

Economic and Social Survey of Asia and the Pacific 2024

Boosting affordable and longer-term financing for governments

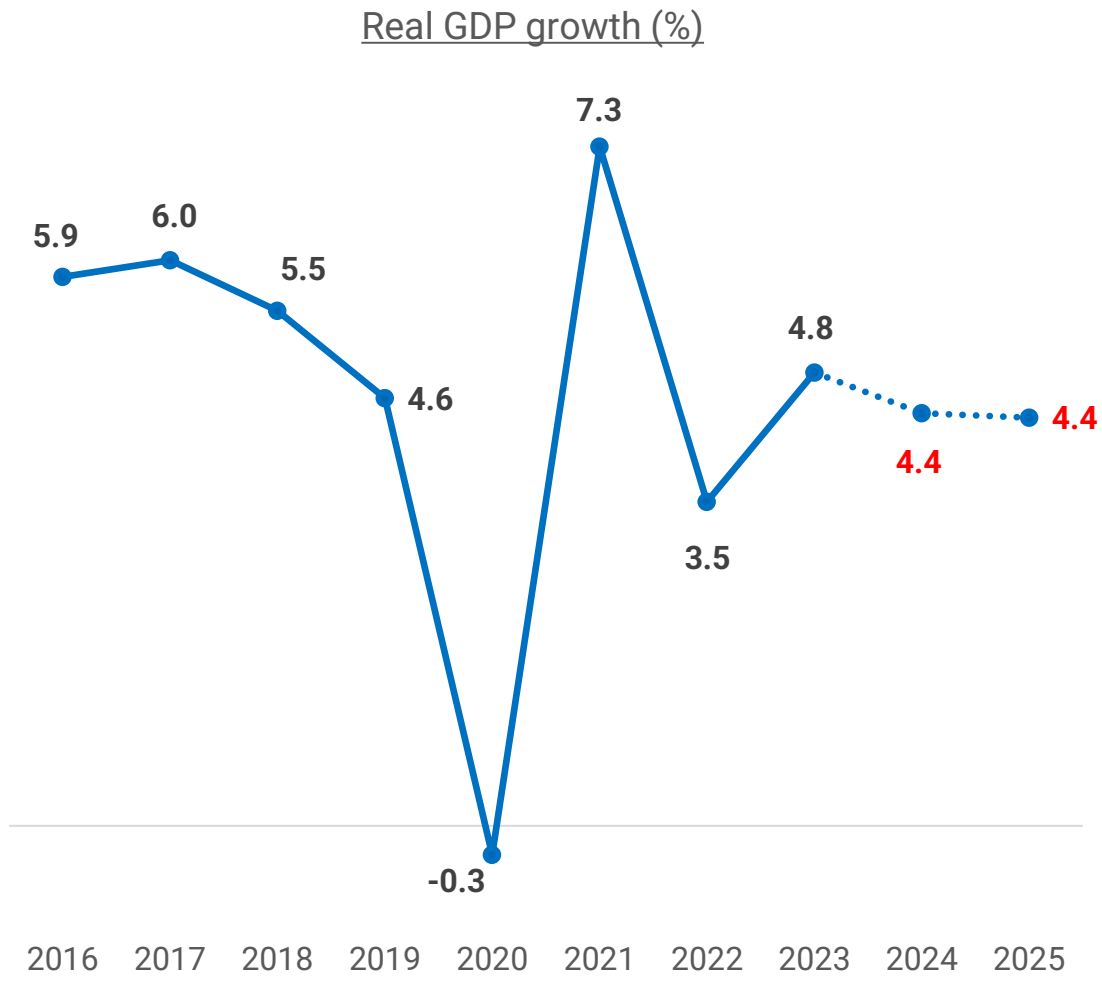
6 June 2024

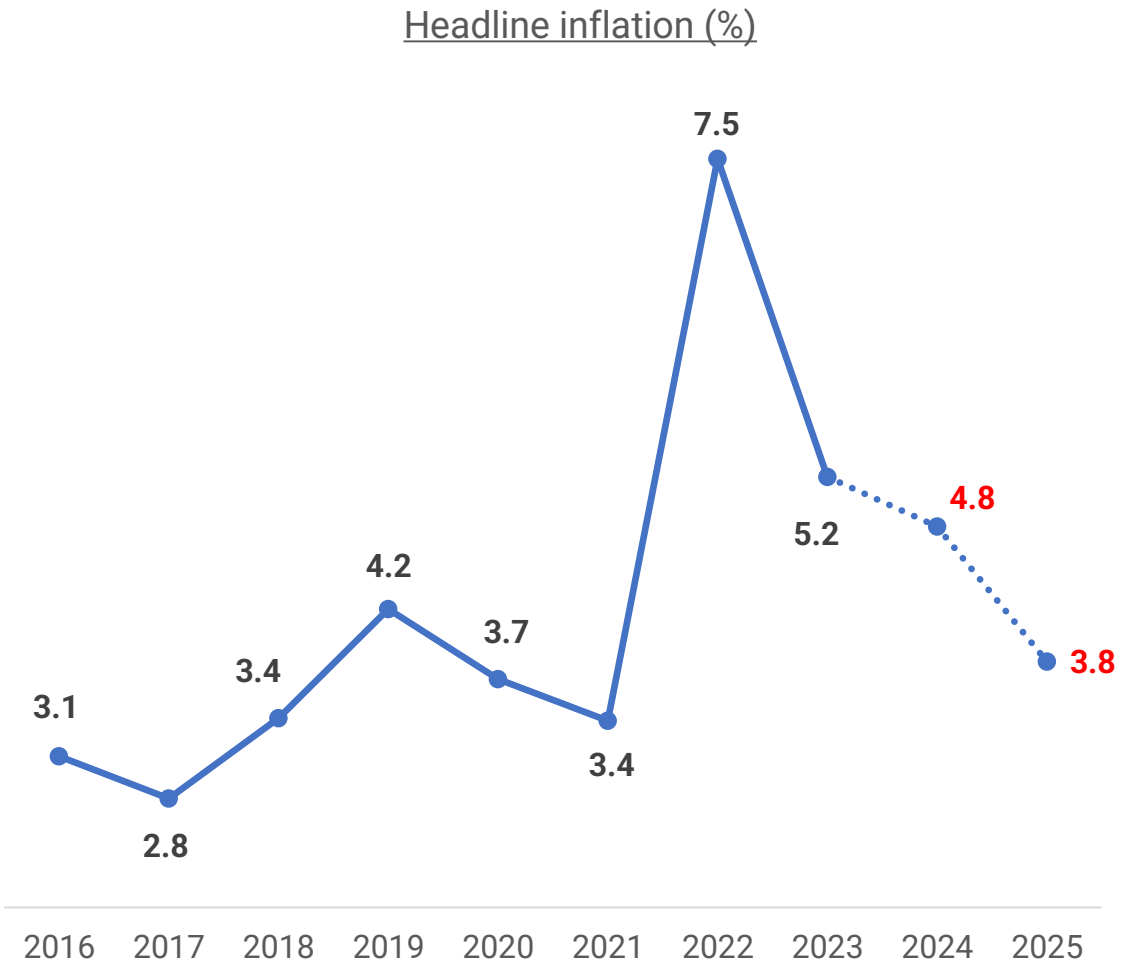
Highlights

- Overall steady economic performance is masking **declining purchasing power of people** and **rising poverty** and **socioeconomic inequalities**.
- Increasing public investments for SDGs is looking difficult, due to **higher government borrowing costs** and **shorter loan maturities**.
- Domestic policy measures related to taxes and capital markets can help lower borrowing costs and boost supply of long-term capital.
