

**ERIA-Fiscal Issues Project FY2010**

**Date** : October 29-30, 2010

**Place** : Tokyo Prince Hotel, Japan

**Purpose** : 1<sup>st</sup> 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. Sjamsu Raharja
8. Dr. Nguyen Ngoc Anh
9. Dr. Rosario G. Manasan
10. Dr. Kanit Sangsubhan
11. Dr. Rapeesupa Wangcharoengrung
12. Prof. Ling Shuangling

The structure of paper

- Paper 1 by Dr. Seok Kyun Hur, Korean Development Institute
- 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
- Paper 4 by Dr. Nguyen Ngoc Anh, DEPOCEN
- Paper 5 by Dr. Rosario G. Manasan, PIDS
- Paper 6 by Dr. Kanit Sangsubhan and Dr. Rapeesupa Wangcharoengrung, FISPRI
- Paper 7 by Dr. Prof. Takatoshi Ito, Tokyo University
- Paper 8 by Prof. Ling Shuangling, Peking University and University of Nebraska Omaha

## Day 1 (October 29<sup>th</sup> 2010)

### **Paper 1 : Efficacy and Sustainability of Fiscal Policies: A case of Korea (Dr. Seok Kyun Hur, Korean Development Institute (KDI))**

Notes from presentation by Dr. Seok Kyun Hur:

#### *The current situation*

1. An official report from MOSF (Ministry of Strategy and Finance) indicated that Korea spend 3.6% of GDP or about 38.3 trillion Won for fiscal stimulus in 2009.
2. The stimulus mostly devoted to sectors that have bigger impact or persistent multiplier effect such as tax cut, SOC building and support for SMEs and self employed.
3. The analysis on fiscal stance (FIS) and fiscal impulse (FI) that represent discretionary portion indicated fiscal stimulus concentrated on the period between 2009 Q1-2009 Q2.
4. SVAR (structural VAR) is applied as an alternative measurement of FIS and FI. The result showed that automatic stabilizer performed slightly stronger against the discretionary part. Further, there is also co-movement between automatic stabilizer and discretionary spending.
5. Between 2008 Q3 and 2009 Q3 net export had the highest contribution to economic growth compare to consumption and investment. This is driven by depreciation of Won that improve the trade balance position. Next, government investment also helped to offset reduction in private investment.
6. Since 2009 Q4, economic recovery has been led by domestic sources. This may indicate that fiscal stimulus is started to work. Further more credit on outperformed trade sector in the previous periods is also provided.

#### *The rational for reform*

1. Tax cuts have more persistent effect than expenditure side. Further, capital expenditure and tax reductions have more persistent impact on the economy.
2. Generally speaking, effectiveness of fiscal stimulus in Korea has not concluded yet. KDI argued that the model is influenced by priors on the economy.

#### *Feasible reform measures*

1. On September 28<sup>th</sup>, 2010 government revised the Medium term Fiscal Management Plan (MFMP) from 2009-2013 to 2010-2014. The revised MFMP was updating the changing in new economic environment and targets on economic growth, revenue and expenditure sides, budget deficit, and national debt.
2. Further, exit strategies on resource allocations such as investment, social protection and globalization are also provided in MFMP. In terms of fiscal management framework, government attempts to secure fiscal sustainability through implementing rule based ceiling of government expenditure. However, there is a threat on increasing of expenditure side such as aging demography. On the other hand, a forecast on national pension fund will be exhausted between 2040 and 2050 because of low contribution rate and income replacement ratio, even the government needs to inject money from the losses of Public Employees' Pension Fund (PEPF) by 43.5 trillion Won between 2010 and 2019.
3. Fiscal transparency is important to implement. Hidden debts or government guaranteed debts are not reported in the public debt. Guaranteed debt has increased dramatically from 28.1 trillion Won in 2008 to about 35.4 trillion Won in 2014. Further, to privatize Korean Development Bank will increase the size of hidden debts further.

Q and A:

Name	Questions/Comments
Prof. Takatoshi Ito (discussant)	<ol style="list-style-type: none"> <li>1. Need clear information to differentiate automatic stabilization and also discretionary spending. In Japan we have supplementary budget, do you have similar way in Korea? especially, when government forecast turns out to be wrong</li> <li>2. How is the condition of government bond yield?</li> <li>3. Regarding fiscal stance (FIS) and impulse (FI), I want to see clear definitions on data, etc</li> <li>4. In investigating fiscal stimulus spending package, sometimes it just shifted budget, thus the incremental is small. in Japan supplementary budget is a good part to see an incremental</li> <li>5. Need clear definition on revenue and expenditure identification strategies</li> <li>6. Revenue negative is not just t-1 problem, I wondering why negative correlation, this may related to countercyclical question</li> <li>7. You mention in last slide, the Ricardian or the Keynes model, this is long term perspective, according to Blanchard fiscal policy have minor role prior GFC but after GFC we back to Keynes, thus what is happened the Keynes theory, and we need to answer Blanchard question too</li> <li>8. Contribution is not just component of growth rate of GDP but it should be weighted by the components. If the net export saves Korean economy from GFC, this is mainly because of exchange rate effect.</li> <li>9. In Japan we have Yen appreciation. I would like to see decomposition of export and import more detail</li> <li>10. Since growth went down because export went down, strange to see net export had positive contribution.</li> </ol> <p><b>Answer/Response:</b></p> <ol style="list-style-type: none"> <li>1. Yes, we have supplementary budget it comes usually in September (such as for taifun)</li> <li>2. Distinguishing automatic stabilization, we will try</li> <li>3. The level of government bond is very small, even we have secondary market, but it is not fully active. Thus secondary market not reflect true market</li> <li>4. Long term government bond is not a reliable references</li> <li>5. I will provide information about countercyclical</li> <li>6. Volatility of exchange rate is very important</li> </ol>
Dr. Kanit Sangsubhan	<ol style="list-style-type: none"> <li>1. In case of Korea, it is the only one country that had huge currency depreciate</li> <li>2. In the slide of stimulus package what kind of category of tax cut?</li> <li>3. What is the biggest part of debt story?</li> </ol> <p><b>Answer</b></p> <ol style="list-style-type: none"> <li>1. We do not have exact information on how the money is delivered</li> <li>2. Generally speaking fiscal role is very small</li> </ol>

