Challenges to developing Asia’s recovery

• The three main headwinds to the recovery persist:
  ➢ Recurrent zero-COVID lockdowns in the PRC
  ➢ Russian invasion of Ukraine
  ➢ Tightening financial conditions and weaker global growth

• Developing Asia is now projected to grow more slowly: 4.2% in 2022 and 4.6% in 2023

• The inflation forecast is trimmed to 4.4% for 2022 but revised upwards to 4.2% for 2023.

• Multiple risks cloud the outlook
  ➢ Worsening of the three main headwinds
  ➢ Other risks (e.g., geopolitical tensions including US-PRC; climate change)
The pandemic is fading, and (most) economies are loosening pandemic restrictions

After surging early this year, COVID-19 cases have fallen and are at low levels.

Daily new COVID-19 cases, 7-day moving average

Government stringency index

After surging early this year, COVID-19 cases have fallen and are at low levels.

Pandemic restrictions eased continuously this year, but not in the PRC.

New cases, 7-day moving average, thousand

COVID-19 = coronavirus disease.
Source: Our World in Data (accessed 2 December 2022).

Note: The government stringency index measures on a 0-100 scale the degree of containment and closure policies. A higher score indicates a stricter response. Developing Asia line plots the average for all economies with data.
Increased mobility is underpinning a recovery in domestic demand

Mobility conditions have improved almost everywhere compared to earlier in the year.

As a result, monthly retail sales posted strong growth from May to September.

<table>
<thead>
<tr>
<th>Mobility in retail and recreation establishments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
</tr>
<tr>
<td>Philippines</td>
</tr>
<tr>
<td>India</td>
</tr>
<tr>
<td>Republic of Korea</td>
</tr>
<tr>
<td>Thailand</td>
</tr>
<tr>
<td>Viet Nam</td>
</tr>
<tr>
<td>Malaysia</td>
</tr>
<tr>
<td>Singapore</td>
</tr>
<tr>
<td>Hong Kong, China</td>
</tr>
<tr>
<td>Taipei, China</td>
</tr>
</tbody>
</table>

Note: Numbers refer to change in the number of visitors in retail and recreation areas or in time spent there relative to the baseline: the median day in the 5 weeks from 3 January to 6 February 2020. Shades of red indicate months with visitor traffic below the baseline and green above.

![Retail sales graph]

PRC = People’s Republic of China, ROK = Republic of Korea
Note: Bars plot the 5-month average of retail sales growth from May to September 2022. For Thailand, data from April to August is used as September data is not yet available.
The Caucasus and Central Asian economies have been resilient

Caucasus and Central Asia’s exports to Russia are about 50% higher than pre-pandemic levels

Exports to the Russian Federation

- Caucasus and Central Asia
- People’s Republic of China
- European Union
- United States

% change from 2018–2019 same month average

February 2022: Russian invasion of Ukraine

Caucasus and Central Asia = Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyz Republic, Tajikistan, Uzbekistan; PRC = People’s Republic of China
To generate the series for the Caucasus and Central Asia, country series are weighted by their GDP in purchasing power parity terms as of 2020. Source: IMF Direction of Trade Statistics.

Inflows of money to some Caucasus and Central Asian economies surged.

Monthly money transfers

- Armenia
- Georgia
- Kazakhstan
- Kyrgyz Republic

% change from 2018–2019 same month average

February 2022: Russian invasion of Ukraine

Source: National sources.
Inflation rose further, but it may have peaked in many economies.

Headline inflation rose steadily and to varying degrees this year, but it is now cooling across subregions—except in the Caucasus and Central Asia.

Headline inflation

Sources: CEIC Data Company and Haver Analytics (both accessed 5 December 2022).
As global financial conditions tightened, most regional currencies have depreciated this year.

Currencies depreciated against the US dollar, except for some economies in the Caucasus and Central Asia.

Exchange rate movements

Developing Asia weighted average depreciation: -10.4

Monetary policy tightening in the region has also accelerated

Central banks hiked rates more aggressively this year, to curb inflation and safeguard macro-financial stability.

ECB = European Central Bank; PRC = People’s Republic of China; US = United States.
Source: Bloomberg (accessed 8 December 2022).
Leading indicators already show signs of weakening

Manufacturing activity is losing steam, as the global slowdown weakens demand for developing Asia’s exports

Leading indicators: PMIs and new export orders

PMI = purchasing managers’ index, PRC = People’s Republic of China.
Note: The PMI is an indicator of business activity and has a value from 0 to 100. Values below 50 indicate deterioration, while above 50 indicate improvement.
PMI for Hong Kong, China are whole economy PMIs for October. For all other economies, figures refer to manufacturing PMI for November.
The global economy will slow further as tightening continues in advanced economies

Key advanced economies saw their PMIs in contractionary territory in November.

