

Chapter 1

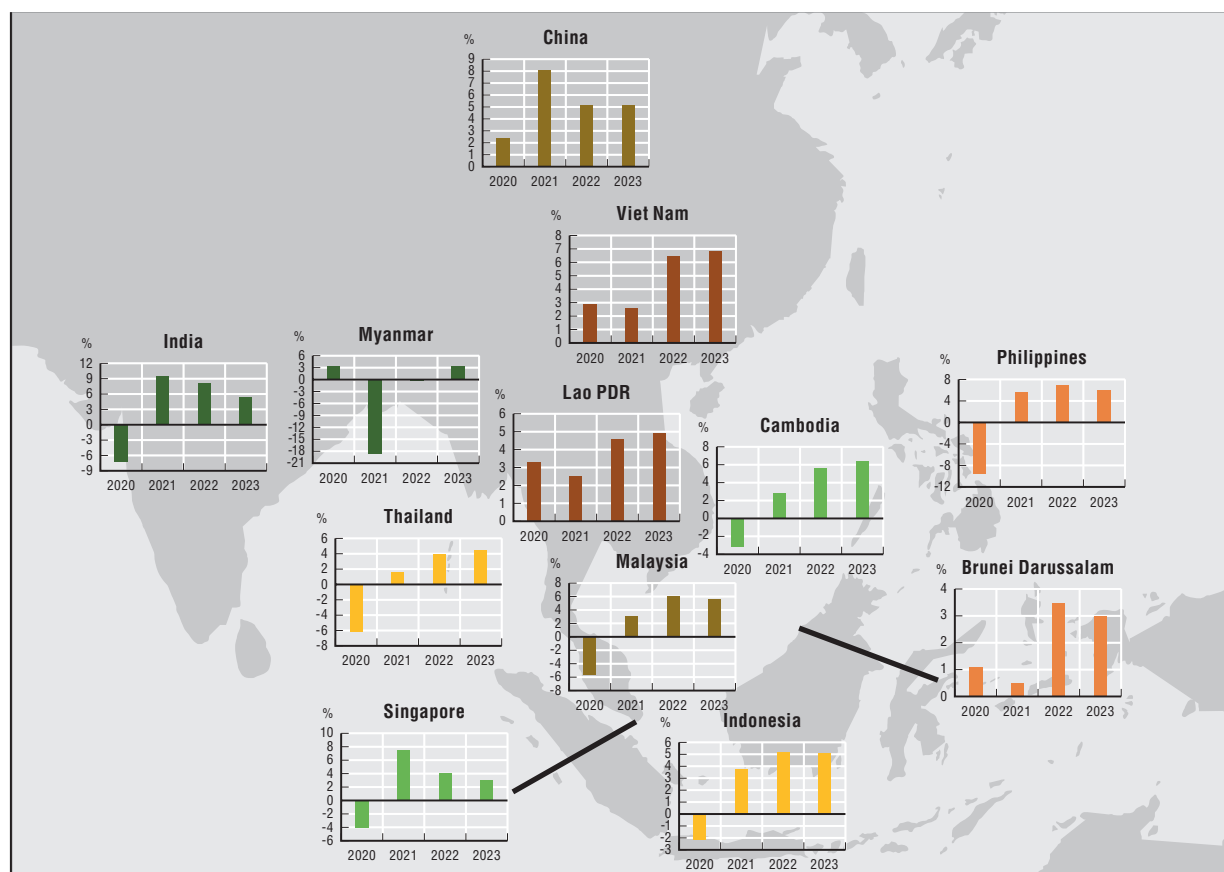
Macroeconomic assessment and economic outlook in Emerging Asia

The economic recovery that started in 2021 in Emerging Asia – ASEAN, China and India, is anticipated to continue in 2022. The chapter presents recent macroeconomic developments and provides the near-term outlook for key sectors. Financial markets were calm in 2021, but rising interest rates in advanced economies and geopolitical tensions such as the escalation of the ongoing war in Ukraine could pose a challenge in upcoming months. The pandemic had an impact on the banking sector, as evidenced by declining profitability and bank lending in a number of countries. In parallel, international trade continued to provide key support, but response to the Omicron variant could disrupt supply chains and weigh on growth. Headline inflation increased in a sustained way, in particular in the second quarter of 2021, amid rising energy prices. Monetary policy remains accommodative in most countries in response to subdued or fragile recoveries. Fiscal stimulus continued, but the impact on public finances is anticipated to be more moderate than in 2020.

Introduction

Following the historic decline in economic activity recorded in the first half of 2020, and the subsequent rebound that occurred in the second half of 2020, the countries of Emerging Asia faced another setback in the second and third quarters of 2021, as another wave of the COVID-19 pandemic prompted a new round of containment measures. Still, the recovery that started in 2021 is anticipated to continue in 2022, though great uncertainty remains (Figure 1.1).

Figure 1.1. Growth in real GDP in Southeast Asia, China and India: Comparison between growth rates for 2021, 2022 and 2023 (%)



Note: Data are as of 7 March 2022. Data for India and Myanmar relate to fiscal years. The 2021 actual figures for China, Indonesia, Malaysia, the Philippines, Singapore, Thailand and Viet Nam are based on national sources. The 2022 and 2023 projections for China, Indonesia, and India, as well as the 2021 projections for India, are based on the OECD Economic Outlook No. 110.

Source: OECD Development Centre and OECD (2021a).

StatLink  <https://doi.org/10.1787/888934303906>

Financial markets were generally calm in 2021. Looking ahead, however, rising policy rates in advanced economies and the war in Ukraine could both pose challenges in the upcoming months. It is worthy of note, meanwhile, that the pandemic has had a negative impact on the banking sector, as evidenced by declining level of profitability and bank lending in a number of countries in the region. In parallel, international trade continued to provide vital support for Emerging Asian economies, although supply-chain disruptions affecting key sectors such as raw materials and semiconductors could restrict economic growth in some

countries. Moreover, the pandemic inflicted lasting damage to labour markets. In addition, there was a sustained increase in headline inflation, particularly in the second quarter of 2021. This reflects not just rising commodity prices, but also the comparison with a low base a year earlier. Meanwhile, monetary policy remains accommodative in most countries in Emerging Asia. Fiscal stimulus continued in 2021, with Malaysia, the Philippines, Singapore and Thailand unveiling new support packages. However, the impact on public finances is anticipated to be more moderate than it was in 2020. Looking ahead, growth prospects in the near term will largely be determined by the way countries respond to the various risks.

Overview and main findings

Countries in Emerging Asia faced persistent waves of cases from the Delta variant of COVID-19, whose duration and severity was even worse than in 2020. However, the restrictions were less disruptive in 2021 thanks to their being more targeted. Differences in economic outlooks among Emerging Asian countries have become even more relevant, with the management of the pandemic differing starkly among countries. While a number of countries have embarked on mass vaccination programmes using a variety of vaccines, attaining herd immunity is likely to be a very slow process in some countries due to constraints in the supply of vaccines, logistical issues, and vaccine hesitancy. Looking ahead, Emerging Asian economies are projected to increase by 5.8% on average in 2022, and to expand by 5.2% in 2023. Furthermore, ASEAN's average real GDP growth is forecast to be 5.2% in 2022, and 5.2% in 2023. Output growth in 2022 in ASEAN will range from -0.3% in Myanmar to 7.0% in the Philippines (Table 1.1).

Table 1.1. Real GDP growth in ASEAN, China and India, 2020-23

	Percentage			
	2020	2021	2022	2023
ASEAN-5				
Indonesia	-2.1	3.7	5.2	5.1
Malaysia	-5.7	3.1	6.0	5.5
Philippines	-9.6	5.6	7.0	6.1
Thailand	-6.2	1.6	3.8	4.4
Viet Nam	2.9	2.6	6.5	6.9
Brunei Darussalam and Singapore				
Brunei Darussalam	1.1	0.5	3.5	3.0
Singapore	-4.1	7.6	4.0	3.0
CLM countries				
Cambodia	-3.2	2.8	5.6	6.3
Lao PDR	3.3	2.5	4.6	4.9
Myanmar	3.2	-18.6	-0.3	3.3
China and India				
China	2.4	8.1	5.1	5.1
India	-7.3	9.4	8.1	5.5
Average of ASEAN-10	-3.2	3.0	5.2	5.2
Average of Emerging Asia	-0.8	7.4	5.8	5.2

Note: Data are as of 7 March 2022. Data for India and Myanmar relate to fiscal years. The 2021 actual figures for China, Indonesia, Malaysia, the Philippines, Singapore, Thailand and Viet Nam are based on national sources. The 2022 and 2023 projections for China, Indonesia, and India, as well as the 2021 projections for India, are based on the OECD Economic Outlook No. 110.

Source: OECD Development Centre and OECD (2021a).

ASEAN-5

- **Indonesia** is experiencing steady economic recovery, supported mainly by international trade. Real GDP growth is expected to reach 5.2% in 2022, before expanding by another 5.1% in 2023. In terms of supporting Indonesia's suppressed domestic demand, fiscal stimulus is expected to do the heavy lifting, with the 2022 budget aiming to improve welfare for the lower-income fringes of the population. In addition, it is anticipated that the gradual easing of travel restrictions will lead to a recovery in the tourism sector, which is an important part of the country's economy. On the downside, however, the economic recovery remains subject to a very high degree of uncertainty due to the continued spread of the Omicron variant.
- **Malaysia** was confronted with a sharp rise in COVID-19 cases in 2021, with repeated outbreaks between February and October, and a peak in August. Real output is projected to expand at an annual rate of 6% in 2022, and 5.5% in 2023. The outlook is exposed to downside risks, with the fast-spreading Omicron variant and an intensifying degree of disruption to supply chains expected to slow the recovery in the near term. On the other hand, the negative effects of containment measures on growth should be tempered by sustained fiscal support and recovering global demand. In addition, Malaysia's 2022 budget, which includes a record spending package, is expected to improve consumer sentiment, and to support domestic demand. Services exports are expected to benefit from the gradual recovery in tourist flows, after the launch of a vaccinated travel lane with a number of countries.
- In the **Philippines**, renewed outbreaks of COVID-19 in the autumn of 2021, followed by record-high case counts due to the Omicron variant in early 2022, have prompted new rounds of restrictions, albeit more localised in nature. The outlook is for robust growth in 2022 (+7%), while output growth is likely to remain strong in 2023 (+6.1%). A faster implementation of investment projects in infrastructure, and the recovery in cash remittances by overseas Filipino workers constitute upside risks to the forecast, although pandemic-related uncertainties amid relatively low vaccination rates and still-elevated infections due to the Omicron variant continue to tilt the risk balance to the downside. Inflation has also picked up, and even exceeded the upper limit of the tolerance band during the second half of 2021. This reflects a combination of a low comparison base from a year earlier, as well as rising energy prices.
- **Thailand** was also affected by a new wave of COVID-19 cases in the second half of 2021, with Omicron-fuelled cases surging in early 2022. Real GDP is forecast to grow by 3.8% in 2022, before accelerating to 4.4% in 2023. The continued fiscal support that the Thai government provided in 2021 will likely ease pandemic-related pressures on domestic demand. In addition, a quarantine-free reopening of borders to visitors from certain countries will support efforts to restart Thailand's key tourism sector. On the other hand, risks to the outlook include persistent bottlenecks in supply chains. Exports are also likely to be less dynamic due to supply-chain disruptions.
- In **Viet Nam**, surging COVID-19 cases with a record-high number recorded in February 2022 constitute a headwind to economic growth, in addition to lingering supply-chain disruptions. Real GDP is expected to expand by 6.5% in 2022, and then to edge 6.9% higher in 2023. Still, the balance of risks remains tilted mainly to the downside. The Vietnamese labour market is likely to require more time before it will

be able to leave the pandemic-induced crisis fully behind it. A marked deterioration in employment in the third quarter of 2021, when Viet Nam's unemployment rate surged to multi-year highs (3.6% in September), is expected to weaken household demand in the short term.

Brunei Darussalam and Singapore

- **Brunei Darussalam** recorded weak growth for most of 2021, amid the continued spread of COVID-19 and the re-imposition of containment measures, which dragged on private consumption and investment. Net exports also contributed negatively to growth in the first three quarters of 2021, as buoyant import growth outpaced a rise in exports. Real GDP is set to grow by 3.5% in 2022, and further increase by 3% in 2023. Still, volatile commodity prices and the uncertain medium- to long-term outlook for fossil fuels continue to cloud the outlook for exports. On the upside, the economy should continue to benefit from government policies aimed at intensifying activities outside of the oil and gas sector.
- In **Singapore**, a sharp rise in COVID-19 cases in the second half of 2021, followed by another significant surge due to Omicron, has prompted the authorities to unwind the country's remaining restrictions at a slower pace than had initially been foreseen. Since the most recent restrictions have tended to be more targeted, however, economic growth in Singapore is set to reach 4% in 2022, after a historic plunge in 2020 and a strong recovery in 2021. Subsequently, output growth is expected to settle at 3% in 2023. The risks to the outlook are broadly balanced. On the downside, persistent supply bottlenecks could hamper exports. On the upside, the reopening of international borders to travellers from certain countries under the "Vaccinated Travel Lane" framework should buttress services exports. In addition, Singapore's high vaccination rate reduces its domestic pandemic-related risks to a certain extent.

Cambodia, Lao PDR and Myanmar

- In **Cambodia**, a severe resurgence of the COVID-19 pandemic began in the second quarter of 2021, with repeated localised spikes occurring until November. Moreover, case counts have also been on the rise in recent weeks, fuelled by the Omicron variant. Output growth is anticipated to come in at 5.6% in 2022 and 6.3% in 2023. Yet the balance of risks to this outlook appears to be slightly tilted to the downside due to the importance of foreign tourism, a sector in which uncertainty remains high despite the easing of restrictions on people arriving from certain international destinations. Furthermore, the rapid rise in credit to the non-financial corporate sector, and the concentration of domestic credit in the construction and real-estate sectors, risk undermining financial stability. On the upside, Cambodia's high vaccination rate should alleviate the burden on the healthcare system. Moreover, the agricultural sector is expected to remain resilient, while exports of garments should benefit from the ongoing economic recovery of trading partners.
- In **Lao PDR**, rising COVID-19 cases prompted a tightening of containment measures throughout 2021 and early 2022. Moreover, the risks to the economic forecast for the country are mostly tilted to the downside. Although the Omicron wave appears to

be on a declining path, a comparatively lower rate of vaccination coverage in Lao PDR than in other countries in the region means that domestic risks related to the pandemic remain relatively high. On the upside, exports of goods are expected to be a bright spot in the economy, supported by increasing demand in neighbouring countries, and the launch of a high-speed railway between China and Lao PDR. Overall, real GDP growth for 2022 is forecast at 4.6%. In 2023, growth is anticipated to accelerate to 4.9%.

- In **Myanmar**, political unrest that began in February 2021, and which coincided with the sharp rise in COVID-19 cases, has derailed the recovery. Output growth is forecast to reach -0.3% in 2022 and 3.3% in 2023, after moving deeply into negative territory in 2021 (-18.6%). This outlook is subject to downside risks related to the impact of the political turmoil on consumption and investment, and also to the relatively low vaccination rate in Myanmar compared to neighbouring countries. Another factor tilting the balance of risks to the downside is the persistent depreciation of the domestic currency, the Myanmar kyat, which has lost nearly 34% of its value since February 2021.

China and India

- In **China**, the pandemic remained largely under control in 2021, even as other countries in Emerging Asia struggled with record increases in cases. This notwithstanding, localised outbreaks led to the reinstatement of restrictions in parts of China, as the highly-contagious Omicron variant continued to spread. Economic momentum in the country has subsequently weakened. In particular, it has been burdened by sluggish private consumption and the ongoing turmoil in the property sector, which has resulted from the financial distress of Evergrande Group and several other property developers. A rising debt burden represents an additional vulnerability. On the upside, however, exports reached record highs in 2021, and they are anticipated to remain buoyant in the near term. Moreover, authorities still have the fiscal headroom to respond to economic headwinds. Real GDP growth is still projected to reach 5.1% in 2022 and 2023.
- In **India**, the period from April to June 2021 saw a steep contraction in activity on the back of a severe COVID-19 wave. Then, after a steady fall in case counts in late 2021, caseloads rose to multi-month highs in early January 2022, fuelled by the Omicron variant. Overall, real GDP is projected to grow by 8.1% in 2022, and by 5.5% in 2023. Still, the evolution of the pandemic remains a significant downside risk to the outlook. The deterioration of the situation on the fiscal front is worrisome, with public debt now stabilising at the high level of 90% of GDP. In addition, the financial sector is constrained by non-performing assets, with the gross non-performing assets ratio standing at 6.9% in September 2021. On the upside, budget measures for the 2022 fiscal year, including higher infrastructure spending, could support the post-pandemic recovery.

Other key points regarding the economic outlook and assessment for Emerging Asia

- Developments on financial markets were broadly benign in 2021, but the war in Ukraine amplified stock market volatility in early 2022. After falling sharply in the first quarter of 2020, stock-market capitalisation recovered quickly, exceeding pre-pandemic levels in

most countries in Emerging Asia. As for bond markets, the increase in nominal interest rates in the United States in the first quarter of 2021 was temporary, and its effects on Emerging Asian government-bond yields were limited. These favourable developments notwithstanding, the risk of a correction in global stock prices remains high. Indeed, the war in Ukraine may trigger higher financial market volatility. In addition, a rise in policy rates in the United States and other advanced economies could quickly lead to capital outflows from Emerging Asia.

- The pandemic affected banking sectors in Emerging Asia. Indeed, profitability levels in the banking sector deteriorated between the first quarter of 2019 and the second quarter of 2021 in several countries, although non-performing loan ratios remained mostly stable during the same period. In the first half of 2021, growth in bank lending turned negative in some countries, while deposit growth also fell back to more moderate levels. On a more upbeat note, however, stability in the banking sector remained relatively robust, with capital adequacy ratios above 15% in most countries.
- Another way in which recent economic turmoil has affected Emerging Asian economies is via the tightening of global credit conditions, resulting in a slowdown or even a temporary reversal of capital inflows into the region. According to balance of payments data, other investment flows have been more affected than foreign direct investment or portfolio flows since the beginning of the pandemic, mostly due to smaller inflows to the banking sector. With the stabilisation of global financial markets and easing liquidity pressures, from the fourth quarter of 2020 banks in some countries again started to rebuild their stocks of foreign assets.
- International trade continues to provide important support for economic growth in Emerging Asia. Indeed, robust global demand for goods has driven a strong trade performance in the region, in particular for manufactured goods, chemicals and transportation equipment. However, supply disruptions affecting key sectors such as semiconductors could weigh on growth in some countries. The underlying cause for these bottlenecks is a level of demand that has been running well ahead of supply, reflecting key structural shifts on the demand side. These demand pressures have been compounded by production disruptions due to localised outbreaks of COVID-19, and to labour shortages stemming from restrictions on the mobility of migrant workers. In light of the Omicron variant, and as case counts remain elevated across Asia's production and shipping hubs, the risk of extended dislocations to the balance of supply and demand around the globe will remain high. The war in Ukraine also risks triggering further supply-chain bottlenecks.
- Headline inflation increased sharply in the second quarter of 2021, mostly reflecting rising commodity prices, but also the effects of a low comparison from a year earlier. Prices of natural gas, oil and coal have reached multi-year highs, while prices of agricultural commodities and metals have also surged. Several inflation-targeting countries in Emerging Asia have seen headline inflation exceed the upper limit of their tolerance bands. Another factor contributing to headline inflation in Emerging Asian economies is the pass-through from currency depreciation. Looking ahead, oil prices are projected to remain elevated amid rising demand, lower levels of inventories, and the war in Ukraine.

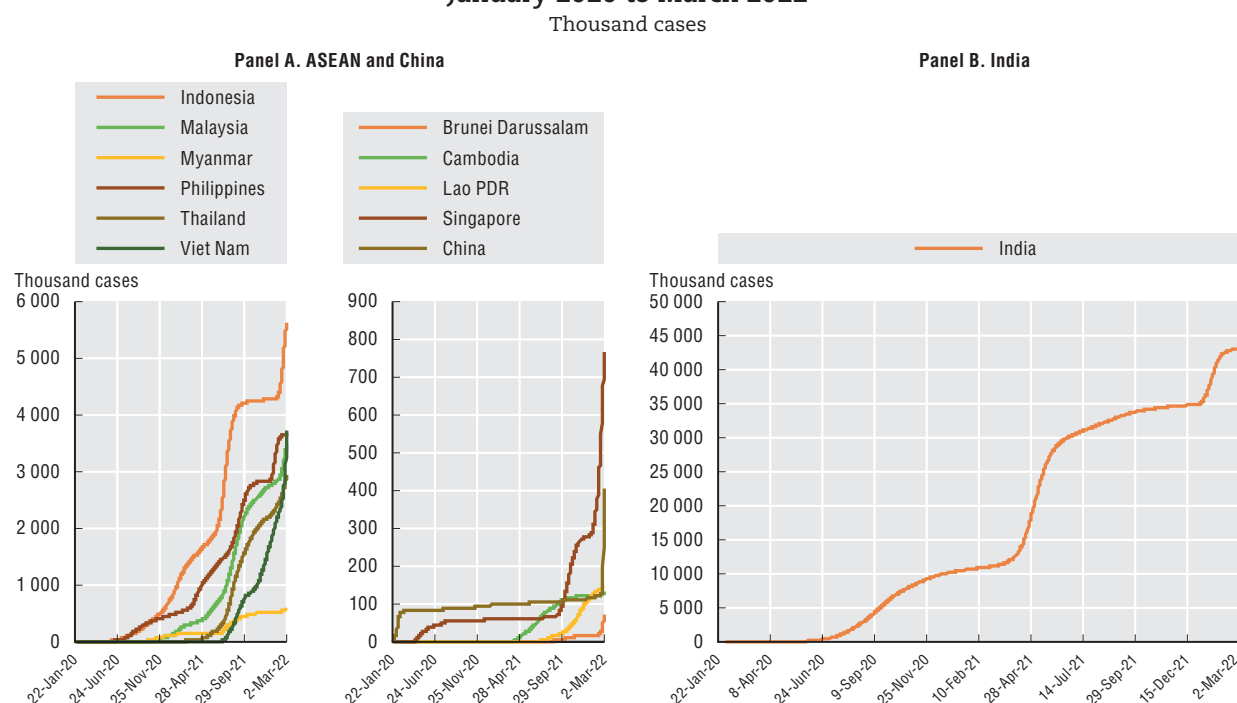
- The pandemic has inflicted lasting damage on labour markets in Emerging Asia. This deterioration has been particularly acute in the Philippines and Viet Nam. Sectors of the economy that are especially cyclical, and indeed those that rely on face-to-face interactions, have endured the gravest job losses since the onset of the COVID-19 crisis. The widespread use of job-retention schemes has helped countries to contain the deterioration of labour markets, although this damage has still been substantial.
- Monetary policy remains accommodative in most countries. Against the background of still-elevated numbers of COVID-19 cases from the Omicron variant, monetary policy makers are holding rates steady until economic prospects improve durably. In light of the aggressive easing of monetary policy that has taken place, real interest rates have fallen in many countries. Looking ahead, monetary policy is expected to remain accommodative as inflationary pressures are broadly under control. While central banks in Emerging Asia still have some cause to ease monetary policy themselves, however, they are wary of the potential knock-on effects of policy decisions by the US Federal Reserve, such as a tapering of asset purchases or the policy rate hike, which could put pressure on capital flows in the region.
- Following on from supportive measures in the first months of the pandemic, fiscal support continued into 2021 amid renewed COVID-19 outbreaks, with Malaysia, the Philippines, Singapore and Thailand rolling out additional fiscal stimulus throughout the year. Now, as economies recover, fiscal deficits are forecast to narrow marginally in 2022. Still, the debt-to-GDP ratios of most Emerging Asian countries are expected to continue rising in 2022, although at a much slower pace than in 2020. Although governments need to restore some fiscal flexibility, a strong complementarity between fiscal and monetary policies will remain essential. Calls from across society for measures to address longer-term challenges such as climate change will also lead to continued demands on government spending.
- Given that the Omicron wave of the pandemic is likely to remain a significant factor in the first quarter of 2022, the effectiveness of healthcare responses and vaccination programmes will have a strong role to play in determining economic developments. Furthermore, coping with inflation risks is also crucial. The trend of headline inflation is pointing upwards in some Emerging Asian economies, clouding the outlook for economic growth and social stability. In addition, the brisk rebound in global demand in the second half of 2020 corroborated with persistent localised pandemic-related disruptions have affected several key industries, including the production of raw materials and semiconductors. These supply chain disruptions have the potential to reverberate through Emerging Asian economies and weigh on economic growth in the near term.
- Political stability in Myanmar is important for the growth prospect of the country and the region.

Recent developments and near-term outlook

Emerging Asia's headwinds in 2021 stem largely from the renewed lockdown measures that many countries imposed in order to manage the Delta variant. Infections rose considerably in 2021, putting renewed pressure on health systems. This was particularly the case in India,

Indonesia, the Philippines, Malaysia, Singapore, Thailand and Viet Nam (Figure 1.2). Brunei Darussalam and the CLM countries (Cambodia, Lao PDR and Myanmar) managed to keep cases very low in 2020, but were confronted with sharp surges starting from the second quarter of 2021. Vaccination campaigns, which began in early 2021 in most Emerging Asian countries, promise an eventual decline in the severity of COVID-19 cases. Indeed, while the emergence of the highly contagious Omicron variant led to a sharp rise in infections in early 2022, particularly in India, Indonesia, Malaysia, the Philippines, Singapore, Thailand and Viet Nam, hospitalisation and fatality rates were relatively more manageable than the rates recorded from late 2020 to early 2021.

Figure 1.2. Cumulative confirmed cases of COVID-19 in Emerging Asia, January 2020 to March 2022



Source: Johns Hopkins University & Medicine (n.d.).
 StatLink <https://doi.org/10.1787/888934303925>

Renewed outbreaks of COVID-19 prompted authorities in several Emerging Asian countries to tighten restrictions, in particular during the third quarter of 2021. These included measures such as curfews, the partial closure of stores and factories in non-essential sectors, limits on travelling between provinces, and renewed calls to switch to remote working wherever possible. As vaccination coverage improves, however, there is an increasing shift in policy towards greater tolerance of COVID-19.

Even as more economies move to a policy of living with COVID-19 without major restrictions, the intensity of countries' responses to the pandemic in recent months has varied considerably across Emerging Asia. Some economies have imposed tight restrictions in response to fresh outbreaks. Countries that have taken this approach include China,

India, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore and Viet Nam. Meanwhile, other countries, namely Brunei Darussalam, Cambodia and Thailand, have implemented lighter mobility restrictions in response to outbreaks (Table 1.2). In India and Singapore, which have contended with sharp surges in cases fuelled by the Omicron variant, data for February 2022 point to a tightening of restrictions compared to the previous month. However, reassured by lower hospitalisation rates from Omicron, no country in Emerging Asia has returned to a full-scale lockdown.

Table 1.2. Stringency of COVID-19-related restrictions in Emerging Asian economies, January 2021 to February 2022

Stringency index on a scale of 0-100

	2021												2022	
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Brunei Darussalam														
Cambodia														
Indonesia														
Lao PDR														
Malaysia														
Myanmar														
Philippines														
Singapore														
Thailand														
Viet Nam														
China														
India														

Note: The data are as of 24 February 2022. Monthly values of the index represent the average of daily values for the respective month. An index between 0 and 20 denotes the lowest level of stringency. Meanwhile, an index between 80 and 100 corresponds to the highest level of stringency, which could include full-scale lockdowns.

