

Reforms for Recovery

EAP Economic Update, October 2022

World Bank

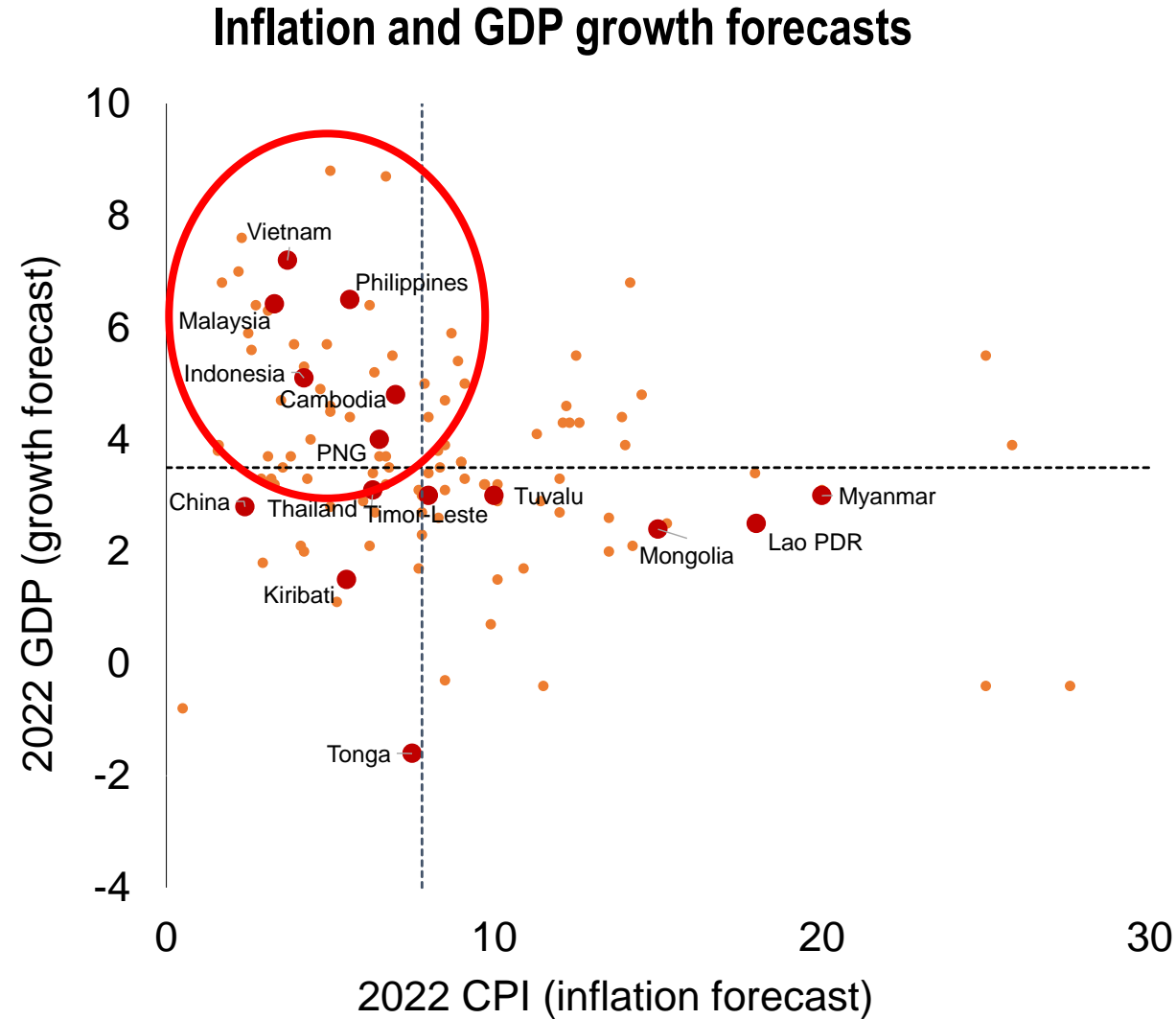
Three key points

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

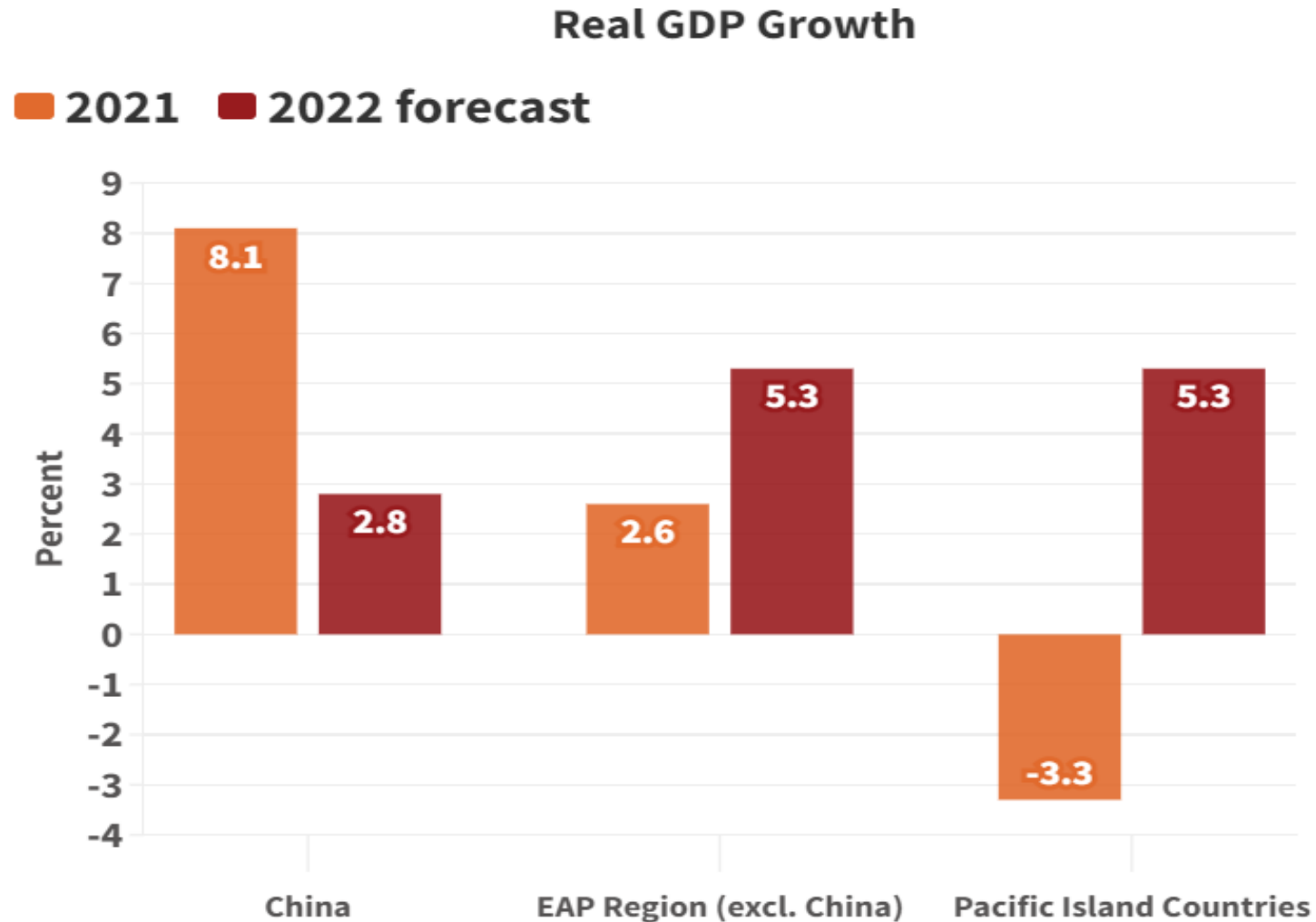
Recent developments

Growth; Inflation; Disease

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

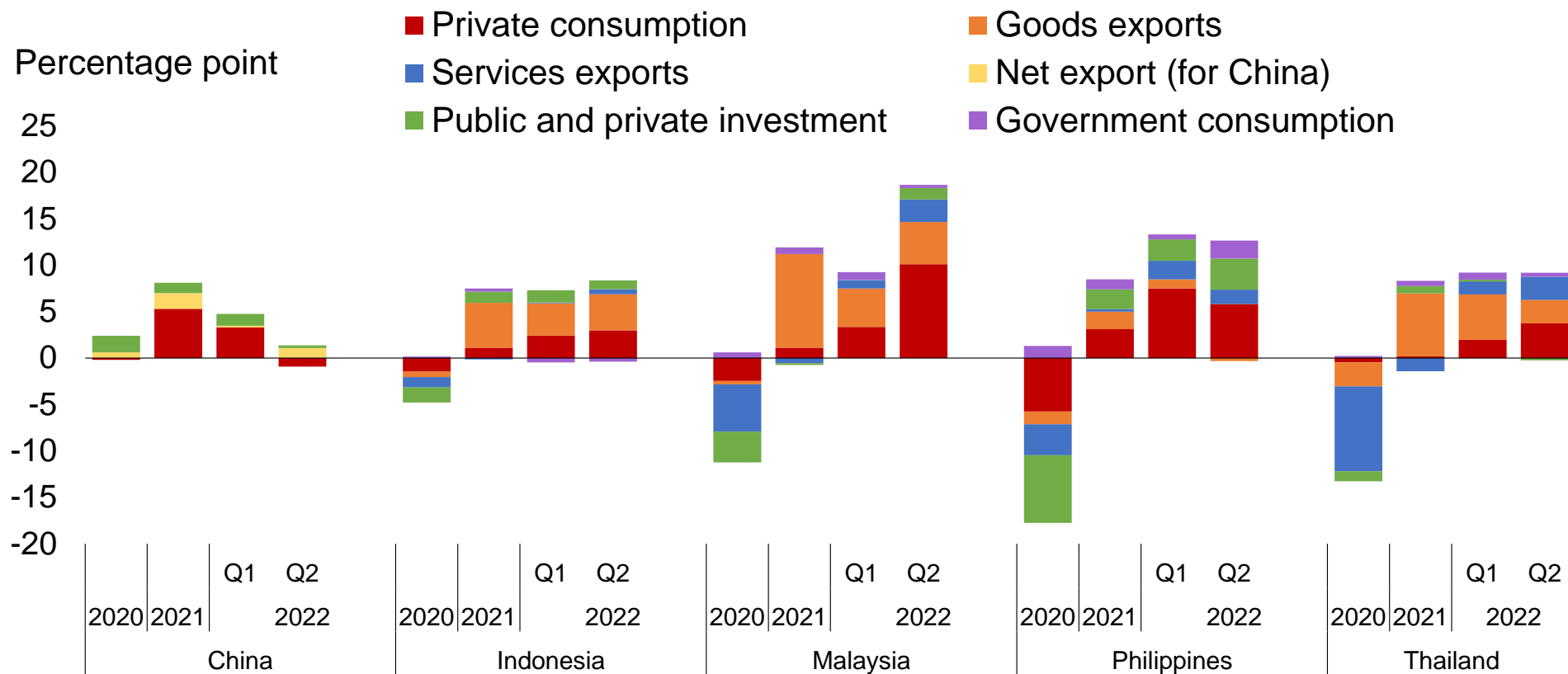


