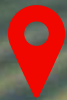


Building
Forward
Fairer

Economic and Social Survey of Asia and the Pacific 2022

Economic Policies for an Inclusive Recovery and Development



Macroeconomic Policy and Financing for
Development Division



Key Messages

Concerns about persisting inequalities have come to the fore in the aftermath of the COVID-19 pandemic ... macroeconomic policies need to address these concerns.

Despite a reasonably strong economic rebound from the pandemic, people are left behind... this calls for more attention to inclusive policies.

The **2022 Survey** goes beyond traditional macroeconomic thinking and provides new insights on how macroeconomic and structural policies can tackle inequality:

▶ Fiscal policy: spend smart and tax fair

▶ Central banking: inflation stability and beyond

▶ Structural transformation: pro-active policies to change market outcomes



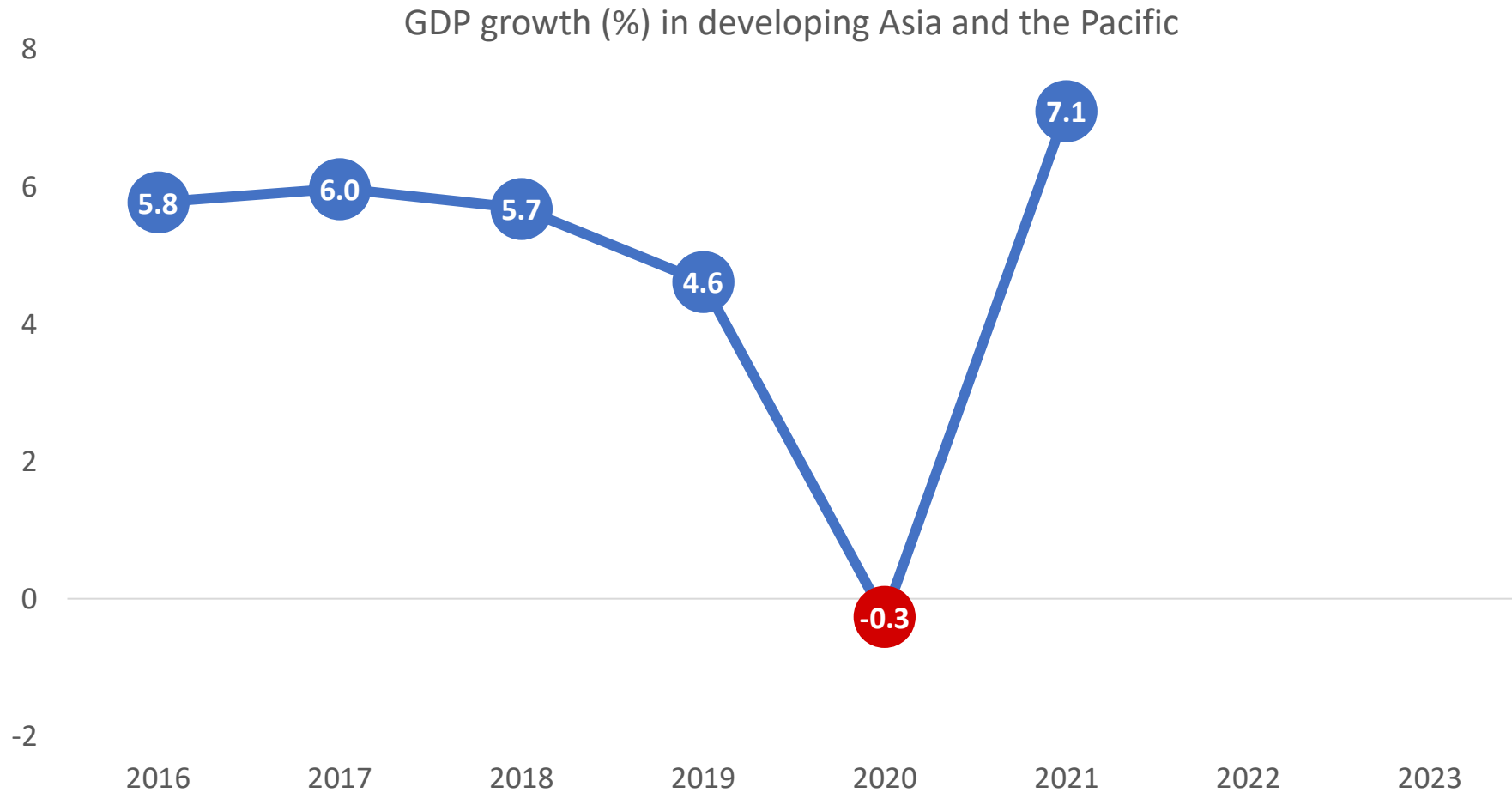
Economic performance and Outlook

– a nascent recovery and uncertain outlook

OPEN

RETURNING BUSINESS
AS NEW NORMAL

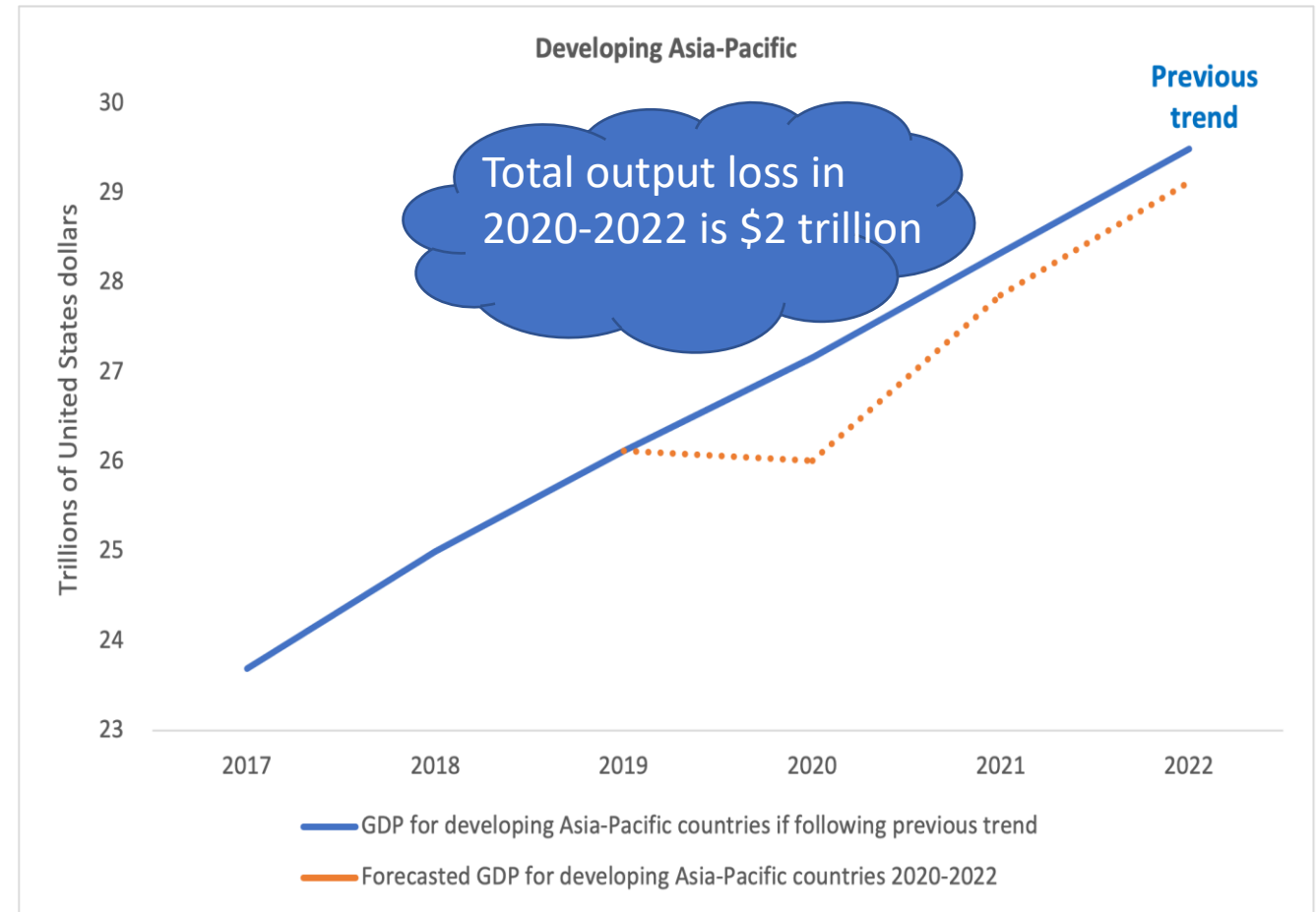
Asia-Pacific region experienced a strong economic rebound in 2021



Source: ESCAP estimates and projections.

