

HIGHLIGHTS

- This *Supplement* maintains *Asian Development Outlook 2019* projections from April for growth in developing Asia at 5.7% in 2019 and 5.6% in 2020, with domestic demand supporting expansion as trade tensions persist. Excluding the newly industrialized economies, the 2019 regional growth forecast is revised down marginally to 6.1%, while the 2020 projection is maintained at 6.1%.
- The People's Republic of China is still expected to grow by 6.3% in 2019 and 6.1% in 2020, but East Asia's growth projection for 2019 is revised down by 0.1 percentage points in line with a downgrade for the Republic of Korea.
- The South Asian outlook remains robust, with growth projected at 6.6% in 2019 and 6.7% in 2020. India is expected to grow by 7.0% in 2019 and 7.2% in 2020, slightly slower than projected in April because the fiscal 2018 outturn fell short.
- Recent data suggest that Southeast Asia grew less than anticipated, resulting in slight downward revisions to the growth forecasts, now 4.8% for 2019 and 4.9% for 2020.
- An improved outlook for Kazakhstan prompts an upward revision to the 2019 growth projection for Central Asia. The Pacific is on track to meet April growth forecasts.
- Higher global oil prices and domestic food price inflation in the People's Republic of China call for a slight upward revision to regional inflation projections, to 2.6% for both 2019 and 2020.
- Trade tensions persist between the world's two largest economies, albeit with a truce called in June after escalation in May. The trade conflict is now having discernible effects on regional investment and trade patterns.

OUTLOOK STEADY EVEN AS
TRADE TENSIONS PERSIST

Growth outlook

Developing Asia is forecast to maintain strong but moderating growth in line with April forecasts in *Asian Development Outlook 2019 (ADO 2019)*, even as trade conflict continues between the People's Republic of China (PRC) and the United States. The regional gross domestic product (GDP) is forecast to expand by 5.7% in 2019, as unexpectedly strong growth in Central Asia offsets small downgrades for East, South, and Southeast Asia in 2019, with growth slowing marginally to 5.6% in 2020. Excluding the newly industrialized economies of Hong Kong, China; the Republic of Korea (ROK); Singapore; and Taipei, China, the regional growth outlook is revised down slightly to 6.1% for 2019 and maintained at that rate for 2020 (Table 1).

The combined growth forecast for the major industrial economies—the United States, the euro area, and Japan—is maintained from *ADO 2019*. Upward revisions to growth prospects in the US are offset by downward adjustments to euro area growth forecasts (Box 1).

Deepening trade tensions still constitute the main risk to the outlook. US–PRC negotiations broke down in May, prompting the US to raise the tariff rate on \$200 billion worth of PRC imports from 10% to 25%, threaten tariffs on another \$300 billion in PRC imports, and impose restrictions on doing business with the PRC telecommunications giant Huawei. The PRC retaliated by raising tariff rates on \$60 billion worth of US imports. On 28 June, the PRC and the US called a truce to allow trade negotiations to restart, and some restrictions on Huawei were lifted. Until the two sides reach agreement, trade tensions will continue to weigh on the regional outlook.

The Asian Development Bank Regional Economic Outlook Task Force led the preparation of a revised outlook for this *Asian Development Outlook Supplement*. The task force is chaired by the Economic Research and Regional Cooperation Department and includes representatives of the Central and West Asia Department, East Asia Department, Pacific Department, South Asia Department, and Southeast Asia Department.

Box 1 Outlook for the major industrial economies

The growth outlook for the major industrial economies of the United States, the euro area, and Japan is maintained at 1.9% for 2019 and 1.6% for 2020, as envisaged in *ADO 2019*. Surprisingly strong growth in the US in the first quarter (Q1) of 2019 prompts an upward revision to the growth forecast for the year, while expectations of a growth slowdown in the euro area in the rest of 2019 prompt downward revisions to its forecasts for this year and next. In Japan, developments have been consistent with *ADO 2019* expectations.

Gross domestic product growth in the major industrial economies (%)

Area	2018	2019		2020	
	Actual	ADO 2019	ADOS	ADO 2019	ADOS
Major industrial economies	2.2	1.9	1.9	1.6	1.6
United States	2.9	2.4	2.6	1.9	1.9
Euro area	1.8	1.5	1.3	1.5	1.4
Japan	0.8	0.8	0.8	0.6	0.6

ADO = Asian Development Outlook, ADOS = ADO Supplement.

