

KEY ECONOMIC DEVELOPMENTS IN 2021



2021 was a bumpy year for the ASEAN+3 region. Building on the successful containment of the COVID-19 outbreaks in the previous year, economic recovery was steadily gaining momentum in early 2021. However, the sudden and large surge in COVID-19 cases in the region in the second and third quarters, due to the Delta variant of the virus, led to a retightening of containment measures which disrupted economic activities and resulted in a loss of growth momentum in most regional economies. Infections in the region increased five-fold to reach an all-time high of 124,577 daily cases in eight weeks. The tighter containment measures and the ramp-up in COVID-19 vaccinations stemmed the surge and new cases declined sharply by the end of the third quarter, which allowed an easing of mobility restrictions. However, a broader economic reopening was stalled by the outbreak of the highly infectious, albeit milder, Omicron variant at the end of the year, which has since subsided.

Apart from the COVID-19 pandemic, the region was also confronted with stronger headwinds from supply chain disruptions and higher inflationary pressure. Suspension of production activities due to containment measures in key global production nodes affected the flow of goods in the second and third quarters of the year. The supply bottlenecks were compounded by an upsurge in demand from the US and other major advanced economies, spurred by massive stimulus policies and the reopening of their economies in the first half of the year after vaccination progress. The

supply constraints and recovery in global demand, together with elevated commodity prices and the low-base effect, consequently led to higher global inflation. While inflation in the region has remained muted, the rise in global inflation prompted concerns that the US and other major advanced economies would tighten monetary policy earlier and more sharply than previously expected.

Policy support remained crucial for sustaining economic activity in most regional economies. Economic recovery in most ASEAN economies was interrupted by tighter containment measures. Policy support in the form of expansionary fiscal policy, regulatory forbearance and financial assistance was therefore increased in most economies to mitigate the impact of the tighter restrictions and to provide more targeted support to hard hit sectors of the economy. Monetary policy also remained accommodative. However, a few economies, particularly China, Korea and Singapore, saw a sustained improvement in economic activity which allowed for a tapering of policy support.

Despite the difficult environment, the region has remained resilient and recorded moderate growth in 2021. Following a slow start stemming mainly from a lack of vaccine supply, most economies ramped up their vaccination rate in the second half of the year, which allowed them to recalibrate their containment measures and keep their economies more open. The resilience of the regional economies was also due to continued, albeit more targeted, fiscal and financial support to the economy, thanks to the significant policy and financial buffers built up since the Asian financial crisis.

The economic outlook is brighter even though it remains challenging. The regional economies, especially ASEAN, are expected to rebound strongly in 2022, aided by the further easing of containment measures, including a gradual reopening of borders, in tandem with continued progress in vaccination coverage. However, the resurgence of COVID-19 continues to be the main risk affecting global and regional prospects. The massive fiscal and monetary support of the past two years should be gradually unwound although targeted support would still be needed to mitigate the economic scarring in certain sectors of the economy. In the medium term, the focus would need to shift toward rebuilding policy space to boost economic resilience against future crises.