

Building
Forward
Fairer

Economic and Social Survey of Asia and the Pacific 2022

Economic Policies for an Inclusive Recovery and Development

Policy Dialogue
Philippine Institute for Development Studies
14th July 2022

Macroeconomic Policy and Financing for Development Division



Timeline note

The 2022 Survey was prepared at the turn of 2021/22.

At that time, the global geopolitical situation and economic projections were substantially different from the current ones.

However, the 2022 Survey has been focused on long-term trends shaping Asia-Pacific region. Therefore, most of the findings remain relevant, especially those referring to inequality and management of crisis situations.



Key Messages

Concerns about persisting inequalities have come to the fore in the aftermath of the COVID-19 pandemic ... macroeconomic policies need to address these concerns.

Despite a reasonably strong economic rebound from the pandemic, people are left behind... this calls for more attention to inclusive policies.

The **2022 Survey** goes beyond traditional macroeconomic thinking and provides new insights on how macroeconomic and structural policies can tackle inequality:



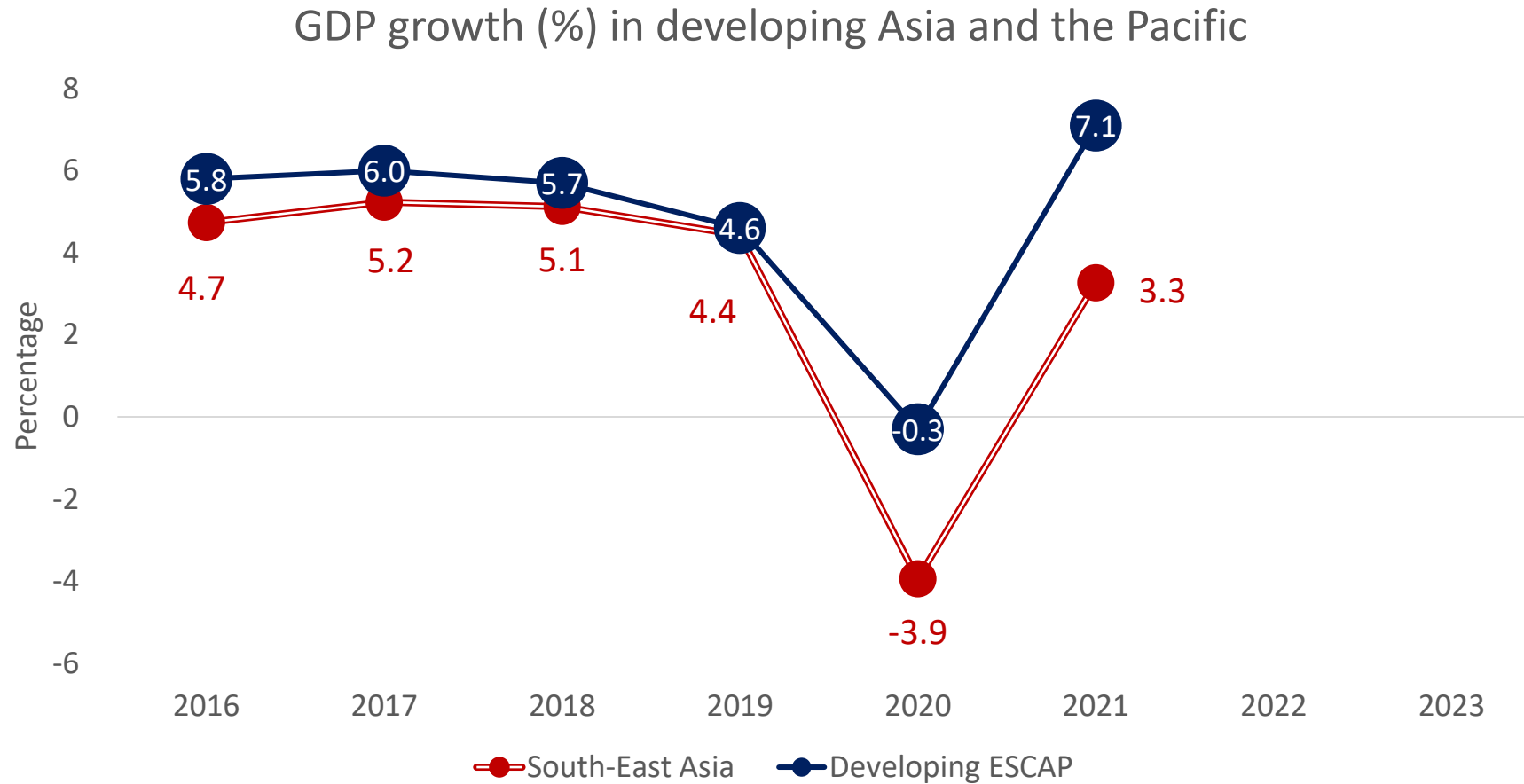
Economic performance and Outlook

– a nascent recovery and uncertain outlook

OPEN

RETURNING BUSINESS
AS NEW NORMAL

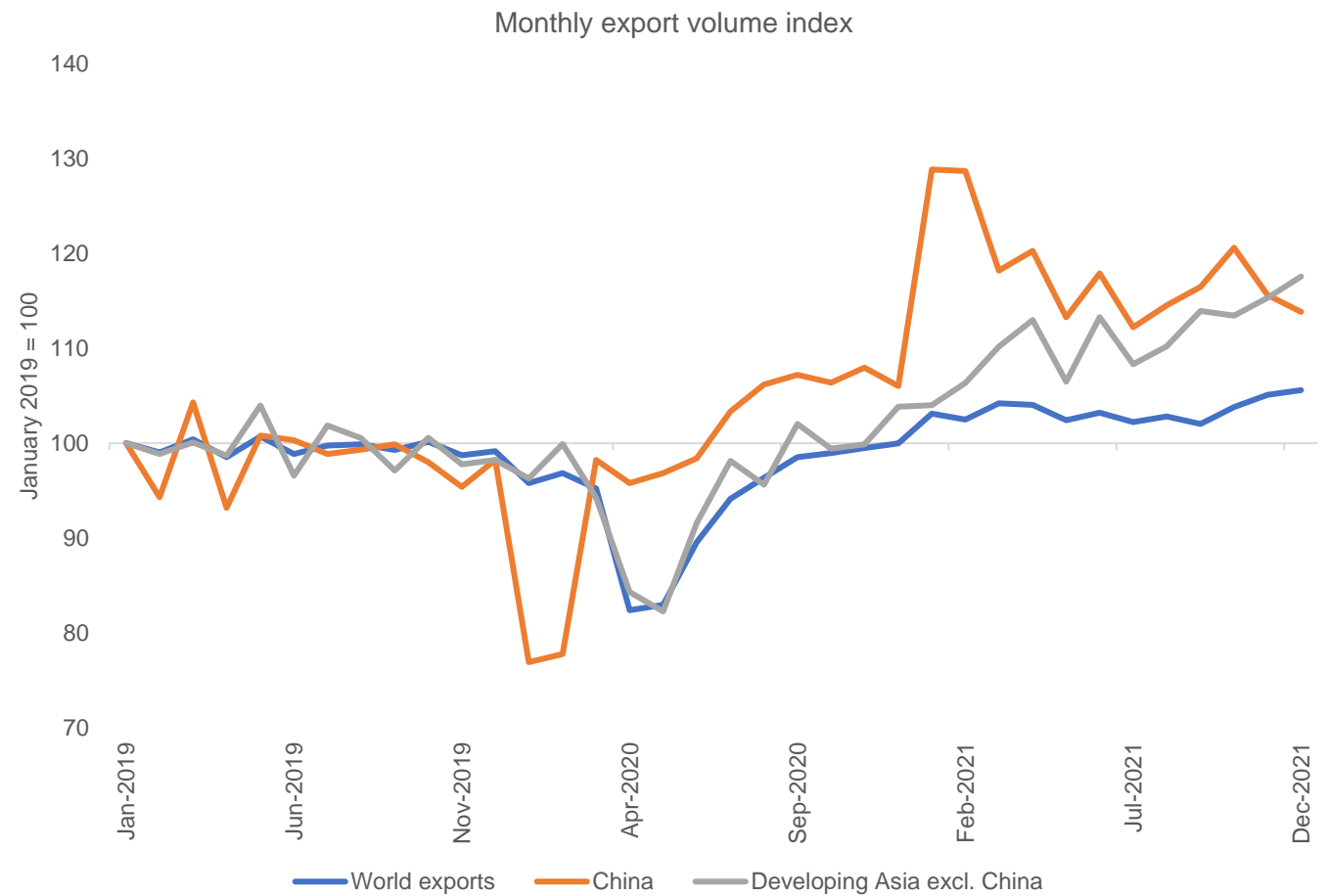
Asia-Pacific region experienced a strong economic rebound in 2021



Source: ESCAP estimates and projections.

