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#ADO2023

ASIAN DEVELOPMENT OUTLOOK

APRIL 2023

Brighter Prospects Amid Ongoing Challenges

ADB

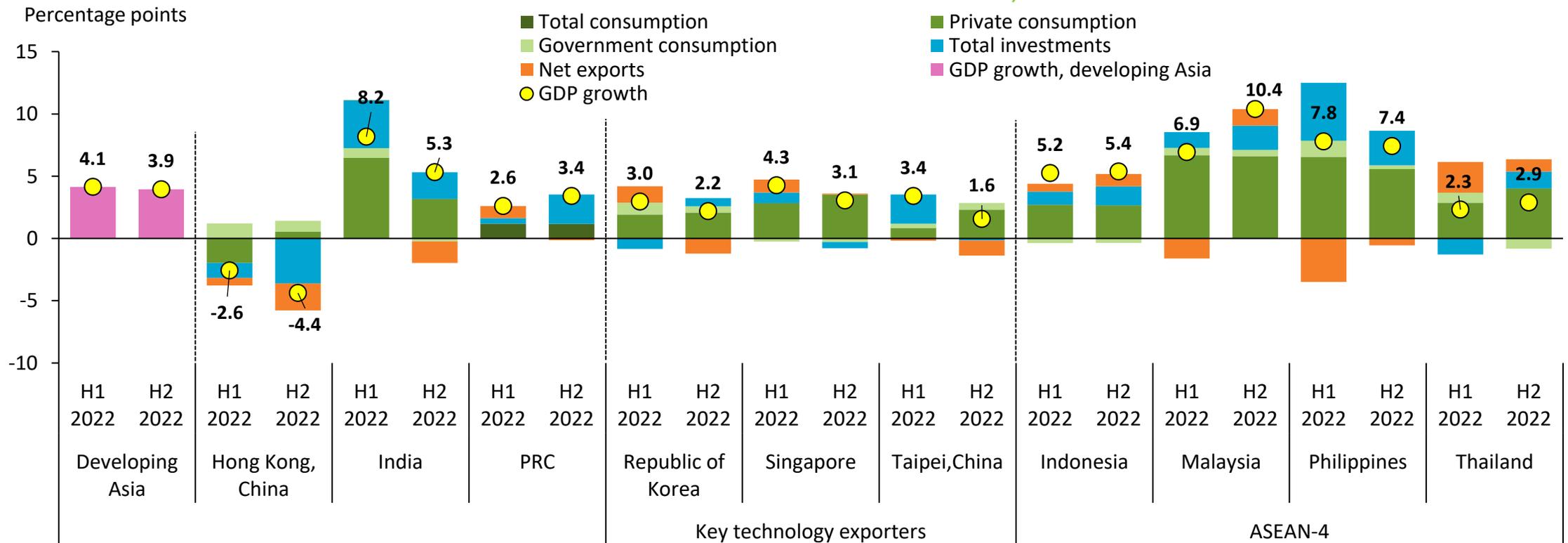
Brighter prospects amid ongoing challenges

- PRC's reopening has lifted developing Asia's prospects
- Weaker global demand dampened production late last year, but recent indicators of business conditions signal improvement
- Growth in the region is forecast to pick up from 4.2% in 2022 to 4.8% in both 2023 and 2024
- Inflation is forecast to moderate this year and next, from 4.4% in 2022 to 4.2% in 2023 and 3.3% in 2024, gradually moving closer to pre-pandemic averages
- Faster-than-expected reopening of the PRC poses an upside risk, but many challenges remain

Developing Asia's growth moderated in H2 2022 due to weakening global demand

Falling exports slowed growth in H2 2022 in key technology exporters, while stronger private consumption and investment boosted growth in 4 ASEAN economies.

Demand-side Contributions to Growth, 2022

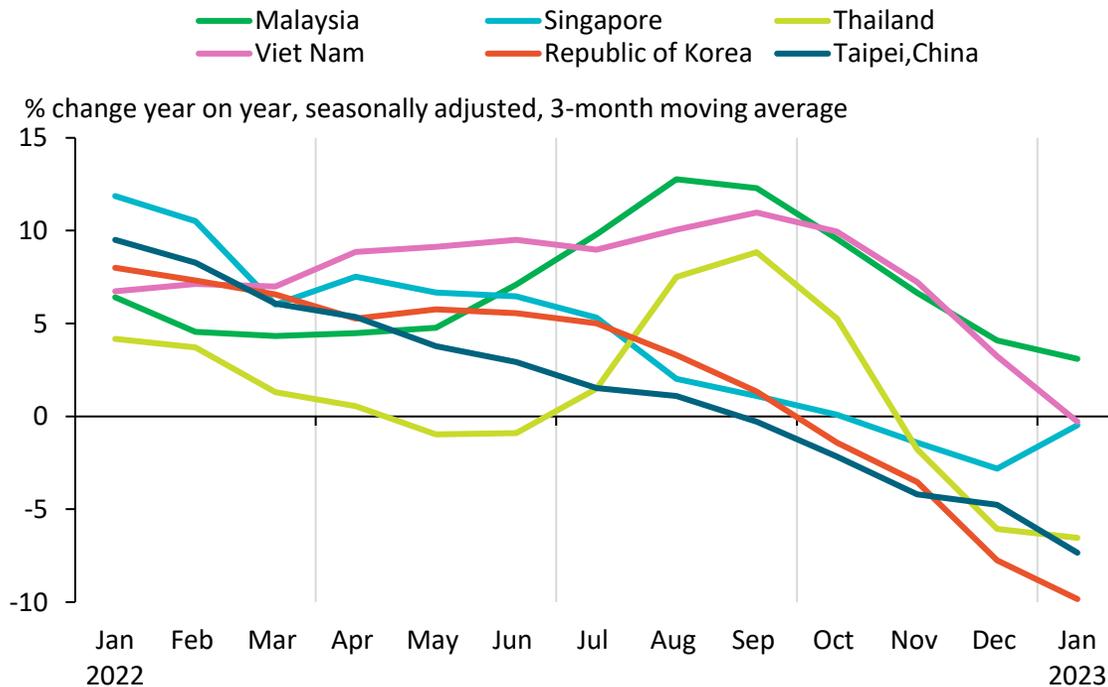


ASEAN = Association of Southeast Asian Nations; GDP = gross domestic product; H = half, PRC = People's Republic of China.
 Note: Chart excludes statistical discrepancies. Developing Asia average is weighted by GDP purchasing power parity.
 Source: Haver Analytics.