- International development partners – donors, multilateral development banks and credit rating agencies – can revisit their approaches to increase affordable and long-term financing.
- Fiscal policymakers need to keep in view **global megatrends** (such as demographic shifts, climate change and technological advancements) while pursuing affordable and long-term financing.

Macroeconomic prospects and challenges

Steady, yet below-trend GDP growth and declining, yet relatively high inflation

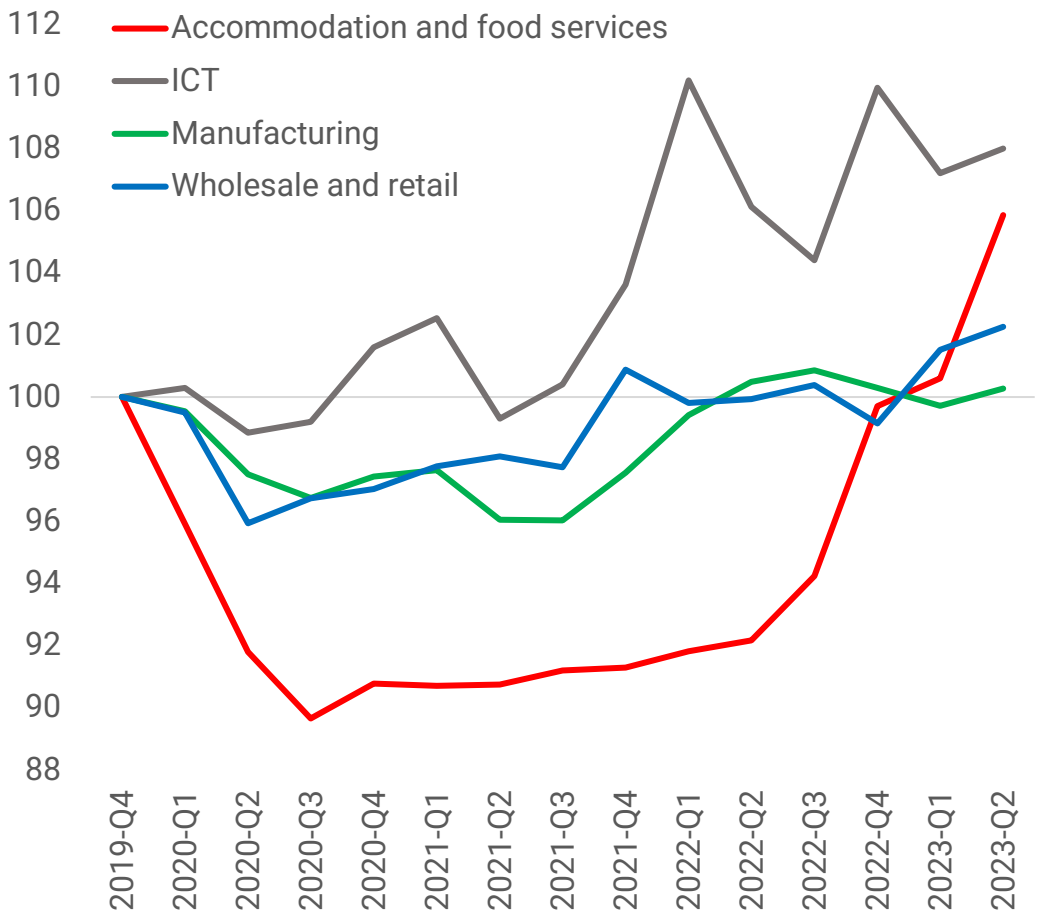




Source: ESCAP estimates and projections as of February 2024.

