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**Review of the implementation of the 2030 Agenda for Sustainable Development in Asia and the Pacific and issues pertinent to the subsidiary structure of the Commission: macroeconomic policy, poverty reduction and financing for development**

## Macroeconomic outlook, challenges and policies for the Asia-Pacific region

### Note by the secretariat

#### *Summary*

Developing Asia-Pacific countries are facing strong economic headwinds in the near term. Economic growth in several major developed economies, especially in Europe, remains sluggish, while post-pandemic economic recovery in China is being held back by its debt-ridden property sector. Together, these factors could hamper economic growth in many Asia-Pacific economies that rely on merchandise exports, tourism and remittance flows. On the domestic front, although global commodity prices have decreased from their 2022 peaks as a result of the war in Ukraine and related international sanctions, consumer inflation remains persistently high, thus curtailing household consumption in many economies of the region. The subsequent tightening of monetary policy, while helping to manage inflation expectations going forward, has increased the debt servicing burdens on households, companies and Governments. In addition to higher borrowing costs and fragile external demand, business investment is also being undermined by geopolitical uncertainty and geoeconomic fragmentation. Furthermore, room for fiscal policy support to weather these economic headwinds has shrunk amid rising public debt levels and distress risk in many Asia-Pacific countries.

In the present document, the secretariat highlights short-term economic prospects and discusses selected challenges faced by macroeconomic policymakers in Asia and the Pacific. For example, striking a balance between ensuring price and financial stability and fostering economic growth by central banks will not be an easy task. Given the persistent income and gender inequalities in the region, Governments should consider adopting fiscal and central bank policies that are more mindful of socioeconomic disparities. Moreover, in the light of the tight fiscal and debt positions and the substantial spending needed to achieve the Sustainable Development Goals and climate ambitions, fiscal authorities will need to explore several options to increase fiscal resources. The international community can play an important role in boosting the availability of affordable and long-term financing for Governments of developing countries in Asia and the Pacific.

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The Economic and Social Commission for Asia and the Pacific is invited to review and discuss the macroeconomic assessments and policy ideas contained in the present document and provide feedback and guidance to the secretariat for its forthcoming analytical work and for the planning and preparation of future technical assistance and capacity-building work. The Commission is encouraged to share information about country-specific experiences and initiatives in relation to these issues.

## I. Introduction

1. The Asia-Pacific region continues to play a major role in propelling the global economy, accounting for 64 per cent of global economic growth in 2023. Amid gloomier global economic conditions, however, developing countries in the region face challenging macroeconomic conditions in 2024, despite higher gross domestic product (GDP) growth and moderating inflation. Millions of people in Asia and the Pacific may have been pushed into extreme poverty in 2022 as a result of the deep socioeconomic scars left behind by the coronavirus disease (COVID-19) pandemic and the cost-of-living crisis. A surge in interest rates to tame inflation has eroded the purchasing power of poor and vulnerable populations, likely widening income and gender inequalities further. Higher interest rates have also raised sovereign debt servicing costs, at a time when Asia-Pacific Governments are already facing large development spending needs and rising risk of public debt distress. In the near-term, the main downside risks to economic prospects are uncertainty related to inflation trends and monetary policy stance, both in the Asia-Pacific region and beyond, the extent of the economic slowdown in China, rising geopolitical tensions and trade fragmentation.

2. Against this backdrop, the present document provides an overview of recent socioeconomic developments in the developing Asia-Pacific region, covering issues such as economic growth, inflation, employment, poverty and fiscal and public debt positions. It also includes a look at the near-term economic prospects for the region, which are subject to several domestic and external downside risks.

3. The present document also includes a discussion of aspects of macroeconomic and public debt policies that policymakers in Asia and the Pacific can consider for improving economic performance and pursuing inclusive and sustainable development. First, in the light of persisting poverty and socioeconomic inequalities and the limited progress made towards achieving the Sustainable Development Goals in the region, the secretariat highlights a set of fiscal and central banking policy actions that could help narrow such disparities. Second, amid tight fiscal and debt positions and the significant spending needed to achieve the Goals and climate ambitions, the secretariat discusses how Governments can raise fiscal revenues, increase public spending effectiveness and efficiency and improve public debt management. Furthermore, the secretariat highlights how the international community, including multilateral development banks and credit rating agencies, can boost the availability of affordable and long-term financing for Governments and make sovereign debt restructuring more inclusive and effective.

## II. Recent socioeconomic developments in Asia and the Pacific

### A. Economic growth

4. Average economic growth in the developing Asia-Pacific region picked up from 3.5 per cent in 2022 to 4.8 per cent in 2023. The rebound was concentrated in only a few large economies. In China, for instance, GDP growth increased to 5.2 per cent in 2023 from 3.0 per cent in 2022 after pandemic-related restrictions were lifted in early 2023. Still, the increase was smaller than expected due to weaknesses in the real estate sector, which accounts for around 30 per cent of the country's GDP. The region's overall economic expansion was also supported by the turnaround in the economy of the Russian Federation, where GDP grew by 2.9 per cent in 2023 after having contracted by 2.1 per cent in 2022.

