



ASIAN DEVELOPMENT OUTLOOK

APRIL 2023

HIGHLIGHTS

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Developing Asia's economies are reopening with impressive dynamism. Private consumption, investment, and services—including, hearteningly, tourism—are reviving now that the pandemic has largely passed. Growth is gathering pace after showing resilience last year amid weakened demand from advanced economies, lockdowns in the People's Republic of China (PRC), monetary policy tightening, and the Russian invasion of Ukraine.

The PRC's reopening after last year's lockdowns is brightening the outlook for both the region and the global economy. Regional growth is expected at 4.8% this year and next, with South Asia expected to grow faster than other regions. Growth in East Asia and Southeast Asia is benefiting from increased domestic demand, and growth in the Pacific from returning tourists. Headline inflation is gradually coming down to pre-pandemic levels—we forecast the rate for developing Asia at 4.2% this year and 3.3% in 2024. Policy makers should nevertheless closely monitor price pressures, which remain broad-based and elevated in several economies in the region.

An array of immediate and emerging challenges could still hold back the region's recovery. The recent banking turmoil in Europe and the United States is an indication that financial stability risks have heightened. Policy makers should stay vigilant in the post-pandemic environment of higher interest rates and debt. Governments must continue supporting multilateralism, and lean against the risks of global fracturing. And Asia must continue its strong regional cooperation to weather these uncertain environments.



Albert F. Park
Chief Economist
Asian Development Bank

Brighter Prospects Amid Ongoing Challenges

Reopening in the People's Republic of China Lifts the Regional Outlook

- **Developing Asia's economic prospects are markedly improving on the rapid reopening in the People's Republic of China (PRC).** Population mobility in the PRC has normalized following the end of the zero-COVID strategy, and activity in services is rebounding the fastest. The reopening of the PRC will boost regional growth through demand for goods and services, as well as supply chain linkages.
- **Developing Asia remained resilient in 2022.** For most of last year, growth in much of the region held up on improved consumption and investment as COVID-19 receded in many economies. This helped offset the impacts of elevated food and energy prices caused by the Russian invasion of Ukraine, the tightening global financial conditions, and the PRC's economic slowdown last year.
- **Some improvement in production is now discernible.** Weaker global demand dampened production and industrial output declined in the second half of 2022, and lockdowns in the PRC held back export orders in many regional economies. But indicators of business conditions in early 2023 signal improving demand for manufactured goods and services in several economies in the region.
- **Tourists are returning; money transfers and remittances remain buoyant.** Many economies in the region have gradually opened to tourists—and visitor arrivals in some tourism-dependent ones are steadily returning to pre-pandemic levels. The outlook for tourism has improved further on the PRC's reopening. Remittances to the region remain robust, with economies in the Caucasus and Central Asia receiving large inflows of money transfers.
- **Financial conditions improved in late 2022, but have stalled recently.** Conditions tightened over most of last year, but eased in the fourth quarter on positive market sentiment due to slower US inflation and less hawkish tightening by the Federal Reserve in November. Risk premiums declined for most regional economies and equity markets picked up. Foreign portfolio outflows reversed course and many regional currencies have strengthened against the US dollar since the last quarter of 2022. But the easing of financial conditions stalled in February and March, as inflation proved more persistent and as turmoil affected banking sectors in the US and Europe.
- **Headline inflation is decelerating, but core inflation remains elevated.** Spiking commodity prices contributed to the rise in inflation in 2022 following the Russian invasion of Ukraine. The depreciation of many local currencies, prompted by monetary tightening by the Fed, pushed import prices up further. As global energy and food prices declined with the easing of supply disruptions, headline inflation reversed its upward trend, but core inflation remains high in some economies and requires close monitoring.
- **Monetary policy tightening is slowing and fiscal positions improving.** The frequency and magnitude of rate hikes by central banks in the region is declining. Fiscal balances are improving in many economies where growth has picked up, and budget plans in many economies envision further growth this year.

