ASIAN DEVELOPMENT OUTLOOK 2022 UPDATE

ILO/IOE/SNEF REGIONAL FORUM, SINGAPORE

5 December 2022

ADB

adb.org/outlook

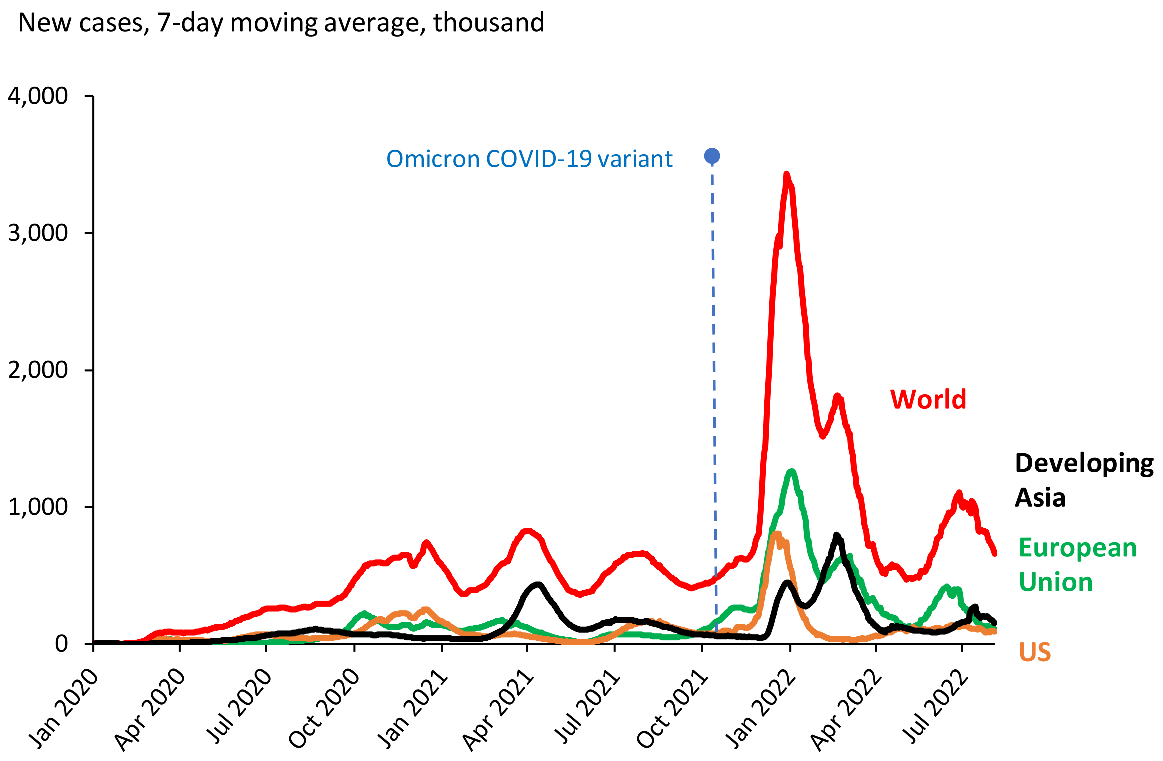
Developing Asia's recovery progresses even as challenges mount

- Since the April *Asian Development Outlook*, various headwinds have strengthened:
  - Russian invasion of Ukraine has raised uncertainty, reinforced supply disruptions, and unsettled energy and food markets, boosting inflation
  - More aggressive tightening by the US Federal Reserve and other central banks is denting global demand and rattling financial markets
  - Zero-COVID lockdowns in the PRC threaten growth and supply chains
- Developing Asia is now projected to grow more slowly, from 5.2% to 4.3% for 2022 and from 5.3% to 4.9% for 2023
- Inflation forecasts are revised up—from 3.7% to 4.5% for 2022, and from 3.1% to 4.0% for 2023—on higher energy and food prices
- Several downside risks loom large, including a sharp deceleration in global growth, stronger-than-expected monetary policy tightening, escalation of the Russian invasion of Ukraine, deeper-than-expected deceleration in the PRC, and negative pandemic developments

The pandemic lingers, but declining COVID-19 mortality risk…

After surging globally early this year, COVID-19 cases have fallen and are at low levels in developing Asia.

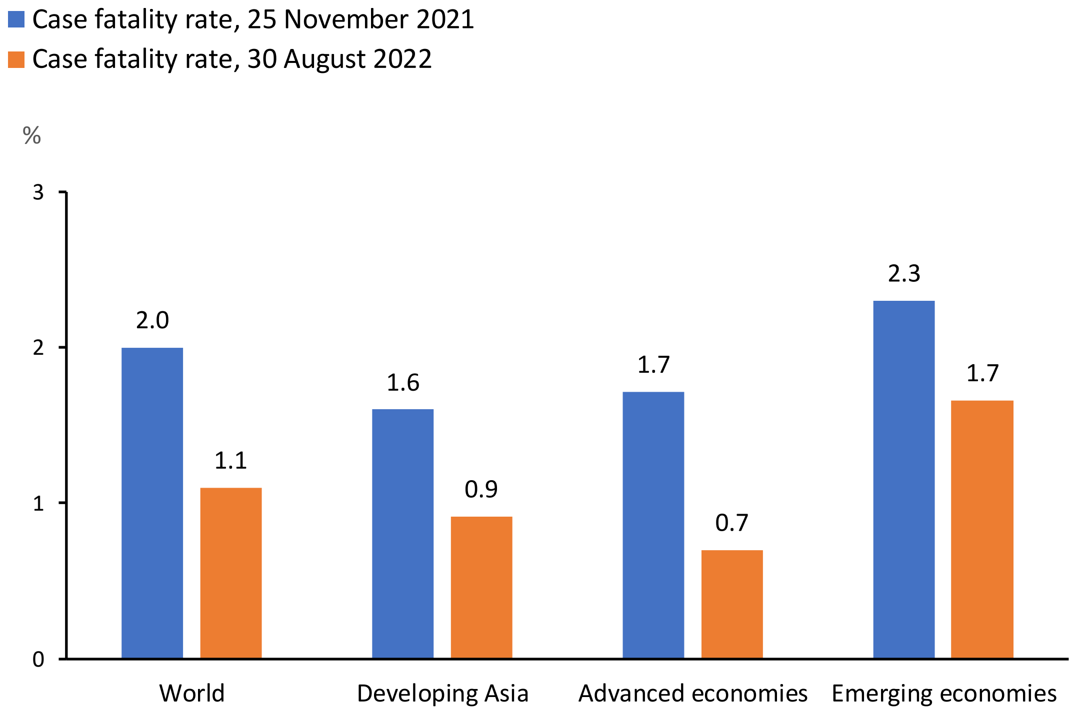
Daily new COVID-19 cases, 7-day moving average



COVID-19 = coronavirus disease.
Source: Our World in Data (accessed 1 September 2022).

Confirmed COVID-19 fatality rates fell across the world this year

COVID-19 case fatality rates

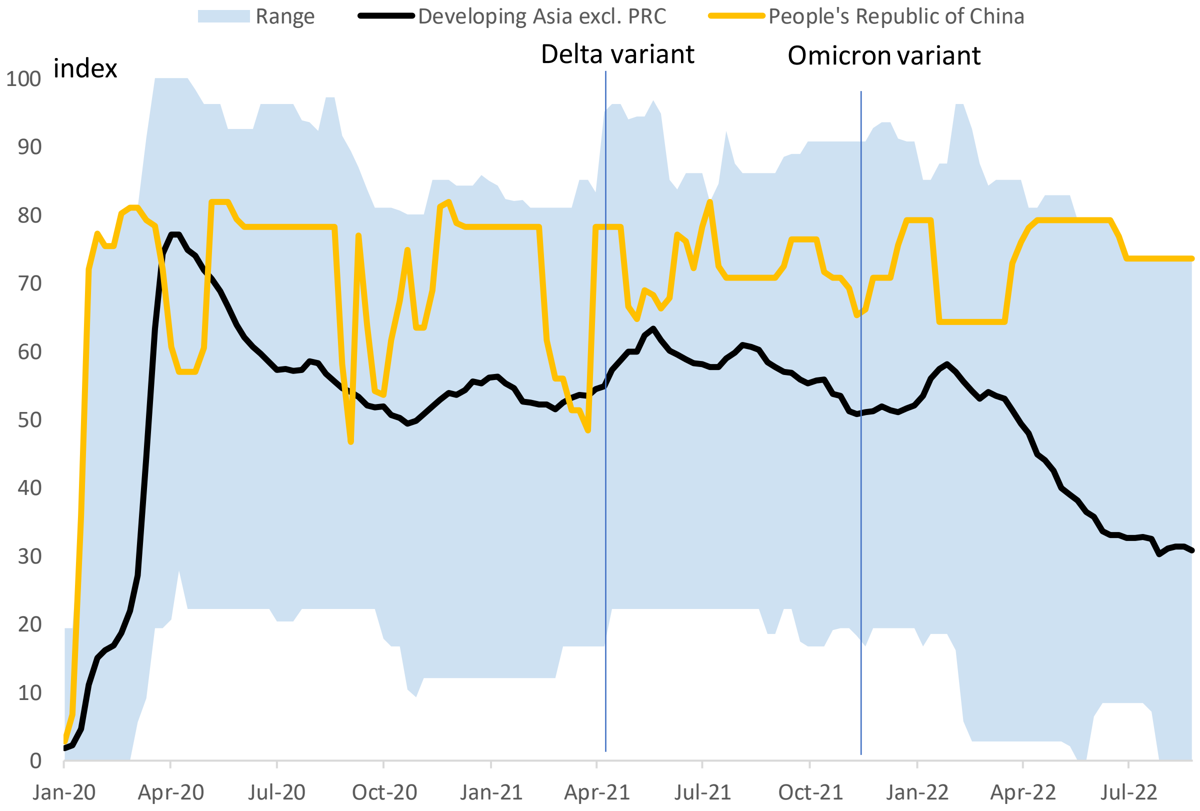


Note: The World Health Organization classified Omicron as a variant of concern on 26 November 2021. The case fatality rate is the number of confirmed deaths divided by the number of confirmed cases.
Source: [Mortality Risk of COVID-19 - Our World in Data (accessed 1 September 2022)]

…is allowing more flexible containment policies, supporting economic activity…

More flexible pandemic containment measures are being rolled out, but not in the PRC.

Government stringency index



COVID-19 = Coronavirus Disease 2019, PRC = People's Republic of China.
Note: The government stringency index measures on a 0-100 scale the degree of containment and closure policies. A higher score indicates a stricter response. Developing Asia line plots the average for all economies with data.
Source: Our World in Data (accessed 5 September 2022).

Reopening is supporting expansion of manufacturing and services.

