A country's fiscal balance is the difference between government revenues and expenditures. A fiscal deficit occurs when, in a given year, a government spends more than it receives in revenues. When fiscal deficits occur recurrently, the shortages are offset with debt accumulation. Over time, growing debt levels increase the burden of capital and interest payments and could send negative signals to international financial markets, affecting the sustainability of public finances. A complementary indicator of a country's fiscal situation is the primary balance: the difference between the fiscal balance and the primary balance reflects the relative weight of interest payments within government accounts.

In 2009 the average deficit in SEA countries reached 2.73% of GDP. This fell to 1.79% in 2016, but still indicates a weaker fiscal position than in 2007, when on average SEA countries were close to having balanced budgets (average deficit 0.19%). The 2009-16 SEA fiscal balance improvements can be explained by relatively high levels of economic growth, e.g. higher than OECD member countries (average deficit 2.8% in 2016), allowing room to maintain a growing pattern of nominal expenditures. In turn, a positive trade balance (difference between exports and imports), high investment levels and resilient domestic consumption have triggered growth in SEA countries.

Still, the latest available data show a wide variation in the fiscal balance across SEA countries, from a deficit of 21.5% in Brunei Darussalam to a surplus of 3.26% in Singapore in 2016. Both are influenced by changes in the global economic landscape; Brunei Darussalam was affected by the steep slide in energy (i.e. oil and gas) prices, and Singapore is benefitting from the upswing of manufacturing and trade-related services, reflected in an even higher fiscal balance figure in 2017 (a surplus of 5.97% of GDP).

A negative primary balance means that further debt must be contracted to finance interest payments. According to 2016 data, SEA countries experienced an average primary deficit of 0.56% of GDP and interest payments amounted to 1.24% of GDP, lower than the OECD average (2.01%), but higher than OECD neighbouring countries (i.e. Australia, Japan, New Zealand and Korea). In general, SEA countries have conducted expansionary fiscal policies recently to finance the infrastructure spending needed to keep up the pace of economic growth. While SEA countries' overall fiscal positions are stable, reducing the primary deficit would strengthen fiscal sustainability and increase resilience to future economic shocks. Like the 2009-16 period, further reductions of the primary balance and net interest payments are expected for most SEA countries in the years ahead.

Yet not all SEA countries are running primary deficits. In 2016, Singapore (2.33%), the Philippines (1.46%) and Thailand (0.97%) experienced primary surpluses; while Brunei Darussalam (21.48%), Viet Nam (4.33%) and Lao PDR (3.55%) ran the largest primary deficits. Brunei Darussalam has a small debt and relies substantially on reserves to fund financial resource shortages. In 2009-16, both Viet Nam and Lao PDR had a persistent gap in public finances (i.e. public expenditures growing faster than public revenues; see sections 2.4 and 2.6) and a consequent high reliance on public debt.

Methodology and definitions

Data are drawn from the IMF World Economic Outlook (WEO) database (April 2018), based on the *Government Finance Statistics Manual* (GFSM). The GFSM provides a comprehensive conceptual and accounting framework suitable for analysing and evaluating fiscal policy. It is harmonised with other macroeconomic statistical frameworks, such as the System of National Accounts (SNA). However, some differences between the GFSM and the SNA in several instances have led to the establishment, to a large extent, of correspondence criteria between the two statistical systems. The GFSM and SNA frameworks have been revised recently and countries have implemented several statistical standards. The fiscal balance signals whether a government is either putting financial resources at the disposal of other sectors, or using the financial resources generated by other sectors. The primary balance is the fiscal balance excluding net interest payments on general government liabilities (i.e. interest payments minus interest receipts). For the OECD countries and average, data are from the OECD National Accounts Statistics database, which is based on the SNA framework.

Further reading

ADB (2018), *Asian Development Outlook: How Technology Affect Jobs*, ADB Publishing, Manila, *https://www.adb.org/publications/asian-development-outlook-2018-how-technology-affects-jobs*.

