Public Debt and Sustainable Financing in Asia and the Pacific Economies

EGM Session 2. Public debt profile

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EGM Session 2. Public debt profile:

Reviewing Economic and Social Survey of Asia and the Pacific 2023

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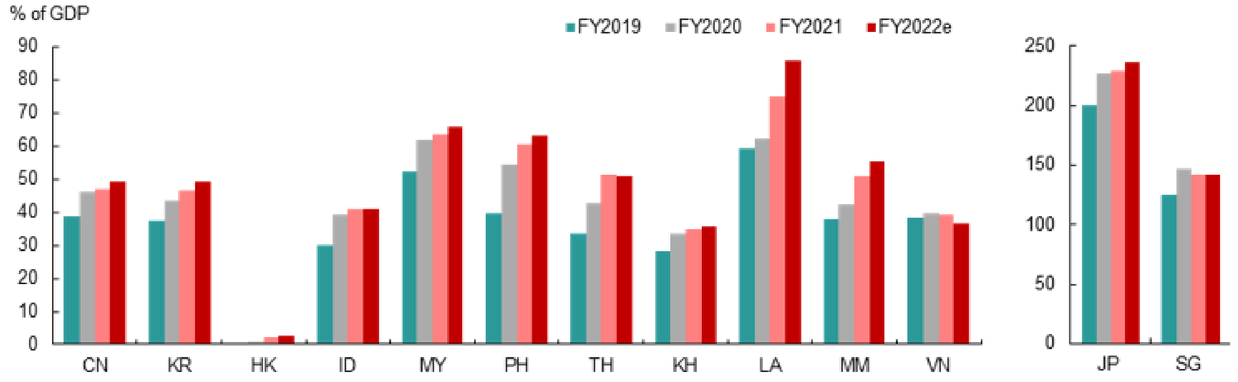
Fiscal Balance, 2019 - 2022

Note: (1) Fiscal years are April to March for Japan, Hong Kong, Singapore, Brunei; October to September for Thailand; January to December for the other countries; (2) Fiscal year in Myanmar was October to September in 2019 – 2021, but changed to April to March in 2022.
Sources: National Authorities; Haver; CEIC; AMRO staff estimates

Government Debt, 2019 - 2022



Sources: National Authorities; Haver; CEIC; AMRO staff estimates

Fiscal Development

- *The different pace of economic recovery has led to a divergence in fiscal development*
- *In some countries, fiscal consolidation is contributed to tighten public expenditures and debt service deferrals.*

Debt Dynamics

- *The government debt to GDP ratios have continued to rise*
- *Currency depreciation and domestic debt accumulation have contributed to debt burden*
- Incorporating the impact of macroeconomic outlook on the fiscal consolidation in the medium-term

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- **Suggested policy recommendations**
  - Expanding access to international capital markets to ease liquidity stress
  - Ensuring a successful conclusion to ongoing debt negotiations

- **Key challenge**
  - Rebuilding fiscal buffers and maintaining necessary policy support
- **Key opportunity**
  - Reassessing existing policy priorities and new priorities, such as carbon taxation, green budgeting, and sustainable finance
- **Post-pandemic fiscal adjustments**
  - Fiscal normalization
  - Fiscal consolidation
  - Fiscal structural reform

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Post-pandemic fiscal adjustments

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EGM Session 2. Public debt profile: Post-pandemic fiscal adjustments

Fiscal adjustment plan in a post-pandemic era

Spending Measures	Tax Measures	Financing Measures
Focusing on high priority/ impact spending • Improving resilience through better health, education, and infrastructure • Other areas based on the results of a public expenditure review	**Improving administration capacity and minimize tax leakage** • Improving tax service and compliance • Strengthening tax audits, collection system • Enhancing IT system, big data analytics	**Leveraging innovative financing** • PPP • Asset recycling • Blended finance • Patriotic bonds
Increasing spending efficiency • Reforming pension systems and health entitlements • Rationalizing distortionary subsidies (e.g., energy subsidies) • Better targeting of social welfare spending • Improving unemployment benefit design • Rationalizing military expenditure	**Reforming tax system** • Rationalizing special tax treatments • Strengthening property taxes • VAT/ GST-based consumption taxes • Reducing VAT exemptions	**Promoting ESG financing**
	Promoting environmental taxation • Taxing carbon emissions • Introducing fuel excises	
Streamlining tax expenditure • Publishing tax expenditure reports	**Imposing sin taxes** • Increasing tobacco and alcohol excises • Introduce sugar taxes • Gambling taxes	

