

HIGHLIGHTS

- Growth in developing Asia lost some momentum in the second half of 2014 but is still roughly in line with projections in *Asian Development Outlook 2014 Update*. This *Supplement* sees the region expanding by 6.1% in 2014 and a slight pickup to 6.2% in 2015.
- In the People's Republic of China, growth moderated somewhat more than expected, but the economy should still expand by 7.4% in 2014, or 0.1 percentage points off of the earlier forecast, and by 7.2% in 2015. East Asia is now forecast to grow by 6.6% in 2014 and 6.5% in 2015.
- Expectations remain high for reform-driven growth in India. This *Supplement* maintains earlier forecasts for growth at 5.5% in fiscal year 2014 and 6.3% in FY2015. The outlook for South Asia as a whole is unchanged at 5.4% expansion in 2014, picking up to 6.1% in 2015.
- Growth in several large Southeast Asian economies disappointed in the first 9 months of 2014, prompting slight reductions to projections for Indonesia, the Philippines, Singapore, and Thailand. Subregional growth is expected to reach 4.4% in 2014 and 5.2% in 2015.
- Economic malaise in the Russian Federation is crimping remittances and trade in Central Asia, even as falling oil prices hurt the subregion's energy producers. Growth is now projected at 5.1% in 2014 and 5.4% in 2015, revised down by 0.5 percentage points for each year.
- Several governments have taken advantage of sharply lower global oil prices to rein in costly fuel subsidies, offsetting their mitigation of inflation. Still, inflation in developing Asia is expected to be somewhat lower than previously forecast, at 3.2% in 2014 and 3.5% in 2015.

GROWTH HESITATES IN
DEVELOPING ASIA

Growth outlook

The growth outlook for developing Asia remains steady, with the aggregate gross domestic product (GDP) expected to grow by 6.1% in 2014, the same as in the previous year but a slight downward revision from the 6.2% forecast in *Asian Development Outlook 2014 Update*. The regional economy is projected to expand a bit more quickly in 2015 at 6.2%, but still 0.2 percentage points short of the *Update* forecast. Growth projections are revised down for Central Asia, East Asia, and Southeast Asia. They are unchanged for South Asia and revised up for the Pacific (Table 1).

These marginal downward revisions to developing Asia's growth forecasts concur with forecasts for the major industrial economies, as their aggregate growth is revised a tick downward for 2014 and unchanged for 2015 (Box 1). While domestic factors also contribute to the softening outlook, there is upside growth potential from falling oil prices.

The price of Brent crude plummeted in the second half of 2014, falling by 45% since the end of June to below \$64 per barrel on 11 December. The year-to-date average of \$101 per barrel is 6.8% lower than the 2013 average price, and much lower than the \$105 forecast in the *Update*. Following the 28 November announcement by the Organization of the Petroleum Exporting Countries that it would maintain production at 30 million barrels per day, futures prices point to continued softness in the market, and Brent crude is now expected to average around \$70 per barrel in 2015. Depending on how long the price decline persists, it could boost growth in many countries. Simulations using the global projections model suggest that developing Asia, where most economies are net oil importers, could see an additional 0.5 percentage points of growth in 2015 if prices remain favorable to buyers.

East Asia

East Asia's subregional GDP growth projections are slightly lower than the steady 6.7% forecast in the *Update*. Now at 6.6% for 2014 and 6.5% for 2015, they reflect growth outcomes in the People's Republic of China (PRC) that fell below projections.

ADB's Regional Economic Outlook Task Force led the preparation of the revised outlook for this *ADO Supplement*. The Task Force is chaired by the Economics and Research Department and includes representatives from the Central and West Asia Department, East Asia Department, Pacific Department, Office of Regional Economic Integration, South Asia Department, and Southeast Asia Department.

