HIGHLIGHTS

- This Supplement revises the growth forecasts for developing Asia from 5.2% to 4.6% for 2022 and from 5.3% to 5.2% for 2023, reflecting worsened economic prospects because of Russia’s continued invasion of Ukraine, more aggressive monetary tightening in advanced economies, and COVID-19 lockdowns in the People’s Republic of China (PRC).
- East Asia’s growth forecast is revised from 4.7% to 3.8% for 2022 due to downgraded 4.0% growth in the PRC and softening global demand.
- South Asia’s growth forecast is lowered from 7.0% to 6.5% for 2022 and from 7.4% to 7.1% for 2023 mainly due to the economic crisis in Sri Lanka and high inflation and associated monetary tightening in India.
- The 2022 forecast for Southeast Asia is marginally upgraded from 4.9% to 5.0% as domestic demand benefits from the continued lifting of COVID-19 mobility restrictions and the reopening of borders in some economies in the subregion.
- The Caucasus and Central Asia’s growth prospects are raised from 3.6% to 3.8% for 2022 and from 4.0% to 4.1% for 2023, as some economies have withstood the economic fallout from the war in Ukraine better than expected.
- This year’s growth prospects for the Pacific are revised up, from 3.9% to 4.7%, reflecting the stronger-than-expected rebound in tourism in Fiji.
- The inflation forecast for developing Asia is raised from 3.7% to 4.2% for 2022 and from 3.1% to 3.5% for 2023 due to higher fuel and food prices. Inflation pressures in the region are, however, less than elsewhere in the world.

RECOVERY FACES DIVERSE CHALLENGES

Recent developments

Although coronavirus disease (COVID-19) persists, driven by Omicron subvariants, the pandemic has significantly abated, with global daily cases declining from 1.2 million when Asian Development Outlook 2022 (ADO 2022) was published in early April to 738,000 at the end of June. That decline has been even more marked in developing Asia, which saw daily new cases fall from 384,000 to 82,000 in the same period (Figure 1). This decline, combined with continued progress on vaccination (Figure 2), has allowed many economies in the region to further ease COVID-19 restrictions (Figure 3). The People’s Republic of China (PRC), however, is the notable exception to this pattern. Its adherence to a zero-COVID strategy in response to renewed outbreaks early in 2022 triggered the reimposition of strict lockdowns. The export performance of developing Asia’s economies remained solid in the first 5 months of 2022 (Figure 4). Although the PRC’s exports fell in April on the lockdowns, they have since rebounded as restrictions were eased. With many economies in the region increasingly choosing to live with the virus and reopening, economic activity continued to expand in the first half of 2022—with the notable exception of the PRC (Figure 5).
Even though the impact of COVID-19 has declined across most of developing Asia, the economic fallout from Russia’s invasion of Ukraine on the region has increased. War-induced supply disruptions and escalating sanctions imposed on the Russian Federation have led to global commodity prices spiking and remaining higher than 2021’s already elevated levels (Figure 6). Because of this, inflationary pressures have increased in many regional economies (Figure 7). Headline inflation is at double-digit levels in most of the Caucasus and Central Asia, in Mongolia in East Asia, in Pakistan and Sri Lanka in South Asia, and in the Lao People’s Democratic Republic (Lao PDR) and Myanmar in Southeast Asia. Inflation in India, at 7%, is above the 2%–6% target range of the Reserve Bank of India (RBI). But headline and core inflation in the rest of developing Asia’s large economies remain manageable. So for the region as a whole, inflation remains moderate on average and much lower than elsewhere in the world (Figure 8).

Mounting inflationary pressures prompted central banks to start tightening monetary policy or accelerate its pace. The European Central Bank ended net asset purchases on 1 July and announced it intends to raise key policy rates by 25 basis points (bps) in late July. The Federal Reserve, after raising the federal funds rate by 50 bps in May, hiked again in June by 75 bps, its biggest increase since November 1994. With inflation in the United States hitting 9.1% in June, the federal funds rate is expected to continue rising...
Increased immunity and Omicron’s milder impact allowed developing Asia to reopen—but the PRC continues to take a zero-COVID approach.


Developing Asia’s exports continued growing in 2022, although the PRC experienced trade disruptions related to COVID-19 lockdowns.

Notes: Developing Asia excluding the PRC comprises Hong Kong, China, India, Indonesia, Malaysia, Pakistan, the Republic of Korea, Singapore, Taipei, China, Thailand, and Viet Nam. Data are seasonally adjusted.
Source: Haver Analytics; CEIC Data Company (both accessed 7 July 2022).

Reopening allowed activity in many economies to continue expanding in early 2022—with the PRC a notable exception.

... = not available, COVID-19 = coronavirus disease, PMI = purchasing managers’ index, PRC = People’s Republic of China, Q = quarter.
Notes: For Malaysia, the series is adjusted by adding 3 points, as historical experience suggests that a value above 47 is consistent with expansion. Pink to red indicates deterioration (<50), and white to green indicates improvement (>50).
Energy prices remain elevated after spiking immediately after Russia’s invasion of Ukraine.

Food prices continue to be high, but have recently fallen from their peaks.

