With the exception of China, India, Vietnam, Indonesia and the Philippines, we expect all the other Asian economies to record full-year GDP contraction in 2009. In response to the sharp collapse in exports and increasing strains on the retail numbers and more gloomy employment outlook, Asian central banks and governments have been quick to embark on aggressive monetary and fiscal measures even in late last year.

All the Asian central banks that target interest rates have slashed their respective rates by at least 125bps from their peak in 2007/08. This is in addition to the government guarantees in some countries.

On the fiscal front, the governments in Asia have since announced stimulus packages ranging from 1.3% to 12% of their respective GDP to prevent the economies from stalling. With the depth of the recession and no sign of any meaningful upturn soon, the governments in Malaysia and South Korea have moved ahead with a second stimulus package recently.

So far, a variety of measures have been announced by the various governments. There were measures to protect jobs in Singapore and similar measure to encourage the re-hiring of retrenched workers in Malaysia. We could see more jobs preservation initiatives being rolled out in other Asian economies as the increase in jobless rates becomes more disconcerting.

In Taiwan and Thailand, the governments are targeting to boost domestic demand through direct vouchers and cash handouts but the bulk of the government money is still being spent on infrastructure projects in most of Asia. This will also position Asia for the eventual economic recovery.

In Asia, private consumption-to-GDP ratio has fallen to 52.7% in 2007 from 56.2% in 2000 and the higher savings rate in Asia also reduces the multiplier effects of the government spending. In Singapore and China, the PCE-to-GDP ratio is less than 40% and the import leakages also reduce the effectiveness of some of the measures in countries like Singapore.

Among the Asian countries, we feel that Hong Kong and Singapore have the scope for further stimulus spending as a result of the huge fiscal reserves. Following fiscal surpluses since 2000, South Korea is in the position to finance the huge spending which it has announced. China, which has the lowest debt-to-GDP ratio, also appears to be in the position to do more

Doling Out the Fiscal Measures

The NIEs (Hong Kong, South Korea, Taiwan and Singapore) in Asia are already in a recession and these countries will be the most affected due to their significant exposure to global trade and finance. In our earlier report, we estimate conservatively that most key Asian countries face the prospects of an unprecedented 10%-20% decline in their exports in 2009 based on the reversion to trend growth. In a pessimistic scenario, the extent of exports slump could be as much as 20% to 40% this year. As a result of NIEs' relatively stronger fiscal position, these countries will also likely be most aggressive in their fiscal policies. Both Hong Kong and Singapore have not ruled out further stimulus measures if the recession deepens while South Korea has announced a supplementary budget worth KRW28.9trn in March.

We expect **Hong Kong**'s budget deficit to surge to as much as 5.4% of GDP for the fiscal year beginning April 2009 although the government has a more conservative projection of 2.4%. The proposed package includes one-time salary and property tax relief measures as well as infrastructure projects worth HK$39.3bn.

Singapore's response to the downturn was the Jobs Credit Scheme and its Risk-Sharing Initiative in which the government takes up 80% of the risk of bank lending to the corporates. Singapore's S$20.5bn (8% of GDP) Resilience Package was focused mainly on protecting jobs in the downturn. The Jobs Credit scheme will pay employers 12% cash on the first S$2,500 of each employee's wages every month. We also note that the government has room to bring forward more infrastructure projects to counter weakness in the construction sector. Singapore has not ruled out plans for using more of its reserves. For Singapore, the estimated net investment income contribution of S$7.7bn in FY2009 will help to tone down the overall fiscal deficits to around 3.5% of GDP.

South Korea has announced KRW14 trn (US$9bn) in new spending (KRW11 trn) and tax cuts (KRW3 trn) in November last year. The key areas include infrastructure projects and programmes for the agricultural sector and SMEs. Since then, the government has also put forth the KRW50 trn 4-yr 'Green New Deal' to invest in infrastructure, energy and water resources. The project is expected to create more than 956,000 jobs in the country. In March, the KRW28.9trn supplementary budget consists of KRW17.7trn of new spending and KRW11.2trn in tax shortfall. The focus of the additional spending is on jobs creation and assistance for the SMEs and exporters. All these fiscal spending came on top of liquidity injections into banks and the government's guarantee of banks' US$100 bn of foreign currency debt. The country has also created three funds including the Financial Stabilization Fund to boost the capital of the financial firms in the country.

