Subregional GDP grew at a good pace in the first half of 2023, spurred by the lifting of COVID-19 restrictions in the People’s Republic of China. Nevertheless, the growth projection in this update for aggregate GDP in 2023 is revised down slightly from ADO April 2023. The 2024 growth projection is unchanged. Inflation has slowed more than expected overall, prompting a significantly lower inflation projection for the subregion this year. The inflation forecast for next year is adjusted marginally up.

Subregional Assessment and Prospects

Real GDP in the subregion expanded in the first half (H1) of 2023 at a rate near what was forecast in ADO April 2023. In the People’s Republic of China (PRC), growth accelerated following the lifting of COVID-19 restrictions, which boosted consumption. Growth rose from 2.5% year on year in H1 2022 to 5.5% in H1 2023. However, as the year proceeded, growth showed signs of slowing, with merchandise exports hampered by slowing global demand. The economy of Hong Kong, China mirrored that of the PRC following the lifting of pandemic restrictions. Real GDP reversed 2.6% contraction in H1 2022 to expand by 2.2% a year later. Domestic demand recovered robustly, buoyed by a strong pickup in inbound tourism and improved economic prospects, but weak external demand remained a drag on growth. Economic expansion in the Republic of Korea (ROK) moderated from 2.3% year on year in H2 2022 to 0.9% in H1 2023 as manufacturing contracted in line with lower exports of semiconductors and petroleum products. Mongolia’s economic recovery continued through H1 2023, expanding by 6.4% year over year, driven by robust external demand following the reopening in the PRC and consequently revived domestic demand. In contrast with growth in other subregional economies, real GDP in Taipei, China contracted by 0.7% in H1 2023, in the wake of a sharp fall early in the year. The most notable negative growth factor was investment, which was adversely affected by contraction in exports to the PRC and the United States (US).

Subregional inflation slowed in H1 2023 but was still higher than targeted. In the PRC, consumer price inflation moderated from 1.8% year on year in the first 7 months of 2022 to 0.5% this year. Though food prices rose by 1.9%, nonfood prices increased by only 0.2% as easing fuel prices provided ballast. In the same period, producer prices in the PRC reversed a 7.3% average increase to drop by 3.2%, brought down by declining prices for energy and raw materials. Inflation in the ROK continued to abate as transport, food, and energy price pressures waned. It averaged 3.7% year on year in the first 7 months of 2023 and eased to 2.3% in July. Robust consumption and employment trends kept core inflation high at an average of 3.8%. Inflation in Taipei, China has been slowing gradually and averaged 2.3% in H1 2023. Coming in below 2.0% for the first time since July 2021, it fell to 1.7% in June, the brakes applied by more moderate increases in food

The section on the PRC was written by Akiko Terada-Hagiwara, Yothin Jinjarak, Wen Qi, and Wenyu Liu, consultant. The part on other economies by David De Padua, Yothin Jinjarak, Matteo Lanzafame, Pilipinas Quising, Irfan Qureshi, Bold Sandagdorj, and Michael Timbang, consultant. All authors are in the East Asia and Economic Research and Development Impact departments of ADB. Subregional assessment and prospects was written by Eric Clifton, consultant, Economic Research and Development Impact Department of ADB.
and fuel prices. Core inflation remained at 2.6% in June, bolstered by booming domestic demand. Headline inflation in Hong Kong, China averaged 2.0% in H1 2023. In Mongolia, annual inflation has been above target for about the past two years, but the 12-month average inflation moderated from 15.2% year on year in December 2022 to 12.5% in July 2023.

**Subregional GDP growth is forecast to rise from 2.8% in 2022 to 4.4% in 2023 and then subside to 4.2% in 2024 (Figure 2.2.1).** Growth in the PRC is expected to moderate year on year in H2 2023 as quarterly momentum stalls and favorable base effects fade. The growth forecast is revised down by 0.1 percentage points to 4.9% in 2023, still within the government’s target of around 5.0% this year, and kept at 4.5% in 2024, as projected in ADO April 2023. The growth forecast for the ROK is marked down slightly for 2023 from ADO April 2023 to 1.3% in light of weaker demand for ROK exports, while the forecast for 2024 is unchanged from April at 2.2%. Taking into account unexpectedly rapid growth early this year in Hong Kong, China, the 2023 growth projection is revised up from 3.6% to 4.3%. Recovery should continue next year, but, primarily because of base effects, the 2024 forecast is lowered from 3.7% to 3.3%. For Taipei, China, given slow export growth from still-weak global demand, this update downgrades the growth forecast for 2023 to 1.2%. It upgrades the 2024 forecast marginally on the expectation that consumption continues to expand and exports gradually recover. For Mongolia, GDP is expected to climb this year by 5.7%, slightly more than forecast in ADO April 2023, but marginally less in 2024 at 5.9%. Growth this year will be supported by a substantial recovery in exports and continued fiscal expansion but tempered by persistently high inflation, contractionary monetary policy, and tight domestic financing conditions.

