ASIAN DEVELOPMENT OUTLOOK 2021

FINANCING A GREEN AND INCLUSIVE RECOVERY

APRIL 2021

HIGHLIGHTS

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ADO 2021—Highlights

Growth is gaining momentum across developing Asia, but renewed COVID-19 outbreaks show the pandemic is still a threat. Even so, the region's economic revival is underway, supported by a healthy global recovery and progress on vaccines. The region's growth is forecast to rebound to 7.3% in 2021, moderating to 5.3% in 2022. Excluding high-income newly industrialized economies, growth of 7.7% is forecast for this year and 5.6% for next year. Headline inflation—after a marginal decline in 2020—is projected to fall to 2.3% in 2021 on easing food-price pressures, with prices expected to rise by 2.7% in 2022.

Several downside risks weigh on the generally positive outlook. The biggest is that resurgent COVID-19 outbreaks or delayed or ineffective vaccines could once again disrupt mobility and economic activity, setting back the recovery. This and the other risks to the outlook that are discussed in this report are worrying because the pandemic has set back developing Asia's push toward more environmentally sustainable and equitable growth.

Getting back on this growth path will require mobilizing a vast amount of public and private capital. Recent years witnessed the rapid global and regional expansion of green and social finance, particularly from private sources. While noneconomic factors remain key drivers of this expansion, financial motives are playing an important role. Although measuring the impact of green and social finance is challenging, evidence suggests it is associated with environmental and social benefits. Governments across developing Asia have plenty of scope to nurture sustainable finance through fiscal and regulatory measures. Above all, enforcing common standards of information disclosure and impact measurement will boost green and social finance.

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Asia remains resilient, amid divergent recovery paths

COVID-19 relapse is the biggest risk

- **Resurgent COVID-19 outbreaks show that the pandemic is far from beaten.** Outbreaks continue to reappear, both globally and in the region, due partly to the emergence and spread of coronavirus variants. Although new cases in developing Asia fell from their peak of 106,000 per day in September 2020 to 32,000 by the end of February 2021, they rose again to 93,000 by the end of March, the cutoff date for this report. The easing of containment measures and increased mobility since the second half of 2020 may pause or partially reverse in some regional economies.

- **Vaccine rollouts are still in the early stages, and progress varies considerably.** As of 31 March 2021, 15.2 million doses were being administered per day globally. Some 600 million doses have been administered—about 8 doses per 100 people. Vaccinations are currently significantly skewed toward advanced economies, with the United States administering 45 doses per 100 people and Europe 17 doses per 100 people. Developing economies continue to face difficulties in expediting procurement and rolling out vaccination programs. Developing Asia has administered about 214 million doses, or 5.2 doses per 100 people.

- **Developing Asia's economy shrank by 0.2% in 2020, and divergences emerged within the region.** Stifled by domestic lockdowns and a global recession, consumption and investment dragged down output in most economies. South Asia posted the largest contraction on the back of an 8.0% fall in India's gross domestic product (GDP). Southeast Asia also shrank substantially, led by contractions of 9.6% in the Philippines and 6.1% in Thailand. Economic activity declined in Central Asia as commodity prices and remittances fell, and plunging tourist arrivals drove the Pacific into recession. East Asia bucked the trend with positive growth in 2020, boosted by the fast rebound and 2.3% expansion in the People's Republic of China (PRC).

- **Recovery has begun in developing Asia, but at different speeds.** Growth in most regional economies strengthened in the latter part of 2020. Exports—particularly of electronics and products related to the COVID-19 pandemic, such as personal protective equipment—have been an important driver of faster-than-expected recoveries. And this is reflected in a healthy turnaround in manufacturing. The economic revival is particularly strong in East Asia, but weaker elsewhere, especially in the Pacific. Differing trends are also apparent in labor markets, with unemployment declining unevenly across economies.

- **Tourism collapsed, but remittances were more resilient than expected.** The virtual halt in international tourism caused severe recessions in tourism-dependent economies, such as Georgia, Maldives, Thailand, and many Pacific island countries. Surprisingly, remittances increased by 0.7% on average in the first three quarters of 2020 across developing Asia, relative to 2019. This was driven by Bangladesh and Pakistan, where remittances rose by more than 15%. But remittances declined in most economies in the region, particularly in Central Asia, where they account for a large share of GDP.