Weaker external demand dented manufacturing activity but prospects are improving

Industrial production declined in Q4 2022 in manufacturing exporters.

Industrial Production



Source: CEIC Data Company.

Business prospects improved in early 2023 in most economies

Purchasing Managers' Index (>50 improvement; <50 worsening)

Economy	2022												2023	
	Q1			Q2			Q3			Q4			Q1	
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
India	54.0	54.9	54.0	54.7	54.6	53.9	56.4	56.2	55.1	55.3	55.7	57.8	55.4	55.3
Thailand	51.7	52.5	51.8	51.9	51.9	50.7	52.4	53.7	55.7	51.6	51.1	52.5	54.5	54.8
Philippines	50.0	52.8	53.2	54.3	54.1	53.8	50.8	51.2	52.9	52.6	52.7	53.1	53.5	52.7
PRC	49.1	50.4	48.1	46.0	48.1	51.7	50.4	49.5	48.1	49.2	49.4	49.0	49.2	51.6
Indonesia	53.7	51.2	51.3	51.9	50.8	50.2	51.3	51.7	53.7	51.8	50.3	50.9	51.3	51.2
Viet Nam	53.7	54.3	51.7	51.7	54.7	54.0	51.2	52.7	52.5	50.6	47.4	46.4	47.4	51.2
Singapore	50.6	50.2	50.1	50.3	50.4	50.3	50.1	50.0	49.9	49.7	49.8	49.7	49.8	50.0
Taipei, China	55.1	54.3	54.1	51.7	50.0	49.8	44.6	42.7	42.2	41.5	41.6	44.6	44.3	49.0
Republic of Korea	52.8	53.8	51.2	52.1	51.8	51.3	49.8	47.6	47.3	48.2	49.0	48.2	48.5	48.5
Malaysia	50.5	50.9	49.6	51.6	50.1	50.4	50.6	50.3	49.1	48.7	47.9	47.8	46.5	48.4

PRC = People's Republic of China, Q = quarter.

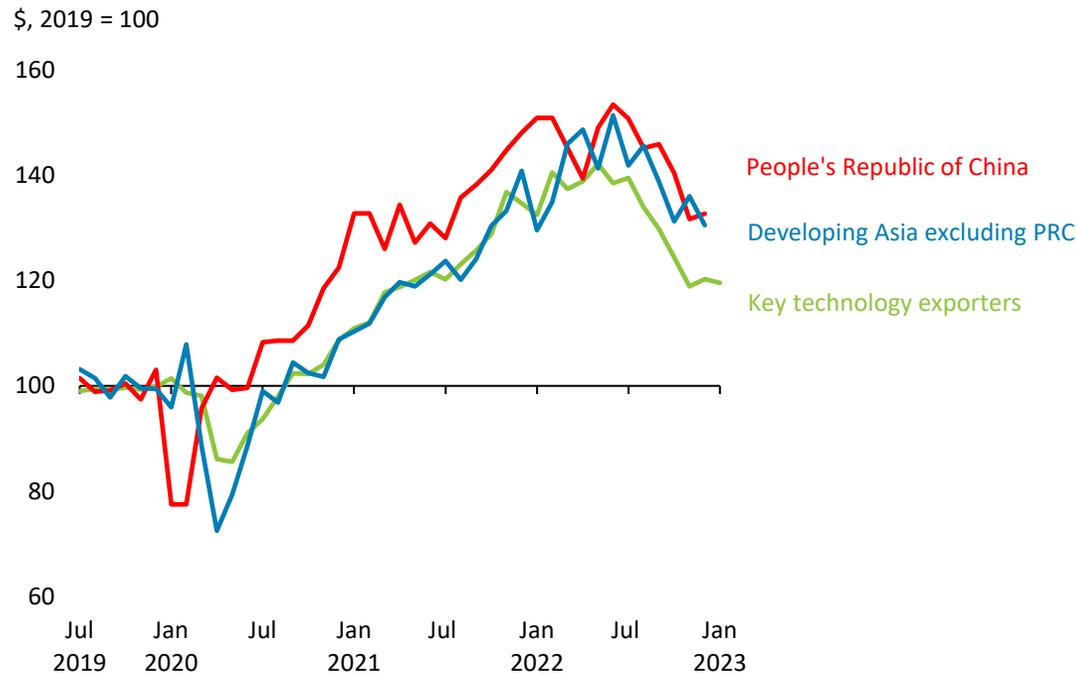
Note: Pink to red indicates worsening (<50) and white to green indicates improvement (>50). Series for Singapore is not seasonally adjusted.

Source: CEIC Data Company.

