

# Economic and Social Survey of Asia and the Pacific 2024

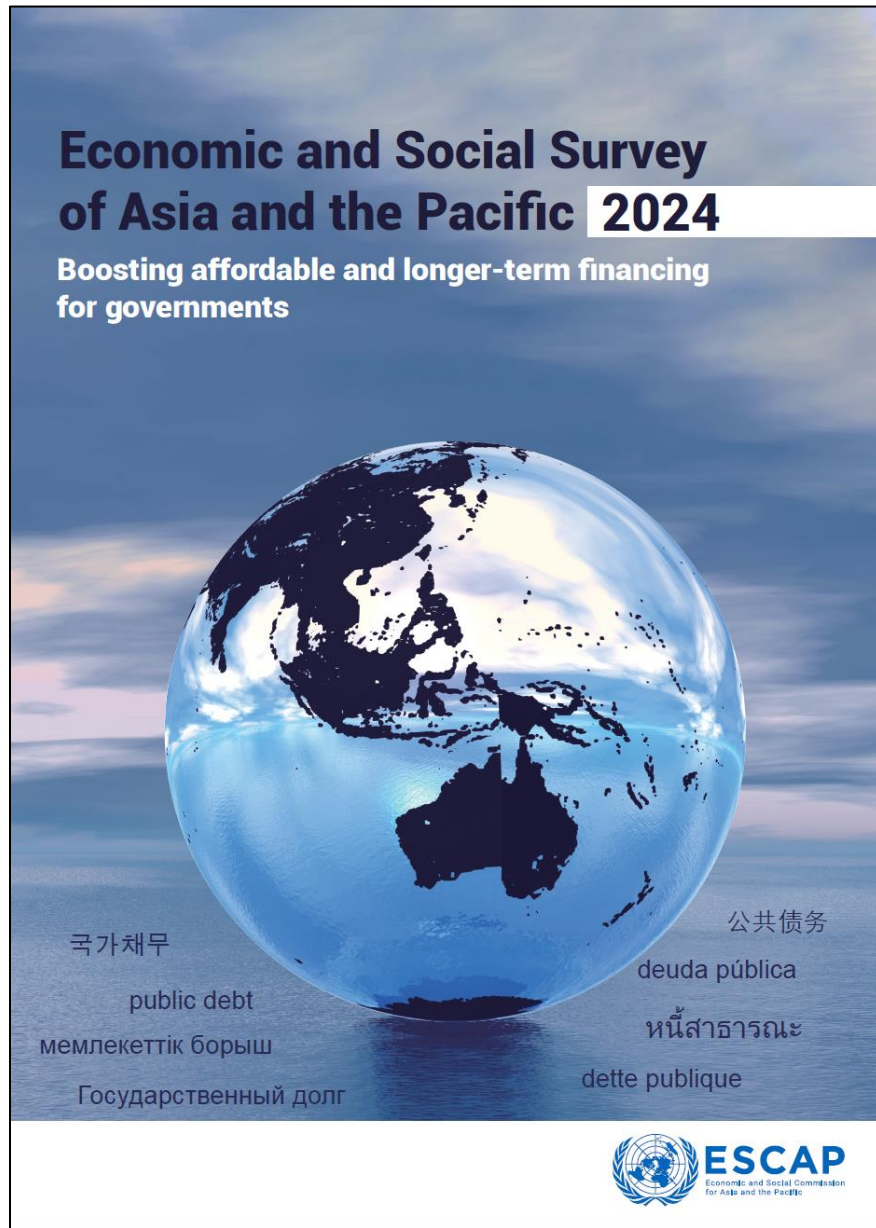
*Boosting affordable and longer-term  
financing for governments*

*Philippine Institute for Development Studies  
Policy Dialogue*

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Development Division, ESCAP

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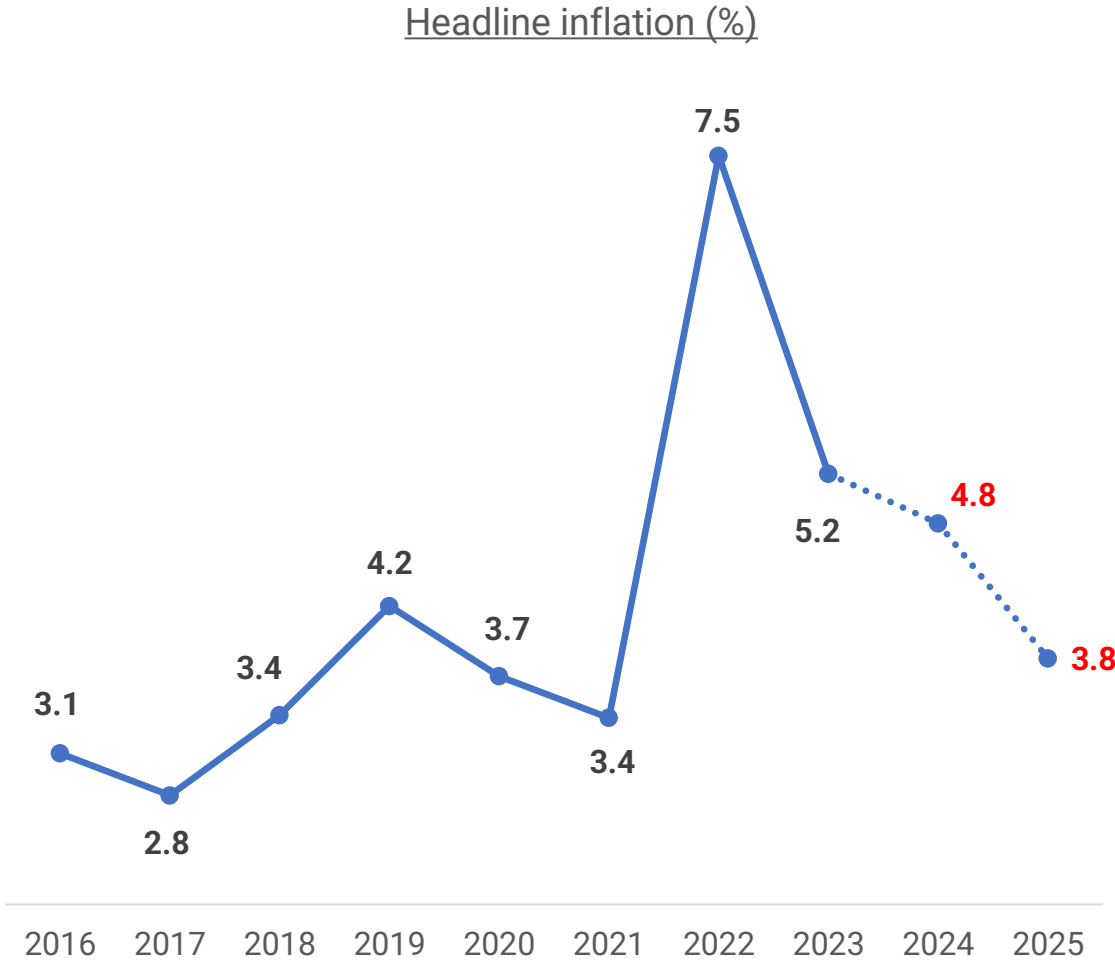
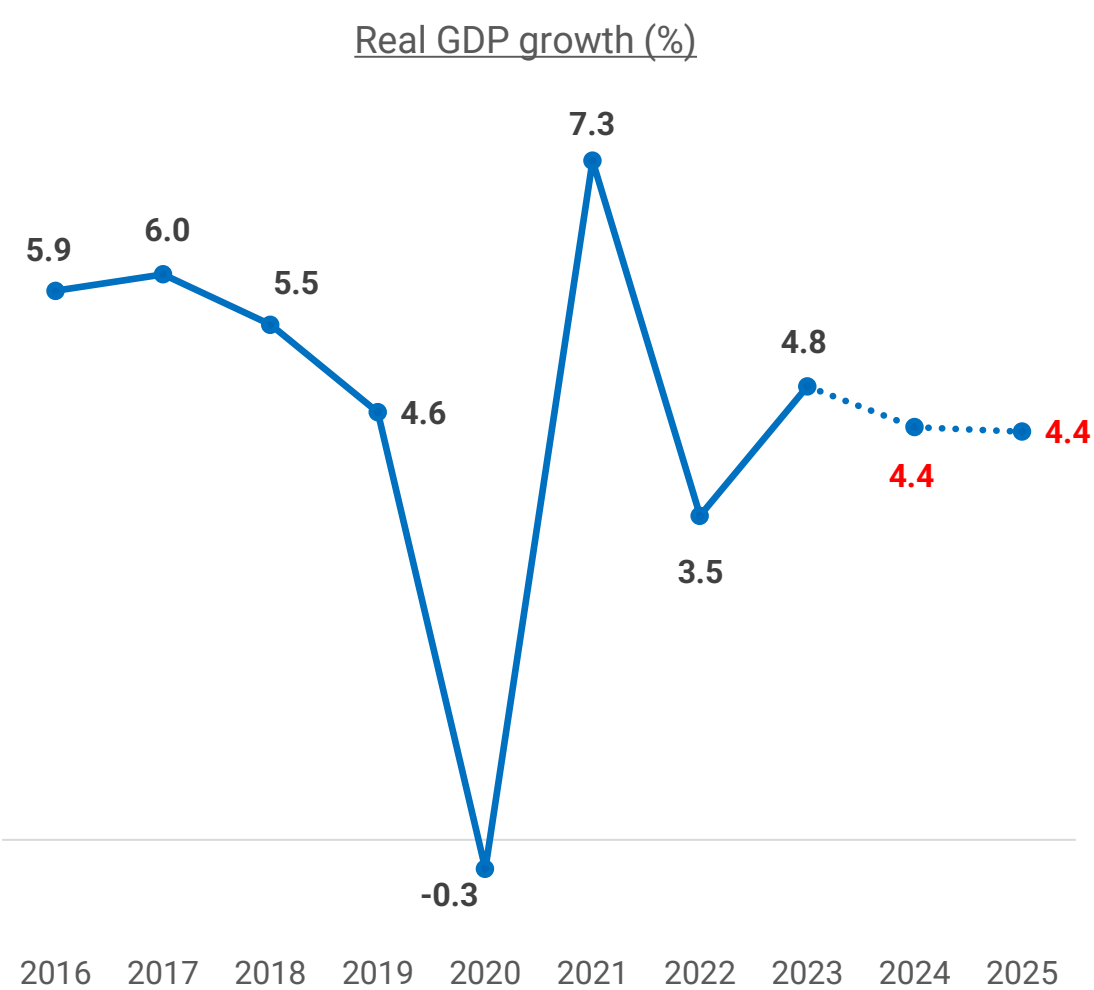