Note: Average growth rates are weighed by gross national income, Atlas method, in current US dollars.

Sources: Asian Development Bank. 2019. *Asian Development Outlook 2019*; ADB estimates.

The US economy expanded by a seasonally adjusted annualized rate (saar) of 3.1% in Q1 of 2019, beating most expectations of a slowdown. Net exports boosted GDP growth by 1.1 percentage points as imports fell by 2.5% and exports expanded by 4.8%. The private components of domestic demand were robust, adding 1.7 percentage points to growth with support from a rebound in private investment. Despite surprising strength in Q1, factors discussed in *ADO 2019* are still likely to undermine growth momentum. Prospects for the external sector are waning as growth in global economic activity and trade weaken and as trade tensions with the PRC and Mexico persist. With business sentiment in decline, these factors are likely to slow investment growth. The manufacturing purchasing managers' index, though still in expansionary territory above 50, moderated to 52–53 in the first 2 months of Q2. Consumption may provide somewhat stronger support to growth in Q2, as April retail sales remained strong, unemployment edged down to 3.6% in April and May, and

wage growth continued. Growth in the whole of this year is still expected to slow from 2018, but less so, with the strong Q1 outturn lifting the GDP growth projection for 2019 by 0.2 percentage points to 2.6%.

Economic activity in the euro area also surprised at the beginning of the year as GDP growth came in at 1.6% saar in Q1 of 2019—higher than expected and well up from 1.0% saar in Q4 of 2018. Domestic demand picked up as consumer spending benefited from a tightening labor market, with net exports also adding to growth. Leading indicators point to a slowdown in Q2 but do not portend a recession. Economic sentiment worsened for the tenth consecutive month in April but bounced back from 103.9 in that month to 105.1 in May. The purchasing managers' index stood at 51.6 in May, still expansionary. Growth in the euro area is thus expected to moderate somewhat this year and next as tougher external conditions dent exports and hinder investment, weighing on the pace of expansion. Anticipating a gradual slowdown during the remainder of the year, this *Supplement* revises down its growth forecasts for the euro area slightly, from 1.5% in *ADO 2019* for both years to 1.3% for 2019 and 1.4% for 2020.

Japan's economy also picked up in Q1 of 2019 as GDP growth accelerated from 1.8% saar in Q4 of 2018 to 2.2%. This improvement owed much, however, to a steep drop in imports as domestic demand weakened from Q4 of 2018, as did exports. Although industrial production picked up in the first 2 months of Q2, other indicators suggest anemic investment spending going forward. The Nikkei manufacturing purchasing managers' index fell across the threshold to 49.8 in May and further to 49.3 in June, suggesting that manufacturing will contract. Weakening business confidence in general similarly paints a gloomy picture for the sector. Consumer spending, retail sales, and the Bank of Japan's consumption activity index improved in May, but consumer confidence continued to weaken in June for a ninth consecutive month. Further, the unemployment rate stayed at 2.4% in May, with muted wage growth. Weak global demand and deepening worries over trade will weigh on the external sector and growth in 2019. If the government presses ahead with a sales tax hike in October 2019, consumer demand may pick up briefly ahead of the tax but will likely deteriorate toward the end of the year and in 2020. Hence the subdued growth outlook for Japan is maintained at 0.8% for 2019 and 0.6% for 2020.

East Asia

The growth outlook in East Asia is revised down slightly for 2019 from 5.7% to 5.6% on account of slower-than-expected expansion in the ROK. GDP there grew by only 1.7% year on year in Q1 of 2019, significantly slowing from 2.9% in Q4 of 2018 as investment and exports weakened. Fixed investment posted the sharpest contraction in almost 10 years, by 8.6% year on year, as exports of goods and services contracted by 0.2%, reversing 6.7% growth as prices for electronic chips fell amid tepid global demand. Growth in private consumption softened from 3.6% year on year in Q1 of 2018 to 1.9%, affected by consumer pessimism deepened by rising unemployment and household debt, as well as by weakening external demand. Fiscal stimulus should boost growth somewhat but less than in the past. This *Supplement* thus revises down the April growth forecast for the ROK in 2019, from 2.5% to 2.4%, but retains the 2.5% projection for 2020.

