ADB

ASIAN DEVELOPMENT

Outlook 2013 Update

HIGHLIGHTS

Asian Development Bank

ADB

ASIAN DEVELOPMENT

Outlook 2013 Update

HIGHLIGHTS

Asian Development Bank

© 2013 Asian Development Bank

All rights reserved. Published in 2013.
Printed in the Philippines.

Publication Stock No. ARM136041-3

The views expressed in this publication are those of the authors and do not necessarily reflect the views and policies of the Asian Development Bank (ADB) or its Board of Governors or the governments they represent.

Note:
In this publication, "$" refers to US dollars.

6 ADB Avenue, Mandaluyong City
1550 Metro Manila, Philippines
Tel +63 2 632 4444
Fax +63 2 636 2444
www.adb.org

For orders, please contact:
Public Information Center
Fax +63 2 636 2584
adbpub@adb.org

Printed on recycled paper

ADO 2013 Update—Highlights

Developing Asia is challenged to sustain its growth momentum as the pace in its two largest economies moderates. Regional growth is expected to slide marginally from 6.1% in 2012 to 6.0% in 2013, before picking up to 6.2% in 2014.

Prospective tapering of quantitative easing in the United States destabilized emerging economy financial markets, including in developing Asia. However, fears of a repeat of the 1997 Asian financial crisis are unwarranted. The region is now in a stronger position to weather the storm, with many economies running current account surpluses and holding large foreign reserve stockpiles. The reforms instituted since 1997 strengthened macroeconomic management, financial regulation, and corporate governance.

Still, developing Asia faces the twin challenges of maintaining financial stability and sustaining growth. The recent financial turmoil has demonstrated all the more clearly the need for structural reform to support growth.

Governance reform is needed to sustain development momentum and ensure that the benefits of growth are widely shared. Improving public service delivery is an effective entry point toward wider governance reform.

Key messages

- Growth in developing Asia is forecast to decline marginally to 6.0% this year from 6.1% in 2012, before picking up to 6.2% in 2014. This *Update* revises down the *Asian Development Outlook 2013* (*ADO 2013*) forecasts for 2013 by 0.6 percentage points and for 2014 by 0.5 percentage points, as growth moderates in the region's two largest economies: the People's Republic of China (PRC) and India.

- Resurgence in the United States (US) economy is expected to pick up in the coming months. Signs are emerging that the euro area is turning the corner, and Japan is benefiting from the introduction of Abenomics early this year. Nevertheless, recovery in the advanced economies has yet to translate into revived orders for exports from developing Asia.

- In the PRC, growth is expected to moderate to 7.6% in 2013 from 7.7% last year. The authorities there are engineering a medium-term transition to a more sustainable growth path than one led by exports and investment. The shift is evident in recent efforts to tackle a burgeoning shadow banking system. This will affect growth prospects in Asia, especially East and Southeast Asia.

- India's growth is forecast to slow to 4.7% in FY2013 (ending 31 March 2014) from 5.0% in FY2012. Persistent supply-side bottlenecks such as poor infrastructure and long delays in structural reform keep industry and investment lagging. Fiscal and current account deficits also dent business confidence.

- Slower growth in Asia's two giants hampers but does not hobble growth across Asia. With positive signs from advanced economies supporting regional prospects, developing Asia excluding the PRC and India is expected to match its 4.0% growth performance last year.

- Inflation in developing Asia is projected dipping to 3.6% this year from 3.7% in 2012 as weaker growth and tepid commodity prices keep price pressures in check. Next year, inflation is expected to return to 3.7%.

- Prospective tapering of US quantitative easing has destabilized financial markets in developing Asia and other emerging economies, in particular India and Indonesia. Widening current account deficits have made the two economies vulnerable, but their foreign exchange reserves at the end of August remain sufficient to cover imports for 7 months in India and 5 months in Indonesia.

- In any case, fears of a crisis recalling 1997 are unwarranted. Many developing Asian economies now have current account surpluses and large foreign exchange reserves. In addition, reforms since 1997 have strengthened macroeconomic management, financial regulation, and corporate governance.