# Highlights

- Overall steady economic performance is masking **declining purchasing power of people, rising poverty** and **widening socioeconomic inequalities**.
- Increasing public investments for SDGs is looking difficult, due to **higher government borrowing costs** and **shorter loan maturities**.
- Domestic **fiscal 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

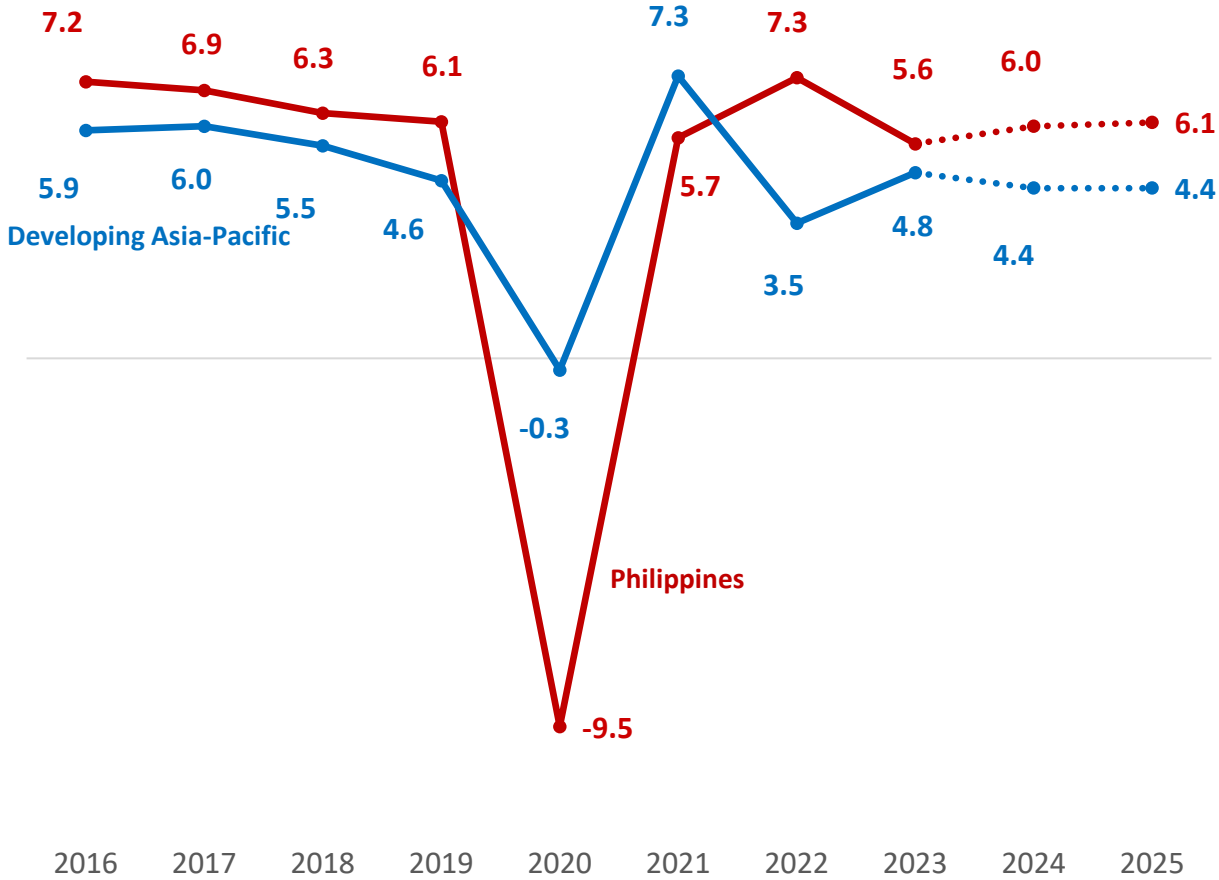
# Steady, yet below-trend GDP growth and declining, yet relatively high inflation



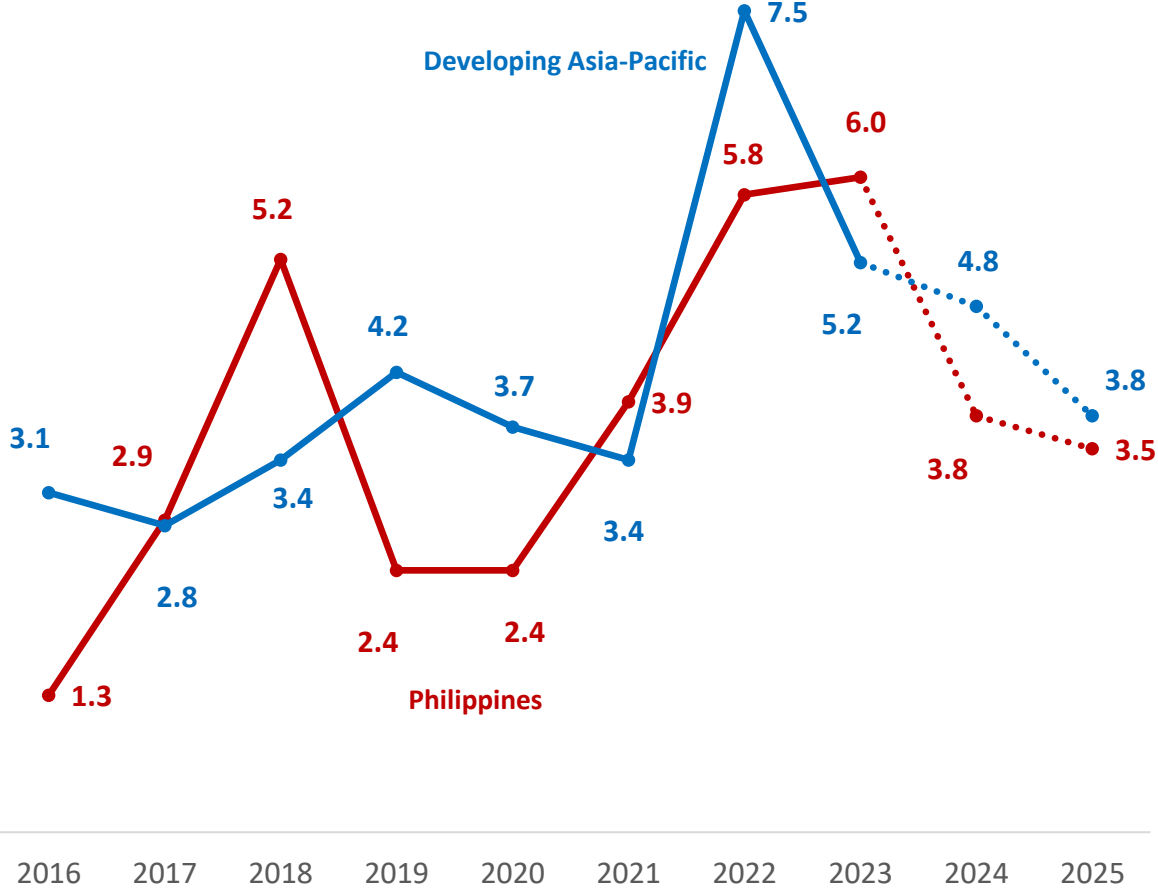
Source: ESCAP estimates and projections as of April 2024.

