Economic and Social Survey of Asia and the Pacific 2024

Boosting affordable and longer-term financing for governments

East and North-East Asia Policy Dialogue

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

Source: ESCAP estimates and projections as of February 2024.
ENEA subdued growth based on external demand; meanwhile inflation remained low.
Subdued post-pandemic job recovery and weaker purchasing power

Number of persons employed (Q4/2019 = 100)

- Accommodation and food services
- ICT
- Manufacturing
- Wholesale and retail

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

- Türkiye
- Sri Lanka
- Lao PDR
- Samoa
- Palau
- Vanuatu
- Republic of Korea
- Bangladesh
- Thailand
- Nepal
- India
- Pakistan
- Solomon Islands
- Kiribati
- Timor-Leste
- Philippines
- Cambodia
- China
- Marshall Islands

Source: ESCAP, based on CEIC.

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

<table>
<thead>
<tr>
<th>Country</th>
<th>Change in income shares between 2019 and 2022 (percentage points)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maldives</td>
<td>-20</td>
</tr>
<tr>
<td>China</td>
<td>-16</td>
</tr>
<tr>
<td>Myanmar</td>
<td>-15</td>
</tr>
<tr>
<td>Malaysia</td>
<td>-15</td>
</tr>
<tr>
<td>Armenia</td>
<td>-15</td>
</tr>
<tr>
<td>Bhutan</td>
<td>-10</td>
</tr>
<tr>
<td>Timor-Leste</td>
<td>-10</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>-10</td>
</tr>
<tr>
<td>Russian Federation</td>
<td>-10</td>
</tr>
<tr>
<td>Philippines</td>
<td>-10</td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>-5</td>
</tr>
<tr>
<td>Thailand</td>
<td>0</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>0</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>0</td>
</tr>
<tr>
<td>Pakistan</td>
<td>5</td>
</tr>
<tr>
<td>Georgia</td>
<td>5</td>
</tr>
<tr>
<td>Afghanistan</td>
<td>10</td>
</tr>
<tr>
<td>Turkmenistan</td>
<td>15</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>20</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>20</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>20</td>
</tr>
<tr>
<td>Republic of Korea</td>
<td>20</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>20</td>
</tr>
<tr>
<td>Nepal</td>
<td>20</td>
</tr>
<tr>
<td>Singapore</td>
<td>20</td>
</tr>
</tbody>
</table>

Source: ESCAP, based on World Inequality Database.

Source: ESCAP estimates.
Key risks to the economic outlook

- Uncertain inflation trends and monetary policy stance within Asia-Pacific and beyond
- Weak debt repayment ability of households, businesses and governments amid a high interest rate environment
- Uncertainty around economic growth momentum in China
- Escalation of geopolitical tensions and trade fragmentation
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 (%)**

- All creditors
- Private creditors
- Official creditors

**Average local-currency sovereign bond yields (%)**

- United States
- Developing Asia-Pacific

**Average maturity on new external debt commitments (years)**

- All creditors
- Official creditors
- Private creditors

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
Goods and services accounts for the high tax revenues for China and Mongolia

Source: ESCAP, based on the IMF World Revenue Longitudinal Data set.
Strengthening capital markets to channel sizeable domestic savings for investment

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.
As domestic policy actions take shape, how can international development partners help?
Donors: towards a larger and fairer concessional finance system

**Provision**

- Official development assistance (ODA) in 2022 at **half of the commitment** of 0.7% of gross national income (GNI) made since 1970
- Official **climate finance** should not be counted as part of ODA commitments

**Allocation**

- **Bilateral** ODA is often shaped by **historical and political factors**
- **Multilateral** ODA still uses **GNI per capita** as a starting allocation criterion
- The UN-led initiative on the **multidimensional vulnerability index** is a way forward
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

**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**
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

Revenue

Expenditure

Borrowing cost

Fiscal policy conduct

Design and implementation

Effectiveness
Rapidly ageing population, a dominant trend in the subregion

Social protection coverage* by at least one area (%)

<table>
<thead>
<tr>
<th>Region</th>
<th>Total</th>
<th>25</th>
<th>50</th>
<th>75</th>
<th>100</th>
</tr>
</thead>
<tbody>
<tr>
<td>ESCAP region</td>
<td>46</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>South and South-West Asia</td>
<td>24</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>South-East Asia</td>
<td>33</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>East and North-East Asia</td>
<td>73</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>North and Central Asia</td>
<td>78</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pacific</td>
<td>78</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes: *excluding health care and illness.

Pension system coverage, % of working-age population, 2020 or later

Source: ESCAP, 2022.
Climate taxes have much broader impacts than their intended climate goals.

### Impact of a $50 per ton carbon tax on selected Asia-Pacific economies

<table>
<thead>
<tr>
<th>Country</th>
<th>Welfare loss (Percentage of household consumption)</th>
<th>Impact of carbon tax</th>
<th>Cost of cash transfer targeted towards the poorest 40 per cent of households to offset their welfare loss (Percentage of total collected carbon tax)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>3</td>
<td>Regressive</td>
<td>15</td>
</tr>
<tr>
<td>India</td>
<td>3</td>
<td>Progressive</td>
<td>8</td>
</tr>
<tr>
<td>Indonesia</td>
<td>7</td>
<td>Regressive</td>
<td>23</td>
</tr>
<tr>
<td>Kiribati</td>
<td>&lt;2</td>
<td>Progressive</td>
<td>11</td>
</tr>
<tr>
<td>Mongolia</td>
<td>10</td>
<td>Regressive</td>
<td>23</td>
</tr>
<tr>
<td>Myanmar</td>
<td>&lt;2</td>
<td>Progressive</td>
<td>15</td>
</tr>
<tr>
<td>Philippines</td>
<td>2</td>
<td>Progressive</td>
<td>17</td>
</tr>
</tbody>
</table>

Robotization is reshaping labour-intensive industries and thus tax potential.

Installations of industrial robots, by region, 2022

Installations of industrial robots, by country, 2022

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
Potential fiscal impacts of megatrends are notable, diverse and uncertain

<table>
<thead>
<tr>
<th><em>(Lower)</em> revenue</th>
<th><em>(Higher)</em> expenditure</th>
<th>Borrowing cost</th>
<th>Design and implementation</th>
<th><em>(Lower)</em> effectiveness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shrinking workforce</td>
<td>Old-age health care and social protection</td>
<td><strong>Higher</strong> inflation</td>
<td>Disaster risk-informed fiscal planning</td>
<td>Old-age consumption responds less to fiscal stimulus</td>
</tr>
<tr>
<td>Lower production capacity</td>
<td>Public investment in climate projects</td>
<td><strong>Higher</strong> inflation</td>
<td>Green taxes &amp; investment</td>
<td></td>
</tr>
<tr>
<td>Profit shifting in digital economy</td>
<td>Post-disaster rebuild of public infrastructure</td>
<td><strong>Lower</strong> inflation</td>
<td>Output loss due to natural disasters</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Lower</strong> inflation</td>
<td>Less demand for durable goods</td>
<td></td>
</tr>
</tbody>
</table>

*Higher* and *Lower* indicate increases or decreases in fiscal impacts respectively.
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.