- Developing Asia faces the twin challenges of maintaining financial stability and sustaining growth. As Asia transitions toward a more sustainable growth path, governments must watch out for volatile capital flows and financial market disruption. They must also continue to pursue sound macroeconomic policies that include building up fiscal space during good times.

- The recent turbulence in financial markets underscores the need for structural reform to sustain growth. Priority areas include foreign direct investment, industrial diversification, infrastructure and human capital, fiscal consolidation, and social protection.

- Governance is another key area for reform. Asia must make headway toward catching up with the advanced economies and matching their quality of governance. A focus on strengthening public service delivery can provide immediate benefits to make growth more inclusive and create momentum for wider governance reforms.

Time for vigilance and reform

Developing Asia's outlook

- **Growth will be slower than forecast in April in *ADO 2013* before picking up in 2014.** Despite improving growth prospects for the advanced economies, GDP in developing Asia will grow at 6.0% in 2013, marginally down from 6.1% in 2012. Growth in 2014 is now forecast at 6.2%.

  - **This *Update* revises down GDP growth projections in *ADO 2013*.** The forecast for 2013 growth is now 0.6 percentage points lower than the 6.6% in *ADO 2013*, and for 2014 now 0.5 percentage points below the 6.7% forecast in April. Growth across the region is somewhat stymied by the moderation of growth in the two regional giants—the PRC and India—and by instability in financial markets buffeted by volatile capital flows.

  - **Nascent recovery in advanced economies has yet to lift emerging markets.** Acceleration in the US economy is expected to gather momentum in the months ahead, and recession in the euro area seems to be coming to an end. Japan began 2013 quite strongly following the introduction of Abenomics. However, recovery in the advanced economies has yet to translate into revived orders for exports from developing Asia.

- **Developing Asia's slowdown is most manifest in its two giants.** Growth this year in India is forecast to decelerate to 4.7% from 5.0% last year and in the PRC to 7.6% from 7.7%. Such growth is much more tepid than the enviable rates both countries enjoyed over the past decade, when India averaged 7.9% growth and the PRC 10.5%.

  - **Slower growth in the PRC is the price of structural reform for the long term.** The authorities in the PRC seek to engineer a strategic shift away from growth led by exports and investment toward more balanced growth. The shift is most evident in the government's recent efforts to wrestle down credit bubbles and come to grips with a burgeoning shadow banking system. From this perspective, moderated growth in the PRC over the medium term signals a healthy and welcome transition to a more sustainable growth path.

- » **Deceleration in India tracks persistent slumps in industry and investment.** Setting aside weak foreign demand, frail industry and investment in India reflect persistent supply-side bottlenecks such as poor infrastructure and delayed structural reform to ease these constraints. India's current account deficits and volatile capital flows further dent business confidence.

- » **Slower growth in the giants hampers but does not hobble growth across Asia.** East and Southeast Asia have especially strong links with the PRC in "factory Asia." The PRC's influence on economic performance in these subregions has grown in the past decade along with its share of developing Asia's exports, which rose from 14% to 21%. Even with growth slowing in the PRC and India, projected growth this year in developing Asia excluding these two giants equals the 4.0% recorded in 2012.

- **Constrained growth and commodity prices hold price pressures in check.** Average inflation in developing Asia is expected to moderate to 3.6% in 2013, improving from 3.7% last year. Inflation in 2014 is forecast to pick up to 3.7%. These figures mask great variation country by country. Inflation in India will reach 6.5% in 2013. In Indonesia, inflation is expected to worsen sharply from 4.3% in 2012 to 7.2% in 2013 as the government scales back fuel subsidies.

- **Asia's shrinking current account surplus puts a premium on domestic demand.** Developing Asia's long-standing current account surplus is expected to narrow from 1.8% of GDP in 2012 to 1.6% in both 2013 and 2014.

Volatile capital flows and financial market vulnerability

- **Regional financial markets are rocked by talk of tapering quantitative easing.** The sharp reactions of financial markets in emerging economies, not least in Asia, to key signals from the US Federal Reserve on 22 May and 19 September provide firm evidence of their vulnerability to monetary policy shifts in advanced countries.

