

**Pacific High-level Policy Dialogue on
“The Role of Macroeconomic Policy and Energy Security in supporting
Sustainable Development in the Pacific”**

8-9 October 2012, Nadi, Fiji

**Jointly organized by
UN ESCAP and Sustainable Development Working Group of the Council of Regional
Organizations in the Pacific (CROP)**

**Session 1 – Stimulating and Sustaining Growth, Building Resilience: the
Role of Macroeconomic Policies**

Presentation

**Regional Economic Challenges and Macroeconomic Policies for
Sustainable Development**

by

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October 2012

Regional Economic Challenges and Macroeconomic Policies for Sustainable Development

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Key messages



- Asia-Pacific economies face **diverse challenges**, including global slowdown, jobs, inequality, natural disasters and commodity prices
- Pacific Islands are particularly vulnerable to **high energy prices** and have set renewable energy targets
- **Macroeconomic policies** could help achieve these targets and more broadly, support the three pillars of **sustainable development**

Global economic slowdown

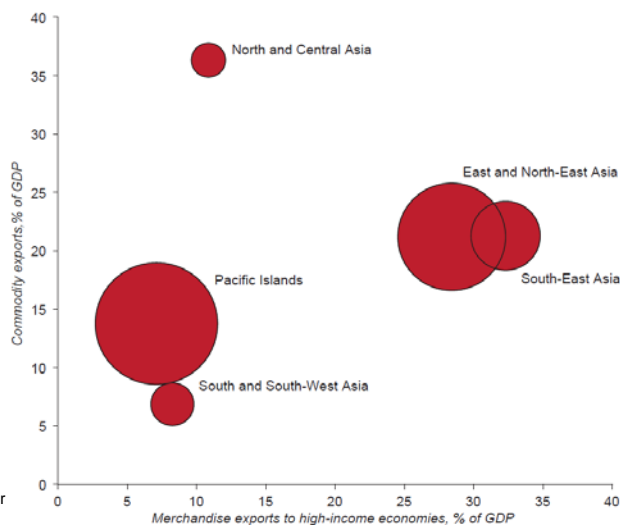


- Drops in confidence more wide-spread in **Europe** (*EC's Economic Sentiment Indicator falling for consecutive months*)
- Housing market recovery in the **U.S.**, but output and employment growth weak while fiscal cliff pending
- **Fiscal austerity** in response to sovereign debt crisis – but is it working?
- New government bond-buying programmes announced by **ECB and Fed**

Asia-Pacific's external exposure



- **Trade channel**
(*East and South Asian exports to the EU fell by 7.2% y-y in 2Q*)
- **Financial channel**
(*Deleveraging could dry up credit, trade finance*)



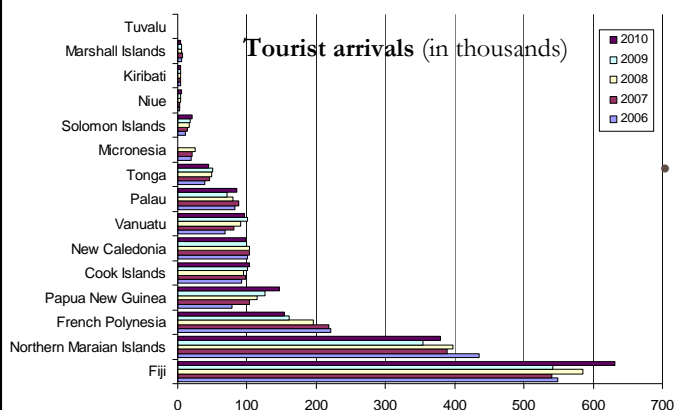
Source: ESCAP Survey 2012

Note: A larger bubble reflects a greater extent of cross border banking activities.