Dr. Sjamsu Rahardja	<ol style="list-style-type: none"> <li>1. Definition of fiscal stance</li> <li>2. Need more precise number on fiscal risk and hidden debt</li> <li>3. For the tax cut use in the model, do you use the same definition as ADBI definition?</li> </ol> <p><b>Answer</b> Yes</p>
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## **Paper 2 : Fiscal Issues in Asian Economy: Assessment on the Impact of Stimulus, Fiscal Transparency and Fiscal Risk: Evidence from India**

Notes from presentation by Dr. Alamuru Soumya:

### *The current situation*

7. The study related to India had supported the Keynesian-positive impact-crowding-in and neo-classical-adverse impact-crowding-out.
8. 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). Along with this, the public debt showed a steady decline until it stood at 74.7 per cent, but estimated increasing in 2010-2011.
9. 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 public debt ratio for 2009-2010 (76.6 per cent).
10. The government revenue expenditures was increased mainly because of a sharp rise in salaries and pensions which happens every 10 years, debt waiver on farm loans and subsidies.
11. The impact of the global crisis has been transmitted through three distinct channels: the financial sectors, exports and exchange rates. In response to this, three 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.
12. Public Investment and savings has been improved but sharply decreased along with the global crisis impact.
13. The first fiscal stimulus package was introduced on 7<sup>th</sup> December 2008, the second one on 2<sup>nd</sup> January 2009 and the last one was on 24<sup>th</sup> 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.

### *The rational for reform*

3. The FRBM Act had failed to set a cap on public debt. A sound fiscal system need to have in place measures to control the debt to GDP ratio.
4. 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.
5. 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*

4. 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.

5. The government should take up long term projects to improve infrastructure facilities and increase spending on primary education, primary health, R&D etc to improve human capital, considered it as part of capital expenditure.
6. 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. Other option is to broaden the tax base.
7. The new tax system of GST will be introduced in Oct/Apr 2010 and possible introduction of the Direct Tax Code (DTC) in 2010. These tax reforms would likely change the tax structure significantly.

Q and A:

Name	Question/Comment
<p><b>Dr. Sjamsu Rahardja (discussant)</b></p>	<p><b>Overall, the outline and mapping of the issues has highlighted the right spots. My first comment is on the motivation. Why improving fiscal position would help India attain its long-term growth objective?</b></p> <p><b>Second comment is on risk. Are there fiscal risk from government subsidies and rising commodity prices?</b></p> <p><b>How easy is it to implement those reforms? Who will loose from such reforms (tax, rationalizing subsidies, reforming supply side)?</b></p> <p><b>How about governance issues related to contingent liability and spending by local government?</b></p> <p><b>On the issues of large capital inflows coming into emerging market including India, does Government has policies about it, such relating to FDI? Any graph of government bonds` yield to see the fluctuation during crisis, maybe can help understand how government bonds reacted to external shocks.</b></p> <p>Thank you for the feedback on quantity and financial features, we would put more attention into it. The revenue expenditures increased because of routine expenditures on increase of salaries and pension which happens every 10 year. While for subsidy, data is not included in the budget data, which makes budget data not the indicator for actual expenditure on subsidies. But starting 2010-2011, the subsidy data is planned to be included in the budget.</p>
<p><b>Prof. Takatoshi Ito</b></p>	<p><b>What was described is a result of mixed policies. It is better to separate long term structural reform which has been going on for a long time and temporary stimulus. It is to analyze whether the GFC will help long term structural goal or just a temporary setback.</b></p> <p><b>Try separating the discretionary policies and automatic stabilizer in</b></p>