Asia-Pacific region experienced a strong economic rebound in 2021

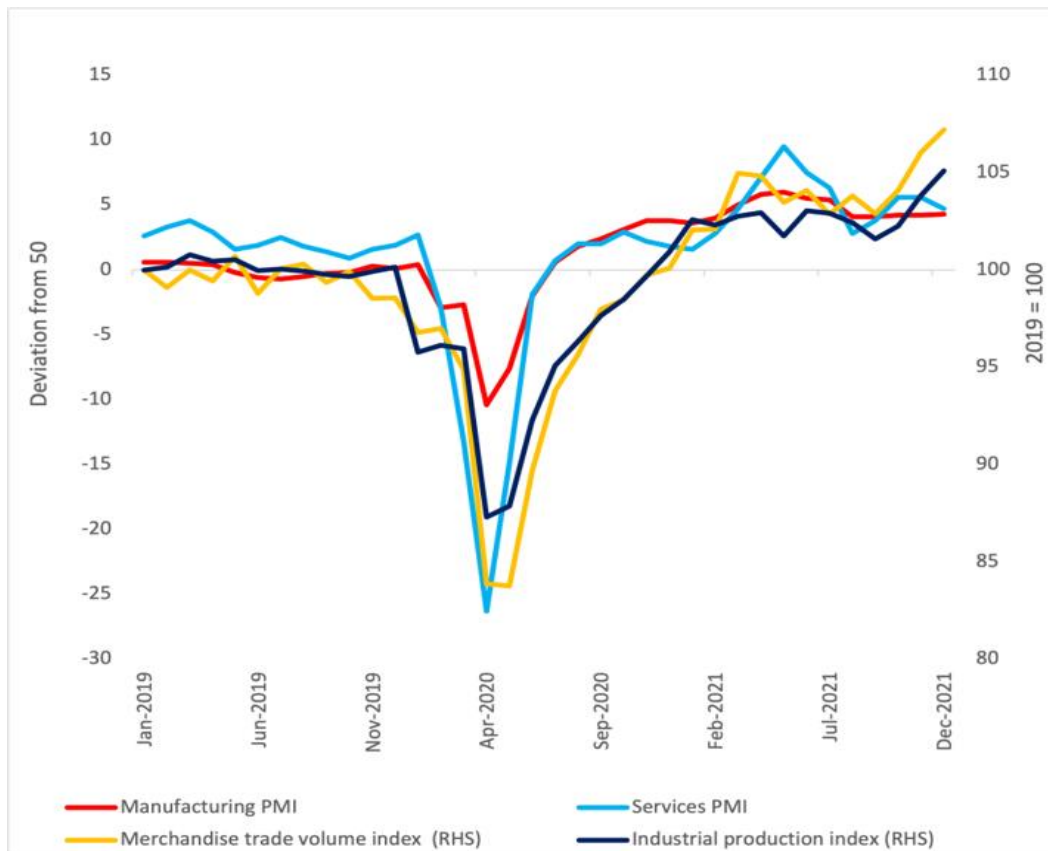
- Rebound supported by robust external demand



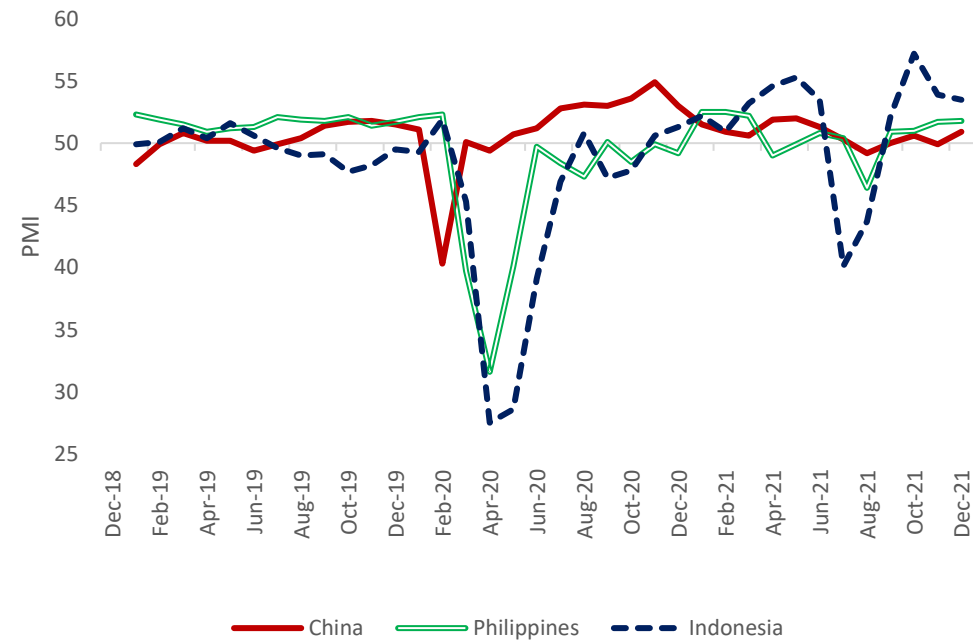
Source: ESCAP based on CEIC, CPB Netherlands Bureau for Economic Policy Analysis

Asia-Pacific region experienced a strong economic rebound in 2021

- Supported by robust external demand



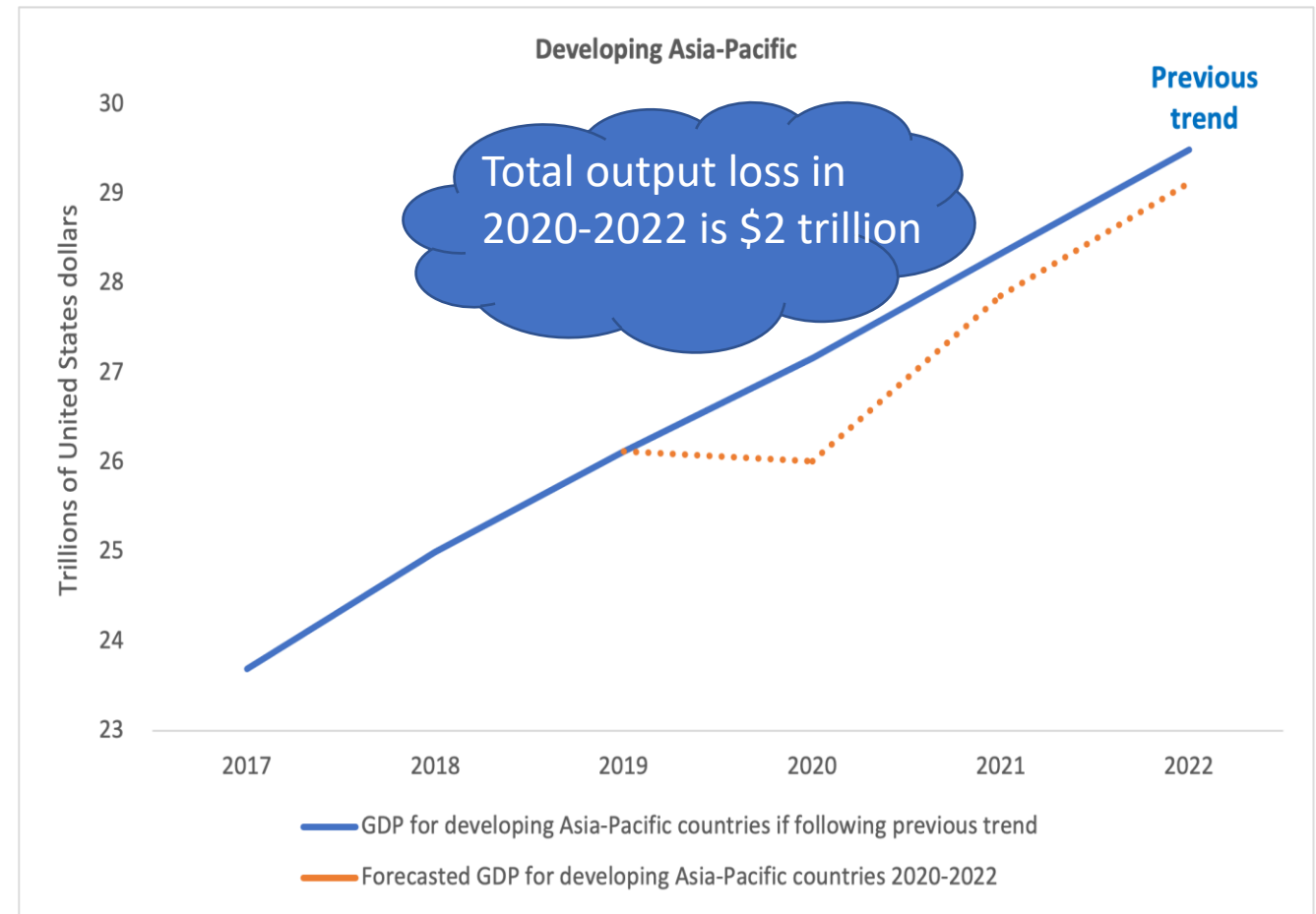
- With manufacturing and industrial production responding accordingly



Source: Based on CEIC data and CPB Netherlands Bureau for Economic Policy Analysis

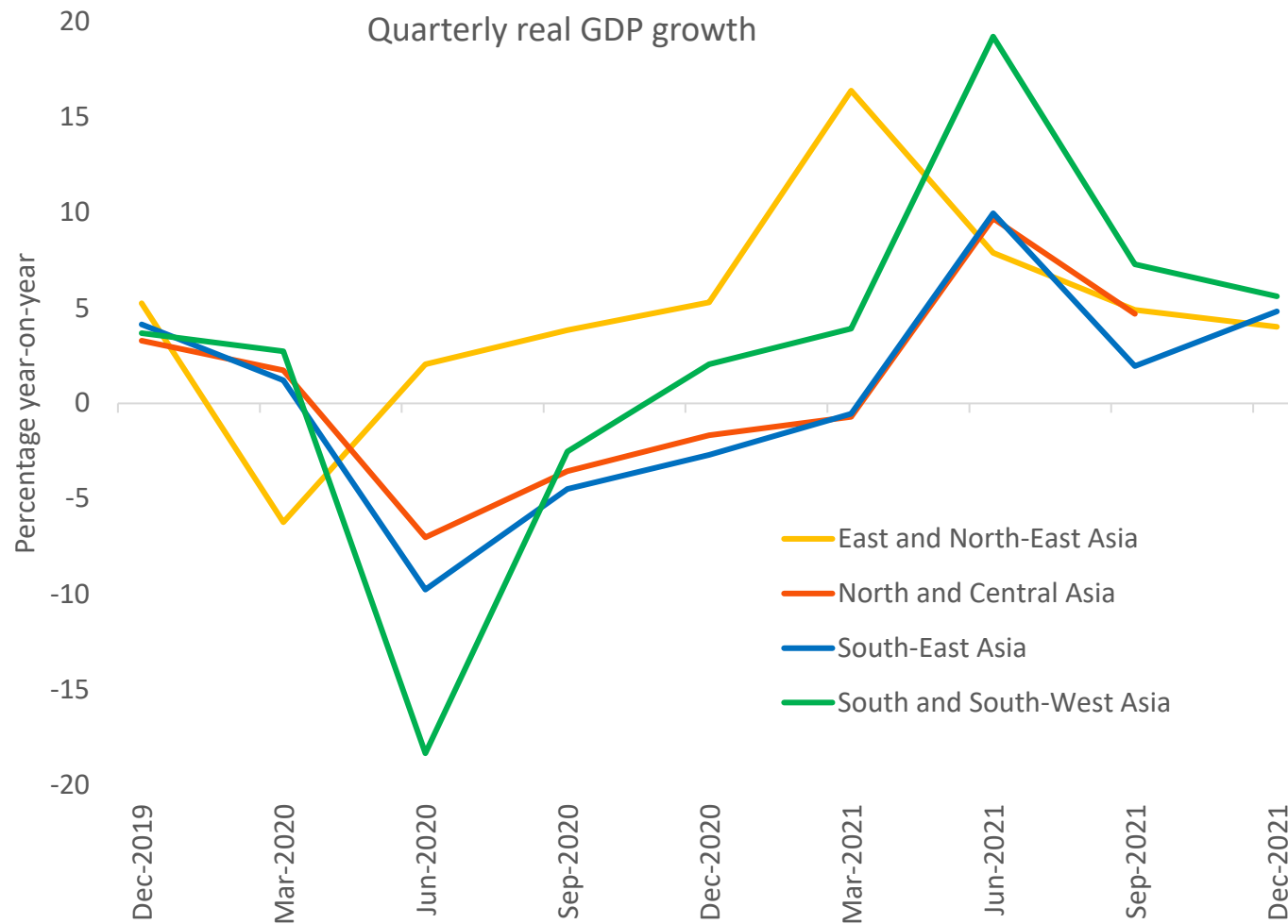
Yet, the **level of output is below the pre-pandemic path...**