Financial conditions have deteriorated in developing Asia on Fed tightening and Russia’s invasion of Ukraine. The strengthening US dollar has been reflected in currency depreciations and portfolio outflows in the region. Equity markets weakened further after the Fed raised its benchmark policy rate in March and May, and risk premiums for many economies in the region have widened this year.
Headline inflation in developing Asia has been rising, but remains low compared to the rest of the world.

Developing Asia
Emerging and developing Europe
Latin America
Sub-Saharan Africa
United States
Euro area


With financial conditions tightening, growth in advanced economies is softening (Box 1). And with activity in the PRC hampered by supply chain disruptions, domestic demand and exports in developing Asia are set to face significant challenges.

Reflecting the worsening economic environment, growth forecasts for developing Asia are revised down from the projections made in April in ADO 2022 from 5.2% to 4.6% for 2022 and from 5.3% to 5.2% for 2023. The inflation forecasts are revised up for both years, mainly on higher fuel and food prices, from 3.7% to 4.2% for 2022 and from 3.1% to 3.5% for 2023 (table).

Risks to developing Asia’s economic outlook remain elevated and mainly associated with external factors. A substantial slowdown in global growth could hurt exports, manufacturing activity, and employment prospects, and cause turbulence in financial markets. The aggressive monetary tightening by the Fed and other major central banks—even if largely anticipated—could damage growth and rattle financial markets in the region. A worsening fallout from the war in Ukraine could lead to a further surge in global energy and commodity prices, with likely knock-on effects on growth and inflation in developing Asia (Box 2). Rising food prices and shortages, in particular, could threaten food security and heighten social tensions in some economies. From within the region, downside risks could arise from the potentially lingering effects on supply chains from the PRC’s latest round of lockdowns and the country’s growth slowdown, which could hinder developing Asia’s growth momentum.

Many central banks have started hiking rates to curb inflation and safeguard financial stability.

Growth and inflation outlook by subregion

East Asia
The growth forecast for East Asia is revised down from 4.7% to 3.8% for 2022 as growth in the PRC will be weaker than earlier expected. The PRC’s economy was hit by new clusters of COVID-19 cases in Shanghai and other cities, followed by lockdowns that lasted several weeks weighing on consumption and investment at the beginning of Q2. In the first 5 months of 2022, growth in retail sales is estimated to have contracted by 4% in real terms. Nominal fixed asset investment increased by 6.2%, but growth in manufacturing and infrastructure investment has slowed and property investment declined. Robust trade has provided some offset to weak domestic demand—merchandise exports in the first 5 months increased by 13.3% and imports by 7.5%. Exports to the US, the European Union (EU), and to countries in the Association of Southeast Asian Nations all expanded at double-digit rates.

In addition to lockdown-induced weakness in household consumption, a further burden on the PRC’s economy is that the housing market has not stabilized. Average new home prices in 70 major cities fell by 0.8% year on year in May 2022, despite a reduction in the mortgage-rate floor for first-home buyers and a cut of 15 bps in the 5-year loan prime rate in May. With household demand hit by recent COVID-19 outbreaks, adding to the ongoing stress in the property market, the growth forecast for the PRC is revised down by 1 percentage point to 4% in 2022. This forecast assumes a gradual recovery in household consumption, a stabilizing property sector, a pick-up in infrastructure investment in the second half, and government measures to boost credit supply. The forecast for 2023 remains unchanged as carry-over effects from accelerating growth in the second half of 2022 will likely be dampened by fiscal consolidation efforts next year.

Following four consecutive quarters of growth, Hong Kong, China’s economy contracted by 4% year on year in Q1. Mobility restrictions to contain a fifth COVID-19 wave weighed heavily on domestic demand. Private consumption expenditure declined by 5.5% on worsening labor market conditions and downbeat economic sentiment. Fixed investment fell by 8.4% on soured business sentiment. Goods exports fell by 4.5% as pandemic-related labor shortages and disruptions in cross-border logistics hindered trade with the PRC, adding to the impact of moderating global demand. While trade flows with the PRC are expected to improve and provide some relief, a slowing global economy and prolonged supply chain disruptions will continue to hold back export growth. On a positive note, leading indicators suggest that, as COVID-19 containment measures were gradually relaxed, economic activity turned expansionary in Q2. After remaining below the value of 50 that separates expansion from contraction throughout Q1, the PMI jumped from 42.0 in March to 51.7 in April to 54.9 in May before declining marginally to 52.4 in June. Household spending is also expected to recover in the coming months due to several government relief measures, particularly the new rounds of the Consumption Voucher and Employment Support Schemes. But on balance, Q1’s worse-than-expected performance prompts this Supplement to trim the growth forecast for Hong Kong, China to 1.0% for 2022. The growth projection for 2023 is raised to 3.9%.

Gross domestic product (GDP) growth in the Republic of Korea slowed significantly in Q1, falling to 3.1% year on year from 4.2% in the previous quarter. This was the slowest quarterly growth since Q1 2021. Weighing on the economy was private consumption growth slowing to 4.5%, fixed investment growth declining by 3.2%, and construction and facilities investment contracting. External demand, however, remained strong and provided some offset, with export growth rising to 9.0%. Import growth slowed to 7.9%. Inflationary pressures will stifle private consumption growth. Rising interest rates will increase the debt burden of businesses and households, further limiting growth in household spending and business investment. Export demand is also expected to weaken in the second half of 2022 as demand in major export markets slows due to the weaker global economy and supply chain disruptions continue to affect manufacturing. Because of these expectations, coupled with lower-than-anticipated Q1 growth, the 2022 growth forecast for the Republic Korea is revised down to 2.6%.

