

APD REO 2021 – Overview

The COVID-19 pandemic has taken a turn for the worse in some parts of the world, and the global economy is projected to grow by 5.8 percent in 2021 and by 4.9 percent in 2022 (0.2 percentage point lower for 2021 than in the July 2021 *World Economic Outlook Update*). Vaccine access has emerged as the principal fault line along which the global recovery splits into those that can look forward to further normalization of activity (mostly advanced economies) and those that face mounting hospitalizations and death tolls because of resurgent infections. Beyond 2022, global growth is projected to moderate to about [3.5] percent over the medium term. The ongoing rise in inflation is expected to be transitory, though uncertainty remains high.

The Asian outlook for 2021 has been downgraded by more than [1] percent to [6.5 percent] compared with the April 2021 *World Economic Outlook* because of new peaks of the pandemic cycle. As vaccination rates accelerate, the region is expected to grow slightly faster in 2022 than anticipated earlier. Although Asia Pacific remains the fastest growing region in the world, the divergence between Asian advanced economies and emerging and developing economies is deepening, reflecting vaccination coverage and policy support, and medium-term output levels in emerging and developing economies are expected to remain below pre-pandemic trends. Risks are tilted to the downside, mainly because of uncertain pandemic dynamics, vaccine efficacy against virus variants, supply-chain disruptions, and potential global financial spillovers from US monetary normalization in the presence of domestic financial vulnerabilities.

Policy must be responsive to this changed context, redoubling efforts to accelerate vaccinations, continuing macroeconomic support (policy space permitting) but with improved targeting, and accelerating reforms to develop new growth drivers. Achieving widespread vaccination is the foremost priority because delayed deployment and unequal access are contributing to more protracted recoveries. In addition, the global commodity price rebound and lingering global value chain (GVC) disruptions are fueling inflation and weighing on growth prospects. A less-dynamic recovery would call for longer-lasting policy accommodation, which in turn calls for vigilant financial regulation to preserve financial stability. Fiscal policies should continue to support the recovery but within medium-term fiscal frameworks to maintain credibility. Central banks should be prepared to act quickly if the recovery strengthens faster than expected or if inflation expectations rise. A push for social policies, structural reforms, and investments in digital and green sectors is needed to raise productivity and give a fair shot to schoolchildren and workers scarred by the pandemic.

This *Regional Economic Outlook* draws on two studies focused on the imperatives for a strong and durable recovery. Chapter 3 examines the determinants of COVID-19 vaccine rollouts and quantifies the effects of vaccinations on health and economic outcomes. It shows that vaccine deployment is driven primarily by the pandemic's severity in 2020, procurement strategies, the extent of local production, vaccine acceptance, and the quality of the health infrastructure. The chapter provides new empirical evidence that swift and broad administration of vaccines can provide a significant boost in economic activity, with the effect increasing over time and when a larger share of population gets vaccinated. Health benefits from vaccination are even more salient when a country is in the middle of a significant outbreak and containment measures are in place. Vaccine spillovers, quantified in the chapter, imply that no country can recover fully until all countries have broad access to vaccines.

Chapter 4 analyzes how trade liberalization can boost productivity and output potential, limiting regional scarring from the pandemic. Trade has historically been a powerful driver of growth and poverty alleviation in Asia, but its momentum—including GVC trade—has stalled, partly because of waning liberalization since the mid-1990s amid still-high trade restrictions. The analysis underscores the scope to reduce nontariff barriers (which are significantly higher in Asia than in other regions) to accelerate inclusive prosperity and build on the progress achieved through regional agreements such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership and the Regional Comprehensive Economic Partnership.