# The Philippines

Real GDP growth (%)

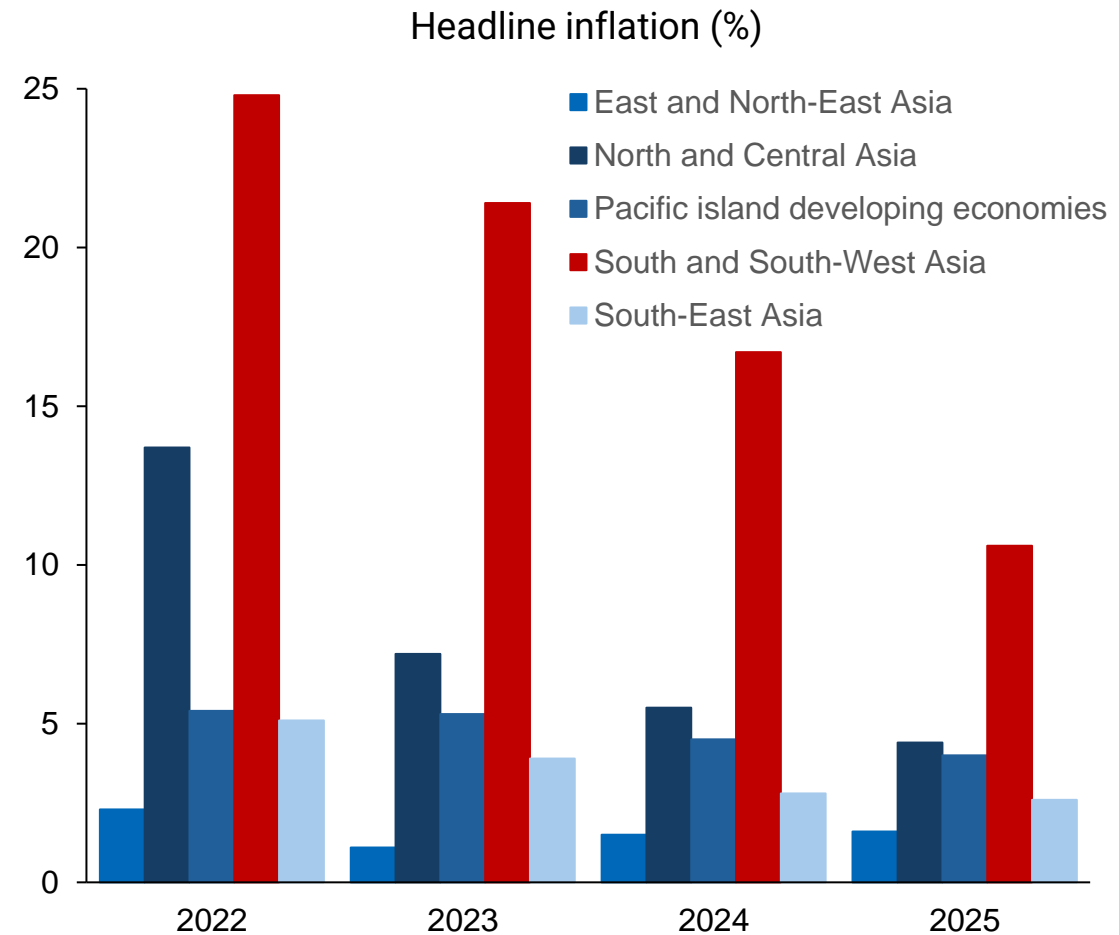
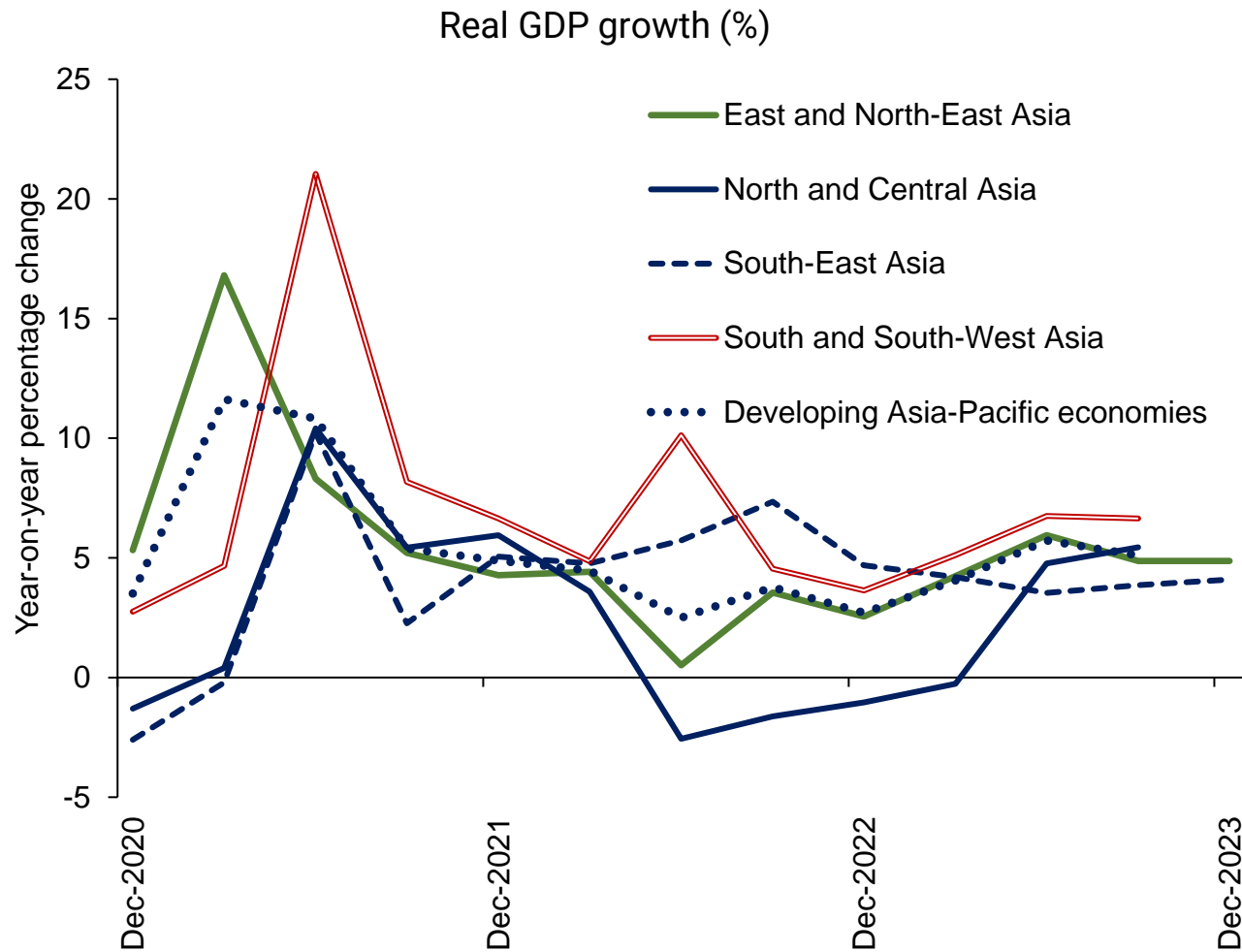


Headline inflation (%)



Source: ESCAP estimates and projections as of April 2024.

# SEA growth moderated slightly amid weak exports and consumption; inflation remained highly elevated



Source: CEIC.

Source: ESCAP estimates and projections as of February 2024.

Note: Subregional aggregates are weighted averages, based on 28 economies in Asia and the Pacific for which quarterly GDP data are available.

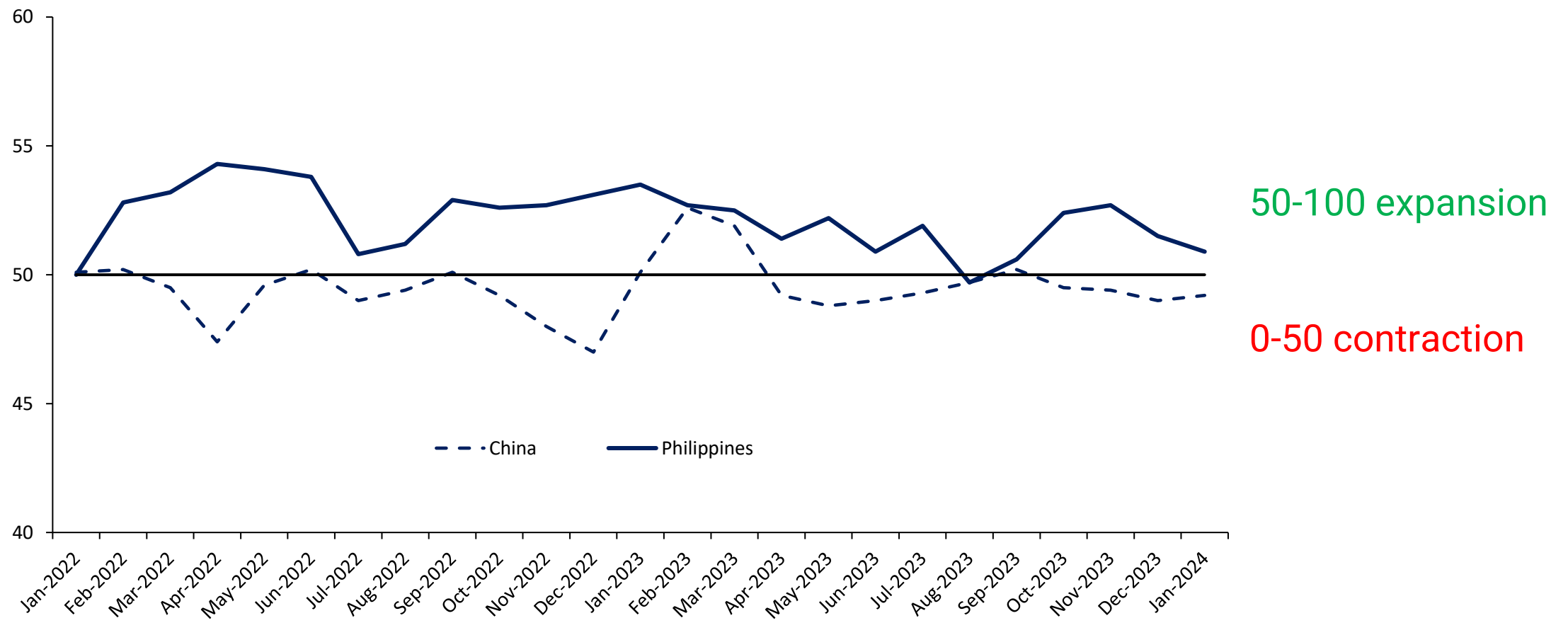
# SEA growth moderated slightly amid weak exports and consumption; inflation remained highly elevated

