



ASIAN DEVELOPMENT OUTLOOK

SUPPLEMENT, December 2022

GLOBAL GLOOM DIMS ASIAN PROSPECTS

adb.org/outlook

ADB

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)

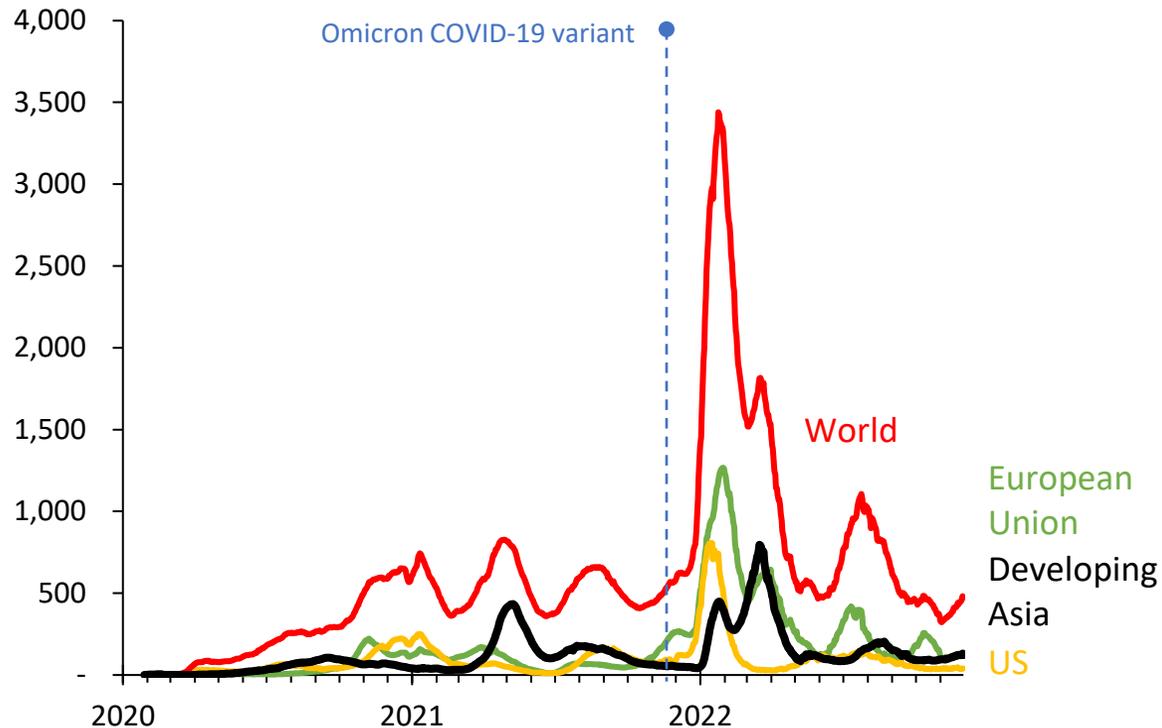
The pandemic is fading, and (most) economies are loosening pandemic restrictions

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

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

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

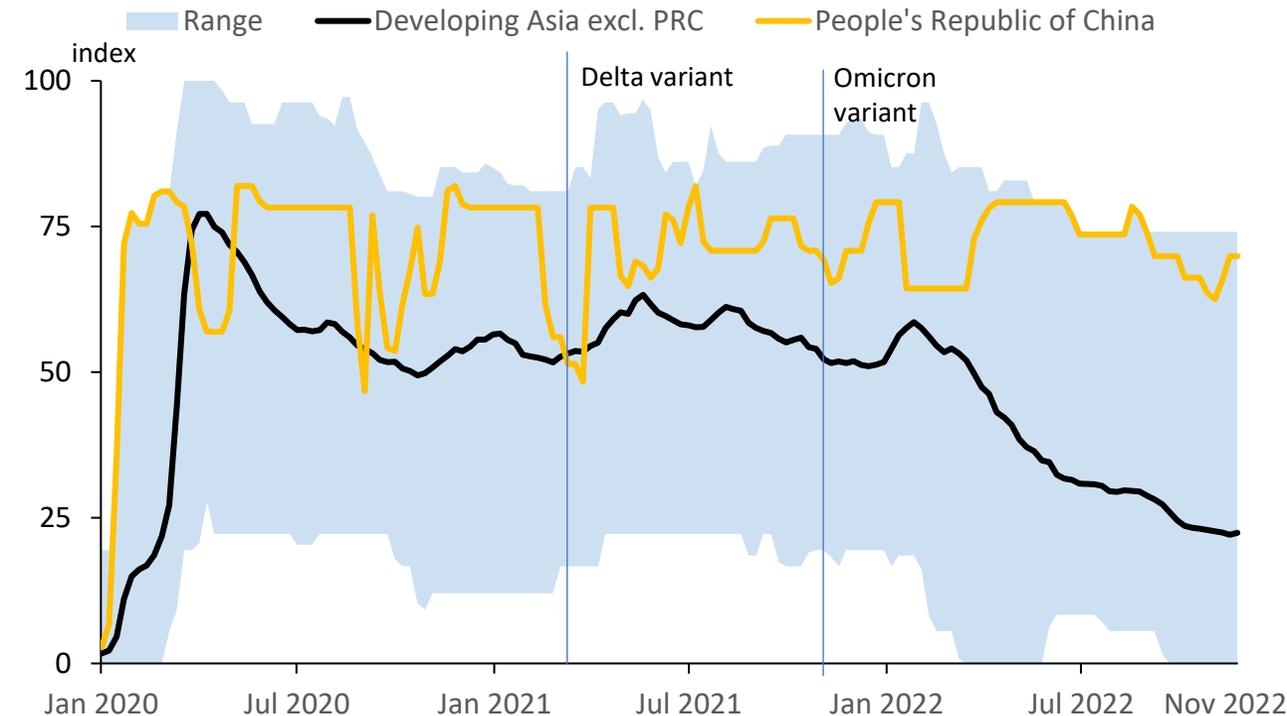
New cases, 7-day moving average, thousand



