

HIGHLIGHTS

- Recovery is under way in developing Asia, but with the growth projection for this year revised down slightly from 7.3% in *Asian Development Outlook 2021* in April to 7.2% following renewed virus outbreaks in some economies. The projection for 2022 is upgraded from 5.3% to 5.4%.
- East Asia's 2021 growth forecast is raised from 7.4% to 7.5%, reflecting a strong first quarter. Expansion in the People's Republic of China is still projected at 8.1% in 2021 and 5.5% in 2022 as favorable domestic and external trends align with April forecasts.
- In South Asia, new waves of infections prompt a lower growth forecast of 8.9% for 2021, followed by growth at 7.0% in 2022. India's 2021 growth projection is downgraded from 11.0% in April to 10.0%, followed by 7.5% growth in 2022.
- The forecast for Southeast Asian growth in 2021 is downgraded from 4.4% to 4.0% as some countries reimpose pandemic restrictions, followed by 5.2% growth in 2022.
- Central Asia's growth prospects for 2021 are revised up from 3.4% to 3.6%. The Pacific forecast, by contrast, is slashed from 1.4% to 0.3% as Fiji tightens containment measures.
- Regional inflation is expected to remain benign, the forecast revised up marginally for 2021 from 2.3% to 2.4% but unchanged at 2.7% for 2022.

RENEWED OUTBREAKS AND DIVERGENT RECOVERIES

Recent developments

Recovery continues to gain momentum in developing Asia, but recent outbreaks of Coronavirus Disease 2019 (COVID-19), driven in part by new variants, drag on growth in several economies. Daily COVID-19 cases in the region peaked at 434,000 in mid-May before falling by three-quarters to 109,000 by the end of June. This was 26 cases per million people, little more than half the global average of 49 cases per million (Figure 1). The latest waves affected many economies in South and Southeast Asia, extending even to Papua New Guinea and Fiji in the Pacific. East Asia, by contrast, has the virus largely under control.

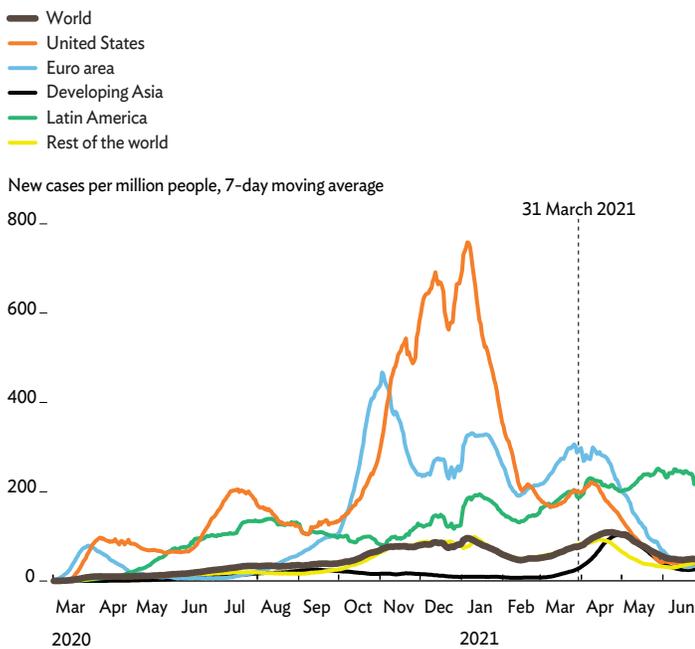
Vaccine rollouts are progressing in many economies, but developing Asia is still far from achieving herd immunity (Figure 2). As of the end of June, the region had administered 41.6 doses per 100 people, slightly above the global average of 39.2 but well below 97.6 in the United States and 81.8 in the European Union. Vaccination progress varies widely across the region. The People's Republic of China (PRC) and several small economies have managed to administer 50 or more doses per 100 people, but almost half of the region's economies have administered fewer than 15.

Growth forecasts for the major advanced economies are unchanged in aggregate (box). Trade continued to rebound globally and regionally alongside an upturn in manufacturing. In February–April, global export volume grew by 2.1% relative to the preceding 3 months, while industrial production volume increased by 1.8%, with both indicators maintaining upward momentum throughout the first half of 2021. Asian trade continued to outperform global trade, as PRC export volume grew by 4.5% and that of the rest of developing Asia by 7.4%.

