

HIGHLIGHTS

- Three main headwinds continue to hamper recovery in developing Asia: recurrent lockdowns in the People's Republic of China, the Russian invasion of Ukraine, and slowing global growth. Growth forecasts for the region are revised down from 4.3% to 4.2% in 2022 and from 4.9% to 4.6% in 2023.
- East Asia's growth forecasts are revised down to 2.9% in 2022—due to the mobility restrictions mentioned above plus deep contraction in Hong Kong, China—and down to 4.0% in 2023.
- The South Asian forecast for 2022 is maintained at 6.5% but revised down marginally for 2023 from 6.5% to 6.3% following a slowdown in Bangladesh and flooding in Pakistan.
- The 2022 forecast for Southeast Asia is upgraded from 5.1% to 5.5% on robust consumption and tourism recovery in Malaysia, the Philippines, Thailand, and Viet Nam. The 2023 forecast is revised down to 4.7% as global demand weakens.
- Growth prospects in the Caucasus and Central Asia are adjusted up from 3.9% to 4.8% in 2022 as spillover from the Russian invasion of Ukraine has been more benign than expected. The growth forecast for the Pacific in 2022 is also revised up, from 4.7% to 5.3% on a strong tourism rebound in Fiji.
- Regional inflation forecasts are revised down slightly for 2022 from 4.5% to 4.4% but upgraded for 2023 from 4.0% to 4.2%. Even with outlook deterioration, developing Asia will grow more than other regions and suffer less inflation than most.
- Multiple risks abound as the three main headwinds could worsen, along with geopolitical risks and climate change.

GLOBAL GLOOM DIMS ASIAN PROSPECTS

Recent developments

Global and regional developments since September have been roughly in line with pessimistic expectations laid out that month in the *Asian Development Outlook 2022 Update*.

The world economy chugged along in the third quarter (Q3) of this year but is now set to slow markedly, weighed down by weakening in the United States, euro area, and People's Republic of China (PRC). Persistently elevated inflation in the US led the Federal Reserve to raise its policy rate in November by 75 basis points, the fourth consecutive hike of that magnitude. Despite a resilient labor market, investment prospects and consumer confidence worsened, suggesting that the Q3 rebound to seasonally adjusted annualized growth of 2.6% will be short-lived. Similarly in the euro area, GDP growth outperformed expectations in Q3, but annual inflation spiked further to 10.6% in October. Leading indicators are consistent with continued deceleration deepened by an energy crisis and aggressive policy rate hikes by the European Central Bank. Economic activity in the PRC remains hampered by

The Asian Development Bank Regional Economic Outlook Task Force led the preparation of a revised outlook for this *Asian Development Outlook Supplement*. The task force is chaired by the Economic Research and Regional Cooperation Department and includes representatives of the Central and West Asia Department, East Asia Department, Pacific Department, South Asia Department, and Southeast Asia Department. The data and analysis in this *Supplement* are generally based on information available to 30 November 2022.

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sporadic coronavirus disease (COVID-19) outbreaks, zero-COVID restrictions, and continued weakness in the property market. Growth picked up to 3.9% year on year in Q3, as the Omicron wave faded, but is now losing steam. The official PRC purchasing managers' index (PMI) fell to 49.4 in November, below the threshold of 50 separating expected improvement from deterioration, as conditions worsened across all sectors except construction.

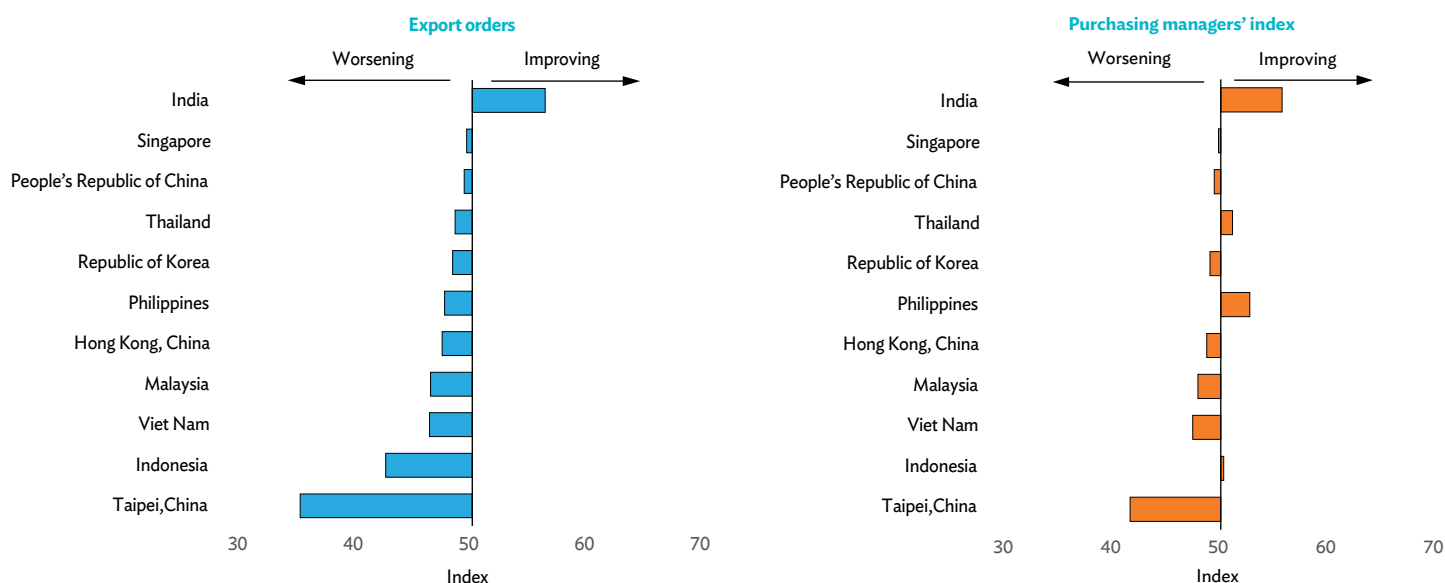
Adding to a consumption shift post pandemic from goods to services, slowdowns in the world's largest economies are further depressing demand for manufactured goods from developing Asia. Exports of goods from the PRC declined by 10.4% between July to October. In the rest of the region, exports dropped in July by more than 7% from their peak in June and stabilized around that level in August. Lower export orders point to continued weakness going forward. Among the 11 economies for which data on new export orders are available, 10 recorded readings below 50 in November, indicating declines from the previous month (Figure 1). India was the only exception. Readings of 48.3 for the Republic of Korea (ROK) and 35.1 for Taipei,China are particularly indicative of the worsening external environment, as these economies are typically bellwethers for international trade conditions. PMI readings are also consistent with softening economic activity in most economies.

Easing pandemic conditions and containment measures have underpinned healthy domestic demand in most of developing Asia this year. Mobility improved almost everywhere from earlier in the year (Figure 2). Reflecting this, retail sales growth year on year was strongly positive from May to September in Indonesia, Malaysia, the ROK, Singapore, Thailand, and Viet Nam (Figure 3). In the same period, retail sales increased only slightly in the PRC, weighed down by lockdowns in April and May, and declined in Hong Kong, China, where strict pandemic curbs started to relax gradually only in September.

