



Social Protection  
& Public Finance Management

## ► Sustainable financing and improved public financing management

The 39<sup>th</sup> ASSA Board Meeting, Luang Prabang, Lao PDR

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## Sustainable financing and improved public financing management



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Global Trends: A period of economic and political instability

Regional Snapshot: Increased inflation & debt but robust economies

Short term and emerging financing challenges

Long term financing challenges

Recommendations and take-aways

## Global trend of economic and political instability

- Global inflation at 9.4% in 2022 but forecast to fall to 4.2% in 2023
- Food prices 30-40% higher than in 2020
- Increase in energy prices since Russian invasion of Ukraine
- Impacts on
  - Individuals
  - Households
  - The economy
  - Real wages
  - Government finances and contributions for social security



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## Increase in inflation rates

Country	2018	2019	2020	2021	2022	2023	2024
Brunei Darussalam	1.03	-0.39	1.94	1.73	2.50	2.00	1.50
Cambodia	2.46	1.94	2.94	2.92	5.21	3.82	3.04
Indonesia	3.29	2.82	2.03	1.56	4.63	5.50	3.17
Lao P.D.R.	2.04	3.32	5.10	3.75	15.00	9.00	4.00
Malaysia	0.97	0.66	-1.14	2.48	3.23	2.81	2.37
Myanmar	5.94	8.63	5.73	3.64	16.16	13.33	7.83
Philippines	5.31	2.39	2.39	3.93	5.32	4.34	3.12
Singapore	0.44	0.57	-0.18	2.31	5.54	3.00	2.01
Thailand	1.07	0.71	-0.85	1.23	6.33	2.82	1.45
Vietnam	3.54	2.80	3.22	1.83	3.76	3.92	3.50



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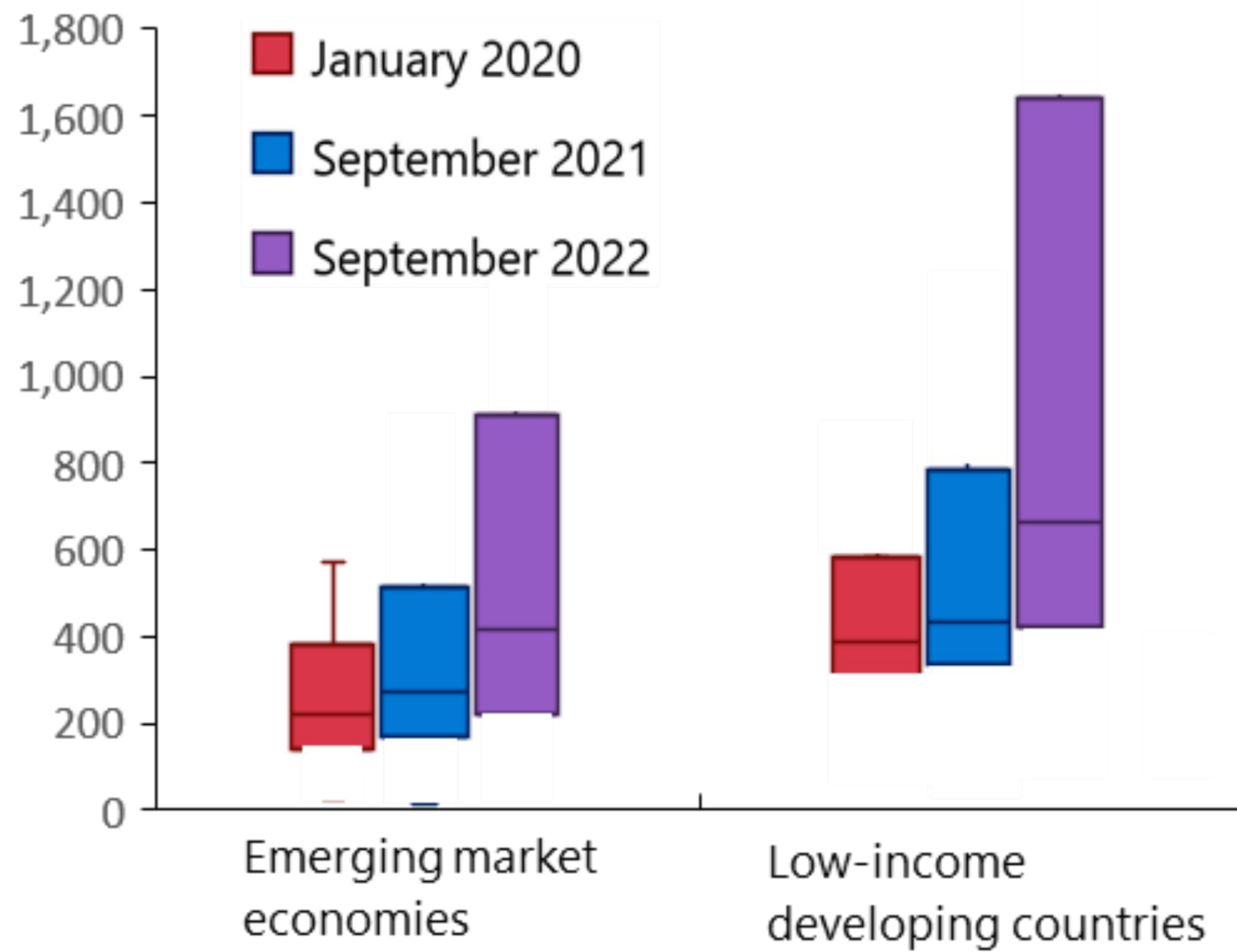


