DECEMBER 2019

ASIAN DEVELOPMENT OUTLOOK SUPPLEMENT

HIGHLIGHTS

- This *Supplement* projects growth in developing Asia at 5.2% in both 2019 and 2020, with forecasts revised down for both years from *Asian Development Outlook 2019 Update* as a challenging global environment weighs on regional growth. Excluding newly industrialized economies, regional growth forecasts are revised down to 5.7% for both 2019 and 2020.
- Growth forecasts for East Asia are downgraded to 5.4% in 2019 and 5.2% in 2020 as the People's Republic of China and the Republic of Korea endure continuing trade tensions and slowing domestic investment—as does Hong Kong, China, where political unrest is another factor.
- Growth projections for South Asia are lowered to 5.1% in 2019 and 6.1% in 2020. Growth in India is expected to slow to 5.1% in 2019 as the foundering of a major nonbanking financial company in 2018 led to a rise in risk aversion in the financial sector and a credit crunch. Also, consumption was affected by slow job growth and rural distress aggravated by poor harvest. Policy support will help growth recover to 6.5% in 2020.
- Southeast Asia's growth forecast is revised down slightly to 4.4% for 2019, as economic weakening in Singapore and Thailand prompts downward adjustments to their growth forecasts. Projected subregional growth in 2020 is maintained at 4.7%.
- An improved outlook in Kazakhstan encourages upward revisions to 2019 and 2020 growth projections for Central Asia, but forecasts for the Pacific are lowered as expansion in Fiji falls short of earlier projections.
- Notwithstanding subdued global oil and food prices, regional inflation projections are revised up to 2.8% for 2019 and 3.1% for 2020 as African swine fever continues to elevate pork prices.
- Elusive trade conflict resolution weighs on sentiment and activity in the region, with further delay still the foremost downside risk to the forecasts.

GROWTH SLOWS FURTHER IN DEVELOPING ASIA'S GIANTS

Growth outlook

Though still robust, growth in developing Asia continues to moderate as domestic investment weakens under a more challenging external environment with slowing global trade and economic activity, protracted trade tensions between the United States and the People's Republic of China (PRC), and a global downturn in electronics. The regional gross domestic product (GDP) is forecast to expand by 5.2% in 2019 and 2020, both figures adjusted down from *Asian Development Outlook 2019 Update* in September. Further moderation is now expected in all subregions except Central Asia, where growth is projected to be stronger than forecast in the *Update*. Excluding the newly industrialized economies of Hong Kong, China; the Republic of Korea (ROK); Singapore; and Taipei,China, the regional growth outlook is lowered to 5.7% in both 2019 and 2020 (Table 1).

The combined growth forecast for the major advanced economies—the United States, the euro area, and Japan—is maintained from the *Update*. An upward revision for growth prospects this year in the euro area is offset by a downward adjustment to the growth forecast for Japan, while the US is on track to meet *Update* growth expectations this year and next (Box).

Prolonged trade tensions still comprise the primary risk to the outlook. A trade deal provisionally agreed on 11 October is limited in scope and has not been finalized. The only agreements in this "phase one" deal are to postpone mid-October tariffs and for the PRC to boost its purchases of US agricultural products by up to $50 billion. There is no rollback of prior tariffs, and anticipated December tariffs may still be implemented. The pending deal may contain measures on currencies, intellectual property, and financial services, but no details have been released.

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.

ADB

Outlook for the major advanced economies

The growth outlook for the major advanced economies of the United States, the euro area, and Japan is maintained at 1.7% in 2019 and 1.4% in 2020, as envisaged in *Asian Development Outlook 2019 Update* (box table). Unexpectedly strong growth in the euro area in the third quarter (Q3) prompts a slight upward revision to the 2019 growth forecast, while an emerging growth slowdown in Japan in the rest of the year prompts a downward revision to its forecast for 2019. Developments in the US have been consistent with projections in the *Update*.

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

	2018	2019		2020	
Area	Actual	*ADO 2019 Update*	*ADOS*	*ADO 2019 Update*	*ADOS*
Major advanced economies	**2.2**	**1.7**	**1.7**	**1.4**	**1.4**
United States	2.9	2.3	2.3	1.9	1.9
Euro area	1.9	1.0	1.1	1.0	1.0
Japan	0.8	1.2	1.0	0.5	0.5

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 Update*; ADB estimates.