Source: AMRO staff compilations

- **Key challenge**
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EGM Session 2. Public debt profile: Post-pandemic fiscal adjustments

- **Post-pandemic fiscal adjustments**
  - **Fiscal normalization**
    - Normalization of existing emergency support measures is an important first step to secure some fiscal resources
    - The narrower deficit seems not necessarily a result of active fiscal consolidation but cyclical factors which drive higher tax collection and stronger economic growth
  - **Fiscal consolidation**
    - A strong commitment to fiscal consolidation could rebuild fiscal space and maintain market confidence (relying more on revenue improvements than spending cuts)
    - Reviewing fiscal rules to enhance fiscal policy credibility and strengthen fiscal policy framework in the medium term
  - **Fiscal structural reform**
    - Increasing economic resilience and boost growth potential
    - Enhancing financial and corporate sector stability, improving labour market flexibility, and strengthening market competition

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Lao PDR's Debt Sustainability Analysis

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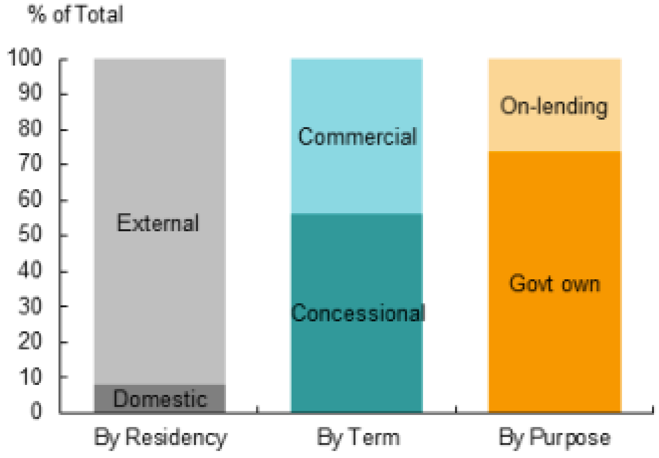
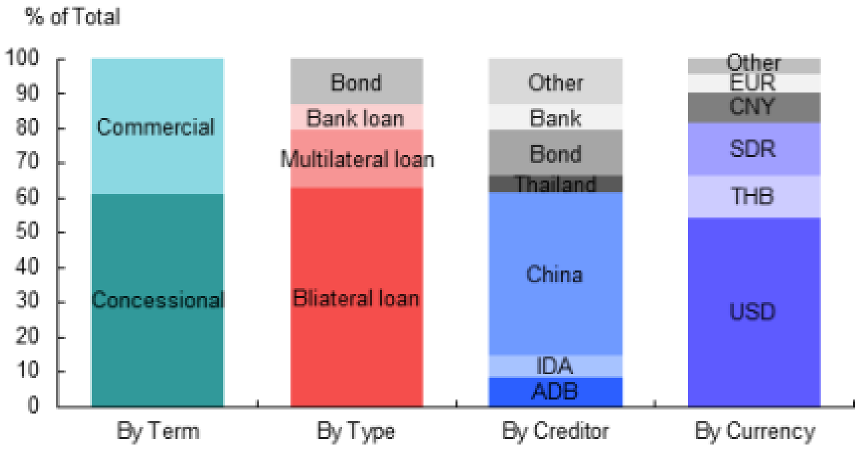
EGM Session 2. Public debt profile: Lao PDR's Debt Sustainability Analysis

Public Debt Structure



Source: Ministry of Finance; AMRO staff estimates

Public External Debt Structure



Source: Ministry of Finance; AMRO staff estimates

- **Public debt relies heavily on external debt with a sizable share in commercial terms.** Of public external debt, 63 percent was in the form of bilateral loans, 47 percent was held by Chinese creditors, and 54 percent was denominated in USD.