China slows down, rest of the region accelerates...



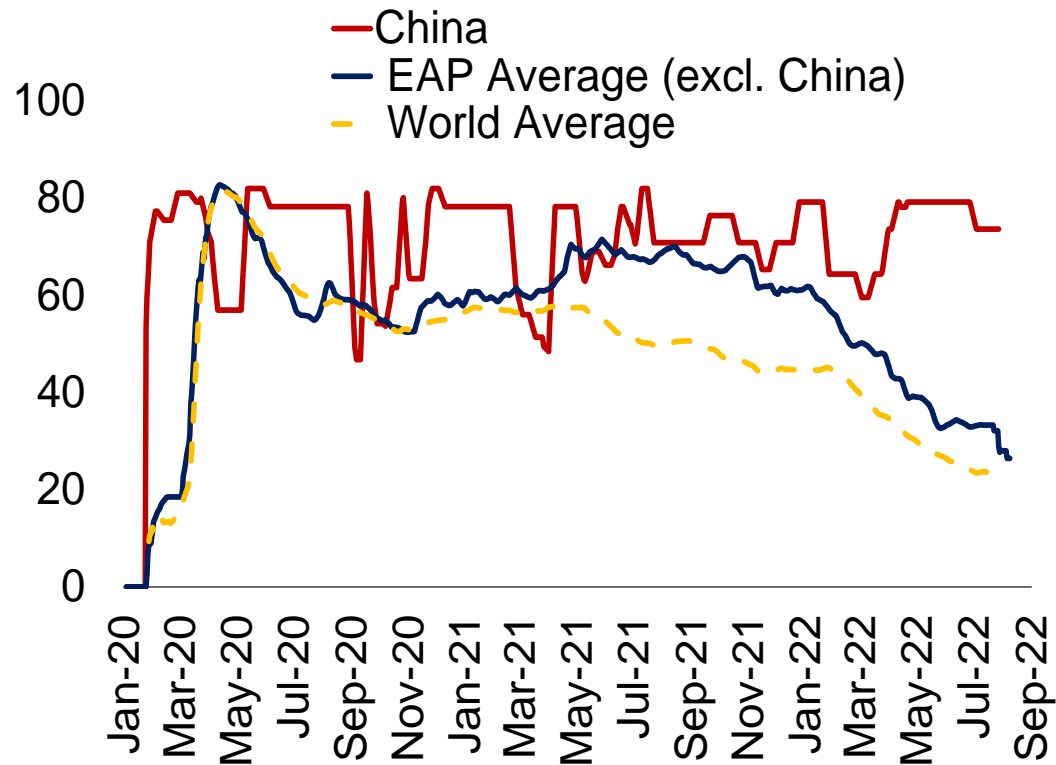
Rebounding from the pandemic, private consumption and exports are driving growth in EAP outside China

Contribution to GDP growth, selected components



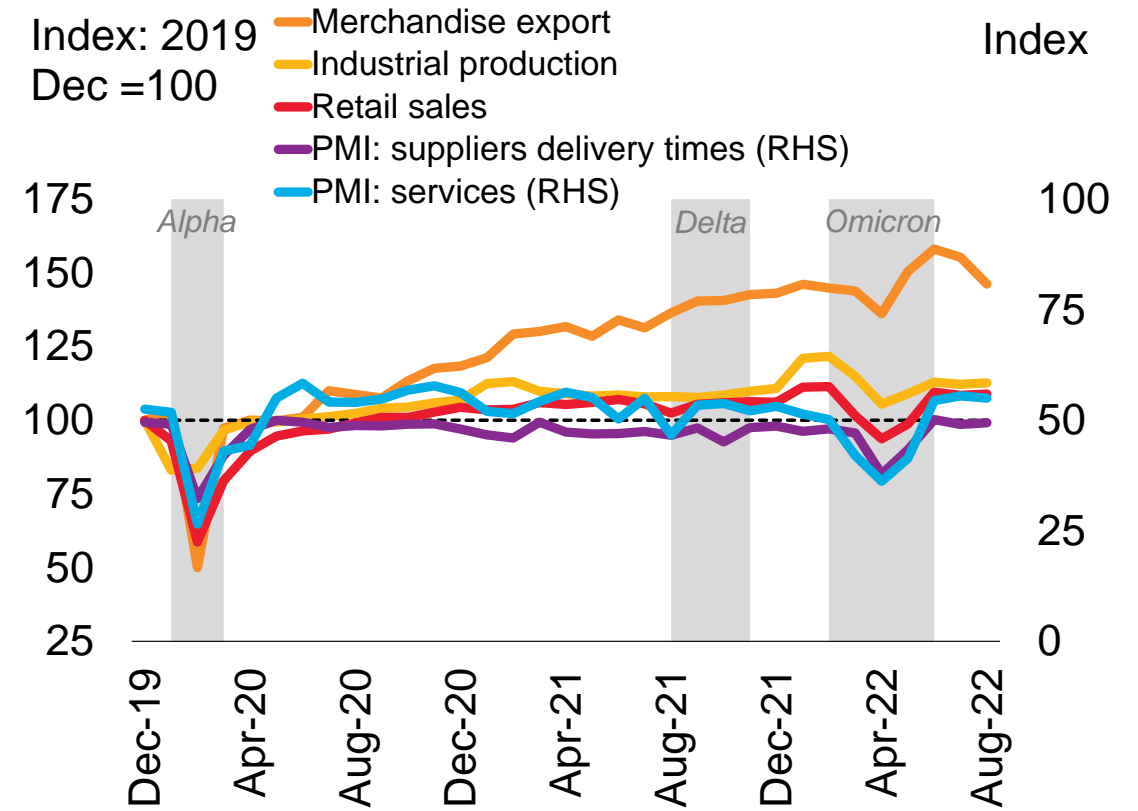
Recurrent outbreaks in China are disrupting economic activity

