

KEY ECONOMIC DEVELOPMENTS IN 2022



2022 was a pandemic turning point for the ASEAN+3 region. Daily new COVID-19 (Omicron) cases surged at the beginning of the year but have largely receded across ASEAN after peaking in mid-April. Many economies started to treat the virus as endemic, further easing containment measures. With border restrictions fully lifted, travel and tourism activities resumed, helping to support the recovery in contact-intensive services, which were hit hard by the pandemic. Mobility levels continued to trend upwards as economic re-opening gained traction in Japan and Korea, despite a wave of new infections in the second half of the year. By the end of the year, China had decided to end its dynamic zero-COVID policy and both China and Hong Kong lifted their containment measures and reopened their borders.

However, the region was confronted with multiple new shocks during the year. The outbreak of the Ukraine crisis in February led to soaring global commodity prices and exacerbated pandemic-related supply chain disruptions. The interplay between supply constraints and global demand recovery led to mounting cost pressures and an upsurge in global inflation. This prompted a synchronized bout of monetary policy tightening in major economies—which, in turn, fueled concerns of stagflation as demand slowed while inflation persisted. The ASEAN+3 region was not spared from the global

commodity price shocks, but inflation pressure was more contained compared to other regions in the world, thanks to cuts in import taxes and use of administered price control measures in several ASEAN economies. The region suffered spillovers from the aggressive rate hikes of the US Federal Reserve, as tighter global financial conditions led to sell-offs in equity and currency markets, higher borrowing costs, and capital outflows.

Despite these headwinds, the region's economic growth in 2022 remained robust. ASEAN, Japan, and Korea led the expansion, with domestic demand as the main driver. ASEAN economies, in particular, having ramped up their vaccination rates in the second half of 2021, were able to relax their containment measures and keep their economies open throughout 2022. Economic activities not only recovered but strengthened, driven by robust private sector spending reflecting strong pent-up demand. Growth was weaker in China, as mobility restrictions amid localized lockdowns across major cities in response to sporadic outbreaks throughout most of 2022, hampered the recovery.

Policymakers began to phase out extraordinary pandemic support policies. Broad-based emergency fiscal measures were gradually phased out and replaced with targeted support. As the global economic landscape turned less supportive and inflationary pressure heightened, policymakers in most economies tightened monetary policy or adjusted the degree of monetary accommodation to contain inflation and safeguard macroeconomic stability.

The economic outlook is challenging. ASEAN+3 is expected to grow moderately in 2023, in light of the slowing global economy and the normalization of domestic demand, particularly in ASEAN. On a positive note, the recent economic reopening in China and the resumption of international tourism could offer some upsides to growth, offsetting the drag from external demand.