Exports retreated, but tourism continues its advance

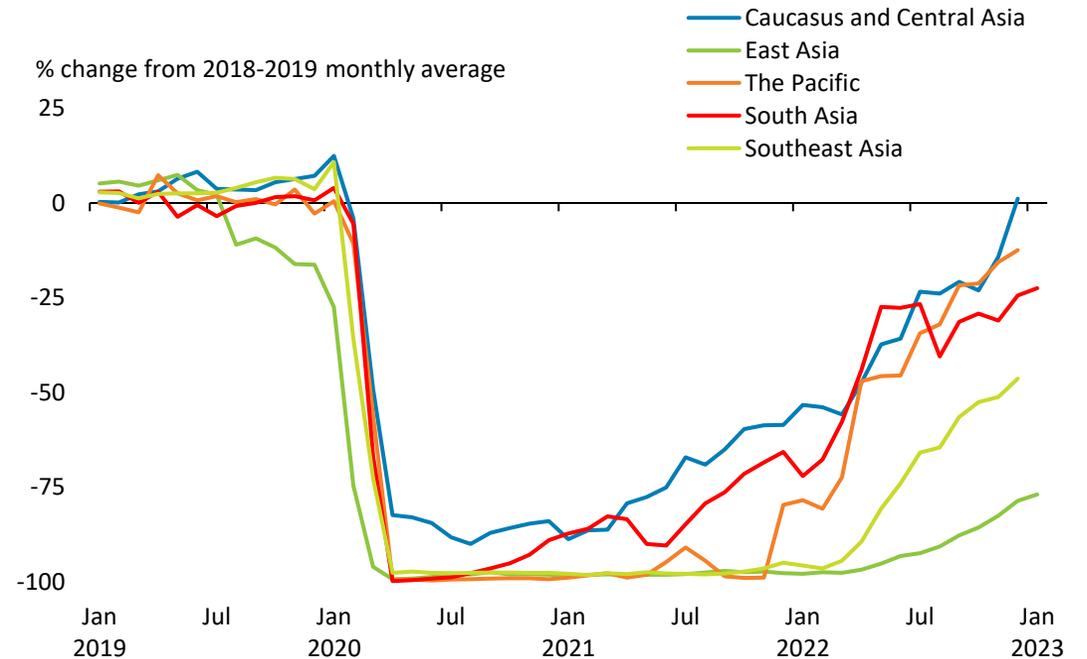
Exports weakened, especially for key technology exporters.

Nominal Exports



Tourism is recovering steadily.