Source: Authors' elaboration based on Oxford COVID-19 Government Response Tracker.

Against a backdrop of new outbreaks of COVID-19, weaker-than-anticipated growth momentum has coincided with surprisingly high inflation over recent months, denting optimism for economic recovery in Emerging Asia. However, the contraction in economic activity in 2021 was far milder than in the first half of the previous year. After relatively broad-based declines in the first quarter, most economies rebounded strongly in the second quarter. Annual growth rates above 10% were recorded in the second quarter in Malaysia (16.1%), Singapore (15.8%), and the Philippines (12.0%). Nevertheless, strong base effects are at play in all of these countries, in that the comparison from 2020 reflects the turmoil of the early months of the pandemic. Growth figures for the third quarter of 2021 paint a more contrasted picture. The high stringency of COVID-19-related restrictions during the summer months caused several economies in Emerging Asia to plunge back into negative territory, while other countries experienced a deceleration in their annual growth rates (Table 1.3). The contraction in third-quarter output was most pronounced in Viet Nam (-6.0%) and Malaysia (-4.5%). Finally, most Emerging Asian countries posted solid growth rates in the three months to 31 December, ranging from 1.9% in Thailand to 7.7% in the Philippines.

Table 1.3. Quarterly real GDP growth in ASEAN, China and India, Q1 2020 to Q4 2021
Year-on-year percentage changes

	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021
ASEAN-5								
Indonesia	3.0	-5.3	-3.5	-2.2	-0.7	7.1	3.5	5.0
Malaysia	0.7	-17.2	-2.7	-3.5	-0.5	16.1	-4.5	3.6
Philippines	-0.7	-16.7	-11.6	-8.3	-3.9	12.0	6.9	7.7
Thailand	-2.2	-12.3	-6.4	-4.2	-2.4	7.7	-0.2	1.9
Viet Nam					4.7	6.7	-6.0	5.2
Brunei Darussalam and Singapore								
Brunei Darussalam	2.3	3.5	0.4	-1.4	-0.8	-2.1	-2.2	
Singapore	1.2	-12.2	-4.6	-0.9	2.0	15.8	7.5	6.2
CLM countries								
Myanmar	-0.3	-2.8	-7.3	-8.5	-0.7	-0.7		
China and India								
China	-6.9	3.1	4.8	6.4	18.3	7.9	4.9	4.0
India	-23.8	-6.6	0.7	2.5	20.3	8.5	5.4	

Note: Data as of 7 March 2022. Data for Q4 2021 were unavailable for Brunei Darussalam. Data for the period running from Q3 2021 to Q4 2021 were unavailable for Myanmar. Data for Q4 2021 were unavailable for India. Data for India and Myanmar relate to fiscal years ending in March. Quarterly data for Cambodia and Lao PDR were unavailable. The measurement method of real GDP growth for Viet Nam was changed as of Q1 2021.

Source: Authors' calculations based on data from CEIC Data and national sources.

The most immediate threat to the near-term growth outlook in Emerging Asia remains the COVID-19 pandemic, with Omicron-fuelled case counts reaching record-high levels in several countries. The public health situation is nevertheless expected to improve gradually over the course of 2022 as vaccination rates increase, and as societies adapt to new protocols. However, there remains a downside scenario, in which vaccine-resistant virus mutations emerge, prolonging the crisis and requiring the implementation of new containment measures. Further risks to the recovery stem from longer-than-expected supply chain disruptions and higher-than-expected inflation. Furthermore, the war in Ukraine may also push up inflation.

In addition, authorities in Emerging Asia will need to cope with the lasting structural changes that the pandemic has brought about. There is broad consensus in the economic literature that the COVID-19 pandemic will, through the interplay of various transmission channels, have a lasting impact on economic factors such as potential output and economic resilience. Important structural economic changes that are expected to persist include the expansion of digital workplaces, e-commerce, and FinTech services. The increased use of digital financial services is expected to affect how and where economic agents consume, produce, and sell goods and services. For instance, Chinese consumers have increasingly turned to e-commerce and focused on neighbourhood shops and small-format stores, even as the pandemic outbreak subsided (Guthrie, Fosso-Wamba and Arnaud, 2021). In product markets, structural changes have also occurred that will affect potential output once the pandemic has subsided. These include changes in the overall composition of different sectors of the economy. The recovery in economic activity is expected to differ from sector to sector in the near term, altering the composition of overall economic activity. Recreational services are set to bear the brunt of the pandemic in the near term in Emerging Asia. According to the latest forecasts by the United Nations World Tourism Organization (UNWTO), international arrivals to the Asia-Pacific region are expected to return to pre-pandemic levels only in 2024 or later (UNWTO, 2022).

The highly contagious Omicron variant of COVID-19 emerged during a period of economic recovery in Emerging Asia, with stretched supply chains, elevated inflation, and rising inequality. However, high-frequency data indicate that Omicron has so far had a temporary and muted impact on regional economies. On the other hand, pressure on supply chains is likely to remain elevated in the first half of 2022. This will particularly be the case if China's zero-COVID policy leads to additional disruptions around the country's major production and shipping hubs in response to cases of Omicron in these areas. Moreover, such bottlenecks could have broader implications on production chains in other Emerging Asian countries. Indeed, a slowdown of the Chinese economy could also have a significant impact on its trading partners across Emerging Asia. The war in Ukraine could have implications for the region's economies as a result of higher energy and food prices, and higher volatility on financial markets. Furthermore, trade and foreign direct investment may also be affected, albeit to a lower degree.

ASEAN-5

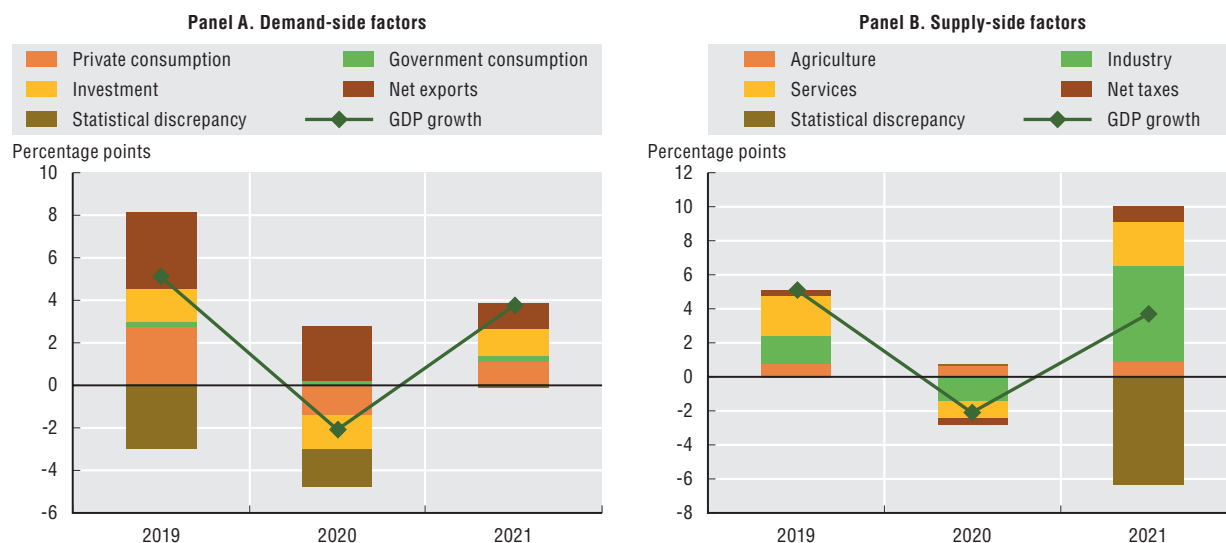
Indonesia

Economic activity in Indonesia moderated in the third quarter of 2021, after the government reintroduced restrictions to curb the transmission of the Delta variant. But as daily cases fell from their peak in mid-July 2021, the government announced a partial easing of restrictions in shopping malls, restaurants and places of worship in some parts of the country. In January 2022, the number of cases started to rise again due to the fast-spreading Omicron variant, and it remained high throughout February. However, restrictions on mobility have been lighter than for previous flare-ups of the pandemic. Real GDP increased by 7.1% in the second quarter of 2021, on strong base effects, marking Indonesia's first spell of positive year-on-year growth since the first quarter of 2020. The emergency measures and travel restrictions put in place in July impacted growth in the third quarter of 2021, in which real GDP growth slowed to 3.5% in annual terms. Growth in real GDP reached 3.7% in 2021 on an annual basis. The recovery in 2021 was mostly driven by strong net exports and investment growth, although other demand-side components also provided support (Figure 1.3, Panel A). On the supply-side, growth recovered in all sectors, led by industry, while services also recovered in part, supported by the partial resumption of tourism-related activities (Figure 1.3, Panel B).

High-frequency indicators suggest that the expansion of economic activity has continued in recent months, despite slowing slightly in some areas (Table 1.4). Vehicle sales rebounded strongly in 2021, and remained robust in early 2022, mainly due to the effect of a low basis of comparison from a year earlier. Export activity was also solid throughout 2021. Overall, Indonesia's cumulative trade surplus for the entire year was USD 35.3 billion, an increase of nearly 64% in annual terms. Meanwhile, merchandise exports increased by 41.9% compared to 2020, driven by the general upward trend in commodity prices since June 2020. The main export items in 2021 were iron and steel, oil and gas, and machinery and electrical equipment. Despite a slight rebound in November as international borders reopened for certain categories of tourists, tourism flows have remained subdued, and are still far below their pre-pandemic levels. In order to allow a resumption of tourism activity, authorities announced in October 2021 that restrictions on international travel to the island of Bali would be eased for nationals of 18 countries. However, the emergence of the Omicron variant has slowed the pace of foreign arrivals.

Figure 1.3. Contribution to GDP growth in Indonesia, 2019-21

Percentage



Source: Authors' calculations based on data from CEIC and national sources.

StatLink <https://doi.org/10.1787/888934303944>

Table 1.4. Evolution of selected high-frequency indicators for Indonesia, January 2020 to January 2022

Year-on-year change (%)

Indicator	2020												2021												2022
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Passenger car sales (units)	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green
Merchandise exports (USD million)	Light Red	Light Green	Light Red	Light Red	Light Red	Light Green	Light Red	Light Red	Light Red	Light Red	Light Red	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green
Merchandise imports (USD million)	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green
Visitor arrivals	Light Green	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red
Cargo loaded at main ports (tons)	Light Red	Light Red	Light Red	Light Red	Light Red	Light Green	Light Red	Light Red	Light Red	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green
Total bank loans (IDR billion)	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Red	Light Red	Light Green	Light Red	Light Red	Light Green	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	Light Green

Note: Data are as of 24 February 2022. Data on visitor arrivals and total bank loans were unavailable for January 2022. Data on cargo loaded at main ports were unavailable for December 2021 to January 2022. The colour coding for each indicator should be interpreted as follows: dark red indicates a decline of more than 50%, light red indicates a decline equal to or below 50%, light green indicates an increase of less than or equal to 50%, and dark green indicates an increase of more than 50%. USD stands for United States dollar and IDR stands for Indonesian rupiah.

Source: Authors' elaboration based on data from CEIC and national sources.

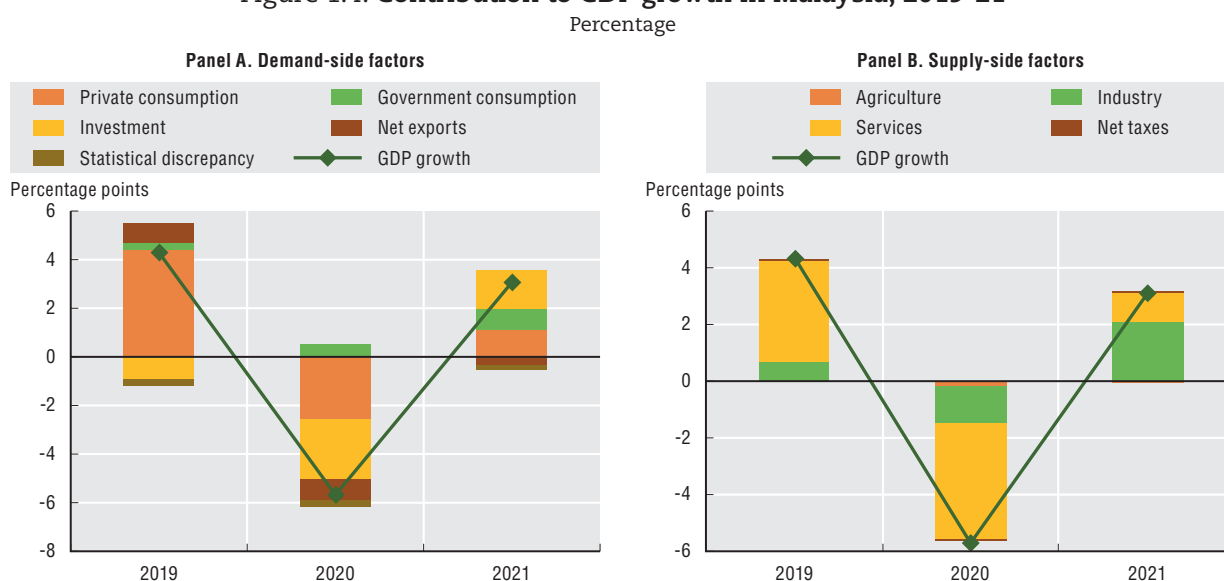
Indonesia's GDP is expected to grow at a rate of 5.2% in 2022, followed by an expansion of 5.1% in 2023. Indeed, economic activity is expected to gradually improve, provided that the impact of the Omicron variant on the healthcare system remains contained. A gradual improvement in household consumption, which accounts for nearly 60% of GDP, is expected to drive growth in 2022. Fiscal stimulus is expected to do the heavy lifting in supporting Indonesia's suppressed domestic demand. Total spending in the 2022 budget was approved

at around USD 190.4 billion, which is 0.6% higher than estimated spending in 2021. The 2022 budget is aimed at safeguarding welfare for the lower-income fringes of the Indonesian population, and to support the resilience of business sectors and small and medium-sized enterprises (Cabinet Secretariat of the Republic of Indonesia, 2021). On the downside, the room for monetary manoeuvre has narrowed. The resumption of activities in the tourism sector also remains subject to very high uncertainty, as Omicron-related cases are expected to remain at high levels in the first quarter of 2022.

Malaysia

In Malaysia, a severe resurgence of COVID-19 cases peaked in August 2021. Authorities implemented new and very strict restrictions in geographical areas that host the core of the country's economic activities, including certain districts of Kuala Lumpur and large parts of the state of Selangor. Manufacturing activity shrank considerably in the second quarter of the year, as firms were confronted with severe shortages of products and workers. In order to limit the economic impact of these measures, the government authorised the resumption of activity in certain economic sectors, such as electrical and electronic industries, aeronautics, and sectors related to food and health, as of mid-August. Output grew by 16.1% in the second quarter of 2021 in annual terms, following a 0.5% contraction in the prior quarter. In the third quarter of 2021, real GDP dropped again, by 4.5%, held back by a high degree of uncertainty and by containment measures in response to the pandemic. Overall, Malaysia's real GDP rebounded by 3.1% in 2021. In 2021, the economy benefited from strong investment, although net exports made a slightly negative contribution, due to an intensification of supply-chain disruptions during the second and third quarters of the year (Figure 1.4, Panel A). On the supply side, industrial production contributed the most to economic growth in 2021 (Figure 1.4, Panel B). But despite this progress in 2021, the first cases involving the Omicron variant were reported in Malaysia in mid-December, and case counts reached record highs as of February 2022.

Figure 1.4. Contribution to GDP growth in Malaysia, 2019-21



Source: Authors' calculations based on data from CEIC and national sources.
 StatLink <https://doi.org/10.1787/888934303963>

Over the past year, the continuous succession of periods of lockdown restrictions followed by a resumption of economic activity has resulted in a rather mixed picture from selected high-frequency indicators (Table 1.5). As most retail points were ordered to close, passenger car sales were particularly affected in 2021, falling by 6.8% from 2020. On the other hand, all components of foreign trade posted solid performances in 2021, and this continued into 2022. Total goods exports rose by 26% in annual terms in 2021, while imports progressed by 23.3%. The expansion in exports was driven mostly by petroleum products and the manufacturing of metals and electrical and electronic goods, while the rise in imports came mainly from products such as crude oil and chemical products. Cargo traffic in ports also increased, mirroring the rise in foreign trade. On the other hand, visitor arrivals remain at low levels. Plans by the Malaysian government to reopen international borders in November to fully vaccinated tourists from Singapore, followed by an extension to other countries as of early January 2022, have been revised in the context of the Omicron variant (Shukry, 2021).

Table 1.5. Evolution of selected high-frequency indicators for Malaysia, January 2020 to January 2022
Year-on-year change (%)

Indicator	2020												2021												2022
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Passenger car sales (units)	Light Red	Light Green	Dark Red	Dark Red	Dark Red	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Dark Green	Dark Green	Dark Green	Dark Green	Dark Green	Dark Green	Dark Green	Dark Green	Dark Green	Dark Green	Light Green
Merchandise exports (USD million)	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green
Merchandise imports (USD million)	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green
Visitor arrivals	Light Green	Light Green	Dark Red	Dark Red	Dark Red	Dark Red	Dark Red	Dark Red	Dark Red	Dark Red	Dark Red	Dark Red	Dark Red	Dark Red	Dark Red	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green
Cargo traffic in ports (freight weight tons)	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green
Total bank loans (MYR million)	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green

Note: Data are as of 24 February 2022. Data on visitor arrivals for October 2021 to January 2022 were unavailable. Data on cargo traffic in ports and total bank loans were unavailable for January 2022. The colour coding for each indicator should be interpreted as follows: dark red indicates a decline of more than 50%, light red indicates a decline equal to or below 50%, light green indicates an increase of less than or equal to 50%, and dark green indicates an increase of more than 50%. MYR stands for Malaysian ringgit.

Source: Authors' elaboration based on data from CEIC and national sources.

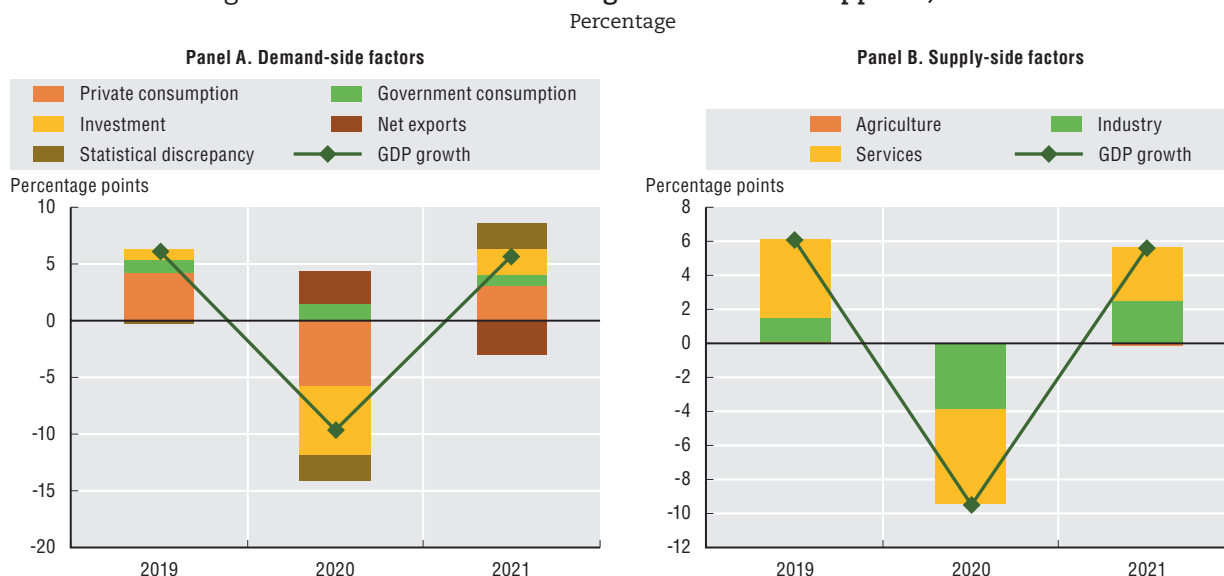
In full-year terms, GDP growth in Malaysia is forecast to reach 6% in 2022, and 5.5% in 2023. Still, growth will largely depend on the country's ability to contain the pandemic amid the emergence of the Omicron variant. While the resurgence of COVID-19 cases, and the potential re-imposition of nationwide containment measures, are expected to weigh on growth in 2022, several factors should mitigate their impact. These include continued government support for businesses in essential economic sectors, a higher degree of adaptability to remote work, and higher levels of automation and digitalisation. In addition, the 2022 budget unveiled on 29 October 2021 included a record spending package worth 332.5 billion Malaysian ringgit (MYR), or USD 80.1 billion. The allocation to the country's COVID-19 Fund was set at MYR 23 billion (USD 5.5 billion), with the bulk of this outlay earmarked for cash payments and social assistance (Ministry of Finance of Indonesia, 2021).

Meanwhile, the gradual implementation of spending plans outlined in Malaysia's five-year plan for 2021-2025 will also support growth in the near term. Among other goals, the plan is expected to improve living standards, in particular for the lower-income fringes of the Malaysian population (Economic Planning Unit, 2021).

Philippines

The economy of the Philippines remained under the grip of the pandemic in 2021. The number of new daily COVID-19 cases reached record levels in August and September, prompting authorities to reinstate lockdowns in the Metro Manila region, as well as in a number of other cities and provinces. The Omicron variant fuelled a record spike in the number of cases in mid-January 2022, although reports seem to point to lower pressure on hospitals compared to previous outbreaks. Following a contraction of 3.9% in the first quarter of 2021, real GDP posted year-on-year growth of 12% in the second quarter, ending five quarters of negative growth since the first three months of 2020. This double-digit growth in the second quarter of 2021 was mainly the result of a strong base effect, as GDP had contracted by 17.0% in the second quarter of 2020. In the third quarter of 2021, output growth in the Philippines registered 6.9% in annual terms. Moreover, the country's real GDP inched 5.6% higher overall in 2021. Pent-up private consumption and considerable increases in investment drove the economic rebound in 2021, although supply-chain bottlenecks weighed on net exports (Figure 1.5, Panel A). On the supply side, the services sector made the largest contribution to growth (Figure 1.5, Panel B). Healthcare services expanded by 15% in annual terms, while information and communication services, which grew by 9.1%, also made a significant contribution to overall services growth in the Philippines.

Figure 1.5. Contribution to GDP growth in the Philippines, 2019-21



Source: Authors' calculations, based on data from CEIC and national sources.

StatLink <https://doi.org/10.1787/888934303982>

Below, Table 1.6 illustrates the development of several high-frequency indicators in year-on-year terms. Domestic demand was weak in recent months. Sales of discretionary goods, such as passenger vehicles, fell by 20.7% in annual terms in January 2022, as mobility restrictions triggered by the Omicron variant suppressed domestic demand. Foreign trade was lacklustre, with the overall trade balance down by nearly 76% year-on-year in 2021. Moreover, manufacturing activity fell sharply in August and September 2021, as the rise in COVID-19 cases from the Delta-variant wave resulted in strict containment measures in the capital region and other parts of the Philippines. After several months of continuous expansion, the purchasing managers' index (PMI) for manufacturing fell to 47.5 in August, and then to 46.7 in September, as many factories and businesses were forced to halt their activity. The latest data point to a recovery in manufacturing in the three months to 31 December 2021, with the PMI crossing above the threshold of 50-index points, at 53.8. The PMI for services also returned to expansionary territory in late 2021, with the latest reading for December standing at 53.3. In addition, remittances by overseas Filipino workers increased in 2021, supported by the economic recovery around the world. Cash remittances edged 13.5% higher year-on-year in May, on large base effects from the low figures from 2020, and continued to post solid growth in the second half of 2021 (Box 1.1).

Table 1.6. Evolution of selected high-frequency indicators for the Philippines, January 2020 to January 2022

Year-on-year change (%)

Indicator	2020												2021												2022
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Passenger car sales																									
Merchandise exports (USD million)																									
Merchandise imports (USD million)																									
Visitor arrivals																									
Total bank loans (PHP billion)																									
Manufacturing PMI																									
Services PMI																									

Note: Data are as of 24 February 2022. Data on merchandise exports, merchandise imports, total bank loans, manufacturing PMI, and services PMI, were unavailable for January 2022. Data on visitor arrivals for July 2021 to January 2022 were also unavailable. The colour coding for each indicator should be interpreted as follows: dark red indicates a decline of more than 50%, light red indicates a decline equal to or below 50%, light green indicates an increase of less than or equal to 50%, and dark green indicates an increase of more than 50%. For the PMI for manufacturing and services, the colour coding is: dark red indicates a PMI value below 30, light red indicates a PMI value between 31 and 49, light green indicates a PMI value between 50 and 55, and dark green indicates a PMI value above 55. PHP stands for Philippine peso.

Source: Authors' elaboration, based on data from CEIC and national sources.

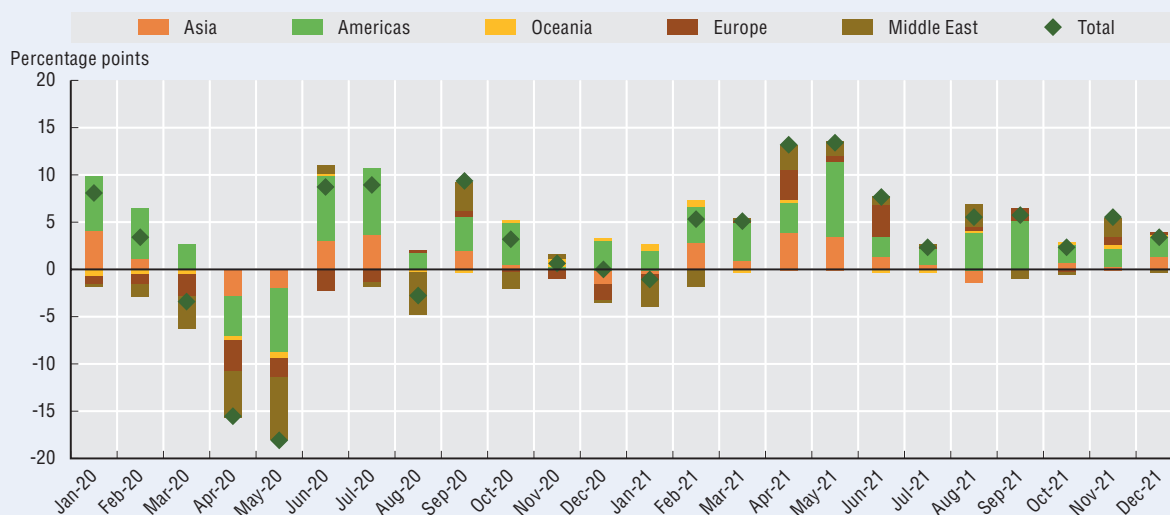
Box 1.1. Cash remittances by overseas Filipino workers rebounded strongly in 2021

Cash remittances by overseas Filipino workers exceeded their pre-pandemic levels in the second half of 2021. In annual terms, total cash remittances in 2021 were 5.1% higher compared to 2020. The rebound was strongest in April (+13.2%) and May 2021 (+13.5%), with large base effects at play. The latest reading, for December, points to annual growth of around 3.5% (Figure 1.6). The largest contribution to the growth in remittances in December came from the Americas and Asian countries, while the Middle East made a negative contribution to the year-on-year growth figures.