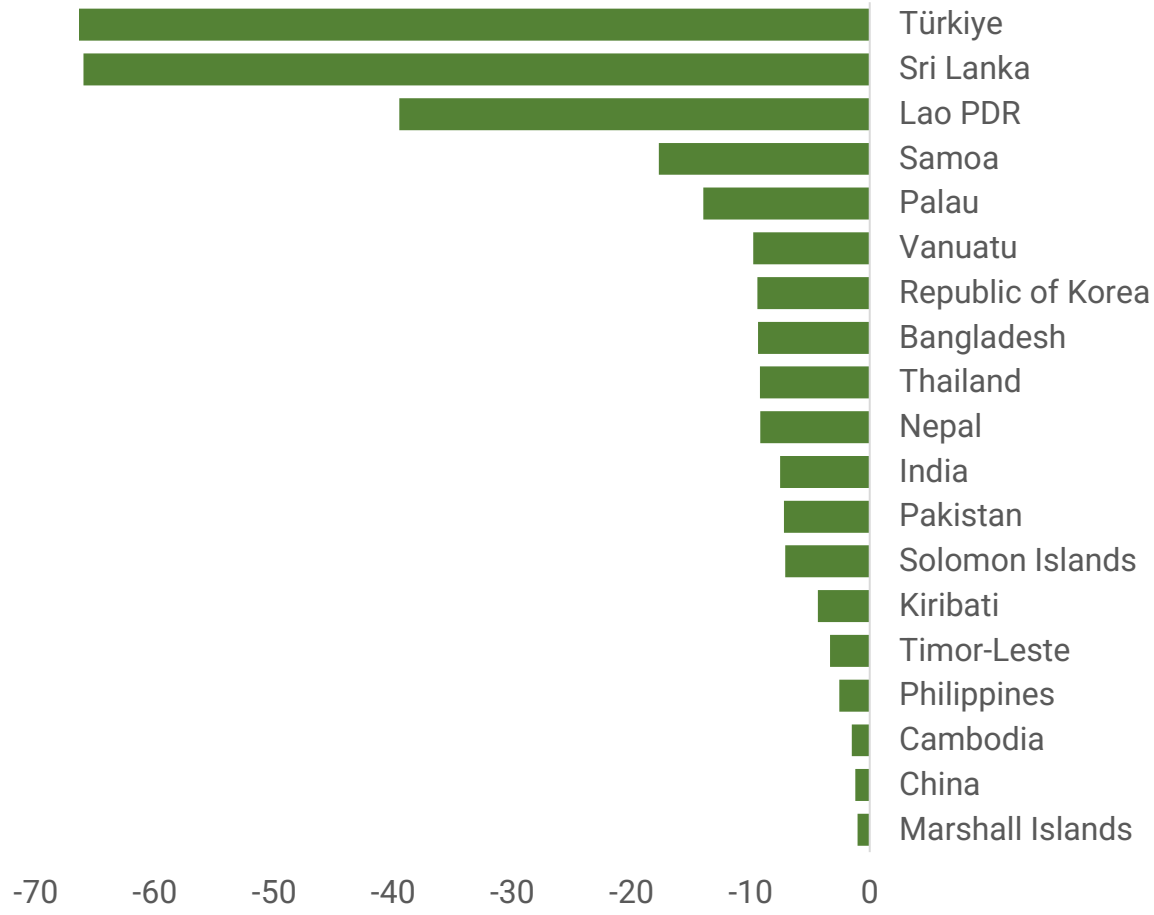
Subdued post-pandemic job recovery and weaker purchasing power

Number of persons employed (Q4/2019 = 100)



Source: ESCAP, based on CEIC.

Declines in inflation-adjusted national minimum wages in 2022 (%)

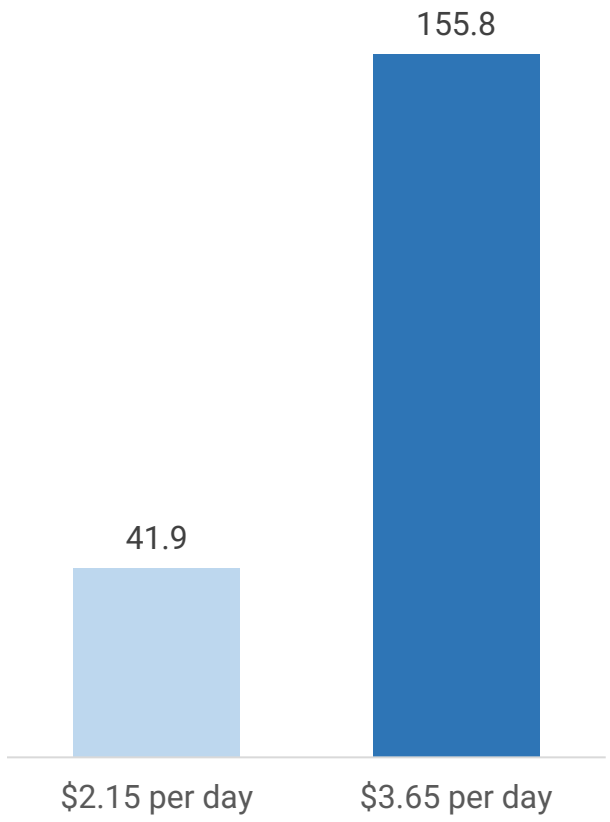


Source: ESCAP, based on ILOSTAT database.

