of tax structures and budget reform measures.
3. There is a need for the government to further reduce its debt ratio and to guard against pro cyclical policy in order to improve its fiscal sustainability.

Q and A

Name	Question/Comment
Dr. Nguyen Ngoc Anh (discussant)	<ol style="list-style-type: none"> 1. Quite comprehensive, useful and straightforward analysis. Has answered all research questions 2. Contradiction information, slowdown in export but the unemployment is still ok, have you reconcile this facts? 3. Need more info on breakdown on revenue and expenditure government how do these contribute to the overall budget 4. Local government role in stimulus package?, overall budget? 5. Elaborate more on contingency liabilities? 6. Government control cooperation and SOEs? What's the difference? 7. Stimulus matters: what is the percentage in term of GDP? 8. Government control corporation?, any budget constraint problems? 9. Off budget stimulus?, mechanism?, what is the implication between on and off budget stimulus? 10. Debt level ratio is relatively high, what is the characteristics of the debt? 11. What are the structural problems?
	<p>Answer:</p> <ol style="list-style-type: none"> 1. No big impact on employment. Fluctuation in ec. Growth, the UE is not responsive due to jobless growth. Look at the composition of employment instead of only the headline figure of employment. Proportion of workers who are unpaid family workers, self-employed. Will find the numbers 2. Local government should have balanced budget. They can borrow but it's limited-->no need to worry about local debt 3. The suggestion in characterize the debt is well taken 4. FSP (FSP) is 2% on budget and 4 % all together, will provide the figures later on. 50%-50 of foreign and local

	<p>debt</p> <p>5. Very low tax to GDP ratio, due to poor tax administration</p>
Prof. Shujiro Urata	<p>1. Which multiplier is larger?</p> <p>2. Philippines account is too small?</p> <p>3. Local government revenue to general government?</p>
	<p>Answer:</p> <p>1. Corporate income tax 30% now, personal income tax 35%, largely because of the movement in capital is mirrored in the tax</p> <p>2. Appropriate relative size of government, the need to increase tax revenue</p> <p>3. Local government revenues is about 8% of total general government revenues</p>
Prof. Takatoshi Ito	<p>1. Do you have any VAT?</p> <p>2. Avoidance of VAT?</p>
	<p>1. VAT is the biggest share of tax followed by corporate income and personal income tax</p> <p>2. Matching of sales and purchasing has increased progressively, but there's still a tax leakage. The underreporting tax is still severe</p>
Prof. Shujiro Urata	<p>1. What happened in 2009?, impact of fiscal stimulus on aggregate demand?</p> <p>2. Expenditure multiplier: 1) government consumption and capital outlay, 2) capital outlay. Why the second is greater than the first one?</p>
	<p>Answer :</p> <p>1. The fall of the exports.</p> <p>2. Will check on the figures. The print one in some sense weighted and one of the multiplier for government consumption and investment. The first is not the sum of multiplier for government consumption and government expenditure.</p>
Dr. Seok Kyun Hur	<p>1. Each government will put too much confidence in the fiscal policy as a counter-cyclical measure. Fiscal stimulus was not really affect the recovering phase during the 1997 crisis (excluding the IPPN crisis and the GFC). The effectiveness of fiscal policy may not be sustained in Korea, what about other countries?</p>
	<p>Answer:</p> <p>1. Some government might have second thoughts in putting huge fiscal stimulus right after the crisis. How long crisis management should be sustain remain a question. Fiscal stimulus success depends on the history of the country itself</p>

Day 2 (February 12th 2011)

Paper 7 : Fiscal Issues in Thailand: Assessment on the Impact of Stimulus, Fiscal Transparency and Fiscal Risk (by Dr. Kanit Sangsubhan and Dr. Rapeesupa Wangcharoenrung, FISPRI)

Notes from presentation by Dr. Rapeesupa Wangcharoenrung

Overview of Thai Economy during GFC

1. Thai GDP plummeted in Q4 YR2008 and dipped even further in Q1 YR2009. In addition, real GDP on Q3 2010 decreases compared to Q2 .

