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Recovery in East and South Asia remains fragile, with global headwinds exacerbating existing vulnerabilities: UN report

Weakening external demand and global liquidity tightening cloud near-term economic outlook

Bangkok and New Delhi, 25 January – Many economies in East and South Asia are losing growth momentum amid challenging global and domestic conditions, according to **the United Nations World Economic Situation and Prospects (WESP) 2023**, which was launched today.

A series of severe and mutually reinforcing shocks — the COVID-19 pandemic, the war in Ukraine and resulting food and energy crises, surging inflation, debt tightening, as well as the climate emergency — battered the world economy in 2022. Against this backdrop, world output growth is projected to decelerate from an estimated 3.0 per cent in 2022 to 1.9 per cent in 2023, marking one of the lowest growth rates in recent decades.

The report presents a gloomy and uncertain economic outlook for the near term. Global growth is forecast to moderately pick up to 2.7 per cent in 2024 as some of the headwinds will begin to subside. However, this is highly dependent on the pace and sequence of further monetary tightening, the course and consequences of the war in Ukraine, and the possibility of further supply-chain disruptions.

“This is not the time for short-term thinking or knee-jerk fiscal austerity that exacerbates inequality, increases suffering and could put the SDGs farther out of reach. These unprecedented times demand unprecedented action,” said António Guterres, United Nations Secretary-General. “This action includes a transformative SDG stimulus package, generated through the collective and concerted efforts of all stakeholders,” he added.

Growth prospects in East and South Asia

Economic growth in East Asia is projected at 4.4 per cent in 2023, increasing from an estimated 3.2 per cent in 2022. The growth acceleration mainly reflects an improvement of the Chinese economy. Economic recovery overall, however, remains fragile. Many economies (other than China) in the region are losing steam amid fading pent-up demand, rising living costs and weakening export demand from the United States and Europe. Contractionary monetary and fiscal policies to curb inflationary pressures and rising fiscal challenges are expected to weigh on private consumption and investment.

China's economy is projected to grow by 4.8 per cent in 2023, following a weaker-than-expected growth of 3 per cent in 2022. Recurring COVID-19 related lockdowns and prolonged stress in the real estate market delayed China's recovery. Although the economy is forecast to accelerate with the Government abandoning its Zero-COVID policy in late 2022 and easing of monetary and fiscal policies, a surge in COVID-19 infections implies a possible bumpy reopening path.

Growth prospects in South Asia

GDP growth in South Asia is expected to slow to 4.8 per cent in 2023 from an estimated 5.6 per cent expansion in 2022 amid global monetary tightening, fiscal vulnerabilities, and extreme weather events. India's economic growth is projected to moderate to 5.8 per cent in 2023 from the estimated 6.4 per cent in 2022 as higher interest rates and a global economic slowdown will weigh on investment and export performance.

The outlook is more challenging for other countries in the region. In Pakistan, the economy is expected to expand by only 2.5 per cent in 2023, as devastating floods caused significant damages, particularly for agriculture, with spillover effects on related industrial and services sectors. Sri Lanka's economy contracted by an estimated 9.0 per cent in 2022 and is likely to shrink by another 3.2 per cent in 2023.

Downside risks

East and South Asia's near-term economic prospects face a deteriorating global environment. Weaker external demand will slow manufacturing activities and investment in export-dependent economies. While the expected recovery of China's economy should support growth across the region, a surge in COVID-19 infections in China may temporarily impede such an outcome.

Continued rate hikes in major developed countries could further tighten global liquidity, weaken domestic currencies, increase balance-of-payments vulnerabilities, and push up countries' debt servicing costs. Existing high levels of sovereign debt and unsustainable debt-servicing burdens prompted several countries in South Asia to seek multilateral financial support. Climate risks are expected to continue affecting many countries in the region, exacerbating food insecurity and adding further pressure on inflation.

According to the report, slower growth, coupled with elevated inflation and mounting debt vulnerabilities, threatens to further set back hard-won achievements in sustainable development, deepening the already negative effects of the current crises. Already in 2022, the number of people facing acute food insecurity had more than doubled compared to 2019, reaching almost 350 million. A prolonged period of economic weakness and slow income



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growth would not only hamper poverty eradication, but also constrain countries' ability to invest in the SDGs more broadly.

“The current crises are hitting the most vulnerable the hardest — often through no fault of their own. The global community needs to step up joint efforts to avert human suffering and support an inclusive and sustainable future for all,” said Li Junhua, United Nations Under-Secretary-General for Economic and Social Affairs.

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The full report will be available on 25 January 2023, 12:00 noon EST at:
<https://desapublications.un.org/>

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