- Rebound supported by robust external demand
- In turn, manufacturing and industrial production responded to strong external demand
- Still, the level of output is about **2% below** the pre-pandemic path



Source: ESCAP estimates and projections.

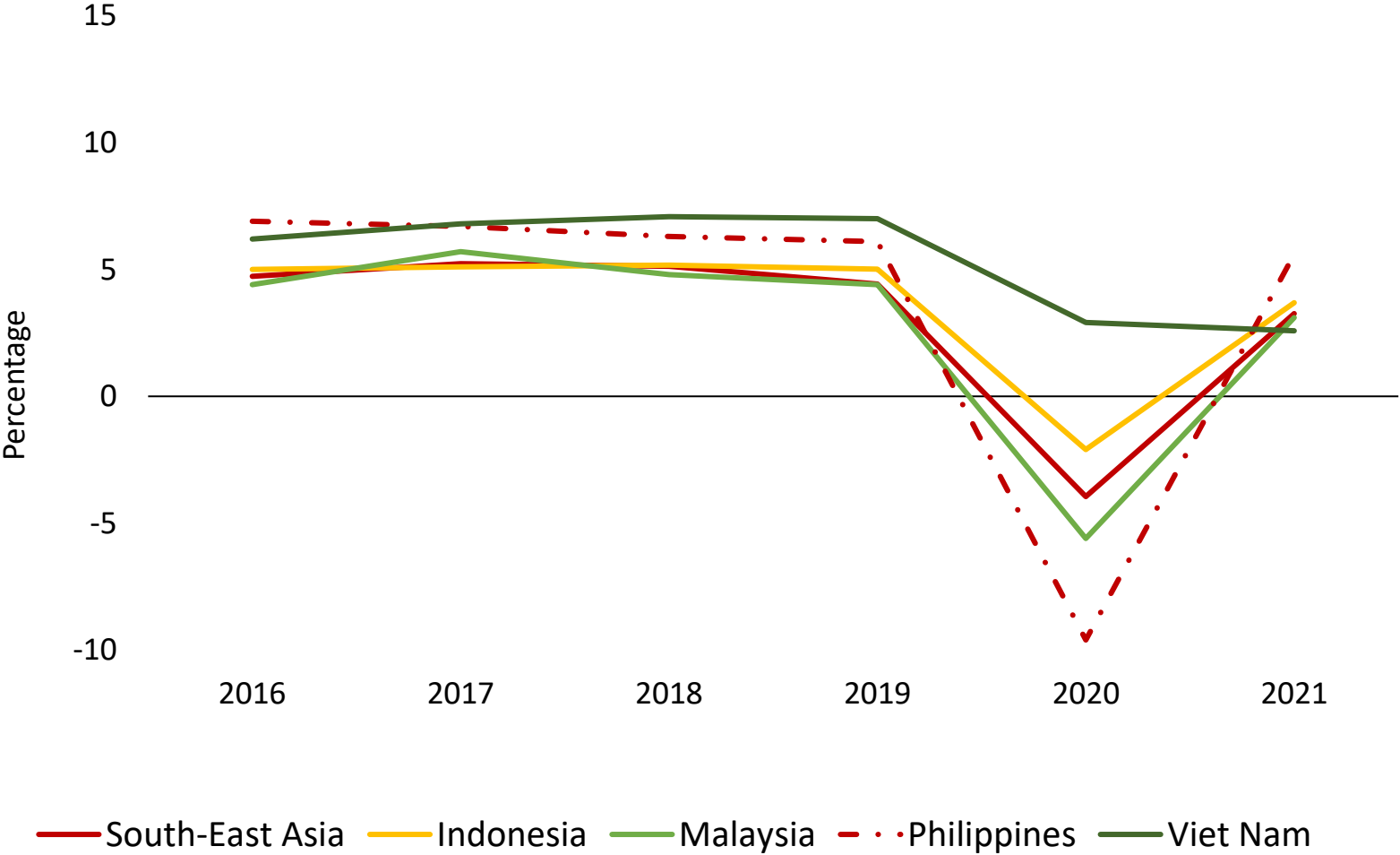
...and recovery is still nascent and uneven between regions...



Source: Based on CEIC data.

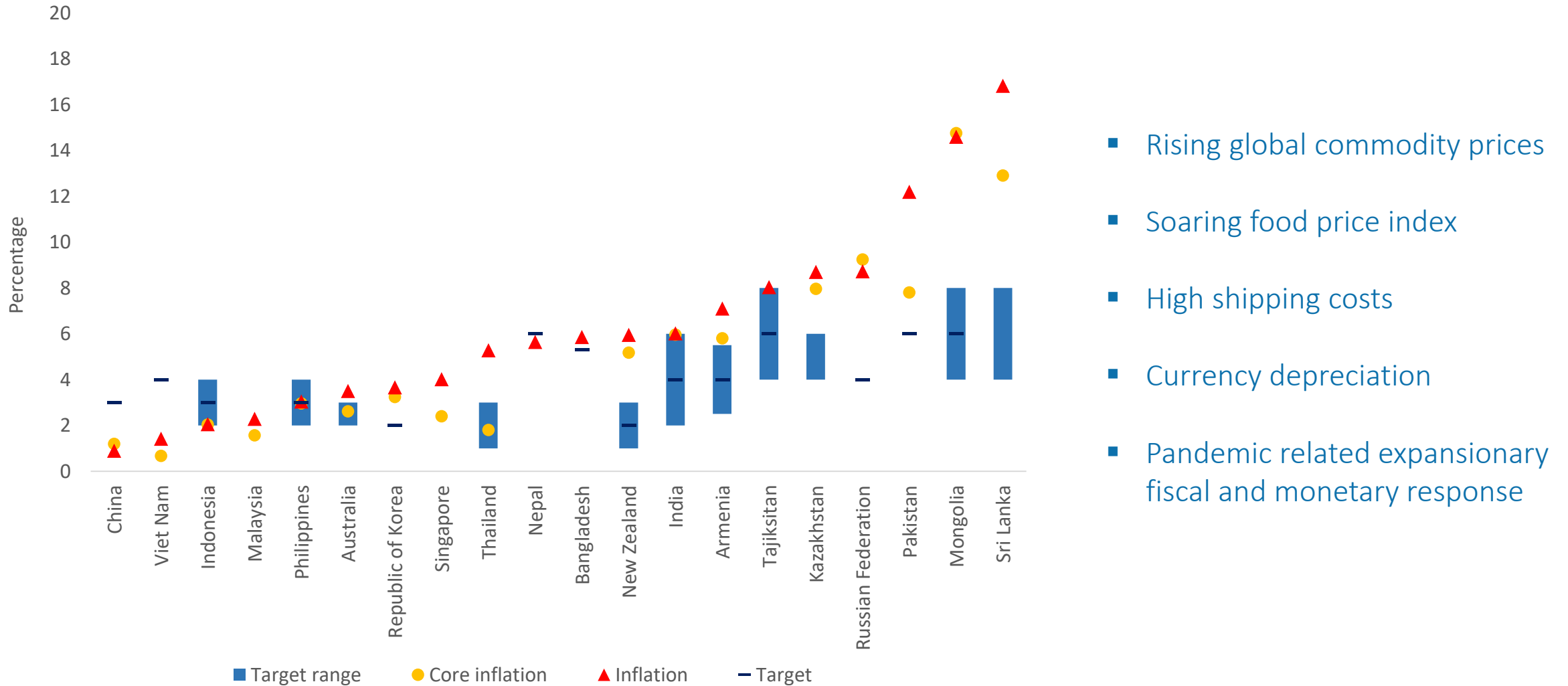
Note: Subregional aggregates are the weighted average, based on 28 economies in Asia and the Pacific for which quarterly GDP data are available

...and countries



Source: ESCAP estimates.

Inflation has been on a rising trend **surpassing targets** in many countries



Source: Based on CEIC data (accessed 4 March 2022).