Impact on Pacific Islands



- **Investment** and **jobs** hit by the global economic downturn (*ex. Yazaki plant in Samoa*)



- **Tourism** relatively resilient, but **remittances** declining in some cases

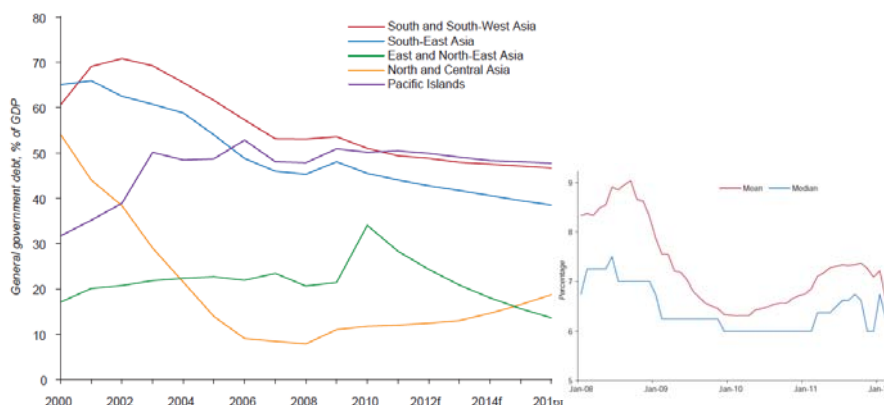
Fiscal space affected by lower **tax revenues**, declines in **wealth funds**

Source: UN World Tourism Organization

Fiscal & monetary policy space

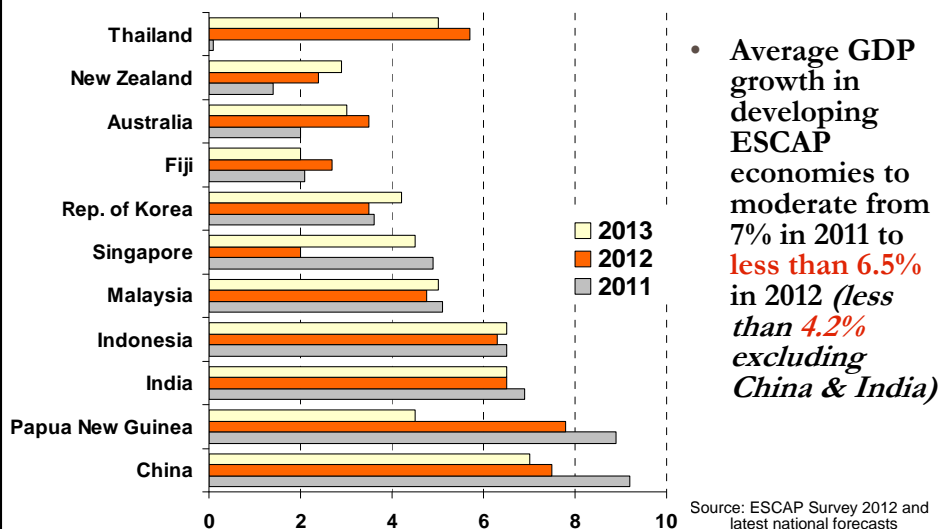


- Compared to developed economies, Asia-Pacific's **public debt** (as % of GDP) is lower and **policy interest rate** higher



Source: ESCAP Survey 2012

Outlook for selected economies



- Average GDP growth in developing ESCAP economies to moderate from 7% in 2011 to **less than 6.5%** in 2012 (*less than 4.2% excluding China & India*)