	<p><b>the fiscal stimulus.</b> Thank you for the suggestions, we will do more analysis on the mentioned matter.</p> <p><b>The paper mentioned financial sector also impacted in India. Can you describe what financial issues involved?</b> It is only to describe the credit or liquidity crunch that happened in the beginning of global crisis when it impacted India. But later, it was managed to overcome.</p>
Dr. Kanit Sangsubhan	<p><b>Increasing government debt left no room for another stimuli, while already high GDP compares to other country put India in no need of stimuli. But there is 3 fiscal stimulus packages with focus on tax reduction, is there any reason or particular intention from the Government about this?</b> The stimulus packages was only intended to put the GDP growth back to the previous target of 10%, despite of the fact that the GDP is around 6% and higher than other Asian countries.</p>
Prof. Shujiro Urata	<p><b>The fiscal stimulus packages include assistance to certain export industries in the form of interest subsidy on export finance, and refund of excise duties/central sales tax, and other export incentives. Do you think these violate the WTO`s rules?</b> The paper doesn`t include the matter as it has not yet see into it.</p> <p><b>I think the paper should also put more focus on the financing of infrastructure since infrastructure plays an important role in India. Specifically the discussion of public and private partnership (PPP) projects may be of interest.</b> Yes, we will see into it.</p>

**Paper 3 : Indonesia's Fiscal Stimulus Responding to the 2008 Global Crisis (Dr. Sjamsu Raharja)**

Notes from presentation by Dr. Sjamsu Raharja:

*The current situation*

1. The global financial crisis (GFC) had modest impact on the economy for two reasons. First, the share of export is relatively less than other East Asia countries. Second, domestic demand still plays important role. Further, Indonesia also has sound fiscal position prior to the global financial crisis (GFC) such as low budget deficit and decreasing in debt over GDP ratio. Further, reduction on fuel subsidies provides more fiscal space to do infrastructure and social spending.
2. Government provided fiscal stimulus package (FSP) to measure the impact of the GFC. The FSP was about Rp 73.3 trillion (\$6.4 billion), or 1.4% of GDP. Around 76% of the

stimulus went to permanent tax cuts on income and temporary tax waivers. However how effective is the stimulus need detail study because of low tax base, institutional issue, a delay on spending disbursement, quality of spending at local governments.

3. Government need to manage the national budget effectively to minimize the fiscal risk such as managing energy subsidy, minimizing contingent liabilities, and managing the possibility of massive short term capital inflow.
4. There are some characteristics on how the GFC affects the economy compare to the economic crisis 1997/8.
  1. Economic growth slowed down in 2009, but it was still positive.
  2. Currency slipped but less volatile
  3. In 2008, export was collapsed, but in 1997 all the aggregate demand components was collapsed.

*The rational for reform*

1. Deep analysis need to be done for four questions. First, why tax cuts became the priority of FSP? Second, how effective is the FSP to measure economic growth? Third, how government can increase effectiveness and quality of government spending? Finally, what kinds of potential of fiscal risks and how to solve it? Some recent literatures in area of fiscal multipliers, fiscal sustainability, and institution can help to answer the puzzle of those questions.

*Feasible reform measures*

1. To make fiscal policy more effective especially from the spending side, government needs to simplify administrative process and to control disbursement at the local government level. We need to see more detail information on local government budget.
2. Shock in international commodity prices such as energy prices affected amount of subsidies. On the other hand subsidy can reduce government capacity in increasing national capital and social spending. Further, the equity principle needs to be considered too.
3. Financial position of state owned enterprises (SOEs) need to be monitored too because it can affect government subsidy.
4. Finally, because yield of government bonds tends to be higher and volatile than other countries, large capital inflow and the high risk on capital outflow can reduce government ability to raise external financing.

Q and A:

Name	Question/Comment
Dr. Rosario G. Manasan (discussant)	<ol style="list-style-type: none"> <li>1. It is very good paper overall</li> <li>2. With regard to discussion of fiscal stimulus package, it is not clear if the stimulus is announcement number and how cyclical component, and structural component as well as between discretionary measure and automatic stabilization.</li> <li>3. Need improvement on sustainability analysis (missing part)</li> <li>4. I like about this paper especially about institutional issue, institutional problem, and what about actual government spending</li> <li>5. Indonesia and Philippines are similar. There is low disbursement rate. If data is available, it might be useful to look at government spending</li> </ol>