The US economy is still on track to reach its projected growth rate in 2019, with the economy growing by 2.1% in Q3 (seasonally adjusted annualized rates unless otherwise noted). Growth in Q3 was driven by private consumption, while growth in government spending helped offset negative contributions from contracting investment and net exports. Exports steadied from a 5.7% fall in Q2 to a 0.9% increase in Q3 but were still weighed down by prolonged uncertainty in the global economy, continuing trade tensions with the PRC, and a strong US dollar. Data releases sent mixed signals on the strength of the US economy. Retail sales stayed strong in October, and consumer confidence remained high at 121.4 in November. However, other leading indicators suggest some weakening in economic activity. The composite purchasing managers' index (PMI) was at 54.0 in October, but the manufacturing PMI has languished in contraction territory below 50 since August. On balance, the growth projection for the US is maintained at 2.3% in 2019 and 1.9% in 2020. Risks to growth projections remain mostly on the downside as global uncertainty and trade tensions with the PRC linger.

Growth in the euro area, having slowed from 1.7% in Q1 of 2019 to 0.8% in Q2, inched back up to 0.9% in Q3. A strong rebound in fixed investment in Q2 may have continued to provide some lift to economic activity in Q3, but leading indicators point to weakening in Q4. Depressed industry confidence dragged economic sentiment across sectors down to 100.8 in October, the lowest in almost 5 years. The PMI also fell, to 50.1 in September, and recovered only slightly to 50.6 in October, reflecting a sharp downturn in export-oriented manufacturing amid global trade tensions and subdued demand from key trade partners. Monthly growth in both industrial production and retail trade slowed to 0.1% in September (monthly figures year on year unless otherwise noted). Despite an expected slowdown in Q4, the 2019 growth forecast for the euro area is raised slightly from 1.0% in the *Update* to 1.1% in light of surprisingly fast growth in Q3. The 2020 forecast is maintained at 1.0%. Tepid growth is expected to continue in the first half of 2020, with positive impact from additional expansionary monetary measures partly offset by frictions from Brexit. If calls for a more expansionary fiscal stance in the region materialize, this could provide some impetus to growth.

Japan saw GDP growth slow sharply from 1.8% in Q2 to 0.2% in Q3. Although growth benefited from a consumption surge ahead of a sales tax hike, as expected, it was subdued compared with the previous quarter. Net exports and private investment pulled growth down amid soft global demand, the US–PRC trade conflict, and the electronics downturn. Indicators suggest that manufacturing continues to contract, as has industrial production for most of 2019, with the manufacturing PMI remaining below the threshold of 50. Services supported economic activity, but the service PMI dipped in October, albeit not below 50. Purchases ahead of the tax hike boosted retail sales by 7.1% in September. This will likely be followed by a slump in Q4, with consumer confidence stuck at an 8-year low in October. Investment seems to be waning, with core machinery orders falling for a third consecutive month in September as business sentiment dampened. On a positive note, wage growth at 1.3% in September, low unemployment that month at 2.4%, and government measures should counter some of the adverse effects of the tax increase. The 2019 growth forecast is thus revised down to 1.0%, but the 2020 forecast is maintained at 0.5%. The main risks to the outlook are a surprisingly abrupt slump in domestic consumption and any worsening of the global growth slowdown or trade tensions.

East Asia

The growth forecast for East Asia is revised down to 5.4% in 2019 and 5.2% in 2020 on account of expansion falling below expectations in the PRC and the ROK and unforeseen contraction in Hong Kong, China. In the PRC, GDP growth moderated to 6.0% in Q3 of 2019 as domestic demand weakened and external headwinds stiffened. Economic growth averaged 6.2% in the first 3 quarters of 2019, half a percentage point less than in the same period last year. Real growth in industry value added decelerated to 5.6% in the first 10 months of 2019 from 6.4% a year earlier, while real growth in retail sales is estimated to have averaged 6.2%, or 0.9 percentage points lower than a year earlier. Nominal growth in fixed asset investment decreased to 5.2% in the first 10 months of 2019 as manufacturing investment growth braked sharply but growth in real estate investment remained solid and investment in public infrastructure gradually recovered. In the same period, merchandise imports fell by 5.1%, reflecting a sizeable reduction in imports of investment goods, while merchandise exports remained broadly stable as a notable decline in exports to the US was offset by increasing exports to other markets.