5. India became the world's fastest growing major economy in 2023, posting GDP growth of 6.5 per cent. The expansion was mainly supported by household consumption, amid low unemployment, and public investment in infrastructure. Although India has enjoyed relatively robust economic growth in the past few years, the extent to which it can support the merchandise exports of other Asia-Pacific countries is limited. Apart from hosting migrant workers and importing energy from some of its neighbours, India does not engage in significant merchandise trade with other parts of Asia and the Pacific.

6. Outside of these few large economies, economic growth in most developing Asia-Pacific economies remained moderate in 2023 as a result of both external and domestic factors. On the external front, countries that rely on merchandise exports faced weak external demand, especially from China and Europe.<sup>1</sup> For example, the Republic of Korea experienced its longest period of manufacturing production decline in 50 years, mainly attributable to lower exports of computer chips to China. In terms of services exports, although the post-pandemic recovery in the tourism sector continued in 2023, international tourist arrivals in the developing Asia-Pacific region stood at only 62 per cent of pre-pandemic levels. In the Pacific, where several economies rely on tourism revenues, the recovery rate was higher, at 72 per cent, but still well below the global average of 87 per cent and the average of 116 per cent among small island developing States in the Caribbean.

7. On the domestic front, although global commodity prices receded from the peaks reached in 2022 as a result of the war in Ukraine and related international sanctions, average inflation in the region remained relatively high in 2023, holding back household consumption. The subsequent monetary policy tightening resulted in rising debt servicing burdens on households, companies and Governments. In addition to facing higher borrowing costs and subdued external demand, business investment was also constrained by uncertainty, fuelled by geopolitical tensions and trade fragmentation. Unlike during the height of the pandemic, room for fiscal policy support has shrunk amid a rising risk of public debt distress and higher sovereign debt servicing costs.

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<sup>1</sup> In contrast to the United States of America – where, despite a tight monetary policy stance with the policy rate at a 22-year high, employment and household consumption were stronger than expected in 2023 – European economies were more adversely affected by high inflation and interest rates, coupled with faltering trade with China and a reduction in government pandemic support measures.

## B. Inflation

8. Following a decline in global food and energy prices, headline inflation in the developing Asia-Pacific region subsided to 5.2 per cent in 2023 from 7.5 per cent in 2022. Both food and core<sup>2</sup> inflation largely mirrored the overall inflation trend. Even so, the 2023 headline inflation rate was still considerably higher than the average rate of 3.5 per cent during the pre-pandemic period from 2017 to 2019. Moreover, the overall downward trend masks a stark variation in inflation trends across the region. While Indonesia, Thailand and Viet Nam managed to meet their inflation targets in 2023, inflation in the Islamic Republic of Iran, the Lao People's Democratic Republic, Pakistan, and Türkiye remained exceptionally high, ranging from 29 to 53 per cent.

9. Amid a decreasing inflationary trend, most central banks in the Asia-Pacific region held their policy rates unchanged in 2023 after announcing steep rate hikes in 2022. But the central banks in Pakistan, the Russian Federation, Thailand and Türkiye continued to hike rates in 2023 to try and stem inflationary pressure. In contrast, monetary policy was eased in Armenia, China, Georgia, Kazakhstan, Tajikistan and Viet Nam, where policy rates were cut.

10. In addition to making interest rate adjustments to address inflation, several Asia-Pacific economies also launched fiscal and trade policy measures to help people and businesses cope with high food and energy prices. For example, in the Philippines, the Government provided cash transfers and food vouchers to low-income households and fuel subsidies to public transport operators. The Government of India provided cooking gas subsidies for households and imposed a temporary export ban on some categories of rice after heavy rainfalls damaged rice output – although the move pushed up global rice prices, as India accounts for up to 40 per cent of global rice exports. In the Lao People's Democratic Republic, the Government raised the minimum wage, while the Government of Viet Nam temporarily cut the value added tax rate to support household consumption.

11. High food prices are likely to further worsen food security in the region. Even before the global food price surges in 2022, the cost of a healthy diet in the Asia-Pacific region stood at \$4.15 per person per day in 2021, compared to the global average of \$3.66.<sup>3</sup> As this amount is higher than what many people can afford, almost 371 million people in the region remain undernourished, a situation faced by many more women than men. At the subregional level, South and South-West Asia is more prone to high food prices than others, with 4 in 10 people facing moderate or severe food insecurity in 2022. Meanwhile, food prices account for more than 50 per cent of the consumer price index baskets in countries such as Bangladesh, the Lao People's Democratic Republic and Myanmar. Higher food prices in these countries will therefore significantly affect households' ability to spend on other essential items, such as education and health care.

12. High inflation in the developing Asia-Pacific region in the past few years has eroded people's economic well-being by lowering their purchasing power. Since 2021, high inflation has been driven by a combination of pandemic-related supply disruptions, unprecedented fiscal and monetary

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<sup>2</sup> Core inflation is defined as headline inflation excluding energy and food items.