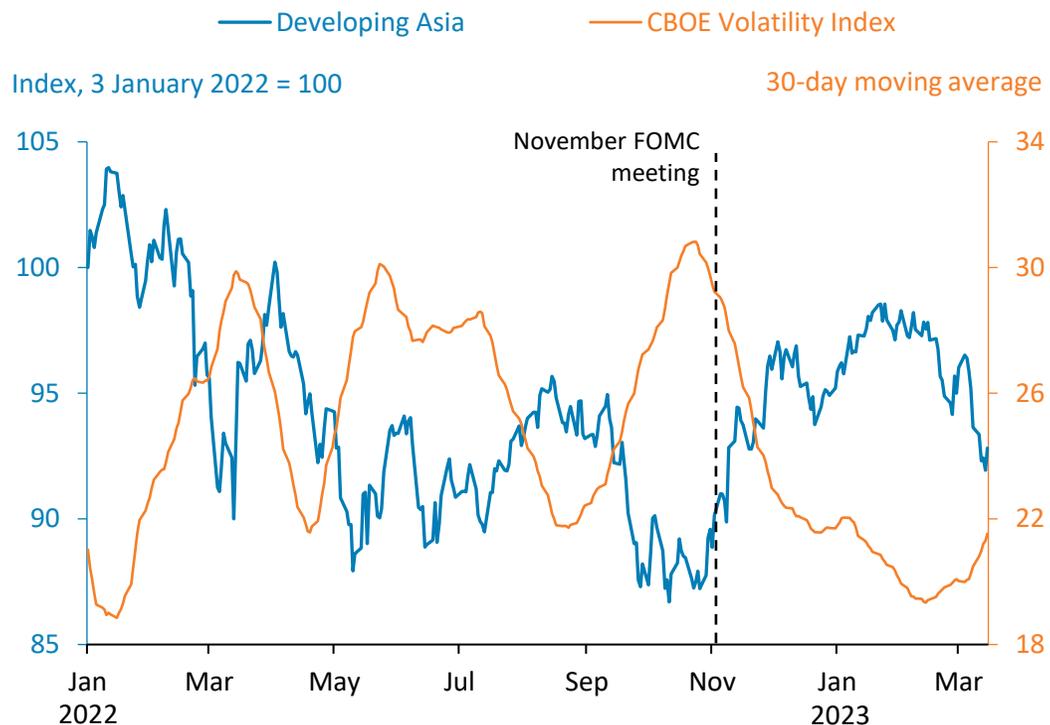
Visitor Arrivals



Financial conditions improved in late 2022

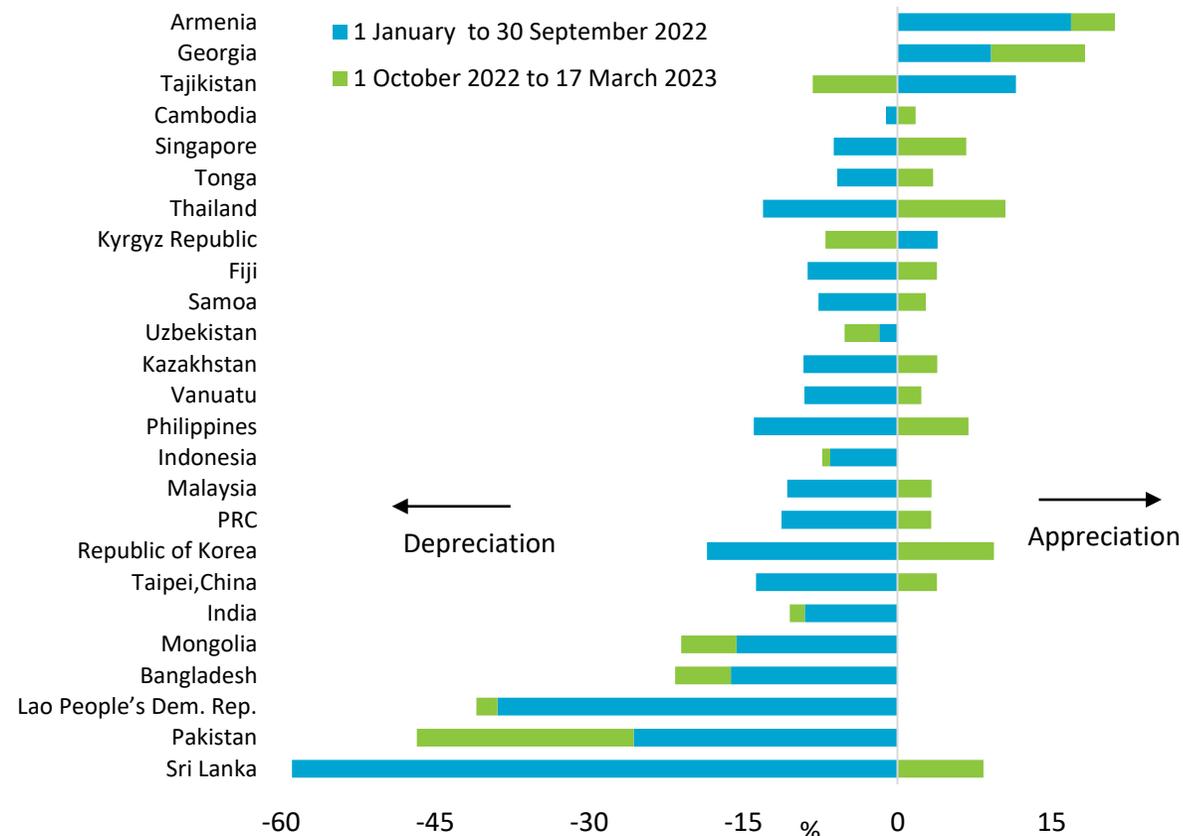
Equity markets revived in November 2022 on moderating pace of US monetary tightening

Equity Market Performance



More than half of the currencies have appreciated since October 2022.

Exchange Rate Movements Against USD



CBOE = Chicago Board Options Exchange, FOMC = Federal Open Market Committee.
Source: Bloomberg.

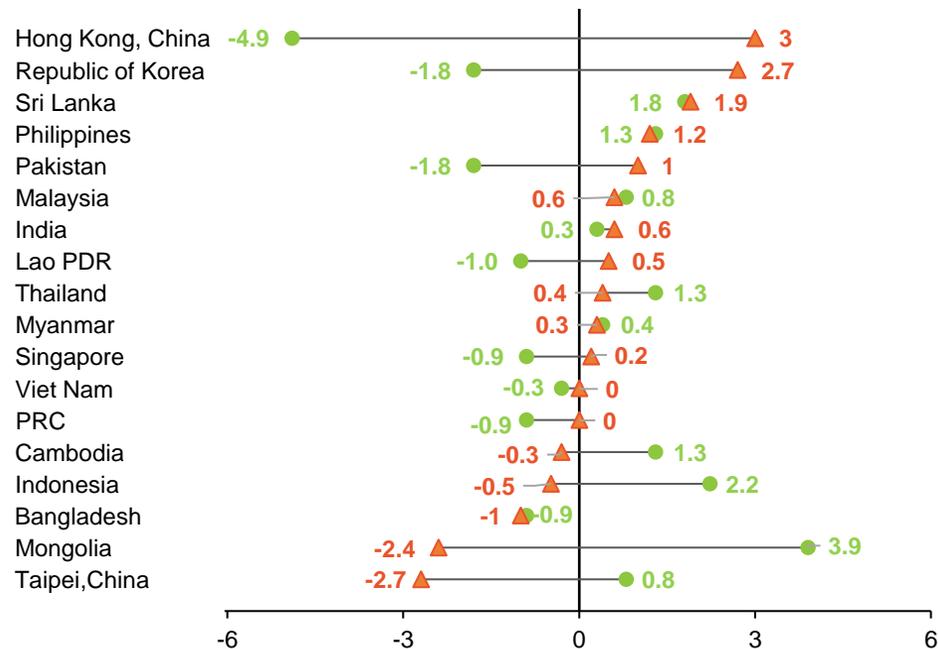
Note: Includes 25 economies with large currency movements since October.
Source: Bloomberg.

Fiscal positions will improve and the pace of monetary tightening ease

Fiscal balances diverged in 2022 but are expected to improve for most economies in 2023...

Changes in Fiscal Balance from Previous Year (pp)

