# Towards post-COVID-19 resilient economies

Economic and Social Survey of Asia and the Pacific 2021

Sweta C. Saxena and Daniel Jeong-Dae Lee Macroeconomic Policy and Financing for Development Division



ESCAP-ADB Policy Dialogue 17 June 2021



# Main messages

- The socio-economic impact of the COVID-19 pandemic was amplified due to lack of resilience and investments in people and the planet.
- Continuity in policy support is a must and recovery policy packages should focus on building resilience and investing in the 2030 Agenda.
- To deal with various economic and non-economic shocks, a more integrated risk management approach to planning and policymaking is needed.
- We propose a "Building Forward Better" policy package that calls for investments in social services, digital access and green development.
- To implement such a policy package, countries would need to build fiscal space and explore a range of financing options.





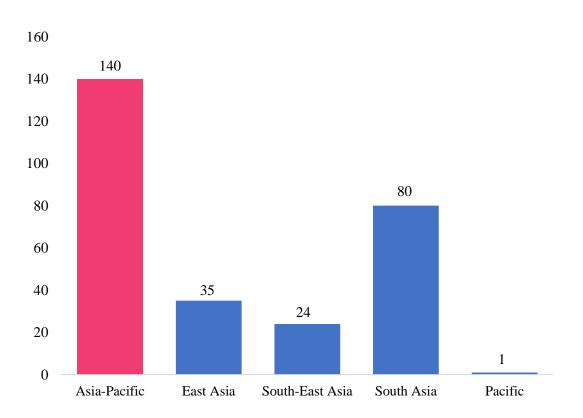
# Some 89 million people pushed back into extreme poverty in developing Asia-Pacific

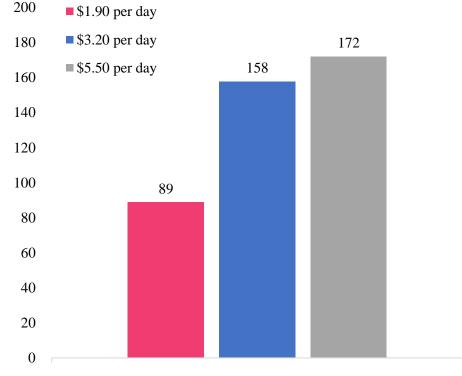
Equivalent number of full-time jobs lost in 2020 (millions of jobs, 48 hours/week)



Post-Pandemic increase in poverty (Asia-Pacific, millions of persons)



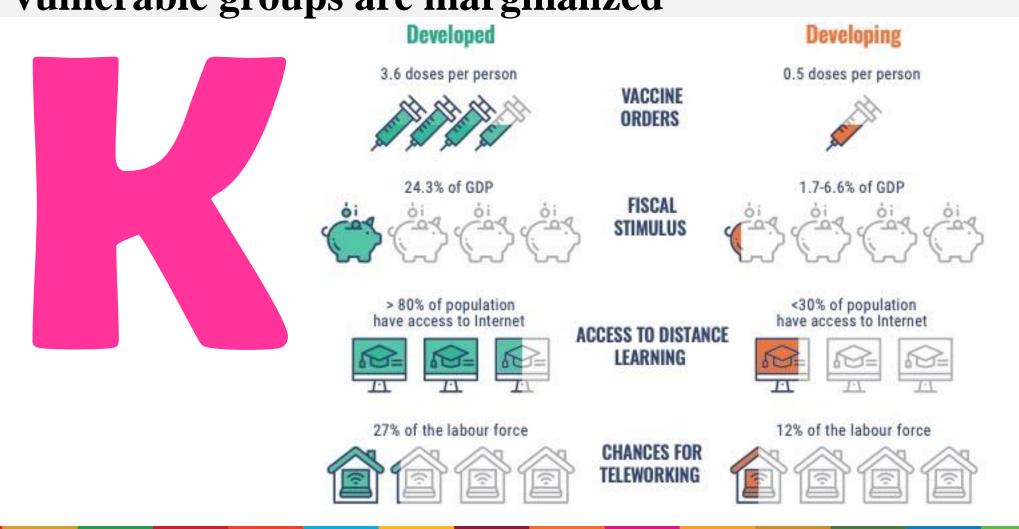




Source: ILO (2021) and ESCAP estimation.



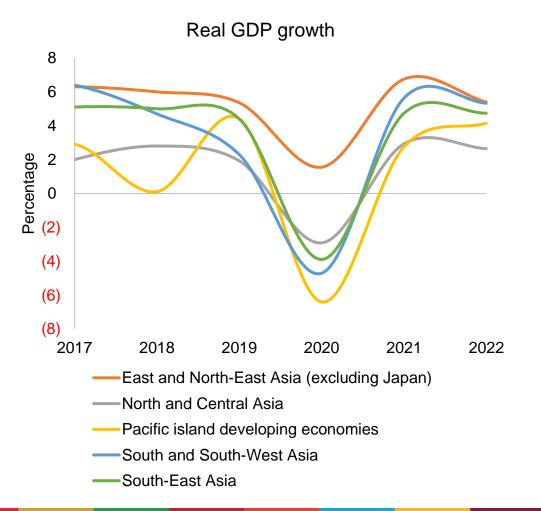
# A likely "K-shaped" recovery: poor countries and vulnerable groups are marginalized