2. The transmission mechanism of GFC is characterized by weakening global demand which led to shrinking in export, manufacturing production and capital utilization. GFC affected Thai economy mainly through trade (export) channel.
3. Thai baht appreciated a lot against US\$ in 2010 due to massive capital inflow and as a result of sterilized interventions to slow down the pace of exchange rate appreciation, foreign exchange reserves rose and reaching a record high.
4. For the impact on real sector, the global financial crisis seriously hurt consumption, investment, and employment. Regarding the impact of Baht appreciation, model built shows that the labor intensive sectors (i.e., agriculture, food manufacturing, and textile, etc.) tend to be adversely affected by a change in the exchange rate. On the other hand, —high-import content sectors, such as paper and printing, automobile, and construction, tend to benefit from baht appreciation.

Country Assessment on Fiscal Position: Before and After the Global Financial Crisis

1. Government revenue always grows at positive rate since 1999, except in 2009 which is the impact of automatic stabilizer. Revenue from corporate tax and VAT also increases. In addition, the revenue from the Excise Department is also peaking up, although the proportion in total revenue is still small.
2. Before the AFC, in the 1990s, Thailand always had fiscal balance. With GFC, Thailand experiences fiscal deficit.
3. Routine expenditure has been a large proportion of the government expenditure for the past twenty years while the capital budget tends to increase overtime. Nevertheless, the projection depicts that the capital budget of the budgetary public expenditure would shrink down in the fiscal year of 2011.
4. Public debt to GDP is gradually decreasing from 2000 albeit a spike in 2009.

Measures to Counter GFC of the Thai Government

1. The Thai government has imposed three types of policy to rebuild confidence, gain economic recovery, and stimulate new economic growth. First, two phases of stimulus package, with the combination of tax measures, are implemented at different periods of time. Second, the quasi fiscal policy is implemented as a fast-track policy to create liquidity for business sector. Lastly, the monetary policy (interest rate cut and liquidity injection) is introduced as another tool to stimulate the economic growth.
2. The Stimulus Package 1 (SP1) is aimed to boost growth in the short run. The form of package includes domestic consumption stimulus, government investment and expenditure, private investment supports and export and tourism supports.
3. The Stimulus Package 2 (SP2) is targeted to improve Thailand's competitiveness.
4. Stimulus tax measures affects the property, SMEs, small and community enterprises, tourism, venture capital, financial institutions and company limited.

The Impact of Stimulus Package, Exit Strategy, and Identification of Future Fiscal and Macroeconomic Risk

1. The first round effect of SP 1 reflects good economic recovery and stimulus through the government expenditure. The target group is the poor, who has high MPC, hence their disposable income increased due to income transfer and reduction of living costs. Private consumption climbed up along with public consumption; therefore, the rise of national GDP.
2. Meanwhile, SP2 stimulus package contributed modestly to the public investment growth in 2010, but most disbursements have been for consumption expenditures.
3. Explanation on the breakdown of total effect of the fast track policies on GDP growth and the impact of Asia's simultaneous fiscal stimulus to Thai Economy.
4. Thailand have already started a gradual exit from policy support in 2010, although in some cases, this may be postponed to 2011.
5. Concerning fiscal sustainability, The Ministry of Finance (MOF) and the Bureau of Budget (BOB) signed a Memorandum of Understanding to restore balance of budget within 5 years by using fiscal policies and budget management tools, which cover both revenue and expenditure tools.

Fiscal Transparency and Anticipating Policy for Future Crisis

1. Thailand has met the requirements (clarities of roles and responsibilities, public availability of information, open budget preparation, execution and reporting, assurance of integrity) of the fiscal transparency code in many respects and exceeded them in a few cases.
2. Most of fiscal information is available to the public.
3. Management of future liabilities consist of temporary policies (take into account fiscal debt management act (B.E. 2548) and fiscal sustainability conditions-however, there's risk from political instability) and permanent policies (take into account contingent liabilities (from both explicit and implicit commitments and guarantees) and evaluation of social security fund and health care fund)
4. Risk management concerning social security fund includes changes of contribution rate and change of investment options. Meanwhile, fiscal risk for universal healthcare program includes increasing per head capitation in treatment price and related stuffs and it was evaluated that no contingent liabilities would occur to the government from the operation of the program in the future.