- **Headline inflation in developing Asia slowed only slightly, from 2.9% in 2019 to 2.8% in 2020.** Growing economic slack and falling international oil and commodity prices put downward pressure on prices in the region over most of 2020, but this was offset by high food-price inflation in the first half of the year, particularly for the PRC and South Asia—thus leading to only a marginal decline in headline inflation. Global oil and food prices rebounded in the second half of 2020 as the world economy recovered.

- **Record fiscal support and accommodative monetary policies were deployed to counter the impact of the COVID-19 pandemic.** Governments relied on a large number of policy measures to support firms, workers, and households. In most economies, fiscal stimulus in 2020 was much larger than during the global financial crisis of 2008–2009. Further support came from the monetary side. Central banks reacted promptly by cutting interest rates in March 2020, and have either maintained or further loosened monetary policy since then.

- **Financial conditions continued to improve in the second half of 2020.** Expansionary policies, economic recovery, and the development of effective vaccines bolstered investor sentiment. Stable foreign portfolio investment flows resumed from the fourth quarter of 2020, and equity markets have soared above prepandemic levels in most subregions. Most Asian currencies strengthened amid a weak US dollar, but a few experienced continued depreciations.

- **Economic activity in developing Asia is projected to rebound in 2021 and 2022.** Assuming that renewed COVID-19 outbreaks are brought under control, domestic demand and economic activity will continue to strengthen this year and next. Progress on vaccine rollouts and recovering regional as well as global demand are expected to consolidate the growth momentum. Developing Asia is projected to grow by 7.3% in 2021, higher than normal due to the comparison with a weak 2020. Growth is expected to moderate to 5.3% in 2022. The growth trend will not be uniform across the region. After rapid rebounds this year, some deceleration is expected in East Asia and—mainly due to India—South Asia. The more moderate growth in 2021 in Central Asia, Southeast Asia, and the Pacific will accelerate in 2022.

- **Inflation in developing Asia will remain generally benign.** Inflation dynamics are projected to stay muted despite rising international commodity prices, as substantial slack in many economies will contain inflationary pressures. Average inflation in the region is forecast to fall from 2.8% in 2020 to 2.3% in 2021, as food-price pressures ease and inflation moderates in India and the PRC. Prices in 2022 are forecast to rise by 2.7%, driven mainly by the PRC, while inflation will be lower in Central Asia and South Asia—with more stable expectations on exchange rates and food prices anticipated to play a large role in these subregions.

- **Developing Asia's current account surplus is projected to narrow.** Gradually healthier economic activity will lead to imports growing faster than exports in most economies in developing Asia, reversing the import contraction and current account improvement seen in 2020. As a result, the region's current account surplus is forecast to narrow from 2.4% of GDP in 2020 to 2.1% in 2021, and further to 1.7% in 2022. The decline, however, will not affect all economies. Commodity-exporting economies should see an improvement in their current account balances.

- **Risks are tilted to the downside and depend mainly on how the COVID-19 pandemic unfolds.** Significant new outbreaks or delayed vaccine rollouts could prolong disruptions to mobility and economic activity, deepening the crisis in some economies. Other risks to the outlook include geopolitical tensions, production bottlenecks, limited vaccine effectiveness, and financial turmoil from tightening financial conditions. Long-term scarring—such as learning losses caused by school closures because of the pandemic—could also occur.

Learning and earning losses from COVID-19 school closures in developing Asia

- **The COVID-19 pandemic severely disrupted education.** Schools were closed to varying degrees across developing Asia—in a quarter of the region's economies, schools were closed for 200–300 days, and in another fifth for a year or more. Only a handful of economies managed to keep schools open continuously. Remote learning strategies were deployed in most economies to keep students learning. But many students are constrained by access to resources like computers and the internet. This has limited their ability to learn when at home.

