

Crisis upon crisis: *Understanding main implications and policy analysis*

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Session VI: Geopolitical Uncertainties, COVID-19, and the Impact on Growth and Inclusivity

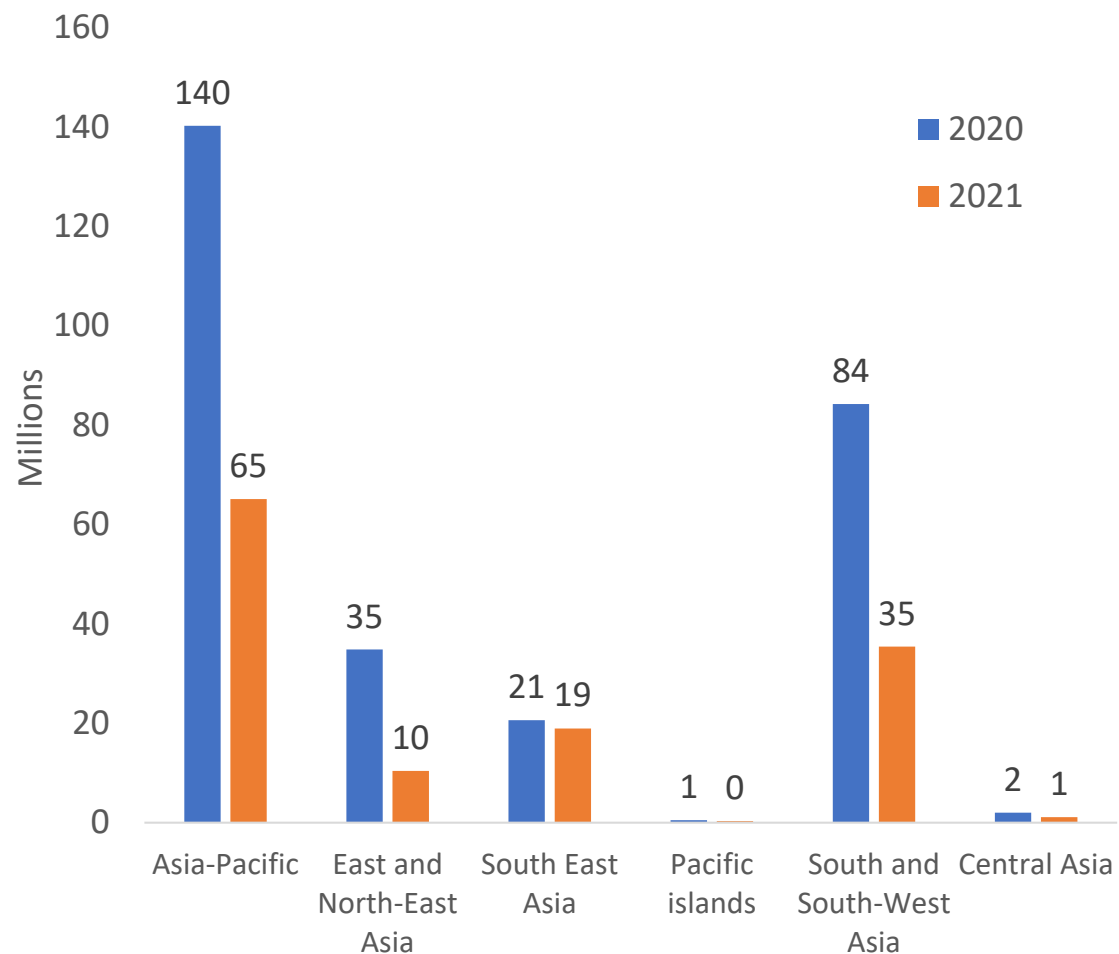
Main messages

- The socio-economic impact of the COVID-19 pandemic was amplified due to lack of investments in resilience and people.
- The economic recovery momentum, from the impacts of the pandemic, has been disrupted due to ongoing geopolitical uncertainties.
- Fiscal and debt pressures have increased, making it challenging to support inclusive economic recovery and sustainable development.
- Rising inflation and associated increases in interest rates are likely to dampen economic prospects, adversely affect the poor and pose additional fiscal challenges.
- Economic policies need to be people-centric, and not just promoting GDP growth.

Crisis upon crisis: main implications

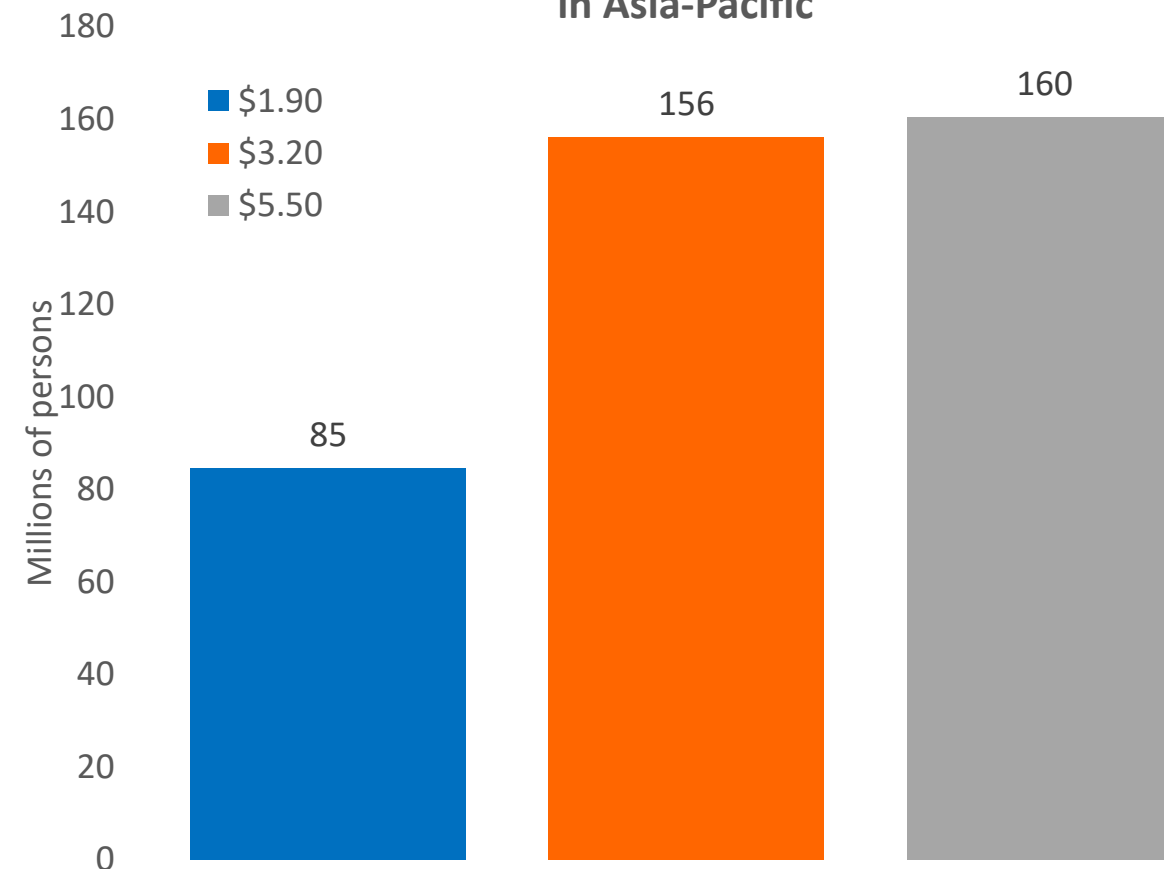
The COVID-19 pandemic took a heavy toll on people and livelihoods

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



Source: ILO monitor on the World of World, 9th edition, May 2022.

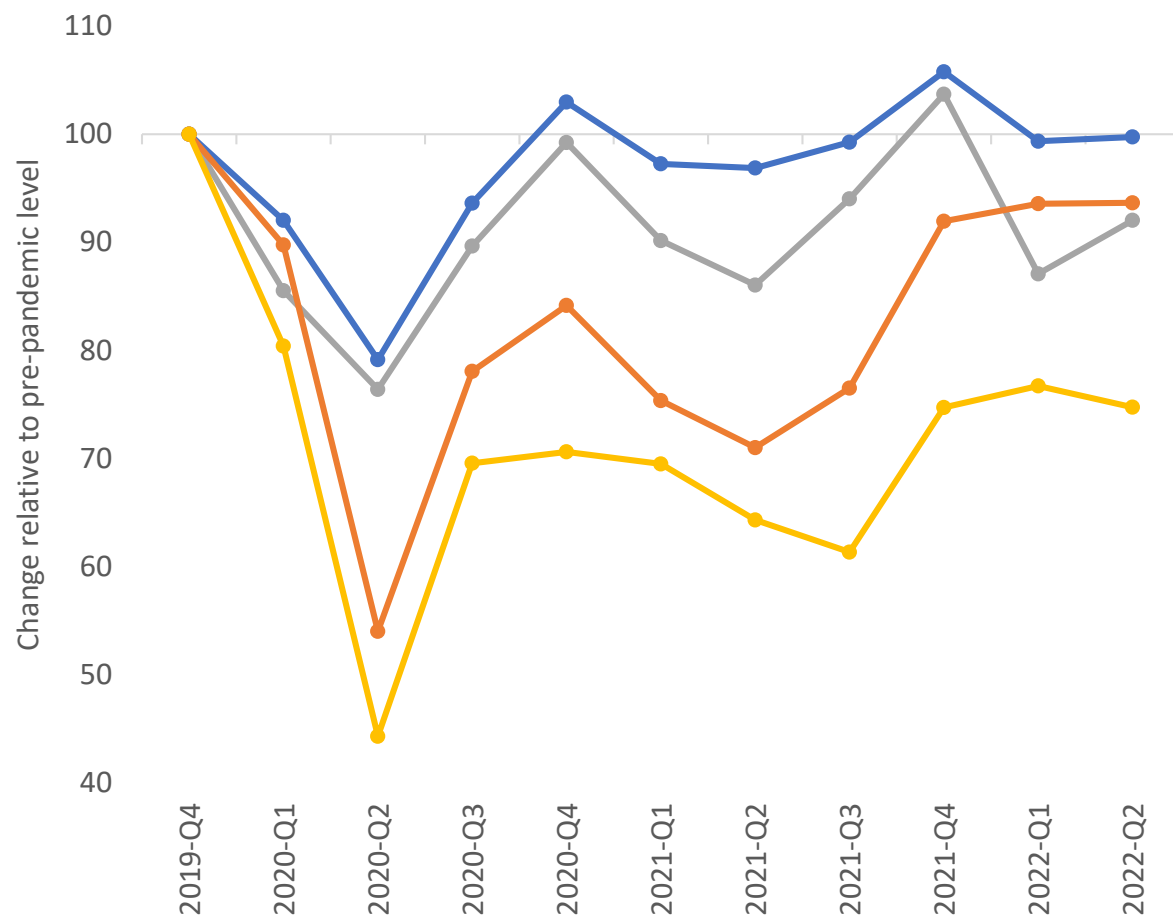
Increase in poverty in 2021 due to the pandemic in Asia-Pacific



Source: ESCAP estimates and projections.

