

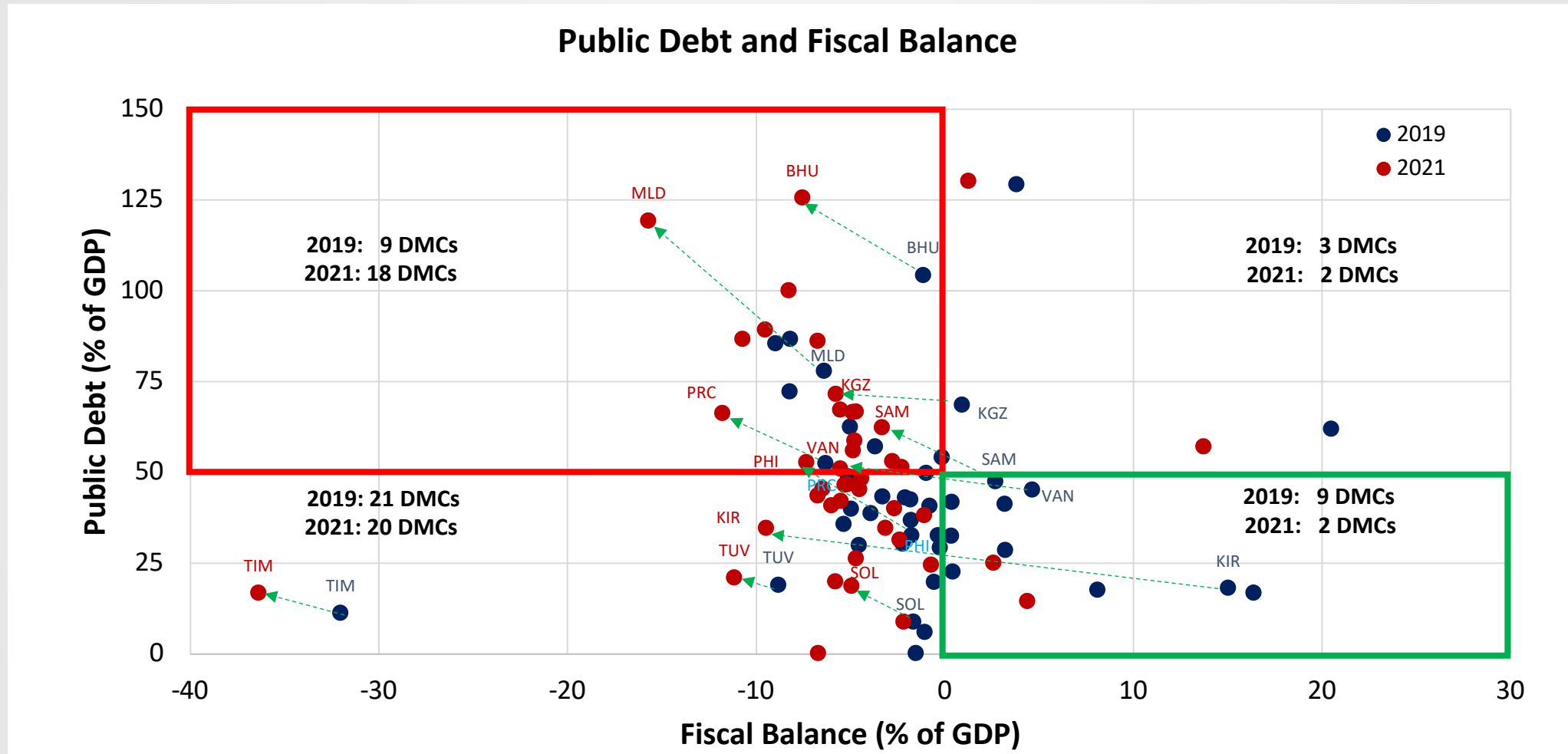
The Launch of the Asia Pacific Tax Hub – Foundational Building Blocks –

Monday, 3 May 2021

Why Domestic Resource Mobilization Matters Now?

