

# Economic and Social Survey of Asia and the Pacific 2024

Boosting affordable and longer-term financing  
for governments



국가채무

public debt

мемлекеттік борыш

Государственный долг

公共债务

deuda pública

หนี้สาธารณะ

dette publique



## High-level Policy Dialogue on Sovereign Financing for Sustainable Development

*Boosting affordable and longer-term  
financing for governments*

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Development Division, ESCAP**

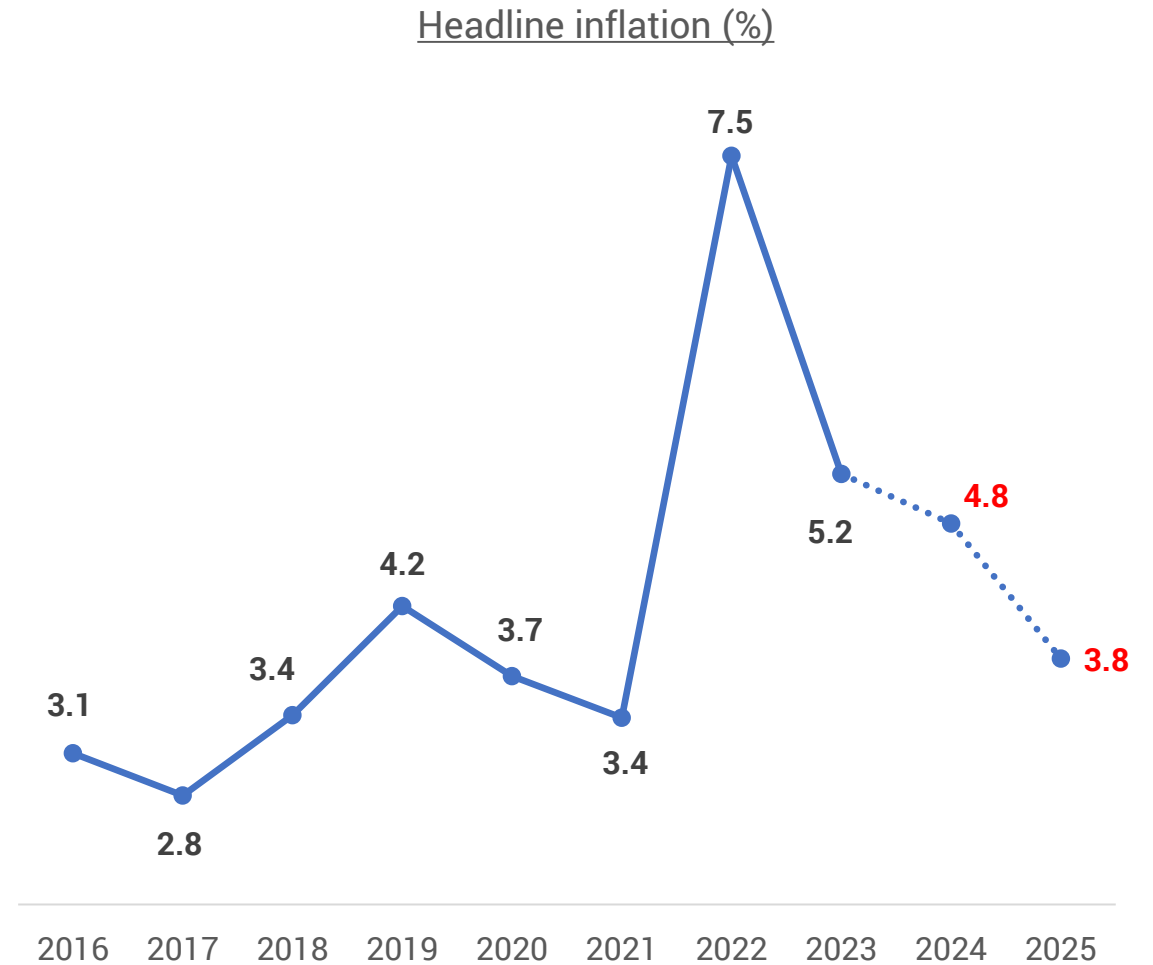
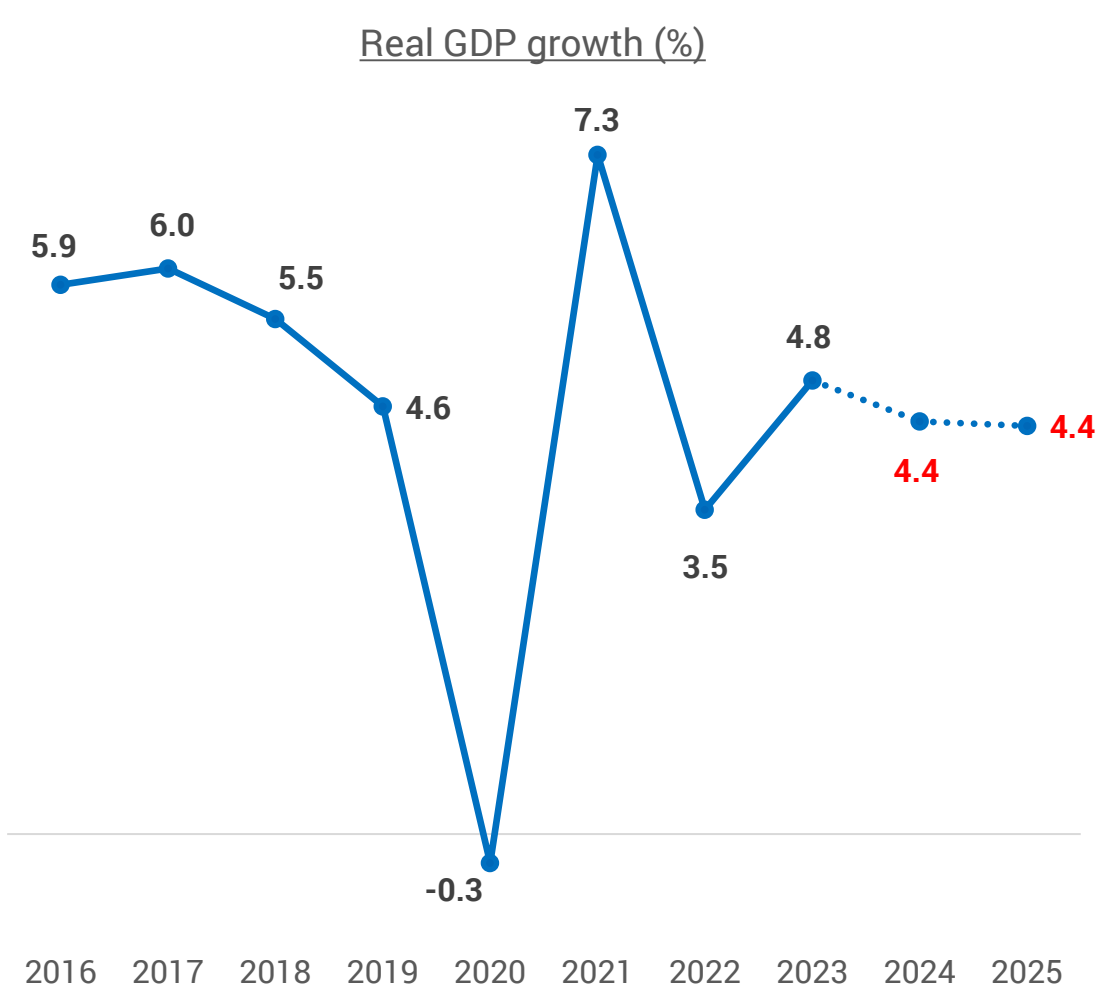
13 May 2024

# Highlights

- Overall steady economic performance is masking **declining purchasing power of people** and **rising poverty** and **socioeconomic inequalities**.
- Increasing public investments for SDGs is looking difficult, due to **higher government borrowing costs** and **shorter loan maturities**.
- Domestic policy measures related to taxes and capital markets can help lower borrowing costs and boost supply of long-term capital.
- International development partners – donors, multilateral development banks and credit rating agencies – can revisit their approaches to increase affordable and long-term financing.
- Fiscal policymakers need to keep in view **global megatrends** (such as demographic shifts, climate change and technological advancements) while pursuing affordable and long-term financing.