Taipei, China’s GDP grew by 3.1% in Q1 as investment grew by 5.9% and net exports by 11.0%. But consumption stayed sluggish on growth of just 0.5%. COVID-19 cases surged in April, peaking at 82,000 daily cases in late May. Because of this, consumption is expected to be weak in Q2 before rebounding later in the year. Investments and exports remain strong due to reshoring companies and continued demand for technology products. That said, some signs of slowing in both are emerging. Even so, the growth forecasts for Taipei, China are maintained at 3.8% for 2022 and 3.0% for 2023.

Inflation forecasts for East Asia are revised down from 2.4% to 2.3% for this year because of lower inflation expectations in the PRC and Hong Kong, China. In the PRC, consumer prices increased by an average of only 1.5% in the first 5 months of 2022. Nonfood inflation rose 2.1% on average, mainly on higher fuel prices. Food prices declined by 1.0% on pork-price deflation. Consumer price inflation is forecast slightly lower at 2.1% for
2022 in line with weaker GDP growth. The forecast for 2023 remains at 2.0%.

In Hong Kong, China, headline inflation moderated to 1.3% in April from 1.7% in March due to smaller increases in food prices, particularly fresh vegetables. While external price pressures have intensified amid elevated energy and other commodity prices, as well as continuing supply chain disruptions, headline inflation should remain moderate as domestic price dynamics stay in check. In line with the revised growth projections, the inflation forecast is cut to 1.8% for 2022. The inflation forecast for 2023 is maintained at 2.0%.

Consumer prices in the Republic of Korea increased by 5.4% year on year in May, the largest increase since August 2008. Inflation has been accelerating since 2021, with headline inflation exceeding the central bank’s 2% price-stability target for 14 months in a row. The strong inflationary trend is driven by a combination of rising global commodity prices and a post-pandemic surge in consumer spending. Because of this, inflation forecasts are revised up from 3.2% to 4.5% for 2022 and from 2.0% to 3.0% for 2023.

Inflation in Taipei, China has climbed steadily this year, reaching 3.4% in April and May on supply chain bottlenecks caused by the war in Ukraine and pandemic-related restrictions in the PRC. The surge in food and fuel prices prompts an upward revision in inflation forecasts, to 2.8% for 2022 and to 2.0% for 2023.

South Asia

South Asia's economy is expected to expand less than ADO 2022's projection. This mainly reflects a modest downward revision to India's forecast GDP growth due to higher-than-anticipated inflation since April and monetary tightening, and Sri Lanka's sharp GDP contraction due to the country's sovereign debt and balance-of-payment crises. The growth prospects for the subregion's other economies are largely unchanged as various positives balance out global headwinds. On balance, the growth forecast for South Asia is revised down from 7.0% to 6.5% for 2022 and from 7.4% to 7.1% for 2023.

India's GDP growth moderated to 4.1% in Q4 of fiscal year 2021 (FY2021, ended 31 March 2022) on disappointing growth in private consumption and a contraction in manufacturing. India has been hit by the Omicron COVID-19 variant and the economic impact of the war in Ukraine. Consequently, GDP growth for FY2021 is revised down from 8.9% to 8.7% and from 7.5% to 7.2% for FY2022. Although consumer confidence continues to improve, higher-than-expected inflation will erode consumer purchasing power. Some of the impact of this may be offset by a cut in excise duties, the provision of fertilizer and gas subsidies, and the extension of a free-food distribution program. Private investment will soften due to the higher cost of borrowing for firms as the RBI continues to raise policy rates to contain inflation. Net exports will shrink due to subdued global demand and a rising real effective exchange rate eroding export competitiveness despite a depreciating rupee. On the supply side, higher commodity prices will boost the mining industry. But manufacturing firms will bear the brunt of higher input costs due to rising oil prices. The services sector, hit hard by COVID-19 since 2020, will do well in FY2022 and beyond as the economy opens up and travel resumes. Even so, growth in FY2023 is revised down to 7.8%.

Economic conditions in Sri Lanka have deteriorated drastically since ADO 2022 on a sharp fall in usable reserves, causing the government to suspend external public debt servicing (excluding multilateral debt) on 12 April and default on its sovereign debt on 18 May—the country's first sovereign debt default. Sri Lanka is beset with multifaceted and deepening challenges emanating from long-standing fiscal and current account deficits that have led to the sovereign debt and balance-of-payment crises. The scarcity of foreign exchange has triggered an acute energy crisis, affecting economic activity in all sectors of the economy, threatened food security, created shortages of other essentials, and hit consumer and investor confidence. The detrimental effects of a chemical fertilizer ban on agriculture compounded the effects of the balance-of-payments crisis. Double-digit inflation is squeezing disposable income and discouraging investment. The tight monetary policy to rein in inflation, revenue-based fiscal consolidation, and expenditure rationalization are also slowing the economy. Because of these factors, Sri Lanka’s growth is forecast to contract by 7.6% in 2022 and economic activity will remain subdued in 2023. Risks to the forecast are significant and stem from delays in securing external financing, rising commodity prices, a weaker global economy, and spillovers from the debt crisis on the banking industry.