1. Address **Debt Sustainability**
2. Achieve **the Sustainable Development Goals**

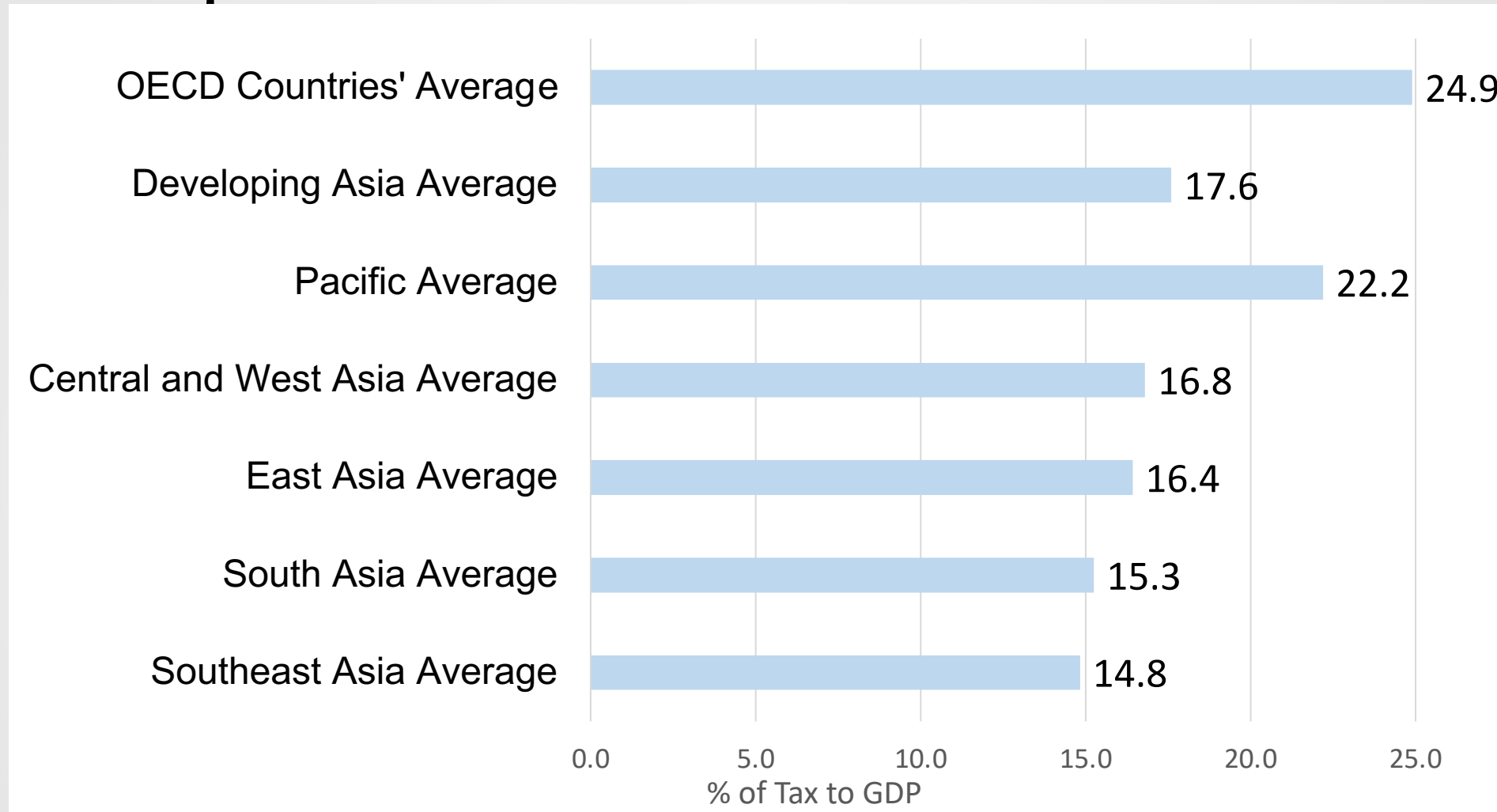
Moving to Sizeable Deficits and Higher Debt



Notes: Projections are from Baseline Scenario. Comprises a panel of 43 ADB DMCs. Lower-income DMCs are shown with labels.

Sources: ADB projections using data from World Economic Outlook (WEO) October 2019, WEO April 2020, WEO October 2020, and Asian Development Outlook Supplement (ADOS) – December 2020.

