Recent crises and economic prospects

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Main messages

- GDP growth centric development approach has come at a cost to social inclusiveness and environment sustainability ... need to invest more in people and planet.

- The war in Ukraine has disrupted the economic rebound from the impacts of the pandemic ... expect prolonged economic difficulties.

- Substantial fiscal and debt pressures along with rising inflation and increasing interest rates suggest limited policy space ... supporting economic recovery through macroeconomic policies would be challenging.

- Ensuring only economic recovery may not be sufficient ... need to transform economies for resilient, inclusive and sustainable development pathways.

- Macroeconomic policies can support such transformations ... bold and innovative action is needed.
Assessing economic prospects: The big picture
Economic growth-centric development approach has contributed to income growth and poverty reduction in Asia and the Pacific ...

Source: ESCAP data portal (accessed 3 November 2022); ESCAP calculation based on World Bank, PovcalNet, available at http://iresearch.worldbank.org/PovcalNet/home.aspx (accessed on 3 November 2022); IMF, World Economic Outlook database, October 2022 (accessed on 3 November 2022)
... but focusing primarily on economic growth has come at a cost to social inclusiveness ...

Income distribution in Asia-Pacific
1980 = 100

... with considerable environmental impact

In fact, environmental impact of economic growth has increased dramatically since 1850s

Annual CO₂ emissions in billion tonnes (GT)

Source: Carbon Dioxide Information Analysis Centre (CDIAC).
Recent crises: Main implications and their interactions
Global economic slowdown is becoming evident ... likelihood of further slowdown is high

Source: ESCAP based on CEIC (accessed 3 November 2022). Regional aggregates for GDP are weighted average based on 93 countries for which quarterly GDP data are available.

For manufacturing PMI, a reading above 50 indicates expansion; below 50 indicates contraction.
Economic recovery in Asia-Pacific is also losing steam ... and is uneven within and between economies

### Quarterly real GDP growth

![Graph showing quarterly real GDP growth](image1)

### Sectoral growth in developing Asia-Pacific

![Graph showing sectoral growth](image2)

**Source**: Based on CEIC data (accessed 3 November 2022).

**Note**: Subregional aggregates are the weighted average, based on 28 economies in Asia and the Pacific for which quarterly GDP data are available.
Crisis caused by the pandemic took a heavy toll on people and livelihoods...

Equivalent number of full-time job lost (48 hours/week)

- Asia-Pacific: 140
- East and North-East Asia: 65
- South East Asia: 35
- Pacific islands: 10
- South and South-West Asia: 21
- Central Asia: 19

2020: Blue, 2021: Orange

Millions

Increase in poverty in 2021 due to the pandemic in Asia-Pacific

- $1,90: Blue
- $3,20: Orange
- $5,50: Grey

156
160

Millions of Persons

Source: ESCAP estimates and projections.

... and is likely to leave lasting scars on people and economies

- **Disruptions to labour markets** – erosion in workers’ skills and reduction in their chances of returning to the workforce

- **Lack of capital investments** – weaker future economic growth and less employment opportunities

- **Learning deficits** – long-term consequences on learning and earning potentials from prolonged school closures

Vulnerable groups and the poor are most affected

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![Graph showing the output loss in trillions of United States dollars for developing Asia-Pacific countries from 2017 to 2022. The total output loss in 2020-2022 is $2 trillion.](image)

**Developing Asia-Pacific output loss**

- **Total output loss in 2020-2022 is $2 trillion**

Source: ESCAP estimates and projections.
The ongoing war in Ukraine has compounded economic difficulties

Higher global commodity prices
- Higher inflation
- Higher import bill
- Larger fiscal subsidies
- Weaker domestic demand
- Higher financing cost
- Higher inflation
- Policy rate hike
- Higher import bill
- Higher financing cost
- Larger fiscal subsidies
- Weaker domestic demand
- Higher financing cost