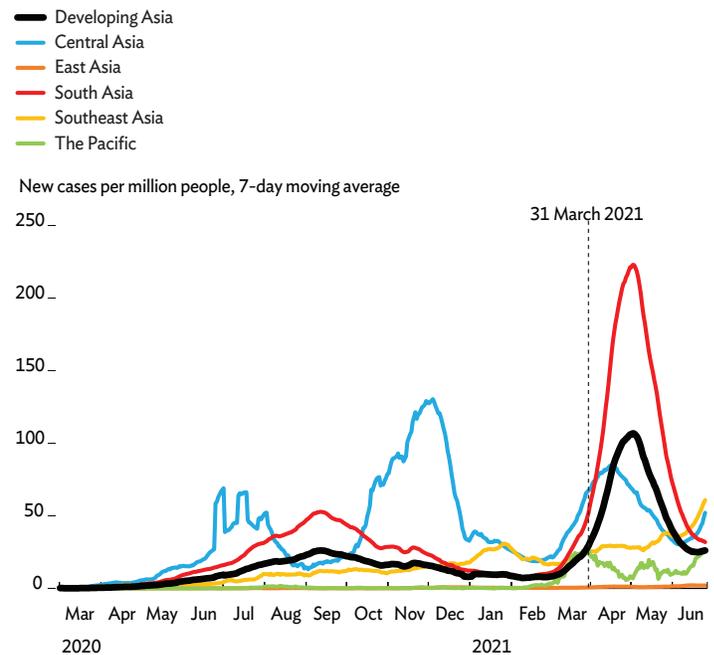
The Asian Development Bank Regional Economic Outlook Task Force led the preparation of a revised outlook for this *Asian Development Outlook Supplement*. The task force is chaired by the Economic Research and Regional Cooperation Department and includes representatives of the Central and West Asia Department,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

Figure 1 COVID-19 cases

Progress on vaccination has brought down COVID-19 cases globally...



...but new outbreaks of COVID-19 hit Asia in 2021, peaking in mid-May.



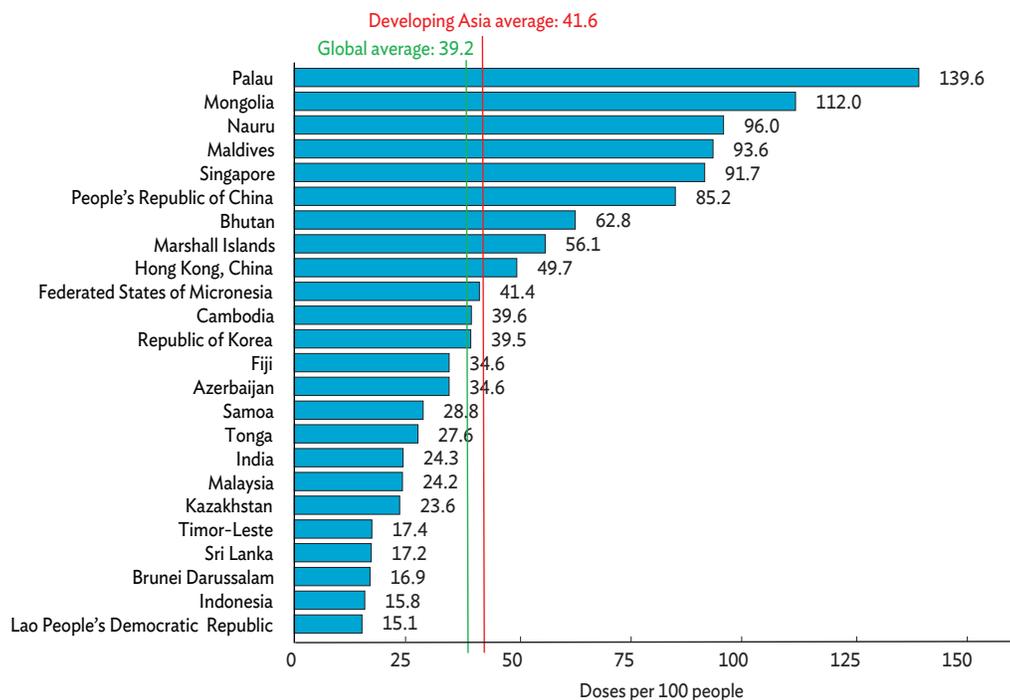
COVID-19 = Coronavirus Disease 2019.

Note: The vertical line on 31 March 2021 denotes the data cutoff for the *Asian Development Outlook 2021* released in April. Data is as of end of June.

Source: Our World in Data. <https://ourworldindata.org/coronavirus> (accessed 2 July 2021).

Figure 2 COVID-19 vaccination doses administered in developing Asia

Vaccine rollouts continue in developing Asia, but progress varies widely.



COVID-19 = Coronavirus Disease 2019.

Notes: This figure lists 24 economies among the 46 developing member economies of the Asian Development Bank with the highest vaccination rates as of 30 June 2021. The developing Asia average is weighted by 2020 population.

