

PRESS RELEASE | SEPTEMBER 26, 2022

East Asia and Pacific Sustaining Growth, Restraining Inflation, but Facing Risks Ahead

*Growth in Region Buoyed by Recovery in Domestic Demand*

WASHINGTON, September 26, 2022 – Growth in most of developing East Asia and the Pacific rebounded in 2022 from the effects of COVID-19, while China has lost momentum because of continued measures to contain the virus, a World Bank report said on Monday. 

Looking ahead, economic performance across the region could be compromised by slowing global demand, rising debt, and a reliance on short-term economic fixes to cushion against food and fuel price increases.

Growth in developing East Asia and the Pacific outside of China is forecast to accelerate to 5.3% in 2022 from 2.6% in 2021 , according to the [World Bank's East Asia and Pacific October 2022 Economic Update](#). China, which previously led recovery in the region, is projected to grow by 2.8% in 2022, a sharp deceleration from 8.1% in 2021. For the region as a whole, growth is projected to slow to 3.2% this year from 7.2% in 2021, before accelerating to 4.6% next year, the report says. 

“Economic recovery is underway in most countries of East Asia and the Pacific,” said World Bank East Asia and Pacific Vice President Manuela V. Ferro. “As they prepare for slowing global growth, countries should address domestic policy distortions that are an impediment to longer term development.”

Growth in much of East Asia and the Pacific has been driven by recovery in domestic demand, enabled by a relaxation of COVID-related restrictions, and growth in exports. China, which constitutes around 86% of the region's output, uses targeted public health measures to contain outbreaks of the virus, inhibiting economic activity.

The global economic slowdown is beginning to dampen demand for the region's exports of commodities and manufactured goods. Rising inflation abroad has provoked interest rate increases, which in turn have caused capital outflows and currency depreciations in some East Asia and Pacific countries. These developments have increased the burden of servicing debt and shrunk fiscal space, hurting countries that entered the pandemic with a high debt burden.

As countries of the region seek to shield households and firms from higher food and energy prices, current policy measures provide much-needed relief, but add to existing policy distortions. Controls on food prices and energy subsidies benefit the wealthy and draw government spending away from infrastructure, health and education. Lingering regulatory forbearance, aimed to ease lending through the pandemic, can trap resources in failing firms and divert capital from the most dynamic sectors or businesses.

"Policymakers face a tough tradeoff between tackling inflation and supporting economic recovery," said World Bank East Asia and Pacific Chief Economist Aaditya Mattoo. "Controls and subsidies muddy price signals and hurt productivity. Better policies for food, fuel, and finance would spur growth and insure against inflation."

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