Reforms for Recovery

East Asia and Pacific Economic Update October 2022

- **Growth in most of the economies of developing East Asia and the Pacific rebounded in 2022, but China lost momentum.**
    - The EAP region ex-China is forecast to jump to 5.3% in 2022 from 2.6% in 2021.
    - China, which constitutes 86% of the 23-country region's GDP, is projected to slow to 2.8% in 2022 from 8.1% in 2021.
    - The region as a whole is forecast to slow to 3.2% in 2022 from 7.2% in 2021, largely due to China's slowdown in 2022 after strong growth in 2021.

- **The recovery of most of the countries in the region comes as: private consumption revived after the Delta distress in 2021; global demand for the region's exports was sustained; and any tightening of fiscal or monetary policy was limited.**
    - In China, the zero-COVID policy has led to disruptions in industrial and services production, domestic sales and exports.
    - COVID is also still significant in the Marshall Islands, Micronesia, and Palau.

- **Looking ahead, three factors pose threats to inclusive and sustainable growth.**
    - The global economic slowdown is likely to depress demand for the region's exports of manufacturing and commodities.
    - As inflation abroad prompts rate hikes, inducing capital outflows and exchange rate depreciation in EAP countries, the burden of debt servicing is rising.
    - Certain measures to contain inflation and debt are adding to existing distortions in the markets for food, fuel and finance.

- **Current policies aimed at protecting households and firms from rising costs distort price signals and will undercut longer-term prospects unless made temporary.**
    - Controls on prices of food and fuel supported by subsidies dampen inflation but distort consumer and producer choices.
    - Measures to deal with debt, absent faster growth or wider resource mobilization, may lead to repression in financial markets and distort economy-wide savings and investment decisions.

- **More efficient measures can provide relief and, along with reform of long-standing policy distortions, could spur growth.**
    - Support through income transfers is preferable to price regulation because it does not distort choices and can be targeted to those most in need.
    - In food, governments should shift focus from rice-centric food security to nutrition security by reducing subsidies and trade barriers that favor rice, thereby encouraging diversified production of nutritious foods.
    - In fuel, policy responses should help meet the immediate need for affordable energy without compromising energy security and sustainability. Encouraging investment in

renewables could reduce exposure to fossil fuel price volatility and help meet emission reduction commitments.

- In finance, authorities will need to strengthen prudential measures and enhance the financial sector's ability to allocate resources efficiently. Transparent and timely reporting of bank asset quality can help assess and address the risks of credit misallocation arising from pandemic crisis support measures, like regulatory forbearance and repayment moratoria.
- Recent price and interest rate shocks could reduce EAP growth by 0.4 percentage points; inefficient instruments would soften the impact on current welfare but magnify the growth cost; more efficient intervention and deeper reforms – not just in the three areas discussed above but also in services and factor markets - could even offset the growth impact of recent shocks.

Table O1. GDP growth forecast

			April 2022	October 2022 forecast	
	2020	2021	forecast for 2022	2022	2023
East Asia & Pacific	1.2	7.2	5.0	3.2	4.6
East Asia & Pacific (excluding China)	-3.6	2.6	4.8	5.3	5.0
ASEAN-5	-3.8	3.4	4.9	5.4	5.1
Pacific Island Countries	-9.5	-3.3	2.9	5.3	5.7
China	2.2	8.1	5.0	2.8	4.5
Indonesia	-2.1	3.7	5.1	5.1	5.1
Malaysia	-5.5	3.1	5.5	6.4	4.2
Philippines	-9.5	5.7	5.7	6.5	5.8
Thailand	-6.2	1.5	2.9	3.1	4.1
Vietnam	2.9	2.6	5.3	7.2	6.7
Cambodia	-3.1	3.0	4.5	4.8	5.2
Lao PDR	0.5	2.5	3.8	2.5	3.8
Mongolia	-4.4	1.6	2.5	2.4	5.5
Myanmar	3.2	-18.0	1.0	3.0	
Papua New Guinea	-3.5	1.0	4.0	4.0	4.2
Timor-Leste	-8.6	1.5	2.4	3.0	3.0
Palau	-9.7	-17.1	7.2	6.0	18.2
Fiji	-17.2	-4.1	6.3	12.6	7.8
Solomon Isl.	-3.4	-0.2	-2.9	-4.5	2.6
Tuvalu	-4.9	0.3	3.5	3.0	3.5
Marshall Isl.	-2.2	-2.5	3.0	1.5	2.2
Vanuatu	-5.4	0.5	2.0	2.2	3.4
Kiribati	-0.5	1.5	1.8	1.5	2.3
Tonga	0.5	-2.7	-1.6	-1.6	3.3
Samoa	-3.1	-7.1	-0.3	-5.0	2.0
Micronesia	-1.8	-3.2	0.4	-0.5	3.0
Nauru	0.7	1.5	0.9	0.9	1.9

Source: World Bank; World Bank staff estimates and projections.
Notes: Percent growth of GDP at market prices. ASEAN-5 comprises Indonesia, Thailand, the Philippines, Malaysia, and Vietnam. Values for Timor-Leste represent non-oil GDP. For the following countries, values correspond to the fiscal year: Federal states of Micronesia, Palau, and Republic of the Marshall Islands (October 1–September 30); Nauru, Samoa, and Tonga (July 1–June 30). Myanmar growth rates refer to the fiscal year from October to September.