Q & A Session

Name	Questions/Comments
<p>1. Dr. Seok Kyun Hur (discussant)</p>	<p>The paper is very informative.</p> <ol style="list-style-type: none"> 1. The paper is unique as it compares the situation of Thai economies between two crisis (AFC and GFC) and how its resilience is different. 2. How bad the Baht appreciation affecting trade situation or current account? Show it consequences on trade balance or current account 3. All analysis is measuring the effectiveness of fiscal stimulus using model simulation. It will be more useful to provide comparable Thai literature and/or empirical literature on the effectiveness of fiscal policy in order to make paper more convincing. 4. Appreciate the discussion on coordination of stimulus package among Asian countries. How does the macro model of coordination among Asian countries assume the interaction among the countries? 5. Need more clarification on definition of discretionary spending. Does stimulus package become part of discretionary spending or just be themselves? <p>Answer:</p> <p>All comments are well-taken and will incorporate that in the revision.</p>
<p>2. Prof. Lin Shuanglin</p>	<p>1. How government defined public debt? Does it include SOE's debt? If yes, are there bad loans?</p> <p>Answer:</p> <ol style="list-style-type: none"> 1. Government includes SOE's debt (which by definition is the enterprise the government owns more than 50% of its share is owned by government) 2. Thailand is currently undergoing a project for revising the definition of public debt. Thailand follows IMF's advice to put non financial SOE's debt in public debt
<p>3. Dr. Friska Parulian</p>	<ol style="list-style-type: none"> 1. Give appendix, if possible, the details on the projections. 2. Explain the argument of why there will be no contingent

	<p>liabilities with regards to proposal of universal health care. Is there any criteria that limits the coverage for the beneficiaries?</p> <p>Answer:</p> <ol style="list-style-type: none"> 1. I will provide appendices as much as possible. For example, when the treatment is approved, money will be given to hospital. If the beneficiary fails to be present during the treatment, hospital will keep the money. If he/she comes, hospital should take them and compel to provide the treatment, even if the expense is more than the given money from government. 2. There exists risk sharing between the hospitals and government.
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Paper 8: Fiscal Issue in Vietnam Economy: Assessment on the Impact of Stimulus, Fiscal Transparency and Fiscal Risk

Notes from presentation by Dr. Nguyen Ngoc Anh, DEPOCEN:

The current situation

1. Vietnam had achieved high GDP growth rate at over 8 % in 2007, but not without flaws. As the result of Investment based growth strategy, its investment-savings` gap has widened. Since 2007, it has large budget-and-trade deficit with moderate public debt level which is considered to be sustainable. It also faced huge credit expansion and massive capital inflows which resulted in inflationary pressures (inflation rate at 22%). At the time, the government imposed a tight monetary policy and cut back public spending on large projects.
2. The effect of global crisis was seen in decrease of export + slowdown of FDI inflows (reduced of aggregate demand) and the labor market, the large outflows from housing and stock markets, depreciated VND and falling VN-Index which resulted in shortage of foreign exchange in formal market. In 2008, its GDP growth rate had declined to 6.18%.
3. The government responded the crisis with monetary tightening and fiscal austerity policy by announcing \$6 billion stimulus package. In terms of *Monetary policy*: cutting the base rate from 14% per year to 7% per year, and *Fiscal policy*: introducing the large fiscal stimulus in January 2009 to revive the economy by promoting consumption and investment.
4. This stimulus package has taken its effects in keeping the credit to flow to the economy, assisting enterprises with reduced borrowing burden, promoting exports, recovering the labor market, and agriculture as well as mitigate the impact of financial crisis for workers.
5. Peculiar feature of the stimulus package is the interest rate subsidy.
6. Another key factor in facilitating the recovery are the resilience of the business sector and the revival of world demand for Vietnam's exports and inflows of foreign investment
7. As Vietnam plague with a twin deficit (posses a large current account and fiscal deficits), medium term investment may rise economic vulnerability and questionable financial sustainability.
8. Vietnam had to rely on other mechanism such as cash transfers since it does not have modern social insurance mechanism yet.

The rationale for reform

1. Vietnam still faces macroeconomic risks such as high level inflation rate, chronic current account deficit, contingent liabilities, and tendency of increasing government debt to fund investment based strategy with inefficiency in investment as seen in high ICOR index.
2. Given the worsened fiscal balance, owing to the fiscal stimulus and reduced future revenues caused by weaker economic activity, Vietnam will find it more difficult to sustain high economic growth with expansionary policies.
3. It also faces fiscal risks such as overspending budget, increasing public debt ratio to 52.6% of GDP and the burden of contingent liabilities.

4. Medium-term sustainability of fiscal position of the country is at high risk regarding the repayment capacity, the internal acceleration rate over capital and the investment to GDP, given investment-based development strategy followed by the government.