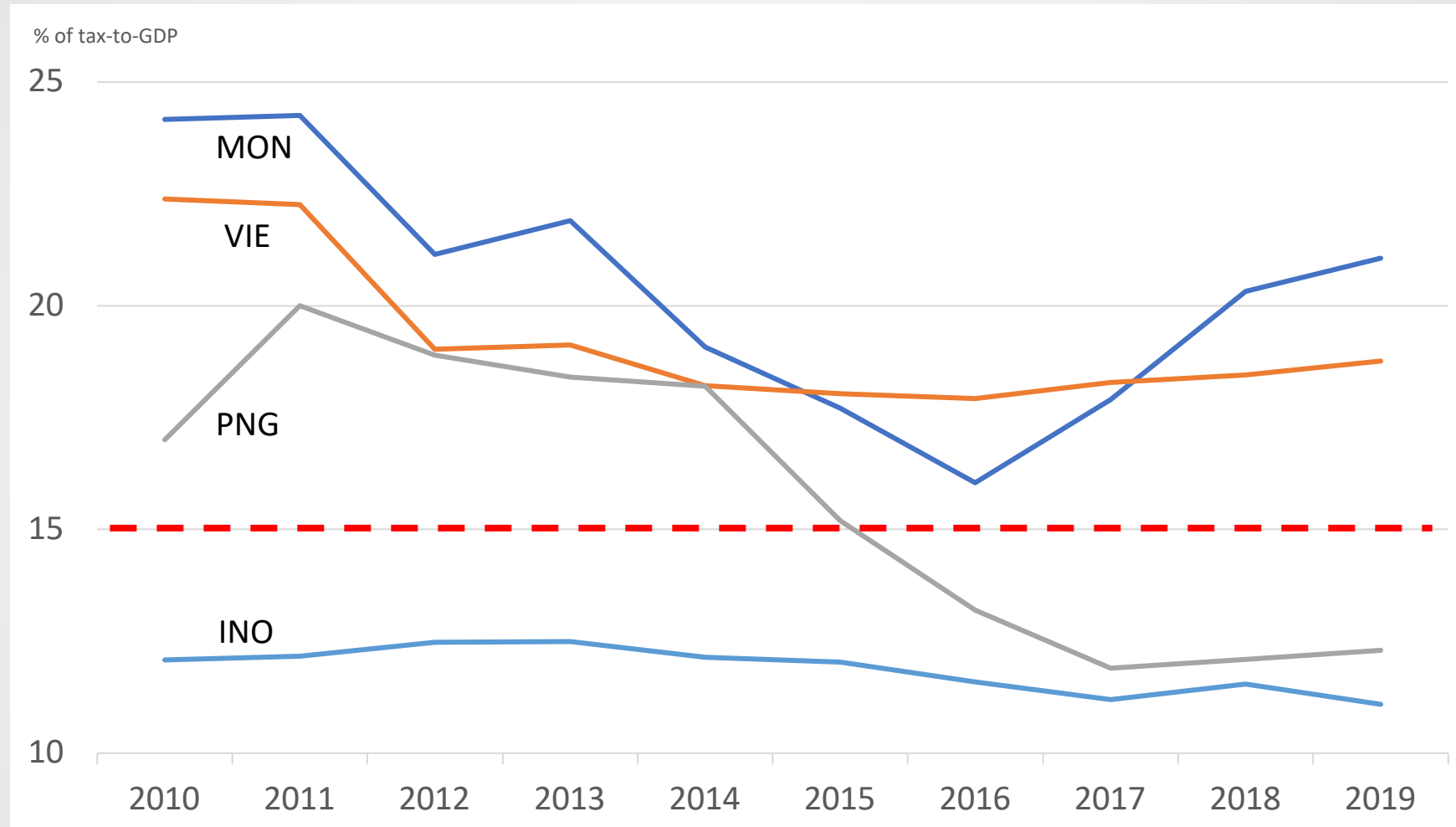
Comparison of Tax-to-GDP Ratios in 2018



Note: Data do not include Social Security Contribution.

Source: OECD Revenue Statistics 2020, ADB Key Indicators Database, World Bank Open Data, IMF Article IV Report.

Tax-to-GDP Ratios Between 2010 and 2019



Note: Data do not include Social Security Contribution.

Source : OECD Revenue Statistics 2020, IMF Article IV Report, and ADB Key Indicators Database.

Why Domestic Resource Mobilization Matters?

- Address **Debt Sustainability** -

Key message: These examples demonstrate the importance of **careful revenue management** and attention to **underlying vulnerabilities**.



- ❖ Governments need to **secure sufficient financial resources** to contain the spread of COVID-19, procure safe and effective vaccines, and get the economy back to a sustainable recovery track, **without losing market confidence**.
- ❖ With **gradual hikes in interest rates expected in the U.S.**, DMCs with a large share of US-dollar denominated bonds face **additional vulnerability**.