<sup>3</sup> Food and Agriculture Organization of the United Nations, *Asia and the Pacific: Regional Overview of Food Security and Nutrition 2023 – Statistics and Trends* (Bangkok, 2023).

stimuli, pent-up consumer demand, and consequences of the war in Ukraine and related international sanctions. On average in 2023, prices of goods and services in the region were about 17 per cent higher than in 2020. In the least developed countries, they were 26 per cent higher. However, available data show that wage levels have not kept pace. For example, in Mongolia, workers' earnings increased by only 6.5 per cent per year on average during the period 2021–2023, while the average annual inflation was 11.0 per cent. Inflation has also outpaced earnings growth in Azerbaijan, Malaysia, the Republic of Korea, the Russian Federation and Thailand.

### C. Employment, poverty and inequality

13. In mid-2023, after years of difficult economic conditions, employment was only marginally above pre-pandemic levels in sectors that typically employ lower-skilled workers, such as accommodation and food service activities; transportation and storage; and wholesale and retail trade. In contrast, employment in the information and communications technology sector has risen in recent years to stand about 15 per cent higher than the pre-pandemic level. Such a divergent sectoral performance may further widen income inequality in the region.

14. The COVID-19 pandemic has had negative impacts on informal and vulnerable workers in Asia and the Pacific. While the number of people in both informal and vulnerable employment had been gradually declining in the region up to 2019, the trend was reversed during the pandemic. Because women account for a disproportionate share of those in informal employment, where there is a lack of access to social protection and employment benefits, such as minimum wage protections and health-care benefits, the result is a deepening of gender inequalities.

15. The Economic and Social Commission for Asia and the Pacific estimates that the combination of the cost-of-living crisis in 2022 and the lingering effects of the COVID-19 pandemic could have pushed almost 42 million people in Asia and the Pacific into extreme poverty, based on the \$2.15 poverty line.<sup>4</sup> This exacerbation of poverty concerns in the region comes at a time when poverty levels were already on the rise in South Asia and had stopped declining in East Asia in 2021.

16. The multifaceted impacts of the pandemic and high inflation have also pushed up within-country income inequality in the region. Wealthier families earn a greater proportion of their income from investing in financial markets, which have performed relatively well in recent years. In contrast, the real value of national minimum wages, which are the wage rates that are most relevant for the poor, declined between 2020 and 2022 in several countries. Poorer households also spend a greater proportion of their income on food and energy items, the prices of which have increased notably since 2022. These and other structural factors explain the stark variation in income shares within Asia-Pacific countries. For instance, in China, Indonesia and Maldives, the share of income earned by the richest 10 per cent of the population stood at over 55 per cent in 2022, while the share of those in the bottom 50 per cent ranged between 11 and 16 per cent.<sup>5</sup>

<sup>4</sup> *Economic and Social Survey of Asia and the Pacific 2024: Boosting Affordable and Long-term Financing for Governments* (United Nations publication, forthcoming).

<sup>5</sup> World Inequality Database. Available at <https://wid.world/data/> (accessed on 11 December 2023).

## D. Fiscal and public debt conditions

17. After unprecedented levels of fiscal stimulus were launched to mitigate the socioeconomic impacts of the pandemic, fiscal consolidation efforts began to take shape in 2021. For example, in Fiji, Papua New Guinea, the Philippines, Sri Lanka and Thailand, the fiscal deficit-to-GDP ratio decreased steadily over the period 2021–2023. Available data show that fiscal consolidation was achieved in part through spending cuts. Out of 20 Asia-Pacific economies with data on fiscal spending broken down into major development areas, at least half recorded a decrease in fiscal spending on health, education and social protection in 2021, after almost all recorded increases in these three areas in 2020.

18. Despite some variation in the fiscal stance across Asia-Pacific economies, the pace of fiscal tightening in the region appeared to have slowed in 2023.<sup>6</sup> The estimated median fiscal deficit increased to 4.2 per cent of GDP in 2023 from 2.9 per cent of GDP in 2022. In addition to slower economic growth affecting tax revenue collection in many economies, larger fiscal shortfalls could also be attributed to fiscal spending to support households with the rising cost of living, in the form of subsidies and temporary tax cuts, as highlighted above.

19. The risk of debt distress remains high in many developing Asia-Pacific economies. Out of 20 Asia-Pacific countries that have undergone a debt sustainability analysis for low-income countries by the International Monetary Fund (IMF) and the World Bank, one has been deemed to be in debt distress<sup>7</sup> and 10 have been rated as having a high risk of debt distress.<sup>8</sup> Worryingly, all of these high-risk countries are countries in special situations, which comprise least developed countries, landlocked developing countries and small island developing States. Other Asia-Pacific countries not covered by the debt sustainability framework for low-income countries are also at risk of debt distress. For instance, Bangladesh, Pakistan and Sri Lanka have recently turned to IMF for external financial assistance.

