Three key points

1. Region is growing faster with lower inflation than other regions of the world; but within the region, differing pace of recovery

2. Looking ahead, three impediments to growth: deceleration, debt and distortions

3. More efficient social protection, and better policies for food, fuel, and finance, could soften the pain today and boost growth tomorrow
Recent developments

Growth; Inflation; Disease
Growth in major EAP countries is projected to be higher and inflation lower than in the rest of the world.

Inflation and GDP growth forecasts

Source: World Bank; Fitch’s (as of July 2022)

East Asia and Pacific Economic Update Report, October 2022
China slows down, rest of the region accelerates…

Real GDP Growth

<table>
<thead>
<tr>
<th></th>
<th>2021</th>
<th>2022 forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>8.1</td>
<td>2.8</td>
</tr>
<tr>
<td>EAP Region (excl. China)</td>
<td>2.6</td>
<td>5.3</td>
</tr>
<tr>
<td>Pacific Island Countries</td>
<td>-3.3</td>
<td>5.3</td>
</tr>
</tbody>
</table>
Rebounding from the pandemic, private consumption and exports are driving growth in EAP outside China

Contribution to GDP growth, selected components

- Private consumption
- Goods exports
- Services exports
- Net export (for China)
- Public and private investment
- Government consumption

Source: Haver Analytics

Note: China’s private consumption includes government consumption

East Asia and Pacific Economic Update Report, October 2022
Recurrent outbreaks in China are disrupting economic activity

(stringency of mobility restrictions in China and rest of EAP)

(source: Haver Analytics)

(COVID-19 infection waves and economic activity in China)

(source: Haver Analytics, Johns Hopkins University Center for Systems Science and Engineering’s COVID-19 Data)

(East Asia and Pacific Economic Update Report, October 2022)
Because of China’s stronger earlier recovery, its output has increased more since the pandemic began.
Three risks to growth

Deceleration; Debt; Distortions
Slowing global growth will negatively affect growth in the region

Revisions in GDP growth forecast

Impact of a 1 p.p. decline in the G7 (excl. Japan) and Chinese GDP growth rate

Source: IMF, WEO; World Bank staff estimates
Cumulative impact on growth after one year.

East Asia and Pacific Economic Update Report, October 2022
Increasing interest rates abroad are leading to capital outflows and currency depreciation in EAP countries

Emerging markets equity and debt flows (cumulative)

USD, billions
- GFC (2008)
- Taper tantrum (2013)
- China deleverage (2015)
- COVID (2020)
- War in Ukraine / Fed tightening (2022)

Exchange rates (local currency to US dollar)

Index, Sep 2020=100

Source: Institute of International Finance.
Sample of selected EM countries.

Source: Haver Analytics

East Asia and Pacific Economic Update Report, October 2022
The burden of debt is increasing

Source: International Monetary Fund, Haver Analytics, World Bank staff estimates

East Asia and Pacific Economic Update Report, October 2022
Some EAP countries are using price controls to suppress inflation

Price controls

Number of products with price control

MENA EAP SSA SAR LAC ECA

Median inflation (yoy, seasonally adjusted)

Percent

MENA EAP SSA SAR LAC ECA

Note: Latest available number of import products with price controls reported. Weighted average.

Source: World Bank’s Global Economic Monitoring
Note: 2022 year to date as of July 2022. Weighted average.

East Asia and Pacific Economic Update Report, October 2022
Policy distortions new and old

Food; Fuel; Finance
Consumer subsidies

Subsidized prices provide support not just to the poor but also the rich; transfers target the poor

Poverty reduction by different policies in Thailand (simulations)

Income transfers are preferable to price regulation because they do not distort choices, can be targeted to those most in need, and therefore cost less.


East Asia and Pacific Economic Update Report, October 2022
Why do governments still choose fuel subsidies?

Social welfare: A deficient infrastructure for targeting can exclude eligible households

Political economy: Targeted transfers do not benefit those above the poverty line

Industrial policy: Stable prices can shield firms from rising costs of production

Macro policy: In the absence of a credible monetary authority, or well-anchored inflation expectations, preventing price increases can keep inflation in check.