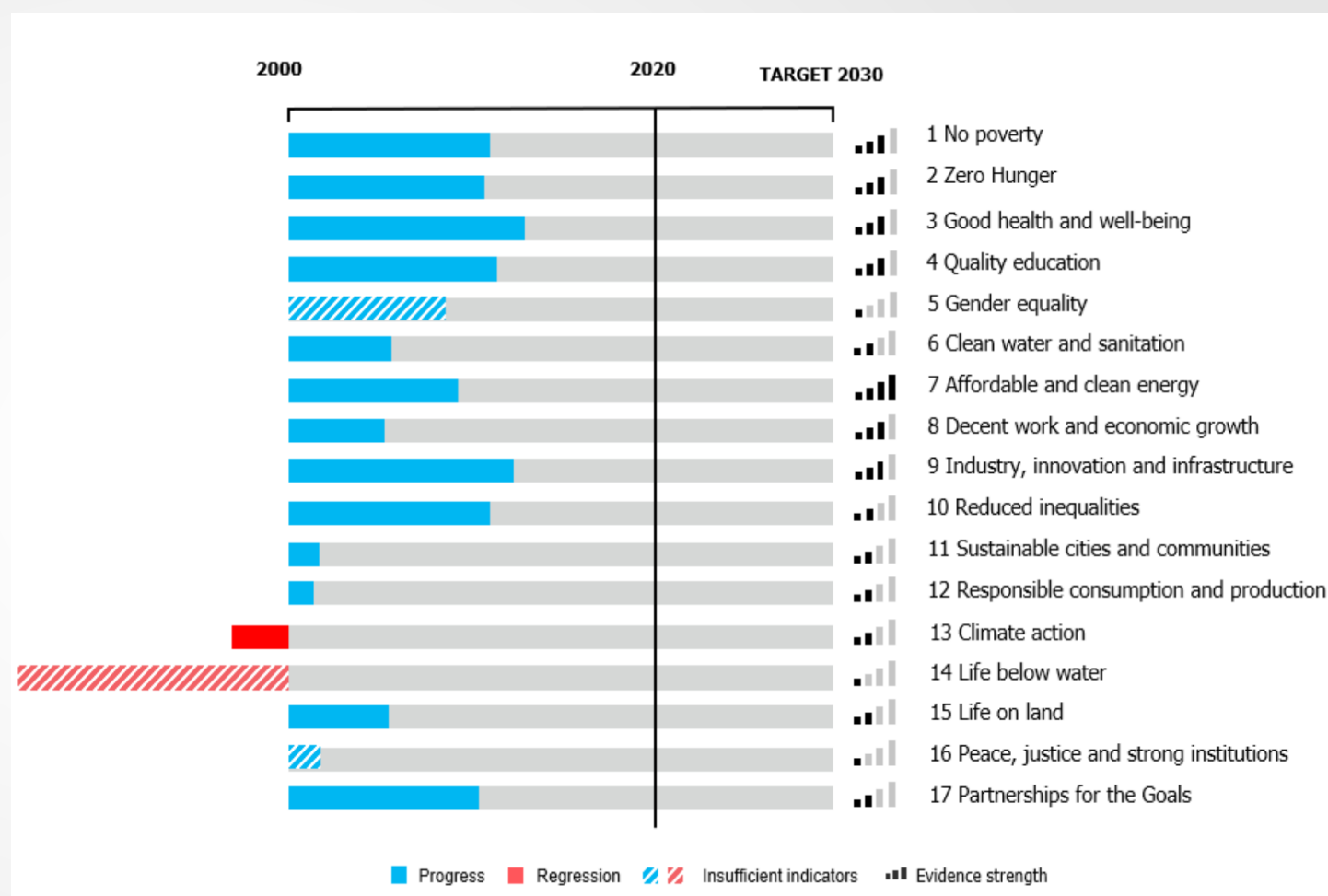
- ❖ **Lower income countries need to improve their public financial management to ensure debt sustainability** to maintain access their principal sources of external financing: **concessional loans and grants** from development financial institutions, including ADB.

Why Domestic Resource Mobilization Matters?

- Achieve **the Sustainable Development Goals (SDGs)** -

Key Messages:

- ❖ The Asia and Pacific region is falling short on all 17 SDGs.
- ❖ DRM as part of SDG 17 provides **a source of direct financing** the other SDGs more generally and offers **the tools to achieve specific goals in SDGs**.
- ❖ Governments can better address income inequality through **progressive taxes**, promote a green recovery through **carbon taxes or other environmental taxes**, and investment in **innovative digital technologies** to modernize tax policy and administration and enhance tax collection.

