News Analysis: Most Asian economies expected to step up fiscal stimulus to address economic slowdown

by Tan Shih Ming

SINGAPORE, Aug. 22 (Xinhua) -- While the United States is facing budgetary challenges and the euro-zone economies are still struggling for a credible resolution of their fiscal imbalances, most Asian economies are currently in envious positions as they can still resort to fiscal pump-priming to overcome the current economic slowdown, according to analysts.

Analysts said that Asia's open economies are already adversely affected by weakening foreign demand as a result of euro-zone debt crisis and U.S. sluggish economy.

Export growth, for instance, has fallen across the region in July, with China's dropping from 11.3 percent on-year in June to 1 percent in July, Singapore's from 6.6 percent to 5.8 percent, and South Koreas from 1 percent to negative growth of 8.8 percent.

The Purchasing Manager Index (PMI) has also fallen below the 50 threshold in Singapore and South Korea, and is just above 50 in Chinese mainland and Hong Kong.

Analysts said that while private consumption in the region has been resilient so far, it could falter if the export downturn deepens, forcing firms to lay off workers.

According to Nomura Research, Chinese mainland, Hong Kong, Malaysia, the Philippines and Thailand are expected to introduce more aggressive fiscal stimulus in coming months.

China, for instance, will introduce more investment-related stimulus with focus mainly on public housing and infrastructure investment such as railway, highway, subway, and airport.

Hong Kong will also likely to focus on inflation-mitigating measures, increase housing land supply and subsidized housing, income support for low-income families and major infrastructure development.

Nomura Research predicts more stimuli in Asian emerging economies will come mostly in the form of one-off measures to ease the cost of living and cash transfers to low-income households and civil servants.

In Malaysia, for example, the upcoming elections could provide the additional political angle for the need to introduce fiscal stimulus. Thailand has announced plans to issue large bond to finance more long-term water-management and other infrastructure projects, in addition to some anti-flood projects that are already begun. The Philippines has already implemented a multi-million dollar cash dole-out program, called conditional cash transfer (CCT), for the country's poorest citizens.

The government of President Benigno Aquino has also stepped up public spending on infrastructure projects and is expected to introduce more social spending, although it is unlikely to cut taxes.

Fiscal policies have become very important tools for Asian governments amid the round of slowdown as monetary policy is already loose in most part of Asia.

Analysts said there are good reasons for Asia's central banks not to rush to cut interest rates or loosen credit at this juncture, since real policy rates are already very low and credit outpacing nominal gross domestic product in most countries with some still experiencing bubbly property markets in many of their major cities.

Furthermore, the recent surge in global food prices has also caused Asian central banks to remain wary of the threat of inflation.

If the rise of food price is sustainable, it could lift Asian headline consumer price inflation sharply later this year as the combined weighting of food and energy items in Asia's consumer price index basket is in average as high as 43 percent, analysts said.

With the exception of India which has a large fiscal deficit of nearly 6 percent of gross domestic product and Asia's highest ratio of public debt to gross domestic product, Asian economies still has ample space for fiscal expansion as they enjoy better fiscal balances than most developed economies in the West.

As for Singapore, the government's top priority for now is to improve productivity and welfare in the economy, so it seems unlikely that they will aggressively ease fiscal policy in the coming quarters unless the global economy worsens sharply.