Table 1.1 Real GDP growth and inflation in Asia and the Pacific

(Percentage)	Real GDP growth				Inflation <sup>a</sup>			
	2022	2023	2024 <sup>b</sup>	2025 <sup>c</sup>	2022	2023	2024 <sup>b</sup>	2025 <sup>c</sup>
Total Asia-Pacific region	3.2	4.3	3.9	3.9	6.8	4.9	4.5	3.5
Developing Asia-Pacific economies <sup>d</sup>	3.5	4.8	4.4	4.4	7.5	5.2	4.8	3.8
Developed Asia-Pacific economies <sup>e</sup>	1.7	1.9	1.3	1.4	3.6	4.0	3.0	2.2
...								
South-East Asia <sup>f</sup>	5.6	4.0	4.4	4.7	5.1	3.9	2.8	2.6
Brunei Darussalam	-1.6	1.3	2.5	2.0	3.7	0.4	1.4	1.0
Cambodia	5.2	5.3	6.2	6.2	5.3	2.1	3.0	3.0
Indonesia	5.3	5.1	5.0	5.2	4.2	3.7	2.6	2.6
Lao People's Democratic Republic	4.4	3.7	4.1	4.3	23.0	32.0	15.3	5.0
Malaysia	8.7	3.8	4.3	4.6	3.4	2.5	2.1	2.0
Myanmar	4.0	1.0	2.0	2.3	18.4	14.0	8.2	7.7
Philippines	7.3	5.6	6.0	6.1	5.8	6.0	3.8	3.5
Singapore	3.6	1.1	2.3	2.5	6.1	4.8	3.1	2.0
Thailand	2.5	1.9	2.7	3.3	6.1	1.3	1.2	1.9
Timor-Leste	3.9	1.5	3.1	3.1	7.0	6.0	2.6	2.1
Viet Nam	8.1	5.1	6.0	6.5	3.2	3.3	3.1	2.6

# While PMIs remained neutral in most Asia-Pacific economies, Philippines expanded throughout 2022 and 2023

Manufacturing Purchasing Managers' Indices in selected developing Asia-Pacific economies

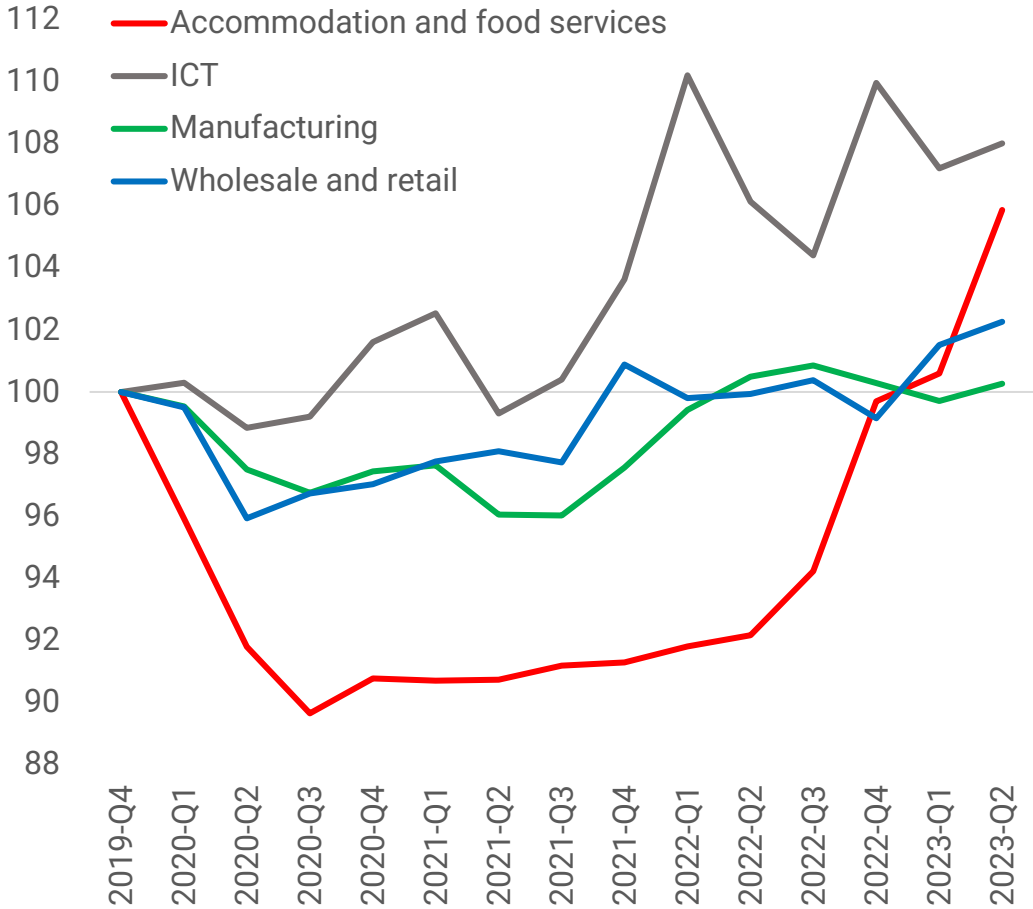


Source: CEIC. Accessed on 15 February 2024.



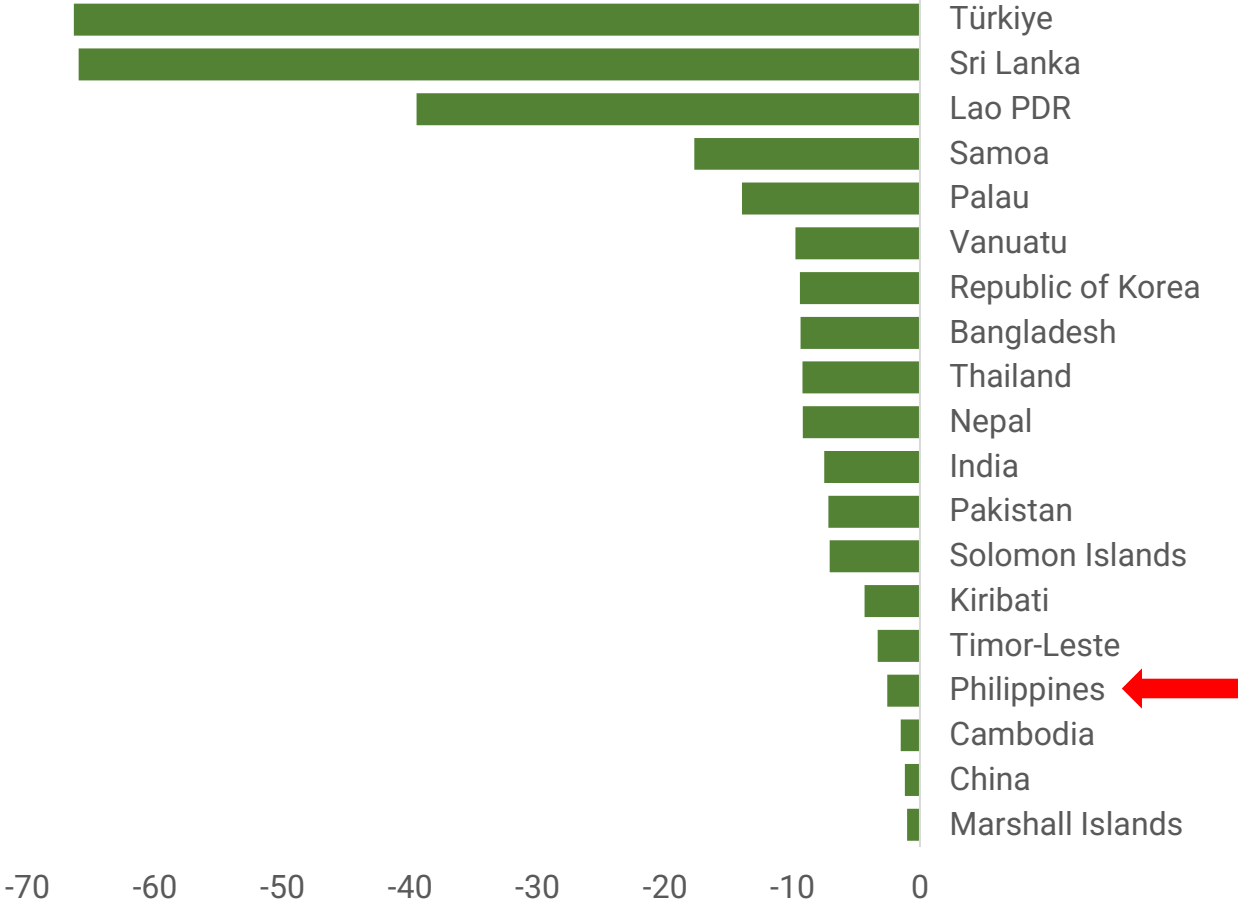
# Subdued post-pandemic job recovery and weaker purchasing power

Number of persons employed (Q4/2019 = 100)



Source: ESCAP, based on CEIC.

