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

<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>6.0</td>
</tr>
<tr>
<td>2020</td>
<td>4.4</td>
</tr>
<tr>
<td>2021</td>
<td>4.2</td>
</tr>
<tr>
<td>2022</td>
<td>-1.0</td>
</tr>
</tbody>
</table>

**Developing A-P** | **SEA**
... with significant socio-economic costs.

Equivalent number of full-time jobs lost in 2020
(millions of jobs, 48 hours/week)

<table>
<thead>
<tr>
<th>Region</th>
<th>Jobs Lost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia-Pacific</td>
<td>140</td>
</tr>
<tr>
<td>East Asia</td>
<td>35</td>
</tr>
<tr>
<td>South-East Asia</td>
<td>24</td>
</tr>
<tr>
<td>South Asia</td>
<td>80</td>
</tr>
<tr>
<td>Pacific</td>
<td>1</td>
</tr>
</tbody>
</table>

Post-Pandemic increase in poverty
(South-East Asia, millions of persons)

<table>
<thead>
<tr>
<th>Poverty Line</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1.9-per-day</td>
<td>4.8</td>
</tr>
<tr>
<td>$3.2-per-day</td>
<td>17.4</td>
</tr>
<tr>
<td>$5.5-per-day</td>
<td>31.1</td>
</tr>
</tbody>
</table>

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

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<tr>
<th>Year</th>
<th>Developing A-P</th>
<th>SEA</th>
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<td>2016</td>
<td>5.7</td>
<td>4.6</td>
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<td>2017</td>
<td>5.9</td>
<td>5.1</td>
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<tr>
<td>2018</td>
<td>5.3</td>
<td>5.0</td>
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</tr>
<tr>
<td>2020</td>
<td>-1.0</td>
<td>-3.9</td>
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<tr>
<td>2021</td>
<td>5.9</td>
<td>5.0</td>
</tr>
<tr>
<td>2022</td>
<td>5.0</td>
<td>4.7</td>
</tr>
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</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$)

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Output Trend</td>
<td>2.5</td>
<td>2.7</td>
<td>2.9</td>
<td>3.1</td>
<td>3.3</td>
<td>3.5</td>
</tr>
</tbody>
</table>

**Cumulative output loss**

- **2020-22:** $591 billion

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

<table>
<thead>
<tr>
<th>Economic policies</th>
<th>Structural factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal policy</td>
<td>Health and social protection system</td>
</tr>
<tr>
<td>Monetary and financial measures</td>
<td>Infrastructure quality</td>
</tr>
<tr>
<td>Reserves and exchange rate regime</td>
<td>Economic diversification</td>
</tr>
<tr>
<td>External financing</td>
<td>Governance and institutions</td>
</tr>
</tbody>
</table>
Pandemics have a more severe economic and social impact...
... in countries with pre-existing **structural vulnerabilities**

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

**Year**
- High public health spending
- Low public health spending
- Formal work arrangements
- Widespread vulnerable employment
- High-quality infrastructure
- Low-quality infrastructure
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*

- **GDP per capita**
  - Financial crises
  - Natural disasters
  - Epidemics

- **Human capital**
  - Financial crises
  - Natural disasters
  - Epidemics

- **Environmental performance**
  - Financial crises
  - Natural disasters
  - Epidemics
Lesson learned – 2: Integrate risk management into national development planning and policymaking

Crisis preparation and coping strategies

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

South-East Asia

<table>
<thead>
<tr>
<th>Index</th>
<th>South-East Asia</th>
<th>OECD (Asia Pacific)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sovereign Credit Index</td>
<td>South-East Asia</td>
<td>OECD (Asia Pacific)</td>
</tr>
<tr>
<td>Rating Exchange Rate Regime Index</td>
<td>South-East Asia</td>
<td>OECD (Asia Pacific)</td>
</tr>
<tr>
<td>Social protection expenditures (% of GDP)</td>
<td>South-East Asia</td>
<td>OECD (Asia Pacific)</td>
</tr>
<tr>
<td>Quality of Infrastructure Index</td>
<td>South-East Asia</td>
<td>OECD (Asia Pacific)</td>
</tr>
<tr>
<td>Economic Complexity Index</td>
<td>South-East Asia</td>
<td>OECD (Asia Pacific)</td>
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</tbody>
</table>
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

Number of poor people

Gini coefficient

Carbon emissions

Air quality (PM2.5)

Ambitious Spending

Business-as-usual spending
Public debt sustainability: South-East Asia

Government debt-to-GDP ratio (%)

- BFB and COVID-19
- BFB
- Baseline

Years: 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.
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