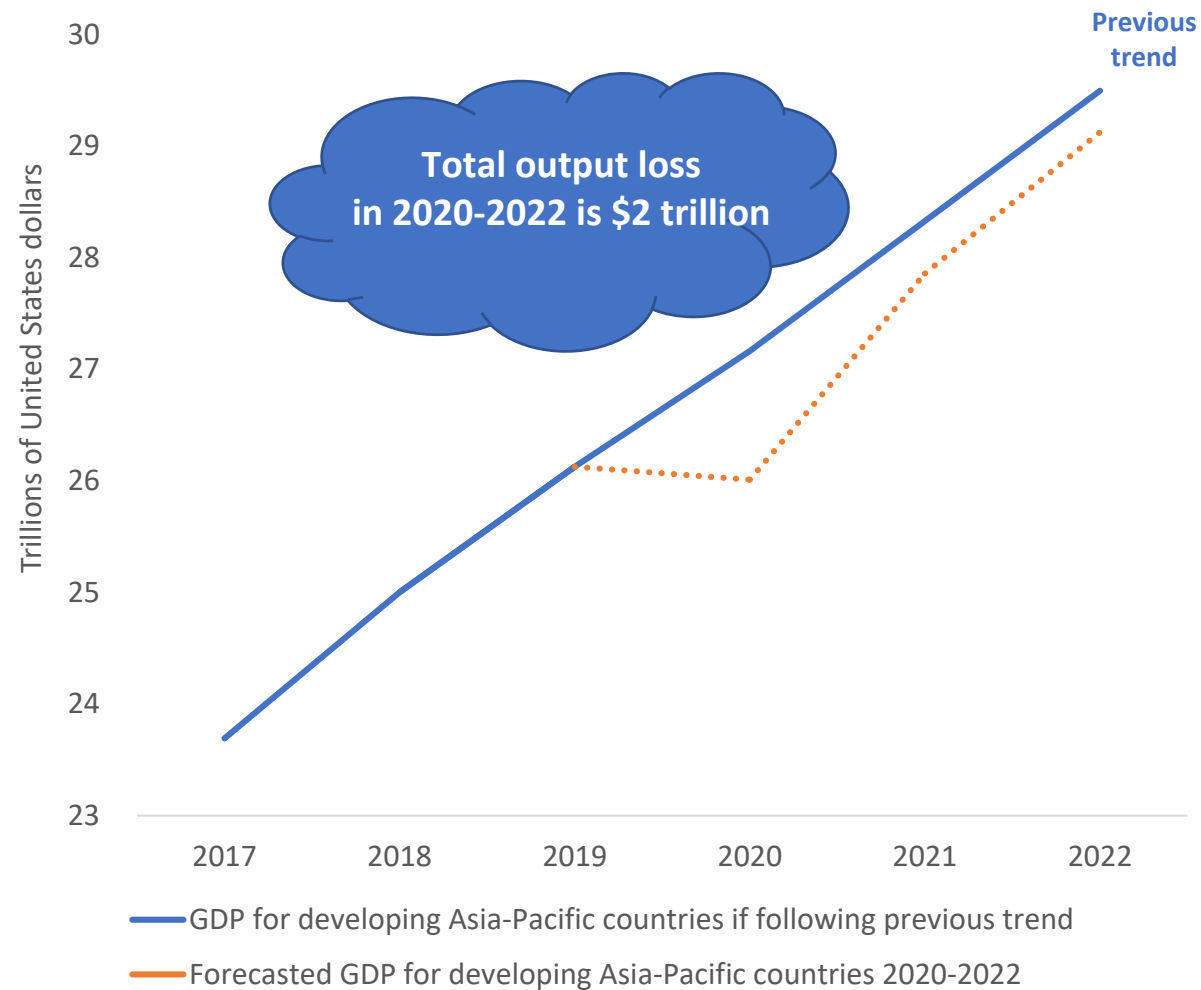
Economic rebound in 2021 was uneven and fragile

Sectoral growth recovery in developing Asia-Pacific



Source: Based on CEIC (accessed 26 August 2022).
 Note: Median of 13 developing Asia-Pacific countries for which data are available.

Developing Asia-Pacific output loss

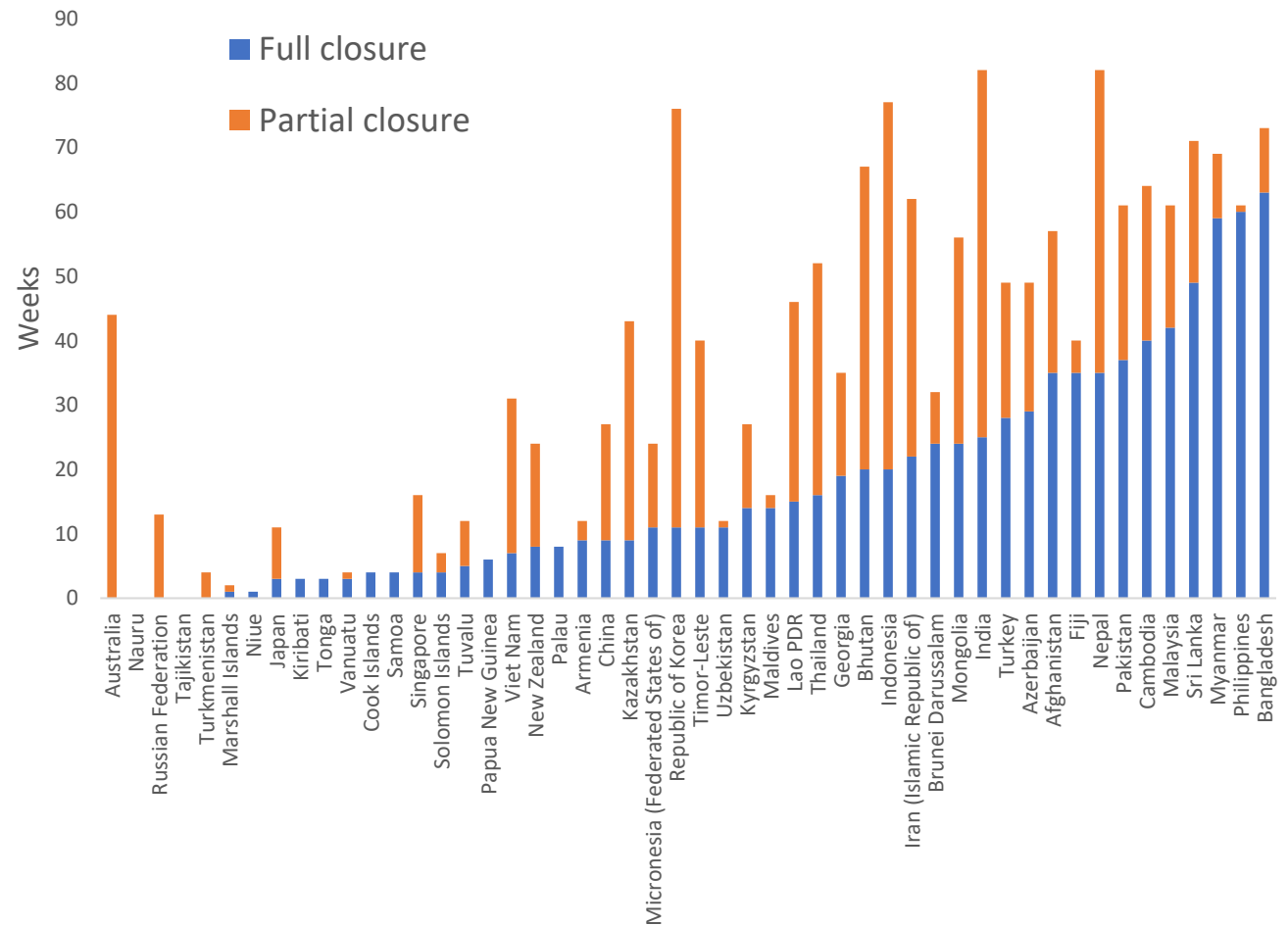


Source: ESCAP estimates and projections.

The pandemic will leave lasting scars on economies

- **Disruptions to labour markets** - Prolonged unemployment erodes workers' skills, reduce chances of returning to the workforce.
- **Lack of capital investment** - Weakened economic prospects and balance sheets leads to an extended period of low investment in capital and R&D, reducing productivity and erodes future growth potential.
- **Learning deficits** – impacts long-term learning and earning potential from prolonged school closures – up to 63 weeks in Asia and the Pacific

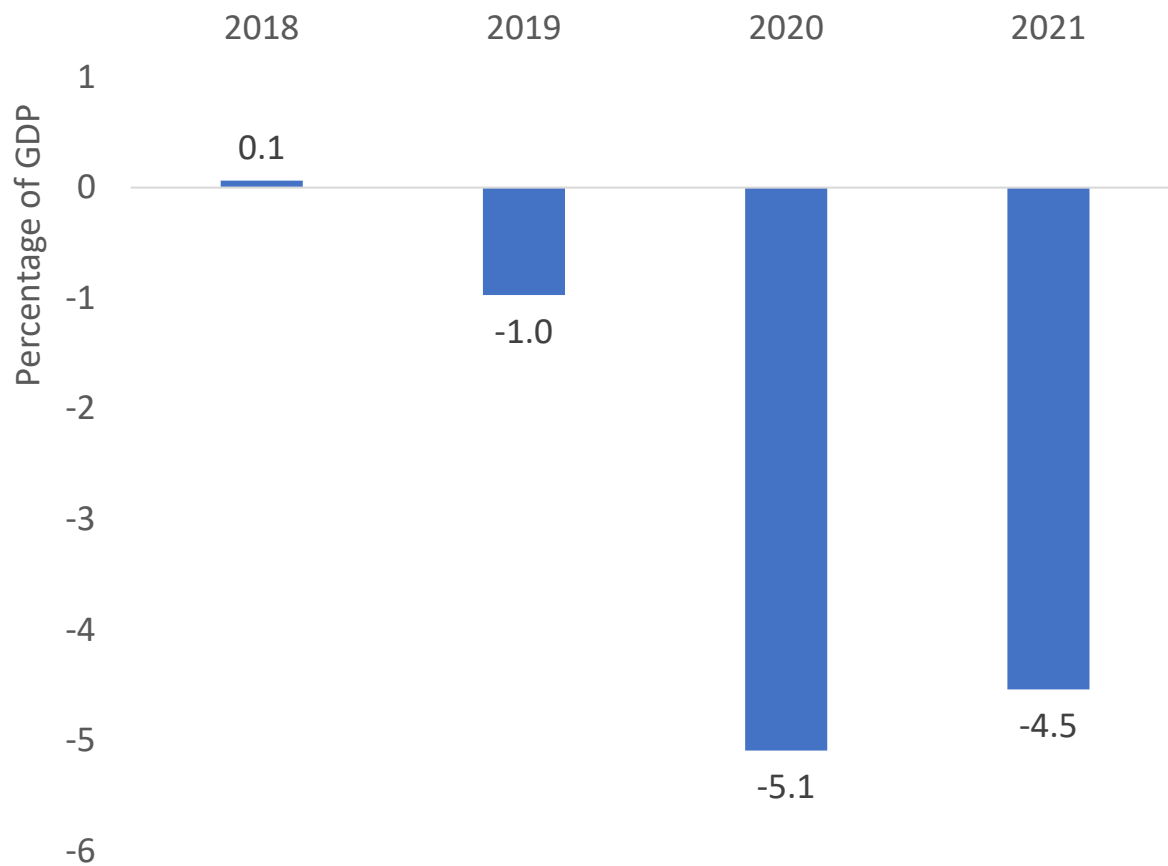
Pandemic induced school closure in Asia-Pacific



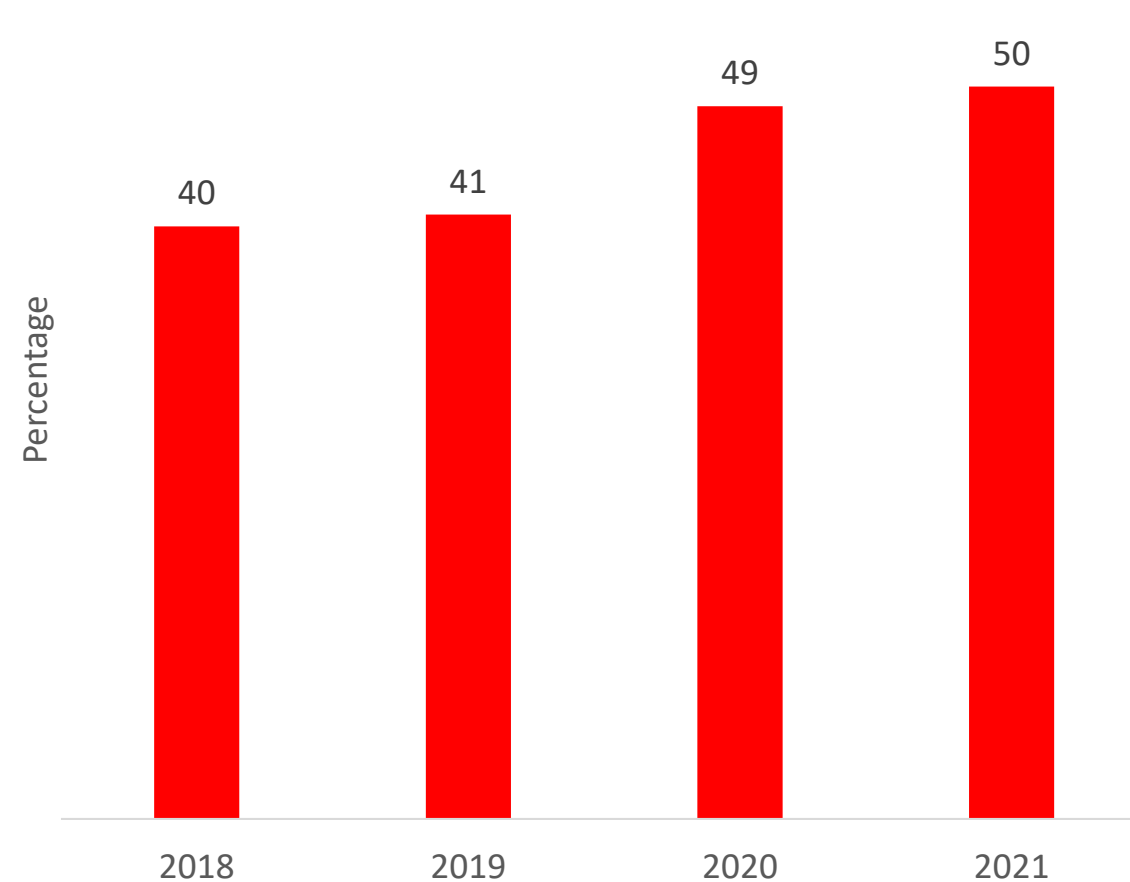
Source: UNESCO global dataset on school closure