Sources: Bloomberg. COVID-19 Vaccine Tracker. <https://www.bloomberg.com/graphics/covid-vaccinetracker-global-distribution>; CEIC Data Company (both accessed 2 July 2021).

Tourism, by contrast, shows little sign of bouncing back. Tourist arrivals have remained depressed since April 2020, languishing at 80%–100% below normal. Arrivals have revived substantially only in Maldives, which reopened in July 2020, but even there they remain well below numbers before COVID-19.

Growth outlook and risks

Even as the pandemic persists, developing Asia is forecast to sustain its strong rebound broadly in line with April forecasts in *Asian Development Outlook 2021 (ADO 2021)*. The regional economy is projected to grow by 7.2% in 2021, slightly lower than 7.3% as envisaged in April, before growing by an upwardly revised 5.4% in 2022. Forecast upgrades for Central and East Asia in 2021 partly offset downgrades for South Asia, Southeast Asia, and the Pacific. 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 7.5% for 2021 and adjusted upward to 5.7% for 2022 (table). The biggest risks to the outlook would be continued COVID-19 outbreaks, driven by new variants and enabled by delayed vaccine rollout, which could once again disrupt mobility and economic activity, stalling recovery.

East Asia

In East Asia, the first quarter (Q1) of 2021 saw recovery outperform expectations in Hong Kong, China; the ROK; and Taipei, China. This prompts a slight upgrade in the subregional growth forecast for the full year, from 7.4% to 7.5%. The 2022 growth projection is maintained at 5.1%.

Hong Kong, China started the year on a strong footing, growing by 7.9% year on year in Q1 2021 as goods exports soared by 30.2% on a sharp rebound in global demand, notably from the PRC and the US. Private consumption rose by 1.6% despite a fourth wave of COVID-19, while fixed investment expanded by 4.5% and government spending by 6.8%. As of the end of June, 30.0% of the population had received one vaccine dose, and 19.7% were fully vaccinated. Growth will likely moderate in the coming quarters as external demand stabilizes. Even so, exceptionally strong growth in Q1 frontloads recovery from a recession that began in 2019, prompting a growth forecast for 2021 revised up to 6.2%. For 2022, growth is forecast at 3.4%.

In the ROK, GDP grew by 1.9% year on year in Q1 2021, underpinned by unexpectedly strong growth in investment and exports. Private investment expanded by 4.0% as facility investment reflected expansion in the digital economy. Information technology and transport equipment drove exports of goods and services up by 5.1%. Private consumption also improved by 1.2%, as mobility restrictions eased and employment improved. The GDP growth forecast for 2021 is revised up from 3.5% to 4.0%, and the 2022 forecast of 3.1% is retained.

Taipei, China recorded in Q1 2021 growth at 8.9%, its highest rate year on year in more than a decade, driven mainly by external demand. Improved global trade pushed exports to their highest growth rate in 42 quarters. Investment continued to boom, growing by 9.1% on massive outlays—mainly by tech companies—for construction, machinery, and transportation equipment. After 4 consecutive quarters of decline, private consumption expanded by 2.1% as consumer sentiment recovered. The 2021 GDP growth forecast is revised up from 4.6% to 5.6% following the remarkable Q1 performance and considering upbeat consumer confidence, a higher manufacturing purchasing managers' index (PMI), double-digit growth in retail sales and industrial production, and robust external demand. For 2022, the growth forecast is maintained at 3.0%, facilitated by accommodative monetary policy and strong global tech demand.

Economic activity in the PRC expanded by 18.3% in Q1 2021 from a low base last year. Value added by industry in the first 5 months of 2021 reversed 2.8% contraction a year earlier with 17.8% expansion, while real growth in retail sales revived from 15.8% contraction to strong 24.8% growth. In the same 5 months, nominal fixed asset investment increased by 15.4% year on year, with investment in manufacturing outpacing infrastructure investment, while growth in real estate investment remained high. Merchandise imports increased by 35.2%, while exports rose by 40.0% on robust global demand. Merchandise exports to the US increased by 49.9%, to the European Union by 37.7%, and to Southeast Asia by 38.6%.

Strong expansion in PRC industry and exports broadly aligns with *ADO 2021* forecasts, as does gradual recovery in services. Government budget deficit reduction has been more pronounced than expected, complemented by restraint on new local government special bond issues. Meanwhile, the real estate market has been surprisingly resilient despite government tightening measures. As real estate price inflation in major cities accelerates, local governments may fine-tune restrictions on the market, and continuing gradual credit tightening should help dampen growth in property investment. As external support wanes with export growth moderating in the second half of 2021, fiscal policy is expected to safeguard a smooth transition to growth at a more sustainable rate in 2022. On balance, GDP growth forecasts remain unchanged at 8.1% in 2021 and 5.5% in 2022.

