

June 2020

Recent developments: The East Asia and Pacific regional economy has been affected by the COVID-19 pandemic through both domestic and external channels. Necessary but economically costly lockdowns have become widespread and resulted in a sharp contraction of economic activity, while an abrupt tightening of global financial conditions have led to sizable capital outflows from many regional economies. Regional commodity exporters were also hit by a steep decline in commodity prices.

In China, highly restrictive measures led to an almost complete halt in activity in some sectors and regions in February. Activity started to rebound in March as lockdowns were relaxed, and as of April, industrial production had returned to growth and vehicle sales posted gains. However, companies are facing funding shortages and falling external demand, and the recovery in services is lagging.

In the rest of the region, economic conditions deteriorated in March and have remained stressed in April, reflecting closures and negative spillovers from the rest of the world. Regional interest rate spreads have spiked, and many countries have experienced sharp capital outflows and an adjustment of local currencies and asset prices. Domestic restrictions and external spillovers have resulted in a dramatic plunge in consumption, investment, production and trade flows, leading to the sharpest fall in activity since the Asian financial crisis for most countries.

Outlook: Growth in the region is projected to fall to 0.5% in 2020, the lowest rate since 1967, reflecting disruptions caused by the pandemic. China is expected to slow to 1% this year and rebound to 6.9 percent in 2021 as activity gradually normalizes there and as lockdowns are lifted around the world. The outlook is predicated on China and other major countries in the region avoiding a second wave of outbreaks. The assumption is that the severe slowdown in China in the first quarter and the rest of the region in the first half will be followed by a gradual and sustained recovery.

Economic activity in the rest of East Asia and Pacific is forecast to contract by 1.2% in 2020 before rebounding to 5.4% in 2021. Among major economies of the region, Malaysia (-3.1%), the Philippines (-1.9%), and Thailand (-5%) are forecast to experience the biggest contractions this year. This reflects domestic shutdowns, reduced tourism, disrupted trade and manufacturing, and spillovers from financial markets. Indonesia's economic activity is anticipated to be flat in 2020 while Vietnam's growth is forecast to slow to 2.8%. While not contractions, these growth rates would nevertheless be 5.1 percentage points and 3.7 percentage points lower than January forecasts.

Economic activity is expected to shrink sizably or to moderate substantially in some smaller export- and tourism- driven economies with limited policy space to mitigate the impact of the outbreak, such as Cambodia (-1%), Lao PDR (+1%), Fiji (-4.3%), and in other Pacific Islands. Forecast downgrades in these economies are associated with these countries' high dependence on tourism, remittances, and commodity exports.

The pandemic will likely further slow potential growth in the region by weakening investment and the supply chains that have been an important conduit for productivity gains over the last decade. The regional outlook will significantly deteriorate if global trade tensions re-escalate.

Risks: The balance of risks to the outlook is firmly tilted to the downside. The main risk is that the pandemic will last longer and have deeper effects than anticipated. Global financial stress could persist and cause further capital outflows. Vulnerabilities in some countries in the region – elevated debt, sizeable fiscal deficits, heavy reliance on volatile capital flows, and considerable foreign holdings of domestic debt --- could worsen the effects of stops in capital flows or higher borrowing costs. Repeated disruptions to global trade, re-escalation of trade tensions, and withdrawal from global value chains could deal further damage to the region. Should

any of these risks materialize, a downside scenario would envision economic activity in East Asia and Pacific contracting by 2.2% in 2020 with activity remaining well below trend in 2021.

[Download Global Economic Prospects](#)

East Asia and Pacific Country Forecasts

(Annual percent change unless indicated otherwise)

	2017	2018	2019e	2020f	2021f
GDP at market prices (2010 US\$)					
Cambodia	7.0	7.5	7.1	-1.0	6.0
China	6.8	6.6	6.1	1.0	6.9
Fiji	5.4	3.5	1.0	-4.3	1.9
Indonesia	5.1	5.2	5.0	0.0	4.8
Lao PDR	6.9	6.3	4.7	1.0	4.6
Malaysia	5.7	4.7	4.3	-3.1	6.9
Mongolia	5.3	6.9	4.8	-0.5	4.9
Myanmar	6.2	6.8	6.3	1.5	6.0
Papua New Guinea	3.5	-0.8	6.0	-1.3	3.4
Philippines	6.9	6.3	6.0	-1.9	6.2
Solomon Islands	3.7	3.9	2.7	-6.7	-0.3
Thailand	4.1	4.2	2.4	-5.0	4.1
Timor-Leste	-3.8	-0.8	3.4	-4.8	3.8
Vietnam	6.8	7.1	7.0	2.8	6.8

Source: World Bank.

Notes: e = estimate; f = forecast. World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other Bank documents, even if basic assessments of countries' prospects do not significantly differ at any given moment in time.

[Download this data](#)

World Bank Group COVID-19 Response

"The [World Bank Group](#), one of the largest sources of funding and knowledge for developing countries, is taking [broad, fast action](#) to help developing countries strengthen their pandemic response. We are supporting public health interventions, working to ensure the flow of critical supplies and equipment, and helping the private sector continue to operate and sustain jobs. We will be deploying up to \$160 billion in financial support over 15 months to help more than 100 countries protect the poor and vulnerable, support businesses, and bolster economic recovery. This includes \$50 billion of new IDA resources through grants and highly concessional loans."