# Macroeconomic prospects, challenges and policies

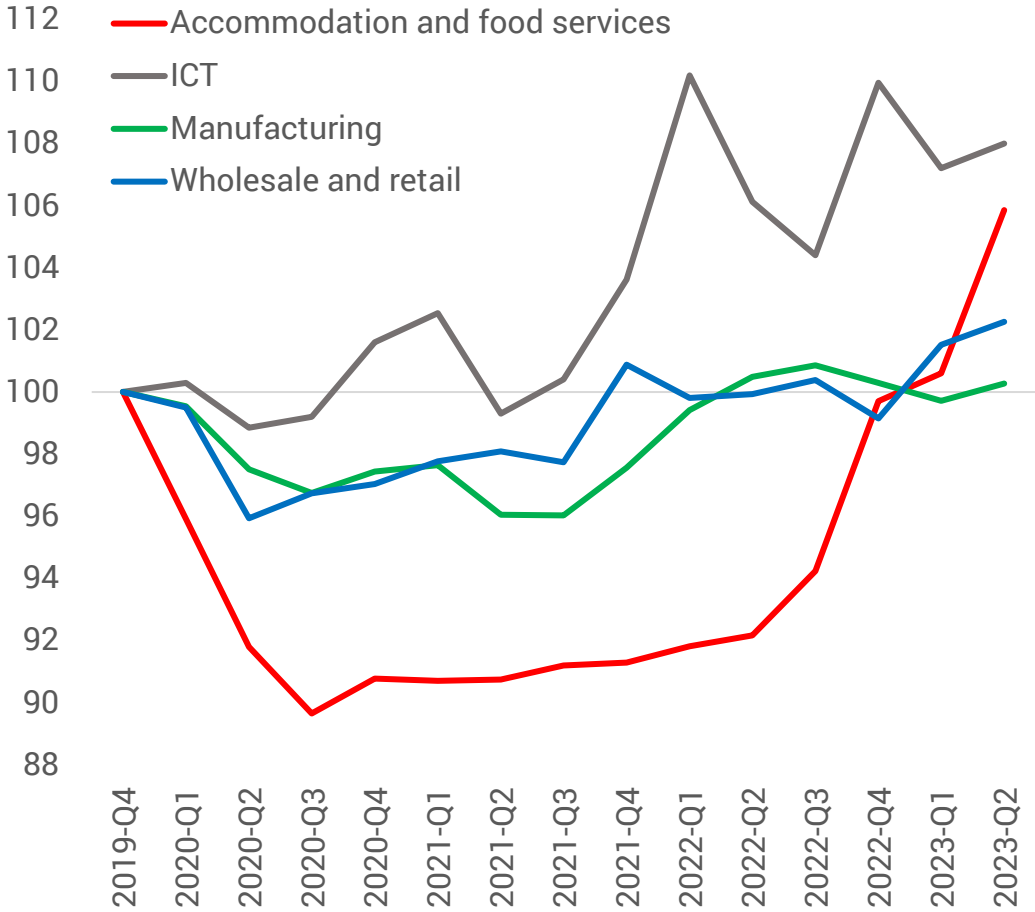
# Steady, yet below-trend GDP growth and declining, yet relatively high inflation



Source: ESCAP estimates and projections as of February 2024.

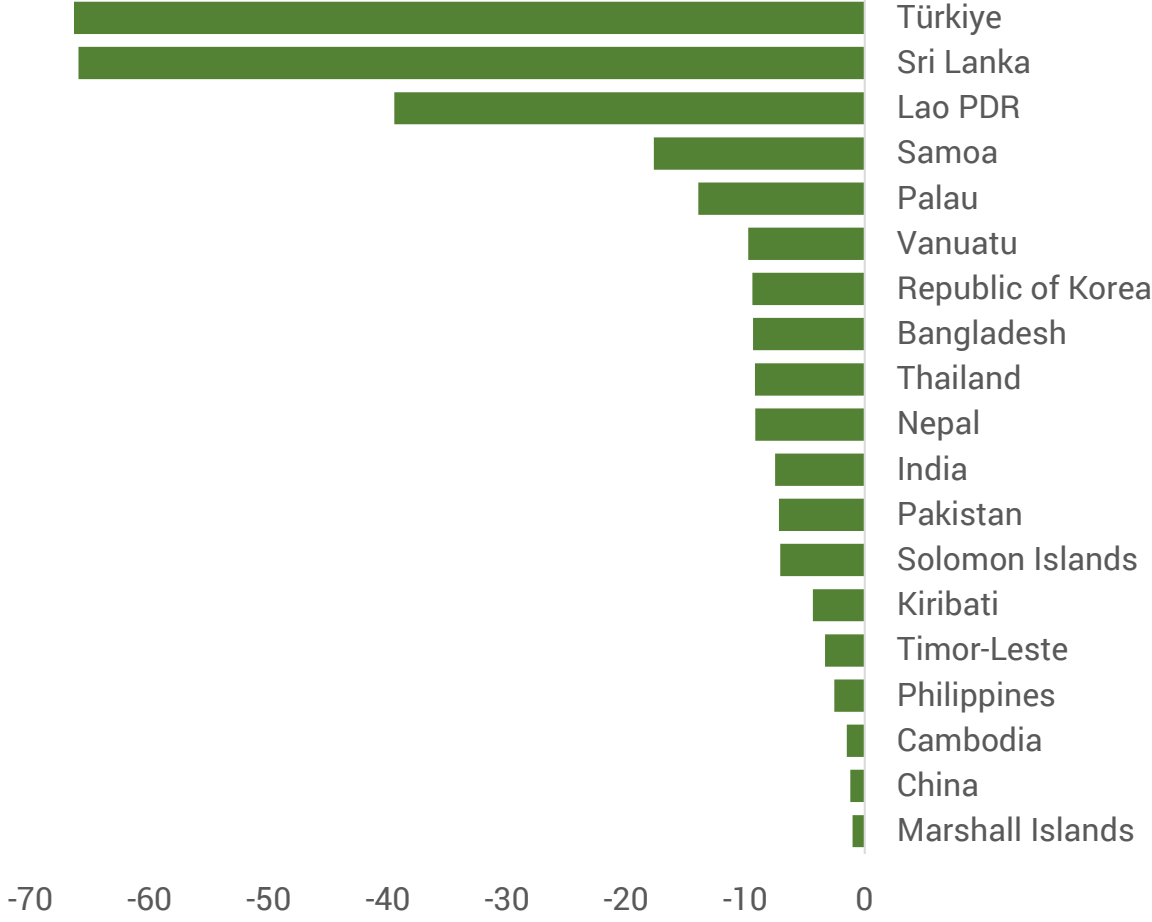
# Subdued post-pandemic job recovery and weaker purchasing power

Number of persons employed (Q4/2019 = 100)



Source: ESCAP, based on CEIC.