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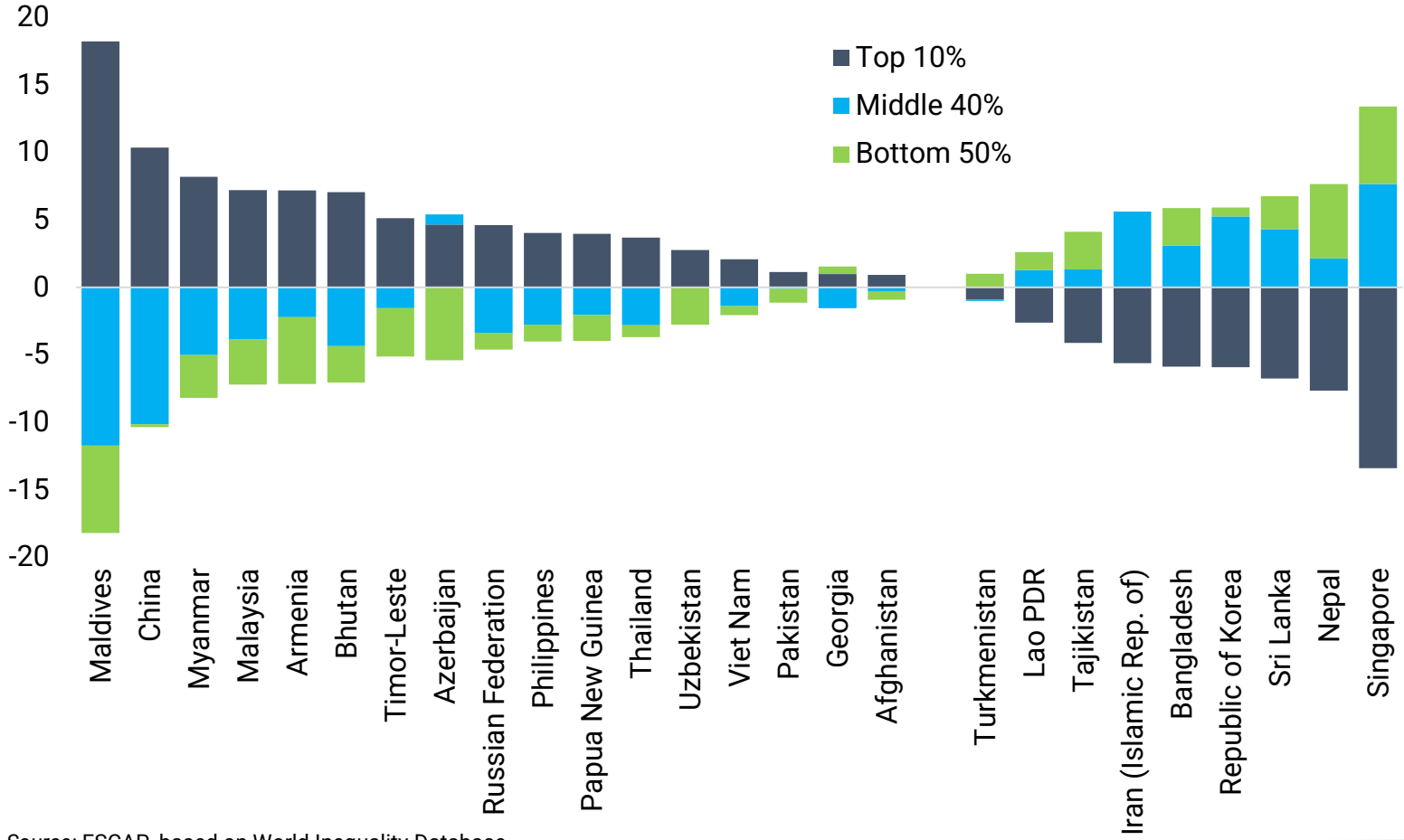
Increase in poverty and income inequality

Millions of people in Asia-Pacific who could have been pushed into poverty in 2022



Source: ESCAP estimates.

Change in income shares between 2019 and 2022 (percentage points)



Source: ESCAP, based on World Inequality Database.