Box 1.1. Cash remittances by overseas Filipino workers rebounded strongly in 2021 (cont.)

According to data published by the Philippine central bank, personal remittances by overseas Filipino workers reached an all-time high of USD 34.9 billion for the full year of 2021. The sustained growth in personal remittances during 2021 was mainly due to remittances by land-based workers with work contracts of one year or more, which rose by 5.6% in annual terms. In parallel, remittances by sea- and land-based workers with work contracts of less than one year grew by 2.9%. In terms of host countries, cash remittances from the United States accounted for the largest share of overall remittances for the full-year 2021 (at 40.5%), followed by Singapore, Saudi Arabia, Japan, the United Kingdom, the United Arab Emirates, Canada, Chinese Taipei, Qatar and Korea (BSP, 2022). Nevertheless, the outlook for remittances remains subject to a high degree of uncertainty in the near term, as certain types of restrictions could be re-instated in workers' host countries, depending on the evolution of the pandemic.

Figure 1.6. Contribution to growth in cash remittances by overseas Filipino workers by host area, January 2020 to December 2021



Note: Data as of 24 February 2022.

Source: Authors' calculations based on data from CEIC and national sources.

StatLink  <https://doi.org/10.1787/888934304001>

The Philippines is expected to record solid economic growth of 7% in 2022, followed by an expansion of 6.1% in 2023. Public infrastructure spending is projected to contribute significantly to this growth. The 2022 National Expenditure Program amounts to around 5.1 trillion Philippine pesos (PHP), which is the equivalent of 22.8% of GDP. Infrastructure spending is expected to benefit from PHP 1.18 trillion of the total allocation, equivalent to 5.3% of GDP (Department of Budget and Management, 2021). The uptick in remittances by overseas Filipino workers is also expected to boost domestic spending. On the downside, however, the evolution of the situation on the health front remains subject to a very high degree of uncertainty. A new round of COVID-19-related restrictions amid the emergence of the Omicron variant, which were in place throughout most of December 2021 and January 2022, could reverse the recovery in the unemployment rate, which fell to 6.5% in November 2021 from a

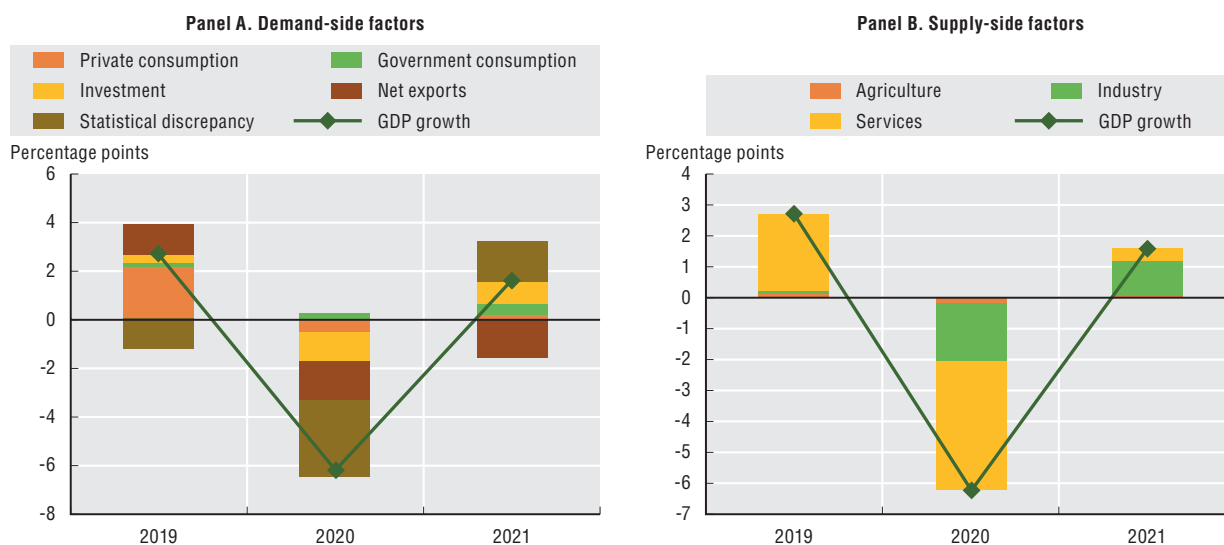
peak of 17.6% in the second quarter of 2020. Restrictions could also reverse the improvement in the poverty incidence rate, which fell to 16.7% in 2018, from 26.3% in 2009, amid rapid economic growth. In addition, inflation has also picked up, with headline inflation exceeding the upper limit of the tolerance band for most of the period from March to November 2021.

Thailand

In Thailand, COVID-19 cases increased sharply during the third quarter of 2021, before slowing down by the start of fall. The government reinstated a series of restrictions in Bangkok and some other provinces. In early January 2022, Thai authorities raised the country's alert level amid rising case counts driven by the spread of the highly contagious Omicron variant. In the second quarter of 2021, Thailand's economy posted positive year-on-year growth of 7.7% for the first time since the fourth quarter of 2019, though base effects cannot be ignored in light of 2020. The growth trend was reversed in the third quarter, when Thailand's real GDP edged 0.2% lower. Overall, real GDP grew by 1.6% in 2021. Output growth for full-year 2021 was mainly driven by private investment, while private consumption and government consumption also made modest positive contributions (Figure 1.7, Panel A). In parallel, the balance of trade contributed negatively to growth in 2021, with supply-chain disruptions coinciding with a strong increase in domestic demand, which boosted imports. On the supply side, growth was largely supported by industrial production, while the contribution from the services sector was also positive (Figure 1.7, Panel B).

Figure 1.7. Contribution to GDP growth in Thailand, 2019-21

Percentage points



Note: The calculations are based on chain-linked volume measure series.

Source: Authors' calculations based on data from CEIC and national sources.

StatLink  <https://doi.org/10.1787/888934304020>

High-frequency indicators for Thailand paint a relatively mixed picture in 2021 (Table 1.7). Bottlenecks in global supply chains had a negative impact on the local automotive industry. Indeed, sales of passenger cars declined year-on-year each month between June and

December, as restrictions to curb the spread of the pandemic dented sales of non-essential goods. Meanwhile, and despite a strong rebound that began in late-2021 and continued into January 2022, visitor arrivals to Thailand continue to remain at very low levels. Foreign trade activity was weak, with the growth in merchandise exports more than offset by the increase in imports. Total exports of goods in 2021 grew by 17.1% in annual terms, while imports of merchandise were 29.8% higher year-on-year.

Table 1.7. Evolution of selected high-frequency indicators for Thailand, January 2020 to January 2022
Year-on-year change (%)

Indicator	2020												2021												2022
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Passenger car sales	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green
Merchandise exports (USD million)	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green
Merchandise imports (USD million)	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green
Visitor arrivals	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green
Cargo volume handled at ports (metric tons)	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green
Total bank loans (THB million)	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green

Note: Data are as of 24 February 2022. Data on passenger car sales, merchandise exports, merchandise imports, and total bank loans, were unavailable for January 2022. Moreover, data on visitor arrivals for April to September 2021 were unavailable. Data on the volume of cargo handled at ports from October 2021 to January 2022 were unavailable. The colour coding for each indicator should be interpreted as follows: dark red indicates a decline of more than 50%, light red indicates a decline equal to or below 50%, light green indicates an increase of less than or equal to 50%, and dark green indicates an increase of more than 50%. Data on visitor arrivals were unavailable for the period from April to September 2021. THB stands for Thai baht.

Source: Authors' elaboration based on data from CEIC and national sources.

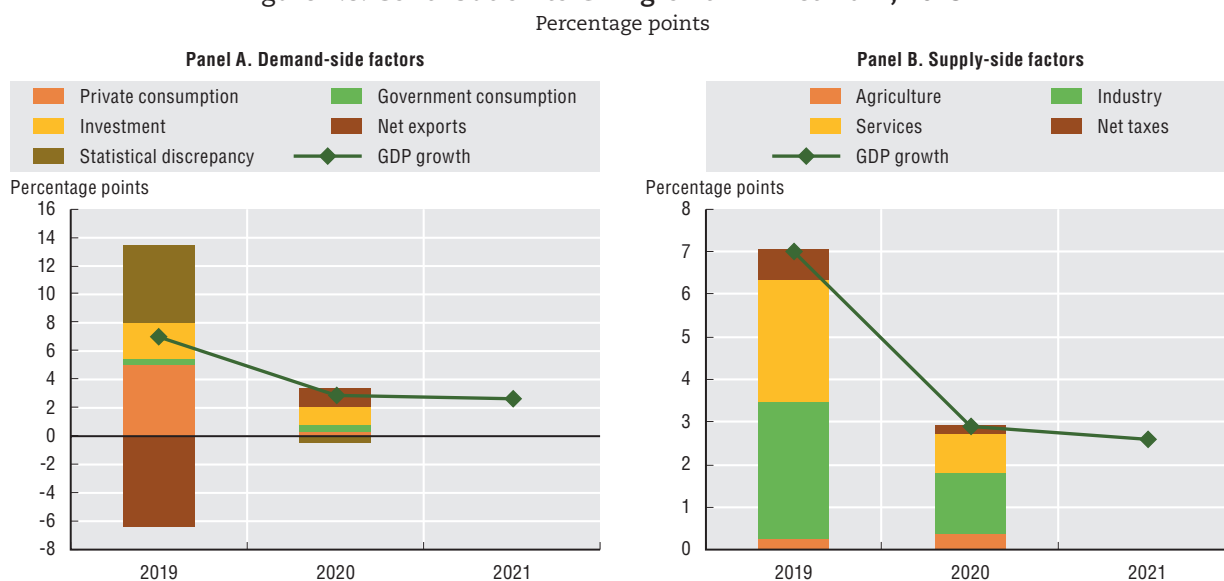
Following a recovery in 2021, Thailand's real GDP is expected to rise by 3.8% in 2022, and to expand by a further 4.4% in 2023. Although the new round of restrictions announced to curb the transmission of the Omicron variant was less strict than the measures that were implemented in early 2020, it nevertheless constituted a setback for economic activity in early 2022. Export growth is likely to be less dynamic if supply-side bottlenecks persist into 2022. On the upside, the continued fiscal support outlined in the 2021 budget, as well as the stimulus packages rolled out in January and July 2021, are likely to ease pandemic-related pressures on domestic demand in the near term. In addition, the quarantine-free reopening of borders to vaccinated visitors from 45 countries (TAT, 2021), which resumed in early 2022 after being temporarily halted due to the Omicron variant, will provide support to the critically important tourism sector.

Viet Nam

As for Viet Nam, it is one of a few economies in Asia that avoided a recession in 2020 due to a relatively successful containment of the pandemic, which allowed businesses to resume their normal operations. As of May 2021, however, Viet Nam began to experience its largest COVID-19 outbreak since the beginning of the health crisis, with new daily cases

peaking at the beginning of September. Strict containment measures were implemented in Ho Chi Minh City, where many cases emerged. Restrictions included banning most travel in and out of the city, suspending most public transport, and requiring residents to remain at home except when purchasing essential goods or responding to exceptional circumstances. The first cases of community transmission of the Omicron variant in Viet Nam were reported in mid-January 2022, leading to another surge. This reached record highs as of late February. Real GDP increased by 5.2% in the final quarter of 2021, after declining by 6% in the three months to 30 September. Over the full year of 2021, the economy grew by 2.6% (Figure 1.8).

Figure 1.8. Contribution to GDP growth in Viet Nam, 2019-21



Note: Data on demand- and supply-side factors were unavailable for 2021.

Source: Authors' calculation based on data from CEIC and national sources.

StatLink <https://doi.org/10.1787/888934304039>

Several high-frequency indicators point to a rather mixed macroeconomic picture in recent months (Table 1.8). Viet Nam recorded a total trade surplus of USD 5.1 billion in 2021, contrasting with the USD 19.9 billion surplus that it achieved in 2020. Moreover, year-on-year growth of imports (+25.9%) more than outpaced growth in total exports of merchandise (+18.8%) in 2021, as businesses increased their imports of raw materials in order to resume production after the lifting of containment measures. These trends have continued into early 2022. Meanwhile, retail sales also dropped through most of 2021, with passenger car sales for the full year down by 5.7% in annual terms, as rising unemployment dented consumer sentiment. In addition, unemployment in Viet Nam soared to multi-year highs in the third quarter of 2021, reaching 3.98%. Furthermore, supply-side bottlenecks have made themselves felt in the decline in total freight carried in Hanoi, which was 10.3% lower in 2021 compared to 2020. Pandemic-related restrictions have also had implications for the tourism sector, with visitor arrivals still 99% below their pre-pandemic levels, despite a modest rebound in January 2022.

Table 1.8. Evolution of selected high-frequency indicators for Viet Nam, January 2020 to January 2022
Year-on-year change (%)

Indicator	2020												2021												2022
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Passenger car sales	Dark Red	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	
Merchandise exports (USD million)	Light Red	Dark Green	Light Green	Light Red	Light Red	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Dark Green	Light Red	Light Green	Dark Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	
Merchandise imports (USD million)	Light Red	Light Green	Light Green	Light Red	Light Red	Light Green	Light Red	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Dark Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	
Visitor arrivals	Light Green	Light Green	Light Red	Light Red	Light Red	Dark Red	Dark Red	Dark Red	Dark Red	Dark Red	Dark Red	Dark Red	Dark Red	Dark Red	Dark Red	Dark Red	Dark Red	Dark Red	Dark Red	Dark Red	Dark Red	Dark Red	Dark Red	Dark Red	
Total freight carried in Hanoi (tons)	Light Red	Light Red	Light Red	Light Red	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	Light Red	
Total bank loans (VND billion)	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	

Note: Data are as of 24 February 2022. Data on passenger car sales and total bank loans were unavailable for January 2022. The colour coding for each indicator should be interpreted as follows: dark red indicates a decline of more than 50%, light red indicates a decline equal to or below 50%, light green indicates an increase of less than or equal to 50%, and dark green indicates an increase of more than 50%. Visitor arrival data are year-to-date. VND stands for Vietnamese dong.

Source: Authors' elaboration based on data from CEIC and national sources.

Against this background, real GDP growth is forecast to reach 6.5% in 2022, and 6.9% in 2023. However, the growth outlook is highly uncertain, and it will be shaped both by the evolution of the pandemic, and by the need for further containment measures in response to the fast-spreading Omicron variant, which led to record-high case counts as of late February 2022. Another downside risk is that of further supply chain disruptions, which could jeopardise the recovery in both domestic consumption and foreign trade. A further escalation of the war in Ukraine could put upward pressure on prices for agricultural products, which in turn could jeopardise the recovery in domestic consumption. On the other hand, some strengths inherent to the Vietnamese economy constitute bright spots. The bulk of the country's manufacturing output is destined for overseas markets, with goods exports equivalent to an average of 78% of GDP over the past five years. As a result, the country's exports stand to benefit from the ongoing robust recovery in the United States and other major advanced economies.

Brunei Darussalam and Singapore

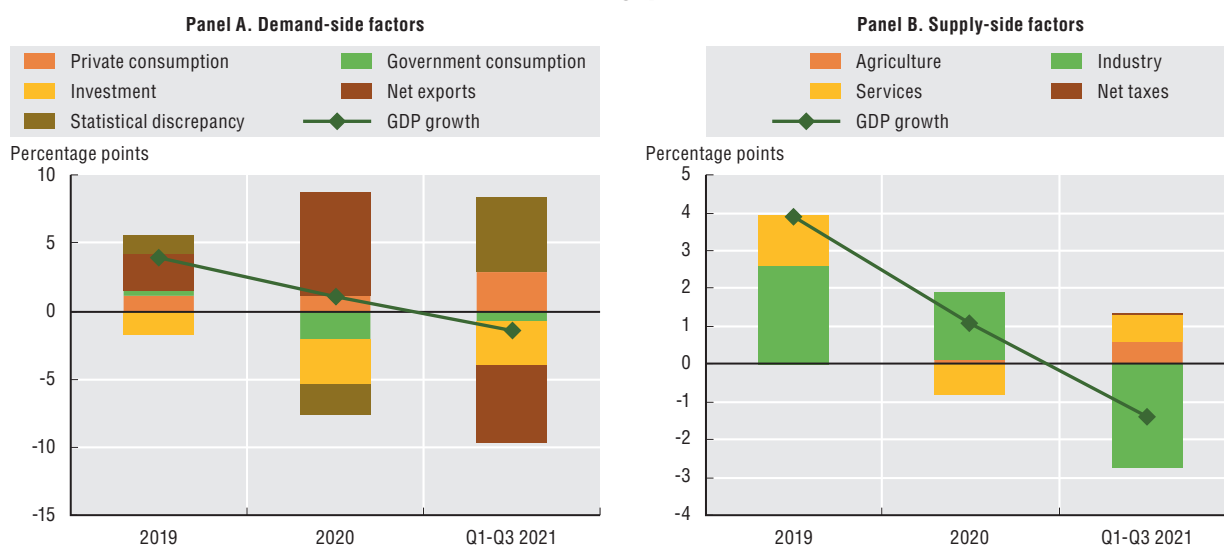
Brunei Darussalam

Economic activity in Brunei Darussalam recorded large swings over the first half of 2021. The country experienced a severe resurgence of the pandemic, which peaked around mid-October. In February 2022, meanwhile, the highly transmissible Omicron variant fuelled record-high numbers of cases after first being reported in the country in December. In 2021, the fallout from the resurgence of the pandemic was apparent in the second quarter, when GDP fell by 2.1%, and the third quarter, when it dropped by 2.2%. Overall, the contraction in the first three quarters of 2021 was largely driven by falling net exports (Figure 1.9, Panel A) and industrial production (Figure 1.9, Panel B). In addition, Brunei Darussalam's cumulated trade balance during the first nine months of 2021 was 7.6% lower in annual terms compared to the same period in 2020. The rise in imports during this period (+71.2%) largely outpaced that of exports (+46.5%), driven by imports of goods

to feed various construction projects in the petrochemicals industry. On the supply side, total industrial production during the first three quarters of 2021 dropped by 4.4% from the similar period the previous year. The items that fell most sharply in the industrial sector were construction activities (-8.3%), the manufacture of liquefied gas and methanol (-6.7%), and oil and gas mining (-3.8%). On the other hand, agricultural production soared by 46.8% in annual terms in the first three quarters of 2021, supported by authorities' plans to develop livestock, poultry and fisheries.

Figure 1.9. Contribution to GDP growth in Brunei Darussalam, 2019-21

Percentage points



Source: Authors' calculations based on data from CEIC and national sources.

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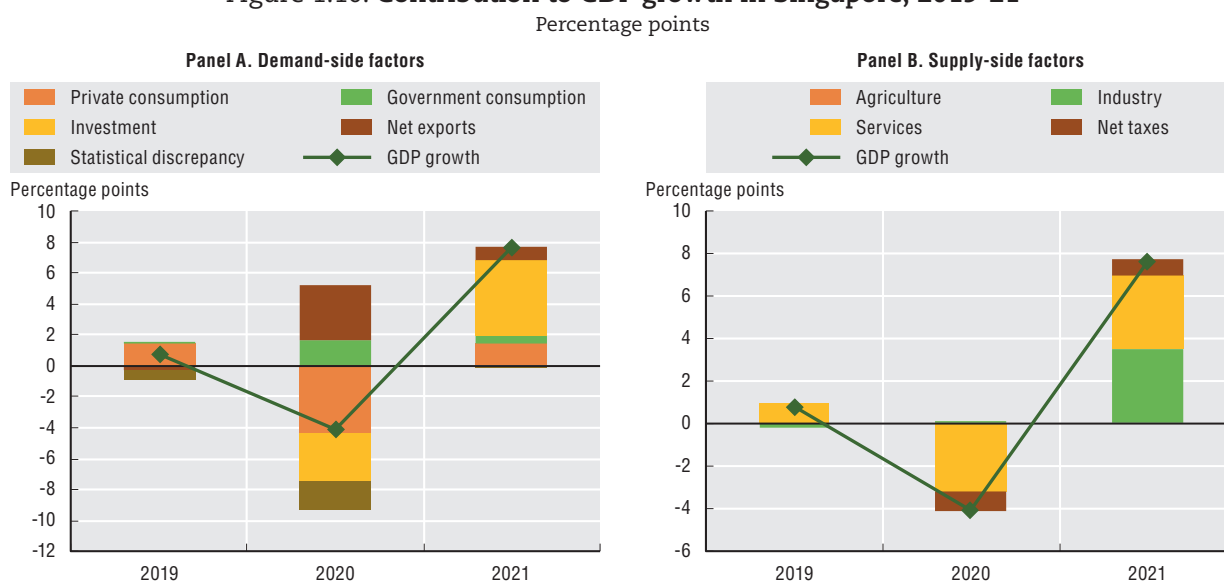
Real GDP growth in Brunei Darussalam is expected to come in at 3.5% in 2022. For 2023, an expansion in output of 3% is forecast. The near-term outlook for the beginning of 2022 is clouded by the rise in COVID-19 cases after the emergence of Omicron, and the restrictive measures that were put in place to curb its spread. The oil and gas industry is the main contributor to Brunei Darussalam's growth, with a 48% share of the country's GDP in 2020 (Petroleum Authority of Brunei Darussalam, 2021). Exports of refined fuels and foreign direct investment into refinery activities in the country are expected to be the main drivers of growth in 2022. Despite rising oil revenues, moreover, government expenditure will be constrained by the country's large fiscal deficit. On the upside, the economy is set to benefit from government measures to intensify activities in the non-oil and gas sector, including in agriculture and services (Ministry of Finance and Economy, 2020).

Singapore

From July 2021, Singapore was confronted with rising COVID-19 caseloads, and the surge was particularly acute during the months of October and November. More recently, a rise in the number of Omicron cases, which began in early 2022 and reached record highs in February, prompted Singaporean authorities to halt the easing of restrictions. However, the

management of cases is likely to become more streamlined as time goes by, as Singaporean authorities have signalled their intention to treat COVID-19 as an endemic disease. Although various restrictive measures were in place throughout most of the third quarter of 2021, their impact was rather contained, with real GDP coming in 7.5% higher year-on-year in that quarter. This followed growth of 15.8% in the second quarter of 2021, which partly reflected base effects, and growth of 2% in the first quarter. Overall in 2021, Singapore's real GDP rebounded by a robust 7.6%. Output growth over the year was mainly driven by investment and domestic consumption, while net exports also posted a positive contribution to GDP growth (Figure 1.10, Panel A). On the supply side, industrial production provided the largest contribution to growth, reflecting sustained external demand for pharmaceutical products and precision engineering. The services sector also posted a solid performance (Figure 1.10, Panel B), driven by information and communication, and by financial services.

Figure 1.10. Contribution to GDP growth in Singapore, 2019-21



Source: Authors' calculations based on data from CEIC and national sources.
 StatLink <https://doi.org/10.1787/888934304077>

High-frequency indicators point to improvements on various fronts in late 2021, which continued into January 2022 (Table 1.9). Retail sales for full-year 2021 increased by 9.7% compared to 2020. Meanwhile, external demand has also remained strong in recent months. Singapore's total trade surplus in 2021 was 9.7% higher than in the same period in 2020. Exports of chemical products, in particular, edged 20.3% higher year-on-year in 2021. Another sector that benefitted from strong external demand is the manufacturing of electronic products. In this sector, exports for the full year of 2021 grew by 16.3% compared to 2020. Furthermore, numbers of visitors arriving in the country have benefited in recent months from the launch of the "Vaccinated Travel Lane" framework, which allows fully vaccinated travellers from several countries to enter Singapore without quarantining. After a temporary retightening in December 2021 due to Omicron, Singaporean authorities announced their intention in early January 2022 to "restore quarantine-free travel with more countries and regions as allowed for by the public health assessment" (Park, 2022). On the other hand, the

volume of sea cargo handled in Singapore fell each month in annual terms between August and October, before falling again in December. These declines reflected ongoing supply-chain bottlenecks in Southeast Asia. Port congestion rates increased in late 2021, with 53 vessels reported as waiting off the coast of Singapore, resulting in a backlog that was 22% above normal (Varley, 2021). The situation improved slightly in early 2022.

Table 1.9. Evolution of selected high-frequency indicators for Singapore, January 2020 to January 2022

Year-on-year change (%)

Indicator	2020												2021												2022
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Retail sales (excluding motor vehicles)	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green
Merchandise exports (USD million)	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green
Merchandise imports (USD million)	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green
Visitor arrivals	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green
Sea cargo handled (tons)	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green

Note: Data are as of 24 February 2022. Data on retail sales were unavailable for January 2022. The colour coding for each indicator should be interpreted as follows: dark red indicates a decline of more than 50%, light red indicates a decline equal to or below 50%, light green indicates an increase of less than or equal to 50%, and dark green indicates an increase of more than 50%.

Source: Authors' elaboration based on data from CEIC and national sources.

Following the sharpest economic recession in decades, and a strong rebound in 2021, Singapore's economy is expected to edge 4% higher in 2022, on the back of a large fiscal expansion. The projection for 2023 is for the economy to grow by 3%. The government has stepped up its support for employment, unveiling subsidies of up to 25% of wages in the sectors that have been most affected by COVID-19 restrictions (Inland Revenue Authority, 2021). The financial sector has also demonstrated resilience during the crisis, and it is expected to benefit further from the launch of digital banking operations, after Singapore became the first country in Southeast Asia to issue digital banking licenses in 2020. The implementation of travel agreements that would allow tourists from a number of countries to visit Singapore under certain conditions is another upside factor for growth. Considering both the slower easing of remaining restrictions due to Omicron and the ongoing disruption to supply chains, the recovery path nevertheless remains highly uncertain, particularly in travel-related and consumer-facing sectors.