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Table 1 Gross domestic product growth, developing Asia (%)

	2013	2014		2015	
		ADO 2014 Update	ADOS	ADO 2014 Update	ADOS
Developing Asia	6.1	6.2	6.1	6.4	6.2
Central Asia	6.5	5.6	5.1	5.9	5.4
Kazakhstan	6.0	4.5	4.3	5.2	4.6
East Asia	6.7	6.7	6.6	6.7	6.5
China, People's Rep. of	7.7	7.5	7.4	7.4	7.2
Hong Kong, China	2.9	2.5	2.3	3.2	3.2
Korea, Rep. of	3.0	3.7	3.5	3.8	3.8
Taipei,China	2.1	3.4	3.6	3.3	3.6
South Asia	4.7	5.4	5.4	6.1	6.1
India	4.7	5.5	5.5	6.3	6.3
Southeast Asia	5.0	4.6	4.4	5.3	5.1
Indonesia	5.8	5.3	5.1	5.8	5.6
Malaysia	4.7	5.7	5.7	5.3	5.3
Philippines	7.2	6.2	6.0	6.4	6.4
Singapore	3.9	3.5	3.2	3.9	3.5
Thailand	2.9	1.6	1.0	4.5	4.0
Viet Nam	5.4	5.5	5.6	5.7	5.8
The Pacific	4.5	5.3	5.4	13.2	13.4

ADO = Asian Development Outlook, ADOS = ADO Supplement.

Note: **Developing Asia** refers to 45 members of the Asian Development Bank.

Central Asia comprises Armenia, Azerbaijan, Georgia, Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan. **East Asia** comprises the People's Republic of China; Hong Kong, China; the Republic of Korea; Mongolia; and Taipei,China. **South Asia** comprises Afghanistan, Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan, and Sri Lanka. **Southeast Asia** comprises Brunei Darussalam, Cambodia, Indonesia, the Lao People's Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Viet Nam. **The Pacific** comprises the Cook Islands, Fiji, Kiribati, the Marshall Islands, the Federated States of Micronesia, Nauru, Palau, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu, and Vanuatu.

Sources: Asian Development Bank. 2014. *Asian Development Outlook 2014 Update*. Manila; Asian Development Bank. 2014. *Pacific Economic Monitor*, December; ADB estimates.

The moderation of GDP growth in the PRC seen over the first 9 months of 2014 is expected to extend into the fourth quarter as a correction in the real estate market continues and spills over into related sectors. However, consumption remained robust and labor markets healthy, thanks to expansion in labor-intensive services. The government therefore provided only targeted stimulus while maintaining its structural reform agenda. This and a positive contribution to growth from foreign trade will likely stabilize GDP growth for the whole of 2014 at 7.4%, the same rate as in January–September. As the government lowers its growth target to concentrate on structural reform, economic momentum will likely weaken in 2015. The authorities are expected to stick to their proactive fiscal policy and prudent monetary policy—an approach designed to stabilize growth while corraling financial risks. Consequently, the GDP growth forecast for

the PRC is revised down to 7.4% for 2014 from 7.5% in the *Update*, and to 7.2% for 2015 from 7.4%.

The 2014 growth projections for the Republic of Korea and Hong Kong, China are somewhat scaled back from those in the *Update*. An improving external trade performance and a pickup in private consumption lifted third quarter growth in Hong Kong, China to 2.7% year on year from 1.8% in the second quarter, but economic activity in the fourth quarter has likely been undercut by political protests. Growth in the Republic of Korea slowed steadily over the first 3 quarters of 2014, from 3.9% year on year in the first quarter to 3.5% in the third. Weakening external demand more than offset expanding consumption and gross fixed investment. In both cases, forecast 2014 GDP expansion is tempered by 0.2 percentage points, to 2.3% in Hong Kong, China and to 3.5% in the Republic of Korea. In contrast, Taipei,China is enjoying a pickup in external demand on top of strong consumption and investment. Demand for information and communication technology products and other electronics brought a record \$45 billion in export orders in September. With growth for the first 9 months already averaging 3.6%, and with continued strong export performance for the remainder of the year, the forecast for 2014 is revised up to 3.6% from the 3.4% projected in the *Update*.

South Asia

The economic outlook for South Asia remains robust, with the subregion expected to meet *Update* projections of 5.4% growth in 2014 and 6.1% in 2015. Somewhat better-than-expected performances in the Maldives and Sri Lanka in 2014 are balanced by softness in Afghanistan and Bhutan. Strong domestic demand, supported by healthy remittance inflows, will continue to support growth in Bangladesh in FY2015 (ending 30 June 2015). In Pakistan, reform pursued under an International Monetary Fund program helped stabilize macroeconomic indicators, notably foreign exchange reserves and inflation. The economy should benefit from falling prices for oil, as this commodity makes up 35% of imports.