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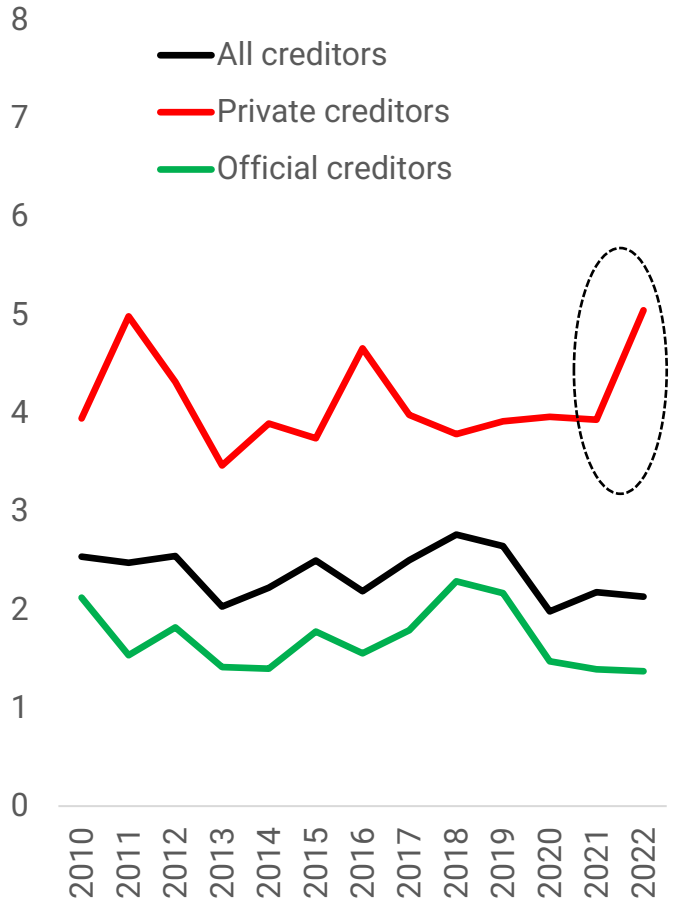
Key risks to the economic outlook



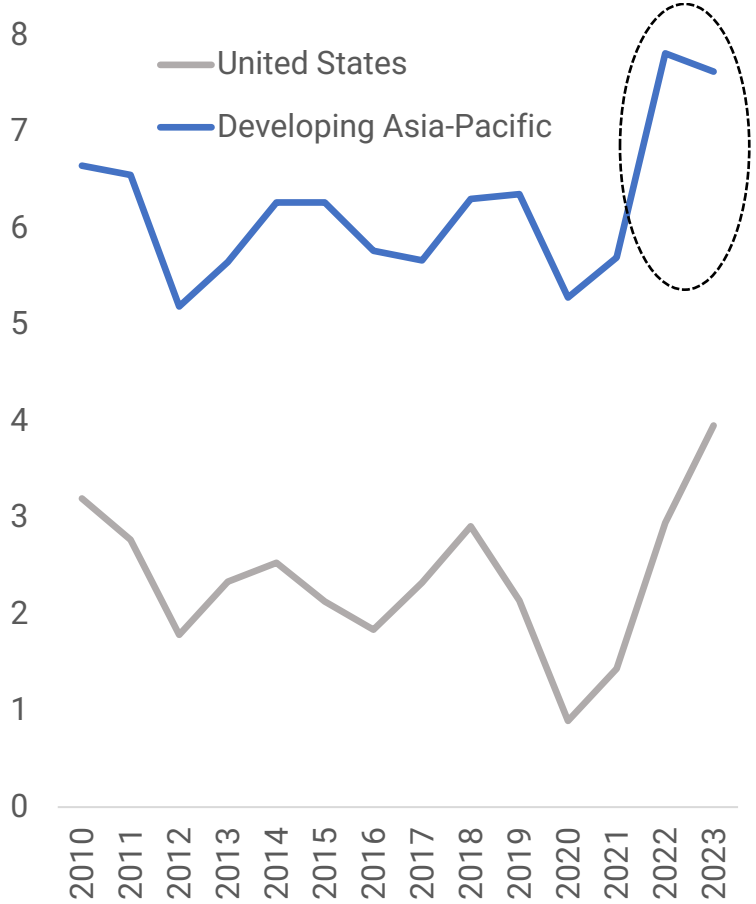
The need for affordable and long-term financing for governments in developing Asia-Pacific

Government borrowing costs in Asia-Pacific are rising, with shorter loan maturity

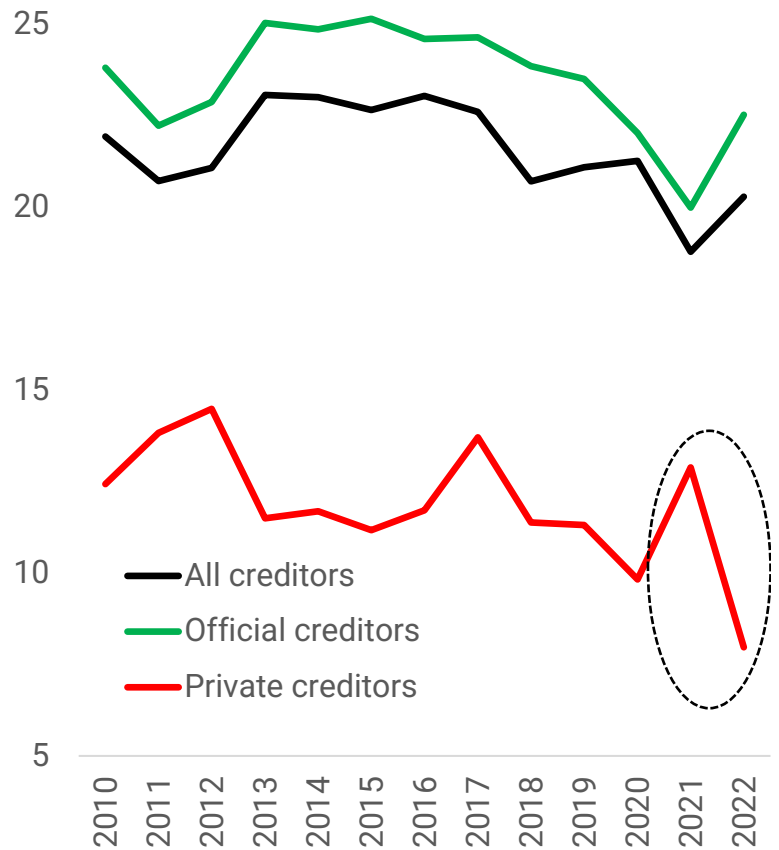
Average **interest** on new external debt commitments (%)



Average local-currency **sovereign bond yields** (%)



Average **maturity** on new external debt commitments (years)



Source: ESCAP, based on World Development Indicators database and Bloomberg.