**Inflation in East Asia is now forecast at 1.0% in 2023, significantly lower than the ADO April 2023 projection.** The 2024 forecast is raised marginally to 2.1% (Figure 2.2.2). Consumer price inflation in the PRC should stay moderate. Upward pressure from rising service prices should be modest in H2 2023 as recovery in consumption moderates. The forecast for consumer price inflation is revised down to 0.7% in 2023 but unchanged at 2.0% in 2024. In light of developments in the ROK so far this year, inflation forecasts are revised up from April projections to 3.3%...
in 2023 and 2.2% in 2024. The inflation forecast for Hong Kong, China, is revised up for 2023 from 2.3% projected in April to 2.5%, based on the H1 outcome, and maintained for next year at 2.1%. With oil and food prices expected to trend down in the rest of this year, inflation in Taipei, China is expected to slow to 2.0% this year and next, as forecast in April. Given the recent moderation in Mongolian inflation, the forecast is slightly lowered from the April projection to 10.5% in 2023 and 8.6% in 2024.

The outlook for East Asia is subject to significant risks. A forecast El Niño in H2 2023 is one notable cause of uncertainty over the short term from extreme weather and climate change. Moreover, little can be foreseen with certainty about the course of the Russian invasion of Ukraine and consequent energy and food security challenges. Lastly, the possibility looms of further fragmentation of the global economy because of geopolitical factors.

People’s Republic of China

The economy rebounded as expected in the first half (H1) of this year, benefiting from the lifting of COVID-19 restrictions and from base effects. Growth slowed quarter on quarter in the second quarter (Q2), though, so the GDP growth projection for 2023 is lowered marginally from 5.0% in ADO April 2023 to 4.9%. Inflation is now projected to slow more than forecast earlier, in line with weaker than expected domestic demand and softer global commodity prices. The current account is forecast to moderate with softer external demand but stay in surplus.

Updated Assessment

Economic growth in the People’s Republic of China (PRC) accelerated following the lifting of COVID-19 restrictions. Growth rose from 2.5% year on year in H1 2022 to 5.5% in H1 2023, accelerating year on year from 4.5% in Q1 2023 to 6.3% in Q2 (Figure 2.2.3). However, quarter on quarter, growth moderated from 2.2% in Q1 to 0.8% in Q2, indicating diminished growth momentum.

On the demand side, recovery in consumption drove growth. Consumption contributed 4.2

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Figure 2.2.3 Economic Growth

Economic growth accelerated in the first half of 2023 after COVID-19 restrictions were lifted late in 2022.

- Gross domestic product
- Industrial sector value added
- Retail sales

% year on year

<table>
<thead>
<tr>
<th>Quarter</th>
<th>GDP</th>
<th>ISVA</th>
<th>Retail Sales</th>
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</tr>
<tr>
<td>Q3 2022</td>
<td></td>
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<td></td>
</tr>
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</table>

Q = quarter.
Sources: CEIC Data Company; Asian Development Bank estimates.

Figure 2.2.4 Demand-Side Contributions to Growth

Consumption was the main driver of growth in H1 2023, while net exports dragged on growth.

- Net exports
- Investment
- Consumption
- Gross domestic product

Percentage points

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Exports</th>
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<th>Consumption</th>
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<tr>
<td>H1 2023</td>
<td></td>
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</tr>
</tbody>
</table>

H = half.
Source: CEIC Data Company.
Investment remained supportive of growth. Investment contributed 1.8 percentage points to growth in H1 2023, or 1.3 points more than a year earlier. In the first 7 months of 2023, nominal growth in fixed asset investment slowed from 5.7% year on year a year earlier to 3.4%, dragged down by contraction in real estate investment (Figure 2.2.6). Manufacturing investment grew by 5.7% and infrastructure investment by 6.8%. Real estate investment contracted by 8.5%. Meanwhile, public investment by state-owned enterprises grew by 7.6% in the first 7 months of 2023, while private investment declined by 0.5%.

