Continued growth and moderating inflation but risks are rising

• Developing Asia’s growth has been upbeat, driven by healthy domestic demand.

• Weak external demand and property market concerns in the PRC weigh on the outlook.

• The regional forecast is revised down to 4.7% for 2023 and maintained at 4.8% for 2024.

• Inflation is projected to decline from 4.4% in 2022 to 3.6% in 2023 and 3.5% in 2024, as energy and food prices moderate.

• Risks have intensified with weaknesses in the PRC’s property sector, and financial stability concerns are elevated.
Healthy domestic demand continued to drive the region’s growth in the first half of 2023

Consumption and investment remain robust in many economies.
Demand-side contributions to real GDP growth

Note: Components do not add up to total due to statistical discrepancy and chain-linking method of GDP estimation and reporting. The regional average is calculated using GDP PPP shares as weights. All data are in calendar years and in non-seasonally adjusted terms.

Source: Staff calculations using data from Haver Analytics.
External sector weakness held back manufacturing, while services remained robust

Soft external demand held back industrial production

Industrial production index

% change year on year, seasonally adjusted, 3-month moving average

-25 -20 -15 -10 -5 0 5 10 15

Jul Aug Sep Oct Nov Dec Jan Feb Mar Apr May Jun Jul 2022 2023

Manufacturing PMI indices diverged, and services remained strong

Purchasing Managers’ Index (>50 improvement; <50 worsening)

<table>
<thead>
<tr>
<th>Economy</th>
<th>2023</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q1</td>
</tr>
<tr>
<td></td>
<td>Jan</td>
</tr>
<tr>
<td>Manufacturing PMI, seasonally adjusted</td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>55.4</td>
</tr>
<tr>
<td>Indonesia</td>
<td>51.3</td>
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<td>PRC</td>
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<td>Viet Nam</td>
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<td>Singapore</td>
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<tr>
<td>Philippines</td>
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<td>Thailand</td>
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<td>Republic of Korea</td>
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<td>Malaysia</td>
<td>46.5</td>
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<tr>
<td>Taipei, China</td>
<td>44.3</td>
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Services PMI, seasonally adjusted

<table>
<thead>
<tr>
<th>Economy</th>
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</tr>
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<tbody>
<tr>
<td></td>
<td>Q1</td>
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<tr>
<td></td>
<td>Jan</td>
</tr>
<tr>
<td>India</td>
<td>57.2</td>
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<tr>
<td>PRC</td>
<td>52.9</td>
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</table>

Services PMI, not seasonally adjusted

<table>
<thead>
<tr>
<th>Economy</th>
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<tbody>
<tr>
<td>Sri Lanka</td>
<td>50.2</td>
</tr>
<tr>
<td>Philippines</td>
<td>53.7</td>
</tr>
</tbody>
</table>

Source: CEIC Data Company.

Note: Pink to red indicates worsening (<50) and white to green indicates improvement (>50). Series for Singapore is not seasonally adjusted.

ASIAN DEVELOPMENT OUTLOOK
SEPTEMBER 2023
Goods exports are showing some signs of bottoming out

Exports growth decelerated but shows some signs of stabilizing

Nominal Goods Exports

Exports of electronics and garments declined the most

Contributions to Exports Growth by Product

3-month moving averages.
High-income technology exporters = Singapore, Republic of Korea, Taipei, China, Hong Kong, China.
Sources: CEIC Data Company.

PRC = People’s Republic of China
Year-to-date contributions to exports growth. Timing varies by economy.
Sources: International Trade Centre, CEIC Data Company.
Tourism continues recovering, and money transfers to the region are robust

Tourist arrivals continue recovering toward pre-pandemic levels

Money transfers remain large for most economies

Tourist Arrivals by Subregion, relative to 2019

Net Personal Transfers

A. South Asia, Southeast Asia, and the Pacific

B. Caucasus and Central Asia

CCA = Caucasus and Central Asia

Notes: Year-to-date figures for 2023 compared to same months in 2019.

Sources: CEIC Data Company, official national sources.
Monetary policy tightening has paused in many economies

Inflation is slowing and is within or close to targets for several economies

Inflation and Inflation Targets

- **Target range**
- **Target**
- **2023 inflation**
- **Peak inflation**

Most central banks continued to hold, some have started to loosen

Policy Interest Rate Decisions

- **Hike**
- **Hold**
- **Cut**

- **4% cut**
- **45% hold**
- **51% hike**

average size: 86 bps

- **11% cut**
- **66% hold**
- **23% hike**

average size: 45 bps

Notes:
- The figure covers 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.
- **bps** = basis points.

Source: Trading Economics.
Financial market conditions have improved after a rough start to 2023.

Equity markets have rallied since March on improved sentiments.

Regional currencies marginally depreciated against US dollar so far this year.

