



#ADO2023

ASIAN DEVELOPMENT OUTLOOK

DECEMBER 2023

ADB

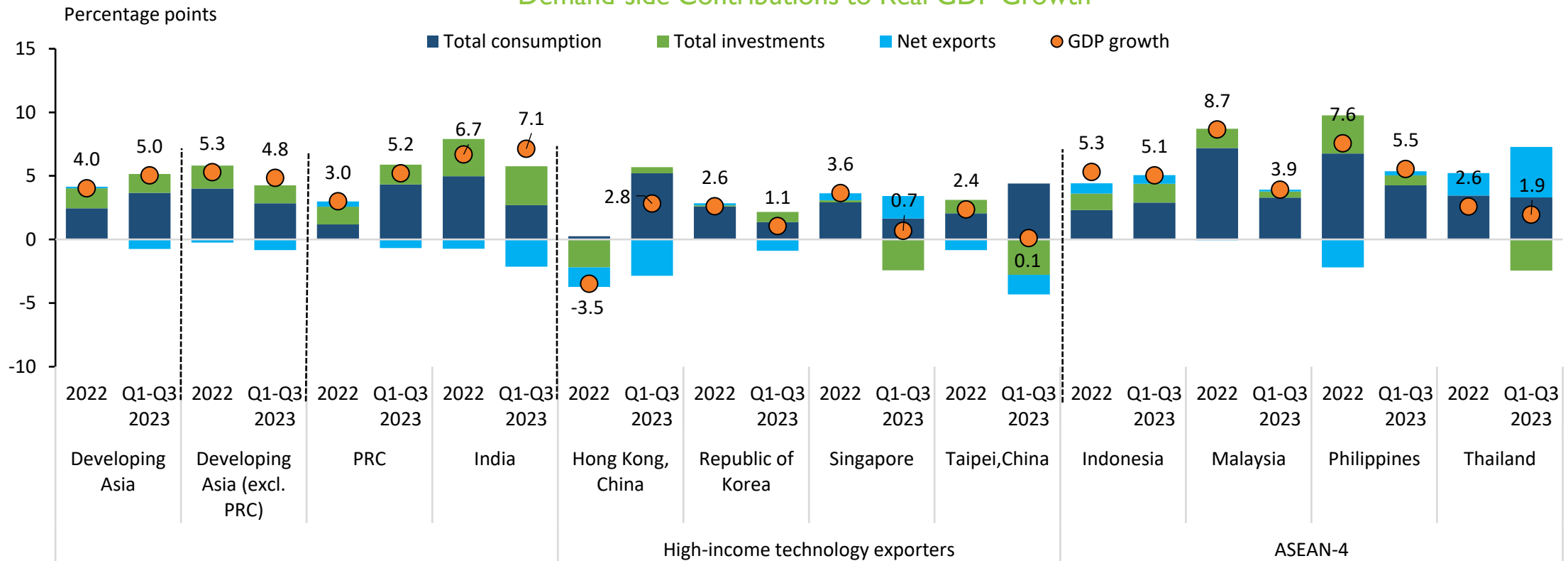
Continued growth and moderating inflation in developing Asia—but downside risks remain

- Developing Asia's growth has been upbeat, driven by healthy domestic demand, strong remittances, and recovering tourism.
- Regional growth is forecast to rise from 4.3% in 2022 to 4.9% in 2023. Growth is forecast at 4.8% in 2024.
- Price pressures are abating. Inflation is projected to decline from 4.4% in 2022 to 3.5% in 2023. Inflation is forecast at 3.6% in 2024.
- Risks to the outlook stem from higher-for-longer interest rates in advanced economies and its implications for financial stability, weather shocks, and geopolitical tensions.

Healthy domestic demand continued to support the region's growth this year

Consumption and investment remain robust in many economies.

Demand-side Contributions to Real GDP Growth



ASEAN = Association of Southeast Asian Nations, PRC = People's Republic of China, Q = quarter.

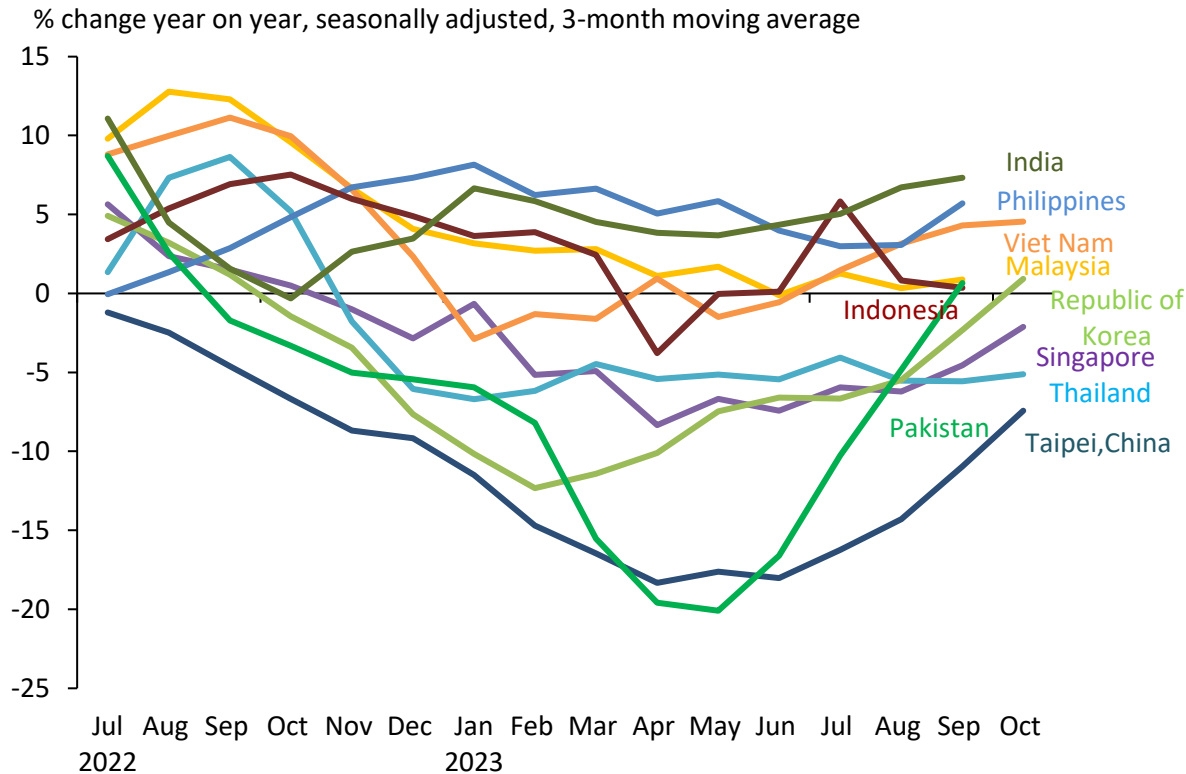
Note: Economies included are those that have available quarterly GDP figures with demand-side breakdown, which account for about 90% of developing Asia. Components do not add up to total due to statistical discrepancy and chain-linking method of GDP estimation and reporting. The regional average is calculated using GDP PPP shares as weights. All data are in calendar years and in non-seasonally adjusted terms.