Figure 2.2.6 Growth in Fixed Asset Investment

Infrastructure investment remained broadly stable in the first half of 2023, though real estate investment contracted.

Net exports dragged on growth. Net exports reversed a 1.2 percentage point contribution to growth in H1 2022 to drag growth down by 0.6 points a year later as merchandise exports declined in line with slowing global demand.

On the supply side, economic recovery was driven by strong services. Services became the main contributor to GDP growth as expansion in the sector accelerated from 1.8% year on year in H1 2022 to 6.4% in H1 2023, thanks to the removal of COVID-19 restrictions (Figure 2.2.7). Broad improvement was most pronounced in accommodation and catering, information, transportation, and wholesale. Growth stayed muted only in real estate services. In H1 2023, travel spending surged, particularly it doubled with urban residents from a year earlier, though total spending on tourism in the first half was still less than in H1 2019, before the pandemic.

Figure 2.2.7 Supply-Side Contributions to Growth

Growth in services outpaced that of industry in H1 2023.

Growth in industry fell behind services. The contribution to GDP growth from industry rose from 1.2 percentage points in H1 2022 to 1.7 points in H1 2023, but it was outshone by a contribution from services rising from 1.0 point to 3.6 points. Growth in the secondary sector increased from 3.2% year on year in H1 2022 to 4.3% a year later. Industry growth increased from 3.3% in H1 2022 to 3.7% in H1 2023, while construction accelerated from 2.8% to 7.7% on solid public infrastructure investment. Growth in agriculture moderated from 5.0% in H1 2022 to 3.7% a year later, contributing 0.2 percentage points to growth.
The labor market improved. The surveyed urban unemployment rate improved from 5.5% in January to 5.3% in July. The economy added 6.78 million new urban jobs in H1 2023, or 240,000 more than in the same period last year. Moreover, the number of rural migrants working in urban areas was 5.8 million higher a year later, reaching 187.1 million at the end of June 2023, which exceeded 182.5 million in June 2019, before the COVID-19 crisis. However, the surveyed unemployment rate for workers aged 16–24 rose from 17.3% in January 2023 to 21.3% in June—a historic high for this age group.

Consumer and producer price inflation trended down. Consumer price inflation moderated from 1.8% in the first 7 months of 2022 to 0.5% a year later (Figure 2.2.8). Though food prices rose by 1.9%, nonfood prices increased only marginally by 0.2% as fuel prices eased. In the same period, producer prices reversed a 7.3% increase on average to contract by 3.2%, brought down by declining prices for energy and raw materials.

Monetary policy gradually eased in H1 2023. After a 0.25 percentage point cut in the reserve requirement ratio for almost all banks in March 2023, the People’s Bank of China, the central bank, followed up in June and August by cutting key policy rates—including the 1-year medium-term lending facility rate, 7-day reverse repo rate, and standing lending facility rate—to support credit growth and economic activity (Figure 2.2.9). It also reduced the 1-year loan prime rate twice from 3.65% to 3.45% and trimmed the 5-year loan prime rate, used to price mortgages, by 10 basis points to 4.2%, to support an ailing real estate industry.

Despite some easing of monetary policy, credit growth softened in H1 2023. Growth in total social financing—an aggregate that includes bank loans, shadow bank financing, government and corporate bonds, and equity financing—fell from 10.7% at the end of July 2022 to 9.2% a year later, reflecting weak credit demand (Figure 2.2.10). Growth in loans outstanding rose by 11.1% year on year in the same period, while that of government bonds outstanding slowed from 19.4% at the end of July 2022 to 10.1%, the decline partly reflecting a high base caused by fiscal frontloading in 2022. Shadow bank financing increased marginally by 1.7% at the end of July 2023. Growth in broad money (M2) year on year moderated from 12.0% at the end of July 2022 to 10.7% a year later.

On the fiscal side, the budget deficit narrowed as fiscal revenue recovered. The budget deficit fell from the equivalent of 4.2% of GDP in H1 2022 to 2.5% in H1 2023 (Figure 2.2.11). The reduction reflected a 13.3% increase in general government fiscal revenue in H1 2023 that reversed 10.2% contraction a year earlier caused by refunds of value-added tax. Meanwhile, growth in fiscal expenditure slowed from 5.9% in H1 2022 to 3.9% a year later. New issues of local government special bonds—not included in the general budget—amounted to CNY2.5 trillion in the first 7 months of 2023, or 65.7% of the annual quota of CNY3.8 trillion.
Despite some easing of monetary policy, credit growth softened in the first half of 2023.

