



ASIAN DEVELOPMENT OUTLOOK

APRIL 2024

Robust Growth amid Uncertain External Prospects

Matteo Lanzafame, Principal Economist
CeSPI, 23 April 2024

<https://www.adb.org/outlook/editions/april-2024>

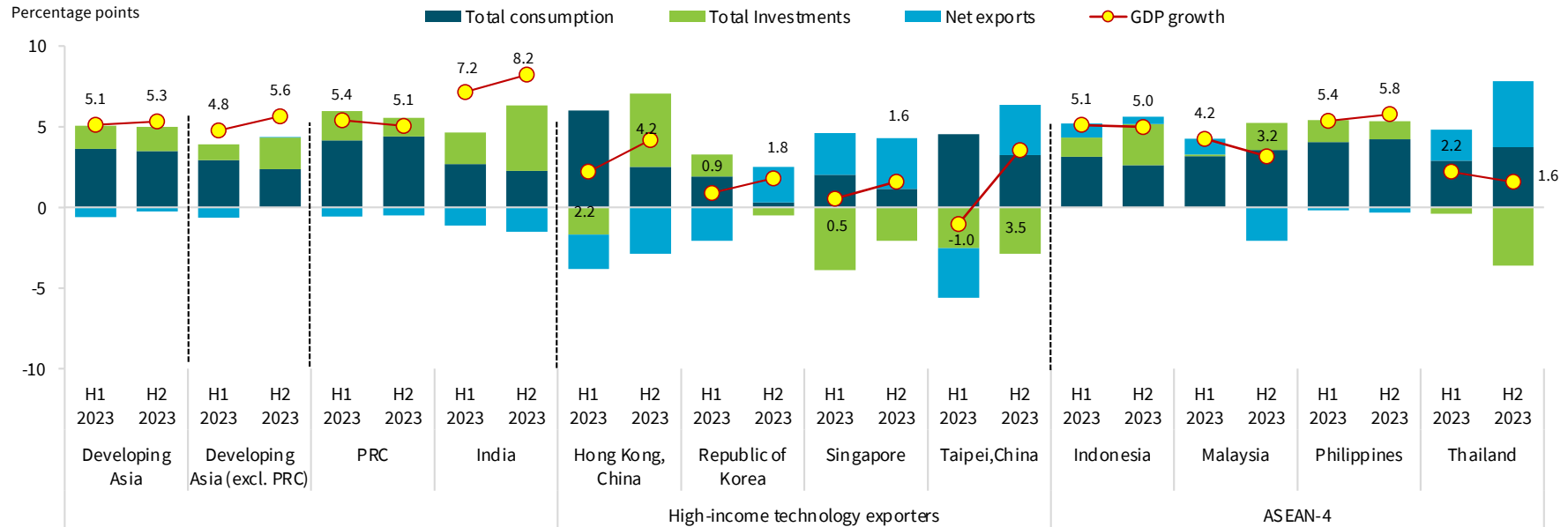
Robust Growth amid Uncertain External Prospects

- Growth in developing Asia remained strong at 5.0% in 2023, driven by domestic demand.
- External demand remained fragile last year, although goods exports bottomed out as semiconductors turned the corner.
- Regional growth is forecast at 4.9% in 2024 and 2025.
- Inflation in the region is projected to continue to gradually decline, from 3.3% in 2023 to 3.2% in 2024 and 3.0% in 2025.
- Downside risks to the outlook pertain to conflicts in the Middle East and geopolitical tensions, the path of US monetary policy, spillovers from the PRC's property market turbulence, and climate/weather-related disturbances.

Growth strengthened during 2023, driven by domestic demand

Consumption and investment remained robust overall

Demand-side Contributions to Real GDP Growth



ASEAN = Association of Southeast Asian Nations, PRC = People's Republic of China, H = half-yearly, Q = quarter, yoy = year on year.