Source: Haver Analytics.

Weak external demand held back manufacturing, while services remained healthy

Until recently, soft external demand weighed on industrial production

Industrial Production Index



Source: CEIC Data Company.

Manufacturing performance remains varied; services remain solid

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

Economy	2023									
	Q1			Q2			Q3			Q4
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
India	55.4	55.3	56.4	57.2	58.7	57.8	57.7	58.6	57.5	55.5
Philippines	53.5	52.7	52.5	51.4	52.2	50.9	51.9	49.7	50.6	52.4
Indonesia	51.3	51.2	51.9	52.7	50.3	52.5	53.3	53.9	52.3	51.5
Singapore	49.8	50.0	49.9	49.7	49.5	49.7	49.8	49.9	50.1	50.2
Republic of Korea	48.5	48.5	47.6	48.1	48.4	47.8	49.4	48.9	49.9	49.8
Viet Nam	47.4	51.2	47.7	46.7	45.3	46.2	48.7	50.5	49.7	49.6
PRC	49.2	51.6	50.0	49.5	50.9	50.5	49.2	51.0	50.6	49.5
Taipei, China	44.3	49.0	48.6	47.1	44.3	44.8	44.1	44.3	46.4	47.6
Thailand	54.5	54.8	53.1	60.4	58.2	53.2	50.7	48.9	47.8	47.5
Malaysia	46.5	48.4	48.8	48.8	47.8	47.7	47.8	47.8	46.8	46.8

Services PMI, seasonally adjusted

India	57.2	59.4	57.8	62.0	61.2	58.5	62.3	60.1	61.0	58.4
PRC	52.9	55.0	57.8	56.4	57.1	53.9	54.1	51.8	50.2	50.4

Services PMI, not seasonally adjusted

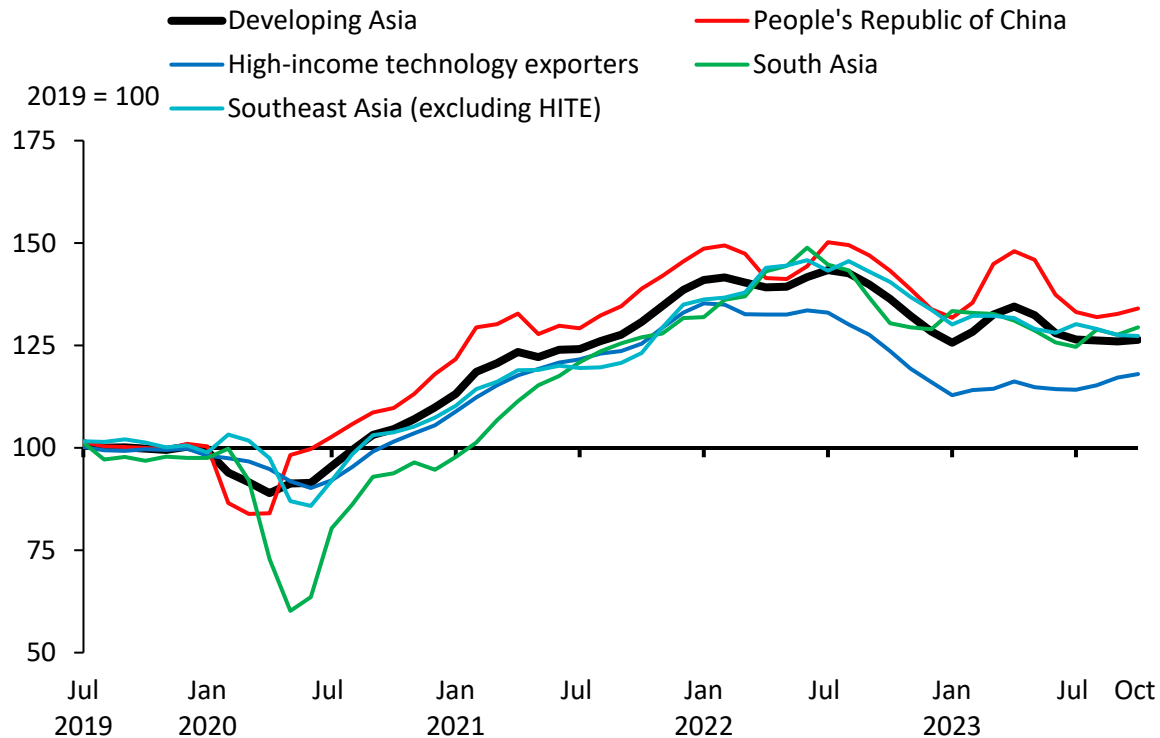
Sri Lanka	50.2	48.7	55.1	49.6	53.5	56.7	59.5	57.6	54.7	56.2
Philippines	53.7	54.9	53.4	56.9	54.0	53.0	48.8	53.0	53.2	50.1

... = not available, 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.

After weakening in 2022, exports stabilized this year

The region's exports are holding up...

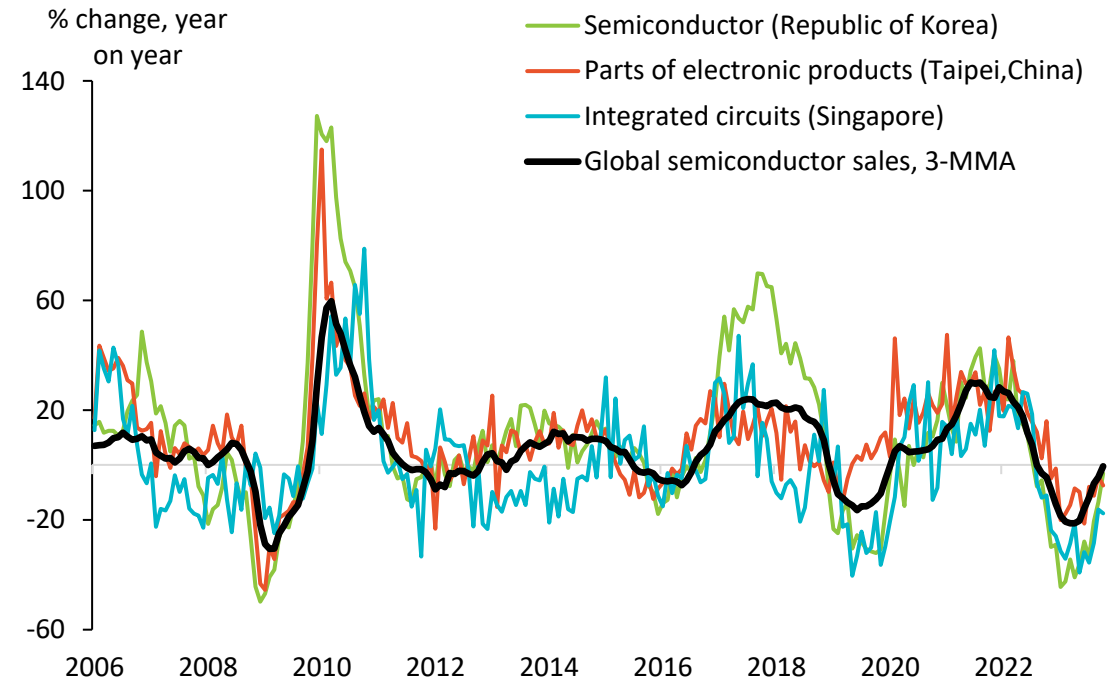
Goods Exports



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

...as the electronics cycle has turned the corner.