India is on track to reach the *Update* forecast of growth at 5.5% in FY2014 (ending 31 March 2015) after expanding by 5.7% in the first quarter and 5.3% in the second. The pace is expected to accelerate to 6.3% in FY2015, driven by continued service sector growth and progress on reform to support investment. By eliminating diesel fuel subsidies, the government has demonstrated its willingness to tackle contentious reforms, but it must extend its efforts. Improved consumer and business sentiment, higher profit margins, less uncertainty over policy, and gathering momentum in government reform efforts all point to consumer discretionary demand and investment demand gradually picking up. In addition, the narrowing of the current account deficit and easing inflation provide scope for the central bank to loosen monetary policy, which could further bolster consumption and investment. On the other hand, excess fiscal

Box 1 Outlook for the major industrial economies

The pace of recovery in the major industrial economies—the United States (US), the euro area, and Japan—is revised down slightly from the *Update*, as a weak third quarter performance in Japan overshadows unexpected strength in the US (box table). GDP growth in the advanced economies is now forecast to average 1.4% in 2014 before picking up to 2.1% in 2015.

Gross domestic product growth in the major industrial economies (%)

Area	2013	2014		2015	
	Actual	ADO 2014 Update	ADOS	ADO 2014 Update	ADOS
Major industrial economies	1.2	1.5	1.4	2.1	2.1
United States	2.2	2.1	2.2	3.0	3.0
Euro area	-0.4	0.8	0.8	1.0	1.0
Japan	1.5	1.0	0.2	1.4	1.5

ADO = Asian Development Outlook, ADOS = ADO Supplement.

Note: Average growth rates are weighed by gross national income, Atlas method..

Sources: Asian Development Bank. 2014. *Asian Development Outlook 2014 Update*. Manila; ADB estimates.

The recovery in the US has been somewhat stronger than the expectations underlying the *Update*. The final growth figure for the second quarter was lifted to a seasonally adjusted annualized rate (saar) of 4.6%, and the third quarter growth estimate came up strong at 3.9%. Continued decline in the unemployment rate and strong figures for the purchasing managers' index and retail sales all suggest that economic recovery in the US is maintaining its steam. With new data releases confirming a robust pace of recovery, this year's growth outlook is bumped up 0.1 percentage points to 2.2%, the same rate as in 2013, before picking up to 3.0% in 2015.

The euro area recorded a saar of 0.6% in the third quarter of 2014. This and an upward revision of second quarter growth to a saar of 0.3% mean modest expansion and relief that the euro area did not slip back into a recession. Recent indicators suggest, however, that the outlook is still subdued. Industrial production rose by a seasonally adjusted 0.6% in September, and the purchasing managers' index of 51.1 foretells only mild expansion. Consumer spending also appears to be weak, as retail sales gained only 0.4% in October. The consumer confidence index declined further in November. The unemployment rate remained at 11.5% in October, unchanged for 3 months. The risk of deflation persists as the inflation rate remains close to zero. The

harmonized index of consumer prices increased from 0.3% to 0.4% in October, but it languishes well below the central bank's inflation target of 1.0%.

The assumptions underlying euro area growth projections—that the recovery has not built momentum and that downside risks are great—are unchanged from the *Update*. The growth forecasts of 0.8% for 2014 and 1.0% for 2015 are maintained.

The Japanese economy entered a technical recession after GDP contracted for the second consecutive quarter. The saar of -1.9% in the third quarter 2014 reflected domestic and external demand that remain fragile. Private consumption rebounded from the second quarter's record drop by a saar of -18.8% to a mild 1.5% increase in third quarter, and public spending expanded, but private investment subtracted a substantial 3.5 percentage points from growth. However, as the drop in investment was a result of businesses running down inventories, this should be reversed in the coming quarters. The external sector contributed 0.3 percentage points to growth, but this was less than the 4.2 percentage point contribution in the second quarter that reflected strong recovery in imports. It was a disappointing outcome given the weakening of the yen.

With the unexpectedly poor third quarter outcome, Japan's GDP growth in 2014 is now seen slowing to 0.2% from the 1.0% forecast in the *Update*. The surprise weakness in the third quarter led the government to postpone for 18 months the second hike in the value-added tax rate—a move that should support the continued expansion of private consumption. Growth is expected to pick up to 1.5% in 2015.