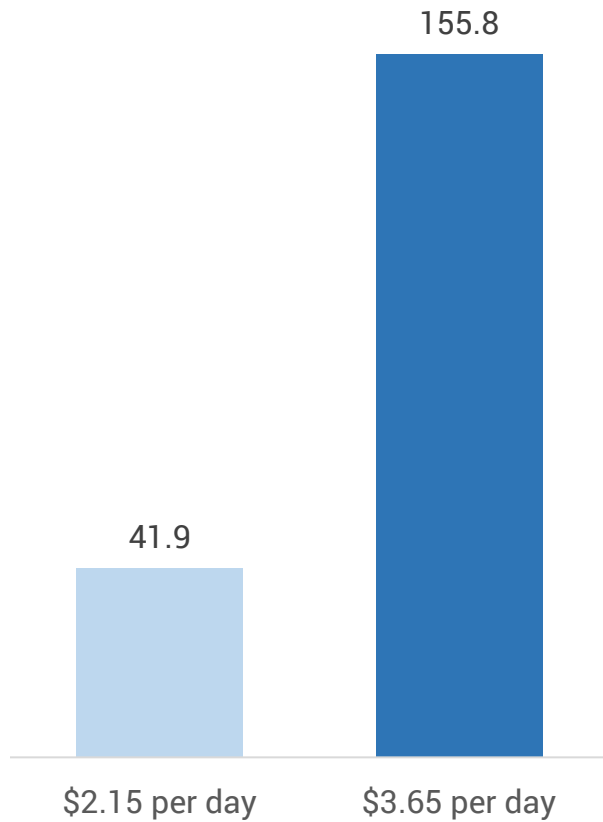
Declines in inflation-adjusted national minimum wages in 2022 (%)



Source: ESCAP, based on ILOSTAT database.

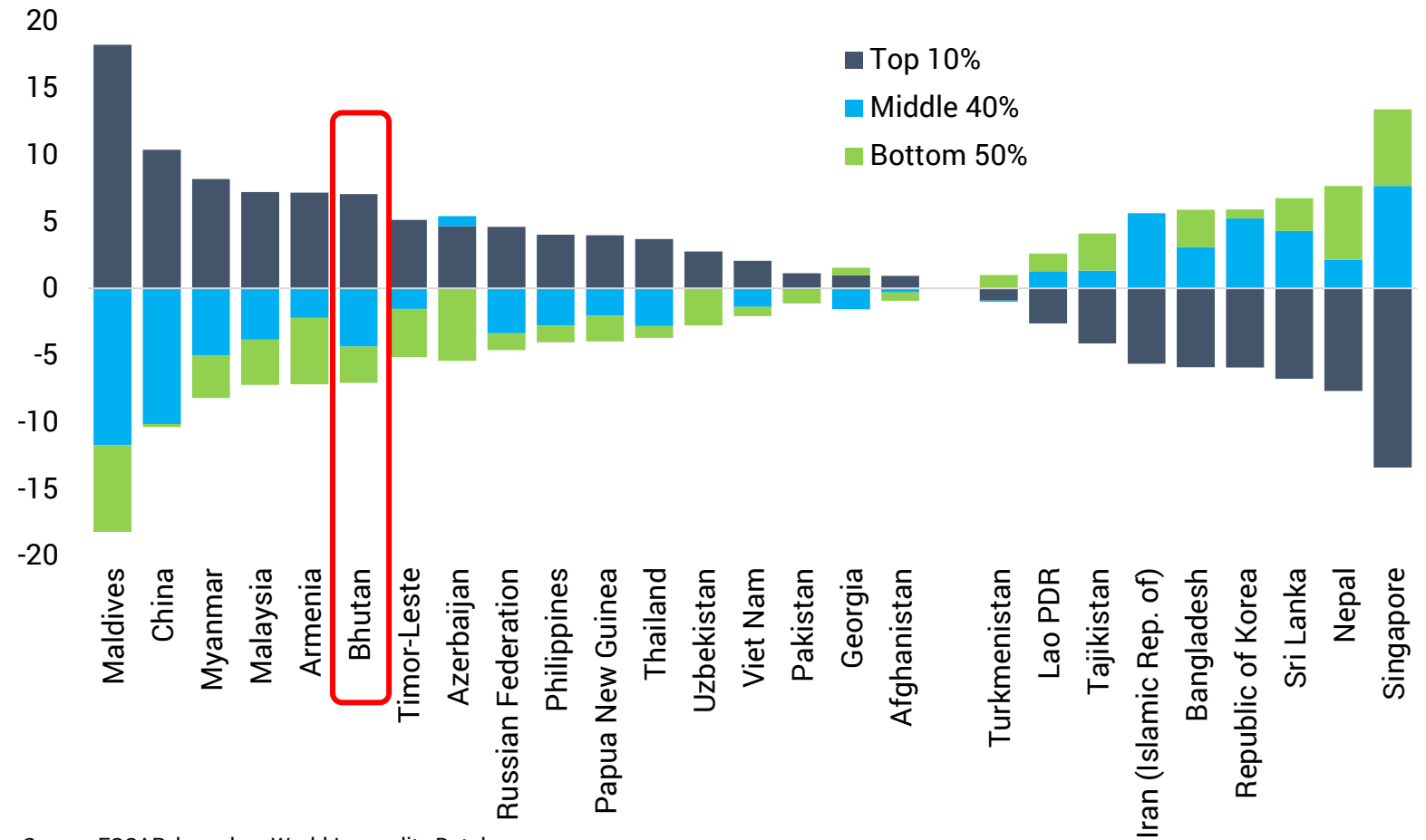
# Increase in poverty and income inequality

Millions of people in Asia-Pacific who could have been pushed into poverty in 2022



Source: ESCAP estimates.

Change in income shares between 2019 and 2022 (percentage points)

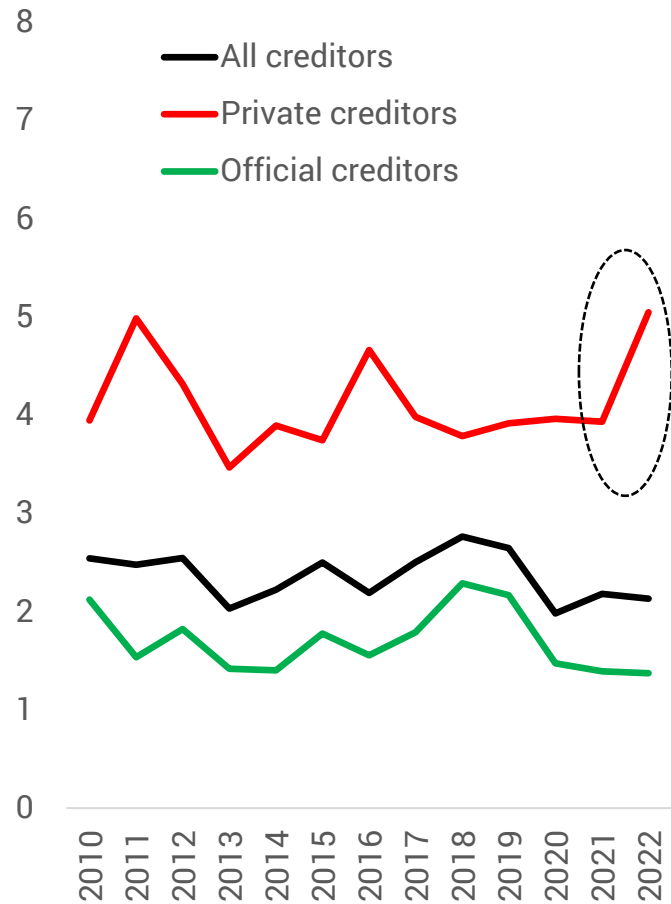


Source: ESCAP, based on World Inequality Database.