Impact of the pandemic and necessary policy response resulted in stressed fiscal positions

Fiscal balance in developing Asia-Pacific countries



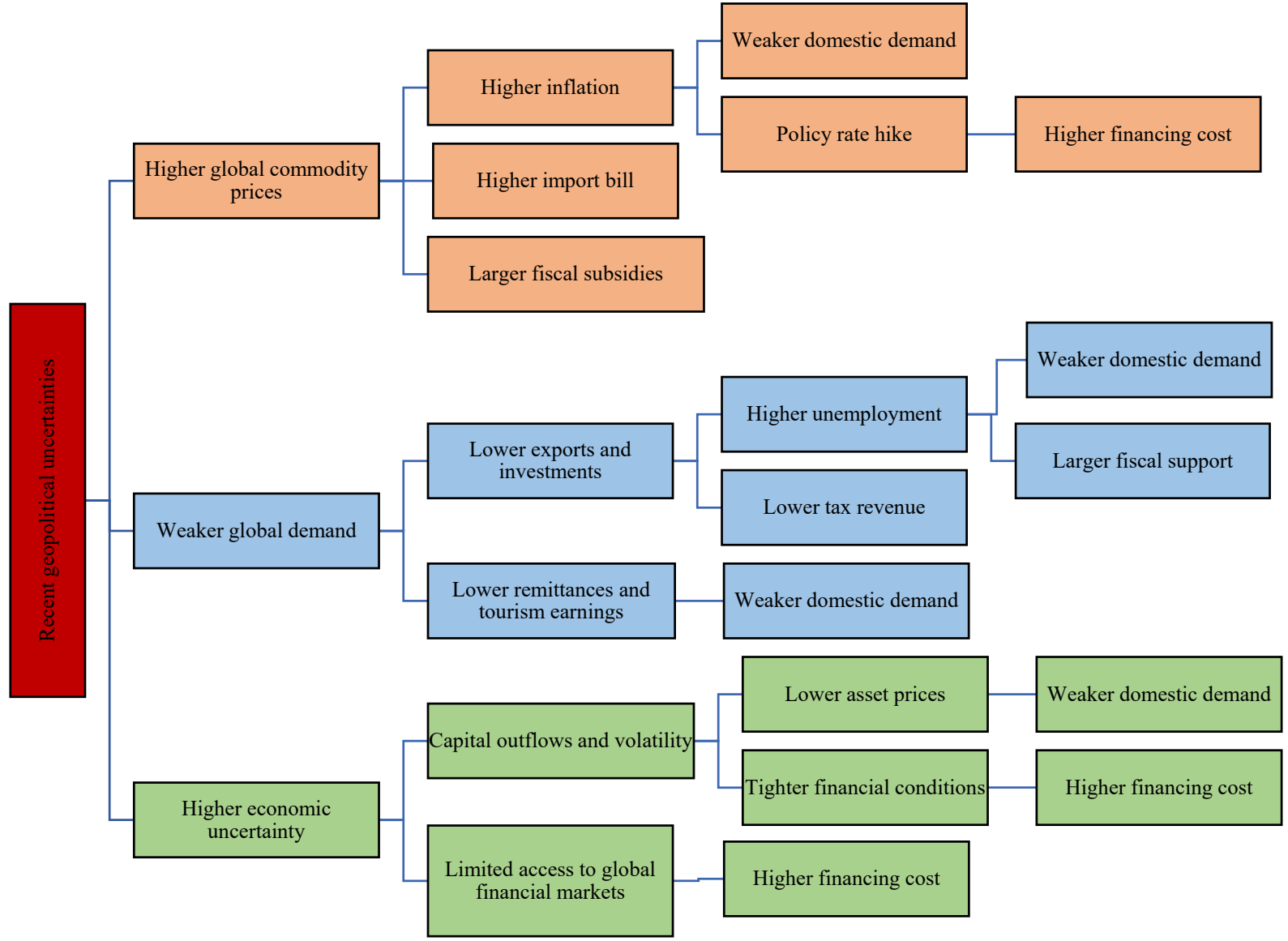
Average debt to GDP in developing Asia-Pacific



Source: IMF, Fiscal monitor, April 2022.

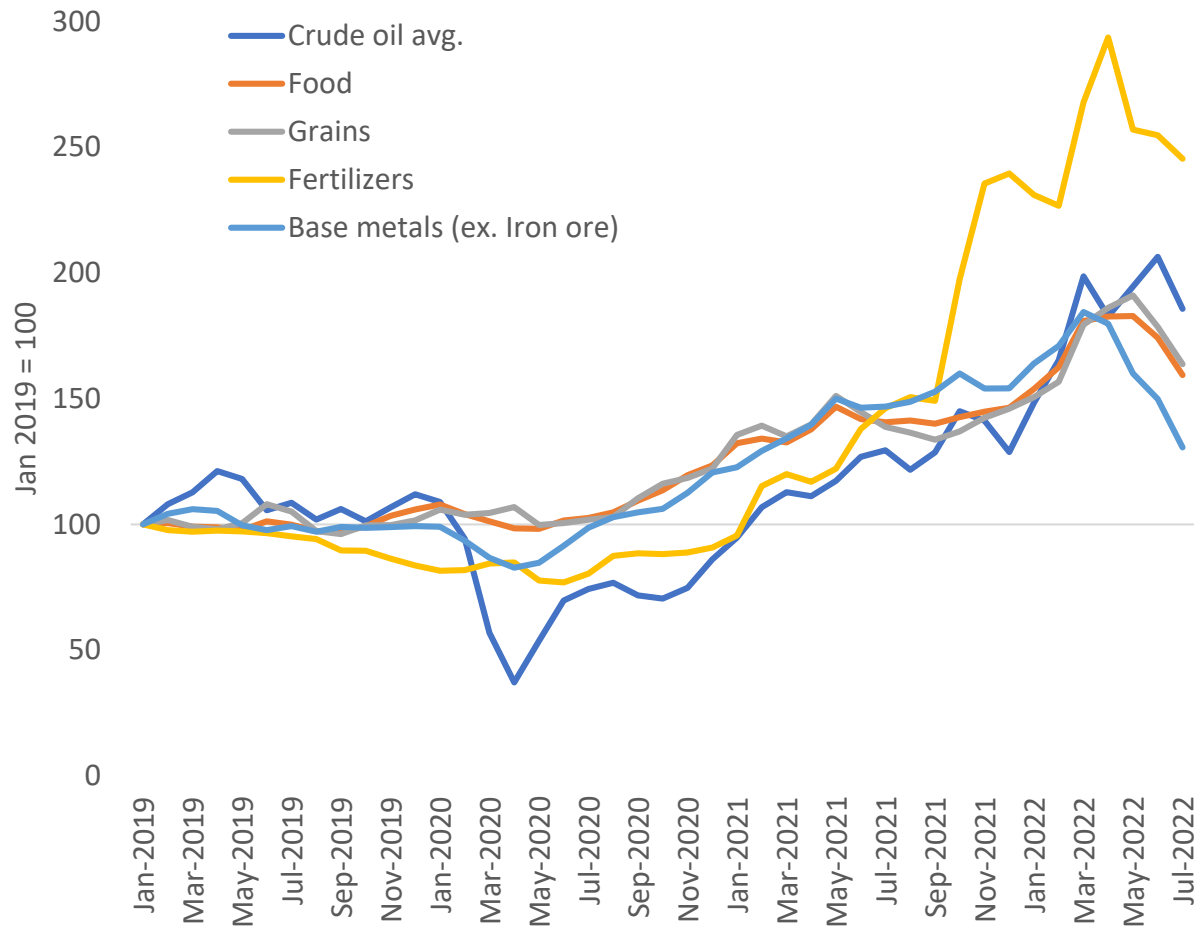
Note: Calculations are based on data available for 46 developing countries in Asia-Pacific

The geopolitical uncertainties have compounded economic challenges



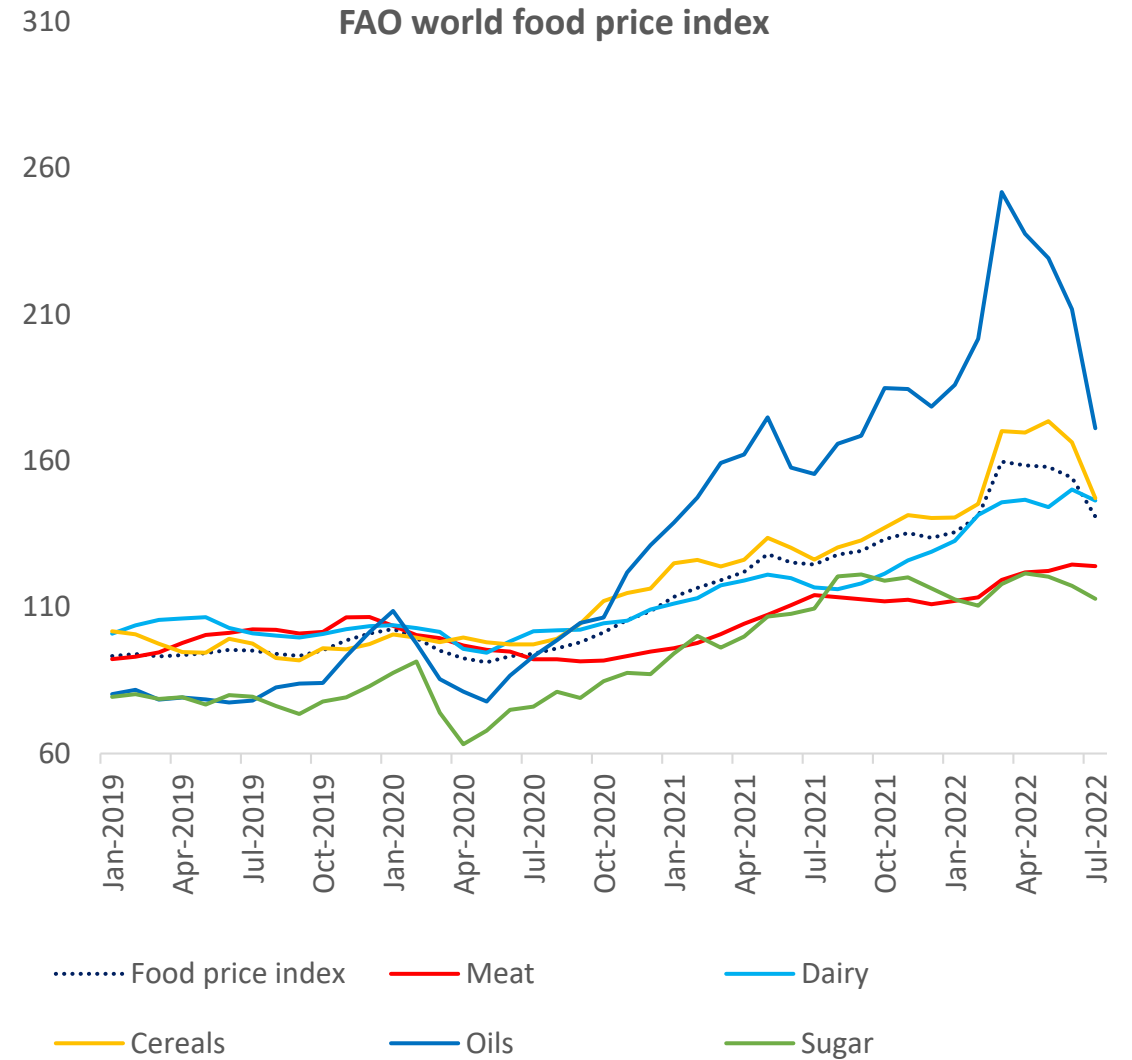
Supply disruptions and sanctions have led to surge in price of food, fuel and key commodities