- **The PRC's recovery and healthy domestic demand in India will be the region's main growth supports this year and next.** Growth in developing Asia is forecast at 4.8% this year and in 2024, up from 4.2% last year. The PRC's reopening is brightening East Asia's outlook with positive trade, tourism, and other spillovers to the rest of developing Asia. Growth in the PRC is forecast to rebound to 5.0% this year from 3.0% in 2022; growth in 2024 is projected at 4.5%. South Asia will grow strongly, but the outlook varies substantially within the subregion. India is forecast to grow by 6.4% this year and 6.7% next year on healthy domestic demand, but Pakistan and Sri Lanka face a challenging outlook. Growth in the Caucasus and Central Asia, the Pacific, and Southeast Asia will be lifted by their reopening and recovery in tourism-related sectors.
- **Inflation is expected to moderate this year and next, gradually moving closer to pre-pandemic levels.** Headline inflation is forecast to decelerate to 4.2% this year and 3.3% in 2024 from 4.4% last year. While higher interest rates and still-elevated commodity prices are expected to shape the region's inflation outlook, headline inflation should remain the same this year in East Asia and decline in other subregions.
- **The PRC's reopening poses an upside risk, but many challenges remain.** A smoother and more rapid reopening may lead to stronger regional growth than is currently forecast. But there are several downside risks. Higher debt and interest rates have magnified financial stability risks, as evidenced by recent banking sector problems in the US and Europe. An escalation in the Russian invasion of Ukraine could cause renewed surges in commodity prices, stoking global inflation and inducing further monetary tightening. And global fracturing and climate change are persistent challenges.

The Causes and Consequences of Higher-than-Expected Growth in the Caucasus and Central Asia

- **The Caucasus and Central Asia grew more strongly than expected in 2022.** This report's *Special Topic* finds this was in part due to Russians boosting consumption and business activity as they migrated to the subregion, fueling a significant rise in money transfers to the economies there. Exports to the Russian Federation also grew sharply last year, with reexports accounting for 49% of the rise, mostly driven by many companies ceasing to export directly to Russia—even if their products were not on the sanctions list of the European Union. These windfall gains may be temporary if reexports and the inflow of Russian migrants wane. Russia's increasing isolation and the risk of a long-term decline suggests that countries in the subregion should diversify their economic linkages.