Regional inflation having risen further in the second half of 2022, may have already peaked in many economies. Global oil, gas, and food prices have come down from their highs earlier this year, though they remain more elevated than before the Russian invasion of Ukraine. Headline inflation in developing Asia reached 5.6% in September, up from 3.0% at the start of the year, then declined to 5.2% in October (Figure 4). For 22 of the 28 economies in developing Asia with monthly inflation data, inflation has now come down from peaks reached earlier in the year, including in the largest economies: the PRC, India, Indonesia, the Republic of Korea, and Taipei,China (Figure 5). Even with the recent declines inflation remains well above normal levels in many economies, and further supply disruptions and price shocks are possible, so continued vigilance from policymakers is required.

Figure 1 Leading indicators: New export orders and manufacturing PMIs

Leading indicators show signs of weakening.



PMI = purchasing managers' index.

Note: PMIs are for manufacturing in November 2022 except for Hong Kong, China, where they cover the whole economy in October.

Source: CEIC Data Company (accessed 5 December 2022).

Figure 2 Mobility in retail and recreation establishments

Mobility has improved almost everywhere.

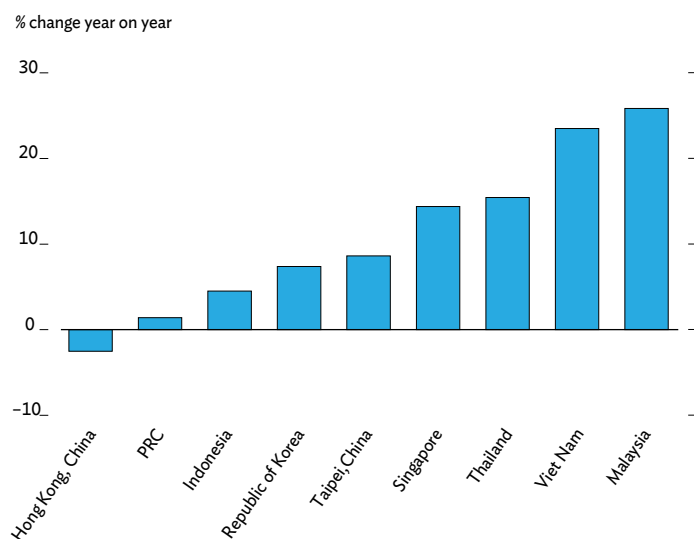
	2022									
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Indonesia	7.5	3.8	7.8	8.9	18.6	12.0	14.3	14.7	13.9	11.4
Philippines	-13.9	0.0	3.0	5.1	12.6	14.1	14.7	20.3	21.2	26.5
India	-9.2	3.3	7.5	9.4	10.2	8.7	6.1	13.9	13.2	18.4
Republic of Korea	1.6	-3.3	-10.5	0.2	9.9	6.8	5.9	5.3	4.5	6.7
Thailand	-0.9	7.9	-4.0	-4.2	-1.9	-1.3	-1.6	-2.5	3.2	1.3
Viet Nam	-13.0	-13.5	-13.6	-0.9	0.4	1.6	4.0	5.2	6.0	5.7
Malaysia	-7.2	-12.2	-12.1	-9.1	0.2	-0.4	-2.7	-1.2	0.6	0.1
Singapore	-9.0	-16.1	-16.5	-14.3	-9.5	-8.7	-8.5	-5.4	-4.5	-4.7
Hong Kong, China	-10.8	-30.5	-41.0	-25.7	-15.9	-14.9	-15.3	-13.1	-12.4	-10.3
Taipei, China	-11.8	-14.8	-17.2	-21.4	-33.2	-27.9	-20.3	-17.8	-19.6	-17.9

Note: Numbers refer to change in the number of visitors in retail and recreation areas or in time spent there relative to the baseline: the median day in the 5 weeks from 3 January to 6 February 2020. Shades of red indicate months with visitor traffic below the baseline and green above.

Source: CEIC Data Company (accessed 17 November 2022).

Figure 3 Retail sales

Retail sales posted strong growth from May to September.



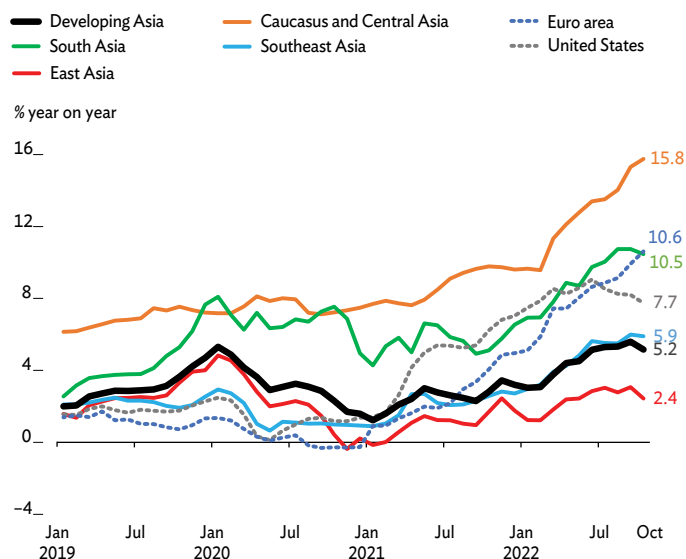
PRC = People's Republic of China.

Note: Bars plot the 5-month average of retail sales growth from May to September 2022 except for Thailand, which is from April to August for lack of September data.

Source: CEIC Data Company (accessed 25 November 2022).

Figure 4 Inflation

Headline inflation rose steadily by varying degrees this year, but it may already have peaked in many economies.



Source: CEIC Data Company (accessed 5 December 2022).

Central banks continue to raise policy rates, striving to curb inflation and safeguard financial stability. Monetary authorities in developing Asia have hiked rates 68 times by an average of 63 basis points per hike so far in 2022, up from 23 rate hikes averaging 38 points per hike in 2021 (Figure 6). This has tightened financial conditions in the region, which have also been greatly influenced by aggressive rate hikes in the US and Europe.

Financial markets have flip-flopped between optimism and pessimism in recent months, reacting to the latest US inflation numbers and whatever policy signals they can glean from Federal Reserve officials' speeches. But, in the year as a whole, the broad trend has seen financial conditions deteriorate. Regional bond yields have risen, credit default swap spreads have widened, equity markets have declined, and currencies have depreciated.

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Figure 5 Monthly inflation, % year on year

Inflation has come off its peak in 22 of 28 regional economies.