South Asia

The economic outlook for South Asia is dampened by new waves of COVID-19 hitting the subregion from March to June 2021. The adverse economic impact of these new waves is expected to be limited, with businesses and consumers better able to adapt to the pandemic and containment measures now than they were a year ago. The GDP growth forecast for the subregion in 2021 is downgraded from 9.5% in *ADO 2021* to 8.9% but upgraded for 2022 from 6.6% to 7.0%.

Outlook for the major advanced economies

The economic outlook for the major advanced economies of the United States, the euro area, and Japan is broadly unchanged from *Asian Development Outlook 2021 (ADO 2021)* released in April (box table). Aggregate growth is still expected at 5.3% in 2021 and 4.1% in 2022. Recovery in the US and the euro area is on track as these economies continue to reopen. In Japan, however, new waves of COVID-19 infections in the first half of the year have hurt the economy, prompting a downgrade to the 2021 growth forecast.

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

Area	2020	2021		2022	
	Actual	April ADO 2021	July ADOS	April ADO 2021	July ADOS
Major advanced economies	-4.8	5.3	5.3	4.1	4.1
United States	-3.5	6.5	6.5	4.4	4.4
Euro area	-6.7	4.3	4.3	4.2	4.2
Japan	-4.8	2.9	2.6	2.4	2.7

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. 2021. *Asian Development Outlook 2021*; Asian Development Bank estimates.

In the US, GDP grew by 6.4% in the first quarter (Q1) of 2021 in seasonally adjusted annualized terms (as assumed for all growth rates in this box unless otherwise noted). Consumption grew by a strong 11.4% in the quarter, and fixed investment by 12.1%, while government spending expanded by 5.7%. These positive contributions to GDP growth were partly offset by a large fall in private inventories and a smaller contribution to growth from net exports. Continued fiscal stimulus and a rapid COVID-19 vaccine rollout have supported recovery. Retail sales rallied in the first 4 months of the year, and consumption is expected to remain strong as consumer confidence continues to improve. The composite purchasing managers' index (PMI), in which a reading above 50 indicates future growth, has consistently stayed above 60 since March, suggesting continued expansion in both manufacturing and services, which will support investment. Further, the labor market continued to improve, with unemployment falling to 5.8% in May 2021. The US economy

is on track for strong recovery in line with *ADO 2021* projections. The GDP growth forecast is maintained at 6.5% for 2021 and 4.4% for 2022. The Federal Reserve's modified policy framework implies continued support for economic recovery despite a probably transient rise in inflation.

The economic assessment for the euro area is largely unchanged from *ADO 2021*. As expected, fragility persisted in Q1 with GDP contracting by 1.8%—or 2.5% quarter on quarter—as weak services and consumer spending reflected the reimposition of strict containment measures. However, leading indicators in May showed the tide turning. The economic sentiment indicator hit a 40-month high of 114.5 on substantial improvement in services, industry, retail, and construction. The composite PMI also surged, to 56.9, its highest since February 2018. The manufacturing PMI rose to 63.1, while the services PMI reached a 35-month high of 55.1, boosted by a gradual relaxation of public health restrictions in the currency bloc. This *Supplement* maintains growth forecasts at 4.3% for 2021 and 4.2% for 2022. The COVID-19 vaccine rollout has gathered pace, with 54.8% of adults in the European Union having received at least one dose by 23 June and 31.0% fully vaccinated. Most euro area countries are expected to reopen their economies further in the coming months, benefiting consumer spending and investment. Growth will be buttressed as well by a highly accommodative monetary policy and funds disbursed from the Next Generation EU recovery program.

In Japan, preliminary estimates show GDP declining by 3.9% in Q1 as a third COVID-19 wave in January shrank private consumption. Public consumption surprised on the downside, falling by 4.5%, while 16.5% expansion in imports outpaced 9.2% growth in exports. The economy is thought to have stagnated in Q2 as a fourth wave spread across the country in April and May; by 20 June, a state of emergency had been declared in 9 of 47 prefectures. While the number of new cases has started to decline in recent weeks, hobbled mobility and consumer confidence suggest weak economic activity in Q2. Renewed COVID-19 waves have delayed recovery, but the economy is expected to rebound in the second half of 2021 and throughout 2022 as the current wave of infections recedes and the vaccine rollout accelerates. The manufacturing PMI remains in expansionary territory, and industrial production and machinery orders have bounced back in recent months. The GDP growth forecast for 2021 is revised down from 2.9% to 2.6%, mirrored by an upgrade for 2022 from 2.4% to 2.7%.

