

Economic and Social Survey of Asia and the Pacific **2024**

Boosting affordable and longer-term financing
for governments

Highlights



국가채무

public debt

мемлекеттік борыш

Государственный долг

公共债务

deuda pública

หนี้สาธารณะ

dette publique



ESCAP
Economic and Social Commission
for Asia and the Pacific

Foreword



António Guterres
Secretary-General of
the United Nations



Our world is engulfed in a perfect storm. The ongoing effects of the cost-of-living crisis are joined by multiple conflicts, geopolitical tensions, rising mistrust, and the triple planetary crisis of climate change, biodiversity loss and pollution.

The Sustainable Development Goals are at risk of slipping away, with vital systems to address hunger, poverty and inequality being starved of urgently needed investment.

The *Economic and Social Survey of Asia and the Pacific 2024* reminds us that a lack of financial support for developing countries is at the core of these crises.

Governments of developing countries across Asia and the Pacific are victims of an unjust, outdated and dysfunctional global financial architecture. They face fiscal constraints, rising borrowing rates with shorter loan maturity, and heavy debt burdens. Up to half of low-income countries in the region are already in, or at high risk of, debt distress, forced to choose between servicing debt or investing in education, health and social protection for their people.

There are signs of hope. At the SDG Summit in 2023, world leaders endorsed the SDG Stimulus to provide more affordable long-term financing for developing countries and the need to reform the global financial architecture – work that must move from words to action.

This report highlights ways in which countries across Asia and the Pacific can strengthen access to financing. This includes working with donors, multilateral development banks and credit rating agencies to boost affordable financing and investment pathways in sustainable transitions, and making vital improvements to public-revenue collection and domestic savings.

The United Nations will continue standing with countries across Asia and the Pacific in their calls for justice, and as they invest in a better, more prosperous and peaceful future for the 4.7 billion people who call this extraordinary region home.

Preface



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Under-Secretary-General of the United Nations
and Executive Secretary of ESCAP



The 2024 edition of the *Economic and Social Survey of Asia and the Pacific* depicts a mixed picture of the region's economic landscape.

While there has been an upturn in the average economic growth rate in 2023 and projected steady growth for 2024 and 2025, showcasing the region's robust economic resilience, the rebound was uneven, limited to a few large economies.

High inflation and interest rates, coupled with weak external demand and heightened geopolitical uncertainty, are casting shadows over near-term economic prospects. Moreover, despite the appearance of relatively steady economic growth, there are underlying issues, such as subdued job creation, weakened purchasing power and increased poverty and socioeconomic inequalities across the region.

Beyond managing near-term macroeconomic challenges, Governments of countries in the region have a major task at hand. At the current pace of implementation, there will be a staggering 32-year delay before the Sustainable Development Goals have been achieved. To significantly accelerate progress towards achieving these Goals, more investment is urgently needed in such transformative areas as energy, digital connectivity, social protection and climate change.

As the *Survey for 2024* underscores, enhancing the availability of affordable and long-term financing for Governments is pivotal in this endeavor.

It is crucial to dispel the misconception that higher public debt levels inevitably lead to higher debt distress. In fact, strategic deployment of public debt to invest in the Sustainable Development Goals not only benefits people and the environment but also contributes to lowering public debt as a percentage of gross domestic product over the long term.

Addressing persistent challenges requires innovative solutions. For example, to enhance public revenue collection, policymakers can, in addition to digitalizing tax administration, explore how behavioural science can raise society's willingness to pay taxes. Fiscal schemes to leverage the increase in land values brought about by better public infrastructure also offer untapped resources.

International development partners must adopt fresh perspectives to better align their efforts with evolving needs. Official development assistance should prioritize countries with wider development financing gaps and higher vulnerability to shocks. Multilateral development banks should weigh the need to maintain their top-notch credit ratings with the growing development needs of developing countries by providing more lending out of the existing capital base. Credit rating agencies should adopt a longer-term lens and appreciate that public investments in sustainable development raise sovereign creditworthiness over time. Meanwhile, debate continues on whether Asia and the Pacific needs a new credit rating agency that better understands the region's development context.