Given recent deceleration, the PRC is now expected to expand by 6.1% in 2019. Consumer purchasing power is burdened by higher food prices, especially with pork prices having doubled in October over a year earlier because of African swine fever. Growth in investment will be supported by continuing infrastructure investment financed by local government issues of new special bonds, and real estate investment is expected to keep growing solidly. Manufacturing investment will likely only grow slowly, however, because producer prices, corporate profits, and export growth have yet to recover. With downward pressure on growth expected to continue in 2020, GDP is forecast to grow by 5.8% in 2020 but could expand faster if agreement emerges from trade negotiations between the US and the PRC, which would lift consumer and investor confidence.

The economy in Hong Kong, China sank from 0.4% growth year on year in Q2 to 2.9% contraction in Q3, its first negative growth rate year on year since the global financial crisis of 2008–2009. External demand weakened steadily as the global economy slowed and the US–PRC trade conflict dragged on. Domestic demand also worsened significantly as civil disturbances disrupted commerce and shook consumer and business confidence. Private consumption expenditure recorded its first decline in more than 10 years, contracting by 3.4%, while investment expenditure plummeted by 16.3% and goods exports declined by 7.1%. Further, domestic unrest affected inbound tourism, pushing service exports down by 13.8%, their steepest drop since Q2 of 2003. With leading indicators showing no signs of improvement in the near term, the economy is seen to face severe downward pressures for the rest of the year and possibly into next year. This *Supplement* cuts the *Update* growth forecasts from 0.3 to –1.2% for 2019 and from 1.5% to 0.3% for 2020.

Table 1 Gross domestic product growth (%)

	2018	2019		2020	
		ADO 2019 Update	*ADOS*	*ADO 2019 Update*	*ADOS*
Developing Asia	**5.9**	**5.4**	**5.2**	**5.5**	**5.2**
Developing Asia excluding NIEs	**6.4**	**6.0**	**5.7**	**6.0**	**5.7**
Central Asia	**4.3**	**4.4**	**4.6**	**4.3**	**4.5**
Kazakhstan	4.1	3.7	4.1	3.4	3.8
East Asia	**6.0**	**5.5**	**5.4**	**5.4**	**5.2**
Hong Kong, China	3.0	0.3	–1.2	1.5	0.3
People's Republic of China	6.6	6.2	6.1	6.0	5.8
Republic of Korea	2.7	2.1	2.0	2.4	2.3
Taipei,China	2.6	2.2	2.2	2.0	2.0
South Asia	**6.6**	**6.2**	**5.1**	**6.7**	**6.1**
India	6.8	6.5	5.1	7.2	6.5
Southeast Asia	**5.0**	**4.5**	**4.4**	**4.7**	**4.7**
Indonesia	5.2	5.1	5.1	5.2	5.2
Malaysia	4.7	4.5	4.5	4.7	4.7
Philippines	6.2	6.0	6.0	6.2	6.2
Singapore	3.1	0.7	0.6	1.4	1.2
Thailand	4.1	3.0	2.6	3.2	3.0
Viet Nam	7.1	6.8	6.9	6.7	6.8
The Pacific	**0.4**	**4.2**	**4.0**	**2.6**	**2.5**

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 Update,* 2019. *Pacific Economic Monitor*, December; ADB estimates.

In the ROK, GDP grew by only 1.9% in January–September 2019, down from 2.6% in the same period of 2018. Lower growth stemmed from a sharp decline in investment in facilities and from weakening exports. Private consumption growth softened in the period from 2.9% a year earlier to 1.9%, affected by consumer pessimism and faltering external demand. The only bright spot in the 9-month period was growth in government consumption, which accelerated from 5.1% a year earlier to 6.4% as the government reinvigorated its fiscal stimulus program. Fiscal stimulus will continue to provide some support to growth this year and next, but ongoing US–PRC trade tensions will weigh on export demand, and a Japan–ROK trade rift threatens supply chains in key ROK tech industries. As the ROK faces headwinds on all fronts, this *Supplement* revises growth projections down from 2.1% to 2.0% for 2019 and from 2.4% to 2.3% for 2020.