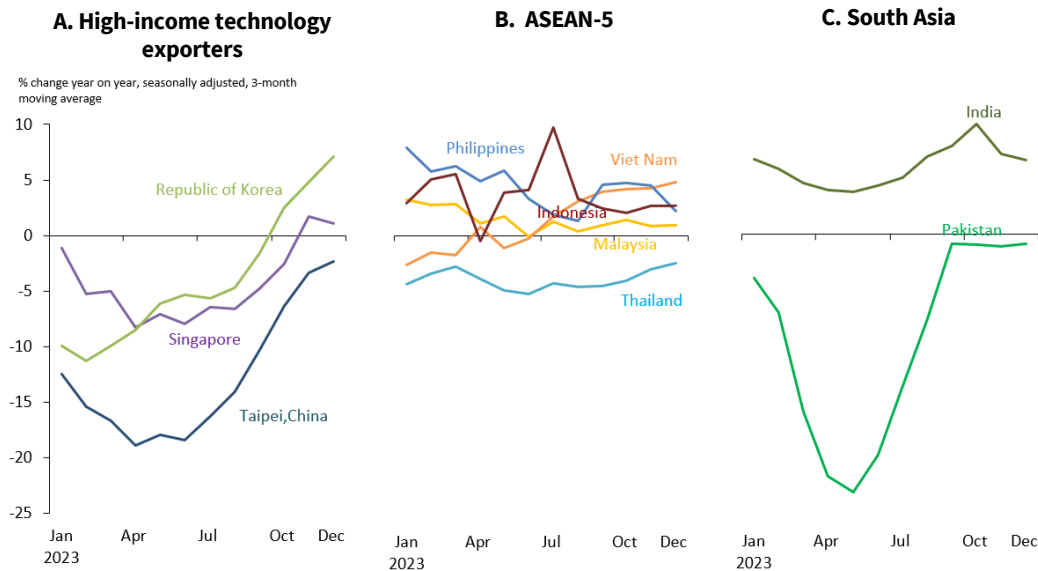
Note: Economies included are those that have available quarterly GDP figures with demand-side breakdown, which account for about 90% of developing Asia. Components do not add up to total due to statistical discrepancy and chain-linking method of GDP estimation and reporting. The regional average is calculated using GDP PPP shares as weights. All data are in calendar years and in non-seasonally adjusted terms.

Source: Haver Analytics.

Gradual improvement in manufacturing activity for some economies

Industrial production picked up in some economies in the second half of 2023....

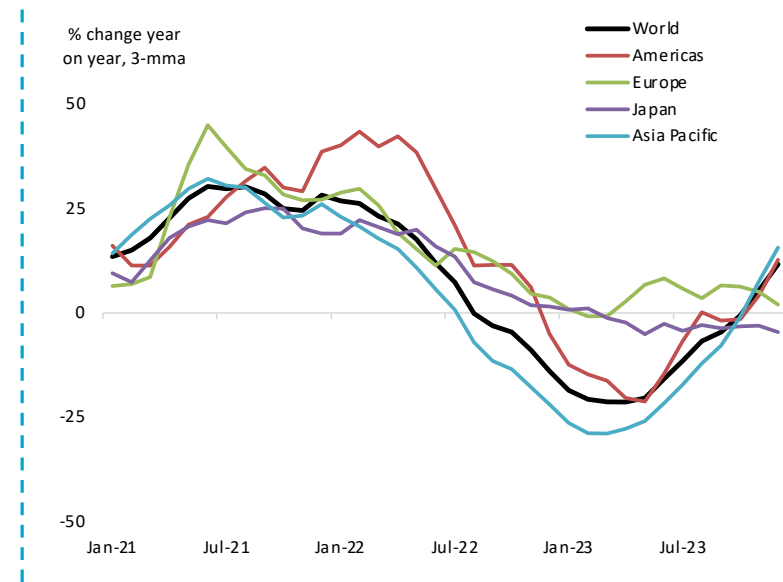
Industrial Production Index, developing Asia



ASEAN = Association of Southeast Asian Nations, 3mma = 3-month moving average.
 Note: The index refers to manufacturing production, except in India and Viet Nam where they include mining.
 Source: CEIC Data Company.

...buoyed in part by rising demand for semiconductors.