In November, the **Taiwan** government announced a NT$500bn 4-yr (2009-2012) economic stimulus package. For this year, the country is expected to record a 2.6% of GDP fiscal deficit. Besides the infrastructure spending and tax breaks, the government has already spent NT$85.7bn on a shopping voucher programme to stimulate domestic demand. So far, the impact from the voucher programme has been fairly subdued. Meanwhile, the tax cuts will only kick in starting 2010 with the corporate tax rate to be reduced to 20% from 25% and the personal income tax rate by 1ppt for the lowest tax brackets.

In other parts of Asia, the **Thai** government has unveiled a THB116.7bn supplementary budget which contains one-time cash handouts to low-income families, tax cuts and more free education and subsidies for transport and utilities. On top of this, there is an additional THB1bn budget to boost the country's tourism industry. **Philippines**' PHP330 bn (4.4% of GDP) economic resiliency package includes infrastructure projects in the rural areas and tax rebates. The Philippines government has already raised its budget deficit ceiling to PHP177.2bn (2.2% of GDP) for this year from PHP102bn.

Fiscal Stimulus in Asia (until Mar 09)

Country	USD bn	% GDP
China	586.0	12.0
South Korea	30.0	5.0
Malaysia	18.4	10.0
Taiwan	14.3	4.0
Singapore	13.2	8.0
Philippines	6.8	4.4
Indonesia	6.1	1.5
Thailand	3.2	1.3

Source: Newswires and various governments

So far, one of the largest stimulus plans came from **China** which announced a 2-yr RMB4 trn (US$586bn) stimulus package in November last year, equivalent to 12% of GDP. About 70% of the spending will be on infrastructure. However, only about a quarter of the package is new spending. While the Chinese government has denied new stimulus plans in the offing, there is still some expectation of further spending plan and tax cuts this year.

In **Malaysia**, the March mini budget came in above market's expectation at RM60bn (9% of GDP) which will be implemented over two years in 2009 and 2010. This is significantly larger and more comprehensive than the RM7bn stimulus package announced in November last year. The bulk of the second stimulus package or RM25 billion will be Guarantee Funds as the government shares risk of as much as 80% for loans to companies with shareholder equity less than RM20mn to provide working capital as well as encourage the increase in productivity and value-added activities.

Direct fiscal injection will cost another RM15 billion (RM10bn in 2009 and RM5bn in 2010) while RM10 billion has been allocated for equity investments, RM7 billion private finance initiative (PFI) and off-budget projects, as well as RM3 billion in tax incentives.

Besides the risk-sharing portion, the government also announced double tax deduction on the amount of remuneration paid, up to RM10,000 per month when employers hire workers retrenched from 1 July 2008. The risk sharing and jobs preservation schemes are similar to efforts in Singapore.

The **Indonesia** government has raised its budget deficit forecast to IDR137 trn (2.6% of GDP) from original budget of IDR51trn (1.0% of GDP) for this year. The IDR73.3 trn fiscal stimulus package which kicks off this month, comprise mainly tax incentives (76%) and some spending on infrastructure development. With the parliamentary and presidential elections looming, there is pressure for the government to spend more to boost its economy this year.

Economy is a Bigger Concern That the Fiscal Deficits in the Short-term

We expect Asian governments' budget deficits to balloon this year amid the large spending plans and lower revenue resulting from the economic downturn as well as the tax relief measures being unveiled. However, most of the Asian governments are well-placed to splash out expansionary fiscal measures as a result of the strong fiscal positions built up over the years but the debt market remains the key avenue for the financing of the deficits, particularly in Indonesia, the Philippines and Thailand although there is also some scope for multilateral and bilateral loans. Public debt has remained manageable at under 50% of GDP for most of the Asian countries last year although the ratio could rise further as the government finance their new stimulus plans. The strong foreign reserves positions of the Asian countries and their currency swap facilities should also help to reassure investors.

FX Reserves in Asia (USD bn)	
Country	Latest
Singapore	163.6
Malaysia	90.4
Indonesia	50.9
Thailand	107.9
Philippines	38.9
South Korea	201.5
China	1,946.0
Taiwan	294.2
Hong Kong	177.1
Source: Bloomberg	

Public Debt (% of GDP)	
Country	2008
Malaysia	43.3
Indonesia	29.5
Thailand	38.1
Philippines	63.8
South Korea	32.5
China	10.0
Taiwan	31.6
Source: CEIC, UOB	

Singapore would be drawing S$4.9 billion from past surpluses. For **Hong Kong**, the fiscal reserves balance was at HK$523bn at end-2008. Officially the estimated deficits for FY09 are around HK$40bn (or 2.4% of GDP), which only accounts for less than 10% of the reserves. Despite the buffer and a fairly conservative budget, Hong Kong government said it would issue sovereign debt for the first time since 2004 during which it raised HKD20bn. **South Korea** has a strong fiscal position after running budget surpluses since 2000. The country is expected to record a budget deficit of 2.4% of GDP this year but it could rise as high as 5.4% if the social security funds are excluded. South Korea will issue bonds for the first time since 2006 to finance some of the spending. In particular, around 58% of South Korea's supplementary budget will be financed through domestic bond issuance starting April.