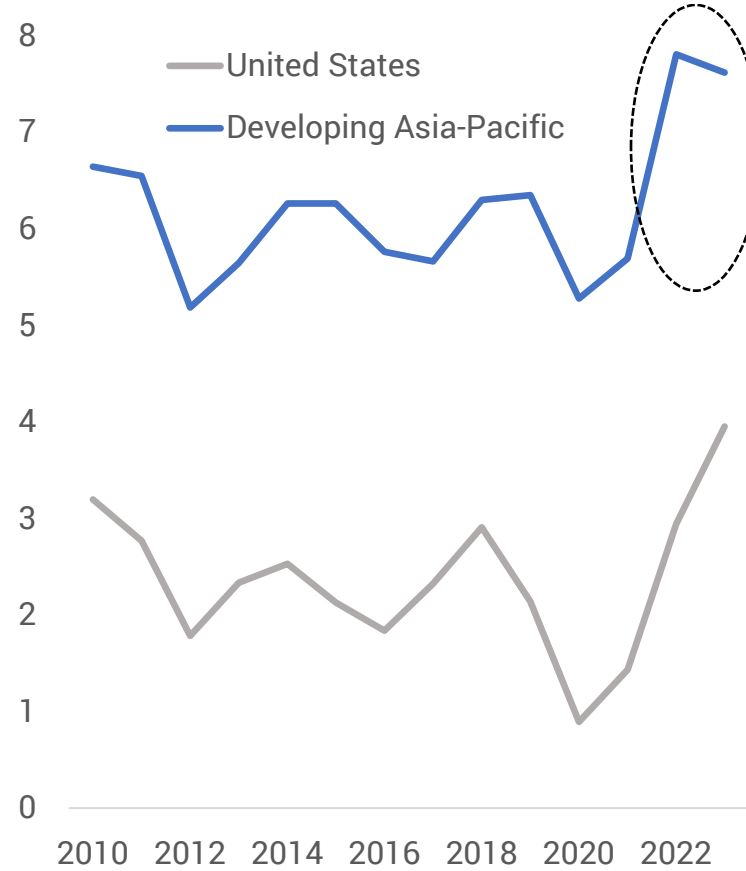
# **The need for affordable and long-term financing for governments in developing Asia-Pacific**

# Government borrowing costs in Asia-Pacific are rising, with shorter loan maturity

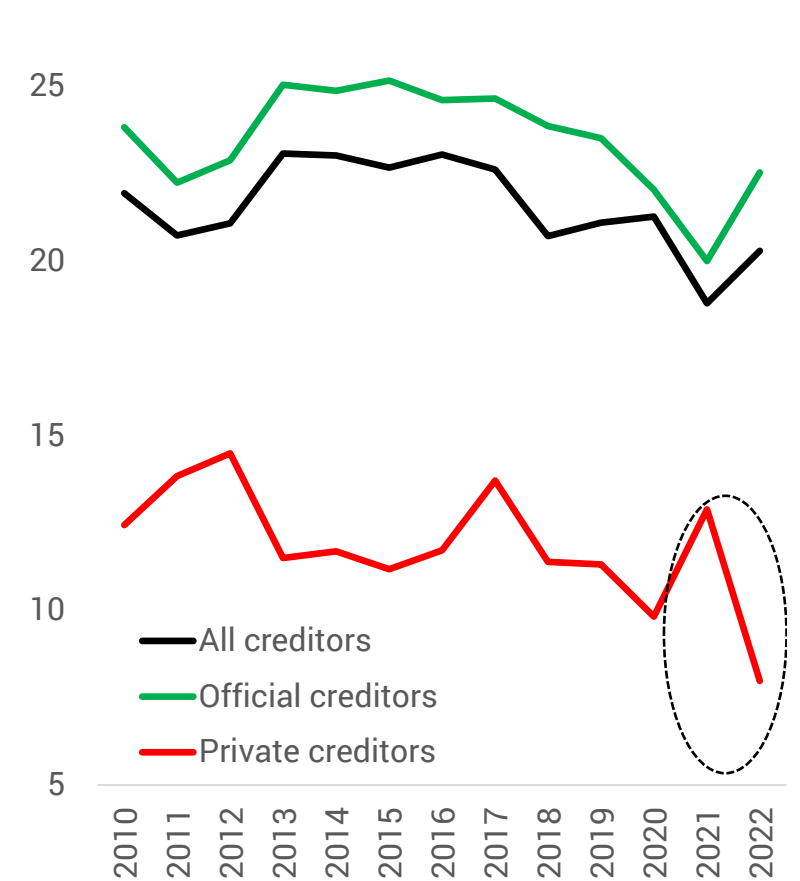
Average interest on new external debt commitments (%)



Average local-currency sovereign bond yields (%)



Average maturity on new external debt commitments (years)



Source: ESCAP, based on World Development Indicators database and Bloomberg.



# Strong macroeconomic fundamentals keep government borrowing costs at low levels

Government borrowing costs have been higher in Asia-Pacific economies with ...

Higher inflation and  
policy interest rates



More volatile  
exchange rates



Higher perceived  
fiscal risks



Less financial  
market liquidity



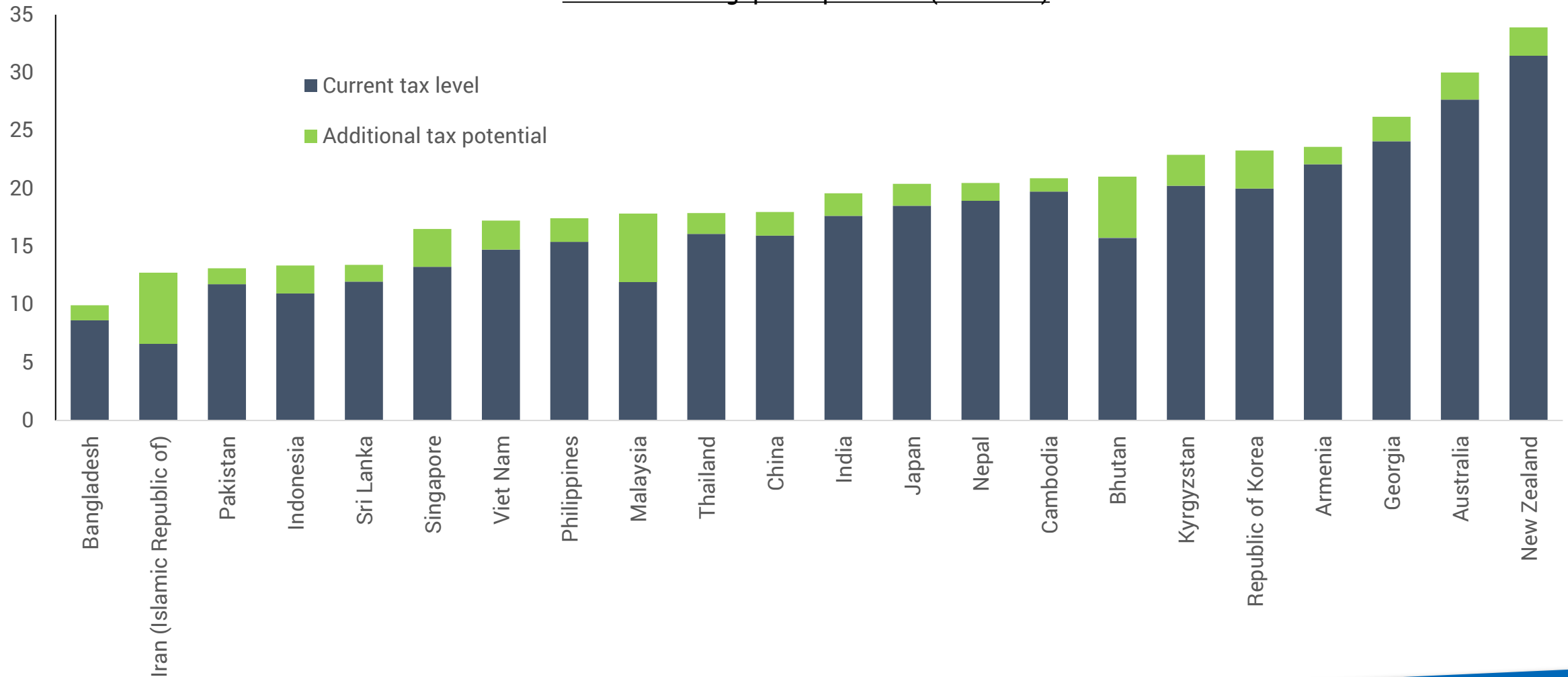
Source: ESCAP analysis.