In this context, ESCAP can play an important role in achieving these domestic and multilateral policy actions by facilitating dialogues and knowledge-sharing within the region and beyond. As we gear up for the eightieth session of the Economic and Social Commission for Asia and the Pacific and the Summit of the Future in 2024, it is time to act collaboratively to revive optimism for multilateralism. Only multilateral solutions can address the changing global financial and development context and challenges.

Key takeaways

Despite steady economic performance, people in Asia and the Pacific are experiencing weaker purchasing power, subdued job opportunities and deeper income and gender inequalities. The near-term economic prospects are subject to several downside risks, such as uncertainty relating to monetary policy stance, the depth and duration of China's economic slowdown and escalation of geopolitical tensions and trade fragmentation within the Asia-Pacific region and beyond.

Increasing public investments for development ambitions is looking more difficult. In addition to higher public debt levels, government borrowing costs have risen with shorter loan maturities in recent years. Many developing countries are forced to choose between servicing debt or investing in education, health and social protection for their people.

The *Survey for 2024* examines how countries in the region, donors, multilateral development banks and credit rating agencies can boost the availability of affordable and long-term financing for Governments.

Stronger public revenue collection helps mobilize fiscal resources and reduce fiscal risks and borrowing costs. Apart from digitalizing tax administration, policies to increase society's willingness to pay taxes offer untapped potential. Meanwhile, to increase the supply of long-term capital for investments, including by Governments, more developed capital markets are needed to unleash sizeable domestic savings in the region.

Support from international development partners is urgently needed as these domestic policy actions take shape.

Official development assistance should be given to countries with large development financing gaps and high vulnerability to shocks, rather than to those that share political interests. While fresh capital injections for multilateral development banks are overdue, they can better leverage their existing capital and reduce the administrative burden of loan packages. Credit rating agencies should appreciate that public investment in sustainable development raises sovereign creditworthiness over time.

While working to secure more affordable, long-term financing, fiscal policymakers should also keep in view global megatrends. How Governments seize the opportunities and manage the risks brought about by demographic shifts, climate change and technological advancements will determine whether they provide economies and the people with net gains or losses.

BOOSTING AFFORDABLE AND LONG-TERM FINANCING FOR GOVERNMENTS AMID GLOBAL MEGATRENDS

Public investment for a brighter future is increasingly difficult

Large financing needs



Surging borrowing rates



Shorter loan maturity



National policy actions

Multilateral development cooperation



Fiscal revenue mobilization



Donors



Sizeable household savings



Multilateral development banks



Functioning capital markets



Credit rating agencies

Broader picture: Fiscal policymaking amid global megatrends

Demographic shifts



Climate change



Technological advancements



Seizing the opportunities and managing the risks

New policy solutions



Policy synergies



Agile policymaking



Macroeconomic prospects, challenges and policies

1. Relatively steady economic growth and moderating inflation in 2023

Overall economic revival in 2023 was concentrated in only a few large economies. Output growth in most other economies moderated due to weak external demand, relatively high cost of living and heightened economic uncertainty.

2. Subdued job creation and risk of rising poverty and inequality remain concerning

High inflation and weak employment have eroded people's purchasing power and ability to cope with shocks. New estimates by ESCAP show that the COVID-19 pandemic and the high cost of living may have pushed almost 42 million more people in the region into extreme poverty in 2022. Income inequality is also likely to widen, as the income share of the bottom half of the population dropped in many countries.

3. Near-term economic prospects face various downside risks

While it is decreasing, inflation is likely to remain relatively high. As such, policy interest rate cuts may not be instituted as soon, and their scale not be as large, as desired in many economies. Similarly, fiscal conditions are expected to remain rather tight. Other downside risks include the depth and duration of China's economic slowdown and escalation of geopolitical tensions and trade fragmentation within the Asia-Pacific region and beyond.

4. Policy considerations in navigating challenging macroeconomic conditions

Before supporting economic growth, central banks should ensure inflation control and financial stability. Increasing fiscal resources would require improved revenue mobilization, public spending efficiency and effectiveness, and better public debt management. Strengthening regional demand would help mitigate the impacts of rising trade fragmentation. Mainstreaming gender equality into macroeconomic policymaking is also critical.