Purchasing managers' index (>50 improving; <50 worsening)

Manufacturing PMI, seasonally adjusted

Economy	2021												2022							
	Q1			Q2			Q3			Q4			Q1			Q2			Q3	
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
India	57.7	57.5	55.4	55.5	50.8	48.1	55.3	52.3	53.7	55.9	57.6	55.5	54.0	54.9	54.0	54.7	54.6	53.9	56.4	56.2
Indonesia	52.2	50.9	53.2	54.6	55.3	53.5	40.1	43.7	52.2	57.2	53.9	53.5	53.7	51.2	51.3	51.9	50.8	50.2	51.3	51.7
Malaysia	48.9	47.7	49.9	53.9	51.3	39.9	40.1	43.4	48.1	52.2	52.3	52.8	50.5	50.9	49.6	51.6	50.1	50.4	50.6	50.3
Philippines	55.5	55.5	55.2	52.0	52.9	53.8	53.4	49.4	53.9	54.0	54.7	54.8	50.0	52.8	53.2	54.3	54.1	53.8	50.8	51.2
PRC	51.5	50.9	50.6	51.9	52.0	51.3	50.3	49.2	50.0	50.6	49.9	50.9	49.1	50.4	48.1	46.0	48.1	51.7	50.4	49.5
Republic of Korea	53.2	55.3	55.3	54.6	53.7	53.9	53.0	51.2	52.4	50.2	50.9	51.9	52.8	53.8	51.2	52.1	51.8	51.3	49.8	47.6
Taipei,China	60.2	60.4	60.8	62.4	62.0	57.6	59.7	58.5	54.7	55.2	54.9	55.5	55.1	54.3	54.1	51.7	50.0	49.8	44.6	42.7
Thailand	49.0	47.2	48.8	50.7	47.8	49.5	48.7	48.3	48.9	50.9	50.6	49.5	51.7	52.5	51.8	51.9	51.9	50.7	52.4	53.7
Viet Nam	51.3	51.6	53.6	54.7	53.1	44.1	45.1	40.2	40.2	52.1	52.2	52.5	53.7	54.3	51.7	51.7	54.7	54.0	51.2	52.7

Services PMI, seasonally adjusted

India	52.8	55.3	54.6	54.0	46.4	41.2	45.4	56.7	55.2	58.4	58.1	55.5	51.5	51.8	53.6	57.9	58.9	59.2	55.5	57.2
PRC	52.0	51.5	54.3	56.3	55.1	50.3	54.9	46.7	53.4	53.8	52.1	53.1	51.4	50.2	42.0	36.2	41.4	54.5	55.5	55.0

Whole Economy PMI, seasonally adjusted

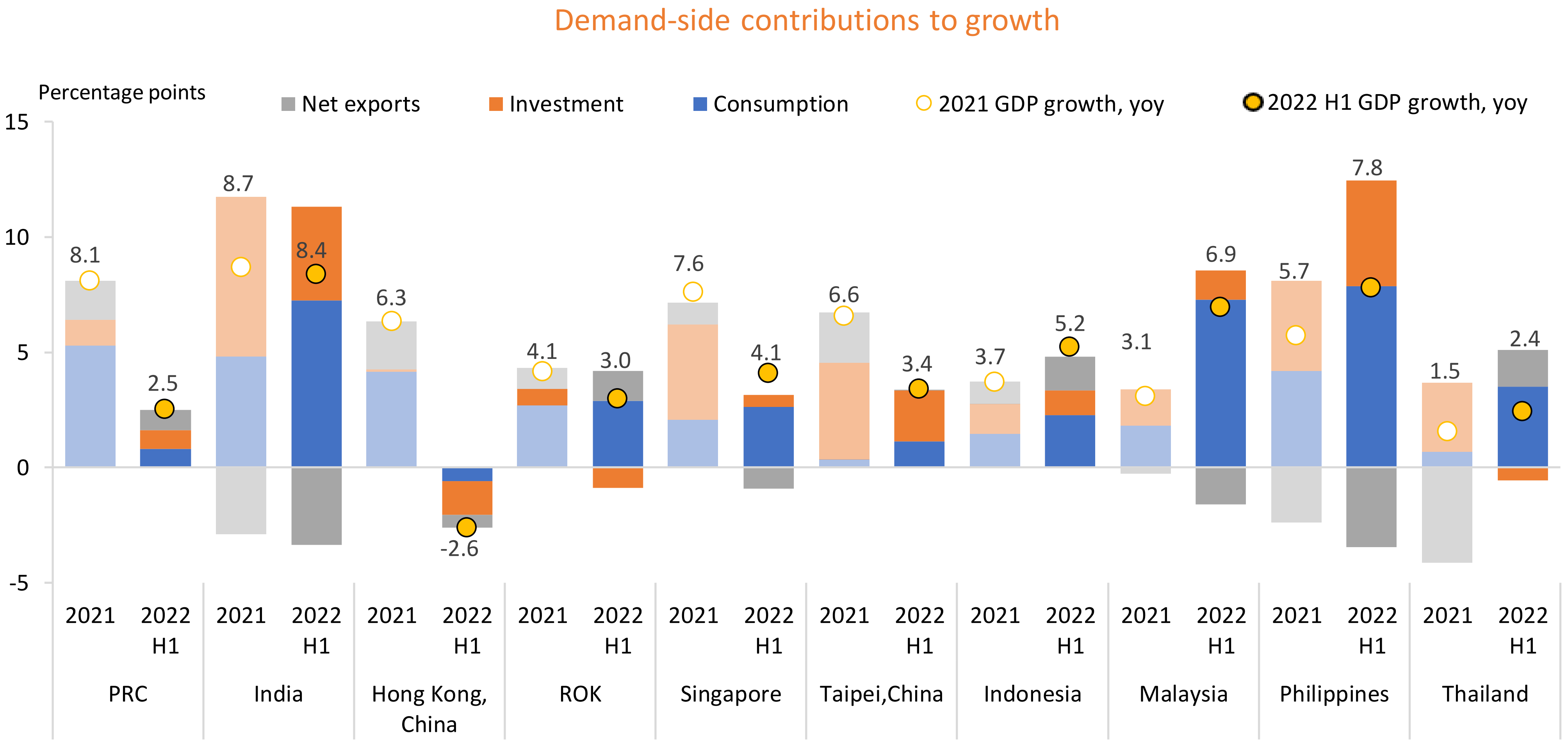
Hong Kong, China	47.8	50.2	50.5	50.3	52.5	51.4	51.3	53.3	51.7	50.8	52.6	50.8	48.9	42.9	42.0	51.7	54.9	52.4	52.3	51.2
Singapore	52.9	54.9	53.5	51.8	54.4	50.1	56.7	52.1	53.8	52.3	52.0	55.1	54.4	52.5	52.9	56.7	59.4	57.5	58.0	56.0

Delta COVID-19 variant **Omicron COVID-19 variant**

PMI = Purchasing managers' index PRC = People's Republic of China, Q = quarter.
Notes: The PMI is an indicator of business activity. Pink to red indicates deterioration (<50), and white to green indicates improvement (>50).
Source: CEIC Data Company (accessed 2 September 2022).

...and allowing domestic demand to strengthen.

With reopening and increased mobility, consumption and investment recovered and have driven economic growth

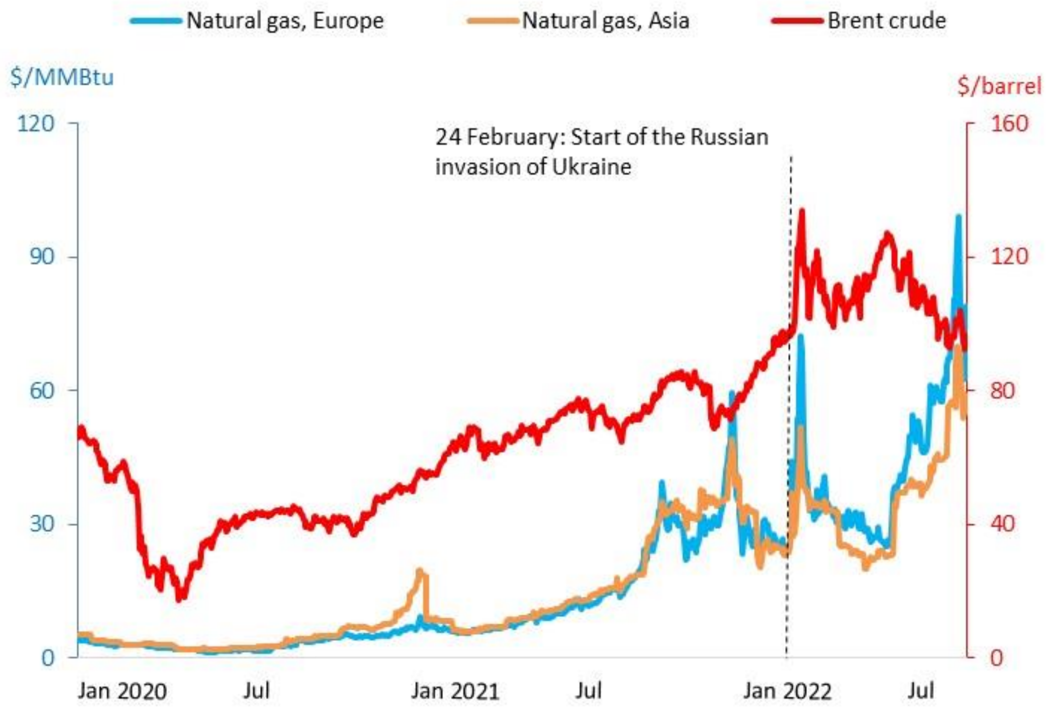


H1 = first half, PRC=People's Republic of China, ROK=Republic of Korea
Source: CEIC Data Company (accessed 1 September 2022).

