



ASIAN DEVELOPMENT OUTLOOK 2022 UPDATE

SOFTENING GROWTH AMID A DARKENED GLOBAL OUTLOOK

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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...

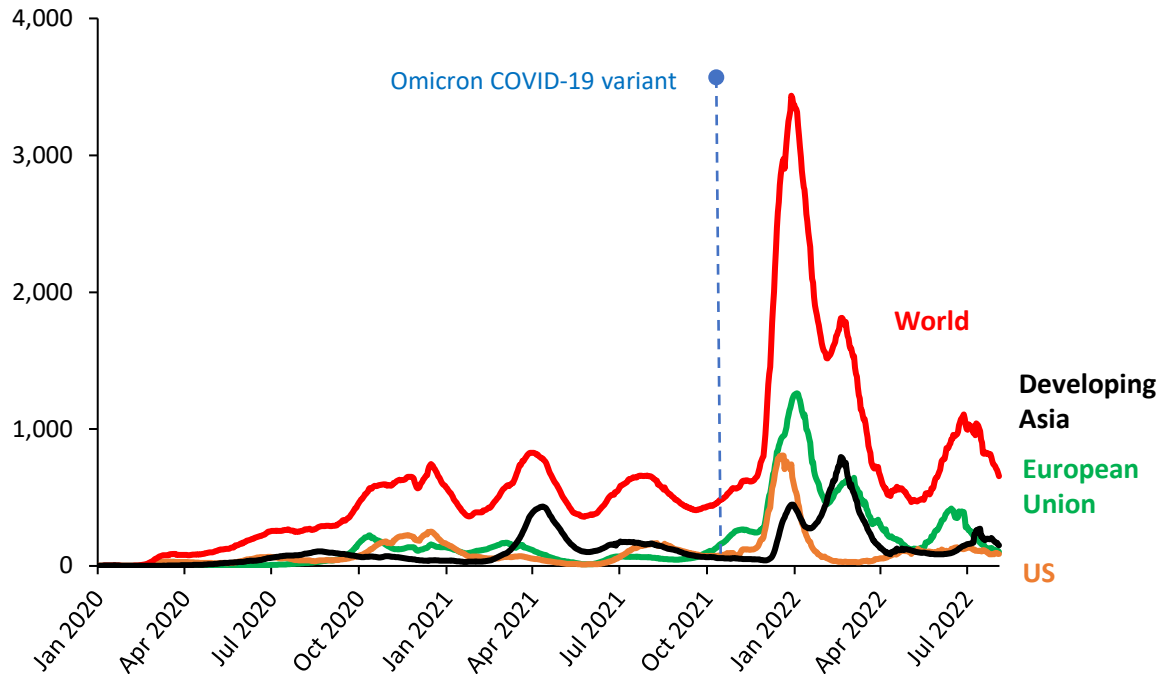
After surging globally early this year, COVID-19 cases have fallen and are at low levels in developing Asia.

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

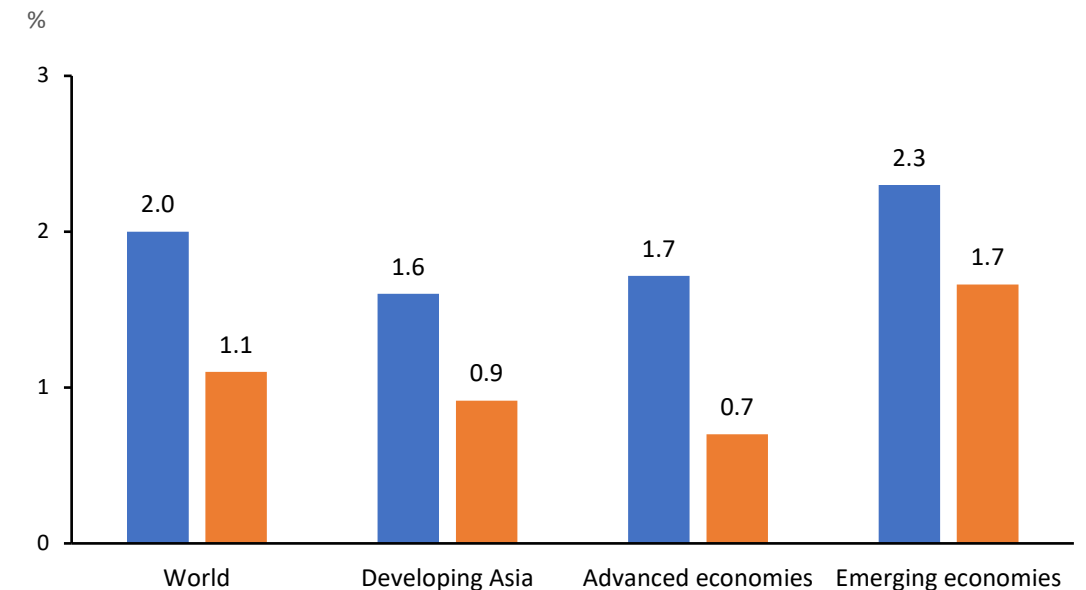
Daily new COVID-19 cases, 7-day moving average

COVID-19 case fatality rates

New cases, 7-day moving average, thousand



Case fatality rate, 25 November 2021
Case fatality rate, 30 August 2022



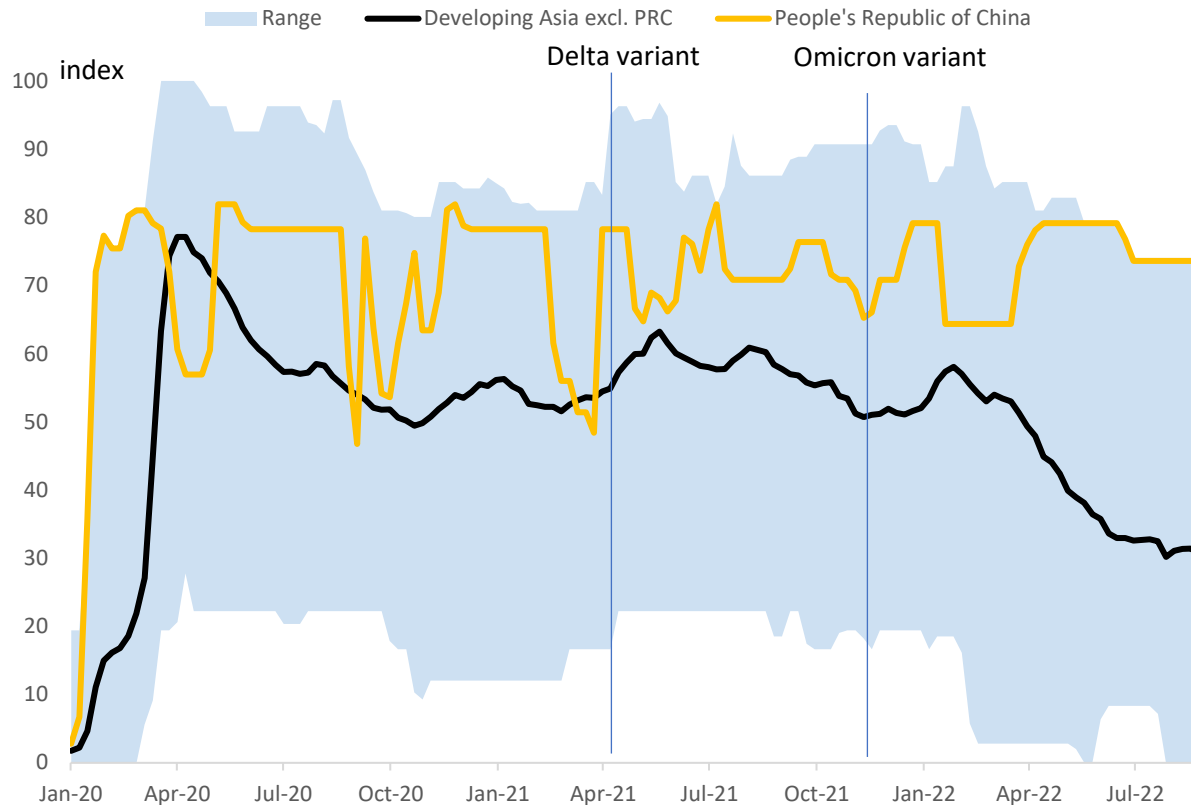
COVID-19 = coronavirus disease.
Source: Our World in Data (accessed 1 September 2022).