COVID-19 = coronavirus disease.

Source: Our World in Data (accessed 2 December 2022).

Government stringency index



PRC = People's Republic of China.

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.

Source: Our World in Data (accessed 9 December 2022).

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.

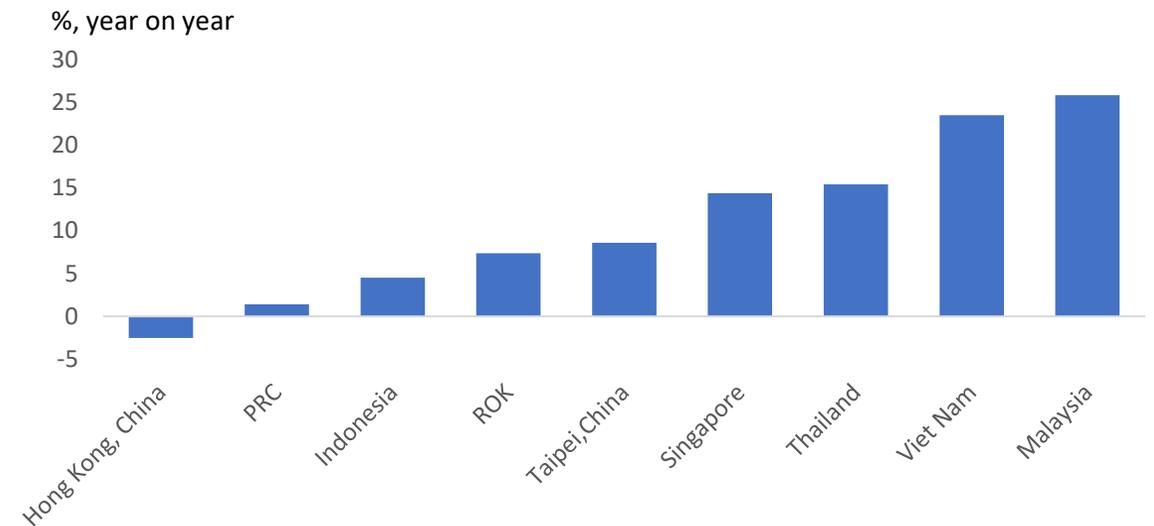
Mobility in retail and recreation establishments

	Jan-22				Jul-22				Oct-22		
Indonesia	7.5	3.8	7.8	8.9	18.6	12.0	14.3	14.7	13.9	11.4	
Philippines	-13.9	0.0	3.0	5.1	12.6	14.1	14.7	20.3	21.2	26.5	
India	-9.2	3.3	7.5	9.4	10.2	8.7	6.1	13.9	13.2	18.4	
Republic of Korea	1.6	-3.3	-10.5	0.2	9.9	6.8	5.9	5.3	4.5	6.7	
Thailand	-0.9	7.9	-4.0	-4.2	-1.9	-1.3	-1.6	-2.5	3.2	1.3	
Viet Nam	-13.0	-13.5	-13.6	-0.9	0.4	1.6	4.0	5.2	6.0	5.7	
Malaysia	-7.2	-12.2	-12.1	-9.1	0.2	-0.4	-2.7	-1.2	0.6	0.1	
Singapore	-9.0	-16.1	-16.5	-14.3	-9.5	-8.7	-8.5	-5.4	-4.5	-4.7	
Hong Kong, China	-10.8	-30.5	-41.0	-25.7	-15.9	-14.9	-15.3	-13.1	-12.4	-10.3	
Taipei,China	-11.8	-14.8	-17.2	-21.4	-33.2	-27.9	-20.3	-17.8	-19.6	-17.9	

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.

Source: CEIC Data Company (accessed 5 December 2022).

Retail sales



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.

Source: CEIC Data Company (accessed 25 November 2022).