	<p>based on obligation (i.e. expenditure measured upon standard contract for goods/services) it might be better measure than disbursement rate.</p> <ol style="list-style-type: none"> <li>6. Related to government approach on cash transfer to smooth consumption, does this refer to conditional cash transfer? If so, conditional cash transfer might not be an appropriate measure for fiscal stimulus. It is normally given a longer term basis to chronic poor.</li> <li>7. What is appropriate role of local government in fiscal stimulus and macroeconomic economic obligation? Are they have big rule in this regard; it might lead to high local government debt.</li> <li>8. Is there any evident under spending of local government?</li> </ol> <p><b>Response</b></p> <ol style="list-style-type: none"> <li>1. On fiscal stimulus, it is just the announcement, we are struggling to obtain the disbursement and actual data</li> <li>2. Yes, sustainability we will elaborate that</li> <li>3. Indonesia has obligation contract to spend, I do not think, we have now. Further, there is no control on performance budget from the parliament.</li> <li>4. Automatic stabilizer, yes it is good input. Cash transfer is discretionary, the biggest one that we have just before the GFC is for food, under 6 months program, yes there is a plan to institutionalize that.</li> </ol>
Prof. Takatoshi Ito	<ol style="list-style-type: none"> <li>1. Debt to GDP ratio include recap bond? <u>Answer:</u> I will check it</li> <li>2. Stabilization and discretionary, find a way to disaggregate those</li> <li>3. Exaggerated package is separate issue i.e. announce of projects, but only part of it are discretionary spending</li> <li>4. Subsidy is the biggest component in the package, lower tax rate or increase the tax cut, done in inflationary economy is normal, thus real wage remain the same. This not discretionary incremental stimulus</li> <li>5. You mention local and central government. Strong local government can do discretionary. We worried with decentralization. Kalimantan is wealthy, but poor regions do not have financial capacity. Do you see any different reaction on the poor and rich region in GFC or oil price increase?</li> </ol> <p><b>Response</b></p> <ol style="list-style-type: none"> <li>1. We will do separate automatic and discretionary spending analysis</li> <li>2. Bracket creep, that is also good input</li> <li>3. In decentralization, we try to have discussion on how we consolidate local government budget. We try to compare rich and non-rich regions</li> <li>4. For exit policy, as far I concern government has escaped from the stimulus</li> </ol>
Dr. Friska Parulian	<p>Why government spending growth decrease in March and June 2010 <u>Answer:</u> I will check it</p>
Dr. Kanit Sangsubhan	<ol style="list-style-type: none"> <li>1. Too big central government to local government will effect incentive to collect taxes in local government</li> <li>2. If fiscal stimulus is without tax, there should be not need fiscal</li> </ol>

	stimulus
Dr. Alamuru Soumya	<p>Are they any special remedies to decrease the debt?</p> <p><b>Answer</b></p> <p>There are two things</p> <ol style="list-style-type: none"> <li>1. Privatized</li> <li>2. Repo-filing government debt</li> </ol> <p>Prof. Ito</p> <p>I think inflation help too, riel exchange rate appreciation</p>

#### **Paper 4 : Fiscal Issue in Vietnam Economy: Assessment on the Impact of Stimulus, Fiscal Transparency and Fiscal Risk**

Notes from presentation by Friska Parulian on behalf of 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 and the labor market, the large outflows from housing and stock markets, depreciated VND and falling VN-Index. In 2008, its GDP growth rate had declined to 6.18%.
3. The government responded with *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
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 labour market, and agriculture.

##### *The rational for reform*

1. Vietnam still faces macroeconomic risks such as high level inflation rate, chronic current account deficit, and tendency of increasing government debt to fund investment based strategy with inefficiency in investment as seen in high ICOR index..
2. It also faces fiscal risks such as overspending budget, increasing public debt ratio to 52.6% of GDP and the burden of contingent liabilities.

##### *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	Question/Comment
<p><b>Dr. Seok Kyun Hur (discussant)</b></p>	<p>The paper has captures the issues in broaden perspective, as it also mentioned macroeconomics and other issues beyond fiscal policies.</p> <ol style="list-style-type: none"> <li>1. It is noticeable that the increase of budget deficit had been inline with the trade balance. Further analysis on this matter is needed.</li> <li>2. Please mention how the fiscal policy of Vietnam (stimulus package) was successful in terms of timing and effectiveness.</li> <li>3. Please make further comparison analysis on the result of monetary and fiscal policy to see which one has contributed more to the recovery.</li> <li>4. Related to Bond Financing Issues, in many cases it has been not very effective as the bond market itself is not active enough, as seen in decline of average maturity of bond issued in the last 5 years (average 10 years in 2004→average 2 years in 2009) according to IMF.</li> </ol>
<p><b>Prof. Takatoshi Ito</b></p>	<ol style="list-style-type: none"> <li>1. Please differentiate between automatic stabilizer and discretionary revenues to describe temporary measures on fiscal stimulus. A Stimulus package is different from either of them. Please show actual spending and revenues before and during the GFC to estimate, “package”, automatic stabilizer” and “discretionary policies”.</li> <li>2. Please breakdown the expenditures in quarterly frequency to make better comparison.</li> <li>3. Please also add the exit story</li> <li>4. Who holds government bonds? Is there the government bond</li> </ol>

	<p>yield?</p> <p>5. How is efficacy of fiscal policy in a dollarized economy different from other (non-dollarized) countries?</p>
Dr. Kanit Sangsubhan	<p>1. VND has dollarization, and that maybe makes inflation difficult to control.</p> <p>2. What it needs to maintain is keeping FDI to balance the dollarization policy. Please elaborate more on the matter.</p>

**Paper 5 : Fiscal Issues in Philippines: Impact of Stimulus, Fiscal Transparency & Fiscal Risk  
(Dr. Rosario G. Manasan)**

Notes from presentation by Dr. Rosario G Manasan:

*The current situation*

1. 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).
2. There were two important events that affect Philippines namely a rapid increased in food and oil prices in 2008 and GFC 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.
3. 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.
4. The announce of fiscal stimulus was almost double than actual expenditure
5. Non interest expenditure is moving faster than interest expenditure
6. Rising budget deficit hand in hand with rising in public debt

*The rational 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.