Food and oil prices have fallen back to pre-invasion levels, but natural gas prices have surged

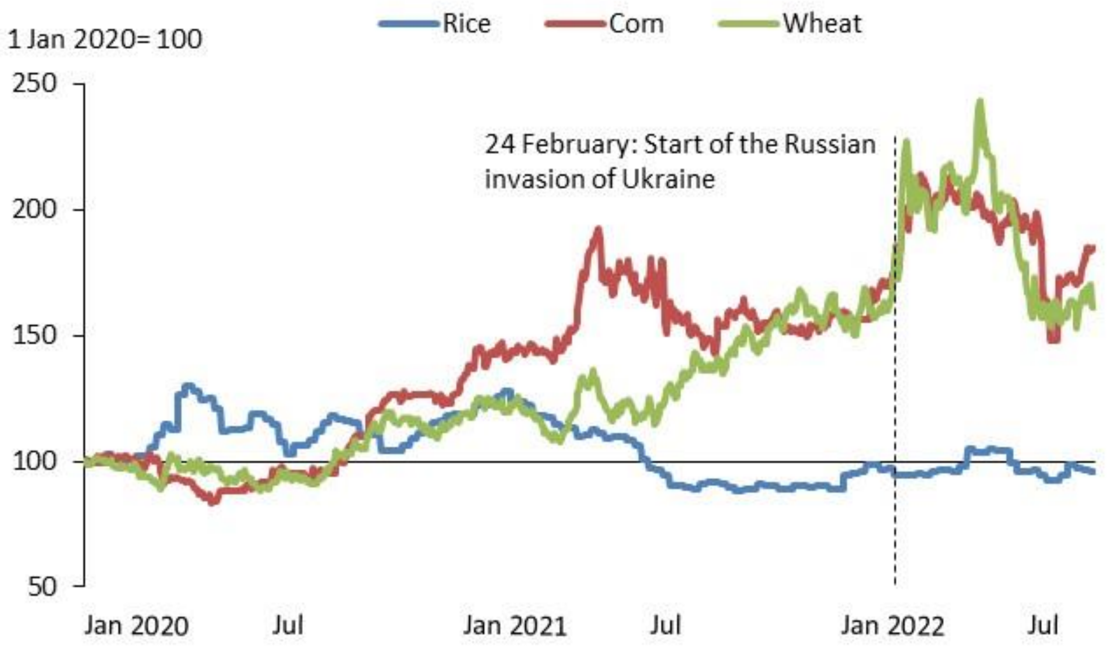
Oil prices are decreasing on softening global demand, but natural gas prices are surging as Russia's exports to Europe plunge

Prices of energy products



Food prices remain high, but have fallen from their peaks on weaker demand prospects and improved crop expectations

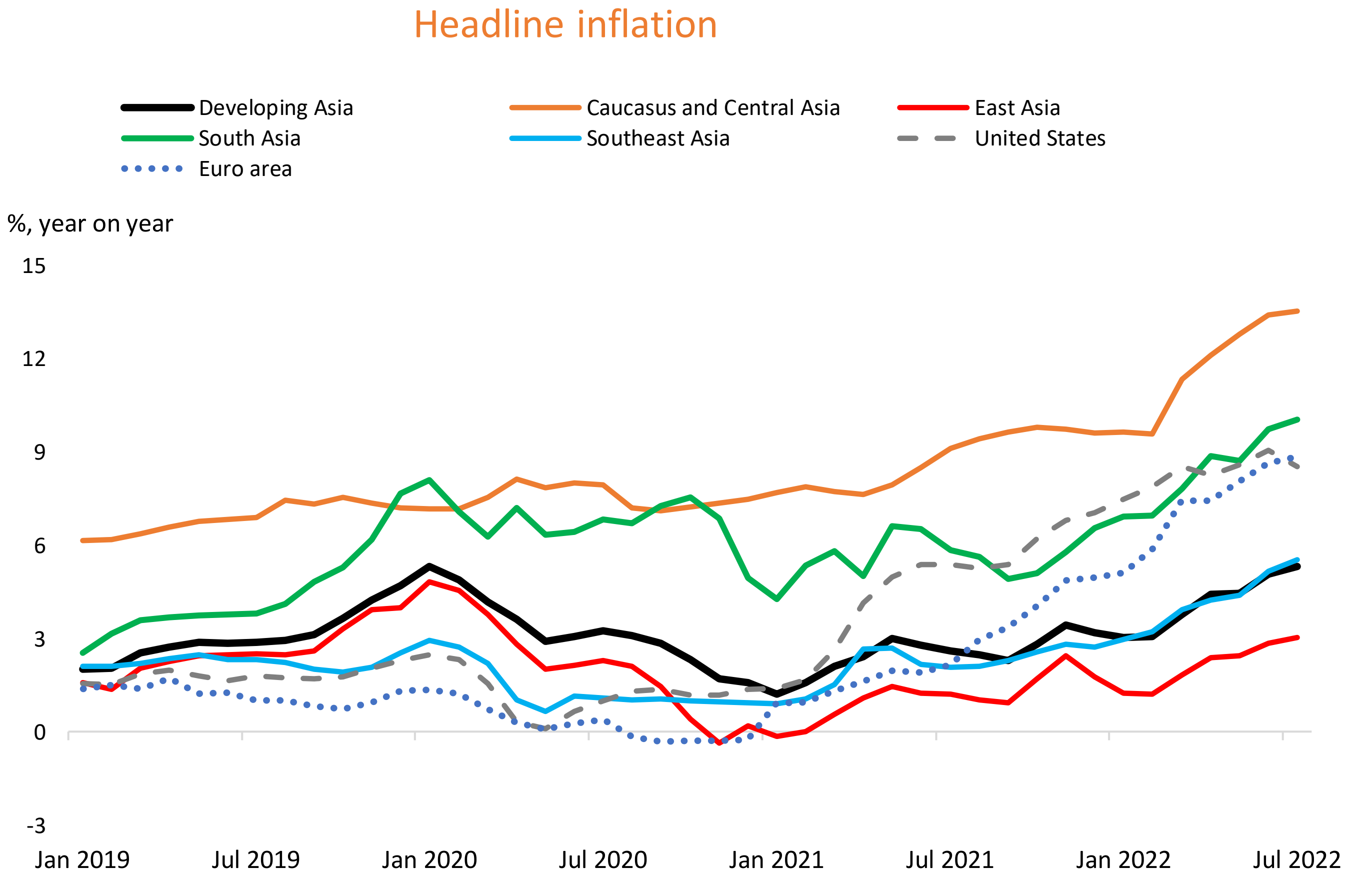
Prices of key agricultural products



MMBtu = million British thermal units, US = United States.
Notes: For energy, data refer to the dated Brent crude spot price, LNG Japan/Korea Marker Swap Futures (Asia), and TTF Futures (Europe). For food, data refer to prices of Thailand 5% rice (weekly data), Gulf Hard Red Winter wheat, Gulf No. 2 Yellow corn (US).
Source: Bloomberg (accessed 5 September 2022).

Inflation is trending upward, to varying degrees across economies…

Prices in developing Asia increased less than in the US and euro area this year, but to varying degrees across subregions.



Sources: CEIC Data Company and Haver Analytics (both accessed 1 September 2022).

Inflation remains highest in the Caucasus and Central Asia and rose faster in South Asia.

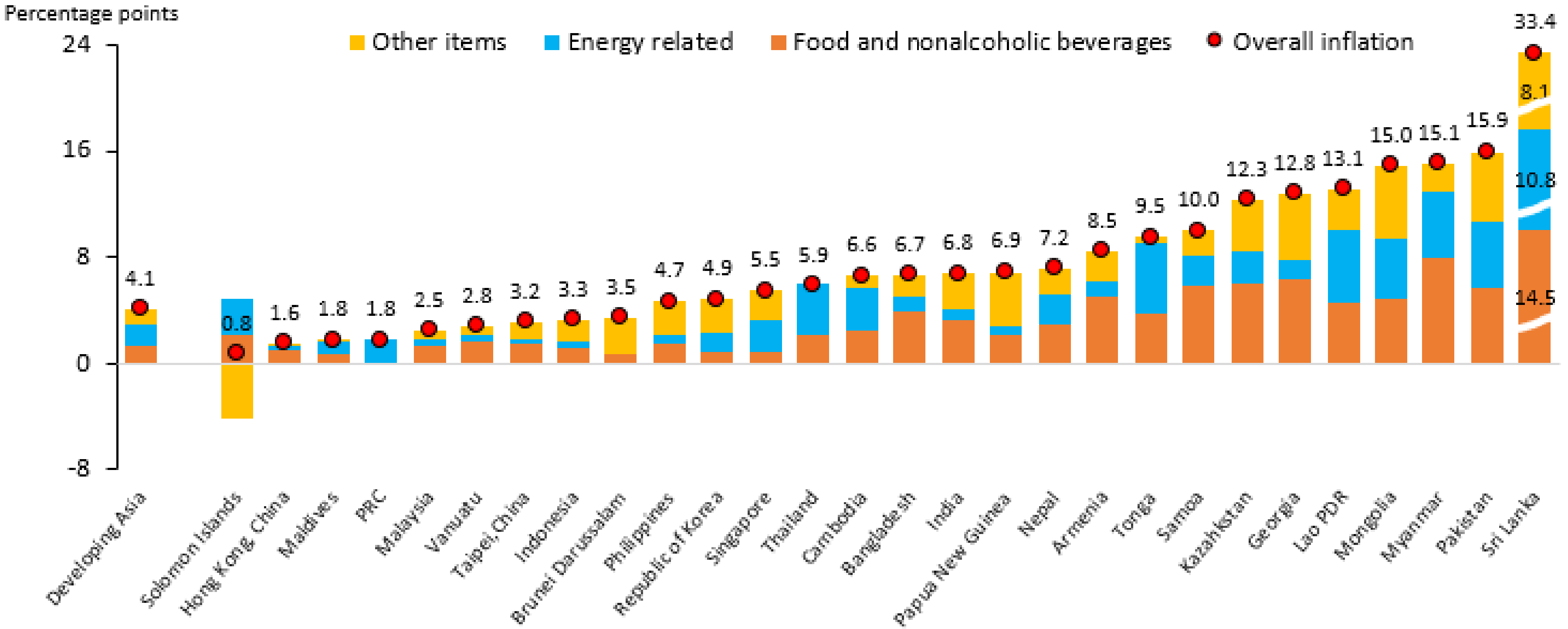
Economy	Dec 2021	Jan 2022	Feb 2022	Mar 2022	Apr 2022	May 2022	Jun 2022	Jul 2022
Central Asia and Caucasus								
Armenia	7.7	7.1	6.5	7.4	8.4	9.0	10.3	9.3
Azerbaijan	12.0	12.4	11.9	12.1	12.9	13.7	14.1	13.7
Georgia	13.9	13.9	13.7	11.8	12.8	13.3	12.8	11.5
Kazakhstan	8.4	8.5	8.7	12.0	13.2	14.0	14.5	15.0
Kyrgyz Republic	11.2	11.2	10.8	13.2	14.5	14.0	13.1	13.8
Tajikistan	8.0	7.8	7.1	7.3	7.3	7.5	8.3	...
Uzbekistan	10.0	9.8	9.7	10.4	10.4	11.0	12.2	12.3
East Asia								
Hong Kong, China	2.4	1.2	1.6	1.7	1.3	1.2	1.8	1.9
Mongolia	13.4	14.6	14.2	14.4	14.4	15.2	16.1	15.7
PRC	1.5	0.9	0.9	1.5	2.1	2.1	2.5	2.7
Korea, Rep. of	3.7	3.6	3.7	4.1	4.8	5.4	6.0	6.3
Taipei,China	2.6	2.8	2.3	3.3	3.4	3.4	3.6	3.4
South Asia								
Bangladesh	6.1	5.9	6.2	6.2	6.3	7.4	7.6	7.5
India	5.7	6.0	6.1	7.0	7.8	7.0	7.0	6.7
Maldives	0.0	0.2	0.6	1.1	1.2	2.5	5.2	...
Nepal	7.1	5.6	6.0	7.1	7.3	7.9	8.6	8.1
Pakistan	12.3	13.0	12.2	12.7	13.4	13.8	21.3	24.9
Sri Lanka	14.0	16.8	17.5	21.5	33.8	45.3	58.9	66.7
Southeast Asia								
Brunei Darussalam	2.2	2.8	3.2	3.8	3.9	3.8	...	...
Cambodia	3.7	4.1	6.3	7.2	7.3	7.2	7.8	...
Indonesia	1.9	2.2	2.1	2.6	3.5	3.6	4.3	4.9
Lao PDR	5.3	6.2	7.3	8.5	7.3	12.8	23.6	25.6
Malaysia	3.2	2.3	2.2	2.2	2.3	2.8	3.4	4.4
Myanmar	12.6	13.8	14.1	17.3	17.8	...	...	...
Philippines	3.1	3.0	3.0	4.0	4.9	5.4	6.1	6.4
Singapore	4.0	4.0	4.3	5.4	5.4	5.6	6.7	7.0
Thailand	2.2	3.2	5.3	5.7	4.6	7.1	7.7	7.6
Viet Nam	1.8	1.9	1.4	2.4	2.6	2.9	3.4	3.1
The Pacific								
Fiji	3.0	2.7	1.9	4.7	4.7	5.0	5.1	5.2
Papua New Guinea	5.7	...	...	6.9	...	...	...	...
Solomon Islands	2.6	2.0	-1.1	-2.7	1.5	4.3	...	...
Tonga	9.2	8.2	9.0	7.9	9.4	11.2	11.3	13.1
Vanuatu	0.7	...	...	2.7	...	...	...	...