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.

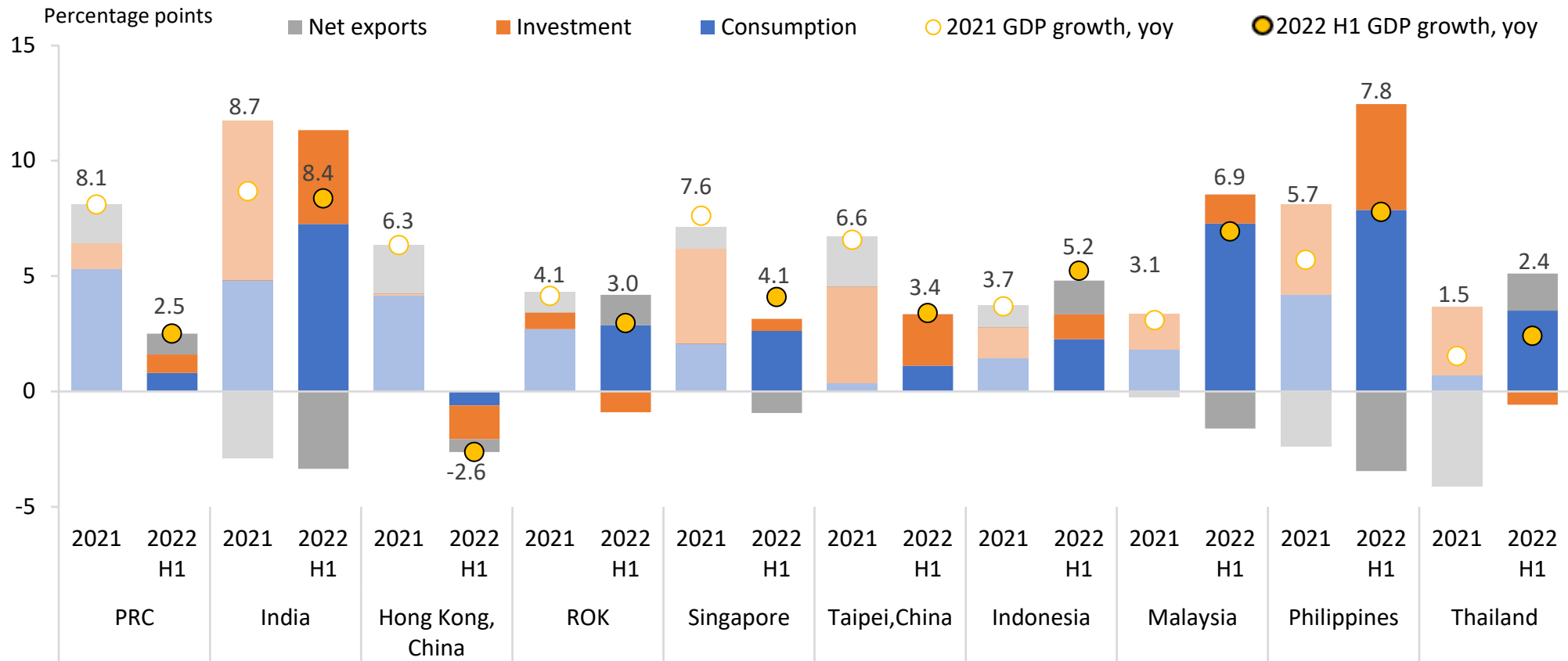
Notes: The PMI is an indicator of business activity. Pink to red indicates deterioration (<50), and white to green indicates improvement (>50).

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

Demand-side contributions to growth

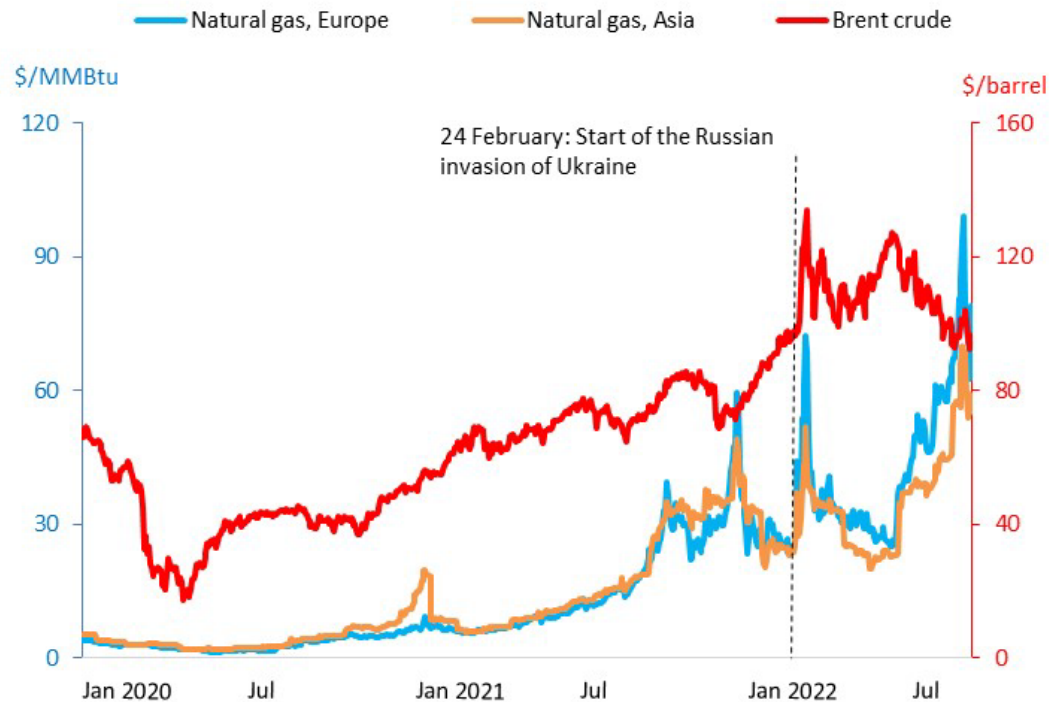


Food and oil prices have fallen back to pre-invasion levels, but natural gas prices have surged

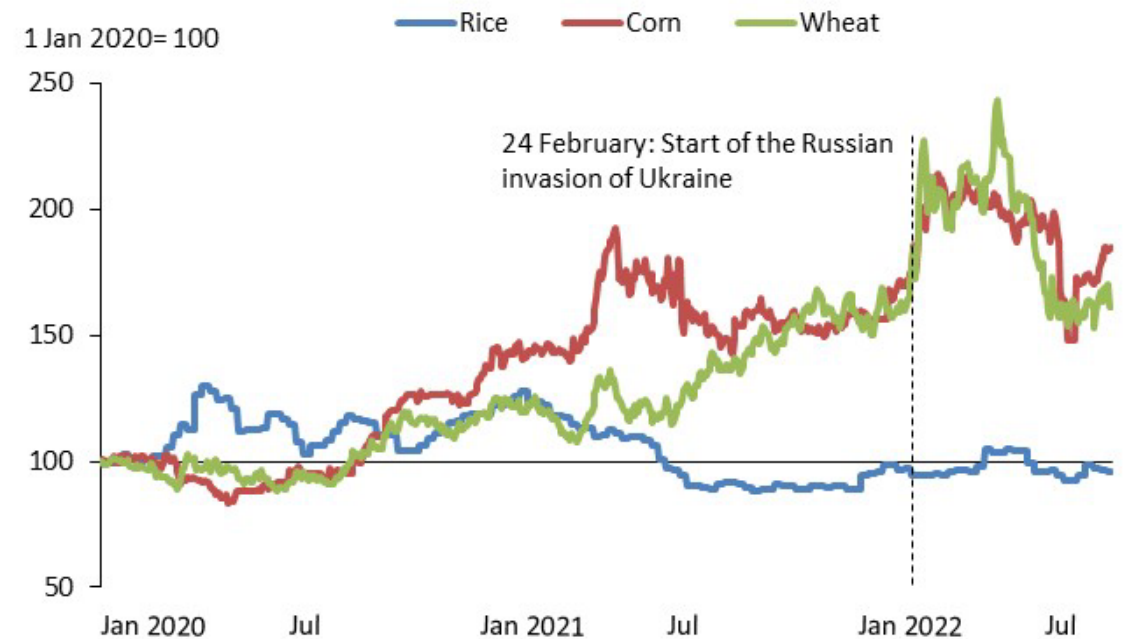
Oil prices are decreasing on softening global demand, but natural gas prices are surging as Russia's exports to Europe plunge

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

Prices of energy products



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).