Australia's economic growth slowed further to a saar of 1.4% in the third quarter, down from 2.0% in the second quarter. Exports and consumption contributed positively to growth, but investment became a drag. Forward-looking indicators are mixed. Retail sales and consumer confidence have improved, and the manufacturing index climbed above 50 in November, indicating expansion, but the business sentiment index declined in October. In sum, the outlook for Australia is for stable growth, though high unemployment, at 6.2% in October, and the long-term decline in mining investment pose risks. Economic expansion moderated in New Zealand, with GDP growth slowing from a saar of 5.7% in the first quarter to 1.9% in the second. Exports dragged on growth, and the contribution of investment was small. Domestic consumption and imports contributed significantly to growth. Retail sales increased as the unemployment rate and business confidence improved. Despite the slight slowdown, indicators continue to suggest an outlook for robust economic growth in New Zealand.

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expenditure in the first half of 2014 may push the government to tighten fiscal policy to meet its fiscal targets, perhaps dampening growth.

Southeast Asia

The 2014 and 2015 GDP growth forecasts for most Southeast Asian economies are trimmed, bringing down growth projections for the subregion as a whole. Southeast Asia's aggregate GDP is projected to expand by 4.4% in 2014 and 5.1% in 2015, revised down from 4.6% and 5.3% in the *Update*.

In Indonesia, GDP growth decelerated further to 5.0% in the third quarter of 2014. Though private consumption remained robust as expected, gross fixed investment and net exports contributed less to GDP growth than in the second quarter. Investment recovery following the elections has been slower than anticipated, and recovery in export markets remains uncertain. As in India, the new government took advantage of declining international oil prices to curb fuel subsidies. However, to contain inflationary expectations that could stem from the rise in fuel prices, the central bank has maintained relatively tight monetary policy, raising its policy rate by 25 basis points to 7.75% on 18 November. Growth projections are revised marginally downward from the *Update*, from 5.3% to 5.1% for 2014 and from 5.8% to 5.6% for 2015.

Malaysia's economy is slowing after strong growth in the first half of 2014. Growth slowed to 5.6% year on year in the third quarter from a revised 6.5% the quarter before. Slowing investment and exports offset a pickup in government spending and private consumption. The *Update* anticipated that growth would moderate in the second half of 2014, largely reflecting the high base after relatively rapid growth in the second half of 2013. Growth forecasts are therefore maintained at 5.7% for 2014 and 5.3% for 2015.

After GDP in the Philippines rose by 6.1% in the first half, the growth pace fell back to 5.3% in the third quarter. Robust private consumption and higher private investment and net exports were insufficient to balance unexpectedly weak public spending. As growth in the first 9 months of the year reached only 5.8%, the 2014 GDP growth forecast is downgraded by 0.2 percentage points to 6.0%. Continued strong household consumption bolstered by steady growth in remittances and increases in domestic employment will, along with improved government spending, support a pickup in growth next year and the *Update's* growth forecast of 6.4% for 2015.

Singapore saw growth halve from a rapid 4.8% year on year in first quarter to 2.4% in the second and third quarters. While manufacturing output is expanding—and the shift in the purchasing managers' index above the 50 threshold foretells further expansion in the sector—the growth contribution from services has been nearly flat. The forecast expansion is trimmed by 0.3 percentage points to 3.2% in 2014 and by 0.4 percentage points to 3.5% in 2015.

In Thailand, economic activity was slow to pick up in the third quarter despite the end to political turmoil. GDP expanded by only 0.6% year on year in the third quarter,

such that the economy expanded by only 0.2% in the first 9 months of 2014. Export performance continued to be weak, and recovery in domestic demand was gradual. As a result, the growth forecast for the whole year is revised down to 1.0% from 1.6% in the *Update*. Reflecting a more conservative view of the economy's near-term recovery, the forecast for 2015 is revised down to 4.0% from 4.5%.

Viet Nam expanded by 5.6% in the first 3 quarters of 2014. Private consumption grew at 5.1% in this period, reflecting better economic conditions and improved consumer confidence. Foreign investment soared by 14% over the same period in 2013, pushing all investment up by 4.8% despite domestic investment being hampered by slow credit growth. In addition, growth in exports is outpacing that of imports. Factory riots caused by tensions with the PRC earlier in the year have hindered economic activity less than expected, such that the 2014 growth forecast is revised up by 0.1 percentage points to 5.6%. Recent reductions in interest rates should help loosen credit conditions and improve domestic investment. Consequently, the growth forecast for 2015 is also edged up by 0.1 percentage points, to 5.8%.