Semiconductor Sales



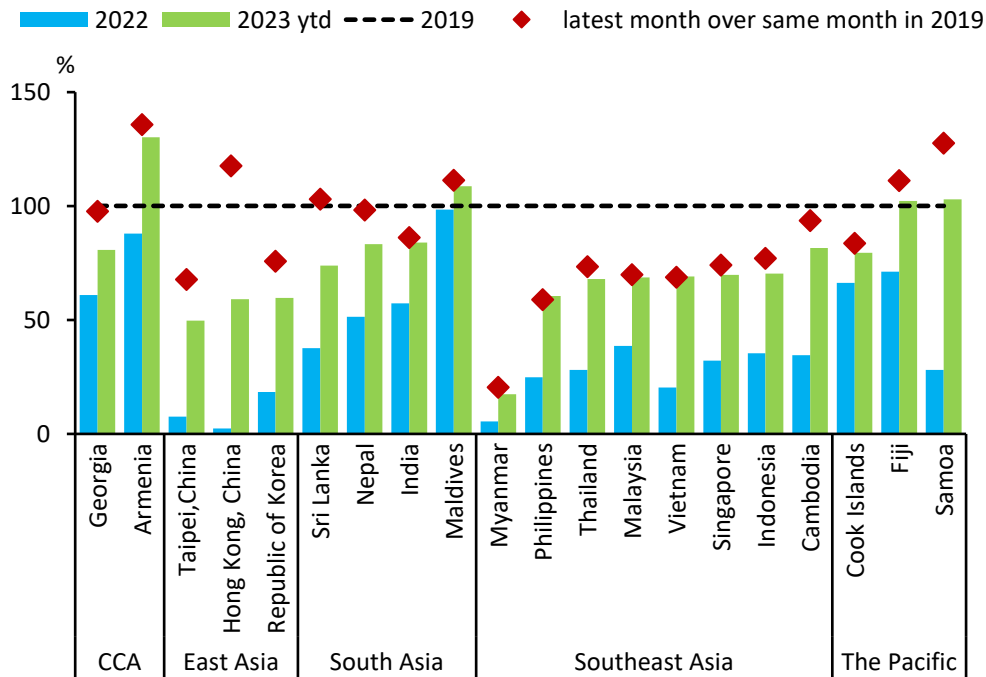
3-MMA = 3-month moving average.
Source: CEIC Data Company.

Tourism continues to recover, and money transfers to the region are robust

Tourist arrivals continue recovering toward pre-pandemic levels

Money transfers remain large for most economies

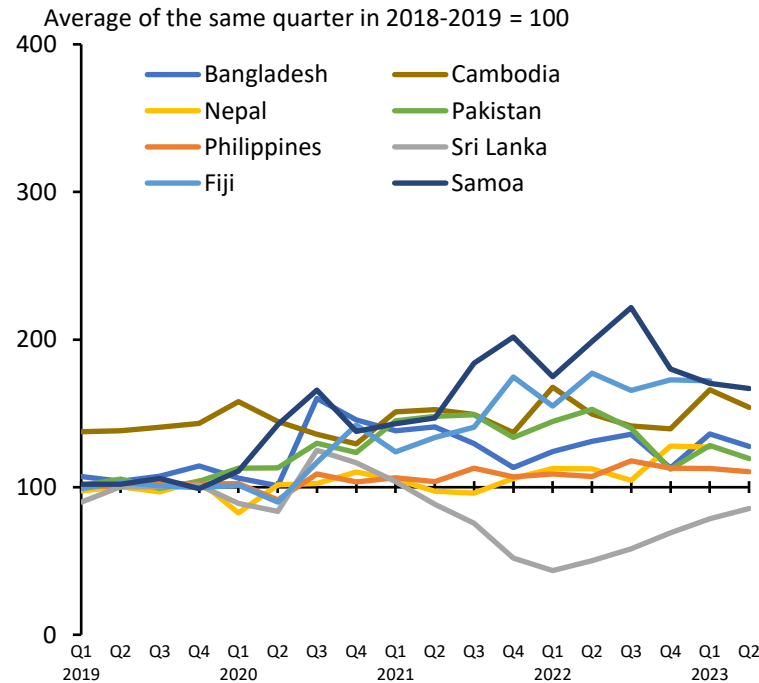
Tourist Arrivals by Subregion, relative to 2019



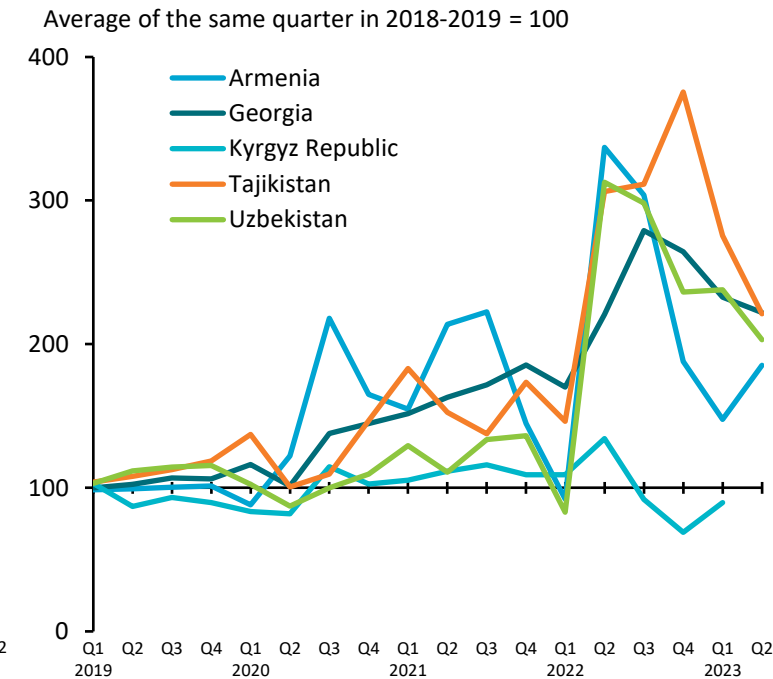
CCA = Caucasus and Central Asia, ytd = year-to-date.
 Notes: Year-to-date figures for 2023 compared to same months in 2019.
 Sources: CEIC Data Company; Official sources.