EAP countries provide relatively high support to agriculture

**Total Support Estimate for Agriculture, as a % of GDP**
Selected EAP countries and other economies (2010-2020 average)

<table>
<thead>
<tr>
<th>Country</th>
<th>Percent of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>3</td>
</tr>
<tr>
<td>Philippines</td>
<td>2</td>
</tr>
<tr>
<td>Turkey</td>
<td>2</td>
</tr>
<tr>
<td>China</td>
<td>2</td>
</tr>
<tr>
<td>Korea, Rep.</td>
<td>1</td>
</tr>
<tr>
<td>Japan</td>
<td>1</td>
</tr>
<tr>
<td>Russia</td>
<td>1</td>
</tr>
<tr>
<td>OECD</td>
<td>1</td>
</tr>
<tr>
<td>EU</td>
<td>1</td>
</tr>
<tr>
<td>USA</td>
<td>0.5</td>
</tr>
<tr>
<td>Brazil</td>
<td>0.5</td>
</tr>
<tr>
<td>Vietnam</td>
<td>0.5</td>
</tr>
<tr>
<td>South Africa</td>
<td>0.1</td>
</tr>
<tr>
<td>Australia</td>
<td>0.1</td>
</tr>
</tbody>
</table>

East Asia and Pacific Economic Update Report, October 2022
But support goes mostly to rice, not nutritious foods and to input- and irrigation-intensive production.

Shift focus from rice-centric food security to nutrition security.

Reduce subsidies and trade barriers that favor the production of rice to encourage diversified production of more nutritious foods.

Shift support from input subsidies to encourage higher productivity and greater sustainability.

Energy subsidies have increased but go to fossil fuels, not renewables

Fossil fuel subsidies in EAP countries (% of GDP)

Percent of GDP

- China
- Indonesia
- Malaysia
- Philippines
- Thailand
- Vietnam

Source: Haver Analytics. Institute of International Finance. IEA.
Note: Chart combines 2015-2021 IEA data with World Bank’s estimates for 2022.

East Asia and Pacific Economic Update Report, October 2022
Simulated impact of fuel price and interest rate increases on the levelized cost of energy

USD/MWh (in 2019 prices)
- Interest costs (4pp increase)
- Back-up cost at current gas prices (25%)
- Variable cost of new wind, new solar and new CCGT
- Change in coal price in 2022
- Coal price in 2021

Reducing fuel subsidies and encouraging investment in renewables could reduce exposure to volatility in prices of fossil fuels and help meet emission reduction commitments.

Source: IRENA and World Bar
Note: The figures show ‘levelized’ cost calculations of the average unit price of generation using each technology.
## Financial sector is well capitalized and NPLs seem low but risks remain to financial health

Identifying problems that lurk behind pandemic era measures like regulatory forbearance would help prevent the emergence of zombie firms and the misallocation of credit.
Inefficient interventions could magnify the growth costs; more efficient ones and deeper reforms could offset the negative impacts.

Impact on potential growth (2022-2031)

- Boost in investment due to deeper reforms
- Growth under initial shock and policy response

<table>
<thead>
<tr>
<th></th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baseline</td>
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<tr>
<td>Commodity price</td>
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</tr>
<tr>
<td>and interest rate</td>
<td></td>
</tr>
<tr>
<td>shocks</td>
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</tr>
<tr>
<td>Government</td>
<td>3.5</td>
</tr>
<tr>
<td>intervention</td>
<td></td>
</tr>
<tr>
<td>through price</td>
<td></td>
</tr>
<tr>
<td>subsidies</td>
<td></td>
</tr>
<tr>
<td>Government</td>
<td>3.0</td>
</tr>
<tr>
<td>intervention</td>
<td></td>
</tr>
<tr>
<td>through lump-sum</td>
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<tr>
<td>transfers</td>
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</table>

East Asia and Pacific Economic Update Report, October 2022
Thank you!