Price of fuel and key commodities



Source: World Bank Commodity Markets

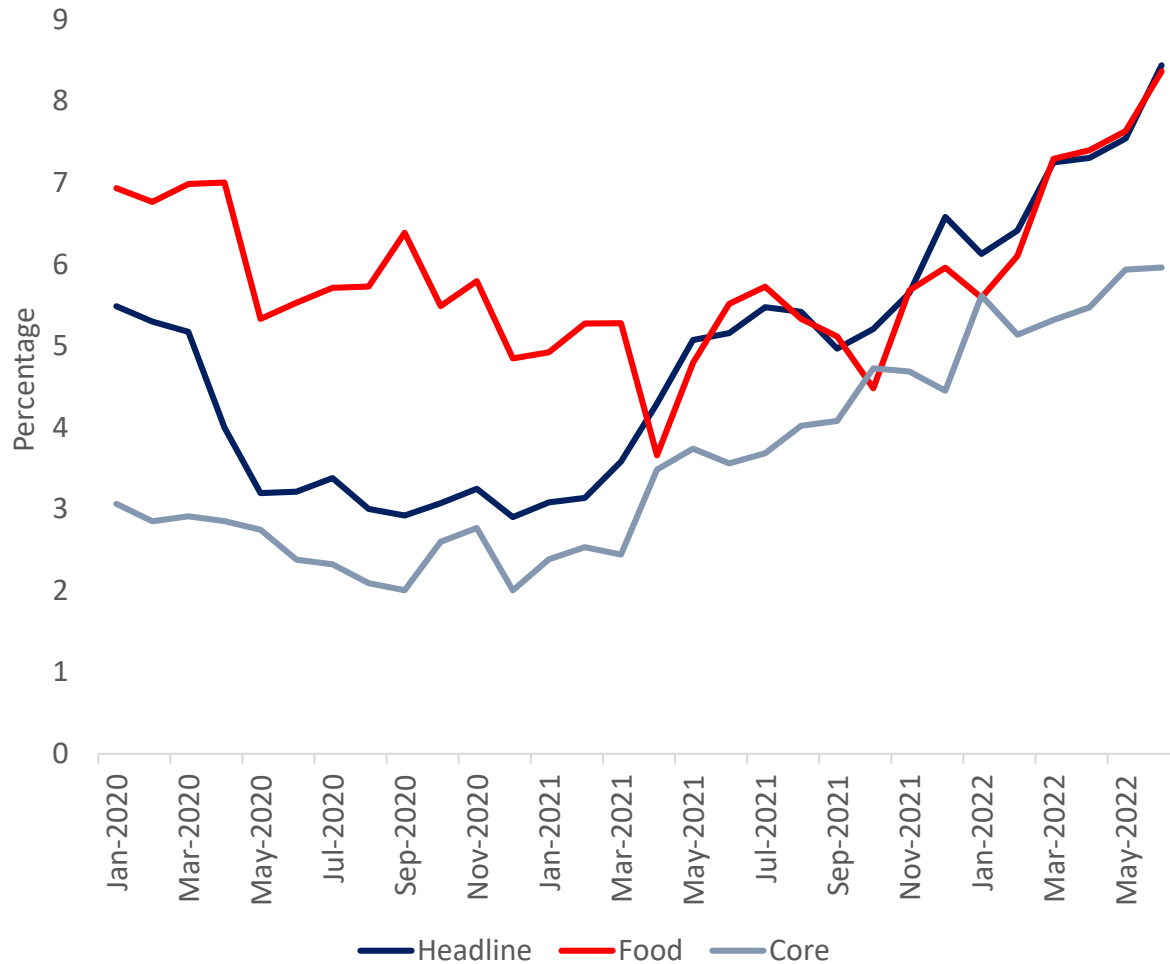
FAO world food price index



Source: FAO

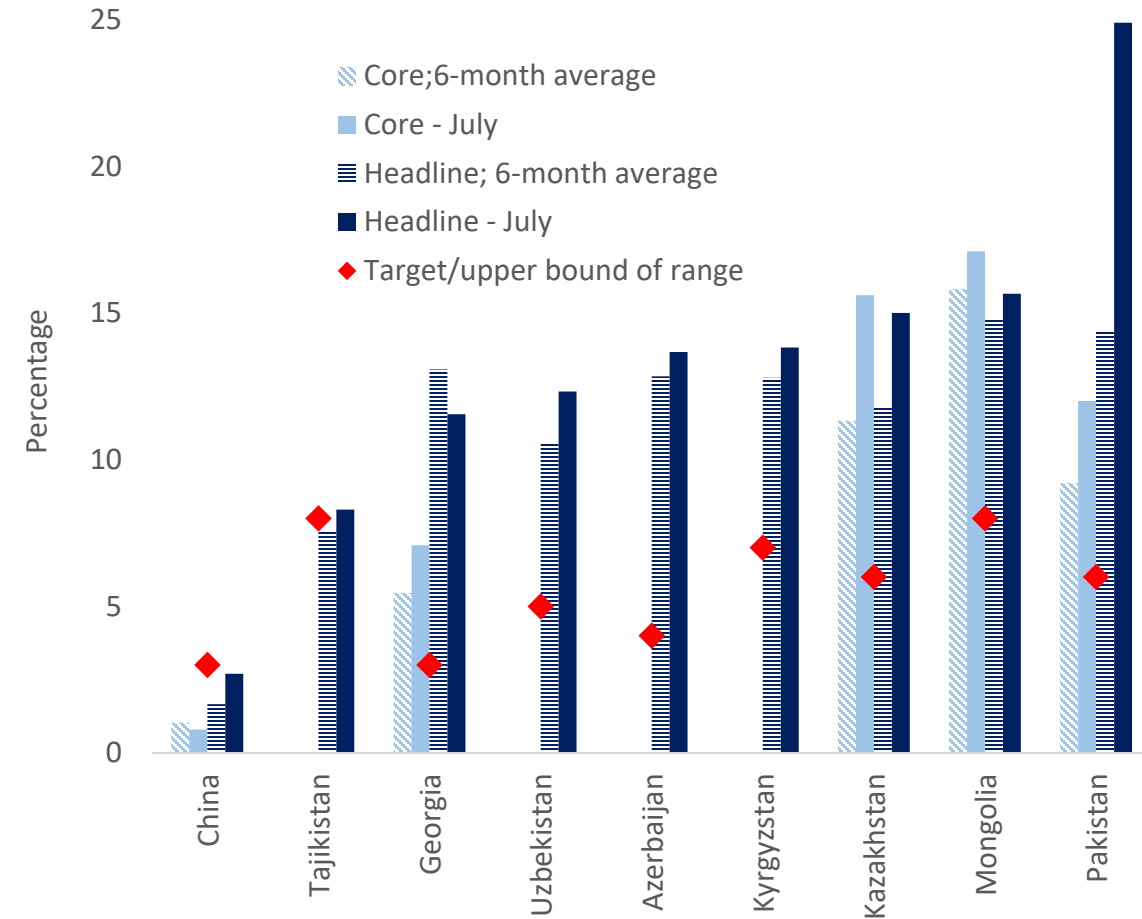
Inflationary pressures have reached double digits in several economies, surpassing central bank targets

Headline, core and food inflation in developing Asia-Pacific



Source: Based on CEIC.

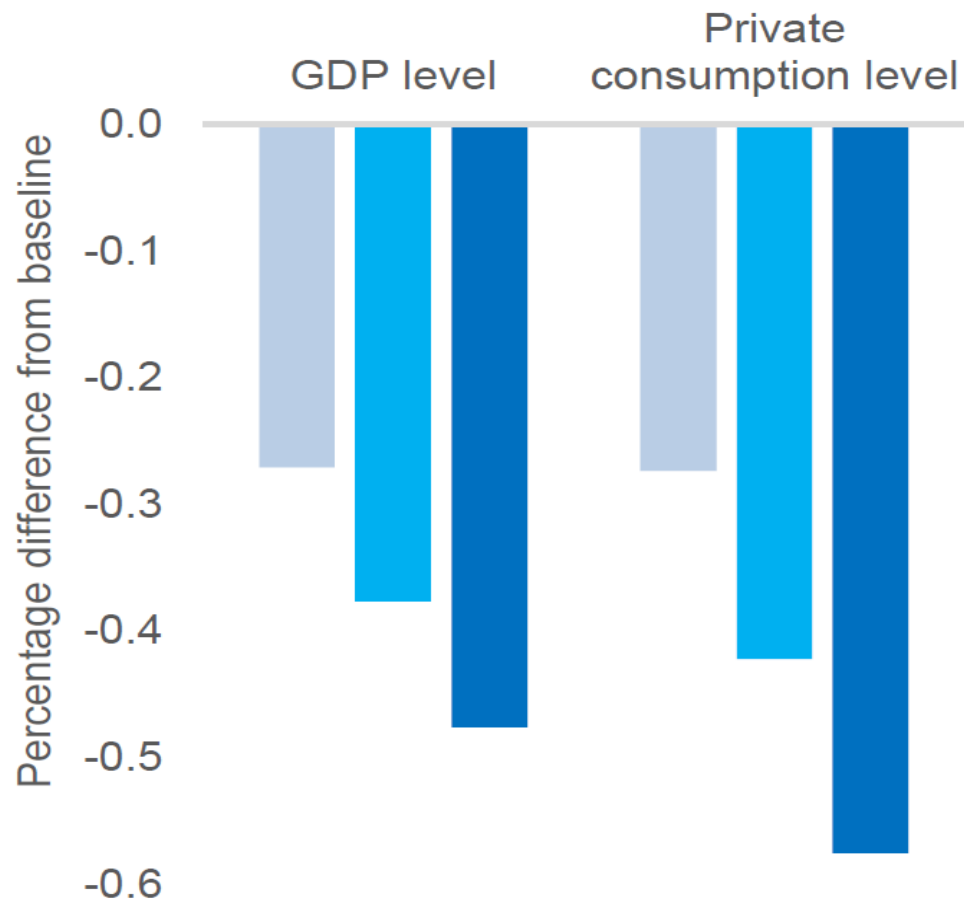
Headline and core inflation in CAREC economies



Source: Based on CEIC.

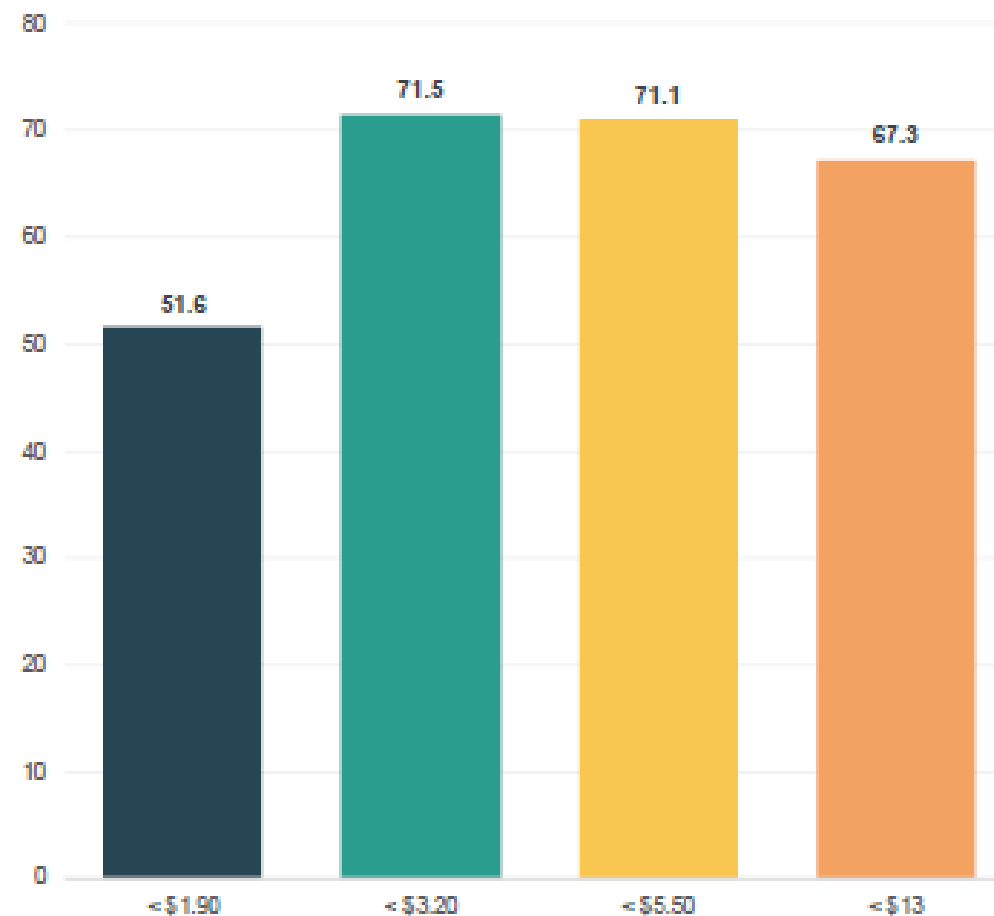
High inflation will hold back an already fragile recovery and push millions more into poverty

Potential impact on GDP and consumption from higher oil price on Asia-Pacific economies