Socio-economic & environmental challenges

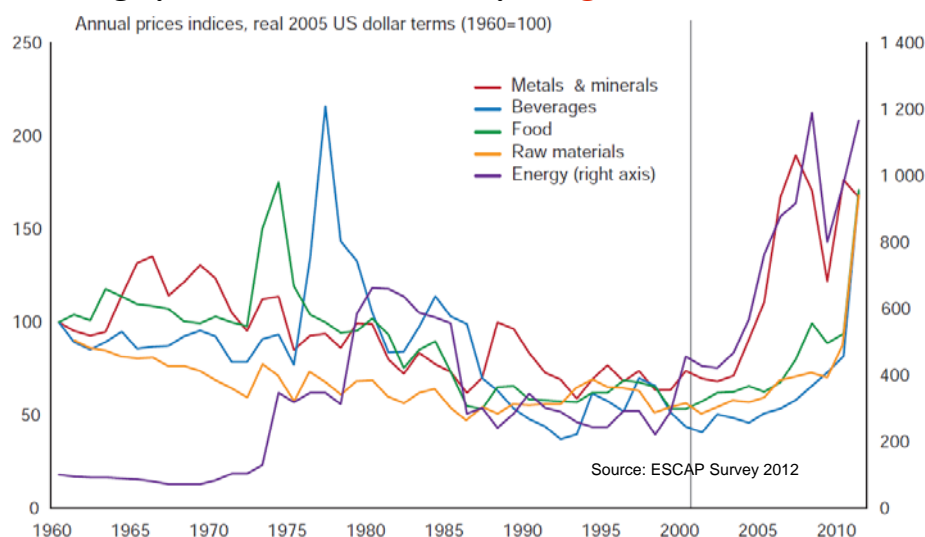


- **Jobs** – labour productivity and working conditions, opportunities for youth
- **Urbanization** – housing, water and sanitation challenges
- **Inequality** – rising even as poverty declines, constraining social development & MDG progress
- **Natural disasters** – losses of \$267 billion for Asia-Pacific in 2011 alone

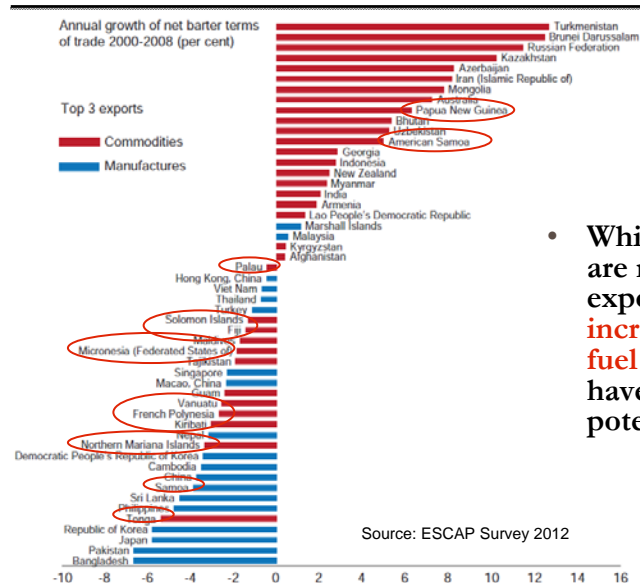
Commodity prices



- Highly **volatile**, but also steadily **rising** since 2000



Terms of trade shock

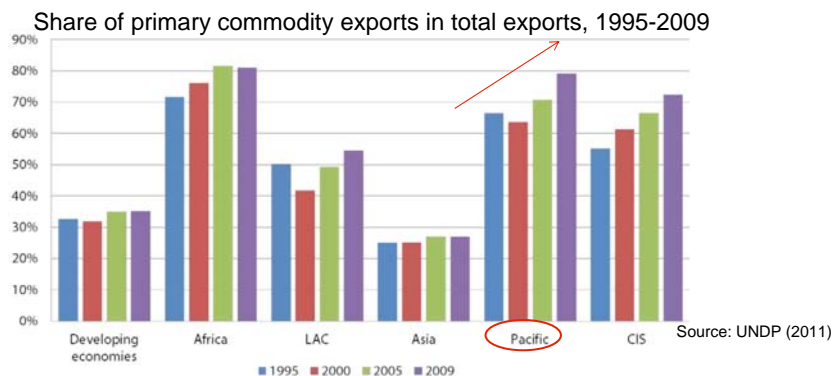


- While Pacific Islands are mostly commodity exporters, **large increases in imported fuel and food prices** have undone any potential gains

Increasing vulnerability



- Pacific Islands experienced lower average growth and higher volatility among all SIDS
- **Concentration on primary products** increases vulnerability to terms of trade shocks