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Strong macroeconomic fundamentals keep government borrowing costs at low levels

Government borrowing costs have been higher in Asia-Pacific economies with …

- Higher inflation and policy interest rates



- More volatile exchange rates



- Higher perceived fiscal risks



- Less financial market liquidity

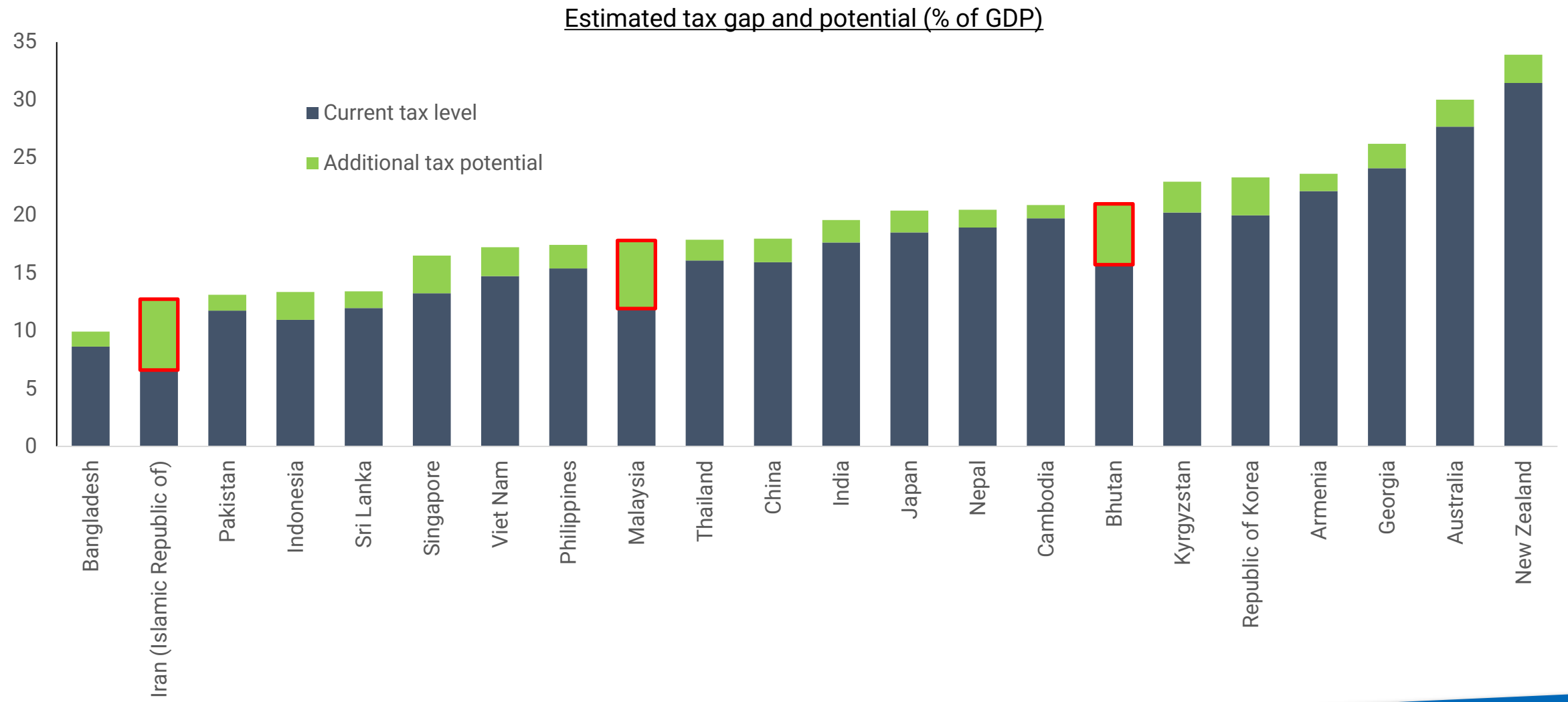


Source: ESCAP analysis.

What can governments do to increase affordable long-term financing?

Closing the tax collection gaps to reduce fiscal risks

Low tax-to-GDP ratios and wide tax collection gaps in several Asia-Pacific countries



Source: ESCAP, based on the IMF World Revenue Longitudinal Data set.