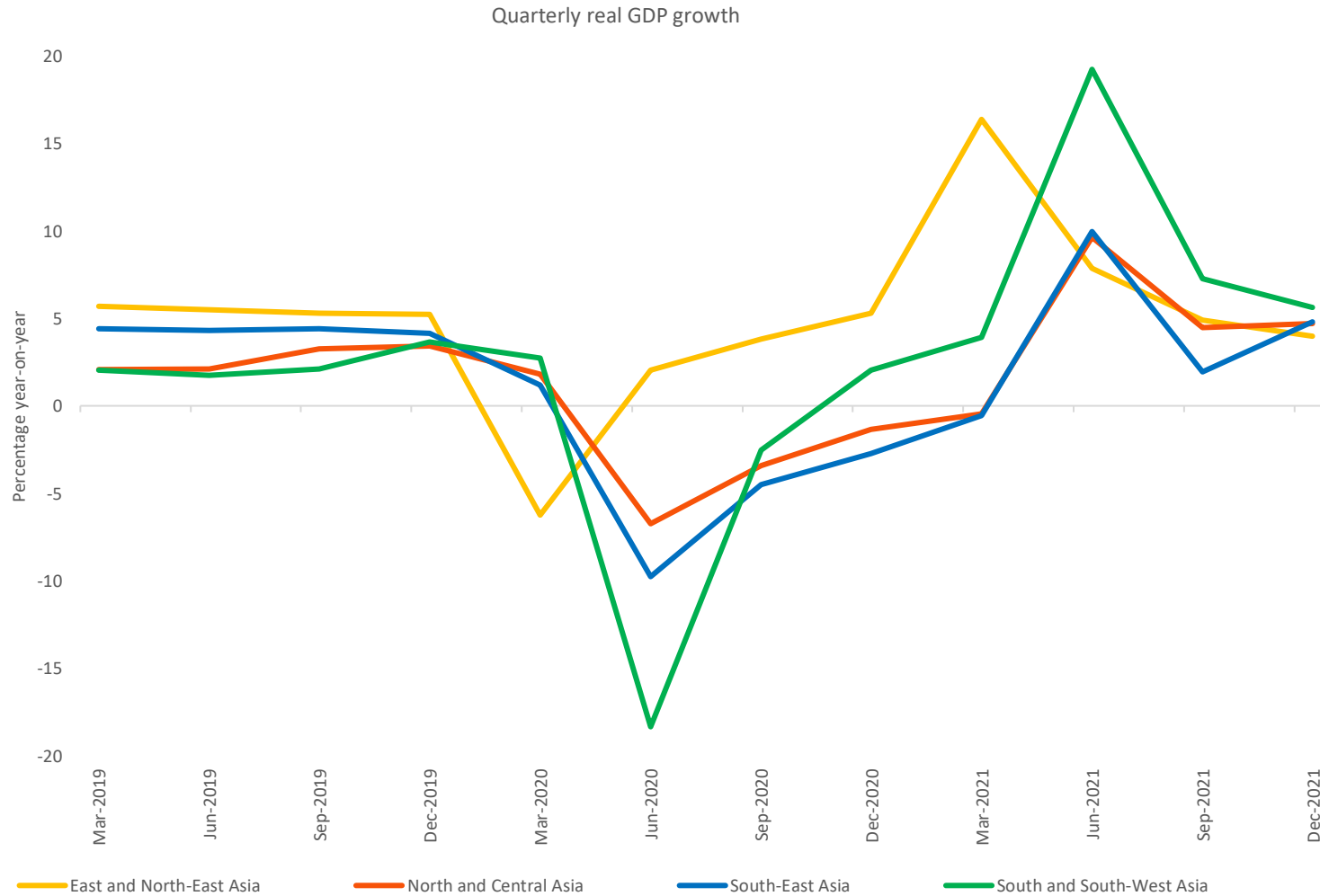
Yet, the **level of output is below the pre-pandemic path...**

- Rebound supported by robust external demand
- In turn, manufacturing and industrial production responded to strong external demand
- Still, the level of output is about 2% below the pre-pandemic path



Source: ESCAP estimates and projections.

...and recovery is still nascent and uneven between countries ...

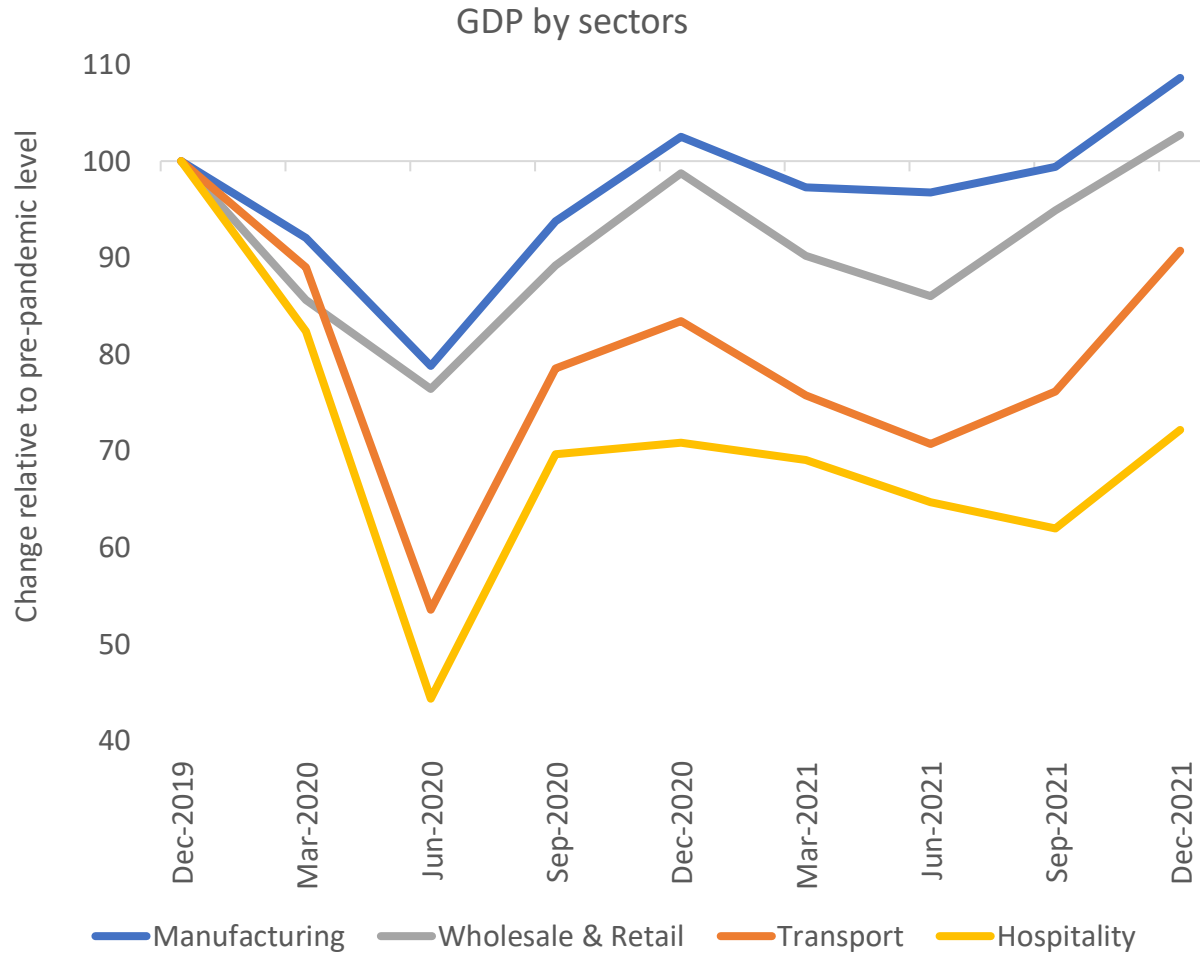


Source: Based on CEIC data.

Note: Subregional aggregates are the weighted average, based on 28 economies in Asia and the Pacific for which quarterly GDP data are available

...and within countries

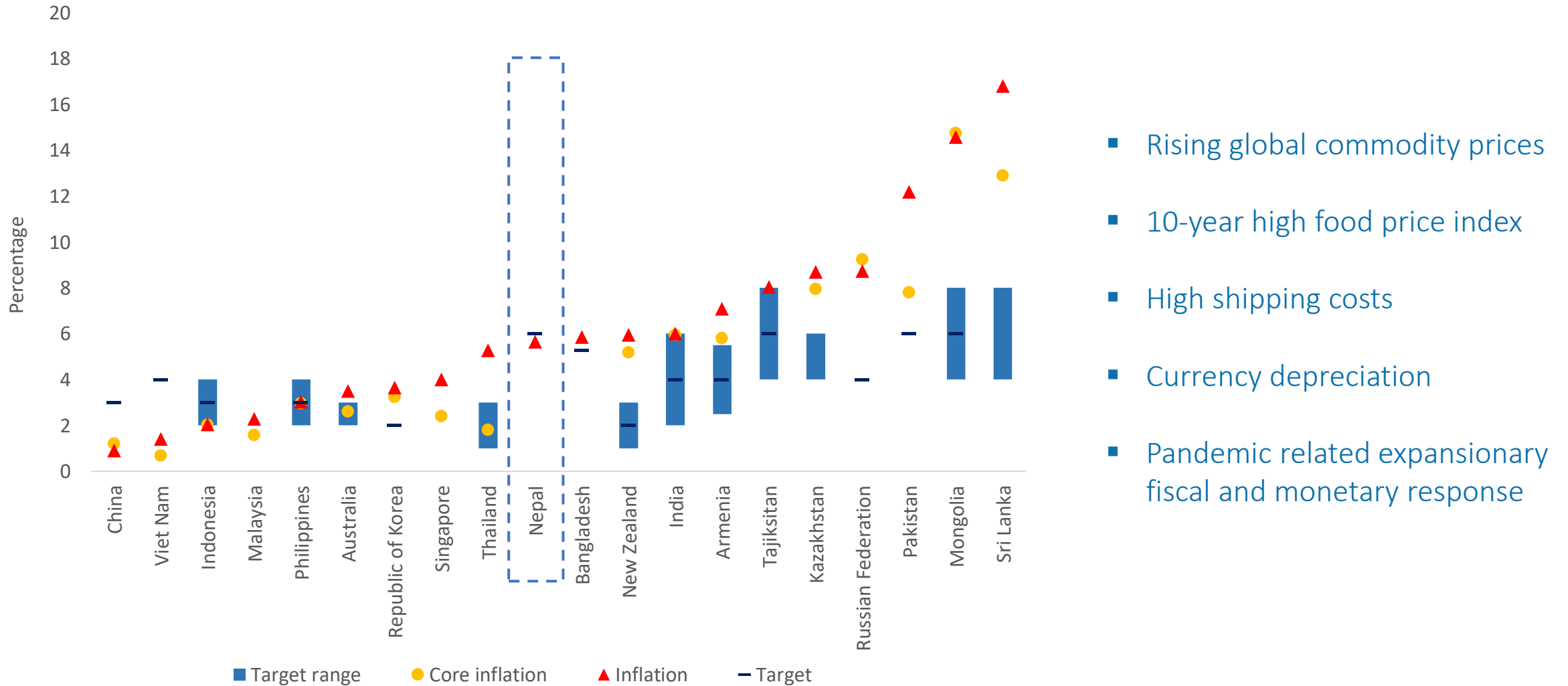
Recovery in consumer-facing sectors is trailing behind



Source: Based on CEIC.