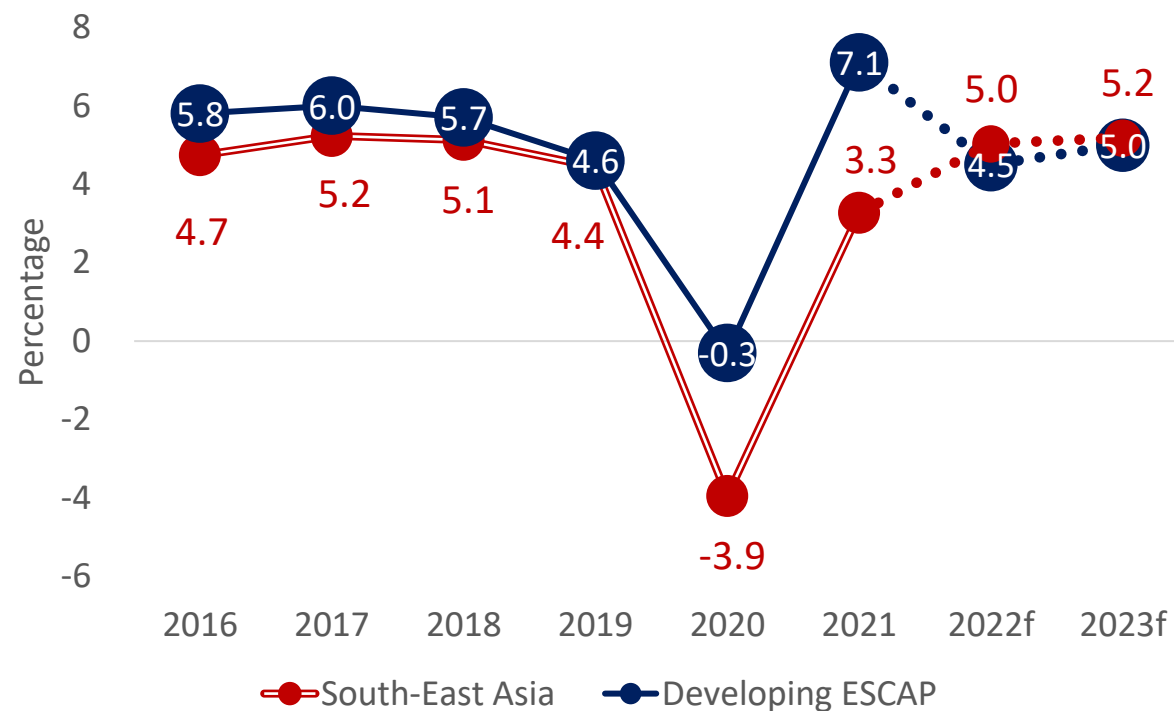
Note: Inflation and core inflation are for the latest month available between December 2021 and February 2022.



Outlook is riddled with **uncertainty**

- Recovery expected at a more moderate pace in 2022 and 2023
- Full resumption influenced by availability of vaccines, stringency of restrictions, labour market recovery
- **The Russia-Ukraine war has cast a shadow on recovery prospects**
- Inflation, along with interest rates, is expected to remain elevated in the near term
- Risks of long-lasting scars and macroeconomic stability are rising

GDP growth (%) in developing Asia and the Pacific



Source: ESCAP estimates and projections.

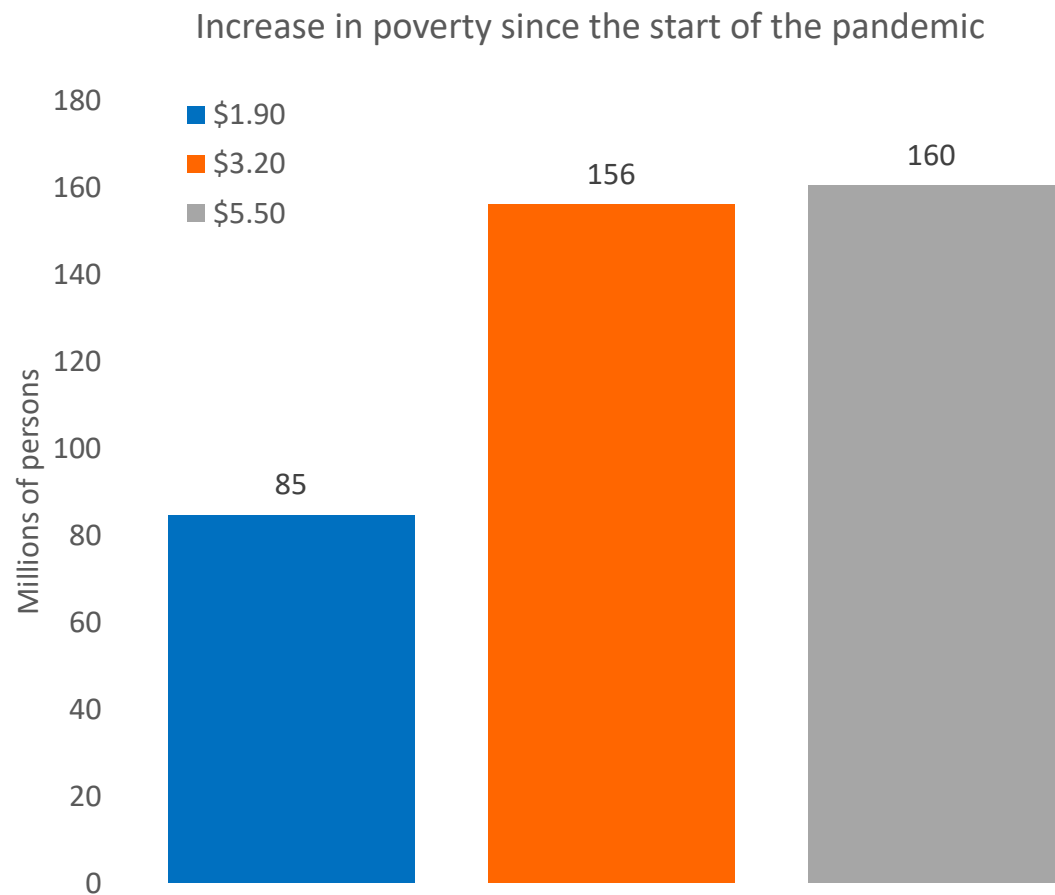
Why should we care about inequality?



The K-shaped recovery has brought the issue of **inequality** to the fore, with vulnerable sections disproportionately affected...



...and **85 million people** have been **pushed back into extreme poverty**, making the issue all the more pertinent



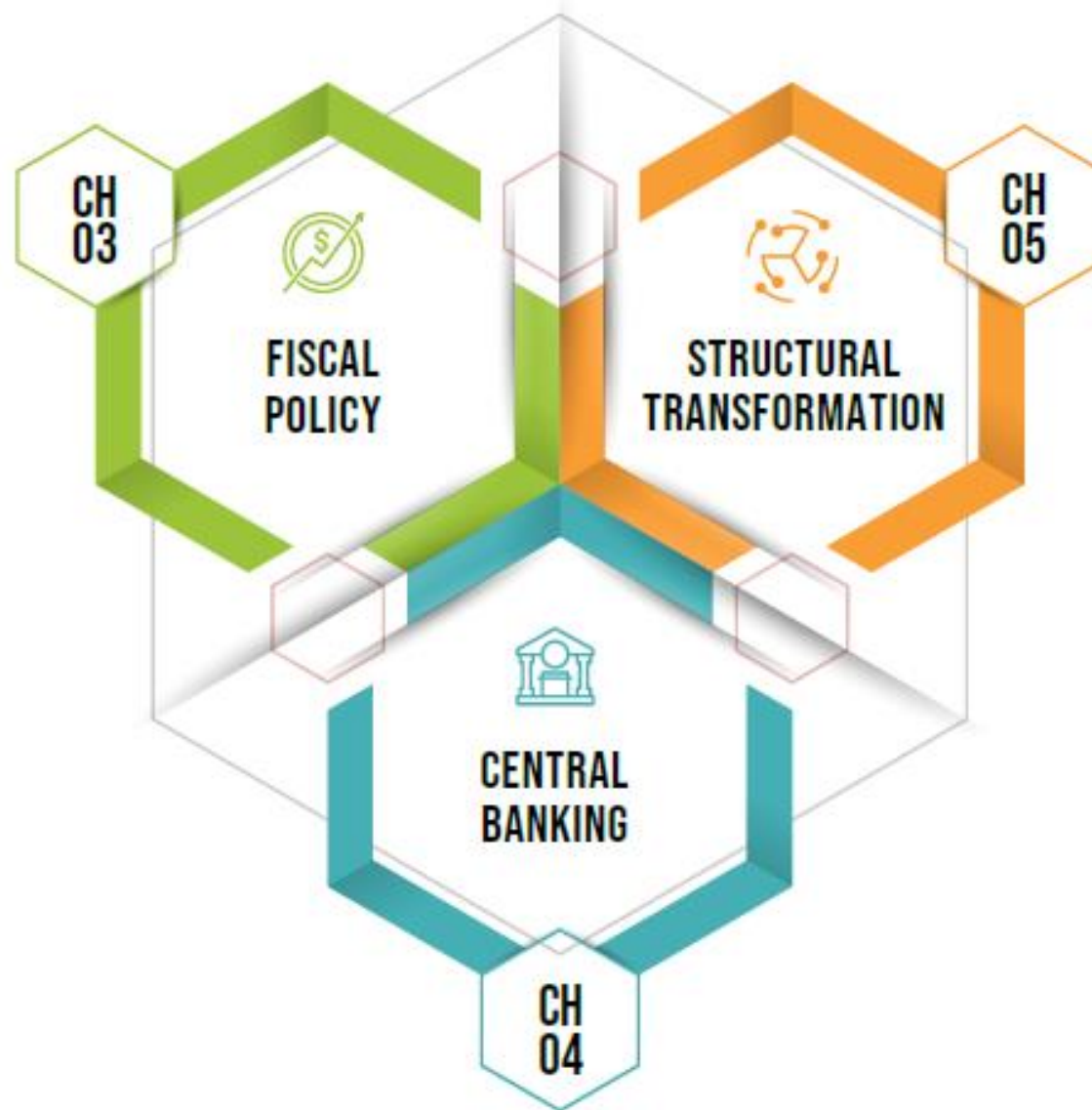
**85
million**



**pushed into
extreme poverty**

Source: ESCAP estimates.