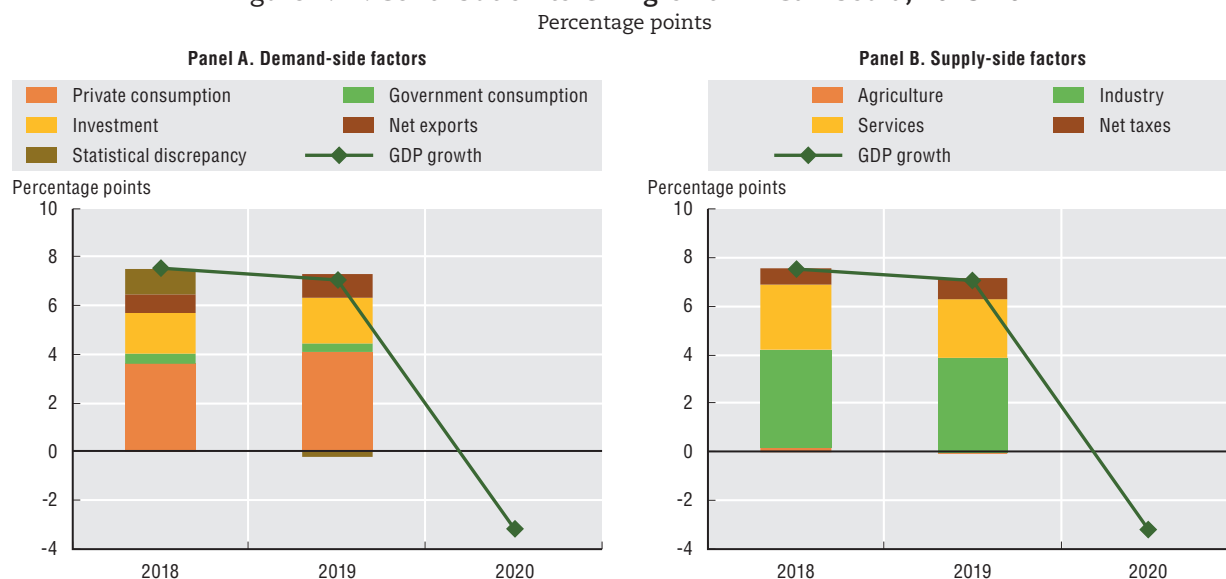
Cambodia, Lao PDR and Myanmar

Cambodia

Cambodia was confronted with a severe resurgence of COVID-19 in the second quarter of 2021, with new daily cases remaining in the high digits through October. As 2021 began, momentum was already weak, after a 3.1% decline in economic activity in 2020. Due to the rapid deterioration of the health situation, Cambodian authorities took a series of measures in the second quarter of 2021 in order to stop the spread of the pandemic. Following

announcements including the closure of restaurants and tourist spots, a ban on gatherings, a night curfew, and a ban on movement between provinces, the capital Phnom Penh and several provinces ended up under lockdown measures. Some of these restrictions have since been relaxed, albeit in a very gradual manner. The emergence of Omicron led to a significant rise in cases, in particular from early February 2022 onwards.

Figure 1.11. Contribution to GDP growth in Cambodia, 2018-20



Note: Data on demand- and supply-side factors were unavailable for 2020.

Source: Authors' calculations based on data from CEIC and national sources.

StatLink <https://doi.org/10.1787/888934304096>

In the second half of 2021, the rise in COVID-19 cases slowed Cambodia's economic recovery, as depicted by selected high-frequency indicators (Table 1.10). Total merchandise exports in the first ten months of 2021 were down by 2.5% from the same period in 2020, while imports of merchandise grew by 49.7%. The drop in goods exports can be attributed in part to the decline in textile production, as textile factories were ordered to remain closed during the latest rounds of restrictions. The lockdown also caused disruptions in the haulage of inputs and finished products. On the other hand, agricultural exports have proven more resilient. According to Cambodia's agriculture ministry, exports of fish and other agricultural products in the first ten months of 2021 increased by 37.8% from the same period the previous year. Visitor arrivals remained well below pre-pandemic levels, but showed some signs of recovery in November and December 2021, following the easing of restrictions on certain international arrivals. As part of the country's gradual reopening, the government decided to open the borders to fully vaccinated tourists starting from mid-November 2021. This "Quarantine-Free Safe Tourism" programme is aimed at tourists with a minimum stay of five days (Ministry for Foreign Affairs and International Co-operation, 2021). Still, the outlook for tourism remains subject to a high degree of uncertainty, as the Omicron wave continues to unfold in Cambodia and several other countries in the region.

Table 1.10. Evolution of selected high-frequency indicators for Cambodia, January 2020 to December 2021
Year-on-year change (%)

Indicator	2020												2021											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Merchandise exports (USD million)	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green
Merchandise imports (USD million)	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green
Visitor arrivals	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green
Total bank loans (KHR million)	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green

Note: Data are as of 24 February 2022. Data on merchandise exports and merchandise imports for November to December 2021 period were unavailable. Moreover, data on total bank loans were unavailable for December 2021. The colour coding for each indicator should be interpreted as follows: dark red indicates a decline of more than 50%, light red indicates a decline equal to or below 50%, light green indicates an increase of less than or equal to 50%, and dark green indicates an increase of more than 50%. KHR stands for Cambodian riel.

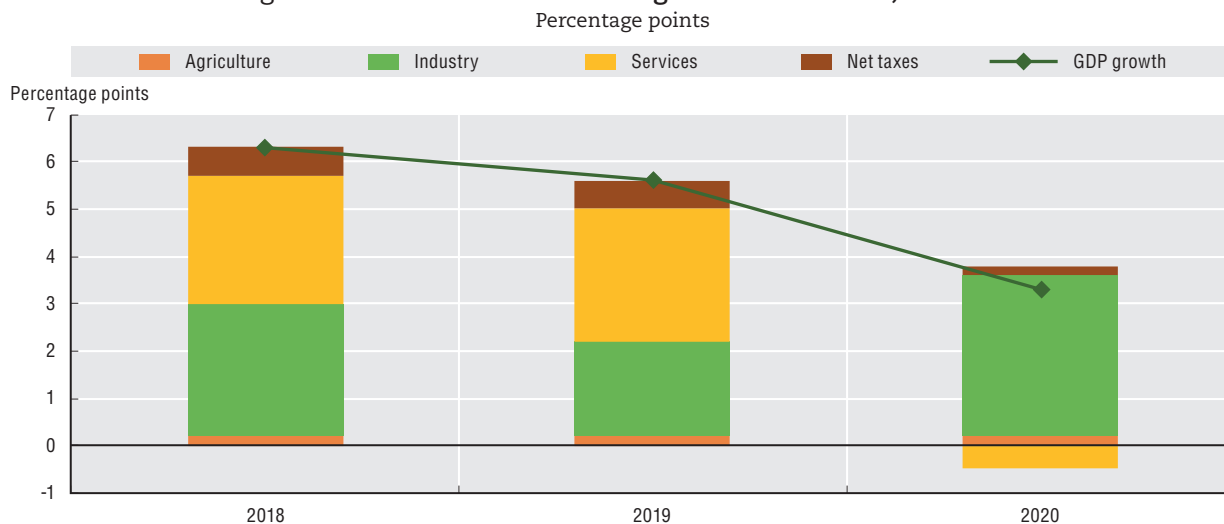
Source: Authors' elaboration based on data from CEIC and national sources.

Containment measures are expected to weigh on Cambodia's economic growth, with real GDP expected to grow by 5.6% in 2022, before rising by 6.3% in 2023. As elsewhere, uncertainty surrounding the evolution of the pandemic and the need for further containment measures are major downside risks to the forecast. The health situation will continue to shape the outlook for private consumption, which accounts for around 70% of GDP. Domestic credit increased by 27.2% year-on-year in August 2021, following growth of 26.1% in July and 26.2% in June. Tourism, another important growth engine for Cambodia, remains subject to a high level of uncertainty amid the spread of Omicron, despite the country's recent easing of restrictions on certain international arrivals. In addition, strong credit growth, and the concentration of domestic credit in the construction and real-estate sectors, will present risks for Cambodia's financial stability. On the upside, the agricultural sector is anticipated to remain resilient, and exports of garments should benefit from the ongoing recovery in some of Cambodia's most important trading partners such as the United States and the European Union.

Lao PDR

The economy of Lao PDR recorded growth of 3.3% in 2020, supported mainly by resilient industrial production (Figure 1.12). After a relatively contained outbreak of COVID-19 in 2020, the number of infections started to rise in April 2021, with a sharp rise in daily new cases in September and October 2021. In light of rising caseloads, the government of Lao PDR decided in April to place the capital, Vientiane, under lockdown, while other provinces, particularly ones that lie on the border with Thailand, banned people from entering or exiting. In the second half of 2021, as clusters of COVID-19 cases were identified in several factories, the government enacted a new round of strict restrictions on travel to and from Vientiane. In addition, all passenger transport services were suspended, while shops and markets selling non-essential items were ordered to close. The decline in the number of daily COVID-19 cases, which was visible throughout the month of December, was then brought to a halt as the first cases of Omicron were reported in the country in early January 2022. As of late-February, the situation seems to have stabilised, with the Omicron wave on a declining trajectory.

Figure 1.12. Contribution to GDP growth in Lao PDR, 2018-20



Source: Authors' calculations based on data from CEIC and national sources.

StatLink  <https://doi.org/10.1787/888934304115>

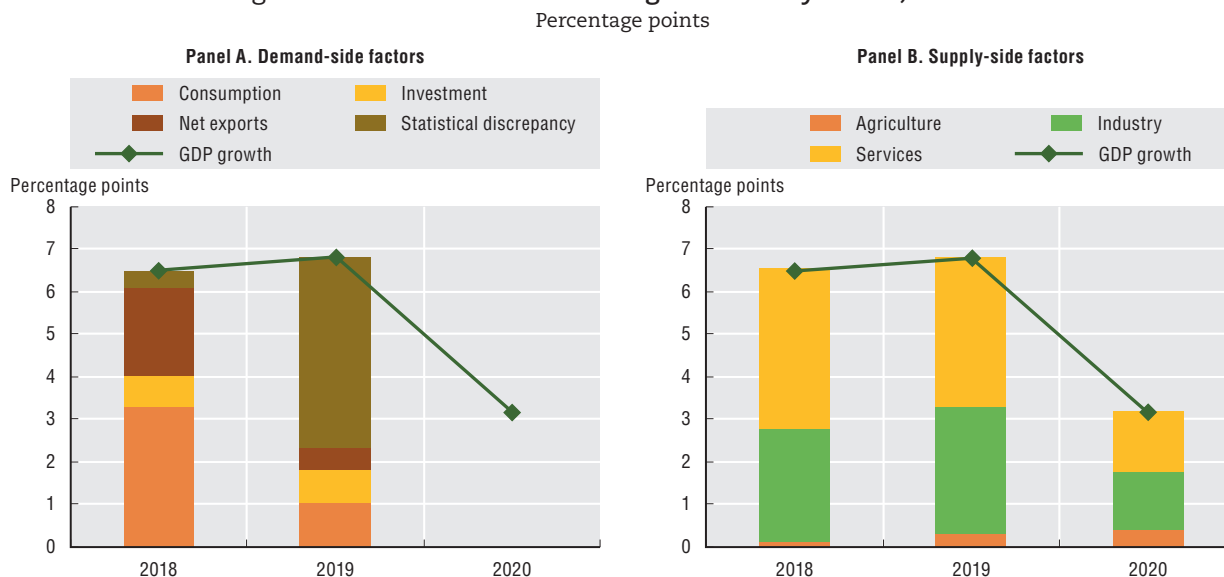
The real GDP of Lao PDR is forecast to expand by 4.6% in 2022, and by 4.9% in 2023. The Omicron wave of the COVID-19 pandemic, and the restrictions that have ensued, are expected to weigh on private consumption in the first quarter of 2022. Moreover, Lao PDR continues to post a lower vaccination rate than other countries in Emerging Asia. As a result, domestic risks related to the pandemic remain at a relatively high level. The slow recovery in tourism will also weigh on the services sector. In addition, repayment of the country's external debt remains challenging, with around USD 422 million due by the end of 2021, and an average of USD 1.2 billion due each year between 2022 and 2025. As mentioned above, rolling over upcoming maturities on the Thai bond market may also prove challenging (Fitch Ratings, 2021a). On the upside, exports of goods are expected to be a bright spot in the economy. Indeed, increasing demand in neighbouring countries such as China, Thailand and Viet Nam is expected to boost exports of goods, including agricultural products, electricity, and mining products. The launch, in December 2021, of a high-speed railway between Vientiane and the town of Boten on the border with China could also boost flows of trade and tourism between the two countries (Kishimoto, 2021).

Myanmar

In 2021, Myanmar's economy was battered by pandemic-related restrictions and political unrest. In addition to the political tensions that began in February 2021, Myanmar was also confronted with a sharp rise in COVID-19 cases as of June. As 2021 began, momentum was already weak, with economic growth moderating to 3.2% in 2020, down from 6.8% in 2019. Industrial production and services made an almost equal contribution to output growth in 2020 (Figure 1.13, Panel B). The garment industry bore the brunt of the pandemic in 2020, amid low consumer demand, order cancellations, and supply-chain disruptions. According to the Myanmar Garment Manufacturers' Association, 50 out of around 700 member factories closed during the first wave of COVID-19 in 2020, with another 50 closed during the second wave (ILO, 2021a). The first cases of Omicron in Myanmar were reported in late December 2021, leading to another surge in the pandemic in early 2022. As of late February, the number of

daily new cases had more than tripled compared to the beginning of the month, signalling a potentially severe wave that could further dent the economic recovery in the first half of 2022.

Figure 1.13. Contribution to GDP growth in Myanmar, 2018-20



Several high-frequency indicators show that a marked deterioration of economic activity began in February 2021 (Table 1.11). The latest available figures show that, over the first ten months of 2021, exports contracted by 12.5% and imports fell by 22.4% from the same period in 2020. Freight transport also declined sharply since February 2021. According to a report by the International Labour Organization (ILO), Myanmar lost around 1.2 million jobs (out of a total of 20 million) following the political turmoil in February. In addition, during the first half of 2021, the number of hours worked fell by 14%. Construction, garments, and tourism and hospitality have been among the most affected sectors, with employment falling by an estimated 35%, 31% and 25%, respectively (ILO, 2021b). Despite a slight rebound in the number of visitor arrivals in September and October 2021, meanwhile, the outlook for tourism remains clouded both by the evolution of the Omicron wave, and by political instability.

The GDP of Myanmar is expected to have contracted sharply in 2021, by 18.6%. Thereafter, the economy is projected to slightly decline by 0.3% in 2022, and then to grow by 3.3% in 2023. However, the downside risks to this outlook are considerable. The ongoing political uncertainty that began in February 2021 is likely to curb new investment in Myanmar, and indeed to spur some investors to pull out of existing projects. At a time when the economy has been hit hard by the pandemic, political uncertainty could also prevent Myanmar from receiving foreign aid. Lacklustre domestic demand amid heavy job losses represents another major downside risk to the outlook. In addition, the country may continue to contend with heavy depreciation pressures on its currency. The Central Bank of Myanmar had to intervene multiple times during 2021 in order to stabilise the Myanmar kyat exchange rate. As of October 2021, the kyat had lost nearly 50% of its value since the February 2021 coup (Kyaw and Karunungan, 2021), increasing the cost of imports and exacerbating the economy's

struggle with the dual challenges of the pandemic and political instability. Notwithstanding a stabilisation in recent months, the kyat's value against the United States dollar was still nearly 34% lower in January 2022 than in January 2021.

Table 1.11. Evolution of selected high-frequency indicators for Myanmar, January 2020 to October 2021
Year-on-year change (%)

Indicator	2020												2021									
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Merchandise exports (USD million)	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green
Merchandise imports (USD million)	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green
Visitor arrivals	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green
Total freight transported (ton miles)	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green

Note: Data as of 24 February 2022. The colour coding for each indicator should be interpreted as follows: dark red indicates a decline of more than 50%, light red indicates a decline equal to or below 50%, light green indicates an increase of less than or equal to 50%, and dark green indicates an increase of more than 50%.

Source: Authors' elaboration based on data from CEIC and national sources.

China and India

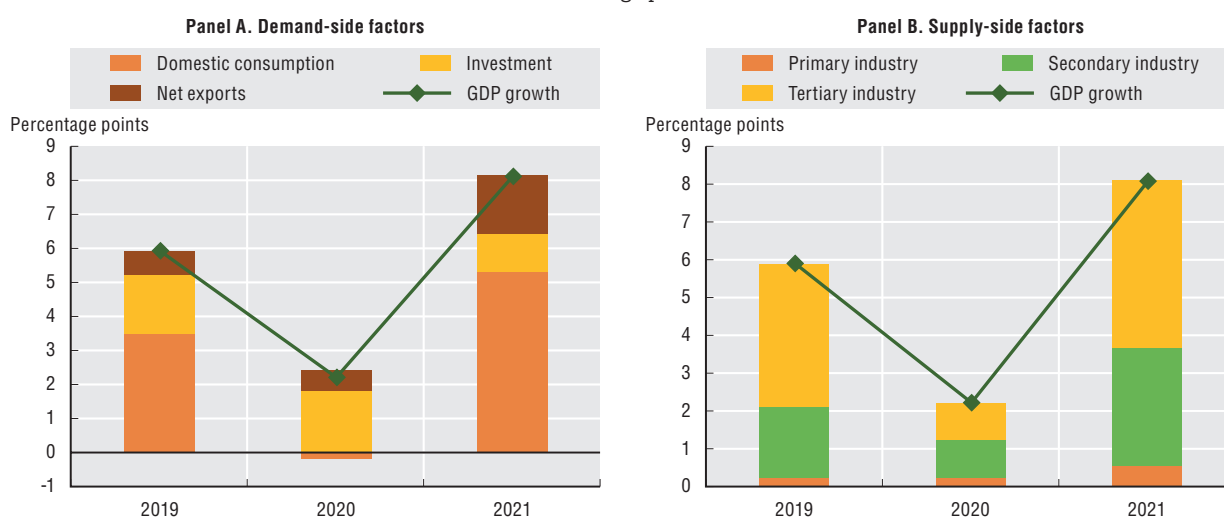
China

In China, new outbreaks of COVID-19 between September 2021 and February 2022 spurred parts of the country to place restrictions on movement. Some areas of Beijing have been sealed off, while regions in the northwest of China and the central province of Henan have imposed a range of restrictions, as the highly contagious Omicron variant has continued to spread. Real GDP growth in the three months to 31 December slowed to 4% year-on-year, the lowest since June 2020. Drags on growth in the fourth quarter stemmed mainly from contractions in real estate. In the third quarter of 2021, real GDP expanded by 4.9% year-on-year, following an expansion of 7.9% in the second quarter, and 18.3% in the first quarter. In 2021, China's economy grew by 8.1% overall. Domestic consumption proved to be the main overall driver of growth in 2021 (Figure 1.14, Panel A). A recovery in the labour market, rising household incomes and improved consumer confidence supported this domestic consumption. Net exports have also been an engine of growth. Meanwhile public-sector spending provided support for private investment. On the supply side, the services sector acted as the main contributor to growth for full-year 2021 (Figure 1.14, Panel B), driven mainly by the financial sector.

Other high-frequency data confirm the ongoing improvement in economic activity (Table 1.12), despite some moderation in growth rates towards the end of 2021. Retail sales posted solid annual growth throughout the year, amid improving consumer confidence. Meanwhile, strong external demand translated into a 28.3% annual increase in China's trade surplus in 2021 compared to the previous year. Export performance was driven by buoyant sales of lower-end consumer goods. As a corollary of this uptick in economic activity, the volume of freight transported during 2021 rose by 12.4%, year-on-year. On the other hand, the manufacturing PMI came in at 49.6 in September 2021, registering the first reading below the 50-point mark since March 2020, and it remained below the threshold of 50 in October. Weaknesses in manufacturing during this period are partly the result of power shortages, as companies in several energy-intensive sectors (e.g. chemicals, steel, non-ferrous metals,

coal mining, cement, and construction materials) were affected by power cuts. These reflect an imbalance in the supply and demand for power, driven by a variety of factors including the rebound of economic activity, high coal prices, and the government's carbon-neutrality objectives. A nationwide shortage of coal caused China's electricity output to fall in September from the previous month, forcing factories in 20 provinces to curb output, or indeed to halt their activity completely (Bloomberg, 2021a). A recovery has been underway in recent months, with the manufacturing PMI standing at 50.1 in January 2022. The PMI for services also recovered, after entering contractionary territory in August. The latest data for January 2022 puts the services PMI at 50.3.

Figure 1.14. Contribution to GDP growth in China, 2019-21
Percentage points



Source: Authors' calculations based on data from CEIC and national sources.
StatLink <https://doi.org/10.1787/888934304153>

Table 1.12. Evolution of selected high-frequency indicators for China, January 2020 to January 2022
Year-on-year change (%)

Indicator	2020												2021												2022
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Retail sales																									
Merchandise exports (USD million)																									
Merchandise imports (USD million)																									
Total freight carried (ton million)																									
Total bank loans (RMB billion)																									
Manufacturing PMI																									
Services PMI																									

Note: Data are as of 24 February 2022. Data on retail sales, exports and imports of merchandise, and total volume of freight carried are unavailable for January 2022. The colour coding for each indicator should be interpreted as follows: dark red indicates a decline of more than 50%, light red indicates a decline equal to or below 50%, light green indicates an increase of less than or equal to 50%, and dark green indicates an increase of more than 50%. For the PMI for manufacturing and services, the colour coding is: dark red indicates a PMI value below 30, light red indicates a PMI value between 31 and 49, light green indicates a PMI value between 50 and 55, and dark green indicates a PMI value above 55. RMB stands for Chinese renminbi.

Source: Authors' elaboration based on data from CEIC and national sources.

Overall, China's real GDP is forecast to post growth of 5.1% in 2022 and 2023. However, the balance of risks is mostly tilted to the downside. Potential outbreaks of COVID-19 both inside and outside of China due to the Omicron variant constitute a downside risk to growth. Other factors that drag on the outlook are the partial withdrawal of policy support as the impact of the pandemic has receded, the broad regulatory tightening that has occurred, and the financial distress of China Evergrande Group, one of China's largest property developers. Given the property sector's large contribution to GDP, and the possibility that real estate activity may not recover as strongly as in previous cycles, Evergrande's financial troubles plus slowing nationwide property sales are likely to limit economic growth (Box 1.2). A rising debt burden represents an additional structural vulnerability. On the upside, however, exports are expected to remain buoyant after reaching record highs in 2021. Moreover, the authorities have the fiscal headroom to respond to these headwinds.

Box 1.2. The financial distress of Evergrande and China's property market

Evergrande is one of the top three residential developers in China by sales volume, accounting for 4.7% of national contracted sales in 2020 (Evergrande, 2021). In 2020, the People's Bank of China announced a tightening of regulations on the funding and purchase of property. This included the introduction of new measures called the "three red lines", in order to limit debt growth among Chinese developers. Evergrande has fallen short of the three red lines on multiple occasions since they were implemented (Lin, Hale and Lockett, 2021). A series of failures on the part of Evergrande to repay to its creditors, including suppliers and investors, has triggered a heightened risk of default for the property developer. As of mid-September 2021, Evergrande had a total of USD 669 million in coupon payments coming due by the end of 2021, of which around USD 615 million were US dollar-denominated bonds (Wilkins, 2021). In early November, Evergrande missed coupon payments totalling USD 82.5 million on its US dollar-denominated bonds for November 2022 and November 2023 (Jim and Galbraith, 2021). As of mid-December 2021, creditors had sued Evergrande for a combined total of CNY 84 billion, or around USD 13.2 billion, in overdue payments. This amount relates to 367 cases submitted to a Chinese civil court between August and December 2021 (Yu, 2021).

Following news about Evergrande's financial distress, stock prices declined sharply for many Chinese property developers, underperforming the broad-based market index. In early October 2021, Fantasia Holdings Group, another Chinese property developer, announced that it had failed to redeem a USD 205.7 million bond that had come due on 4 October, and that it had also failed to repay a short-term loan of around USD 108.56 million (Somasundaram, 2021). In early November 2021, Yango Group, which ranked as the 18th largest developer in China by contracted sales, became the latest developer trying to improve its liquidity and avoid default. The company sought to extend three of its US dollar-denominated notes, citing insufficient internal resources (Wilkins and Huang, 2021).

On 9 December 2021, Fitch Ratings became the first credit rating agency to downgrade Evergrande Group and its subsidiaries, Hengda Real Estate Group and Tianji Holding Limited, to "restricted default". According to a statement by the credit rating agency, these downgrades reflected the non-payment of coupons that came due on 6 November 2021 for USD 1.2 billion worth of Tianji's bonds, after the grace period lapsed on 6 December (Fitch Ratings, 2021b).

Concerns over the liquidity of real estate developers have continued into 2022. For example, the bonds of Country Garden, China's largest developer by contracted sales, fell sharply in early January, after the company failed to garner enough support from investors for a USD 300 million convertible bond, triggering liquidity concerns

Box 1.2. The financial distress of Evergrande and China's property market (cont.)

(Huang and Wilkins, 2022). Meanwhile, Zhenro Properties Group stated that it may not have enough cash to meet debt-payment obligations that were coming due in March 2022 (Winters, 2022). In addition, Guangzhou R&F Properties Company required holders of a USD 725 million note maturing in mid-January 2022 to extend the due date by six months. Another Chinese developer, Aoyuan Group Limited, announced on 19 January 2022 that it would not make payments of principal or interest on its USD-denominated bonds maturing in January 2022, and would also not be paying the interest on its 2023 and 2024 notes upon expiry of the applicable 30-day grace period. In January 2022, and following these announcements, Fitch Ratings downgraded the long-term issuer-default ratings attributed to both Guangzhou and Aoyuan to “restricted default”¹ (Fitch Ratings, 2022a and 2022b).

The primary channel of onward transmission of the financial distress at Evergrande and other Chinese property developers is likely to be through its potential impact on the real economy, in particular the real-estate sector and industries in the sector's supply chain. The property sector accounts directly for 14% of China's GDP, but its total contribution, including other sectors along the supply chain, amounts to approximately 20% of GDP. Therefore, any reduction in property-market activity would have a negative impact on economic growth. Moreover, potential risks to the broader economic outlook might materialise if consumer confidence falters in housing as a store of value, thus reducing demand generally. As regards the prospects of property-market woes rippling out via the financial sector, the banking sector is exposed to Evergrande both directly and indirectly. Its direct exposure is through loans, debt securities and off-balance sheet exposures. Its indirect exposure is because banks may be exposed to Evergrande's suppliers. The total exposure of the banking sector to Evergrande is estimated at USD 193.9 billion (Fitch Ratings, 2021c), which is the equivalent of around 0.5% of total banking assets. The collateral channel of transmission is also important as real estate serves as collateral in bank lending, most of which is collateralised.

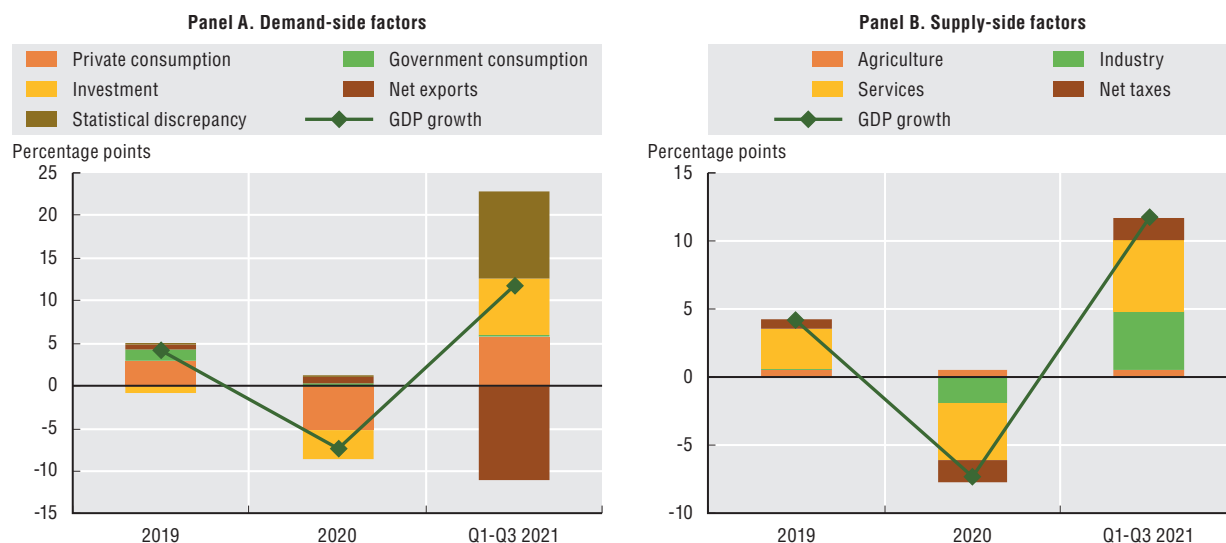
Chinese authorities have taken various actions to mitigate the turmoil at Evergrande. On 22 September 2021, the People's Bank of China injected CNY 120 billion, or around USD 18.6 billion, into the banking system through reverse repurchase agreements, resulting in a net injection of CNY 90 billion (Chen and Chen, 2021), or around USD 14.1 billion. On 23 September, the People's Bank of China injected an additional CNY 110 billion (around USD 17 billion) of cash with seven- and 14-day reverse repurchase agreements. This was the largest addition through open-market operations since late January 2021, when a funding squeeze prompted a sharp rise in inter-bank rates (Chen, 2021). Additional support measures were announced in February 2022, aimed at increasing liquidity in the property sector. According to the new rules, Chinese developers are allowed to sell projects before completing them, but are required to place such proceeds into escrow accounts² (Xie and Jim, 2022).