Source: ESCAP estimates

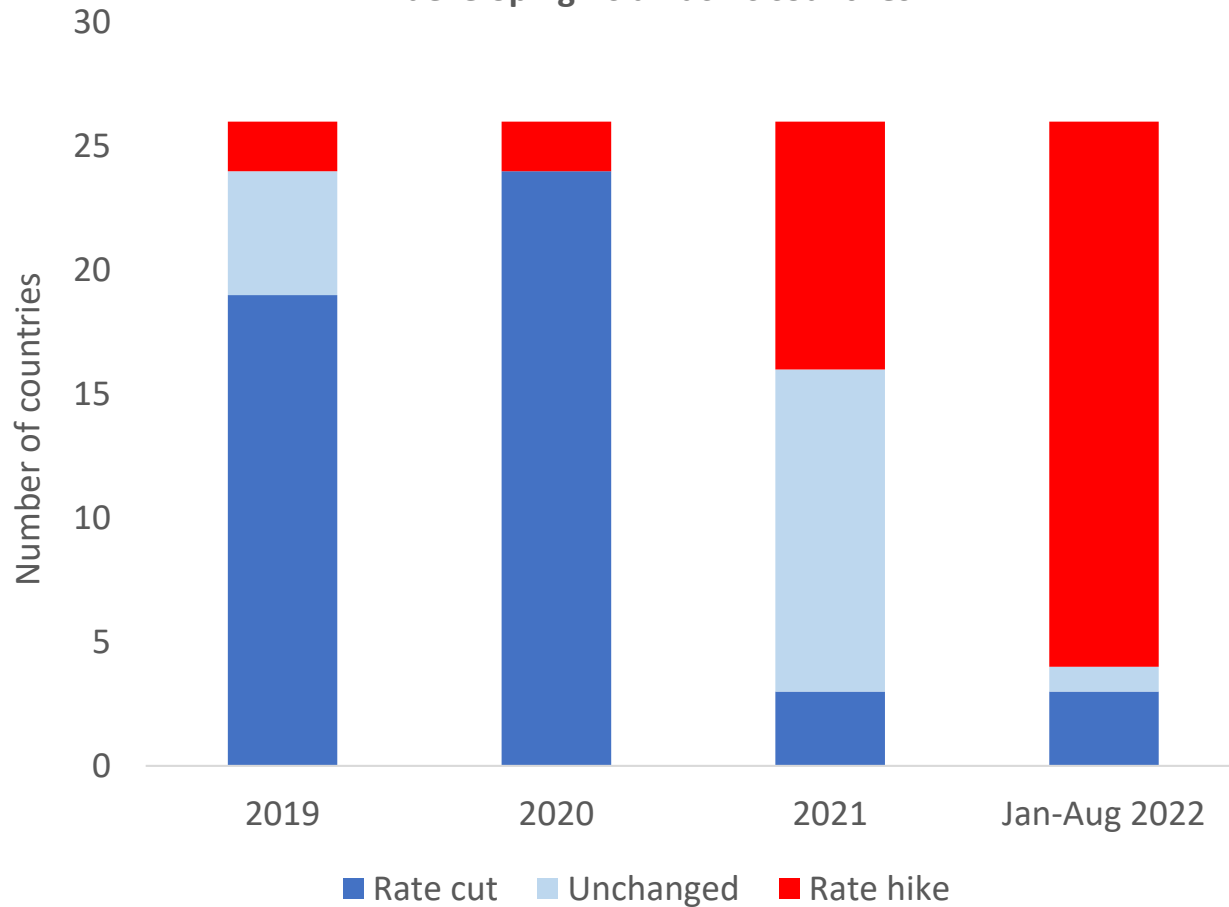
Number of people falling into poverty from impact of soaring food and energy prices due to geopolitical uncertainties



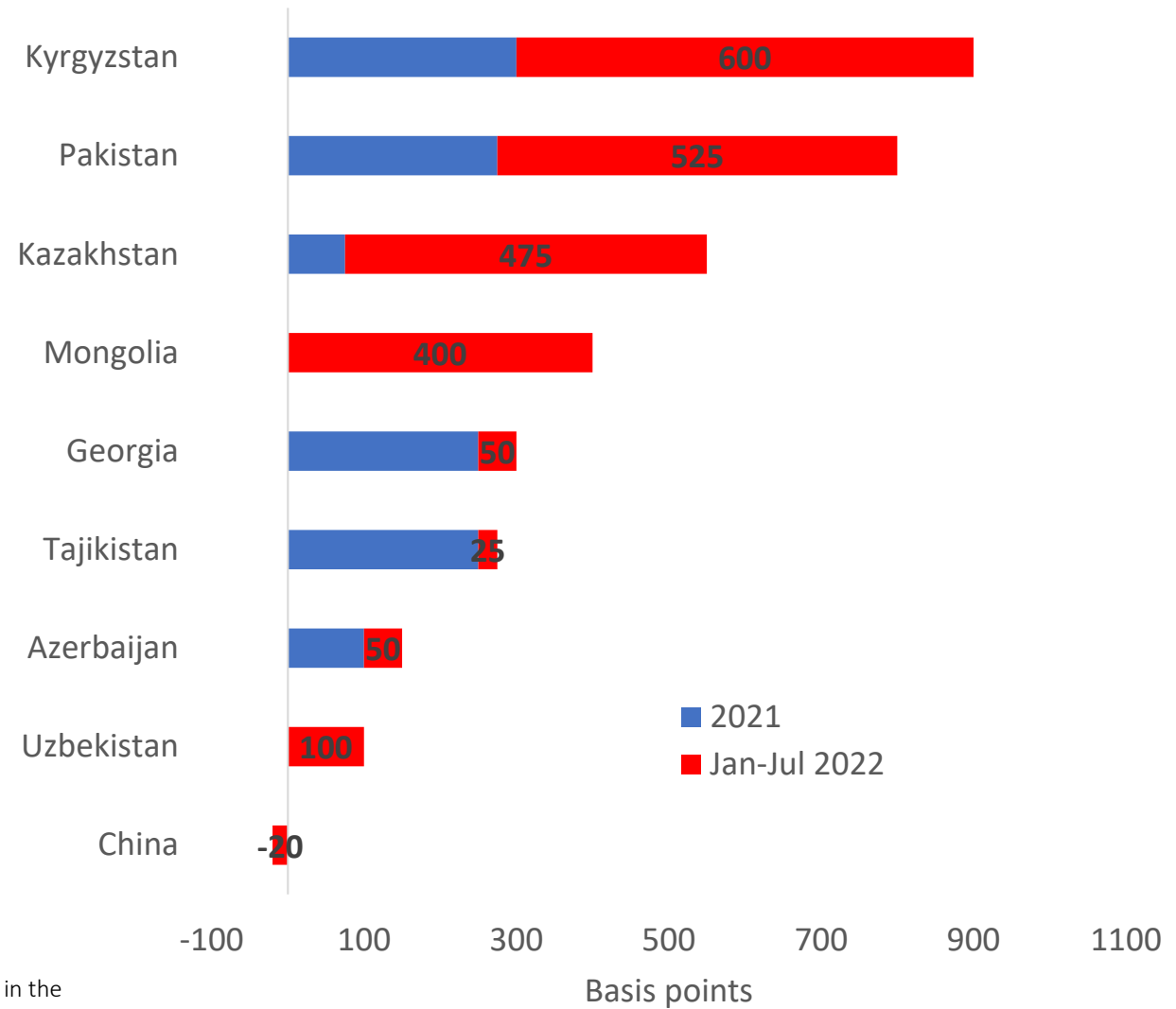
Source: UNDP 2022. Addressing the cost-of-living crisis in developing countries: Poverty and vulnerability projections and policy responses

Monetary tightening in advanced economies and domestic inflationary pressures are leading to rising interest rates

Central bank interest rate decisions in developing Asia-Pacific countries



Change in policy rates in CAREC countries

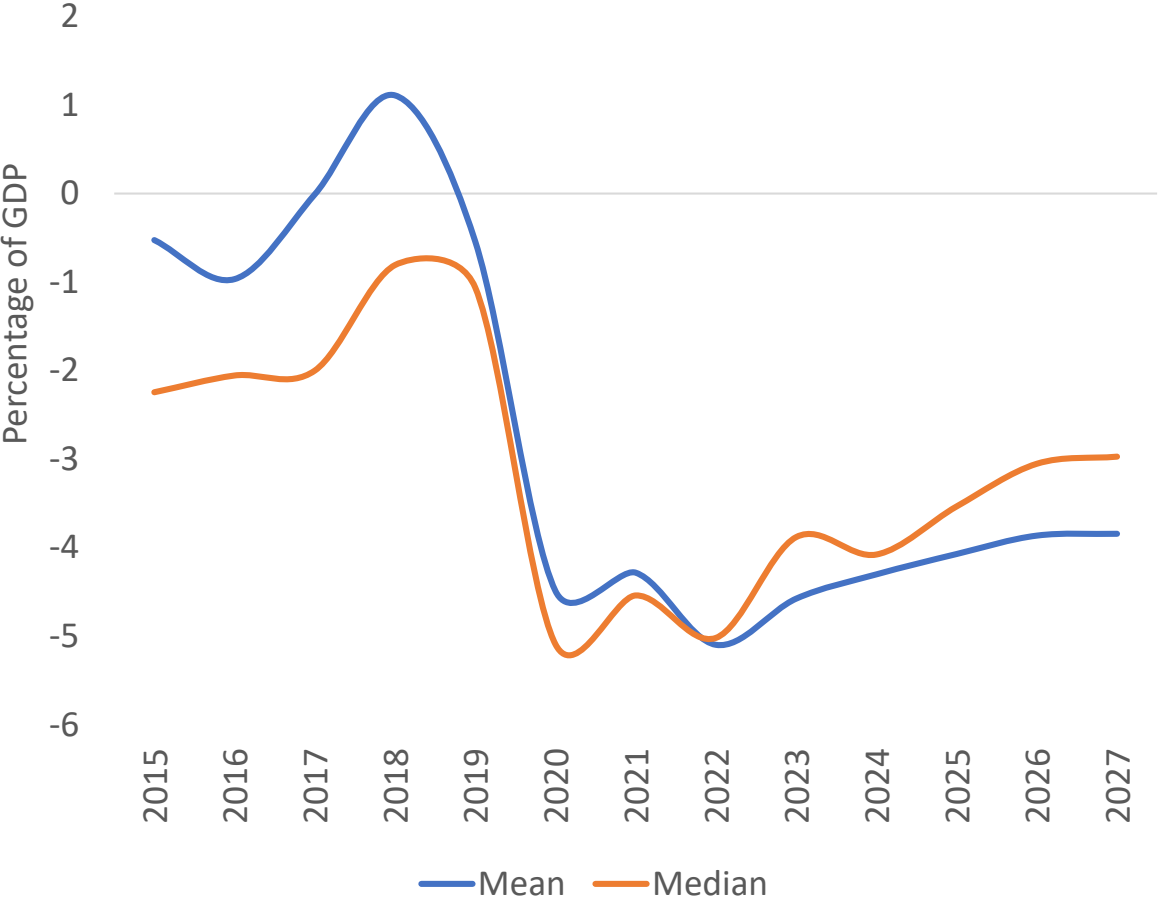


Source: Based on CEIC (accessed on 28 August 2022).

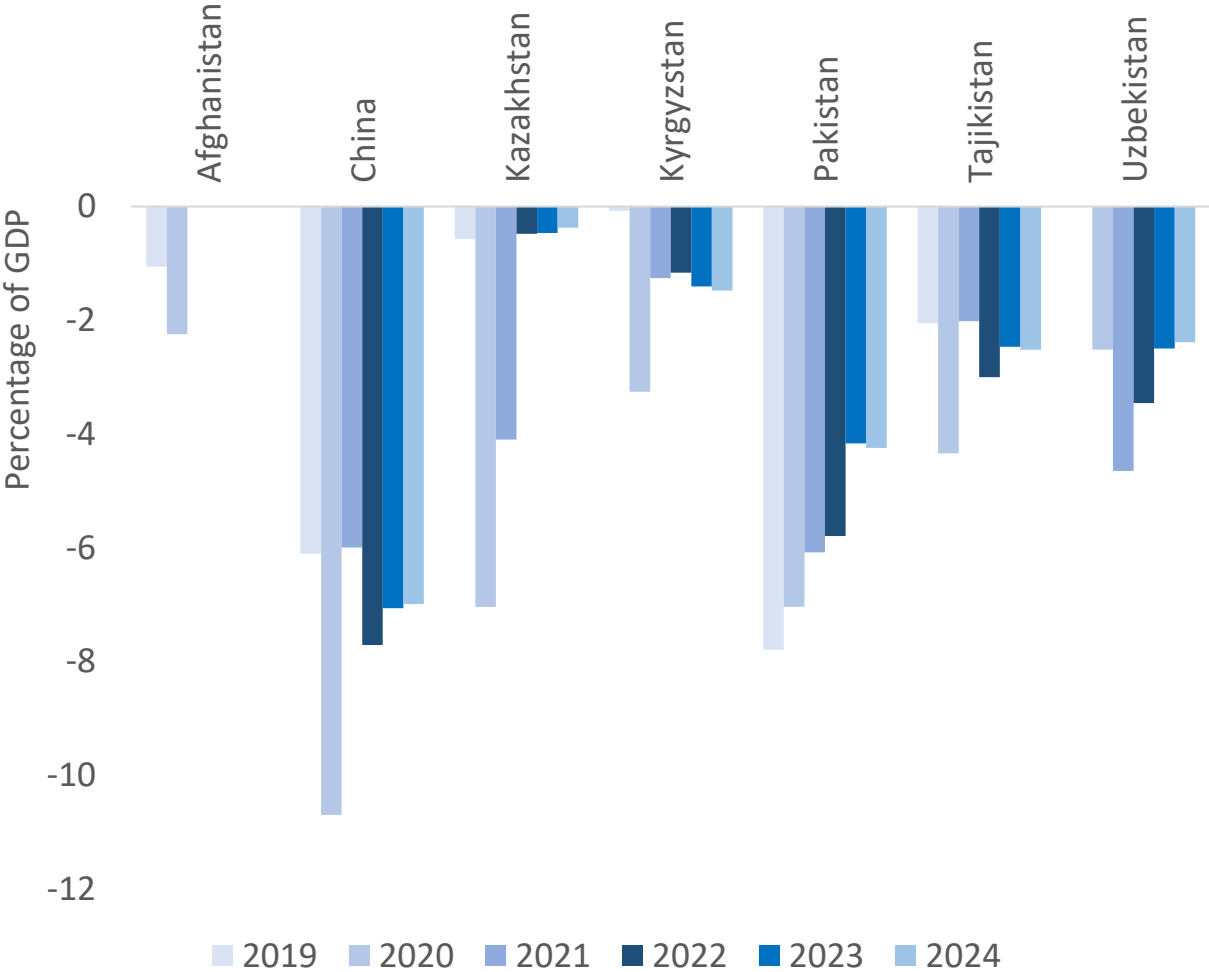
Note: Central bank interest rates decisions are based on policy rate data for 26 countries in developing countries in the Asia-Pacific region