20. Another concern is that sovereign debt service costs have trended up in recent years amid higher public debt levels and higher interest rates. In Bhutan, the Lao People's Democratic Republic, Maldives, Mongolia and Sri Lanka, for instance, sovereign debt service payments stood at between 8 and 10 per cent of GDP in 2022. This is a significant amount considering how little some Asia-Pacific Governments spend on development purposes. For example, in Mongolia, fiscal spending on health care, education and environmental protection combined was about 6.6 per cent of GDP in 2021.<sup>9</sup>

## III. Macroeconomic prospects in Asia and the Pacific

21. Economic growth in the developing Asia-Pacific region is projected to soften slightly from 4.8 per cent in 2023 to 4.4 per cent in both 2024 and 2025.

<sup>6</sup> For example, in China and India, the fiscal deficit-to-GDP ratio remained largely stable, in the range of 7 to 9 per cent, over the period 2021–2023, while Bangladesh, the Lao People's Democratic Republic, Pakistan and Solomon Islands recorded rises in their ratios during this period.

<sup>7</sup> Lao People's Democratic Republic.

<sup>8</sup> Afghanistan, Kiribati, Maldives, Marshall Islands, Micronesia (Federated States of), Papua New Guinea, Samoa, Tajikistan, Tonga and Tuvalu.

<sup>9</sup> Based on the IMF, Government Finance Statistics database. Available at [www.imf.org/en/Data](http://www.imf.org/en/Data) (accessed on 15 December 2023).

The moderation is expected to be most notable in the East and North-East Asia subregion amid an economic slowdown in China. South-East Asia is expected to see a rather broad-based pickup in economic growth, with relatively stable trends in other subregions. Overall, domestic demand should continue to drive output growth in the near term, as external demand is held back by a projected slowdown in world trade volume, a weak economic rebound in Europe and slow output growth in the United States of America.

22. Inflation in the developing Asia-Pacific region is projected to decrease slightly from 5.2 per cent in 2023 to 4.8 per cent in 2024 and 3.8 per cent in 2025. This is in line with a projected dip in global commodity prices, with energy prices coming in at about 4.5 per cent below 2023 levels and food prices about 1.5 per cent lower.<sup>10</sup> This projection would still put them above 2021 levels (prior to the 2022 commodity price surges), by about 9 per cent for energy prices and 6 per cent for food.

23. With relatively high levels of inflation being projected, the timing and extent of policy interest rate cuts is difficult to pin down. There is a high likelihood that it will not happen as soon or as aggressively as desired in many economies. In countries where inflation targets are not firmly met, especially due to demand factors, central banks may decide to hold interest rates at elevated levels. In addition to domestic inflation stability, central banks also need to consider how monetary policy unwinding could affect capital flows and exchange rate volatility due to interest rate differentials with major developed economies. Domestic currencies in China, Indonesia, Malaysia, the Philippines, the Republic of Korea and Thailand, for instance, already depreciated moderately against the United States dollar in 2023. Further depreciation would raise imported inflation, increase the debt burden of foreign-currency denominated sovereign and corporate debts and potentially trigger the use of foreign exchange reserves for market intervention to support local currencies, as was reported in mid-2023 in some Asia-Pacific economies.

24. Similar to the monetary policy stance, fiscal conditions are expected to remain rather tight in the coming few years. According to IMF projections,<sup>11</sup> the average government debt-to-GDP ratio in developing Asia-Pacific countries is expected to remain relatively high over the period 2024–2025, at about 50 per cent, compared to an estimated 48.9 per cent in 2023 and 41.1 per cent in the pre-pandemic period 2017–2019. At the same time, global interest rates, and thus debt servicing costs, could remain elevated, as global inflation is projected to remain above the recent historical trend in the near term. For Group of Seven economies, projected consumer inflation of 2.9 per cent in 2024 and 2.2 per cent in 2025<sup>12</sup> – above the 2.0 per cent target adopted by central banks in Europe, the United Kingdom of Great Britain and Northern Ireland and the United States – raises the potential for a continued tight monetary policy stance.

25. The baseline projections are subject to several downside risks. First, uncertainty relating to inflation trends and thus monetary policy stance, both in the Asia-Pacific region and beyond, remains significant. For example, the extent to which the El Niño phenomenon could affect agricultural output and

<sup>10</sup> World Bank, Commodity Markets dataset. Available at [www.worldbank.org/en/research/commodity-markets](http://www.worldbank.org/en/research/commodity-markets) (accessed on 10 January 2024).

<sup>11</sup> IMF, World Economic Outlook database, October 2023 edition. Available at <https://www.imf.org/en/Publications/WEO/weo-database/2023/October> (accessed on 10 January 2024).

<sup>12</sup> Ibid.

food prices remains uncertain and may vary widely across Asia-Pacific countries. Outside of the region, while some analysts note that monetary policy unwinding could begin in the United States in 2024 if inflation continues to move closer to the target level of 2.0 per cent, others caution against the risk that robust employment conditions could raise inflation expectations.

