

Growth will maintain momentum for poverty reduction but considerable risks remain, says World Bank East Asia and Pacific Economic Update

SINGAPORE, December 19, 2012 - Economies of developing East Asia and Pacific remained resilient despite the lackluster performance of the global economy. The World Bank's latest ***East Asia and Pacific Economic Update***

released today, projects the region will grow at 7.5 percent in 2012, lower than the 8.3 percent registered in 2011, but set to recover to 7.9 percent in 2013.

With weak demand for exports from global markets, domestic demand has remained the main driver of growth for most economies of the region. The region's economic performance in 2012, the report says, was affected by China's economic slowdown.

China's growth is projected to reach 7.9 percent this year, 1.4 percentage point lower than last year's 9.3 percent and the lowest growth rate since 1999. Weak exports and the government's efforts to cool down the overheating housing sector slowed down China's economy in 2012, but recovery has set in the final months of the year. In 2013, China's economy is expected to grow at 8.4 percent, fueled by fiscal stimulus and the faster implementation of large investment projects.

"The East Asia and Pacific region is becoming increasingly important for the world economy, and is expected to contribute almost 40 percent of global growth in 2012" said **World Bank Chief Economist for East Asia and Pacific Bert Hofman**

"With high growth rates sustained in the region, we expect poverty to continue to decline

The share of people living under \$2 a day in the region is forecast to reach 23.3 percent by the end of 2014, down significantly from 28.8 in 2010."

Developing East Asia, excluding China, is projected to grow 5.6 percent in 2012, up from 4.4 percent in 2011. The rebound in Thailand following the floods in 2011, strong growth in the Philippines, and relatively mild slowdowns in Indonesia and Vietnam contributed to this recovery. Continuing strong performances by Indonesia, Malaysia, and the Philippines will boost Developing East Asia, excluding China, to 5.7 percent in 2013 and 5.8 percent in 2014.

Another bright spot in the region is Myanmar's reengagement with the international community. The Myanmar economy continued to accelerate in fiscal year 2011-12, with GDP growth at 5.5 percent, and expected to reach 6.3 percent in fiscal year 2012-13. The government is moving ahead with reforms, but significant challenges remain for Myanmar to reach its potential, including addressing infrastructure constraints, improving financial and telecommunications sectors and sustainable management of natural resources.

The report notes that there are considerable risks that could slow the region's momentum, citing possible delays of reforms in the Eurozone, the "fiscal cliff" in the US, and a possible sharp decline in the growth of investments in China as among the sources of uncertainty.

The report also discusses the growing concern that renewed monetary expansion in the G-3 nations (comprising the United States, Japan and the countries in the Eurozone) could trigger a flood of capital into the region that could lead to asset bubbles and excessive credit growth, and raise the risk of sudden outflows in the future.

"The bulk of the capital flowing into the region consists of foreign direct investments, which creates jobs and growth in production capacity. Nevertheless, monetary authorities should closely monitor developments in their capital accounts," said Hofman. "Appropriate exchange rate arrangements and capital market development could provide a cushion against undesirable effects of capital inflows, while macro-prudential measures could guard against excessive credit growth."

World Bank Senior Economist Keiko Kubota, main author of the report, said *"If a shock in growth were to occur, most countries could counter the impact by easing their fiscal policies. For economies in the region that face difficulties in budget execution, particularly of the capital budget, fiscal interventions aimed at increasing private domestic demand such as targeted social assistance or investment tax credits, are very important."*

The East Asia and Pacific Economic Update is the World Bank's comprehensive review of the

region's economies. It is published twice yearly and is available on our website at <http://www.worldbank.org/eapupdate>.