Weaker global demand
- Lower exports and investments
- Lower remittances and tourism earnings
- Lower tax revenue
- Weaker domestic demand
- Lower asset prices
- Higher unemployment
- Higher financing cost
- Weaker domestic demand
- Tighter financial conditions
- Higher financing cost
- Weaker domestic demand

Higher economic uncertainty
- Capital outflows and volatility
- Limited access to global financial markets
- Higher financing cost
- Limited access to global financial markets
- Higher financing cost
- Higher economic uncertainty
- Capital outflows and volatility
- Limited access to global financial markets
- Higher financing cost

Source: UNESCAP (2022), The War in Ukraine: Impacts, exposure and policy issues in Asia and the Pacific.
Considerable surge in price of food, fuel and key commodities ...

Price of fuel and key commodities

- Crude oil avg.
- Food
- Grains
- Fertilizers
- Base metals (ex. Iron ore)

FAO world food price index

- Food price index
- Meat
- Dairy
- Cereals
- Oils
- Sugar

Source: World Bank Commodity Markets, October 2022

Source: FAO, Accessed November 2022
Inflation, and thus the interest rates, are on a rise in advanced economies....
Inflation pressure has reached double digits in several Asia-Pacific economies ... surpassing central bank targets.

Source: ESCAP based on CEIC (accessed 3 November 2022). Developing Asia-Pacific headline and food inflation is based on a median of 30 countries, core inflation is based on a median of 19 countries.
Monetary tightening in advanced economies and domestic inflationary pressures are leading to rising interest rates in Asia-Pacific...

Central bank interest rate decisions in developing Asia-Pacific countries

Source: Based on CEIC (accessed 21 October 2022).
Note: Central bank interest rate decisions are based on policy rate data for 29 countries in developing countries in the Asia Pacific region.
Capital is flowing to safe havens and the US dollar is becoming stronger ... thus downward pressure on exchange rates

Source: Based on CEIC (accessed 21 October 2022).
Fiscal space has dwindled, debt is up, financing pressure is high, and fiscal consolidations are expected ...

Source: IMF, Fiscal Monitor Database, October 2022.
Fiscal consolidations tend to increase inequalities and reduce output.

Source: ESCAP estimates.
Fiscal measures do support inclusive development ... 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.
Policy options: Supporting resilience, inclusiveness and sustainability
Asia-Pacific faces a wide risk landscape ... policy choices matter for resilience

### Asia-Pacific Risk Landscape

<table>
<thead>
<tr>
<th>Period</th>
<th>Financial crises</th>
<th>Terms-of-trade shocks</th>
<th>Natural disasters</th>
<th>Pandemics</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960s-1970s</td>
<td>10</td>
<td>5</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>1980s-1990s</td>
<td>40</td>
<td>20</td>
<td>60</td>
<td>20</td>
</tr>
<tr>
<td>2000-present</td>
<td>140</td>
<td>120</td>
<td>20</td>
<td>40</td>
</tr>
</tbody>
</table>

### Policy Choices

- **Economic policies**
  - Fiscal policy
  - Monetary and financial measures
  - Reserves and exchange rate regime
  - External financing

- **Structural factors**
  - Health and social protection system
  - Infrastructure quality
  - Economic diversification
  - Governance and institutions
Various shocks tend to leave long-term scars ... thus should invest in resilience ...

**Investment slowdown** from financial crises

**Increased inequality** from pandemics

**Environmental damage** from natural disasters

Source: ESCAP estimates.
... and pandemics have more severe socio-economic impacts ... in countries with pre-existing structural vulnerabilities

Source: ESCAP estimates and forecasts.
Difference in resilience enhancing policies explains difference in development performance

Sovereign Credit Rating Index

Exchange Rate Flexibility Index

Social protection spending (Percentage of GDP)

Infrastructure Quality Index

Economic Complexity Index

Least developed countries

Other developing countries

OECD countries
A transformation of economies towards resilient, inclusive, and green development pathways is needed

