ANALYSIS-Southeast Asia spends today, worries tomorrow.

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SINGAPORE, Aug 3 (Reuters) - Southeast Asian countries are digging deep into their fiscal pockets to get their economies going, but in the process are creating budgetary holes that will prove tricky to mend.

Public sector deficits above three percent of gross domestic product (GDP) are not uncommon in Asia these days, but faced with the nightmare of slowing exports and capital flight, governments are trying to make the public sector do what the private sector cannot.

And that policy is leading to yawning budget deficits as taxpayer money is sunk into bigger and better public works.

What is troubling financial analysts is that while short-term fiscal boosts may help economies weather the U.S. slowdown, they are not being teamed with the kind of structural economic reforms that the 1997 crisis so clearly made a priority.

For example, it is obvious the Philippines and Malaysia are simply raising funds in global capital markets to plug the budget gap, but once funds are raised, inefficiencies start to tell.

"For most of the countries in Southeast Asia the concern is that the fiscal policy is to raise capital, but then that capital is not used in a productive fashion," said Chris Tinker, head of equity strategy at Deutsche Bank.

"It's used to prop up economically unviable state-owned entities. Or it's being raised to keep financial systems from imploding, but at the same time perpetuating the problems those systems have."

THE ARITHMETIC

Malaysia, the Philippines, and Thailand are all running budget deficits this year above three percent of gross domestic product, although this is small change compared with Indonesia's public sector debt which almost equals its GDP.

Thailand has announced an expansionary budget for the next fiscal year ending September 2002, with a deficit twice the size of the current year's 105 billion baht ($2.3 billion).

Malaysia unveiled a $789 million fiscal package in March, which its central bank said would push the 2001 deficit to six percent of gross national product from an initial target of 4.9 percent.

Philippine President Gloria Arroyo recently proposed ambitious poverty alleviation programmes, including the creation of one million new jobs within a year. But the government says these will not blow out its budget deficit.

While these packages are laden with projects aimed at boosting domestic economies, they are not paired with hard-nosed reforms on revenue collection and corporate restructuring.

"They need to have short-term measures of fiscal spending, but you have to have the structural reforms to help the medium and long-term economic growth," said Takahira Ogawa, Standard & Poor's director of Asia-Pacific sovereign ratings in Singapore.

Unfortunately, some analysts say these countries missed the boat on reform, and that will take the edge off the stimulus.

"The bitter cocktail of inadequate corporate restructuring, political uncertainty and social instability is undermining investor sentiment and impeding the positive multiplier effects of expansionary fiscal policy on private demand," said Lehman Brothers in a recent research note.

THAILAND RAISES EYEBROWS

S&P's Ogawa points to Japan as an example of fiscal stimulus gone awry, and warns some countries in Southeast Asia may be headed down the same path.

"In Japan, there have been a lot of fiscal problems...the spending has not been efficient, enhancing the productivity. It's been preserving the status quo," he said.

Now, the critical spotlight is on Thailand's ambitions to bolster its economy, which are viewed as a litmus test for other Southeast Asian countries seeking to cushion their economies through increased spending.

Among Prime Minister Thaksin Shinawatra's plans are a 10 billion baht village development fund, the Thai Asset Management Company (AMC), a national public health insurance scheme, and a debt moratorium for poor farmers.

But analysts question whether these plans will prove effective in the long run, as they might not necessarily generate more income. They will, however, expand the budget deficit for the fiscal year starting on October 1 to 3.6 percent of GDP from 2.0 percent this year.

"The village development fund and the people's bank can generate future income. But they are, especially the village fund, open to corruption," said Syetarn Hansakul, regional economist at West LB in Singapore.

While most in the market heaped praise on Thailand for the creation of the TAMC to buy up to around 1.3 trillion baht in bad loans, some fear that with the bad loans wiped clean from their books, Thai banks might fall back on former habits.

"Our concern is that they (TAMC) will encourage banks to lend largely irrespective of the credit-worthiness of the debtors. And thereby recreating the problem all over again," said Steve Brice, treasury economist at Standard Chartered Bank in Singapore.

"So they're getting rid of the stock problem, and recreating it as a flow problem."

THE CURRENT DEFICITS

Thailand	2001/2002	200 billion baht	3.6 pct of GDP
Philippines	2001	145 billion pesos	4.0 pct of GDP
Indonesia	2001	22.9 trillion rupiah	3.8 pct of GDP
Malaysia*	2001	16 billion ringgit	4.9 pct of GNP

*before stimulus package announced

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