# What can **governments** do to increase affordable long-term financing?

*Closing the tax collection gaps to reduce fiscal risks*

# Low tax-to-GDP ratios and wide tax collection gaps in several Asia-Pacific countries

Estimated tax gap and potential (% of GDP)



Source: ESCAP, based on the IMF World Revenue Longitudinal Data set.

# Less conventional fiscal policy tools to close the tax gaps



## Property-based fiscal revenue

### Property tax

- Negligible property tax revenues
- A low hypothetical property tax rate of 0.5% with no exemption can generate **sizeable additional fiscal revenue**

### Land value capture

- Governments could **leverage part of higher land and property values** brought about by public infrastructure
- Complementing property taxes
- Being implemented in **China** and explored in many other regional economies



## Tax morale

### Raising society's willingness to pay taxes

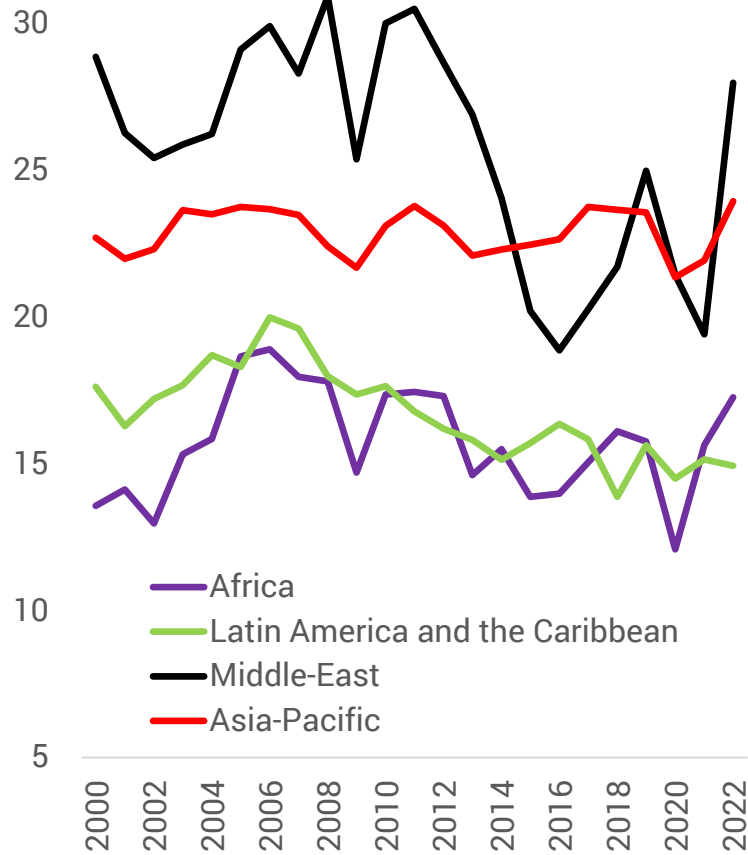
- Ensure and communicate that taxes are well spent on development
- Self-pride and image
- Peer and social pressures
- Increase the perceived probability that tax avoidance will be caught

# What can **governments** do to increase affordable long-term financing?

*Boosting and channeling domestic savings to increase supply of long-term capital*

# Strengthening capital markets to channel sizeable domestic savings for investment

Domestic savings (% of GDP)



Capital market development index

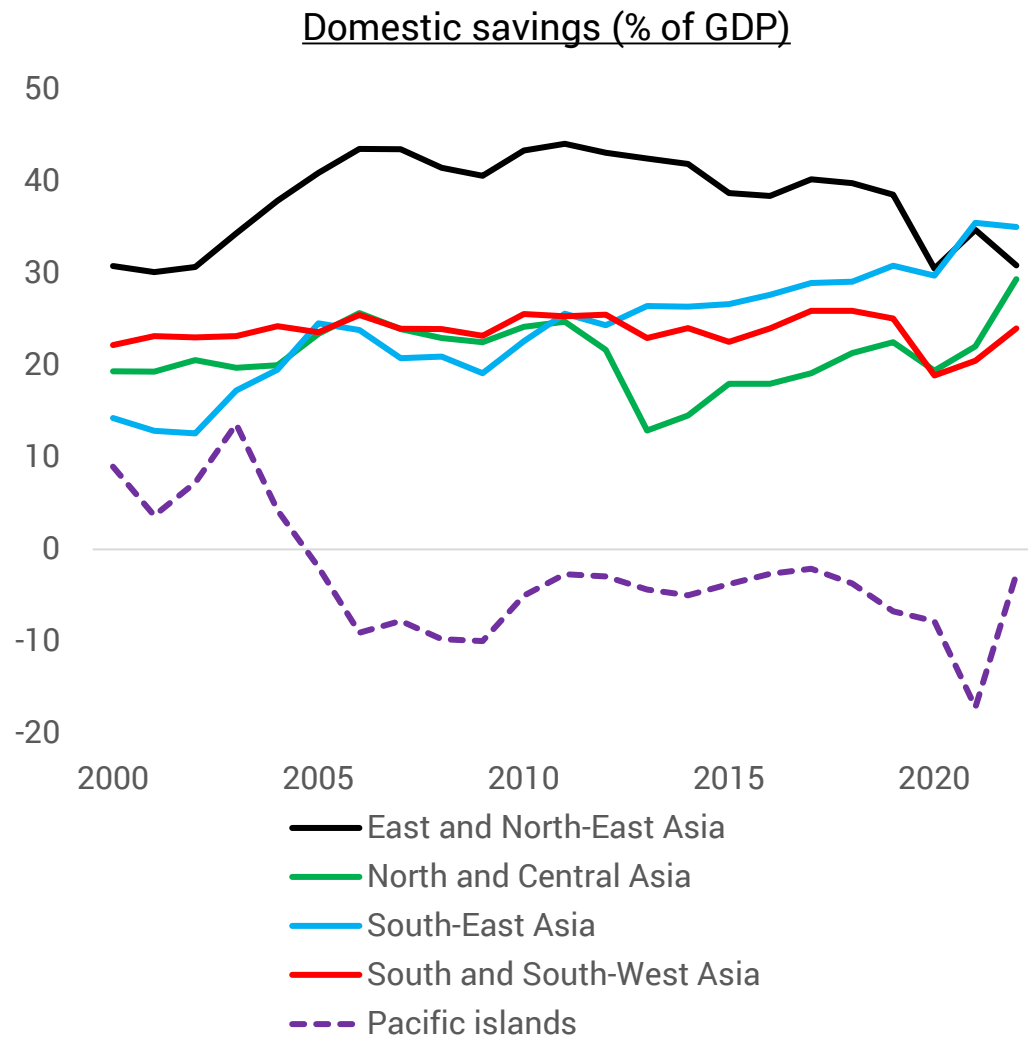


**Further developing capital markets**

- Widen the investor base
- Increase secondary market liquidity
- Improve risk-sharing mechanisms
- Protect investor rights

Source: ESCAP, based on World Development Indicators database and IMF Financial Development Index database.

# Increasing domestic savings: policy options at country and individual levels



## Increasing domestic savings

- **Enhance the ability of households to save**
  - Boost labour productivity
  - Ensure social protection to cut precautionary savings
- **Raise household saving rates**
  - Provide financial incentives and platforms
  - Improve financial access and literacy

Source: ESCAP, based on World Development Indicators database.