26. Second, under the scenario that interest rates remain elevated for an extended period of time, the debt repayment ability of some households and companies could be weakened as a result. Although the banking sectors in developing Asia-Pacific economies are generally well capitalized, with capital adequacy ratios of over 15 per cent, the proportion of loans in default stood at relatively high levels in the third quarter of 2023, ranging from 8 to 10 per cent of total bank loans in Bangladesh, Kyrgyzstan, Mongolia and Pakistan.

27. Third, while an abrupt financial crisis in China is unlikely given the significant role of State-owned banks, an economic slowdown is projected, the depth and duration of which is uncertain. For example, although China has cut mortgage rates, the pace of correction in the property market could hamper consumer confidence to a greater-than-expected extent. Moreover, unlike past episodes of economic slowdown, when the Government of China buoyed domestic demand through fiscal support, including for the property sector, the Government is currently aiming to gradually reduce excess construction in the property sector.

28. Fourth, geopolitical tensions and trade fragmentation, primarily between China and Western countries, could escalate further. In such an event, further restrictions could be placed on imports from China, in particular for high-technology goods. Measures could also be taken to relocate manufacturing activity away from China, which might initially boost foreign direct investment in neighbouring countries but could leave the Asia-Pacific region as a whole worse off if more production facilities are eventually brought back to Europe and the United States. Furthermore, deteriorations in other areas of geopolitical tension, such as the war in Ukraine, territorial disputes in the South China Sea or the Israel-Gaza conflict, could lead to commodity price volatility and severely dampen economic sentiment.

29. The challenging economic outlook has direct implications for the achievement of the Sustainable Development Goals in Asia and the Pacific. Among other things, moderate economic growth prospects and heightened economic uncertainty may lead to subdued job creation and smaller wage increases. Difficult economic conditions also constrain tax revenue collection and thus limit the fiscal resources available for spending on priorities such as expanding social protection coverage, improving the quality of education and further investing in transport and energy infrastructure. As Asia-Pacific economies navigate the near-term headwinds and downside risks, it is important that they keep their long-term development ambitions in view.

## **IV. Macroeconomic and public debt policies for sustained economic performance and inclusive and sustainable development in Asia and the Pacific**

### **A. Macroeconomic policy for equitable development**

30. Narrowing socioeconomic inequalities remains a major development challenge in the developing Asia-Pacific region. According to available data for 2022, region-wide progress towards achieving Sustainable Development Goal 10 (Reduced inequalities) was limited, and there was a regressing trend



in the Pacific subregion.<sup>13</sup> The progress made towards achieving Goal 5 (Gender equality) is even less encouraging across all Asia-Pacific subregions.

31. In addition to pushing more people into extreme poverty, the COVID-19 pandemic and the high cost of living have also had disproportionate adverse impacts on lower-income groups and women. There are several factors at play, including an increase in unpaid household work, the physical distancing measures that disrupted the hospitality and tourism sectors, which largely employ low-skilled and female workers, and weaker financial ability to cope with job losses and higher food prices.

32. In addition to the adverse impacts of shocks over the past few years, structural factors have also exacerbated inequalities in Asia and the Pacific. Some of these factors are the dominance of informal and low-productivity economic sectors, labour-unfriendly technological upgrading, unequal access to public services such as education and infrastructure, and regressive tax systems. In 2021, women accounted for 55 per cent of informal employment in Asia and the Pacific.<sup>14</sup> In the same year, women accounted for virtually all informal employment in the agricultural sector in Afghanistan, India, Myanmar and Viet Nam.<sup>15</sup> In addition to not providing access to social protection or employment benefits due to their informal nature, jobs in the agricultural and services sectors are typically lower value-added jobs and thus pay lower wages.

## 1. Inclusive fiscal policymaking

33. Socioeconomic disparities are usually not considered in the formulation of macroeconomic policies or the analysis of their impacts. When macroeconomic policy objectives prioritize inflation stability and public debt sustainability, it can have the effect of constraining employment conditions and public spending on social programmes. While there are some fiscal incidence analyses on the impact of fiscal policy change on populations with different income levels, assessments of the gender impacts of fiscal policy remain relatively uncommon.<sup>16</sup> The same is true for studies that examine the impacts of monetary policy outcomes on socioeconomic inequalities.

34. One approach to inclusive fiscal policymaking is to maintain adequate public spending in three major development areas: health care, education and social protection. Enhancing the quality of these public services and improving access to them will directly benefit marginalized and vulnerable populations, thereby promoting socioeconomic equality in the long term. Amid rapid population ageing in several populous Asia-Pacific countries, shifts in fiscal

<sup>13</sup> Economic and Social Commission for Asia and the Pacific (ESCAP), Asia-Pacific SDG Gateway. Available at <https://data.unescap.org/data-analysis/sdg-progress> (accessed on 10 January 2024).