Growth forecasts for elsewhere in East Asia are retained. GDP growth in the PRC is forecast to moderate from 6.3% in 2019 to 6.1% in 2020, unchanged from *ADO 2019*, as policy support offsets softening growth in domestic and external demand. Having moderated from 6.4% in the first quarter of 2019 to 6.2% in the second quarter, GDP growth stood at 6.3% in the first half of 2019. Retail sales growth slowed from 9.4% in the first half of 2018 to 8.4% a year later, and growth in fixed asset investment moderated from 6.0% to 5.8%. Headwinds stemming from the trade conflict with the US are suppressing growth in external trade, with merchandise exports virtually flat and imports falling by 4.3% in the first half of 2019. Expansionary fiscal policy and largely accommodative monetary policy should suffice to stabilize economic growth in the second half of 2019, assuming no further external shocks. In June 2019, the central government issued new rules allowing local governments to use special-purpose bonds as project capital for certain infrastructure investments, widening their financing options and thereby supporting infrastructure investment. The key downside risk to the forecast continues to be any further escalation of the trade conflict.

Growth in Hong Kong, China slowed by half, from 1.2% year on year in Q4 of 2018 to 0.6% in Q1 of 2019, as the lackluster global economy undermined external demand, with knock-on challenges to domestic demand. Private consumption expenditure rose by only 0.2% in real terms, reflecting cautious local economic sentiment, while overall investment expenditure declined by a substantial 7.1% in tandem with a continuing slide in business sentiment. Meanwhile, goods exports weakened further in Q1, dampened by the trade conflict and other global developments. Deepening uncertainty and downside risks continue to drag on local economic prospects, but this weakening has unfolded in line with expectations, and a consistently robust labor market should continue to

Table 1 Gross domestic product growth (%)

	2018	2019		2020	
		ADO 2019	ADOS	ADO 2019	ADOS
Developing Asia	5.9	5.7	5.7	5.6	5.6
Developing Asia excluding the NIEs	6.4	6.2	6.1	6.1	6.1
Central Asia	4.3	4.2	4.3	4.2	4.2
Kazakhstan	4.1	3.5	3.6	3.3	3.3
East Asia	6.0	5.7	5.6	5.5	5.5
Hong Kong, China	3.0	2.5	2.5	2.5	2.5
People's Republic of China	6.6	6.3	6.3	6.1	6.1
Republic of Korea	2.7	2.5	2.4	2.5	2.5
Taipei,China	2.6	2.2	2.2	2.0	2.0
South Asia	6.6	6.8	6.6	6.9	6.7
India	6.8	7.2	7.0	7.3	7.2
Southeast Asia	5.1	4.9	4.8	5.0	4.9
Indonesia	5.2	5.2	5.2	5.3	5.3
Malaysia	4.7	4.5	4.5	4.7	4.7
Philippines	6.2	6.4	6.2	6.4	6.4
Singapore	3.1	2.6	2.4	2.6	2.5
Thailand	4.1	3.9	3.5	3.7	3.6
Viet Nam	7.1	6.8	6.8	6.7	6.7
The Pacific	1.0	3.5	3.5	3.2	3.2

ADO = Asian Development Outlook, ADOS = ADO Supplement, NIEs = newly industrialized economies (Hong Kong, China; Republic of Korea; Singapore; and Taipei,China).

Note: **Developing Asia** refers to the 45 members of the Asian Development Bank listed below. **Central Asia** comprises Armenia, Azerbaijan, Georgia, Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan. **East Asia** comprises Hong Kong, China; Mongolia; the People's Republic of China; the Republic of Korea; and Taipei,China. **South Asia** comprises Afghanistan, Bangladesh, Bhutan, India, 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, the Federated States of Micronesia, Fiji, Kiribati, the Marshall Islands, Nauru, Palau, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu, and Vanuatu.

Sources: Asian Development Bank. 2019. *Asian Development Outlook 2019*; ADB estimates.

support consumption spending. The growth forecast is thus maintained at 2.5% for both 2019 and 2020, as in *ADO 2019*.

