Emerging from recent crises: Understanding the macroeconomic context

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Main messages

- The economic rebound from the impacts of the pandemic has been disrupted by ongoing geopolitical uncertainties which are expected to continue, prolonging economic challenges and further constraining progress towards the SDGs.

- Rising inflation and associated increases in interest rates are likely to dampen economic prospects, adversely affecting the poor and posing additional fiscal challenges.

- Fiscal and debt pressures have increased, suggesting limited policy space to support inclusive economic recovery and sustainable development.

- Economic policies need to be people-centric, and not just promote GDP growth.
Economic rebound remains uneven and fragile

Source: ESCAP estimates and projections.

Source: Based on CEIC (accessed 26 August 2022).
Note: Median of 13 developing Asia-Pacific countries for which data are available.

Developing Asia-Pacific output loss

Total output loss in 2020-2022 is $2 trillion

Source: ESCAP estimates and projections.
Geopolitical uncertainties have compounded economic challenges

Impact channels from the geopolitical uncertainties:

- Higher global commodity prices
- Higher import bill
- Larger fiscal subsidies
- Higher inflation
- Weaker global demand
- Lower exports and investments
- Lower remittances and tourism earnings
- Higher unemployment
- Lower tax revenue
- Lower asset prices
- tighter financial conditions
- Limited access to global financial markets
- Capital outflows and volatility
- Higher economic uncertainty
- Weaker domestic demand
- Higher financing cost

Source: UNESCAP (2022), The War in Ukraine: Impacts, exposure and policy issues in Asia and the Pacific.
Easing restrictions supported growth in many economies while several were impacted by geopolitical uncertainties in the first half of 2022.

Quarterly real GDP growth in selected Asia-Pacific economies

Export volume

Source: CEIC

Source: CPB Economic Policy Analysis
Inflationary pressures have reached double digits in several economies, surpassing central bank targets, leading to interest rate hikes.

Source: Based on CEIC. Latest data is August 2022 with the exception of Bangladesh and Tajikistan for which latest data is as of July 2022.

Source: Based on CEIC (accessed on 28 August 2022).
Note: Central bank interest rates decisions are based on policy rate data for 26 countries in developing countries in the Asia-Pacific region.
High inflation will hold back an already fragile recovery and push millions more into poverty

Source: ESCAP estimates

Potential impact on GDP and consumption from higher oil price on Asia-Pacific economies

Number of people falling into poverty globally from impact of soaring food and energy prices

Source: UNDP, 2022. Addressing the cost-of-living crisis in developing countries: Poverty and vulnerability projections and policy responses
Higher interest rates will shrink fiscal space and bring debt sustainability concerns to the fore.

Source: IMF, Fiscal Monitor Database, April 2022
### How to respond? – Some economic policy considerations

#### Prioritize inclusive development
- Protect and strengthen public spending on health, education and social production
- Support labor markets and promote job-rich economic transformation
- Redistribute through progressive taxation and targeted fiscal transfers
- Explore inclusive central banking options

#### Strengthening economic resilience
- Invest in resilience and sustainable development to reduce pre-existing vulnerabilities
- “Mitigating setbacks” is equally important as “accelerating growth”
- Strengthen institutional and governance capabilities to be better prepared for shocks

#### Spend smartly
- Improve efficiency and effectiveness of public spending in generating development payoffs
- Prepare projects in advance during normal/stable times for countercyclical spending
- Leverage digital technology and data for targeting and fiscal disbursements
Further Readings:

- Economic and Social Survey of Asia and the Pacific 2021: Towards post-COVID-19 resilient economies | ESCAP (unescap.org)

- Economic and Social Survey of Asia and the Pacific 2022: Economic policies for an inclusive recovery and development | ESCAP (unescap.org)

- The war in Ukraine: impacts, exposure and policy issues in Asia and the Pacific | ESCAP (unescap.org)

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