



Chapter 1.

# Macroeconomic Prospects and Challenges

# Highlights

- The post-pandemic “recovery” year of 2022 was beset by new challenges as the region was buffeted by multiple external shocks. In early 2022, when most economies were battling the highly transmissible Omicron variant of COVID-19, the Russia-Ukraine conflict escalated into a crisis and sent global commodity prices soaring to multiyear highs. Record high inflation and the release of pent-up consumer demand forced faster and sharper monetary policy tightening in the United States. By the second half of the year, tighter financial market conditions had significantly slowed the growth momentum in advanced economies. Geopolitical tensions intensified throughout the year, while relentless waves of COVID-19 infections disrupted economic reopening efforts in some economies, especially China.
- Overall, the ASEAN+3 region grew at 3.2 percent in 2022. The lifting of COVID-19 containment measures led to a surge in consumer spending and investment, helping to offset the drag on exports in the second half of the year. Meanwhile, inflation in the region rose to 6.5 percent in 2022, due mainly to supply disruptions caused by the Ukraine crisis, the release of pent-up demand in advanced economies, and the lingering impact of supply chain bottlenecks. Timely administrative and policy measures helped to prevent inflation in the ASEAN+3 region from spiraling higher. In financial markets, the US Federal Reserve’s aggressive rate hikes led to a sharp spike in risk aversion, currency depreciations, and large portfolio capital outflows from the region in the first three quarters of 2022. By October, the outlook for portfolio capital flows in the region had improved on market expectations that the US Federal Reserve would slow the pace of rate increases in 2023.
- Looking ahead, growth in ASEAN+3 is expected to be anchored by domestic demand as economic recovery gains traction. The region’s goods export growth is projected to weaken as global demand slows. However, this will be counterbalanced to some extent by the strengthening of services exports (notably tourism) as border restrictions are lifted throughout the region. AMRO staff forecast the region to grow at a faster pace of 4.6 percent in 2023, driven by strong recovery in the Plus-3 economies, especially China. Headline inflation is forecast at 4.5 percent in 2023, lower than in 2022. In 2024, growth is expected to be sustained at 4.5 percent, and inflation to moderate to 3.0 percent.
- The growth outlook for ASEAN+3 is fraught with uncertainties. The most immediate risk is the possibility of another shock to global energy prices should the ongoing Ukraine crisis escalate. At the same time, if tightening financial conditions trigger a much sharper US economic slowdown than currently envisaged, spillovers to the rest of the world would be significant. A global energy shock in conjunction with a global economic slowdown would be a major blow to the region. In China, prolonged weakness in the real estate sector would weigh on consumer and investor confidence and could hinder the economy’s recovery, dragging down regional growth. The possible emergence of more virulent COVID-19 variants is still a risk. In the medium term, further deepening of the strategic rivalry between the United States and China could fragment the global economy into ideological blocs and undermine the region’s growth prospects.
- Policymakers in the region are largely ending the extraordinary stimulus measures introduced during the pandemic and shifting to restoring policy buffers. Rising inflation and a less supportive global economic landscape have compelled monetary policy tightening in some economies, while maintaining targeted fiscal support to safeguard growth. ASEAN+3 authorities will continue to face sharp policy tradeoffs and difficult policy decisions in the year ahead. A calibrated policy mix, drawing on a range of policy tools, will be essential to navigate the challenges of 2023.