*Feasible reform measures*

1. However, poor tax administration and tax policy changed has negatively affected revenue side. This influenced overall cyclical-adjusted fiscal balance too. On the other hand, increasing budget deficit and public debt need to be solved.

- There are also some possible challenges that need to be considered such as a target to reduce deficit to about 2% of GDP in 2016, improving tax administration system, improve efficiency of expenditure and an increase in government salaries bill because of salary standardization (part of public service reform).

Q and A:

Name	Question/Comment
<p>Dr. Rapeesupa Wangcharoengrung (discussant)</p>	<ol style="list-style-type: none"> <li>I am interesting in contingent liability (elaborate more on contingent liabilities), because Thai government put it together in public debt. They separate monitoring. Answer. Contingent liability are those almost are not be realized</li> <li>We do comparison between public debt to GDP among countries, this will be big issue, to make comparable comparison</li> <li>You could elaborate more about contingent liability</li> <li>Why is debt to GDP decrease? Is it the result of what measures?</li> <li>Regarding the fiscal stimulus package, are there any sector severely hit by the GFC, may be we need more specific sector analysis</li> <li>Is it possible to measure impact of fiscal stimulus to solve the problem</li> <li>Other contingent liability that need to be address more. What kind of contgent liabilities have already been addressed?</li> </ol> <p><b>Response</b></p> <ol style="list-style-type: none"> <li>Contingent liability mostly came from infrastructure project such as ADB. Further, public private partnership (PPP) is good but it also has risk to government such as metro rail, and power electricity for the debt payment</li> <li>Further, example of contingent liability such as national food authority sole import of rice, in the mean time agency can import more if necessary.</li> <li>Social security pension system government and private sector, they have problems but they need to do adjustment to keep the pension up load. Further, government also allocates this in the budget.</li> </ol>
<p>Dr. Kanit Sangsubhan</p>	<ol style="list-style-type: none"> <li>Delay on budget disbursement need to be placed in the fiscal budget framework. Expenditure expansion and revenue reduction seem to be important to measure the crisis.</li> <li>Expenditure side seems increase in infrastructure, thus we have both side stimulus package</li> </ol>
<p>Prof. Takatoshi Ito</p>	<ol style="list-style-type: none"> <li>Was there a crisis? <u>Answer</u> Export growth was in negative</li> <li>We need quarterly data GDP, export, and industrial production index (for every country). What I have GDP growth rate, growth rate was started to decline 2008 Q2, but China, India and Indonesia is the exception. The hardest hit is Singapore, Japan,</li> </ol>

	<p>Korea and Taiwan.</p> <ol style="list-style-type: none"> <li>Regarding the delay response, it should be time line, showing such as decrease in export and how government response on it</li> <li>Is there government bond market?</li> </ol> <p><b>Answer.</b></p> <ol style="list-style-type: none"> <li>Yes, but the secondary market is not really active while the Treasury bond is quite successful. In terms of ownership, there has been a shift from foreigner to domestic holders.</li> <li>Inflation in Philippines is under control</li> <li>Further, appreciation of currency also led to debt increase.</li> </ol>
Dr. Sjamsu Rahardja	<ol style="list-style-type: none"> <li>Does the national agency can issue debt?</li> </ol> <p><b>Answer</b></p> <ol style="list-style-type: none"> <li>Subsidy appear in national budget is very small such as for food subsidy, but in 2000 we had food crisis, thus debt will increase dramatically.</li> <li>We need clear information on how liabilities is counted</li> </ol>

**Paper 6 : Fiscal Issues in Thailand: Assessment on the Impact of Stimulus, Fiscal Transparency and Fiscal Risk**

Notes from presentation by Dr. Kanit Sangsubhan and Dr. Rapeesupa Wangcharoenrung, FISPRI:

*The current situation*

- Fiscal policy first played an important role in 1997 Asian crisis. In response to recent global financial crisis, the government had implemented 2 fiscal stimulus packages policy to respond to crisis varied from fiscal policies (expenditure, tax measures and loans from SFIs). In 2009, it imposed -5.6% budget deficit to GDP, far lowered than -1.0% in 2008, to support the economy. BOT also reduced its policy interest rate from 3.75% to 1.25%.
- The first stimulus package (SP1), which treated as extraordinary budget was aimed for boosting the economy in short term, targeting in private consumption and public consumption. It resulted in -2.2% GDP growth in 2009, better than -3.0% prediction. It covered 4 areas to tackle, which were domestic consumption stimulus, government investment and expenditures, private investment supports and export and tourism supports. Some of the policies became permanent policies such as 15 year free education. The private investment support was mainly for enhancing the liquidity from the SFIs.
- The second stimulus package (SP2) is for longer term, as it contained medium to long term plan (committed to 2012). It covers lots of areas including water resources management, develop education quality, etc. This package is sort of collections of investment project that should be done long time ago, and now re-package to strengthen the recovery of economy.

*The rational for reform*

- As Thai economy continues its recovery, the government aims to increase the country's competitiveness, by achieving adequate fiscal space, high economic and social benefits, and create confidence for crowding-in private investment.

*Feasible reform measures*

- Stimulus tax measures are included in property, SMEs, and Small and community enterprise, tourism, venture capital, financial institutions and company limited. Quasi fiscal package has increased credit target by 301.5 trillion, which also considered as another kind of contingent liabilities.