In Bangladesh, latest official estimates for FY2022 (ended 30 June 2022) show GDP growth at 7.2%, surpassing ADO 2022's 6.9% projection. Growth was driven by industry (10.4%) and services (6.3%). Agriculture output, however, fell to 2.2%. Exports and imports were stronger than expected, reflecting a faster recovery in economic activity and private investment. This recovery is also being supported by rising credit to private sector.

Maldives is expected to expand less than ADO 2022’s projections. Tourism in the first 5 months of 2022—totaling 702,322 visitors—exceeded ADO 2022’s projection as the country managed to attract tourists from its traditional and new markets, which compensated for the impact on the industry from Russia’s invasion of Ukraine. Construction, however, is
expected to slow in the second half because the government needs to delay some of its public sector investment program due to limited fiscal space. The government has reprioritized spending to cover higher subsidies for food and fuel, and other subsidies and transfers, due to sharp increases in global oil and food prices because of the war in Ukraine.

Latest official estimates show that Nepal’s economy grew by 5.8% in FY2022 (ended 15 July 2022), higher than ADO 2022’s projection. The estimate is underpinned by an ongoing vaccination campaign that has fostered a gradual normalization in economic activity and a steady path to higher growth supported by accommodative macroeconomic policies. Monetary policy will likely remain tight and the country will continue to face geopolitical and economic risks stemming from the war in Ukraine. For FY2023, a normal monsoon and the timely availability of farm inputs, particularly chemical fertilizers, and smooth provincial and federal elections are expected.

GDP growth in Pakistan is expected to moderate in FY2022 (ended 30 June 2022) on fiscal tightening measures to manage growing demand pressures and contain external and fiscal imbalances. Growth is projected to recover slightly in FY2023, supported by structural reforms. In Afghanistan, sanctions and the freeze on international development assistance other than humanitarian aid have significantly constrained economic activity.

South Asia’s inflation forecast is revised up from 6.5% to 7.8% for 2022 and from 5.5% to 6.6% for 2023 on expectations that global prices for fuel, food, and other commodities will remain elevated and due to domestic factors in some economies.

Inflation in India, as captured by the consumer price index (CPI), was at 7.8% in April and 7.0% in May, well above the upper bound of the RBI’s target 2%–6% inflation range. Inflation in FY2022 is revised up from 5.8% to 6.7% on higher-than-expected oil prices. The inflation projection for FY2023 is raised from 5.0% to 5.8%.

In Sri Lanka, inflationary pressures have been dramatic. CPI headline inflation averaged 28.6% in the first half of 2022 on multiple fuel price hikes, higher food prices because of poor harvests, supply chain disruptions, shortages caused by a foreign exchange squeeze, and a depreciating exchange rate. Core inflation increased from 9.9% in January to 39.9% in June, averaging 20.7% in the first half—an indication that underlying inflationary pressures are high. Because of this, the inflation forecast is revised up to 33.6% for 2022 and another year of double-digit inflation is expected in 2023.

Inflation projections for Bangladesh remain unchanged in FY2022, but revised up slightly for FY2023 on rising global food and energy prices, including for diesel, kerosene, and natural gas. The inflation forecast for Maldives is unchanged from the earlier projection. The overall price increase of most commodities in the first 4 months of 2022 is still within expectations. Government subsidies on food staples, fuel, and electricity are cushioning the impact of increases in energy and non-energy imports on local prices. Inflation in Nepal is expected to be marginally lower in FY2022 than earlier forecast, by 30 basis points. The revision aligns with official inflation data for the first 10 months of FY2022. Pakistan’s inflation is marginally revised up for FY2022 and substantially so for FY2023. In addition to the effects of elevated global energy and food prices, the government’s efforts to revive the stalled International Monetary Fund program has meant raising power tariffs and withdrawing subsidies in the oil and power sectors.

Southeast Asia

Consumption growth in all subregional economies rebounded strongly in the first 5 months of 2022 on the gradual lifting of COVID–19 mobility restrictions and the reopening of markets and borders. Manufacturing and services output is increasing in most economies, creating jobs and lifting household incomes. Still, Southeast Asia’s economies face the challenges of higher oil prices, the end of low global interest rates, and continuing trade and supply disruptions. These factors have dimmed the outlook for some economies in 2022 and 2023. Smaller economies in particular are being more heavily affected by supply disruptions and inflation from higher oil prices. Tourist arrivals are picking up, albeit very slowly. Indeed, economies in the subregion with high vaccination rates have yet to see meaningful tourism revivals.

Against this backdrop, the GDP growth forecast for Southeast Asia is revised up slightly to 5.0% in 2022 from ADO 2022’s projection of 4.9%. The forecast for 2023 is maintained at 5.2%.

The 2022 growth projection for Indonesia is raised from 5.0% to 5.2%, reflecting robust domestic demand and exports. Economic activity continues to normalize and COVID–19 infections remain manageable. Improvements in jobs, incomes, and confidence are stoking private consumption. Healthy demand and rising credit are stimulating private investment. But fiscal policy is becoming less supportive as pandemic-related spending is wound down. Higher prices for key commodity exports, such as coal, palm oil, and nickel, are generating windfall export earnings and fiscal revenue, more than offsetting higher fiscal subsidies for fuel, electricity, and food.