Stringency of mobility restrictions in China and rest of EAP



Source: Haver Analytics

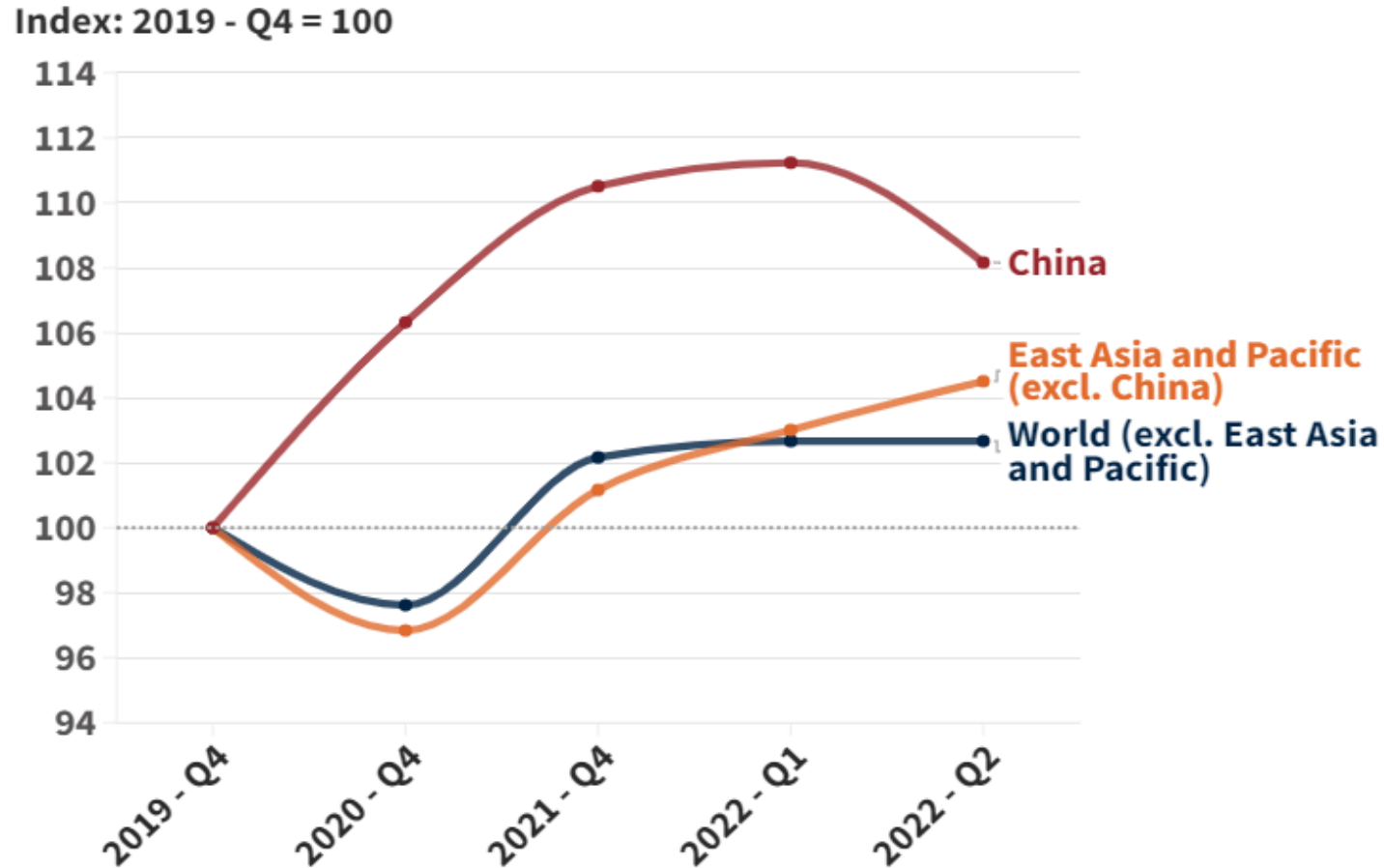
COVID-19 infection waves and economic activity in China



Source: Haver Analytics, Johns Hopkins University Center for Systems Science and Engineering's COVID-19 Data.

Because of China's stronger earlier recovery, its output has increased more since the pandemic began