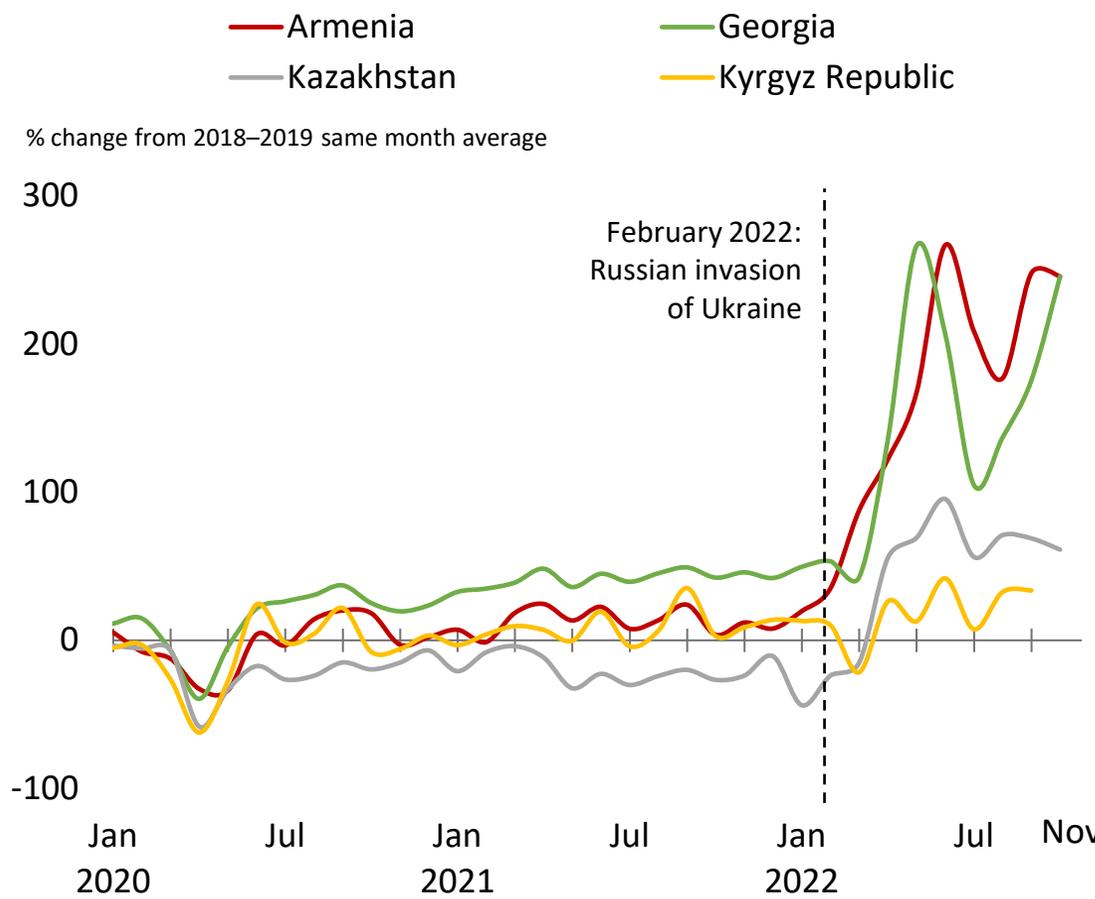
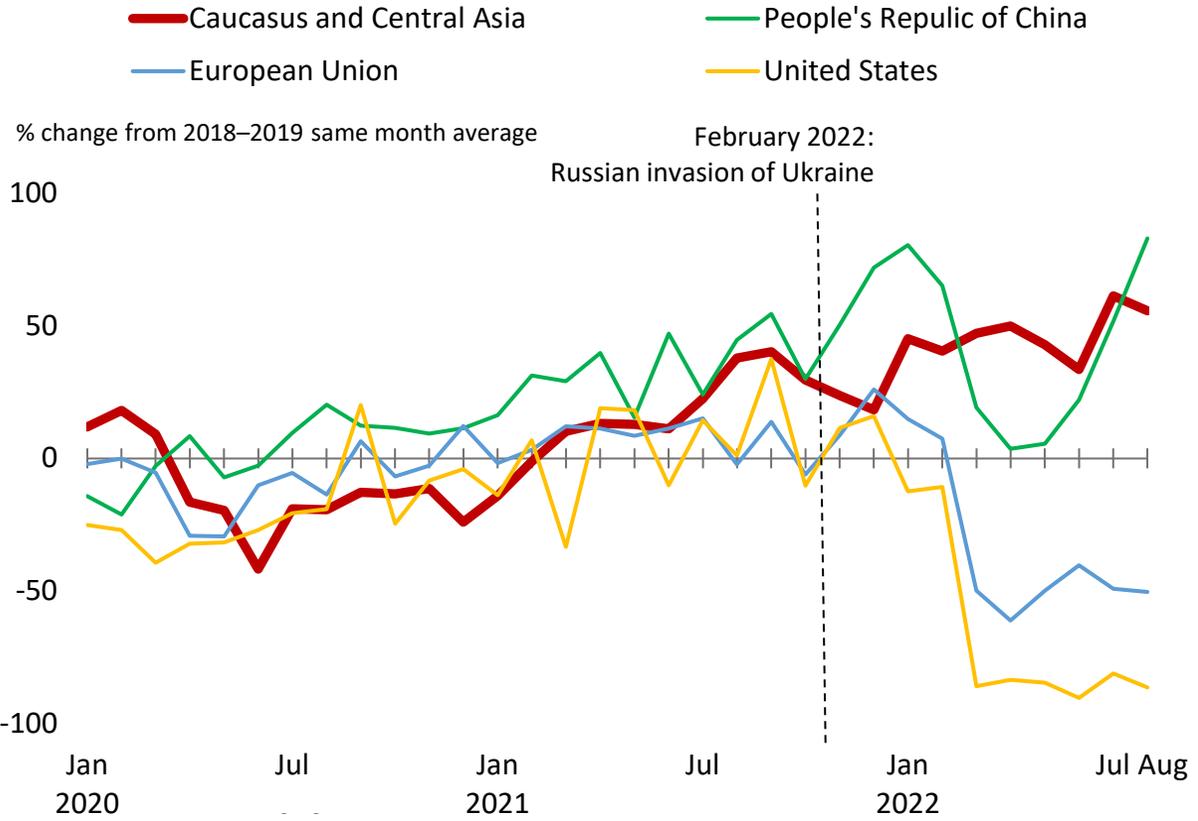
The Caucasus and Central Asian economies have been resilient

