# Executive summary

## Emerging Asia's economies are poised to rebound, but further turbulence may lay ahead

After setting out on the path to economic recovery in 2021, Emerging Asia is expected to continue its rebound in 2022. However, there remains a high degree of uncertainty in the first half of the year. Overall, Emerging Asian economies are expected to grow by 5.8% on average in 2022 and by 5.2% on average in 2023. Meanwhile, economic growth in the Association of Southeast Asian Nations (ASEAN) is projected to increase by 5.2% in 2022, followed by a 5.2% expansion in 2023. However, there remain some substantial differences among Emerging Asian countries in terms of the pace of the recovery.

The outlook for economic growth faces several risks, including the current and possible future waves of COVID-19, and the potential emergence of new variants of concern. Other major risks include rising inflation, and supply-chain disruptions in Emerging Asia. A further risk stems from rising interest rates in the United States, which could lead to a tightening of external financing conditions for Emerging Asian countries. Meanwhile, political instability in Myanmar remains a concern and the war in Ukraine may pose additional risks for Emerging Asia.

As the pandemic continues to cause disruption, and with the Omicron variant causing a sharp rise in caseloads in early 2022, public health still constitutes one of the major areas of risk. Vaccination programmes have been an important tool in the fight against the pandemic. Countries in the region have shown significant progress in vaccination, but several challenges persist, including ensuring a ready supply of vaccines wherever people need them, and tackling vaccine hesitancy. While countries remedy these issues, other public health measures will remain a useful complement to vaccination. Meanwhile, international co-operation has the potential to make sure that supplies of vaccines make their way to the countries that need them. In addition, digital tools, including telehealth and telemedicine solutions, have been important in managing the pandemic, and their development should continue.

The gradual rise in inflation is also a cause for concern. Indeed, although inflation does seem to be more contained in Emerging Asia than in advanced economies, the region could experience a rise in inflation as 2022 progresses, notably in terms of food and energy prices. Additionally, supply-chain disruptions have built up across various key industries. While supply-side bottlenecks eased somewhat in early 2022, they remain a concern due to their potential impact on economic growth and consumer prices.

## Recovery requires broader financing options

As the pandemic drags on, the economic environment in Emerging Asia remains challenging despite forecasts of a continued recovery. The supportive measures that countries implemented in response to the pandemic have led to an unprecedented widening of fiscal deficits, and to increasing levels of public debt. Meanwhile, prolonged monetary accommodation has kept borrowing costs low, while the natural rate of interest has also declined in most countries.

In the current fiscal and monetary context, policy makers have a range of options for managing the stock of public debt. These include multilateral initiatives, swap arrangements, and debt buybacks.

Alternative sources of financing for a sustainable recovery include green, social and sustainability-related bonds. Developing markets for themed bonds of this kind requires robust frameworks of classification and certification, dedicated regulatory frameworks, increasing the supply of sovereign bonds, and more incentives for investors to participate in this market. Insurance-linked securities could provide an additional layer of financial coverage, including pandemic bonds, extreme mortality bonds, pandemic derivatives, mortality swaps, and pandemic risk pools.

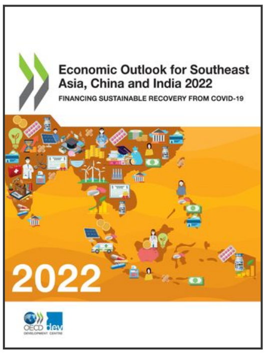
Regional co-operation can also play an important role in financing the post-pandemic recovery. For instance, sovereign catastrophe risk pools can provide a mechanism for Emerging Asian governments to enhance their financial preparedness against pandemic risks: they can pool risks into a single, more diversified, and less risky portfolio. Four sovereign catastrophe risk pools already exist, including the Southeast Asia Disaster Risk Insurance Facility (SEADRIF).

## Policies to develop market-based financing tools

Several barriers hamper the further development of capital markets in Emerging Asia, particularly bond markets. They differ substantially between countries: where bond markets are at an early stage, and institutional and legal frameworks are only just developing, levels of investor protection and transparency with regard to tax processes remain insufficient. By contrast, in countries with more advanced capital markets, there is still scope to diversify the investor base and improve the liquidity of secondary markets.

Furthermore, policies that improve the overall level of financial literacy could promote more participation of individual investors, a key to bolstering the competitiveness of bond markets in the region.

Finally, a strong framework of macroprudential policy represents another enabling factor for the development of bond markets. Indeed, authorities in Emerging Asia have enacted a range of macroprudential measures in order to bolster the stability of the financial system. Furthermore, macroprudential policy will also be a key factor in stabilising cross-border capital flows in a post-pandemic economy.

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