GDP output level, relative to pre-pandemic levels

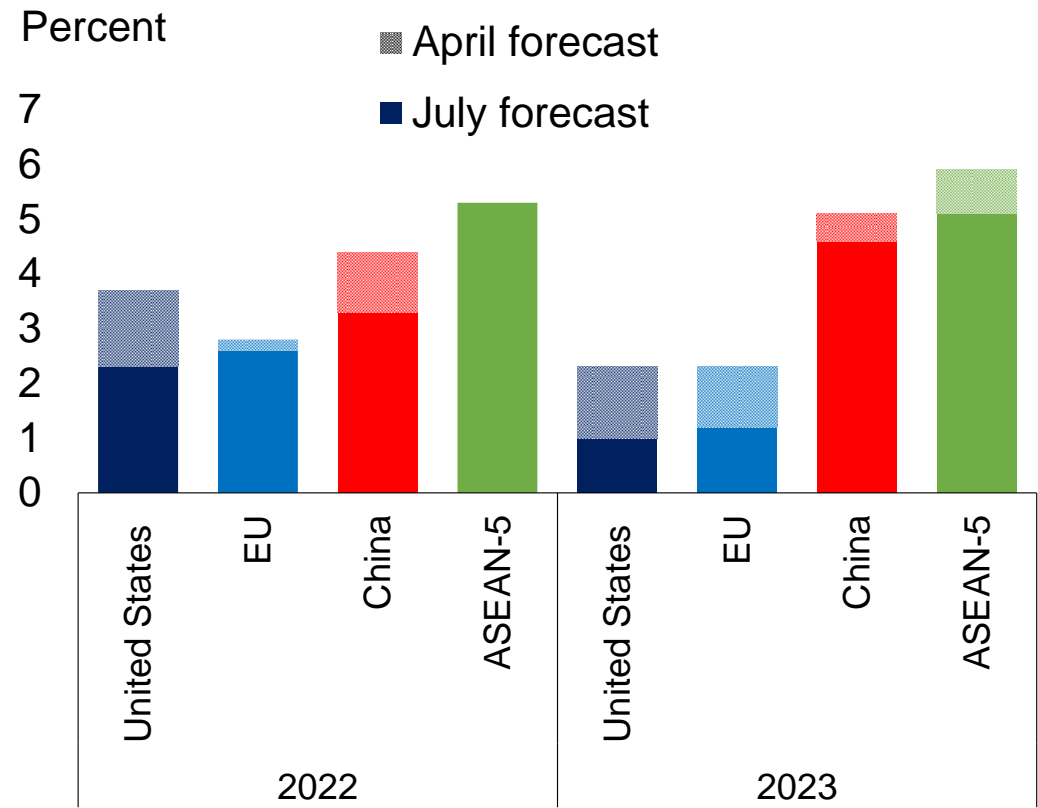


Three risks to growth

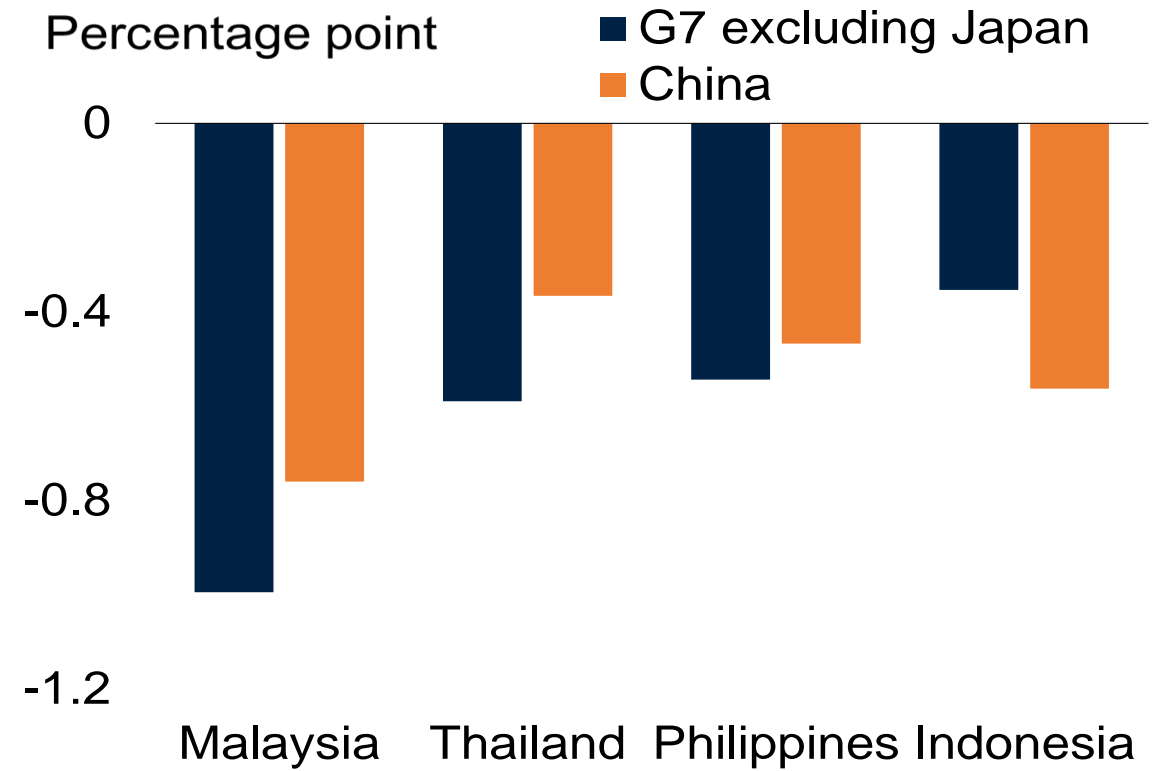
Deceleration; Debt; Distortions

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

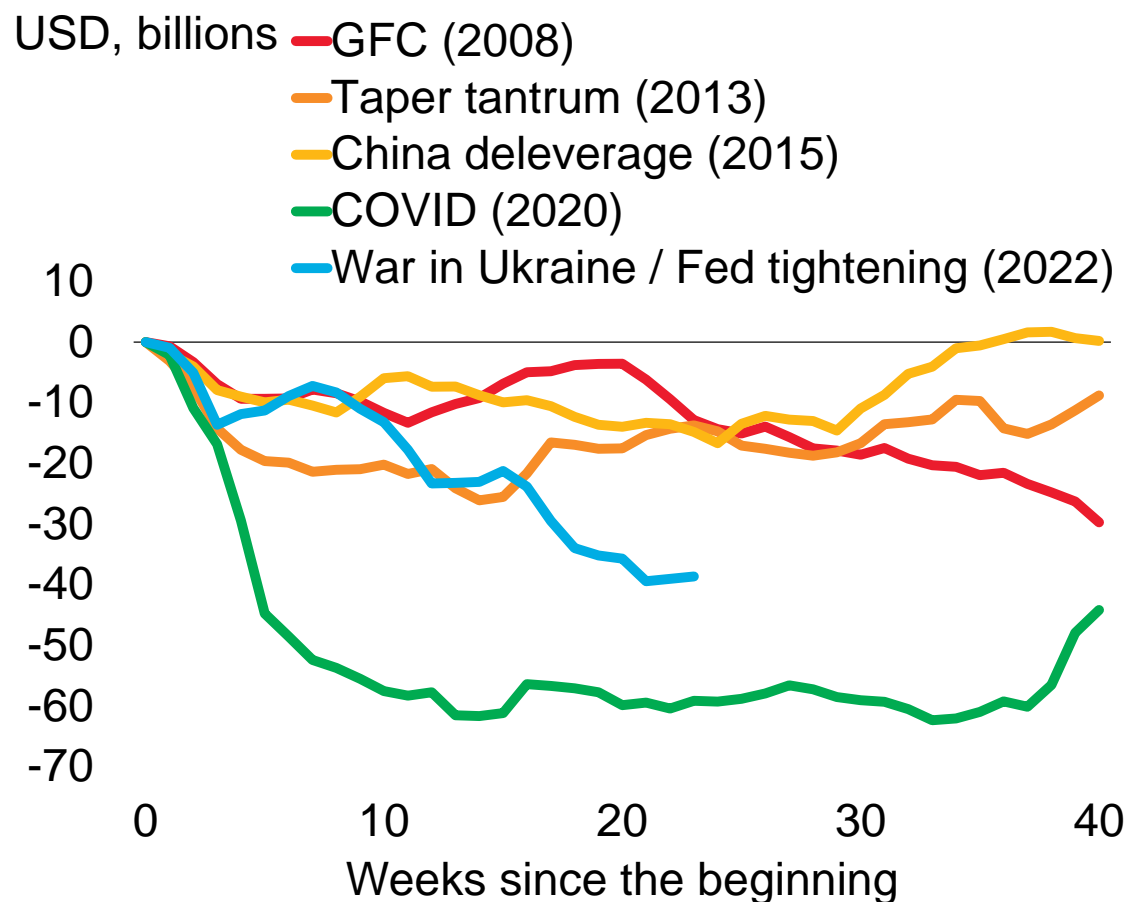


Source: IMF

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

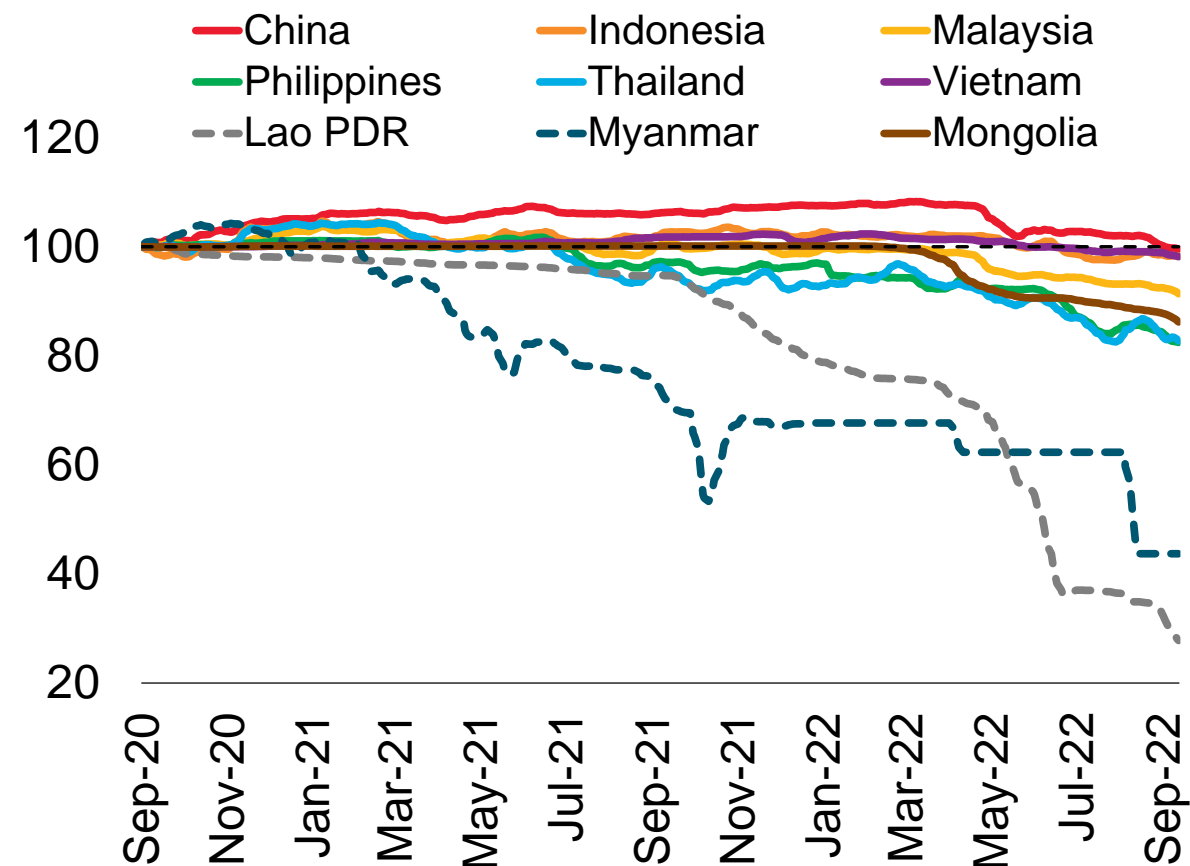
Increasing interest rates abroad are leading to capital outflows and currency depreciation in EAP countries

Emerging markets equity and debt flows (cumulative)



Exchange rates (local currency to US dollar)

Index, Sep 2020=100



Source: Institute of International Finance.