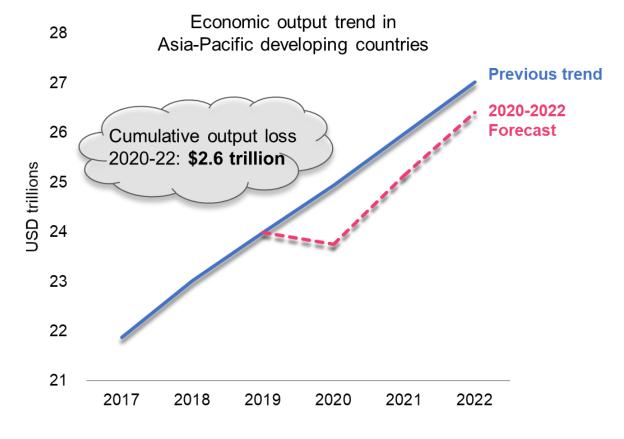


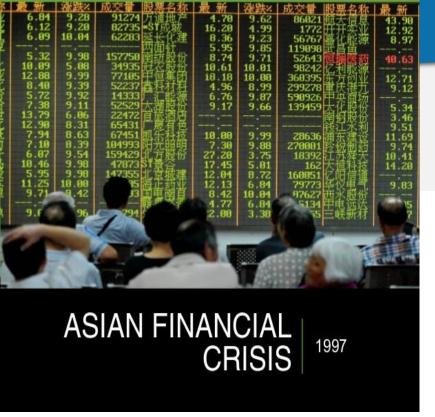


# To reduce permanent losses and secure inclusive recovery,











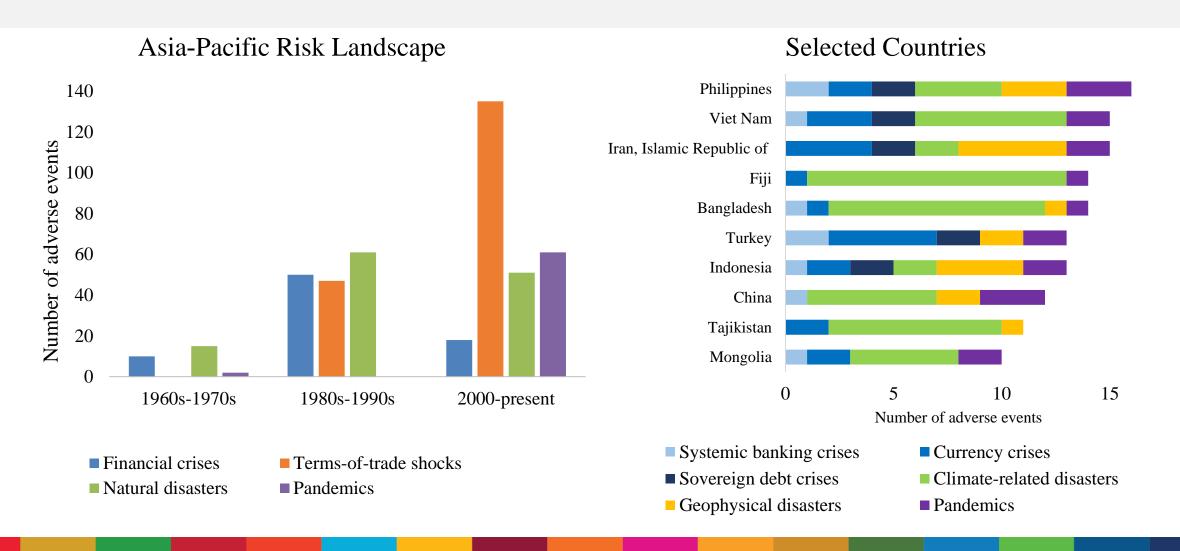


# The past: Learning from Past Crises and Recoveries to Build Resilience



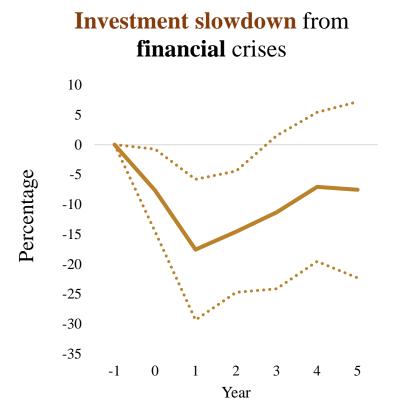


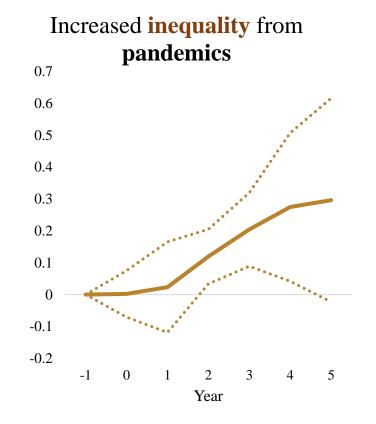
## Asia-Pacific faces a wide risk landscape...