<sup>14</sup> International Labour Organization (ILO) and Asian Development Bank, *Where Women Work in Asia and the Pacific: Implications for Policies, Equity and Inclusive Growth* (Geneva, 2023).

<sup>15</sup> ILO, ILOSTAT. Available at <https://ilostat.ilo.org> (accessed on 10 January 2024).

<sup>16</sup> Examples include an assessment of the impact of a cut in childcare and old-age benefits on women's unpaid household work and formal employment, and an assessment of the impact of a shift in the composition of educational spending (for example, from early childhood to technical and vocational education) on girls' school enrolments and earnings in the long term.

spending towards old-age health care and education for lifelong learning will also allow people to remain part of the workforce for longer.

35. Gender-aligned fiscal budgeting is one concrete example of inclusive fiscal policymaking. In New Zealand, the 2023 budget featured a gender snapshot, which highlighted gender inefficiencies in public spending on transportation and technology, as well as gender gaps in both wages and retirement savings. It also included funding for policies to reduce family violence against women during and after climate-induced natural disasters.

36. To facilitate inclusive fiscal policymaking, national statistical agencies should collect, analyse and distribute gender-disaggregated socioeconomic data. Such data would help improve the understanding of the contribution of women to macroeconomic performance and of how prevailing macroeconomic conditions may affect women's socioeconomic well-being. For example, in India, women may have benefited less than men from strong economic growth in recent years as they are less likely to be active in the job market, with a labour force participation rate of about 33 per cent, compared to 77 per cent for men. Moreover, there is significant room to help more women benefit from long-term economic prosperity in India. Currently, close to half of women aged between 15 and 24 are likely to be out of education, employment or training, compared to only 14 per cent for men.

## **2. Inclusive central banking policies**

37. Compared with fiscal policy, the role of central banking policy in supporting inclusive development is less frequently discussed. This is mainly due to the perceived failure of development central banking, an approach followed by many central banks up to the 1980s in which credit allocation and special financing schemes were used to promote economic sectors such as manufacturing and exports. The spread of market-based economic policies also prompted central banks in many developing countries to abandon such policies and adopt an inflation-targeting approach. But in the light of the series of economic and non-economic shocks of the past few years, central banks can play a role in fostering equitable development.

38. By maintaining inflation, macroeconomic and financial stability, central banks in Asia and the Pacific already play an important role in promoting inclusive development. High and volatile inflation adversely affects lower-income groups the most because they spend a higher proportion of their earnings on consumption. Macroeconomic instability also negatively affects the poor to a greater extent than others, as they have minimal capacity to absorb shocks. Furthermore, effective financial sector regulation contributes to a robust and competitive financial sector, resulting in greater safety for consumer deposits and lower transaction fees, which benefit the poor more than other groups.

39. In order to step up the role of central banks in fostering inclusive economic development, four emerging areas of inclusive central banking have been highlighted.<sup>17</sup> First, as policymakers, central banks can consider concrete actions that help make the conduct of monetary policy more mindful of inequality, such as by better understanding and communicating the distributional impacts of monetary policy. For example, the currently high interest rate environment tends to benefit savers, such as pensioners, while

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<sup>17</sup> *Economic and Social Survey of Asia and the Pacific 2022: Building Forward Fairer – Economic Policies for an Inclusive Recovery and Development* (United Nations publication, 2022).

leaving borrowers, mainly the poorer and younger population, worse off. Second, as investors, central banks can examine how to invest a portion of official reserves in socially oriented financial instruments. Third, as issuers of currency, central banks can realize the potential of central bank digital currencies to enhance financial inclusion by getting the design attributes right and putting enabling digital infrastructure in place. Fourth, as regulators of the financial sector, central banks can encourage the issuance of innovative financial instruments for social purposes, such as social impact bonds and sustainability-linked bonds.

40. While being pragmatic about their capacity to implement inclusive policies, central banks should not shy away from pursuing actions that are available to them. At a basic level, various Asia-Pacific central banks have been leading by example by instituting their own inclusive staffing and procurement practices and enhancing financial access, literacy and consumer protection. But in pursuing inclusive policies, central banks should be mindful of the associated risks to their operations and to financial systems. For example, central bank digital currencies pose the risk of undermining the reputation of central banks in the event of fraud or cybersecurity breaches.

## **B. Boosting development financing for Governments**

### **1. Domestic resource mobilization and public debt management**

41. Sizeable primary fiscal deficits, defined as total fiscal deficits excluding interest payments, are the main reason public debt has been trending upward in Asia and the Pacific over the past decade.<sup>18</sup> For several debtor countries, especially those relying on external debt, currency depreciation has also contributed to higher debt levels. To boost fiscal resources, mobilizing public revenue and making public spending more effective and efficient remain fundamental actions that Governments should continue to pursue.