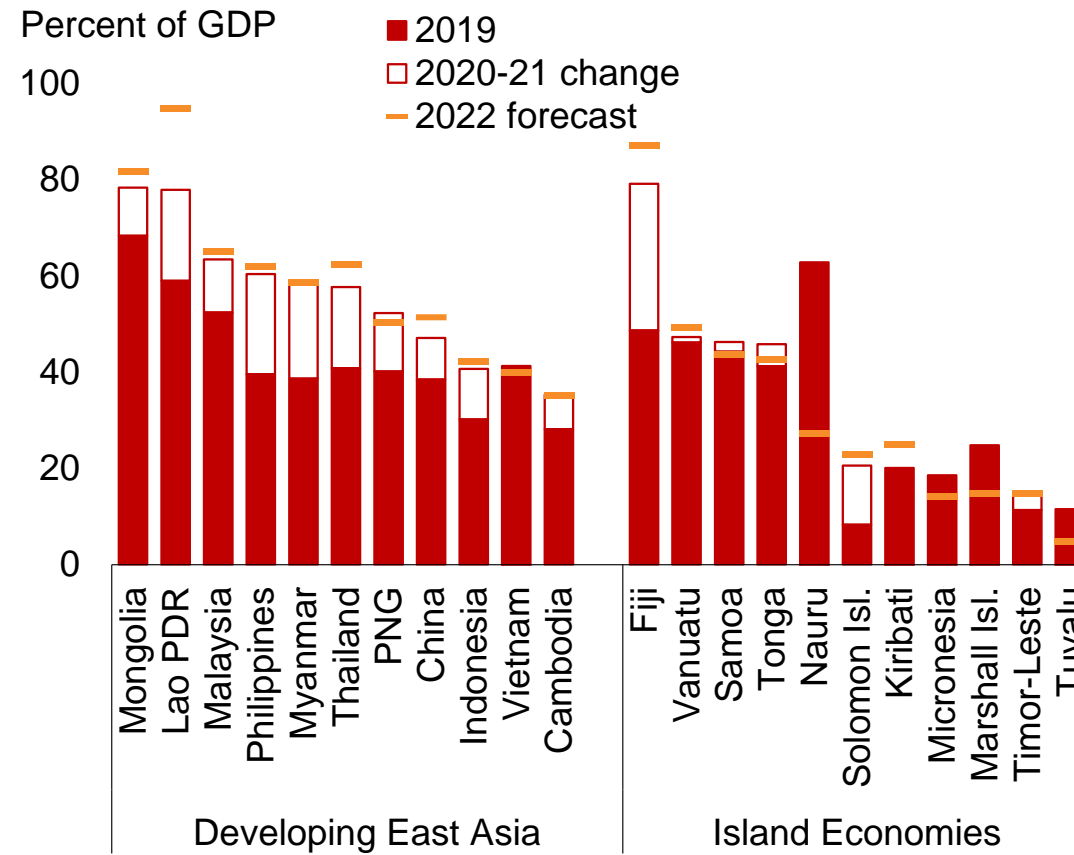
Sample of selected EM countries.

[East Asia and Pacific Economic Update Report, October 2022](#)

Source: Haver Analytics

The burden of debt is increasing

General government debt

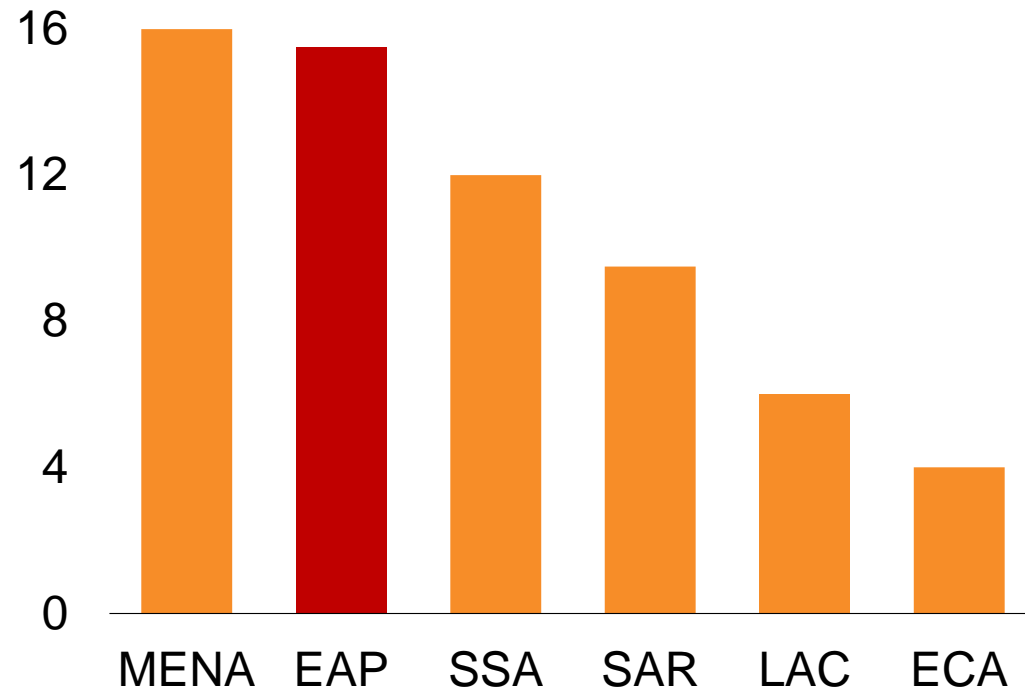


Source: International Monetary Fund, Haver Analytics, World Bank staff estimates

Some EAP countries are using price controls to suppress inflation

Price controls

Number of products with price control

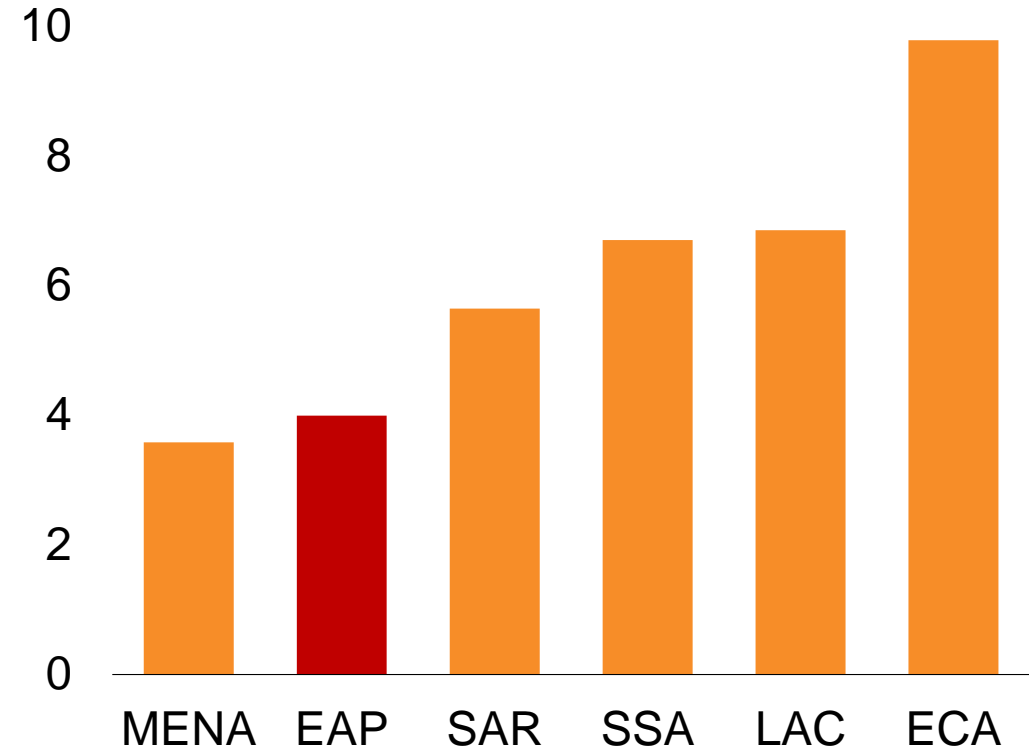


Source: Trade Policy Reviews.

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

Median inflation (yoy, seasonally adjusted)