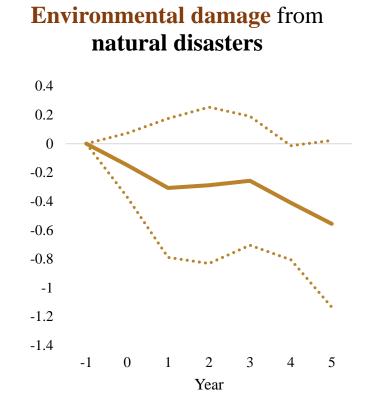




# ...where adverse shocks leave long-term scars on sustainable development.

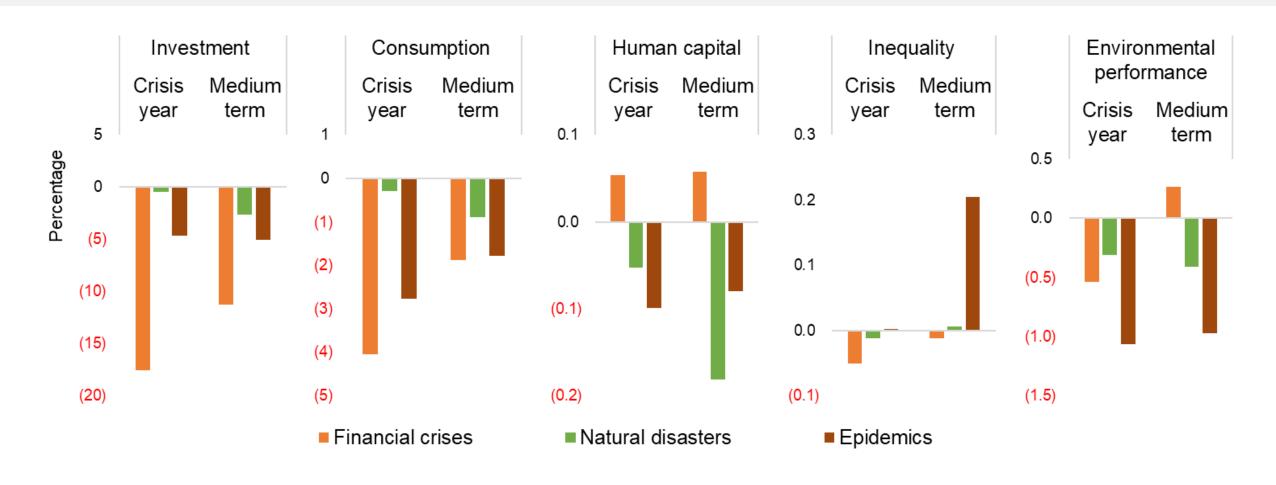






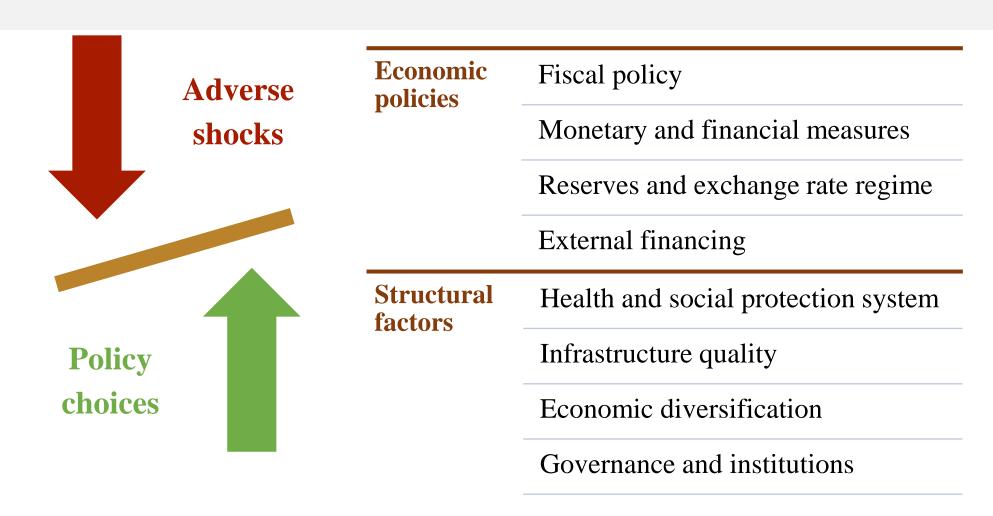


## Summary of impulse response estimation



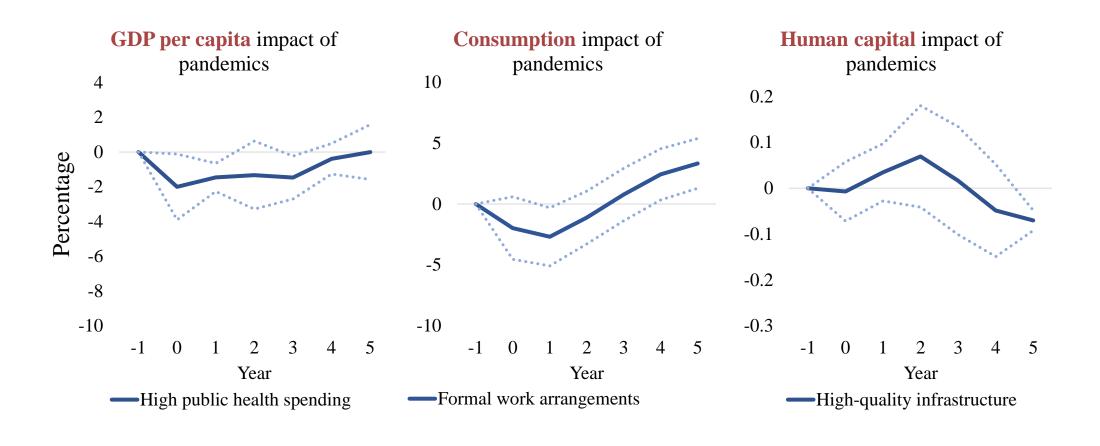


### However, policy choices can reduce such setback!



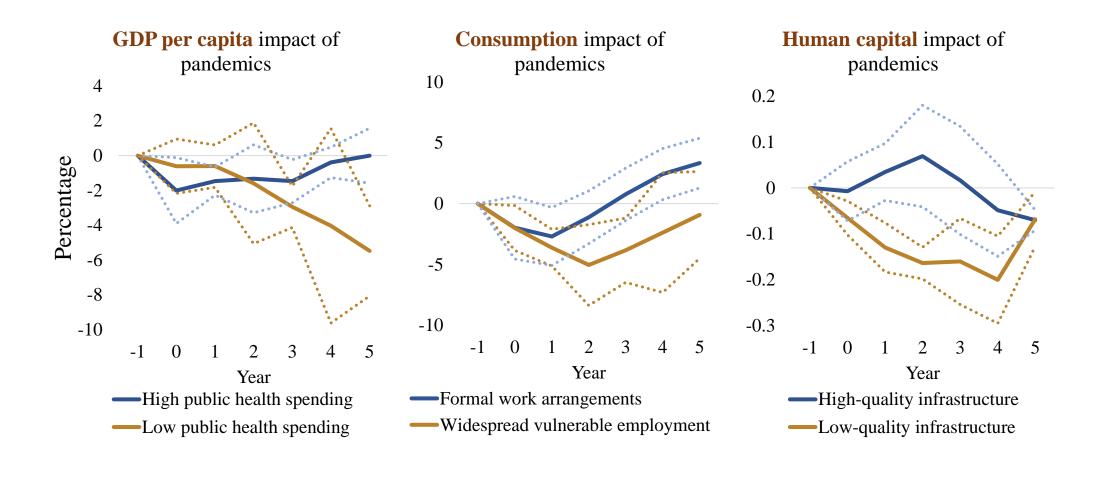


## Pandemics have a more severe economic and social impact...





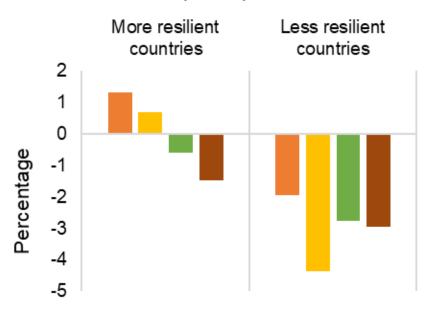
## ... in countries with pre-existing structural vulnerabilities





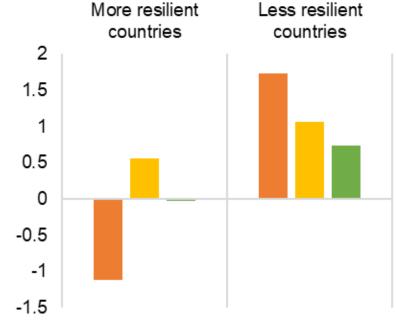
## Summary of impulse response estimation

#### GDP per capita in:



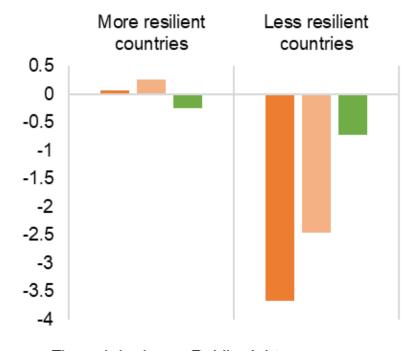
- Financial crises Monetary policy response
- Trade shocks Exchange rate regime
- Natural disasters International assistance
- Epidemics Public health spending