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

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

Exports to the Russian Federation

Monthly money transfers

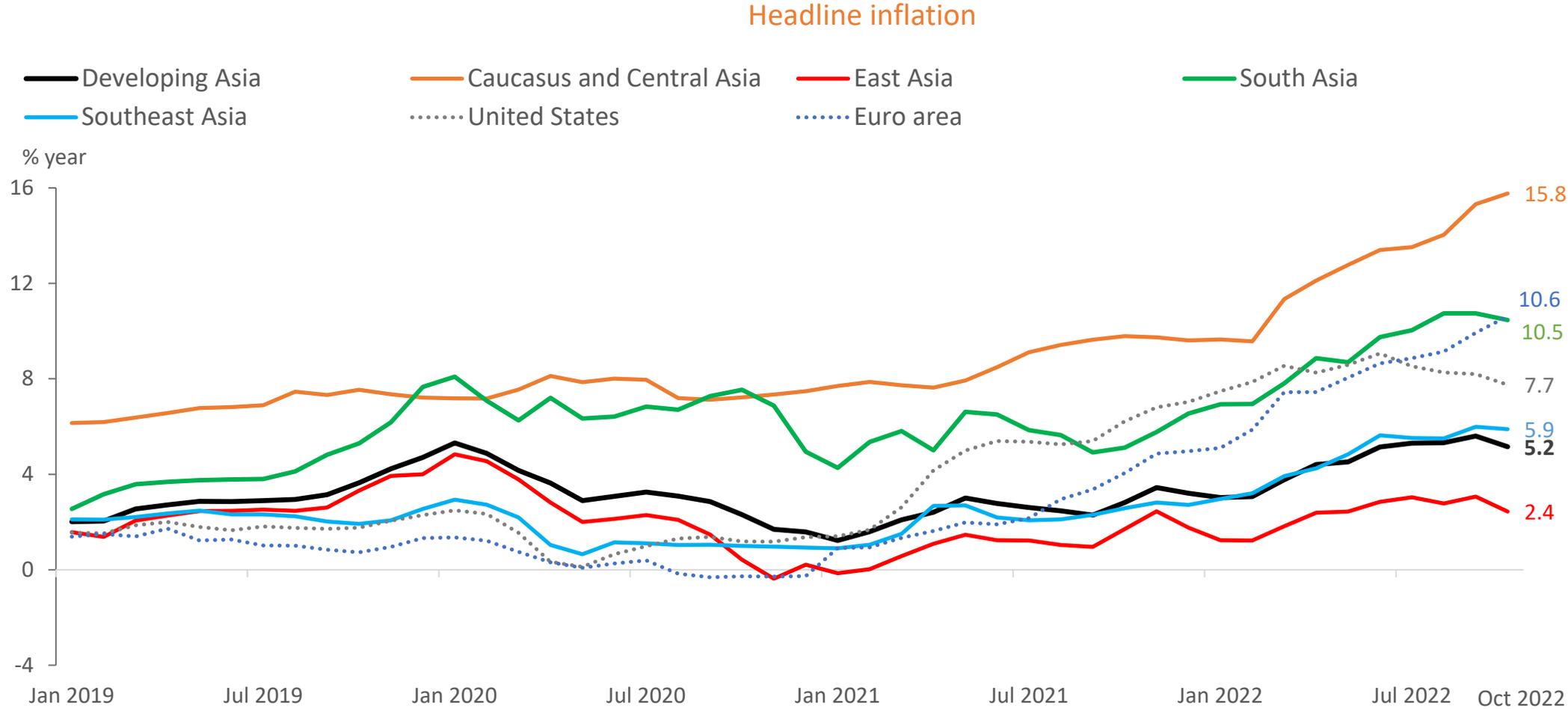


Caucasus and Central Asia = Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyz Republic, Tajikistan, Uzbekistan; PRC = People's Republic of China
 To generate the series for the Caucasus and Central Asia, country series are weighted by their GDP in purchasing power parity terms as of 2020.
 Source: IMF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

Source: National sources.