Higher interest rates will shrink fiscal space, challenging prospects of inclusive economic recovery

Fiscal balance projection for developing Asia-Pacific



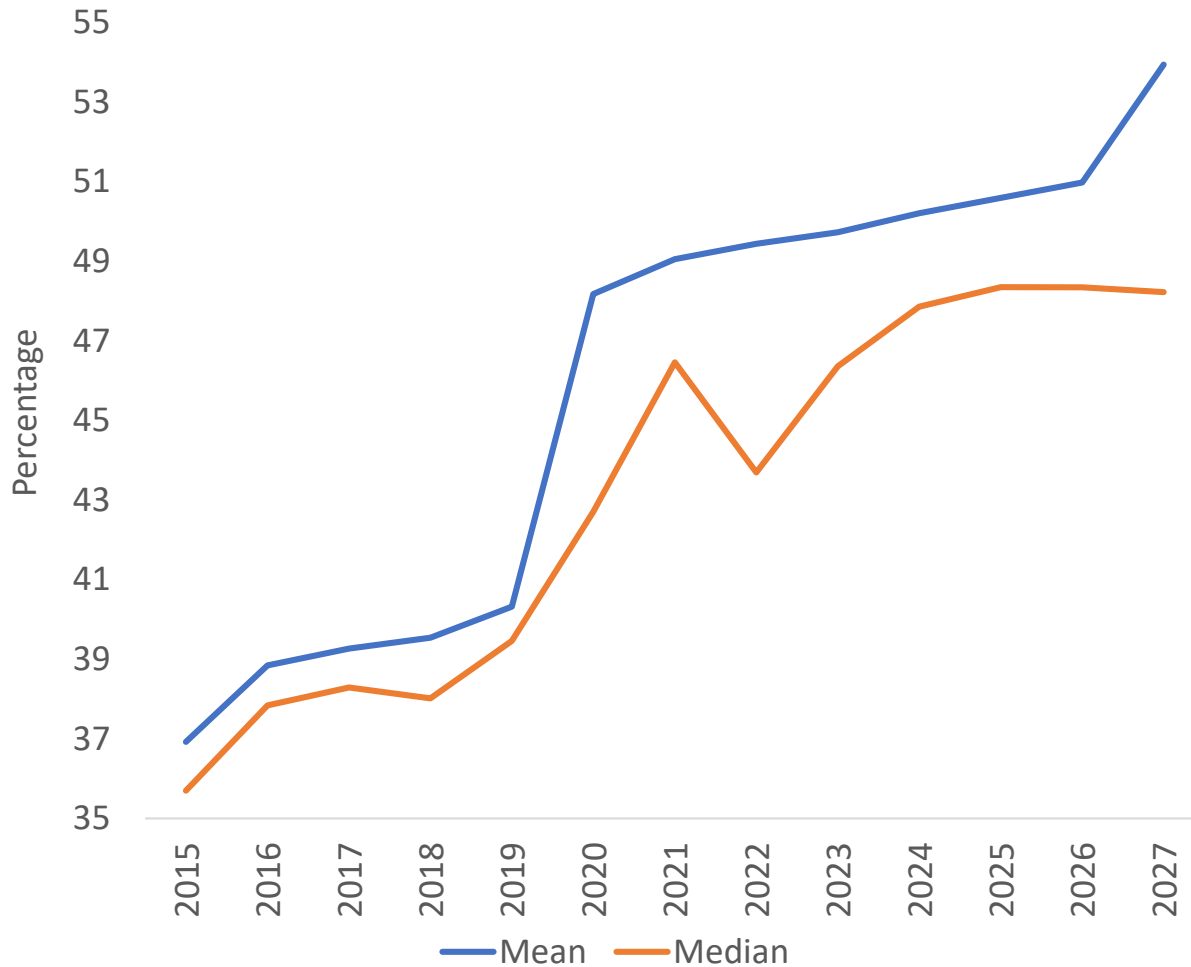
Fiscal balance in CAREC economies



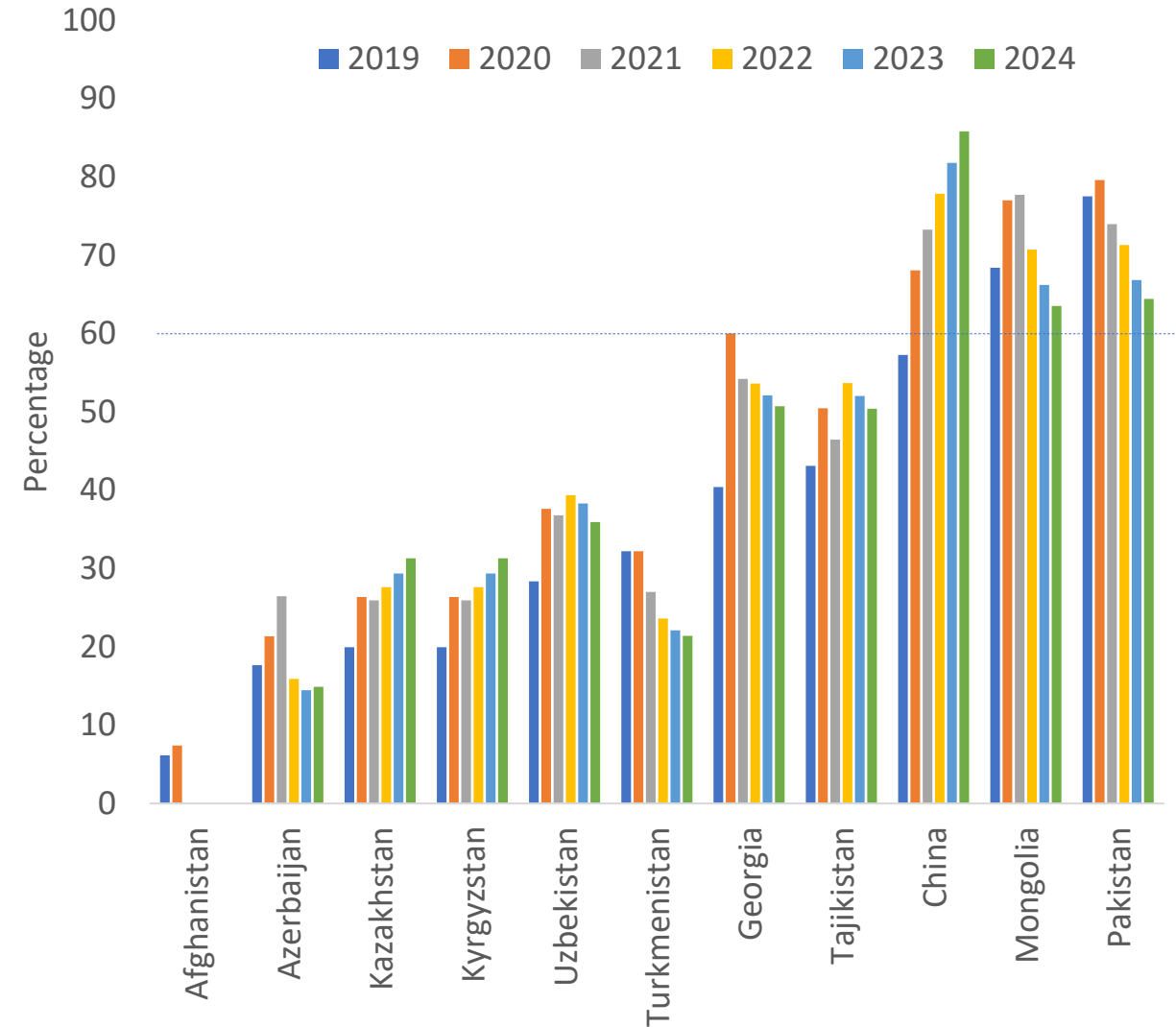
Source: IMF, Fiscal Monitor Database, April 2022

Debt sustainability concerns are on the rise for many economies

Public debt-to-GDP ratio projections



Debt to GDP ratio



Source: IMF, Fiscal Monitor Database, April 2022

Macro policy considerations

Economic policy options for inclusive economic recovery

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

Easing fiscal and debt distress

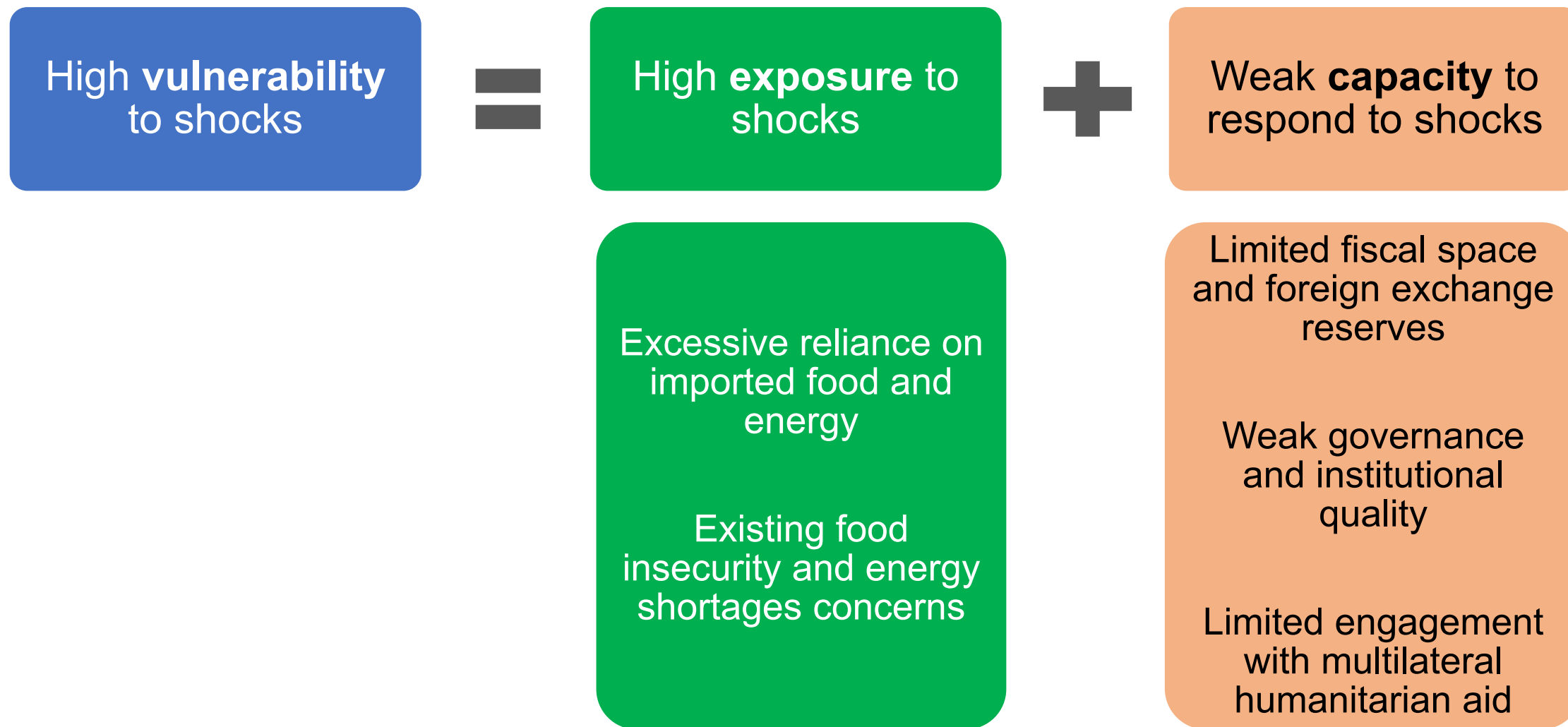
- Spend smart – healthcare, education and social protection
- Tax fairly – expand tax base and shift tax burden
- Consider debt rescheduling, where possible

Broader policies

- Inclusive central banking and innovative financing
- Promote job-rich transformation and empower the labor.
- Invest in efficiency and transition to low-carbon energy sources

Policy analysis of some of the implications of the crises

Exposure versus vulnerability -- focus on food, energy, and fiscal/financial aspects



Surging food prices

A more exposed country relies on imported food, while already facing food insecurity