Taipei,China grew by 1.7% year on year in Q1 of 2019, nearly sustaining 1.8% growth in Q4 of the previous year but well below the 2.6% recorded in the whole of 2018. The government's infrastructure development program helped gross capital formation contribute 1.5 percentage points to growth, and public investment is expected to continue to support expansion. The forecast for 2019 remains unchanged at 2.2%, as does the 2.0% projection for 2020, but the outlook is vulnerable to spillover from the US-PRC trade conflict, especially if it escalates.

4 ASIAN DEVELOPMENT OUTLOOK SUPPLEMENT

South Asia

The economic outlook for South Asia remains robust. Growth is projected at 6.6% in 2019 and 6.7% in 2020, albeit a tad lower than forecast in *ADO 2019* in line with downgrades for India. GDP growth in India in Q4 of fiscal year 2018 (FY2018, ended 31 March 2019) declined to 5.8% year on year, down more sharply than expected from 6.6% in the prior quarter and the lowest in 5 years. The slowdown was broad-based, with private consumption and investment growth slowing from previous quarters. On the supply side, agriculture and manufacturing grew more slowly as services picked up a bit. Annual GDP growth in FY2018 decelerated as a result, from 7.2% in FY2017 to 6.8%. The US decision to end preferential trade treatment for India under its Generalized System of Preferences will have minimal effect as it benefited only 1.8% of all Indian exports. Agriculture is expected to grow at a healthy rate in FY2019 as current weather trends indicate a normal monsoon. Moderation in growth prospects for the advanced economies could adversely affect tradable services, this drag on growth mitigated by a more competitive currency and benign oil prices. The GDP growth forecast for FY2019 is revised down from the *ADO 2019* forecast of 7.2% to 7.0%, mainly reflecting the unexpectedly weak FY2018 outturn. Growth is expected to inch up again to 7.2% in FY2020, helped by recent reforms to improve the business climate, strengthen banks, and relieve agrarian distress.

Elsewhere in South Asia, preliminary official estimates of GDP growth surpassed *ADO 2019* forecasts for FY2019 in Bangladesh (ended 30 June 2019) and Nepal (ended 16 July 2019). Growth in Bangladesh accelerated from 7.9% in FY2018 to 8.1% in FY2019 with faster growth in industry and services. Investment rose from 31.2% of GDP in FY2018 to 31.6% in FY2019. GDP growth in Nepal accelerated from an upwardly revised 6.7% in FY2018 to 7.1% in FY2019, substantially outperforming the *ADO 2019* projection of 6.2% with stronger growth across all sectors. Preliminary official estimates for Pakistan show growth in FY2019 (ended 30 June 2019) deteriorating to 3.3%, the lowest rate in 8 years, pulled down by weak performance across the board. Rising twin deficits in the fiscal and current accounts weigh on Pakistan's outlook.

Growth in Sri Lanka more than doubled from 1.8% year on year in Q4 of 2018 to 3.7% in Q1 of 2019, but terror attacks in late April have sharply driven down tourist arrivals and will dampen growth in the rest of 2019, which may come in as much as 1 percentage point lower than forecast in *ADO 2019*. In Bhutan, electricity generation grew by 17.9% year on year in March 2019, and in the first 3 quarters of FY2019 (ended 30 June 2019) tourism continued to perform well on rising arrivals and revenue. Tourism excelled as well in Maldives, where arrivals in January–April 2019 grew by almost 20% year on year.

Southeast Asia

Data to the end of June 2019 show growth in Southeast Asia remaining robust, though slower than forecast. The subregion's more open economies faced the combined impacts of the trade conflict and a trough in the electronics cycle, which were partly offset by strong domestic demand. Meanwhile, evidence of trade and production redirection is appearing, with some countries seeing increases in foreign direct investment and exports. Viet Nam, for example, expanded its exports by 6.7% in the first 5 months of 2019, buoyed by a 28% rise in exports to the US, and its already sizeable inflows of direct investment increased by 27%. Other economies also saw growth in exports to the US pick up, which helped to offset weaker growth in exports to the PRC.

Indonesia sustained growth in Q1 of 2019 at 5.1% year on year. Private consumption grew by 5.3% as spending rose ahead of an election and as government social assistance programs scaled up. Fixed investment grew more moderately by 5.0%, with delays affecting new government infrastructure projects. Exports contracted in line with decelerating global trade, as did imports with slowing investment growth. In 2019 and 2020, growth is forecast to continue at a healthy pace, boosted by robust domestic demand in line with the *ADO 2019* forecast in April.