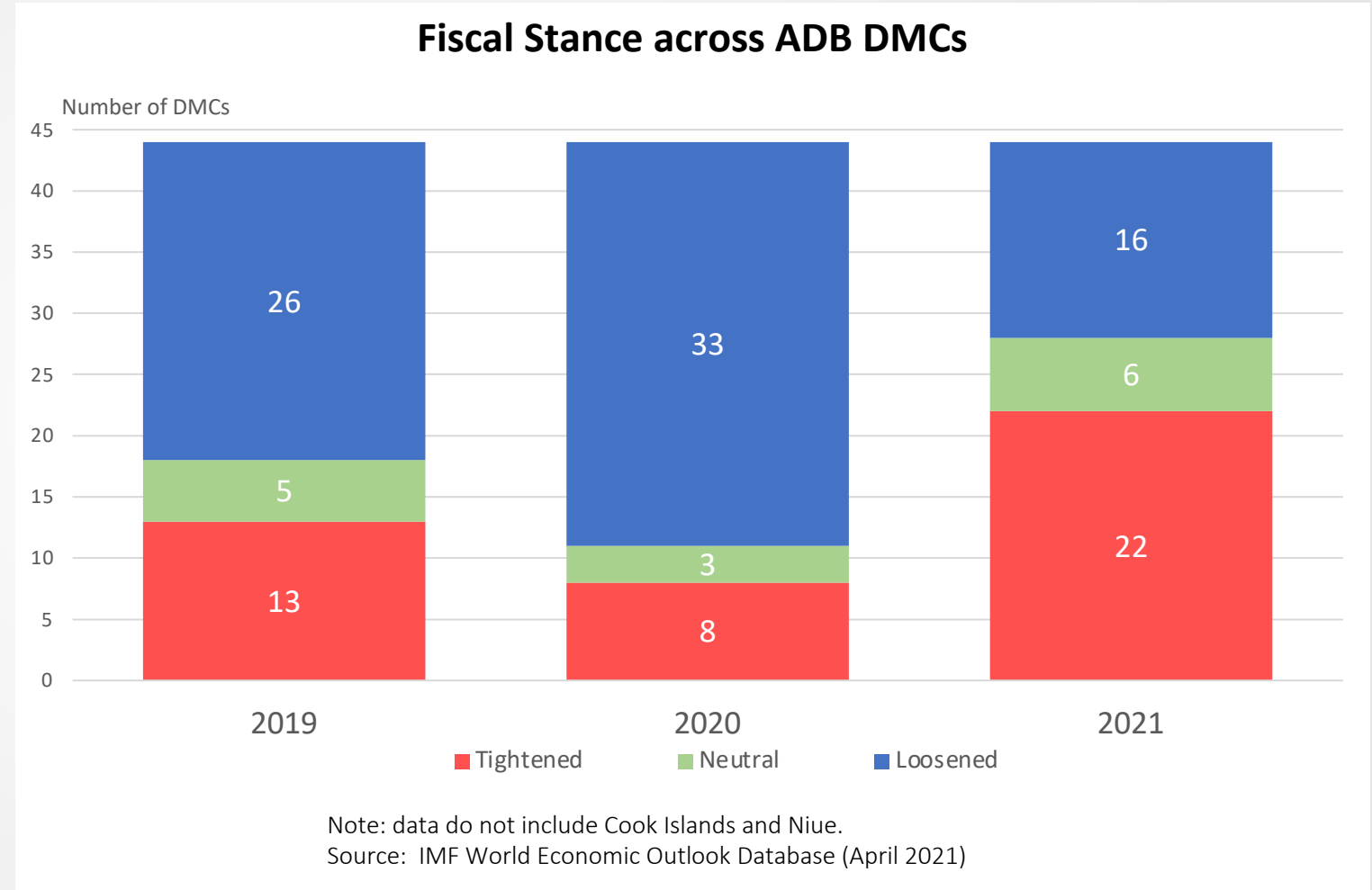


Source: Asia and the Pacific SDGs Progress Report 2021, UNESCAP

Space for Fiscal Stimulus across Developing Economies is Dwindling

Key Messages:

- ❖ Fiscal normalization should be **carefully calibrated and implemented** in a phased manner.
- ❖ Countries should bear in mind **the lessons from premature fiscal consolidation** after the global financial crisis.



Key Challenges on Tax Policy and Administration

Key message: DMCs can already begin their preparatory work to address their underlying public finance vulnerabilities through strategic dialogue, careful analysis and knowledge sharing on key tax policy and administration challenges facing the Asia and Pacific region.