Global Semiconductor Billings



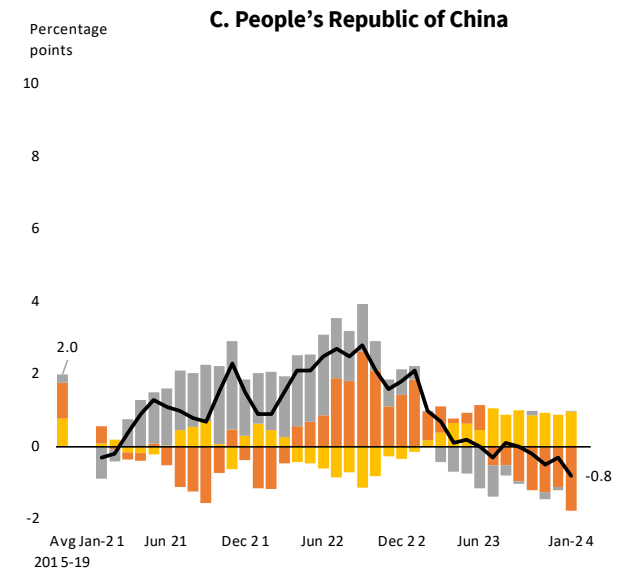
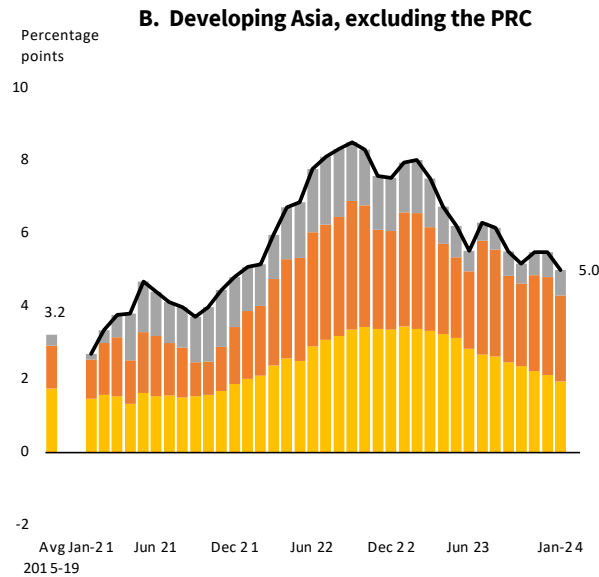
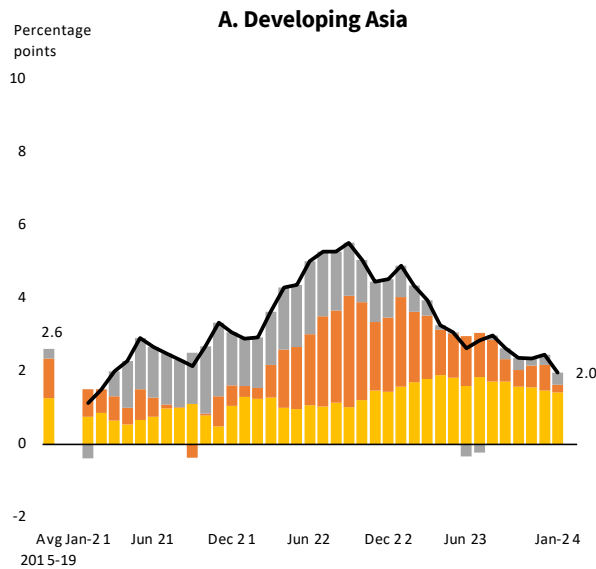
3mma = 3-month moving average.
 Source: World Semiconductor Trade Statistics; CEIC Data Company.

Continued moderation in inflation

Energy, food, and core inflation continue to recede towards prepandemic averages.

Contributions to Inflation, developing Asia

Food and nonalcoholic beverages Energy related Core Headline inflation



PRC = People's Republic of China.

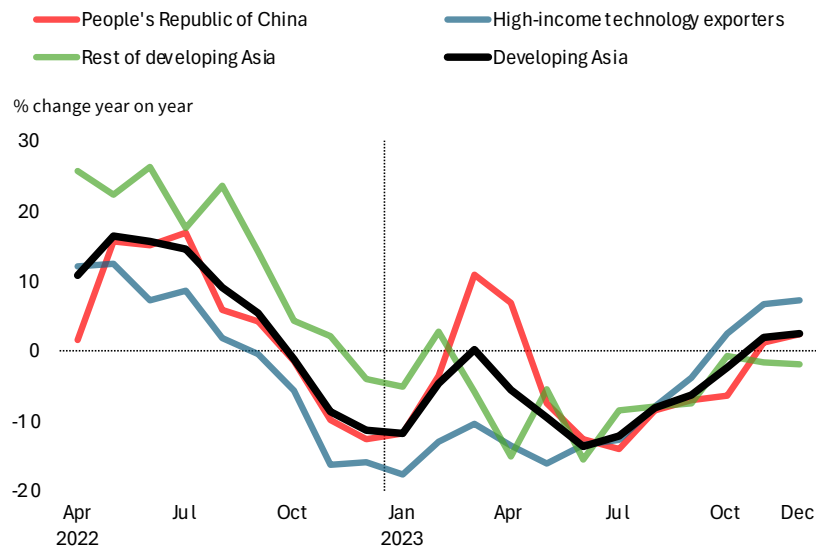
Note: Core inflation excludes volatile components, i.e., energy and fuel. Regional average is calculated using GDP PPP shares as weights and covers 22 economies.

Sources: Staff calculations using data from Haver Analytics; CEIC Data Company; official sources.

Exports of goods may have bottomed out during 2023

Goods exports growth gradually recovering...