GDP Growth Rate and Inflation, % Per Year								
	GDP Growth				Inflation			
	2021	2022	2023	2024	2021	2022	2023	2024
Developing Asia	7.2	4.2	4.8	4.8	2.6	4.4	4.2	3.3
Developing Asia excluding the PRC	6.1	5.4	4.6	5.1	4.2	6.7	6.2	4.5
Caucasus and Central Asia	5.8	5.1	4.4	4.6	9.0	12.9	10.3	7.5
Armenia	5.7	12.6	6.5	5.5	7.2	8.6	7.0	6.2
Azerbaijan	5.6	4.6	3.5	3.8	6.7	13.9	7.0	6.5
Georgia	10.5	10.2	4.5	5.0	9.6	11.9	6.0	4.0
Kazakhstan	4.3	3.2	3.7	4.1	8.0	15.0	11.8	6.4
Kyrgyz Republic	6.2	7.0	4.5	4.0	11.9	13.9	12.0	8.6
Tajikistan	9.2	8.0	5.5	6.5	8.0	4.2	7.0	6.5
Turkmenistan	5.0	6.2	6.5	6.0	12.5	10.0	10.0	10.0
Uzbekistan	7.4	5.7	5.0	5.0	10.7	11.4	11.0	10.0
East Asia	7.9	2.8	4.6	4.2	1.1	2.3	2.3	2.0
Hong Kong, China	6.4	-3.5	3.6	3.7	1.6	1.9	2.3	2.1
Mongolia	1.6	4.8	5.4	6.1	7.3	15.2	10.9	8.7
People's Republic of China	8.4	3.0	5.0	4.5	0.9	2.0	2.2	2.0
Republic of Korea	4.1	2.6	1.5	2.2	2.5	5.1	3.2	2.0
Taipei, China	6.5	2.5	2.0	2.6	2.0	2.9	2.0	2.0
South Asia	8.4	6.4	5.5	6.1	5.8	8.2	8.1	5.8
Afghanistan	-20.7	...	...	...	5.2	13.8	...	...
Bangladesh	6.9	7.1	5.3	6.5	5.6	6.2	8.7	6.6
Bhutan	4.1	4.7	4.6	4.2	7.3	5.6	5.5	5.1
India	9.1	6.8	6.4	6.7	5.5	6.7	5.0	4.5
Maldives	41.7	12.3	7.1	6.9	0.5	2.3	4.5	2.0
Nepal	4.2	5.8	4.1	5.0	3.6	6.3	7.4	6.2
Pakistan	5.7	6.0	0.6	2.0	8.9	12.2	27.5	15.0
Sri Lanka	3.5	-7.8	-3.0	1.3	6.0	46.4	24.6	5.5
Southeast Asia	3.5	5.6	4.7	5.0	2.0	5.0	4.4	3.3
Brunei Darussalam	-1.6	-0.5	2.5	2.8	1.7	3.7	2.0	1.6
Cambodia	3.0	5.2	5.5	6.0	2.9	5.3	3.0	4.0
Indonesia	3.7	5.3	4.8	5.0	1.6	4.2	4.2	3.0
Lao People's Democratic Republic	2.3	2.5	4.0	4.0	3.8	23.0	16.0	5.0
Malaysia	3.1	8.7	4.7	4.9	2.5	3.4	3.1	2.8
Myanmar	-5.9	2.0	2.8	3.2	3.6	16.0	10.5	8.2
Philippines	5.7	7.6	6.0	6.2	3.9	5.8	6.2	4.0
Singapore	8.9	3.6	2.0	3.0	2.3	6.1	5.0	2.0
Thailand	1.5	2.6	3.3	3.7	1.2	6.1	2.9	2.3
Timor-Leste	2.9	3.2	3.1	3.0	3.8	7.0	5.5	2.8
Viet Nam	2.6	8.0	6.5	6.8	1.8	3.2	4.5	4.2
The Pacific	-1.4	5.2	3.3	2.8	3.1	5.7	5.0	4.4
Cook Islands	-29.1	10.5	11.2	9.1	1.8	4.2	7.7	2.3
Federated States of Micronesia	-1.3	2.0	4.1	0.5	1.8	5.0	3.6	0.4
Fiji	-5.1	15.9	6.3	3.0	0.2	4.3	4.2	3.5
Kiribati	1.5	1.8	2.3	2.8	1.0	5.0	3.7	3.0
Marshall Islands	1.1	-0.9	1.5	2.0	2.2	3.3	3.7	3.5
Nauru	1.5	1.2	1.8	2.2	1.2	2.3	2.5	1.9
Niue	...	...	...	...	...	...	...	...
Palau	-17.1	-1.0	3.8	6.5	0.5	10.2	5.0	5.5
Papua New Guinea	0.1	3.2	2.4	2.6	4.5	6.0	5.0	5.0
Samoa	-7.1	-6.0	4.8	2.5	-3.0	8.8	10.2	2.0
Solomon Islands	-0.5	-4.2	3.0	2.5	-0.2	5.5	4.5	3.7
Tonga	-2.7	-2.2	2.5	3.2	1.4	8.5	9.4	1.5
Tuvalu	1.8	1.5	2.5	2.0	6.7	7.6	3.3	2.8
Vanuatu	1.0	2.0	1.0	4.2	2.3	4.8	4.0	3.0

... = not available, GDP = gross domestic product, PRC = People's Republic of China.

Note: The current uncertain situation permits no estimates or forecasts for Afghanistan in 2022–2024. ADB placed on hold its assistance in Afghanistan effective 15 August 2021. [ADB Statement on Afghanistan](#).

Asian Development Outlook April 2023 Highlights

The full report is available on the ADB website at www.adb.org/outlook.

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