Increased uncertainty and weaker global growth are dampening Malaysia’s prospects. Growth of 5% in Q1 2022 was underpinned by strong private consumption and increased government...
assistance through the Bantuan Keluarga family assistance program. But business confidence and the PMI continue to soften in step with weaker global prospects and supply disruptions from cities in the PRC that were locked down to tackle COVID-19 outbreaks. Agriculture growth remained marginal in Q1 due to adverse weather conditions and input-cost shocks from the war in Ukraine. Tourism is making a slow recovery. Arrivals this year are expected to be only a third of the pre-pandemic level, despite the country reopening its borders to international visitors in April. The growth forecast is revised down to 5.8% for 2022 and 5.1% for 2023.

Thailand’s GDP expanded 2.2% year on year in Q1 as improved global demand supported economic activity, led by merchandise exports. Private consumption recovered on relaxed COVID-19 domestic mobility and international travel restrictions. Growth in the quarter was also buoyed by rising international arrivals. A COVID-19 resurgence in Q1 led to increased public spending on health, but it did not affect overall economic activity. Despite generally positive developments, growth forecasts are revised down slightly from 3.0% to 2.9% for 2022 and from 4.5% to 4.2% for 2023. The revision was prompted by rising energy and commodity prices, and the global economic slowdown, which is expected to reduce demand for exports, increase production costs, and worsen household purchasing power.

The growth forecast for the Philippines is raised from 6.0% to 6.5% for 2022 on a stronger-than-expected Q1 performance, underpinned by rebounds in investment and household consumption. Wider COVID-19 vaccination coverage and relatively mild health impacts from the Omicron variant allowed the economy to reopen further. Mobility data across several activities, including work and recreation, are now back to pre-pandemic levels. Large public infrastructure projects are underway, and private sector indicators, such as the PMI, industrial production, and imports, continue to expand. The growth forecast for 2023 is maintained at 6.3% as financial tightening and a broader pass-through of price pressures weigh on demand. There are significant downside risks to growth in the second half from a slowdown in the major advanced economies and the possibility of elevated commodity prices being sustained due to the war in Ukraine.

Singapore’s GDP grew by 3.7% year on year in Q1, marked by strong growth in private consumption and investment offsetting lower government expenditure. Growth will remain firm in 2022, supported by robust information technology and financial services, sustained manufacturing growth, and a gradual recovery in tourism and domestic-oriented services sectors. The outlook for external demand, however, has weakened due to slower-than-expected growth in most major trading partners and continued inflationary pressures related to the COVID-19 pandemic and the war in Ukraine. Rising financing costs amid tighter financial conditions could depress investment. The GDP growth forecast for 2022 is revised down to 3.9%; the forecast for 2023 is maintained at 3.2%.

In Viet Nam, trade continued to expand in the first half of 2022, and domestic mobility, manufacturing, and consumption rapidly recovered. But the economy faces challenges from a deteriorating external economic environment triggered by the aggressive monetary tightening of advanced economies and growth moderating in the PRC. On balance, however, the growth forecast is maintained at 6.5% for this year and 6.7% for next year.

The Lao PDR’s economic prospects in 2022 are looking dimmer because of declining consumer and business confidence caused by rising prices and a weaker local currency. But the outlook is expected to improve in 2023. While there are slight improvements in industry and services growth in Myanmar, political tensions and a volatile security situation remain the major downside risks to economic recovery.

Southeast Asia’s inflation forecast for 2022 is raised significantly from 3.7% to 4.7%. Inflation next year is revised up, from 3.1% to 3.4%. The higher rates for both years are due to rising energy and food prices, and supply chain disruptions. The inflation forecast for Indonesia for 2022 is raised from 3.6% to 4.0%. Inflation jumped from 1.6% in 2021 to an average of 3.0% over January–June, reflecting higher commodity prices and robust domestic demand. Price controls and subsidies are being used to hold down fuel, electricity, and food prices. Even so, Bank Indonesia, the central bank, expects inflation to hit 4.5% by December, above its 2%-4% target. Inflation forecasts for Thailand are revised up from 3.3% to 6.3% for 2022 and from 2.2% to 2.7% for 2023 mainly because rising energy prices and higher cost pass-throughs are expected to affect prices for a wider range of products.

Inflation in the Philippines accelerated to 6.1% in June and averaged 4.4% in the first half on elevated fuel and food prices. Minimum wages and public utility jeepney fares were increased in June. The central bank increased its policy rate by a cumulative 125 bps from May to July this year. The inflation forecast is raised from 4.2% to 4.9% for 2022 and from 3.5% to 4.3% for 2023 on higher global commodity prices and a depreciating peso. Singapore’s inflation forecast for this year is raised from 3.0% to 4.7% on rising commodity prices. The 2023 forecast is maintained at 2.3%.

In Malaysia, lower headline inflation due to price controls and subsidies on oil and basic food products prompts a downward revision in 2022’s inflation forecast, from 3.0% to 2.7%. The 2023
forecast is maintained at 2.5%. Viet Nam’s inflation forecasts are maintained at 3.8% and 4.0% as food production, once external demand is met, will remain ample. In the smaller economies, rising fuel prices and a significant currency drop against the US dollar are building up pressure on inflation, particularly in the Lao PDR and Myanmar.