Tax Policy Issues

- ❖ The disproportionate reliance on narrow sources of revenue;
- ❖ Lack of progressivity;
- ❖ Limited efforts to tap environment and subnational taxation; and
- ❖ Excessive and sometimes unaccountable tax expenditure measures.

Tax Administration Issues

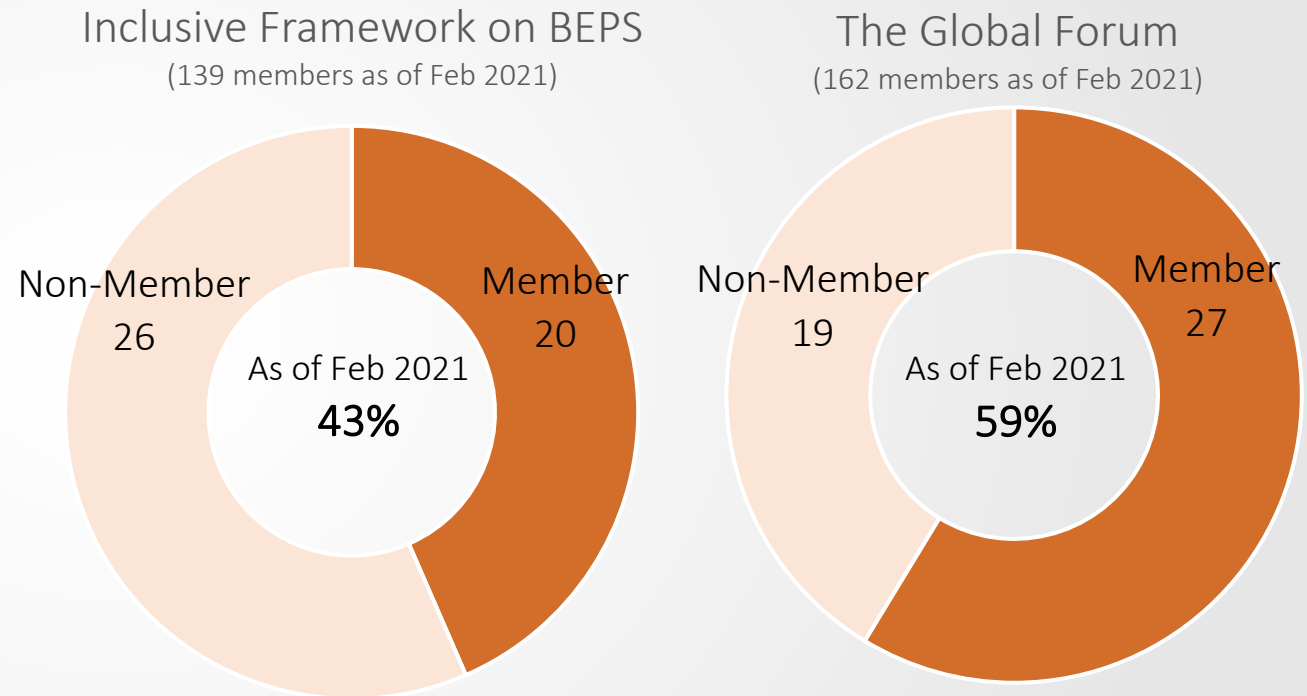
- ❖ The large size of the informal economy;
- ❖ Limited capacity to monitor taxpayers; and
- ❖ Inefficient tax administrations in need of effective digital tools.

A Call to Join International Tax Fora

Key messages:

- ❖ Governments need to **build and maintain public trust** by demonstrating that tax burdens are distributed fairly and equally.
- ❖ International tax cooperation (ITC) will play a role in helping DMCs in Asia and the Pacific work together to **close the tax loopholes** and **combat tax evasion**.
- ❖ A multilateral, consensus-based solution will be needed to **tackle the tax challenges** created by a digitalized economy.
- ❖ A failure to engage in ITC may **lead to more unilateral tax measures** increasing the occurrence of double taxation and undermining cross-border trade and investments.

Status of participation of ADB DMCs in international tax fora



Legend: BEPS = Base Erosion and Profit Shifting;

Global Forum = Global Forum on Transparency and Exchange of Information for Tax Purposes

Source: OECD

Foundation blocks of Asia Pacific Tax Hub

The Tax Hub will serve as **an open and inclusive platform** for (i) strategic policy dialogue, (ii) knowledge sharing, and (iii) development coordination among our members, development partners, and ADB.