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## Government debt (% gdp)

Country	2018	2021	2024
Brunei Darussalam	2.59	2.51	1.91
Cambodia	28.45	36.27	37.92
Indonesia	30.42	41.16	40.41
Lao P.D.R.	59.65	93.54	111.08
Malaysia	55.65	69.02	70.01
Myanmar	40.42	62.35	67.32
Philippines	37.13	56.95	61.17
Singapore	109.45	159.87	139.94
Thailand	41.94	58.38	61.26
Vietnam	43.71	39.71	40.78

## Cost of borrowing going up rapidly



Sovereign spreads: Risk premia on Government Bonds

## Change in per capita gdp since 2018

Country	Estimated Change 2018-2024
Brunei Darussalam	14.9%
Cambodia	20.7%
Indonesia	17.3%
Lao P.D.R.	6.9%
Malaysia	12.0%
Myanmar	-5.3%
Philippines	11.1%
Singapore	20.2%
Thailand	6.2%
Vietnam	28.2%



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## Short term and emerging financing challenges

- Pressure on government finances and debt servicing costs
- Headwinds: lower economic growth -> pressure on contributions
- Resistance to increasing financing and contribution rates
- Pressure on social security reserve funds
- Financing support for informal workers – limited social assistance resources
- Adequacy of benefits – indexation, minimum benefits etc
- Investment strategies to protect social insurance reserves



