World Bank Spring 2022 East Asia and Pacific Economic Update Main Messages

- Shocks emanating from the war in Ukraine are disrupting the supply of commodities, increasing financial stress, and dampening global growth, which will mean lower economic growth and higher poverty in developing East Asia and Pacific (EAP).
- The war comes on top of not just the lingering pandemic, but also the economic distress caused by financial tightening in the United States and slower growth in China.
  - U.S. inflation ignited by the stimulus-led rebound and persistent supply disruptions could provoke faster-than-anticipated financial tightening, which will perhaps be timely in the United States but may be too early in many EAP countries where recovery is incomplete.
  - China's structural slowdown, deleveraging of the real estate sector, and COVID-19 resurgence amidst zero-COVID policies, could dampen regional exports.

- The region is projected to grow by 5 percent, down from the 5.4 percent projected in October. Growth could slow to 4 percent if global conditions worsen and national policy responses are weaker.
  - China is forecast to expand 5 percent in 2022, 0.4 of a percentage point less than forecast in October, and 4 percent in the downside scenario. The rest of the region is anticipated to expand 4.8 percent in 2022, 0.4 of a percentage point less than the previous outlook, and 4.2 percent in a downside scenario.
  - Growth is expected to accelerate in 2022 from last year in Indonesia (5.1 percent in the baseline, 4.6 percent in the downside), Thailand (2.9 percent in the baseline, 2.6 percent in the downside), the Philippines (5.7 percent, 4.9 percent in the downside), Malaysia (5.5 percent in the baseline, 4.8 percent in the downside), and Vietnam (5.3 percent, 4 percent in the downside).

- The multiple shocks are likely to magnify difficulties that firms and people were already facing in the aftermath of the pandemic. Struggling firms will be hit by new supply and demand disruptions. Many households will fall back into poverty as prices rise and purchasing power decreases.
- Government capacity to help had already narrowed due to pandemic spending. Growing debt will limit the capacity to provide fiscal support. Rising inflation and tightening global financial conditions will shrink space for monetary easing.

- To mitigate the risks, revive growth, and reduce poverty, countries must take four steps:
  - Enhance *the efficiency of fiscal policy* for recovery and growth. More efficient and targeted support to households and firms, rather than unselective transfers and price regulations, would limit pain and create space for investment in the infrastructure of trade, energy, and technology diffusion. Committing to fiscal rules and future reforms of revenue and expenditure would help reconcile spending needs with tightening budget constraints amid growing debt.
  - *Strengthen macroprudential policies* to mitigate risks from global financial tightening. Monetary policy must remain alert to new inflationary pressures but at present can continue to support recovery, because real interest rates are relatively high and core inflation relatively low. Stress-testing diagnostics are needed to help identify vulnerabilities that might fester behind the veil of regulatory forbearance and implicit guarantees.
  - *Reform trade-related policies* in goods and, especially, in still-protected services sectors to take advantage of shifts in global trade. In addition, facilitating domestic labor mobility, as well as entry and exit of firms, would allow reallocation of resources in response to global shocks.
  - *Policy reform and assistance to encourage diffusion of technology.* Increased domestic and international competition could strengthen incentives for productivity-enhancing technology

adoption. Enhancing managerial and technical skills, and improving access to finance as well as digital infrastructure would boost the capacity for technology adoption. Eliminating domestic distortions, such as those due to fossil fuel subsidies and local content requirements, could encourage the adoption of green technologies.