Malaysia saw growth dip slightly in Q1 of 2019 to 4.5% year on year from 4.7% in 2018 and in Q4 of that year. Strong domestic consumption offset weaker investment and exports as external demand softened for Malaysia's biggest exports: electronic and electrical goods. Private consumption growth remained impressive in the quarter, at 7.6%, with public consumption growing by 6.3%. Meanwhile, weakness in fixed investment became more pronounced in 2019 with the government's decision to review and renegotiate large infrastructure projects. Growth in exports of goods and services came in lower than expected, and growth in imports of goods and services improved but remained tepid. Malaysia's growth forecasts are retained at 4.5% for 2019 and 4.7% for 2020 as economic developments have been in line with expectations in *ADO 2019*.

Growth moderated in the Philippines from 6.3% year on year in Q4 of 2018 to 5.6% in Q1 of this year as the delayed passage of the national budget held back government spending. Public construction contracted by 8.6% while growth in government consumption eased from 12.6% year on year in Q4 of 2018 to 7.4% in Q1 of 2019. Growth in exports of goods and services also slowed as a result of lackluster global trade and economic activity and the downturn in the electronics cycle. These effects were partly offset by higher household consumption and private investment. As a consequence of these developments in Q1, the growth forecast is revised down to 6.2% for 2019, though maintained at 6.4% for 2020. Public investment is expected to rebound in the second half of 2019 following budget approval in April

and to pick up next year as more infrastructure projects come onstream. Slowing inflation, low unemployment, and steady remittances will continue to support household consumption.

Singapore saw growth slow slightly from 1.3% in Q4 of 2018 to 1.2% in Q1 of 2019, brought on mainly by weak manufacturing and external trade. Manufacturing dropped by 0.5% year on year in Q1 of 2019 after 3 years of growth, as electronics and precision engineering declined. Trade also contracted, by 1.8%, as foreign wholesale trade worsened. The economy found support from services, particularly information and communication, which grew by 6.6% year on year in Q1. Construction recovered to 2.9% growth as both public and private construction gained momentum. However, in light of the purchasing managers' index for manufacturing and electronics signaling contraction in May 2019 with its weakest reading since November 2016, GDP growth forecasts are revised down a touch to 2.4% for 2019 and 2.5% for 2020.

Economic growth in Thailand slowed from 3.6% year on year in Q4 of 2018 to 2.8% in Q1 of 2019. Weaker global trade caused exports to contract by 4.5% year on year in the first 5 months of 2019, weighing on growth. Private consumption and investment continued, along with public spending, to support growth. Sustained growth in income, low unemployment, and stable prices helped to drive private spending. The growth forecast for 2019 is downgraded to 3.5% to reflect the lower growth outturn in Q1 and, in particular, the surprisingly sharp slowdown in exports. A rising Thai baht could further crimp exports. The growth forecast for 2020 is similarly adjusted down to 3.6%.

Viet Nam has been the fastest-growing economy in Southeast Asia this year. Growth in the first half of 2019 is estimated at 6.8% year on year despite agriculture being hobbled by a prolonged drought and African swine fever. Growth in industry and especially manufacturing remained robust, though moderating from the first half of 2018. Sustaining growth were strong inflows of foreign direct investment, up by 27% in the first 5 months of 2019 from a year earlier. The PRC overtook the ROK and Singapore to become the largest overseas provider of newly registered capital. Meanwhile, the US remained the largest export market for Viet Nam, with exports to the US growing by 28% in the first 5 months of 2019 over the same period of last year. Growth projections remain at 6.8% for 2019 and 6.7% for 2020, in line with *ADO 2019* forecasts.

Central Asia

The projected growth rate for Central Asia in 2019 is raised from 4.2% in *ADO 2019* to 4.3%, mainly reflecting a slightly improved outlook for Kazakhstan, the subregion's largest economy. In the first 5 months of 2019, Kazakhstan grew by an estimated 4.0%, primarily thanks to a better outlook for global oil prices (see below). The 2019 growth projection for the country is thus raised from 3.5% in *ADO 2019* to 3.6%. Also supporting this upward growth revision is a more accommodative fiscal stance in the form of additional

government financing for housing, infrastructure, health care, and social protection programs.