Percent



Source: World Bank's Global Economic Monitoring

Note: 2022 year to date as of July 2022. Weighted average

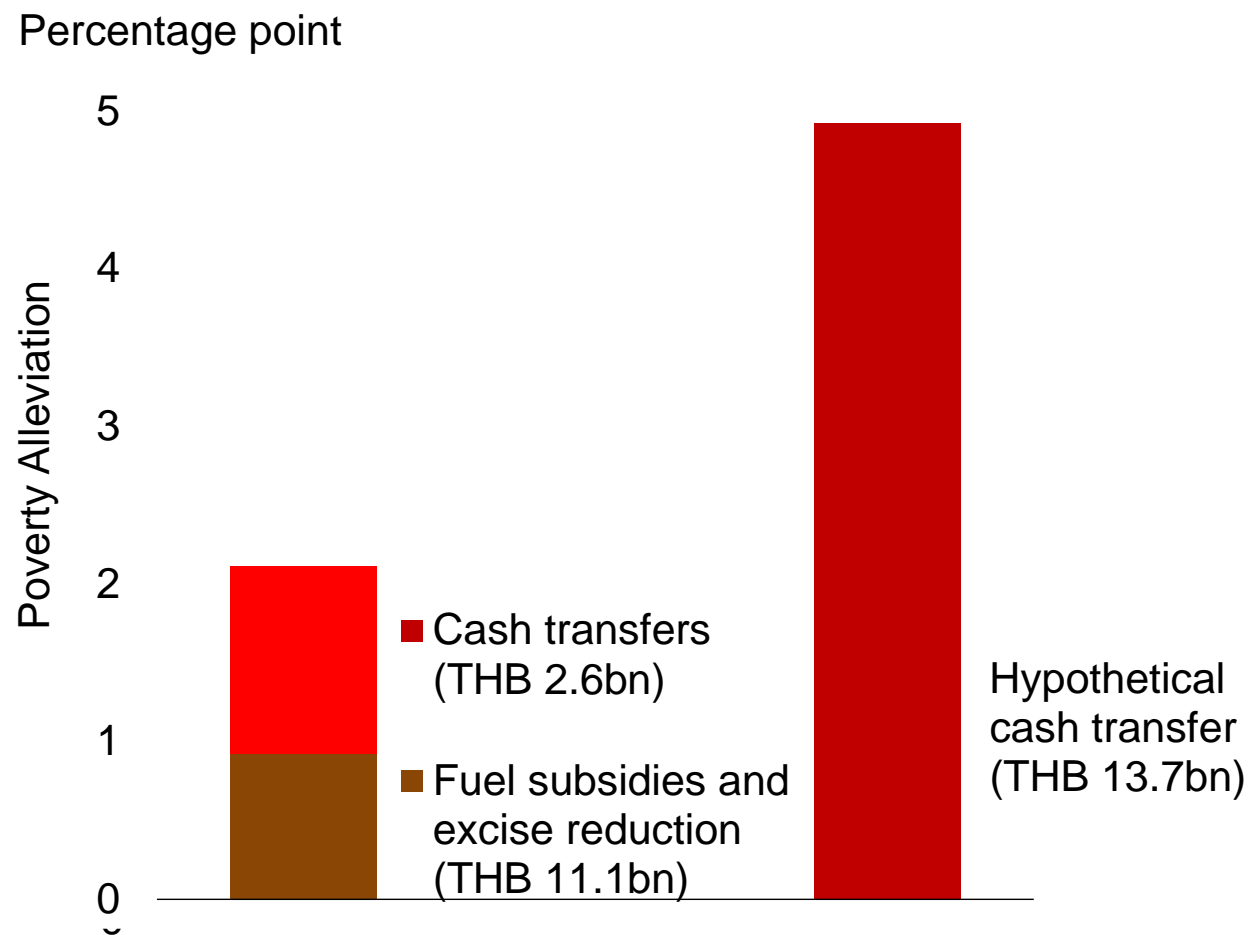
Policy distortions new and old

Food; Fuel; Finance

Consumer subsidies

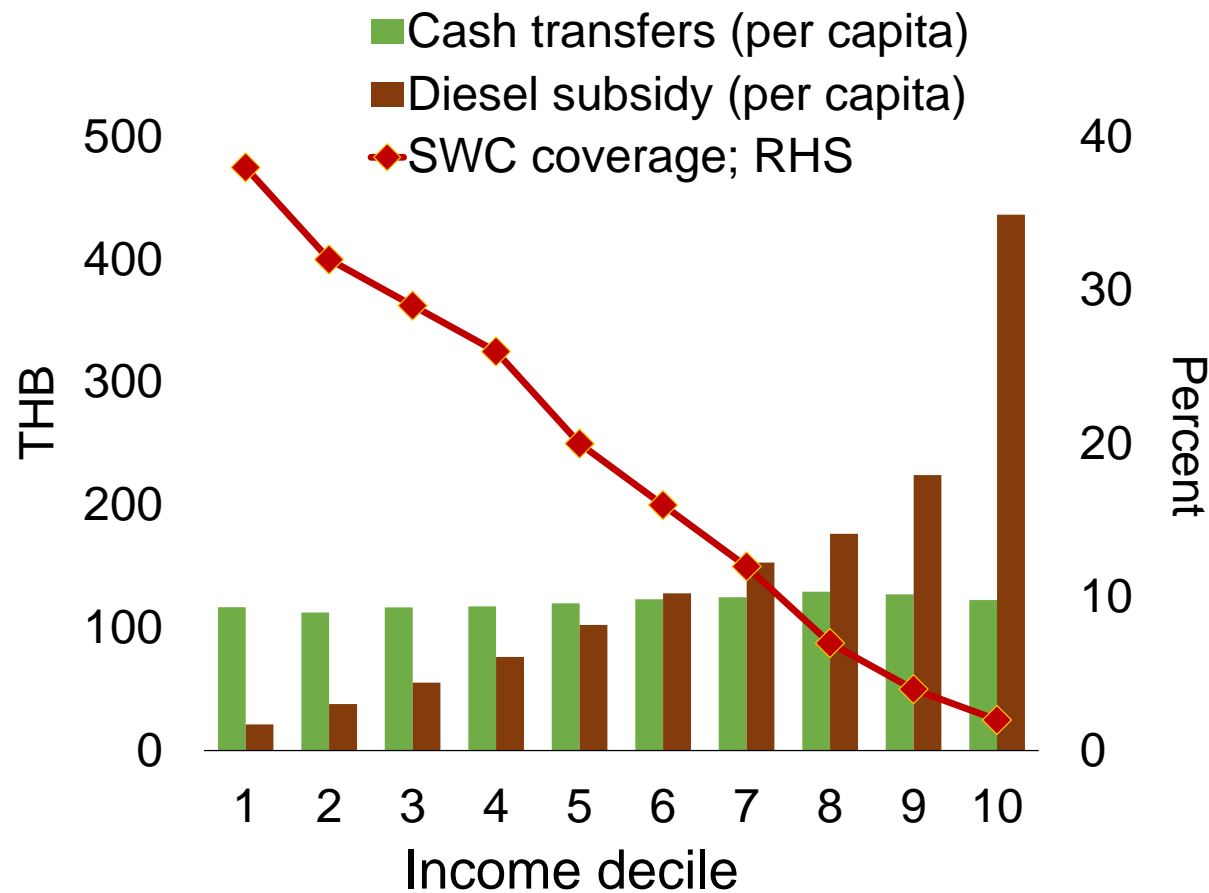
Subsidized prices provide support not just to the poor but also the rich;
transfers target the poor

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.

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

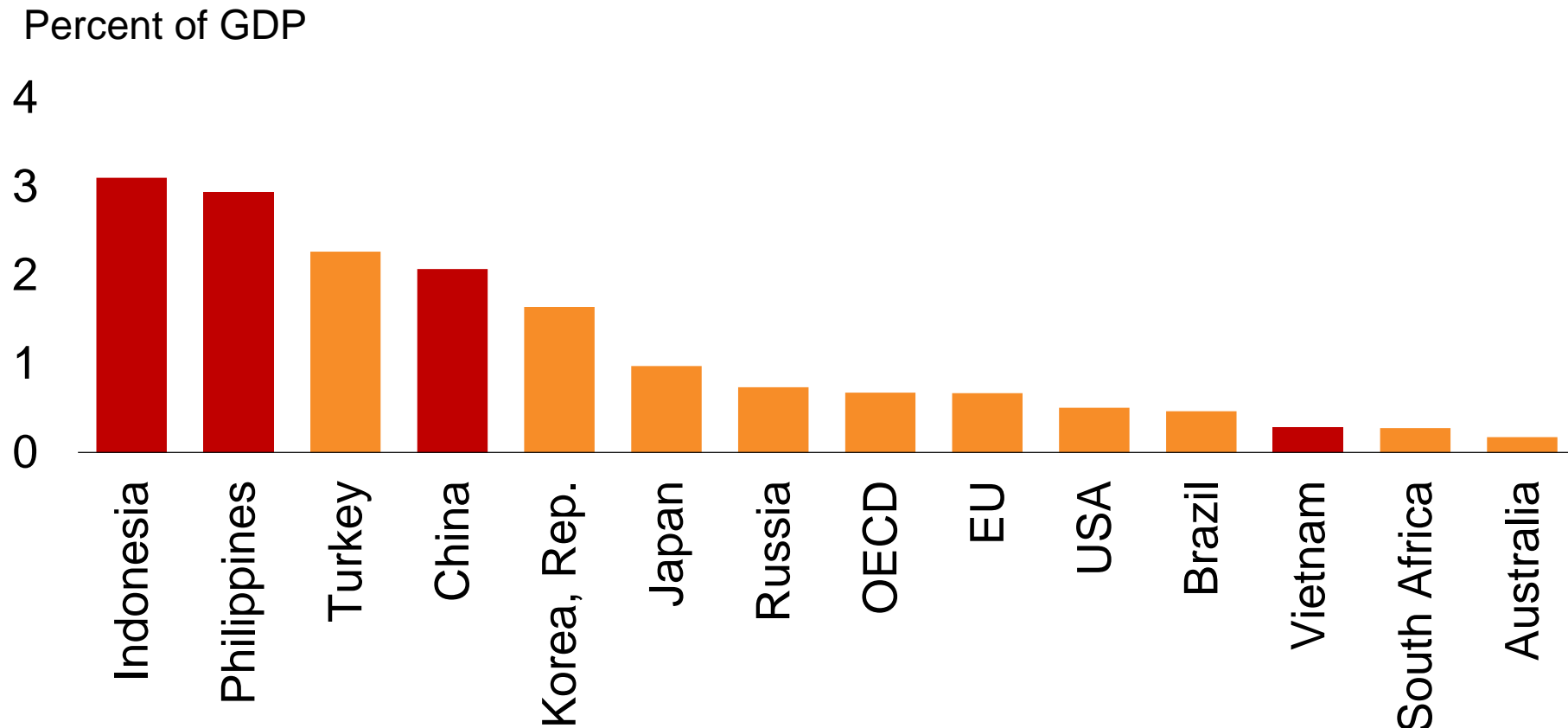
Macro policy: In the absence of a credible monetary authority, or well-anchored inflation expectations, preventing price increases can keep inflation in check.