Note: Dark green denotes low inflation; dark red denotes high inflation, both relative to the range of inflation datapoints for all economies from December 2021 to June 2022.
Sources: CEIC Data Company (accessed 4 September 2022); Solomon Islands National Statistics Office; Tonga Statistics Department, Vanuatu National Statistics Office

…driven by rising food and energy prices.

Contributions to inflation differ across the region, with food prices playing the main role in high-inflation economies.

Contributions to average inflation, January to July 2022

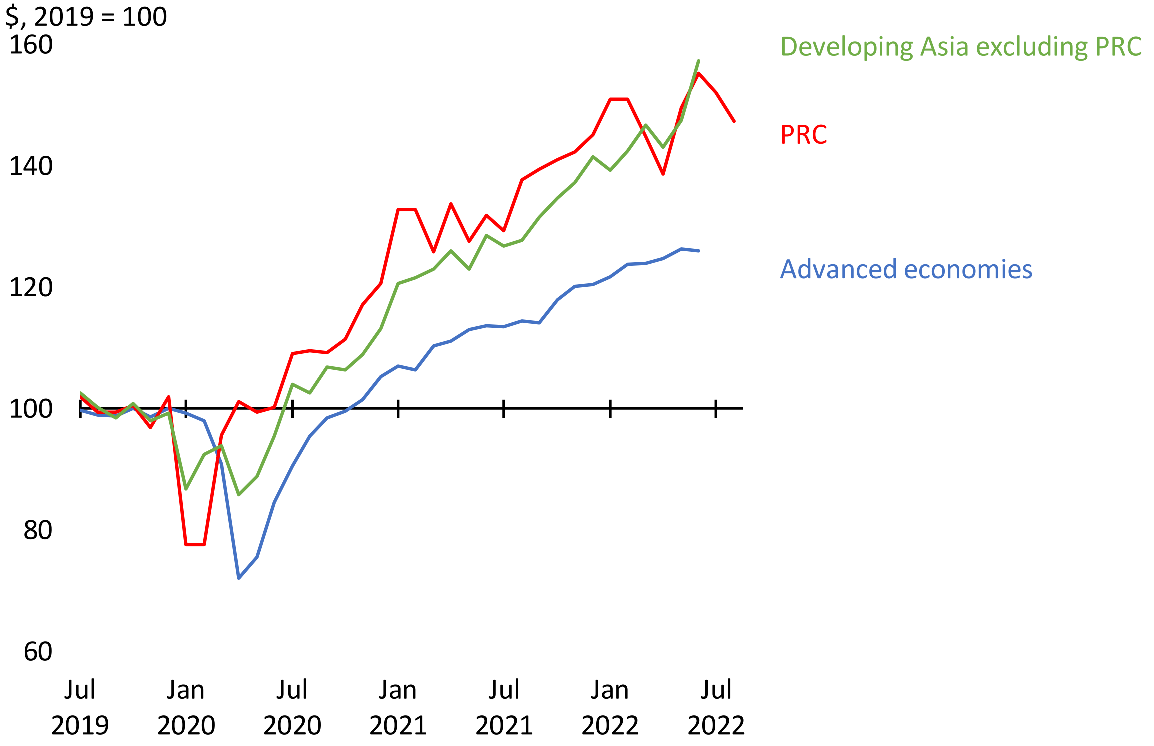


PRC = People's Republic of China. LAO PDR = Lao People's Democratic Republic.
Notes: Data for Cambodia, Malaysia, Maldives, and Tonga refer to January to June 2022; while that for Solomon Islands and Brunei Darussalam, up to May; Myanmar and Vanuatu, up to March. For lack of a more disaggregated breakdown, energy-related consumer prices for most economies includes housing, water, and non-fuel transport. Developing Asia is calculated as the weighted average of all economies covered.
Source: Staff calculations using data from Haver Analytics; CEIC Data Company; national sources (29 August 2022).

Exports remain healthy, but clouds gather on the horizon

Exports remained healthy in developing Asia in the first half of this year.

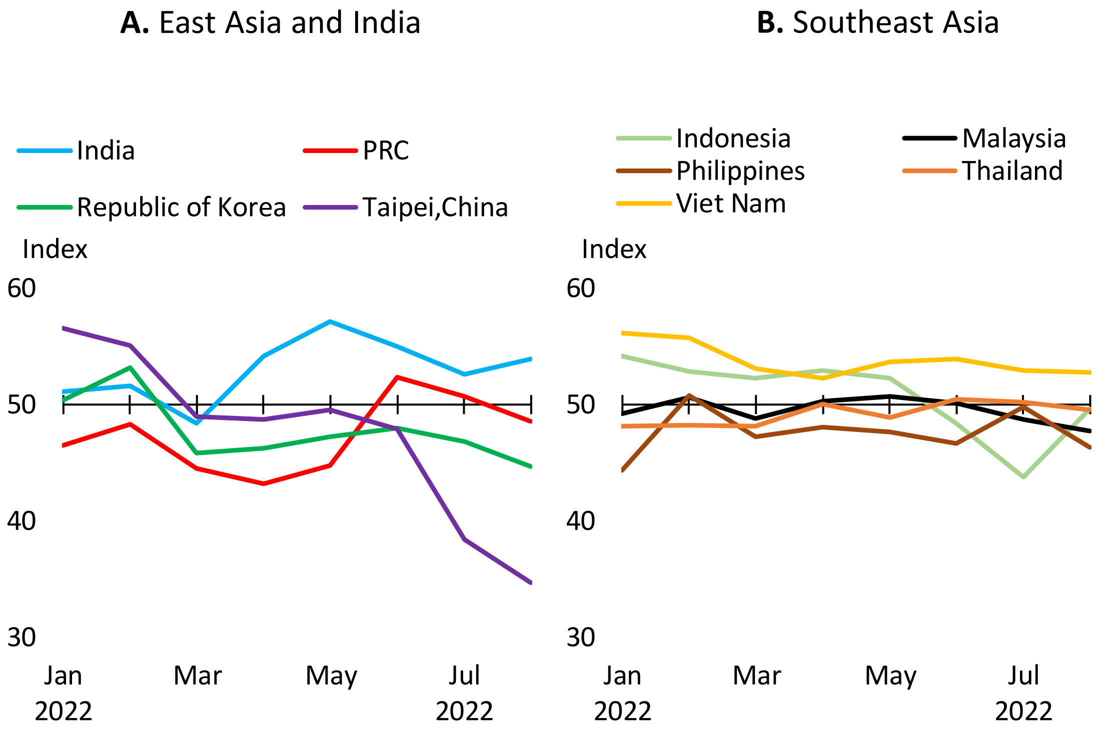
Nominal exports



PRC = People's Republic of China
Note: Developing Asia excluding the PRC comprises Hong Kong, China, India, Indonesia, the Republic of Korea, Malaysia, Pakistan, Singapore, Taipei,China, Thailand, and Viet Nam. Data are seasonally adjusted.
Sources: CEIC Data Company; CPB World Trade Monitor (both accessed 30 August 2022).

But manufacturing export orders are weakening, particularly for the two leading exporters of electronic inputs.

Manufacturing export orders (>50 improving; <50 worsening)



PRC = People's Republic of China.
Source: IHS Markit (accessed 4 September 2022).