Economy	2022									
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Caucasus and Central Asia										
Armenia	7.1	6.5	7.4	8.4	9.0	10.3	9.3	9.1	9.9	9.5
Azerbaijan	12.4	11.9	12.1	12.9	13.7	14.1	13.7	14.1	15.6	15.6
Georgia	13.9	13.7	11.8	12.8	13.3	12.8	11.5	10.9	11.5	10.6
Kazakhstan	8.5	8.7	12.0	13.2	14.0	14.5	15.0	16.1	17.7	18.8
Kyrgyz Republic	11.2	10.8	13.2	14.5	14.0	13.1	13.8	15.6	15.5	15.4
Tajikistan	7.8	7.1	7.3	7.3	7.5	8.3	8.3	6.4
Uzbekistan	9.8	9.7	10.4	10.4	11.0	12.2	12.3	12.3	12.2	12.2
East Asia										
Hong Kong, China	1.2	1.6	1.7	1.3	1.2	1.8	1.9	1.9	4.4	1.8
Mongolia	15.1	15.3	15.7	15.8	16.2	16.9	16.4	14.4	13.8	14.5
People's Republic of China	0.9	0.9	1.5	2.1	2.1	2.5	2.7	2.5	2.8	2.1
Republic of Korea	3.6	3.7	4.1	4.8	5.4	6.0	6.3	5.7	5.6	5.7
Taipei, China	2.8	2.3	3.3	3.4	3.4	3.6	3.4	2.7	2.8	2.7
South Asia										
Bangladesh	5.9	6.2	6.2	6.3	7.4	7.6	7.5	9.5	9.1	8.9
India	6.0	6.1	7.0	7.8	7.0	7.0	6.7	7.0	7.4	6.8
Maldives	0.2	0.6	1.1	1.2	2.5	5.2	2.5	2.6	3.1	...
Nepal	5.6	6.0	7.1	7.3	7.9	8.6	8.1	8.3	8.6	8.5
Pakistan	13.0	12.2	12.7	13.4	13.8	21.3	24.9	27.3	23.2	26.6
Sri Lanka	16.8	17.5	21.5	33.8	45.3	58.9	66.7	70.2	73.7	70.6
Southeast Asia										
Brunei Darussalam	2.8	3.2	3.8	3.9	3.8	3.9	4.1	4.5	4.3	...
Cambodia	4.1	6.3	7.2	7.3	7.2	7.8	5.4	4.9	4.4	...
Indonesia	2.2	2.1	2.6	3.5	3.6	4.3	4.9	4.7	6.0	5.7
Lao People's Democratic Republic	6.2	7.3	8.5	9.9	12.8	23.6	25.6	30.0	34.0	36.8
Malaysia	2.3	2.2	2.2	2.3	2.8	3.4	4.4	4.7	4.5	4.0
Myanmar	13.8	14.1	17.3	17.8	18.2	19.4
Philippines	3.0	3.0	4.0	4.9	5.4	6.1	6.4	6.3	6.9	7.7
Singapore	4.0	4.3	5.4	5.4	5.6	6.7	7.0	7.5	7.5	6.7
Thailand	3.2	5.3	5.7	4.6	7.1	7.7	7.6	7.9	6.4	6.0
Viet Nam	1.9	1.4	2.4	2.6	2.9	3.4	3.1	2.9	3.9	4.3

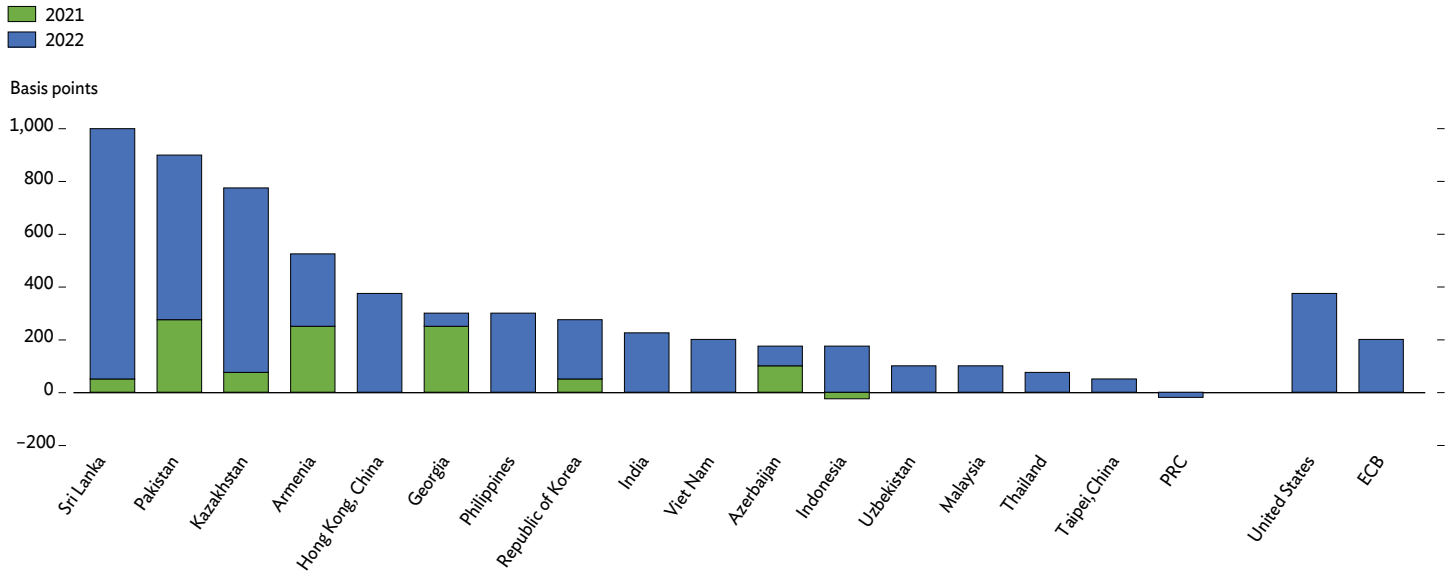
... = not available.

Note: Dark green denotes low inflation, and dark red high inflation, relative to regional norms from January to October 2022. Missing economies lack monthly inflation data.

Sources: CEIC Data Company (accessed 7 December 2022).

Figure 6 Monetary policy rate changes

Central banks in developing Asia have enacted more and larger rate hikes this year than in 2021.



ECB = European Central Bank, PRC = People’s Republic of China.

Note: 2022 is from 1 January to 8 December 2022.

Source: Bloomberg (accessed 8 December 2022).

Regional outlook and risks

Global economic prospects have worsened since the September *Update* (box). The major advanced economies will expand slightly more than previously anticipated this year but are expected to endure sharp deceleration in 2023. Tightening monetary and financial conditions will drag on economic activity in the US and the euro area next year, with the latter likely to fall into a technical recession. Despite this, inflation is forecast to continue to exceed central bank targets in both the US and euro area in 2023, necessitating continued tightening, and oil prices are projected to remain elevated. The baseline forecast assumes that the PRC will ease its zero-COVID policies only gradually to the forecast horizon.

Against this backdrop, this *Supplement* revises only slightly the regional outlook in the *Update* (table). Recovery in developing Asia is expected to continue but lose some steam. The region’s 2022 GDP growth forecast is revised down marginally to 4.2%, reflecting downward revisions for East Asia and, particularly, the PRC, where pandemic-induced disruption and unresolved problems in the property market are expected to weaken growth. By contrast, growth projections are revised up for the Caucasus and Central Asia on continued benign economic spillover from the Russian invasion of Ukraine, for Southeast Asia on recovering domestic demand and tourism, and for the Pacific on rebounding tourist arrivals in Fiji. The regional growth projection for 2023 is trimmed by 0.3 percentage

points to 4.6% as a darkening global outlook is expected to slow expansion in every subregion but the Caucasus and Central Asia.

The *Update* forecast for regional inflation this year is revised down marginally to 4.4% as downward revisions for East Asia, Southeast Asia, and the Pacific outweigh upward revisions in the two remaining subregions. With upward revisions for South Asia, Southeast Asia, and the Pacific in 2023, regional inflation is now forecast to ease less next year than projected earlier, to 4.2%.

Even with the further deterioration in forecasts, developing Asia will still grow more than other regions and suffer lower inflation than most (Figure 7).