Growth was stronger than expected in Armenia in the first half of this year. Services grew robustly, particularly tourism and information technology, and agriculture prospered under favorable weather in the first 5 months. This trend is expected to continue, prompting an upgraded growth forecast for Armenia this year.

No change is made to 2019 growth projections for any other country in the subregion, and 2020 growth forecasts remain unchanged across the board.

The Pacific

Growth in the Pacific is still expected at 3.5% in 2019, unchanged from the *ADO 2019* projection and reflecting an ongoing economic rebound in Papua New Guinea following last year's major earthquake. A return to full production at an export facility for liquefied natural gas will drive growth higher in this economy, the largest in the Pacific. Tonga likewise posted stronger growth in its recently concluded fiscal year, supported by reconstruction in the aftermath of Cyclone Gita. By contrast, economic expansion in the Cook Islands was weaker than anticipated, with tourism leveling off after recent years of rapid growth. The 2019 growth projection for Fiji is adjusted downward slightly in view of the completion of reconstruction following Cyclone Winston in 2016, which drove growth above expectations last year.

In 2020, economic growth in the subregion is projected to ease to 3.2%, again mirroring trends in Papua New Guinea, where liquefied natural gas exports will likely stabilize. The 2020 growth outlook for the subregion is unchanged from *ADO 2019* despite another downgraded forecast for Fiji, this time on account of plans for fiscal consolidation highlighted in the national budget released in June.

Inflation outlook

Inflation projections for developing Asia are revised up a notch from 2.5% to 2.6% in both 2019 and 2020, reflecting higher oil prices and several domestic factors.

Price fluctuations for Brent crude oil continue amid various concerns affecting both supply and demand. After breaching \$60/barrel in January, the price of crude rose to a 5-month high of \$74/barrel in late April, after the US ended waivers to its embargo on Iranian exports. In May, oil prices seesawed on news of higher US crude inventory, heightened geopolitical tensions in the Middle East, and worsening fears that trade friction would cause a global economic slowdown. Most recently, an unexpectedly large drop on US crude oil inventories and rising tensions between the US and Iran supported oil prices at the end of June at \$64/barrel, still 13% off from their April peak. Oil price movements will remain contingent on the balance between rising US oil production and the persistence and depth of production cuts led by the Organization of the Petroleum Exporting Countries (OPEC).

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On 2 July 2019, OPEC and cooperating oil producers agreed to extend oil supply cuts until March 2020. Meanwhile, the US oil rig count, an early indicator of future output, fell to its lowest since February 2018, dipping to 788 in the week ending on 14 June. Barring major supply disruptions, the forecast average price of Brent crude is revised up to \$68/barrel in 2019 and \$65/barrel 2020.

A downward trend for global food prices that started in Q4 of 2018 continued into 2019, pushing the food commodity price index down by 7.8% year on year in the first half. All three World Bank indexes tracking food prices continued downward. The index for edible oil and meal declined by 15.8% from January to June of this year, mainly reflecting lower prices for palm oil and soybeans. International palm oil prices declined as concerns deepened over slowing demand and rising inventory in Indonesia and Malaysia. Soybean prices languished under slowing demand from the PRC, an unforeseen glut in the US, and a continuing outbreak of African swine fever in several Asian economies. Grain prices dropped by 0.6% from January to June on prospects of ample global supply. The price index for “other foods” also fell by 4.3% from January to June, as prices for sugar and bovine meat declined. In sum, the food commodity price index is now forecast to decline by 4.0% in 2019 before picking up by 2.0% in 2020.

The inflation forecast for East Asia is revised up from 1.8% to 2.1% in 2019 and from 1.8% to 1.9% in 2020, mainly on account of the upward revisions for the PRC. Inflation in the PRC averaged 2.2% in the first half of 2019, reaching 2.7% in June 2019. The increase in consumer prices was driven mainly by a spike in food prices, especially for pork and for fruits and vegetables, while nonfood inflation remained subdued, averaging 1.6% in the first half of 2019. Pork prices are expected to rise further as African swine fever continues to drive down livestock numbers. With persistently high pork prices, inflation in the PRC is now expected to reach 2.3% in 2019 before easing to 2.0% in 2020.