Table A1.1. Macroeconomic and Fiscal Indicators

	2017	2018	2019	2020	2021	2022p	2023p	2024p	2025p	2026p
Macroeconomic indicators (Percent)										
Real GDP growth	6.9	6.2	5.5	3.3	3.5	3.7	5.1	4.5	4.5	4.5
GDP deflator	1.8	2.0	1.2	2.8	3.6	3.6	3.1	3.0	3.0	3.0
Effective interest rate	2.9	3.3	3.2	2.7	2.1	3.8	4.0	4.2	4.3	4.4
Fiscal indicators (Percent of GDP)										
Revenue	16.3	16.2	15.6	12.7	13.8	13.0	12.6	12.7	12.9	13.0
Expenditure	21.8	20.9	18.8	17.9	15.2	16.7	16.5	16.3	16.1	15.8
Fiscal balance	-5.6	-4.7	-3.3	-5.2	-1.5	-3.7	-3.9	-3.6	-3.2	-2.8
Primary balance	-4.2	-3.0	-1.5	-3.7	-0.2	-1.1	-1.1	-0.7	-0.2	0.2

Source: Lao Statistics Bureau; Ministry of Finance; AMRO staff estimates
Note: The macroeconomic and fiscal indicators for 2021-2026 are based on AMRO staff estimates and projections.

- Despite the narrowed fiscal deficit, the bond issuance to resolve the arrears increased the domestic debt outstanding and a depreciation of Lao kip inflated the nominal value of external debt

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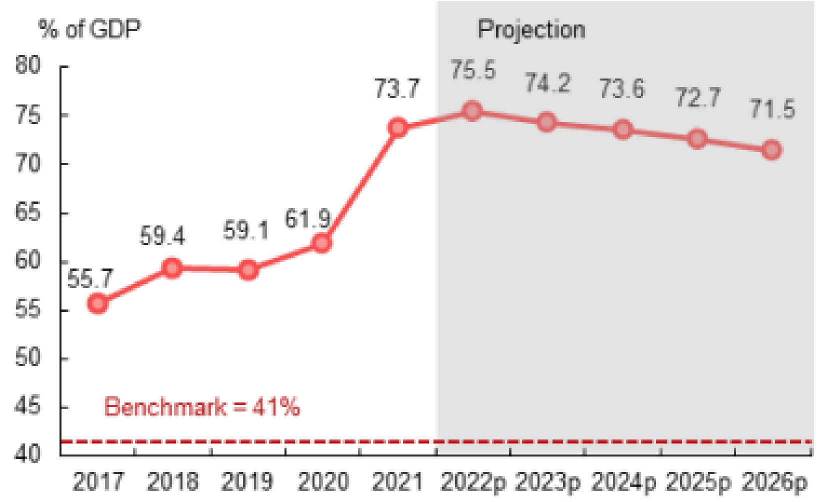
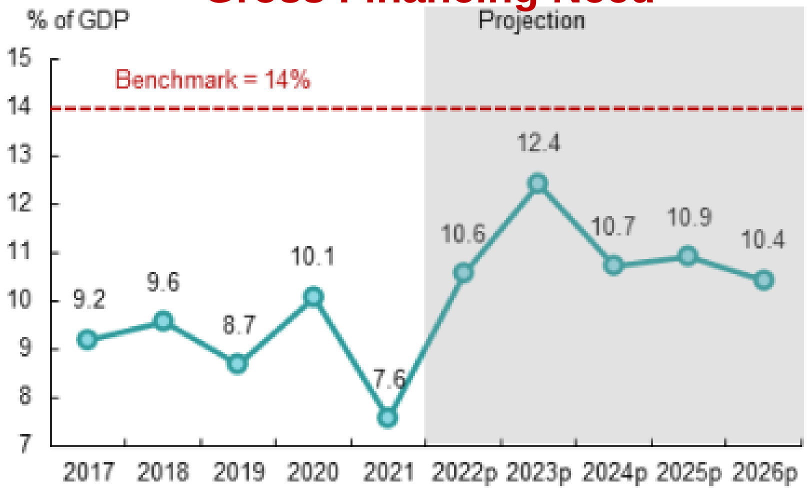
Public Debt



Sources: Ministry of Finance; AMRO staff estimates

Gross Financing Need



Sources: Ministry of Finance; AMRO staff estimates

GFN includes Fiscal deficit financing and Amortization (Government own debt and on-lending debt to SOES)

- **The public debt-to-GDP ratio has increased significantly and still remain high.** The following are the factors contributed mainly to the public debt.
  - Financing for the large infrastructure projects
  - Chronic fiscal deficits
  - Currency depreciation
  - The recognition of arrears related to public infrastructure projects

- **Gross financing need declined to 5.9% of GDP in 2021 compared to the past five years.** High public debt in 2021 contributed to large share of commercial borrowing continued to increase the debt repayment burden, while the improvement in primary balance eased the deficit financing needs.