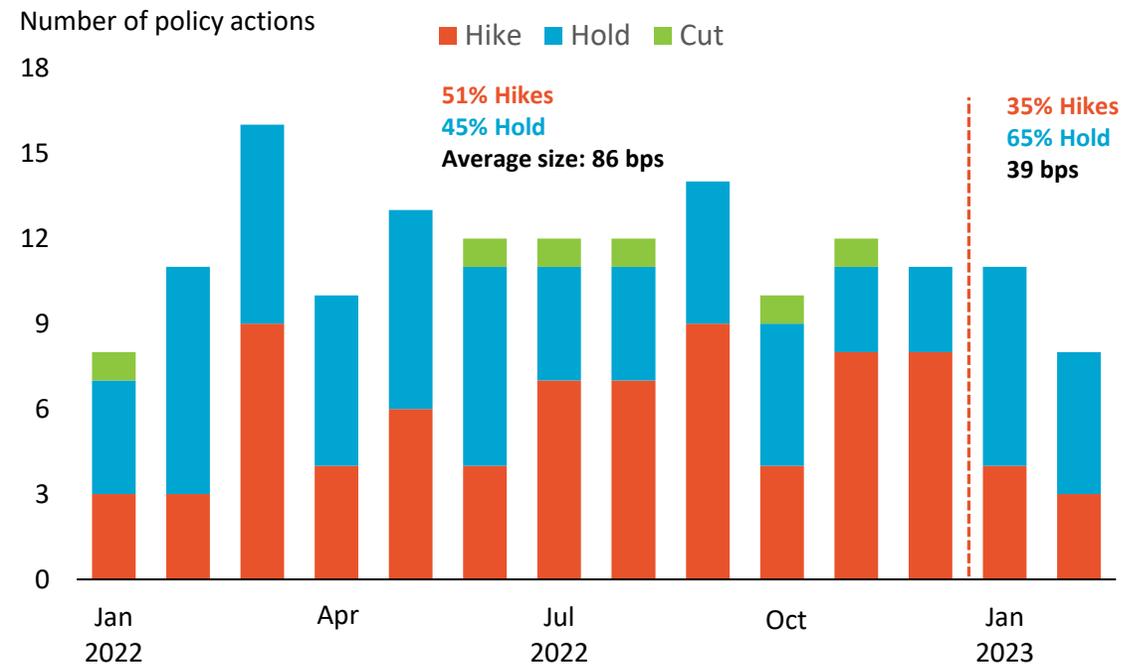
● Change in 2022 ▲ Change in 2023



Lao PDR = Lao People's Democratic Republic, PRC = People's Republic of China, pp = percentage points
 Note: Fiscal balance is the difference between a government's revenues (taxes and proceeds from asset sales) and its expenditures, expressed as a percentage of GDP. Fiscal balance for the Republic of Korea includes social security contributions. Cambodia data and forecasts for the PRC and Thailand are from Focus Economics. Sources: *Asian Development Outlook* database; National sources; FocusEconomics. 2023. Economic Consensus Forecast Reports. March; Asian Development Bank calculations.

...while monetary tightening is expected to slow down.

Policy Interest Rate Decisions, Selected Regional Economies

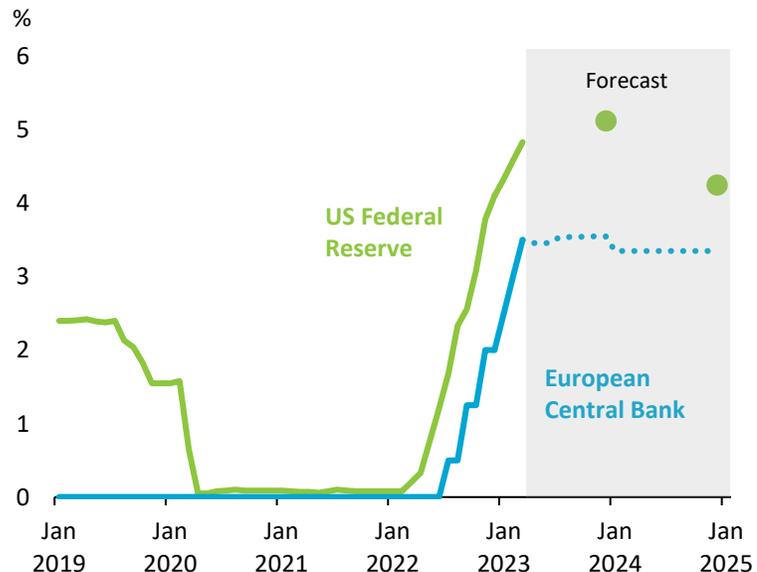


Note: Economies included are Armenia; Azerbaijan; Georgia; Hong Kong, China; India; Indonesia; Kazakhstan; Kyrgyz Republic; Malaysia; Mongolia; Pakistan; Philippines; People's Republic of China; Republic of Korea; Sri Lanka; Tajikistan; Taipei, China; Thailand; and Uzbekistan.
 Source: Trading Economics.

Global headwinds are likely to remain strong

Monetary tightening will continue in advanced economies, but at a slower pace.

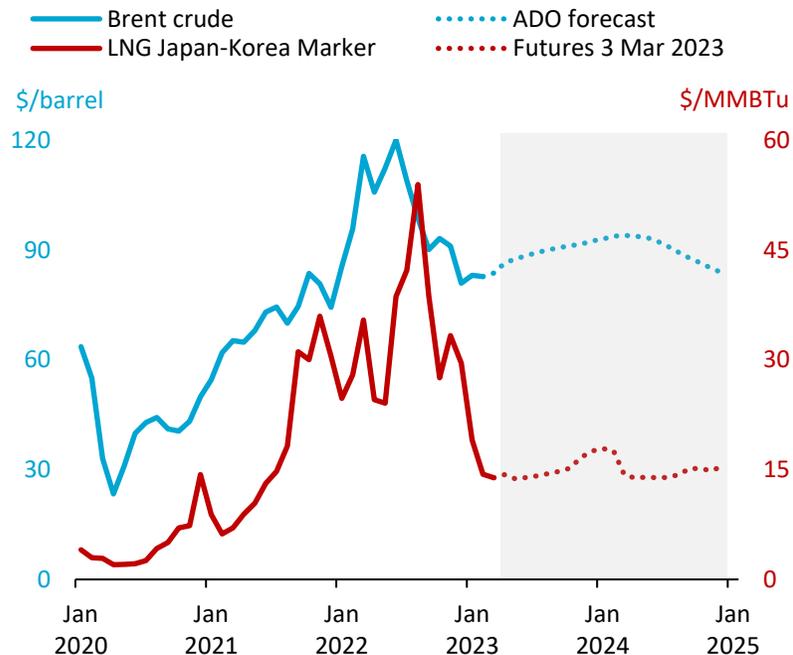
Policy Rates



Note: Forecasts are from the European Central Bank's survey of professional respondents and the Federal Reserve's Summary of Economic Projections.
Sources: European Central Bank; Federal Reserve.