The current account surplus equaled 1.7% of GDP in H1 2023, slightly lower than 1.8% in H1 2022. The merchandise trade surplus narrowed from 3.6% of GDP in H1 2022 to 3.4% in H1 2023, while the service deficit widened from 0.4% to 1.2% as outbound travel continued to normalize (Figure 2.2.12). Following high 14.5% growth year on year in the first 7 months of 2022 in US dollar terms, merchandise exports declined by 5.0% a year later as external demand cooled. Geographically, exports to major trade partners fell: to Southeast Asia by 1.6%, to the US by 17.8%, to Japan by 6.9%, and to the European Union by 8.8%. Meanwhile, imports reversed 5.0% growth year on year in US dollar terms in the first 7 months of 2022 to fall by 7.6%, primarily reflecting lower commodity prices.

Net foreign direct investment switched from inflow to outflow. It reversed from net inflow equal to 0.8% of GDP in H1 2022 to net outflow of 0.7% a year later as foreign direct investment inflow plunged by 81.8% in H1 2023. This decline partly reflected weak foreign investor sentiment as the global growth outlook soured and geopolitical concerns intensified. Net portfolio investment outflow, meanwhile, slowed from $79.6 billion in Q1 2022 to $56.4 billion a year later, driven down mainly by net equity inflow thanks to economic reopening. Reserve assets reached $3.4 trillion at the end of July 2023, or $125.2 billion more than a year earlier.

The renminbi depreciated against the US dollar in H1 2023. With a boost from reopening, the renminbi appreciated slightly against the US dollar in Q1 2023 before depreciating in Q2 as growth momentum weakened. Overall, the currency depreciated by 2.4%
in nominal terms against the US dollar in the first 7 months of 2023 to CNY7.13 (Figure 2.2.13). In the first 7 months of 2023, the currency depreciated by 3.3% in nominal effective terms, against a trade-weighted basket of currencies, and by 6.5% in real effective terms.

**Figure 2.2.13 Renminbi Exchange Rates**

*The renminbi appreciated slightly in the first quarter of 2023, then depreciated in the second quarter.*

![Renminbi Exchange Rates Graph]

Sources: CEIC Data Company; Asian Development Bank estimates.

**Prospects**

**Growth is expected to moderate in H2 2023 as momentum slows and favorable base effects fade.** Services should continue to pick up in line with recovering household demand, which will prop up a frail private sector and offset some softening of external demand for PRC exports. Meanwhile, steady public infrastructure growth will support investment. Manufacturing investment is likely to slow as external demand cools, and real estate investment should continue to fall as stress persists in the property market. In the rest of this year, both monetary and fiscal policy will be accommodative, aiming in particular to boost domestic demand and private sector activity. Given softer external demand and continued weakness in the property market weighing on recovery, the GDP growth forecast is revised down by 0.1 percentage points to 4.9% in 2023, still within the government’s target of around 5.0% this year, and kept at 4.5% in 2024, as projected in ADO April 2023 (Table 2.2.1).

**Domestic demand should continue to improve in H2 2023 but at a slower pace.** Growth in manufacturing investment is expected to moderate in line with tepid private sector activity and softening external demand for exports, while infrastructure investment is likely to remain solid thanks to supportive government policy. The property market showed signs of stabilizing in Q1 after the government stepped up support for it in late 2022, but it remains shaky overall as property market indicators—including property sales, prices for newly constructed homes, and floor space in new housing starts—remained weak. With soft market sentiment and ongoing debt restructuring in property developers, real estate investment is expected to continue to fall in H2 and pull down overall investment. As external trade languishes, net exports will remain a drag on growth. Consumption, meanwhile, should continue to recover.

**On the supply side, services are likely to outpace industry in H2 2023 as household demand continues to recover.** Growth in contact-intensive services such as hospitality, recreation, transportation, and tourism in particular should continue to chalk up gains from a low base set under COVID-19 restrictions last year. Industry will face headwinds from moderating exports. The weak housing market will likely weigh on construction, but steady infrastructure investment will provide some lift. Given the dim outlook for external demand in general, manufacturing could suffer moderating exports, but external demand is expected to remain strong in some areas, notably new energy vehicles, lithium batteries, and solar cells. Agriculture, meanwhile, should expand steadily in H2 2023.

