Asia remains resilient, amid divergent recovery paths

Yasuyuki Sawada
Chief Economist, Asian Development Bank

27 April 2021
• Renewed COVID-19 outbreaks show **the pandemic is far from beaten**, and vaccination plans are still in early stages

• **Recovery paths diverge**, as exports boost growth in some economies, while containment and travel restrictions restrain it in others

• Developing Asia’s **growth will rebound** to 7.3% in 2021 and 5.3% in 2022, while inflation will remain muted at 2.3% in 2021 and 2.7% in 2022

• The **main risk still stems from the pandemic**

• The **theme chapter, Financing a Green and Inclusive Recovery**, documents the rapid rise of green and social finance and the positive impacts it can bring
After peaking in September, new cases declined, but they have recently picked up in many parts of developing Asia. Vaccination progress is uneven and is in early stages in most of the region’s larger economies.

### Covid-19 daily cases

New cases, 7-day moving average, per million population

- Central Asia
- East Asia
- South Asia
- The Pacific
- Southeast Asia
- Developing Asia

### Total doses administered per 100 people

Developing Asia average: 5.2
Global average: 7.7

Note: Developing Asia average is a population-weighted average. Data is as of 31 Mar 2021.
Sources: Bloomberg; CEIC Data Company.
Growth improved in most large regional economies in Q4, but to varying degrees, supported by improving domestic and external conditions.

PRC = People’s Republic of China, ROK = Republic of Korea, yoy = year on year.
Data refers to calendar year quarters.
Source: CEIC Data Company.
Manufacturing activity continued to improve in early 2021…

...accompanied by a faster-than-expected recovery of exports.

PRC = People’s Republic of China; Developing Asia excluding the PRC comprises Hong Kong, China; Indonesia; the Republic of Korea; Malaysia; Pakistan; the Philippines; Singapore; Taipei, China; Thailand; and Viet Nam.

Source: CPB World Trade Monitor.
Remittances were relatively resilient, but with wide variation; declines were large in much of Central Asia.

International tourist arrivals, on the other hand, have mostly remained depressed.

Note: The sample is restricted to economies where tourism accounted for at least 5% of GDP in the latest year with available data during 2017–2019. Sources: CEIC Data Company; national sources.

Note: The sample is restricted to economies where remittances accounted for at least 1% of GDP in 2019. Sources: International Monetary Fund; World Bank.
Risk premiums continued to recede since late 2020, but widened slightly in March on rising US bond yields.

Most regional currencies strengthened against the USD since Q4 2020, but a few continued to depreciate.
### GDP growth in developing Asia, in %

<table>
<thead>
<tr>
<th>Region</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>East Asia</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hong Kong, China</td>
<td>-6.1</td>
<td>4.6</td>
<td>4.5</td>
</tr>
<tr>
<td>People’s Republic of China</td>
<td>2.3</td>
<td>8.1</td>
<td>5.5</td>
</tr>
<tr>
<td>Republic of Korea</td>
<td>-1.0</td>
<td>3.5</td>
<td>3.1</td>
</tr>
<tr>
<td>Taipei, China</td>
<td>3.1</td>
<td>4.6</td>
<td>3.0</td>
</tr>
<tr>
<td><strong>South Asia</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bangladesh</td>
<td>5.2</td>
<td>6.8</td>
<td>7.2</td>
</tr>
<tr>
<td>India</td>
<td>-8.0</td>
<td>11.0</td>
<td>7.0</td>
</tr>
<tr>
<td>Pakistan</td>
<td>-0.4</td>
<td>2.0</td>
<td>4.0</td>
</tr>
<tr>
<td><strong>Central Asia</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>-2.6</td>
<td>3.2</td>
<td>3.5</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>1.6</td>
<td>4.0</td>
<td>5.0</td>
</tr>
<tr>
<td><strong>The Pacific</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fiji</td>
<td>-19.0</td>
<td>2.0</td>
<td>7.3</td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>-3.3</td>
<td>2.5</td>
<td>3.0</td>
</tr>
<tr>
<td><strong>Developing Asia</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bangladesh</td>
<td>5.2</td>
<td>6.8</td>
<td>7.2</td>
</tr>
<tr>
<td>India</td>
<td>-8.0</td>
<td>11.0</td>
<td>7.0</td>
</tr>
<tr>
<td>Pakistan</td>
<td>-0.4</td>
<td>2.0</td>
<td>4.0</td>
</tr>
<tr>
<td><strong>Excluding NIEs</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bangladesh</td>
<td>0.0</td>
<td>7.7</td>
<td>5.6</td>
</tr>
</tbody>
</table>