- **Students in developing Asia have lost 29% of a year of learning on average.** Learning losses varied across the region. They were higher in economies with more days of school closure. In South Asia, where closures have been longest, students lost more than half a year of learning. Students in East Asia lost 39% of a year in learning, students in Southeast Asia lost 35%, and in Central Asia 24%. Schools have mostly stayed open in the Pacific, where learning losses were relatively low, at 8%.

- **Learning losses will substantially reduce future productivity and earnings.** Estimates show that students affected by school closures stand to lose an average of $180 or a 2.4% decline in expected annual earnings. The present value of these future earning losses adds up to an estimated $1.25 trillion for developing Asia, equivalent to 5.4% of the region's GDP in 2020. In a more optimistic scenario for the effectiveness of remote learning during the COVID-19 pandemic, total losses are equivalent to $0.8 trillion (3.6% of 2020 GDP). But a pessimistic scenario puts the losses at $1.8 trillion (7.6% of GDP). Learning and earning losses will rise the longer that schools remain closed. Policies can be adopted to help mitigate the potential damage and ensure that education systems emerge from this pandemic better than they were before.

Outlook by subregion

- **Developing Asia faces a patchy recovery as the effects of the COVID-19 pandemic linger.** Some economies continue to struggle to contain the virus and its new variants. Tourist-dependent economies in the Pacific and elsewhere face a slow road back. Conversely, a handful of economies in the region that have contained domestic outbreaks and are benefiting from the recovery in global demand will continue to show resilience and expand.

- **East Asia is forecast to grow by 7.4% in 2021 due to the vaccine rollout, global economic recovery, improving consumer sentiment, and supportive macro policies.** The revival from a pandemic-induced slump will be strongest in the PRC, where output is forecast to grow by 8.1% this year due to a surge in private consumption and exports. The pace is expected to slow to 5.1% in 2022 as the PRC, along with Hong Kong, China and the Republic of Korea, which both suffered contractions in 2020, revert to their longer-term trend. The outlook for Mongolia, where output fell during the pandemic, differs slightly, as a resurgence in mining and investment is expected to lead to stronger growth until 2022. Inflation in the subregion is forecast to decelerate to 1.5% in 2021, a trend that is driven by the PRC, as inflation in most other East Asian economies will increase this year. Inflation will pick up across the subregion in 2022 except in Taipei,China, where it is expected to remain unchanged at 1.1%. In Mongolia, inflation will almost double this year and rise well beyond the central bank's medium-term target of 6.0% in 2022.

- **South Asia will have developing Asia's fastest growth this year after suffering the region's sharpest contraction in 2020.** Aggregate output is forecast to expand by 9.5% in 2021, with growth tapering to 6.6% in 2022. This largely reflects the performance of India, which will rebound from an 8.0% contraction in fiscal year 2020 and grow by 11% and 7% in this and the following fiscal year. A stimulus-fueled surge in the US, India's largest export market, will support the revival, but a severe second COVID-19 wave is threatening the recovery. Maldives will also bounce back from a sharp recession, the steepest in Asia since the outbreak of the COVID-19 pandemic. With some release of pent-up global demand for tourism, Maldives is forecast to grow by 13.1% in 2021 and 14.0% in 2022. Economic activity in Afghanistan, Nepal, and Pakistan will rise as tight containment restrictions are lifted, with buoyant remittances stimulating growth in Nepal and Pakistan. Bangladesh, which weathered the pandemic better than most economies in the subregion, will continue to grow strongly as exports pick up. Bhutan's economy is projected to contract by 3.4% in fiscal year 2021, because of continued strict border restrictions, but growth is forecast at 3.7% in the next fiscal year. Sri Lanka's challenging macroeconomic situation will likely moderate growth in 2022. Inflation in South Asia is forecast to decelerate from 6.5% in 2020 to 5.5% in 2021 and to 5.1% in 2022.