Risks to the outlook abound. Stubbornly high inflation in the US and other advanced economies could prolong the current monetary tightening cycle, and the synchronized nature of the squeeze may bring overly restrictive monetary stances and unnecessary output and employment losses. Further growth deceleration in the PRC caused by pandemic or property market issues also threatens to jeopardize regional economic prospects. Similarly, a dangerous situation in the Russian Federation and Ukraine could renew surges in commodity prices, stoking global inflation and inducing further monetary tightening. Additional challenges are geopolitical tensions, notably worsening PRC–US relations, and climate-related risks.

GDP growth rate and inflation, %

	GDP growth					Inflation				
	2021	2022		2023		2021	2022		2023	
		September Update	December ADOS	September Update	December ADOS		September Update	December ADOS	September Update	December ADOS
Developing Asia	7.0	4.3	4.2	4.9	4.6	2.5	4.5	4.4	4.0	4.2
Developing Asia excluding the PRC	5.9	5.3	5.4	5.3	5.0	4.1	6.6	6.7	5.5	6.0
Caucasus and Central Asia	5.7	3.9	4.8	4.2	4.2	8.9	11.5	12.5	8.5	8.5
Kazakhstan	4.3	3.0	3.0	3.7	3.7	8.0	11.2	14.0	7.5	8.2
East Asia	7.7	3.2	2.9	4.2	4.0	1.1	2.5	2.4	2.5	2.4
Hong Kong, China	6.3	0.2	-3.3	3.7	2.9	1.6	2.0	2.0	2.0	2.0
People's Republic of China	8.1	3.3	3.0	4.5	4.3	0.9	2.3	2.1	2.5	2.3
Republic of Korea	4.1	2.6	2.6	2.3	1.5	2.5	4.5	5.1	3.0	3.2
Taipei,China	6.6	3.4	3.4	3.0	3.0	2.0	2.8	2.8	2.0	2.0
South Asia	8.1	6.5	6.5	6.5	6.3	5.8	8.1	8.2	7.4	7.9
India	8.7	7.0	7.0	7.2	7.2	5.5	6.7	6.7	5.8	5.8
Southeast Asia	3.3	5.1	5.5	5.0	4.7	2.0	5.2	5.1	4.1	4.5
Indonesia	3.7	5.4	5.4	5.0	4.8	1.6	4.6	4.2	5.1	5.0
Malaysia	3.1	6.0	7.3	4.7	4.3	2.5	2.7	3.0	2.5	3.0
Philippines	5.7	6.5	7.4	6.3	6.0	3.9	5.3	5.7	4.3	4.3
Singapore	7.6	3.7	3.3	3.0	2.3	2.3	5.5	6.0	2.3	5.5
Thailand	1.5	2.9	3.2	4.2	4.0	1.2	6.3	6.3	2.7	2.7
Viet Nam	2.6	6.5	7.5	6.7	6.3	1.8	3.8	3.5	4.0	4.5
The Pacific	-1.7	4.7	5.3	5.5	4.8	3.1	6.2	5.8	4.8	5.0

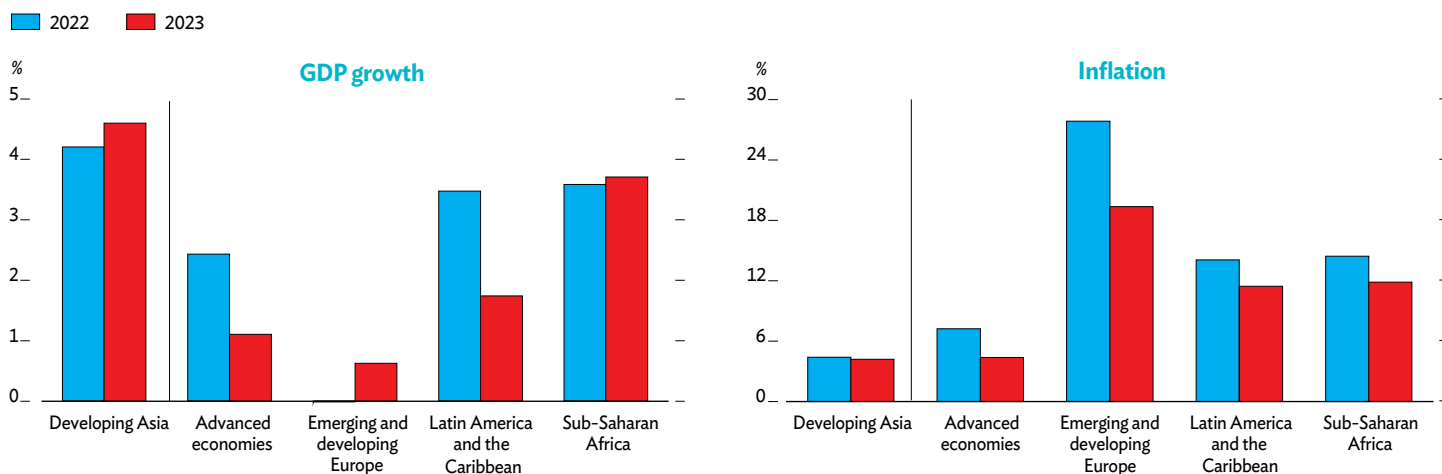
ADO = Asian Development Outlook, ADOS = ADO Supplement, GDP = gross domestic product, PRC = People's Republic of China.

Note: **Developing Asia** refers to the 46 developing 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.

Sources: Asian Development Bank. 2022. *Asian Development Outlook 2022 Update*; Asian Development Bank estimates.

Figure 7 GDP growth and inflation

Developing Asia can expect faster growth and lower inflation than in other regions.



GDP = gross domestic product.

Source: Asian Development Outlook database; International Monetary Fund. World Economic Outlook Update October 2022 (accessed 7 December 2022).

Growth and inflation outlook by subregion

East Asia

Growth forecasts for East Asia are revised down from 3.2% to 2.9% in 2022 as Hong Kong, China contracts and growth in the PRC is weaker than expected, and from 4.2% to 4.0% in 2023 as weakness persists in the PRC and deepens in the ROK.

In the PRC, GDP expanded by 3.0% in the first 3 quarters of 2022, driven primarily by infrastructure investment and solid external trade, while stress in the property market continued to drag on growth. Affected by COVID-19 lockdowns, services and household consumption recovered only gradually. In the first 3 quarters of 2022, growth in services continued to lag expansion in manufacturing. During the first 10 months of 2022, value added in industry grew by 4.0%, while real growth in retail sales is estimated to have contracted by 2.2% because of COVID-19 restrictions. During the same period, nominal fixed asset investment grew by 5.8% as manufacturing investment expanded by 9.7% and infrastructure investment by 8.7%, while a stressed property market dragged real estate investment down by 8.8%. External trade growth remained solid despite a moderating trend, with merchandise exports expanding by 11.1% and imports by 3.5%.

Recovery in the PRC in Q3 2022 was followed by a general softening of economic activity in October, and a pickup in new COVID-19 cases in November triggered renewed restrictions, once again dragging on recovery in household demand and services. Looking ahead, property will continue to weigh on economic recovery as that market has yet to stabilize and recent support measures will need time to take effect. To shore up economic growth, the government approved additional infrastructure funding in Q3 2022. In addition, fiscal outlays may further increase in Q4 2022 to support growth. Yet weakening growth means a GDP growth forecast for 2022 reduced by 0.3 percentage points from the *Update* to 3.0%, and for 2023 reduced by 0.2 points to 4.3% given the slowdown in the major economies.