The labor market, particularly in services, should benefit from economic reopening and higher household consumption. Loosening regulations in the technology industry and easing restrictions in the

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**Table 2.2.1 Selected Economic Indicators in the People’s Republic of China, %**

The 2023 growth forecast is revised down marginally but still consistent with the government’s target of around 5%. The 2023 inflation forecast is revised down in line with softening energy and food prices.

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</table>

GDP = gross domestic product.

Sources: CEIC Data Company; Asian Development Bank estimates.
property market will boost demand for labor. However, challenges remain in the labor market, especially for young job seekers. The youth unemployment rate has been propelled by multiple demand- and supply-side factors, notably slow recovery in manufacturing and the private sector, as well as mismatches between the skills provided by college education and those needed by employers.

**Consumer price inflation should stay moderate.** Average consumer price inflation was muted in the first 7 months of 2023 by weak domestic and external demand and softer global commodity prices. Upward pressure from rising service prices should be modest in H2 2023 as recovery in consumption moderates. The forecast for consumer price inflation is revised down to 0.7% in 2023 but unchanged at 2.0% in 2024.

**Fiscal policy is expected to remain supportive in H2 2023.** To facilitate economic recovery, the government may mobilize additional off-budget spending by increasing the amount of credit offered by policy banks and using central bank lending facilities. As noted above, by the end of July 2023, only 65.7% of the annual quota for new local government special bonds had been used. This compared with 95.0% in July 2022 and 78.4% before COVID-19 in July 2019, indicating room to accelerate local government special bond issues in H2 2023.

**Fiscal policy measures should aim to deleverage once economic recovery takes hold.** General government debt reached a historic high in 2022 equal to 50.4% of GDP (Figure 2.2.14). If not contained, rising debt threatens to dent the government’s ability to support growth through fiscal expansion. Meanwhile, with the property market under stress, land sales have suffered, inhibiting the ability of local governments to raise revenue for increased spending. To ease fiscal pressure on them, higher transfers from the central government may be necessary.

**Monetary policy is expected to continue to support recovery.** Enabled by modest domestic inflation, a reduction in the required reserve ratio for commercial banks is expected to spur credit growth in H2 2023. However, the effects of monetary policy easing on the renminbi and capital flows should be closely monitored, considering that 10-year US Treasury note yield has surpassed PRC government bond yield since May 2022, and a negative interest rate spread has continued to widen. In July, the authorities rolled out supporting measures that, notably, extended existing loans for property developers to ease liquidity pressure on them in the near term. More supportive measures are expected in H2 2023.

**External trade should continue to moderate in H2 2023.** PRC exports weakened again in Q2 after a surge in March and April that occurred as suppliers filled order backlogs following COVID-19 and supply chain disruption. The lagged effects of aggressive policy tightening last year in the US and Europe will continue to weigh on economic activity in the advanced economies, which will likely restrain PRC exports. At the same time, the service trade deficit should widen as outbound travel normalizes following the easing of travel restrictions early this year. Overall, the current account surplus is expected to narrow to below the equivalent of 2% of GDP in 2023 and gradually ease further in 2024.

**Risks to the outlook are both domestic and external.** Domestic risks center on the possibility that policy effects fall short, which could further undermine already fragile consumer and investor sentiment. Further deterioration in the housing market could undermine financial stability and threaten the growth outlook. Notable external risks are renewed energy and food security challenges brought about by the Russian invasion of Ukraine, fragmentation in the global economy, and changing weather patterns, including a forecast El Niño in H2 2023.
Other Economies

Hong Kong, China

Having contracted by 2.6% year on year in the first half (H1) of 2022, the economy expanded by 2.2% in H1 2023. With COVID-19 restrictions lifted, GDP grew by an unexpectedly robust 2.9% year on year in the first quarter (Q1) and then, on solid growth in consumer spending and trade in services, by 1.5% in Q2. Domestic demand was buoyed by improved economic prospects as accelerating visitor arrivals drove up exports of services by 19.6% in H1. Private consumption surged by 10.5% and added 6.9 percentage points (pps) to growth, as consumer sentiment revived with recovery in contact-intensive activities and the disbursement of consumption vouchers. Despite tightened financial conditions, gross fixed capital formation increased by 3.2% and contributed 0.5 pps on upbeat business sentiment. Meanwhile, government consumption declined by 4.0%, and external demand for goods further weakened, weighed down by a challenging global environment. As goods exports plummeted by 17.1%, goods imports also fell sharply, by 11.7%, while services imports grew by 24.7%. In sum, net exports subtracted 2.5 pps from growth.