Commodity prices are expected to remain elevated.

Fossil Fuel Prices

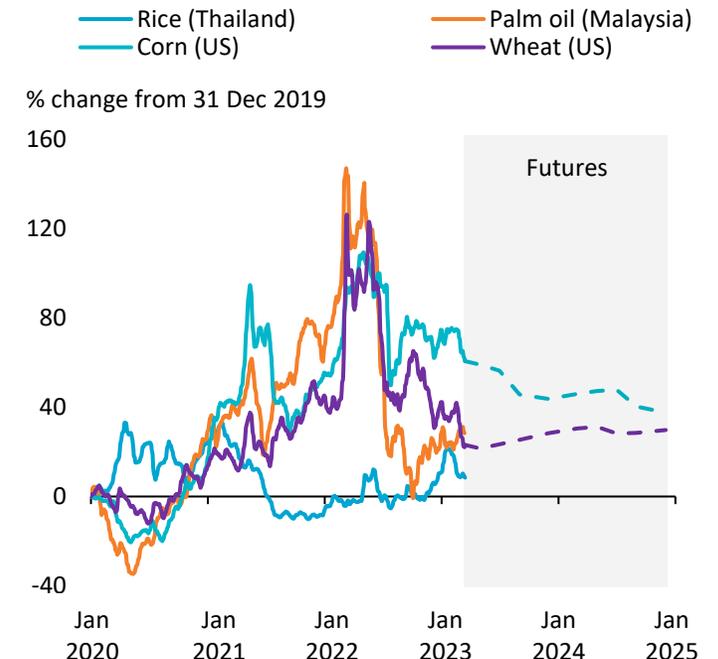


LNG = liquefied natural gas, MMBTu = metric million British thermal unit.

Note: Food prices are 7-day moving averages.

Sources: Bloomberg; CEIC Data Company; Investing.com; World Bank. Commodity Markets, Pink Sheet data.

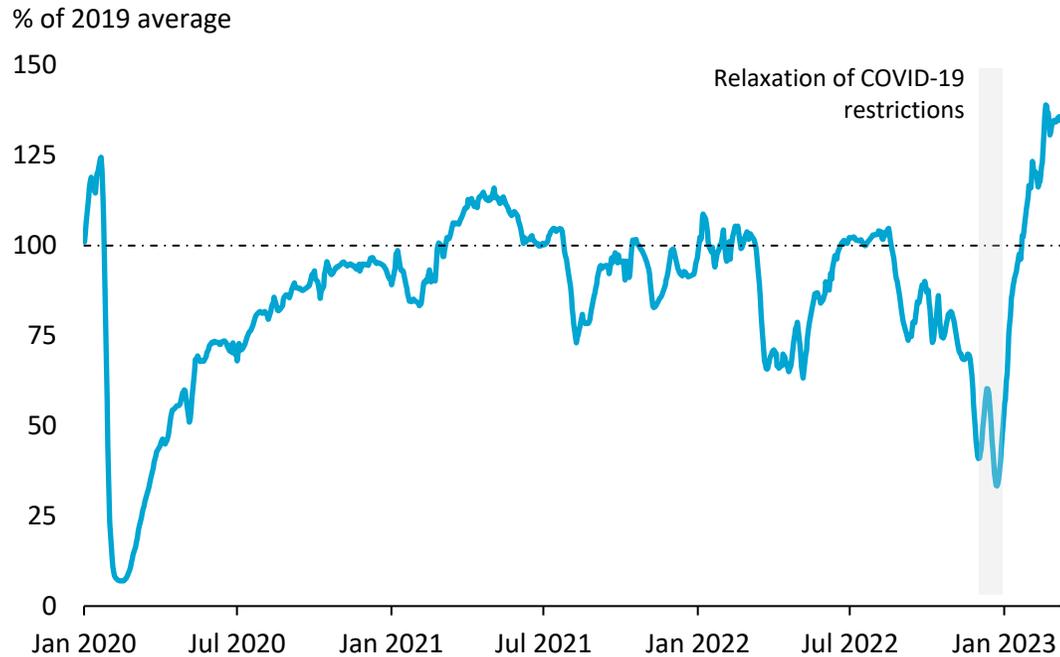
Food Prices



Reopening has revived PRC's business activities

Mobility is now back to pre-pandemic levels.