Inflation rose further, but it may have peaked in many economies

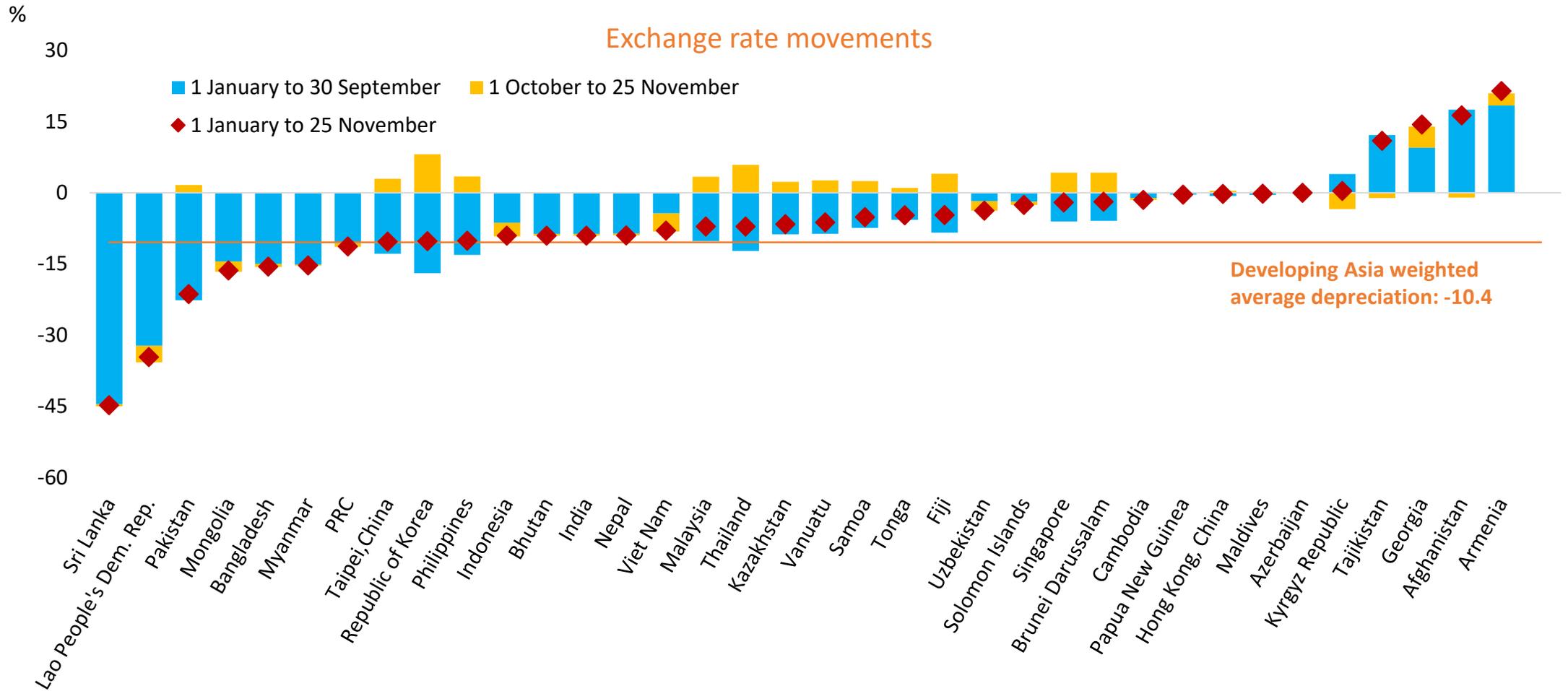
Headline inflation rose steadily and to varying degrees this year, but it is now cooling across subregions—except in the Caucasus and Central Asia.



Sources: CEIC Data Company and Haver Analytics (both accessed 5 December 2022).

As global financial conditions tightened, most regional currencies have depreciated this year

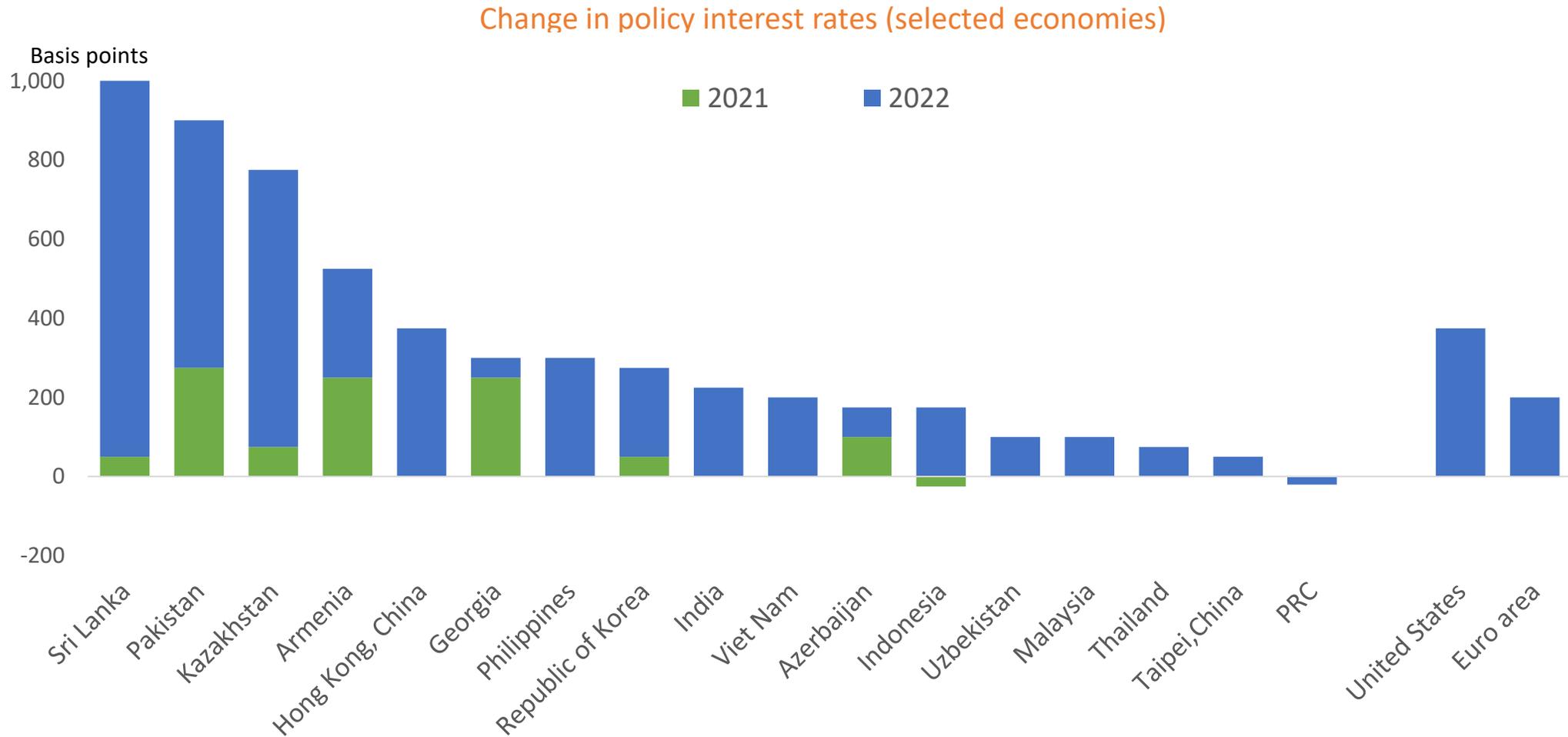
Currencies depreciated against the US dollar, except for some economies in the Caucasus and Central Asia