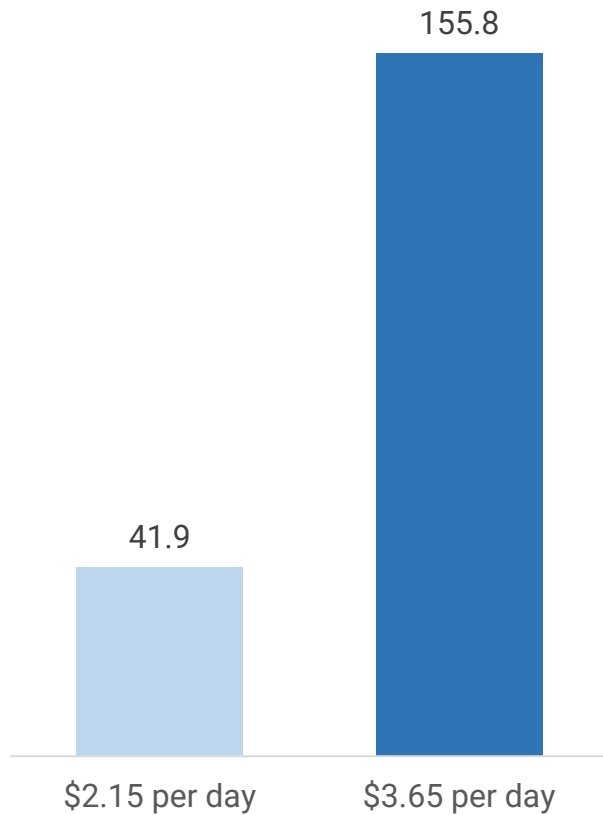
Declines in inflation-adjusted national minimum wages in 2022 (%)



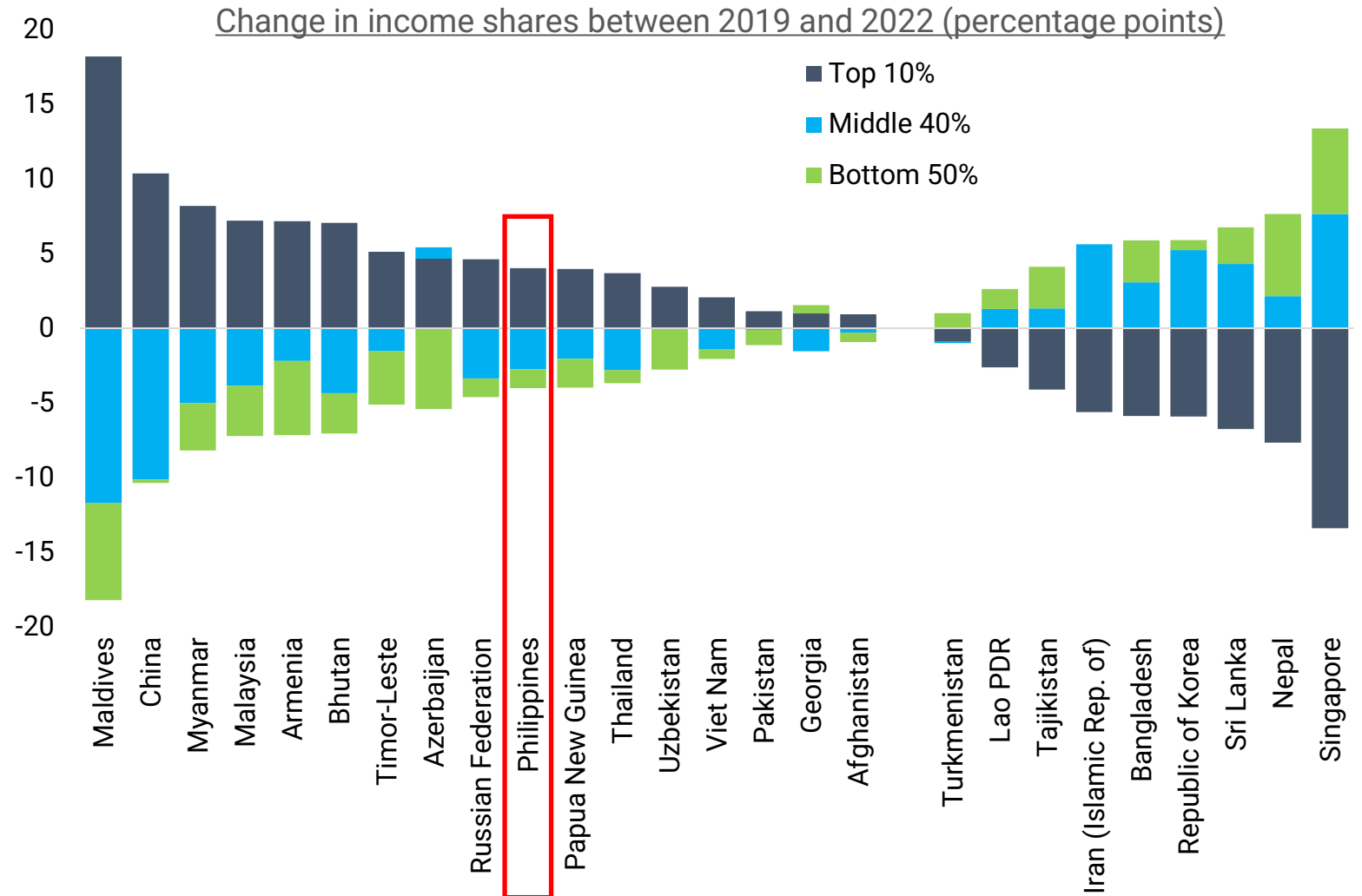
Source: ESCAP, based on ILOSTAT database.

# Increase in poverty and income inequality

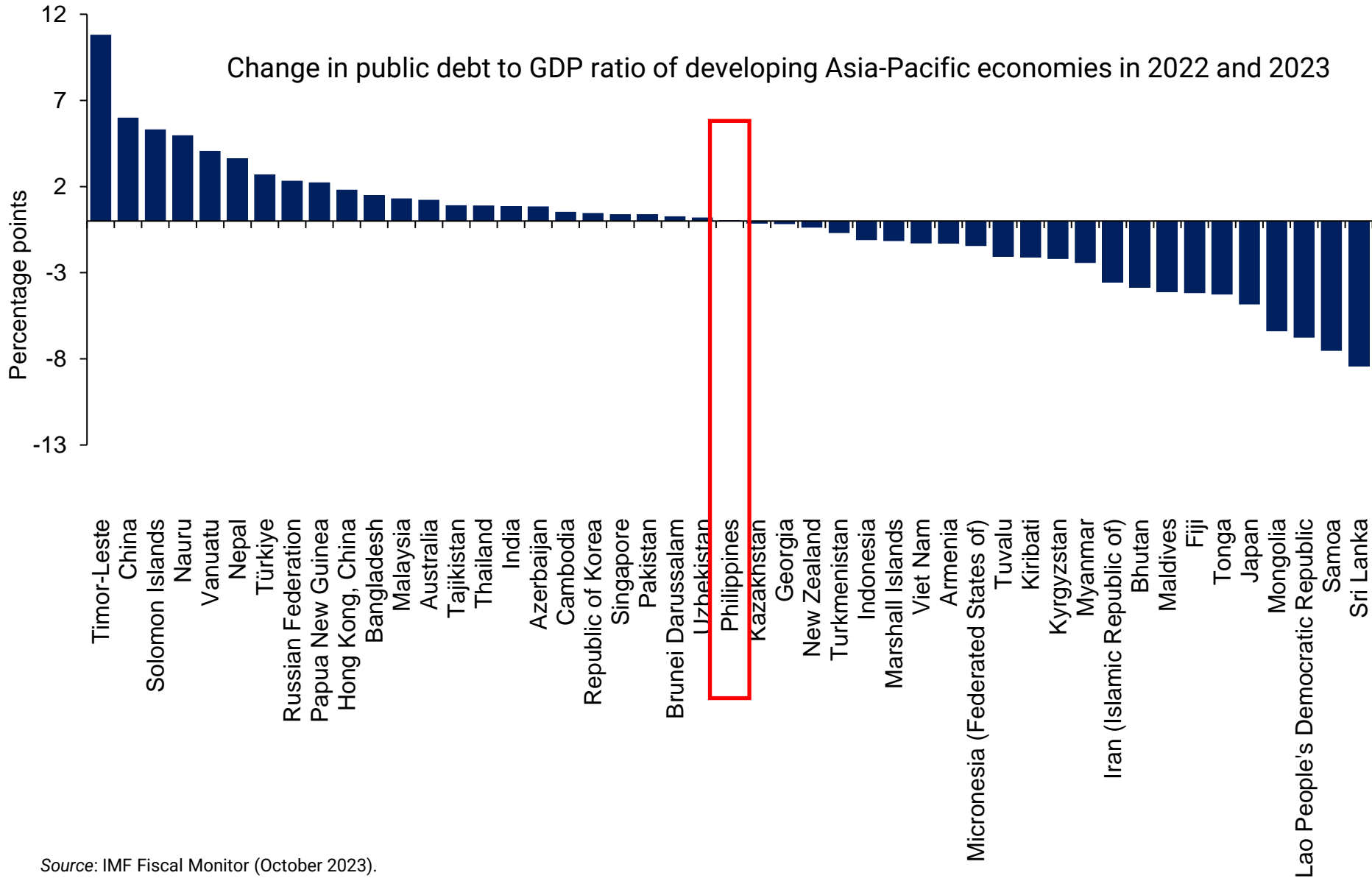
Millions of people in Asia-Pacific who could have been pushed into poverty in 2022



Source: ESCAP estimates.



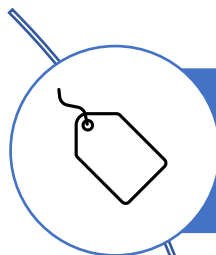
Source: ESCAP, based on World Inequality Database.