  - » **Capital flows reverse as investors pivot away from emerging markets.** This has weighed down currency values and stock prices and pushed up long-term bond yields and risk premiums. Stock markets in several Asian economies suffered double-digit declines

from May to the end of August: Indonesia by 21.1%, Thailand by 20.3%, the Philippines by 18.4%, and India by 11.7%.

» **Recently spiraling asset prices in Asia start to unwind.** Market turmoil has reversed asset price increases that were fuelled by large capital inflows from advanced countries when they responded to the global financial crisis with expansionary monetary policies.

- **India and Indonesia in particular have felt recent financial market turmoil.** From May to the end of August, the Indian rupee fell by 16.2% against the US dollar, and the Indonesian rupiah by 13.2%. Widening current account deficits have long made both economies more susceptible to shifts in market sentiment, as have fiscal deficits in India. Fortunately, both have sufficient foreign exchange reserves, enough as of August to cover imports to India for 7 months and to Indonesia for 5 months.

- **Turbulence in Asia does not at this moment warrant fear of a crisis recalling 1997.** Developing Asia is now in a much stronger position to weather the storm. Compared with 1997, most regional economies now have robust current account surpluses and much higher foreign reserves relative to their modest amounts of short-term external debt. In addition, countries in the region have since 1997 significantly strengthened their macroeconomic management, financial regulation and supervision, and corporate governance.

The twin challenges of financial stability and sustainable growth

- **Asia needs to safeguard financial stability now and sustain growth in the medium term.** Highly volatile capital flows that compound the risk of financial instability are occurring at a time when the PRC's transition to a more moderate growth path may dampen the region's growth generally.

- **Confidence rests on the authorities continuing to pursue sound macroeconomic policies.** Recent global financial crises, from the 1997 Asian financial crisis to the ongoing euro area sovereign debt crisis, offer valuable lessons for developing Asia in its quest for financial stability.

- » **Crisis response cannot rely solely on easier monetary policy.** There are limits to monetary policy's countercyclical support, particularly where interest rates are low or inflation is a chronic problem. Unlike economies whose currencies enjoy international reserve status, emerging market central banks cannot pursue quantitative easing without accelerating inflation.

- » **Exchange rates should be flexible, balancing inflation and corporate external debt.** Flexible exchange rates help governments to ensure that they hold sufficient reserves that are commensurate with the demands posed by greater volatility in capital flows. Defending unrealistic exchange rates risks depleting foreign exchange reserves.

- » **Periods of relative calm are times to firm government fiscal positions.** Governments need to build up fiscal space when they can, to finance sustainable development and poverty elimination and, in times of economic crisis, countercyclical stimulus.

- **Generally sound banking sector indicators should not invite complacency.** Capital adequacy and nonperforming loan ratios have improved in developing Asia despite the global financial crisis. But policy makers need to be vigilant to secure the quality of financial data and monitor the rapid growth of shadow banking. Prudential regulation must be strengthened and, where appropriate, include macroprudential measures.

- **Current financial turmoil is a timely reminder of the need for structural reform.** Adversity impresses on India, Indonesia, and others in developing Asia the urgency of structural reform to keep them on a strong and sustainable growth path. High priorities are reforms to encourage foreign direct investment, diversify the industrial base, close infrastructure and human capital gaps, consolidate fiscal positions by cutting inefficient subsidies, strengthen social protection, and overcome other constraints on long-term growth.

- **One important area of structural reform is governance.** While developing Asia has outperformed the rest of the world economically over the last few decades, its governance lags. To close the gap with the advanced countries, the region needs to strengthen governance, an issue analyzed in the theme chapter of this *Update*. Focusing on strengthening public service delivery can provide immediate benefits to make growth more inclusive and create momentum for wider governance reform.

Outlook by subregion

- **Developing Asia is challenged to sustain its growth momentum.** Despite a better outlook for the advanced economies, growth in developing Asia is slowing, mainly on account of weaker prospects for its two giants. Subdued economic activity cuts across most subregions.