Net Personal Transfers

A. South Asia, Southeast Asia, and the Pacific



B. Caucasus and Central Asia

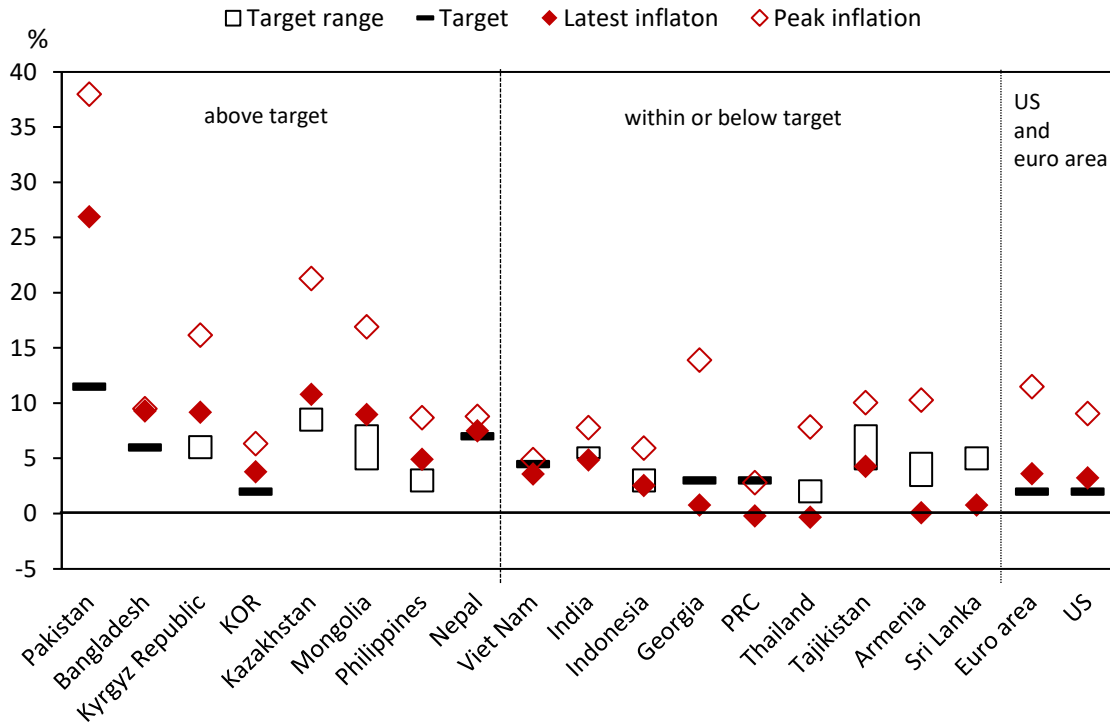


Sources: CEIC Data Company; Official sources.

As price pressures ease, monetary policy tightening has paused in many economies

Inflation is slowing, and is at or close to target for several economies...

Inflation and Inflation Targets



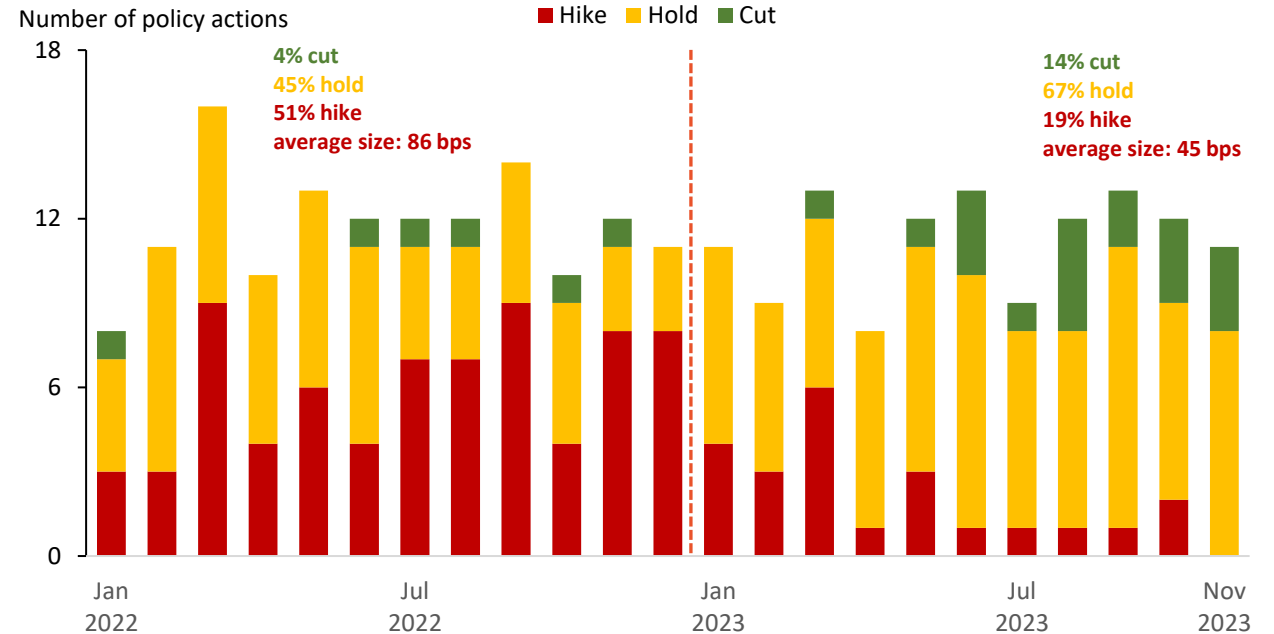
PRC = People's Republic of China, KOR = Republic of Korea, US = United States.

Notes: Graph is sorted by the size of the gap between 2023 inflation and inflation target. Peak inflation refers to the highest point since January 202; Sri Lanka peak inflation was 73% and omitted for scale. Inflation refers to October 2023 for all economies except Sri Lanka where only September data was available. Inflation targets are the central bank point targets or target ranges.

Source: CEIC Data Company.

...leading many central banks to pause, and some to start easing

Policy Interest Rate Decisions



bps = basis points.

Note: 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. There were no rate hikes by central banks in the region in November.

Source: Trading Economics.