Taipei,China grew by 2.9% year on year in Q3 of 2019, up from 2.4% growth in Q2 and outperforming 2.6% in the whole of 2018. The largest contribution to growth was from net exports, which benefited from trade redirection caused by the US–PRC trade conflict and added 1.8 percentage points to growth. Private consumption contributed 1.1 points and government consumption 0.5 points, while gross capital formation subtracted 0.2 points. The economy will be sustained by government expenditure on infrastructure, low unemployment that continues to support private consumption, a gradual rebound in export volume, and accommodative monetary policy. The 2.2% forecast for 2019 remains unchanged, as does the 2.0% projection for 2020.

South Asia

The South Asian GDP growth forecast for 2019 is cut from 6.2% in the *Update* to 5.1%, and for 2020 from 6.7% to 6.1%. These revisions reflect lowered growth projections for India at 5.1% in fiscal year 2019 (FY2019, ending 30 March 2020) and 6.5% in FY2020. Having already slowed year on year from 5.8% in Q4 of 2018 to 5.0% in Q1 of 2019, growth in India fell further to 4.5% in Q2, the lowest quarterly rate since Q4 of 2012. This put growth in the first half of FY2019 at 4.8% as expansion in private consumption slowed to 4.1% and in investment to 2.5%. The foundering of a major nonbanking financial company in September 2018 led to a rise in risk aversion in the financial sector and a credit crunch; with consumption also affected by slow job growth and rural distress aggravated by poor harvest, domestic demand has weakened significantly since late 2018. Some tentative signs have emerged that the Indian economy is stabilizing in the second half of FY2019. Growth is expected to benefit from government policy measures in recent months—notably a corporate tax cut, divestment from some state-owned enterprises, capital injections into public banks, and policy rate reduction by a total of 135 basis points—with further measures possible in the coming months. Growth in FY2020 is likely to recover thanks to this support, low oil prices, and a weakening rupee, but risks to the projections remain tilted to the downside.

In the rest of South Asia, economic growth is on track to meet forecasts. In Afghanistan, concerns about security and political uncertainty stemming from a presidential election in September 2019 continue to weigh on economic activity, but favorable weather and continued external assistance should support growth. In Bangladesh, accommodative policy on credit to the private sector is expected to promote investment, and strong remittances, which surged by 20.5% in the first 4 months of FY2020 (ending 30 June 2020), will stimulate domestic demand. Despite a slight reduction in Q1, exports are expected to pick up thanks to trade redirection and the government's fiscal support to export-oriented businesses. In Bhutan, hydropower production increased by 3.1% in Q1 of FY2020 (ending 30 June 2020), reversing 2.3% decline in the same quarter of FY2019. Tourism has been strong in Maldives, with arrivals growing by 15.8% year on year in the first 9 months of 2019, and several new government infrastructure projects commenced in Q4 of 2019, promising to support growth.

In Nepal, remittances fell slightly in the first 2 months of FY2020 (ending 16 July 2020), but foreign direct investment soared by 61%, encouraged by political stability and legal reform for foreign investment. Merchandise exports increased by 23%. Following a steep growth slowdown in Pakistan to 3.3% in FY2019 (ended 30 June 2019), signs of economic stabilization are emerging in FY2020, as forecast in the *Update*. Growth in Sri Lanka dropped from 3.7% in Q1 of 2019 to 1.6% in Q2, after bomb attacks in April 2019 severely hit tourism and disrupted the economy. A recent presidential election is expected to improve political stability and aid economic recovery.

Southeast Asia

The forecast for subregional GDP growth is revised down from 4.5% in the *Update* to 4.4% for this year and maintained at 4.7% for 2020. Growth forecasts are downgraded for Singapore and Thailand and upgraded for Brunei Darussalam and Viet Nam, with the remaining Southeast Asian economies on track to meet forecasts made in the *Update*. In Brunei Darussalam and Viet Nam, unexpectedly strong outturns driven by exports prompt upward adjustments to forecasts. With the exception of these two economies, continued export declines and weaker investment weigh on growth prospects in the subregion.