NAVIGATING MACROECONOMIC CHALLENGES WHILE FOSTERING AN INCLUSIVE AND SUSTAINABLE FUTURE



Pandemic scarring

High cost of living

Rising interest rates

Impacts on people and Governments



Wider income inequality



42 million more people pushed into extreme poverty



Malnutrition and food insecurity



Rising vulnerable employment



Government interest payments at almost 40% of health spending



Higher public debt level

Policy considerations

Domestic policies



Ensure inflation control



Enhance fiscal revenue mobilization



Boost domestic demand



Mainstream gender issues into policymaking

International policies



Long-term financing for developing countries



New international debt relief mechanisms

Affordable and long-term financing for Governments: domestic taxation and savings

1. Government borrowing costs in the Asia-Pacific region have risen with shorter loan maturities

On average, Governments' interest payments amounted to about 28 and 38 per cent of public spending on education and health care, respectively, during the period 2019-2022. ESCAP analysis reveals that sustained macroeconomic and inflation stability, strong fiscal positions and financial market liquidity are key to keeping Governments' borrowing rates at low levels.

2. Strengthening public revenue collection is key to reduce fiscal risks and thus borrowing costs over time

Asia and the Pacific is no longer viewed as a "low-tax" region, but considerable room remains for collecting more personal income taxes, and property and wealth taxes. ESCAP analysis suggests that closing the tax gaps (difference between potential and actual tax collection) can generate additional fiscal revenue of 2.6 per cent of GDP on average.

3. Improving tax morale through proactive and low-cost nudges can complement traditional enforcement measures for enhancing tax compliance

In addition to tax audits and penalties, taxpayers also react to the sense of personal pride, social responsibility, and peer and social pressures.

4. More developed capital markets are needed to unleash sizeable domestic savings in the region

Countries with low savings need to lift labour productivity, provide universal access to health care and social protection in order to reduce precautionary savings, and improve financial access and literacy. To effectively deploy available savings for development purposes, the *Survey for 2024* discusses a host of policy and regulatory measures.

FISCAL REVENUES AND DOMESTIC SAVINGS ARE THE BACKBONE OF AFFORDABLE AND LONG-TERM FINANCING

Keeping government borrowing rates at a low level requires



Macroeconomic and price stability



Low fiscal risks



Financial market liquidity

Greater tax effort and efficiency bring countries closer to their tax potentials

Closing tax gaps can boost fiscal revenues by 2.6% of GDP



Expanding tax potential requires broader policy effort

Higher incomes

Better education

Less inequality

Lower corruption

Stronger tax morale for better tax compliance



Intrinsic values



Sense of reciprocity



Peer and societal pressures



Induced perceptions

Boosting and channeling of domestic savings



Raise labour productivity



Expand provision of basic public services



Improve financial access and literacy



Support capital market development

Affordable and long-term financing for Governments: multilateral development cooperation

- 1. New perspectives can shift the long-standing operations of international development partners to foster affordable and long-term development financing**
- 2. Donors should honour their overdue commitments and match allocations with needs**

Official development assistance in 2022 amounted to only half of the commitment made since 1970. This assistance should be provided to developing countries with wider development financing gaps and greater exposure to shocks, rather those with shared political interests. The United Nations-led Multidimensional Vulnerability Index provides a more systematic approach to allocating concessional financing.

- 3. Addressing underutilized resources and capacities of multilateral development banks**

Fresh capital injections for multilateral development banks are urgently needed to catch up with the growing development needs of developing countries. In the meantime, the banks can better leverage their existing capital, increase lending in local currencies, reduce the administrative burden of loan packages and work closely with each other to amplify their collective lending capacities.

- 4. Towards more development-aligned and long-term sovereign credit ratings**

Credit rating agencies should incorporate the potential long-term impacts of demographic shifts and climate risks on sovereign risks in their assessments as well as recognize that public investment in sustainable development raises sovereign creditworthiness over time. Meanwhile, ideas to set up a regional credit rating agency that better understands the development context of Asia and the Pacific could be explored. ESCAP can facilitate experience-sharing in this regard.