Source: Bloomberg (accessed 26 November 2022).

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.

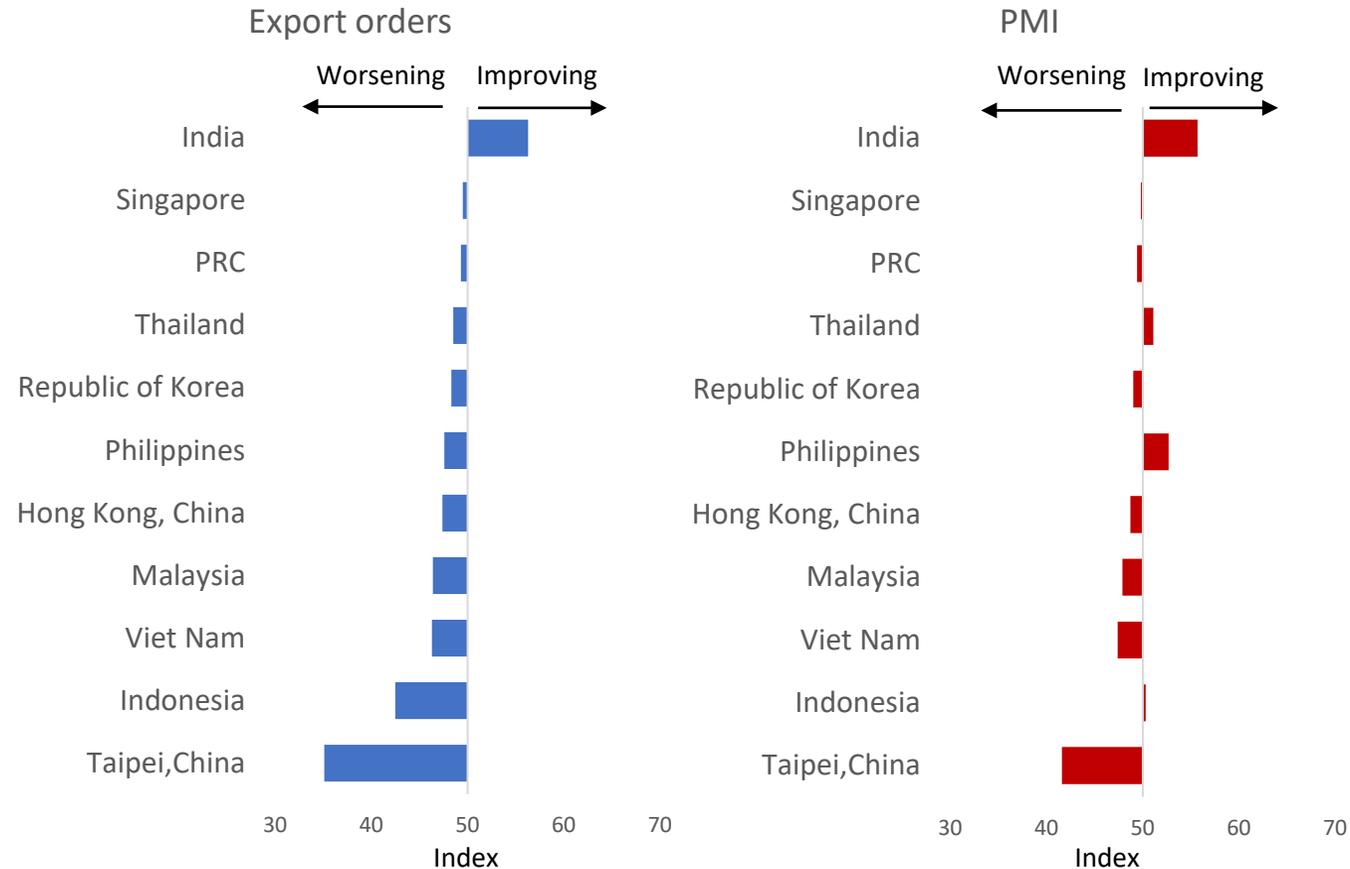


ECB = European Central Bank; PRC = People's Republic of China; US = United States.
Source: Bloomberg (accessed 8 December 2022).