Developing Asia weighted average (year to date): ~3.7%
Global demand will slow less than expected

Global growth is now forecast to decelerate more gradually this year

Baseline Assumptions on the International Economy

<table>
<thead>
<tr>
<th></th>
<th>2022 Actual</th>
<th>2023 ADO April</th>
<th>2023 ADO September</th>
<th>2024 ADO April</th>
<th>2024 ADO September</th>
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<tbody>
<tr>
<td><strong>GDP growth, %</strong></td>
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<tr>
<td>Major advanced economies</td>
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<tr>
<td>United States</td>
<td>2.5</td>
<td>0.7</td>
<td>1.4</td>
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<tr>
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<td>Japan</td>
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<td>0.8</td>
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<td>0.5</td>
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<tr>
<td><strong>Inflation, %</strong></td>
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<td></td>
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<tr>
<td>Major advanced economies</td>
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<tr>
<td>United States</td>
<td>7.5</td>
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<td>Euro area</td>
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<td>5.7</td>
<td>2.5</td>
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<td>Japan</td>
<td>2.3</td>
<td>2.0</td>
<td>2.9</td>
<td>1.9</td>
<td>1.5</td>
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<tr>
<td><strong>Brent crude spot price, average, $/barrel</strong></td>
<td>100</td>
<td>88</td>
<td>83</td>
<td>90</td>
<td>86</td>
</tr>
</tbody>
</table>

Sources: Bloomberg; CEIC Data Company; Haver Analytics; IMF World Economic Outlook; Asian Development Bank estimates.

Energy prices came down, but rice prices are at a 15-year high

Commodity Prices

Source: Bloomberg.
The regional growth forecast is revised down to 4.7% for 2023 and maintained at 4.8% for 2024.

GDP growth is returning to pre-pandemic rates... ...and converging across subregions

<table>
<thead>
<tr>
<th>Region</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
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<tbody>
<tr>
<td><strong>Developing Asia</strong></td>
<td>4.3</td>
<td>4.8</td>
<td>4.7</td>
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<tr>
<td><strong>Developing Asia excluding the PRC</strong></td>
<td>5.5</td>
<td>4.6</td>
<td>4.5</td>
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<tr>
<td>Caucasus and Central Asia</td>
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<td>4.6</td>
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<tr>
<td>Armenia</td>
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<tr>
<td>Georgia</td>
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<td>Uzbekistan</td>
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<tr>
<td>Hong Kong, China</td>
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<td>People’s Republic of China</td>
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<td>Republic of Korea</td>
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<td>5.4</td>
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<td>0.6</td>
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<td>The Pacific</td>
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<td>Fiji</td>
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<td>Papua New Guinea</td>
<td>3.2</td>
<td>2.4</td>
<td>2.0</td>
</tr>
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Source: Asian Development Outlook database.

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Inflation is forecast to further come down

The drivers of inflation are receding
Contributions to Inflation

- Energy-related
- Food and nonalcoholic beverages
- Core inflation
- Headline inflation

A. Developing Asia excluding the People’s Republic of China

Prices are expected to further moderate
Monthly Inflation and ADO Annual Forecasts

- Caucasus and Central Asia
- East Asia
- South Asia
- Southeast Asia
- Developing Asia

Note: Core inflation excludes volatile components, i.e. energy and fuel. Regional average is calculated using GDP PPP weights and covers 22 economies.

Sources: Staff calculations using data from Haver Analytics; CEIC Data Company; national sources.

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Risks to the outlook have intensified

• The PRC’s weak property sector poses a risk to its already fragile recovery and could hold back growth.
  
• Financial stability risks remain elevated.
  
• El Niño has heightened food security risks.
  
• The stance of monetary policy in advanced economies is also key in shaping the region’s outlook.
A strong policy response could erase the impact on growth of a protracted downturn in the property sector

GDP impact of further property sector weakness under moderate and strong policy responses (% relative to baseline)

-0.59 0.37 -0.13 0.07 -0.04 0.01 -0.02 0.01

People’s Republic of China World Developing Asia, ex. PRC Rest of the world

Note: Developing Asia includes the following economies: Armenia, Bangladesh, Bhutan, Brunei Darussalam, Cambodia, Fiji, Georgia, Hong Kong, China, India, Indonesia, Kazakhstan, Kyrgyz Republic, Republic of Korea, Lao People’s Democratic Republic, Malaysia, Maldives, Mongolia, Nepal, Pakistan, Philippines, Singapore, Sri Lanka, Taiwan, China, Thailand, and Viet Nam.

Source: ADB staff estimates.

Domestic and international spillovers from further property market weakness in the People’s Republic of China

- A further property market slowdown would be a drag on the domestic economy.
- Policy actions could soften or even erase the impact.
- The impact on the rest of the region would be limited, with some variation across PRC’s trading partners.
Risks to the outlook have intensified

• The PRC’s weak property sector poses a risk to its already fragile recovery and could hold back growth.

• Financial stability risks remain elevated.

• El Niño has heightened food security risks.

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