On the supply side, output in most sectors saw growth rebound in Q1. Services reversed 4.2% decline year on year in Q4 2022 to expand by 3.1%. Accommodation and food services registered double-digit growth in the quarter, as did transportation, storage, postal, and courier services. Growth in manufacturing also rose to 3.8%, on improved business prospects. However, import and export services and wholesale and retail trade dropped by 7.4% as a weak external environment continued to drag down imports and exports alike. Following an 8.0% increase in Q4 last year, construction shrunk by 1.7%.

Private consumption and services will drive growth this year and next. Leading indicators signal slowing momentum at the beginning of Q3. The headline composite purchasing managers’ index declined for the first time in 7 months, from 50.3 in June to 49.4 in July, while the latest business surveys showed less optimism by enterprises. However, the same tailwinds encountered in H1 should continue to shape the economy in the rest of 2023. Despite considerable recovery in tourism in the first 6 months of 2023, arrivals returned to only 37% of the number in the same period in 2019. Inbound tourism is projected to continue growing vigorously this year as residual pandemic disruption to transportation and handling capacity fade. A solid labor market should further boost consumption, domestic demand, and services, despite tight financial conditions. On the negative side, goods exports will remain weak with slower growth in the advanced economies, even as recovery in the People’s Republic of China provides some lift. On balance, and taking into account the unexpectedly fast growth in Q1, the 2023 growth projection is revised up (Table 2.2.2). Normalizing external and domestic conditions will underpin continued recovery next year, but the 2024 growth forecast is revised down primarily to accommodate a base effect.

| Table 2.2.2 Selected Economic Indicators in Hong Kong, China, % |
|-----------------|--------|--------|--------|--------|
| Growth will be higher in 2023 than projected in April as private consumption and services continue to recover, but inflation will remain moderate. |
|                  | 2022   | 2023   | 2024   |
|                  | Apr    | Sep    | Apr    | Sep    |
| GDP growth       | -3.5   | 3.6    | 4.3    | 3.7    | 3.3    |
| Inflation        | 1.9    | 2.3    | 2.5    | 2.1    | 2.1    |

GDP = gross domestic product.
Source: Asian Development Bank estimates.

The April inflation forecast is revised up for this year but maintained for next year. Headline inflation fell marginally from 2.0% year on year in May to 1.9% in June, with smaller price increases for food, electricity, gas, and water utilities, and averaged 2.0% in H1 2023. The underlying inflation rate also declined slightly, from 1.8% to 1.7%. External price pressures are expected to moderate somewhat with favorable base effects, but inflation is still forecast higher in H2 2023 in tandem with local economic recovery—easing, as previously forecast, in 2024.
Mongolia

**Economic recovery continued through the first half (H1) of 2023.** GDP expanded by 6.4% year over year, driven by robust external demand following reopening in the People’s Republic of China (PRC), and consequently revived domestic demand. With PRC demand strong for coking coal and base metals, mining and merchandise exports in H1 2023 outperformed expectations in ADO April 2023. Net exports contributed 16.7 percentage points to growth, and consumption added 5.5 points, but investment shrank by 29.1% year on year, mainly in line with a significant decline in inventories, dragging growth down by 15.8 points. On the supply side, recovery was uneven in terms of sector contributions. Mining contributed 4.6 percentage points to growth, and services added 3.7 points. Recovery in industry other than mining was slow, contributing only 0.2 points to growth, with growth rates in construction and manufacturing below 1%. Agriculture contracted by 10.5% with livestock and crop production battered by severe weather, subtracting 2.1 points from growth.

The rebound improved current account and fiscal balances and boosted foreign exchange reserves. Government revenue increased on higher corporate and personal income tax receipts, social insurance premiums, and value-added tax, while mineral revenue benefited from comparatively high commodity prices and a threefold increase in coal export volume year on year as of July 2023. On the expectation that fiscal revenue would outperform the 2023 budget projection by 11.4%, the budget was amended to increase planned expenditure, which will now grow by 23.2% over 2022, to finance higher pensions and civil servant wages, continued social welfare transfers, and measures implemented to ease traffic congestion in the capital city. These measures will turn a budget surplus in 2022 equal to 0.8% of GDP into a 0.9% deficit in 2023, while bolstering household consumption and capital expenditure in the rest of the year.