#### Extreme poverty in:



- Financial crises Sovereign credit rating
- Trade shocks Social protection spending
- Natural disasters Remittances

#### Environmental performance in:

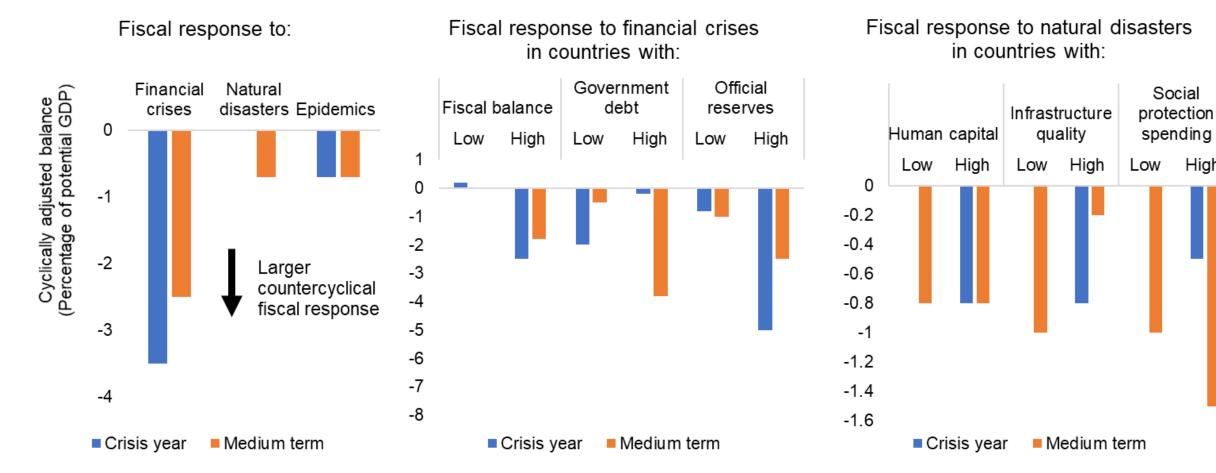


- Financial crises Public debt
- Financial crises Fiscal balance
- Natural disasters Economic diversification



High

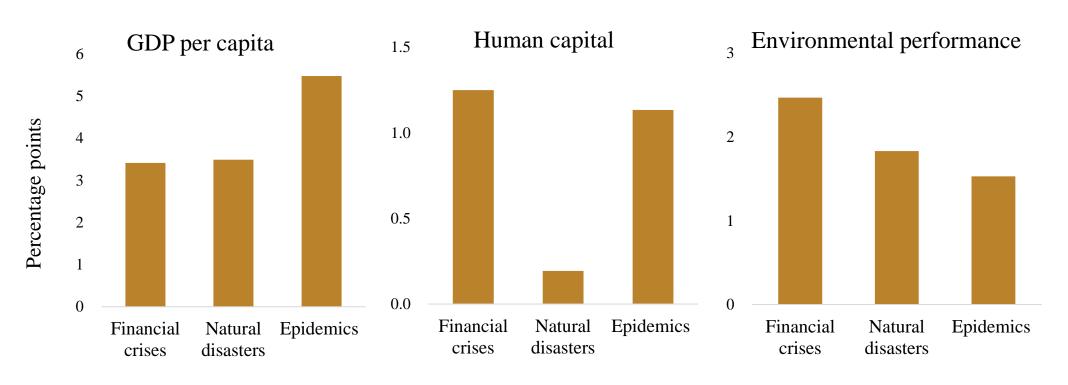
## How did the size and speed of fiscal response vary?





# Lesson learned – 1: Respond strongly & swiftly to shocks to safeguard sustainable development

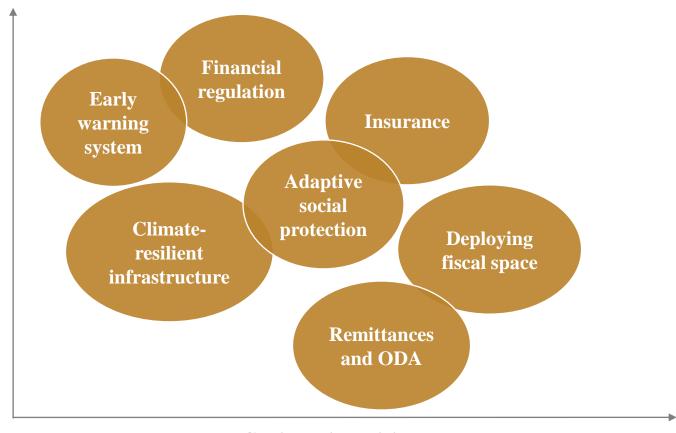
#### Potential boost to sustainable development from resilience-enhancing policies





# Lesson learned – 2: Integrate risk management into national development planning and policymaking

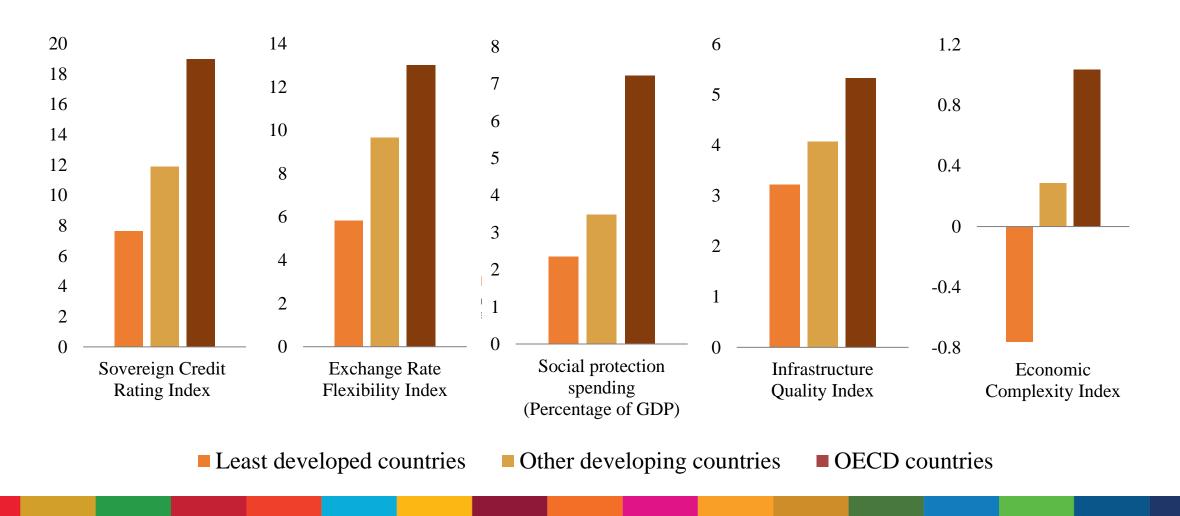
Crisis preparation and coping strategies