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Less conventional fiscal policy tools to close the tax gaps

Property-based fiscal revenue

Property tax

- Negligible property tax revenues
- A low hypothetical property tax rate of 0.5% with no exemption can generate **sizeable additional fiscal revenue**

Land value capture

- Governments could **leverage part of higher land and property values** brought about by public infrastructure
- Complementing property taxes
- Being implemented in **China** and explored in many other regional economies

Tax morale

Raising society's willingness to pay taxes

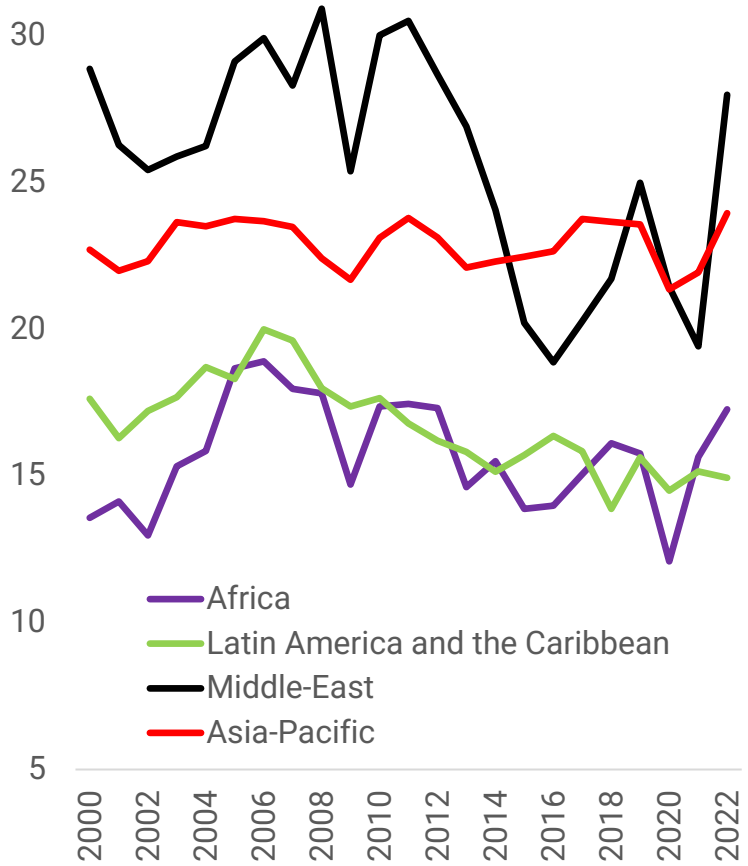
- Ensure and communicate that taxes are well spent on development
- Self-pride and image
- Peer and social pressures
- Increase the perceived probability that tax avoidance will be caught

What can governments do to increase affordable long-term financing?

Boosting and channeling domestic savings to increase supply of long-term capital

Strengthening capital markets to channel sizeable domestic savings for investment

Domestic savings (% of GDP)



Capital market development index

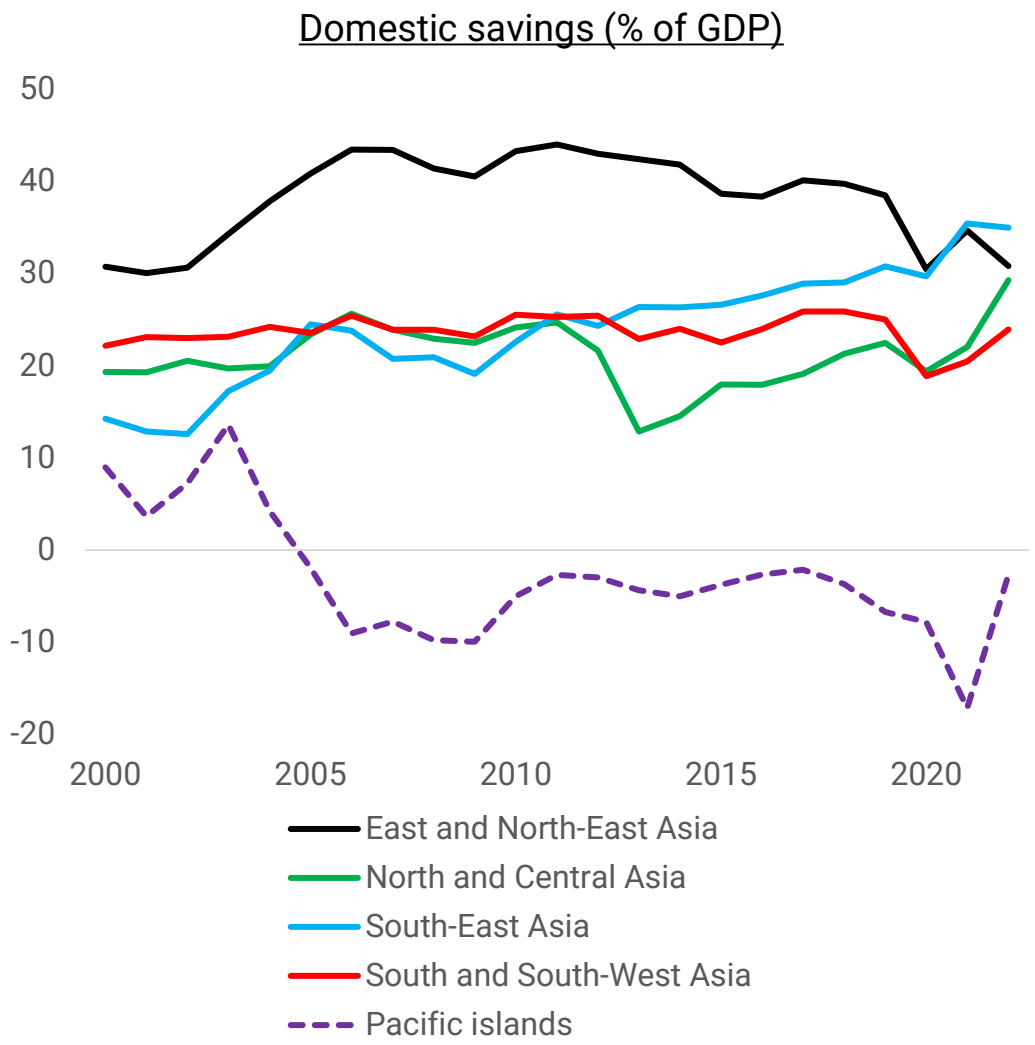


Further developing capital markets

- Widen the investor base
- Increase secondary market liquidity
- Improve risk-sharing mechanisms
- Protect investor rights

Source: ESCAP, based on World Development Indicators database and IMF Financial Development Index database.

