Economic and Social Survey of Asia and the Pacific 2022

Economic Policies for an Inclusive Recovery and Development

Macroeconomic Policy and Financing for Development Division
12 April 2022
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:

- Fiscal policy: spend smart and tax fair
- Central banking: inflation stability and beyond
- Structural transformation: pro-active policies to change market outcomes
Economic performance and Outlook
– a nascent recovery and uncertain outlook

OPEN

RETURNING BUSINESS
AS NEW NORMAL
SEA experienced a strong economic rebound in 2021

Source: ESCAP estimates and projections.
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 recent Russia-Ukraine conflict 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

Source: ESCAP estimates and projections.
Policy Considerations

Co-exist with the pandemic
Avoid macroeconomic instability through prudent fiscal and monetary policies.
Prioritize policies to reduce inequality and minimize scarring.
Continue to build resilience into the system.
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 15.7 millions people have been pushed back into extreme poverty, making the issue all the more pertinent

Source: ESCAP estimates.
Addressing this gap and building forward fairer will require coordinated government action.
Government’s role in reducing inequality
Fiscal policy matters...
Fiscal spending can **tackle inequality**, however, fiscal space has dwindled, debt is up

### Fiscal indicators
**SEA countries, as a percentage of GDP**

![Graph showing fiscal indicators over time](image)

- **Revenue**
- **Expenditure**
- **Debt-to-GDP**

### Fiscal balance
**SEA countries, as a percentage of GDP**

![Graph showing fiscal balance over time](image)

- **Percentage**

**Source:** ESCAP estimates based on IMF data.

**Note:** Fiscal indicator and fiscal balance, estimates based on the SEA countries which have available data (Brunei Darussalam, Cambodia, Indonesia, Lao People’s Democratic Republic, Malaysia, Myanmar, Philippines, Singapore, Thailand, Timor-Leste and Viet Nam)

**Note:** The suffix “f” after some years means “forecast”; these years are depicted in shaded bars.
Hence, need to maintain expenditures in healthcare, education and social protection.

which are likely to get cut first....
...but matter the most for recovery and inequality reduction.
Policy recommendations – Bigger bang-for-the-buck

**Spend Smart**

**Inclusiveness - Impact - Efficiency**

**Health care**
- Provide universal health coverage
- Reduce wasteful and inefficient spending

**Education**
- Strengthen early age education for all
- Eliminate socio-economic barriers at all levels of education
- Close the digital divide
- Deploy digital health technologies

**Social protection**
- Provide universal basic social protection
- Improve efficiency via digital technologies
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.

Source: Kravchenko, 2018.
Policy recommendations – increase revenues

Pay fair share
- Ensure all individuals and companies comply with existing regulations

Expand tax base
- Close loopholes
- Formalize business activities
- Fight illicit financial flows

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...
Taxes and transfers play an vital role in addressing the inequality
Ensuring market would generate fairer outcomes in the first place

Source: ESCAP, based on the Standardized World Income Inequality Database (SWIID) 9.1
These findings suggest that:

To build forward fairer, policy effort would also be needed to proactively shape structural and market forces that determine inequality levels and trends in the first place.

Even for fiscal policies, greater attention should be devoted to using taxes and spending to tilt such structural and market forces in favor of inclusive development.
Diverse national pathways suggests **space for policies to have an impact**.

Market Gini and per capita GDP, 1970-2019 (countries with more than 10 million people)

**Source**: UN-ESCAP, based on SWIID & WDI.

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**Indonesia**

**Malaysia**

**Myanmar**

**Thailand**

**Viet Nam**

**Philippines**
Policy tips from an analysis of Asia-Pacific cases

Conducive factors:
- Jobs
- Universal access to primary & secondary education
- Equalized access to infrastructure & essential public services
- A fairer starting point & rural development

Harmful factors:
- Employment concentration in informal & low-productivity sectors
- A youth bulge
- Job market segmentation & geographic fragmentation

FOR INCLUSIVE STRUCTURAL TRANSFORMATION
Governments can take 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
Role of Central Banking in Inclusive Development
Central banks should and can promote inclusive development by promoting inequality-mindful monetary policy.

Inflation stability

- Communicate the distributional impacts to the public
- Consider income/wealth distribution when making monetary policy decisions
- Allocate part of asset purchases to social bonds

Inequality-mindful monetary policy conduct
Central banks should and can promote inclusive development by promoting inequality-mindful monetary policy

Safety & liquidity

Reserve allocations with social gains

- Analyze how this shift affects portfolio performance
- Set up investment committee to make allocation decisions
- Use excess reserve as seed capital for local social projects
Central banks should and can promote inclusive development by promoting inequality-mindful monetary policy.

Central bank digital currency (CBDC) for financial inclusion:

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

Adequate cash in circulation
Central banks should and can promote inclusive development by promoting inequality-mindful monetary policy.

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
In essence….

1. Central banks should not shy away from what they can do:
   - Promote financial access, education and consumer protection
   - Move existing bank deposits to banks with better ESG rating

2. Legal amendments and technical capacity are needed:
   - To invest official reserves in social bonds
   - To issue CBDC

3. Central banks cannot act alone:
   - Government ministries working on fiscal policy, digital connectivity, national ID
   - Financial supervisory agencies for social bond market
Key Takeaways

- 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.
Thank you!