Contraction in Hong Kong, China deepened to 4.5% year on year in Q3. Tightened financial conditions weighed heavily on domestic demand, widening contraction in fixed investment to 14.3% in the quarter and stalling private consumption. The worsened external environment and continued disruption to cargo flows across PRC land portals dealt a serious blow to external demand, with goods exports plummeting by 15.6% and service exports slipping by 3.8%. Real GDP contracted by

3.3% in the first 3 quarters of 2022. The markedly deteriorating global economy will continue to be a major drag on exports from Hong Kong, China. Further, fixed investment will remain suppressed by tightened financial conditions, weaker economic activity, and rising borrowing costs. On the upside, relaxed testing and quarantine arrangements for visitors should boost service exports, while favorable labor market conditions and a consumption voucher scheme will support domestic consumption. Assuming that the pandemic remains under control and COVID-19 restrictions are relaxed further, economic activity is expected to return gradually to normal. Factoring in base effects, this *Supplement* downgrades the *Update* growth forecast to 3.3% contraction in 2022 and 2.9% growth in 2023.

The ROK economy, having grown by 3.0% year on year from January to September 2022, is expected to expand more slowly in Q4. The external sector has been buffeted by a slowing global economy, with growth in exports year on year slipping in October to its lowest rate in 2 years. The global slowdown, elevated energy prices, supply disruption, and higher interest rates will slow growth to about its pre-pandemic average of 2.6% in 2022 and further to 1.5% in 2023.

GDP growth in Taipei, China picked up to 4.1% year on year in Q3. Private consumption grew by 7.5% as COVID-19 restrictions were relaxed and as government efforts to stimulate domestic tourism encouraged travel and spending. Investment grew by only 0.9% as firms likely chose to defer capital expenditure as global uncertainty mounted. Export growth was likewise sluggish at 1.4%, reflecting weaker global demand. Imports grew by 1.2%, such that net exports contributed a mere 0.3 percentage points to growth. This brought growth year on year in the first 3 quarters of 2022 to 3.6%. Exports are forecast to remain weak. Private consumption will likely soften gradually with government stimulus scheduled to end in June 2023. Recent developments have been broadly in line with expectations in the *Update*, so growth forecasts are maintained at 3.4% in 2022 and 3.0% in 2023.

Inflation forecasts for East Asia are revised down from 2.5% to 2.4% for both 2022 and 2023, mainly on account of the downward adjustments for the PRC. Consumer prices in the PRC increased by an average of 2.0% year on year in the first 9 months of 2022. Nonfood inflation was 2.0% on average, mainly reflecting higher fuel prices. Food prices increased on average by 2.1% on rising pork prices. Producer prices rose by 6.0% on average, driven primarily by higher commodity and energy prices. Inflation forecasts for the PRC are trimmed by 0.2 percentage points, to 2.1% in 2022 and 2.3% in 2023, in line with lower GDP growth.

Headline inflation in Hong Kong, China surged from 1.9% year on year in August to 4.4% in September on a base effect caused by the housing authority having waived public housing rent in

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September 2021. While import prices will continue to rise in line with high inflation in many major economies, largely mild domestic cost pressures should help keep overall inflation moderate in the near term. This *Supplement* maintains the *Update* inflation forecast of 2.0% for 2022 and 2023.

In the ROK, inflation accelerated more than expected to average 5.1% in the year to October—well above the 2.0% target. Higher prices for oil, food, and personal services have been the primary drivers of inflation. The Bank of Korea has raised its policy rate by a total of 250 basis points since July 2021 to contain inflation. Notwithstanding monetary tightening, forecasts for inflation are raised as inflation in the year to date is high and shows few signs of abating soon.

Inflation in Taipei, China reached 3.6% in June 2022 but gradually came down to 2.7% in October. With global supply chain bottlenecks easing and commodity prices expected to continue downward, inflation forecasts are maintained at 2.8% in 2022 and 2.0% in 2023.

South Asia

South Asia is on track to meet the *Update* growth forecast of 6.5% in 2022, but the forecast for 2023 is downgraded slightly from 6.5% to 6.3%. The subregional revision for 2023 largely reflects lower forecasts for Bangladesh and Pakistan. In Bangladesh, recovery is hampered by external imbalances and unexpectedly high inflation. In Pakistan, floods that began in mid-June have dampened economic activity already affected by stabilization efforts to tackle sizable fiscal and external imbalances and double-digit inflation.

In India, the economy grew by 6.3% in Q2 of fiscal year 2022 (FY2022, ending 31 March 2023), reflecting contraction in public consumption of 4.4% even as exports grew by 11.5% despite the global slowdown. On the supply side, growth was led by service sector growth at 9.3%, contributing 4.6 percentage points to GDP growth. Industry, by contrast, suffered a small contraction by 0.8%, dragged down by contraction in manufacturing and mining. Despite recent global headwinds, the Indian economy is expected to grow by 7.0%, as projected in the *Update*, supported by a strong domestic base. While some recent high-frequency indicators are more favorable than expected—notably consumer confidence, electricity supply, and purchasing managers' indexes—others are a little less favorable, in particular exports, largely textiles and iron ore, and the index of industrial production of consumer goods. The growth forecast for FY2023 is unchanged at 7.2%, sustained by positive effects from structural reform and from public investment catalyzing private investment.

In Bangladesh, the GDP growth projection for FY2023 (ending 30 June 2023) is adjusted down on account of dampened exports and a widening trade deficit, continued high inflation and shortages of electric power and other energy, subdued remittances, and austerity measures adopted by the government to narrow a large financing gap. Risk to the forecast is on the downside, from declining global growth, particularly in Europe and the US.

In Maldives, the *Update* forecast for 2022 is revised up but the 2023 forecast is lowered. Tourist arrivals were strong from January to October 2022, growing by 33% year on year. Construction also started to pick up in the first 3 quarters of 2022, as indicated by a 72% increase in imports of construction goods, and will increase further in the final quarter of 2022. Construction is projected to slow in 2023, however, as the government starts to implement some fiscal consolidation.

The Pakistani outlook for FY2023 (ending 30 June 2023) has deteriorated under heavy flooding that began in mid-June. The economy was already struggling to regain macroeconomic and fiscal stability before the floods, which have adversely affected cotton, rice, and other important crops. As wheat is usually planted from mid-October, flood damage threatens the upcoming agricultural season as well. Further, the flooding is expected to have spillover effects on industry, notably textiles and food processing, and on services, in particular wholesale trade and transportation. Flood disruption and damage are expected to slow real GDP growth in combination with a tight monetary stance, high inflation, and an uncondusive global environment.

Elsewhere in South Asia, economies are on track to meet previous projections. In Bhutan, agriculture is set to expand on better weather, and construction is expected to ensure growth in industry. Service growth will be lower than earlier expected following a tripling in June 2022 of the sustainable development fee, a daily tariff on visitors, to \$200 per head. This could dampen service growth in 2023 as effects spin off on other businesses dependent on tourism.