- **Southeast Asia will track developments in the global economy and is forecast to grow by 4.4% in 2021 and 5.1% in 2022.** Vaccination programs and expansionary monetary and fiscal policies are expected to underpin the revival of domestic demand. Both factors are becoming evident in Malaysia and Singapore, two closely intertwined economies that are benefiting from accommodative financial policies, and in Indonesia. In the Philippines, fiscal stimulus from spending on infrastructure and social assistance will promote a bounce back. Brunei Darussalam and Viet Nam, which did not go into recession in 2020, will see their economies expand further in the coming years. In contrast to a generally positive subregional economic outlook, Myanmar's output is forecast to shrink by 9.8% in 2021 as continued disruptions of government operations and mass political protests worsen the problems of an economy that has been hard hit by the COVID-19 pandemic. With higher growth and rising international commodity prices, inflation in the subregion is projected to double from 1.2% in 2020 to 2.4% in 2021 and 2022. After falling in 2020, prices in Malaysia, Singapore, and Thailand will edge higher in the next 2 years. Inflation will be notably higher in Myanmar, the Philippines, Timor-Leste, and Viet Nam in 2021, but it will decline in Brunei Darussalam on easing supply constraints and price subsidies. Increased food production will reduce price pressures this year in the Lao People's Democratic Republic.

- **Growth will resume in Central Asia as rising world commodity prices trigger economic activity.** Aggregate output in the subregion is forecast to rise by 3.4% in 2021 and 4.0% in 2022. Higher oil prices and continued government support to manufacturing will trigger growth estimated at 3.2% in Kazakhstan, the region's largest economy. A further rise in demand and oil production should increase Kazakhstan's growth to 3.5% in 2022. A similar pattern will characterize growth in Azerbaijan, where higher prices and increased oil and gas production will boost growth 2021 and 2022—and this growth will be further supported by a recovery in tourism and other services. Growth in Uzbekistan will be propelled by expansions in industry, services, and construction. Higher demand for oil and gas from the recovery in the PRC and other trade partners will support growth in Turkmenistan. Higher remittances will lift growth in Armenia in 2022 to a forecast 3.0%, but subdued investment will limit growth to a projected 1.8% in 2021. Growth in Georgia is expected to accelerate in 2021 and 2022 as the global recovery boosts tourism. Tajikistan, where official numbers showed growth slowing to 4.5% in 2020, anticipates a small pickup in growth to 5.0% in 2021 and 5.5% in 2022 as COVID-19 restrictions in trade partners ease, and remittances, export demand, and foreign direct investment revive. Growth in the Kyrgyz Republic is projected to rise to 3.5% in 2021 and 5.0% in 2022 as pandemic-related restrictions ease and activity recovers in its trading partners. Inflation in Central Asia, which rose to 7.5% in 2020 because of trade disruptions and pandemic-related mobility restrictions, is projected to slow to 6.8% in 2021 and to 6.3% in 2022 as these restrictions are lifted.

- **The Pacific is expected to recover after a crippling downturn in 2020.** After the subregion's economy contracted by 5.8% due to the impact of COVID-19, moderate growth of 1.4% is forecast for 2021 and 3.8% for 2022. This mirrors the outlook for Papua New Guinea, the subregion's largest economy, where output will grow moderately this year, then climb further next year as the recovery strengthens. Fiji will follow a similar trend, but on a stronger rebound from a deeper fall (an unprecedented 19% contraction in 2020). Travel bubbles are expected to contribute to a gradual recovery in some smaller Pacific economies—initially, the Cook Islands and Niue because of their economic ties with New Zealand, and Palau because of its economic ties with Taipei,China. Widespread vaccination, both within Pacific economies and in their trade and tourism partners, is expected to play a major role in boosting growth in 2022. Inflation in the Pacific is forecast at 3.7% in 2021, well above the average for developing Asia. This is due mainly to Papua New Guinea, where the depreciation of the local currency and quantitative easing are stoking inflation pressures. Inflation is expected to remain low in most Pacific economies this year. But deflation is forecast for Samoa due to lower import prices, utility subsidies, and increased agricultural production. Inflation in the subregion is expected to rise only slightly to 3.9% in 2022.