Central Asia

Most economies in Central Asia are feeling the drag of the slowdown in the Russian Federation. Declining oil prices and the impact of sanctions imposed by the United States and Europe are pushing the Russian Federation toward recession; in the second quarter of 2014, GDP growth was the slowest since 2009 and the global financial crisis. Central Asian economies are feeling the impact through reduced remittance inflows and muted external demand, which is undermining growth in Armenia, the Kyrgyz Republic, and Uzbekistan. Positive news in Tajikistan (where robust construction is more than compensating for the effect of the slowdown in the Russian Federation) and in Turkmenistan (where climbing gas exports are expected to boost 2015 growth) is insufficient to offset slowdowns in the rest of the subregion. The aggregate growth projections for Central Asia are revised down to 5.1% from 5.6% for 2014 and to 5.4% from 5.9% for 2015.

Kazakhstan, the largest economy in Central Asia, is affected by spillover from the economic slowdown in the Russian Federation, its main trading partner—and as the declining ruble temporarily makes Russian Federation exports other than oil more competitive. In January 2015, the two countries and Belarus will launch an economic union. Kazakhstan depends on exports of oil and ferrous metals, commodities that saw steep price declines in 2014. The fiscal break-even oil price—the minimum price able to balance the government budget—is projected to be \$68 per barrel in 2015, which is close to the current price. In November 2014, the government announced an economic support program worth \$3 billion annually for 2015–2017. Setting aside oil, GDP is expected to grow by 6.3% in 2014 and 6.4% in 2015. The growth forecast is revised down from 4.5% in the *Update* to 4.3% for 2014 and from 5.2% to 4.6% for 2015.

The Pacific

Economic growth in the Pacific is seen to spike at 13.4% in 2015—multiples above 4.5% in 2013 and 5.4% in 2014—as Papua New Guinea enjoys a burst of growth in its first full year of liquefied natural gas exports. This forecast is modestly higher than in the *Update*, as prospects in some economies have improved. Indicators suggest Fiji's economy is continuing to build on gains in tourism and export earnings—particularly from shipments of sugar and mineral water—and business confidence appears to be growing in the aftermath of elections in September 2014. Development partners' reengagement with Fiji in response to the elections is also seen to boost growth prospects, and stronger economic integration is expected to generate positive spillover for the rest of the Pacific subregion. Log exports from Solomon Islands have recovered strongly since the April 2014 floods, while gold production looks likely to remain suspended for an extended period. In Palau, a rebound in tourism and construction in late 2014 pushed actual GDP growth in FY2014 (ended 30 September) slightly higher than forecast in the *Update*—in part a base effect as revised FY2013 data showed a deeper contraction than earlier estimated. Growth in Palau is expected to accelerate further in FY2015 as tourist arrivals pick up.

Inflation outlook

Declining commodity prices are keeping regional inflation in check. As mentioned above, oil prices declined more sharply than expected in the *Update*, but oil is not the only commodity whose price declines have exceeded expectations. Good supply conditions have kept food prices on the decline, with year-on-year price changes consistently negative for the past 21 months. While not as dramatic as the drop in oil prices, the food price index was down by 7.5% year on year in November, with indices for both grains and edible oils lower than a year earlier.

These factors are keeping regional inflation in check. The *Update* downgraded the inflation forecast for 2014 to 3.4%, rising to 3.7% in 2015. But with oil and commodity prices falling further, most developing Asian economies have reduced their inflation forecasts. The inflation forecast for the region is therefore further downgraded to 3.2% in 2014 and 3.5% in 2015 (Table 2).

Inflation in East Asia is revised down—from 2.4% in the *Update* to 2.2% for 2014 and from 2.9% to 2.6% for 2015—mainly because of easing price pressures in the PRC. Softer domestic demand combined with lower global commodity prices is expected to push headline consumer price inflation down to 1.6% in October. The index has been falling since March 2012 on account of excess capacity in such industries as steel and cement, and of subdued global commodity prices. Headline inflation is expected to pick up somewhat as administered prices are raised in line with government reform of prices for energy, water, and other utilities, as well

Table 2 Inflation, developing Asia (%)