Source: World Bank staff estimates based on the 2019 Socioeconomic Survey for Thailand.

EAP countries provide relatively high support to agriculture

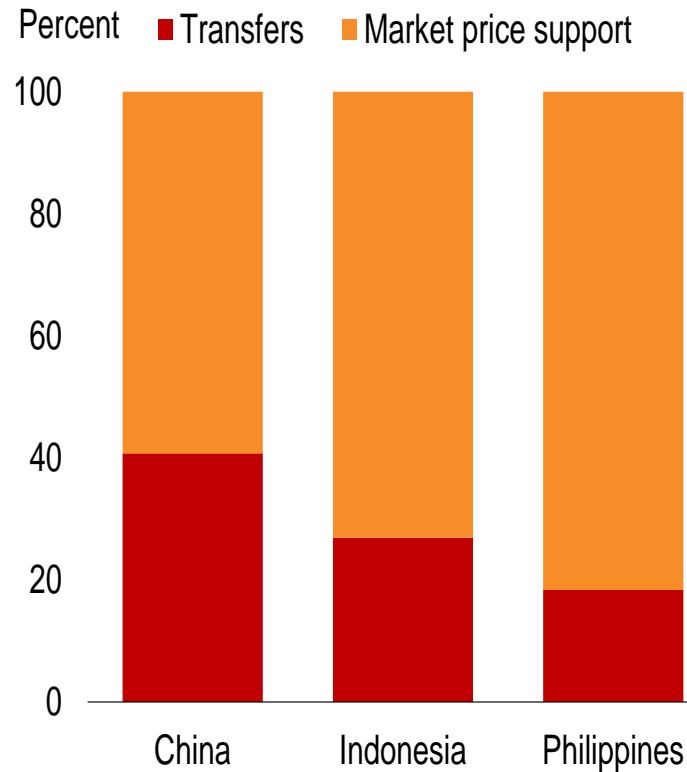
Total Support Estimate for Agriculture, as a % of GDP

Selected EAP countries and other economies (2010-2020 average)

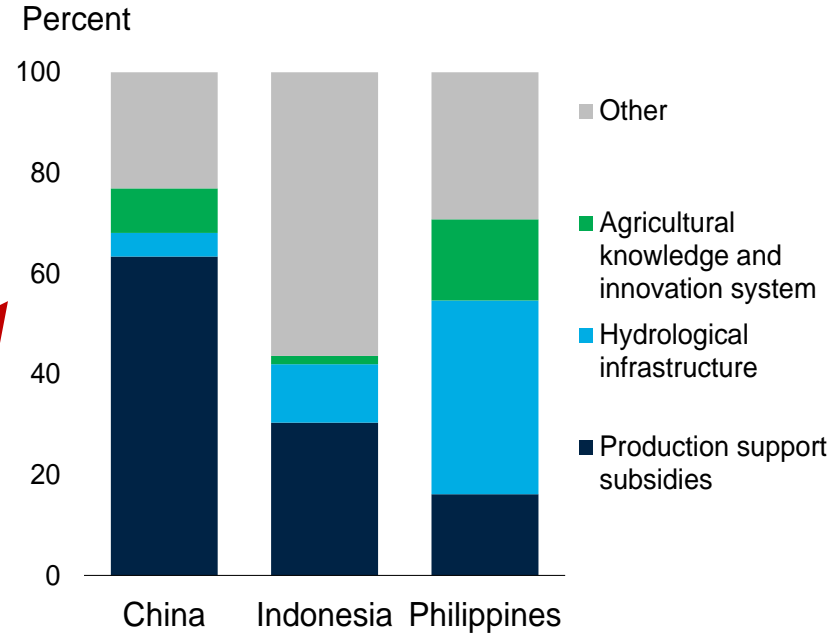


Food But support goes mostly to rice, not nutritious foods and to input- and irrigation-intensive production

Transfers and market price support



Components of transfers to agriculture



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.

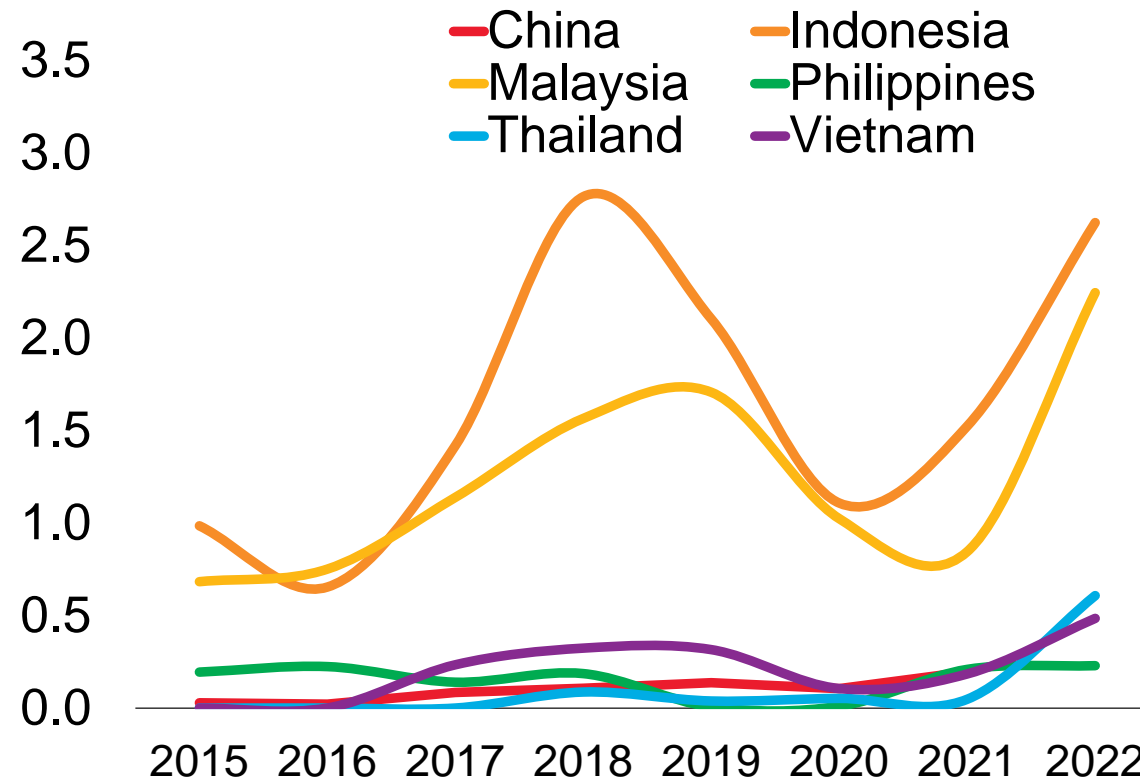
Shift support from input subsidies to encourage higher productivity and greater sustainability.

Source: World Bank staff estimates from OECD (2022).