- **East Asia sees growth softer than expected.** Growth in East Asia is projected at 6.6% in both 2013 and 2014, below the 7.1% forecast in April for both years. Rather than accelerate, growth is now expected to slow in the PRC to 7.6% in 2013 and 7.4% in 2014, owing to weaker domestic demand. Growth rates in the rest of the subregion are now expected to be generally below April projections because of weaker external demand and, in Mongolia, moderating investment in mining. However, the Republic of Korea growth forecast for 2013 is maintained at 2.8%, as fiscal stimulus has cushioned the impact of weaker external demand. East Asia's inflation rate is projected at 2.4% in 2013 and 2.7% in 2014, lower than April forecasts, with Mongolia as the outlier recording high inflation at 9.5% in 2013 and 10.0% in 2014.

- **South Asia is downgraded mainly because of a slowdown in India.** The subregional growth forecast is lowered by 1 percentage point, to 4.7% from 5.7% in 2013, and by less in 2014, to 5.5% from 6.2%. Rapid growth in India has steadily slowed over the past 2 years as the county grappled with fiscal imbalances, high inflation, and various impediments to new investment. While substantial progress has been made on the fiscal and inflation fronts, capital outflows from emerging markets added to uncertainty over India's outlook because of its large current account deficit. Growth in other countries is largely on track to meet forecasts, with growth slightly higher in Afghanistan, Bangladesh, and Nepal and slightly lower in Bhutan. Pakistan has adopted major reforms that should stabilize its economy. The average subregional inflation forecast for 2013 is revised down to 6.7% from 7.4%, and for 2014 to 7.0% from 7.1%.

- **Southeast Asia is crimped by weakness in its three biggest economies.** Lackluster export markets and moderated investment have weighed on growth in Indonesia, Thailand, and Malaysia. By contrast, the Philippines is performing strongly, and its growth result will be higher than expected in April. The subregional growth forecast

for this year is lowered by half a percentage point to 4.9%. In 2014, growth will quicken to 5.3% as investment recovers and exports benefit from improved global trade and recent currency depreciation in several economies. While inflation is more subdued in Southeast Asia generally, it has accelerated sharply in Indonesia since June, when the government raised administered fuel prices. That prompts an upward revision in the subregional inflation forecasts to 4.7% from 4.2% this year and to 4.3% from 4.1% in 2014.

- **Central Asia will grow marginally more slowly in 2013 before recovering in 2014.** Growth is now projected to decelerate to 5.4% in 2013, a bit below the 5.5% forecast in *ADO 2013*, because slower growth in Kazakhstan and Georgia outweighs more optimistic forecasts for Azerbaijan, the Kyrgyz Republic, and Tajikistan. The April forecast that growth will reach 6.0% in 2014 still stands. Sluggish performance in industry, agriculture, and construction trims the 2013 growth forecast for Kazakhstan from 5.2% to 4.8%. In Georgia, a sharp slowdown in the first 7 months—reflecting investor caution linked to the political transition, delays in public infrastructure projects, and weak domestic demand—lowers the growth projection for 2013 from 5.5% to 3.0%. The *Update* maintains its subregional inflation projection for 2013 at 6.7% but revises it for 2014 with an uptick to 6.8%.

- **Pacific economies as a whole are expected to achieve *ADO 2013* growth forecasts.** The growth forecasts for the Pacific subregion remain unchanged at 5.2% in 2013 and 5.5% in 2014. Higher growth expectations for the Cook Islands and Fiji in 2013 are offset by lower projections for Kiribati, Nauru, Solomon Islands, and Timor-Leste. Improving consumption and investment indicators in Fiji and unexpectedly large increases in tourism arrivals in the Cook Islands prompt upgrades in their growth forecasts. Downward revisions are led by a modest decline in the 2013 growth forecast for Timor-Leste, where public expenditure is lower than budgeted, and a more significant downgrade in the forecast for Solomon Islands, where production in gold mining, logging, and agriculture are falling short of expectations. The forecast for inflation in 2013 is revised down to 5.7% from 6.1% and in 2014 to 6.0% from 6.3%.