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.

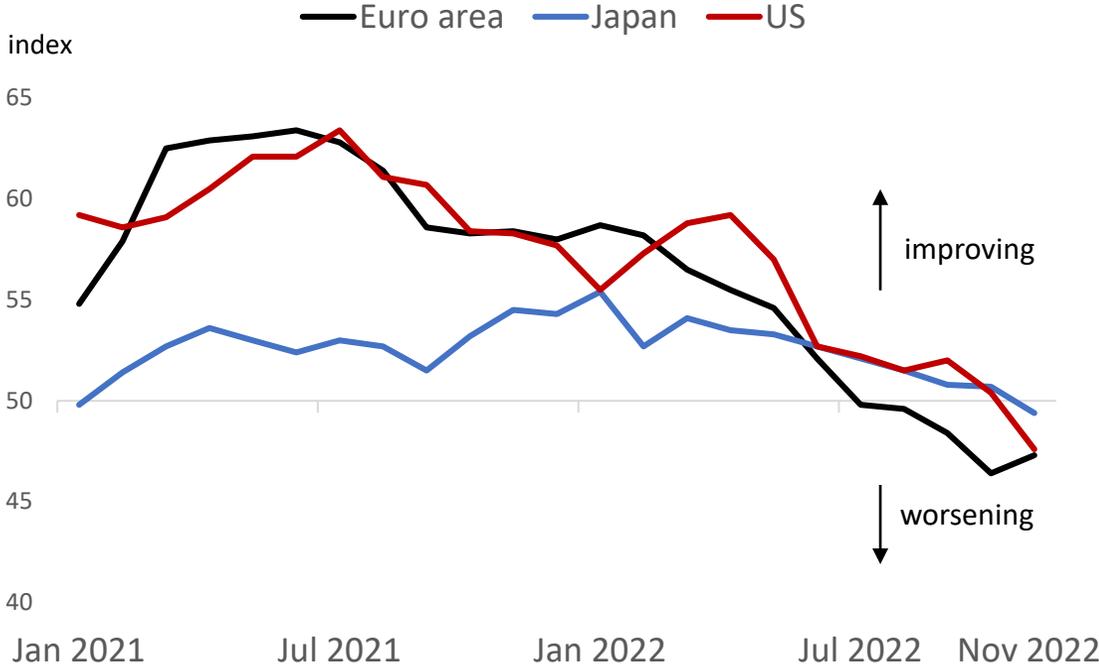
Source: CEIC Data Company (accessed 5 December 2022).

The global economy will slow further as tightening continues in advanced economies

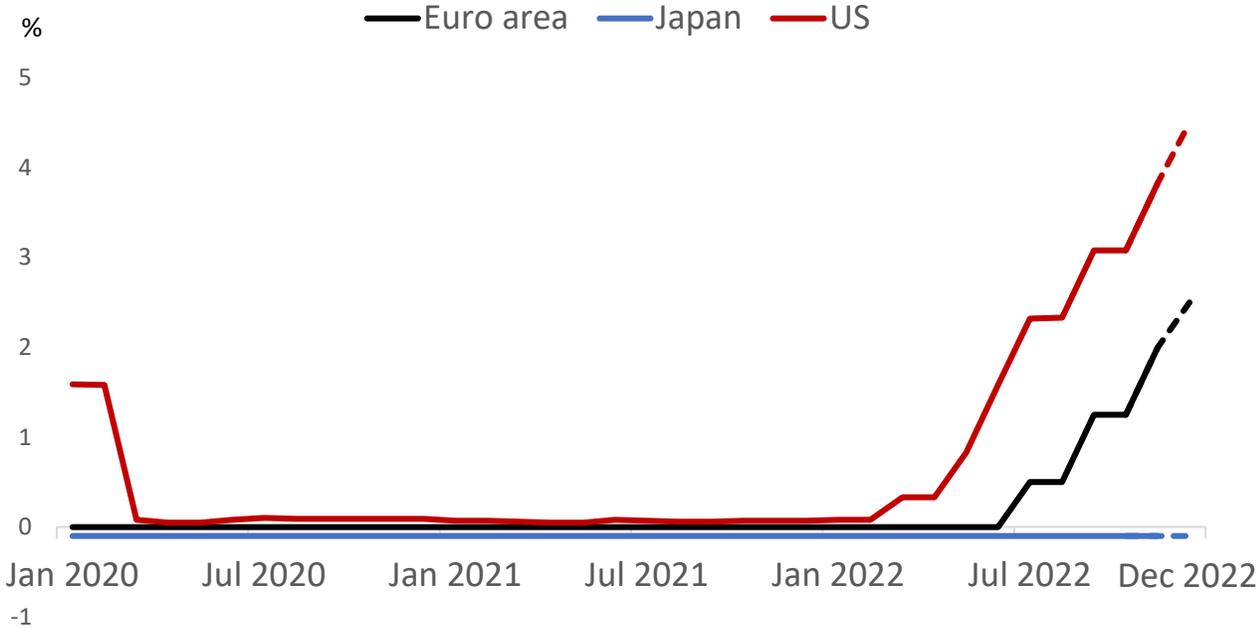
Key advanced economies saw their PMIs in contractionary territory in November.