In India, GDP growth recovered to 1.6% in Q4 of fiscal year 2020 (FY2020, ended 31 March 2021), narrowing contraction in the whole fiscal year from 8.0% estimated in April to a revised 7.3%. Then a second wave of the pandemic induced many state governments to impose strict containment measures. New COVID-19 cases daily peaked at more than 400,000 in early May, then fell to a little over 40,000 in early July. Early indicators show economic activity resuming quickly after containment measures eased. The growth projection for FY2021, downgraded from 11.0% in *ADO 2021* to 10.0%, reflects large base effects. The projection for FY2022, by which time much of India's population is expected to be vaccinated, is upgraded from 7.0% to 7.5% as economic activity normalizes.

Elsewhere in South Asia, Afghanistan's economy appeared to be on the path to recovery in Q1 2021, before security concerns intensified. Actual economic contraction in 2020 was 1.9%, much less than 5.0% estimated in *ADO 2021*. The Bangladesh economy is recovering with exports in the first 11 months of FY2021 (ended 30 June 2021) growing by 13.6% year on year and remittances by 39.5%. In the first 10 months, National Board of Revenue collections grew by 12.9% year on year. However, restrictions from early April to combat a second pandemic wave have since disrupted business. Bhutan is estimated to have contracted by 6.3% in 2020 with two national lockdowns and later containment measures in some areas from April 2021, which effectively controlled the spread of COVID-19 but further slowed economic activity. Prospects for tourism in Maldives appeared promising in Q1, when tourist arrivals almost doubled numbers in the previous quarter, but surging COVID-19 cases from March have hurt tourism and slowed recovery once again, with many islands under strict lockdown.

Nepal officially forecast GDP growth in FY2021 (ended 15 July 2021) at 4.0%, higher than the *ADO 2021* projection of 3.1% with stronger growth across the board. This preliminary estimate was issued in late April, just as containment measures were reimposed amid resurging COVID-19 infections. Earlier, in FY2020, Nepal actually contracted by 2.1%, somewhat more than previously estimated. The Government of Pakistan estimated growth at 3.9% in FY2021 (ended 30 June 2021), the improvement underpinned by strong growth in industry and services and steady remittance inflow. Sri Lanka saw strong economic recovery in Q1 2021, only to have a third COVID-19 wave hit in April, bringing island-wide restrictions since mid-May and adversely affecting tourism and other economic activity. Some relaxation of restrictions has occurred since late June.

Southeast Asia

The 2021 GDP growth forecast for Southeast Asia is cut from 4.4% in *ADO 2021* to 4.0% because of mobility restrictions reimposed to combat a COVID-19 resurgence across the region. GDP forecasts are downgraded for

Indonesia, the Lao People's Democratic Republic, Malaysia, Thailand, Timor-Leste, and Viet Nam; unchanged for Brunei Darussalam, Cambodia, Myanmar, and the Philippines; and upgraded for Singapore. The GDP growth forecast for 2022 is revised up slightly from 5.1% to 5.2%, reflecting higher vaccination coverage expected by next year.

Indonesia's GDP growth forecast is cut from 4.5% in *ADO 2021* to 4.1%, reflecting a second wave of infections. As infections hit record highs, a lockdown was ordered from 3 to 20 July. The lockdown will crimp the ongoing recovery, which started in Q3 2020 and went through Q2 2021, when activity continued to pick up, fiscal policy remained supportive, and export demand improved.

The growth forecast for Malaysia is revised down from 6.0% in April to 5.5%. In Q1, Malaysia posted a smaller GDP decline of 0.5% year on year with improvement in domestic demand and exports, particularly of electronics and electrical products. However, an extension of lockdown measures imposed in Q2 2021 is expected to weaken domestic demand again. Business conditions for manufacturers deteriorated sharply in June under stricter containment measures. Greater downside risks are likely as rising infections show no sign of abating. The GDP forecast for 2022 is kept at 5.7%.

While Philippine GDP shrank by 4.2% in Q1 2021, this improved on the previous 4 quarters and aligned with growth forecasts in April. Sustained government spending on infrastructure and social assistance programs is supporting recovery, as did a gradual pickup in household spending aided by strong remittances. Private investment remained sluggish, but indicators such as PMI, industrial production, and imports improved gradually. The government's vaccination effort has accelerated to over 250,000 jabs daily, improving the prospects that community protection in metropolitan Manila could be achieved by year end. Growth forecasts are maintained at 4.5% in 2021 and 5.5% in 2022.

As global recovery continues, the outlook for Singapore is upgraded a notch. Singapore's economy grew by 1.3% in Q1 2021 on strong expansion in manufacturing and less contraction in services. The economy benefited from effective COVID-19 containment, a rebound in demand from key trade partners, and robust public consumption, though private consumption and investment continued to contract amid mobility restrictions and looming uncertainty regarding COVID-19. As restrictions ease further and business sentiment continues to improve, the economy is expected to have a more solid recovery. The GDP growth forecast for 2021 is revised up from 6.0% in April to 6.3% and maintained at 4.1% for 2022.