Note: Data for Bangladesh, India, and Pakistan are on fiscal year basis, with FY2021 ending 30 June 2021 for Bangladesh and Pakistan and ending 31 March 2022 for India.

Source: Asian Development Outlook database.
Developing Asia contracted mildly as resilience in the PRC offset weaknesses elsewhere

A. Developing Asia
B. People’s Republic of China
C. India
D. Rest of developing Asia

Source: Asian Development Outlook database.
インフレは穏やかに推移

Economic slack due to the pandemic will dampen inflation this year.

Inflation in developing Asia

Source: Asian Development Outlook database.
The most significant threat to the outlook is an unfavorable evolution of the COVID-19 pandemic—significant renewed outbreaks, and delayed vaccine programs.

Other risks to the outlook include geopolitical tensions (including between the US and the PRC), political turmoil, supply chain bottlenecks, and possible tightening of financial conditions.

The COVID-19 pandemic may leave behind long-term scarring effects, such as learning losses from school closures or limited ability to invest in a green and inclusive recovery.
新型コロナは教育に大きな影響

Schools were closed to varying degrees across developing Asia, leading to substantial learning losses.

Number of days schools were partially or fully closed

February 2020 to April 2021

### Present value of lost future earnings

<table>
<thead>
<tr>
<th>Subregion</th>
<th>Losses in lifetime earnings, current $ million</th>
<th>Losses in lifetime earnings, % of 2020 GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Optimistic</td>
<td>Intermediate</td>
</tr>
<tr>
<td>Central Asia</td>
<td>8,127</td>
<td>11,361</td>
</tr>
<tr>
<td>East Asia</td>
<td>551,989</td>
<td>896,251</td>
</tr>
<tr>
<td>South Asia</td>
<td>171,866</td>
<td>195,787</td>
</tr>
<tr>
<td>Southeast Asia</td>
<td>109,454</td>
<td>147,503</td>
</tr>
<tr>
<td>The Pacific</td>
<td>169</td>
<td>247</td>
</tr>
<tr>
<td><strong>Developing Asia</strong></td>
<td><strong>841,604</strong></td>
<td><strong>1,251,149</strong></td>
</tr>
</tbody>
</table>

Note: These estimates do not include the following economies because data are not available for at least one parameter: Afghanistan; Bhutan; Cook Islands; Hong Kong, China; Maldives; Micronesia; Kiribati; Marshall Islands; Niue; Palau; Papua New Guinea; Solomon Islands; Taipei, China; Tonga; and Tuvalu.
新型コロナからの復興にはグリーン/ソーシャル・ファイナンスが重要

Asia Pacific region’s annual investment requirements, 2016-2030, to meet SDGs (by broad SDG sectoral groupings)

$1.5 trillion annual investment (4% regional GDP)

- Developing Asia needs to build back better
- Green and social finance are specifically targeted toward SDGs
- With limited public resources, private capital must be mobilized.

ICT = information, communications and technology, SDG = sustainable development goals, WSS = water, sanitation, and safe water. Source: UNESCAP (2019).
近年、急速に成長しているソーシャル/グリーン・ファイナンス

Asia accounts for around 20% of global green bond Issuance…

.. and is the world’s 2nd largest regional social bond market after Europe.