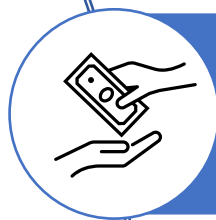
**With some improvements in debt-to-GDP ratios in SEA, debt service payments remain a burden.**

Source: IMF Fiscal Monitor (October 2023).

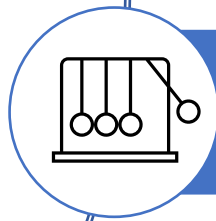
# Key risks to the economic outlook



**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**

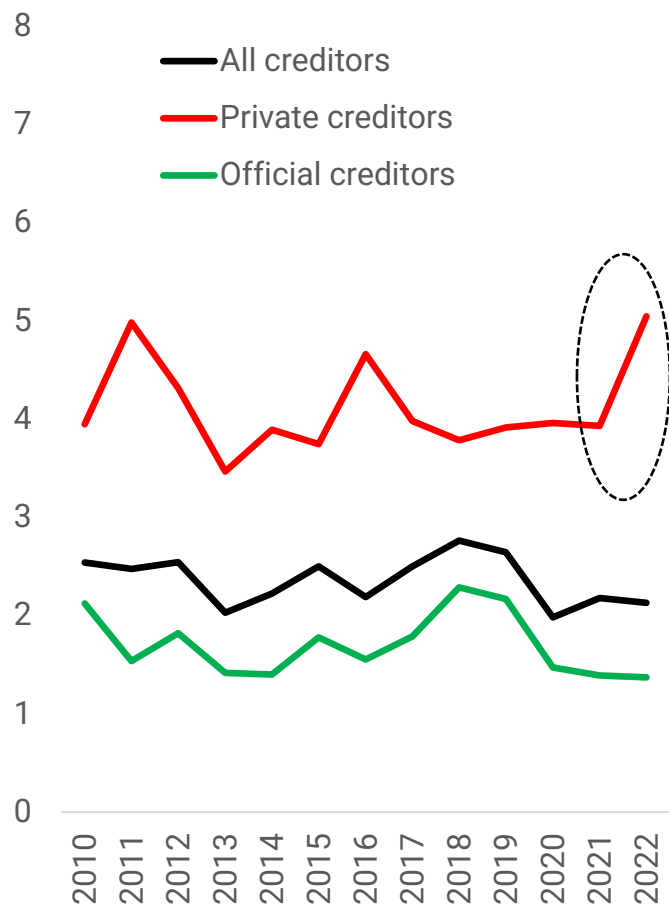


Escalation of **geopolitical tensions** and **trade fragmentation**

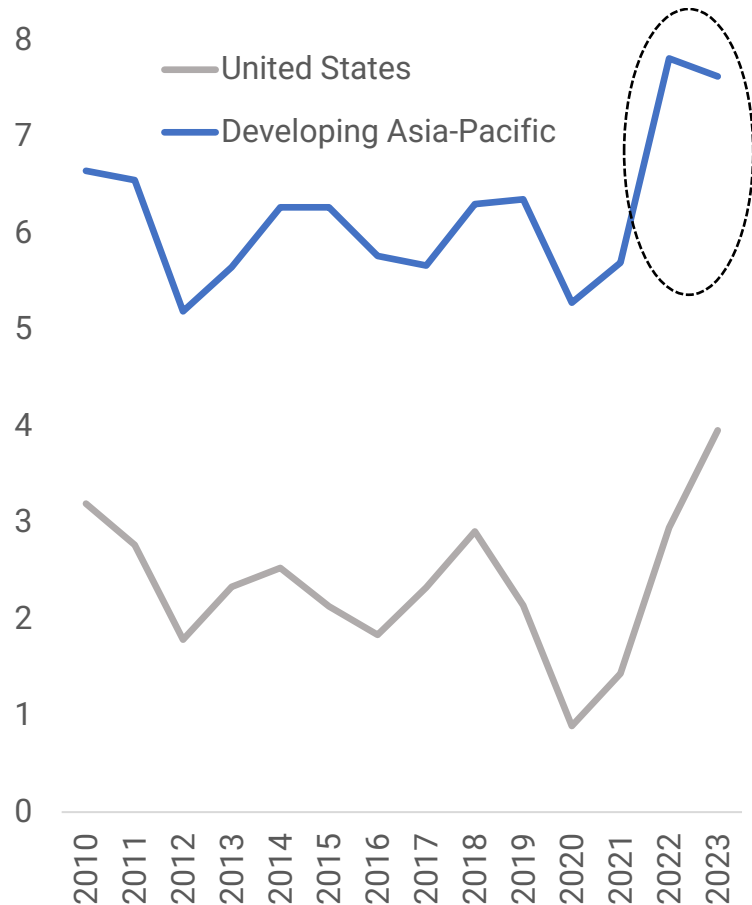
# **The need for affordable and long-term financing for governments in developing Asia-Pacific**

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

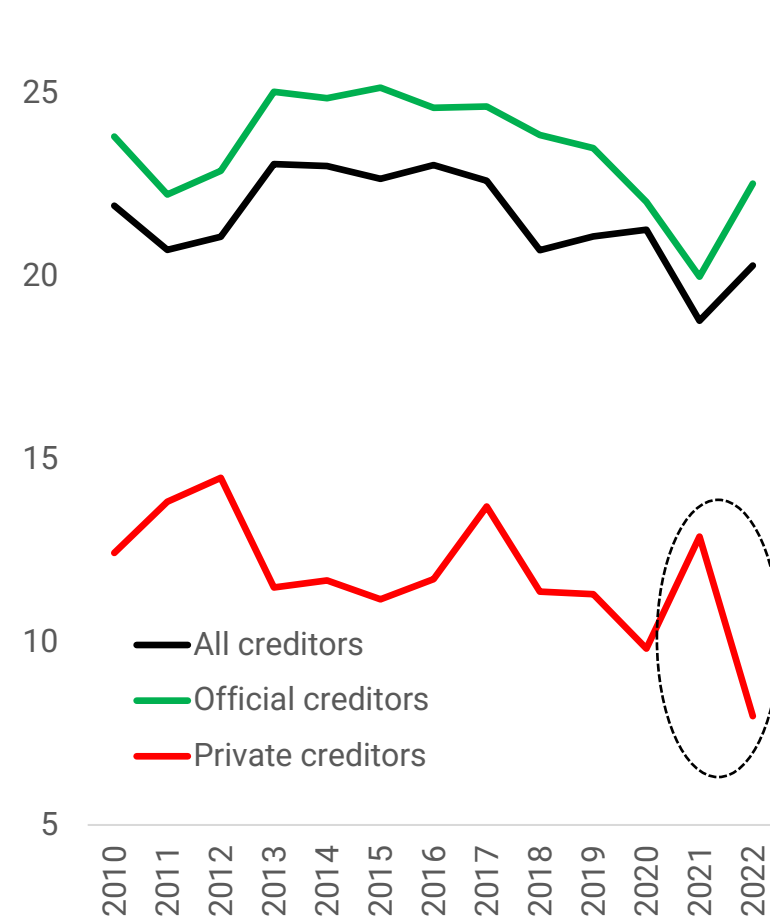
Average **interest** on new external debt commitments (%)



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*



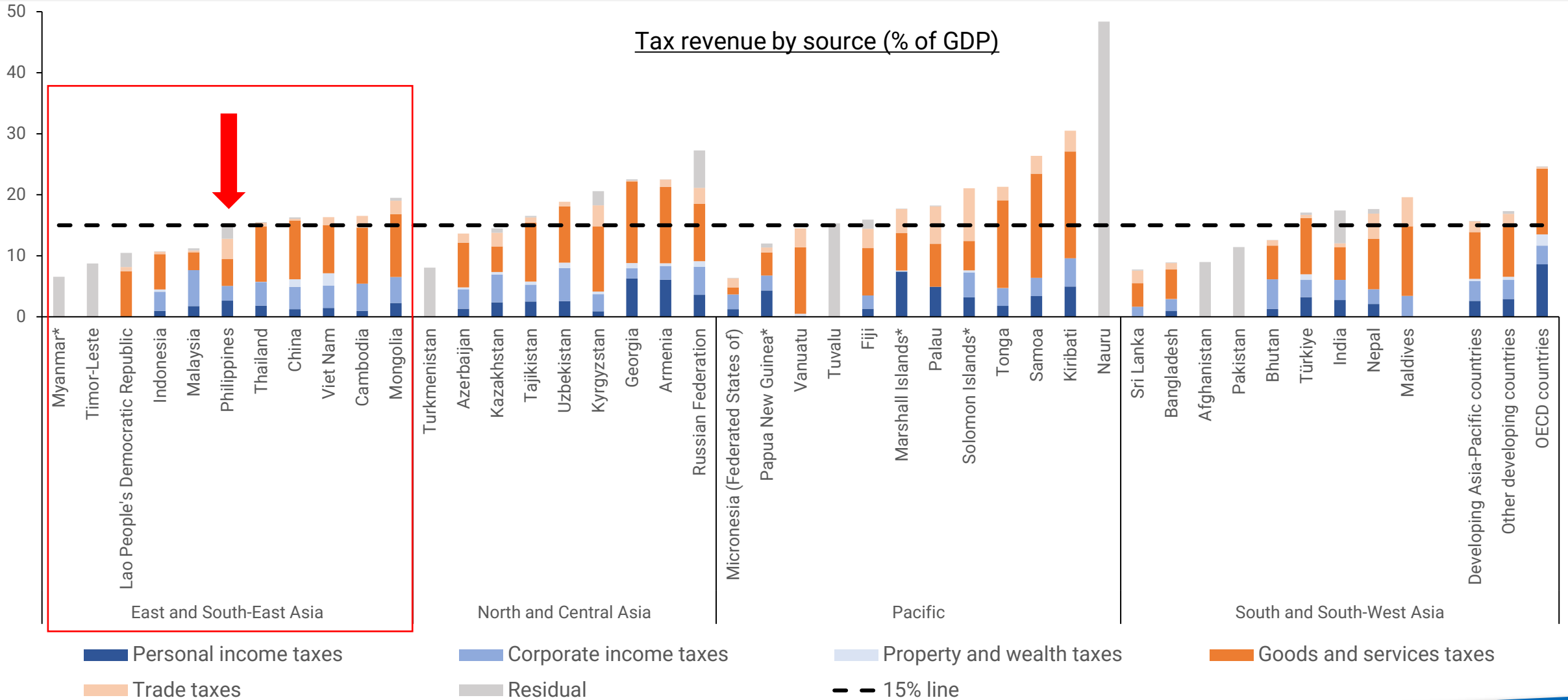
# Low tax-to-GDP ratios and wide tax collection gaps in several Asia-Pacific countries