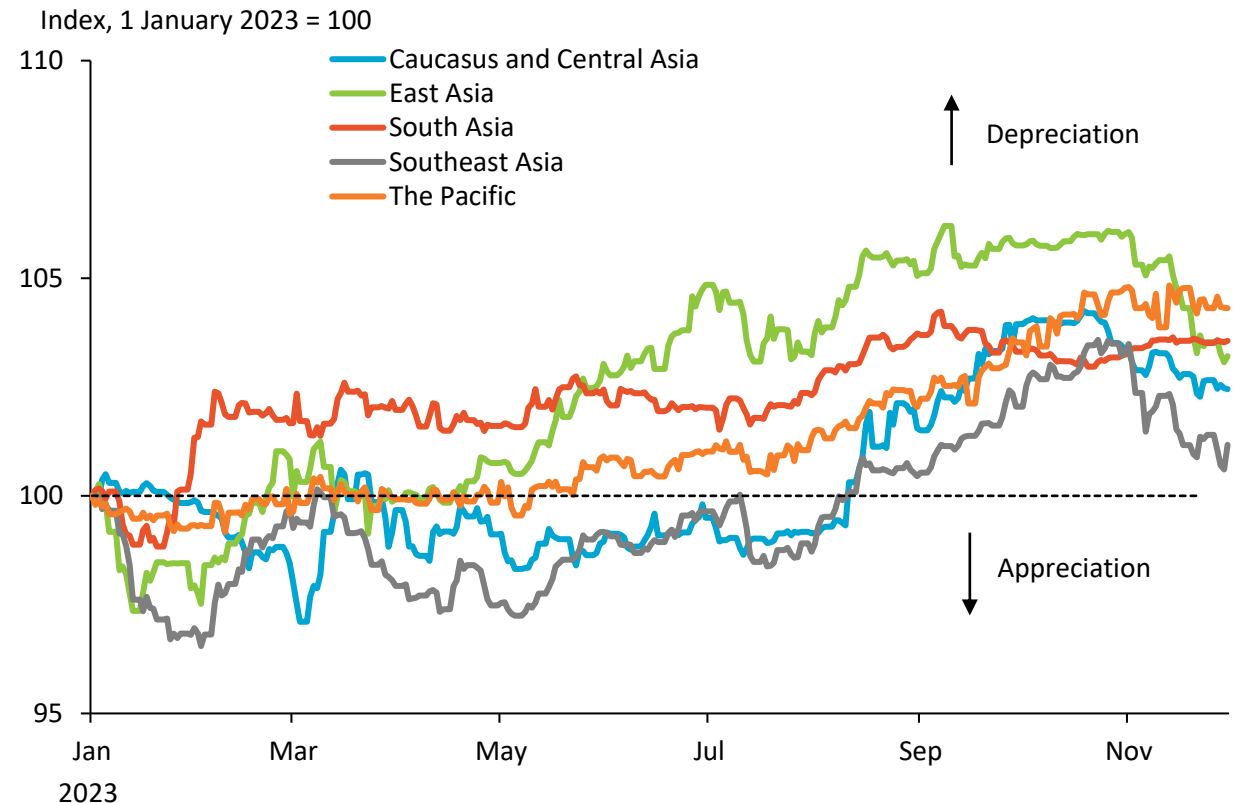
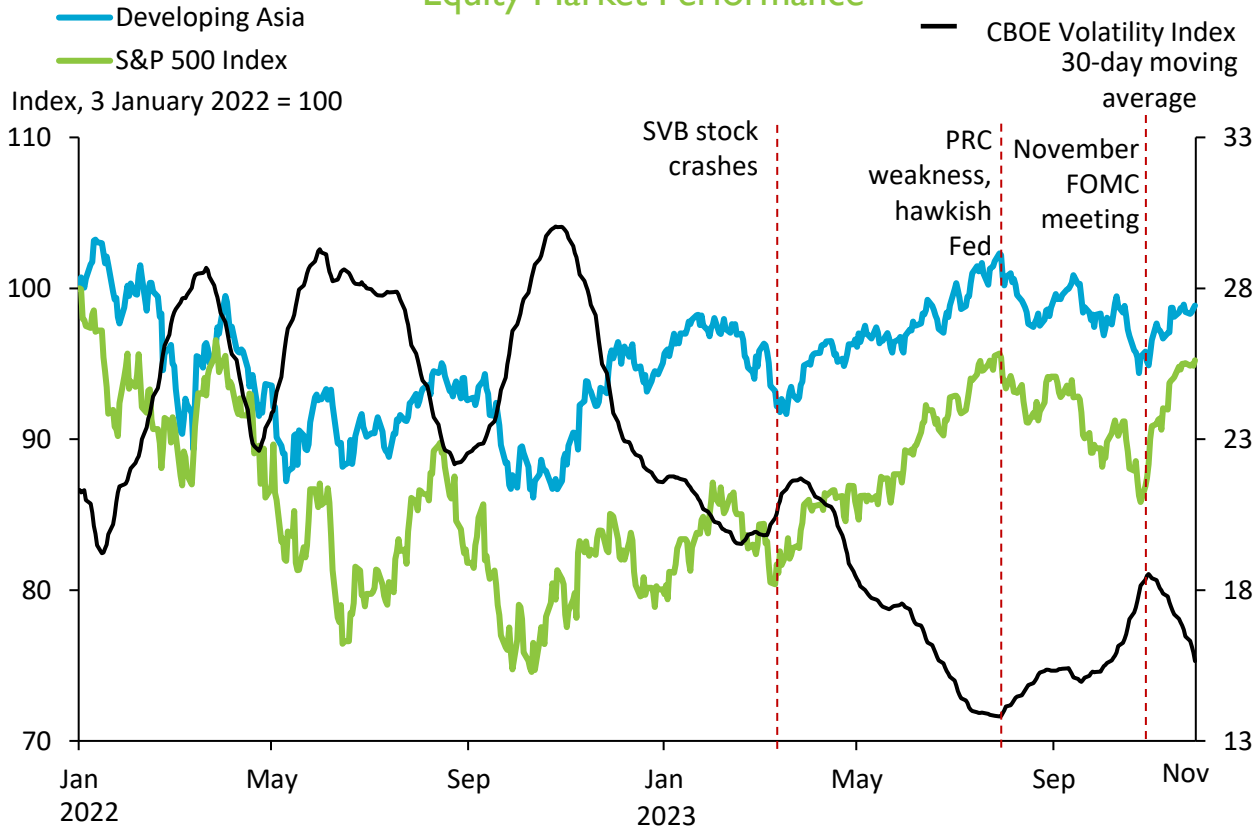
After easing through much of 2023, financial market conditions remained broadly stable in recent months

Equity markets retreated in September but rallied in November amid investors' expectation of no more rate hikes

Most regional currencies slightly appreciated against the US dollar in recent weeks

Equity Market Performance

Exchange Rate Movement Relative to USD



CBOE = Chicago Board Options Exchange, FOMC = Federal Open Market Committee, SVB = Silicon Valley Bank.
Source: Bloomberg.