India

Since a peak in May 2021, India steadily reduced its number of COVID-19 cases, and then managed to keep them from rising again despite the progressive relaxation of restrictions. Localised lockdowns were enacted in the second quarter of 2021, but their effect on economic activity was less severe than the nationwide lockdown in April 2020, because they were more targeted and localised, and because consumers and businesses adapted to the situation. However, after a steady fall in case counts in late 2021, India reported new COVID-19 cases at multi-month highs in January 2022. Preliminary data suggest, however, that the impact of the wave driven by the Omicron variant on the healthcare system has been less severe than in previous outbreaks. Output rebounded strongly in the first quarter of the 2021-22 fiscal year, with a 20.3% growth rate in annual terms. The growth figure for the first quarter of 2021 is partly due to a very low base against

which it was measured. In the second quarter, India's real GDP rebounded by 8.5% in annual terms, followed by growth of 5.4% in the third quarter. On the demand side, investment and private consumption made a positive contribution to growth in the first three quarters of 2021-22, while net exports dragged down on growth (Figure 1.15, Panel A) as imports largely outpaced exports. On the supply side, services made the largest contribution to output growth over this period (Figure 1.15, Panel B).

Figure 1.15. Contribution to GDP growth in India, 2019-21
Percentage points



Note: Data relate to fiscal years ending in March. The sum of contributions may not necessarily be equal to GDP growth.

Source: Authors' calculations based on data from CEIC and national sources.

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The lockdowns that Indian authorities implemented in 2021 in response to the Delta variant had a mixed impact on economic activity, as shown by various high-frequency indicators (Table 1.13). Sales of passenger cars rebounded strongly between March and June 2021, but the figures from 2020 provided a low base of comparison. The latest available data point to a decline in vehicle sales in the final months of 2021, and this continued into January 2022. In addition, total exports and imports of merchandise increased sharply in 2021 from 2020. Exports rose by 42.6%, while imports grew by 54.4%. The rise in goods imports was driven mostly by oil and petroleum products, as commodity prices rose. Meanwhile, visitor arrivals have rebounded in recent months, as international borders were gradually reopened. Rising railway freight traffic, a proxy for manufacturing activity, led to solid increases in freight revenue. Indeed, total revenues from railway freight for the full year of 2021 were 21.4% higher in annual terms compared to 2020. Manufacturing PMI plunged to a 10-month low of 48.1 in June 2021, amid strict containment measures to combat a severe rise in COVID-19 infections in parts of India. However, the latest reading for January 2022 puts the PMI for manufacturing at 54.0. Services PMI was in contractionary territory between May and July 2021, as mobility restrictions restrained demand, but it has recovered strongly in recent months, standing at 51.5 in January 2022.

Table 1.13. Evolution of selected high-frequency indicators for India, January 2020 to January 2022
Year-on-year change (%)

Indicator	2020												2021												2022
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Passenger car sales																									
Merchandise exports (USD million)																									
Merchandise imports (USD million)																									
Visitor arrivals																									
Railway freight revenue (INR million)																									
Total bank loans (INR million)																									
Manufacturing PMI																									
Services PMI																									

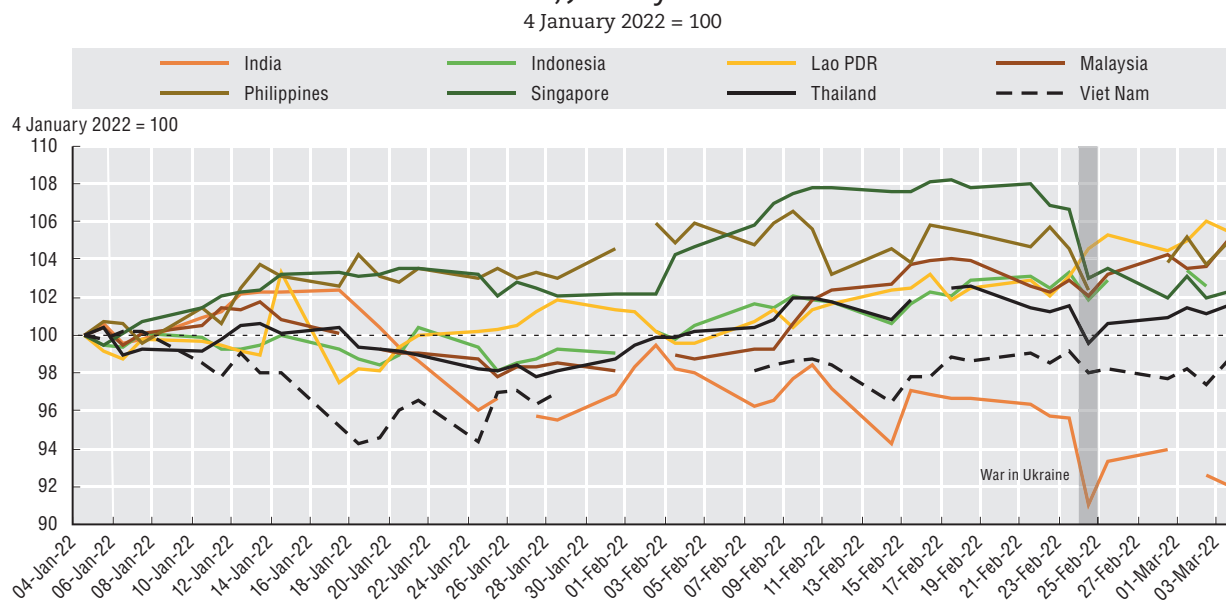
Note: Data are as of 24 February 2022. Data on visitor arrivals were unavailable for January 2022. The colour coding for each indicator should be interpreted as follows: dark red indicates a decline of more than 50%, light red indicates a decline equal to or below 50%, light green indicates an increase of less than or equal to 50%, and dark green indicates an increase of more than 50%. For the PMI for manufacturing and services, the colour coding is: dark red indicates a PMI value below 30, light red indicates a PMI value between 31 and 49, light green indicates a PMI value between 50 and 55, and dark green indicates a PMI value above 55. INR stands for Indian rupee.
Source: Authors' elaboration based on data from CEIC and national sources.

Overall, real GDP growth is projected to reach 8.1% in 2022, followed by 5.5% in 2023. The evolution of the pandemic remains a downside risk to the outlook, despite a stabilisation in recent weeks. Particularly worrisome is the deterioration of the fiscal situation. Public debt soared as a result of the COVID-19 crisis, and seems now to be stabilising at the high level of 90% of GDP, versus 75% in the pre-pandemic period. In addition, the financial sector is constrained by non-performing assets, with the system-wide gross non-performing assets ratio standing at 6.9% in September 2021, one of the highest levels in Emerging Asia. According to estimates by the Reserve Bank of India, the gross non-performing asset ratio of commercial banks may increase to 9.8% by March 2022 under the baseline scenario, and to 11.22% under a severe stress scenario (RBI, 2021). On the upside, however, public spending over the fiscal year of 2021 has provided substantial support to the post-pandemic recovery, serving to reduce downside risks. The Indian government reiterated its plans to invest in the infrastructure sector, with the total planned outlay on capital expenditure for fiscal-year 2021 coming in 34.5% above revised estimates for fiscal-year 2020 (Ministry of Finance of India, 2021).

Rising policy rates in advanced economies and the war in Ukraine pose challenges for financial markets in Emerging Asia

In early 2022, stock markets in Emerging Asia were challenged by a combination of rising policy rates in advanced economies, and the war in Ukraine. Several stock market indices fell sharply on 24 February (Figure 1.16). Indeed, major declines from early January 2022 were recorded in India (-8.9%), China (-7.9%) and Thailand (-0.5%). Most markets have erased the losses incurred since then, but uncertainty remains elevated as the geopolitical situation continues to develop.

Figure 1.16. Recent developments in major stock market indices of selected Emerging Asian economies, January-March 2022



Note: Data are as of 3 March 2022. The following stock market indices are captured: Cambodia Securities Exchange Composite Index, Shanghai Shenzhen CSI 300 Index (China), BSE Sensex Index (India), Jakarta Stock Exchange Composite Index (Indonesia), Lao Securities Exchange Composite Index, FTSE Bursa Malaysia KLCI Index, PSEi Index (Philippines), Straits Times Index (Singapore), SET Index (Thailand) and Ho Chi Minh City Stock Exchange Index (Viet Nam).

Source: Authors' calculations based on data from CEIC.

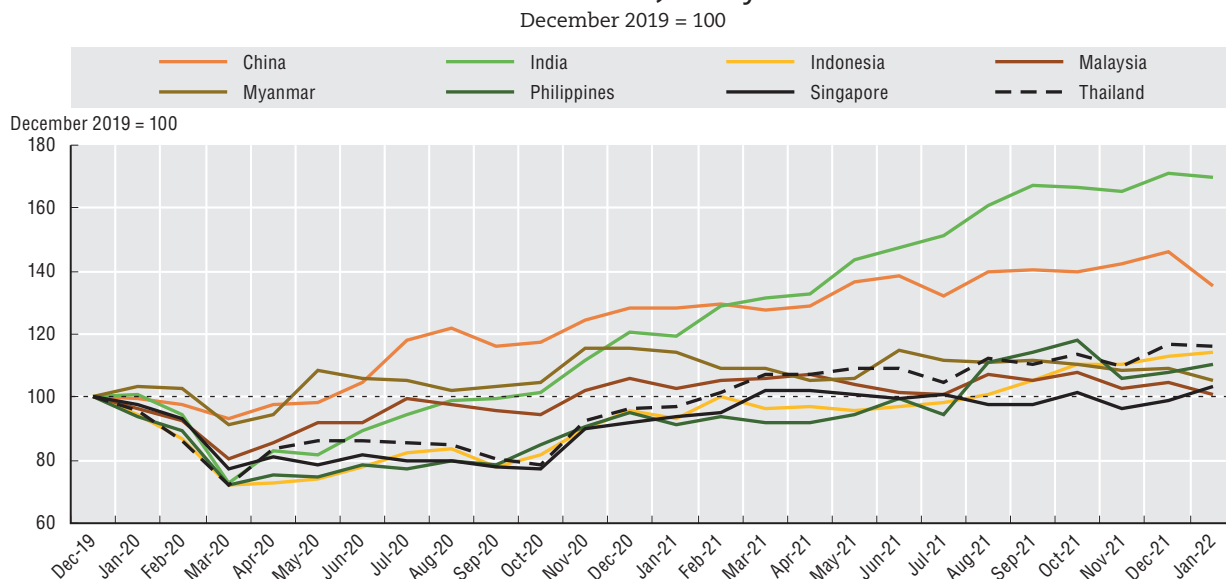
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Nevertheless, the evolution of stock-market capitalisation depicts a relatively favourable picture. After falling sharply in the first quarter of 2020 following the health crisis, and after remaining below pre-pandemic levels throughout the remainder of 2020, stock market capitalisation recovered quickly in 2021 in most Emerging Asian countries. In India, it increased by more than 70% in January 2022 compared to December 2019, while significant increases in early 2022 compared to the end of 2019 were also recorded in China (46.2%) and in Thailand (16.9%) (Figure 1.17). Still, developments in total market capitalisation mask a large difference across economic sectors. Certain sectors like technology, industrial companies and financial stocks, rebounded more strongly than others from the trough, reflecting differences in the degree to which earnings were expected to recover. Meanwhile, surging energy prices also boosted energy stocks.

The risk of a correction in global stock prices, with potential reverberations affecting Emerging Asian markets, remains substantial. In the United States, the equity risk premium, which measures the additional return required by investors to invest in listed stocks rather than risk-free assets, has fallen to levels just above those reached before the 2007-08 global financial crisis. In this context, a rapid and marked rise in long-term interest rates could lead to stock-market corrections. This risk of correction, which may subsequently be transmitted by contagion to other financial centres, is reflected by the historically high level of the Skew Index for the S&P 500 stock market index, compiled by the Chicago Board Options Exchange (Figure 1.18), which measures the price that investors are willing to pay to shield themselves against a drop in prices. On 25 June 2021, the Skew Index reached a record high of 170.55,

considerably higher than its average value during the global financial crisis of 2007-08, which stood at 116.28. As of early-March 2022, the Skew Index was still hovering above the levels seen during the global financial crisis.

Figure 1.17. Market capitalisation of major exchanges in selected Emerging Asian economies, December 2019 to January 2022

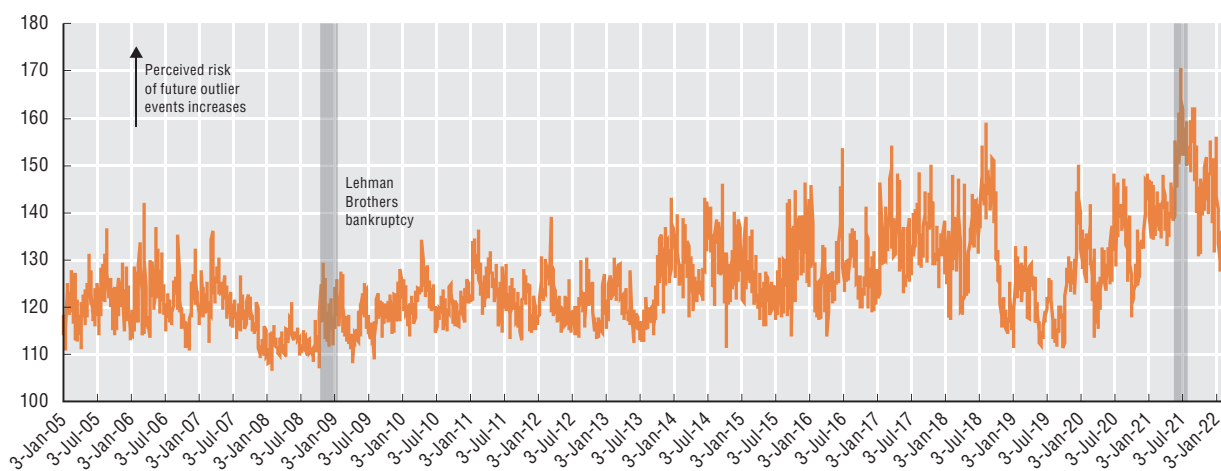


Note: Data are as of 24 February 2022. Market capitalisation of the following stock exchanges is depicted: Shanghai Stock Exchange (China), Bombay Stock Exchange (India), Indonesia Stock Exchange, Bursa Malaysia, Yangon Stock Exchange (Myanmar), Philippine Stock Exchange, Singapore Exchange, the Stock Exchange of Thailand, and the Ho Chi Minh City Stock Exchange (Viet Nam).

Source: Authors' calculations based on data from CEIC and national sources.

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Figure 1.18. Skew Index for the S&P 500 stock market index, January 2005 to March 2022



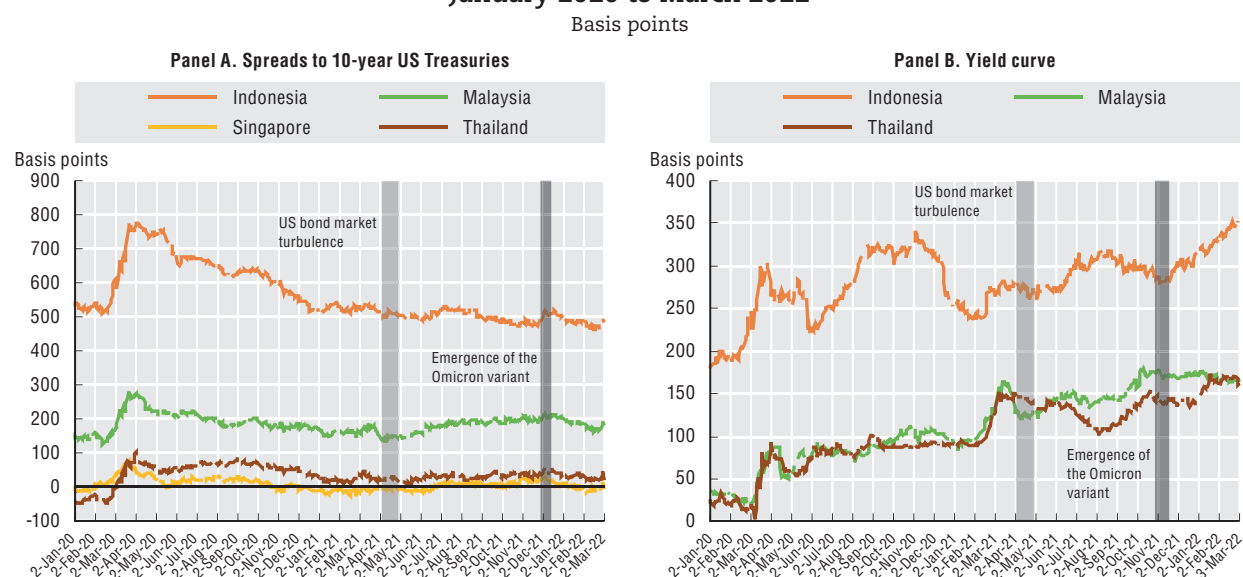
Note: Data are as of 3 March 2022. The Skew Index is a measure of potential risk in financial markets and measures perceived tail risk in the S&P 500 stock market index. It can be interpreted as a proxy for investor sentiment and volatility. A Skew value of 100 means the perceived distribution of the S&P 500 index is normal and, therefore, that the probability of an outlier return is small. Values of the Skew index above 100 are associated with higher perceived tail risk.

Source: Cboe Exchange (n.d.), <https://www.cboe.com/us/indices/dashboard/skew/> (accessed multiple times between November 2021 and March 2022).

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As for bond markets, the increase in yields in the United States and other advanced economies could be challenging for Emerging Asian economies, potentially leading to higher borrowing costs and reducing investors' interest in emerging-market investments as opposed to safe assets. Furthermore, rising yields on US Treasuries in the second half of 2021 reflected the combination of a substantial fiscal stimulus package and optimism around the evolution of the pandemic. By early January 2022, the US five-year Treasury yield had returned to its pre-pandemic level, while in the euro area the benchmark 10-year German Bund yield reached its highest level since June 2019. Still, the impact of rising US yields spilled over only mildly to Emerging Asian economies. The increase in spreads between local bonds and 10-year US Treasuries was contained and rather temporary in Indonesia, Malaysia, Singapore and Thailand (Figure 1.19, Panel A). On the other hand, the yield curve widened to some extent in recent weeks, in particular in Indonesia and Thailand (Figure 1.19, Panel B), due to a combination of rising long-term yields and declining short-term yields.

Figure 1.19. Spreads to 10-year US Treasuries and yield curve of selected ASEAN economies, January 2020 to March 2022



Note: Data are as of 3 March 2022. The yield curve is computed as the difference between yields on 10-year government bonds and yields on one-year government bonds.

Source: Authors' calculations based on data from CEIC and national sources.

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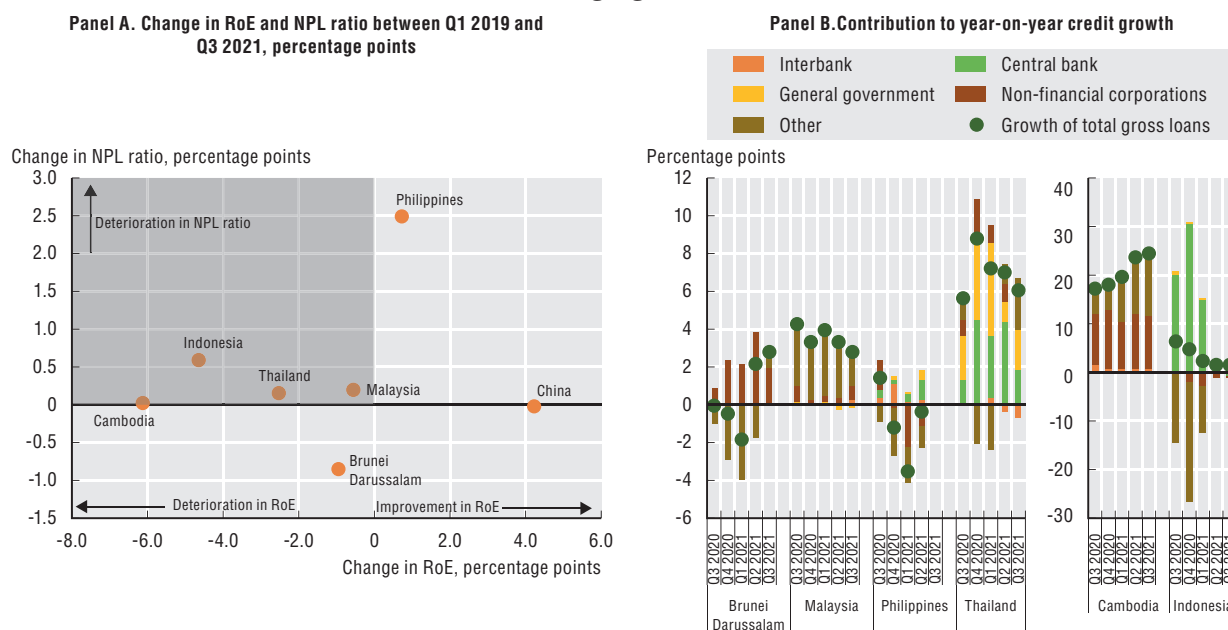
Looking ahead, financial-market developments in Emerging Asia will be shaped by various factors through 2022. One major factor remains the evolution of the pandemic, as the fast-spreading Omicron variant is likely to keep COVID-19 case counts elevated during the first quarter of 2022 in most countries in the region and potential new variants cannot be ruled out. In parallel, the war in Ukraine is likely to translate into higher stock-market volatility, and the risk of a correction in stock market prices remains high. Furthermore, the March 2022 policy rate hike by the US Federal Reserve will have important implications for Emerging Asian countries. Excessive increases in yields that

are not motivated by domestic fundamentals threaten to tighten financial conditions. Sustained rises in interest rates would also have a large impact on the value of investors' debt holdings.

The knock-on effects of the pandemic have an impact on the banking sector

Overall, banking sectors in Emerging Asia were resilient to the global economic fallout, notwithstanding significant differences among countries. For instance, profitability levels, as captured by return on equity, deteriorated in tandem with the ratio of non-performing loans in Indonesia, Malaysia and Thailand between the first quarter of 2019 and the third quarter of 2021 (Figure 1.20, Panel A). By contrast, Chinese banks managed to improve their profitability during the same period, while their ratio of non-performing loans was broadly stable. However, a number of supply- and demand-side factors negatively affected bank lending in 2021, in particular in Indonesia, the Philippines and Thailand, where credit growth decelerated in each quarter of the year. In Indonesia and the Philippines, these developments were mainly the result of a contraction in lending to non-financial corporations (Figure 1.20, Panel B). By contrast, credit growth accelerated in Cambodia, spurred by lending to non-financial corporations. Authorities in several countries in Emerging Asia have implemented loan-guarantee schemes to encourage banks to lend to ailing businesses (Box 1.3).

Figure 1.20. Return on equity (RoE), non-performing loan (NPL) ratio, and growth in bank credit in selected Emerging Asian economies



Note: Data are as of 24 February 2022. The non-performing loans ratio is defined as the value of non-performing loans divided by total gross loans. In Panel B, "Other" refers to gross bank loans to non-resident borrowers, other financial corporations and domestic sectors other than banks, central banks, general government and non-financial corporations. Credit-growth data for the third quarter of 2021 were unavailable for the Philippines.

Source: Authors' calculations based on data from CEIC and IMF (n.d. a), *Financial Soundness Indicators* database, <https://data.imf.org/?sk=51B096FA-2CD2-40C2-8D09-0699CC1764DA> (accessed multiple times between November 2021 and February 2022).

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Box 1.3. Loan guarantee schemes in Emerging Asia during the COVID-19 pandemic

In March 2021, the Cambodian government launched the Business Recovery Guarantee Scheme in order to help businesses to stay afloat, and to enhance economic recovery from the effects of the COVID-19 pandemic. It is a credit-guarantee scheme worth USD 200 million, which aims to support micro, small and medium-sized enterprises (MSMEs) as well as large firms by enhancing their access to formal loans both for working capital and for investment or business expansion. The scheme acts as collateral for 70%-80% of the loan amount borrowed by businesses from participating financial institutions, thus reducing the amount of collateral that borrowers need to pledge. In September 2021, the Credit Guarantee Corporation of Cambodia announced the launch of the Co-Financing Guarantee Scheme, whose specific purpose is to improve access to finance for MSMEs. This scheme will act as collateral or security for 70%-80% of the loan amount, thus reducing the amount of physical collateral that borrowers must pledge.

In July 2020, the Indonesian government announced a loan guarantee scheme worth 100 trillion Indonesian rupiah (IDR), in order to help companies to manage their cash flows during the COVID-19 outbreak. The scheme targets firms that operate in priority sectors, such as tourism, automotive, textiles and garments, and electronics, and that employ at least 300 staff. The programme offers guarantees for up to 80% of working capital loans totalling between IDR 10 billion and IDR 1 trillion, and for a period of up to one year. In April 2021, moreover, the government eased its rules for offering guarantees for companies' bank loans. The new rules allow firms that employ a minimum of 100 staff, or 50 employees in some sectors, to benefit from government guarantees. The relaxation also allowed guarantees for loans of up to three years, and it reduced the minimum loan size to IDR 5 billion.

Elsewhere, Malaysia's government launched a fund worth MYR 50 billion for working capital loan guarantees for all businesses affected by COVID-19 mitigation measures. The guarantee scheme covers up to 80% of the loan amount for financing working capital requirements. The minimum guaranteed loan size is MYR 20 million per company. In January 2021 the government enhanced the guarantee scheme. This included increasing the maximum financing amount to MYR 1 billion. Moreover, the scope of financing was expanded to cover working capital with a guarantee period of up to 10 years. Furthermore, foreign-owned companies operating in Malaysia were deemed to be eligible to benefit from the guarantee, provided that they met certain conditions. In January 2022, Bank Negara Malaysia, the country's central bank, announced two new facilities for MSMEs totalling MYR 1.5 billion. These facilities were due to open on 3 February 2022, and to last until the funds are fully utilised. They will provide guarantees on loans to help MSMEs to recover and grow post-pandemic, while also supporting recipient firms in adopting sustainable practices for business resilience.