In the first 3 quarters of 2019, the Indonesian economy expanded by 5.0% over the same period a year earlier, supported by robust private consumption. Investment remained relatively weak amid political uncertainty, while low commodity prices and an unfavorable external environment limited the contribution of exports to growth. Low inflation gave the central bank room to reduce its policy interest rate again in October, which will support growth. On balance, growth forecasts from the *Update* are maintained at 5.1% for this year and 5.2% for 2020, recovering on an expected pickup in investment in Q4 and steady private consumption growth.

In Malaysia, GDP growth slipped slightly to 4.4% in Q3 of 2019, yielding growth at 4.6% in the first 3 quarters of the year. Sustained real income growth and low unemployment supported private consumption, which expanded by 7.0% in Q3. Private investment managed to eke out a small gain of 0.3% in the same period despite persistent weakness in property, but public investment declined by 14.1% as the government cut back on infrastructure spending. Exports of goods and services continued to contract as global demand weakened. The growth forecasts for Malaysia are kept at 4.5% for 2019 and 4.7% for 2020 as developments have been consistent with expectations in the *Update*.

GDP growth in the Philippines picked up to 6.2% in Q3, boosting growth in the first 3 quarters to 5.8%. The pickup was supported by a rebound in government expenditure, particularly on infrastructure. Sustained robust private consumption, rising by 5.8% in the first 3 quarters, made the largest contribution to growth. Investment declined by 0.8% following brisk 16.5% growth in same period of last year, as buoyant construction was mostly offset by lower investment in transport equipment and machinery. Weaker external demand trimmed export growth, with imports also easing in line with subdued demand for materials for export-oriented manufacturing. GDP growth is seen accelerating in Q4 of 2019 and throughout 2020, supported by investment as more infrastructure projects come onstream. Accommodative fiscal and monetary policies will support domestic demand. Growth forecasts are maintained at 6.0% for 2019 and 6.2% for 2020.

Singapore grew by 0.5% in July–September 2019, dragging 9-month growth down to 0.6% year on year. Manufacturing contracted by 1.7% in Q3 as electronics weakened. Services maintained growth at 0.9% in the quarter with contributions from finance and insurance, domestic-oriented services, and business services. Construction grew by 2.9% as both public and private projects picked up. In the rest of the year, growth is expected to be tepid after the purchasing managers' index for manufacturing and electronics in October 2019 signaled contraction, reflecting slower exports and new orders. The GDP growth projection is therefore revised slightly down to 0.6% for 2019 and 1.2% for 2020.

Thailand's economy expanded by only 2.5% in January–September this year as growth moderated for private consumption and for public consumption and investment. Weaker trade also dragged on growth, with export declines in both agriculture and manufacturing. Imports similarly declined in line with weaker domestic demand. The growth forecast for 2019 is adjusted down from 3.0% in the *Update* to 2.6%, and the growth forecast for 2020 is adjusted down from 3.2% to 3.0%.

In Viet Nam, GDP growth in the first 3 quarters of 2019 accelerated to 7.0%, the highest rate for the period in the past 9 years. Private consumption rose by 7.3%, and investment expanded by 7.7%, boosted by an improved business environment, continued investor confidence, and increased foreign direct investment. With unexpectedly strong growth momentum in Q3 likely to carry over into Q4 and next year, the growth forecast for Viet Nam is adjusted upward from 6.8% to 6.9% for 2019, and from 6.7% to 6.8% for 2020.

Central Asia

The projected growth rate in Central Asia as a whole is raised from 4.4% in the *Update* to 4.6% for 2019 and from 4.3% to 4.5% for 2020. The upgrade mainly reflects an improved outlook for Kazakhstan, the subregion's largest economy, as a recently announced increase in public expenditure is expected to stimulate growth. In September, the President promised to increase social benefits and raise wages, and the 2019 budget was amended to boost social spending. With the trend towards enhanced social spending, including housing support, likely to continue through 2020, the growth projection is raised from 3.7% to 4.1% for 2019 and from 3.4% to 3.8% for 2020.

Armenia's economy grew by 7.5% year on year in the first 9 months of 2019, supported on the demand side by buoyant private consumption and on the supply side by both industry and services. Further, fiscal consolidation in 2020 is now expected to be milder than earlier assumed. For these reasons, growth projections are raised for both 2019 and 2020. No change is made to growth projections for other subregional economies in either 2019 and 2020.