The official GDP growth estimate for Nepal in FY2022 (ended 16 July 2022) meets the *Update* forecast, and growth prospects for FY2023 remain in line with the projection, with domestic demand stymied by tight monetary policy implemented to stem inflation and rising imports, which have depleted foreign exchange reserves. Fiscal policy enunciated in the budget speech for 2023 is somewhat expansionary, aiming to strengthen agriculture, industry, infrastructure development, and social protection.

Sri Lanka saw GDP contract by 1.6% year on year in Q1 2022 and by 8.4% in Q2 as supply chain disruption and shortages of essentials stemmed from an acute foreign exchange shortage and

a consequent energy crisis. Industry led the decline with 10.0% contraction in Q2, as agriculture shrank by 8.4% under fallout from a temporary ban on chemical fertilizers, but every major sector declined as the economy shrank by 4.8% in the first half of the year. The pace of deterioration slowed considerably in Q3 as the availability and management of essential supplies improved somewhat. Import restrictions on food, medicine, and essential raw materials were relaxed in stages. Factoring in forward-looking indicators, *Update* forecasts for GDP contraction in 2022 and 2023 are retained. Contraction could exceed forecasts, though, as significant downside risks include drawn-out debt restructuring negotiations with creditor holdouts, a possible bank crisis, a fragile political environment, and global headwinds.

With the change in the government in Afghanistan in August 2021, the country faced distinctly reduced levels of international aid, public revenues, and inward remittances. The share of agriculture in GDP increased as more people returned to subsistence farming due to reduced employment opportunities in industry and services. The economic and political situation in Afghanistan is likely to remain difficult in the foreseeable future. In the short term, international aid is likely to be limited to humanitarian activities and basic human needs comprising education, health care, nutrition, and community-based livelihood support.¹

The inflation projection for South Asia is increased marginally for 2022 from 8.1% to 8.2% and more substantially for 2023 from 7.4% to 7.9%. The subregional revision for 2023 largely reflects higher inflation forecasts for Bangladesh, Nepal, Pakistan, and Sri Lanka. Inflation forecasts for elsewhere in the subregion in 2023 remain unchanged. Inflation in India is still expected to rise to 6.7% in FY2022 before falling back to 5.8%.

Inflation forecasts for Sri Lanka are revised up for both 2022 and 2023, reflecting persistent market shortages, contractionary fiscal policy, intensifying external pressures, and higher global energy and food prices. The FY2023 forecast for Pakistan is revised up to reflect a weaker currency, higher domestic energy prices, and flood-related crop and livestock losses and supply disruption, which have caused transitory food shortages and price spikes. Transportation difficulties have exacerbated these shortages and disrupted other domestic supply chains, broadening inflationary pressures and imposing production challenges. The FY2023 forecast for inflation in Bangladesh is sharply raised to account for several factors: a worsening outlook for agriculture following losses from flash floods and Cyclone Sitrang; the effects of currency depreciation on prices for imported products; rising global prices for food, fuel, fertilizer, and other commodities; administered oil and natural gas price hikes; and expected increases in retail electricity prices. Turning to Nepal, the FY2023 inflation forecast

is raised in line with recent data showing inflation in its first 3 months to mid-October averaging 8.5% year on year, up from 4.0% a year earlier.

Southeast Asia

The GDP growth forecast for Southeast Asia in 2022 is revised up to 5.5% thanks to higher forecasts for Malaysia, the Philippines, Thailand, Timor-Leste, and Viet Nam after surprisingly robust Q3 performances. Stronger consumption, exports, and services, particularly for tourism, lifted growth forecasts for these economies. However, these growth rates are unlikely to be maintained as global demand weakens. Forecasts for Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam are adjusted down to 4.7% in 2023. Consumer and business confidence are likely to be affected by high inflation and rising interest rates, while government spending may be curtailed under constrained public finances.

Global economic volatility has not held back growth in Indonesia. Real GDP grew by 5.7% in Q3, broadly in line with expectations in the *Update* and supporting the 5.4% projection for the full year. However, worsening headwinds point to growth slowing to 4.8% in 2023, lower than 5.0% projected in the *Update*. So far in 2022, private consumption has continued to grow above its pre-pandemic trend rate, and investment has picked up. Together, they more than offset a fall in public spending. An export boom continues on strong demand for primary commodities. Exports of services have also grown quickly as tourist arrivals recovered. In 2023, growth will be held back by slowing exports of goods as the advanced economies weaken, private consumption returning to trend growth, and tightening fiscal and monetary policy.

Malaysia recorded robust growth in 2022, surpassing expectations with a double-digit growth at 14.2% in Q3. While some of this reflects weakness in Q3 2021, growth was driven as well by strengthening in most components of domestic demand as the economy continued to normalize. Domestic demand was supported by improved labor market conditions, with the unemployment rate improving from 4.3% at the end of 2021 to 3.7% in Q3 2022. In addition, policy measures such as a minimum wage increase and the Bantuan Keluarga Malaysia cash aid program stimulated household consumption. Easing mobility restrictions and border reopening in April 2022 spurred consumer and leisure spending, which reinvigorated the service sector. Following unexpected and substantial growth in Q3, the 2022 growth forecast is upgraded from 6.0% to 7.3%. Meanwhile, the 2023 forecast is downgraded from 4.7% to 4.3% in light of subdued global conditions.

¹ ADB placed on hold its assistance in Afghanistan effective 15 August 2021. [ADB Statement on Afghanistan](#) | Asian Development Bank (10 November 2021).

The 2022 growth forecast for the Philippines is revised up after domestic demand spurred Q3 growth above expectations. GDP grew by 7.7% in the first 3 quarters of this year, driven by robust private consumption and investment and by sustained public infrastructure spending. Rising employment, tourism recovery, expanding production and retail sales, and public investment will continue to support growth. The GDP growth forecast for 2023 is revised down to accommodate monetary tightening, a sharper growth slowdown in the advanced economies, and continuing uncertainty arising from the Russian invasion of Ukraine.

Singapore's economy grew by 4.1% in Q3 2022, for GDP grow by 4.2% in the first 3 quarters, supported by services and construction. The expansion in construction accelerated as easing border restrictions facilitated the inflow of migrant workers. In contrast, manufacturing slowed on a drop in output of electronics and chemicals. The manufacturing PMI in October 2022 signaled contraction, and business sentiment remained negative. Heightened global inflation and tightening financial conditions will weigh on demand for financial services and weaken growth prospects in the financial sector. The pace of consumer spending is likely to moderate as high inflation and the uncertain economic environment dampen consumer sentiment. GDP growth forecasts are revised down to 3.3% for 2022 and 2.3% for 2023.

Thailand accelerated in Q3 mainly on a surge in service exports with the return of international tourists. Private consumption and private investment also expanded. Exports of goods were buoyed by strong demand for most major export products: integrated circuits, air conditioners, pickups and other trucks, electrical appliance parts, machinery, sugar, and chilled, fresh, and prepared chicken. GDP forecasts are revised up from 2.9% to 3.2% for 2022 but revised down from 4.2% to 4.0% for 2023 as weaker demand from the rest of the world weighs on exports.