2. In this fiscal stimulus program, the main components of the government's fiscal spending are supplementary budget THB, tax measures, utilization of special financial institutions, expedite disbursement of budget and pushing forward of investment projects.
3. The project put the SP2 to GDP's transmission mechanism in a macro model which resulted in increasing rate of private investment, private consumption, public investment, real import of goods and services, and change in employment. Note for change in employment, the stimulus package has decreased the delayed labor from predicted around 1 million person to about half of it. Some exit has already been assigned. The Thai MoF has signed an MoU with the Bureau of Budget to restore the fiscal balance within 5 years. Moreover, the country has already used the fiscal sustainability rules to control fiscal expenditures.
4. Real GDP growth during the 1<sup>st</sup> half of 2010 was higher than expected with the impact from simultaneous fiscal stimulus of Asian countries.
5. It is also discussed the impact of Asia's simultaneous fiscal stimulus to Thai economy, that with Asian stimulus package, Thai economy performed better.
6. For the budget of FY 2011, it is also informed that in development of society and quality of life has the highest share.

Q and A:

Name	Question/Comment
Dr. Alamuru Soumya	<p><b>1) Put more discussion on exit strategies</b></p> <p><b>2) What is the intergovernmental transfer scheme looks like?</b> There is information on this, but not provided regularly. The local government has no intention to collect their own taxes. Mostly local government revenue from central government, budget disbursement increases at the end of the year. They usually buy land new office. We plan to set role to control local government in borrowing. Tax collection in local is very low; obtaining the data is also difficult.</p> <p><b>3) What is the size of public sector before and after the crisis?</b> Size of government is not to big both before and after the crisis.</p> <p><b>4) What is the impact of GFC on saving and investment?</b> Spending is not really systemic, spread across the sector. The package is also political matter.</p>
Dr. Rosario G. Manasan	<p><b>About the cash-hand-out program, how about the people working in informal sector? Do they also benefit from this program?</b> Well, that's where the problem then occurred.</p> <p><b>Is there any deficiency in demand of credit?</b> Yes, maybe there is, but it is then set aside, not considered being significant.</p>
Dr. Friska Parulian	<p><b>How about the impact of 500 Baht pension and universal health coverage on the long term sustainability?</b> Yes, we will put it further in the model.</p>

## Day 2 (October 30<sup>th</sup> 2010)

### **Paper 7 : Sustainability of Japanese Sovereign Debt (Prof. Takatoshi Ito)**

Notes from presentation by Prof. Takatoshi Ito:

#### *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 negative relationship between increasing debt and declining interest rate. Although Tokuoka (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 stimulus was provided in the fall of 2008 and the spring 2009. This led 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.

#### *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 endogeneity, 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).

Q and A:

Name	Question/Comment
<p>Prof. Lin Shuanglin (discussant)</p>	<p><b>Questions</b></p> <ol style="list-style-type: none"> <li>1. I also look at Japanese public finance issue, it seem when Japan doing well government debt was very low, but it tend to increase, I think after the crisis Japan came with different structure. If possible, the analysis can be expanded back to 1970s. Thus we can learn Japanese experiences</li> <li>2. If possible to get deep information on revenue, what is it and how it spends</li> <li>3. If revenue decline in 1990s, it was related with supply side economic- reducing tax- international environment on cutting tax</li> <li>4. Local government hard to get a lot of revenue, and depend on central government</li> <li>5. Negative relation of interest rate and debt, may be Japanese investors do not have other options, may be it related with the word interest rate</li> <li>6. Slide No 4, other revenue need explanation</li> <li>7. Slide No 12 how do we measure stimulus package</li> </ol> <p><b>Comment</b></p> <ol style="list-style-type: none"> <li>1. As can be seen from expenditure and revenue table, yes in 1970, it increased, but 1980 crisis, fiscal consolidation plan took 10 years, but after the oil crisis, it followed by misalignments.</li> <li>2. Transparency in local and central government is really a problem; we are going to conduct literature study.</li> <li>3. Interest rate, adjustment, world interest rate, yes I will see it</li> <li>4. Stimulus package can be seen from the table, but actual incremental fiscal spending is smaller</li> </ol>
<p>Dr. Seok Kyun Hur</p>	<p>I conducted the fiscal reaction function, for G20 countries and the result showed significant and negative coefficients that means they applied countercyclical (the analysis focus on GFC period)</p>