ESCAP’s ‘Build Forward Better’ policy package

Source: Economic and Social Survey of Asia and the Pacific 2021, ESCAP
Such transformation offers notable socio-economic and environmental benefits ... if ambitious investments are undertaken ...
... but implementing ambitious policy packages will have implications for fiscal positions and public debt ...
Key macro policies: role of central banks
Controlling inflation will need a judicious mix of policies

**Controlling inflation**

- Timely increases in policy interest rates
- Cut consumption tax and import tariff on food items, and increase food price subsidies
- Prevent hoarding, price distortions, and avoid export bans

**Associated issues**

- **Policy interest rate hikes**
  - can be less effective during supply-driven inflation
  - could have adverse distributional impacts due to higher borrowing costs
  - helpful if higher food and energy prices trigger sharp and broad-based wage rises

- **Cutting taxes and tariffs and increasing price subsidies on essential items**
  - ensure that these measures disproportionally benefit poorer households
  - Be ready to smoothly phase out these benefits
  - Other direct fiscal measures, such as cash transfers and food coupons, could be more effective

- **Price controls** discourage business investment to boost future production capacity

- **Export bans** hurt local farmers who would have benefited from higher prices and encourage restrictions by other major exporters
Beyond inflation ... inclusive and green central banking

Central banking area
- Monetary policy conduct
- Official reserve management
- Currency issuance
- Financial sector regulation

Current objective
- Price stability
- Safety & liquidity
- Adequate cash in circulation
- Robust financial sector

Additional consideration
- Income and wealth distribution plus climate risks
- Investment with social and green impacts
- Digital currency for financial inclusion
- Innovative social-oriented and green financial instruments
Key macro policies: Fiscal measures and debt/financing considerations
Enhancing fiscal space and improving debt sustainability: Immediate and short-term policy options

• **Domestic measures:**
  - Enhance revenue mobilization and ensure targeted fiscal transfers and subsidy schemes by leveraging technology and data
  - Improve public spending efficiency and protect spending for healthcare, education and social protection.
  - Start discussions with major creditors for debt restructuring, and explore innovative options such as debt for climate swaps

• **Multilateral considerations:**
  - Enhanced Debt Service Suspension Initiative (DSSI-E): expand country coverage to middle-income countries and expand the duration/scope
  - Move from debt service suspension or reprofiling to debt restructuring: kicking the can down the road may result in repeated debt distress and prolonged macroeconomic stagnation
  - Bring private creditors into the debt restructuring/relief discussion: create incentives for private creditor participation in the Common Framework
Enhancing fiscal space and improving debt sustainability: Long-term reforms

Improve access to and reduce the cost of development financing

• **Domestic measures:**
  • Promote domestic savings and develop domestic bond markets
  • Leverage the potential of public development banks and long-term fund
  • Mobilize private finance for development through blended finance and public-private partnership modalities

• **Multilateral considerations:**
  • Fulfill the international commitment to climate and development financing
  • Promote healthy development of the ‘thematic’ bond market
  • Strengthen cooperation to tackle illicit financial flows

Reduce fiscal risks and avoid (external) debt distress

• **Domestic measures:**
  • Expand tax base and improve progressivity of income taxes
  • Strengthen debt management and develop medium-term debt strategies that include risk assessments on contingent liabilities.
  • Incorporate catastrophic risks into fiscal planning and strengthen national emergency financing mechanisms

• **Multilateral considerations:**
  • Mainstream sustainable development into debt sustainability analysis and sovereign credit rating
  • Promote the adoption of collective action clauses (CACs) or state-contingent debt instruments (SCDI) in sovereign borrowing
  • Broader coordination among key jurisdictions and creditors on the legal framework and mechanisms for resolving debt crisis
Key Takeaways

- Focus on “reducing setbacks” (building resilience) is as important as “accelerating progress” (GDP growth) ... invest in people and planet.

- Rethink and transform development pathways ... focus on social services, digital access, and green development.

- Near-term economic prospects look grim ... current challenges are likely to persist for next couple years.

- Room for supportive fiscal and monetary policies has become increasingly limited ... several options are available to increase policy space.
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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