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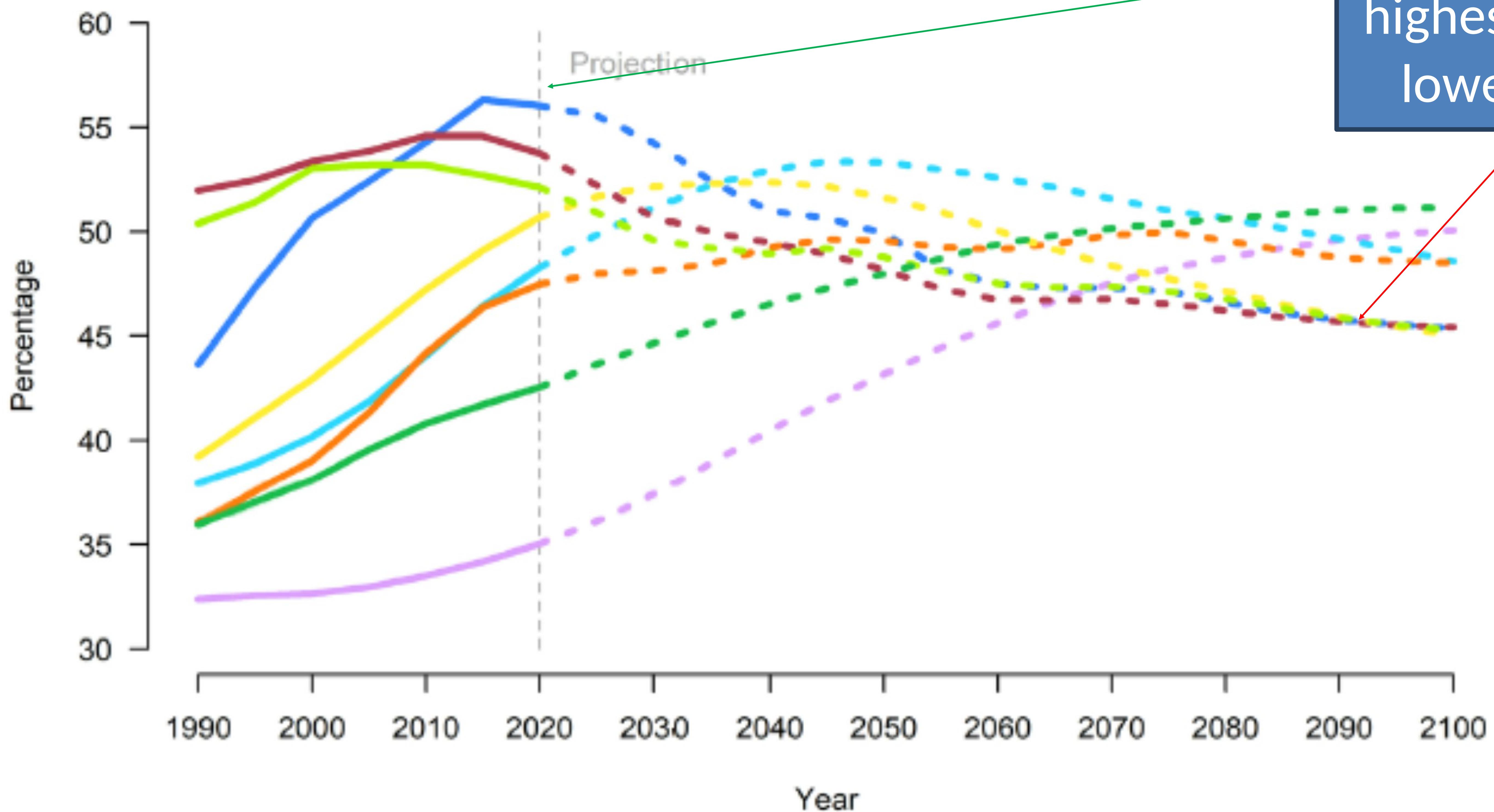
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## Longer term financing challenges

Estimated and projected percentage of population aged 25-64 years by SDG region, 1990-2100, according to the medium-variant projection

An increasing proportion of population in the working ages is presenting an opportunity for a demographic dividend in some parts of the world

From highest to lowest



Sub-Saharan Africa  
Northern Africa and Western Asia  
Central and Southern Asia  
Eastern and South-Eastern Asia

Latin America and the Caribbean  
Australia/New Zealand  
Oceania\*  
Europe and Northern America

## Longer term financing challenges

- Medium & long term financial sustainability of contributory social security
- Retirement schemes in the region generally underfunded
- Health and disability costs will also increase as illnesses change
- Impact of climate change and loss of bio-diversity
- Financing Policies often missing ; much depends on political will
- Direct link from the actuarial valuation to policy and financing decisions?

## Longer term financing principles

- Financing mechanisms should be (perceived) as fair between and across generations
- Diversification of financing approaches reduces risk and allows for redistribution
- Avoiding a silo approach - multi-tier and consistency required
- In an ageing economy, human capital and innovation key drivers of growth not cost of labour
- Financing and reform options should be considered together



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## Recommendations and take-aways: context

- Reduction in labour share of gdp (to capital) over recent years requires reflection of how to finance
- Employers benefit from the strengthening of human capital
- Important that majority of costs are shared between employers and employees
- Innovative economies do not focus on the cost of labour – higher labour costs encourages innovation and productivity increases
- Covid19 responses show the importance of adequate social protection

## Recommendations and take-aways

- Ring-fence social protection spending and social security reserves
- Robust long term financing strategy and policy
- Increase coverage of social security schemes
- Medium-term social assistance strategy including financing plans
- Improved Governance, administration, management and communication:
  - *Compliance measures*
  - *Working with other stakeholders*
  - *Effective use of IT*
- Strengthen Public Finance Management regulations and practice

## Recommendations and take-aways

- Overall view of social protection to ensure integration & complementarity
  - Non-contributory and contributory programmes
  - In line with ILO Conventions and Recommendations
- Advocacy of social protection importance – eg in response to shocks
- Ensure long term financial sustainability (eg retirement and health)
  - Actuarial valuation recommendations
  - Parametric reforms
  - Preventative measures including active ageing
- Learn lessons from the COVID response
  - Improved delivery
  - Financing mechanisms
  - Get more people in contributory social security schemes