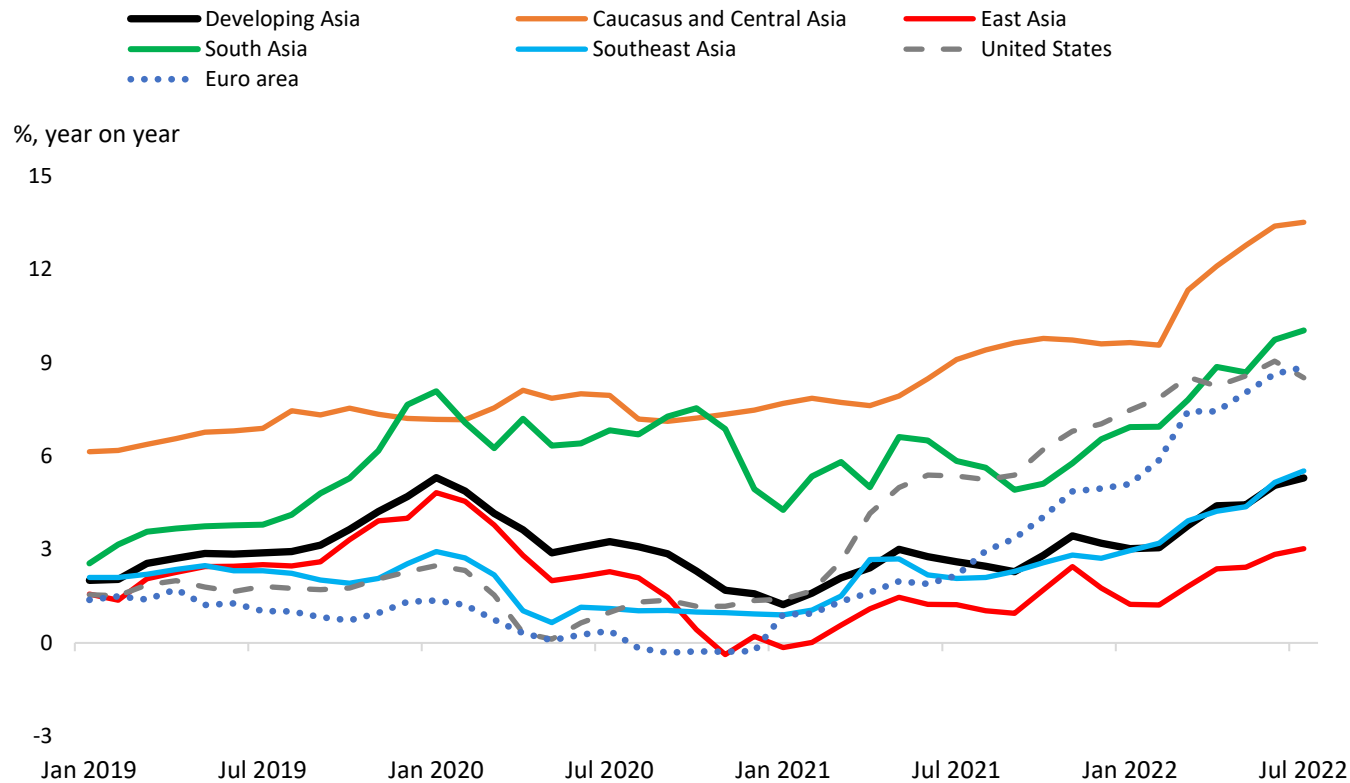
Source: Bloomberg (accessed 5 September 2022).

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.

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

Headline inflation



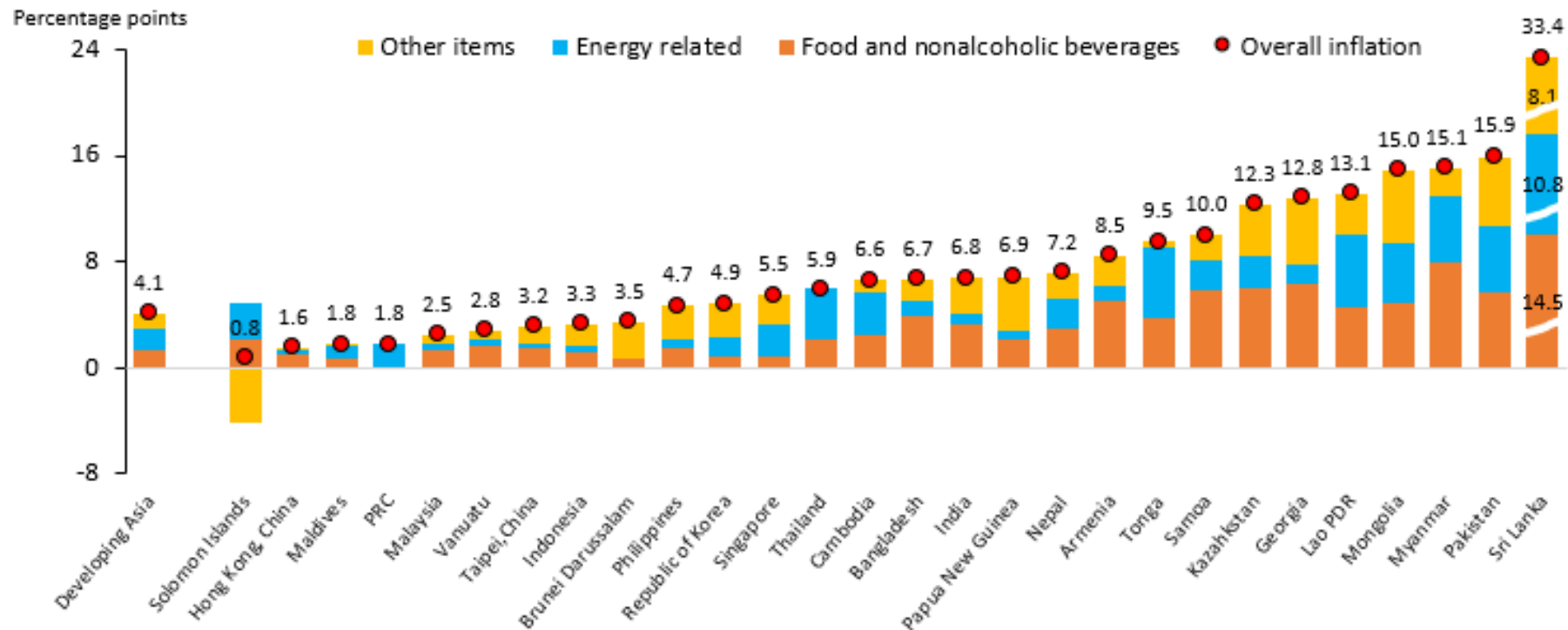
Economy	Dec 2021	Jan 2022	Feb 2022	Mar 2022	Apr 2022	May 2022	Jun 2022	Jul 2022
Central Asia and Caucasus								
Armenia	7.7	7.1	6.5	7.4	8.4	9.0	10.3	9.3
Azerbaijan	12.0	12.4	11.9	12.1	12.9	13.7	14.1	13.7
Georgia	13.9	13.9	13.7	11.8	12.8	13.3	12.8	11.5
Kazakhstan	8.4	8.5	8.7	12.0	13.2	14.0	14.5	15.0
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.