Caucasus and Central Asia

Subregional growth projections are revised up for the Caucasus and Central Asia, from 3.6% to 3.8% for 2022 and from 4.0% to 4.1% for 2023. This mainly reflects improved outlooks for Armenia, Azerbaijan, Georgia, and Tajikistan, which have all withstood the economic fallout from the war in Ukraine better than expected. That said, growth in these economies may decelerate in the coming months amid the uncertain geopolitical environment. Armenia grew by 8.6% in Q1 2022 and stayed strong in April. Incoming money transfers associated with a large influx of foreign visitors, including those diversifying businesses because of sanctions against the Russian Federation, increased private consumption and helped lift the services sector. Azerbaijan’s economy expanded by 7.2% in May 2022, reflecting high growth in the non-oil sector. Investments in the recovered territories during the 44-day war of 2020 helped construction rise by 5.2%, reversing a 5-year sector decline. Georgia’s economy grew by 14.4% in Q1, driven by services, manufacturing, and utilities. Money transfers from abroad surged by 54.3% as tourist arrivals rose by 258% year on year in the first 5 months of 2022. In May, money transfers from the Russian Federation increased nearly tenfold due to the influx of its citizens. Tajikistan’s economy grew by 7.5% in Q1 on expanding investments, up 9.6%. The growth forecasts for the Kyrgyz Republic, Turkmenistan, and Uzbekistan remain unchanged from ADO 2022.

In Kazakhstan, the subregion’s largest economy, GDP grew by 4.4% in the first 4 months of 2022. Oil production increased by 5.1% in the first 5 months despite reduced oil export capacity from the Caspian Pipeline Consortium from 22 March until 20 April because of storm damage. Kazakhstan’s oil production is expected to expand on the Organization of the Petroleum Exporting Countries Plus agreeing to increase production quotas. But this will be offset by the adverse effects on Kazakhstan from the war in Ukraine and sanctions against the Russian Federation through trade, investment, the exchange rate, and banking sector channels. Despite these developments, the growth forecasts for Kazakhstan remain unchanged at 3.2% for 2022 and 3.9% for 2023.

The inflation forecasts for the Caucasus and Central Asia are raised from 8.8% to 11.3% for 2022 and from 7.1% to 8.1% for 2023. The further rise in global commodity prices and supply chain disruptions because of the war in Ukraine has added to inflationary pressures that were already prevalent in the subregion. Inflation forecasts are raised for Azerbaijan, Georgia, Kazakhstan, and Uzbekistan. Azerbaijan’s inflation rate rose to 12.6% in May due to higher food prices because of supply disruptions amid the war in Ukraine and price increases in trading partners. Average annual inflation in Georgia rose to 12.7% in May, driven by higher food, transport, and utility prices. In Kazakhstan, average annual inflation accelerated to 11.3% in the same month, with prices of food rising by 14.5%, non-food by 10.2%, and services by 8.1%. The Russian Federation’s ban on wheat and sugar exports caused shortages and price increases of these commodities in Kazakhstan. Inflation in Uzbekistan rose to 10.2% in the first 5 months of 2022. The liberalization of wheat prices and an expected rise in utility prices, coupled with the economic impact of the war in Ukraine, will accelerate inflation in 2022. But no upward adjustments are made in the inflation outlook for the subregion’s other economies from ADO 2022’s projections.

The Pacific

GDP growth in the Pacific for this year is revised up from 3.9% to 4.7%, an adjustment mainly due to a higher projection for Fiji on a stronger-than-expected rebound in tourism—and notwithstanding a downward revision for Samoa, whose economy is estimated to have contracted in FY2022 (ended 30 June 2022) as continued border closures because of COVID-19 kept tourism dormant and local mobility restrictions constrained business activity. Growth in the subregion is maintained at 5.4% in 2023, despite slightly slower growth projected for Samoa in FY2023.

The inflation forecasts for the subregion are maintained at 5.9% for 2022 and 4.7% for 2023. These forecasts, however, could be upset if the war in Ukraine continues to increase the prices of imported goods, especially fuel, and transport costs.
### GDP growth rate and inflation, %

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<thead>
<tr>
<th>Region</th>
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<th>Inflation</th>
</tr>
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<tbody>
<tr>
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<tr>
<td>The Pacific</td>
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</table>

ADO = Asian Development Outlook; ADOS = ADO Supplement; GDP = gross domestic product.

Note: 
- Developing Asia refers to the 46 members of the Asian Development Bank.
- Caucasus and 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.

Box 1 Global assumptions

Growth in the major advanced economies in 2022 and 2023 will be lower than expected in April’s Asian Development Outlook 2022 (ADO 2022). The downbeat economic sentiment after the Russian invasion of Ukraine undermined domestic and external demand in these economies. And the weaker outlook is compounded by the Federal Reserve’s aggressive rate hikes to keep long-run inflation expectations close to its target. In aggregate, the growth forecast for major advanced economies is revised down from 3.5% to 2.3% for 2022 and from 2.4% to 1.8% for 2023 (table).

Baseline assumptions on the international economy

<table>
<thead>
<tr>
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<th>2021 Actual</th>
<th>April ADO 2022</th>
<th>July ADOS</th>
<th>2022 April ADO</th>
<th>July ADOS</th>
<th>2023</th>
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<td><strong>GDP growth, %</strong></td>
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<td><strong>Prices and inflation</strong></td>
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<td>Brent crude spot prices, average, $/barrel</td>
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<td>CPI inflation, major advanced economies’ average, %</td>
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<td>6.4</td>
<td>2.1</td>
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</tbody>
</table>

ADO = Asian Development Outlook, ADOS = ADO Supplement, CPI = consumer price index, GDP = gross domestic product.