Addressing this gap and *building forward fairer* will require **coordinated government action.**





Policy Considerations

Video – summary of Survey 2022 messages

https://www.youtube.com/watch?v=Wtbde1wLd4I&ab_channel=UnitedNationsESCAP



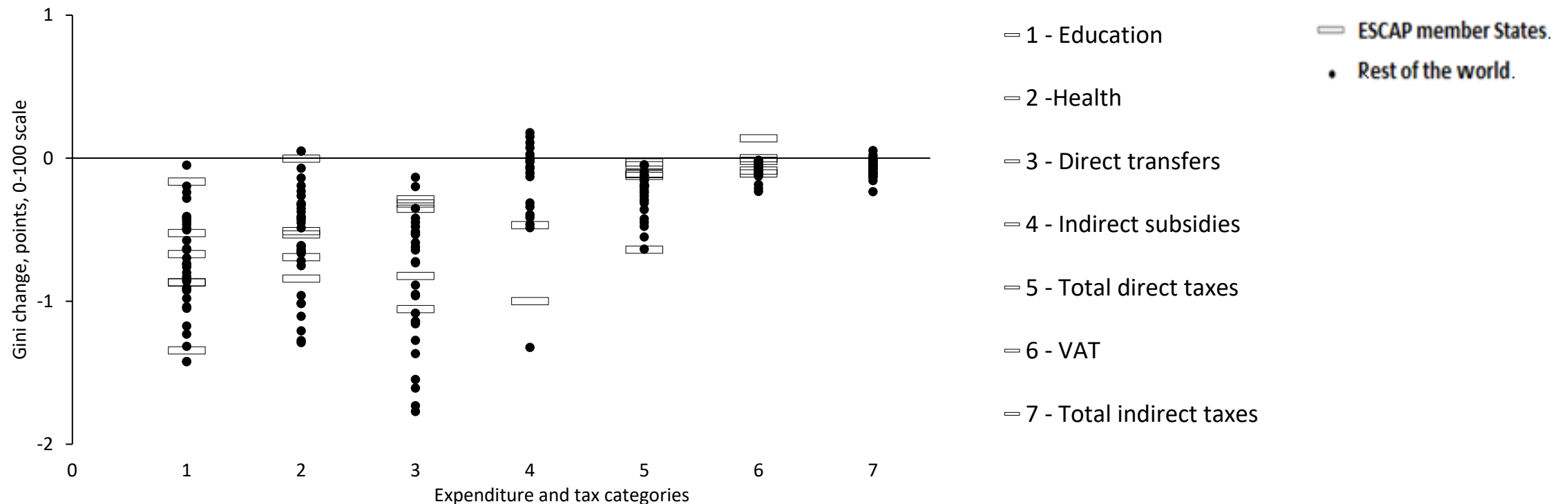
Government's role in reducing inequality
Fiscal policy matters...

Fiscal spending can **tackle inequality** **but impact varies...**

Impact of seemingly same category fiscal policies varies greatly raising questions on effectiveness and targeting

Impact of fiscal policies on inequality, according to 1 per cent of GDP expenditure/revenue

Gini coefficient (0-100)



Source: ESCAP estimates based on CEQ data.

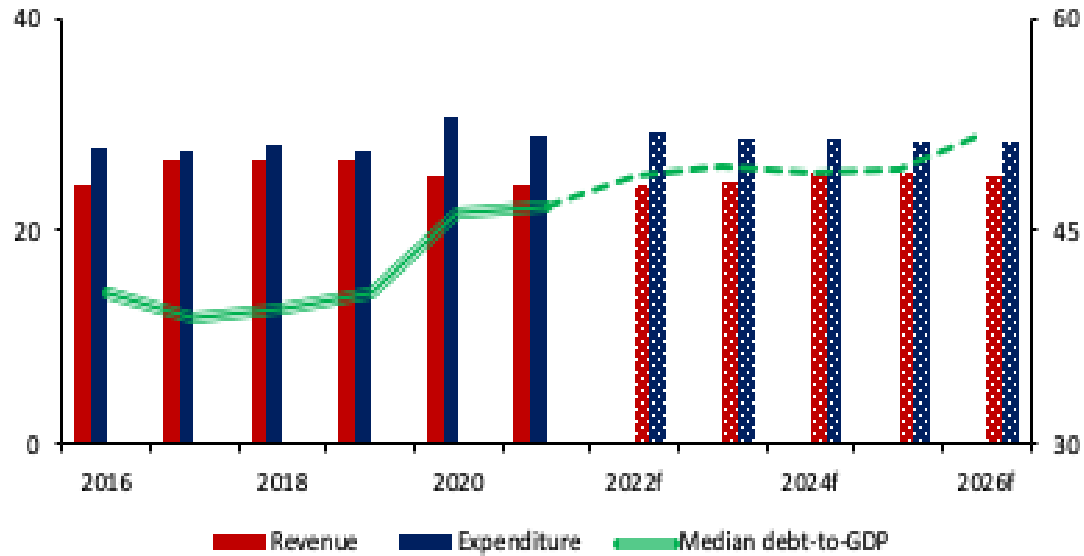


However, **fiscal space** has dwindled, debt is up, and **consolidations** are **expected**

Fiscal indicators

Asia-Pacific developing countries, as a percentage of GDP

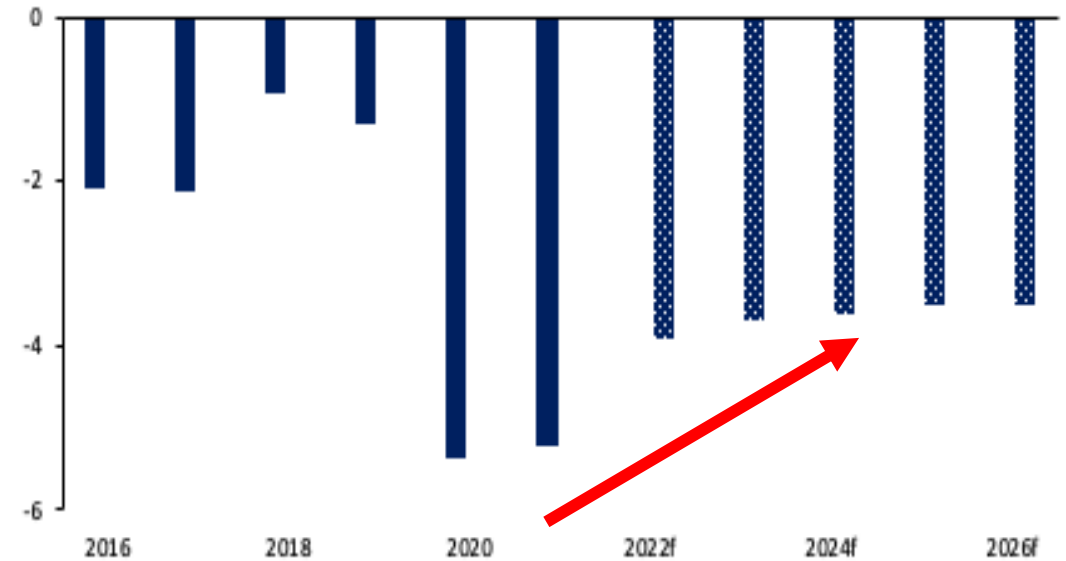
Percentage



Fiscal balance

Asia-Pacific developing countries, as a percentage of GDP

Percentage

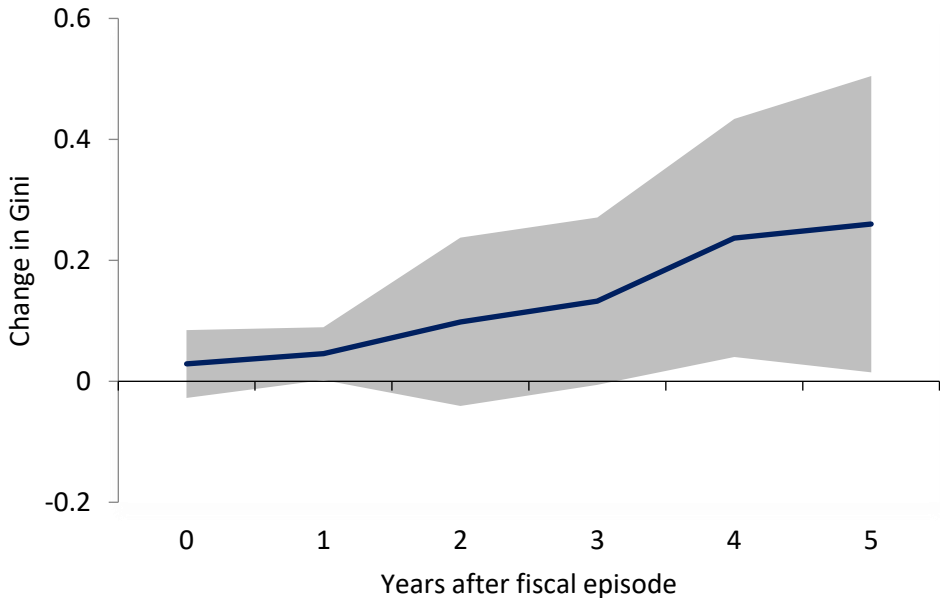


f – forecasts, shaded

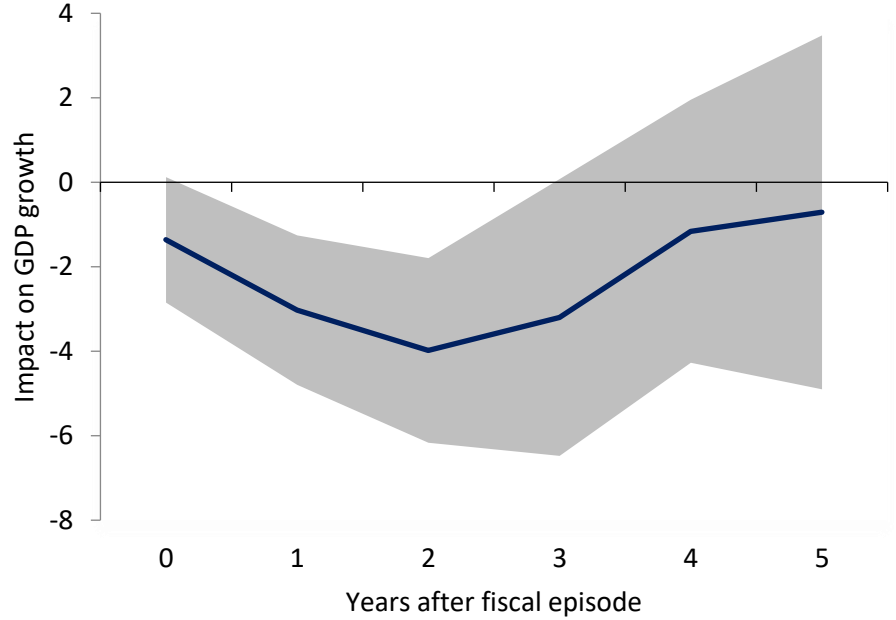
Source: ESCAP estimates based on IMF data.