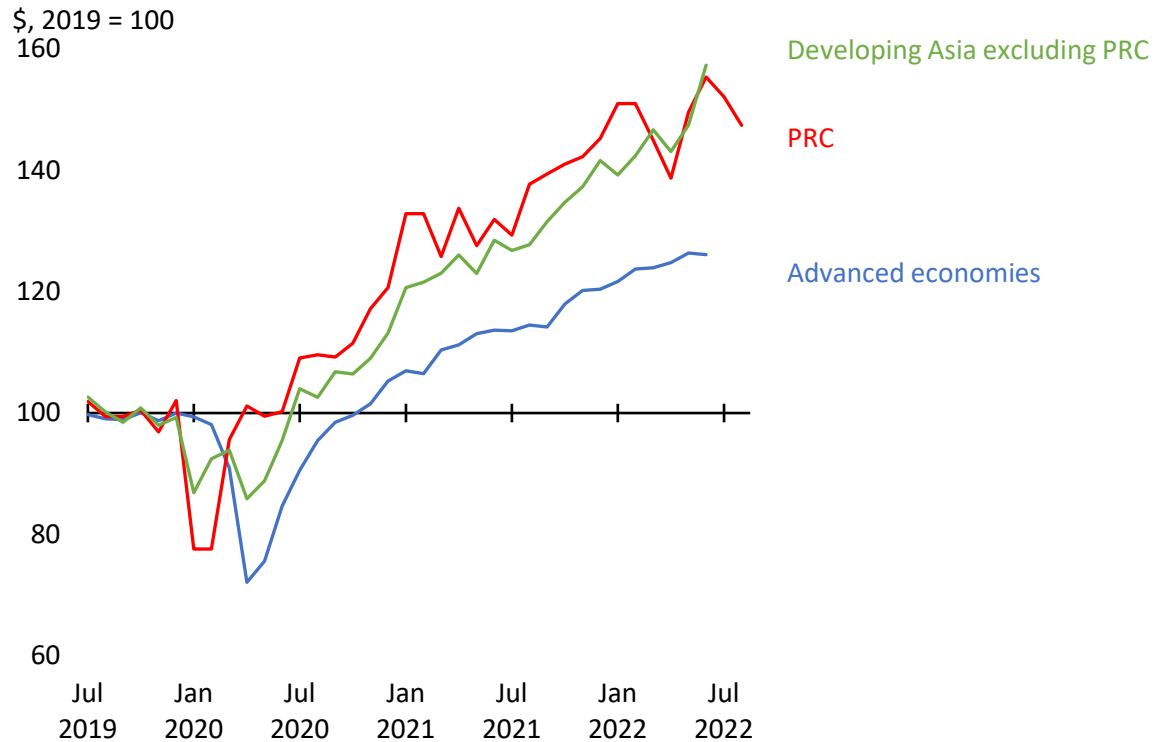
Notes: Data for Cambodia, Malaysia, Maldives, and Tonga refer to January to June 2022; while that for Solomon Islands and Brunei Darussalam, up to May; Myanmar and Vanuatu, up to March. For lack of a more disaggregated breakdown, energy-related consumer prices for most economies includes housing, water, 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.

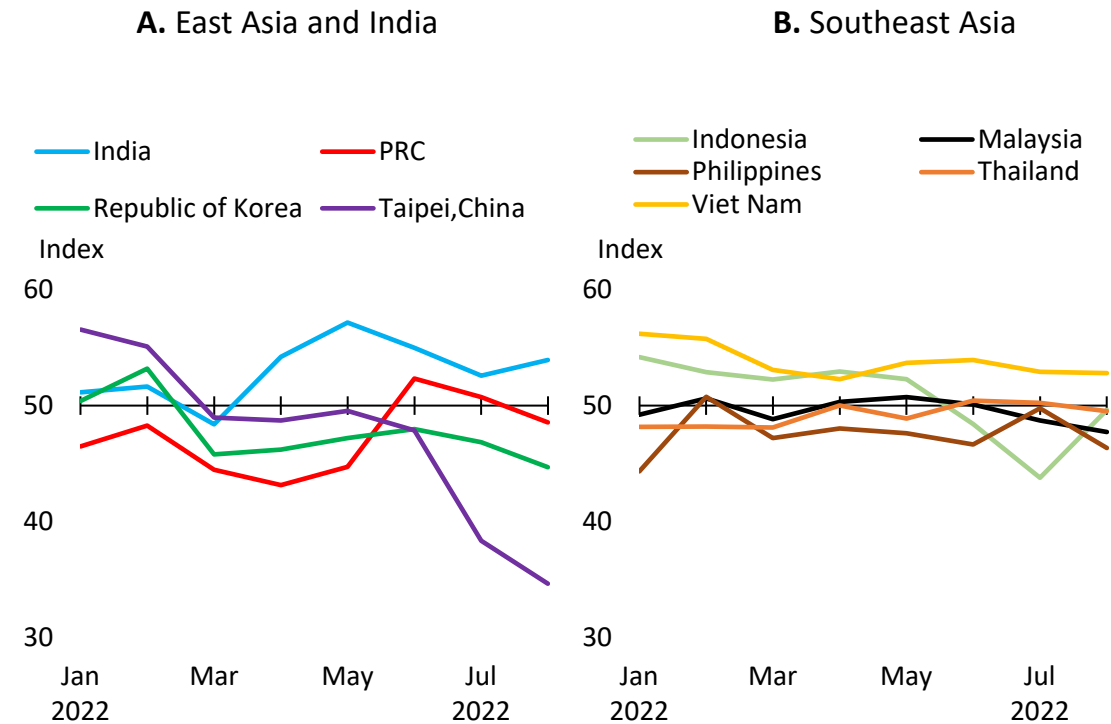
Nominal exports



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

Remittances

A. Rebound since 2021

B. Rebound since January

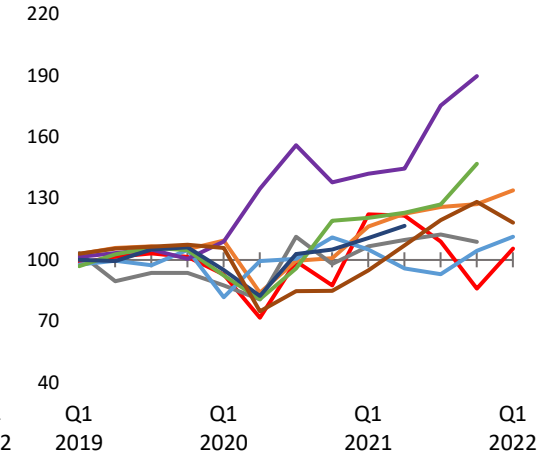
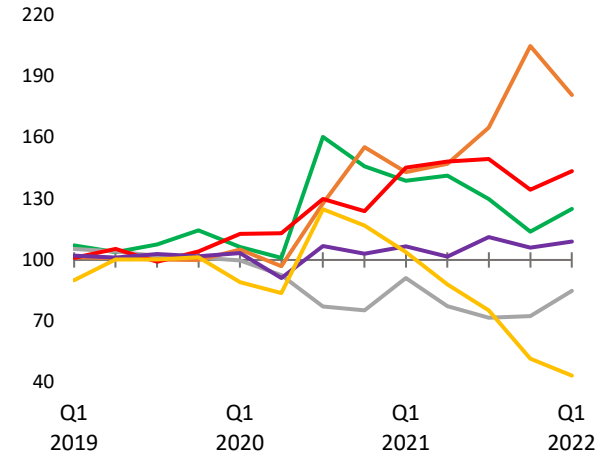
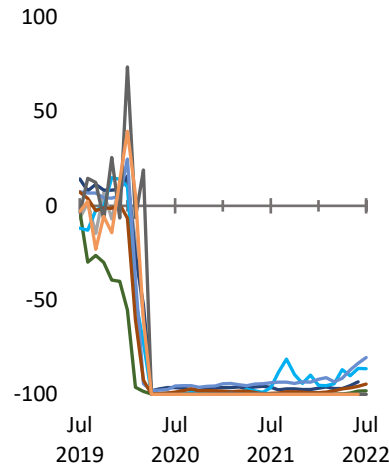
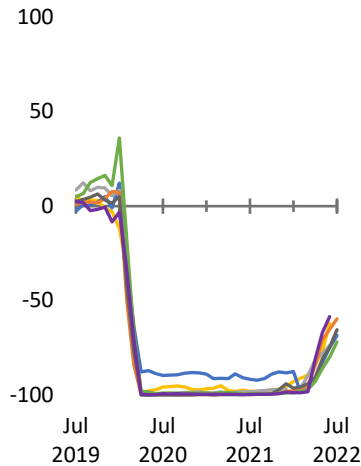
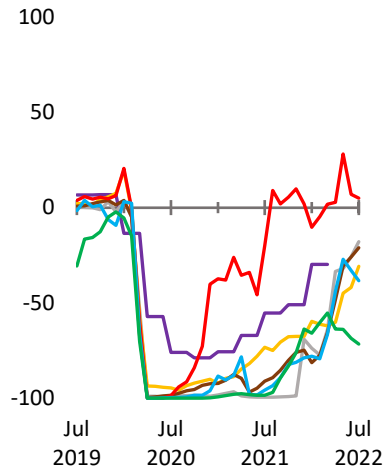
C. No rebound yet