In the Philippines, meanwhile, the government announced a credit guarantee worth PHP 120 billion for small businesses affected by the economic fallout from the pandemic. In September 2020, a capital injection of PHP 5 billion was given to the Philippine Guarantee Corporation (PhilGuarantee), allowing it to support loan guarantees of PHP 100 billion (around 0.6% of 2020 GDP). In February 2021, it was announced that PhilGuarantee had broadened its scope to include support for micro, small and medium enterprises in manufacturing, housing, agriculture, and other key sectors of the economy, in order to help to keep businesses afloat. In July 2021, moreover, PhilGuarantee signed a Memorandum of Understanding with the Philippine Constructors Association for the provision of credit guarantees, in order to support their working capital requirements throughout the pandemic period.

In March 2021, Thailand's government announced a series of financial rehabilitation measures to support businesses in their recovery from the COVID-19 pandemic. They included a facility to offer soft loans for businesses, for a total amount of 500 billion Thai baht (THB). This facility aims to support viable small and medium-sized enterprises (SMEs) that have been affected by the crisis. The soft loan scheme was

Box 1.3. Loan guarantee schemes in Emerging Asia during the COVID-19 pandemic (cont.)

complemented by a credit guarantee scheme through the Thai Credit Guarantee Corporation (TCG). Under this scheme, the government covers the first six months of interest payments, and guarantees up to 60%-70% of the loans from the financing pool of THB 500 billion. In September 2021, the TCG expanded its guarantees for the Bank of Thailand's soft loan scheme by an additional THB 100 billion. The TCG charges MSMEs a guarantee fee of 1% of the guaranteed loan value for the first four years, which is below the normal rate of 1.75% per annum.

In May 2020, India's government launched the Emergency Credit Line Guarantee Scheme (ECLGS), aiming to provide 4.5 trillion Indian rupees (INR) in unsecured loans to MSMEs in order to mitigate the financial impact of pandemic restrictions. The guarantee coverage rate is 100%, and the maximum tenure of the loan is four years from the moment of disbursement. In June 2021, it was announced that the ECLGS would be supplemented with an additional INR 1.5 trillion. The scheme is applicable to all eligible loans sanctioned up to 30 September 2021, or until an amount of INR 4.5 trillion has been reached. In September 2021, it was decided that the timeline of the ECLGS would be extended until 31 March 2022, or until guarantees for an amount of INR 4.5 trillion have been issued. In February 2022, the ECLGS was extended until March 2023.

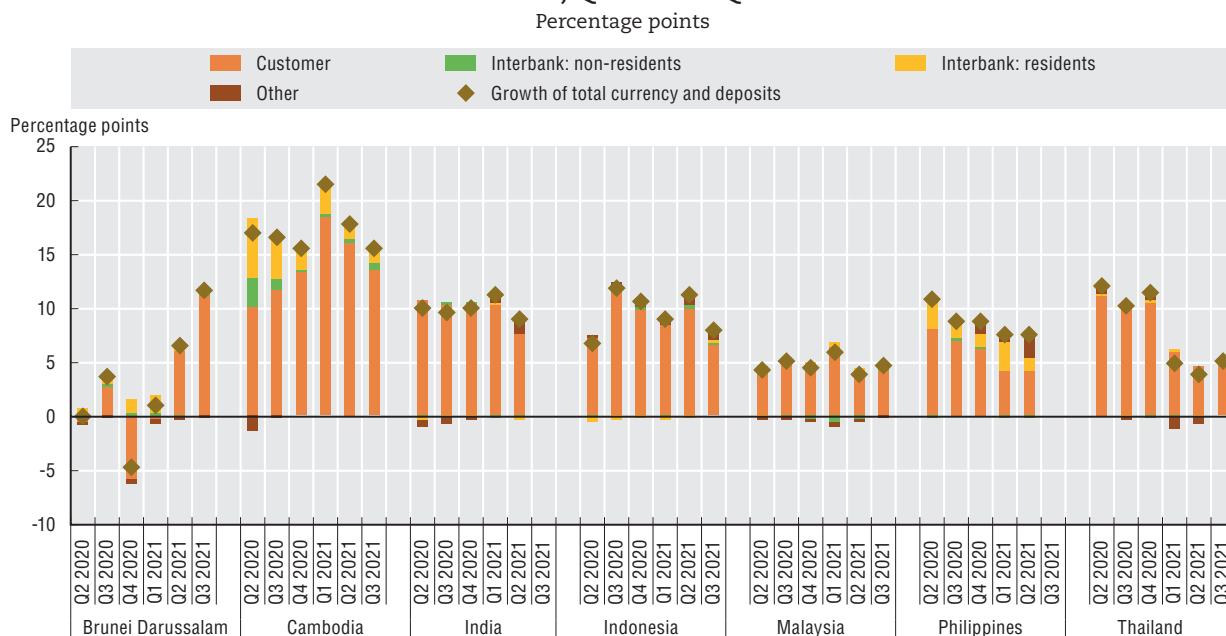
Source: Authors' elaboration, based on the Asian Development Bank's *COVID-19 Policy Database* (ADB, n.d.), plus various national sources. Data are as of 24 February 2022.

Deposit growth in bank accounts also fell back to more moderate levels in recent quarters, most notably in Cambodia, India, Indonesia, the Philippines and Thailand (Figure 1.21). This can be largely attributed to worsening conditions in the labour market, a more moderate pace of wage growth, and the related need for a reduction in consumption. While customer deposits held steady in most countries, except for Brunei Darussalam in the last quarter of 2020, the growth in interbank deposits decelerated significantly, especially in India, Malaysia and the Philippines (Figure 1.21). The observed deceleration in interbank deposits in these countries can be attributed to increased counterparty credit risk, as well as to declining trust among banks during the COVID-19 crisis.

On a positive note, banking sector stability remained relatively robust and above pre-pandemic levels in most Emerging Asian countries. This could be explained by the fact that financing by capital and reserves plays a more prominent role in Emerging Asia compared to advanced economies, reflecting in particular higher capital adequacy requirements in many countries against the background of presumably riskier business environments. Capital adequacy in the second and third quarters of 2021 remained stable at fairly high levels above 15% in most Emerging Asian countries for which data are available (Figure 1.22), which is well above the internationally recommended 8% and national requirements. In Indonesia, Malaysia and Thailand, banks' latest capital adequacy reading is at or approaching the maximum levels observed since 2012 (Figure 1.22).

Looking ahead, negative effects on the banking sector from deteriorating real economic conditions may become more visible throughout 2022, also depending on the impact of the fast-spreading Omicron variant on the real economy. Given the time lags involved, a deterioration of key banking performance indicators for Emerging Asian countries cannot be ruled out in the near to medium term. Continued sound capitalisation levels are therefore important to support a high overall degree of banking sector stability.

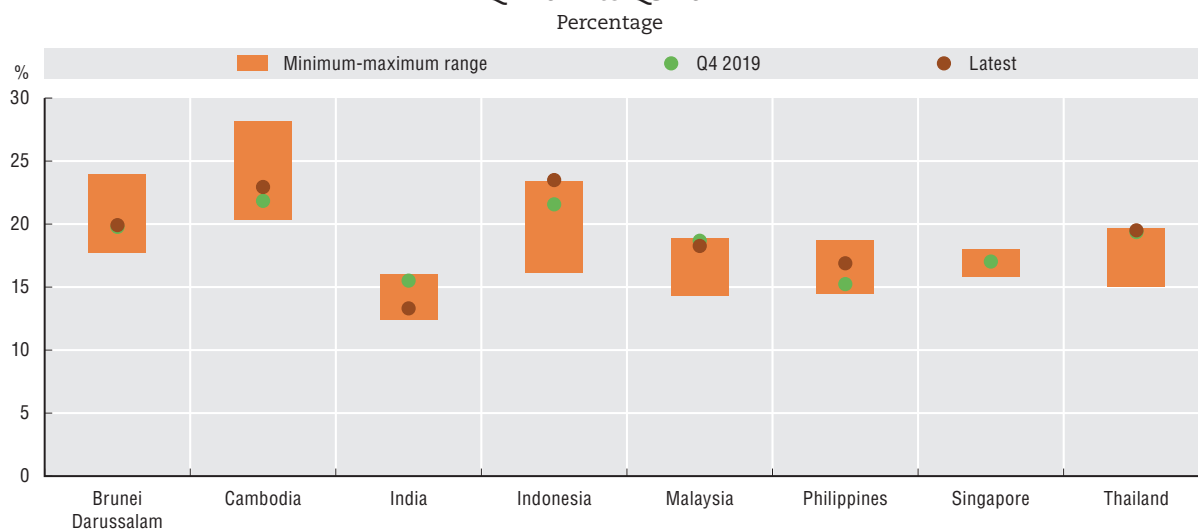
Figure 1.21. Contribution to banks' currency and deposit growth in selected Emerging Asian economies, Q2 2020 to Q3 2021



Note: Data as of 24 February 2022. Data for Q3 2021 are unavailable for India and the Philippines. "Other" captures deposits by counterparties other than customers and resident and non-resident banks.

Source: Authors' calculations based on data from CEIC and IMF (n.d. a), Financial Soundness Indicators database, <https://data.imf.org/?sk=51B096FA-2CD2-40C2-8D09-0699CC1764DA> (accessed multiple times between November 2021 and February 2022).
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Figure 1.22. Capital adequacy ratio of banks in selected Emerging Asian economies, Q1 2012 to Q3 2021



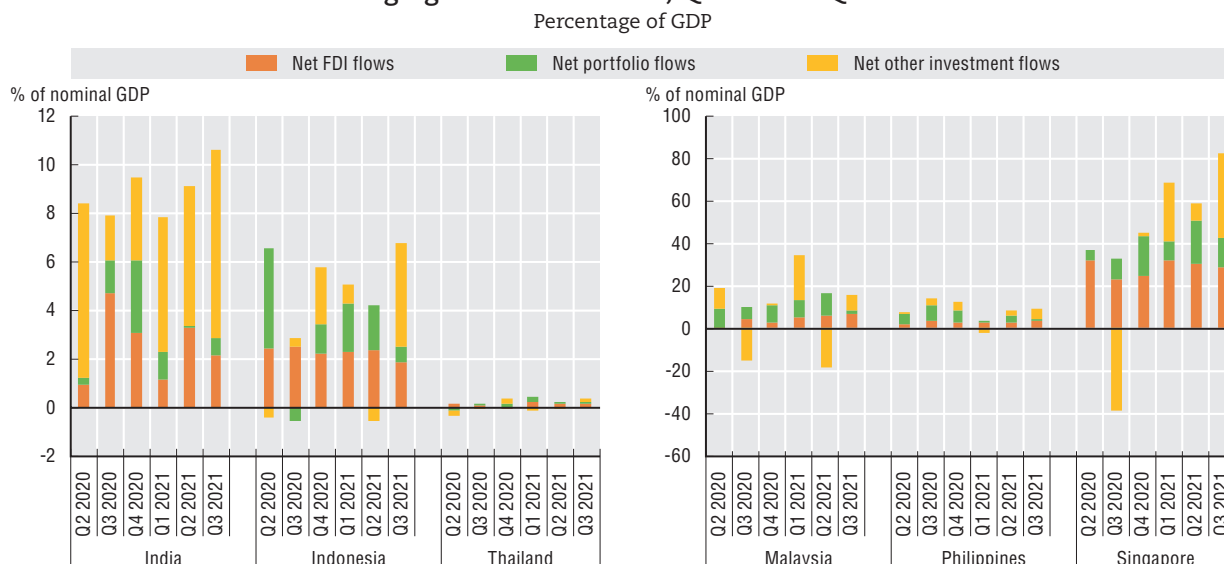
Note: Data as of 24 February 2022. The capital adequacy ratio is defined as total regulatory capital divided by risk-weighted assets. Latest data as of Q3 2021, except for India (Q2 2021) and the Philippines (Q2 2021). Country-specific minimum-maximum ranges are defined over the period running from Q1 2012 to Q3 2021.

Source: Authors' calculations based on data from CEIC and IMF (n.d. a), Financial Soundness Indicators database, <https://data.imf.org/?sk=51B096FA-2CD2-40C2-8D09-0699CC1764DA> (accessed multiple times between November 2021 and February 2022).
StatLink <https://doi.org/10.1787/888934304286>

The impact of the pandemic on capital flows is asymmetric among Emerging Asian economies


Emerging Asian economies have also been affected by the economic turmoil via the tightening of global credit conditions, resulting in a slowdown or even temporary reversal of capital inflows into the region. According to balance of payments data, other investment flows were more affected than foreign direct investment (hereafter “FDI”) or portfolio flows since the beginning of the COVID-19 crisis. This is visible in Indonesia, Malaysia, the Philippines, Thailand and Singapore, where net flows of other investment turned negative at various moments between the second quarter of 2020 and the third quarter of 2021 (Figure 1.23). Outflows of other investment were particularly acute in Singapore in Q3 2020, reflecting movements in the banking sector with smaller net inflows to resident deposit-taking corporations (MTI, 2021).

Figure 1.23. Direct investment, portfolio investment and other investment net flows in selected Emerging Asian economies, Q2 2020 to Q3 2021



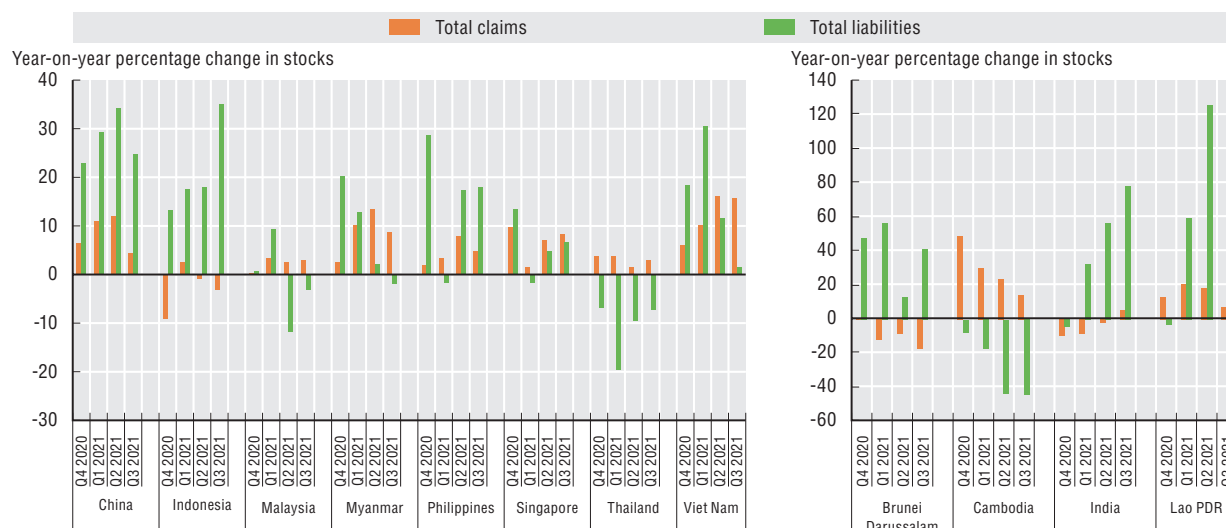
Note: Data as of 24 February 2022.

Source: Authors' calculations based on data from CEIC and national sources.

StatLink  <https://doi.org/10.1787/888934304305>

Looking at the claims and liabilities of Bank for International Settlements (BIS) reporting banks, capital inflows started to slow down in early 2020. Claims on some Emerging Asian economies even decreased in the second half of 2020, for instance India, Indonesia, Malaysia and the Philippines (Figure 1.24). In the first two quarters of 2021, claims on Brunei Darussalam and India have declined. A potential explanation is that parent banks may have temporarily withdrawn liquidity from these markets to meet their liquidity needs at home. The liabilities of BIS reporting banks, corresponding to the foreign assets of counterparts in Emerging Asia (i.e. banks, non-bank financial institutions and the non-financial sector) turned (remained) negative in the second and third quarters of 2020 in India, the Philippines and Thailand, as well as in Lao PDR in the second quarter. In the first three quarters of 2021, liabilities with respect to Cambodia, Malaysia and Thailand all dropped in annual terms (Figure 1.24). With the stabilisation of global financial markets and easing liquidity pressures, foreign banks in some Emerging Asian countries again started to rebuild assets, for instance in Brunei Darussalam, India, Indonesia, Lao PDR and the Philippines (Figure 1.24).

Figure 1.24. Total cross-border claims and liabilities of BIS reporting banks on Emerging Asian economies, Q4 2020 to Q3 2021
Year-on-year percentage change in stocks



Note: Total claims and liabilities of banking institutions vis-à-vis all sectors of the economy.

Source: Authors' calculations based on data from the BIS (n.d. a), BIS locational banking, [https://stats.bis.org/#df=BIS:WEBSTATS_LBS_D_PUB_DATAFLOW\(1.0\);dq=all%3FlastNObservations=6](https://stats.bis.org/#df=BIS:WEBSTATS_LBS_D_PUB_DATAFLOW(1.0);dq=all%3FlastNObservations=6) (accessed multiple times between November 2021 and February 2022).
StatLink <https://doi.org/10.1787/888934304324>

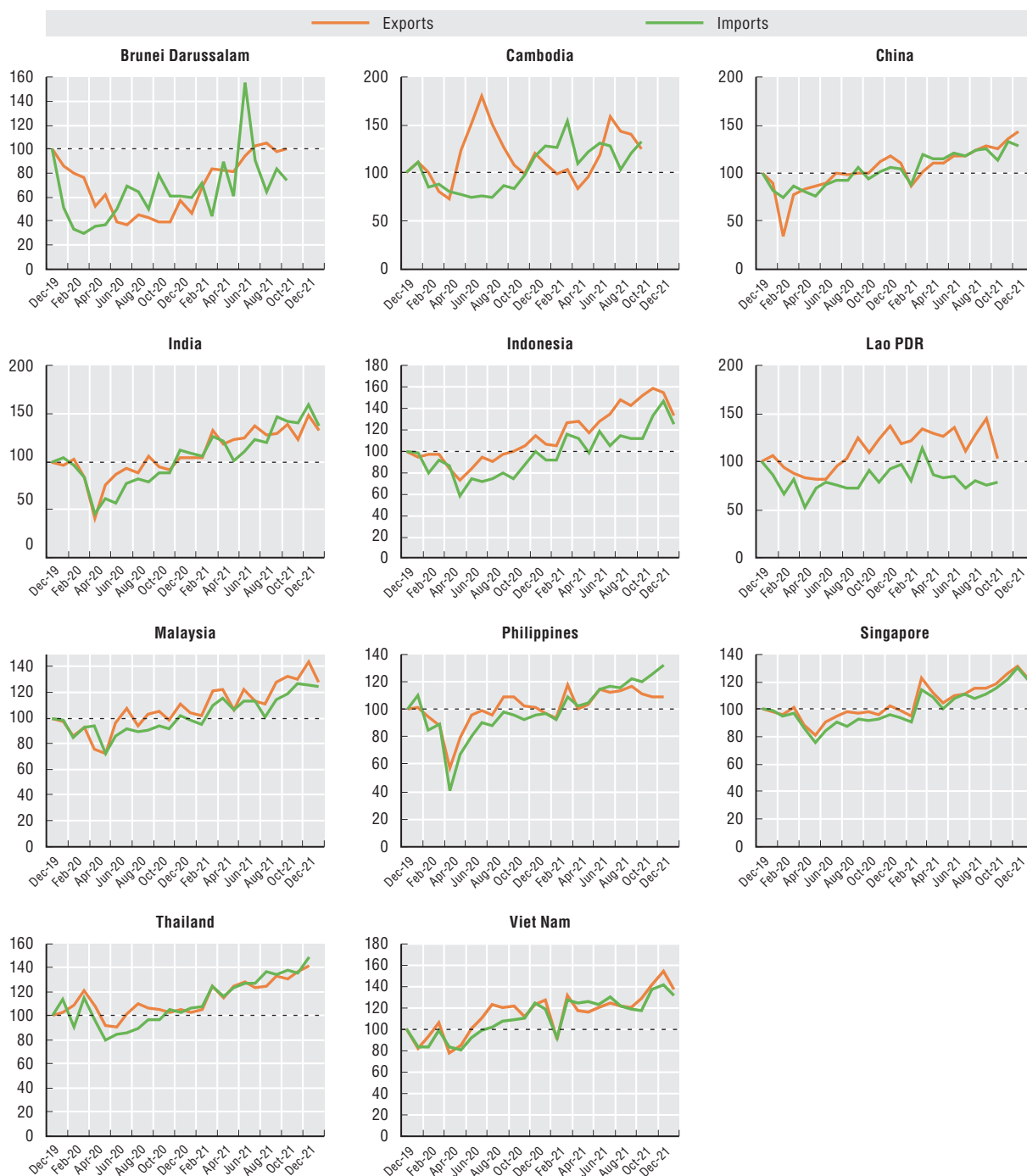
Overall, the global economic fallout from the pandemic has had a major impact on capital flows to Emerging Asian economies, although the magnitude of the impact has differed depending on the type of capital inflows and the country receiving them. In a few countries in Emerging Asia, external financing problems increased in late 2020 and early 2021. On the other hand, available data suggest that capital outflows were temporary, and that inflows of foreign direct investment have, in particular, played a positive role since the outbreak of the crisis. Still, policy makers should devote particular attention to the issue of volatile capital flows, because the narrowing differential between the growth of Emerging Asian economies and advanced economies as the health crisis unfolds may render the former less attractive from a foreign-investment perspective.

Trade activity remains robust, but concerns linger over further supply-chain disruptions

The recovery of global trade following the severe contraction of early 2020 has been remarkable. The upturn that started to take hold in the final quarter of 2020 continued into 2021, and again into early 2022. Importantly, trade activity has been plateauing at high levels in recent months, rather than declining. While the downturn in early 2020 was highly synchronised, the recovery has so far thrown up some striking differences across countries in Emerging Asia. While merchandise exports in nearly all countries in the region have exceeded their pre-pandemic levels in recent months, for example, exports from Brunei Darussalam were relatively less resilient (Figure 1.25). While part of this divergence may to a certain extent reflect the geographical orientation of an individual country's exports, relative product specialisation may also have played an important role. Since the fall in demand from the pandemic was particularly pronounced for intermediate and capital goods, countries that mainly specialise in these products, such as Brunei Darussalam, were hit harder by the global downturn.

Figure 1.25. Evolution of exports and imports of goods for selected Emerging Asian economies, January 2020 to January 2022

December 2019 = 100



Note: Latest data are as of January 2022, except for Brunei Darussalam (October 2021), Cambodia (October 2021), China (December 2021), Lao PDR (October 2021), the Philippines (December 2021), and Thailand (December 2021).

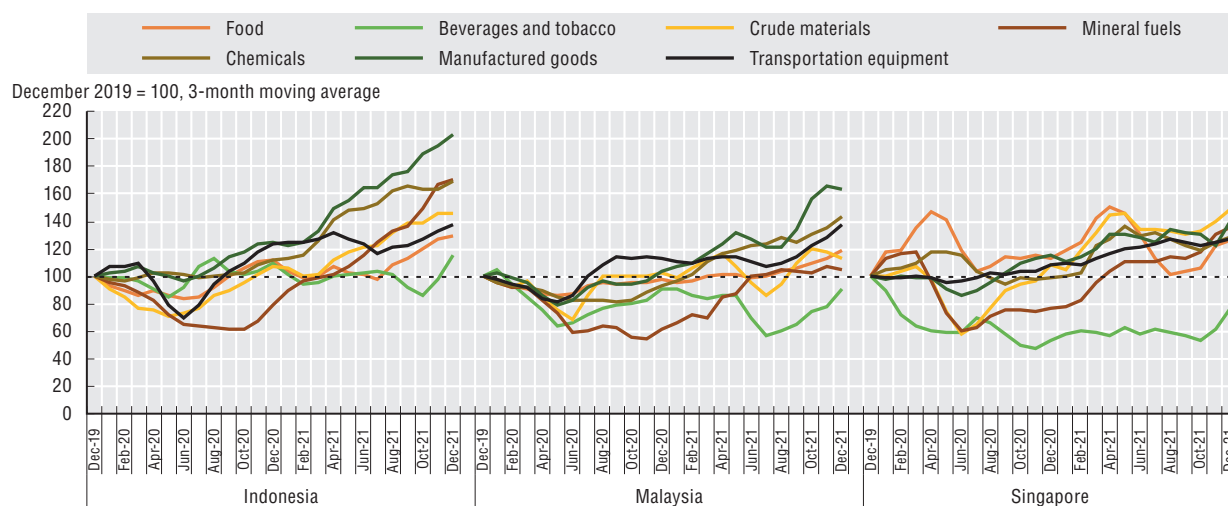
Source: Authors' calculations based on data from CEIC and national sources.

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Emerging Asia witnessed notable changes in the composition of trade flows. For Indonesia and Malaysia, for example, the recovery in exports of manufactured goods, chemicals, and transportation equipment was more pronounced than the recovery for trade in other categories of goods. In Singapore, meanwhile, exports of crude materials outperformed other types of exports (Figure 1.26). On the other hand, trade in food, beverages and tobacco, which reflects a lacklustre performance in the hospitality industry, was hit particularly hard by the restrictions on movement imposed around the world in order to stem the resurgence of the pandemic. Although they have been on the rise in recent months, exports of such items are still below their pre-pandemic levels in Malaysia and Singapore. In Indonesia, however, in December 2021 they edged above the level that they had registered two years earlier (Figure 1.26). These different developments across sectors and categories of goods may also explain the differences in the evolution of international trade across Emerging Asian countries.

Figure 1.26. Exports of goods by selected sectors in selected ASEAN economies, December 2019 to December 2021

December 2019 = 100 (3-month moving average)



Note: Data as of 24 February 2022.

Source: Authors' calculations based on data from CEIC and national sources.

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The strength of the recent recovery in trade flows may indicate that at least part of the pandemic's impact did not cause severe long-term damage to trade and production processes. Looking further ahead, however, the recovery in world trade will hinge significantly on the extent to which demand recovers worldwide, and on its composition. Overall, global economic activity seems poised to recover at varying speeds across and within regions, with more robust growth anticipated in advanced economies than in emerging ones. Furthermore, as advanced economies reopen, consumers in these countries are more likely to spend more on services, which tend to be provided locally. Therefore, the medium-term outlook for Emerging Asian trade is likely to remain closely tied to the future growth profile of advanced economies. Nonetheless, intra-regional trade will continue to benefit from robust demand from China. Moreover, the outlook is subject to a high degree of uncertainty, as the highly contagious Omicron variant is likely to keep case counts elevated in the first quarter of 2022, while the war in Ukraine could also have an impact.

In addition, the trade outlook will be shaped by the impact of the supply-chain disruptions that have resulted from a combination of structural changes on the demand side, and pandemic-related restrictions that have limited production and labour mobility. These factors have resulted in shortages of energy and agricultural products, and in goods ranging from processed food to semiconductors and construction materials. These disruptions had a significant impact on industrial production in several economies in ASEAN in the second half of 2021 (Box 1.4). Supply bottlenecks are anticipated to ease eventually, but the risk of extended demand-supply dislocations around the globe will remain high in light of the Omicron variant, as case counts increase in the production and shipping hubs of Asia.