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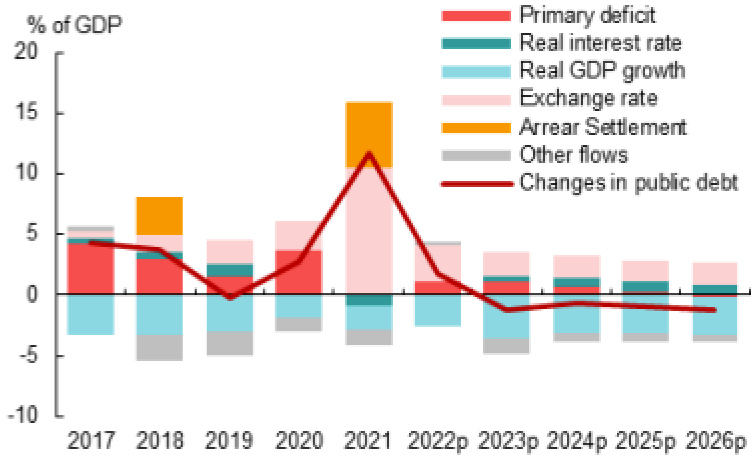
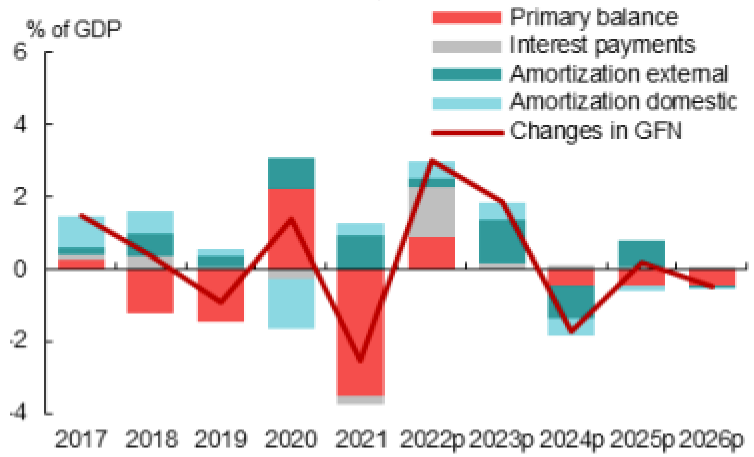
Public Debt Dynamic



Sources: Ministry of Finance; AMRO staff estimates

- **The debt dynamics are driven mainly by the exchange rate movement, given the large share of external debt, and real GDP growth.**
- The primary balance deficit and real interest rate contribute positively to the ratio, while on-lending debt repayments from SOEs are expected to reduce the ratio

Changes in GFN



Sources: Ministry of Finance; AMRO staff estimates

- **The debt repayment schedule determines the s’ movement as the primary deficit is assumed to decline gradually.**
- Given the long-term maturity of the outstanding debt, the GFN-to-GDP ratio is projected not to be as high as implied by the high debt-to-GDP ratio.
- **Securing financing sources to service the external debt will be challenging.** The authorities face financing pressures due to heightened perception of sovereign risk and a debt structure that is vulnerable to external shocks

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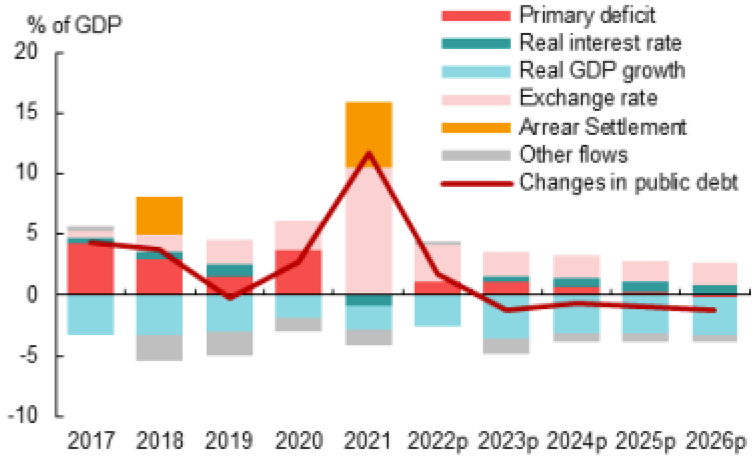
Public Debt Dynamic