**GDP will climb this year slightly more than forecast in ADO April 2023 but marginally less in 2024 (Table 2.2.3).** Growth this year will be supported by substantial recovery in exports and continued fiscal expansion, but tempered by persistently high inflation, contractionary monetary policy, and tight domestic financing conditions. In 2024, GDP growth will accelerate further but remain below the April forecast. It will be driven by private sector lending, mining growth, and positive spillover into transport and other services, but constrained by lower growth in agriculture because of severe weather and a lower contribution from net exports owing to a sharp increase in imports.

**Table 2.2.3 Selected Economic Indicators in Mongolia, %**

Growth will rise above the April forecast in 2023, and inflation will moderate more than forecast in both years.

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</table>

GDP = gross domestic product.


Average inflation remained high in H1 2023, but forecasts for both years are revised down slightly from ADO April 2023. Annual inflation has been above the target set by the Central Bank of Mongolia for the past 27 consecutive months, but 12-month average inflation moderated from 15.2% year on year in December 2022 to 12.5% in July 2023 and is likely to trend downward in H2. Owing to unexpectedly robust exports, foreign exchange reserves have stabilized at $3.7 billion–$3.9 billion since April 2023, or cover for 3.5 months of imports of goods and services. This has eased pressure on the exchange rate, which should temper price increases in 2024. The current account improved significantly in H1 2023 to record a surplus equal to 3.2% of GDP. The current account deficit will be smaller than forecast in ADO April 2023 for this year and next, mainly because of higher exports.

Several external factors pose downside risks to the outlook. They include any decrease in PRC demand for bulk commodities, a fall in coal or copper prices, new trade restrictions, disruption caused by exacerbated geopolitical tensions, negative spillover from tighter financing conditions, global uncertainty and slowdown, or capital flow reversal.
Republic of Korea

Growth moderated to 0.9% year on year in the first half (H1) of 2023. This was down from 2.3% in H2 2022 and 3.0% in H1 2022. Government consumption rose by 2.6% on increased social security benefits, household transfers, and capital expenditure. As unemployment improved from 2.9% in January to 2.6% in June, private consumption rose by 3.0% with rising service expenditure on recreation, culture, restaurants and accommodation, and travel. Investment growth accelerated to 4.7% as building construction recovered from last year’s downturn and investment in facilities and intellectual property products expanded. On the supply side, manufacturing contracted in line with lower exports of semiconductors and petroleum products, but services sector growth was maintained.

Inflation continued to abate as transport, food, and energy price pressures waned. It averaged 3.7% year on year in the first 7 months of 2023 and eased to 2.3% in July. Strong consumption and employment trends kept core inflation, which excludes energy and agricultural products, high at an average of 3.8%—higher, in the past 4 months, than headline inflation. According to the Bank of Korea, the central bank, core inflation has eased at a slower pace because of cost pressures accumulated during pandemic supply disruption and from strong demand for services. The central bank has kept its policy rate unchanged at 3.5% since January 2023, after having raised it seven times in 2022 by a total of 225 basis points and by a further 25 basis points in January 2023. The Republic of Korea won depreciated by an average of 2.8% against the US dollar in the first 7 months of 2023 because of a deteriorating trade balance and monetary tightening in the US.

Both exports and imports declined in H1 2023. Merchandise exports fell by 12.5% in nominal US dollar terms as external demand weakened. Imports declined by 5.9%, reflecting both tepid domestic demand and lower global prices for oil and other commodities. The merchandise trade surplus thus slipped into deficit of $3.5 billion. Trade in services was likewise in deficit, at $11.9 billion, but the primary income account recorded a surplus of $19.5 billion. Overall, the current account surplus plunged by almost a factor of 10 from $24.9 billion in H1 2022 to $2.4 billion a year later, equal to 0.3% of GDP.

Economic growth this year is now projected to be slower than forecast in April (Table 2.2.4).