Financing a green and inclusive recovery

Summary

- ***Green and inclusive recovery requires both public and private capital.*** *Building back better and greener from COVID-19 will demand large investments that are often beyond the means of the public sector alone. Promisingly, green and social finance from private sources has grown rapidly in recent years, both regionally and globally.*

- ***Private green and social finance is becoming financially driven.*** *While it was investors' environmental and social goals that initially drove global growth in sustainable investment, financial motives are increasingly coming to the fore. After Australia's ratification of the Kyoto Protocol restricted its emissions, to cite one illustration, the debt costs of high-emitting Australian companies increased by an average of 5.4%, and their equity costs by 2.5%, relative to low-emitting companies. Tapping green and social finance helps meet the preferences of various stakeholders, hedge and mitigate sustainability risks, and generate resilience under shocks. Green and social finance also fosters positive recognition among investors, thus broadening the financing base.*

- ***Sustainable finance offers real environmental and social benefits.*** *Asian firms that issue green bonds improve their environmental performance by 17% after 1 year and 30% after 2 years on average, as measured by corporate environmental ratings. At the market level, green bond issuance is associated with reduced carbon dioxide (CO_2) emissions as market participants become more aware of the Sustainable Development Goals (SDGs) and committed to achieving them. Social impacts are more varied, but innovative financing instruments such as impact bonds show potential.*

- ***Engaged public policy is central to nurturing social and green finance.*** *Governments can use a range of policy options both to shape markets and to participate in them. Regulation that enforces common standards of information disclosure and impact measurement is the most powerful policy option to support the development of green and social finance. Policy makers can align finance with the SDGs by incorporating sustainability risks into the micro- and macroprudential framework to safeguard financial stability, strengthen market infrastructure and ecosystems, and expand fiscal revenue available for development along a green, resilient, and inclusive pathway.*

Mobilizing resources for a green and inclusive recovery

- **Asia must build back better as it emerges from the pandemic.** Asia's phenomenal development over several decades often adopted a "grow first, worry about cleanup and equality later" approach. In recent years, the region has turned its attention to more sustainable and inclusive growth. Both economic growth and the quality of life face threats from environmental challenges such as climate change, biodiversity loss, and environmental pollution. Growth that empowers and benefits the entire population remains a work in progress. The pandemic set back these efforts and imposed disproportionate burdens on the poor and vulnerable. It also clearly demonstrated that abnormal risks can and do become reality, driving home the need to prepare for future risks, the most dire of which is worsening climate change. Society now has an opportunity to build back better. Green and inclusive recovery would strengthen resilience under future shocks.

- **Building back better requires mobilizing capital both public and private.** Dubbed the Great Reset, building back better after COVID-19 will require mobilizing capital to fund green investments such as clean energy and social investments such as public health, education, and job training. The vast financial resources needed are often beyond the means of the public purse alone. Especially after suffering sharp contractions in fiscal revenue during the pandemic, Asian governments must close the funding gap by catalyzing more private capital and mobilizing resources from a much broader funding base. As a bonus, the participation of private capital fosters risk sharing on green and social projects across a broad coalition of public and private investors.

- **Green and social finance specifically targets sustainability goals.** Such capital is deployed in a range of investments designed to achieve specific and measurable environmental or social objectives. Comprising all financing instruments, investments, and mechanisms that contribute to the SDGs, the spectrum of green and social finance includes blended or catalytic finance, debt, equity, funds, and grants. This diversity offers the opportunity to create innovative financing models and new financial instruments to expand the supply of capital for sustainability goals.

- **This area of finance has grown rapidly in recent years.** Growth in green and social finance has been particularly strong in private capital. Financially sophisticated advanced economies, where environmental and social issues have long been high priority, still dominate the global green and social finance landscape. Meanwhile, developing Asia leads all other emerging regions in the issuance of green, social, and sustainability bonds. The region also leads the developing world in regulation and policy guidance on green and social finance. Rapid global growth in green and social finance has continued since the COVID-19 outbreak. The trend is consistent with heightened awareness in the financial industry of the importance of green and inclusive recovery from COVID-19.

Drivers of green and social finance

- **Economic and noneconomic factors alike drive green and social finance.** While it was investors' environmental and social goals that initially impelled global growth in sustainable investment, financial motives are increasingly coming to the fore. Evidence shows various factors driving incentives for the finance industry to channel capital into investments with environmental and social impacts: staying aligned with changing stakeholder preferences and social norms, hedging and mitigating sustainability risks, and fostering greater resilience in the wake of shocks to particular firms or entire markets.