Box 1.4. Pandemic-related restrictions triggered industrial production disruptions in ASEAN

The COVID-19 pandemic has disrupted industrial production across the member countries of ASEAN. The main reason for supply bottlenecks is that demand has exceeded supply, reflecting key structural changes on the demand side. In particular, the rise in remote work has led to higher demand for computers and technological goods. In addition, relocation from cities to suburbs has boosted the demand for cars, which are big users of technological products. Another key structural change has been a changing approach to inventory management at firms, which have broadly shifted from just-in-time practices to holding higher levels of inventories.

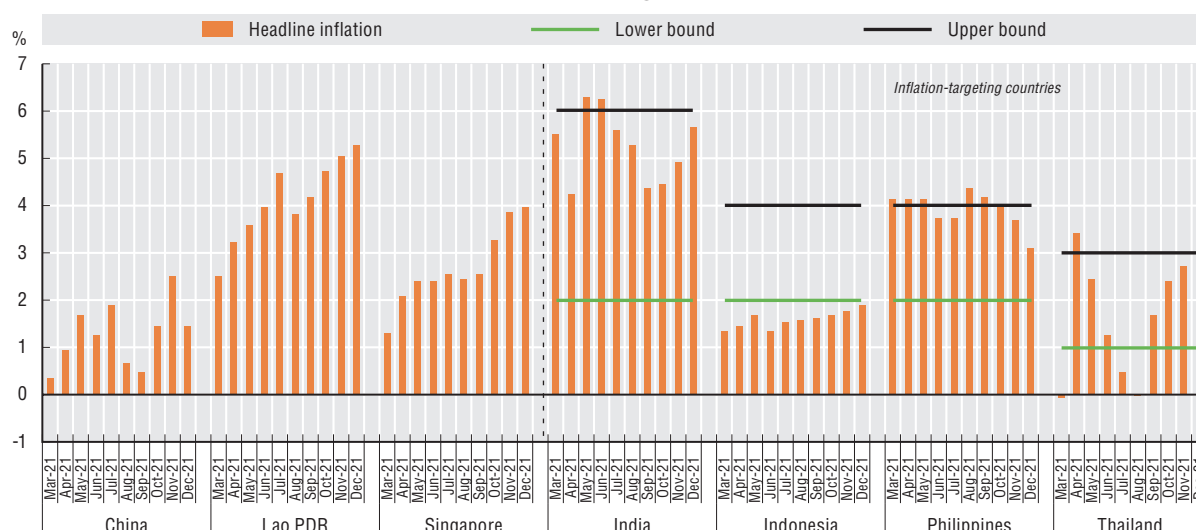
These demand pressures have been compounded by production disruptions due to localised outbreaks of COVID-19. As containment measures implemented in the second quarter of 2021 have resulted in numerous businesses halting their activity, many firms reported logistical issues and shortages of both products and labour. The disruptions have been particularly acute in Malaysia, Thailand and Viet Nam. Malaysia's manufacturing PMI fell to 39.9 in June, from 51.3 in May, pointing to a sharp decline in business conditions in the manufacturing sector. Despite a slight improvement as of June, manufacturing activity in Malaysia continued to lack momentum in July and August, with PMIs of 40.1 and 43.4, respectively. At the same time, employment at Malaysian manufacturing firms fell for four months in a row between May and August, with producers often citing a lack of foreign work permits being issued due to COVID-19-related restrictions. Firms were also confronted with an increase in backlogs of work, as lower production capacity and difficulty in sourcing inputs placed additional strain on manufacturers (IHS Markit, 2021).

In parallel, Viet Nam saw its industrial production shrink by 7.8% in year-on-year terms in August 2021. Moreover, similar disruptions occurred in Thailand. Although the Thai government has implemented so-called "bubble and seal" measures, which require people who have COVID-19 or have been in contact with someone who has to isolate, in order to avoid complete closures, several firms have had to interrupt their operations temporarily for a deep cleaning of their factories after recording several cases. In July 2021, moreover, a large car manufacturer in Thailand halted production at three of its factories due to shortages of spare parts, which were the result of disrupted supply chains. The lack of foreign workers, resulting from strict border control regimes, has also affected agricultural and rubber production in Thailand. According to official estimates, more than 400 000 jobs have been left vacant by migrant workers due to the COVID-19 restrictions (NNT, 2021).

Inflation has surprised to the upside amid rising energy prices

Inflation has surprised to the upside in major advanced and emerging economies, with a combination of rising energy prices, a swift rebound in demand, persistent supply-chain bottlenecks, and the comparison with weak figures from a year earlier all adding to the uptick. Particularly as of the first half of 2021, concerns about inflation intensified in Emerging Asia, amid rising commodity prices and as most economies started to reopen. Higher commodity prices have led to an increase in energy prices, adding acute cost pressures in a range of industries. Furthermore, headline inflation has come in above expectations for inflation-targeting countries in the region. Indeed, India, the Philippines and Thailand have all experienced headline inflation above the upper limit of their tolerance bands at various points between April and November 2021. Although it was within the countries' tolerance bands, moreover, inflation data for December 2021 pointed to rising inflation in India and Indonesia (Figure 1.27). Inflationary pressures remain elevated in Lao PDR and Singapore. In the case of the former, this is mainly due to the weakening of the local currency, the kip (World Bank, 2021). They remain relatively muted in China.

Figure 1.27. Headline inflation in selected Emerging Asian economies, March to December 2021
Percentage



Note: Data as of 24 February 2022.

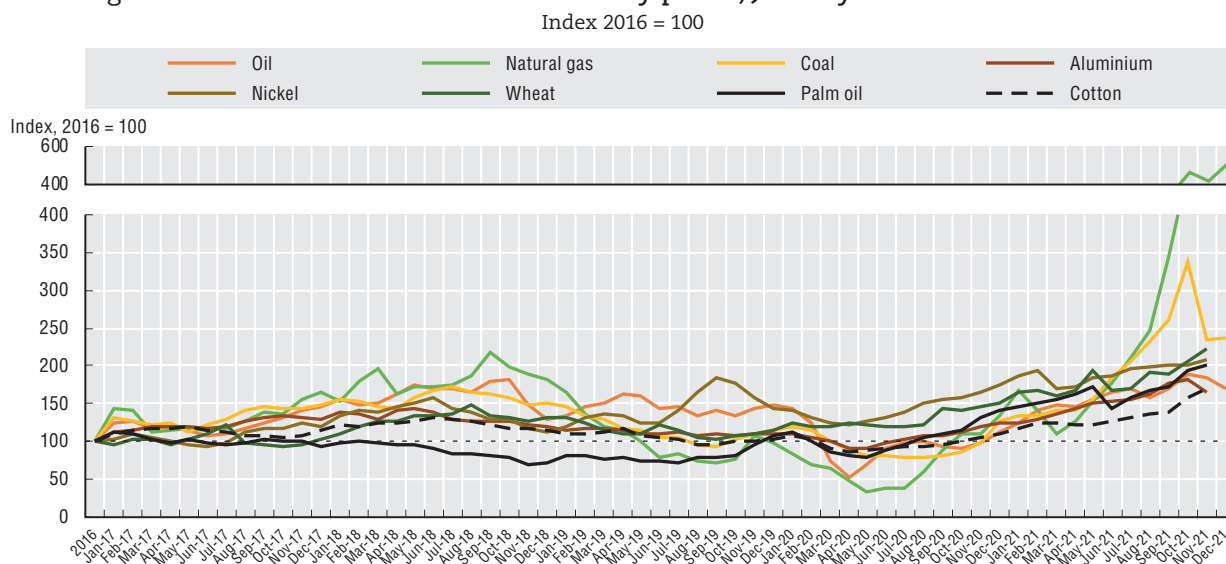
Source: Authors' calculations based on data from CEIC and national sources.

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Energy prices were a key driver of inflation dynamics in 2021. Indeed, there was a steep rise in the prices of energy commodities such as natural gas, oil and coal as of August 2021. Food and energy prices are the most prominent drivers of higher inflation in emerging markets, where households spend a much larger share of their incomes on these items compared with advanced economies. Brent crude, the global benchmark for oil prices, traded at more than USD 90 per barrel in February 2022, an increase of nearly 20% since the start of the year. Rising oil prices could be the result of various factors, including rising demand, declining inventories (EIA, 2022), but also increased geopolitical risks in the Middle East and Eastern Europe. In parallel, natural gas prices were still trading at multi-year highs in the final quarter of 2021.

Meanwhile, coal prices reached record highs amid supply constraints and rebounding demand for electricity. Prices for agricultural commodities such as wheat and palm oil, and for metals such as aluminium and nickel, have also risen in recent months (Figure 1.28).

Figure 1.28. Evolution of selected commodity prices, January 2017 to December 2021



Note: Data are as of 24 February 2022. Data for December 2021 were unavailable for aluminium, nickel, wheat, palm oil and cotton prices. Indices reflect market prices. “Oil” refers to benchmark Brent crude prices. “Natural gas” refers to prices for natural gas traded in the Netherlands. “Coal” refers specifically to prices on Australian export markets.

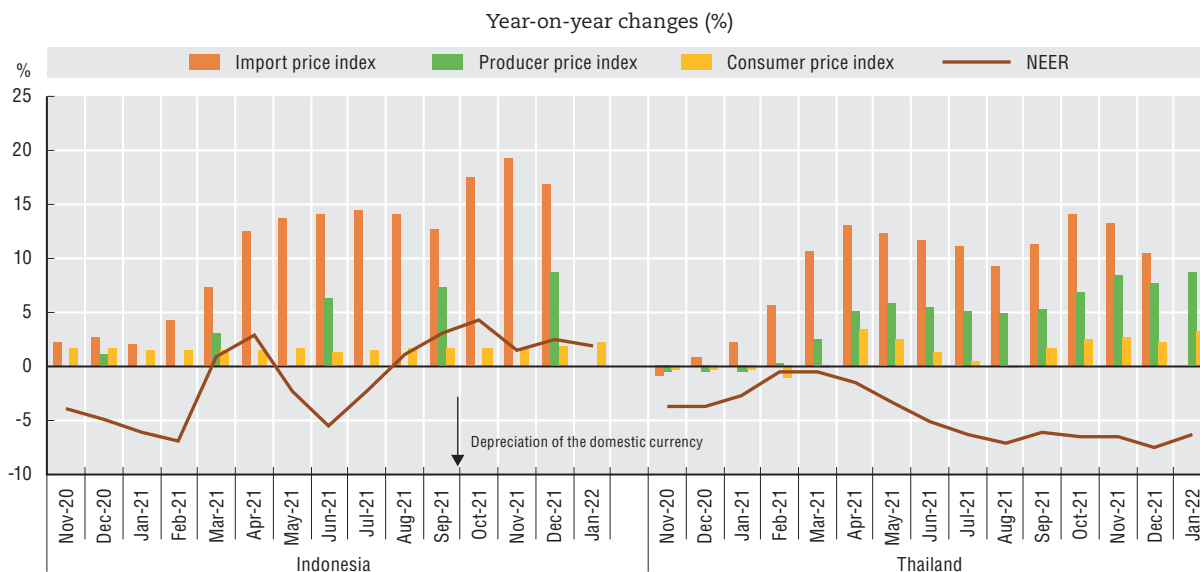
Source: IMF (n.d. b), Primary Commodity Price System database, <https://data.imf.org/?sk=471DDDF8-D8A7-499A-81BA-5B332C01F8B9&sid=1547558078595> (accessed multiple times between November 2021 and February 2022).

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In the countries of Emerging Asia, another factor contributing to headline inflation is the pass-through from currency depreciation. Movements in exchange rates are passed on directly to consumer prices through the impact that they have on import prices for final consumer goods. In parallel, indirect effects make themselves felt via production costs. The depreciation of a country’s domestic currency translates into higher production costs, as imported inputs become more expensive. In turn, these feed through the different stages of the domestic production process for intermediate and final goods. Furthermore, the depreciation of a country’s currency decreases export prices denominated in foreign currency, and increases import prices denominated in domestic currency. As illustrated in Figure 1.29 below, changes in the nominal effective exchange rate have tended to correlate strongly with import-price inflation in Indonesia and Thailand.

Despite rising commodity prices, a broad-based inflation surge remains unlikely in Emerging Asian countries. This is due to a remaining degree of slack in labour markets, as many firms, in particular in the services sector, are still operating below capacity. On the other hand, oil and gas prices are expected to remain volatile throughout 2022, against a background of low levels of global inventories and declining spare production capacity. Further escalation of the war in Ukraine, could also push up oil prices still further. As with other aspects of the economic outlook for Emerging Asia, meanwhile, the emergence of the Omicron variant is another factor adding to the uncertain outlook for inflation in the near term, with the number of infections expected to remain high throughout the first quarter of 2022 (See Chapter 2 for a detailed discussion).

Figure 1.29. Prices and nominal effective exchange rates of selected ASEAN economies, November 2020 to December 2021



Note: Data are as of 24 February 2022. “NEER” stands for nominal effective exchange rate. Monthly data on producer prices were unavailable for Indonesia.

Source: Authors’ calculations based on data from CEIC, national sources and BIS (n.d. b), *Exchange rates*, <https://stats.bis.org/statx/toc/XR.html> (accessed multiple times between November 2021 and February 2022).

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Against this background of rising prices, insights from behavioural economics could play an increasingly significant role in improving inflation forecasts in Emerging Asian countries, as discussed in Box 1.5.

Box 1.5. Applying behavioural economics to inflation forecasting

The COVID-19 pandemic, and the restrictions that have ensued in order to contain its spread, have caused a severe global recession, triggered substantial interventions in the economy via fiscal and monetary policy, and forced a change in the socio-economic behaviour of economic agents. In turn, this raises many questions about the economic trajectory of Emerging Asian countries and the long-term impact of the pandemic. The expectations of economic agents will play a key role in determining macroeconomic outcomes, such as growth, unemployment and inflation (An, Liu and Wu, 2021). Currently, moreover, global inflationary pressures are increasing. Meanwhile, a lasting “J-curve effect” is likely to materialise after the COVID-19 crisis, whereby countries initially experience a worsening of their trade balances following the depreciation of their domestic currencies, followed by a gradual recovery that stabilises at a higher level than before the decline. Such developments were already visible in Emerging Asian economies in 2021 (ADB, 2021).

Under these circumstances, the forecasting of inflation will present considerable challenges. Currently, economists and policy makers use a variety of approaches to forecast inflation. In addition, behavioural economics has the potential to provide a new and broader perspective compared to conventional methods, potentially improving the accuracy of inflation forecasts in the aftermath of the pandemic. Furthermore, monitoring economic agents’ expectations of inflation can provide useful information for the analysis of risk, or of a specific scenario, in projection exercises performed using structural models. Expectations about inflation can lead to changes in behaviour and, at the aggregate level, may influence prices, therefore becoming self-fulfilling. Understanding inflation expectations can help policy makers to improve their

Box 1.5. Applying behavioural economics to inflation forecasting (cont.)

forecasts, to communicate the intent of their monetary policy decisions better, and to strengthen the effectiveness of their monetary policy.

In the euro area, for instance, the European Central Bank's (ECB) main semi-structural projection models include a behavioural equation for agents' long-term expectations. This equation allows for interaction both with the ECB's inflation objective, and with the actual level of inflation. It is calibrated on the historical behaviour of various survey-based, longer-term inflation expectations. Scenarios can use observed measures of inflation expectations. Indeed, they can assume a shock that would shift the central tendency to specific (lower) percentiles of the aggregate probability distribution or the cross-sectional distribution. Alternatively, longer-term inflation expectations can be included as an endogenous variable in a dedicated satellite model that uses the main macroeconomic variables featuring in the workhorse forecasting models. The satellite model, meanwhile, can be used to derive conditional forecasts of longer-term expectations of inflation, which can subsequently be fed into the main forecasting models as a scenario path (ECB, 2021).

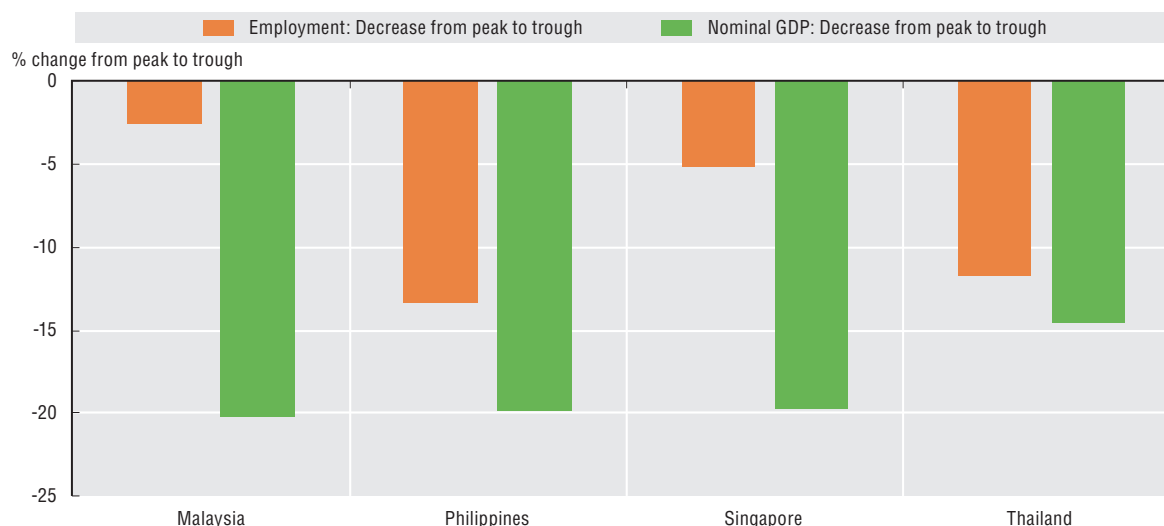
Another example is an approach used at the Bank of Canada to study how firms form their expectations of inflation. In the literature on this approach, Richards and Verstraete (2016) rely on a proprietary dataset from the Bank of Canada, the Business Outlook Survey. They use firms' answers to this survey to build an aggregate measure of inflation expectations for each quarter - the inflation expectations index. They then study its behavioural properties with reference to the rationality hypothesis. The authors conclude that the inflation expectations index is not consistent with the assumption of rationality. Although firms' expectations have an adaptive component, they systematically refer to their own personal experience in forming their expectations. The experiences to which they refer relate to factors such as wages and input prices. Furthermore, the study finds that firms' inflation expectations also appear to be significantly and positively influenced by movements in oil prices.

In Emerging Asia, research conducted for the Monetary Authority of Singapore explored how behavioural biases could affect reported inflation expectations in the Singapore Index of Inflation Expectations. More specifically, Clark, Ghosh and Hanes (2018) applied insights from behavioural economics to an existing survey on inflation expectations. They concluded that changing the format of questions can lead to significantly different answers. The key bias that influences the formation of inflation expectations is anchoring, whereby consumers are influenced by information that is immediately available.

The pandemic has inflicted lasting damage to labour markets


The COVID-19 pandemic has inflicted lasting damage to labour markets in Emerging Asia. However, its impact on national labour markets in the region has differed substantially. From its peak level during the pandemic period to its trough during the same period, the number of people in employment declined by less than 5% in Malaysia. By contrast, it fell by more than 5% in Singapore, and more than 10% in the Philippines and Thailand (Figure 1.30). In all of the countries for which data were available, the fall in employment was less severe compared to the drop from peak to trough in quarterly output. In part, this has reflected government support through various job-retention schemes. However, it may also mean that there is potential for further negative adjustments in the months to come, given the time lags involved. In addition, several other factors may lie behind the differences in which national labour markets in Emerging Asia have reacted to the pandemic-induced crisis. Specialisation in particular sectors, conditions influencing firms' willingness and ability to retain workers, and the institutional and policy environment may all help to explain the differences.

Figure 1.30. Adjustment of employment to the COVID-19 crisis in selected ASEAN economies
Change from peak to trough (%)



Note: Data are as of 24 February 2022. Country-specific peaks and troughs are considered in the period running from Q1 2020 to Q3 2021.

Source: Authors' calculations based on data from CEIC and national sources.

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Data on the rate of employment have confirmed the persistent weakness in labour-market conditions in the Philippines and Viet Nam. In September 2021, for instance, unemployment in the Philippines rose to 8.9%, the highest level since January 2021 (Philippine Statistics Authority, 2021). In Viet Nam, the COVID-19 outbreak that started at the end of April 2021 caused severe disruption to production and business operations across the country. Data published by Viet Nam's General Statistics Office show that more than 28.2 million people aged 15 and above were negatively affected in the third quarter of 2021, either through job losses, furloughs, alternate working shifts, reduced working hours, or reduced income. Out of the 28.2 million people affected, 4.7 million lost their jobs. Moreover, the number of workers adversely affected by the pandemic increased by 15.4 million people in the third quarter of 2021 from the previous quarter. As a result, the unemployment rate in Viet Nam climbed to 3.98% in September, the highest increase in the past ten years (General Statistics Office, 2021). In addition, the crisis has hit SMEs particularly badly, as they represent an outsized share of firms in the sectors that have been worst affected by the crisis (Box 1.6).

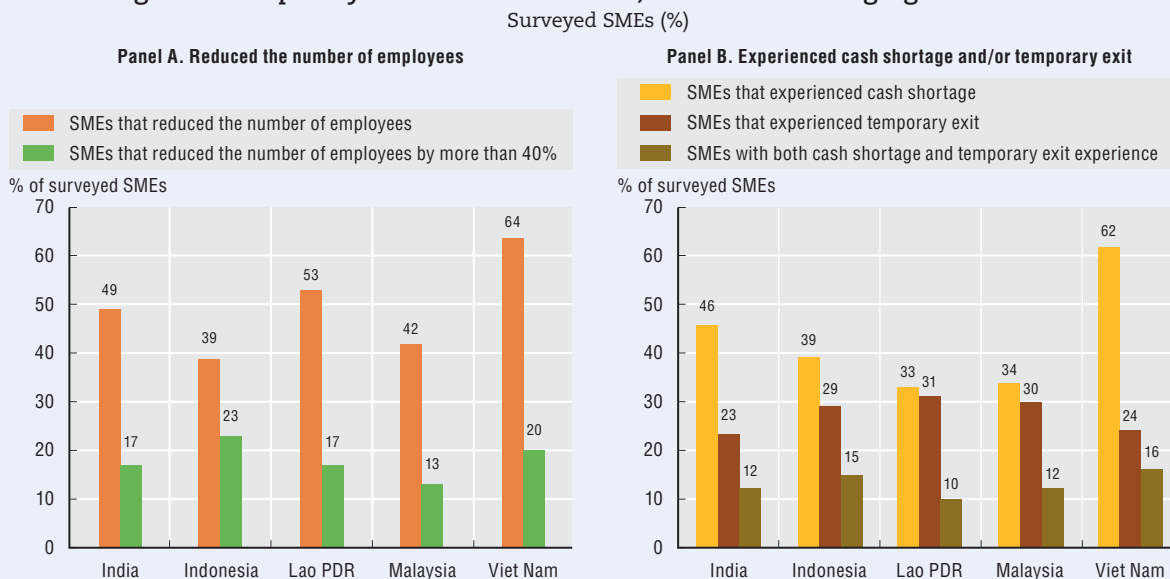
Box 1.6. Small and medium-sized enterprises struggle to stay afloat

The fallout from the COVID-19 pandemic on earnings, employment, and the viability of firms has been particularly visible for SMEs. Indeed, the impact has been all the more acute for SMEs as they tend to be less well endowed with technology, while also being more labour-intensive. A survey of SMEs in India, Indonesia, Lao PDR, Malaysia and Viet Nam illustrates the extent of the damage. For instance, more than half of SMEs in Viet Nam and Lao PDR have trimmed their labour force. In Viet Nam, 64% of respondents declared that they had reduced the number of permanent employees after the outbreak of the pandemic, with 53% saying the same thing in Lao PDR (Figure 1.31, Panel A). Firms also encountered major difficulties in managing their cash flows, and some of them left the market temporarily. As evidenced by the same

Box 1.6. Small and medium-sized enterprises struggle to stay afloat (cont.)


survey, meanwhile, SMEs in India and Viet Nam were the most affected by cash shortages, with 62% and 46% of respondents respectively pointing to such issues in 2020. Around 30% of SMEs surveyed in both Lao PDR and Malaysia experienced a temporary exit from the market, while between 10% and 16% of SMEs in all countries experienced both a cash shortage and a temporary exit (Figure 1.31, Panel B).

Figure 1.31. SMEs that reduced their number of employees, or experienced either a cash shortage or a temporary exit from the market, in selected Emerging Asian economies



Note: Figures depict answers to a survey conducted during the following periods: 18 to 29 May 2020 in Viet Nam, 18 May to 6 June 2020 in Malaysia, 17 August to 11 September 2020 in India and Indonesia, and 8 September to 13 October 2020 in Lao PDR.

Source: Sonobe et al. (2021).

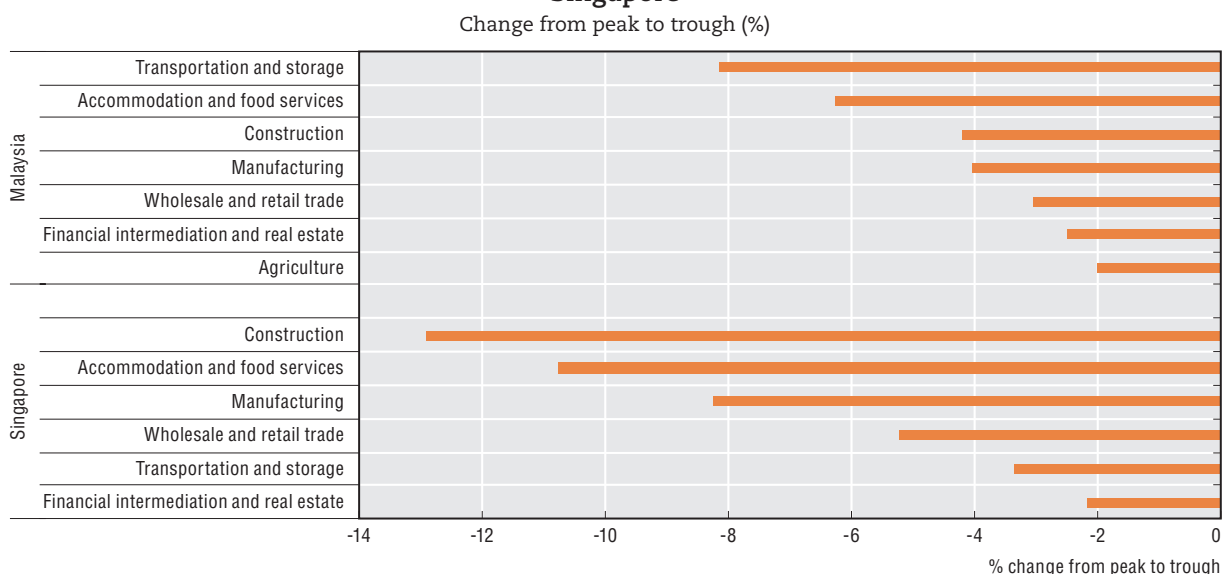
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Most importantly, the firms that have been hit the hardest are in the services sector, in particular tourism and hospitality. Looking ahead, SMEs in the tourism industry will continue to face challenges, as the resumption in international tourism flows will be very gradual in most Emerging Asian countries. Although there are large enterprises in the accommodation and airline sectors, the tourism industry tends to be characterised by a large share of SMEs, often individually or family owned. The continued drop in tourist arrivals could place more than 100 million direct tourism jobs at risk, many of them in the SME sector (UNWTO, 2020). In Thailand, for example, SMEs comprise more than 90% of firms in the hospitality sector (Goretti et al., 2021). In Cambodia, the pandemic initially affected larger, registered SMEs in the tourism sector. Since February 2021, however, the effect of the crisis has been equally severe for smaller, non-registered SMEs. The impact was felt primarily by tourism businesses in areas that rely on international tourists and travellers, like Siem Reap. Official estimates by the Cambodian Ministry of Tourism indicate that at least 50 000 employees in the tourism sector were laid off in 2020 (The Asia Foundation, 2021).