The Fed and ECB are expected to raise rates further, as inflation remains well above targets.

G3 Manufacturing PMI

PMI = purchasing managers’ index.
Note: The PMI is an indicator of business activity and has a value from 0 to 100. Values below 50 indicate deterioration, while above 50 indicate improvement.

G3 Policy rates

Note: Dashed lines denote rate hike expectations from Reuters surveys.
# A gloomy global outlook

*Growth in major advanced economies is expected to slow considerably in 2023.*

Baseline assumptions on the international economy

<table>
<thead>
<tr>
<th></th>
<th>2021 Actual</th>
<th>2022 Sep Update</th>
<th>2022 Dec ADOS</th>
<th>2023 Sep Update</th>
<th>2023 Dec ADOS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GDP growth, %</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Major advanced economies*</td>
<td>5.1</td>
<td>1.9</td>
<td>2.2</td>
<td>1.0</td>
<td>0.4</td>
</tr>
<tr>
<td>United States</td>
<td>5.9</td>
<td>1.6</td>
<td>1.7</td>
<td>1.0</td>
<td>0.4</td>
</tr>
<tr>
<td>Euro area</td>
<td>5.3</td>
<td>2.5</td>
<td>3.0</td>
<td>0.7</td>
<td>0.1</td>
</tr>
<tr>
<td>Japan</td>
<td>1.7</td>
<td>1.4</td>
<td>1.4</td>
<td>1.6</td>
<td>1.3</td>
</tr>
<tr>
<td>People's Republic of China</td>
<td>8.1</td>
<td>3.3</td>
<td>3.0</td>
<td>4.5</td>
<td>4.3</td>
</tr>
<tr>
<td><strong>Inflation (%)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Major advanced economies*</td>
<td>3.3</td>
<td>7.2</td>
<td>7.4</td>
<td>3.0</td>
<td>3.5</td>
</tr>
<tr>
<td>United States</td>
<td>4.7</td>
<td>8.0</td>
<td>8.0</td>
<td>3.2</td>
<td>3.2</td>
</tr>
<tr>
<td>Euro area</td>
<td>2.6</td>
<td>7.9</td>
<td>8.3</td>
<td>3.5</td>
<td>4.5</td>
</tr>
<tr>
<td>Japan</td>
<td>-0.2</td>
<td>2.1</td>
<td>2.1</td>
<td>0.8</td>
<td>2.0</td>
</tr>
<tr>
<td>Brent crude spot prices, average, $ per barrel</td>
<td>70.44</td>
<td>106.00</td>
<td>100.00</td>
<td>95.00</td>
<td>95.00</td>
</tr>
</tbody>
</table>

* Average growth rates are weighed by GDP purchasing power parity.

Sources: Bloomberg; CEIC Data Company; Haver Analytics; IMF World Economic Outlook; Asian Development Bank estimates.
### Growth in developing Asia will slow further in 2023

*Downgraded forecasts for the PRC and East Asia weigh on regional growth projections.*