The Pacific

Growth in the Pacific is still expected to accelerate in 2019, driven by ongoing recovery in Papua New Guinea following a major earthquake last year. However, acceleration this year is now seen to occur at a more moderate pace of 4.0%, or 0.2 percentage points lower than projected in the Update, with more subdued prospects for Fiji, the Pacific's second-largest economy. Manufacturing output there, particularly of textiles and bottled water for export, has been constrained by soft global demand. Collections of value-added taxes have also underperformed, signaling weakness in broader domestic economic activity. Elsewhere in the Pacific, 2019 projections are maintained on balance, as growth is expected to accelerate or remain stable in half of the smaller economies and ease in the rest. In 2020, subregional economic growth is now projected lower at 2.5%, or 0.1 percentage points below the Update projection, as weaker growth in Fiji is expected to persist.

Inflation outlook

Despite subdued global oil and food prices, inflation projections for developing Asia are revised up to 2.8% in 2019 and 3.1% in 2020 (Table 2).

Brent crude oil prices have averaged just under $64/ barrel so far in 2019. They averaged only $59.40/ barrel in October, as a spike in oil prices in mid-September following a major supply disruption in Saudi Arabia proved short-lived. The outlook for Brent crude remains bearish, as global demand worries continue to overshadow supply developments, limiting upward pressure on oil prices. The price of Brent crude has stayed within a narrow range of $56–$62/barrel, and the 200-day moving average has trended downward since October 2018. Futures prices suggest that Brent crude will trade at around $60/barrel to the forecast horizon. The forecast average price of Brent crude is thus revised down to $63/barrel in 2019 and $60/barrel in 2020.

A downward trend for global food prices since Q4 of 2018 has continued, pushing the food price index down by 5.8% year on year in the 10 months to October. The production outlook for the current crop season continues to look promising, and the US Department of Agriculture expects global supplies of wheat, maize, and rice to increase by 0.6% in this cropping season. Similarly, global supplies of the 17 major edible oils are forecast to increase by 1.7% in crop year 2019/20. The US National Oceanic and Atmospheric Administration in August declared El Niño officially over and predicted that weather would likely remain neutral through May 2020. As such, the food commodity price index is forecast to decline by 5.0% in 2019 and remain flat in 2020.

The inflation forecast for East Asia is revised up from 2.3% to 2.5% for 2019 and from 2.1% to 2.7% for 2020, mainly on account of the upward revisions for the PRC and Hong Kong, China. Consumer prices in the PRC averaged 2.6% in the first 10 months of 2019, with food and other prices diverging. Meat prices soared in the same period by 20.4% on average as African swine fever sharply curtailed pork supply. With pork prices doubling, meat prices rose by 66.8% year on year in October 2019, and food prices rose by 7.5% on average in the first 10 months of 2019. At the same time, nonfood inflation softened to 0.9% in October 2019 and averaged 1.4% in the first 10 months of 2019. While nonfood inflation is expected to stay subdued as economic growth moderates, high meat prices will continue to fuel consumer price inflation in the forecast period. The inflation forecast for the PRC is thus revised up to 2.8% for 2019 and 3.0% for 2020.

Pork supply disruptions push up inflation forecasts for Hong Kong, China as well, from 2.3% in the *Update* to 2.9% in 2019, and from 2.3% to 2.5% in 2020. For the ROK, however, the inflation forecast is revised down for both years, from 0.7% to 0.5% for 2019, and from 1.4% to 1.1% for 2020, in line with weak economic activity.

Inflation in South Asia remains benign as global oil prices moderate further and global food price inflation decelerates. Inflation projections are revised up to 4.4% for 2019 and lowered to 4.8% for 2020. Inflation in India, having remained well below the 4.0% target in the first half of FY2019, crossed above it in October 2019 to reach 4.6% as food inflation soared to 6.9%. Inflation in the first 7 months of FY2019 averaged 3.5% and is expected to rise further in the rest of FY2019. As a result, the inflation projection for FY2019 is raised from 3.5% in the *Update* to 4.0%. The projection for FY2020 is revised down from 4.0% to 3.8% as growth remains subdued. Elsewhere in the subregion, inflation in Afghanistan averaged 2.5% in the first 9 months of 2019. Bangladesh's headline inflation remained stable in the first 3 months of FY2020, with year-on-year inflation slightly increasing to 5.5% in September 2019 from 5.4% a year earlier. In Maldives, inflation averaged a scant 0.02% in the first 3 quarters of 2019 as global oil and food prices fell, as did administrated prices. In Nepal, inflation soared year on year in mid-September from 3.9% a year earlier to 6.2%. Despite tight monetary policy and a modestly strengthening currency, inflation in Pakistan averaged 10.1% in the first 3 months of FY2020. Sri Lankan inflation picked up to 5.0% in September on food supply disruptions and base effects, averaging 2.9% in the first 9 months of 2019.