Estimated tax gap and potential (% of GDP)



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

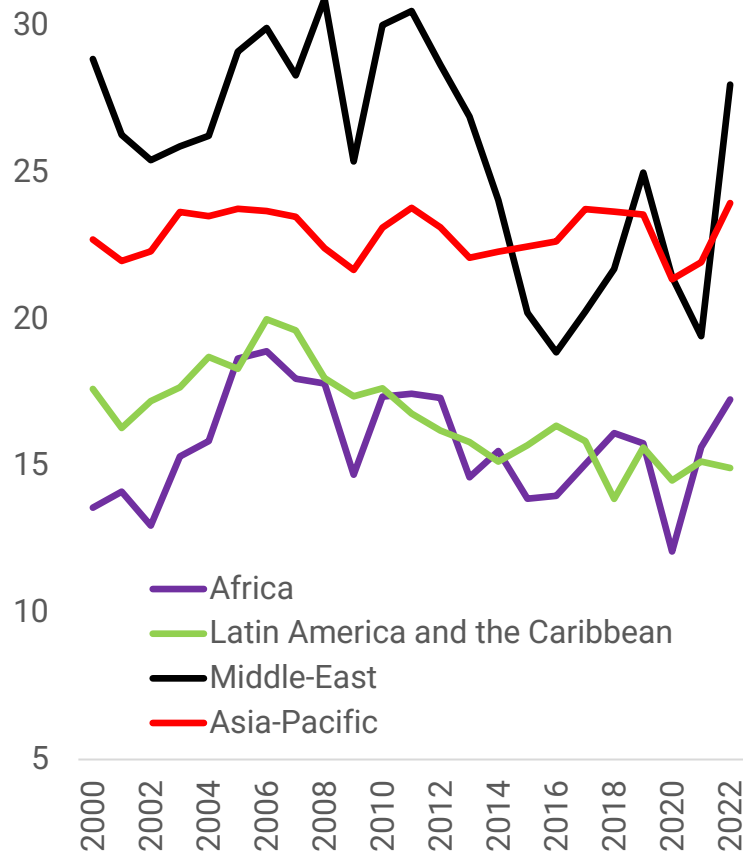
# Goods and services accounts for the high tax revenues in SEA