A. Remittances: 5%–10% of GDP

B. Remittances: >10% of GDP

% change from 2018–2019 monthly average

Average of the same quarter in 2018–2019 = 100



- Armenia
- Georgia
- Maldives
- Sri Lanka
- Fiji
- India
- Nepal
- Cambodia
- Philippines
- Thailand
- Malaysia
- Indonesia
- Singapore
- Viet Nam

- Bhutan
- Hong Kong, China
- Myanmar
- Palau
- Republic of Korea
- Taipei, China
- Tonga
- Vanuatu

- Bangladesh
- Pakistan
- Cambodia
- Philippines
- Fiji
- Sri Lanka

- Armenia
- Georgia
- Kyrgyz Republic
- Samoa
- Tonga
- Nepal
- Tajikistan
- Uzbekistan

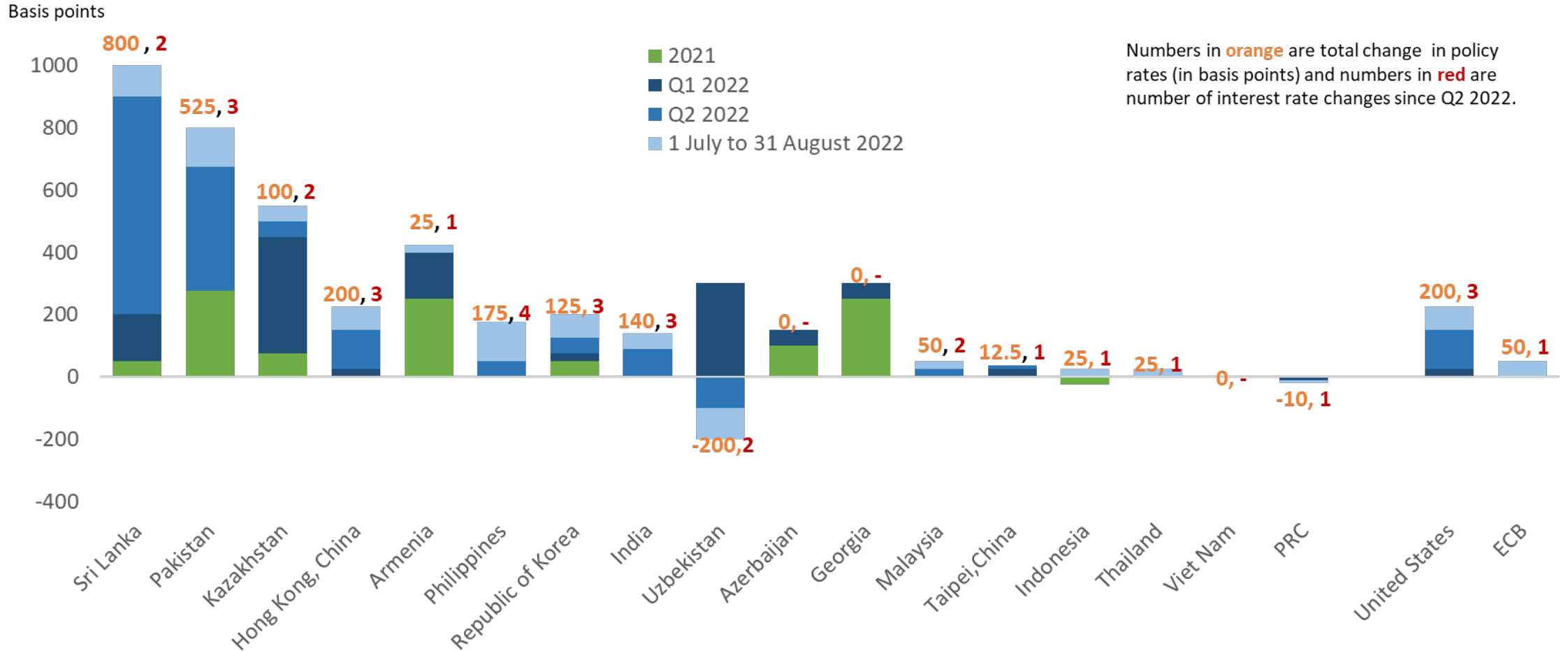
GDP = gross domestic product, Q = quarter.

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.

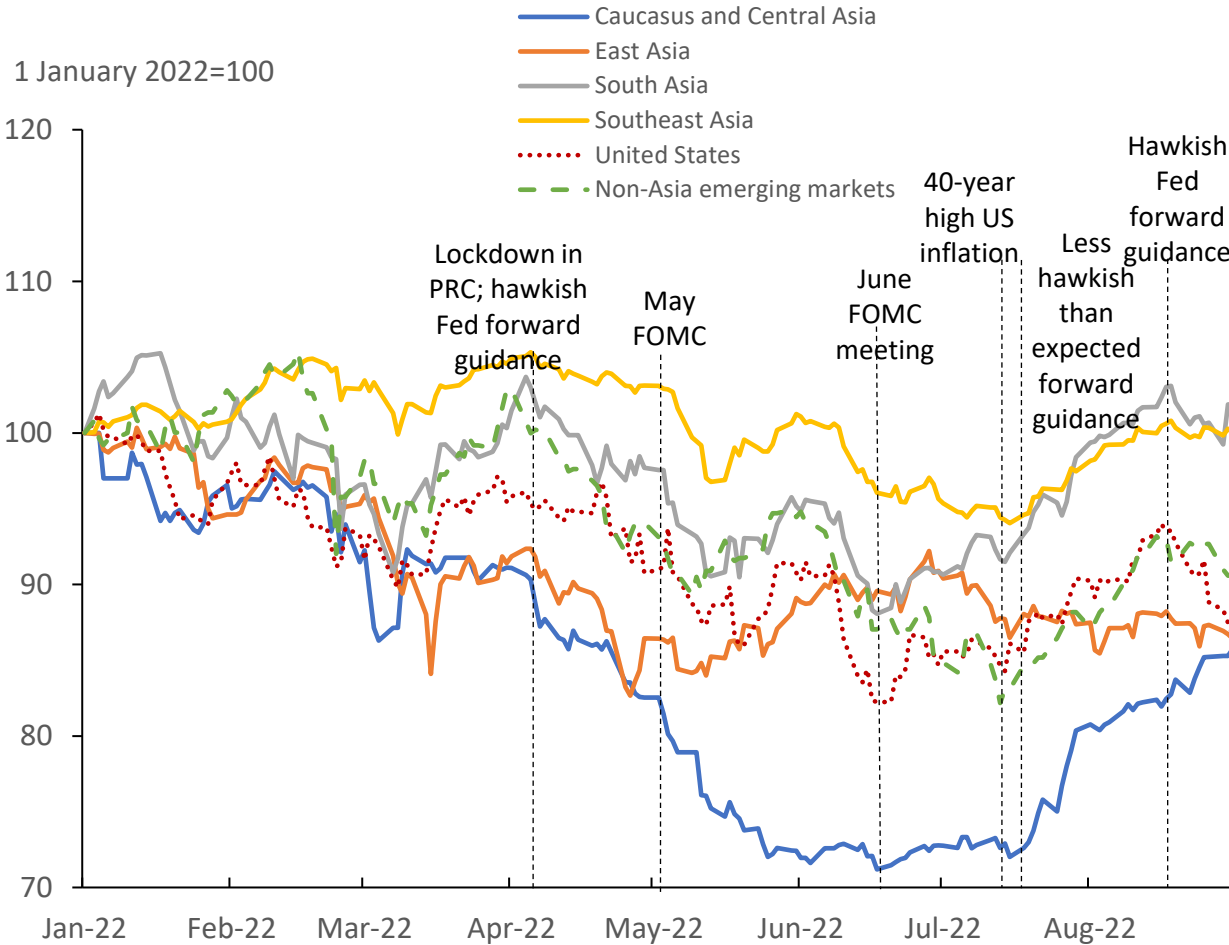
Change in policy interest rates (selected economies)