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


Consumption and investment will continue to provide support to the US economy. Consumption will remain healthy relative to the Q1 average and investment will rebound as inventory accumulation resumes. Retail sales and consumer confidence improved further in April, although consumer confidence declined a little in May. The composite purchasing managers’ index (PMI) has consistently stayed above 55 since January (a reading above 50 indicates expansion). The manufacturing PMI rose to 56.1 in May after falling to 55.4 in April. The US labor market remains healthy, with unemployment staying at 3.6% since March, supporting the continued growth in earnings.

Growth in the US will weaken in 2022, with the forecast revised down to 2.2% from 3.9% and sliding to 1.7% in 2023. The downward revision reflects a much more aggressive tightening by the Fed than was assumed in ADO 2022 in response to higher-than-expected inflation. Inflation will remain elevated this year, at a forecast 7%, due to continuing pressure from high commodity prices before moderating to a forecast 3% in 2023. The federal funds rate is expected to increase further to tame inflationary pressures. However, the possibility of removing tariffs on certain goods from the People’s Republic of China (PRC) may help reduce pressure on consumer prices.

Growth in the euro area accelerated to a seasonally adjusted annualized rate of 2.5% in Q1 2022 from 1.0% in the previous quarter. This was primarily driven by increasing inventories and positive net trade, which outweighed a contraction in household spending and a slowdown in fixed investment amid soaring inflation, souring consumer sentiment, and persistent supply constraints. With the economic fallout from the war in Ukraine intensifying, leading indicators suggest Q2 growth in the euro area was subdued. The economic sentiment indicator remained above the 100-mark consistent with its long-term average, but fell from 105.0 in May to 104.0 in June as economic sentiment worsened on a weaker outlook in construction and retail. The composite PMI remained expansionary, but declined to a 16-month low of 51.9 in June, reflecting decelerations in services and manufacturing. The services PMI decreased to 52.8 from 56.1 in May. The manufacturing PMI declined to 52.0 from 54.6 in May, and the manufacturing output index fell into contractionary territory in June, to a 24-month low of 49.3, as ongoing supply shortages were exacerbated by the war in Ukraine and lockdowns in the PRC.

This Supplement trims ADO 2022’s forecasts to 2.5% for 2022 and to 1.7% for 2023. The positive impact from a 2.0 percentage points carry-over effect from 2021 will overshadow this year’s subdued growth dynamics. Growth is

continued on next page
expected to cool this year and next on softening domestic and external demand, pressured by downbeat confidence following Russia’s invasion of Ukraine and high inflation, particularly for energy and food. The inflation forecast is substantially revised up, to 7.0% in 2022 and 2.8% in 2023, due primarily to sharply higher energy prices and supply disruptions, but also to steadily rising core inflation. The European Central Bank is set to increase interest rates in the coming months to tame price pressures. A healthy labor market and the disbursement of European Union (EU) Next Generation EU funds will help sustain economic activity, but an escalation of the war in Ukraine, tighter liquidity conditions, and high public debt pose downside risks.

Private demand in Japan was resilient in Q1 2022 despite COVID-19 mobility restrictions in parts of the country. Private consumption barely dropped from its postcrisis high in the previous quarter as expenditure for dining out and travel quickly recovered in March. Monthly data from April and May showed that private demand recovered further in Q2, supported by robust services consumption during the Golden Week holidays from the end of April to the beginning of May.

Despite resilient private demand, growth this year will be lower than forecast in April, at 1.8% from 2.7%, mainly due to a weaker recovery in net exports because the prolonged war in Ukraine has deepened the slowdown, especially in European economies. The 2-month COVID-19 lockdown in Shanghai caused significant supply chain disruptions for Japanese manufacturers, forcing automotive firms to cut production for this summer. A gradual recovery in international tourism will partly offset the weaker outlook for goods exports. Growth in 2023 is forecast at 2.1%. Japan’s inflation rate is rising primarily on higher input prices driven by commodity prices and core inflation is expected to remain above 2% for the rest of this year. In 2023, inflation will gradually decelerate on weak wage growth and a modest economic recovery, and as input price pressures from higher commodity prices and a weaker yen fade.

Brent crude oil spot prices averaged $120.08/barrel in June, 6.9% higher than May’s average and up 64.3% from June 2021’s average. Oil prices were kept high by the prospect of further oil supply disruptions because of the war in Ukraine and associated sanctions against the Russian Federation, and increased demand as more economies, especially the PRC, lifted COVID-19 restrictions. Following the 30 May decision by EU member states to further restrict Russian oil imports, oil prices rose above $120 and were at that level at the time of writing. Brent crude averaged $106.24 in the first 6 months of 2022.

The price forecasts for Brent are revised up to $109/barrel in May to 6 June 2022. The protracted war in Ukraine, supply constraints, and recovering domestic and international travel as economies, recovering from COVID-19, continue to reopen will put upward pressure on oil prices, but this will be tempered by recession fears due to rising inflation. Oil prices are expected to fall from Q3 on rising supply and the market gradually returning to balance. Pointing to softening prices is the 20% increase in the number of rigs in the US since the end of 2021 and the Organization of the Petroleum Exporting Countries Plus members, on 2 June, agreeing to increase production quotas by nearly 50% in July and August. Crude oil prices will remain volatile. Indeed, prices could swing quickly in either direction as the market is currently tight due to low global inventories.

