Fiscal implications of selected megatrends in Asia-Pacific

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Fiscal implications of selected megatrends

Complex and not fully predictable impact of megatrends on fiscal policy

- There is much more than changes in fiscal revenues and expenditure
Fiscal implications of selected megatrends

Impact areas
- Fiscal revenues
- Fiscal expenditures
- Fiscal policy
- Efficiency
- Impact
- Policy choice

Demographic shifts
Technology and digitalization
Climate change and environment
Fiscal implications of selected megatrends in Asia-Pacific

Demographic shifts
Demographic shifts...

What does Asia-Pacific experience?
- **Rapid aging**, driven by
  - Decline in **birth rates**
  - Increase in **longevity**

**Population of 65 years old or over, Asia-Pacific**

**Birth rate, weighted average, Asia-Pacific.**

Source: UN ESCAP, UN Population Division.
...change fiscal expenditure and revenues...

Change in the length of elderly fiscal support

Economic life cycle: consumption (C), labour income (YI).

The Philippines, per capita annual flows, thousand pesos, 1999.

Source: National Transfer Accounts Manual, 2013, ESCAP.
...but also policy paths.

Change in policy choices
- Health care – change in type and scope

Projected cost of achieving a policy target

Source: ESCAP.
Multiple impact channels, with opposing effects, and unclear net impact

- Falling births
- Longevity increase
- Ageing
- Inflationary
- Deflationary
- Falling births and longevity increase
- Ageing
- ?
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Climate change and environment
Climate change and its impact channels

- Forced policy shifts
- Climate change and environment
- Productivity change
- Greenflation
- Climate adaptation
- Climate mitigation
- Carbon taxes

Complex and far-reaching impact channels:
- Decrease in productive capacity
- Supply decline
- Additional investment needs
- Tightening of monetary policy
- Inflation
- Increase in production costs
- Worsening of debt sustainability
- Fiscal consolidation
- Less resources for health care, education...

Productivity change

Carbon taxes

Forced policy shifts
Climate change and its impact channels

Enforced change in fiscal expenditure types

Managed retreat?
1. Cyclone Gabrielle hit New Zealand in 2023
2. How and where to rebuild?
3. Due to changing climate, areas that used to be safe for inhabitation turn into zones prone to destruction.
4. 1 in 7 New Zealanders live in areas prone to flooding.
5. Leading for turning-point question of fiscal expenditure – should the areas at risk be defended at all cost or is it better, cheaper, more efficient and fairer to develop other areas?

6. Minister of finance of New Zealand, ‘managed retreat’ might be the answer – focus on areas where public investment can last, slowly withdrawing from areas where further investment is not possible or unjustifiably expensive.

7. ‘Tsunami stone’ - stones in the places where tsunami waves reached the furthest, warning future generations to avoid settlement below these stones in areas at risk of destruction.

8. Time for ‘climate change stones’?
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Technology and digitalisation
Technology and digitalization

Two main impact channels

- Increase in efficiency and effectiveness
- Creative destruction
- Decline of labour-intensive job
- Technology and digitalization
- New sectors of economy
- Fiscal policy digitalization
- Expanding tax base

Economy

- Fiscal revenues
- Fiscal expenditures
- Efficiency of FP
- Effectiveness of FP

Fiscal management
Technology and digitalization – impact on economy

Decline of labour-intensive industries

Labour force – re-skilling

Supports fiscal revenues

Fiscal revenues down

Fiscal expenditure up

Labour force – lack of re-skilling

Structural unemployment and re-skilling needs

- will require fiscal expenditure, and
- will define fiscal revenues

Technology creates new sectors which

- slip out from the current fiscal regulations,
- are difficult and expensive to capture
- and require multilateral cooperation

New, digital economy sectors

Capacity to tax exists

Lack of capacity to tax (e.g. LDCs)

Fiscal revenues up

Fiscal revenues down
Technology and digitalization – impact on fiscal management

Total tax-to-GDP ratio in Asia Pacific compared to other world regions, 2019

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>17</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>21</td>
</tr>
<tr>
<td>Latin America and the...</td>
<td>23</td>
</tr>
<tr>
<td>OECD</td>
<td>34</td>
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</tbody>
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Source: UN ESCAP, OECD data.

Tax revenues remain low in Asia-Pacific and technology with digitalisation can change this.