	2013	2014		2015	
		ADO 2014 Update	ADOS	ADO 2014 Update	ADOS
Developing Asia	3.4	3.4	3.2	3.7	3.5
Central Asia	6.0	7.6	6.8	7.0	6.8
Kazakhstan	5.8	8.7	7.6	7.7	7.5
East Asia	2.4	2.4	2.2	2.9	2.6
China, People's Rep. of	2.6	2.4	2.2	3.0	2.6
Hong Kong, China	4.3	3.8	4.0	3.7	3.7
Korea, Rep. of	1.3	2.0	2.0	2.4	2.4
Taipei, China	0.8	1.4	1.4	1.5	1.5
South Asia	6.2	6.1	5.5	5.9	5.6
India	6.0	5.7	5.0	5.5	5.3
Southeast Asia	4.2	4.1	4.3	4.7	4.5
Indonesia	6.4	5.8	6.4	6.9	6.7
Malaysia	2.1	3.3	3.3	3.6	3.6
Philippines	3.0	4.4	4.4	4.1	4.1
Singapore	2.4	2.0	1.4	2.3	1.7
Thailand	2.2	2.2	2.1	2.6	2.3
Viet Nam	6.6	4.5	4.2	5.5	5.5
The Pacific	4.5	4.5	4.2	4.5	4.5

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Note: **Developing Asia** refers to 45 members of the Asian Development Bank. **Central Asia** comprises Armenia, Azerbaijan, Georgia, Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan. **East Asia** comprises the People's Republic of China; Hong Kong, China; the Republic of Korea; Mongolia; and Taipei, China. **South Asia** comprises Afghanistan, Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan, and Sri Lanka. **Southeast Asia** comprises Brunei Darussalam, Cambodia, Indonesia, the Lao People's Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Viet Nam. **The Pacific** comprises the Cook Islands, Fiji, Kiribati, the Marshall Islands, the Federated States of Micronesia, Nauru, Palau, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu, and Vanuatu.

Sources: Asian Development Bank. 2014. *Asian Development Outlook 2014 Update*. Manila; *Pacific Economic Monitor*, December; ADB estimates.

as higher pork prices. Inflation in the PRC should average 2.2% in 2014, and continued reform of administered prices should lift inflation back to 2.6% in 2015.

Inflationary pressures have receded across South Asia, with lower inflation forecast for India, the Maldives, Nepal, and Sri Lanka while most projections for others remain steady. In India, tight monetary policy and a dip in economic activity have tempered price pressures, slowing consumer price inflation from 7.7% in April 2014 to 5.9% in October, as wholesale price inflation dropped from 4.0% to 2.5% in the same period. The Indian authorities have taken advantage of falling international oil prices to remove energy subsidies, so the policy change should have only a muted impact on inflation. However, the expected uptick in economic growth should spark slightly higher inflation in FY2015.

Southeast Asia is the only subregion with an upward revision to its 2014 inflation forecast, from 4.1% to 4.3%. Indonesia is the main reason, because inflation there

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accelerated by 0.6 percentage points to 6.4% as electricity tariffs were raised and fuel subsidies were reduced, and as unfavorable weather pushed up food prices. The effect of higher administered prices on inflation is expected to be short-lived, however, and the rate should taper toward the end of 2015. In Malaysia, inflation rose marginally from 3.2% in July 2014 to 3.3% in August, the highest in 2 years. The producer price index recorded slower growth in the third quarter, at 0.9% year on year, on account of lower global prices for minerals, fuels, and lubricants. Inflation is likely to accelerate as the fuel subsidy is reduced in October and a tax on goods and services is implemented in April. The *Update* inflation forecasts of 3.3% for 2014 and 3.6% for 2015 are retained.

In Central Asia, the subregional inflation forecast is revised down in line with easing in Azerbaijan and Kazakhstan, which more than offsets surprisingly strong price pressures in the Kyrgyz Republic and Tajikistan and stable inflation elsewhere. Inflation projections are now 6.8% for 2014, down from 7.6% in the *Update*, and 6.8% for 2015, down from 7.0%.

Inflation in the Pacific subregion is projected to ease from 4.5% in 2013 to 4.2% in 2014 as global commodity prices decline and inflationary pressures in Fiji moderate. Increased consumption and higher tobacco taxes and medical and educational fees in Palau have brought higher inflation, which is expected to continue through next year. Subregional inflation is projected to return to 4.5% in 2015.

Asian Development Outlook Supplement

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Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to approximately two-thirds of the world's poor: 1.6 billion people who live on less than \$2 a day, with 733 million struggling on less than \$1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

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