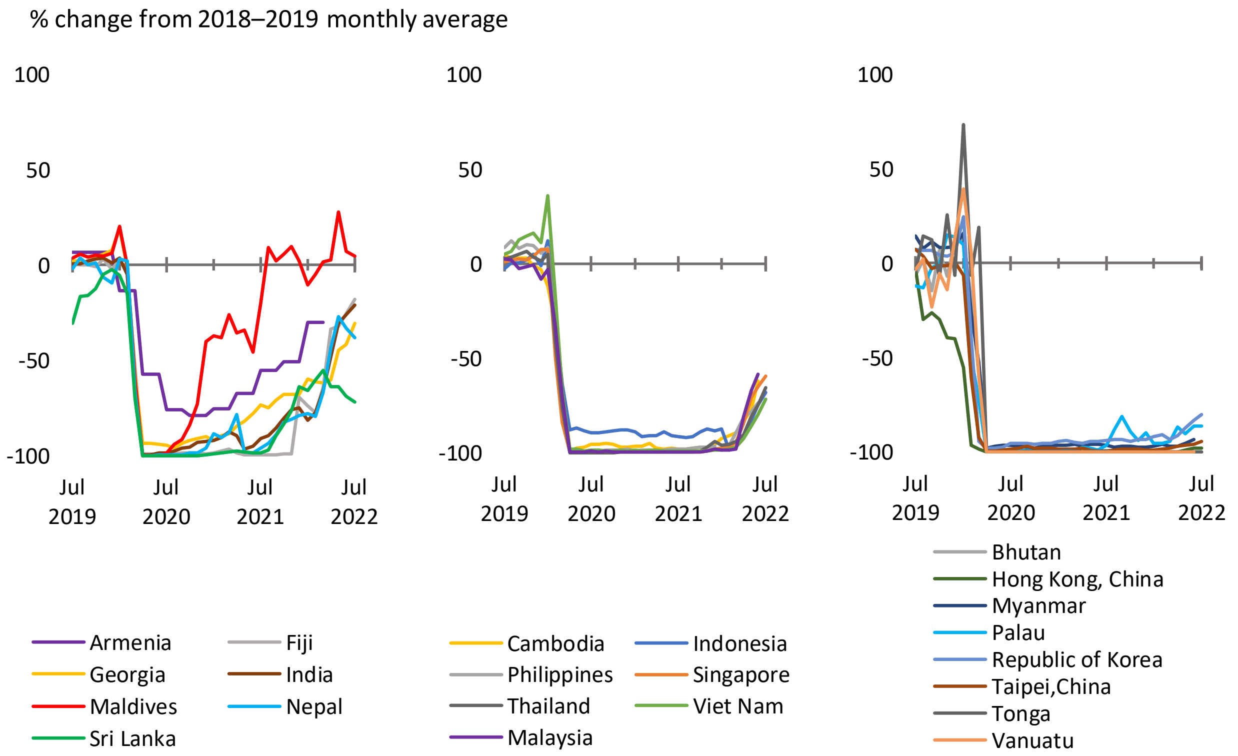
The tourism recovery broadens, remittances remain healthy

Tourism rebounded in 14 regional economies, but remains at a standstill in East Asia and in most of the Pacific.

Remittances remained resilient in the first quarter of the year.

International tourist arrivals

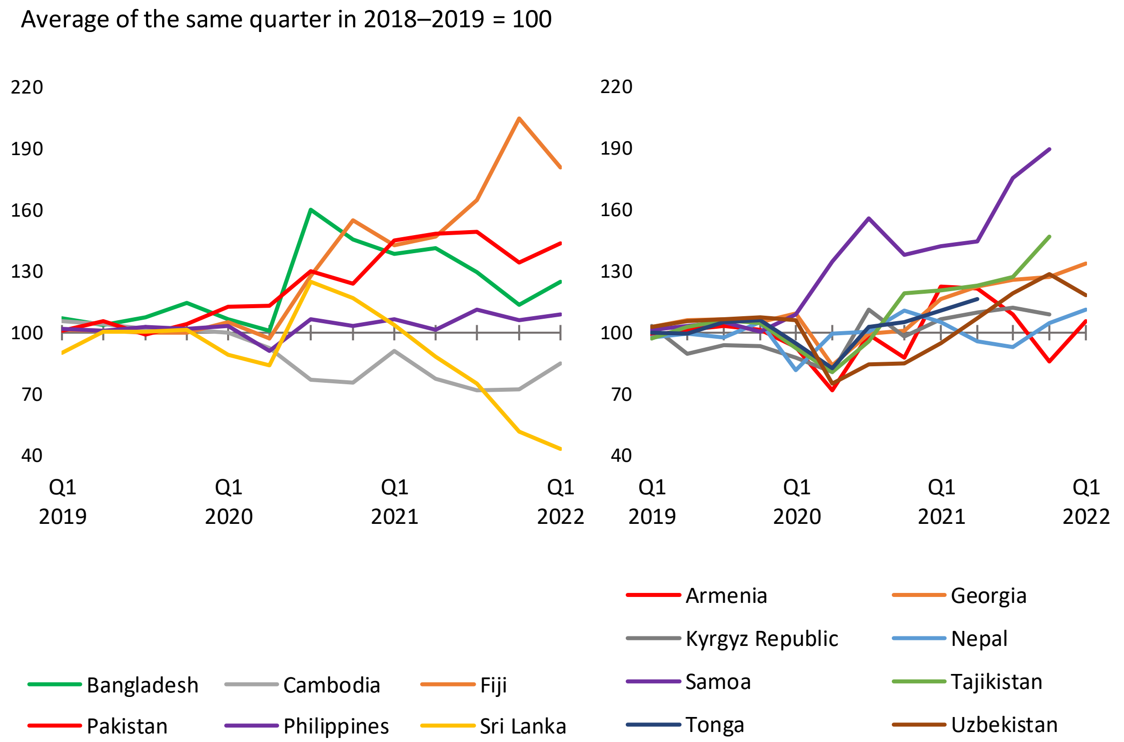
A. Rebound since 2021 **B.** Rebound since January **C.** No rebound yet



Sources: CEIC Data Company; national sources (all accessed 1 September 2022).

Remittances

A. Remittances: 5%–10% of GDP **B.** Remittances: >10% of GDP

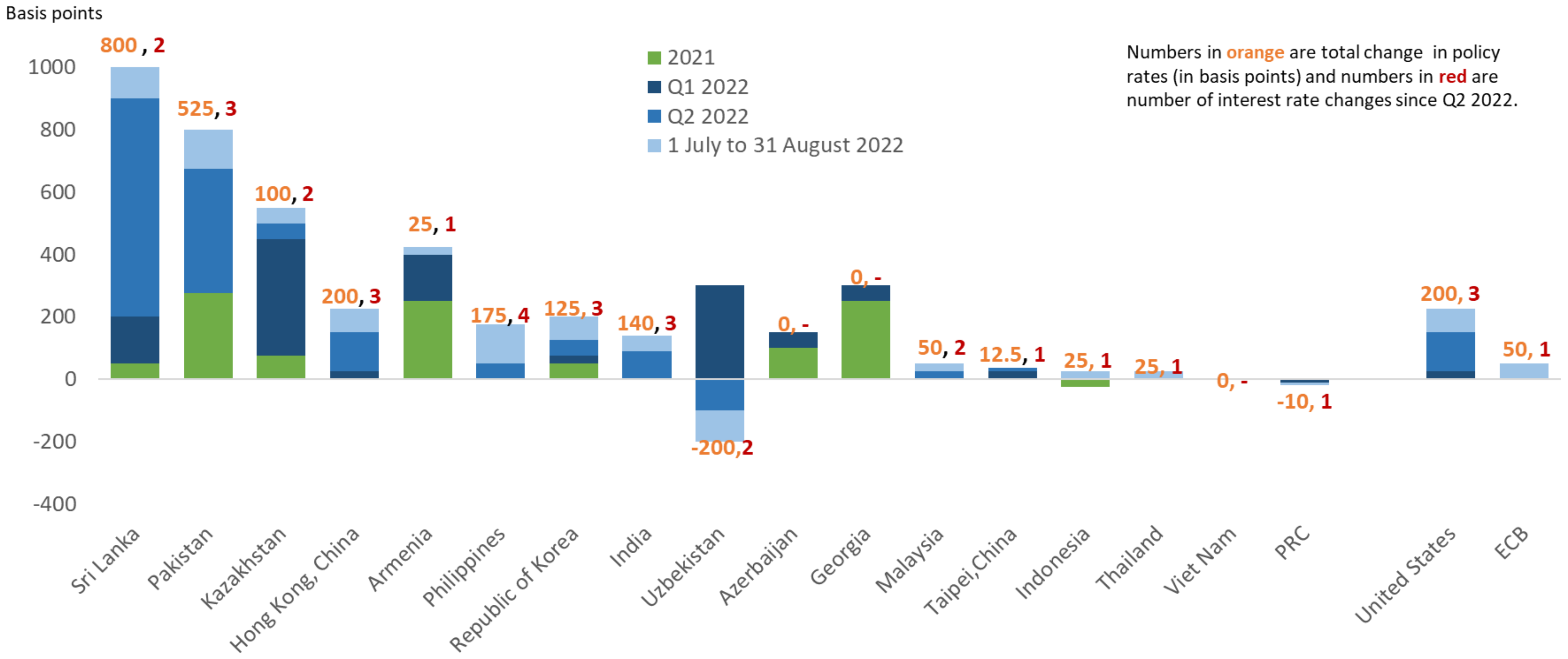


GDP = gross domestic product, Q = quarter.
Sources: CEIC Data Company; IMF. Balance of Payments and International Investment Position Statistics; World Bank. World Development Indicators database (all accessed 1 September 2022).

Monetary policy tightening in the region has accelerated

Following 14 rate increases in Q1, central banks in developing Asia hiked rates 29 times from April to August—to curb inflation and safeguard macro-financial stability.

Change in policy interest rates (selected economies)

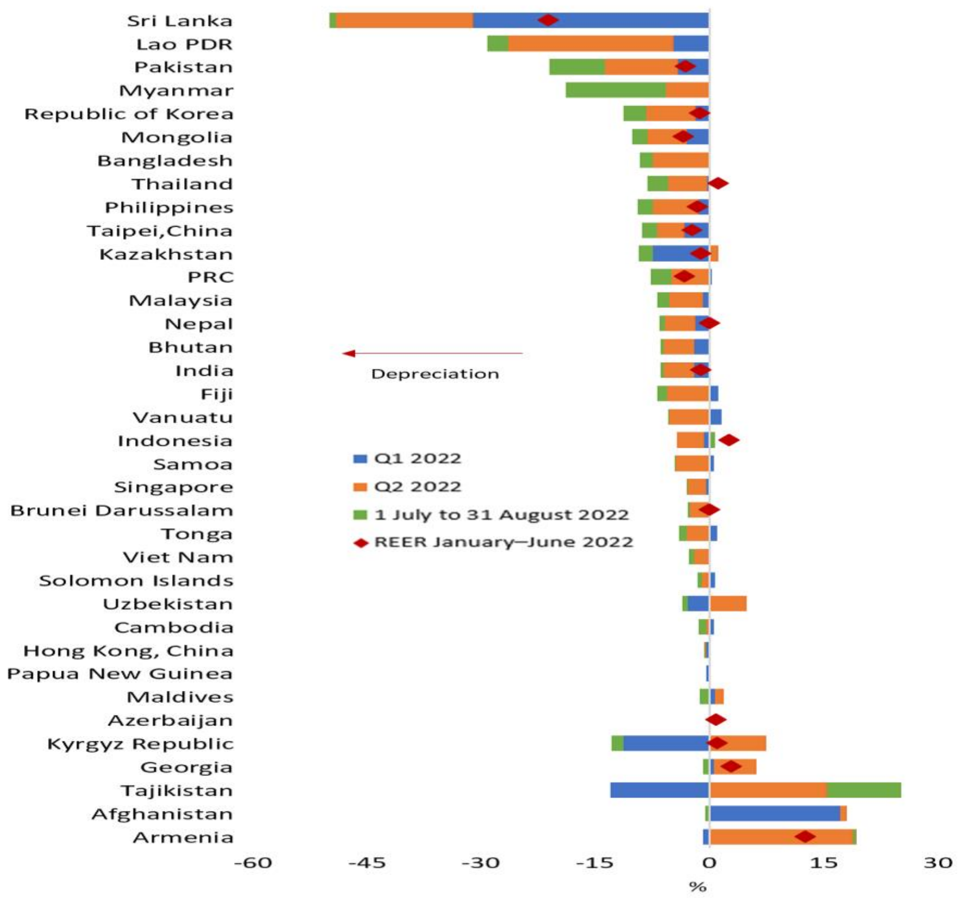


ECB = European Central Bank, PRC = People's Republic of China
Source: Bloomberg (accessed 31 August 2022).

