Towards post-COVID-19 resilient economies

Economic and Social Survey of Asia and the Pacific 2021

Macroeconomic Policy and Financing for Development Division

5 May 2021
Overview

• Main messages
• The present: Macroeconomic outlook
• The past:
  Understanding resilience from the past
• The future: Building Forward Better
• Fiscal and financing options
• Key takeaways
Main messages

• The socio-economic impact of the COVID-19 pandemic was amplified by lack of resilience and investments in people and the planet.

• Continuity in policy support is a must and recovery 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 the BFB package, countries would need to build fiscal space and explore a range of financing options.
The present: COVID-19 is a stark reminder that health emergencies cause not only social damage but also entail economic risks.
The economic deceleration in 2020 was **sizeable** in SEA

GDP growth (%) in South-East Asia subregion
… with significant socio-economic costs.

Source: ESCAP based on ILO (2021) and WB data
Given considerable uncertainty, the economic outlook is cautiously optimistic for 2021-22

GDP growth (%) in South-East Asia subregion

- Developing A-P
- SEA

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>5.7</td>
</tr>
<tr>
<td>2017</td>
<td>5.9</td>
</tr>
<tr>
<td>2018</td>
<td>5.1</td>
</tr>
<tr>
<td>2019</td>
<td>5.0</td>
</tr>
<tr>
<td>2020</td>
<td>-1.0</td>
</tr>
<tr>
<td>2021</td>
<td>5.9</td>
</tr>
<tr>
<td>2022</td>
<td>5.0</td>
</tr>
</tbody>
</table>
Near-term optimism is supported by multiple factors…

- Some aspects of the COVID-19 impact are temporary
- Vaccine rollouts have begun
- Fiscal and monetary policies are expected to remain accommodative
- Strong export & regional value chains
- Major economies worldwide are gradually recovering
...but risks are tilted to the downside...

- Slow progress & uncertainties in vaccination
- International tourism remains subdued
- Debt distress is on the rise
- Long-lasting impacts on productivity
- Capital flow uncertainties & risk of stagflation
- Lingering trade tensions
…with expected permanent losses in output...

Economic output trend in South-East Asia (trillion US$)

Cumulative output loss
2020-22: $591 billion

Source: ESCAP estimation
Forecasted 2022 economic output as a share of 'potential' 2022 output

- Philippines
- Myanmar
- Cambodia
- Malaysia
- Thailand
- Lao People’s Democratic Republic
- Indonesia
- Singapore
- Viet Nam
- South-East Asia
- Developing ESCAP economies
...and a likely “K-shaped” recovery in the region
Near-term policy priorities

- Put pandemic control first
- Prioritize inclusiveness for a robust recovery
- Ensure continuity in fiscal & monetary support
The past: Learning from Past Crises and Recoveries to Build Resilience
South-East Asia faces a wide risk landscape...
...where adverse shocks leave long-term scars.

- **Investment slowdown** from financial crises
- **Increased inequality** from pandemics
- **Environmental damage** from natural disasters
However, policy choices can reduce such setback!

Adverse shocks

- Fiscal policy
- Monetary and financial measures
- Reserves and exchange rate regime
- External financing

Policy choices

- Health and social protection system
- Infrastructure quality
- Economic diversification
- Governance and institutions
Pandemics have a more severe economic and social impact...

- **GDP per capita** impact of pandemics
- **Consumption** impact of pandemics
- **Human capital** impact of pandemics

- **High public health spending**
- **Formal work arrangements**
- **High-quality infrastructure**
... in countries with pre-existing structural vulnerabilities
Lesson learned – 1: Respond strongly & swiftly to shocks to safeguard sustainable development

Difference in 5-year cumulative impact between countries with and without supportive policies

<table>
<thead>
<tr>
<th>GDP per capita</th>
<th>Human capital</th>
<th>Environmental performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Difference in 5-year cumulative impact between countries with and without supportive policies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial crises</td>
<td>Natural disasters</td>
<td>Epidemics</td>
</tr>
<tr>
<td>3.0</td>
<td>1.0</td>
<td>0.5</td>
</tr>
<tr>
<td>2.0</td>
<td>0.5</td>
<td>0.5</td>
</tr>
<tr>
<td>1.0</td>
<td>0.5</td>
<td>0.5</td>
</tr>
</tbody>
</table>

United Nations ESCAP
Economic and Social Commission for Asia and the Pacific
Lesson learned – 2: **Integrate risk management** into national development **planning and policymaking**

Crisis preparation and coping strategies

- Financial regulation
- Insurance
- Adaptive social protection
- Deploying fiscal space
- Remittances and ODA
- Early warning system
- Climate-resilient infrastructure
Lesson learned – 3: **Strengthen the resilience of vulnerable countries**

![Bar chart comparing Sovereign Credit Index, Rating Exchange Rate Regime Index, Social protection expenditures (% of GDP), Quality of Infrastructure Index, and Economic Complexity Index for South-East Asia and OECD (Asia Pacific).]
The Future: Build Forward Better to enhance the resilience of people and the planet
The current recovery packages leave room to integrate social and environmental issues.

Most recovery policies are not gender-sensitive:
- Fiscal support for businesses: 11%
- Social Protection: 14%
- Labour market: 9%

Most public funded commitments neglect green energies:
- Clean unconditional: 3%
- Clean conditional: 27%
- Fossil: 51%
- Other energy: 19%

Note: Data shows shares of 10 countries covered by the energypolicytracker.
We propose a “Building Forward Better” policy package...
...which brings social & environmental benefits... South-East Asia
Public debt sustainability: South-East Asia

Government debt-to-GDP ratio (%)

Baseline

BFB

BFB and COVID-19

2019 2020 2021 2022 2023 2024 2025 2026 2027 2028 2029 2030
Which fiscal and financing policies can help?
Policy options to address fiscal and financing challenges in South-East Asia

- Actively engage in debt relief initiatives
- Explore diaspora bonds, offshore public bonds
- Incorporate catastrophic risks into fiscal planning
- Ease investment rules for pension + sovereign wealth funds
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.
Please visit