	<p><b>Answer</b></p> <p>Yes fiscal reaction function, we can talk about it. You can include this into the paper too.</p>
Dr. Kanit Sangsubhan	<ol style="list-style-type: none"> <li>1. The low in tax rate sum to be a tax on saving</li> <li>2. Regarding interest rate, note in nominal and real also consider the deflation too</li> <li>3. Projected GDP growth by the government is always low, to tell the people that supplementary budget is needed</li> <li>4. New qualitative easing, by using the credit channel and used reserve as collateral has by state in the media</li> </ol> <p><b>Answer</b></p> <ol style="list-style-type: none"> <li>1. Government has done a lot in fiscal policy, since monetary policy is under liquidity trap - (it did not work). Now it is turn on central bank, for a easy monetary policy</li> <li>2. Size of reserve in special budget is for contingency expenditure. Thus contingency liability is not changed</li> </ol>
Dr. Friska Parulian	<ol style="list-style-type: none"> <li>1. What kind of financial system account that does Japan adopt?</li> <li>2. Do unemployment benefits include in supplementary budget or stimulus budget?</li> </ol>
Dr. Sjamsu Raharja	<ol style="list-style-type: none"> <li>1. Slide on the package need to be break down (more informative).</li> <li>2. What is about the potential impact of stimulus on trade and investment (such as investment in Indonesia)?</li> </ol>

## Paper 8 : China`s Expansionary Fiscal Policy and Fiscal Sustainability

Notes from presentation by Prof. Lin Shuanglin:

### *The current situation*

1. The economic reforms and opening-up started in 1978 has greatly stimulated China`s economic development, with investment financed mainly by domestic loans and self raising funds. There is information on China`s GDP growth from 1978-2009, China`s GDP comparison with other countries, GDP`s composition, share of capital formation, consumption, and net exports in GDP, contribution of domestic consumption, investment, and external demand to Growth, 1990-2009, and total investment and composition. Actually Investment and capital formation is not identical. In response to global financial crisis, on November 5, 2008, the State Council announced Proactive fiscal policy by increasing investment by 4 trillion yuan from 4<sup>th</sup> quarter of 2008 to 2010. The source of fund would come from government and induced business investment. By 2010, it still managed to put the deficit balance at 2.9% of GDP, below 3% of EU`s limit.
2. China also has gone through major tax reforms which included corporate income reforms starting 2008 and VAT tax reforms starting 2009. The China growth rate was 11% for the first half of 2010, while IMF estimated that the growth rate would be around 10%.
3. China`s government revenue includes three major parts: budgetary revenue, extra-budgetary revenue and social security contributions. There also exists off-budgetary revenue, most of which is not legal, consisting of unreported revenue. Government revenue has increased rapidly, in January –August 2010, total government revenue increased by

23.6% compared to the same period last year. There is information on basic statistic of China's public finance, China's government revenue and its growth rate, share of major taxes as percentage of total tax revenue 1978-2009, china's tax revenues growth in 2009, ratios of government budgetary revenue, extra-budgetary revenue, social security contribution, and total government revenue to GDP 1978-2007, government revenue share in GDP of selected regions.

4. The official government expenditures in China include budgetary and extra-budgetary expenditures. Based on official statistics, the size of China's government expenditures is around 25% of GDP, not large compared to most countries in the world. However, there has also been off-budget expenditure in various forms, which are outside of the government monitoring system. Government spending has been increasing rapidly, with top spending items are economic construction, social cultural, education, health, administration, and social security. There is information on Government expenditure and its growth rate, and its compositions.
5. China's budget deficit evolved through four periods (1949-1957, 1958-1978, 1979-1993, and 1994- now) differs by different characteristics. After the Asian financial crisis occurred in 1997, China adopted an expansionary fiscal policy and budget deficits increased at an extraordinary rate. Meanwhile in recent years China dramatically reduced its foreign borrowing. Also the state banks' bad loans, local government debt and social security account deficits became serious issues. There is information about government budget deficit 1950-2009, ratio of budget deficit to GDP 1950-2009, with comparison to ratio of budget deficit to GDP in US 1929-2009, and ratio of China's government debt to GDP 1981-2009. By 2009, government debt to GDP was 33-34% in total include explicit debt-GDP 18% and local government debt-GDP 15%-25%.
6. 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 labour market, and agriculture.

#### *The rational for reform*

1. Local government budget situation have been difficult for many years, since the tax reform in 1994, every province has had budget deficits. The central government received about 55% of the total revenue recently, but only covered about 20% of the total expenditures.
2. China provincial and local governments have no right to issue debt, nor the right to make tax laws. Local governments ask money from the central government. The central government rebates money back to provincial government. Therefore there is no debt problem for provincial government. But there is less and less transfers available for the lower levels of government. The fiscal difficulties are especially severe for county and township governments. Many local governments have implicit debt, and they rely heavily on land sales for revenues recently. There is information about budget surpluses of central and local governments, budgetary revenues and expenditures of central and local governments, central government major taxes as % of central tax revenue, local government major taxes as % of local tax revenue, composition of local government expenditure 1991-2006, composition of local government expenditure 1991-2006, composition of central government expenditure 1991-2006.
3. There are transfers that insufficient to reduce fiscal disparity, such as tax rebates, appropriations for special projects (matching grants), general transfers, fixed subsidies for submission under the old system, budgetary subsidies. Transfer system is growth-promoting but not for reducing fiscal disparity.
4. Therefore, fiscal reforms are needed to help China solve its long term problems.

#### *Feasible reform measures*

1. Short term fiscal policies should be consistent with the long term economic goals. The possible exit strategies are increase revenues of local governments and increase central government spending responsibility.
2. China is in a stage where local governments need to play a crucial role in infrastructure development. The strategies could be: allow local government to establish local taxes such as property tax and resource taxes; allow local government issues debts; and increase the VAT share of local government.
3. China also needs to reform the social security system and the tax system (by reduce tax burden of enterprises, increase personal income tax, and increase taxes on natural resources).