Special theme: Governance and public service delivery

Asia's governance gap

- **Developing Asia's phenomenal growth is closing the income gap with advanced economies.** Regional residents' earnings were less than 6% of those of their counterparts in the developed world in 1980 but today are over 18%. Consequently, some 700 million people have risen out of extreme poverty (defined as living on $1.25 or less per day), near universal primary education has been achieved for both girls (89%) and boys (91%), and almost 86% of households now have access to safe drinking water.

- **But governance in the region has lagged its economic achievements.** The concept of good governance is difficult to measure in its many facets, which include political stability and absence of violence (*political stability* for convenience), controlling corruption, and voice and accountability (*voice*). But disparate measures agree that developing Asia's progress has been slow.

  - **The region has seen less progress in narrowing the governance gap with advanced economies.** The region's performance on International Country Risk Guide indicators shows modest gains since 1993 in the rule of law and bureaucratic quality ratings relative to those of advanced countries. Relative ratings on controlling corruption declined sharply in developing Asia around the 1997–1998 Asian financial crisis and have not fully regained their early 1990s level.

  - **Developing Asia also trails its developing economy peers.** Looking at the 2011 World Governance Index indicators, Asia on average scored below Latin America in all areas covered: controlling corruption, government effectiveness, political stability, regulatory quality, the rule of law, and voice. Factoring in income differences improves developing Asia's global ranking but still leaves the region lagging Latin America in voice, regulatory quality, and controlling corruption.

  - **Governance performance within the region is quite diverse.** Compared with expected governance ratings for its per capita GDP, East Asia shows strong government effectiveness, regulatory quality, and rule of law but lags in voice. In contrast, political stability and regulatory quality are the key issues in South Asia, which is stronger in voice.

- **In light of its experience, what is the role of governance in Asia's development story?** The concept of governance covers a broad range of issues, often without uniform benchmarks to guide policy makers. Moreover, different elements of governance may come into play at different stages of development. These disparate elements must be disentangled to clarify the governance–development nexus.

How governance and development connect

- **The accumulated global evidence makes it clear: Governance matters for development.** Cross-country empirical studies show that better governance correlates with faster growth, higher investment, and more rapid poverty reduction. And Asia is no exception.

- **The relationship with development varies across dimensions of governance.** In general, government effectiveness, the rule of law, regulatory quality, and controlling corruption are found to be more closely and positively related to development performance than are voice or political stability. In developing Asia, government effectiveness and regulatory quality are even more strongly associated with growth than the global average.

- **A country's stage of development determines the essential elements of governance.** Some elements of governance such as voice become more important later to support growth and social indicators like poverty, income equality, education, and health.

Public services as the frontline of governance

- **People judge the quality of governance by their experience with public services.** Governance is broad, and narrowing the focus to an actionable area can create momentum for broader reform to improve development outcomes. As the quality of social services and infrastructure is a popular yardstick for the general state of governance, improving public service delivery is an effective entry point toward wider governance reform. Because public services are particularly important to the poor, ensuring their effective delivery is critical for making growth inclusive.

- **Public service shortfalls mirror developing Asia's lagging governance.** Despite significant improvements, essential services in many countries in developing Asia lag in quantity and quality. Shortfalls in public services undermine development outcomes and can, for example, leave primary and secondary students with reading, math, and science skills below par. Large infrastructure deficits plague the region.

- **Weak governance in turn undermines public service quality.** Corruption and the lack of transparency in service delivery are among the more obvious elements of weak governance. For example, corruption is cited as the main cause of poor public services, and social outcomes suffer as chronic absenteeism in many countries deprives health clinics and public schools of their doctors and teachers.

Mechanisms to improve public service delivery

- **A multipronged strategy is needed for better public services.** Case studies and experimental evidence show that service quality improves where recipients have the means to demand it. Complementary mechanisms for improving public services are the "three Es": Empowering citizens, Engaging local governments and the private sector, and Expanding the use of information and communication technology (ICT).