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

Fossil fuel subsidies in EAP countries (% of GDP)

Percent of GDP

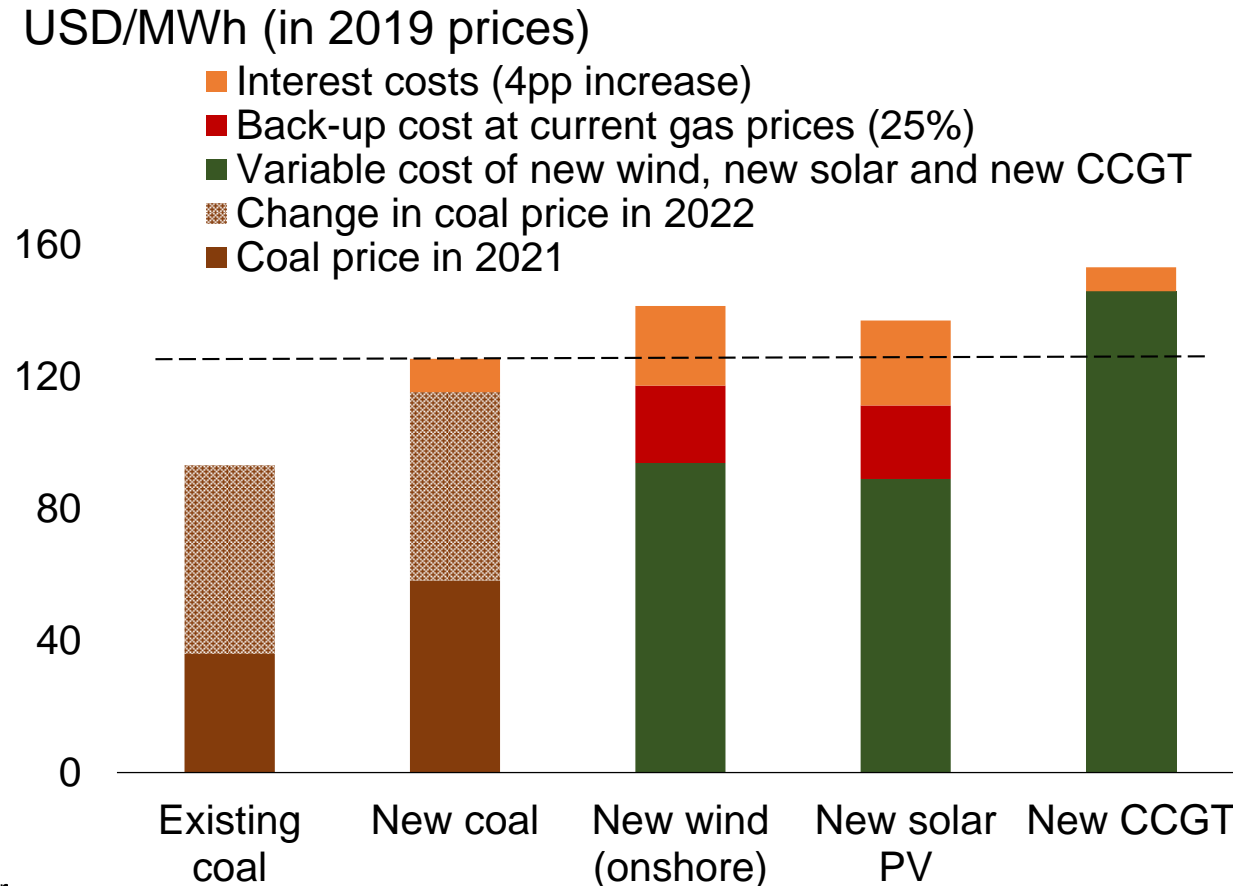


Source: Haver Analytics. Institute of International Finance. IEA.

Note: Chart combines 2015-2021 IEA data with World Bank's estimates for 2022.

Fuel Existing coal is the cheapest source of energy, even at current prices, but subsidized finance could encourage investment in renewables

Simulated impact of fuel price and interest rate increases on the levelized cost of energy



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 Bank

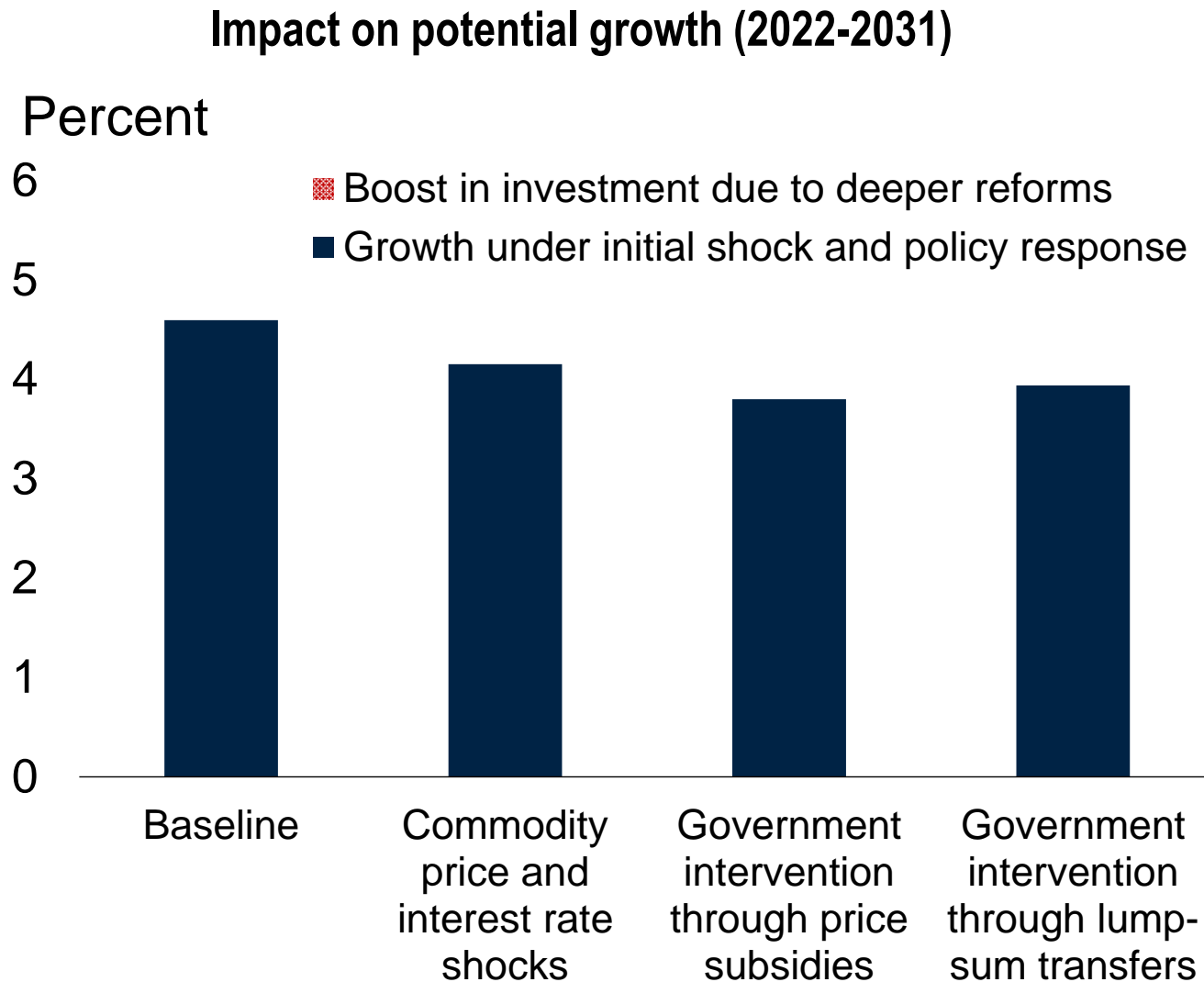
Note: The figures show 'levelized' cost calculations of the average unit price of generation using each technology.

Financial sector is well capitalized and NPLs seem low but risks remain to financial health

	Financial									
	Capital Adequacy		Asset Quality		Profitability		Solvency		Liquidity	
	Regulatory Capital to Risk-Weighted Assets (%)		NPLs to Total Gross Loans (%)		Return on asset (%)		Deposit to loan ratio (%)		Liquid asset (% short-term liability)	
	2022	change	2022	change	2022	change	2022	change	2022	change
China	15	0	2	0	0.2	-1	110	-7	61	3
Malaysia	18	0	2	0	1.5	0	119	5	151	1
Indonesia	23	2	3	0	2.1	0	108	11	26	4
Philippines	16	1	4	2	1.6	0	135	17	45	-4
Vietnam	11	-1	2	0	1.6	0	97	-19	32	0
Thailand	19	0	3	0	1.0	-1	91	0	35	2
Lao PDR	20	8	2	-1	0.4	-1			31	3
Mongolia					-0.2	0	130	24	64	10
Cambodia	23	1	2	1	2.0	0	84	-8	22	-3
Myanmar	13	1			0.6	0	195	30	61	0

Identifying problems that lurk behind pandemic era measures like regulatory forbearance would help prevent the emergence of zombie firms and the misallocation of credit. ²¹

Inefficient interventions could magnify the growth costs; more efficient ones and deeper reforms could offset the negative impacts



Thank you!