A strong performance across sectors boosted Viet Nam, whose economy expanded by 8.8% in the first 3 quarters of 2022. Economic activity rebounded following the removal of COVID-19 restrictions and the achievement of nationwide vaccine coverage. International tourist arrivals reached 2.4 million in the period from January to October. With these developments, the growth forecast for 2022 is adjusted up to 7.5%. While trade continues to expand, signs show weakening global demand for the country's exports. The manufacturing PMI dipped from 50.6 in October to 47.4 in November, and employment was down for the first time in 8 months. Little liquidity is left for economic recovery after recent monetary tightening, a decline in corporate debt issuance from January to October, and a slowdown in disbursement of public investment. The growth forecast for 2023 is therefore adjusted down from 6.7% to 6.3% as major trade partners weaken.

Many Southeast Asian central banks have raised policy rates in response to rising global interest rates, capital outflows, currency depreciation, and accelerating inflation with higher global food and energy prices. The inflation forecast for Southeast Asia in 2022 is revised down slightly as lower forecasts for Indonesia and Viet Nam are offset by higher forecasts for Malaysia, the Philippines, and Singapore. However, the subregional inflation forecast is revised up for 2023 as imported inflation is expected to remain significant for some time. Double-digit inflation in the Lao People's Democratic Republic and Myanmar is foreseen continuing in 2023, aggravated by weaker currencies and external imbalances. Inflationary pressures are likely to come from further currency weakness over the coming months as the US Fed continues to hike interest rates.

Inflation in Indonesia is now projected to average 4.2% in 2022, lower than in the *Update* but above the central bank target of 2%–4%. For the same reasons—output below full potential, ample supplies holding down food prices, steady inflation expectations, and the central bank having started a preemptive round of policy rate increases—the inflation projection for 2023 is revised down marginally to 5.0%.

Inflation forecasts for Malaysia are raised to 3.0% for 2022 and 2023 as food and transportation prices have become elevated with stronger demand and pressures on supply. Also contributing to inflation are lockdowns in the PRC, adverse weather in key food-exporting countries, and a stronger US dollar buoyed by increased interest rates. Inflation forecasts for this year and next in Singapore are also higher than in the *Update* in September, with higher costs for materials and utilities under renewed contracts foreseen continuing to pass through to consumer prices into 2023. Also keeping inflation elevated is a planned hike in the goods and services tax in January 2023. Inflation forecasts for the Philippines are raised for 2022, mainly in response to higher food prices, but maintained for 2023. In Viet Nam, inflation averaged 3.0% from January to November, kept in check by price controls on essential commodities. However, recent weakness in the local currency against the US dollar and a central bank policy rate hike signal rising inflationary pressures, which are expected to continue into 2023. Inflation forecasts are lowered to 3.5% for 2022 but raised to 4.5% for 2023.

Caucasus and Central Asia

The subregional growth projection for the Caucasus and Central Asia in 2022 is raised from 3.9% in the *Update* to 4.8% in this *Supplement*, while the projection for 2023 remains unchanged at 4.2%. The upward adjustment for 2022 reflects robust growth in many economies in the subregion as spillover from the Russian invasion of Ukraine has so far been benign. The Russian economy

has fared better than expected, and exports to the Russian Federation from economies in the subregion have continued to be strong. Hydrocarbon exporters have benefited from high energy prices, and several subregional economies have benefited from inflows of people and money from the Russian Federation.

Armenia saw a significant increase in private consumption, especially for services, with a large influx of Russian citizens and businesspeople. The economy grew by a strong 12.6% year on year in the first 9 months of 2022. Double-digit growth continued as well in Georgia, reaching 10.2% in September. As in Armenia, growth in Georgia was stimulated by strong consumer spending mainly owing to arrivals from the Russian Federation. Inward money transfers surged by 65% to September, with the amount received from the Russian Federation quadrupling. As Russian migrants arrived, receipts from tourism recovered to approach a record high set in 2019.

In January–October 2022, the Kyrgyz Republic expanded by 7.0%, benefiting again from inflows of tourists, workers, and firms from the Russian Federation, especially after the announcement on 22 September of a military draft in the Russian Federation, and from significant money transfers that fueled consumption. In the first 9 months of 2022, Uzbekistan grew by 5.8% as the primary income surplus expanded by a factor of 2.5 with the arrival of seasonal migrant workers; Azerbaijan grew by 5.6%, reflecting high growth in construction, manufacturing, and services; and Tajikistan expanded by 7.8%, with industry as a primary driver of growth. Growth in Turkmenistan appears to have benefited from buoyant gas exports.

Notwithstanding its close economic links with the Russian Federation, Kazakhstan, the subregion's largest economy, grew by a modest 2.8% in the first 3 quarters of 2022. Continuing repairs to the Caspian Pipeline Consortium oil export route through the Russian Federation restricted petroleum exports. As of early November 2022, the consortium was operating at a reduced capacity of 60%. Accordingly, this *Supplement* refrains from upwardly adjusting *Update* growth projections of 3.0% for 2022 and 3.7% for 2023.

The subregional inflation projection for 2022 is raised from 11.5% in the *Update* to 12.5%. The forecast for 2023 remains unchanged at 8.5%. Inflation persisted in many economies in the subregion, mainly reflecting high food prices since the Russian invasion of Ukraine and buoyant domestic demand.

Average annual inflation in Armenia in January–October 2022 was 8.7%, buoyed by 12.9% inflation for food. Inflation in Azerbaijan rose to 13.4% in the year to September, also driven

by rising food prices as supplies from the Russian Federation and Ukraine were disrupted, as well as by price hikes in the country's trade partners. In the year to October, Georgia saw inflation average 12.4% as stronger tourism and multiple waves of Russian migrants stimulated domestic demand, sparking price hikes including for locally produced goods; Kazakhstan's inflation rate accelerated to 13.9% as supply chain disruption from food export bans imposed by the Russian Federation left staple foods in short supply and pushed up domestic prices; sharp increases in food and energy prices in the Kyrgyz Republic lifted inflation there to 13.7%; and inflation in Uzbekistan accelerated to 11.2% as the liberalization of administered prices for domestic wheat brought higher prices for flour and bread. Contrary to the upward trend observed in other subregional economies, the average inflation rate in Tajikistan decelerated to 5.7% in the first 9 months of 2022 as discouragement of agricultural exports exerted downward pressure on farmgate prices.

The Pacific

Economic growth in the Pacific is now expected to reach 5.3% in 2022, up from 4.7% forecast in the *Update*. This largely reflects an upward adjustment to the outlook for Fiji as visitor arrivals outperform expectations and a smaller contraction estimate for the Marshall Islands in FY2022 (ended 30 September 2022, as in Palau) because data indicate less impact from the pandemic than anticipated. Palau is estimated to have remained in contraction in FY2022 because visitor arrivals fell below adjusted expectations. Contraction in Samoa in FY2022 (ended 30 June 2022, as in Tonga) exceeded projections as output continued to decline across many segments of the economy, and a larger contraction is estimated for Tonga in FY2022 as recent high inflation has depressed the real value of economic output.

The subregional growth projection for 2023 is revised down from 5.5% in the *Update* to 4.8%. More moderate growth is seen in Fiji as some expansion is already being realized in 2022, and as high inflation mutes Tonga's recovery prospects. However, recovery is now expected in the Marshall Islands given the current trajectory of the economy and border opening in September 2022.

Subregional inflation is now forecast at 5.8% in 2022, down from 6.2% in the *Update*. The projection for Papua New Guinea is revised down as data show that prices rose more slowly than projected in the first half of the year. Inflation in the Marshall Islands was also much slower than expected in the first 9 months of FY2022, lowering the estimate for the full year. The inflation forecast for 2023 is now raised from 4.8% to 5.0% on raised inflation expectations in the Cook Islands, Samoa, and Tonga.