Note: Median of 13 developing Asia-Pacific countries for which data are available.

Inflation is on a rising trend **surpassing targets** in many countries



Source: Based on CEIC data (accessed 4 March 2022).

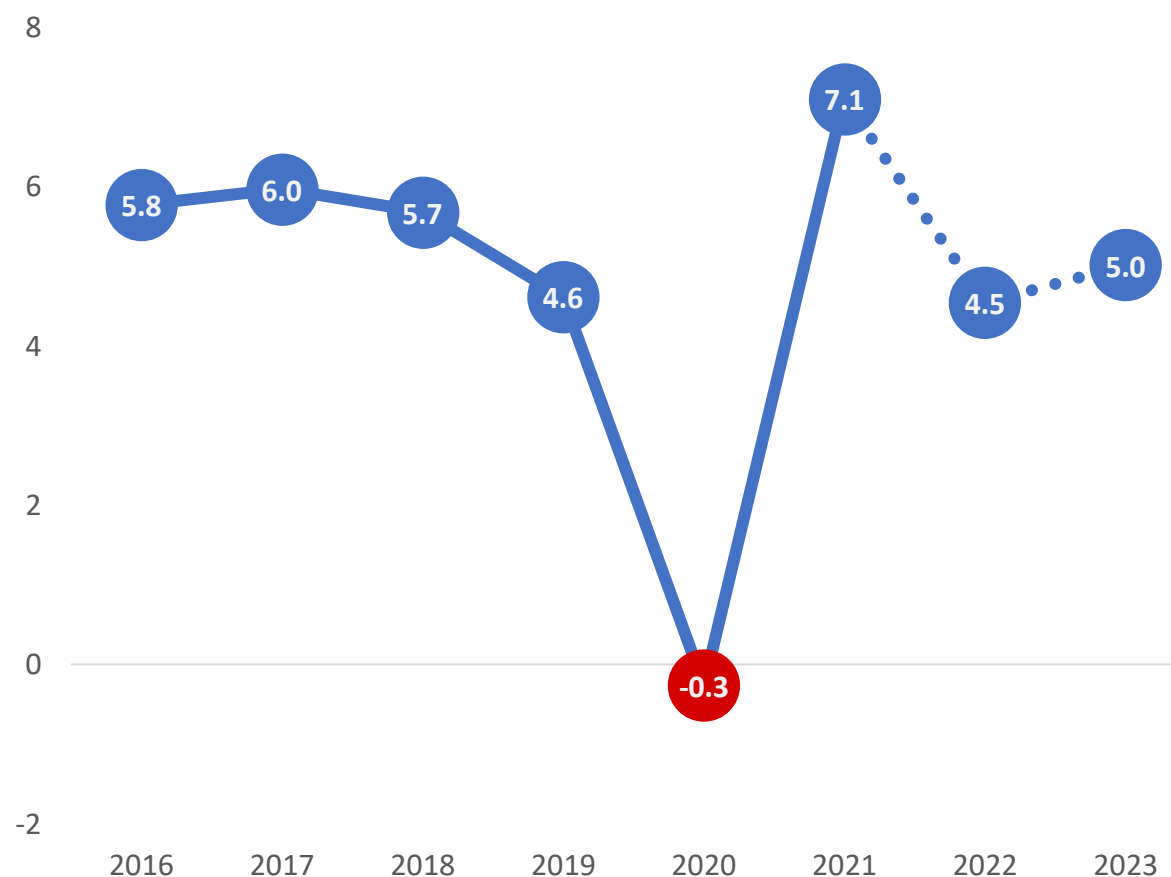
Note: Inflation and core inflation are for the latest month available between December 2021 and February 2022.



Outlook is riddled with **uncertainty**

- Recovery expected at a more moderate pace in 2022 and 2023
- Full resumption influenced by availability of vaccines, stringency of restrictions, labour market recovery
- The Russia-Ukraine conflict will cast a shadow on recovery prospects
- Inflation, along with interest rates, is expected to remain elevated in the near term
- Risks of long-lasting scars and macroeconomic stability are rising

GDP growth (%) in developing Asia and the Pacific

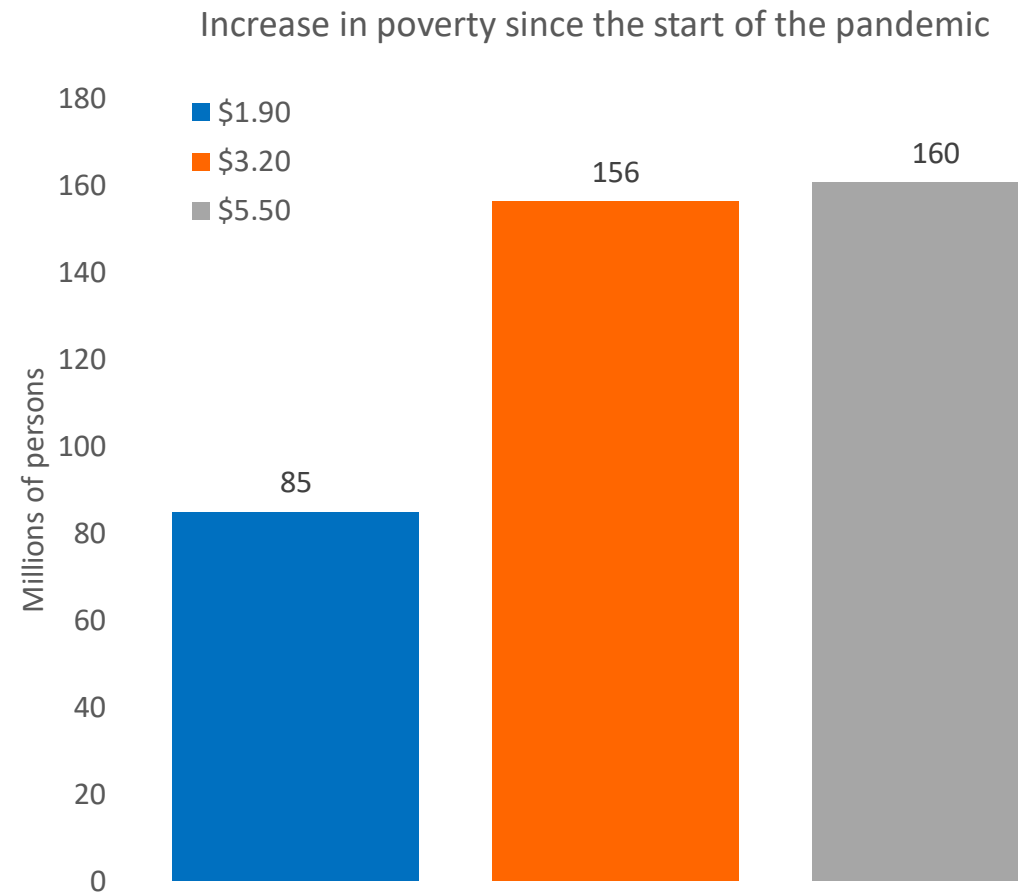


Source: ESCAP estimates and projections.

Why should we care about inequality?



The K-shaped recovery: vulnerable sections have been disproportionately affected, while 85 million people pushed back into extreme poverty



Source: ESCAP estimates.