Financial conditions remain tighter than in April, despite easing in Q3

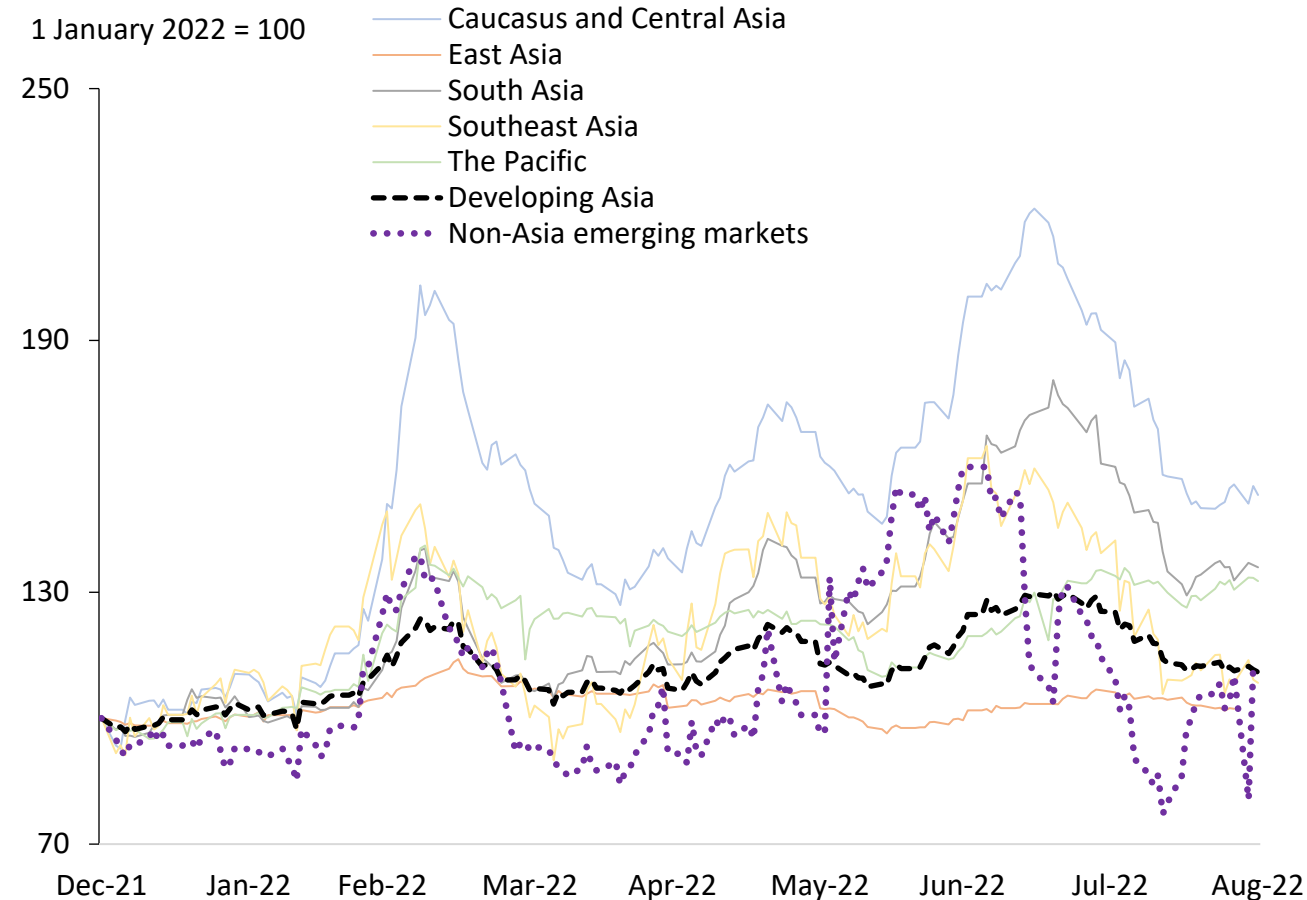
Asian equity markets retreated in Q2 but partly recovered in Q3, closely tracking expectations on Fed tightening.

Equity market performance



Similarly, risk premiums increased in Q2 and then declined

JP Morgan EMBI stripped spreads, selected Asian economies



Note: JP Morgan EMBIG (Emerging Market Bond Index Global) index is a benchmark index to capture government bond performance in global emerging markets, developed by JP Morgan. Non-Asia emerging markets include Argentina, Brazil, Mexico, Poland, South Africa, and Republic of Türkiye.
Source: Bloomberg (both accessed 1 Sep 2022).

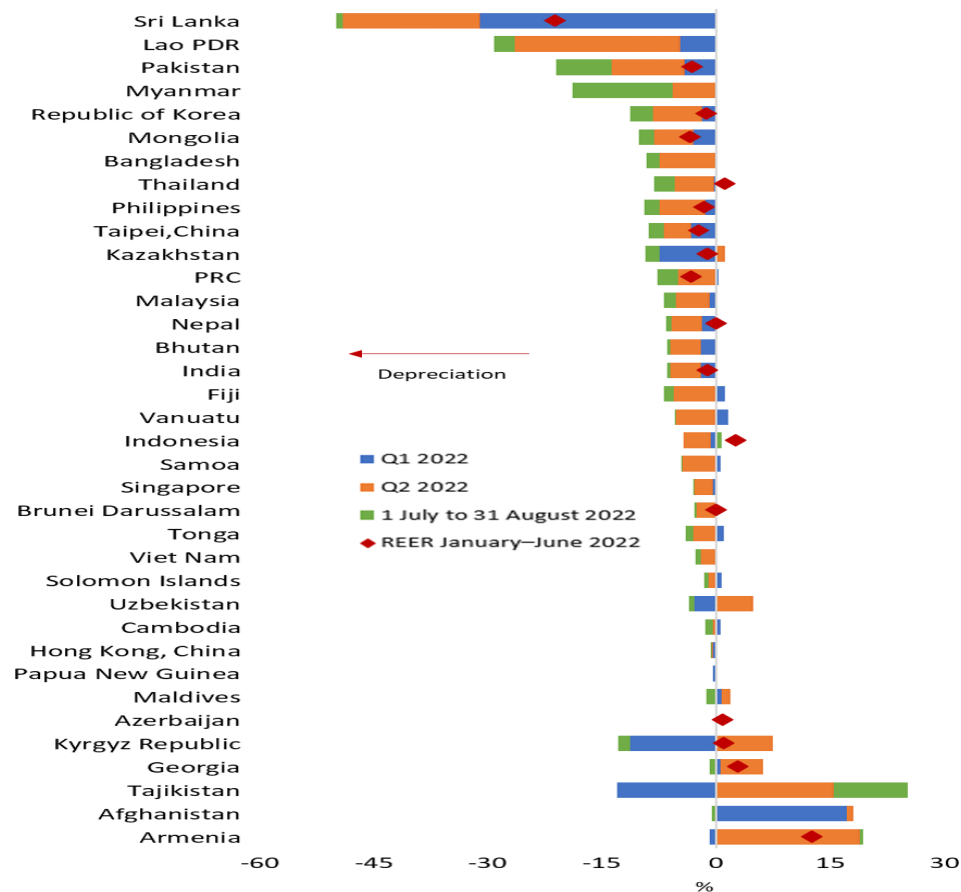
FOMC = Federal Open Market Committee.
Note: Non-Asia emerging markets include Brazil, Russian Federation, and South Africa.
Source: Bloomberg (accessed 1 Sep 2022).