INTERNATIONAL COMMUNITY NEEDS NEW PERSPECTIVES TO ENSURE AFFORDABLE AND LONG-TERM FINANCING FOR GOVERNMENTS

Donors: honour development assistance commitments and match allocations with needs



Provision



Allocation

ODA

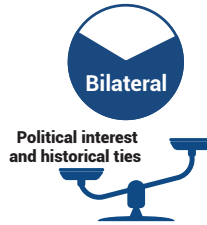


Only half is met

Climate finance



Should be additional to ODA



Adopt Multidimensional Vulnerability Index

Multilateral development banks: address underutilized resources



Boost lending capacities



Fresh capital injections



Balance sheet optimization



Strengthen systemic coordination



Increase lending in local currencies



Reduce administrative burdens



Improve lending terms

Sovereign credit rating: towards long-term, development-aligned approaches



More transparent rating approaches



Incorporate long-term issues into assessments



Reduce mechanistic reliance on ratings



Increase dialogues with debtor countries

Fiscal implications of global megatrends

1. Three megatrends are reshaping economies, directly influencing fiscal resources and fiscal policy conduct

To seize the opportunities and manage the risks brought about by demographic shifts, climate change and technological advancements, fiscal policymakers need to find new policy solutions, strengthen policy synergies and be agile in policymaking.

2. Population ageing has slow-evolving and diverse fiscal implications

A shrinking workforce and lower labour productivity among older workers could hamper tax collection. Fiscal needs for old-age health care, social protection and lifelong learning will rise. Fiscal policy could also become less effective, as consumption by older people is less responsive to fiscal incentives.

3. Climate change and environmental degradation can further constrain fiscal resources

Fiscal revenues would be eroded due to weaker productive capacity amid natural resource scarcity and less productive workers. Sizeable fiscal spending will be needed to rebuild post-disaster economies and invest in green development. Climate change can push up inflation, thus interest rates and government borrowing costs, through lower crop yields and removal of fossil fuel subsidies.

4. Technologies and digitalization pose both risks and opportunities to fiscal management

Countries with traditional tax systems based on the tangibility and physical location of goods and services find it difficult to tax the increasingly digitalized economies. However, digital tools can also help enhance the efficiency and effectiveness of public financial management systems, such as electronic procurement and filing of tax returns.

DEMOGRAPHIC SHIFTS, CLIMATE CHANGE AND TECHNOLOGICAL ADVANCEMENTS: IMPLICATIONS FOR FISCAL POLICYMAKERS

Demographic shifts

1 in 5 persons in Asia-Pacific region will be old-age by 2050



Encourage old-age employment



Support lifelong learning



Invest in old-age health care



Expand flexible pension systems

Technology and digitalization

Creative destruction with new opportunities



New taxation models amid digital economy



Stronger multilateral tax cooperation



Ensure shared benefits of 4th industrial revolution

4IR

Digitalize public financial management



Synergies are needed for fiscal policy

Overall headwinds for economies and fiscal policy



Reduced productive capacity



Lower agricultural productivity



Less productive workforce



Invest in climate adaptation and mitigation



Post-disaster fiscal support



Foster food security



Climate change and environmental degradation

Fiscal policies must evolve and adjust to changing global context

Relatively steady economic growth in developing economies in Asia and the Pacific is masking declining purchasing power and the risk of rising poverty and socioeconomic inequalities faced by people in the region. Economic headwinds and downside risks that cloud the near-term prospects could further undermine people's living conditions and well-being.

Despite lagging progress towards achievement of the Sustainable Development Goals, Governments find it increasingly difficult to increase, or even maintain, public investments for development ambitions. Sovereign debt-servicing burden is taking away fiscal resources that should have been used to provide more and better public services and infrastructure.

The *Survey for 2024* examines how Asia-Pacific countries, donors, multilateral development banks and credit rating agencies can boost the availability of affordable and long-term financing for Governments.

New policy solutions can solve this long-standing development challenge. For example, harnessing behavioural science to increase society's willingness to pay taxes offers large untapped potential to close the tax collection gaps that can reduce fiscal risks and thus borrowing costs.

In addition to stronger domestic political will and multilateral development cooperation, shifts in the perspectives of international development partners are critical. Donors should prioritize development financing gaps in recipient countries over political interests. Multilateral development banks could revisit whether the potential development impacts of their capital are being maximized. With a long-term approach, credit rating agencies should appreciate that public investment in sustainable development raises sovereign creditworthiness over time.

"Governments of developing countries across Asia and the Pacific are victims of an unjust, outdated and dysfunctional global financial architecture. They face fiscal constraints, rising borrowing rates with shorter loan maturity, and heavy debt burdens."

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