- **Empowering citizens generates dynamism for greater accountability.** Rights-based approaches, such as India's "right to employment" and "right to information," establish legal rights to entitlements (though policy makers need to be mindful of budget impacts). Participatory monitoring and evaluation tools—such as citizen report cards, community score cards, social audits, and grievance redress systems—can make governments more responsive. Directly involving communities in delivering public services gives beneficiaries more information and greater say in how funds are used. One program in Indonesia allowed villagers to prioritize local needs, develop project proposals, and decide which projects to fund.

- **Engaging local governments and the private sector can expand public services.** Experience shows that devolving powers to local authorities who are able to take on more responsibility improves public service performance. Giving local authorities in Bangladesh and the PRC greater taxing and spending autonomy strengthened incentives to generate revenue and invest more in social infrastructure and poverty programs. Teaming up with non-state providers can expand services to difficult-to-reach areas and conserve limited public funds. Cambodia has experimented successfully with contracting nongovernment organizations to provide public health services.

- **Expanding use of ICT augments the impact of empowerment and partnerships.** ICT can catalyze citizen empowerment by facilitating participation in local governance and enabling fast access to information. It can also create the feedback channel needed to push for services of better quality, such as through an official blog site where citizens can actively communicate with the executives of government agencies by posting policy comments and questions. Making local government administration more transparent can squelch opportunities for corruption and so address a key governance weakness that goes beyond public services.

Moving forward on governance reform

- **A tailored approach to governance reform is needed to maximize development impact.** As development goals in themselves, all dimensions of governance should be pursued. But the governance–development nexus is complex. Policy makers need to focus their efforts on the particular governance deficiencies that hold their country back from its next stage of development.

  - **Growth-supporting aspects of governance take center stage for low-income economies.** Strengthening government effectiveness, improving regulatory quality and the rule of law, and scaling up anticorruption efforts provide entry points to wider governance reform.

- » **Middle-income economies must look to advanced economy experience.** At this stage, maintaining an environment supportive of growth is important, but policy must also respond to the rising aspirations of the populace. As their incomes improve and access to technology expands, citizens demand greater say in national affairs. Moving to even higher income entails improving governance quality with respect to participation and accountability.

- » **All countries should also pursue actionable governance reforms with benefits up front.** Among the "three Es"—Empowering citizens, Engaging local governments and the private sector, and Expanding the use of ICT—expanding ICT should be a priority because it complements the other two mechanisms. ICT not only provides an effective service delivery channel, it can mitigate any unintended consequences of empowerment and decentralization by improving information flow, making transactions more transparent, and thus establishing the means to hold service providers accountable.

- **Governance reform cannot be delayed.** Good governance is needed to sustain development and ensure that the benefits of growth are widely shared. As demonstrated by the increase in anticorruption initiatives in recent years, developing Asia's leaders recognize this need and are stepping up their efforts. The journey is long and the tasks ahead are challenging, but the development payoffs will be large.

Growth rate of GDP (% per year)

Subregion/Economy	2012	2013		2014	
		ADO 2013	*Update*	*ADO 2013*	*Update*
Central Asia	**5.6**	**5.5**	**5.4**	**6.0**	**6.0**
Azerbaijan	2.1	3.1	4.0	4.8	4.8
Kazakhstan	5.0	5.2	4.8	5.6	5.6
East Asia	**6.5**	**7.1**	**6.6**	**7.1**	**6.6**
China, People's Rep. of	7.7	8.2	7.6	8.0	7.4
Hong Kong, China	1.5	3.5	3.2	3.8	3.8
Korea, Rep. of	2.0	2.8	2.8	3.7	3.5
Taipei,China	1.3	3.5	2.3	3.9	3.3
South Asia	**5.1**	**5.7**	**4.7**	**6.2**	**5.5**
Bangladesh	6.2	5.7	6.0	6.0	5.8
India	5.0	6.0	4.7	6.5	5.7
Pakistan	4.4	3.6	3.6	3.5	3.0
Sri Lanka	6.4	6.8	6.8	7.2	7.2
Southeast Asia	**5.6**	**5.4**	**4.9**	**5.7**	**5.3**
Indonesia	6.2	6.4	5.7	6.6	6.0
Malaysia	5.6	5.3	4.3	5.5	5.0
Philippines	6.8	6.0	7.0	5.9	6.1
Singapore	1.3	2.6	2.6	3.7	3.5
Thailand	6.5	4.9	3.8	5.0	4.9
Viet Nam	5.2	5.2	5.2	5.6	5.5
The Pacific	**7.5**	**5.2**	**5.2**	**5.5**	**5.5**
Fiji	2.2	2.0	2.8	2.3	2.4
Papua New Guinea	9.8	5.5	5.5	6.0	6.0
Developing Asia	**6.1**	**6.6**	**6.0**	**6.7**	**6.2**