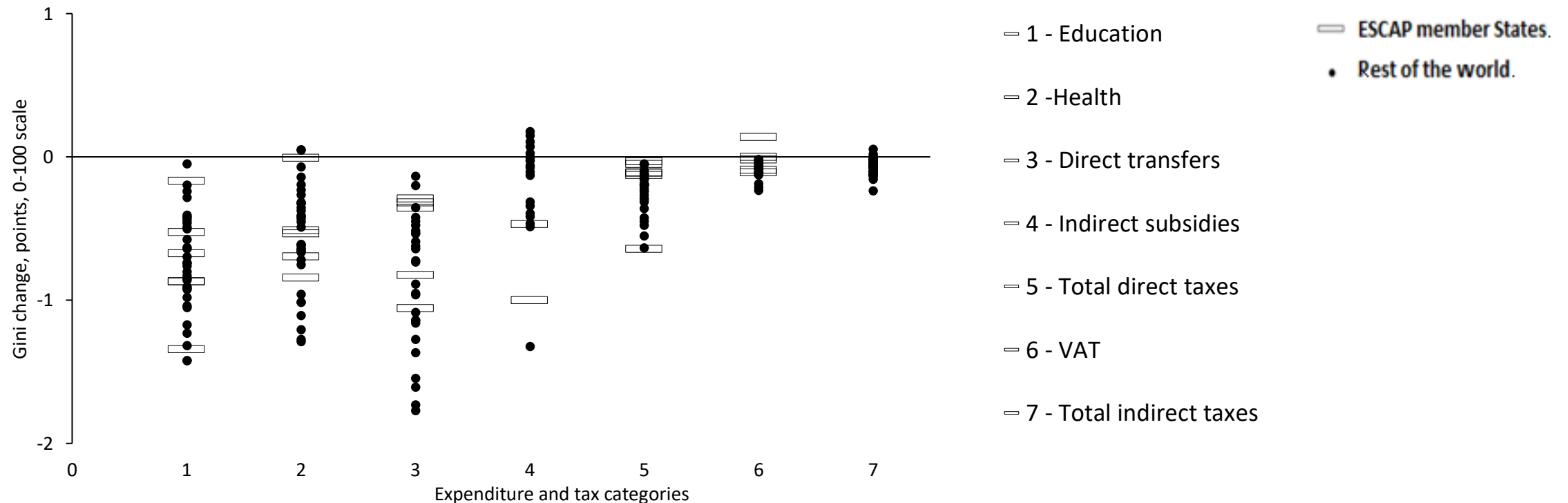
Government's role in reducing inequality
Fiscal policy matters...

Fiscal spending can tackle inequality but impact varies...

Impact of seemingly same category fiscal policies varies greatly raising questions on effectiveness and targeting

Impact of fiscal policies on inequality, according to 1 per cent of GDP expenditure/revenue

Gini coefficient (0-100)



Source: ESCAP estimates based on CEQ data.

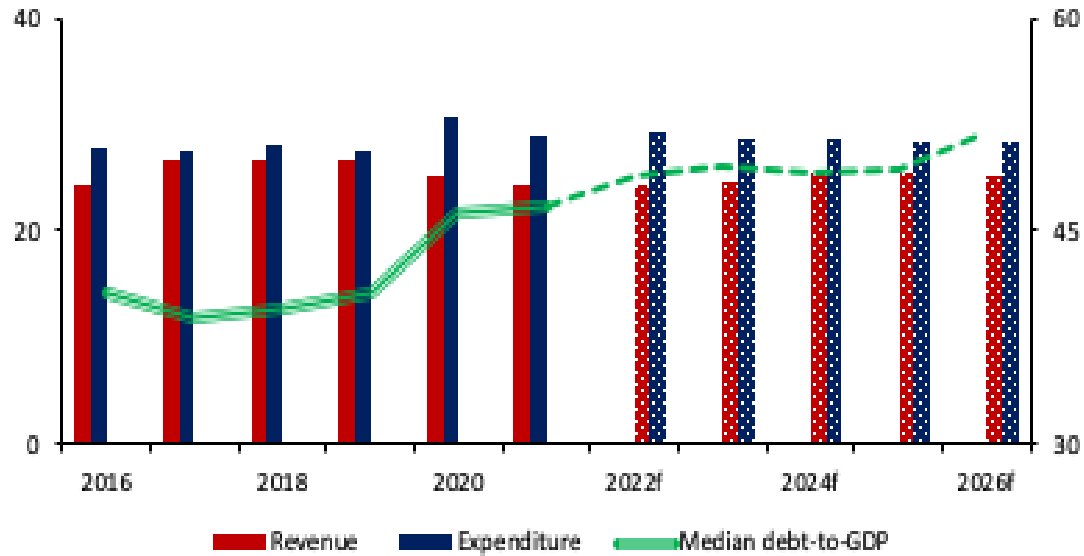


However, **fiscal space** has dwindled, debt is up, and **consolidations** are expected

Fiscal indicators

Asia-Pacific developing countries, as a percentage of GDP

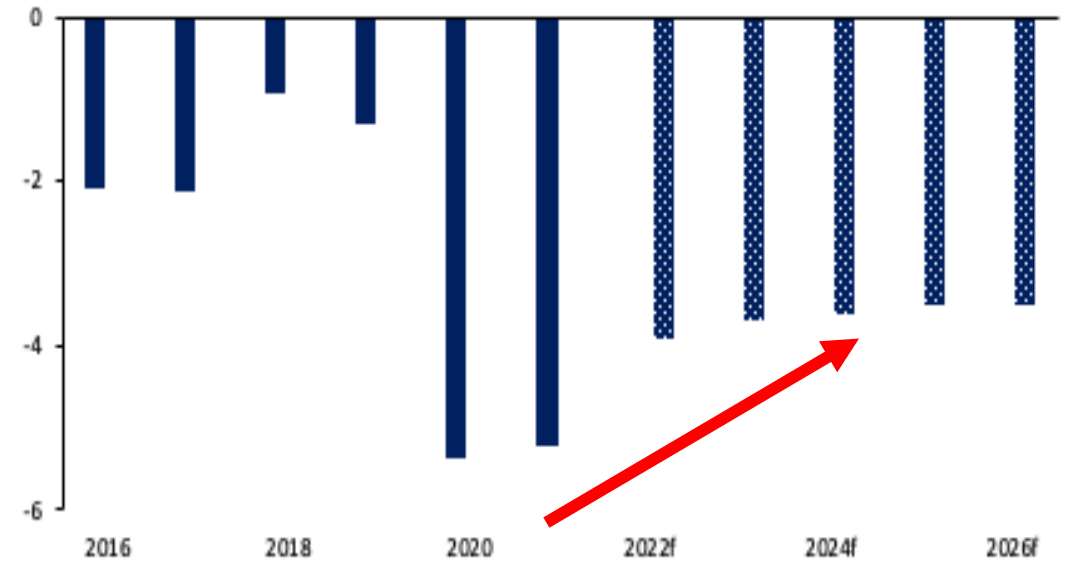
Percentage



Fiscal balance

Asia-Pacific developing countries, as a percentage of GDP

Percentage

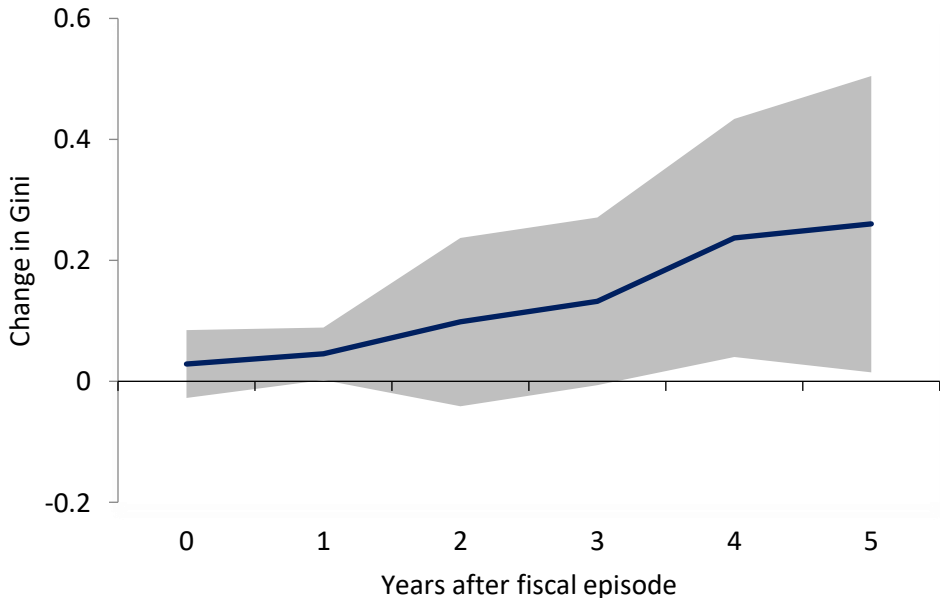


f – forecasts, shaded

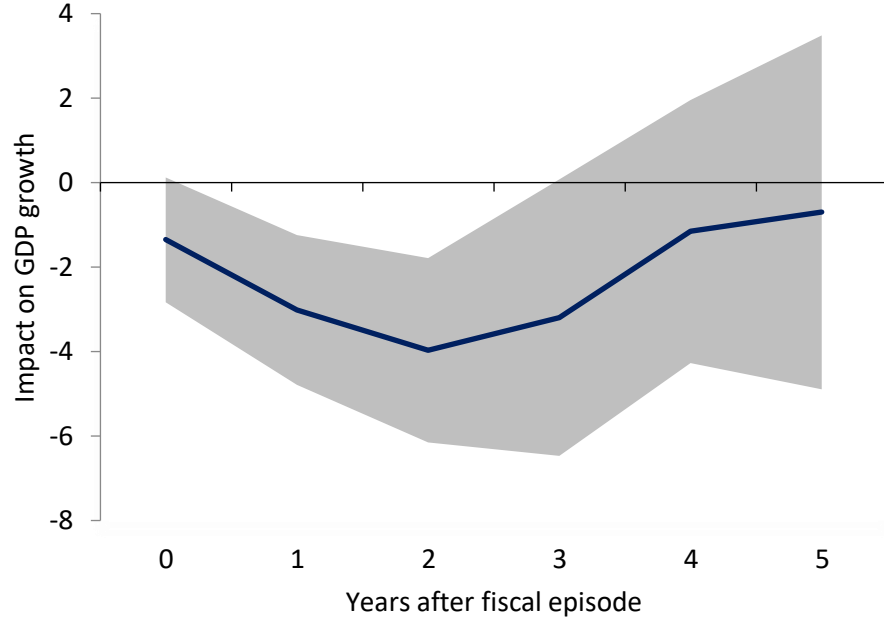
Source: ESCAP estimates based on IMF data.