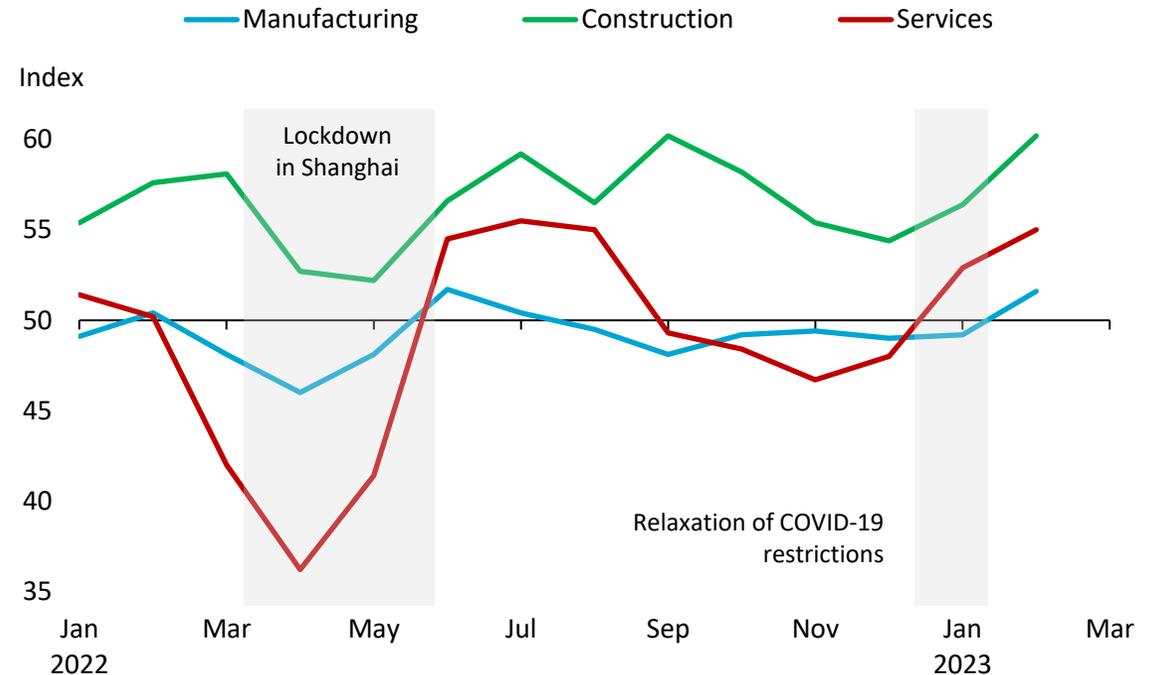
Subway Ridership in 23 Cities in the People's Republic of China



Note: 7-day average, last data point is 8 March 2023.
Source: Capital Economics.

Business activities in services are rebounding the fastest.

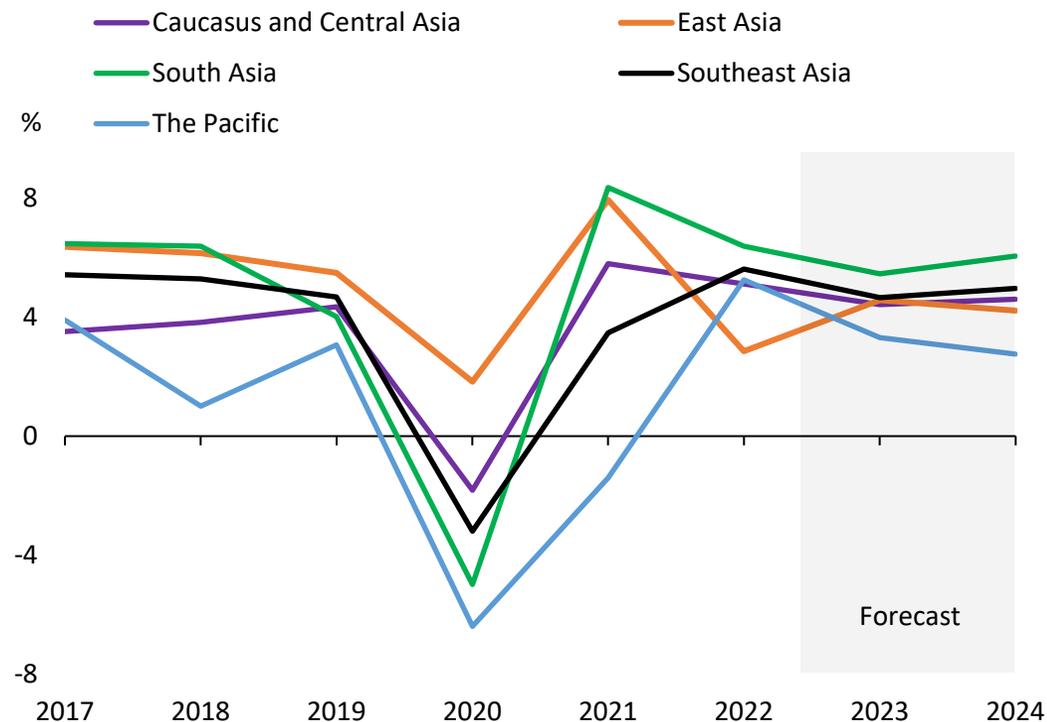
PMI Components



Note: PMI = Purchasing Managers' Index
Source: CEIC Data Company.

PRC's recovery coupled with healthy domestic demand elsewhere in the region will support growth

GDP growth is expected to return to pre-pandemic rates...



Source: Asian Development Outlook database.

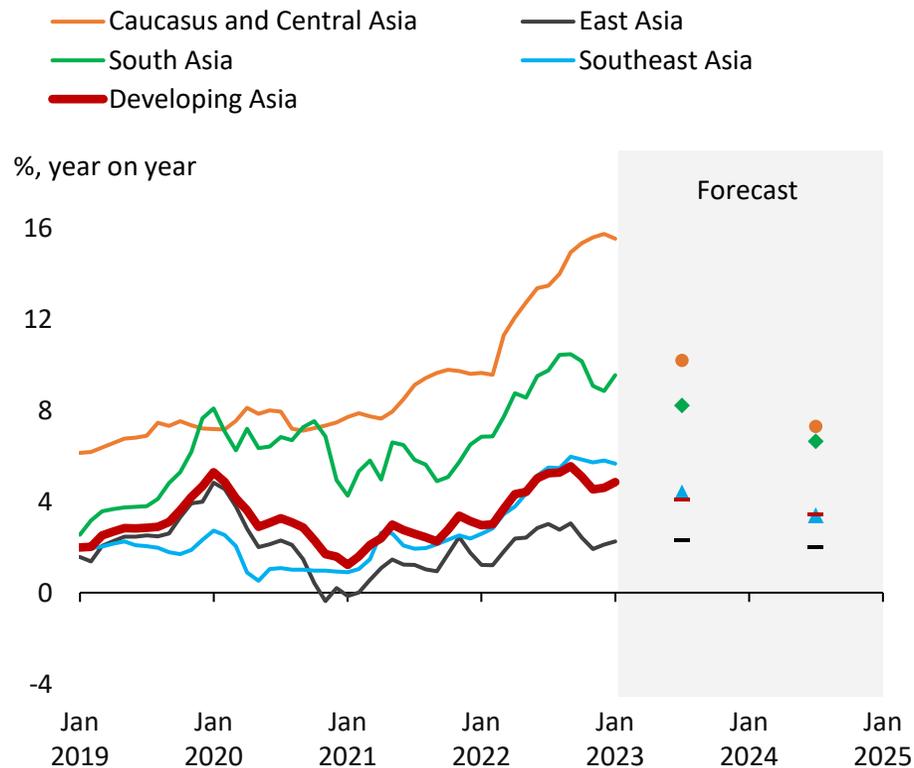
...with some variation across economies.