Consolidations are likely to increase inequalities and reduce output.

Inequality, Gini coefficient (0-100)



GDP per capita growth, percentage points



Source: ESCAP estimates.

Hence, need to maintain expenditures in **healthcare, education** and **social protection**.

HEALTHCARE



EDUCATION



SOCIAL PROTECTION



which are likely to **get cut first**....

...but matter the most for recovery and inequality reduction.

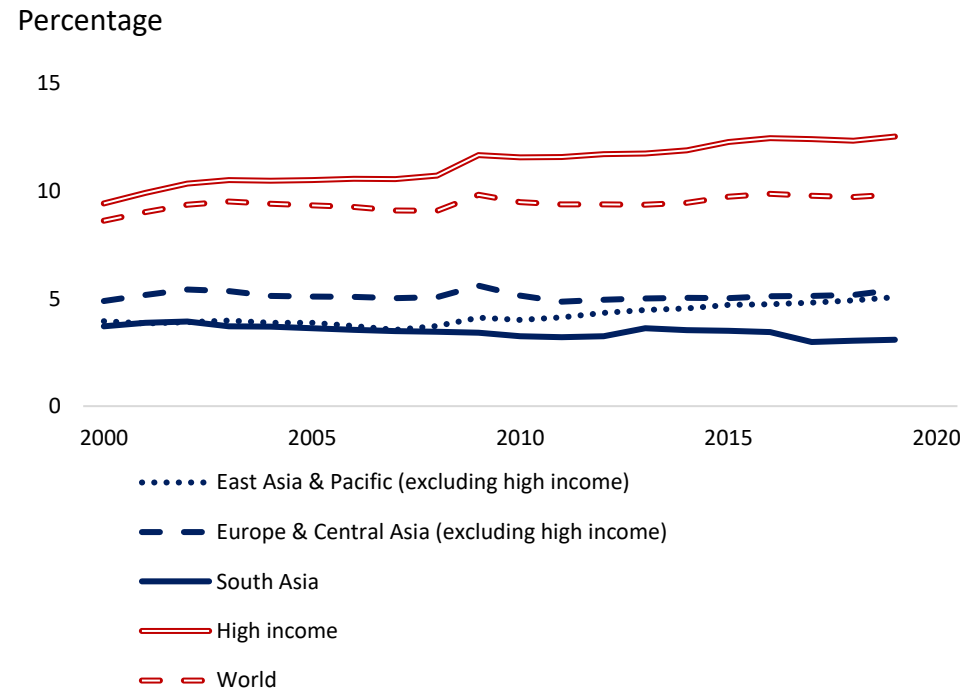
Level of spending on **healthcare** is already low...

HEALTHCARE



Health expenditures remain much below world and high-income countries averages...

Current health expenditure, percentage of GDP.



Note: The Philippines, **4.1%** in 2019

via [World Bank, World Development Indicators, 2022](#).

“Current health expenditure (% of GDP)”

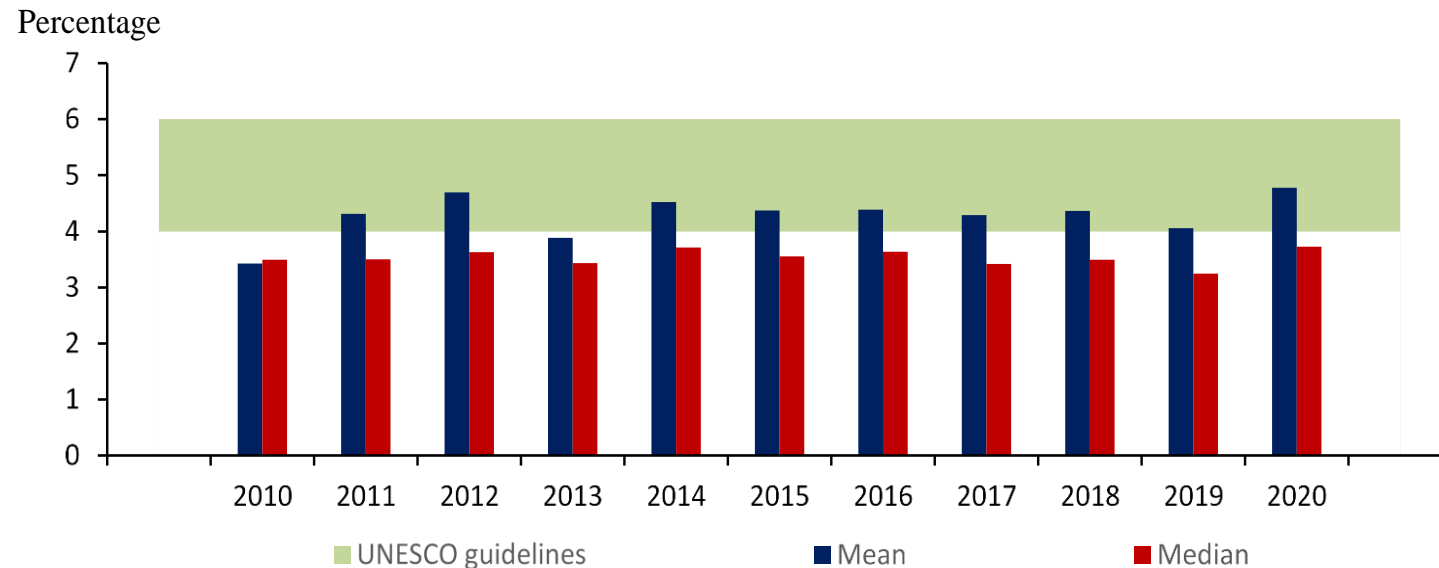
Source: World Bank data.

...same is the case with spending on **education**...

EDUCATION



Expenditure on education in Asia and the Pacific remains below the global target
Spending on education in the Asia-Pacific region, percentage of GDP.



Note: The Philippines, **3.2%** in 2019

via [World Bank, World Development Indicators, 2022](#).

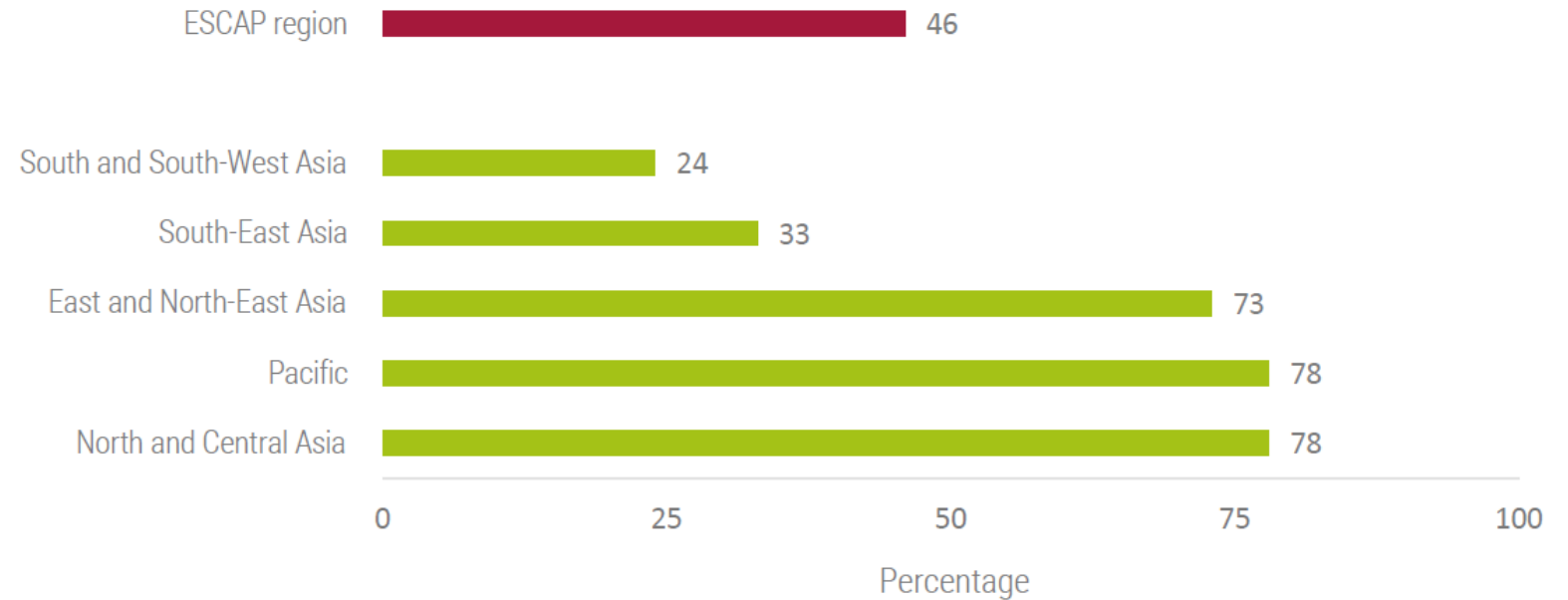
“Government expenditure on education, total (% of GDP)”

Source: ESCAP estimates based on IMF data.