Q and A:

Name	Question/Comment
Prof. Takatoshi Ito	<p>It is informative paper. I have several suggestions.</p> <ol style="list-style-type: none"> <li>1. Please put more analysis on GFC in 2008-2010, which will give more information on what the government did: how big the package size was, how the government spending was, how the banks were doing, how the private sector was doing. Please add about exit strategies.</li> <li>2. The government revenue increased by about 20% and GDP 10%, which was why the GDP was understated. Perhaps the tax base was broadened? Or any reform in tax structure? Maybe close examine on tax revenue and its components or changes in activities would help to understand more about this.</li> <li>3. Please elaborate more on the central and local government relationship.</li> <li>4. The central government goal for revenue 60% of GDP. I find this is a strange goal. Why does this goal exist? Why is this desirable? Any particular reason behind this?</li> </ol> <p><b>Answer:</b> Thank you very much for the comments. Yes, I will look into it. About the government revenue goal of 60%, I think they just follow other countries. But I will look up into it.</p>
Dr. Sjamsu Rahardja	<p><b>Please discuss more on fiscal risk.</b> Yes, I will look up into it.</p>
Dr. Kanit Sangsubhan	<ol style="list-style-type: none"> <li>1. Just a comment. Maybe if the local government and local financial institutions have a close relationship, the local government doesn't need to issue bonds, but ask the</li> </ol>

	<p>financial institution to loan money directly to the private sector.</p> <p>2. When the fiscal stimulus package was released, China government must have certain targets on specific things, like electronics goods consumptions and infrastructure. Can you also put more information about it?</p> <p>3. It looks like the central government and the banks relationship is very close, since I heard that every 2 years, government do some clean up on the banks NPL, so that the debt in GDP is not governments, but financial debt. Can you also put more information about it?</p> <p><b>Answer :</b> I think there is reliability on private sector in credit matters or subsidies. In practice, the government doesn't give money but give policy to guarantee. And there is a problem of no transparency. Yes, I will look into these issues too.</p>
<b>Dr. Friska Parulian</b>	<p><b>Please kindly also put issues on universal health program and ageing issues in fiscal system reliability analysis.</b></p> <p>Yes, our thoughts are in the same direction actually. I will look into it.</p>
<b>Prof. Shujiro Urata</b>	<p><b>How about the China FDI that has been increasing recently?</b></p> <p>I think it is not in the government expenditure, but in an independent budget. I will look more into it.</p>

## Announcement

- ▶ The Second Workshop will be held at Singapore **Feb 11-12<sup>th</sup>, 2011** (Friday –Saturday)
- ▶ Deadline for full paper submission:  
**Jan 31<sup>st</sup>, 2011.**
- ▶ Kindly inform your preferred flight arrangement and airlines by next week.
- ▶ Deadline for **FINAL DRAFT: FEB 28<sup>th</sup>, 2011**

\*Note: shall your paper has 2 or more authors, everybody are welcome to join, but kindly informs us soon who will be under ERIA sponsorship.

## ITEMS REQUESTED ON YOUR FULL PAPER:

- ▶ Re-read the TOR
- ▶ Standardized data
  - Quarterly Growth Rate (q-q annualized and y-y), 2005-present
  - Fiscal deficits, annual, 2000-present
  - Government debt, annual, 2000-present
  - Trade shock/exchange rate shock/other shock (to which fiscal policy responded
  - Differentiate, stimulus package and incremental government deficit
- ▶ Include “exit policy/scenario”
  - How soon will stimulus be withdrawn
  - Will GFC cause a structural break in fiscal policy
  - Do we go back to old normal or new normal?
- ▶ Pages: 30-40 pages including tables and figures, 1.5 space, Times New Romans 11.

**Meeting Note:**

1. We need quarterly growth rate and year focus from 2005 to present (We need long time series to conduct more deep analysis)
2. I would like to see data on fiscal deficit, central and local government budget, outstanding debt (if you can go back for long time series do that)
3. Fiscal policy is main focus, why fiscal policy is up and down, what shock and how fiscal policy responding, GFC to Asian especially through trade channel, spill over, growth export data needed, how that shock to the economy, how is the exchange rate reaction, and any other shock during the GFC basically spill over from outside (in Philippine though labor export)
4. If you can do both side counter cyclical reaction function will be desirable and see GFC quantitatively and qualitatively different from the past
5. Fiscal deficit, that I argues several times, stimulus packet exaggerated, we want fiscal incremental spending or tax cut which is probably smaller (actual fiscal spending or tax cut) differentiation between automatic stabilization and pure discretionary
6. Exit policy discussion (scenarios) whether the GFC impact change the fiscal structure permanently or temporary.
7. 32/40 pages single space including table and figure (1.5) space font 11, time new roman 11 font
8. Question on how effective the stimulus, we can put our evaluation (multiplier, counter cyclical reaction)
9. Specific use of fiscal stimulus
10. Support on trade finance
11. I will put G20 in the introduction of the book