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Global demand will slow less than expected this year

Growth will decelerate to varying degrees across advanced economies

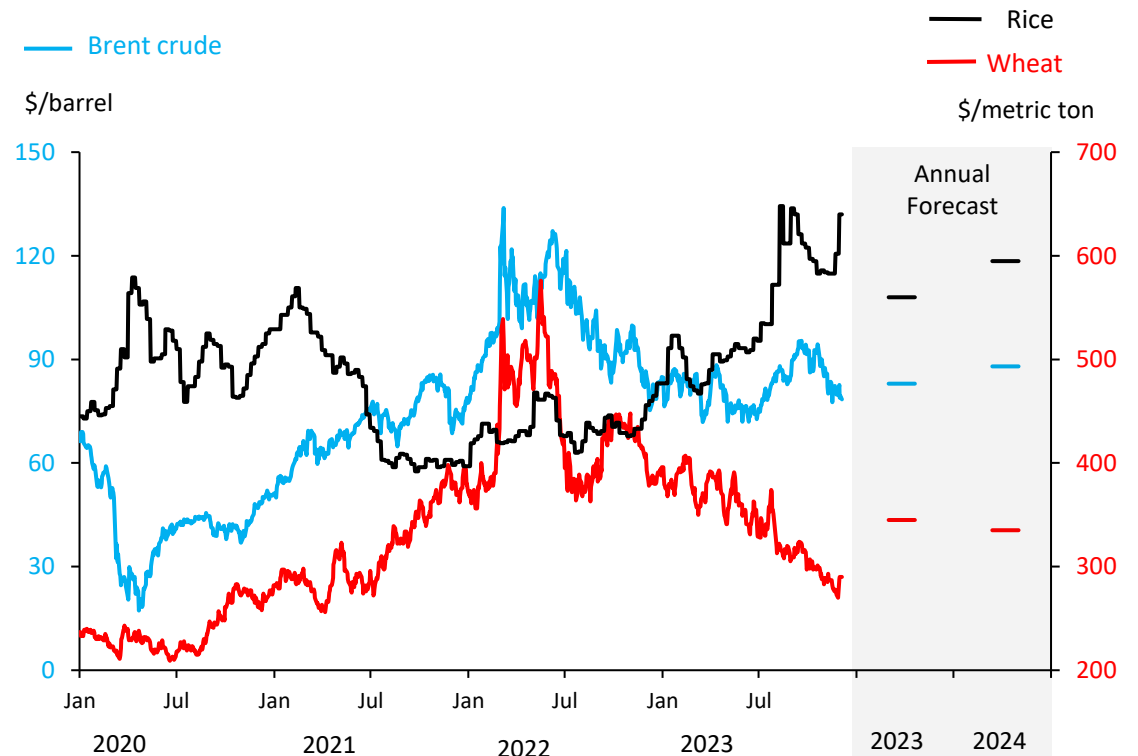
Rice prices have risen sharply in the second half of the year

Baseline Assumptions on the International Economy

	2022	2023		2024	
	Actual	September	December	September	December
GDP growth, %					
Major advanced economies	2.3	1.4	1.6	0.9	1.3
United States	1.9	1.9	2.4	0.8	1.8
Euro area	3.4	0.7	0.5	1.1	0.8
Japan	0.9	1.7	1.6	0.5	0.6
Inflation, %					
Major advanced economies	7.5	4.5	4.5	2.3	2.4
United States	8.0	4.0	4.0	2.4	2.4
Euro area	8.4	5.7	5.7	2.5	2.5
Japan	2.5	2.9	3.1	1.5	1.9
Brent crude spot price, average, \$/barrel	100	83	83	86	88

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

Commodity Prices



Sources: Bloomberg; World Bank Commodity Price Forecasts, Oct 2023; Asian Development Bank estimates.

PRC and India are driving an upward revision to the 2023 forecast; 2024 growth will remain solid

	2022	2023		2024	
		September	December	September	December
Developing Asia	4.3	4.7	4.9	4.8	4.8
Caucasus and Central Asia	5.1	4.6	4.8	4.7	4.6
Kazakhstan	3.2	4.1	4.5	4.3	4.3
East Asia	2.8	4.4	4.7	4.2	4.2
Hong Kong, China	-3.5	4.3	3.6	3.3	3.3
People's Republic of China	3.0	4.9	5.2	4.5	4.5
Republic of Korea	2.6	1.3	1.3	2.2	2.2
Taipei, China	2.4	1.2	1.2	2.7	2.7
South Asia	6.7	5.4	5.7	6.0	6.0
India	7.2	6.3	6.7	6.7	6.7
Southeast Asia	5.6	4.6	4.3	4.8	4.7
Indonesia	5.3	5.0	5.0	5.0	5.0
Malaysia	8.7	4.5	4.2	4.9	4.6
Philippines	7.6	5.7	5.7	6.2	6.2
Singapore	3.6	1.0	1.0	2.5	2.5
Thailand	2.6	3.5	2.5	3.7	3.3
Viet Nam	8.0	5.8	5.2	6.0	6.0
The Pacific	6.1	3.5	3.5	2.9	2.9

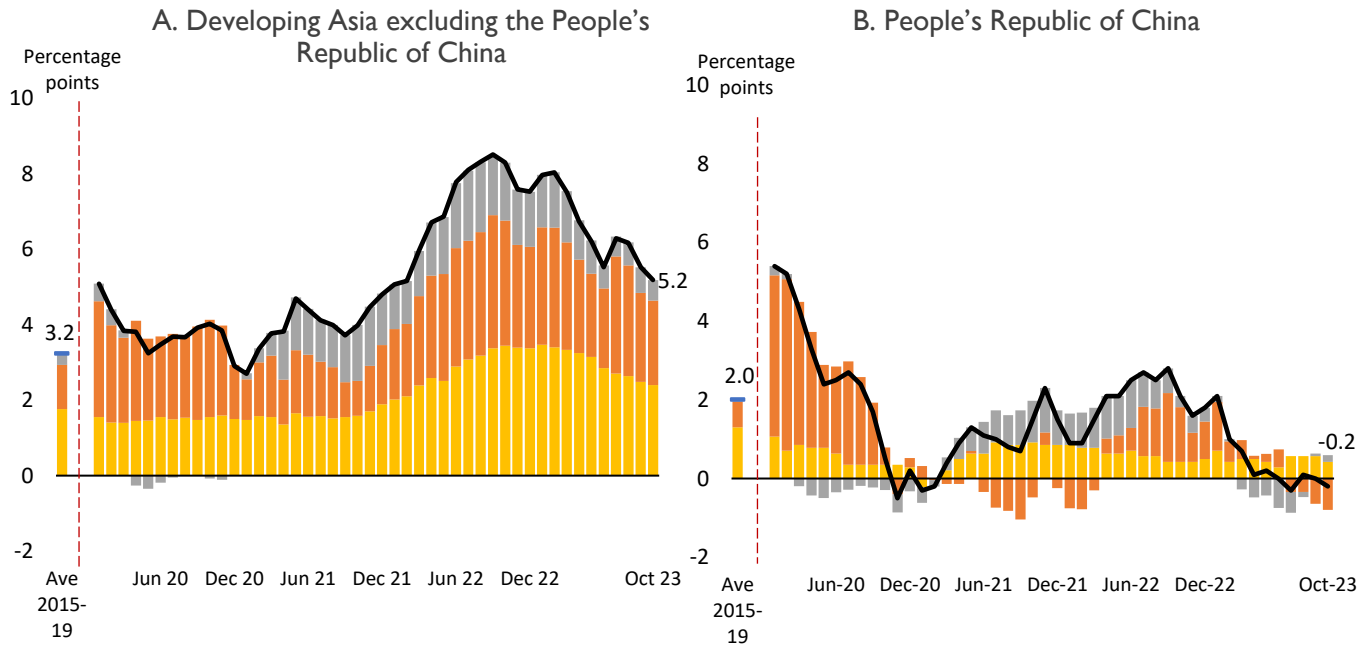
Source: Asian Development Outlook December 2023.

