ADB-ESCAP seminar on the Economic and Social Survey of Asia and the Pacific 2023

Rethinking Public Debt for the Sustainable Development Goals

15 August 2023
The “rethinking” is motivated by new trends & challenges
The government debt-to-GDP ratio in Asia-Pacific has increased to an 18-year high in 2021...

Source: IMF, World Economic Outlook database (October 2022).
More Asia-Pacific countries are being rated as having a high risk of debt distress

Number of economies at a high risk of debt distress

Source: Joint IMF-World Bank Debt Sustainability Analysis 2012-2022, countryeconomy.com, Moody’s, Fitch Ratings, S&P Global

Note: * is countries in special situations (LDC, LLDC and SIDS).
Weak economic growth prospects amid high inflation, global economic slowdown and heightened uncertainty

Source: ESCAP estimates and projections.
The region is behind the schedule for all the SDGs, while additional investment needs are huge.

Additional spending needs for an effective pursuit of the SDGs (ESCAP 2019)

—–5% of GDP
ESCAP’s new thinking on how public debt can foster sustainable development

**Current thinking**

- **High public debt is bad** for economic growth and stability
- There is a **common ‘optimal’ public debt level** that can be applied to different countries
- Current approaches on debt sustainability analysis focus on maintaining ‘debt sustainability’ in the short term, leading to fiscal consolidation and limited governments’ access to financial resources for SDGs.

**New thinking**

- **Public debt is a powerful tool for development**, if used judiciously and with a long-term horizon
- “Appropriate” public debt level is **country-specific**, depending on progress and ambitions on sustainable development.
- Need to **revamp conventional debt assessment tools** that have a short-term horizon.
Applying an indicative “augmented” DSA demonstrates different long-term perspectives
How to move forward: ESCAP public debt sustainability analysis can ‘augment’ short term-focused conventional approaches

- Augmented public debt sustainability analysis
  - Additional spending needs to meet SDGs
  - Structural development policies
  - National SDG financing strategies
  - Stress tests and contingent liabilities
Application to Mongolia: policy scenarios

Additional SDG spending needs
• 17% of GDP per year on average during 2021-2030
• Transport infrastructure and climate actions each account for about 40% of total cost

Structural development policies
• Green economy
  • Pricing carbon emissions
  • Livestock management
• Diversified economy
  • Enabling business environment
  • FTA potential

National SDG financing strategies
• Public finance
  • Increase fiscal resources
  • Reduce debt burden
• Private finance
  • PPP environment
  • Green loans

Stress tests and contingent liabilities
• Global coal demand and prices
• Macroeconomic shocks
  • Slower growth in China
  • Higher interest rate
  • Weaker currency
• Contingent liabilities
  • Natural disasters
  • Climate risks
  • National development bank
SDG spending and policy reforms for a more diversified, greener Mongolian economy is good for its people and the environment.

** Drivers:** Higher public and private spending → higher employment and labour productivity → higher household incomes and consumption → reduced poverty and inequality.

**Source:** ESCAP.

**Note:** Results are shown as differences from the baseline values.
Government debt comes down in the long run ... balancing ‘temporarily’ higher debt for large socioeconomic and environmental gains.

**Government debt-to-GDP ratio in Mongolia**

- **Baseline**
- **SDG spending**
- **SDG spending and development policies**
- **SDG spending, development policies, and financing strategies**

**Public debt rises initially ...**
- Large SDG spending needs
- Rising interest payments amid higher risk premium and borrowing costs

**... but trends down afterwards**
- Higher tax revenue: carbon tax and reduced tax avoidance
- Fiscal savings: carbon subsidy cancellation and spending efficiency
- Lower borrowing costs: greater debt transparency

*Source: ESCAP.*
Strengthening fiscal positions to support the SDGs amid rising public indebtedness
A three-pronged strategy to boost fiscal space: (1) increasing fiscal revenues

Public revenue mobilization

- Strengthen tax revenue collection, including through direct taxes
- Raising non-tax revenues, such as from the booming real estate sectors
- Scaling-up development transfers now, rather than providing debt relief later

Large room for tax revenue increase but many still need development transfers

Changes in tax-to-GDP ratio, 2010-2019

Source: ESCAP calculation based on IMF World Revenue Longitudinal Data set.
A three-pronged strategy to boost fiscal space: (2) improving public spending efficiency and effectiveness

Value-for-money spending with impacts

- **Productive use** of debt-financed public spending
- **Align public expenditure** with SDG priorities
- **Project selection and oversight** for increased spending efficiency

**Public debt is not accompanied by increases in health and education spending**

Correlation between sovereign debt level and social-education spending in Asia-Pacific economies

Source: ESCAP calculations based on IMF and World Bank data.
A three-pronged strategy to boost fiscal space: (3) better public debt management

Public debt management

- Clear debt management objectives and legal frameworks
- Accountable public debt management offices
- Timely collection and reporting of debt data and contingent liabilities
- Prudent public debt portfolio

Contingent liabilities incur large fiscal costs, when they materialize

Estimated fiscal cost of contingent liability realization in Asia-Pacific countries, 1980-2019

Source: ESCAP, based on estimates by Bova and others (2016).
Leveraging public debt restructuring to mitigate the adverse socioeconomic implications of debt distress
## How can the international development community help?

**Overall goal**: a more coherent & efficient global debt resolution framework and debt restructuring mechanism

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<tr>
<th>Strengthen G20 Common Framework for Debt Treatments</th>
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<tr>
<td>• Streamline operations to provide <strong>timely debt relief</strong></td>
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<td>• Make vulnerable <strong>middle-income countries</strong> eligible</td>
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<td>• Develop mechanisms for <strong>engaging private creditors</strong></td>
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<td>• Promote <strong>collective action clauses</strong> – decision by most creditors applied to all creditors</td>
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<td>• Improve <strong>coordination</strong> among debtors and creditors, and other stakeholders</td>
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Introducing “Public debt dashboard for Asia and the Pacific”

Accessible at:
Download Survey 2023 and access Public Debt Dashboard at:

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