Preparing for crisis

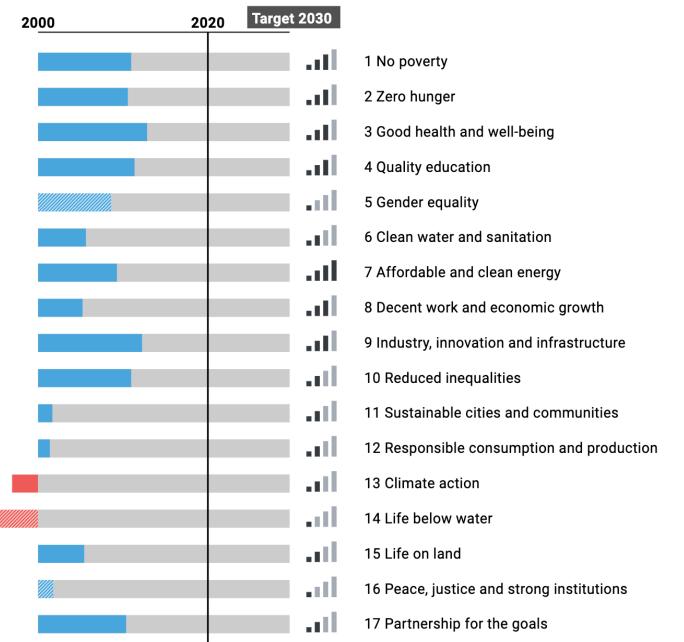


# Lesson learned – 3: Strengthen the resilience of least developed and other vulnerable countries





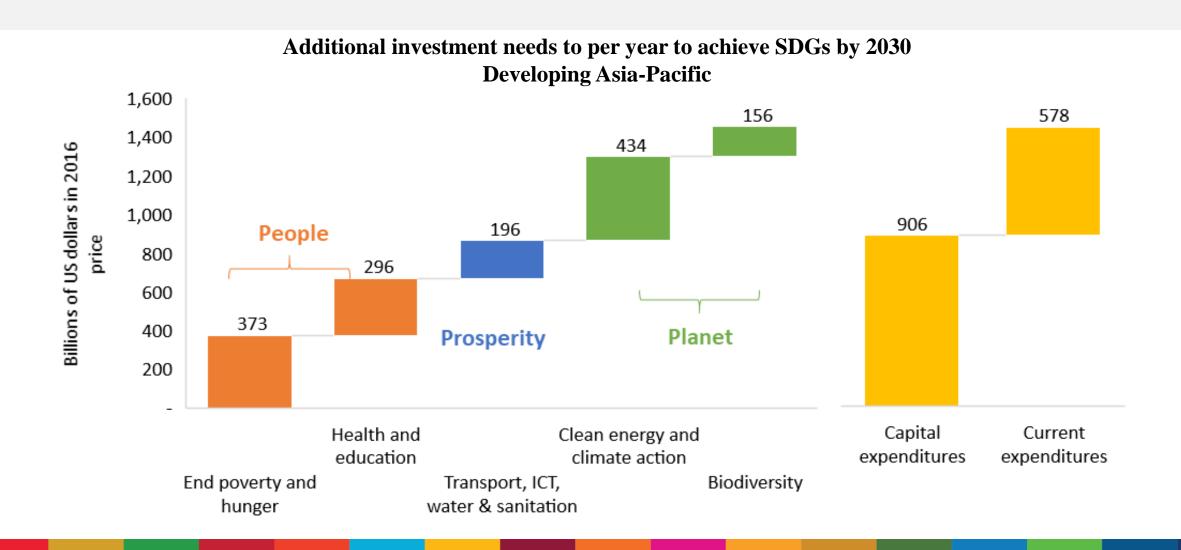
## SDG Progress in Asia and the Pacific has been lagging...