....which are likely to **increase inequalities** and **reduce output**.

Inequality, Gini coefficient (0-100)



GDP per capita growth, percentage points



Source: ESCAP estimates.

Hence, need to maintain expenditures in **healthcare, education** and **social protection**.

HEALTHCARE



EDUCATION



SOCIAL PROTECTION



which are likely to **get cut first**....

...but matter the most for recovery and inequality reduction.

Level of spending on **healthcare** is already low...

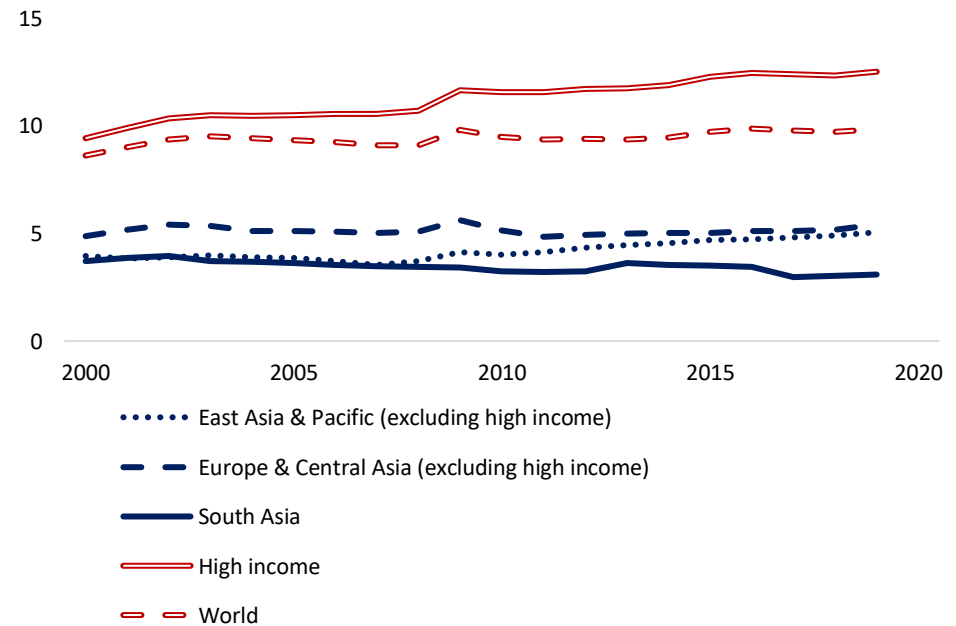
HEALTHCARE



Health expenditures remain much below World and high-income countries averages...

Current health expenditure, percentage of GDP.

Percentage

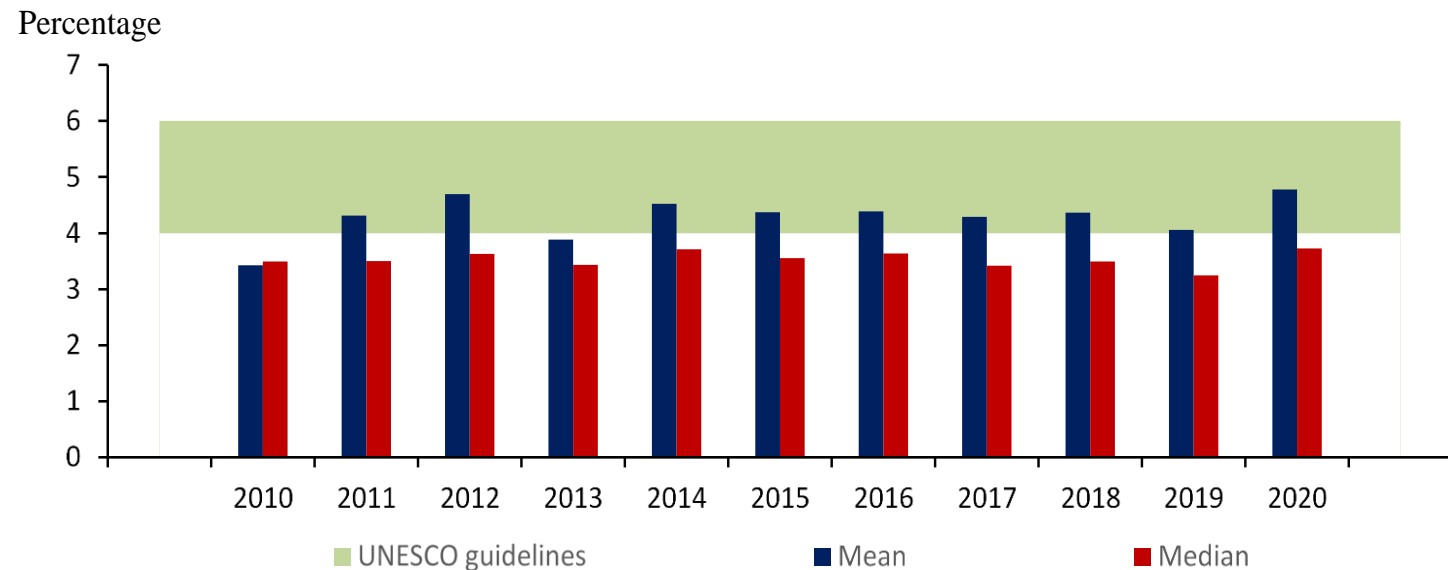


Source: World Bank data.

...same is the case with spending on **education**...

Expenditure on education in Asia and the Pacific remains below the global target
Spending on education in the Asia-Pacific region, percentage of GDP.

EDUCATION



Source: ESCAP estimates based on IMF data.

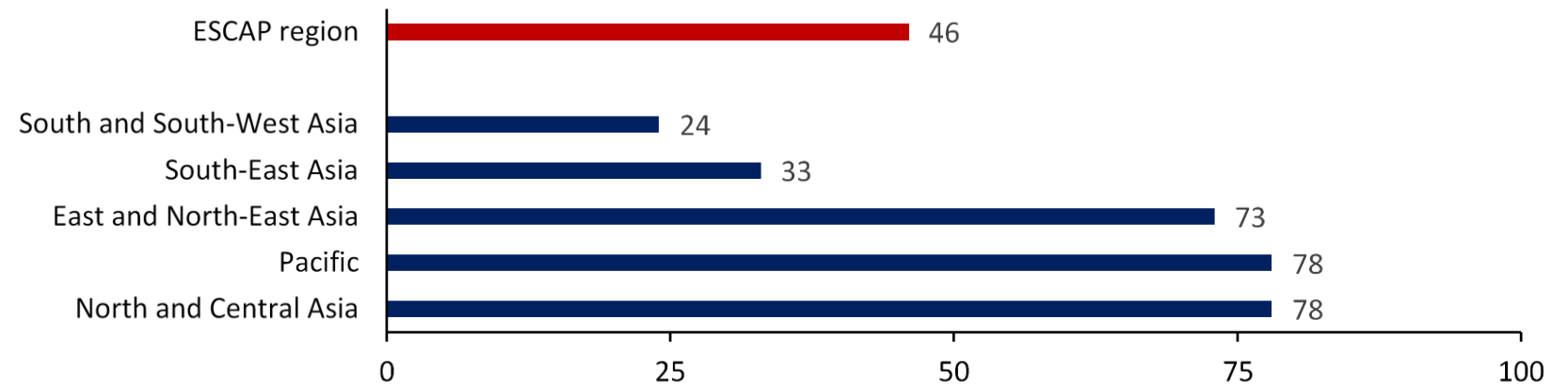
... and **social protection** coverage remains low and varies across countries in the region

SOCIAL PROTECTION



Social protection coverage rates vary considerably across Asia-Pacific subregions
Social protection coverage by at least one area^a in Asia and the Pacific, latest year available

(Percentage)



Source: ESCAP and ILO, 2020.

^a Excluding health care and illness.



Policy recommendations – Bigger bang-for-the-buck

SPEND
INCLUSIVENESS IMPACT EFFICIENCY
SMART

Health care

- Provide universal health coverage
- Reduce wasteful and inefficient spending
- Deploy digital health technologies

Education

- Strengthen early age education for all
- Eliminate socio-economic barriers at all levels of education
- Close the digital divide

Social protection

- Provide universal basic social protection
- Improve efficiency via digital technologies

Alongside targeted fiscal spending, **revenues need to be increased** as tax collection remains low in the region



Source: OECD (2021a)

...due to **tax avoidance** and **informality**

tax avoidance is high

7.6 per cent of the tax revenue in the Asia-Pacific region was estimated to be lost due to misinvoicing in 2016.

informality is ubiquitous

68 per cent of workers being employed in informal economy across Asia-Pacific and **up to 90 per cent** in some countries like India.