42. There are various policy options to increase fiscal revenue.<sup>19</sup> Governments can seek to improve the quality of tax administration to reduce tax avoidance, for instance by increasing the use of information technology in tax operations, streamlining tax procedures and adopting risk-based compliance controls. Governments can also aim to broaden the tax base by streamlining tax exemptions and introducing new taxes that offer social and environmental benefits. Moreover, leveraging the potential of progressive direct forms of taxation, such as personal income taxes, can boost future government revenue and reduce income inequality.

43. To improve the effectiveness of public spending, Asia-Pacific countries can enhance their allocative efficiency, which entails strengthening the linkages between annual fiscal budgets and development priorities such as the Sustainable Development Goals. The case of gender-aligned budgeting highlighted above is one example of this concept. Governments should also consider cutting defence expenditure, which still accounts for over 10 per cent of the total public expenditure in some countries, and scale down unnecessary subsidies. Meanwhile, to increase the efficiency of public spending, Governments can seek to improve project cycle management by implementing technology to monitor impacts, having effective due diligence mechanisms in

<sup>18</sup> *Economic and Social Survey of Asia and the Pacific 2023: Rethinking Public Debt for the Sustainable Development Goals* (United Nations publication, 2023).

<sup>19</sup> *Ibid.*

place, maintaining suitable project sizes and introducing measures to curb corruption.

44. Governments should also seek to enhance public debt management to address rising public indebtedness. Some good practices to help lower fiscal risks and borrowing costs include having clear debt management objectives and transparent legal frameworks; ensuring effective coordination between fiscal and monetary policy; ensuring the independence and accountability of the public debt management function; and ensuring the timely collection, monitoring and reporting of public debt data.<sup>20</sup>

45. There are many examples of good public debt management practices across Asia-Pacific countries. In 2018, Nepal set up a public debt management office to consolidate all debt management functions and established a public debt management committee to connect the public debt management office with the central bank and the office of the financial comptroller. To enhance public debt reporting, Papua New Guinea established an inter-agency office under its treasury department to monitor and clear arrears. In Malaysia, budget documents report State guarantees and contain a public debt sustainability analysis.

## 2. Sustainable finance

46. As the Asia-Pacific region faces considerable adverse socioeconomic impacts from climate change and environmental degradation and progress towards achieving Goal 13 (Climate action) has regressed, policymakers need to step up their efforts to strengthen sustainable finance. There are two tracks for action: (a) private and public investments in activities that deliver sustainable development and support climate action, such as the use of proceeds from green bonds; and (b) consideration of environmental, social and governance factors in finance decisions by Governments, regulators and businesses.<sup>21</sup>

47. To this end, there are various actions that different stakeholders can and should undertake.<sup>22</sup> For Governments and regulators, these actions include developing new climate finance partnerships and effective financing strategies for nationally determined contributions; ensuring policy coherence across public agencies; and having regulatory frameworks in place that shift capital towards climate finance. For private sector stakeholders, such as banks, investors and securities issuers, actions include stepping up their commitments to net-zero targets; promoting the use of local currency financing for climate projects, especially in relation to the energy transition; and working with less developed countries in developing pipelines of bankable green projects.

48. Financial solutions to climate and environmental challenges should also be socially equitable and inclusive. For example, proceeds from debt-for-climate swap agreements could be used to support local climate adaptation projects in poorer communities or biodiversity programmes in remote areas. For green fiscal policy tools such as carbon taxes, which generate additional fiscal revenue in the medium term but can result in higher domestic energy

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<sup>20</sup> Charan Singh and Vatcharin Sirimaneetham, “Adopting good practices on public debt management in Asia and the Pacific”, MPFD Policy Briefs, No. 119 (Bangkok, ESCAP, 2021).

<sup>21</sup> *Sustainable Finance: Bridging the Gap in Asia and the Pacific* (United Nations publication, 2023).

<sup>22</sup> Ibid.

prices, targeted fiscal support for low-income and vulnerable populations could be introduced to reduce the poverty and inequality impacts.

### 3. Multilateral development banks

49. Multilateral development banks can step up their role in providing development financing for Governments in Asia and the Pacific at low cost and with long maturities. The Asian Development Bank and the World Bank remain the largest multilateral creditors in the region. However, the proportion of concessional loans in their lending portfolios has been shrinking over time, decreasing from 51 per cent in 2008 to only 26 per cent in 2021.

50. New capital injections and internal changes in how existing capital can be utilized would increase the lending capacity of multilateral development banks. Fresh capital injections are needed because shareholders' capital contributions have not kept pace with the growing development investment needs. Meanwhile, the conservative nature of capital adequacy frameworks, which are designed to ensure multilateral development banks maintain their exceptionally strong credit ratings, is preventing these banks from maximizing the potential development impact of their capital.<sup>23</sup>

51. Changes in the business models of multilateral development banks could also help lower interest rates and lengthen the maturity of their lending. These changes include adopting policy conditionalities that consider each country's development progress and ambitions; increasing lending in local currencies; and reducing administrative burdens (such as those arising from complex procurement and financial management rules) for debtor countries. Moreover, to increase access to concessional finance, multilateral development banks should adjust their allocation criteria to more accurately account for the vulnerability of countries to external shocks, such as climate-induced natural disasters and global commodity price surges. On a more general level, stronger collaboration and coordination between multilateral development banks would also yield greater development impacts.