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

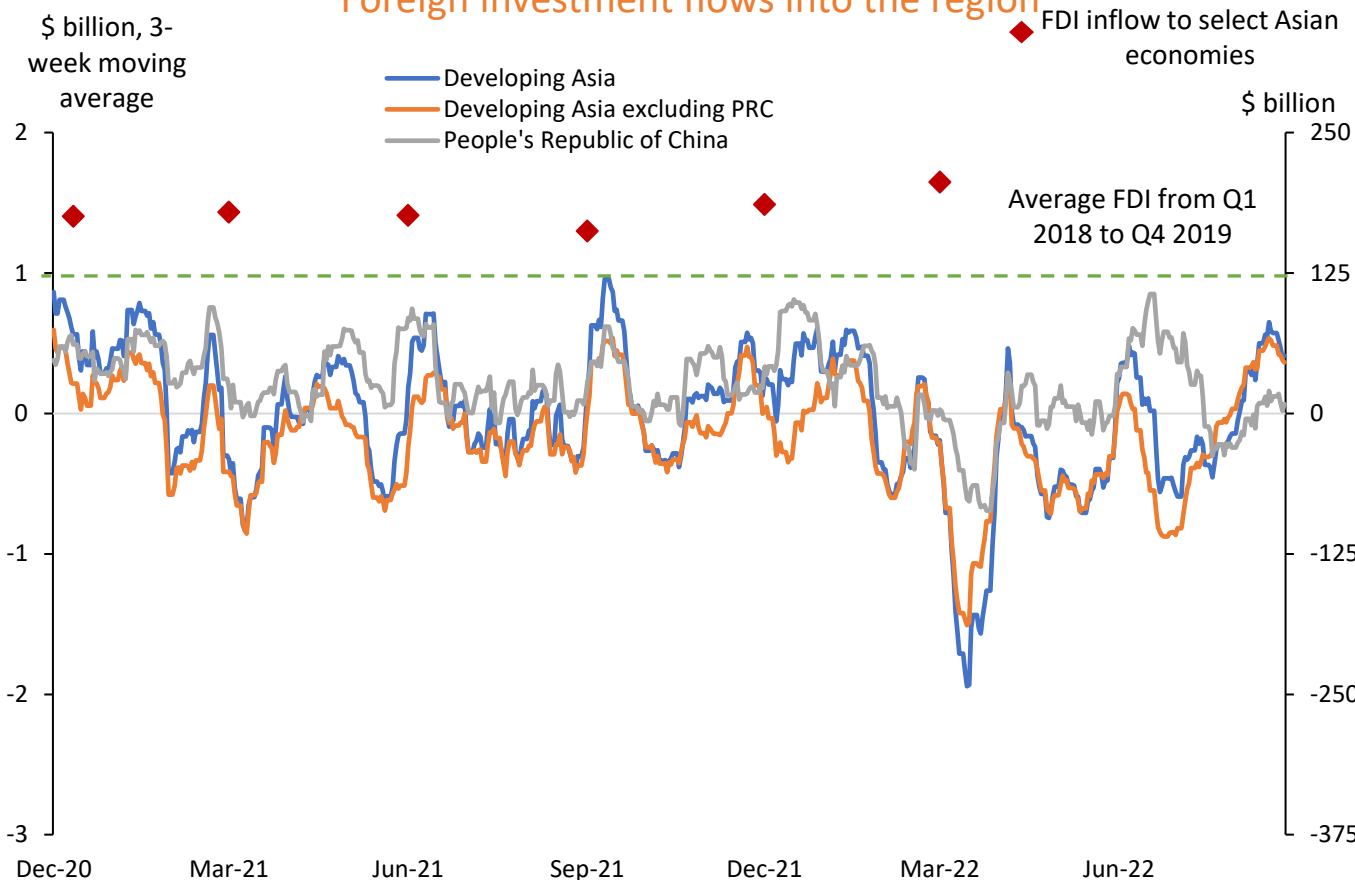
Currencies continued to depreciate against the US dollar, on Fed tightening and growth headwinds.

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

Exchange rate movements



Foreign investment flows into the region



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).

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.

Global demand is expected to soften

High inflation prompted the US and the euro area to tighten monetary policy, which will eventually weaken global demand.

Baseline assumptions on the international economy

	2022		2023	
	<i>Apr ADO 2022</i>	<i>Sep Update</i>	<i>Apr ADO 2022</i>	<i>Sep Update</i>
GDP growth, %				
Major advanced economies ^a	3.5	1.9	2.4	1.0
United States	3.9	1.6	2.3	1.0
Euro area	3.3	2.5	2.6	0.7
Japan	2.7	1.4	1.8	1.6
Brent crude spot prices, average, \$/barrel	107.00	106.00	93.00	95.00
Headline inflation, major economies' average, %	4.8	7.2	2.1	3.0

^a Average growth rates are weighed by GDP purchasing power.

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

Revisions to the growth outlook vary across subregions

Growth is forecast to weaken in East and South Asia but improve in the other subregions

GDP growth, %

	2022		2023			2022		2023	
	Apr ADO 2022	Sep Update	Apr ADO 2022	Sep Update		Apr ADO 2022	Sep Update	Apr ADO 2022	Sep Update
Developing Asia (DA)	5.2	4.3 ↓	5.3	4.9 ↓					
DA excluding the PRC	5.5	5.3 ↓	5.8	5.3 ↓	Caucasus & Central Asia	3.6	3.9 ↑	4.0	4.2 ↑
					Kazakhstan	3.2	3.0 ↓	3.9	3.7 ↓
East Asia	4.7	3.2 ↓	4.5	4.2 ↓	Southeast Asia	4.9	5.1 ↑	5.2	5.0 ↓
Hong Kong, China	2.0	0.2 ↓	3.7	3.7 —	Indonesia	5.0	5.4 ↑	5.2	5.0 ↓
People's Rep. of China	5.0	3.3 ↓	4.8	4.5 ↓	Malaysia	6.0	6.0 —	5.4	4.7 ↓
Republic of Korea	3.0	2.6 ↓	2.6	2.3 ↓	Philippines	6.0	6.5 ↑	6.3	6.3 —
Taipei,China	3.8	3.4 ↓	3.0	3.0 —	Singapore	4.3	3.7 ↓	3.2	3.0 ↓
South Asia	7.0	6.5 ↓	7.4	6.5 ↓	Thailand	3.0	2.9 ↓	4.5	4.2 ↓
India	7.5	7.0 ↓	8.0	7.2 ↓	Viet Nam	6.5	6.5 —	6.7	6.7 —
					The Pacific	3.9	4.7 ↑	5.4	5.5 ↑

Notes: Data for India are on fiscal year basis, with FY2022 ending 31 March 2023. ↑ = forecast increased, ↓ = forecast decreased, — = no change.

Source: Asian Development Outlook database.

