Recent developments: Growth in the East Asia and Pacific (EAP) region has decelerated rapidly with a sharp slowdown in China. In China, after a much stronger recovery from the initial phase of the pandemic than in the rest of the world, growth lost momentum amid recurrent COVID-19 outbreaks and resulting strict lockdowns. To mitigate the impact of the pandemic on growth, the government has relaxed some property and financial regulations and eased fiscal and monetary policies. Infrastructure investment had rebounded and the pace of contraction in real estate investment had moderated but dipped again in April, during the period of maximum lockdowns.

Elsewhere in the region, growth reached a tepid 2.6 percent in 2021, reflecting the modest scale of fiscal and monetary policy support, slow progress with vaccinations, and significant disruptions from COVID-19 outbreaks. Growth has generally firmed this year, supported by higher commodity export prices in Indonesia and Malaysia, by a rebound of private consumption and investment in the Philippines, and by a nascent recovery of tourism in Thailand. COVID-19 outbreaks and delayed broader re-openings have impeded the recovery in some tourism-dependent Pacific Island economies. Activity has also been disrupted by natural disasters, including the volcanic eruption in Tonga in January.

Direct effects of the war in Ukraine on the EAP region have been limited because of modest trade and financial linkages with Russia and Ukraine. The region, however, is now being affected by the war's indirect spillovers, including higher global commodity prices which are contributing to inflation and widening current account deficits in some countries with high dependence on food and fuel imports, especially in some Pacific Islands. Trade flows across the region have moderated because of disrupted supply chains and international trade resulting partly from the war but also from the lockdowns in China. External financing conditions have tightened, and risk premiums have edged up following faster-than-expected monetary policy tightening in the United States and the war-related volatility in global financial markets. Net debt and equity flows to the region turned negative in late-February, with pronounced outflows from China.

Outlook: Growth in EAP is projected to slow to 4.4 percent in 2022, reflecting a marked deceleration in China. Growth in China is forecast to slow to 4.3 percent in 2022, below estimates of potential growth, due to the lingering effects of the pandemic and weaker global demand. In the region excluding China, growth is expected to firm to 4.8 percent as buoyant domestic demand helps to offset weakening exports, assuming that the economic impact of the war in Ukraine gradually fades. Commodity-exporting economies are expected to outperform commodity importers because of improved terms of trade. Median annual headline consumer inflation in the region is expected to surpass 3 percent in 2022 (above previous expectations), with inflation now envisioned to overshoot the upper bound of inflation targets in several economies (Mongolia, the Philippines, Thailand).

Indonesia's growth is expected to rebound to 5.1 percent in 2022, supported by stronger domestic demand and elevated commodity prices, and is expected to reach 5.3 percent in 2023. Thailand's economy is expected to recover gradually over the next two years, with growth picking up in 2022 and strengthening to 4.3 percent in 2023. Growth is projected to be 5.7 percent in the Philippines in 2022, supported by sustained public investment and recovering household consumption, and then moderate to 5.6 percent in 2023. Growth in Malaysia will rebound to 5.5 percent in 2022 as domestic demand improves amid high vaccination rates, but then ease to 4.5 percent in 2023 due to fading support from exports and tightening fiscal and monetary policies. A revival of activity supported by the removal of COVID-related restrictions in Vietnam is expected to lead to growth of 5.8 percent in 2022 strengthening further to 6.5 percent in 2023.

Even if the recovery is incomplete, fiscal policies in much of the region, excluding China, are expected to tighten. This will help to stabilize government debt, which has grown by more than 10 percentage points of GDP on average since 2019. Despite stronger growth, output in all countries is projected to remain below pre-pandemic trends until at least 2023, with the shortfall in about half of economies forecast to exceed 10 percent next year. The pandemic has caused major economic disruptions, including to human capital accumulation. Potential growth in EAP is now expected to average 4.6 percent a year over 2022-30—down from 6.5 percent in the decade preceding the pandemic. The most severe and long-lasting effects from the pandemic on growth are in countries that have suffered most from the COVID-19 outbreaks and the collapse of global tourism and trade amid the disruptions from natural disasters, domestic policy uncertainty, and the terms of trade shock.

Risks: Downside risks to the baseline forecast for the region include a lingering pandemic, larger-than-expected spillovers from the war in Ukraine, and financial stress triggered by global financial tightening. The impact of pandemic resurgence and associated restrictions could further reduce China's growth and dampen recovery in the rest of the region. A prolonged war in Ukraine and intensifying geopolitical uncertainty could lead to a sharper-than-projected slowdown in the region's export growth. Further, commodity price surges and higher-than-expected inflation could increase the risk of inflation expectations becoming de-anchored. Additional increases in food prices could lead to food insecurity in several small Pacific Islands and food shortages for the large vulnerable segments of populous EAP countries. Tighter global financing conditions than assumed in the baseline could trigger large capital outflows from the region and contribute to depreciating regional currencies which pass through into higher inflation. Small island countries remain particularly vulnerable to risks of natural disasters and weather-related events, losing on average about 1 percent of GDP a year to damage related to natural disasters.

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East Asia and Pacific Country Forecasts
(Annual percent change unless indicated otherwise)

	2019	2020	2021e	2022f	2023f	2024f
GDP at market prices (average 2010-19 US$)						
Cambodia	7.1	-3.1	3.0	4.5	5.8	6.6
China	6.0	2.2	8.1	4.3	5.2	5.1
Fiji	-0.4	-15.7	-4.1	6.3	7.7	5.6
Indonesia	5.0	-2.1	3.7	5.1	5.3	5.3
Kiribati	3.9	-0.5	1.5	1.8	2.5	2.3
Lao PDR	5.5	0.5	2.5	3.8	4.0	4.2
Malaysia	4.4	-5.6	3.1	5.5	4.5	4.4
Marshall Islands	6.6	-2.2	-2.5	3.0	2.4	2.6
Micronesia, Fed. Sts.	1.2	-1.8	-3.2	0.4	3.2	1.9
Mongolia	5.0	-4.4	1.4	2.5	5.8	6.8
Myanmar [a]	6.8	3.2	-18.0	..	..	..
Nauru	1.0	1.1	1.5	0.9	2.6	2.4
Palau	-1.8	-9.7	-17.1	7.2	16.2	4.5
Papua New Guinea	5.9	-3.5	1.0	4.0	2.7	2.5
Philippines	6.1	-9.6	5.6	5.7	5.6	5.6
Samoa	4.4	-2.6	-8.1	-0.3	2.5	3.8
Solomon Islands	1.2	-4.3	0.1	-2.9	5.3	3.8
Thailand	2.2	-6.2	1.6	2.9	4.3	3.9
Timor-Leste	1.8	-8.6	1.6	2.4	2.8	3.0
Tonga	0.7	0.7	-2.7	-1.6	3.2	3.2
Tuvalu	13.9	4.4	2.5	3.5	3.8	4.0
Vanuatu	3.9	-6.8	1.2	2.0	4.1	3.7
Vietnam	7.0	2.9	2.6	5.8	6.5	6.5

Source: World Bank.
Note: e = estimate; f = forecast. World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other Bank documents, even if basic assessments of countries' prospects do not significantly differ at any given moment in time.
a. Data for Myanmar beyond 2021 are excluded because of a high degree of uncertainty.