- **Evidence shows that sustainability risks increase firms' financing costs.** In the first 5 years after the 2007 ratification of the Kyoto Protocol initiated restrictions on annual CO_2 emissions in Australia, the debt costs of high-emitting Australian companies increased by 5.4%, and their equity costs by 2.5%, relative to Australian firms with lower carbon footprints. Two probable channels for higher financing costs are worsened cash-flow risk and investor recognition. High emitters had increased default probability, financial distress risk and market risk. In addition, they faced declines in institutional ownership and greater difficulty in obtaining finance from major banks. These developments demonstrate that investors weigh firms' exposure to sustainability risk when making portfolio decisions.

- **Green and social finance engenders positive investor recognition.** Tapping green and social finance signals a firm's awareness of environmental and social issues and its commitment to positive outcomes. This is well received by investors, as evidenced by Asian stock markets responding positively to the issuance of corporate green bonds. During a 16-day period encompassing the announcement of green bond issuance, issuing firms' common stocks post an average cumulative abnormal return of 0.5%, or an annualized gain of 7.9%. Such positive reaction indicates that investors see green and social finance creating value. Recent evidence from global markets shows firms distinguished by their green bond issuance enjoying superior stock price performance and greater resilience during the pandemic. Further, such positive investor recognition helps to broaden the investor base for green and social investment.

Targeted impacts from green and social finance

- **Social and green finance requires better impact measurement.** Accurate impact measurement informs assessment of funding and investment proposals, enhances credibility, facilitates decision making, guides future resource allocation, and creates models and benchmarks. However, there are currently no commonly agreed reporting standards or impact metrics for green and social finance. This failing exacerbates information asymmetry and raises concerns about green- or social-washing—inaccurate, self-serving claims that undermine investor confidence. In response, some progress has been achieved toward consolidating the many competing models for impact measurement.

- **Green finance credibly signals commitment to environmental impact.** Evidence suggests that green finance signals increased awareness of and commitment to the SDGs and thus indicates positive environmental outcomes. Asian firms that issue green bonds improve their environmental performance by 17% within a year after issuance and by 30% within 2 years on average, as measured by corporate environmental ratings. Evidence further suggests that cities using more green bond finance enjoy significantly improved local air quality. An increase by one standard deviation in green bond financing is associated with a 0.6% improvement in the air quality index. Countries similarly record lower carbon emissions after the first green bond issuance in national bond markets.

- **Private capital makes social programs more efficient and effective.** Innovative social finance instruments like impact bonds connect private capital to investment that addresses social and development challenges. These mechanisms facilitate risk transfer from the government and service providers to private investors, who earn returns only when desired social outcomes are achieved. Development impact bonds enable results-based private finance to participate in development programs in low- and middle-income economies. Notable examples include the Educate Girls Development Impact Bond, which improved education outcomes for marginalized school-age girls in India.

- **Multilateral development banks catalyze green and social finance.** The challenge of unlocking green and social finance created a role for multilateral financial institutions. They provide direct financing and catalyze capital from public and private sources through blended finance, credit enhancement, and loan guarantees. They innovate novel financing solutions and further facilitate the development of green and social finance by strengthening market infrastructure and ecosystems, as well as government policy, knowledge, and capacity in developing economies.

Complementary financing instruments for a green and inclusive recovery

- **Public sector capital remains a vital pillar of finance for the SDGs.** Public spending oriented toward the SDGs remains important for developing economies' green and inclusive recovery. Evidence shows that fiscal measures with environmental goals contribute to green development. The pandemic underscores the need for investment in basic public services such as health care and education to address worsening inequality. Even as the COVID-19 crisis suppresses tax revenue in Asian economies, some Asian governments are investing to ensure sustainable recovery after the pandemic. Examples include the Green New Deal in the Republic of Korea, green components in Japan's economic stimulus packages, and the issuance in Thailand of sovereign sustainable bonds.

- **Microfinance has potential for achieving positive social outcomes.** Whether commercially oriented or not for profit, microfinance institutions provide a wide range of financial services to vulnerable groups. Microfinance aims to promote positive development outcomes toward the major socioeconomic imperatives of poverty reduction, equitable health care and education, job creation, women's empowerment, and disaster resilience. However, evidence is mixed on the impact that microfinance has on poverty reduction and some other social outcomes, leaving it subject to debate.