Currency depreciations and portfolio outflows continued, but FDI remained robust on solid medium-term fundamentals

Currencies continued to depreciate against the US dollar, on Fed tightening and growth headwinds.

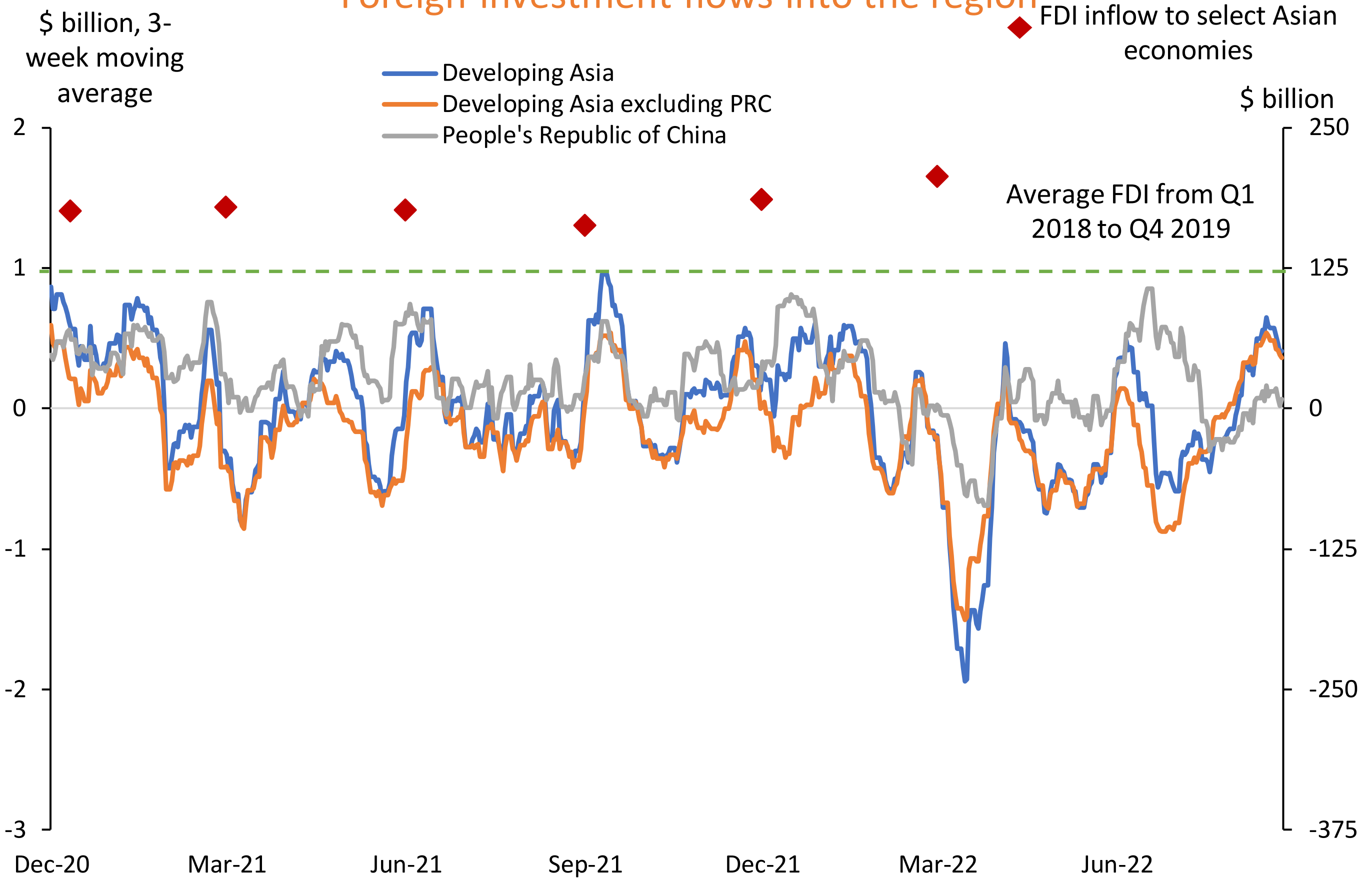
Exchange rate movements



Note: Negative values indicate currency depreciation against US dollar and positive value indicate currency appreciation against US dollar. Real effective exchange rate indicates an economy's international competitiveness in comparison with its trade partner. Source: Bloomberg (accessed 1 Sep 2022).

Foreign portfolio outflows continued in Q2 and reverted in Q3, while FDI posted robust growth in Q1.

Foreign investment flows into the region



Note: FDI inflow to select Asian economies include Armenia, Azerbaijan, Bangladesh, PRC, Georgia, Hong Kong, China, India, Indonesia, Kazakhstan, Malaysia, Nepal, Pakistan, Philippines, Singapore, Solomon Islands, and Thailand.
Source: Bloomberg (accessed 1 Sep 2022).

Risks to the outlook are skewed to the downside

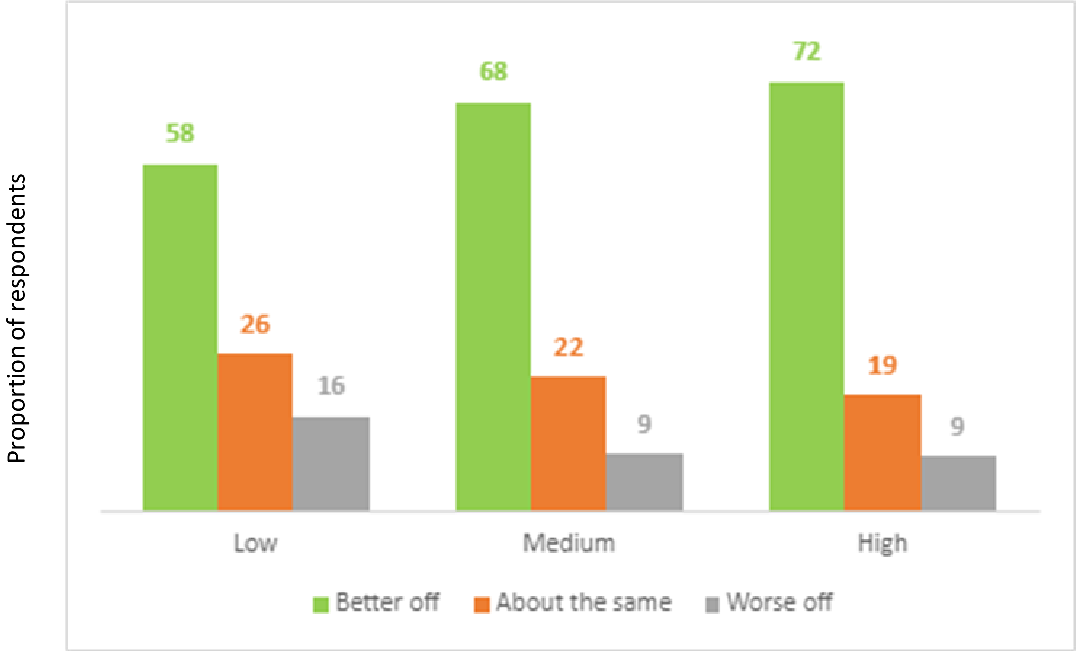
- Sharp deceleration in global growth
- Stronger-than-expected monetary policy tightening in advanced economies
- Escalation of the Russian invasion of Ukraine and its spillovers on global commodity markets remain a threat
- A deeper-than-expected deceleration in the PRC
- Negative pandemic developments, such as the emergence of new COVID-19 variants
- Other risks: debt and fragilities, geopolitical tensions, food insecurity, climate change.

Social Mobility and Poverty Outlook

While the majority of Asians have experienced upward social mobility, a considerable segment of the populations remain chronically poor

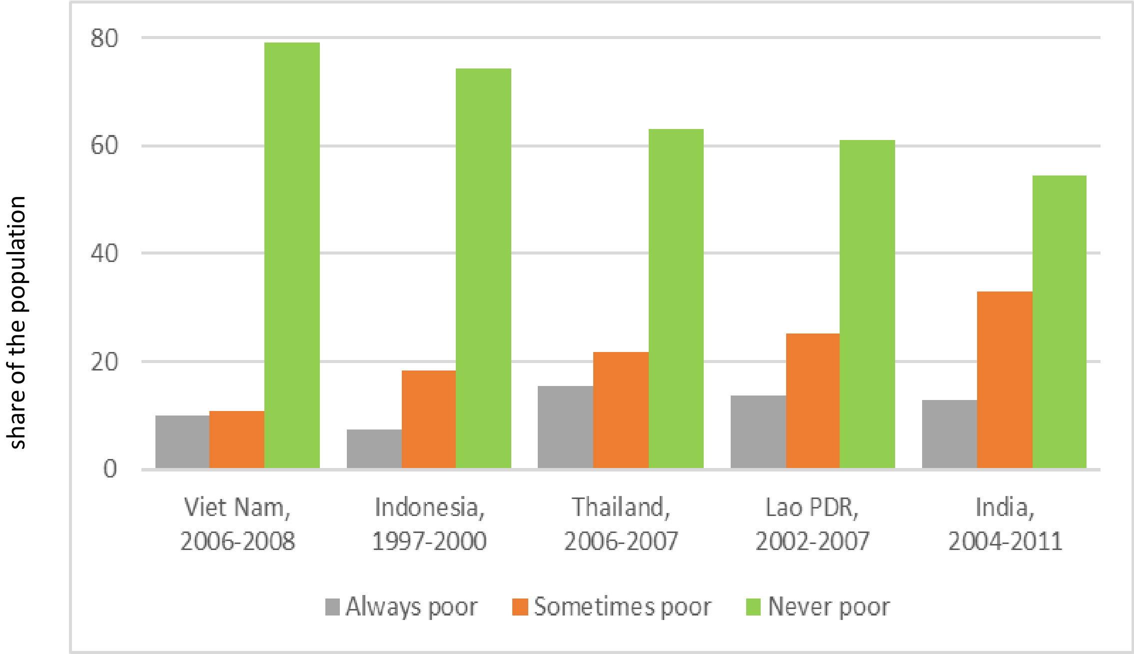
Intergenerational: Majority of Asians believe they have experienced upward intergenerational social mobility

Standard of living compared with parents by income (%)



Intragenerational: A considerable segment (about 10%) of several developing economies' populations remain chronically poor.