### 4. Credit rating agencies

52. As entities that assess fiscal risks and issue ratings that have direct implications for government borrowing costs, the major credit rating agencies need to improve their rating methodologies. Criticisms of these methodologies include limited transparency, such as the use of subjective information; the procyclical nature of sovereign ratings, which contributes to capital market volatility; and conflicts of interest, as Governments pay credit rating agencies to rate sovereign bonds. Studies have suggested ways to address some of these methodological shortcomings. For example, to increase the transparency of sovereign ratings, credit rating agencies could publish two ratings for each bond issuance: one based solely on objective fundamental factors and another that also incorporates subjective factors based on staff judgment.<sup>24</sup>

<sup>23</sup> For example, it is estimated that the Asian Development Bank, the New Development Bank and the Asian Infrastructure Investment Bank could together lend an additional \$56.5 billion if their capital adequacy frameworks were amended. See table 2 in Group of 20, "G20 roadmap for the implementation of the recommendations of the G20 independent review of multilateral development banks' capital adequacy frameworks" (2023).

<sup>24</sup> For more details, see Shari Spiegel and others, "Credit rating agencies and sovereign debt: four proposals to support achievement of the SDGs", Department of Economic and Social Affairs Policy Brief, No. 131 (New York, United Nations, 2022).

53. There have also been recent calls for more long-term, development-aligned sovereign rating methodologies to reflect the long-term nature of issues that affect sovereign risks, such as demographic shifts. Credit rating agencies should explicitly account for climate risks, as failing to cut carbon emissions could weaken sovereign credit ratings in the longer term, for instance if substantial fiscal support were needed in the aftermath of climate-induced natural disasters. In this regard, rating methodologies should also consider how public investment in resilience and climate adaptation helps to promote economic development and sovereign creditworthiness in the long term.

## **5. Sovereign debt restructuring**

54. As a last resort, and depending on country-specific circumstances, some debtor countries could explore sovereign debt restructuring as a solution to reduce fiscal burdens and ensure continuity in essential public spending. If implemented pre-emptively and swiftly and in an appropriate size, sovereign debt restructuring can greatly shorten debt distress episodes and mitigate the overall socioeconomic damage of a debt default. Debtor countries should carry out a comprehensive and realistic assessment of public debt sustainability; determine the scope of restructuring; prepare proposals detailing the scale and elements involved in the debt restructuring for different creditors; negotiate with official and private bilateral creditors; and manage implementation and litigation risks. To help increase trust among creditors and the public, debtor countries could also develop a credible strategy for complementary reforms aimed at addressing the root causes of the debt distress.

55. The international development community can play a critical role in making sovereign debt restructuring more effective. Recent experiences, such as those based on the Group of 20 Common Framework for Debt Treatments beyond the Debt Service Suspension Initiative, suggest that multilateral debt resolution initiatives should be made inclusive by making both low-income countries and highly vulnerable, indebted middle-income countries eligible for debt relief. It is also important to ensure comparability of treatment across creditors, including private creditors, which tend to hold out in order to benefit from a debtor country's renewed capacity to service its debt after receiving debt relief from official creditors.

56. The international community should accelerate progress towards common international debt resolution mechanisms and frameworks. A global sovereign debt coordinating body could be established to issue norms for the prudential issuance of public debt and to provide capacity-building on effective debt management. For example, such a body could support developing countries in adopting collective action clauses in sovereign borrowing contracts, which help to address the holdout creditor problem.

57. As the sovereign creditor landscape in Asia and the Pacific becomes more diversified, it is becoming increasingly important to have facilitated discussions among creditors and debtor countries, as well as common international debt resolution mechanisms and frameworks. In addition to the emergence of China as a major official creditor, private creditors such as institutional and individual investors are playing a bigger role. In 2021, private creditors accounted for 58 per cent of the region's external public and publicly guaranteed debt, up from 42 per cent in 2008.

## **V. Issues for consideration by the Commission**

58. The Commission is invited to review and discuss the macroeconomic assessments and policy ideas contained in the present document and provide

feedback and guidance to the secretariat for its forthcoming analytical work and for the planning and preparation of future technical assistance and capacity-building work.

59. The Commission is encouraged to share information about country-specific experiences and initiatives in relation to these issues so that participants can learn from each other and inform their policy discussions. Members and associate members may wish to share national experiences regarding:

- (a) Supporting poor and vulnerable populations in coping with the high cost of living;
  - (b) Navigating the difficult balancing act of ensuring inflation and financial stability and supporting economic growth;
  - (c) Enhancing fiscal resources by improving fiscal revenues, public spending efficiency and effectiveness and public debt management;
  - (d) Engaging with the international development community to boost the availability of affordable, long-term financing for Governments;
  - (e) Dealing with a high risk of debt distress.
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