Notes: Developing Asia refers to the 45 developing member countries of the Asian Development Bank. Central Asia comprises Armenia, Azerbaijan, Georgia, Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan. East Asia comprises the People's Republic of China; Hong Kong, China; the Republic of Korea; Mongolia; and Taipei,China. South Asia comprises Afghanistan, Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan, and Sri Lanka. Southeast Asia comprises Brunei Darussalam, Cambodia, Indonesia, the Lao People's Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Viet Nam. The Pacific comprises the Cook Islands, Fiji,

(continued on the next page)

Inflation (% per year)

Subregion/Economy	2012	2013		2014	
		ADO 2013	*Update*	*ADO 2013*	*Update*
Central Asia	**5.1**	**6.7**	**6.7**	**6.7**	**6.8**
Azerbaijan	1.1	6.0	6.0	7.0	7.0
Kazakhstan	5.1	6.7	6.7	6.5	6.5
East Asia	**2.6**	**3.1**	**2.4**	**3.3**	**2.7**
China, People's Rep. of	2.6	3.2	2.5	3.5	2.7
Hong Kong, China	4.1	3.9	4.1	4.3	4.0
Korea, Rep. of	2.2	2.5	2.0	2.8	2.6
Taipei,China	1.9	1.6	0.9	1.8	1.4
South Asia	**7.9**	**7.4**	**6.7**	**7.1**	**7.0**
Bangladesh	10.6	7.8	7.7	7.0	7.5
India	7.4	7.2	6.5	6.8	6.8
Pakistan	11.0	9.0	7.4	9.5	8.0
Sri Lanka	7.6	7.5	7.0	6.5	6.5
Southeast Asia	**3.9**	**4.2**	**4.7**	**4.1**	**4.3**
Indonesia	4.3	5.2	7.2	4.7	5.5
Malaysia	1.7	2.2	2.2	3.0	3.0
Philippines	3.2	3.6	3.0	3.8	3.5
Singapore	4.5	3.8	3.2	3.0	3.0
Thailand	3.0	3.2	2.6	3.1	2.9
Viet Nam	9.2	7.5	6.5	8.2	7.2
The Pacific	**4.3**	**6.1**	**5.7**	**6.3**	**6.0**
Fiji	4.3	4.5	2.7	4.0	2.5
Papua New Guinea	2.2	6.5	6.0	7.5	7.5
Developing Asia	**3.7**	**4.0**	**3.6**	**4.2**	**3.7**

(continued from the previous page)

Kiribati, the Marshall Islands, the Federated States of Micronesia, Nauru, Papua New Guinea, Palau, Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu, and Vanuatu.

Data for Bangladesh, India, and Pakistan are recorded on a fiscal-year basis. For India, the fiscal year spans the current year's April through the next year's March. For Bangladesh and Pakistan, the fiscal year spans the previous year's July through the current year's June.

Asian Development Outlook 2013 Update Highlights

The full report is available on the ADB website at
www.adb.org/publications/asian-development-outlook-2013-update-governance-and-public-service-delivery

About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to two-thirds of the world's poor: 1.7 billion people who live on less than $2 a day, with 828 million struggling on less than $1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

Asian Development Bank
6 ADB Avenue, Mandaluyong City
1550 Metro Manila, Philippines
www.adb.org

Printed on recycled paper

Printed in the Philippines