	2022	2023	2024
Developing Asia	4.2	4.8	4.8
Developing Asia excluding the PRC	5.4	4.6	5.1
Caucasus and Central Asia	5.1	4.4	4.6
Kazakhstan	3.2	3.7	4.1
Uzbekistan	5.7	5.0	5.0
East Asia	2.8	4.6	4.2
People's Republic of China	3.0	5.0	4.5
Republic of Korea	2.6	1.5	2.2
South Asia	6.4	5.5	6.1
India	6.8	6.4	6.7
Pakistan	6.0	0.6	2.0
Sri Lanka	-7.8	-3.0	1.3
Southeast Asia	5.6	4.7	5.0
Indonesia	5.3	4.8	5.0
Viet Nam	8.0	6.5	6.8
The Pacific	5.2	3.3	2.8
Fiji	15.9	6.3	3.0
Papua New Guinea	3.2	2.4	2.6

Source: Asian Development Outlook database.

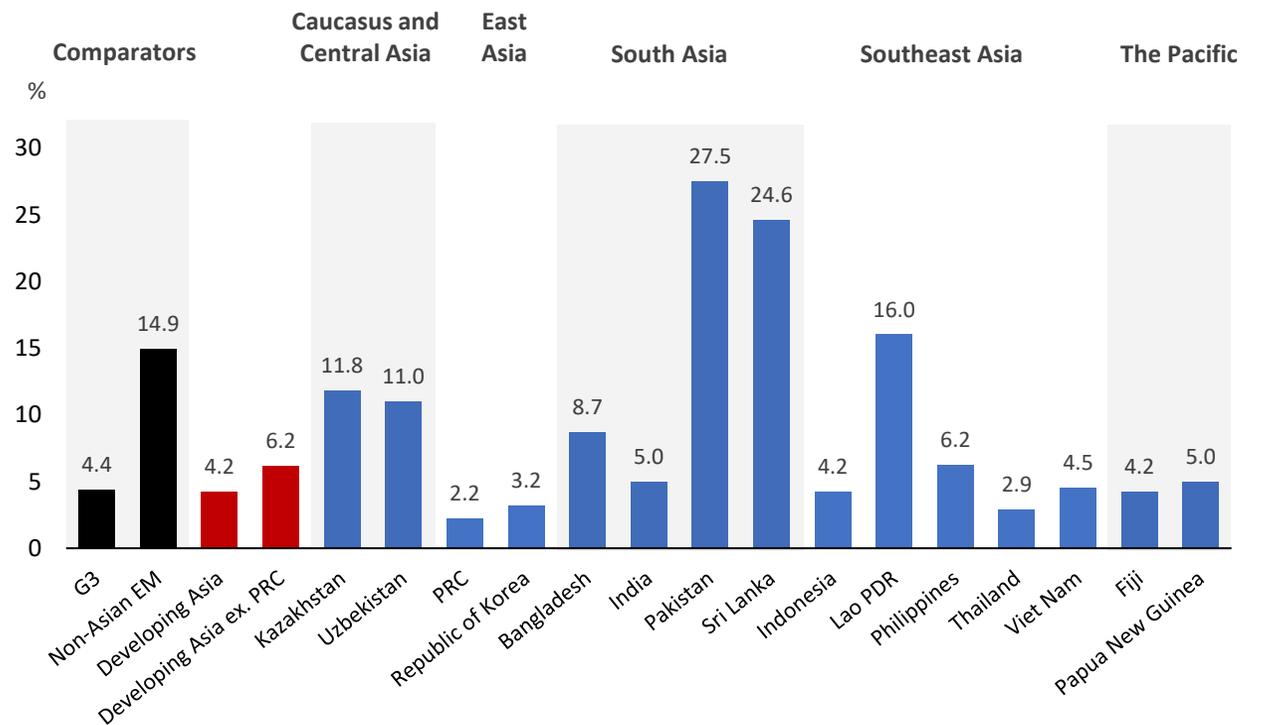
Inflation is forecast to moderate, moving closer to pre-pandemic rates

Regional inflation is projected to decelerate...



Source: Asian Development Outlook database.

...but price pressures will continue to vary across economies in 2023.



G3 = Euro area, Japan, US; DA = Developing Asia, Non-Asian EM = Emerging and Developing Europe as per the IMF, excluding ADB developing members, PRC = People's Republic of China.

Sources: Asian Development Outlook database; IMF WEO database.

PRC's reopening poses an upside risk, but many challenges remain

- Reopening in the PRC could cause a faster-than-expected rebound.
- Disinflation in the US and other advanced economies could take longer than expected, prolonging the restrictive monetary stance.
- Higher interest rates and debt has raised financial stability risks—as seen in recent banking turmoil in US and Europe.
- Escalation of the Russian invasion of Ukraine could renew energy and food security challenges and rekindle inflation pressure.
- Other challenges include global fracturing and climate change.