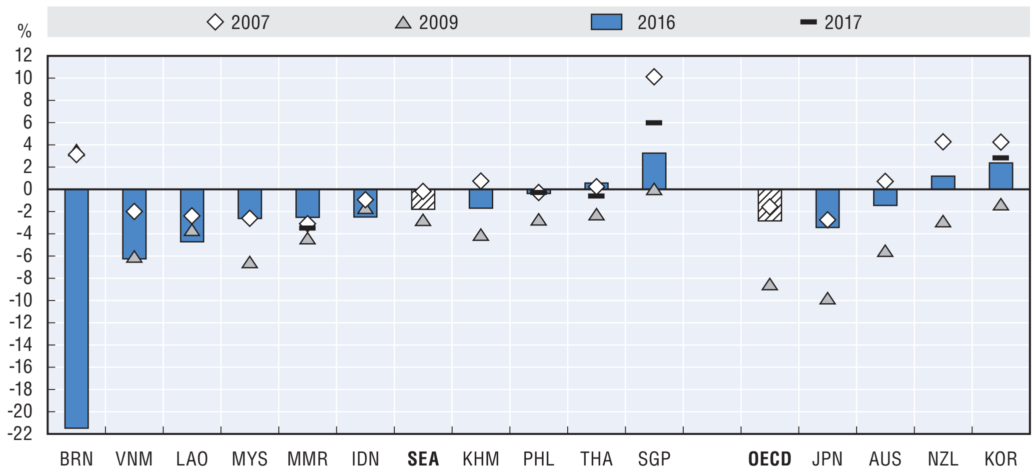
OECD (2018), *Economic Outlook for Southeast Asia, China and India 2018: Fostering Growth through Digitalisation*, OECD Publishing, Paris, *https://doi.org/10.1787/9789264286184-en*.

World Bank (2018), *Global Economic Prospects: The Turning of the Tide?* World Bank Publishing, Washington.

Figure notes

2.2: In Brunei Darussalam, with the absence of net interest payments, the primary balance also represents the overall fiscal balance. Net interest spending for Singapore is based on the IMF (October 2017) World Economic Outlook database.

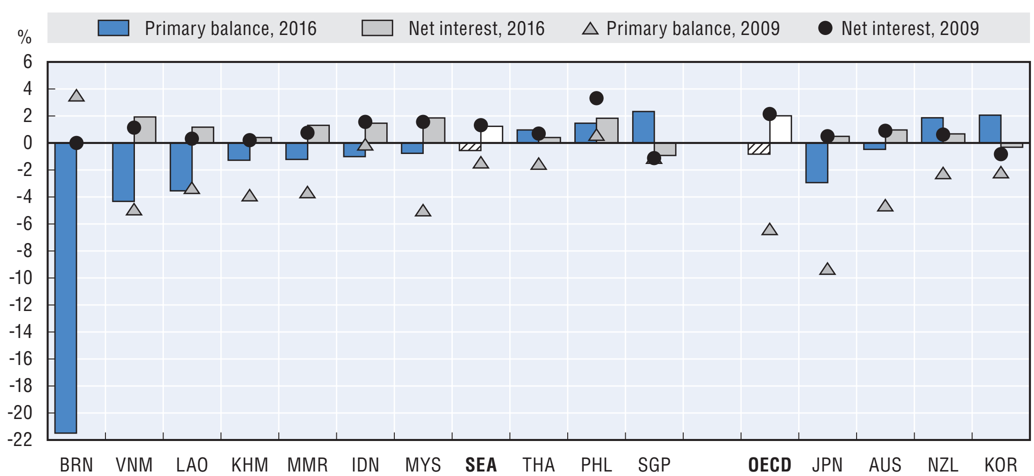
2.1. General government fiscal balance as a percentage of GDP, 2007, 2009, 2016 and 2017



Sources: For SEA countries, IMF (April 2018) World Economic Outlook database. For OECD countries, OECD National Accounts Statistics (database).

StatLink https://doi.org/10.1787/888933840437

2.2. General government primary balance and net interest spending as a percentage of GDP, 2009 and 2016



Sources: For SEA countries, IMF (April 2018) World Economic Outlook database. For OECD countries, OECD National Accounts Statistics (database).

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