Central Asia’s inflation projection for 2019 is also revised up, from 7.8% in *ADO 2019* to 8.1%. This reflects a major upward revision for Turkmenistan to accommodate subsidy cuts and general price increases fueled by expansionary credit policies and rising import prices partly because of currency depreciation. These changes more than offset downward revisions to 2019 inflation projections for Armenia and Kazakhstan.

Inflation forecasts for most other countries in developing Asia are either unchanged or revised down as strong supply and lower food prices offset the slight rise in global oil prices (Table 2).

South Asia’s inflation forecast for 2019 is revised down from 4.7% to 4.5%, mainly reflecting lowered forecasts for India. In light of a smaller-than-expected uptick in food inflation, a strengthening Indian rupee since October 2018, and a lower GDP growth forecast, this *Supplement* revises down inflation forecasts for India by 0.2 percentage points

Table 2 Inflation (%)

	2018	2019		2020	
		ADO 2019	ADOS	ADO 2019	ADOS
Developing Asia	2.4	2.5	2.6	2.5	2.6
Developing Asia excluding the NIEs	2.6	2.6	2.8	2.6	2.8
Central Asia	8.3	7.8	8.1	7.2	7.1
Kazakhstan	6.0	6.0	5.5	5.5	5.0
East Asia	2.0	1.8	2.1	1.8	1.9
Hong Kong, China	2.4	2.3	2.3	2.3	2.3
People’s Republic of China	2.1	1.9	2.3	1.8	2.0
Republic of Korea	1.5	1.4	1.1	1.4	1.4
Taipei, China	1.3	1.1	1.1	1.2	1.2
South Asia	3.6	4.7	4.5	4.9	5.1
India	3.4	4.3	4.1	4.6	4.4
Southeast Asia	2.7	2.6	2.4	2.7	2.7
Indonesia	3.2	3.2	3.2	3.3	3.3
Malaysia	1.0	2.0	1.0	2.7	2.0
Philippines	5.2	3.8	3.0	3.5	3.5
Singapore	0.4	0.7	0.7	0.9	0.9
Thailand	1.1	1.0	1.0	1.0	1.0
Viet Nam	3.5	3.5	3.5	3.8	3.8
The Pacific	3.9	3.7	3.6	4.0	3.9

ADO = Asian Development Outlook, ADOS = ADO Supplement, NIEs = newly industrialized economies (Hong Kong, China; Republic of Korea; Singapore; and Taipei, China).

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Sources: Asian Development Bank. 2019. *Asian Development Outlook 2019*; ADB estimates.

to 4.1% in FY2019 and 4.4% in FY2020. Elsewhere in the subregion, inflation averaged 5.5% in Bangladesh in the first 11 months of FY2019, in line with *ADO 2019* forecasts, while inflation in Pakistan almost doubled from 3.8% in the same period of FY2018 to 7.2%. Inflation is now expected to be lower in both years in Afghanistan, Bhutan, and Sri Lanka than forecast in *ADO 2019*.

The inflation forecast for Southeast Asia is also revised down, reflecting lower inflation projections for Malaysia and the Philippines. Malaysia experienced deflation in the first 2 months of 2019, such that average deflation in the 4 months to April was 0.2%. This partly reflected the removal of a goods and services tax and the introduction of subsidies from

the middle of 2018. Inflation forecasts are thus revised down from 2.0% to 1.0% for 2019 and from 2.7% to 2.0% for 2020. Inflation in the Philippines slowed to 2.7% in June 2019, averaging 3.4% in the first half. Rice prices have declined on improved supply since the lifting of quantitative restrictions on rice imports in February 2019. Reflecting lower food prices, the Philippine inflation forecast for 2019 is thus revised down from 3.8% to 3.0%. The inflation forecast for

2020 is maintained at 3.5% with an expected pickup in global commodity prices.

Finally, the inflation outlook for the Pacific is revised down slightly to 3.6% in 2019 and 3.9% in 2020, each 0.1 percentage points lower than in *ADO 2019*. Milder inflation expectations stem largely from falling food prices in Timor-Leste. Inflation has also been lower than expected in the Cook Islands as the rate of growth eased.

Asian Development Outlook Supplement

Asian Development Outlook is the main economic forecasting product from ADB. It is published each April with an *Update* published in September and brief *Supplements* published in July and December.

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