- **Carbon pricing narrows the funding gap during a low-carbon transition.** Carbon pricing through emission trading, carbon taxes, and other mechanisms aims to internalize the external costs of carbon emissions by making polluters pay for their CO_2 emissions. While carbon-pricing instruments are still in their infancy, momentum is growing in Asia and the Pacific for their use to facilitate a low-carbon transition. Asian economies can build on regional experience with carbon-pricing schemes to realize the benefits of a broad toolkit of available carbon-pricing instruments.

Nurturing green and social finance in Asia

- **Engaged public policy is central to nurturing social and green finance.** Governments can use a range of policy options both to shape green and social finance markets and to participate in them. Policy options include fiscal measures such as grants, direct and indirect investment, tax incentives and subsidies, and legislation and regulation. While a range of policy innovations already exists worldwide, the market would benefit significantly from legislation and regulation that enforce common standards of impact measurement and information disclosure. Governments can reshape existing policies and contribute to green and inclusive recovery through investment, catalysis, innovation, advocacy, and research in green and social finance.

- **Finance should align with the SDGs while safeguarding financial stability.** Sustainability risks pose challenges to individual financial institutions and to the whole financial system. Policy makers have started to incorporate sustainability risks into micro- and macroprudential frameworks, charting the way forward for safeguarding financial stability while supporting the transition to sustainable development. Financing sustainable recovery can be facilitated by sound financial market infrastructure and a viable market ecosystem. Asian policy makers need to work together to develop standards of impact measurement and information disclosure that align with international standards and promote sustainable finance as a regional agenda.

- **Strengthened public finance can support green and inclusive recovery.** Domestic resource mobilization provides more resources for sustainable recovery. Effective tax policy measures can increase tax revenue by (i) broadening and protecting the domestic tax base; (ii) enhancing tax compliance through better taxpayer services and strengthened risk management, audit, and enforcement; (iii) developing more transparent and efficient tax administration with streamlined business processes and digital technology; (iv) striking a balance between raising tax revenue and promoting investment; and (v) strengthening international tax cooperation. Finally, tax policy measures that offer well-designed tax incentives can improve development outcomes by, for example, promoting clean energy investment.