Increasing domestic savings: policy options at country and individual levels



Increasing domestic savings

- **Enhance the ability of households to save**
  - Boost labour productivity
  - Ensure social protection to cut precautionary savings
- **Raise household saving rates**
  - Provide financial incentives and platforms
  - Improve financial access and literacy

Source: ESCAP, based on World Development Indicators database.

As domestic policy actions take shape, how can international development partners help?

Donors: towards a larger and fairer concessional finance system



Provision

- Official development assistance (ODA) in 2022 at **half of the commitment** of 0.7% of gross national income (GNI) made since 1970
- Official **climate finance** should not be counted as part of ODA commitments



Allocation

- *Bilateral* ODA is often shaped by **historical and political factors**
- *Multilateral* ODA still uses **GNI per capita** as a starting allocation criterion
- The UN-led initiative on the **multidimensional vulnerability index** is a way forward

Multilateral development banks: addressing underutilized resources and capacities

Boost lending capacities

- **Increase capital**
  - New round of capital injections
- **Optimize existing capital**
  - Adjust the capital adequacy frameworks

Improve lending terms

- Increase **lending in local currencies**
  - Now 80% is in US dollar
- Cut **administrative burden** of loan packages
  - Safeguard assessments for a World Bank project costs $13.5 million on average

Strengthen systemic coordination and resource allocation among MDBs

Credit rating agencies: more development-aligned and long-term sovereign ratings

★★☆ What should global credit rating agencies do?

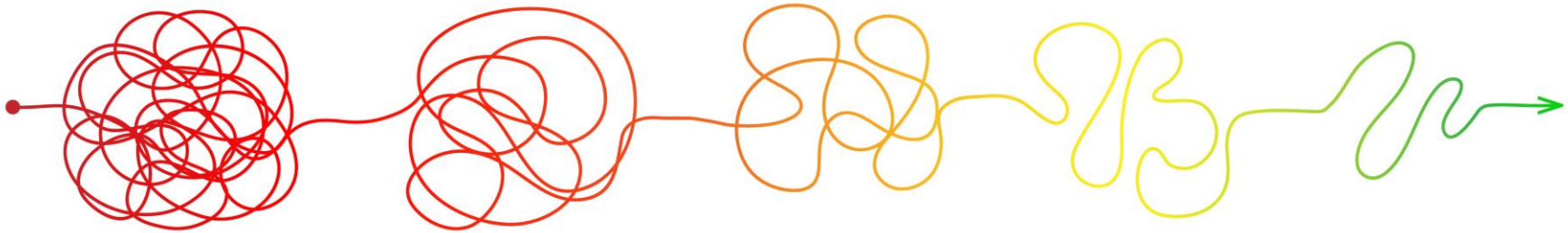
- Clearly **distinguish judgement-based ratings** from those that purely rely on objective information
- **Incorporate long-term issues** into assessments, e.g. public investment in SDGs raises fiscal credibility
- **Increase dialogues** with governments and other stakeholders in developing countries to reduce bias



What should international financial and development communities do?

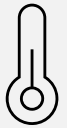
- **Reduce mechanistic reliance** on credit ratings in making investment decisions
- Explore the idea of setting up a new regional **credit rating agency for Asia-Pacific**

Wider perspectives: what do global megatrends mean to fiscal policymakers?



Global megatrends affect fiscal policy through various channels

Demographic shifts 

Climate change and environmental degradation 

Technologies and digitalization 

Fiscal space and public debt sustainability

Fiscal policy conduct

Revenue

Expenditure

Borrowing cost

Design and implementation

Effectiveness

Potential fiscal impacts are notable, diverse and sometimes uncertain: examples

(Lower) revenue

- Shrinking workforce
- Lower production capacity
- Profit shifting in digital economy

(Higher) expenditure

- Old-age health care and social protection
- Public investment in climate projects
- Post-disaster rebuild of public infrastructure

Borrowing cost

- **Higher** inflation
  - Green taxes & investment
  - Output loss due to natural disasters
- **Lower** inflation
  - Less demand for durable goods

Design and implementation

- Disaster risk-informed fiscal planning
- Digitalizing public financial management
- Stronger multilateral tax cooperation

(Lower) effectiveness

- Old-age consumption responds less to fiscal stimulus

Key takeaways

- **Poverty** and **socioeconomic inequality** concerns persist despite steady economic performance.
- Urgency of boosting affordable and long-term financing for governments:
  - *Governments*: increase **fiscal credibility** and the **supply of long-term capital**
  - *International development partners*: adopt **fresh perspectives** to guide operations.
- Implications of **demographic shifts, climate change** and **technological advancements** for fiscal policymaking should not be ignored.



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