Poverty status in select economies of Developing Asia (%)

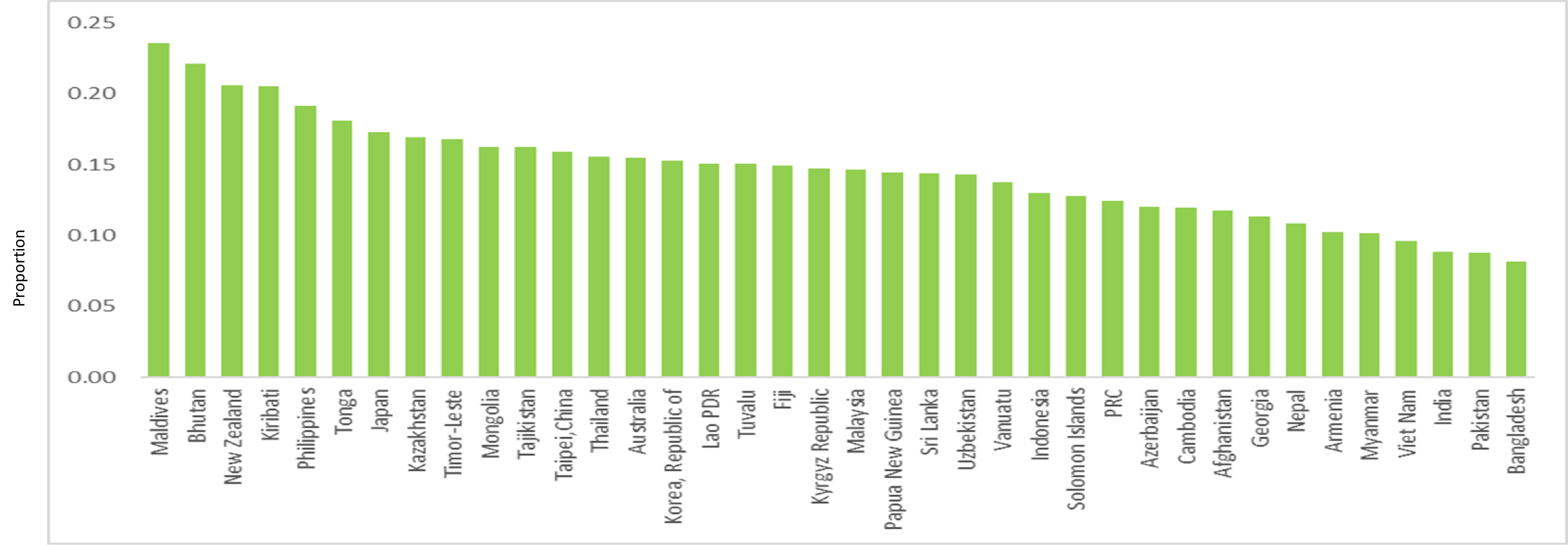


Note: Figure on the left represents 19 ADB member economies with available data.
Source: Asian Development Bank estimates using round seven (pooled datafile version) of the World Values Survey (accessed 15 February 2022). Based on data presented in Table 6.1 of V. Iversen, A. Krishna, and K. Sen (eds.) 2021. Social Mobility in Developing Countries: Concepts, Methods, and Determinants (oup.com). United Nations University, World Institute for Development Economics.

Policymakers need to promote greater upward social mobility if no one is to be left behind.

Intergenerational Education Mobility: Only few economies had substantial upward educational mobility among the poor.

Proportion of individuals with parents at the bottom half of the population based on educational attainment, who reached the top quartile



Sources: Authors' calculations using WB's Global Database of Intergenerational Mobility.

During COVID-19 pandemic, low-income people's consumption experienced more severe impact than the middle-income people.

Relative Changes in Household Consumption Per Capita between Pre- and Pandemic Years, by Income Decile

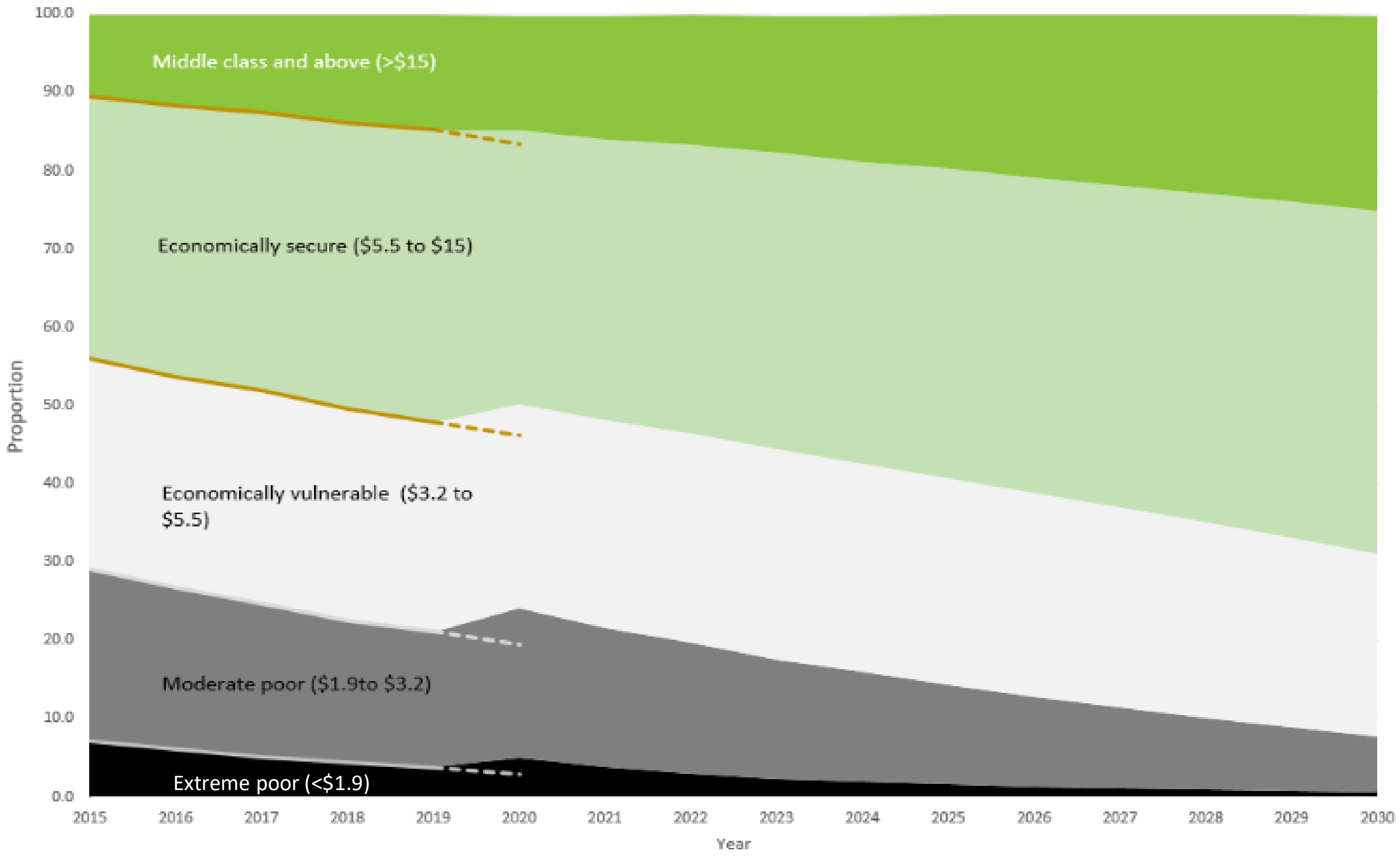
Economy	Overall	Bottom 10%	D2	D3	D4	D5	D6	D7	D8	D9	Top 10%
Armenia	-0.9	-0.3	1.7	5.7	4.2	-1.5	1.4	14.4	-2.5	7.9	-14.9
Georgia	-12.0	-8.5	-5.3	-12.1	-7.6	-14.9	-7.3	-6.6	-9.6	-15.2	-12.5
Indonesia	4.0	3.3	3.7	4.1	4.0	3.7	3.0	2.0	2.0	3.2	6.3
Kyrgyz Republic	-9.0	-11.2	-11.2	-9.6	-9.0	-7.4	-6.4	-5.2	-4.6	-4.2	-15.3
Philippines	-13.6	-21.1	-13.3	-12.1	-11.3	-10.9	-12.4	-12.5	-13.2	-14.3	-14.8
Thailand	1.1	-1.9	-0.7	0.6	1.4	1.6	1.7	1.7	1.7	2.3	0.5

Note: The reference periods are: 2019–2020 (Armenia, Georgia, the Kyrgyz Republic, and Thailand) and 2018–2021 (Indonesia and the Philippines). Cells are highlighted green when the corresponding change is higher than the change in the specific economy's overall mean household consumption per capita and yellow if the change is lower. For Indonesia and Kyrgyz Republic, the numbers are expressed as growth rates in real terms based on the World Bank's Poverty and Inequality Platform. For Armenia, Georgia, Philippines and Thailand, the numbers were originally expressed as nominal growth rates based from data provided by statistical partners, and converted to real terms using relevant data on consumer price index

Source: Asian Development Bank estimates using survey reports, data from the World Bank Group's Poverty and Inequality Platform (accessed 06 June 2022), and data provided by statistical partners.

Despite setbacks caused by the COVID-19 pandemic, simulations show that it is possible to reduce extreme poverty in developing Asia to less than 1% by 2030.