Inflation is forecast to continue moderating

Energy and food price inflation are receding, as is core inflation

Contributions to Inflation

Energy-related Food and nonalcoholic beverages Core inflation
 Headline inflation

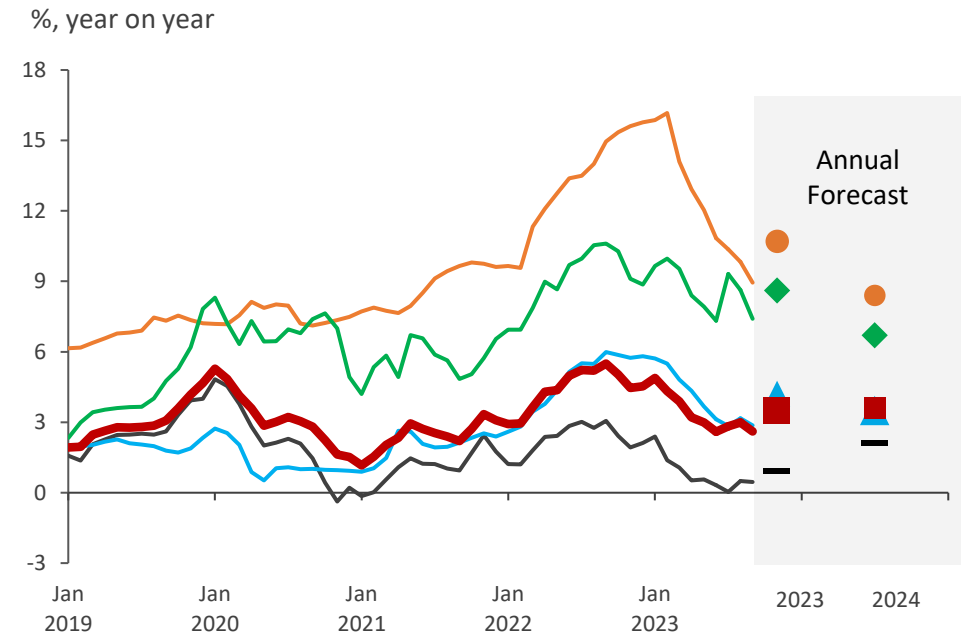


Note: Core inflation excludes volatile components, i.e. energy and fuel. Regional average is calculated using GDP PPP shares as weights and covers 22 economies.
 Sources: Haver Analytics; CEIC Data Company; Official sources.

Headline inflation is expected to moderate further in 2024

Monthly Inflation and ADO Annual Forecasts

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



Sources: Asian Development Outlook database; CEIC Data Company.

Downside risks continue to cloud the outlook

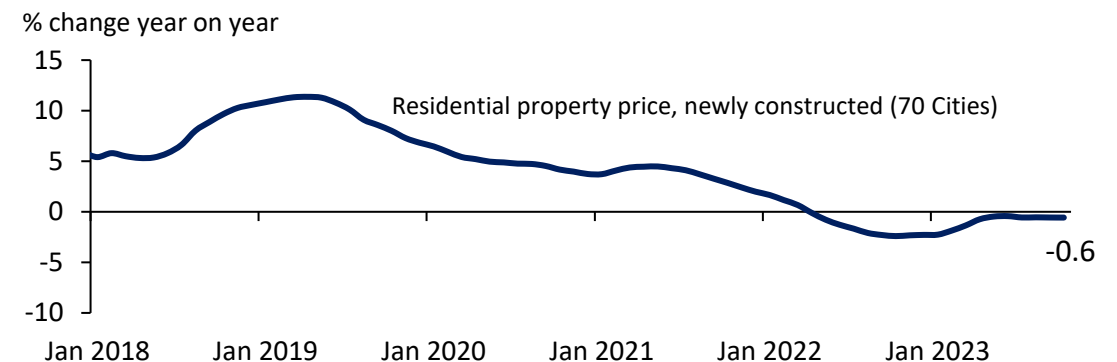
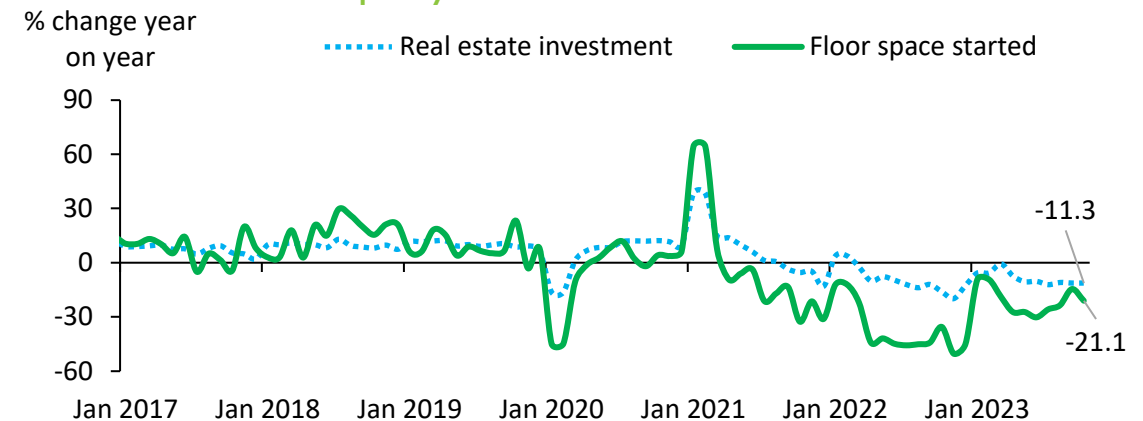
- Continued property sector weakness could weigh on growth in the PRC
- “Higher for longer” US interest rates will pose a challenge to highly indebted economies and sectors
- El Niño and geopolitical uncertainty threaten food and energy security