<table>
<thead>
<tr>
<th>Region</th>
<th>2022 Sep Update</th>
<th>2022 Dec ADOS</th>
<th>2023 Sep Update</th>
<th>2023 Dec ADOS</th>
<th>2022 Sep Update</th>
<th>2022 Dec ADOS</th>
<th>2023 Sep Update</th>
<th>2023 Dec ADOS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developing Asia (DA)</td>
<td>4.3</td>
<td>4.2 ↓</td>
<td>4.9</td>
<td>4.6 ↓</td>
<td>5.3</td>
<td>5.4 ↑</td>
<td>5.0</td>
<td>5.0 ↓</td>
</tr>
<tr>
<td>DA excluding the PRC</td>
<td>5.3</td>
<td>5.4 ↑</td>
<td>5.3</td>
<td>5.0 ↓</td>
<td>3.9</td>
<td>3.0</td>
<td>5.3</td>
<td>5.0 ↓</td>
</tr>
<tr>
<td>East Asia</td>
<td>3.2</td>
<td>2.9 ↓</td>
<td>4.2</td>
<td>4.0 ↓</td>
<td>5.1</td>
<td>5.5 ↑</td>
<td>5.0</td>
<td>4.7 ↓</td>
</tr>
<tr>
<td>Hong Kong, China</td>
<td>0.2</td>
<td>-3.3 ↓</td>
<td>3.7</td>
<td>2.9 ↓</td>
<td>3.3</td>
<td>5.4 —</td>
<td>5.0</td>
<td>4.8 ↓</td>
</tr>
<tr>
<td>People’s Rep. of China</td>
<td>3.3</td>
<td>3.0 ↓</td>
<td>4.5</td>
<td>4.3 ↓</td>
<td>5.1</td>
<td>5.4 —</td>
<td>5.0</td>
<td>4.8 ↓</td>
</tr>
<tr>
<td>Republic of Korea</td>
<td>2.6</td>
<td>2.6 —</td>
<td>2.3</td>
<td>1.5 ↓</td>
<td>6.0</td>
<td>7.3 ↑</td>
<td>4.7</td>
<td>4.3 ↓</td>
</tr>
<tr>
<td>Taipei, China</td>
<td>3.4</td>
<td>3.4 —</td>
<td>3.0</td>
<td>3.0 —</td>
<td>6.5</td>
<td>7.4 ↑</td>
<td>6.3</td>
<td>6.0 ↓</td>
</tr>
<tr>
<td>South Asia</td>
<td>6.5</td>
<td>6.5 —</td>
<td>6.5</td>
<td>6.3 ↓</td>
<td>6.5</td>
<td>7.5 ↑</td>
<td>6.7</td>
<td>6.3 ↓</td>
</tr>
<tr>
<td>India</td>
<td>7.0</td>
<td>7.0 —</td>
<td>7.2</td>
<td>7.2 —</td>
<td>6.5</td>
<td>7.5 ↑</td>
<td>6.7</td>
<td>6.3 ↓</td>
</tr>
<tr>
<td>Caucasus &amp; Central Asia</td>
<td>3.9</td>
<td>4.8 ↑</td>
<td>4.2</td>
<td>4.2 —</td>
<td>4.7</td>
<td>5.5 ↑</td>
<td>5.0</td>
<td>4.8 ↓</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>3.0</td>
<td>3.0 —</td>
<td>3.7</td>
<td>3.7 —</td>
<td>4.7</td>
<td>5.5 ↑</td>
<td>5.0</td>
<td>4.8 ↓</td>
</tr>
<tr>
<td>Southeast Asia</td>
<td>5.1</td>
<td>5.5 ↑</td>
<td>5.0</td>
<td>4.7 ↓</td>
<td>5.0</td>
<td>5.4 —</td>
<td>5.0</td>
<td>4.8 ↓</td>
</tr>
<tr>
<td>Singapore</td>
<td>3.7</td>
<td>3.3 ↓</td>
<td>3.0</td>
<td>3.0 —</td>
<td>6.5</td>
<td>7.4 ↑</td>
<td>6.3</td>
<td>6.0 ↓</td>
</tr>
<tr>
<td>Thailand</td>
<td>2.9</td>
<td>3.2 ↑</td>
<td>4.2</td>
<td>4.0 ↓</td>
<td>6.5</td>
<td>7.5 ↑</td>
<td>6.7</td>
<td>6.3 ↓</td>
</tr>
<tr>
<td>Viet Nam</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes: Data for India are on fiscal year basis, with FY2022 ending 31 March 2023. ↑ = forecast increased, ↓ = forecast decreased, — = no change.
Despite the downgrade, developing Asia is still expected to do better than other regions on both growth and inflation.

*Compared to other regions, developing Asia is still expected to post stronger growth and lower inflation in 2022 and in 2023.*

**GDP growth**

- **Developing Asia**: 4% (2022) to 5% (2023)
- **Advanced economies**: 2% (2022) to 2% (2023)
- **Emerging and developing Europe**: 0% (2022) to 0% (2023)
- **Latin America and the Caribbean**: 3% (2022) to 3% (2023)
- **Sub-Saharan Africa**: 2% (2022) to 2% (2023)

**Inflation**

- **Developing Asia**: 3% (2022) to 2% (2023)
- **Advanced economies**: 5% (2022) to 5% (2023)
- **Emerging and developing Europe**: 10% (2022) to 10% (2023)
- **Latin America and the Caribbean**: 15% (2022) to 15% (2023)
- **Sub-Saharan Africa**: 10% (2022) to 10% (2023)

Notes: Developing Asia forecasts are from the *Asian Development Outlook*. All other forecasts are from the IMF October World Economic Outlook. Source: *Asian Development Outlook* database. IMF World Economic Outlook October 2022.
Multiple risks face developing Asia

- Some of the main risks center around existing headwinds:
  - Sharp deceleration in global growth, possible global recession
  - Deeper-than-expected slowdown in the PRC
  - Uncertainty over the situation in the Russian Federation and Ukraine
- Additional risks include geopolitical tensions (e.g., US-PRC) and climate change