

**Economic and Social
Survey of Asia and the
Pacific 2015 :
Year-End Update**




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KEY MESSAGES

Economic growth in the Asia-Pacific region is markedly less robust compared to the years before and immediately after the global financial and economic crisis that started in 2008. Developing economies in the Asia-Pacific region grew by an estimated 4.5 per cent in 2015, the lowest rate since 2010, and only a modest rebound to 5 per cent growth is forecast for 2016 – marginally lower than the previous ESCAP forecast reported in the *Economic and Social Survey of Asia and the Pacific 2015*, published in May 2015. Although deceleration in international trade coupled with decline in demand from China are the main factors behind economic slowdown in developing economies in the region, total factor productivity growth has also weakened.

This slowdown, which comes at a time when advanced economies are undergoing mild recovery, highlights the need for reinvigorating domestic and regional sources of demand. Countries are taking positive steps – with China rebalancing towards consumption and India and Indonesia building their capital stock through greater investment – but many obstacles remain, including infrastructure bottlenecks and slow progress on regulatory reform initiatives. Moreover, the international community has just adopted a historic, universal and transformative development agenda for the next 15 years. Reviving economic growth will be critical to support the 2030 Agenda for Sustainable Development.

The projected improvement in 2016 compared with estimates for 2015 is based on China's continued slowdown being offset by smaller contraction in the Russian Federation as oil prices stabilize, albeit at a low level, stronger consumer spending in South Asia supported by moderate inflation and increased public social and infrastructure spending in South-East Asia. Growth in the Pacific island developing economies, some of which are recovering from the impact of natural disasters, is expected to remain moderate.

Headline inflation has declined significantly in most commodity-importing economies owing to lower international commodity prices, particularly oil prices, and slower economic activity. For some commodity-exporting economies, however, there have been upticks in inflation due to exchange rate depreciation. Nevertheless, in taking advantage of low inflation many economies have lowered their interest rates to support economic growth. However, just as with concurrent exchange rate depreciations in many export-oriented economies, this measure has had only a limited impact so far.

While slower economic growth and lower inflation favour further interest rate reductions, capital outflow and exchange rate considerations, together with financial stability concerns in some countries, call for prudence. The recent increase in the interest rate in the United States of America is likely to create external pressure for capital outflows and may lead to a rise in domestic financing costs, a situation which poses a particular challenge for countries with weak external positions and those that have accumulated significant household and corporate debt through external financing.

Given smaller manoeuvring room for monetary policy, a more proactive fiscal stance is recommended to provide countercyclical support and strengthen the foundations for robust and inclusive growth. In this vein, an important consideration, beyond stabilization, is the potential impact of fiscal policy on the distribution of income and opportunities and on long-term economic growth. While there may be some country-specific economic reasons to consider pursuing fiscal austerity, it is important to highlight that there are no mechanical and universally accepted thresholds. A constant assessment,

which incorporates country-specific features, is needed for fiscal policy to optimally respond to short- and long-term needs. National budgets for 2016 indicate that many countries are moving in this direction. Although most economies have adequate fiscal space, considerations to balance national development priorities and fiscal/debt sustainability remain important and should be accompanied by tax reforms.

Rapid increases in household and corporate debt in some economies pose risks for financial stability and economic growth prospects. Thailand's household debt is on a par with OECD levels and China now holds more corporate debt than the United States. Given the likely increases in domestic financing costs at a time when income growth is slowing, comprehensive measures are needed, with attention paid to debt service ratios and exposure to such sectors as real estate and energy.

Overarching medium-term priorities include making economic growth more inclusive and strengthening productivity. Despite much progress having been achieved in poverty reduction, significant inequalities of incomes and opportunities remain in many economies of the region, hampering the achievement of broader development goals. A low or declining share of wages in total income and slowdown in total factor productivity call for greater attention to small and medium-sized enterprises and the agricultural sector, the contribution of which to total value added is disproportionately small compared with their total employment share. In the context of economic growth in developing economies in the region plateauing at about 5 per cent, it is critical that productivity growth is accelerated and that its benefits are passed on to the labour force. Rather than relying excessively on debt to support growth, such steps will foster more sustainable growth by strengthening domestic demand and assisting countries in pursuing the 2030 Agenda for Sustainable Development.



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The *Economic and Social Survey of Asia and the Pacific Year-end Update 2015* contains analyses of economic developments and emerging challenges for the Asia-Pacific region since the release of the *Survey 2015* in May and provides recommendations on appropriate responses for policymakers in the region.

This report was prepared under the overall direction and guidance of Shamshad Akhtar, Under-Secretary-General of the United Nations and Executive Secretary of the Economic and Social Commission for Asia and the Pacific (ESCAP). The report was coordinated by a core team under the direction of Aynul Hasan, Director of the Macroeconomic Policy and Development Division. The core team, led by Hamza Malik, Chief, Macroeconomic Policy and Analysis Section, included Shuvojit Banerjee, Steve Gui-Diby, Pannipa Jangvithaya, Achara Jantarasengaram, Daniel Jeongdae Lee, Oliver Paddison, Kiatkanid Pongpanich, Vatcharin Sirimaneetham and Sutinee Yeamkitpibul. ESCAP staff who made substantive contributions included Ram Tiwaree, Hongpeng Liu and Jun Tian of the Environment and Development Division, Lorenzo Motta, Marco Roncarati and Vanessa Steinmayer of the Social Development Division, Witada Anakoonwattaka of the Trade and Investment Division, and Michael Williamson of the Office of the Executive Secretary.

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