

## 21. Fiscal balance

Developing economies in Asia and the Pacific have gradually managed to lower their annual budget deficit in proportion to their GDP levels, on average from 3.2 per cent in 1998 to 1.1 per cent in 2006. This was mainly attributable to fiscal consolidation efforts, low interest rates and sustained economic growth.

A fiscal balance improvement could be found in almost all subregions in Asia and the Pacific, but particularly landlocked developing countries, least developed countries, SAARC countries and low-income economies. For example, in the case of least developed countries in Asia and the Pacific, the average government deficit relative to GDP was 1.6 per cent in 1990 but turned into a surplus as of 2002, with 2.8 per cent in 2006.

China, for example, has been running a low budget deficit since 1990. The slight decrease from 1.2 per cent of GDP in 2005 to 0.7 per cent in 2006 reflects to a large extent the increased tax revenues due to the current boom in the economy. Singapore has been among the top performers in maintaining high surpluses since 1990, with 7 per cent in 2005, the latest year for which data are available.

The Maldives and Sri Lanka had the highest government deficits in the Asian and Pacific region since 1990. The deficit of the Government of Maldives reached an all-time high in 2005, at more than 10 per cent of its GDP, while the deficit of the Government of Sri Lanka has remained high, at over 7 per cent, since 1990 (figure 21.1).

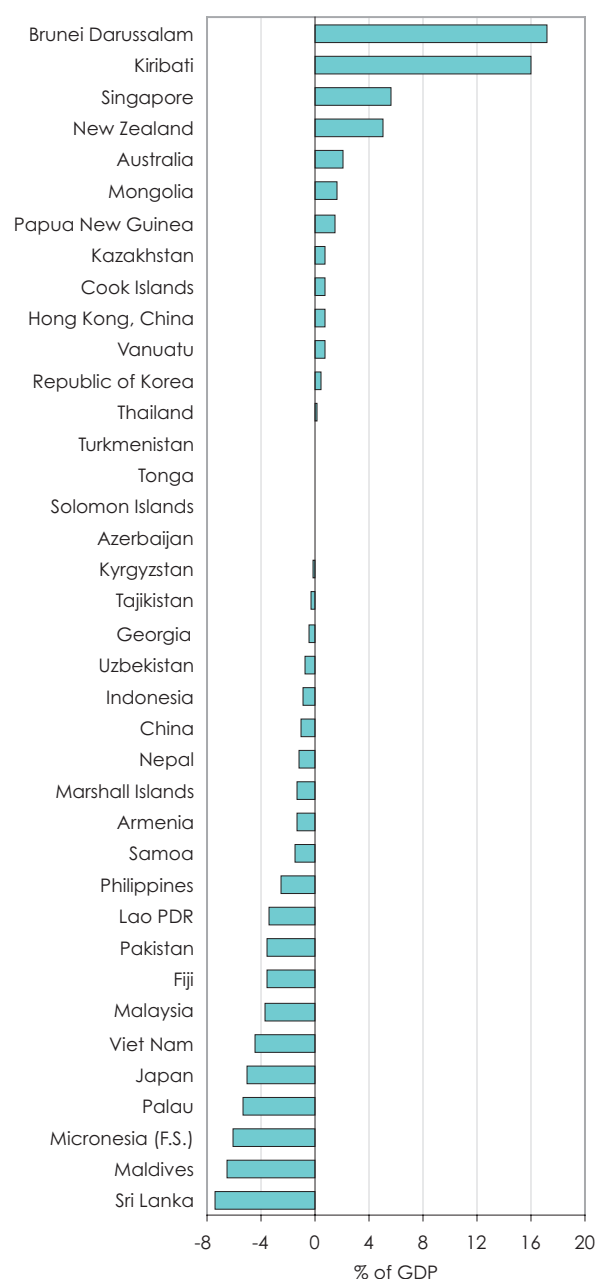
Average government expenditure amounted to 19 per cent of GDP in developing economies of Asia and the Pacific in 2006. However, the rates varied significantly across countries. In Maldives, for example, public spending was nearly 70 per cent of GDP, but in Bangladesh it was only 13 per cent.