... and **social protection** coverage remains low and varies across countries in the region

Social protection coverage rates vary considerably across Asia-Pacific subregions
Social protection coverage by at least one area^a in Asia and the Pacific, latest year available

SOCIAL PROTECTION



Source: ESCAP and ILO, 2020



Policy recommendations – Bigger bang-for-the-buck

SPEND SMART
INCLUSIVENESS IMPACT EFFICIENCY

Health care

- Provide universal health coverage
- Reduce wasteful and inefficient spending
- Deploy digital health technologies

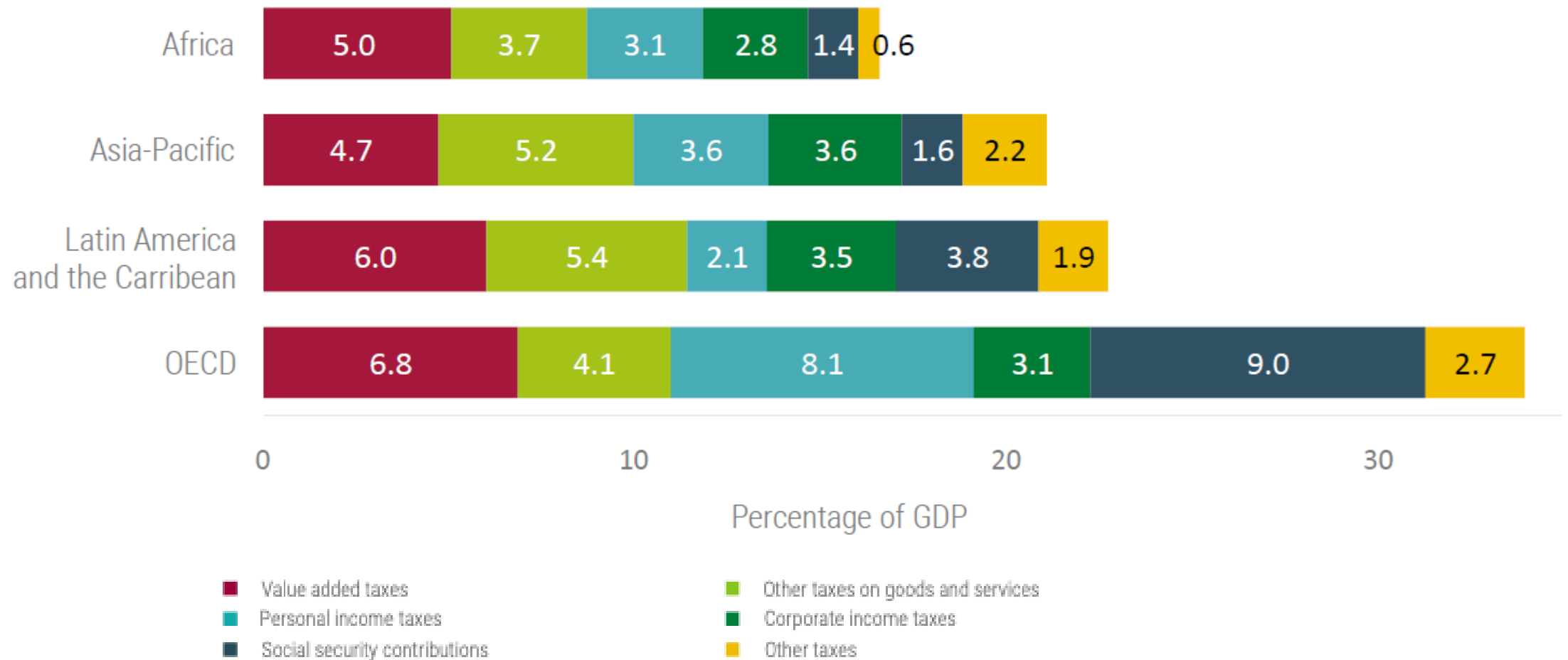
Education

- Strengthen early age education for all
- Eliminate socio-economic barriers at all levels of education
- Close the digital divide

Social protection

- Provide universal basic social protection
- Improve efficiency via digital technologies

Alongside targeted fiscal spending, **revenues need to be increased** as tax collection remains low in the region



Source: OECD (2021a)

...due to **tax avoidance** and **informality**

tax avoidance is high

7.6 per cent of the tax revenue in the Asia-Pacific region was estimated to be lost due to misinvoicing in 2016.

informality is ubiquitous

68 per cent of workers being employed in informal economy across Asia-Pacific and **up to 90 per cent** in some countries like India.



Policy recommendations – increase revenues



Pay fair share

- Ensure all individuals and companies comply with existing regulations
- Close loopholes
- Fight illicit financial flows

Expand tax base

- Formalize business activities
- Expand taxation of digital economy

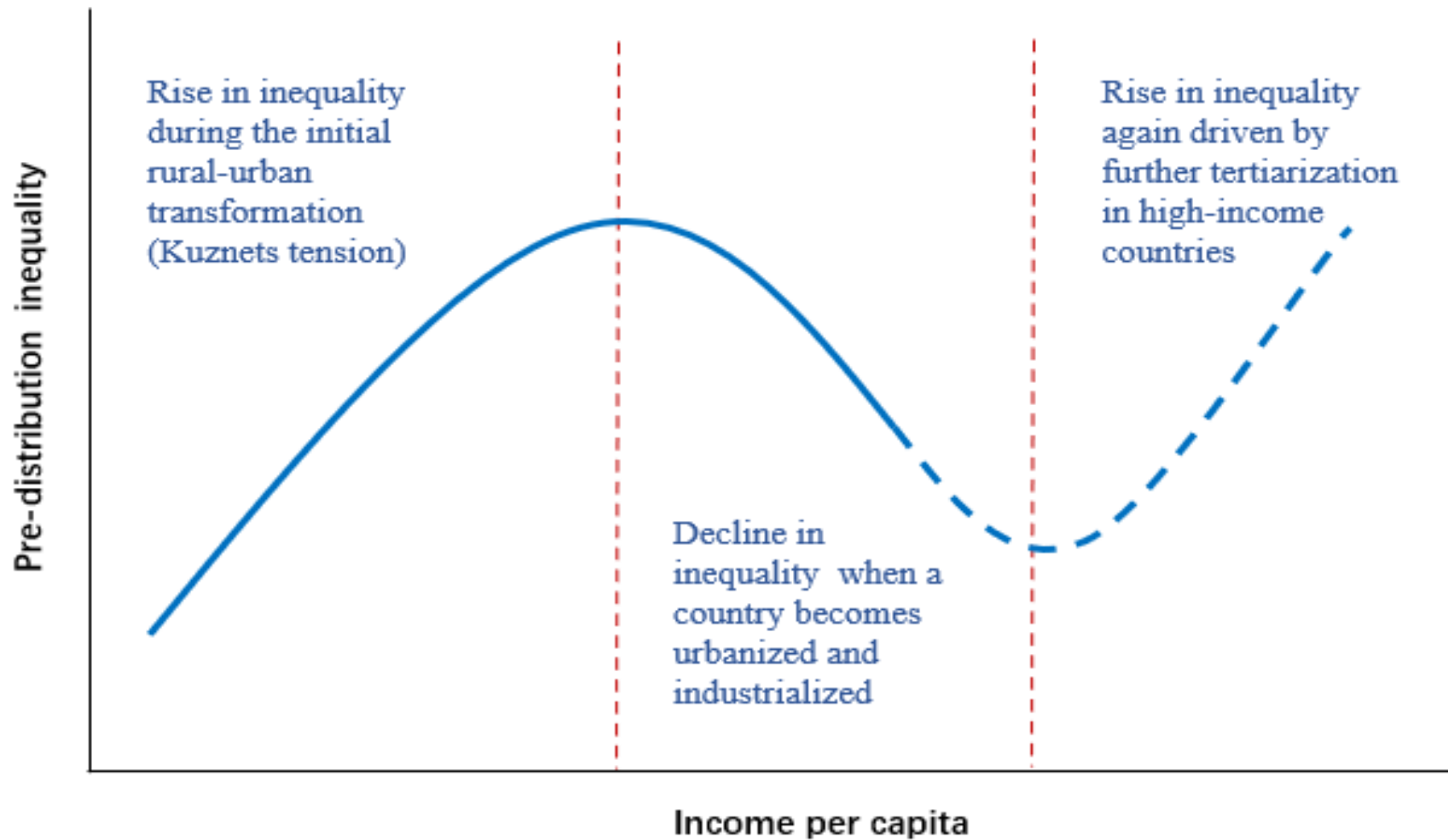
Shift tax burden

- Take tax burden off from the lowest income households
- Make corporate and personal income taxes more progressive