GDP growth rate and inflation, % per year

	GDP growth				Inflation			
	2019	2020	2021	2022	2019	2020	2021	2022
Central Asia	**4.9**	**–1.9**	**3.4**	**4.0**	**7.2**	**7.5**	**6.8**	**6.3**
Armenia	7.6	–7.6	1.8	3.0	1.4	1.2	3.8	2.5
Azerbaijan	2.5	–4.3	1.9	2.5	2.6	2.8	3.5	3.0
Georgia	5.0	–6.2	3.5	6.0	4.9	5.2	5.0	3.5
Kazakhstan	4.5	–2.6	3.2	3.5	5.3	6.8	6.5	6.2
Kyrgyz Republic	4.6	–8.6	3.5	5.0	1.1	6.3	7.0	7.0
Tajikistan	7.5	4.5	5.0	5.5	8.0	9.4	9.0	8.0
Turkmenistan	6.3	1.6	4.8	4.9	13.0	10.0	8.0	8.0
Uzbekistan	5.8	1.6	4.0	5.0	14.6	12.9	10.0	9.0
East Asia	**5.3**	**1.8**	**7.4**	**5.1**	**2.6**	**2.2**	**1.5**	**2.2**
Hong Kong, China	–1.2	–6.1	4.6	4.5	2.9	0.3	1.3	2.0
Mongolia	5.2	–5.3	4.8	5.7	7.3	3.7	6.9	8.5
People’s Republic of China	6.0	2.3	8.1	5.5	2.9	2.5	1.5	2.3
Republic of Korea	2.0	–1.0	3.5	3.1	0.4	0.5	1.3	1.5
Taipei,China	3.0	3.1	4.6	3.0	0.6	–0.2	1.1	1.1
South Asia	**4.2**	**–6.0**	**9.5**	**6.6**	**5.0**	**6.5**	**5.5**	**5.1**
Afghanistan	3.9	–5.0	3.0	4.0	2.3	5.6	5.0	4.0
Bangladesh	8.2	5.2	6.8	7.2	5.5	5.7	5.8	5.8
Bhutan	4.3	0.9	–3.4	3.7	2.8	3.0	6.4	5.3
India	4.0	–8.0	11.0	7.0	4.8	6.2	5.2	4.8
Maldives	7.0	–32.0	13.1	14.0	0.2	–1.4	3.0	2.5
Nepal	6.7	–1.9	3.1	5.1	4.6	6.2	5.0	6.0
Pakistan	1.9	–0.4	2.0	4.0	6.8	10.7	8.7	7.5
Sri Lanka	2.3	–3.6	4.1	3.6	4.3	4.6	4.5	5.0
Southeast Asia	**4.4**	**–4.0**	**4.4**	**5.1**	**2.1**	**1.2**	**2.4**	**2.4**
Brunei Darussalam	3.9	1.2	2.5	3.0	–0.4	1.9	0.7	0.7
Cambodia	7.1	–3.1	4.0	5.5	1.9	2.9	3.1	3.0
Indonesia	5.0	–2.1	4.5	5.0	2.8	2.0	2.4	2.8
Lao People’s Dem. Rep.	4.7	–0.5	4.0	4.5	3.3	5.1	4.5	5.0
Malaysia	4.3	–5.6	6.0	5.7	0.7	–1.1	1.8	2.0
Myanmar	6.8	3.3	–9.8	...	8.6	5.7	6.2	...
Philippines	6.1	–9.6	4.5	5.5	2.5	2.6	4.1	3.5
Singapore	1.3	–5.4	6.0	4.1	0.6	–0.2	1.0	1.2
Thailand	2.3	–6.1	3.0	4.5	0.7	–0.8	1.1	1.0
Timor-Leste	1.8	–7.9	3.4	4.3	1.0	0.5	2.0	2.0
Viet Nam	7.0	2.9	6.7	7.0	2.8	3.2	3.8	4.0
The Pacific	**4.3**	**–5.8**	**1.4**	**3.8**	**3.0**	**3.3**	**3.7**	**3.9**
Cook Islands	5.3	–5.9	–26.0	6.0	0.0	0.7	1.0	0.7
Federated States of Micronesia	1.2	–5.4	–1.8	2.0	–1.0	1.6	1.9	2.0
Fiji	–0.4	–19.0	2.0	7.3	1.8	–2.6	3.5	3.0
Kiribati	2.4	0.6	–0.2	2.3	–1.8	1.0	1.1	1.5
Marshall Islands	0.7	–5.5	–1.4	2.5	0.1	0.3	1.0	1.5
Nauru	1.0	0.8	1.5	1.0	4.3	1.0	1.1	2.0
Niue	...	...	...	...	1.9	2.7	...	...
Palau	–1.8	–10.3	–7.8	10.4	0.6	0.0	0.0	1.0
Papua New Guinea	5.9	–3.3	2.5	3.0	3.6	4.9	4.3	4.4
Samoa	3.6	–3.2	–9.2	3.1	2.2	1.5	–2.5	2.7
Solomon Islands	1.2	–4.5	1.0	4.5	1.6	3.0	2.5	3.5
Tonga	0.7	–0.8	–5.3	1.8	3.3	0.2	0.8	2.5
Tuvalu	4.1	0.5	2.5	3.0	3.5	1.6	3.3	3.5
Vanuatu	3.5	–9.8	2.0	4.0	2.8	3.0	3.5	3.7
Developing Asia	**5.0**	**–0.2**	**7.3**	**5.3**	**2.9**	**2.8**	**2.3**	**2.7**
Developing Asia excluding the NIEs	**5.5**	**0.0**	**7.7**	**5.6**	**3.3**	**3.1**	**2.4**	**2.9**

... = unavailable, GDP = gross domestic product, NIEs = newly industrialized economies of Hong Kong, China; the Republic of Korea; Singapore; and Taipei,China.

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The full report is available on the ADB website at http://www.adb.org/ado2021.

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