**As domestic policy actions take shape, how can  
international development partners help?**



# Concessional finance: honouring overdue commitments while matching allocations with needs

## Official development assistance

- ODA stood at only 0.36% of GNI in 2022, or just **half of the 0.7% commitment made since 1970**
- Bilateral ODA, accounting for 2/3 of all ODA, is largely shaped by **historical and political factors**, not development needs
- **GNI per capita** is still used as a common allocation criterion for multilateral ODA
- The UN-led initiative on the **multidimensional vulnerability index** is a way forward

## Climate finance

- Climate finance should not be counted as part of ODA commitment
- Only 7% of climate finance from 2011-2020 was new and additional to ODA provisions

## South-South cooperation

- **China's lending to Asia-Pacific jumped** 11-fold from \$6 billion in 2008 to \$71 billion in 2021
- Tracking of South-South financial flows is still a work in progress

# Multilateral development banks: addressing underutilized resources and capacities



## Boost lending capacities

- **Increase capital**
  - New round of capital injections
- **Optimize existing capital**
  - Adjust the capital adequacy frameworks
  - ADB's approved reform of its capital adequacy framework would raise new annual commitments by 40%, or **\$100 billion over the next decade**



## Improve lending terms

- **Increase lending in local currencies**
  - Now 80% is in US dollar
- **Cut administrative burden** of loan packages
  - Safeguard assessments for a World Bank project costs \$13.5 million on average



## Strengthen systemic coordination and resource allocation among MDBs

# Credit rating agencies: more development-aligned and long-term sovereign ratings

## ★★★ What should global credit rating agencies do?

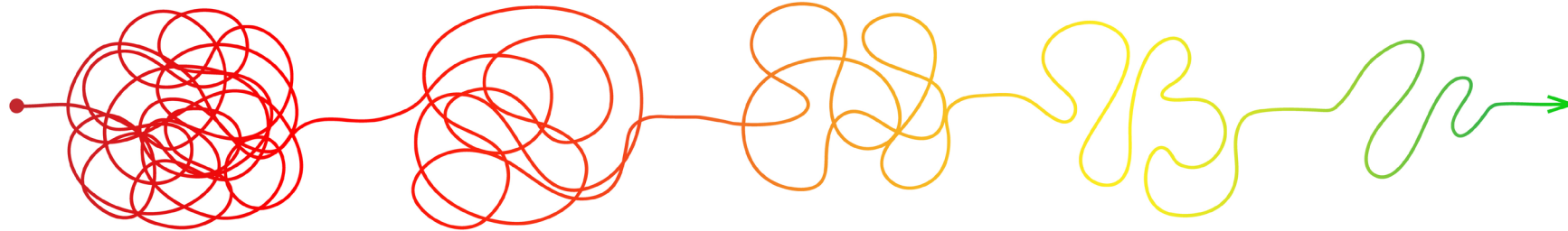
- Clearly **distinguish judgement-based ratings** from those that purely rely on objective information
- **Incorporate long-term issues** into assessments, e.g. public investment in SDGs raises fiscal credibility
- **Increase dialogues** with governments and other stakeholders in developing countries to reduce bias



## What should international financial and development communities do?

- **Reduce mechanistic reliance** on credit ratings in making investment decisions
- Explore the idea of setting up a new regional **credit rating agency for Asia-Pacific**

# Wider perspectives: what do **global megatrends** mean to fiscal policymakers?



# Global megatrends affect fiscal policy through various channels

**Demographic shifts**



**Climate change and environmental degradation**



**Technologies and digitalization**



Fiscal space and public debt sustainability

Fiscal policy conduct

Revenue

Expenditure

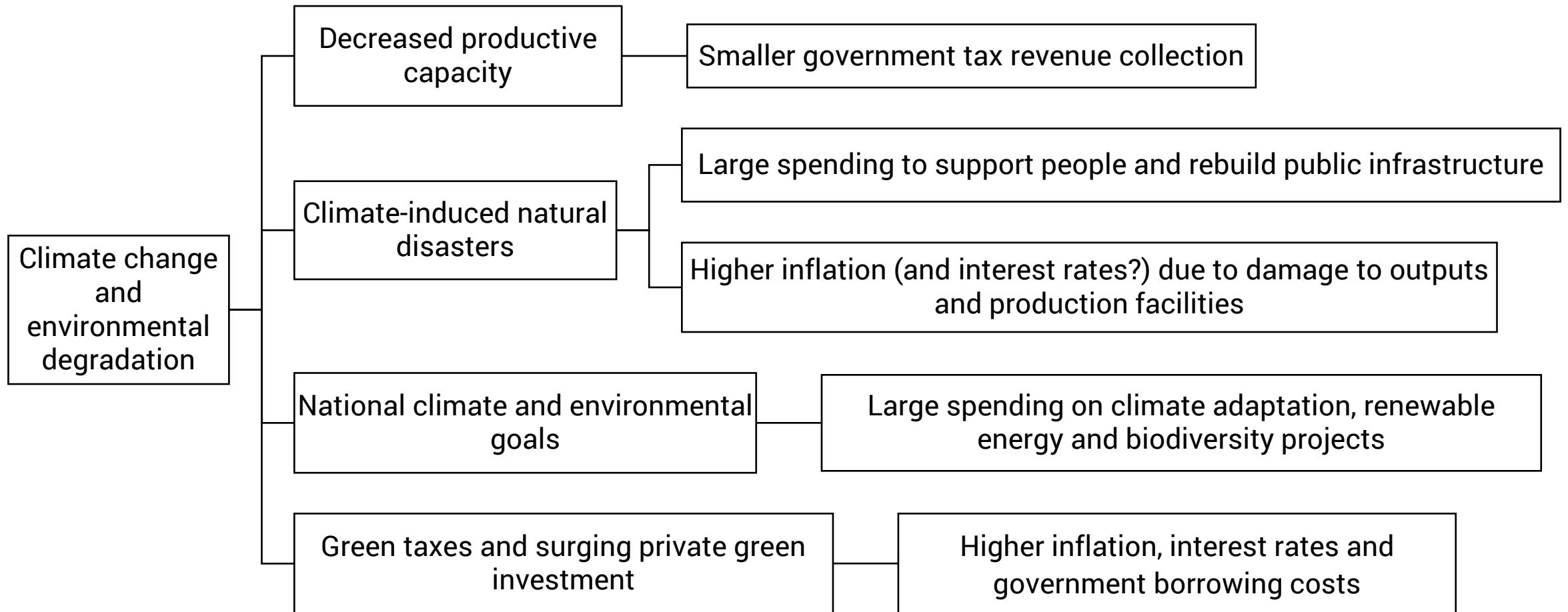
Borrowing cost

Design and  
implementation

Effectiveness



# Climate and environmental challenges push up fiscal needs and borrowing costs



**Revisiting the public debt-development nexus:  
time for new thinking and assessment approaches**

# ESCAP's new thinking on how public debt can foster sustainable development

## *Current thinking*

**High public debt is bad** for economic growth and stability

There is a **common 'optimal' public debt level** that can be applied to different countries

Current approaches on debt sustainability analysis focus on **maintaining 'debt sustainability' in the short term**, leading to **fiscal consolidation** and limited governments' access to **financial resources for SDGs**.

## *New thinking*

**Public debt is a powerful tool for development**, if used judiciously and with a long-term horizon

"Appropriate" public debt level is **country-specific**, depending on progress and ambitions on sustainable development.

Need to **revamp conventional debt assessment tools** that have a short-term horizon.