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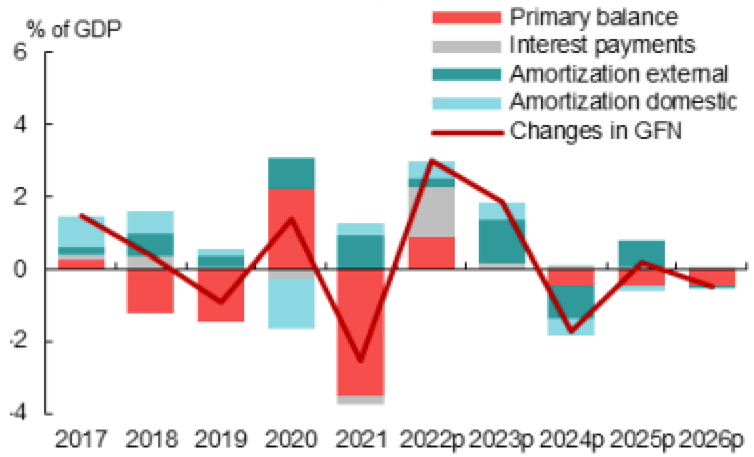

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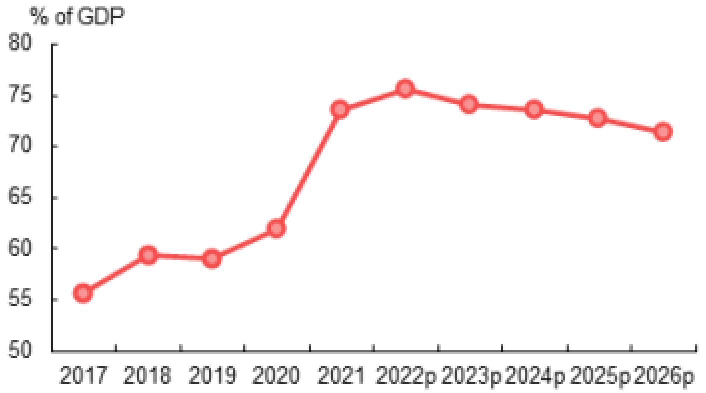
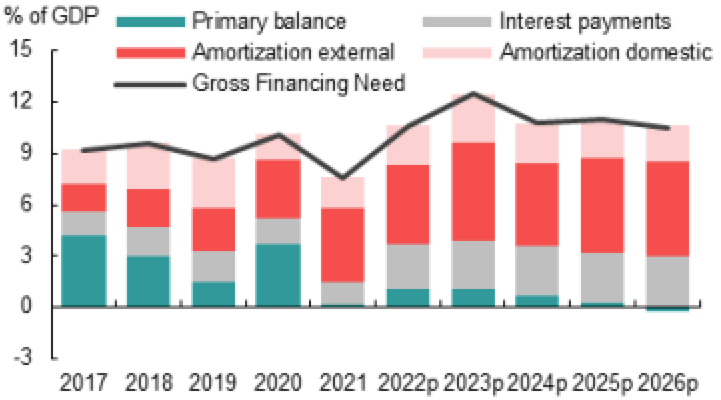
Risk and Debt Profile Vulnerabilities

Government debt is projected to gradually decline but remain elevated in the medium term, even with strong fiscal consolidation efforts.



Source: Ministry of Finance; AMRO staff estimates

Gross financing needs are expected to remain high at above 10 percent of GDP in the medium term, due to a sizable debt repayment burden.



Source: Ministry of Finance; AMRO staff estimates

- **The electricity sector and PPP projects could exacerbate public debt stress.** About 30% of public debt has been on-lent mostly to energy SOEs and the on-lending debt could become the government's direct liabilities if the SOEs continued the operational loss.
- **The recently completed Lao-China railway are expected to support economic growth and increase fiscal revenue from related businesses.** However, they may also form contingent liabilities if not carefully designed and managed.