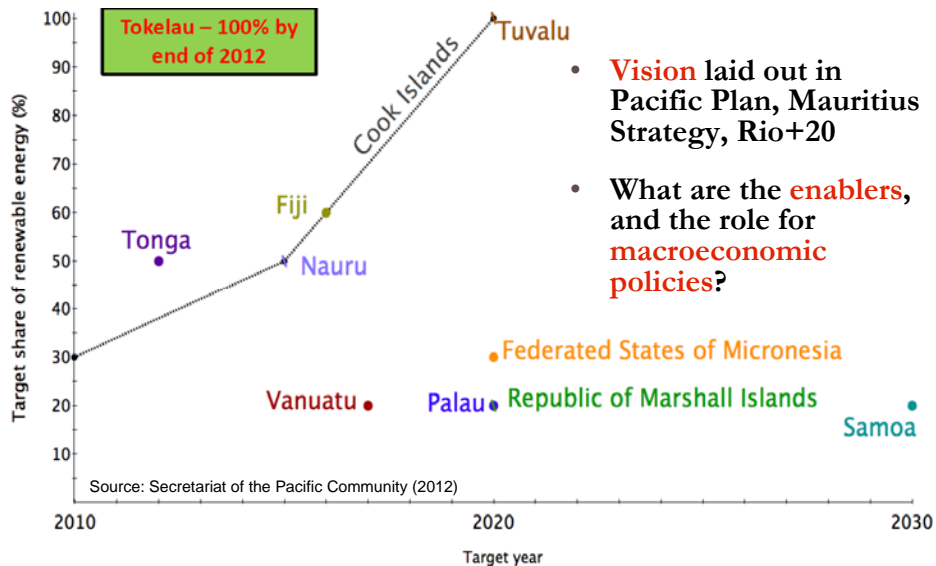


Energy price impact on the economy



- Heavy reliance on imported fossil fuels, on average **13% of GDP**
- Higher impact on **transport costs** due to **remoteness**
- Deterioration in **balance of payments** and pressure on **fiscal space** and **international reserves**
- ▶ Taken together, greater negative impact than the global slowdown
- ▶ Need **whole-of-government response** involving finance, planning, monetary as well as energy and transport authorities

Renewable energy targets



- **Vision** laid out in Pacific Plan, Mauritius Strategy, Rio+20
- What are the **enablers**, and the role for **macroeconomic policies**?

Macroeconomic enablers



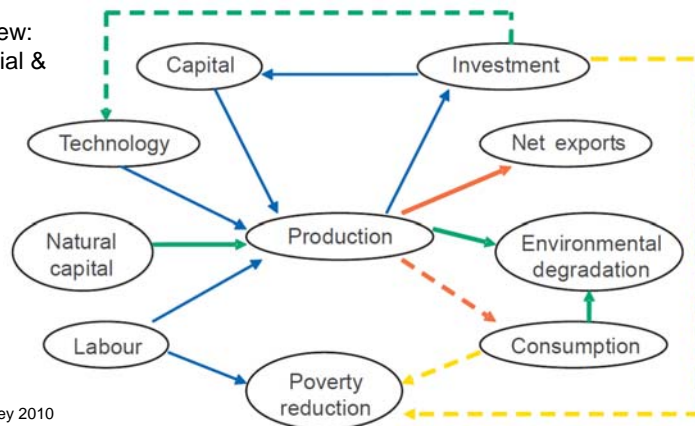
- **Fiscal policy** – tax, subsidies, and direct public investment to help create a market for the private sector to further invest
- **Monetary policy** – subsidized and directed credit, microfinance to enhance access to credit of SMEs and renewable energy sector
- But are we still too focused on achieving low inflation & balanced budgets, without looking at **actual impact on long-term growth**?

Sustainable development



- Time to **re-think macroeconomic policies** so that they actually support the three pillars of sustainable development

A bird's eye view:
economic, social &
environmental
aspects of an
economy



Source: ESCAP Survey 2010

ESCAP Survey 2013



- Three basic elements of sustainable development programs (one from each pillar) will be **costed**:
 - **Economic** pillar – job guarantee for youth in rural and urban areas, especially “green jobs”
 - **Social** pillar – enhanced universal access to social protection, including health care, education, child benefits and old-age income support
 - **Environmental** pillar – the required financing to meet the Sustainable Energy for All Initiative

Thank you

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