Likewise, large variations could be observed for government revenue across countries. For instance, in 2006, the GDP share of public revenue in Nepal was very low, at 12.5 per cent, compared with 50 per cent in Brunei Darussalam and 43.8 per cent in Maldives.

A significant improvement in the fiscal conditions of “resource-rich” countries since 2002 is mainly attributable to a sharp increase in the

prices of commodities (such as oil, gold and copper),<sup>1</sup> which had produced large windfall revenues for resource-rich economies. For example, due to higher oil prices, fiscal balance in Timor-Leste has increased from 2 per cent to more than 110 per cent of its GDP.

Figure 21.1 Fiscal balance relative to GDP in Asia and the Pacific, 2004-2006 average



<sup>1</sup> According to IMF (2005), resource-rich economies are defined as those with at least 25 per cent of total fiscal revenue or export receipts from non-renewable commodities.

**Fiscal balance (percentage of GDP):** The difference between total revenues and total expenditures of the central Government. *Aggregates:* Averages are calculated using total GDP in United States dollars as weight. *Source:* Asian

Development Bank, *Key Indicators* 2007 (online publication, accessed in August 2007) and International Monetary Fund, World Economic Outlook Database (online database, accessed in October 2007).

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	Fiscal balance								
	% of GDP								
	1990	1995	2000	2001	2002	2003	2004	2005	2006
<b>East and North-East Asia</b>									
China	-2.8		-2.8	-2.5	-2.6	-2.2	-1.3	-1.2	-0.7
DPR Korea									
Hong Kong, China		-2.8	-1.8	1.3	0.2	-0.8	-1.0	2.5	
Macao, China									
Mongolia	-11.0	-1.5	-7.7	-4.5	-5.8	-4.2	-2.0	2.9	3.9
Republic of Korea	-0.6	0.3	1.1	1.2	3.3	1.1	0.7	0.4	0.4
<b>South-East Asia</b>									
Brunei Darussalam	-0.3	15.1	10.9	0.4	-9.9	-1.7	13.5	25.2	12.8
Cambodia									
Indonesia	-0.9	3.0	-1.1	-2.4	-1.5	-1.7	-1.0	-0.5	-1.0
Lao PDR	-9.7	-12.9	-4.3	-4.2	-3.2	-5.4	-2.4	-4.3	
Malaysia	-2.9	0.8	-5.5	-5.2	-5.3	-5.0	-4.1	-3.6	-3.3
Myanmar	-2.8	-3.3	0.7						
Philippines	-3.5	0.6	-4.0	-4.0	-5.3	-4.6	-3.8	-2.7	-1.1
Singapore	10.8	14.5	10.0	5.1	4.8	3.1	4.1	7.0	
Thailand	4.8	3.0	-2.2	-2.4	-1.4	0.4	0.1	-0.6	1.1
Timor-Leste				2.0	0.4	3.8	10.9	75.8	110.2
Viet Nam	-7.2	-1.3	-5.0	-4.0	-3.1	-4.8	-4.7	-4.6	-4.1
<b>South and South-West Asia</b>									
Afghanistan									