Box Global assumptions

Growth in the major advanced economies this year will be slightly higher than anticipated in the September *Update*. Stronger-than-expected third quarter (Q3) outturns were driven by net exports in the US and robust domestic demand in the euro area. In Japan, revived inbound tourism following reopening in September partly offset a deteriorating trade balance. Nevertheless, the outlook for the United States and the euro area next year remains bleak under persistently high inflation and tightening financial conditions. In aggregate, the major advanced economies are now expected to grow by 2.2% in 2022 and just 0.4% in 2023 (box table).

Baseline assumptions on the international economy

	2021		2022		2023	
	Actual	September Update	December ADOS	September Update	December ADOS	December ADOS
GDP growth, %						
Major advanced economies	5.1	1.9	2.2	1.0	0.4	0.4
United States	5.9	1.6	1.7	1.0	0.4	0.4
Euro area	5.3	2.5	3.0	0.7	0.1	0.1
Japan	1.7	1.4	1.4	1.6	1.3	1.3
Prices and inflation						
Brent crude spot prices, average, \$/barrel	70.44	106.00	100.00	95.00	95.00	95.00
CPI inflation, major advanced economies' average, %	3.3	7.2	7.4	3.0	2.5	2.5

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

Note: Average growth rates and inflation are weighed by GDP purchasing power parity.

Sources: Bloomberg; CEIC Data Company; Haver Analytics; IMF World Economic Outlook; Asian Development Bank estimates.

The US expanded in Q3 2022 by 2.9% quarter on quarter in seasonally adjusted annualized terms. Net trade contributed 2.9 percentage points to Q3 growth as exports expanded by 15.3% while imports contracted by 7.3%. The contribution of consumption fell from 1.4 points in Q2 to 1.2 points in Q3 because of higher prices and tighter liquidity. Government spending contributed 0.5 points as overall spending grew by 3.0% in the quarter. Investment dragged on gross domestic product (GDP) growth as it fell by 9.1% in the quarter, subtracting 1.7 points.

Growth in the US is forecast at 1.7% in 2022 before slowing sharply to 0.4% in 2023. The latest data suggest weaker prospects for investment and consumption under tighter financial conditions. Investment prospects remain dim as the Institute for Supply Management's ISM manufacturing index fell further from 50.2 in October to 49.0 in November, indicating weaker manufacturing in Q4. Consumer confidence also fell, from 98.9 in October to 96.9 in November, indicating less consumption growth. However, earnings continue to grow as the labor market remains robust. The unemployment rate has hovered at 3.5%–3.7% since March.

US inflation will likely remain elevated this year at 8.0% but is expected to moderate to 3.2% in 2023. Inflation remained high at 7.7% in October, driven mainly by high food and energy prices, but core inflation at 6.3% was also a concern. Service inflation continues to edge up, mainly on higher rent. To curb inflation, the federal funds rate was again increased by 75 basis points in November, bringing policy rates to a range of 3.75%–4.00%.

The euro area has been unexpectedly resilient but is likely to contract in Q4 under weak manufacturing and services. GDP growth surprised on the upside in Q3, coming in at 0.7% in seasonally adjusted annualized terms thanks to robust domestic demand. However, leading indicators suggest the economy is on the cusp of recession. The composite purchasing managers' index (PMI) fell in October deeper into contractionary territory and a 23-month low of 47.1. The manufacturing output index plunged to a 29-month low of 44.2 as factory output declined for a fifth consecutive month, dragged down by manufacturers highly dependent on energy. The service PMI also fell, to 48.2 and its lowest reading in 20 months. Meanwhile, the economic sentiment indicator dropped to 92.5, its lowest reading since November 2020 and well below its long-term average of 100. Souring sentiment reflected marked deterioration in service and manufacturing business confidence.

The euro area GDP growth forecast is raised to 3.0% in 2022 but then trimmed to only 0.1% in 2023. The upward revision for 2022 reflects the unexpectedly strong outturn in Q3. Economic activity is seen weakening in the remainder of this year and into next year, owing to high inflation, a more restrictive monetary policy, and a weaker global economy.

Euro area inflation forecasts are revised up to 8.3% in 2022 and 4.5% in 2023. This reflects broadening price pressures underpinned by soaring energy and food prices. The European Central Bank hiked its key interest rates by another 75 basis

continued on next page

Box 1 Continued

points in October and signaled that the tightening cycle is not over. Downside risks stem from uncertainty regarding possible energy supply shortages and more aggressive monetary policy tightening, which could worsen financial conditions and debt sustainability issues.

The Japanese economy was resilient in Q3 2022 despite the global slowdown. Domestic private demand continued to pick up at a gradual pace. However, a significant increase in imports dragged on growth in the period even though a revival in inbound travel after Japan's reopening in September had mitigated trade balance deterioration. The growth outlook for 2022 remains at 1.4%.

Net exports from Japan are forecast to recover late in 2023 as a weak yen boosts goods exports and inbound travel. Supported by high savings and moderate wage growth, household consumption will hold up despite rising inflation. The growth outlook is nevertheless downgraded from 1.6% in the *Update* to 1.3% because higher input prices will dwarf the effects of existing government expenditure programs, and because rising long-term interest rates will dampen fixed capital formation, including housing investment.

The inflation outlook for Japan remains at 2.1% in 2022 but is revised up from 0.8% to 2.0% in 2023. Japan's core consumer price index (CPI) is expected to peak at about 3.5% with the end of 2022. As the government extended its gas price cap subsidies and other energy price subsidies, higher import prices will take longer to fully factor into the CPI. In the second half of 2023, the core CPI will fall to 1.0%–2.0% as stabilizing international commodity prices are reflected in domestic prices and the effect of a weakening yen fades.

Brent crude prices remained volatile. Oil prices rose in the first 2 weeks of November as production cuts by the Organization of the Petroleum Exporting Countries and other major oil

producers (OPEC+) took effect, the US dollar fell, and news spread of a more relaxed COVID-19 policy in the People's Republic of China (PRC). However, oil prices began to fall in the third week of November as news of rising COVID-19 cases in the PRC brought to the fore a global recession narrative. The expected rise in oil prices as a result of the EU's ban on seaborne imports of Russian Federation crude oil did not occur, and crude oil prices fell to \$78/barrel in December, the lowest since the beginning of the year. Brent crude oil traded at about \$75/barrel on 8 December.

The forecast for oil prices in 2022 is revised down to \$100/barrel. The International Energy Agency identified several market headwinds weighing heavily on oil consumption: a persistently weak economy in the PRC, Europe's energy crisis, and a strong US dollar. Growth in oil consumption slowed in Q3 2022 to 1.0% year on year, down from an average of 3.7% in the first half of the year. It is now expected to contract by about 0.2% in Q4 2022.

The forecast for 2023 oil prices is retained at \$95 per barrel. While lower than in 2022, this is still significantly higher than the previous 5-year average of \$60/barrel. The International Energy Agency forecasts the oil market to be slightly in deficit with supply constrained by sanctions against the Russian Federation and by OPEC+ production cuts. However, price volatility remains high because global inventories are low. Key risks to the outlook are new sanctions against the Russian Federation, a sharper-than-expected global economic slowdown, and OPEC+ quota changes.

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