## ... reflecting investment deficits in people and planet

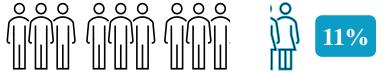




# COVID-19 recovery packages leave room to integrate social and environmental issues

# Most recovery policies are not gender-sensitive:

#### Fiscal support for businesses



#### **Social Protection**



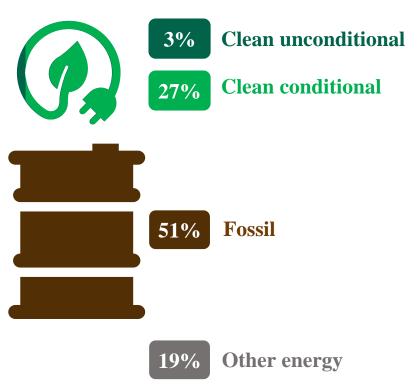
#### Labour market





9%

# Most public fund commitments neglect green energies



Note: Data shows shares of 10 countries covered by the *energypolicytracker* 



## We propose a "Building Forward Better" policy package...





Education Spending





**Biodiversity** 



**Fuel Subsidies** 



Climate-Resilient Infrastructure



**Carbon Tax** 



Clean Energy & Energy Efficiency



Social Protection Floor

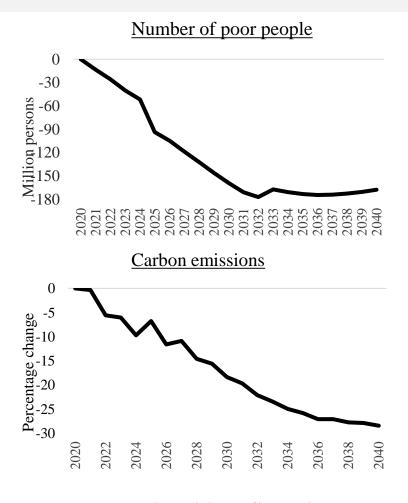
**Access to** 

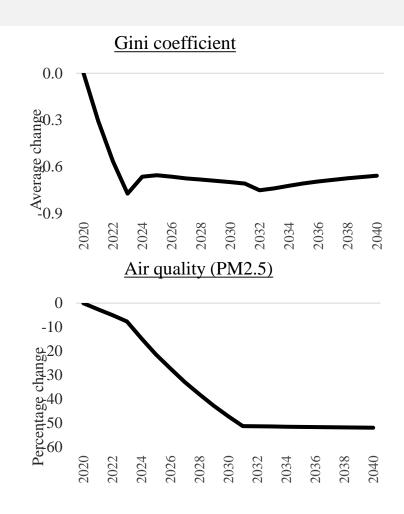
**Health care** 





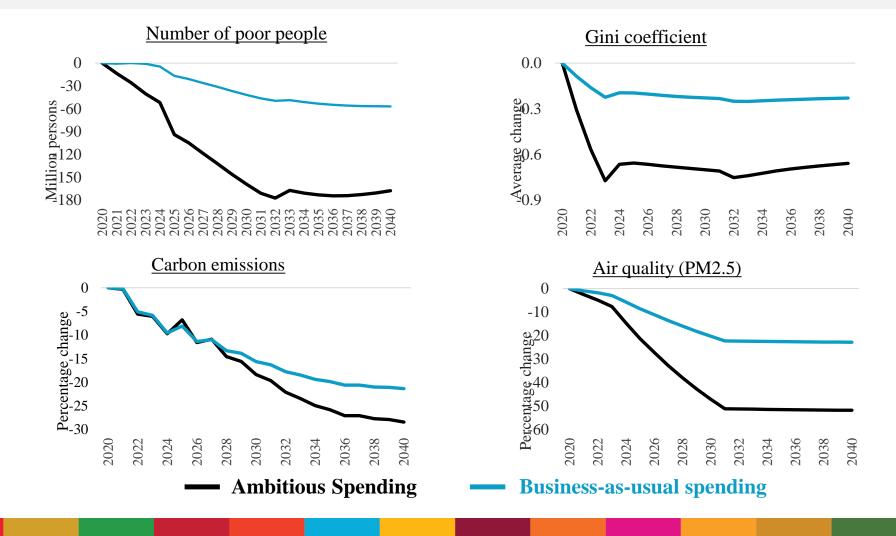
## ...which brings large social & environmental benefits





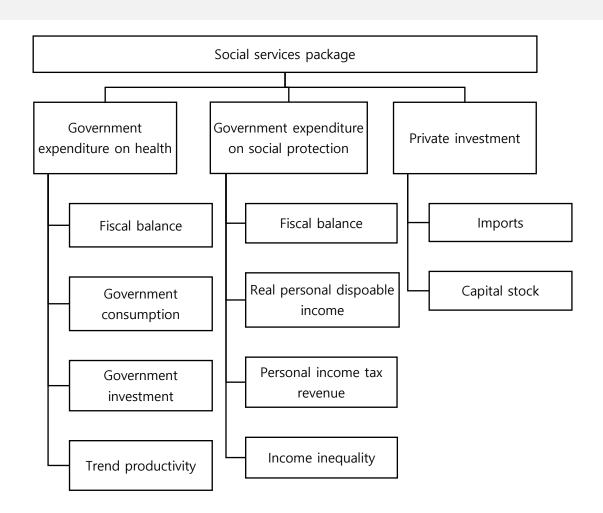


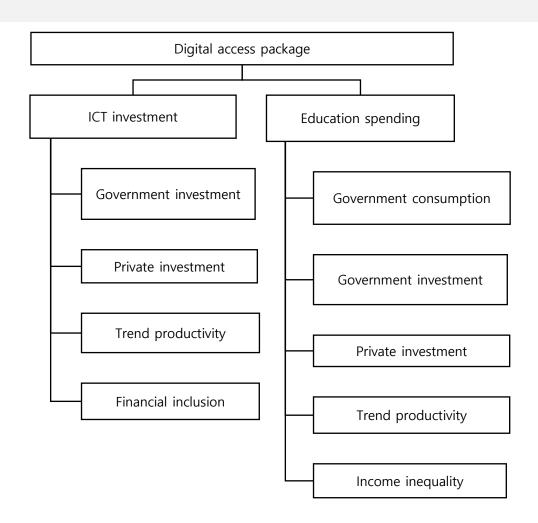
## ...which brings large social & environmental benefits





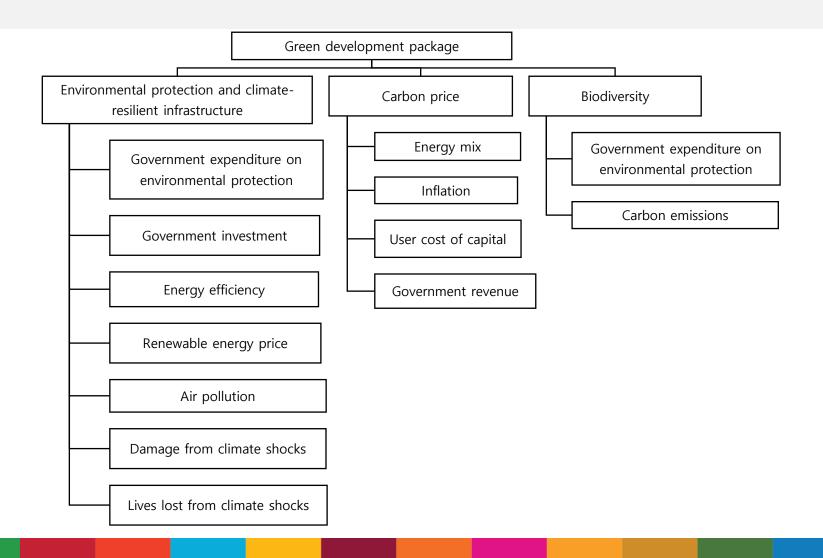
# Illustrative channels of impact: social services, digital access