The slightly lower growth forecast for Southeast Asia is accompanied by steady expectations for inflation, maintained at 2.3% for 2019 and 2.6% next year. Inflation forecasts for this year are unchanged for Indonesia, Malaysia, Myanmar, the Philippines, and Viet Nam but raised for the Lao People's Democratic Republic largely because bad weather hit agricultural production and pushed domestic food prices higher than expected. Deflation resumed in Brunei Darussalam with unanticipated price declines for transportation, clothing, and footwear. Downgrades are made for four economies—Brunei Darussalam, Cambodia, Singapore, and Thailand—in light of unexpectedly low oil prices and subdued domestic food prices.

Central Asia's subregional inflation projection is revised down from 8.0% in the *Update* to 7.8% for 2019 and from 7.4%

Table 2 Inflation (%)

	2018	2019		2020	
		ADO 2019 Update	*ADOS*	*ADO 2019 Update*	*ADOS*
Developing Asia	**2.4**	**2.7**	**2.8**	**2.7**	**3.1**
Developing Asia excluding NIEs	**2.6**	**2.9**	**3.1**	**2.9**	**3.4**
Central Asia	**8.3**	**8.0**	**7.8**	**7.4**	**7.3**
Kazakhstan	6.0	5.8	5.4	5.2	5.2
East Asia	**2.0**	**2.3**	**2.5**	**2.1**	**2.7**
Hong Kong, China	2.4	2.3	2.9	2.3	2.5
People's Republic of China	2.1	2.6	2.8	2.2	3.0
Republic of Korea	1.5	0.7	0.5	1.4	1.1
Taipei,China	1.3	0.9	0.7	0.9	1.0
South Asia	**3.6**	**4.0**	**4.4**	**4.9**	**4.8**
India	3.4	3.5	4.0	4.0	3.8
Southeast Asia	**2.7**	**2.3**	**2.3**	**2.6**	**2.6**
Indonesia	3.2	3.2	3.2	3.3	3.3
Malaysia	1.0	1.0	1.0	2.0	2.0
Philippines	5.2	2.6	2.6	3.0	3.0
Singapore	0.4	0.7	0.6	0.9	0.9
Thailand	1.1	1.0	0.9	1.0	1.0
Viet Nam	3.5	3.0	3.0	3.5	3.5
The Pacific	**4.2**	**3.4**	**3.2**	**3.4**	**3.3**

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 Update,* 2019. *Pacific Economic Monitor,* December; ADB estimates.

to 7.3% for 2020. In Kazakhstan, active price control has been pursued, and in September 2019 the central bank raised its base rate by 25 basis points to 9.25%. These developments prompt a downward revision to the inflation projection for 2019 from 5.8% to 5.4%. In Armenia, average inflation was contained at 1.6% in the first 10 months, partly thanks to easing inflation for food and a more stable exchange rate than earlier expected. Inflation projections are revised down for this year and next. In the Kyrgyz Republic, inflation in the first 9 months of 2019 was modest at 0.6%, and the projection for this year is trimmed accordingly.

The outlook for the Pacific is for inflation to ease to 3.2% in 2019, or 0.2 percentage points lower than forecast in the *Update*, before rising again to 3.3% in 2020, or 0.1 percentage points lower than earlier forecast. Milder inflation expectations stem largely from weaker economic prospects for Fiji. The trend of slowing inflation in 2019 is shared by most Pacific economies, reflecting lower costs for imported food and fuel. A similarly broad-based but modest inflation pickup is expected in 2020 as price pressures increase in the major advanced economies, including the main trade partners of the Pacific.

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Notes:
In this publication, “$” refers to US dollars. ADB recognizes “China” as People’s Republic of China and “Vietnam” as Viet Nam.