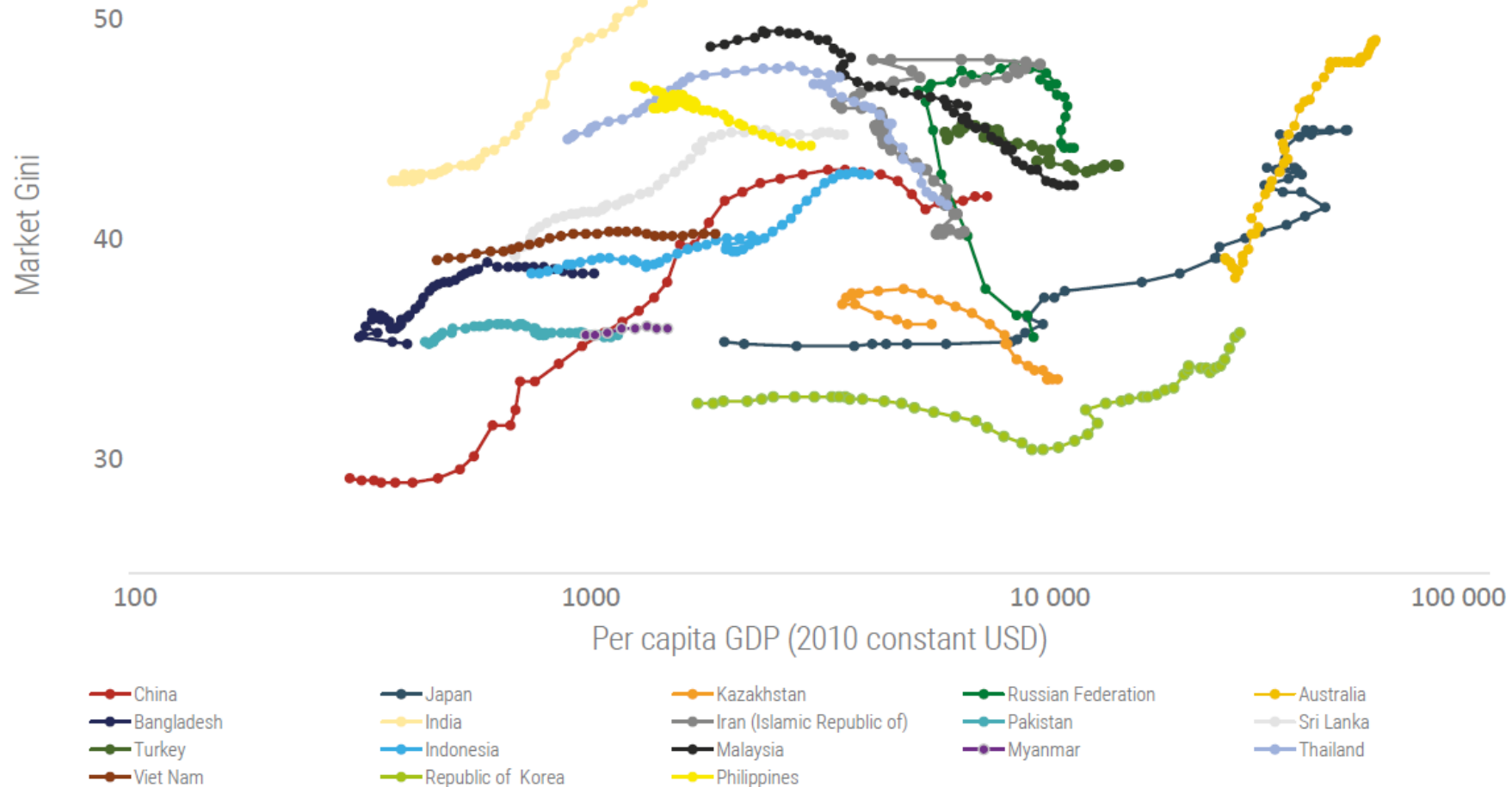


Government's role in reducing inequality
Addressing the root cause through structural policies...

Traditional hypothesis of Kuznets postulates an initial increase in inequality before a subsequent decline, following an inverted U-shape...

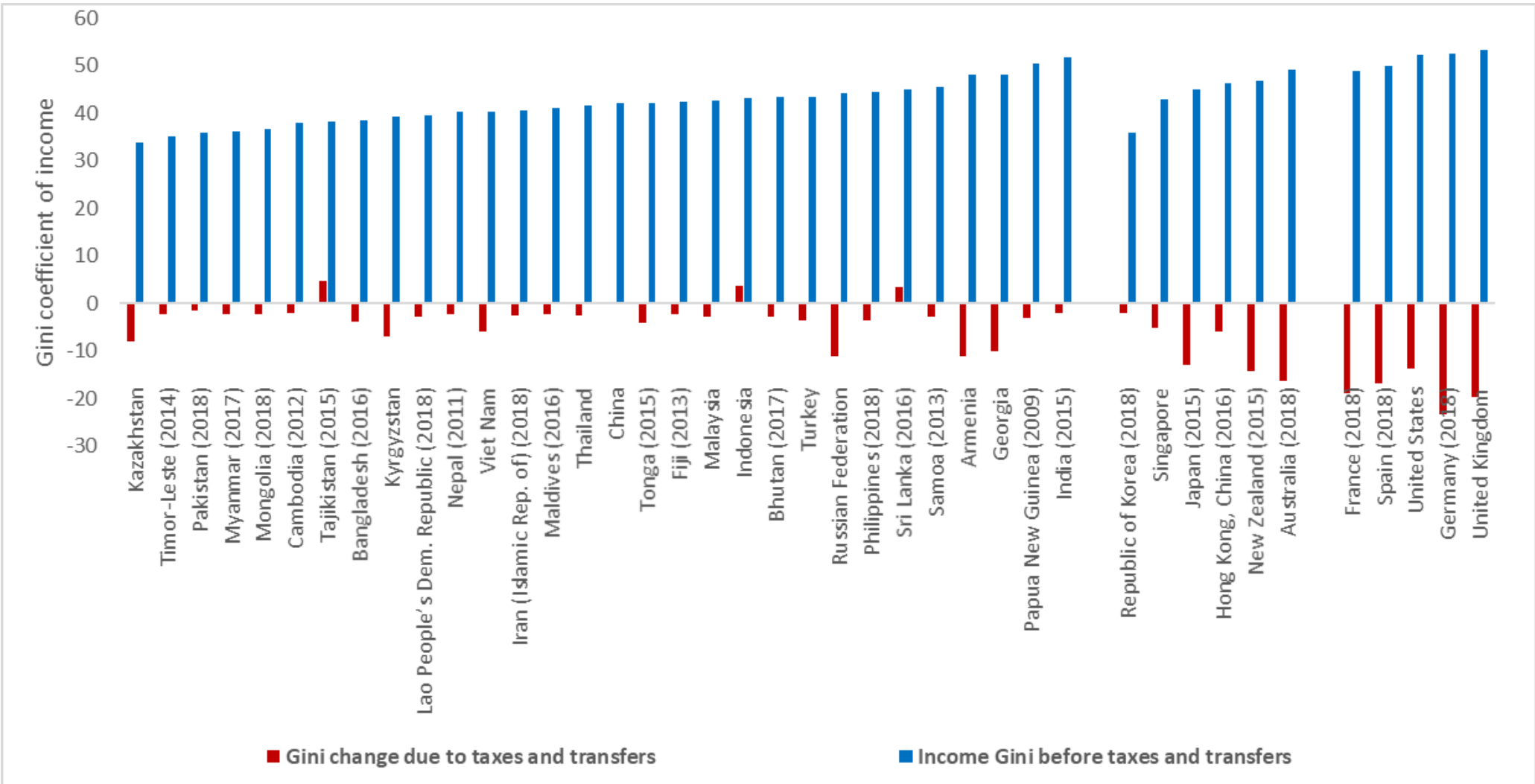


... but diversity in national pathways suggests **space for policies to have an impact**



Source: UN-ESCAP based on SWIID & WDI.

...but their equalizing impact is still highly limited in developing countries



Source: ESCAP, based on the Standardized World Income Inequality Database (SWIID) 9.1 (accessed on 26 November 2021).

... which requires action on **three fronts** for **more equal market outcomes**



Guide

Structural transformation towards a job-rich path

- Mobilize support for strategic sectors
- Leverage public R&D investment
- Establish correct market signals for private sector technological choices



Shape

Income-distribution outcomes of the market

- Strengthen labor's position in the job market
- Empower labor in corporate decision-making processes
- Prioritize equal access in education policies



Manage

The socioeconomic disruptions of technological revolution

- Preserve progresses made in broad-based social protection as a first line of defense
- Strengthen support for on-the-job training, lifelong learning and vocational education
- Keep technological changes at a more manageable pace

A young girl with dark hair in pigtails and black-rimmed glasses is smiling. An adult's hands are adjusting her glasses. She is wearing a purple and white striped shirt. The background is a blurred indoor setting with a laptop and a plant.

Role of Central Banking in Inclusive Development



Central banks **should** and **can** promote **inclusive development**

Monetary
Policy
Conduct

Official
Reserve
Management

Currency
Issuance

Financial
Regulation



Central banks **should** and **can** promote **inclusive development**

Monetary
Policy
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Official
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Promote inequality-minded monetary policy

Inflation stability



Inequality-minded monetary policy conduct

- Communicate the distributional impacts to the public
- Consider income/wealth distribution when making monetary policy decisions



Central banks **should** and **can** promote **inclusive development**

Monetary
Policy
Conduct

Official
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Management

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Financial
Regulation



Invest official reserves with **social gains**

Safety & liquidity



Reserve allocations with social gains

- Set up investment committee to make allocation decisions
- Use excess reserve as seed capital for local social projects
- Allocate part of asset purchases to social bonds



Central banks **should** and **can** promote **inclusive development**

Monetary
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Financial
Regulation



Foster financial inclusion through CBDC

Adequate cash in circulation



Central bank digital currency (CBDC) for financial inclusion

- Choose design features that help financial access
- Improve digital and financial literacy
- Identify associated risks and mitigation measures



Central banks **should** and **can** promote **inclusive development**

Monetary
Policy
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Financial
Regulation



Support innovative **social-oriented** financial instruments



Robust financial sector



Innovative, social-oriented
financial instruments

- Increase understanding among market players
- Develop/harmonize taxonomies for pro-social financial instruments
- Grant financial support to cover high verification cost



Key Takeaways – Survey 2022

Inclusion should be at the center of economic policies.

Focus on efficiency and impact of fiscal policy.

Expand domestic revenues, shifting the burden away from low-income households.

Target market outcomes – promote job-rich transformation and empower the labor.

Inclusive central banking is possible.

Redesign monetary policy, reserve management, innovative finance, and digital currencies for inclusive development.

Building
Forward
Fairer

Economic and Social Survey of Asia and the Pacific 2022

Thank you!

DOWNLOAD NOW: <https://bit.ly/flagshipsurvey2022>

 Macroeconomic Policy and
Financing for Development Division
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