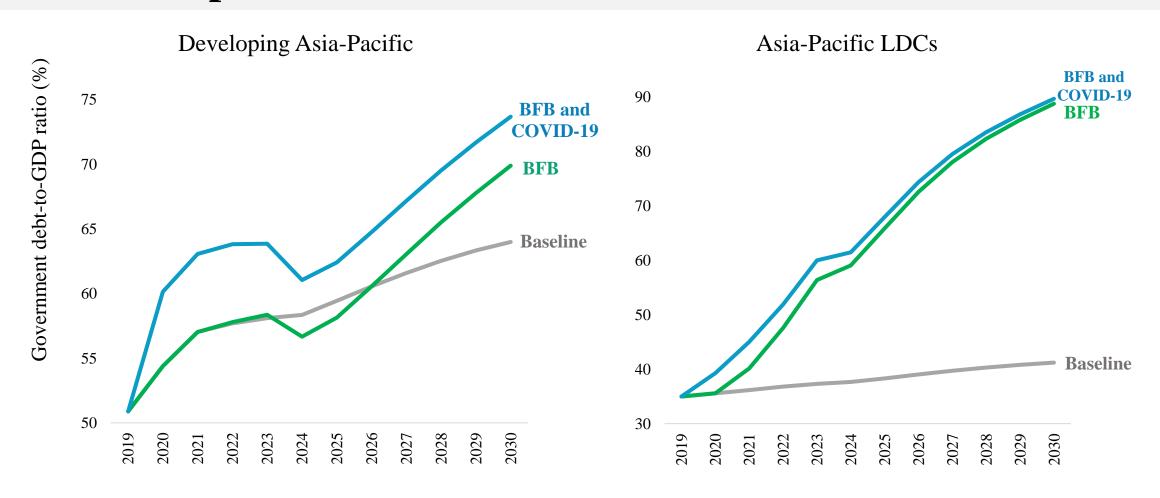


## Illustrative channels of impact: green development



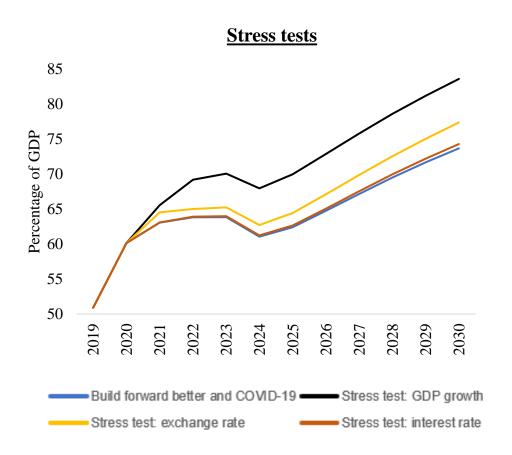


# But pressure on public debt will increase, especially in least developed countries

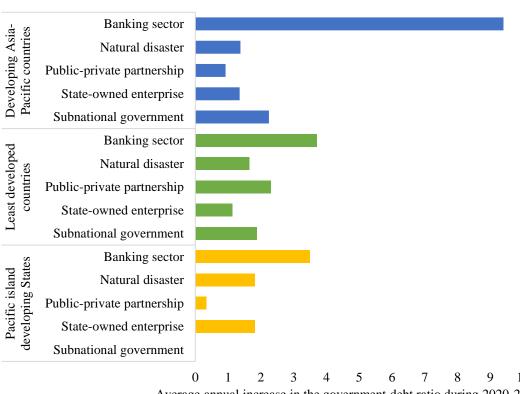




# Public debt sustainability is vulnerable to slower-thanexpected economic growth and fiscal contingent liabilities



#### **Contingent liabilities**

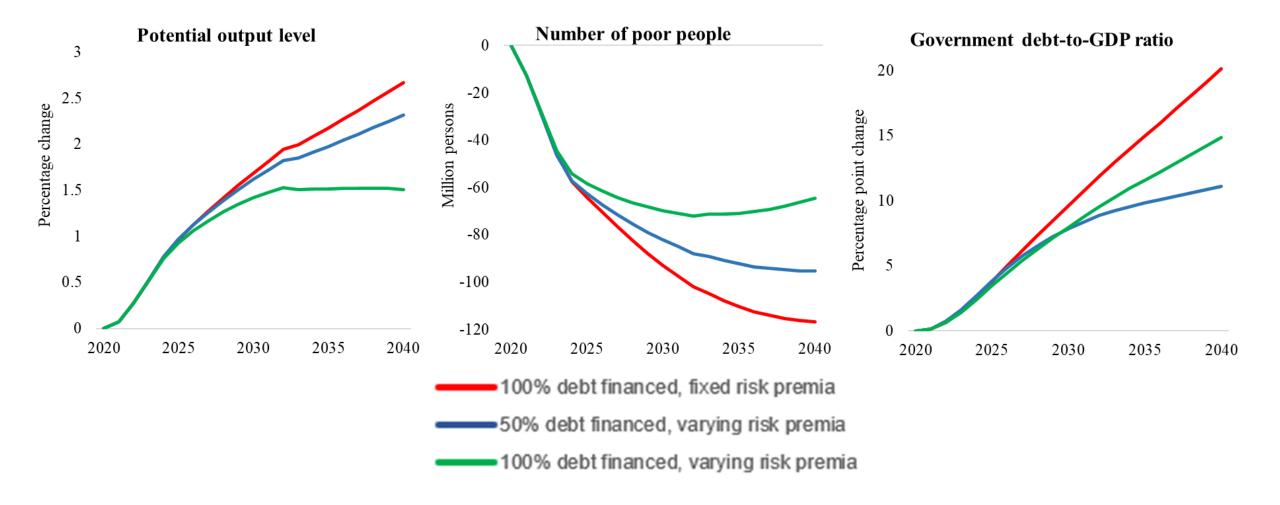


Average annual increase in the government debt ratio during 2020-2030



## Do financing options matter?

## Illustration with social access package









# Policy options to address fiscal and financing challenges in less developed countries



Actively engage in debt relief initiatives



Make debt swaps for development meaningful



Explore diaspora bonds, offshore public bonds



Incorporate catastrophic risks into fiscal planning



# Policy options to address fiscal and financing challenges in emerging economies



Grant debt restructuring



Ensure medium-term debt management strategies



Explore more catastrophe insurances + bonds



Ease investment rules for pension + sovereign wealth funds



# Much of public debt in less developed Asia-Pacific economies is owed to official lenders

# Composition of external PPG debt, by creditor type, 2019

# Non-DSSI eligible countries DSSI eligible countries 100 90 80 70 60 50 40 30 20 10 0 Multilateral Bilateral Private DSSI eligible countries DSSI eligible countries Multilateral Bilateral Private

#### **Participation in G20 Debt Service Suspension Initiative**

		Risk of overall debt distress			
		Not available <sup>a</sup>	Low	Moderate	High
	Yes	Fiji (13)	Myanmar (380)		Afghanistan (39)
SI		Pakistan (3,645)	Nepal (25)		Maldives (51)
DSSI					Papua New Guinea (327)
ii l					Samoa (10)
					Tajikistan (64)
ion					Tonga <sup>b</sup> (6)
Participation	No	Mongolia (70)	Bangladesh (332)	Bhutan <sup>b</sup> (145)	Kiribati
ici			Cambodia (220)	Kyrgyzstan (52)	Lao PDR (315)
art			Timor-Leste	Solomon Islands (2)	Marshall Islands <sup>b</sup>
P			Uzbekistan (257)	Vanuatu (6)	Micronesia
					Tuvalu <sup>b</sup>

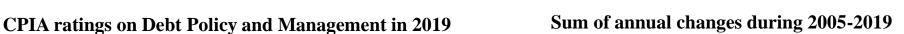
Note: Numbers in the parentheses are potential DSSI savings where available (\$ million).