Thailand's GDP contracted by 2.6% year on year in Q1 2021 as private consumption and service exports continued to decline. This was partly offset, however, by increases in government spending and expanded merchandise exports and private investment. A key risk to growth is a third wave of COVID-19 starting in April. Indicators for private

consumption and investment in machinery and equipment subsequently dropped. International travel restrictions continue to drag on tourism, with arrivals in January–May 2021 falling by 99% year on year, to 34,753. GDP growth projections are revised down for 2021 from 3.0% to 2.0% and revised up for 2022 from 4.5% to 4.9%.

GDP growth in Viet Nam accelerated from 1.8% in the first half of 2020 to 5.6% in the same period this year as global recovery boosted exports, and despite disruption caused by a new wave of COVID-19 starting in late April. Mobility restrictions drove the composite PMI down to 44.1 in June 2021, the lowest reading since May 2020. Vaccination delays and an extended lockdown in the country's largest growth area may restrict mobility and limit economic activity in 2021. The 2021 growth forecast is revised down from 6.7% in April to 5.8%.

Central Asia

The growth projection for Central Asia in 2021 is revised up from 3.4% in *ADO 2021* to 3.6% in this *Supplement*. This reflects an improved outlook for Armenia, Georgia, and Kazakhstan. Growth prospects in the other subregional economies remain unchanged.

Armenia's economic activity index, a GDP proxy used by a statistics committee, turned around sharply in Q2 to rise by 4.3% in January–May 2021. In those 5 months, industry increased by 2.3% year on year, construction by 14.3%, trade by 7.4%, and services excluding trade by 0.9%. Growth picked up in Georgia too, reaching 8.1% in the first 4 months of 2021 after April saw a very steep rise by 44.8% year on year. Supported by fiscal stimulus, large companies reported turnover in April soaring by 93.4% year on year.

Kazakhstan's growth projection for 2021 is adjusted up from 3.2% in *ADO 2021* to 3.4%. While GDP grew by only 1.6% year on year in January–May 2021, recovery in consumer spending was notable as retail turnover expanded by 6.2% in January–April. Machinery, building materials, light industry, and construction rose by 7.2%, and investment outside of the country's large extractive industry jumped by 25.5% in the first 5 months. In Q1, real household income per capita grew by 3.4% on higher salaries and government spending on pensions and scholarships. In May, the government provisioned additional fiscal support for economic recovery programs. Factors likely to support growth in the coming months are the lifting of pandemic restrictions, higher oil prices, and the relaxation of OPEC+ oil production cuts agreed by the Organization of the Petroleum Exporting Countries and its partners.

The 2022 growth projection for Kazakhstan is maintained at 3.5%. As the outlook next year for the other subregional economies is also unchanged, the subregional growth projection for 2022 is sustained at 4.0%.

The Pacific

The Pacific is now expected to grow by 0.3% in 2021, much slower than 1.4% projected in *ADO 2021*. Although growth in most Pacific economies has aligned with earlier expectations, Fiji, the second-largest economy in the subregion, faces another year of contraction as it strives to contain a recent increase in COVID-19 cases. Aside from constraining domestic economic activity, the outbreak stalled recovery in tourism mainly by forcing a postponement of a travel bubble with Australia and New Zealand. Further, a delay affecting Vanuatu's proposed travel bubble with Australia, New Caledonia, and New Zealand is expected to prolong economic contraction in that country.

The Fiji and Vanuatu travel bubbles are now expected to drive stronger recovery in 2022, raising projected growth next year in the Pacific from 3.8% in *ADO 2021* to 4.0%. The Cook Islands in particular will likely grow more strongly than previously forecast as a recently established travel bubble with New Zealand boosts output in tourism and related services.

Inflation outlook

The 2021 inflation forecast for developing Asia is revised up slightly from 2.3% in *ADO 2021* to 2.4% in this *Supplement*, reflecting higher prices for oil and other commodities, as well as currency depreciation in several Central Asian economies. Inflation is still expected to reach 2.7% in 2022, as envisaged in *ADO 2021* (table).