China's fiscal deficit is expected to be financed through domestic bond issuance, as the national debt-to-GDP ratio is relatively low at around 10%. The RMB4trn fiscal stimulus package is likely to boost the ratio towards 15%, which is still benign and the lowest in Asia. However, there are some concerns over the financing at the provincial level as only a fraction of the announced stimulus package will come from the central government budget although the lifting of banks' lending quota is expected to help.

Savings from its fuel subsidies program as a result of the lower global oil prices will go towards the financing of **Malaysia**'s first MYR7bn stimulus package. With the mini budget, Malaysia's fiscal deficit is expected to surge to 7.6% of GDP in 2009 from government's earlier projection of 4.8% and a similar 4.8% in 2008. This will be one of the highest deficit-to-GDP ratios in Asia and will be financed mainly from domestic sources.

Around 70% of **Indonesia**'s budget deficit will be covered by unspent budget from 2008 and US$3.8bn standby loans (out of total US$5.5bn) from multilateral and bilateral lenders. The government has also raised US$3bn from the global bond market and IDR26 trn (US$2bn) from the domestic debt market this year. Similarly, **Thailand** has also said that it is tinkering with the option to borrow US$2bn from multilateral institutions or bilateral partners to support additional stimulus plans.

Room For More

There are questions over the efficacy of some of these measures which aimed to boost domestic spending to compensate for the anemic external demand. Afterall, in Asia, private consumption-to-GDP ratio has fallen to 52.7% in 2007 from 56.2% in 2000 and the higher savings rate in Asia also reduces the multiplier effects of the government spending. In Singapore and China, the PCE-to-GDP ratio is less than 40% and the import leakages also reduce the effectiveness of some of the measures in countries like Singapore. Conversely, government spending would likely work better in countries such as the Philippines, Indonesia and Hong Kong which have larger share of private consumption. In the absence of a pick-up in external demand, the Asian governments are still banging on domestic consumption but the turnaround in US consumer demand will have to lead the recovery in the economies eventually.

Among the Asian countries, we feel that Hong Kong and Singapore have the scope for further stimulus spending as a result of the huge fiscal reserves. Following fiscal surpluses since 2000, South Korea is in the position to finance the huge spending which it has announced. China, which has the lowest debt-to-GDP ratio, also appears to be in the position to do more to prevent slippage in the country's growth as it struggles to contain the expected increase in the country's unemployment rate.

Aggressive Interest Rate Cuts in Asia		
Country	Benchmark Interest Rate	From Peak in 2007/08 (bps) to End-Mar
Malaysia	Overnight Policy Rate	150
Indonesia	Overnight Rate	175
Thailand	1-Day Repo	225
Philippines	Overnight Reverse Repo	125
Hong Kong	Base Rate	575
South Korea	Base Rate	325
China	1-Year Working Capital	216
Taiwan	Official Discount Rate	237.5
Source: Bloomberg, UOB		

Budget Balance (% of GDP)					
Country	1998	2001	2003	2008	2009F
Singapore	0.7	-1.8	-1.2	-0.8	-3.5
Malaysia	-1.8	-5.2	-5.0	-4.8	-7.6
Indonesia	0.7	-2.5	-1.7	0.1	-2.6
Thailand	-0.5*	-1.94	-3.05	-1.8	-3.5
Philippines	-1.9	-4.0	-4.6	-0.9	-2.2
Hong Kong	-2.5	-4.9	-3.2	-0.5	-5.4
South Korea	-3.9	1.2	1.1	1.2	-2.4
China	-1.1	-2.3	-2.2	-0.4	-3.1
Taiwan	-3.2	-6.4	-2.7	-1.9	-2.6
Note: * 1999					
Source: CEIC, UOB					

Comparing the Size of Exports and Private Consumption		
Country	Total Exports-to-GDP	Private Consumption-to-GDP
Singapore	185.0	38.6
Hong Kong	166.0	59.0
Malaysia	94.3	50.0
Taiwan	61.1	55.0
Thailand	60.0	52.0
South Korea	38.3	49.3
Philippines	34.9	77.0
China	33.0	35.5
Indonesia	26.4	58.0
Source: CEIC, UOB		