# How to move forward: ESCAP public debt sustainability analysis can 'augment' short term-focused conventional approaches

## Augmented public debt sustainability analysis

Additional spending needs to meet SDGs



Structural development policies



National SDG financing strategies

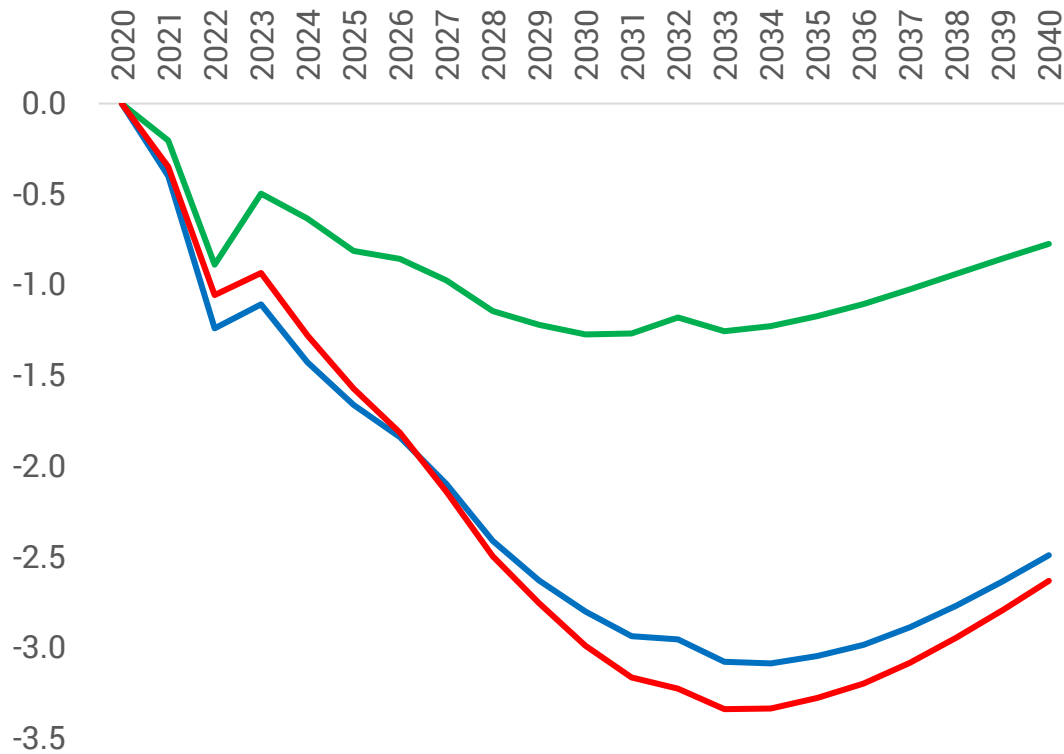


Stress tests and contingent liabilities



# SDG spending and policy reforms for a more diversified, greener Mongolian economy is good for its people and the environment

Poverty incidence (\$5.50 per day threshold)

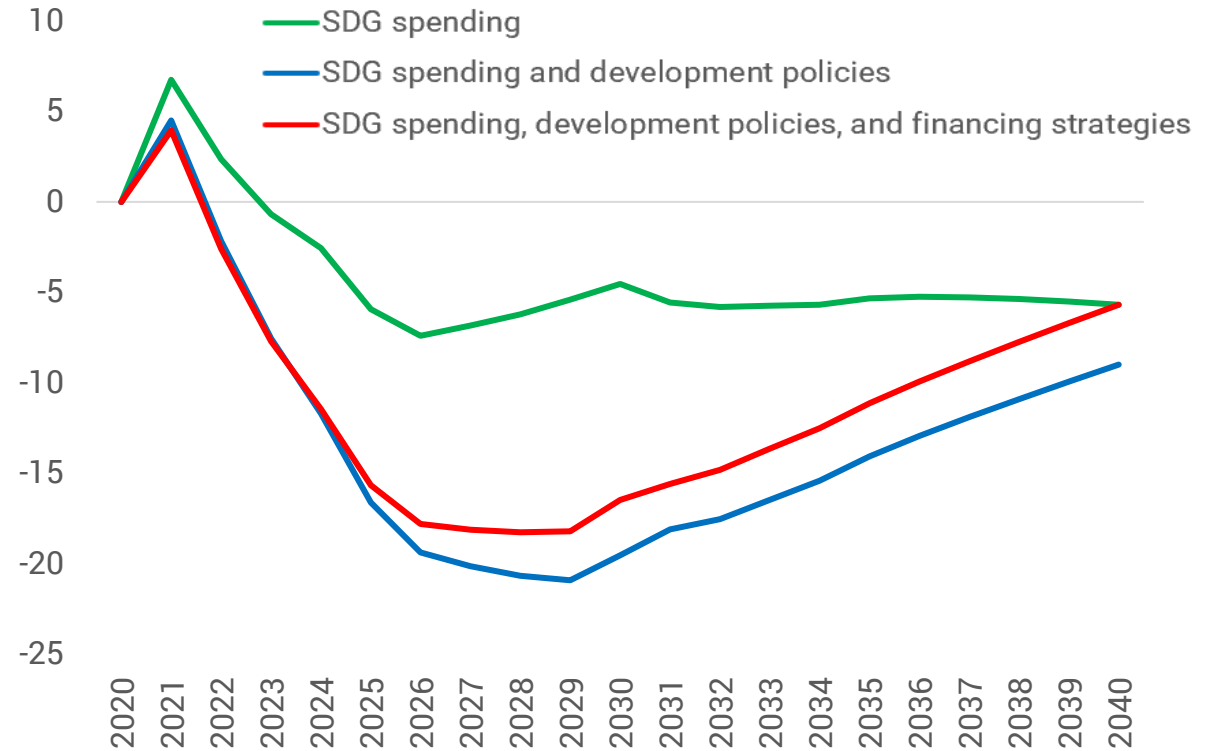


**Drivers:** Higher public and private spending → higher employment and labour productivity → higher household incomes and consumption → reduced poverty and inequality

Source: ESCAP.

Note: Results are shown as differences from the baseline values.