Bangladesh	-0.4	1.5	0.8	0.8	2.4	2.1	3.0	2.5	3.0
Bhutan	-7.8	0.1	-3.8	-10.6	-4.7	-9.9	1.8	-6.5	
India	-7.8	-5.1	-5.7	-6.2	-5.9	-4.5	-4.0	-4.1	-3.7
Iran (Islamic Rep. of)									
Maldives		-6.4	-4.4	-4.7	-4.9	-3.4	-1.6	-10.9	-7.1
Nepal	-8.1	-4.8	-4.7	-5.9	-5.4	-1.5	-1.0	-0.8	-1.8
Pakistan	-6.5	-5.6	-5.5	-4.3	-4.5	-4.1	-2.1	-4.2	-4.3
Sri Lanka	-7.9	-8.8	-9.5	-10.4	-8.4	-7.5	-7.7	-7.2	-7.2
Turkey									
<b>North and Central Asia</b>									
Armenia		-6.0	-4.9	-4.3	-2.6	-1.3	-1.7	-1.9	-0.6
Azerbaijan		-5.2	-1.0	-0.4	-0.4	-0.2	0.1	-0.7	0.5
Georgia		-5.9	-3.9	-2.2	-1.7	-2.6	2.3	-1.6	-1.9
Kazakhstan		-4.0	-0.1	-0.4	-0.3	-0.9	-0.3	1.9	0.8
Kyrgyzstan	-8.2	-11.5	-2.0	0.4	-1.0	-0.8	-0.5	0.2	-0.2
Russian Federation									
Tajikistan		-7.4	-0.6	0.1	0.7	1.1	0.2	-1.6	0.4
Turkmenistan		0.4	-0.3	0.6	0.2	-1.4	0.0		
Uzbekistan		-2.9	-1.0	0.2	-0.9	-1.3	0.0	-1.0	-1.3
<b>Pacific</b>									
American Samoa									
Cook Islands		-2.8	-1.8	1.3	0.2	-0.8	-1.0	2.5	
Fiji	-1.8	-0.3	-4.8	-6.1	-5.3	-5.8	-3.2	-4.0	
French Polynesia									
Guam									
Kiribati	26.2	19.8	59.8	13.4	3.9	15.7	18.1	13.9	
Marshall Islands	1.9	-27.2	8.3	8.7	-4.0	11.1	-0.4	-2.2	
Micronesia (F.S.)	11.8	-1.5	-6.6	-8.9	6.7	0.3	-6.4	-5.7	
Nauru									
New Caledonia									
Niue									
Northern Mariana Is.									
Palau			-15.1	-20.1	-28.6	-2.3	-6.8	-3.9	
Papua New Guinea	-3.3	-0.5	-1.8	-3.1	-3.9	-1.0	1.6	0.3	2.5
Samoa		-7.0	-0.7	-1.8	-3.4	-1.8	-0.8	-3.0	-0.6
Solomon Islands	-4.7	-4.6	-0.6	-7.4	-20.2	-5.8	4.9	-0.9	-4.0
Tonga	0.7	1.2	-0.4	-1.5	-1.4	-3.1	0.9	2.4	-3.3
Tuvalu			-2.2	-45.7	33.7				
Vanuatu	-8.2	-2.7	-7.0	-3.7	-2.2	-1.8	1.2	2.1	-1.0
<b>ESCAP Developed Economies</b>									
Australia	0.3	-2.0	1.7	0.8	1.0	1.6	2.0	2.4	1.6
Japan	2.1	-4.7	-7.6	-6.3	-8.0	-8.0	-6.2	-4.8	-4.1
New Zealand	-1.7	3.2	1.2	1.6	1.7	3.4	4.6	5.7	5.0
<b>ESCAP</b>									
LLDC		-4.3	-1.4	-1.2	-1.2	-1.2	-0.4	0.5	0.3
LDC	-1.6	-0.2	0.1	-0.2	1.2	1.3	2.4	2.0	2.8
SIDS	9.1	13.0	9.1	4.4	4.0	2.6	3.8	6.4	
ASEAN	1.0	3.7	-0.7	-2.0	-1.8	-1.7	-0.9	-0.2	-0.9
SAARC	-7.1	-4.7	-5.2	-5.5	-5.1	-4.0	-3.3	-3.8	-3.5
Central Asia		-4.1	-1.0	-0.4	-0.6	-1.0	-0.1	0.7	0.2
Low-income	-7.0	-4.4	-4.9	-5.2	-4.9	-3.9	-3.2	-3.6	-3.3
Middle-income			-2.8	-2.7	-2.7	-2.2	-1.4	-1.3	-0.8
High-income									
<b>Africa</b>									
<b>Latin America &amp; Carib.</b>									
<b>North America</b>									
<b>Europe</b>									
<b>Other Asia-Pacific</b>									
<b>World</b>									