Global food prices have surpassed the peaks of the 2007–2012 food crises after relentless rises since mid-2020. The war in Ukraine was an additional push on prices that have reached new historical highs. In June, the World Bank food price index rose by 22.8% from the same month in 2021 and was 15% higher than peaks in 2008 and 2012.

Food prices will remain high because of several factors. The Food and Agriculture Organization’s Agricultural Market Information System (FAO-AMIS) expects global maize and wheat production to fall in 2022. With production likely to be lower than last year in Australia, India, Morocco (wheat), and the US (maize), the loss of production in Ukraine may not be offset by the rest of the world. But rice production in 2022 is expected to fall just short of the all-time high set in 2021, as another abundant Asian harvest, as well as larger crops in Africa and Australia, compensate for shortfalls elsewhere.

Trade restrictions are unsettling commodity markets. According to FAO-AMIS, 23 countries by the end of May had imposed export restrictions ranging from outright bans to export taxes, affecting nearly 18% of global agricultural exports on a kilocalorie basis.

Fertilizer prices were 1% lower in June compared to May, but they were still 85% higher than in June 2021. Fertilizer prices are expected to remain elevated because of ongoing supply uncertainties caused by the war in Ukraine, high natural gas prices, and the PRC’s ban on fertilizer exports to preserve domestic supplies. Futures prices for major food commodities indicate that prices will begin to fall toward the end of 2022 and early 2023.

This box was written by Matteo Lanzafame, Yuho Myoda, Pilipinas Quising, Irfan Qureshi, Arief Ramayandi, and Dennis Sorino of the Economic Research and Regional Cooperation Department (ERCD), Asian Development Bank, Manila, and Michael Timbang, ERCD consultant.
The Russian invasion of Ukraine increased global oil prices and market volatility. In March 2022, shortly after the start of the invasion on 24 February, the price of Brent crude breached $130/barrel, the highest since 2008. Since then, it has fluctuated in a wide $98–$122 range. Concerns have been raised that if the war and associated sanctions against the Russian Federation persist, oil prices could spike to $200 in the coming months. This box examines the prospects for such a shock and how it would affect developing Asia.

While many institutions, including the Asian Development Bank, project a significantly higher oil price in 2022 compared with 2021, most baseline predictions do not foresee $200/barrel given the decision of the European Union (EU) to gradually phase out Russian oil imports by the end of 2022. Doing this rather than abruptly ending imports will allow for an orderly transition to alternative supplies and keep prices more stable and affordable for consumers.

Even so, the possibility of a supply shock that leads to an oil price spike as high as $200/barrel cannot be ruled out. An escalation of the war in Ukraine could be followed by an immediate EU ban on Russian oil. If that happens, it is unlikely that other oil exporting countries will be able to fill the resulting shortfall of 3.5–7.0 million barrels a day in the short run. Recent supply increases by members of the Organization of the Petroleum Exporting Countries Plus have often fallen short of production targets. Shale oil producers in the United States have been reluctant to significantly boost output despite the price exceeding $100, in part due to supply chain disruptions, leveraged positions, and rising costs. And diverting Russian oil to third countries has challenging logistics.

Under these circumstances, a price of $200/barrel could be possible given that oil markets can overshoot and the previous peak of $140 in June 2008, which equates to over $180 in today’s dollars, was driven by a series of supply disruptions and did not involve geopolitical issues and sanctions against a major oil producer.

The impacts of a $200/barrel price shock range from small to severe, depending on the nature of the scenario and its associated knock-on effects. A relatively benign scenario is a short-lived oil price shock in the second half of 2022 with no significant knock-on effects. Here, gross domestic product (GDP) growth in developing Asia is virtually unaffected, and inflation edges up to 5.1%—about 1 percentage point above the baseline in the July 2022 Asian Development Outlook Supplement—before receding to 2.4% in 2023 (box figure).

The more plausible scenario is the war escalating in conjunction with a $200/barrel price shock will set off significant secondary effects. One possibility is an increase in inflation expectations that requires additional monetary policy tightening, which will also result in falling consumer confidence and business sentiment. Under this scenario, developing Asia experiences a marked slowdown in growth to 3.2% in 2022—1.4 percentage points below the baseline. In 2023, growth in the region accelerates to 4.5%, but remains 0.7 percentage points below the baseline. Headline inflation will surge even higher, to 5.8% in 2022 and 5.3% in 2023.

Another plausible scenario is the spiral of higher inflation expectations and monetary policy tightening result in global financial turmoil in early 2023, in part due to rising concerns over a global recession. Here, developing Asia will grow by only 2.2% in 2023 and the G3 and several economies in the region will contract. Under this scenario, developing Asia’s GDP by the end of 2023 will be about 4% lower than the baseline, which is about two-thirds of the size of the COVID-19 shock in 2020.

This box was written by Marcel Schroder of the Economic Research and Regional Cooperation Department, Asian Development Bank, Manila.
Asian Development Outlook Supplement

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Asian Development Bank

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