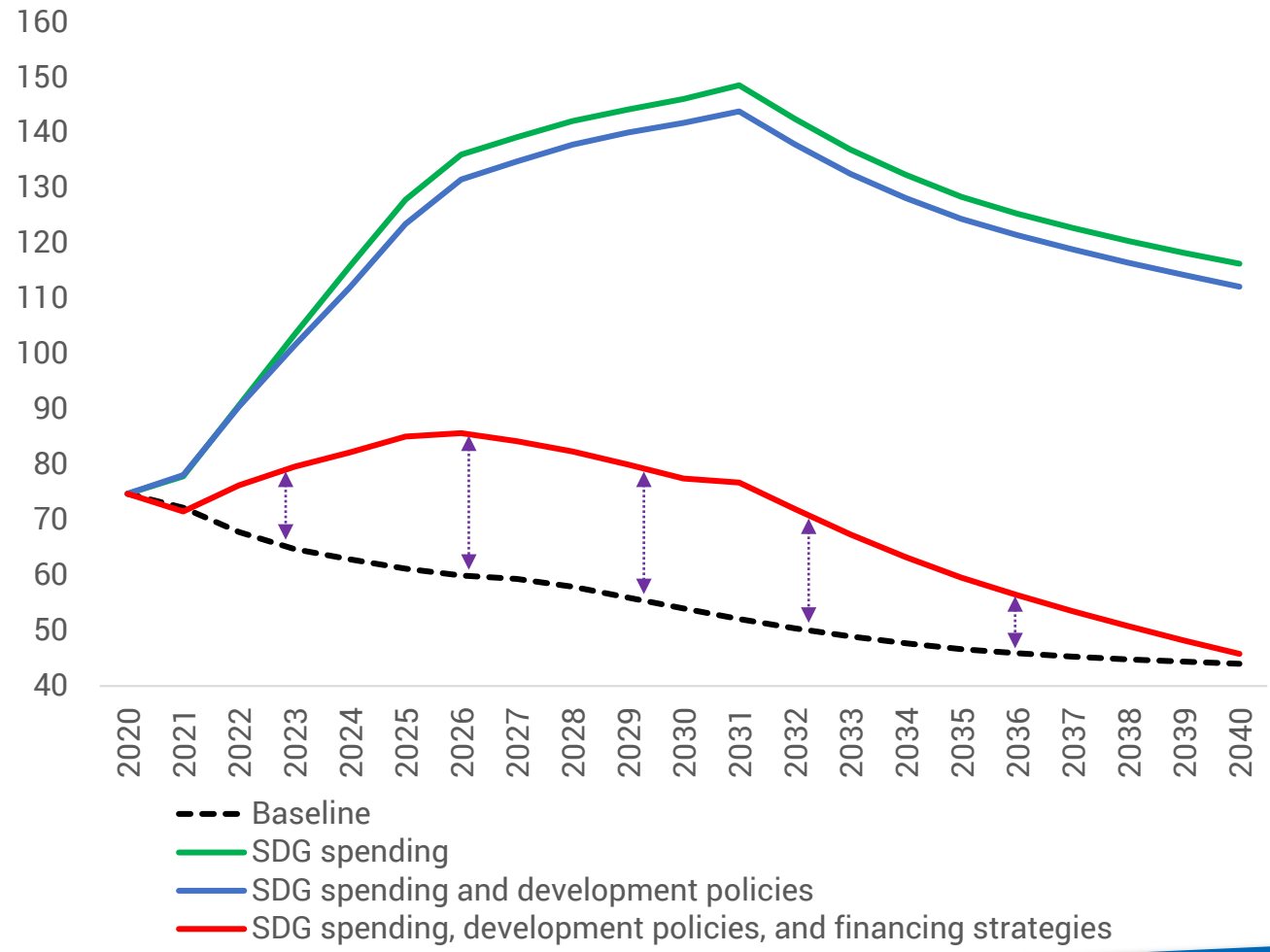
Carbon emissions



**Drivers:** Higher environmental spending and fossil fuel prices → higher energy efficiency and renewable energy use and reduced biodiversity loss → lower carbon emissions → better air quality

# Government debt comes down in the long run ... balancing 'temporarily' higher debt for large socioeconomic and environmental gains

Government debt-to-GDP ratio in Mongolia



**Public debt rises initially ...**

Large SDG spending needs

Rising interest payments amid higher risk premium and borrowing costs

**... but trends down afterwards**

Higher tax revenue: carbon tax and reduced tax avoidance

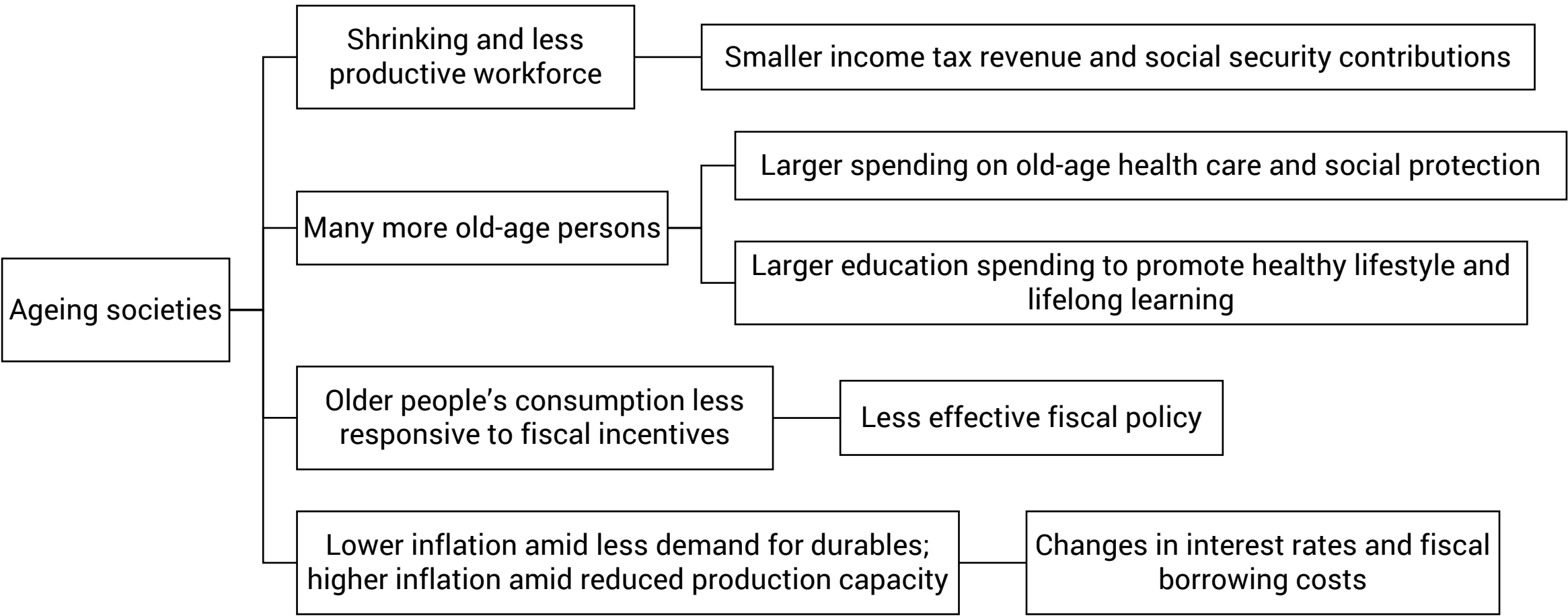
Fiscal savings: carbon subsidy cancellation and spending efficiency

Lower borrowing costs: greater debt transparency

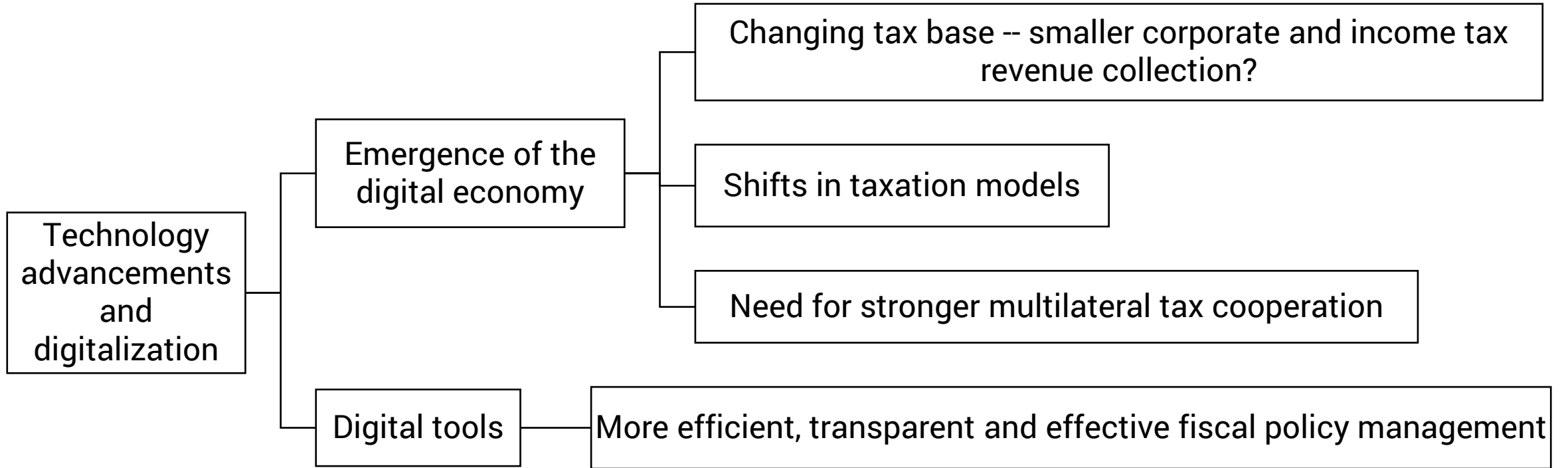
Source: ESCAP.

# Ageing societies could reduce fiscal resources and require shifts in policy conduct

- By 2050, 1 in 5 people in Asia-Pacific will be 65 years old+ and every 3.2 working persons would need to support one older person



# The fiscal implications of technologies and digitalization are evolving rapidly



# Key takeaways

- **Poverty and socioeconomic inequality** concerns persist despite steady economic performance.
- Urgency of boosting affordable and long-term financing for governments:
  - *Governments:* increase **fiscal credibility** and the **supply of long-term capital**
  - *International development partners:* adopt **fresh perspectives** to guide operations.
- Implications of **demographic shifts, climate change** and **technological advancements** for fiscal policymaking should not be ignored.



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