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

G3 Manufacturing PMI



G3 Policy rates



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.
 Source: CEIC Data Company (accessed 25 November 2022).

Note: Dashed lines denote rate hike expectations from Reuters surveys.
 Source: CEIC Data Company (accessed 9 December 2022).

A gloomy global outlook

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

Baseline assumptions on the international economy

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

^a 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.

GDP growth, %

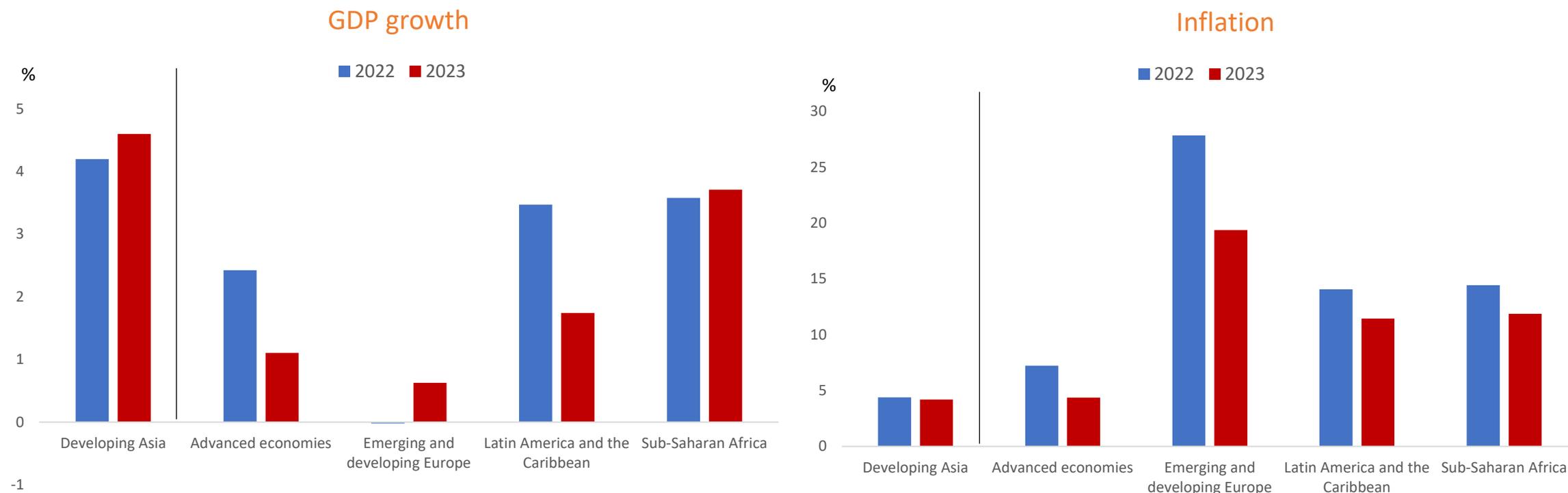
	2022		2023			2022		2023	
	Sep Update	Dec ADOS	Sep Update	Dec ADOS		Sep Update	Dec ADOS	Sep Update	Dec ADOS
Developing Asia (DA)	4.3	4.2 ↓	4.9	4.6 ↓					
DA excluding the PRC	5.3	5.4 ↑	5.3	5.0 ↓	Caucasus & Central Asia	3.9	4.8 ↑	4.2	4.2 —
					Kazakhstan	3.0	3.0 —	3.7	3.7 —
East Asia	3.2	2.9 ↓	4.2	4.0 ↓	Southeast Asia	5.1	5.5 ↑	5.0	4.7 ↓
Hong Kong, China	0.2	-3.3 ↓	3.7	2.9 ↓	Indonesia	5.4	5.4 —	5.0	4.8 ↓
People's Rep. of China	3.3	3.0 ↓	4.5	4.3 ↓	Malaysia	6.0	7.3 ↑	4.7	4.3 ↓
Republic of Korea	2.6	2.6 —	2.3	1.5 ↓	Philippines	6.5	7.4 ↑	6.3	6.0 ↓
Taipei, China	3.4	3.4 —	3.0	3.0 —	Singapore	3.7	3.3 ↓	3.0	2.3 ↓
South Asia	6.5	6.5 —	6.5	6.3 ↓	Thailand	2.9	3.2 ↑	4.2	4.0 ↓
India	7.0	7.0 —	7.2	7.2 —	Viet Nam	6.5	7.5 ↑	6.7	6.3 ↓
					The Pacific	4.7	5.3 ↑	5.5	4.8 ↓

Notes: Data for India are on fiscal year basis, with FY2022 ending 31 March 2023. ↑ = forecast increased, ↓ = forecast decreased, — = no change.

Source: Asian Development Outlook database.

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



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