The Brent crude oil price recovered from its early COVID-19 nosedive. It crossed the \$70/barrel mark on 1 June and kept rising to reach \$75.12 by the end of June, averaging \$70.07 for the whole month. The oil price recovery was bolstered by improving demand as vaccine rollouts in key economies helped firm global economic activity. Similarly in response to rising demand, prices for other commodities continued their upward trends. On the supply side, OPEC+ participants increased production from the beginning of 2021, but Saudi Arabia more than compensated in Q1 with a voluntary production cut. While even Saudi Arabia has gradually increased oil production since April, the market has absorbed the additional barrels comfortably, keeping prices above \$65/barrel since mid-April. The bullish outlook for oil prices is reinforced by futures price spreads that are widening to their strongest levels in years. Brent crude price forecasts are revised up to average \$67/barrel in 2021 and \$64/barrel in 2022. These modest \$3 revisions reflect continued uncertainty regarding COVID-19 and increases in OPEC+ and US oil production.

The inflation forecast for East Asia is maintained at 1.5% in 2021 and 2.2% in 2022 despite upward revisions to projections for Hong Kong, China; the ROK; and

Taipei, China. In Hong Kong, China, headline inflation rose from 0.6% in March to 0.8% in April on higher local transport fares and prices for motor fuel. The inflation forecast is thus raised to 1.5% for 2021 but unchanged at 2.0% for 2022. Inflation in the ROK rose to average 1.7% in January–May but has exceeded the 2.0% central bank target in both April and May as housing and utility prices climbed. Higher prices for oil and other inputs have translated into a local price surge for industrial goods. This *Supplement* revises up ROK inflation forecasts from 1.3% to 1.8% this year and from 1.5% to 1.6% next year as the resumption of normal economic activity reinforces current price trends. The inflation forecast for Taipei, China in 2021 is also revised up, to 1.5%, in line with strong recovery in domestic demand and higher global oil prices.

In the PRC, consumer prices increased by an average of 0.4% year on year in the first 5 months of 2021, much less than 4.1% a year earlier. Consumer inflation remained moderate as pork deflation muted inflation for other food, and as nonfood prices increased by 0.5% on average. Producer price increases averaged a steeper 4.4%, driven by higher commodity prices. Inflation forecasts remain unchanged, however, at 1.5% in 2021 and 2.3% in 2022, as producer price inflation should pass through only moderately to consumer prices and, in any case, is expected to moderate toward the end of 2021.

The inflation forecast for South Asia in 2021 is raised from 5.5% to 5.8%, mainly reflecting a higher forecast for India, but unchanged at 5.1% in 2022. Indian consumer price inflation rose to 6.3% year on year in May as both food and fuel inflation outpaced expectations. This *Supplement* raises the inflation forecast for India in FY2021 by 0.3 percentage points to 5.5% while keeping the forecast for FY2022 at 4.8%.

Elsewhere in the subregion, inflation in Bangladesh averaged 5.6% in the first 11 months of FY2021 as lackluster domestic demand slowed nonfood inflation early on, the result slightly lower than 5.8% forecast in *ADO 2021* for the whole year. Bhutan suffered inflation at 8.2% in the first 9 months of FY2021 as food prices jumped. Average consumer price inflation in Maldives was 0.3% in the first 4 months of 2021 and is likely to fall in the rest of this year following the government's reinstatement in May of water and electricity subsidies and its plan to cut internet service prices from July.

In Nepal, inflation plunged from 6.5% the first 10 months of FY2020 to 3.5% a year later as a better harvest and a smoother supply chain substantially eased food inflation. Inflation in Pakistan averaged 8.8% in the first 11 months of FY2021 on rising global commodity prices, especially for food and crude oil. Sri Lankan inflation, as measured by the Colombo consumer price index, picked up from 3.0% in January to 4.5% in May. It averaged 3.8% in the first 5 months of 2021, driven mostly by higher food and beverage prices.

Inflation is now forecast in Southeast Asia slightly lower at 2.3% in 2021 and unchanged at 2.4% in 2022. With mobility

restrictions still in place and labor markets still weak in most economies, fragile conditions continue to curb consumer demand. On the supply side, however, higher international oil prices are applying pressure on prices for goods and services.

Inflation in Indonesia averaged 1.5% in January–May, consistently short of the 2%–4% target set by the central bank, which has kept its policy interest rate unchanged at 3.5%. The inflation forecast for 2021 is cut to 2.1%. The 2021 inflation projection for Malaysia is revised up from 1.8% in April to 2.0% as energy and commodity prices track higher with strong global recovery. It is kept at 2.0% for 2022. Likewise in Singapore, the 2021 forecast is revised up from 1.0% in April to 1.3% as domestic demand picks up further along with rising oil and commodity prices. The inflation forecast for 2022 is unchanged at 1.2%.

In the Philippines, inflation averaged 4.4% in the first 6 months of 2021, easing to 4.1% in June. In May, the government undertook temporary measures to augment food supply including reducing tariffs on rice and meat imports and allowing more pork imports under low-tariff minimum access volume terms. April inflation projections for 2021 and 2022 are maintained.