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.



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ENTREPRENEURSHIP IN THE DIGITAL AGE

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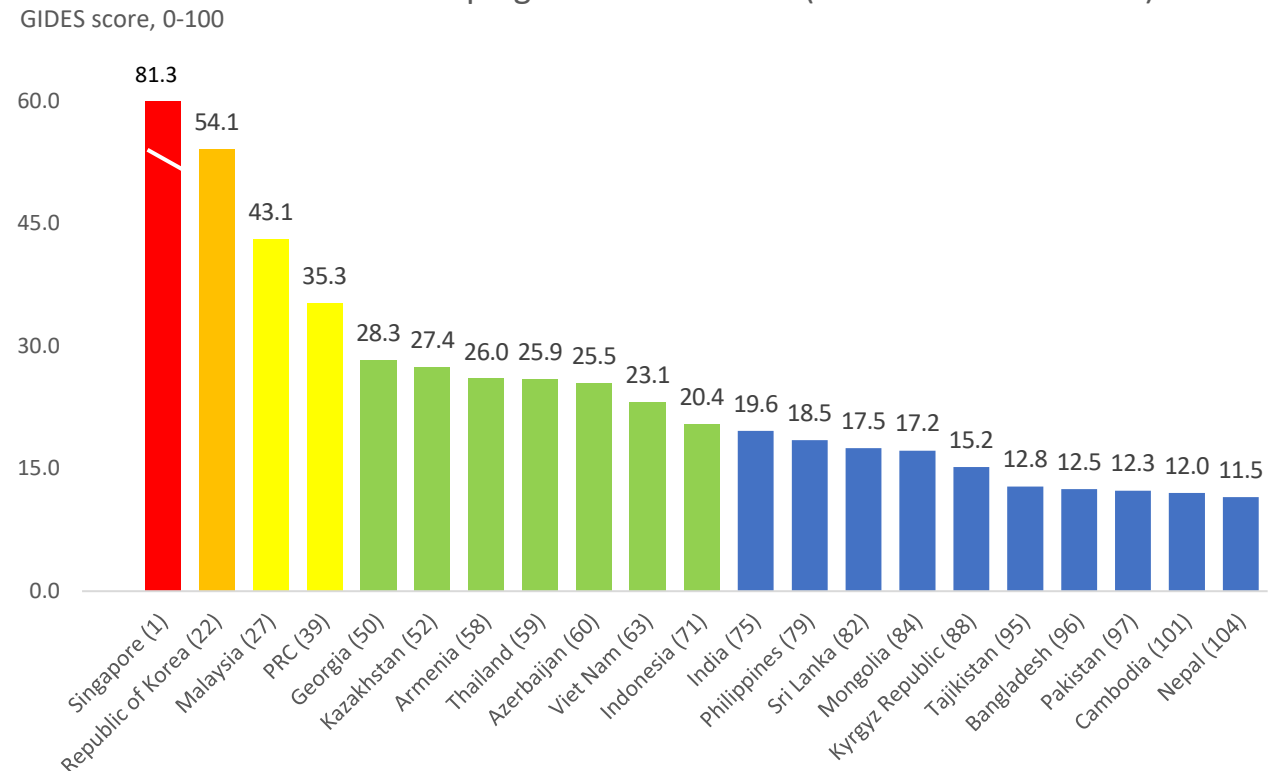
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Digital entrepreneurship can become an engine of growth....

- Sustained economic growth depends on a vibrant private sector, which depends on the emergence of entrepreneurs who start and run businesses.
- On-going digitalization of economy has opened up a world of entrepreneurial opportunities.
- Singapore offers global best environment for digital entrepreneurs, but most developing Asian economies must improve digital entrepreneurship environments.
- A one-standard deviation in GIDES is associated with an 8.2 percentage point in the probability of a new business innovating.

Singapore tops the world in digital entrepreneurship environment; most economies in the region must improve.

GIDES 2021 score and global ranking of Developing Asian economies (out of 113 economies)



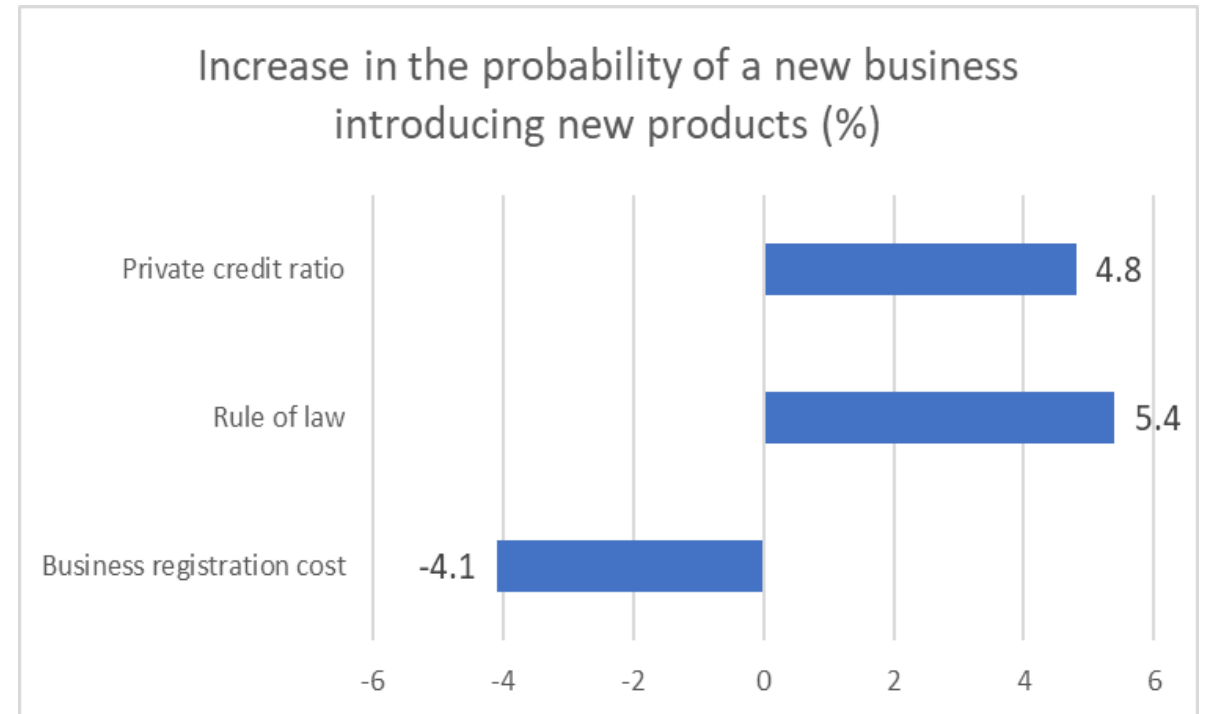
Note: Red = top tier of entrepreneurship environment, orange = 2nd best tier, yellow = 3rd best tier, green = 4th best tier, blue = bottom tier

Source: Autio, E. et al. 2022. *Asian Index of Digital Entrepreneurship Systems 2021*. Asian Development Bank.

.....but sound institutions remain vital for entrepreneurs

- Institutions such as property rights protection benefit entrepreneurs by mitigating risk and uncertainty.
- Analysis of 230,000 individuals in 15 economies confirms a positive link between an economy's institutional environment and productivity of its entrepreneurs.
- For instance, a one-standard deviation improvement in rule of law was associated with a 5.4 percentage point increase in the likelihood of product innovation by a new business.

There is an economically significant link between country-level institutions and individual-level entrepreneurial productivity.



Estimates are statistically significant at 1 percent level. New businesses are businesses that are less than 42 months old. Business registration cost is in percent of per capita income. Rule of law is a measure of the extent to which individuals and firms have confidence in and abide by the rules of society. Private credit to GDP ratio is a proxy for financial development.

Source: Autio, E. and K. Fu. 2022. *Country-Level Institutional Conditions and Individual-Level Entrepreneurship Dynamics*. Asian Development Bank.

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 - 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