*Meeting at least **two** criteria on reliance on imported food and at least **one** criteria on food insecurity*

Reliance on imported food

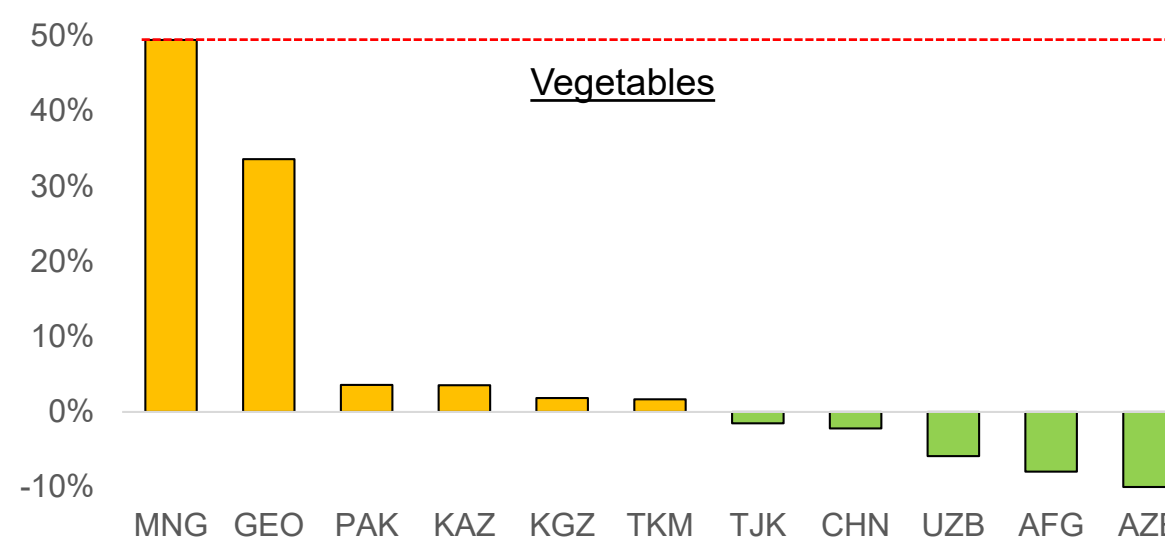
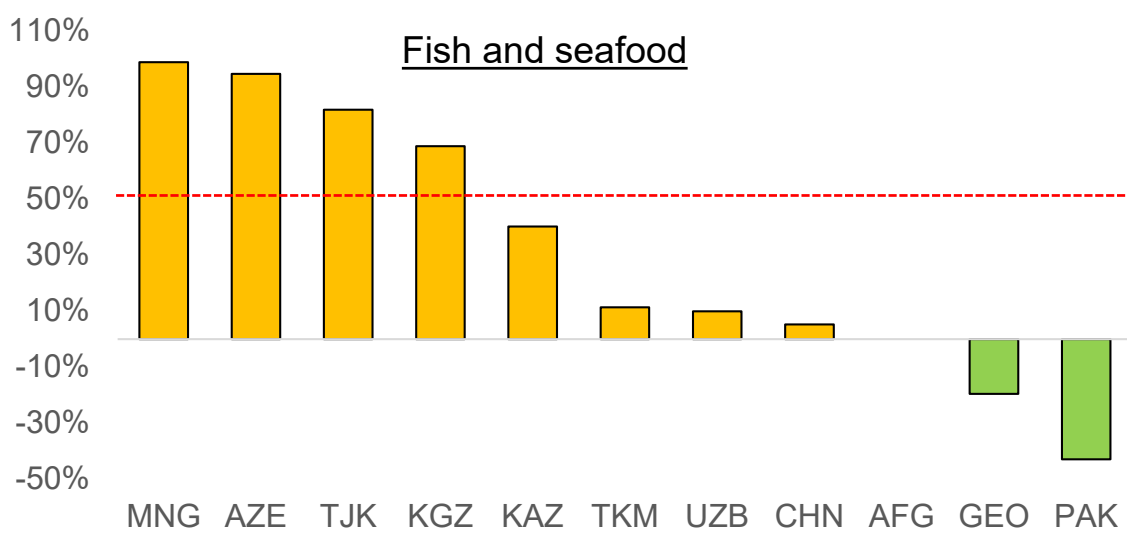
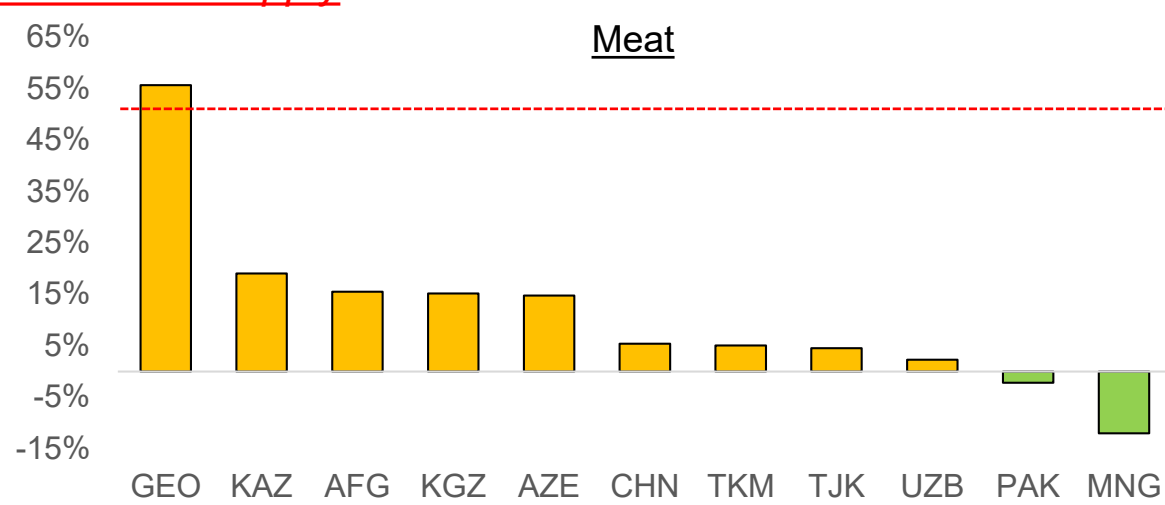
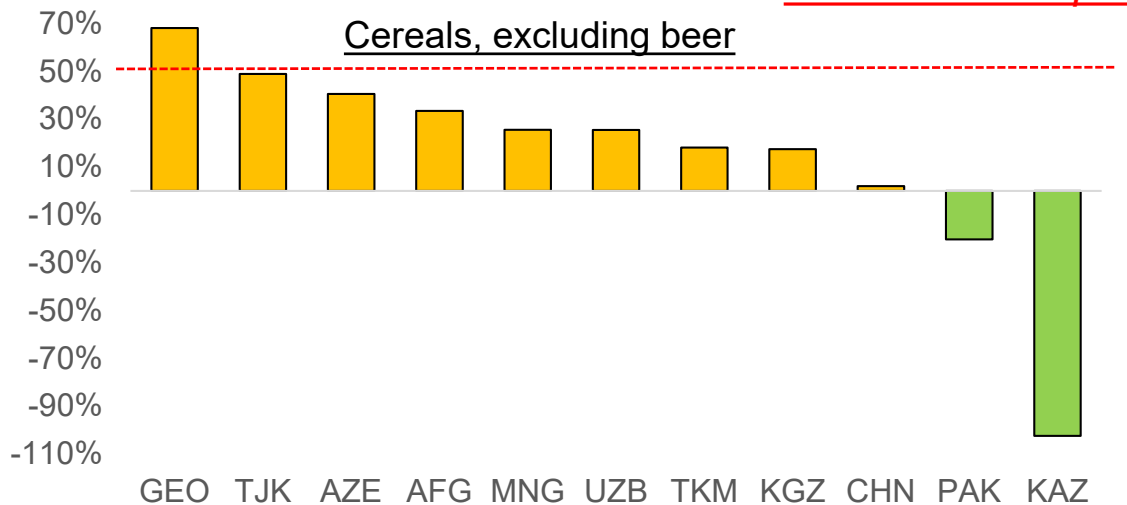
- Net imports / domestic supply of **cereals** > 50%
- Net imports / domestic supply of **meat or fish** > 50%
- Net imports / domestic supply of **vegetables or fruits** > 50%

Food insecurity

- Prevalence of moderate or severe food insecurity > 30% of population
- Prevalence of undernourishment > 10% of population

Most CAREC economies, except Georgia, do not generally rely on imported food for domestic consumption

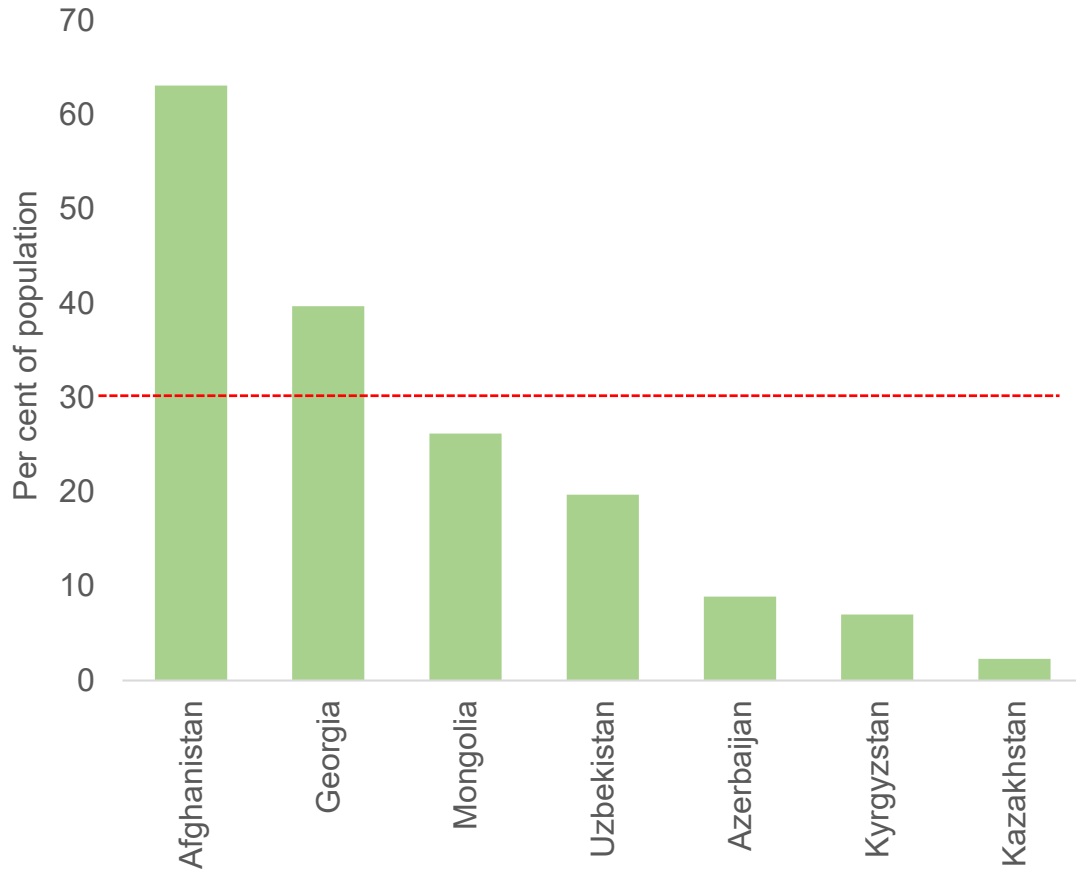
Share of net imports in domestic supply



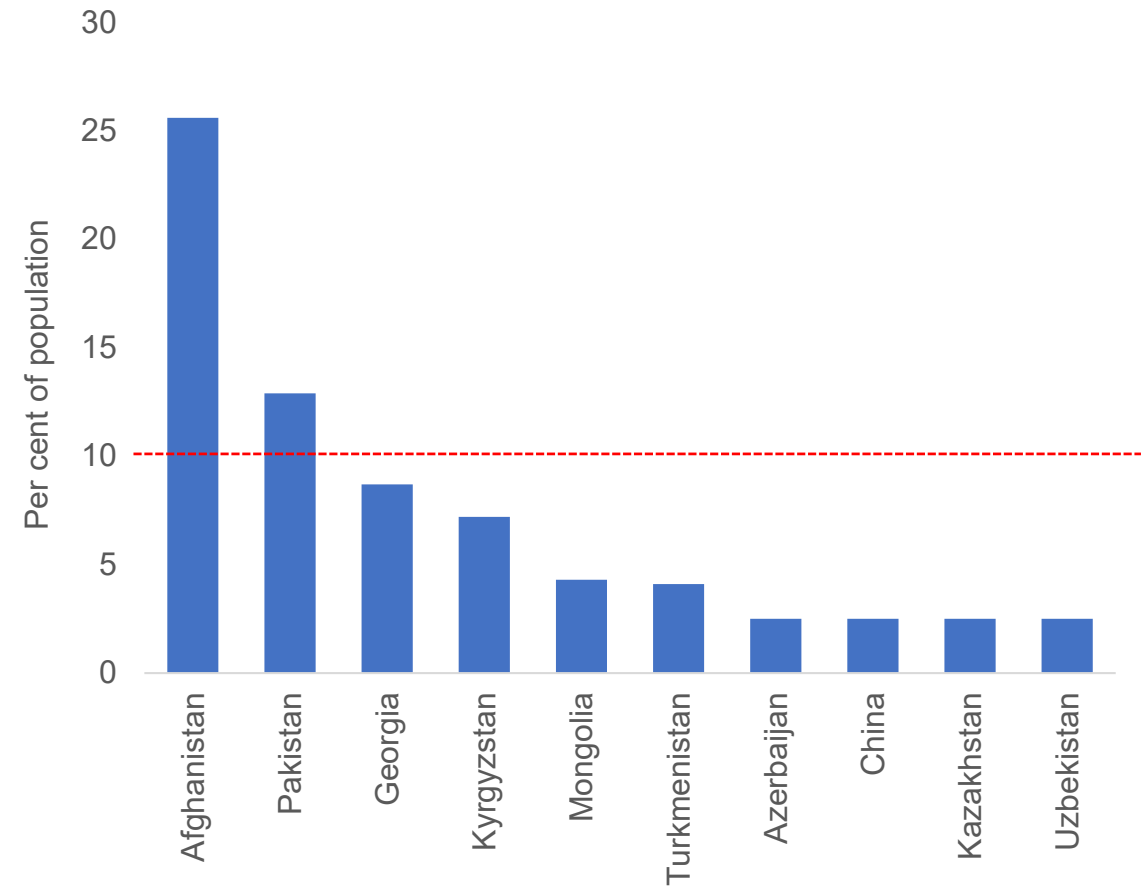
Source: ESCAP, based on FAO database.