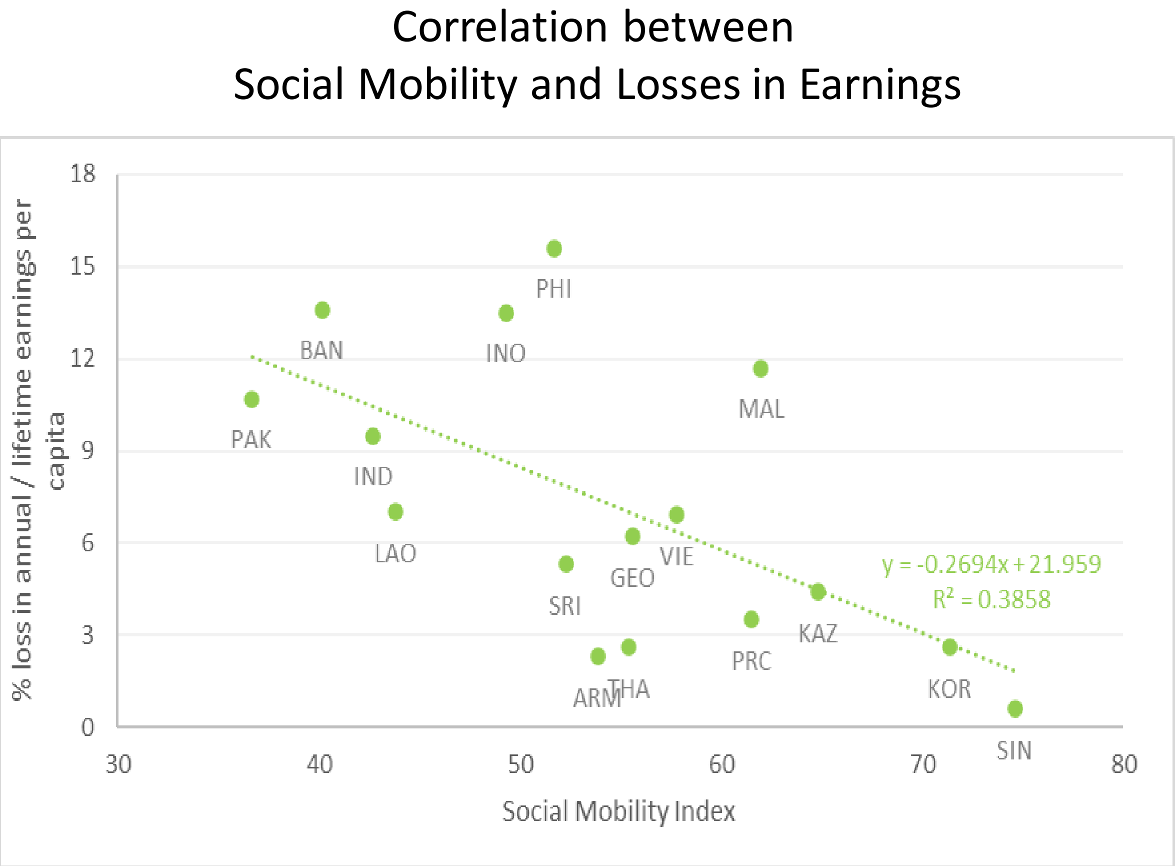
Income Groups in Developing Asia, 2015-2030



- Moderate poverty can be reduced to about 7% by 2030 if the region reverts to pre-pandemic trends.
- However, about a quarter of the population may still be economically vulnerable.
- More than 40% will be economically secure.
- A quarter will be consuming at least middle-class expenditures by 2030.

Notes: Developing Asia comprises developing economies for which data are available. Estimates are calculated based on assumption that all households within an economy experienced the same percentage decline in their per capita consumption or income. Dotted lines represent estimates under counterfactual scenario that COVID-19 pandemic did not occur.
Source: Authors' calculations using WB's PovcalNet and PIP Database.

Impact of learning losses, if left unaddressed, may contribute to further diverging social mobility prospects between poor and rich.

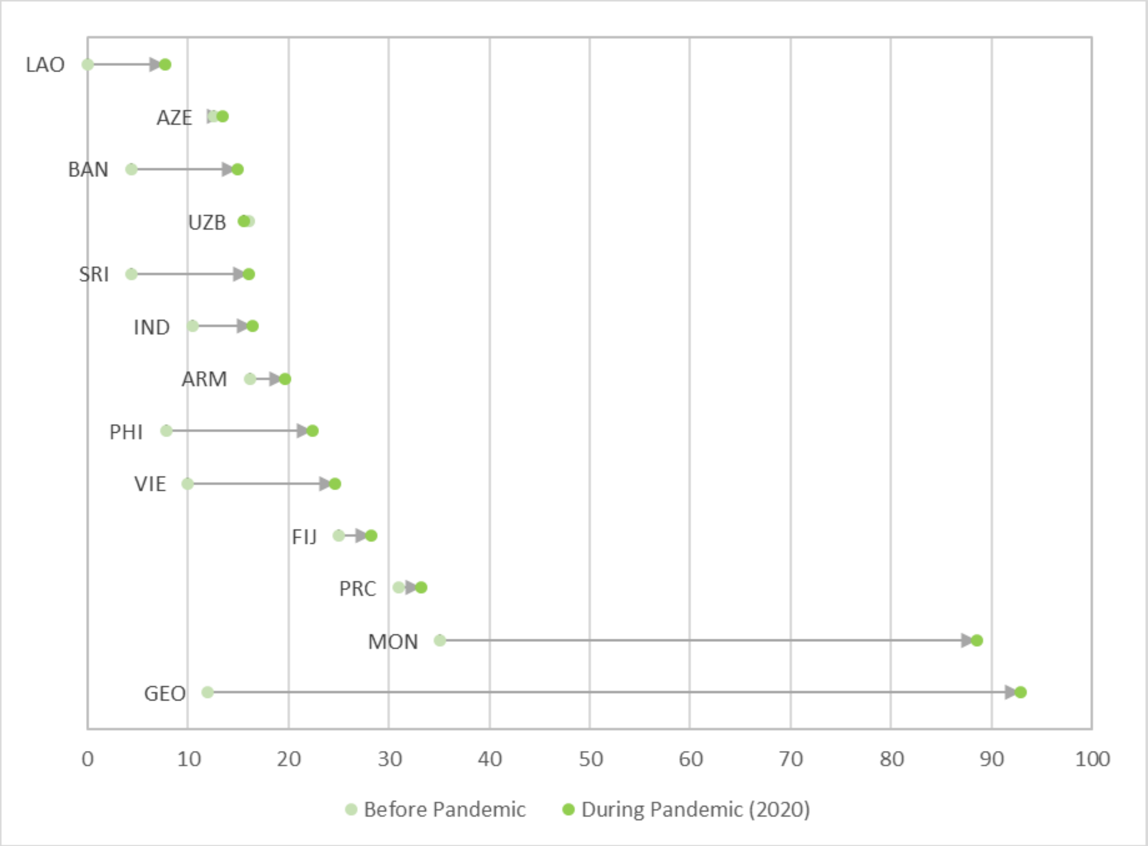


Note: Losses in earnings are calculated under the high-efficacy scenario of remote learning. Information on estimates based on under alternative scenarios are presented in a report by ADB (2022).

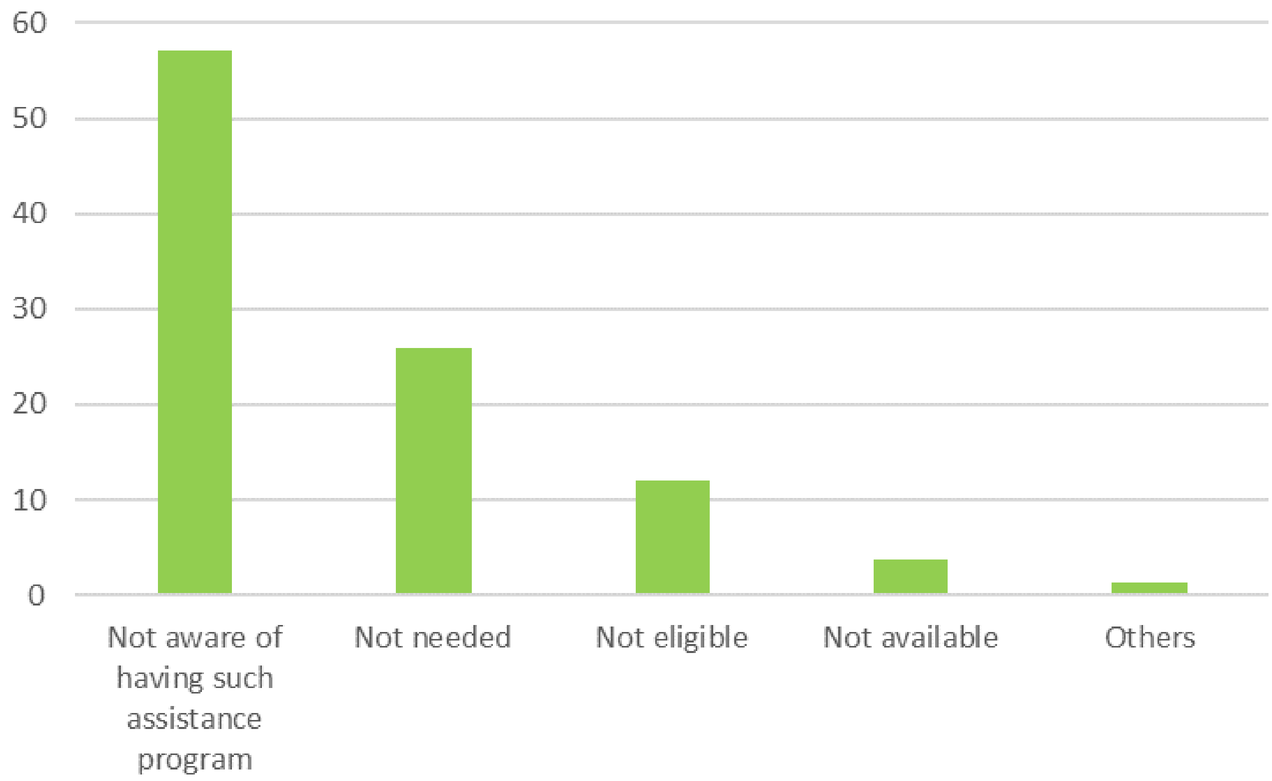
Source: ADB Bank estimates using data from the bank's Asian Development Outlook 2022 and the World Economic Forum's Global Social Mobility Index.

The pandemic ushered greater social protection coverage but there is a need to ensure that it goes beyond a temporary pandemic response, and targeted to those who need it most.

Proportion of Vulnerable Population Receiving Social Assistance Benefit



Reason for Not Applying Government Assistance



Sources: Table 1.1.2 of *Key Indicators for Asia and the Pacific 2022*; and Asian Development Bank estimates using data from the second round of the Asian Development Bank Institute’s Survey on the Impacts of COVID-19 and related Policies on Households in Select Developing Association of Southeast Asian Nations (ASEAN) Economies.

Summary

Even before the pandemic struck, developing Asia had faced multiple challenges in providing greater upward social mobility opportunities, especially for the poor.

(Conservative) Estimates suggest that the pandemic pushed back developing Asia's poverty clock by two years.

The poor experienced greater disruptions in income flows, jobs, and learning. Long-standing social and economic inequities were magnified.

Despite disruptions caused by the pandemic, extreme poverty can be reduced to less than 1% by 2030 if the region reverts to its pre-pandemic growth prospects. However, about 30% of the population may still remain moderately poor or economically vulnerable.

There is a need to undo learning loss and enhance quality of school learning so that it will translate to greater social mobility.

Strengthening social safety nets can also help minimize the vicious cycle of socioeconomic disadvantage caused by adverse coping strategies.