Policy recommendations – increase revenues

tax fair
ALL PAY A FAIR SHARE

Pay fair share

- Ensure all individuals and companies comply with existing regulations
- Close loopholes
- Fight illicit financial flows

Expand tax base

- Formalize business activities
- Expand taxation of digital economy

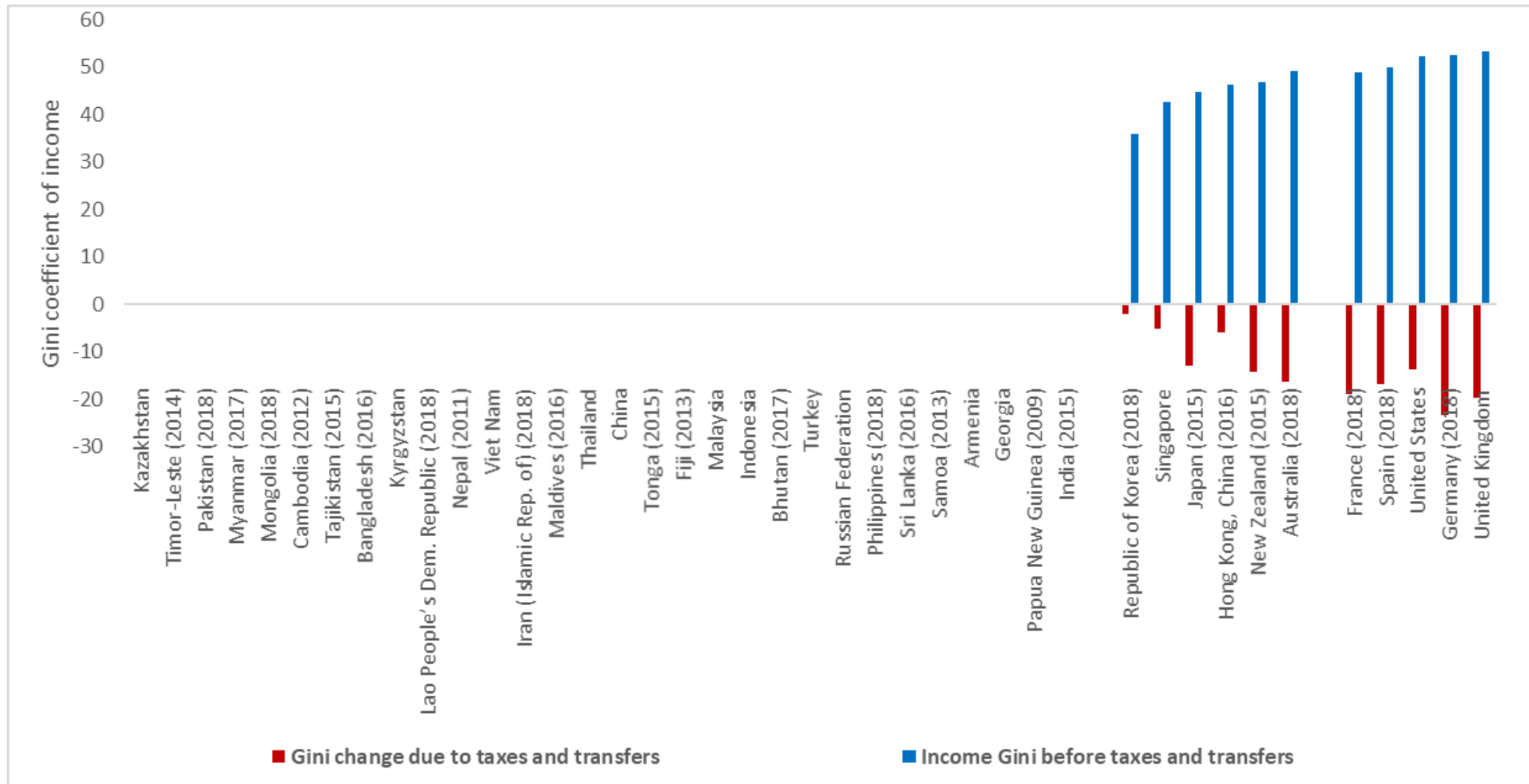
Shift tax burden

- Take tax burden off from the lowest income households
- Make corporate and personal income taxes more progressive



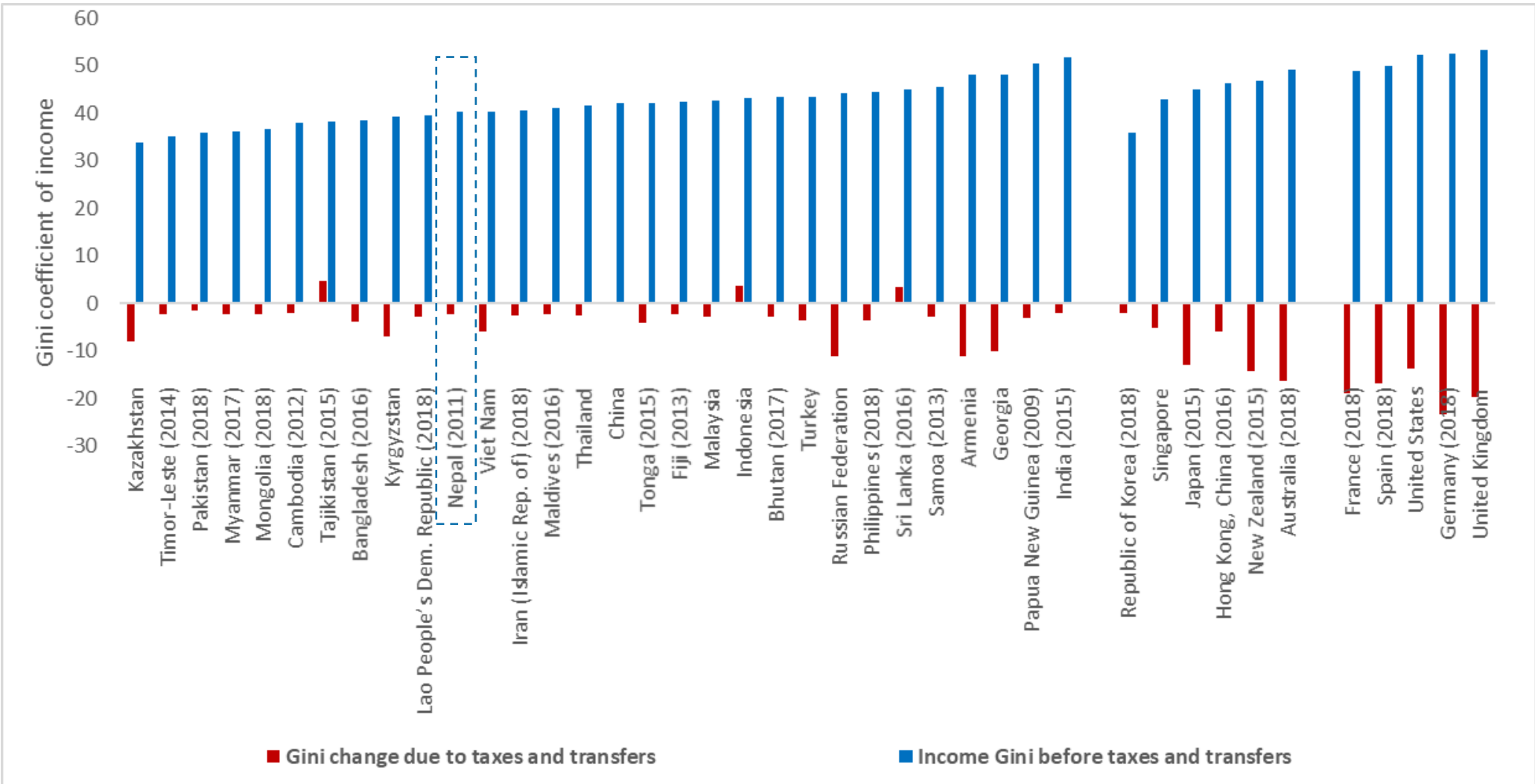
Government's role in reducing inequality
Addressing the root cause through structural policies...

Taxes and transfers play an important role in addressing the symptoms of inequality in advanced countries...