Food insecurity remains a challenge in Afghanistan, Georgia and Pakistan

Prevalence of moderate or severe food insecurity



Prevalence of undernourishment



Source: ESCAP, based on the World Development Indicators database.

Higher energy prices

A more exposed country relies on imported energy, while access to electricity remains limited

Meeting all three criteria

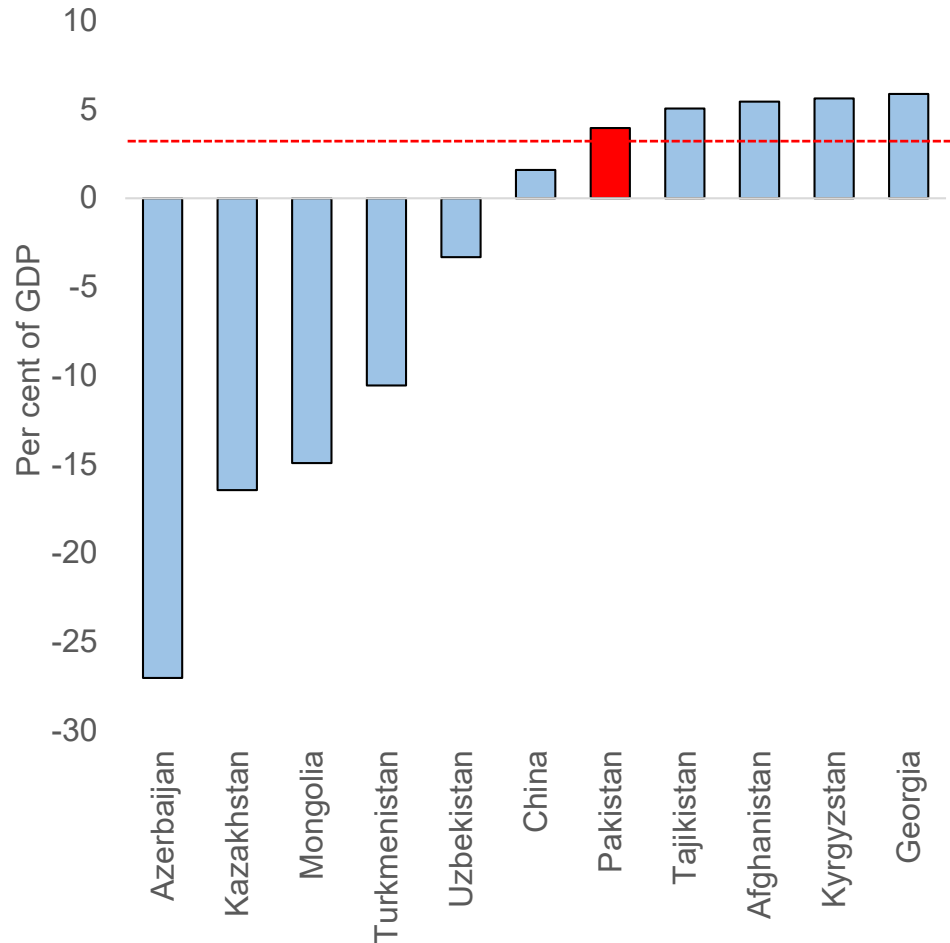
Net fuel imports / GDP > 3%

People without access to electricity / total population > 10%

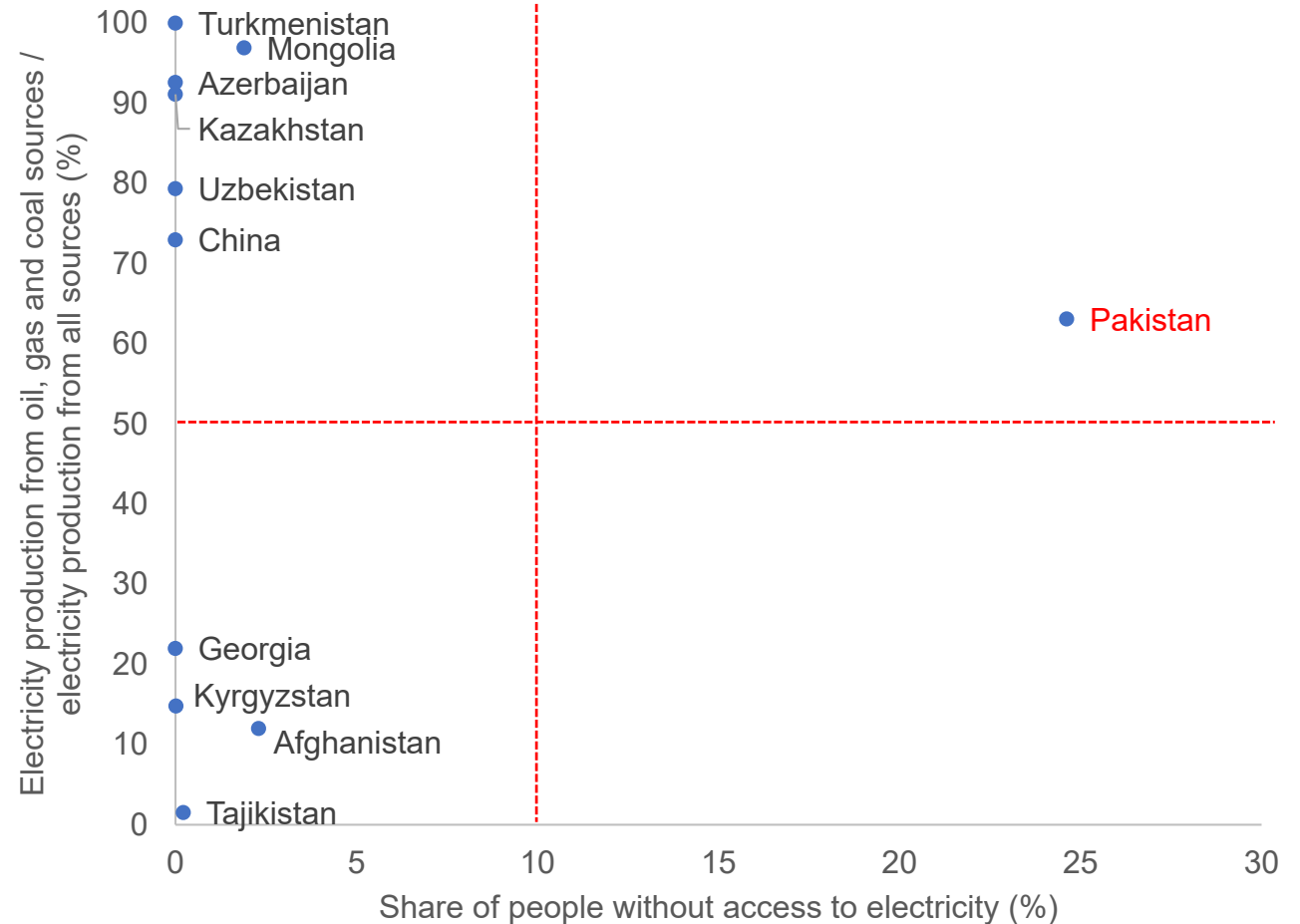
Electricity production from oil, gas and coal sources / electricity production from all energy sources > 50%

Pakistan is the only CAREC country that is considered exposed to high energy prices

Net fuel imports



Access to electricity and energy sources of electricity production



Policy options to address food and energy insecurity

Short-term policies

- Introduce trade liberalization and facilitation measures
- Avoid and signal avoidance of export restrictive measures
- Release national oil reserves
- Increase domestic energy production

Medium-term policies

- Accelerate digital trade facilitation
- Diversify sources of food and energy imports
- Enhance the incentives and policy environment to foster FDI
- Explore additional land and multimodal transport routes
- Leverage modern technology for seamless and resilient cross-border connectivity
- Accelerate the transition towards renewables

Increasing fiscal and financing pressures

Five areas of exposure covering various fiscal and financial aspects

Fiscal space

- Tax revenue
- Tax gap
- Tax buoyancy
- Fuel subsidies
- Public debt distress risk
- Government bond yield

External financial flows

- Foreign aid
- Remittances
- Migrants working in Russian Federation
- Tourism receipts
- Foreign direct investment

External debt

- External debt relative to exports
- External debt relative to official reserves
- Debt service burden

Banking sector

- Domestic credit to private sector
- Capital adequacy
- Default loan
- Household debt

Equity market

- Market capitalization
- Risk of outflows
- Price-to-earning ratio

1: Limited fiscal space

*Meeting at least **three** criteria*

Fiscal space

- Tax revenue / GDP < 10%
- Tax gap / GDP > 3%
- Tax buoyancy > 1.20
- Fuel subsidies / GDP > 3%
- “High” risk of public debt distress
- 10-year government bond yield spread versus the United States > 5%

More exposed economies

- **Afghanistan**
- Micronesia, Federated States of

2: Excessive reliance on external financial flows

*Meeting at least **three** criteria*

External financial flows

- Net official development assistance received / GDP > 10%
- Personal remittances / GDP > 10%
- Migrants working in Russian Federation / all migrants > 50%
- International tourism receipts / GDP > 10%
- Net foreign direct investment inflows / GDP > 10%

More exposed economies

- Armenia
- **Georgia**
- Samoa
- Tonga

3: External debt stock and servicing burden

*Meeting at least **two** criteria*

External debt

- Present value of external debt / exports of goods, services and primary income > 200%
- Total external debt stocks / official reserves > 300%
- Total debt service / exports of goods, services and primary income > 30%

More exposed economies

- Armenia
- **Georgia**
- Indonesia
- **Kazakhstan**
- **Pakistan**
- Sri Lanka
- **Tajikistan**
- Turkey

4: Exposure of the banking sector

*Meeting at least **two** criteria*

Banking sector

- Domestic credit to private sector / GDP > 100%
- Bank capital / assets < 8%
- Default loans / total loans > 5%
- Household debt / GDP > 80%

More exposed economies

- Bangladesh
- Hong Kong, China
- Korea, Republic of
- Macao, China
- Malaysia
- **Pakistan**
- Thailand
- Viet Nam

5: Equity market factors

*Meeting at least **two** criteria*

Equity market

- Market capitalization of listed domestic firms / GDP > 100%
- Equity risk premium > 10%
- Price / earning > 20

More exposed economies

- Iran, Islamic Republic of
- Malaysia
- Singapore
- Thailand

Summary of exposure to fiscal/financial aspects in CAREC economies

	Fiscal space					External financial flows				External debt			Banking sector			Equity market			
Afghanistan	█	█	█			█								█					
Azerbaijan						█													
China	█													█					
Georgia						█	█	█			█	█							
Kazakhstan	█	█				█					█	█		█					
Kyrgyzstan	█					█	█				█			█					
Mongolia						█					█			█			█		
Pakistan	█										█	█	█	█	█		█		
Tajikistan	█	█				█	█				█	█					█		
Turkmenistan	█					█													
Uzbekistan	█					█	█							█					

Policy options for some fiscal aspects

Short-term policies

- Ensure that existing government assistance and subsidy schemes benefit those in need.

Medium-term policies

- Improve tax administration
- Introduce social/green taxes
- Make income tax collection more progressive
- Rationalize tax incentives
- Enhance public spending efficiency
- Expand the scale and coverage of national emergency financing mechanisms
- Strengthen public debt management practices

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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