Feasible reform measures

1. Vietnam does not yet subscribe to the IMF's Special Data Dissemination Standard (SDDS), but has participated in the less rigorous General Data Dissemination System (GDDS) since 2003.
2. Since 1996, the government has implemented the budget law. MoF exclude off-budget data on nor investment expenditure or quasi-fiscal activities of SOEs and extra-budgetary funds: the social Security Fund, Enterprise Restructuring Fund, Development Assistance Fund, Export Support Fund, local development funds, and the Sinking Fund (for repayment of on lent funds).
3. In late 2001, the MoF began posting annual budget outturns and plans on its external website, including by major revenue and expenditure items. However, the statistics has not yet meet international standards of functional classification, and this, in turn, might hamper formulation, execution, and monitoring of fiscal policy
4. The Vietnam government chose an effective mix of stimulus measures: the rapid loosening of monetary policy, accompanied with the first phase of the interest rate subsidy scheme acted as a "mass bail-out" for the frozen banking and credit sector; and exemptions and deferrals of tax payments succeeded in preventing a more severe economic downturn.
5. For the future, it is recommended to keep balance between the purpose of supporting economic activity and preserving social stability, continue to carry out structural reforms which are required to sustain long-term growth, boost competitiveness and improve the environment for investment

Q and A

Name	Questions/comments
Dr.Rosario G. Manasan (discussant)	<ol style="list-style-type: none"> 1. Provide broad view of macro economic situation and wide ranging discussion, very good introduction of Vietnam. 2. The need to have figures/tables that present fiscal aggregates over long time trend pre-post crisis. 3. Why growth rate of public debt post crises is slower than pre crises?, considering stimulus package is 10% of GDP 4. Interest rate subsidy impact on labor market is very interesting. The paper would be improved if there is an elaboration of the effectiveness of the stimulus package as well. 5. If aggregate demand is low, what do you use working capital for?, are the numbers (4% from GDP package) announced or real?, will private sectors actually borrow if you give the subsidy? 6. Interest rate subsidy component is actually the smallest part of the package, what about the effectiveness of the rest package? 7. In the Vietnamese context , with fixed exchange rate, depreciation will bring impact on debt sustainability. How government plan to address trade deficits?
	<p>Answers:</p> <ol style="list-style-type: none"> 1. Comments are well-taken, will provide the data, but data availability in terms of time span is quite short. 2. Other component of stimulus package are very difficult to predict. 3. Will try to address the concern 4. Debt sustainability is still ok, most of the foreign debt is ODA
Prof. Takatoshi Ito	<ol style="list-style-type: none"> 1. The questions of Vietnam economy are quite complex. A lot of

	<p>talks on the foreign reserve depletion, possible crises of the economy. How fiscal situations are interpreted considering the relationship of monetary policy, fiscal policy, capital flow, dollarization and currency denomination with foreign reserves?</p> <ol style="list-style-type: none"> 2. Please further describe the dollarization aspect of the economy, fiscal problem and exchange rate relation? 3. Clarification on quarter growth rate presentation slide figures after the GFC? 4. What is the inflation rate?, high inflation rate in dollarization is worrisome. How to restrain inflation from raising further? 5. Please explain the ownership rights of the land in Vietnam? 6. Please provide pre and post amount and after the tax cut
	<p>Answers:</p> <ol style="list-style-type: none"> 1. Two digits of inflation (approximately 11-12%) 2. Generally no individual ownership, the land owned by all of the people. 3. All points are well taken, will try to incorporate the recommendations.

Final Guidance Session

1. Please provide two-page Executive Summary on your revised paper.
2. After all clear (final review and comments by project leader and follow up), the final version should be sent for editing process and correspondent with proof reader (March 10-25). The editor may ask you some questions.
3. If possible, please update the figures up to Q4 YR2010 which will be published soon. The first deadline for the revised paper is March 1st while the absolute deadline is March 31st.
4. Please follow the format that Ms. Friska sent (the latest will be by tomorrow).
5. Regarding the reimbursement for the expenses incurred, please send it to Ms. Friska. The closing of the budget year is 1st April, hence, please do so before this date.
6. There is discussion with the publisher to make a book from this seminar. Therefore, please do not send the paper to other journals for publication. We will update you regarding the final decision. Tentative time will be one-month after final submission of the paper.
7. Please let ERIA publish the final version of the paper on the website first, before using it as internal discussion paper.