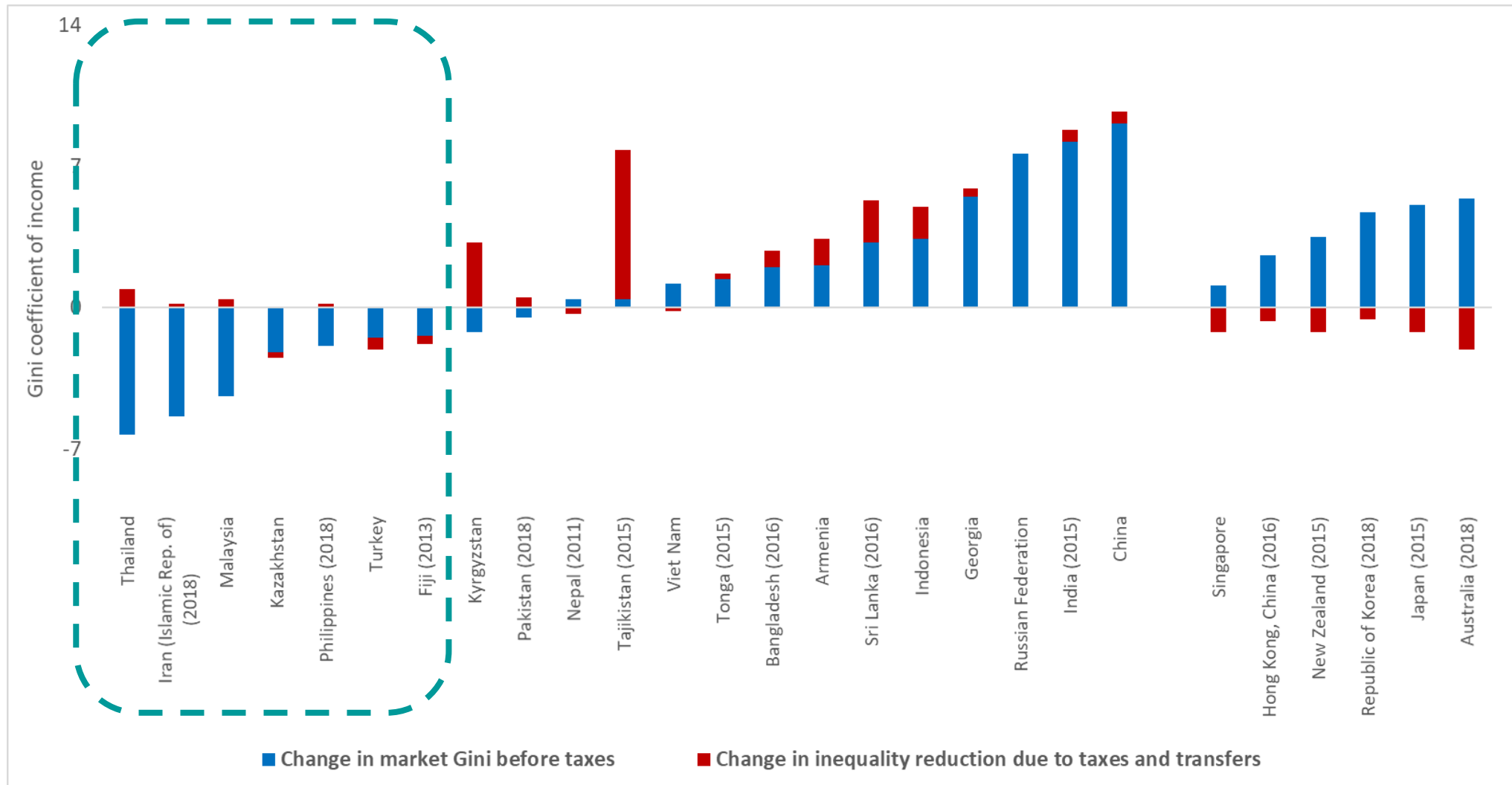
Source: ESCAP, based on the Standardized World Income Inequality Database (SWIID) 9.1 (accessed on 26 November 2021)

...but their equalizing impact is still highly limited in developing countries



Source: ESCAP, based on the Standardized World Income Inequality Database (SWIID) 9.1 (accessed on 26 November 2021).

Meanwhile, more could be done by **ensuring market would generate fairer outcomes in the first place**



Source: ESCAP, based on the Standardized World Income Inequality Database (SWIID) 9.1



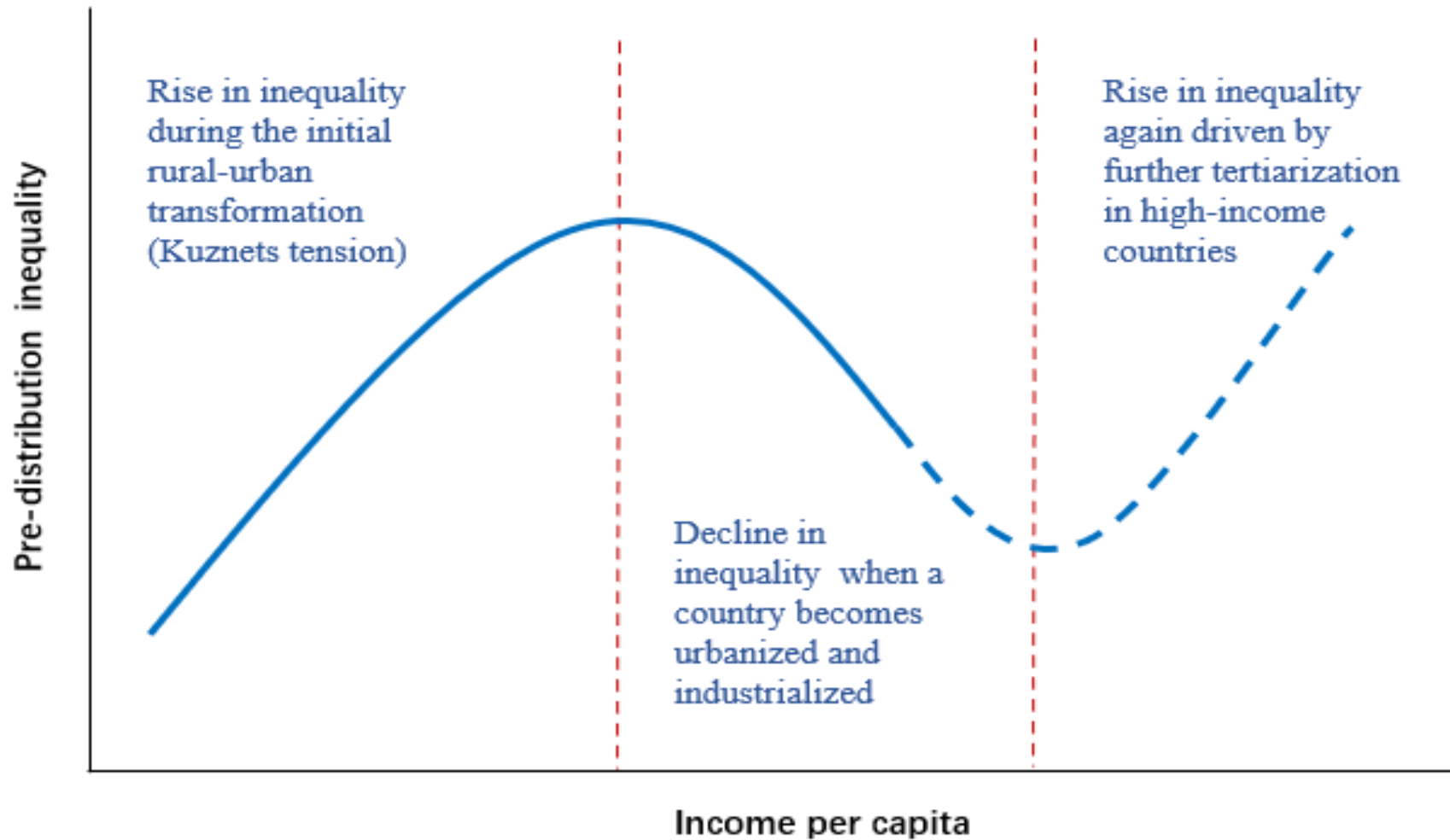
These findings suggest that:

To build forward fairer, policy effort would also be needed to **proactively shape structural and market forces that determine inequality levels and trends in the first place**

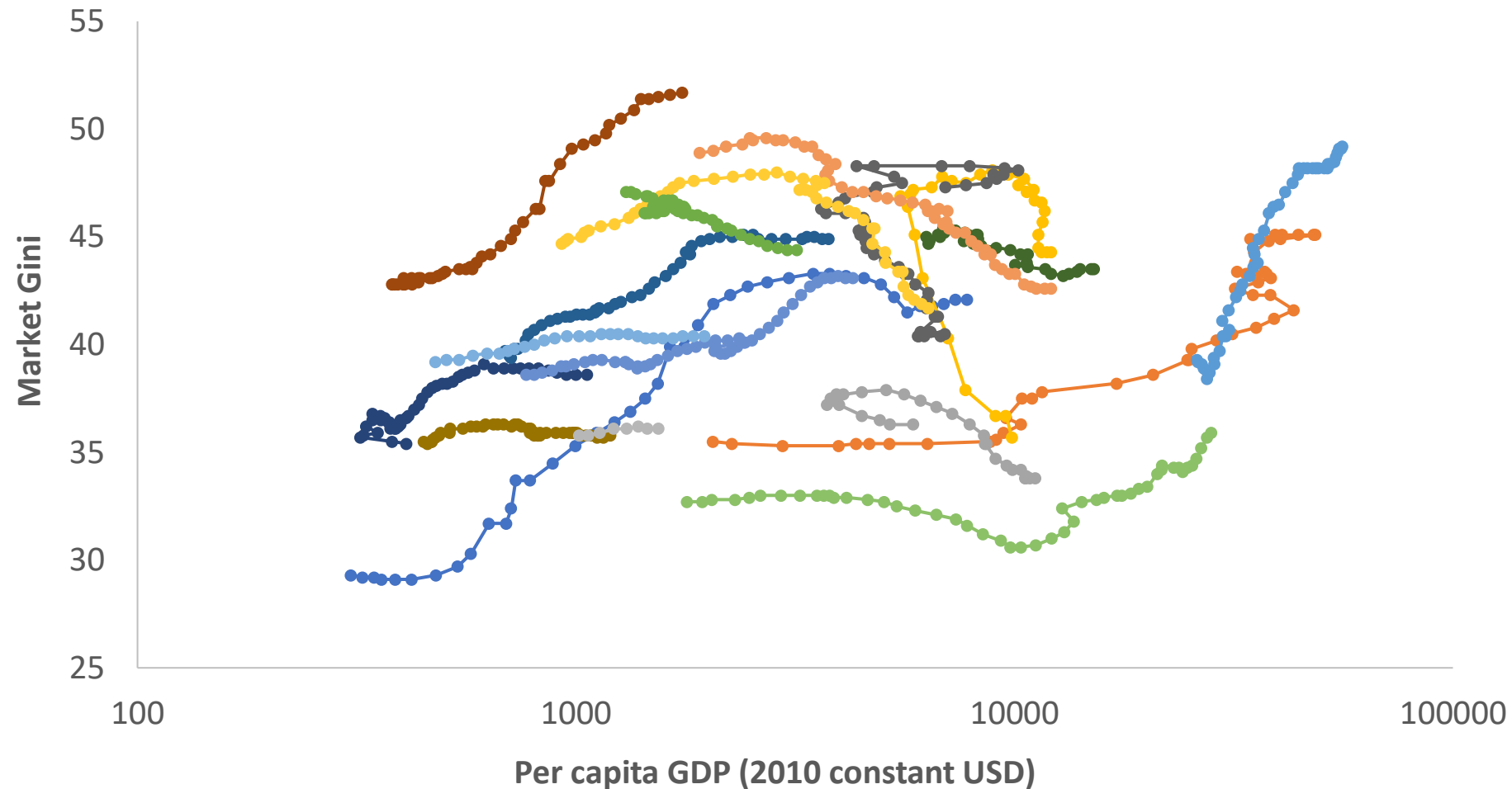
Even for fiscal policies

greater attention should be devoted to using taxes and spending to tilt such structural and market forces in favor of inclusive development

Traditional hypothesis of Kuznets postulates an initial increase in inequality before a subsequent decline, following an inverted U-shape...