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

# 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.

**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



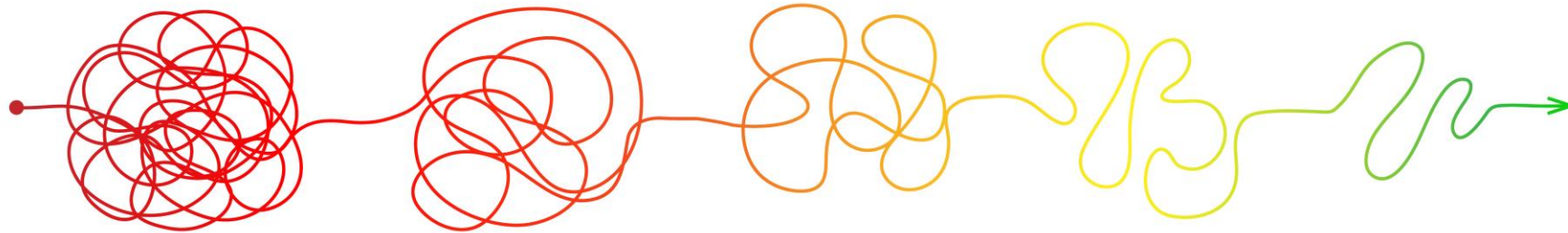
## Improve lending terms

- **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

Fiscal policy conduct

Revenue

Expenditure

Borrowing cost

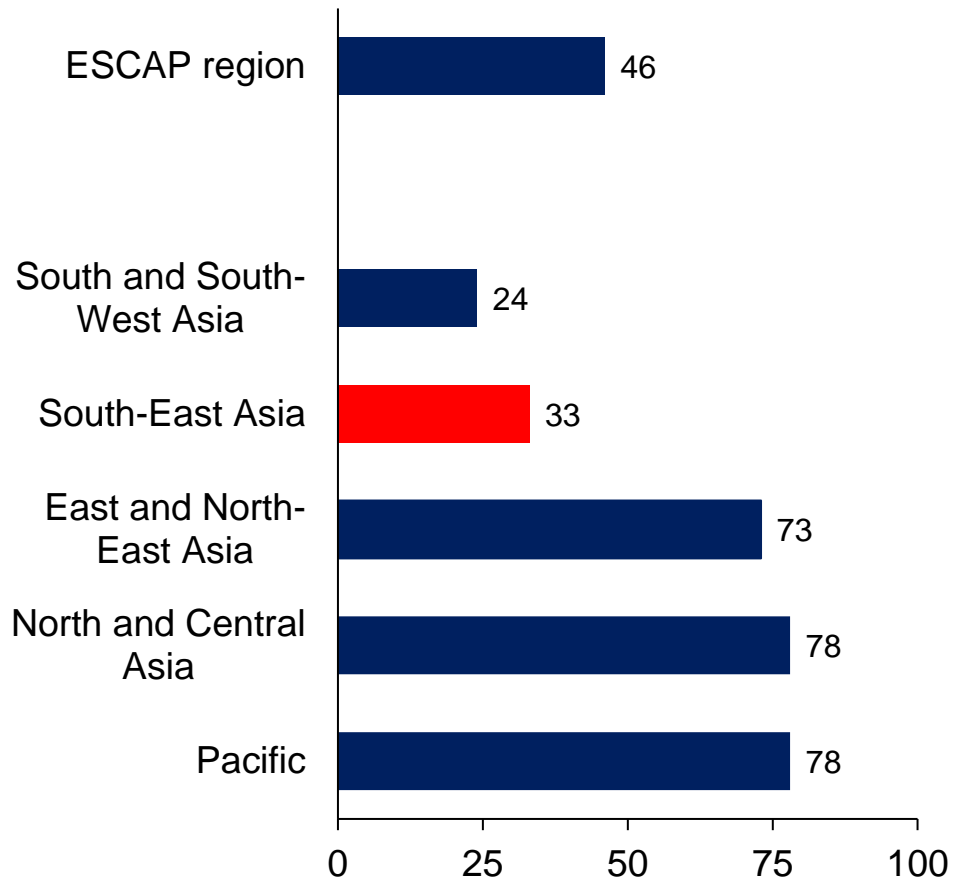
Design and  
implementation

Effectiveness



# Some countries in SEA have low social protection coverage, and high disparity between female and male

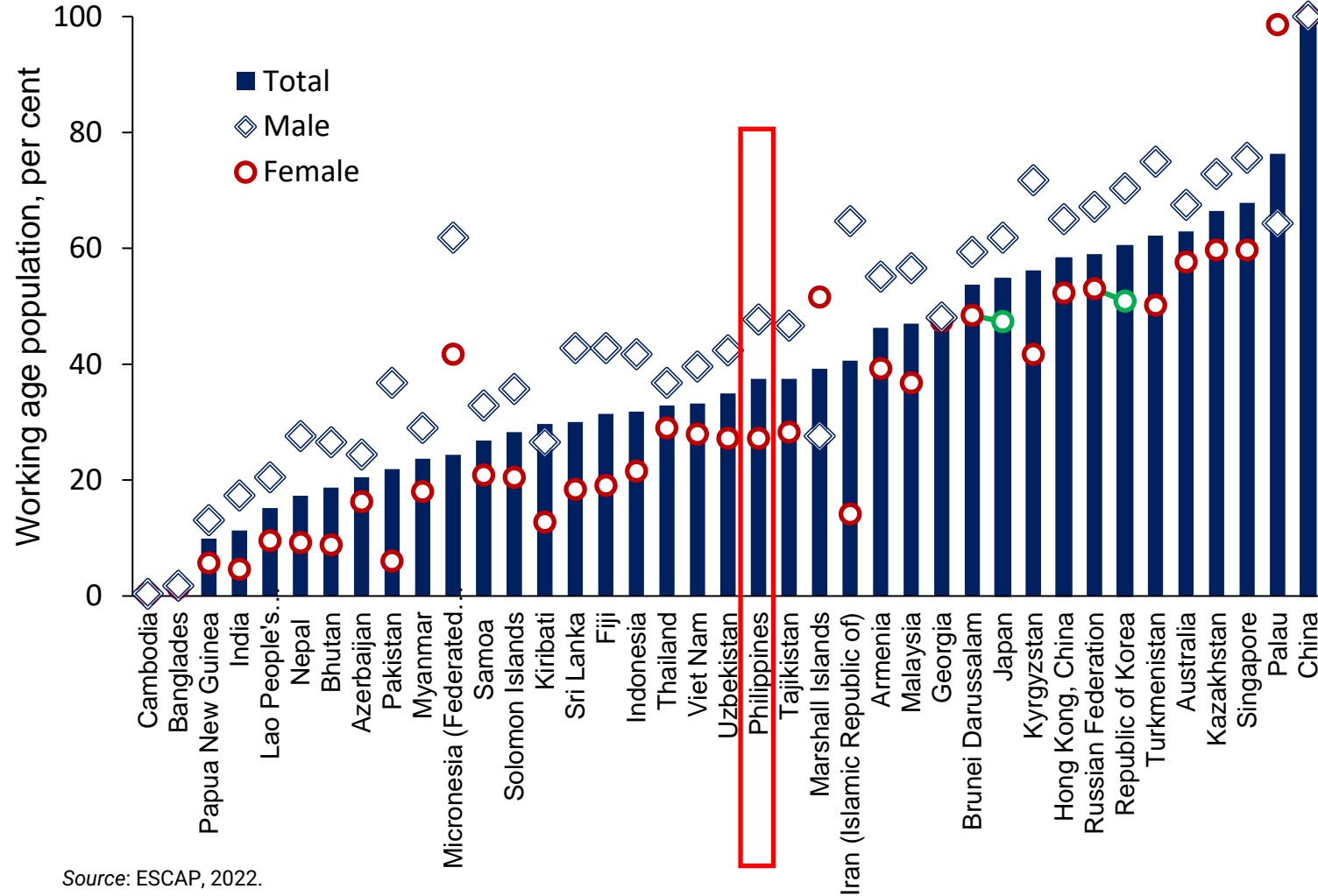
Social protection coverage\* by at least one area (%)



Source: ESCAP and ILO, 2020.

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

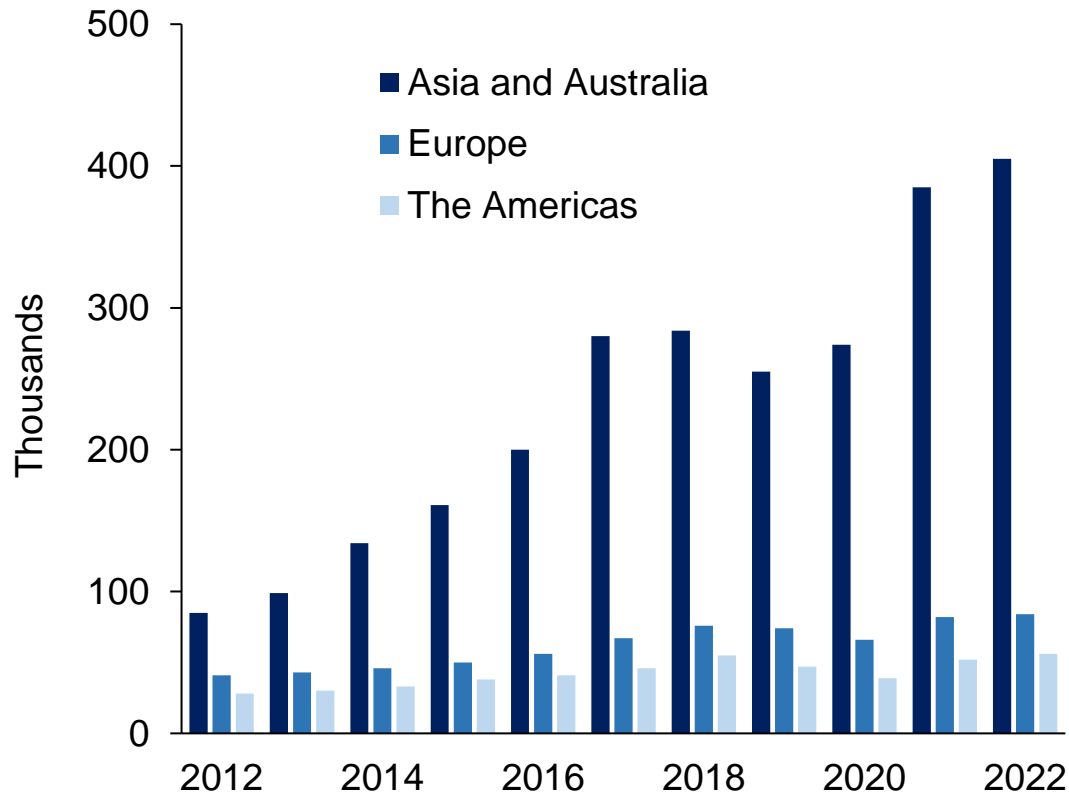
## Impact of a \$50 per ton carbon tax on selected Asia-Pacific economies

	Welfare loss (Percentage of household consumption)	Impact of carbon tax	Cost of cash transfer targeted towards the poorest 40 per cent of households to offset their welfare loss (Percentage of total collected carbon tax)
China	3	Regressive	15
India	3	Progressive	8
Indonesia	7	Regressive	23
Kiribati	<2	Progressive	11
Mongolia	10	Regressive	23
Myanmar	<2	Progressive	15
Philippines	2	Progressive	17

Source: Alonso and Kilpatrick (2022).

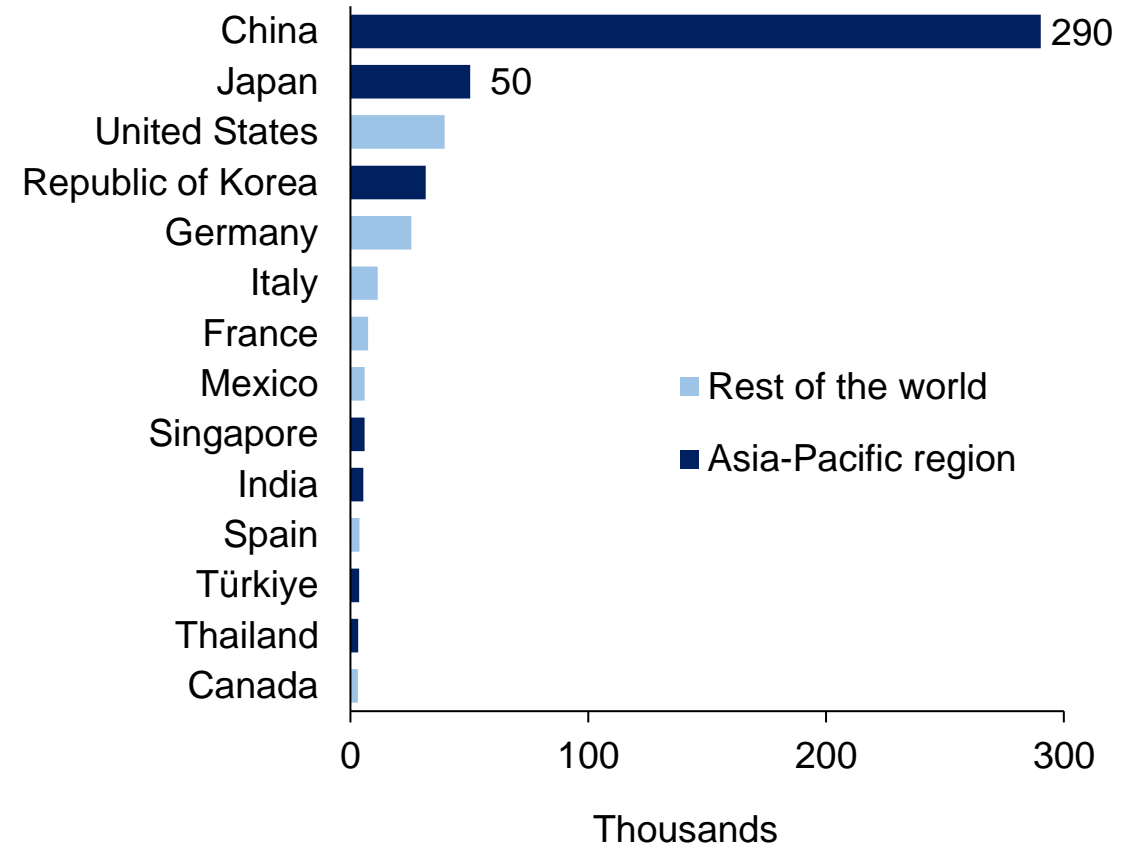
# Robotization is reshaping labour-intensive industries and thus tax potential

Installations of industrial robots, by region, 2022



Source IFR, 2023.

Installations of industrial robots, by country, 2022



# Potential fiscal impacts of megatrends are notable, diverse and uncertain

## (Lower) revenue

- Shrinking workforce
- Lower production capacity
- Profit shifting in digital economy

## (Higher) expenditure

- Old-age health care and social protection
- Public investment in climate projects
- Post-disaster rebuild of public infrastructure

## Borrowing cost

- **Higher** inflation
  - Green taxes & investment
  - Output loss due to natural disasters
- **Lower** inflation
  - Less demand for durable goods

## Design and implementation

- Disaster risk-informed fiscal planning
- Digitalizing public financial management
- Stronger multilateral tax cooperation

## (Lower) effectiveness

- Old-age consumption responds less to fiscal stimulus

# 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.





# ESCAP

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