Brighter prospects amid ongoing challenges

• PRC's reopening has lifted developing Asia's prospects

• Weaker global demand dampened production late last year, but recent indicators of business conditions signal improvement

• Growth in the region is forecast to pick up from 4.2% in 2022 to 4.8% in both 2023 and 2024

• Inflation is forecast to moderate this year and next, from 4.4% in 2022 to 4.2% in 2023 and 3.3% in 2024, gradually moving closer to pre-pandemic averages

• Faster-than-expected reopening of the PRC poses an upside risk, but many challenges remain
Developing Asia’s growth moderated in H2 2022 due to weakening global demand

Falling exports slowed growth in H2 2022 in key technology exporters, while stronger private consumption and investment boosts growth in 4 ASEAN economies.

Demand-side Contributions to Growth, 2022

-10  -5  0  5  10  15
Percentage points

H1 2022  H2 2022  H1 2022  H2 2022  H1 2022  H2 2022  H1 2022  H2 2022  H1 2022  H2 2022  H1 2022  H2 2022  H1 2022  H2 2022
Developing Asia  Hong Kong, China  India  PRC  Republic of Korea  Singapore  Taipei, China  Indonesia  Malaysia  Philippines  Thailand

GDP growth, developing Asia
Net exports
Total investments
Total consumption
Government consumption
Private consumption

ASEAN = Association of Southeast Asian Nations; GDP = gross domestic product; H = half, PRC = People’s Republic of China. Note: Chart excludes statistical discrepancies. Developing Asia average is weighted by GDP purchasing power parity. Source: Haver Analytics.
Weaker external demand dented manufacturing activity but prospects are improving

Industrial production declined in Q4 2022 in manufacturing exporters.

Industrial Production

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</table>

PRC = People’s Republic of China, Q = quarter.
Note: Pink to red indicates worsening (<50) and white to green indicates improvement (>50). Series for Singapore is not seasonally adjusted.
Source: CEIC Data Company.
Exports retreated, but tourism continues its advance

Exports weakened, especially for key technology exporters.

Nominal Exports

Visitor Arrivals

Tourism is recovering steadily.

Exports weakened, especially for key technology exporters.

Key technology exporters = Singapore, Republic of Korea, Taipei, China.

Sources: CEIC Data Company, CPB World Trade Monitor.

Visitor Arrivals

% change from 2018-2019 monthly average

Caucasus and Central Asia = Armenia and Georgia; East Asia = Hong Kong, China, Republic of Korea, and Taipei, China; The Pacific = Cook Islands, Fiji, Palau, Samoa, Tonga, and Vanuatu; South Asia = Bhutan, India, Maldives, Nepal, and Sri Lanka; Southeast Asia = Cambodia, Indonesia, Lao People’s Democratic Republic, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Viet Nam.

Note: Adjustments made to the Caucasus and Central Asia because complete data not available for all economies.

Sources: CEIC Data Company, national sources.
Financial conditions improved in late 2022

Equity markets revived in November 2022 on moderating pace of US monetary tightening

**Equity Market Performance**

Index, 3 January 2022 = 100

- Developing Asia
- CBOE Volatility Index

30-day moving average

November FOMC meeting

**More than half of the currencies have appreciated since October 2022.**

**Exchange Rate Movements Against USD**

- Armenia
- Georgia
- Tajikistan
- Cambodia
- Singapore
- Tonga
- Thailand
- Kyrgyz Republic
- Fiji
- Samoa
- Uzbekistan
- Kazakhstan
- Vanuatu
- Philippines
- Indonesia
- Malaysia
- PRC
- Republic of Korea
- Taipei, China
- India
- Mongolia
- Bangladesh
- Pakistan
- Sri Lanka

1 January to 30 September 2022

1 October 2022 to 17 March 2023

Note: Includes 25 economies with large currency movements since October.

Source: Bloomberg.

CBOE = Chicago Board Options Exchange, FOMC = Federal Open Market Committee.

Source: Bloomberg.
Fiscal positions will improve and the pace of monetary tightening ease

Fiscal balances diverged in 2022 but are expected to improve for most economies in 2023... while monetary tightening is expected to slow down.

Fiscal balances diverged in 2022 but are expected to improve for most economies in 2023.

Changes in Fiscal Balance from Previous Year (pp)

<table>
<thead>
<tr>
<th>Economy</th>
<th>Change in 2022</th>
<th>Change in 2023</th>
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<tbody>
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<td>Hong Kong, China</td>
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</table>

Policy Interest Rate Decisions, Selected Regional Economies

Change in 2022 Change in 2023

Number of policy actions

51% Hikes 45% Hold Average size: 86 bps

35% Hikes 65% Hold 39 bps

Note: Economies included are Armenia; Azerbaijan; Georgia; Hong Kong, China; India; Indonesia; Kazakhstan; Kyrgyz Republic; Malaysia; Mongolia; Pakistan; Philippines; People’s Republic of China; Republic of Korea; Sri Lanka; Tajikistan; Taipei,China; Thailand; and Uzbekistan.

Source: Trading Economics.
Global headwinds are likely to remain strong.

Monetary tightening will continue in advanced economies, but at a slower pace.

Commodity prices are expected to remain elevated.

Policy Rates

Note: Forecasts are from the European Central Bank’s survey of professional respondents and the Federal Reserve’s Summary of Economic Projections.
Sources: European Central Bank; Federal Reserve.

Commodity Prices

LNG = liquefied natural gas, MMBTu = metric million British thermal unit.
Note: Food prices are 7-day moving averages.
Sources: Bloomberg; CEIC Data Company; Investing.com; World Bank. Commodity Markets, Pink Sheet data.
Reopening has revived PRC's business activities

Mobility is now back to pre-pandemic levels.

Subway Ridership in 23 Cities in the People’s Republic of China

Business activities in services are rebounding the fastest.

PMI Components

Note: 7-day average, last data point is 8 March 2023.
Source: Capital Economics.

Note: PMI = Purchasing Managers’ Index
Source: CEIC Data Company.
PRC's recovery coupled with healthy domestic demand elsewhere in the region will support growth

GDP growth is expected to return to pre-pandemic rates... ...with some variation across economies.

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<thead>
<tr>
<th>Region</th>
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Source: Asian Development Outlook database.
Inflation is forecast to moderate, moving closer to pre-pandemic rates.

Regional inflation is projected to decelerate...

...but price pressures will continue to vary across economies in 2023.

Inflation is forecast to moderate, moving closer to pre-pandemic rates. Regional inflation is projected to decelerate... but price pressures will continue to vary across economies in 2023.

Sources:
Asian Development Outlook database; IMF WEO database.
PRC's reopening poses an upside risk, but many challenges remain

- Reopening in the PRC could cause a faster-than-expected rebound.

- Disinflation in the US and other advanced economies could take longer than expected, prolonging the restrictive monetary stance.

- Higher interest rates and debt has raised financial stability risks—as seen in recent banking turmoil in US and Europe.

- Escalation of the Russian invasion of Ukraine could renew energy and food security challenges and rekindle inflation pressure.

- Other challenges include global fracturing and climate change.