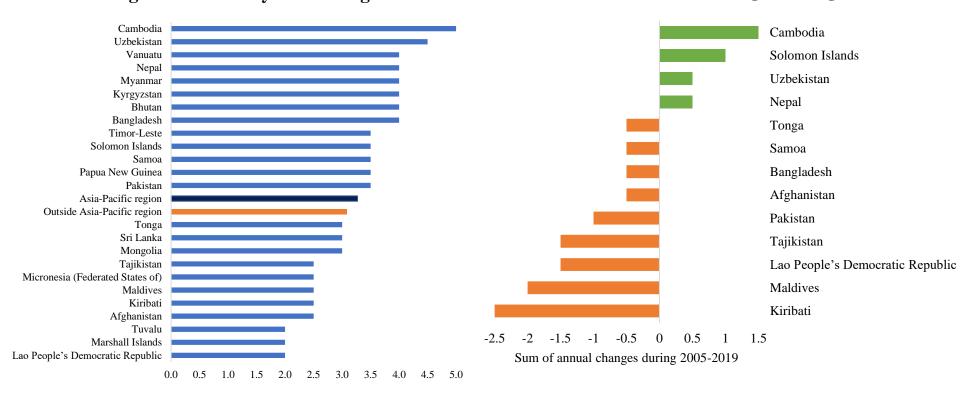
a denotes countries not covered in debt sustainability analysis for low-income countries.

b denotes countries whose debt distress risk is based on external debt only.



# Public debt management has become weaker in several Asia-Pacific countries





Source: ESCAP, based on World Bank's Country Policy and Institutional Assessments (CPIA).

Note: On a 1-6 scale, higher scores denote lower risk of debt distress and more effective debt management.

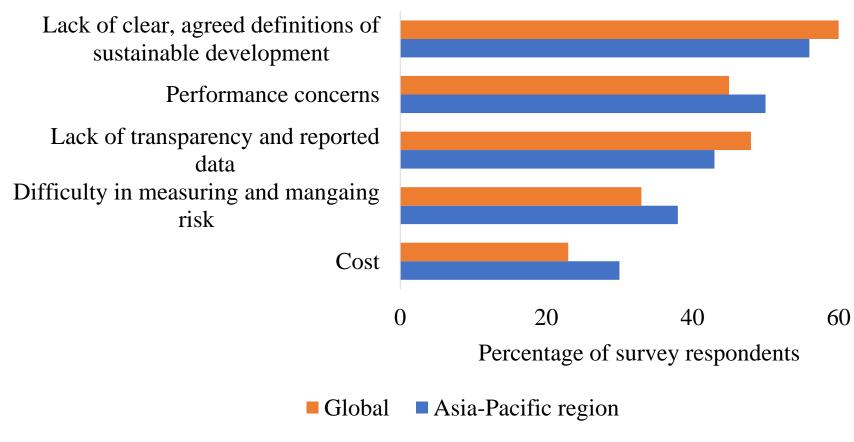


# Different types of shocks require different financing instruments and modalities

Frequency and severity of event Low frequency, - Donor/international assistance high severity - Catastrophe bond and swap Risk-transfer - Insurance of public assets instruments - Indemnity-based insurance - Parametric insurance - Contingent loans and credit lines Domestic and foreign borrowings Risk-retention - Tax increases High frequency, instruments ow severity - Government's regular budget - Government's reserves - Contingency fund - Budget reallocations Phase of policies Relief Reconstruction & build forward better Recovery



# Unclear definition of sustainable development are the main challenges for sustainable investing

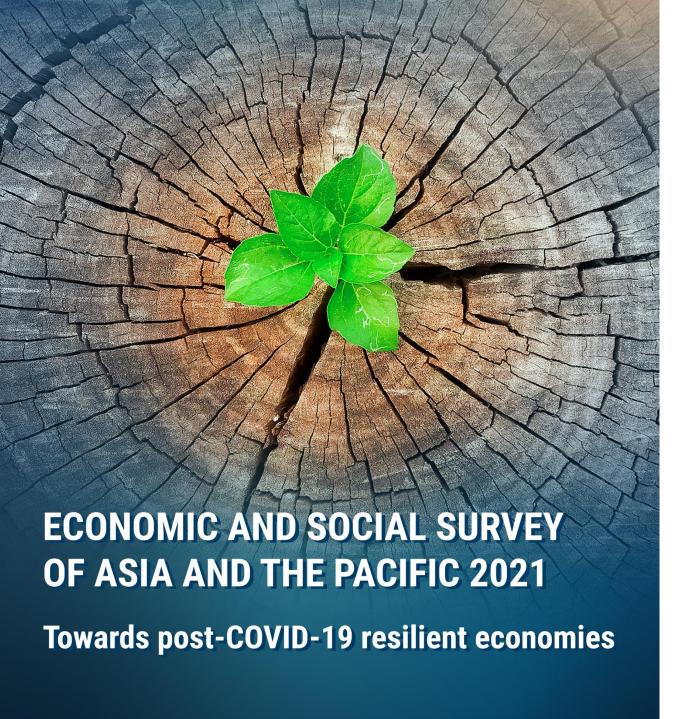


Source: ESCAP, based on Schroders (2020).



# **Key takeaways**

- Despite a cautiously optimistic outlook, there is a risk of a K-shaped recovery policymakers should prioritize inclusiveness for a robust recovery.
- Policymakers should assess the wider risk landscape and focus on "reducing setbacks" as well as "accelerating progress" on sustainable development.
- COVID-19 presents an opportunity to *build forward better* recovery policy packages should adequately focus on social services, digital access, and climate action.
- Along with domestic fiscal reforms, enhanced international cooperation and close engagement of private sector are vital.



#### Please visit

https://www.unescap.org/kp/2021/economic-and -social-survey-asia-and-pacific-2021-towards-p ost-covid-19-resilient-economies



- UNESCAP
- **I** UNESCAP
- UNESCAP
- **ONLY** UNITEDNATIONSESCAP
- **in** UNITEDNATIONSESCAP