China's property market poses a risk

- Continued property market weakness would be a drag on the domestic economy
- Policy actions could soften or fully offset the impact
- Effect is mostly on PRC; spillovers would be limited, with some exceptions (e.g., Mongolia)
- Recently announced on-budget stimulus (RMB1tn or 0.8% of GDP) will help, as property market remains weak

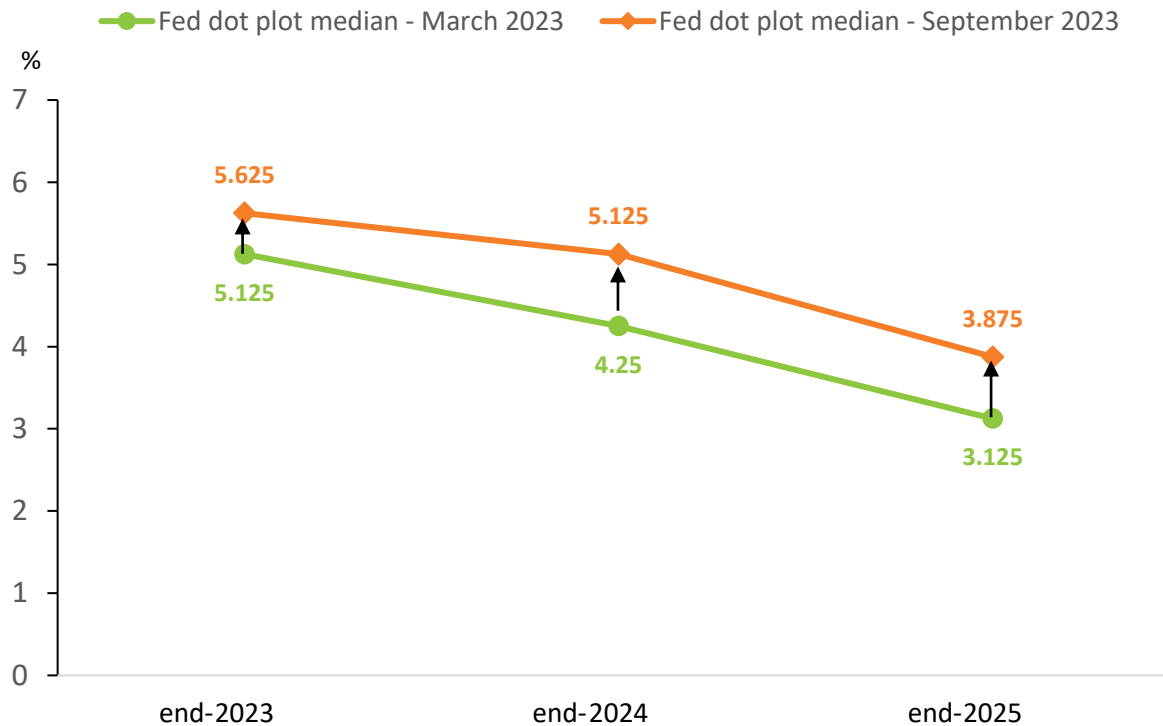
PRC's property market is undergoing an adjustment, with investment, sales, and prices contracting.

Property Market Indicators



“Higher for longer” rates + higher debt = higher risks

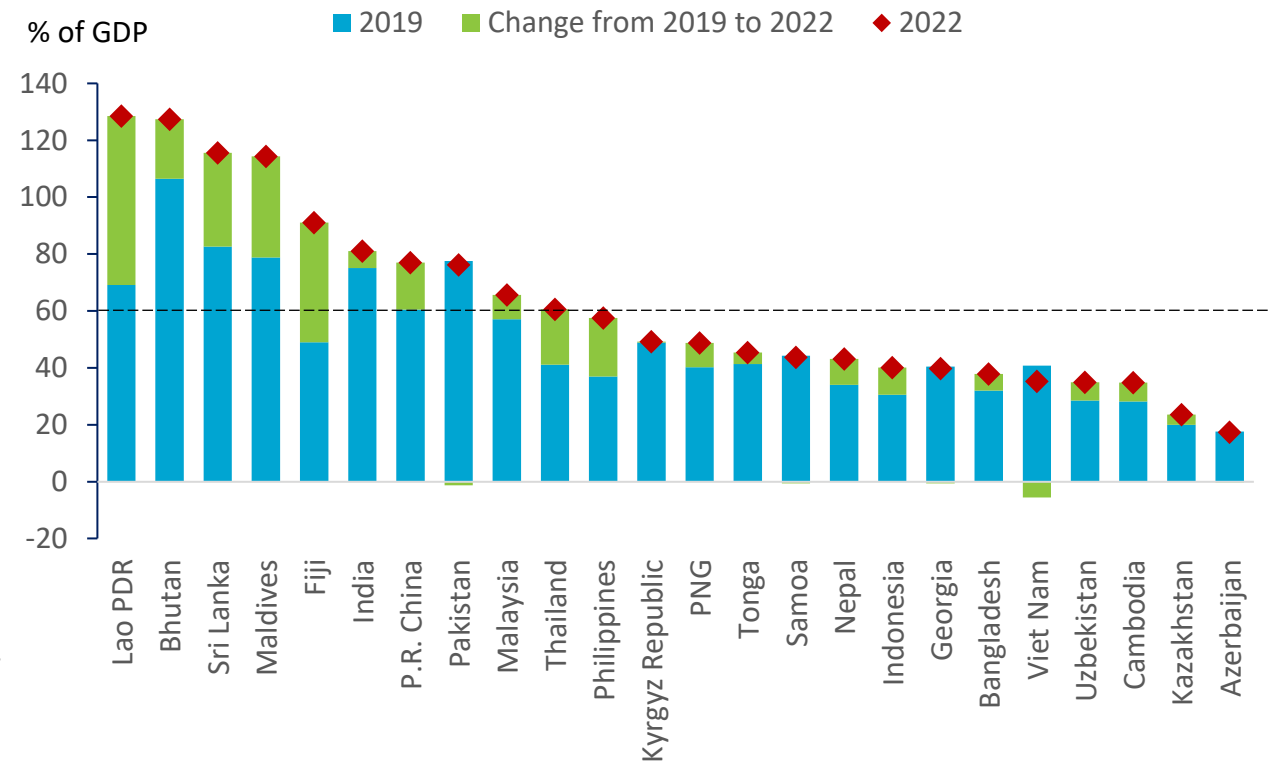
Expected path of US policy rate (from Fed “dot plots”)



Note: Median of the US Fed “dot plots,” which show Federal Market Open Committee participants’ assessments of appropriate monetary policy.

Source: Federal Open Market Committee US Federal Reserve.

Public debt (% of GDP)



Lao PDR = Lao People’s Democratic Republic
Source: IMF World Economic Outlook database.