Growth picked up quarter on quarter from 0.3% in the first quarter to 0.6% in the second, but improvement reflected a significant positive contribution from net exports that is unlikely to be repeated. Further, semiconductor exports have been declining since August 2022, albeit at a slowing rate in recent months. Nevertheless, domestic chipmakers are well placed to benefit more than others from artificial intelligence developments such as High Bandwidth Memory, given their competitive advantage at producing the most advanced chips. Exports are therefore expected to improve in H2 2023 as the information technology industry recovers. Private consumption and investment will be constrained by high interest rates and a sluggish housing market but are still expected to contribute to growth.

| Table 2.2.4 Selected Economic Indicators in the Republic of Korea, % |
|-------------------|---------|---------|---------|---------|
|                   | 2022    | 2023    | 2024    |
|                   | Apr     | Sep     | Apr     | Sep     |
| GDP growth        | 2.6     | 1.5     | 1.3     | 2.2     | 2.2 |
| Inflation         | 5.1     | 3.2     | 3.3     | 2.0     | 2.2 |

GDP = gross domestic product.
Source: Asian Development Bank estimates.

Inflation forecasts are revised up from the April projections. In the year to date, inflation, though easing has remained strong and may not abate significantly anytime soon. Indeed, the central bank expects inflation to hover at about 3% in H2 2023, staying above its 2% target for some time to come.
Taipei, China

**GDP shrank in the first half (H1) of 2023 despite a rebound in the second quarter (Q2).** Contraction by 1.0% year on year in H1 reflected sharp 3.3% contraction in Q1 and a return to growth, at 1.4%, in Q2. Led mainly by spending on dining out, accommodation, recreation, and transportation, private consumption rose by 9.4% in H1 2023, contributing 4.2 percentage points to growth. Government consumption, which included a tax rebate, grew by 2.7% and contributed 0.3 points. Investment declined by 9.3% and dragged down growth by 2.5 percentage points as investment in construction and in machinery and equipment declined in line with falling exports. Reflecting broad weakness in global demand and ongoing inventory adjustment, exports fell by 9.0% as those to the People’s Republic of China (PRC), a key trade partner, contracted by a whopping 29% and those to the US contracted by 15%. With imports declining by only 6.1%, net exports pulled down growth by 3.0 percentage points.

**On the supply side, the services sector was the main driver of growth in H1 2023.** Services grew by 3.4% year on year, driven by transportation and storage, while robust consumption saw food, accommodation, and entertainment and recreation bolster services. Agriculture grew by 1.3%, but the sector accounts for a small portion of the economy. Meanwhile, industry contracted by 10.3%, led by an 11.2% decline in manufacturing as demand weakened for semiconductors, chemicals, metals, and machinery and equipment.

**Growth will slow in 2023 more than projected in April before rebounding next year.** Industrial production has declined steadily this year, contracting by 17.2% year on year in June, in line with weak exports. The manufacturing purchasing managers’ index fell to a pessimistic 44.8 in the same month, which bodes ill for industry and export prospects well into H2 2023. On the bright side, retail trade grew by 13.3% year on year in June, reflecting robust private consumption, which is expected to bolster the economy through the rest of the year. Consumer confidence for the coming 6-month time frame, having hit a low of 59.1 in December 2022, climbed to 68.4 in July.

| Table 2.2.5 Selected Economic Indicators in Taipei, China, % |
|-----------------|------|-----|-----|
|                | 2022 |     | 2023 |     | 2024 |     |
| GDP growth     | 2.4  | 2.0 | 1.2  | 2.6  | 2.7  |     |
| Inflation      | 2.9  | 2.0 | 2.0  | 2.0  | 2.0  |     |

On balance, given slow export growth from still-weak global demand, this update downgrades the ADO April 2023 growth forecast for 2023 (Table 2.2.5). However, it upgrades the forecast for 2024 marginally on the expectation that consumption will continue to expand and exports recover gradually as global demand improves.

**Inflation slowed gradually to average 2.3% in H1 2023.** It fell to 1.7% year on year in June as food and fuel price increases moderated. Core inflation declined at a slower pace, from 3.0% in January to 2.6% in June, sustained by booming domestic demand, particularly for dining, rental property, and entertainment services. With oil and food prices expected to trend down in the rest of the year, inflation is projected to slow further in 2023 and 2024 to meet the April forecast.

**The main risk to the outlook is persistently weak global demand continuing to weigh on exports.** While private consumption has bolstered growth, the positive effects of loosened COVID-19 restrictions will wane, and this export-oriented economy will need to find new drivers of growth. Meanwhile, exports to the PRC have not picked up in recent months despite continuing growth there, and any reconfiguration of supply chains could further dampen Taipei, China exports. A risk to the inflation forecast would be elevated price pressures from global commodities rising above expectations.