Factors driving green and social finance

Changing stakeholder preferences
Hedging and mitigating sustainability risks
Greater resilience under shocks

Source: Bloomberg
企業や投資家は、金融インセンティブに基づき持続可能な事業活動を志向

After the ratification of the Kyoto Protocol, high emitting Australian firms witnessed increase in relative financing costs

Stock prices respond positively to green bond issuance announcements in Asia

0.5% 16-day cumulative abnormal stock return around announcement of green bond issuance (8% annualized)
Asian green bond issuers show improved environmental score after green bond issuance

1 year post issuance: 17%
2 year post issuance: 30%

Innovative instruments such as impact bonds help achieve social impacts efficiently and effectively

A typical Social Impact Bond (SIB)

- Investors
- Up-front investment
- Working capital
- Service provider
- Target population
- Social outcome report
- Outcome measurement and assessment
- Payment contingent to the achievement of the outcomes
複数の資金調達手段が民間セクターの資本を補完・触媒

• Fiscal revenues for SDG-oriented public spending remains important

• Microfinance provides vital financial services to underserved groups

• Carbon pricing helps to close the funding gap during the low-carbon transition

• Multilateral development banks can be a catalyst for unlocking green and social finance

Asia & Pacific sees a growing momentum in the use of carbon pricing instruments

<table>
<thead>
<tr>
<th>Year</th>
<th>Carbon tax</th>
<th>Emission trading system (national)</th>
<th>Emission trading system (sub-national)</th>
<th>Carbon tax or Emission trading system (national) considered or forthcoming</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2015</td>
<td>2</td>
<td>4</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>2020</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
</tbody>
</table>
ソーシャル／グリーン・ファイナンスの発展を支援するための政策

Align finance with SDGs while safeguarding financial stability
- Develop standards of disclosure and impact metrics aligned with international practice
- Incorporate sustainability risks into micro- and macroprudential frameworks
- Improve market infrastructure and ecosystem

Mobilize domestic resources
- Adopt effective tax policies to increase revenues for SDG oriented fiscal measures

Guide private capital

Strengthen public finance
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In most economies, the fiscal response in 2020 was much larger than during the Global Financial Crisis (GFC), while central banks reacted promptly and then maintained an accommodative monetary stance.


Regional headline inflation fell in 2020, but with substantial variation across sub-regions

Global commodity prices have been rising in the second half of last year

Inflation in developing Asia

- East Asia
- Southeast Asia
- South Asia
- Central Asia

% change, year on year

Global food and energy indexes

Source: World Bank Commodity Price Data (Pink Sheet) (accessed 3 April 2021)

Note: The Pacific is excluded because data is not available.

Source: CEIC Data Company (accessed 3 April 2021)
Working-hour losses in Asia in 2020 were severe, with South Asia sustaining the largest impact.

Poverty reduction was set back last year, but it will resume in 2021 and 2022.

Note: 2020 estimates and 2021 projections Working hours loss covers all workers (aged 15+) and refers to annual average based on ILO modelled estimates. A 10% loss indicates that hours worked were 10% below what we would have expected without the pandemic. Regions and subregions are based on ILO groupings.


Note: This only includes 34 developing Asian economies with available data.

Sources: World Bank’s PovcalNet Database (March 2021 update) and Asian Development Bank estimates.
Postponed reopening of economies weighs on growth prospects

- Social distancing measures relaxed only gradually in 2021.
- Consumption declines as a result of lower consumer confidence, higher unemployment, and lower disposable incomes.
- Investment takes a hit as investor sentiment deteriorates amid rising uncertainty over the recovery’s trajectory.

DA = developing Asia, CA = Central Asia, EA = East Asia, SA = South Asia, SEA = Southeast Asia, Pac = The Pacific.
Source: Global Economic Model, Oxford Economics.