... but diversity in national pathways suggests **space for policies to have an impact**





Policy tips from an analysis of Asia-Pacific cases

Conductive factors

FOR INCLUSIVE STRUCTURAL TRANSFORMATION

Fast & sustained creation of productive jobs
(especially through manufacturing)

Universal access to primary & secondary
education

Equalized access to infrastructure & essential
public services

A fairer starting point & rural development

harmful factors

FOR INCLUSIVE STRUCTURAL TRANSFORMATION

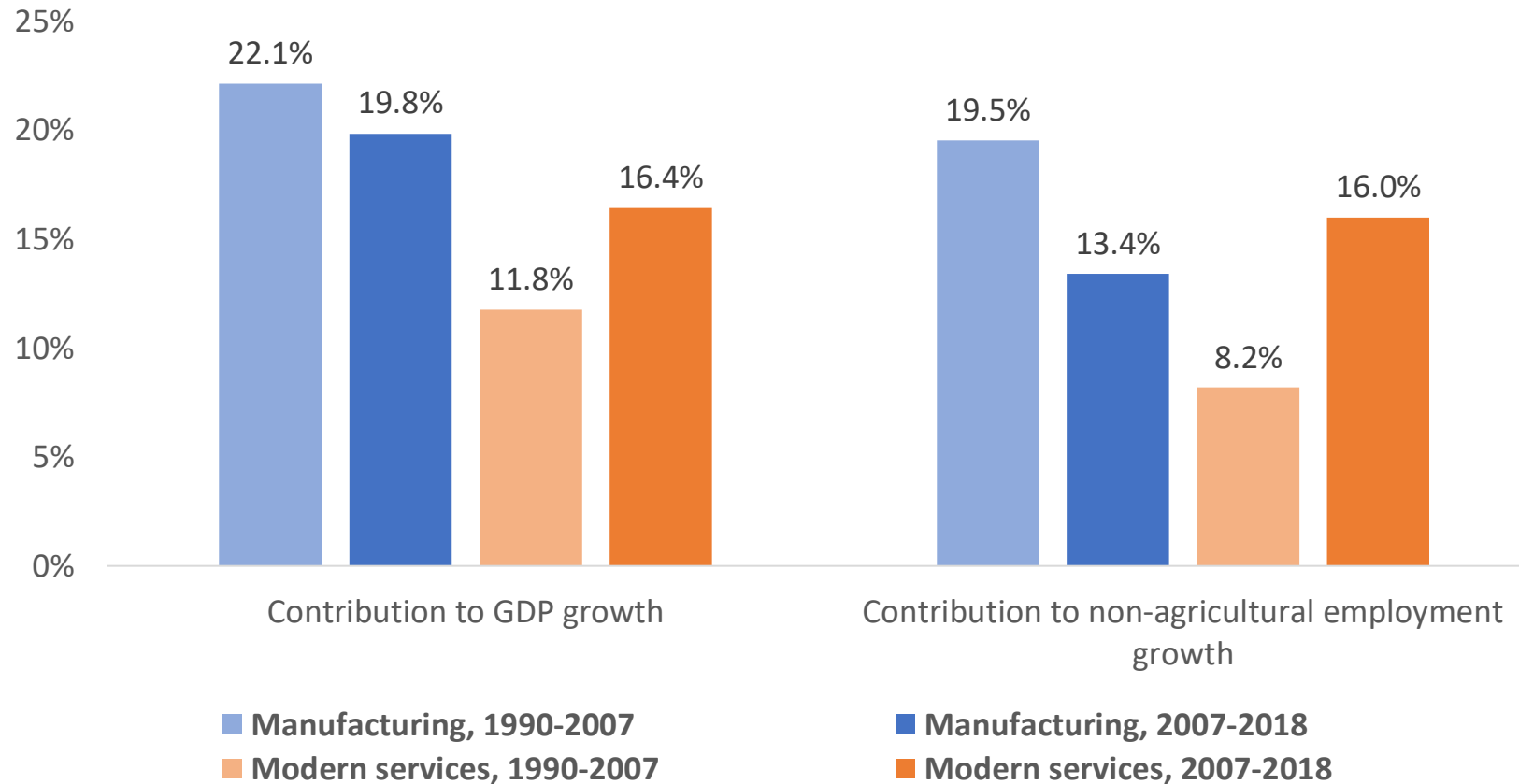
Employment concentration in informal & low-
productivity sectors

A youth bulge

Job market segmentation & geographic
fragmentation

However, the **digital-robotic-AI revolution** may upend the older thinking...

Modern services are catching up in contribution to economic and employment growth



Source: UN-ESCAP based on UNU-WIDER UNU-WIDER Economic Transformation Database

... which requires action on **three fronts** for **more equal market outcomes**



Guide

Structural transformation towards a job-rich path

- Mobilize support for strategic sectors
- Leverage public R&D investment
- Establish correct market signals for private sector technological choices



Shape

Income-distribution outcomes of the market

- Strengthen labor's position in the job market
- Empower labor in corporate decision-making processes
- Prioritize equal access in education policies



Manage

The socioeconomic disruptions of technological revolution

- Preserve progresses made in broad-based social protection as a first line of defense
- Strengthen support for on-the-job training, lifelong learning and vocational education
- Keep technological changes at a more manageable pace

A young girl with dark hair in pigtails and black-rimmed glasses is smiling. An adult's hands are adjusting her glasses. She is wearing a purple and white striped shirt. The background is a blurred indoor setting with a plant and a desk.

Role of Central Banking in Inclusive Development

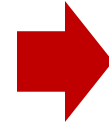


Monetary policy affects inclusive development, which in turn influences monetary policy effectiveness.

Monetary policy conduct

Monetary Easing

- Lower marginal propensity to consume
- Limited interest rate pass-through



Income and wealth inequality

- (+) Borrowers
- (+) Asset Holders
- (-) Retirees

- Wealth concentration
- Large informal sector



Central banks **should** and **can** promote **inclusive development**

Monetary
Policy
Conduct

Official
Reserve
Management

Currency
Issuance

Financial
Regulation



Central banks **should** and **can** promote **inclusive development**

Monetary
Policy
Conduct

Official
Reserve
Management

Currency
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Financial
Regulation



Promote inequality-minded monetary policy

Inflation stability



Inequality-minded monetary policy conduct

- Communicate the distributional impacts to the public
- Consider income/wealth distribution when making monetary policy decisions
- Allocate part of asset purchases to social bonds



Central banks **should** and **can** promote **inclusive development**

Monetary
Policy
Conduct

Official
Reserve
Management

Currency
Issuance

Financial
Regulation



Invest official reserves with **social gains**

Safety & liquidity



Reserve allocations with social gains

- Analyze how this shift affects portfolio performance
- Set up investment committee to make allocation decisions
- Use excess reserve as seed capital for local social projects



Central banks **should** and **can** promote **inclusive development**

Monetary
Policy
Conduct

Official
Reserve
Management

Currency
Issuance

Financial
Regulation



Foster financial inclusion through **CBDC**



**Adequate cash in
circulation**



Central bank digital currency (CBDC) for financial inclusion

- Choose design features that help financial access
- Identify associated risks and mitigation measures
- Improve digital and financial literacy



Central banks **should** and **can** promote **inclusive development**

Monetary
Policy
Conduct

Official
Reserve
Management

Currency
Issuance

Financial
Regulation



Support innovative **social-oriented** financial instruments



Robust financial sector



Innovative, social-oriented financial instruments

- Increase understanding among market players
- Develop/harmonize taxonomies for pro-social financial instruments
- Grant financial support to cover high verification cost



In essence....

1

Central banks should not shy away from what they can do:

- Promote financial access, education and consumer protection
- Move existing bank deposits to banks with better ESG rating

2

Legal amendments and technical capacity are needed

- To invest official reserves in social bonds
- To issue CBDC

3

Central banks cannot act alone

- Government ministries working on fiscal policy, digital connectivity, national ID
- Financial supervisory agencies for social bond market



Key Takeaways

Inclusion should be at the center of economic policies.

Focus on efficiency and impact of fiscal policy.

Expand domestic revenues, shifting the burden away from low-income households.

Target market outcomes – promote job-rich transformation and empower the labour.

Inclusive central banking is possible.


Redesign monetary policy, reserve management, innovative finance, and digital currencies for inclusive development.

Building
Forward
Fairer

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Thank you!

DOWNLOAD NOW: <https://bit.ly/flagshipsurvey2022>

 Macroeconomic Policy and
Financing for Development Division
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