The pandemic has had an asymmetric impact on labour markets, depending on the economic sector. In Malaysia and Singapore, for instance, employment losses were heavily concentrated in construction, hospitality and transportation. This reflects the restrictions on movement that were still in place in Emerging Asia in the second half of 2021. The adjustment

in employment in the transport and storage industry was particularly significant in Malaysia, where employment declined by 8.2% from its peak during the pandemic period to its trough during the same period. The construction sector accounted for the bulk of the decline in employment in Singapore, recording a fall of 12.9% from peak to trough (Figure 1.32). By contrast, the employment decline was more moderate in financial intermediation and real estate in both countries, while the agricultural sector also held steady in Malaysia. Official data for Viet Nam also show that the brunt of job losses in the third quarter of 2021 took place in the manufacturing and construction sectors, while workers in the agriculture, forestry and fisheries sector were relatively less affected (General Statistics Office, 2021).

Figure 1.32. Adjustment of employment to the COVID-19 crisis by sector in Malaysia and Singapore



Note: Data are as of 24 February 2022. Country-specific peaks and troughs are considered in the period from Q1 2020 to Q3 2021.

Source: Authors' calculations based on data from CEIC and national sources.

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The COVID-19 pandemic, and the losses in employment hours that have resulted from it, have often shifted the focus to jobs in the so-called “gig economy³”, as workers from the sectors most affected by restrictions have turned to food-delivery and other app-based jobs in order to boost their incomes. This phenomenon has been especially notable in India. Indeed, the Associated Chambers of Commerce and Industry of India has projected that the country’s gig economy will grow at a compound annual rate of 17%, to reach USD 455 billion by 2023 (Bala, 2021). Many gig-economy businesses have proven to be valuable network enablers during the COVID-19 crisis, facilitating the delivery of food and other essential items in areas placed under lockdown and other strict containment measures. However, the pandemic has also highlighted the precarious nature of worker-company contractual relationships in the gig economy. Indeed, gig-economy workers who have fallen ill or needed to isolate during the pandemic have lost their income either entirely or partially. App-based drivers in Indonesia, for instance, are believed to have lost over 60% of their earnings because of decreasing demand and safety concerns during the pandemic outbreak (Rachmawati et al., 2021).

In the aftermath of the pandemic-induced crisis in 2020, government policies focused on supporting aggregate demand (Table 1.14). In order to mitigate the impact on employment, meanwhile, governments also sought to encourage flexible working time arrangements, although significant differences can be observed among Emerging Asian countries in the measures they took to manage the pandemic's impact on employment. In order to increase the chances of unemployed people finding a job, countries in the region implemented various policies to improve the supply side of the labour market. These measures have aimed mostly at providing in-work benefits, such as temporary reductions in employees' social security contributions. In addition, however, some countries adopted training programmes for the unemployed. For instance, Cambodia allocated USD 123 million for wage subsidies and training programmes for suspended workers in the garment and tourism industries. Malaysian authorities also implemented hiring and training subsidies as part of the country's second stimulus package, unveiled in March 2020.

Table 1.14. Examples of measures taken by authorities in Emerging Asia to mitigate the impact of the crisis on labour markets, 2020-22

Country	Supply side				Demand side			
	Training	In-work benefits	Job search assistance	Extension of unemployment benefits	Short-time working schemes	Subsidies for wage payments	Reduction in non-wage labour costs	Credit guarantees and other lending facilities
Brunei Darussalam							●	
Cambodia	●					●	●	
Indonesia				●			●	
Lao PDR		●		●			●	
Malaysia	●			●		●	●	●
Myanmar							●	●
Philippines		●					●	●
Singapore	●	●	●		●	●	●	
Thailand		●					●	●
Viet Nam		●					●	
China		●		●			●	
India		●					●	

Note: Information as of 24 February 2022.

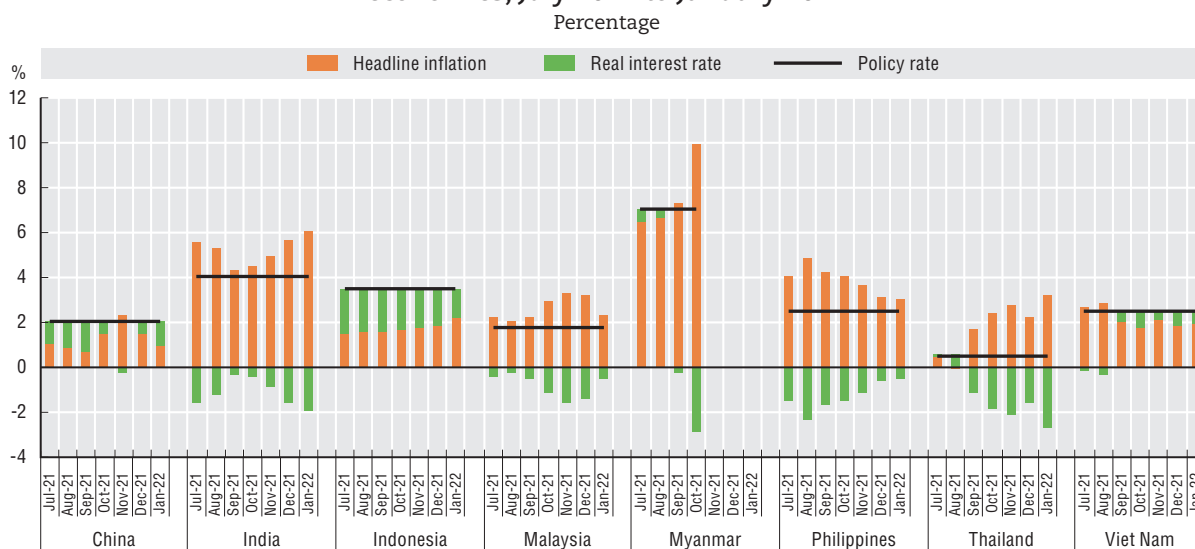
Source: Authors' compilation based on national sources and IMF (n.d. c), *Policy Responses to COVID-19*, <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19>.

Looking ahead, delays to economic recovery due to the fast-spreading Omicron wave of COVID-19 increase the potential for lasting damage to Emerging Asia's labour markets. This is particularly relevant for sectors that rely on face-to-face contacts, and for cyclical sectors such as construction, in which further restrictions could weigh heavily on revenues, increasing insolvency risks and unemployment. Furthermore, the pandemic will continue to highlight the fragility of informal workers and people in the gig economy. To be sure, emergency policy measures in Emerging Asia have continued to cushion the shock, and have so far largely kept firms in the region afloat by preventing or delaying bankruptcy. Still, the labour market also appears likely to suffer from so-called hysteresis effects, aftershocks that can persist even after the underlying causes have dissipated, which could have negative implications for inequality and the effectiveness of monetary and fiscal policies.

Monetary policy remains accommodative in response to recoveries

In Emerging Asia, with COVID-19 caseloads up again due to the Omicron variant, monetary policy makers have been holding rates steady until economic prospects improve durably. Notwithstanding the spike in headline inflation in the second quarter of 2021, meanwhile, inflationary pressures have been muted in much of the region, notably in light of renewed restrictions on mobility and the ensuing weakness in domestic demand. Given the aggressive easing of respective countries' monetary-policy stances, real interest rates have fallen in China, Indonesia and Viet Nam, and have turned negative in India, Malaysia, Myanmar, the Philippines and Thailand (Figure 1.33). This should keep financing conditions accommodative, and should be supportive of credit growth, as negative real interest rates render the cost of debt sustainable.

Figure 1.33. Headline inflation, policy rate, and real interest rate in selected Emerging Asian economies, July 2021 to January 2022



Note: Data are as of 24 February 2022. Data on consumer prices for Myanmar were unavailable for the period running from November 2021 to January 2022. The real interest rate is calculated as the difference between the policy rate and headline inflation.

Source: Authors' calculations based on data from CEIC.

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Most central banks in Emerging Asia have decided to maintain an accommodative monetary stance. In its latest monetary policy meeting in February 2022, for example, the Reserve Bank of India held its policy rate unchanged at 4%, maintaining an accommodative stance because of the uncertain near-term outlook due to rising commodity prices, increased volatility in global financial markets, and tight bottlenecks in global supply chains. At its February 2022 meeting, the Bank of Indonesia likewise kept its key policy rate, the seven-day reverse repurchase rate, at a record-low level of 3.5%. It also reiterated its intention to optimise the policy mix in order to support economic growth amid a build-up of external pressures. Furthermore, Bank Negara Malaysia also decided to keep the overnight policy rate unchanged at 1.75% at its meeting in January 2022, citing downside risks to the growth outlook, such as a weaker-than-anticipated global growth, worsening supply-chain disruptions, and the still high level of uncertainty around the evolution of the pandemic. The central bank of the Philippines, Bangko Sentral ng Pilipinas, announced a similar decision after its February 2022 meeting,

committing to providing continued support for economic growth in light of the downside risks to the recovery both from the ongoing pandemic, and from high global oil and food prices. In a similar vein, the Bank of Thailand kept its policy rate unchanged at 0.5% in February 2022, as the recovery remained fragile due to uncertainties around the Omicron variant.

Some central banks in the region even announced further easing measures. In early July 2021, for instance, the People's Bank of China (PBOC) cut the reserve requirement ratio by 50 basis points. It is likely that the purpose of this measure was to support liquidity. This includes offsetting the negative liquidity effect of expiring medium-term lending facilities. It also includes lowering costs for banks and, by extension, for businesses too. In early December 2021, the PBOC announced a second cut to its reserve requirement ratio, of 0.5%, releasing RMB 1.2 trillion (USD 188 billion) of liquidity (Bloomberg, 2021b). In January 2022, moreover, the PBOC decided to reduce the open market operations rate and the one-year policy loan rate by 10 basis points, to 2.1% and 2.85%, respectively. Furthermore, the PBOC also lowered its one-year loan prime rate by 10 basis points to 3.7%, and reduced the five-year loan prime rate by five basis points, to 4.6%. These measures are part of its pledge to use more monetary tools to support the economy and drive credit expansion (Bloomberg, 2022).

On the other hand, the Monetary Authority of Singapore tightened its policy stance in January 2022, in an off-cycle policy meeting. At this meeting, the central bank slightly increased the slope of the Singapore dollar's nominal effective exchange rate policy band. At the same time, it left unchanged the width and level at which this policy band is centred. Over the past few months, headline inflation in Singapore has been driven upwards by rising car prices and, more recently, by an increase in airfare prices. The decision to tighten the policy stance, however, was triggered by the uptick in food and energy prices caused by supply-chain disruptions, as well as by extreme weather conditions in countries that are major trading partners for Singapore. Moreover, domestic conditions are likely to fuel inflation growth even further, with the resident unemployment rate in Singapore close to pre-pandemic levels, and wage pressures rising (MAS, 2022).

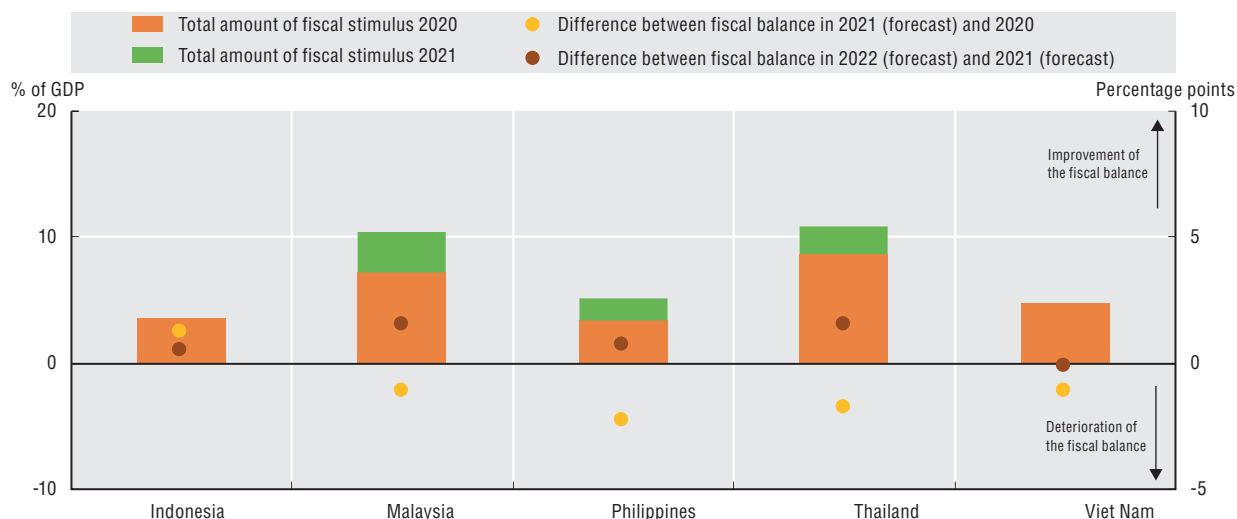
Price dynamics will remain the critical guideline for central banks as they take further policy decisions. Unless inflation expectations become unanchored, however, inflation in Emerging Asian economies is likely to moderate in 2022. Against this background, central banks in the region are expected to maintain an accommodative monetary stance over the course of the year. However, policy makers are likely to be wary of tapering asset purchases and higher policy rates in the United States and other advanced economies. Indeed, the March 2022 policy rate hike by the US Federal Reserve, and uncertainty around the Omicron variant, will pose downside risks that could prompt capital outflows from Emerging Asian markets. This could lead to a depreciation in local currencies, and to heightened financial volatility, in economies that have not yet recovered fully from the pandemic.

Fiscal support has continued into 2021, but the outlook for public finances is slowly improving

The sharp economic downturn in 2020, and the forceful fiscal-policy response that it elicited, led to an unprecedented deterioration in the public finances of countries in Emerging Asia. Throughout 2021, Malaysia, the Philippines, Singapore and Thailand rolled out extra fiscal stimulus, adding to the large amounts already deployed in 2020 (Figure 1.34). Indeed, the 2021 fiscal deficit is still projected to exceed 5% of GDP in most countries in

ASEAN. As economies slowly recover, however, and notwithstanding the continuation of discretionary fiscal measures to shelter households, workers and firms from the impact of renewed COVID-19 outbreaks, fiscal deficits are forecast to narrow marginally in 2022, instead of increasing further.

Figure 1.34. Total size of fiscal packages and estimated impact on the fiscal balance in selected ASEAN economies, 2020-21



Note: The cut-off date for the fiscal stimulus data is 15 November 2021. Data on fiscal balances refer to the general government.

Source: OECD Development Centre and OECD (2021a), *OECD Economic Outlook No. 110*; and ADB (n.d.), *COVID-19 Policy Database*, <https://covid19policy.adb.org/> (accessed multiple times between June 2021 and March 2022).

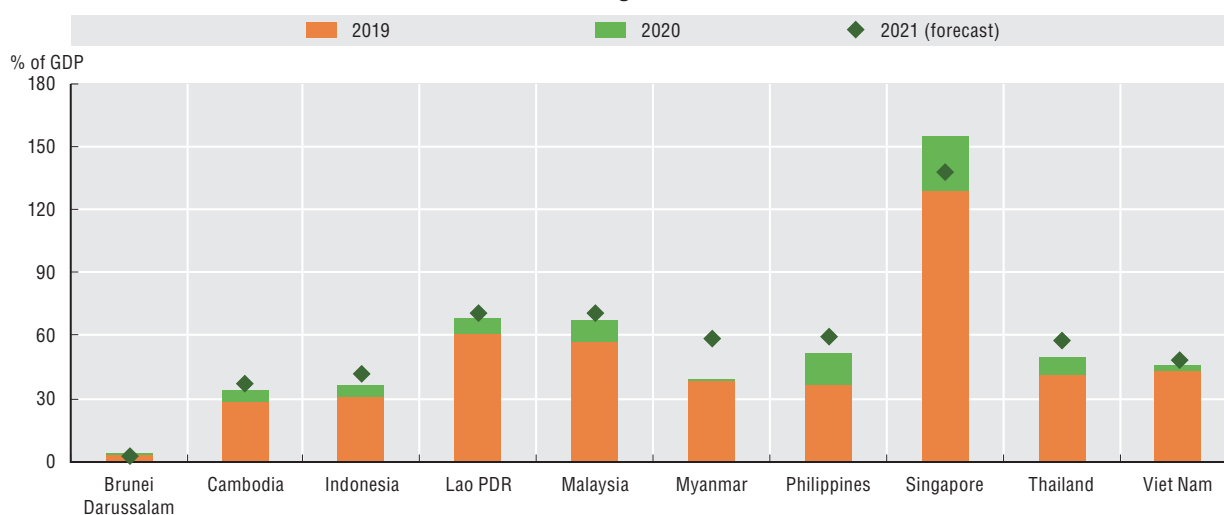
StatLink  <https://doi.org/10.1787/888934303773>

Malaysia's fiscal stimulus in 2021 amounted to around 3.1% of GDP. It included cash aid to households, a six-month moratorium on loan repayments, service tax breaks to hotel operators, electricity discounts for affected economic sectors, wage subsidies, and funds for micro-entrepreneurs. Meanwhile, the fiscal stimulus that the Philippines rolled out in 2021 was equal to approximately 1.8% of GDP. It sought mainly to support the workers and businesses that had been most affected by the pandemic-related restrictions, and to fund improved health protocols, including digitally assisted contact tracing and vaccinations. In Singapore, the 2021 fiscal stimulus was equal to around 2.8% of GDP. Its main areas of focus included enhancing a job-support scheme to help enterprises to retain their local workers. They also included rental relief for small and medium-sized enterprises, and subsidies for merchandise peddlers, market stallholders and drivers of taxis and private hire cars. Singapore's fiscal package also extended the temporary COVID-19 Recovery Grant scheme's coverage period for lost income for eligible workers. For its part, the government of Thailand provided fiscal support amounting to around 2.2% of GDP in 2021. The Thai fiscal package included cash aid for workers, reductions on water and electricity bills, arrangements for debt repayments, and reductions in tuition fees at educational institutions.

The debt-to-GDP ratios of general governments in the block are expected to continue rising in 2021, although at a much slower pace compared to 2020 (Figure 1.35). The exception is Singapore, whose general government debt ratio is projected to improve in 2021. Since

the costs of servicing debt are rising in developing and emerging-market economies, the challenges associated with rising debt levels are more pressing than for advanced economies (see Chapter 2 for further discussion). Indeed, the cost of emerging-market sovereign borrowing surged at the very beginning of the pandemic, in March and April 2020, due to sharp increases in emerging-market risk premiums (OECD, 2021b). Although interest rates are currently low, and the availability of financing is ample, policy makers in Emerging Asia need to manage rising debt-service burdens carefully. Indeed, the rapid build-up of general government debt at a period of low economic growth during the COVID-19 crisis has increased the need for an assessment of the sustainability of government debt (Box 1.7).

Figure 1.35. **General government debt in ASEAN countries, 2019-21**
Percentage of GDP



Note: Data refer to the gross debt of general governments. For Cambodia, the 2020 debt-to-GDP ratio is an estimate.

Source: National sources and IMF (2021), *World Economic Outlook Database October 2021*, <https://www.imf.org/en/Publications/WEO/weo-database/2021/October> (accessed multiple times between October and February 2022).

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Box 1.7. The sustainability of general government debt in Emerging Asia

Coinciding as it has with low economic growth during the COVID-19 crisis, the rapid build-up of general government debt has increased the need for an assessment of its sustainability in the countries of Emerging Asia. The level of general government debt that is deemed to be sustainable is a matter of judgement, however, and varies from country to country, in function of the level of economic development and the underlying strength of the financial system. As posited by Domar (1944), debt sustainability can only be achieved when the real growth rate of the economy is higher than the real interest rate. The other condition is that the primary balance be positive, and indeed large. However, the Domar condition was revisited in the context of the COVID-19 crisis by Krugman (2020), who advocates that governments should “undertake large, deficit-financed public investment on a continuing basis”. With regard to optimal fiscal policy, Barro (1979) discusses the role of inflation, pointing to a one-to-one effect of expected inflation on the rate of growth in nominal debt. Finally, other studies propose models for monetary policy and public-debt sustainability. For instance, Arellano, Bai and Mihalache (2020) find that default risk amplifies monetary frictions and generates a tension for monetary policy. In turn, these monetary frictions tend to discipline sovereign borrowing, slowing down debt accumulation and lowering sovereign spreads.

Box 1.7. The sustainability of general government debt in Emerging Asia (cont.)

Using empirical approaches, several researchers have attempted to derive a threshold level for general government debt, beyond which economic activity would be compromised. While most studies conclude that the upper limit for general government debt-to-GDP is around 90% (Reinhart and Rogoff, 2010), other authors find even lower thresholds, ranging from 51.65% (Law et al., 2021) to 64% (Caner, Grennes and Koehler-Geib, 2010). Country-specific estimations for Emerging Asia are relatively scarce. Campos and Cysne (2021) estimate public debt limits for a panel of 18 emerging economies, and obtain a debt-to-GDP limit for the Philippines that ranges between 58.09% to 65.04%, depending on the method of estimation that they deployed. In a similar vein, Baharumshah, Soon and Lau (2017) posit a public debt-to-GDP limit of 55% for Malaysia, above which economic activity is likely to be negatively impacted.

Another indicator that plays a key role in assessing the sustainability of a country's debt is the primary budget balance. As already noted, the fiscal response to COVID-19 has been significant in many Emerging Asian economies, with fiscal balances deteriorating across the board in 2020, and only a slight improvement expected to materialise in the figures for 2021. The economic literature offers an array of tools to assess fiscal sustainability in terms of the fiscal balance. The basic requirement is that a government stays within the so-called intertemporal budget constraint, which captures a stable long-run association between government revenue and expenditure (Croce and Juan-Ramon, 2003). Studies on the impact of the COVID-19 pandemic on the sustainability of fiscal balances in Emerging Asia are currently in short supply. However, a paper focusing on the period immediately prior to the pandemic concludes that Malaysia's fiscal imbalances were already inconsistent with strong sustainability before the emergence of COVID-19 (Lau and Lee, 2021).

In addition, the COVID-19 crisis has shown that, apart from assessing medium-term risks to debt sustainability, there is also a need to account for short-term refinancing risks. Indeed, a country that faces increasing difficulties in accessing financial markets in the short term could go on to face debt-sustainability issues in the medium term. This is because higher bond yields will gradually increase the cost of servicing the debt. Increases in government bond yields due to unfavourable assessments by financial markets could trigger a vicious circle of an increasing cost of refinancing government debt, thus adding to debt-sustainability risks. Several empirical studies for emerging-market economies have found that high government debt ratios may contribute to rising sovereign-bond yield spreads. Table 1.15 summarises the results of selected studies that also focus on Emerging Asian economies.

Table 1.15. Selected empirical evidence on the impact of government debt on sovereign yield spreads and access to credit in Emerging Asia

Title	Emerging Asian countries included in the sample	Reference period	Main result(s)
Min (1999)	China, Indonesia, Malaysia, the Philippines.	1990-95.	A percentage point increase in the government debt-to-GDP ratio is associated with an increase in the yield spread of 1.005 percentage points.
Akitoby and Stratmann (2006)	China, Malaysia, the Philippines and Thailand.	1994-2003.	A percentage point increase in the ratio of public debt to gross national income is associated with an increase in the yield spread of between 1.253 and 1.596 percentage points, depending on the estimation method and model specification used.
Bellas, Papaioannou and Petrova (2010)	Malaysia and the Philippines.	Q1 1997 to Q2 2009.	A percentage point increase in the ratio of public external debt-to-GDP is associated with an increase in the yield spread of 2.655 percentage points.
Presbitero et al. (2016)	Cambodia, India, Lao PDR and Viet Nam.	1995 to 2014.	A 10% increase in the external debt-to-GDP ratio is associated with a 10-12 basis-point increase in the primary spread.
Campos and Cysne (2021)	China, Malaysia and the Philippines.	Q4 2001 to Q2 2016.	Countries whose debt-to-GDP ratio exceeded their limits had difficulties in obtaining new loans.

Note: The yield spread is defined as the difference between the yield on 10-year government securities of each country included in the sample and the yield on 10-year US Treasuries.

Source: Authors' summary of cited papers.

Box 1.7. The sustainability of general government debt in Emerging Asia (cont.)

In order to provide a complete picture, the analysis of the sustainability of general government debt should also include contingent and implicit liabilities. Contingent liabilities are future government liabilities that arise only if a particular event materialises. As indicated in Box 1.3, the accumulated contingent liabilities from guarantees provided to the non-financial corporate sector during the COVID-19 crisis are sizeable in many Emerging Asian countries. Implicit liabilities are mostly related to entitlements whose payments fall due in the future. This includes public spending on pensions, and other expenses related to ageing populations. In the medium term, the pressures that these items may add to countries' public finances could have a negative impact on any assessment of their sustainability. Although the bulk of cost increases will only materialise in many Emerging Asian countries around 2050 (Andersson, 2021), gradual cost increases due to an ageing population could still render debt trajectories unsustainable before this point. In light of this, accounting systematically for contingent and implicit liabilities in any analysis of the medium-term sustainability of debt for Emerging Asian countries would provide a valuable broadening of the assessment process.

Conclusion

Maintaining a strong degree of complementarity between fiscal and monetary policies remains an essential condition for countries in Emerging Asia to keep traction in their economic recoveries in the medium term. In 2022, however, further economic recovery will allow some of them to dial back the support measures that they have implemented as a response to the COVID-19 pandemic. Meanwhile, increases in government revenue as economies recover should translate into a slight reduction in fiscal deficits. Nevertheless, the economic recovery remains very uncertain, notably as the Omicron wave of the pandemic is set to continue to unfold during the first quarter of 2022. The war in Ukraine will also add some uncertainty to the near-term outlook. In addition, calls from throughout society for measures to address longer-term challenges such as climate change will lead to continued demands on government spending. The longer it takes Emerging Asian governments to restore their scope for fiscal flexibility, the more susceptible they will be to a negative shock.

Notes

1. "Restricted default" ratings designate an issuer that has, in the opinion of Fitch Ratings, experienced an uncured payment default or an exchange of distressed debt on a bond, loan or other material financial obligation, but has not entered into bankruptcy filings, administration receivership, liquidation, or other formal winding-up procedure, and has not otherwise ceased operating.
2. An escrow account is an account where funds are held in trust while two or more parties involved in a transaction complete the respective transaction.
3. The World Economic Forum defines the "gig economy" as a system that "uses digital platforms to connect freelancers with customers to provide short-term services or asset-sharing". Examples of the gig economy include ride-hailing applications, food delivery applications, and holiday-rental applications.

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