In Thailand, forecasts for 2021 and 2022 are retained as several categories, notably fresh food, textiles, and entertainment, continued to see price declines while transportation and vehicle prices increased following a rise for oil. Current trends support April inflation projection for Viet Nam to be downgraded in 2021 but maintained in 2022.

The subregional inflation projection for Central Asia in 2021 is revised up from 6.8% in *ADO 2021* to 7.0% in this *Supplement*, reflecting developments in the South Caucasus. Inflation in Armenia reached 5.5% in January–May 2021 on supply-side shocks tied to the pandemic, recovery in aggregate demand in recent months, and pass-through from currency depreciation in October 2020–April 2021. In Azerbaijan, inflation accelerated to 4.0% in the first 4 months of 2021. Prices rose by 4.7% for food, especially fruit, vegetables, and dairy; 3.7% for other goods; and 3.1% for services. Georgian inflation hit 7.2% in April and 7.7% in May, partly reflecting currency depreciation. The authorities in Armenia and Georgia tightened monetary policy by raising interest rates, while the central bank in Azerbaijan refrained from monetary relaxation on account of rising inflation.

The 2021 inflation outlook for other Central Asian countries is unchanged, as is the subregional inflation forecast for 2022, at 6.3%.

Finally, the inflation forecast for the Pacific is maintained. Unexpectedly high inflation in Tonga in FY2021 (ended 30 June 2021) was offset by deeper deflation in Samoa, where lower import costs, increased agricultural production, and utilities subsidies had a greater impact on prices than initially anticipated.

GDP growth rate and inflation, % per year

	GDP growth					Inflation				
	2020	2021		2022		2020	2021		2022	
		April ADO 2021	July ADOS	April ADO 2021	July ADOS		April ADO 2021	July ADOS	April ADO 2021	July ADOS
Central Asia	-1.9	3.4	3.6	4.0	4.0	7.5	6.8	7.0	6.3	6.3
Kazakhstan	-2.6	3.2	3.4	3.5	3.5	6.8	6.5	6.5	6.2	6.2
East Asia	1.8	7.4	7.5	5.1	5.1	2.0	1.5	1.5	2.2	2.2
Hong Kong, China	-6.1	4.6	6.2	4.5	3.4	0.3	1.3	1.5	2.0	2.0
People's Republic of China	2.3	8.1	8.1	5.5	5.5	2.5	1.5	1.5	2.3	2.3
Republic of Korea	-0.9	3.5	4.0	3.1	3.1	-1.0	1.3	1.8	1.5	1.6
Taipei, China	3.1	4.6	5.6	3.0	3.0	-0.2	1.1	1.5	1.1	1.1
South Asia	-5.5	9.5	8.9	6.6	7.0	6.5	5.5	5.8	5.1	5.1
India	-7.3	11.0	10.0	7.0	7.5	6.2	5.2	5.5	4.8	4.8
Southeast Asia	-4.0	4.4	4.0	5.1	5.2	1.2	2.4	2.3	2.4	2.4
Indonesia	-2.1	4.5	4.1	5.0	5.0	2.0	2.4	2.1	2.8	2.8
Malaysia	-5.6	6.0	5.5	5.7	5.7	-1.1	1.8	2.0	2.0	2.0
Philippines	-9.6	4.5	4.5	5.5	5.5	2.6	4.1	4.1	3.5	3.5
Singapore	-5.4	6.0	6.3	4.1	4.1	-0.2	1.0	1.3	1.2	1.2
Thailand	-6.1	3.0	2.0	4.5	4.9	-0.8	1.1	1.1	1.0	1.0
Viet Nam	2.9	6.7	5.8	7.0	7.0	3.2	3.8	3.0	4.0	4.0
The Pacific	-5.8	1.4	0.3	3.8	4.0	3.3	3.7	3.7	3.9	3.9
Developing Asia	-0.1	7.3	7.2	5.3	5.4	2.7	2.3	2.4	2.7	2.7
Developing Asia excluding the NIEs	0.1	7.7	7.5	5.6	5.7	3.1	2.4	2.5	2.9	2.9

ADO = Asian Development Outlook, ADOS = ADO Supplement, GDP = gross domestic product, NIEs = newly industrialized economies of Hong Kong, China; the Republic of Korea; Singapore; and Taipei, China.

Note: **Developing Asia** refers to the 46 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, Timor-Leste, and Viet Nam. **The Pacific** comprises the Cook Islands, the Federated States of Micronesia, Fiji, Kiribati, the Marshall Islands, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu.

Sources: Asian Development Bank. 2021. *Asian Development Outlook 2021*; Asian Development Bank estimates.

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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.