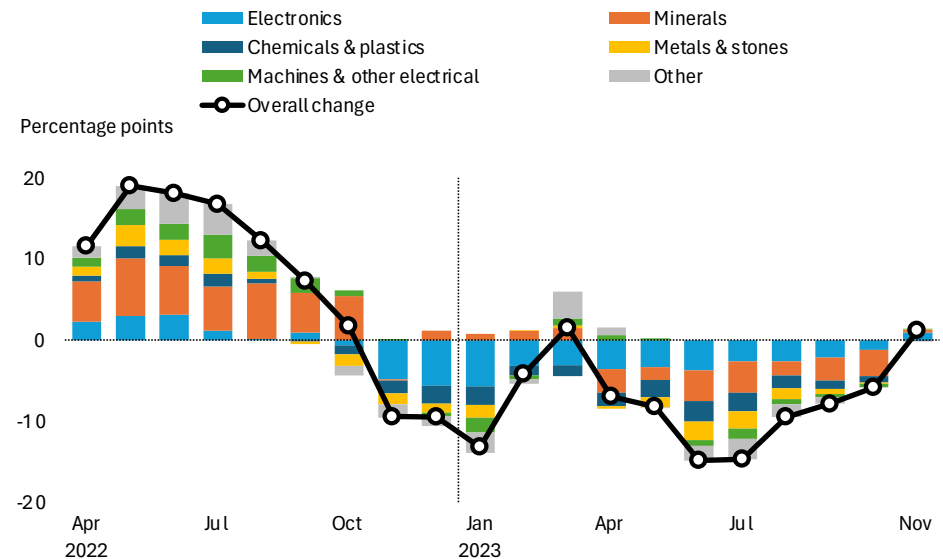
Goods Exports in developing Asia



Notes: High-income technology exporters are Hong Kong, China, Republic of Korea, Singapore, and Taipei, China.
Source: CEIC Data Company.

... driven by electronics exports

Contributions to Goods Export Growth by Product



Notes: Based on data for 16 economies (approx. 92% of developing Asia's exports): Armenia, Azerbaijan; Hong Kong, China; Fiji; Georgia; India; Indonesia; Malaysia; Mongolia; the People's Republic of China; the Philippines, the Republic of Korea; Singapore; Taipei, China; Thailand; and Uzbekistan.
Source: UN Comtrade, International Trade Center

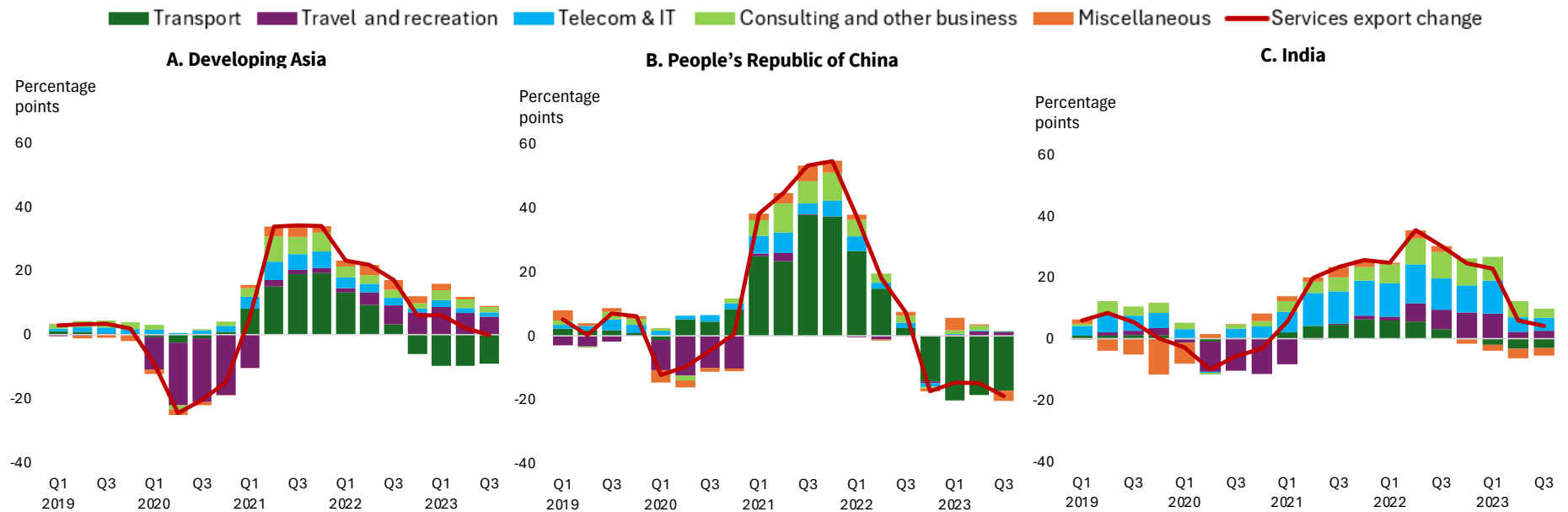
After a surge in 2021, growth in export of services slowed down, despite continued recovery in tourism

Transport services are behind the recent downward trend in services export growth...

...particularly driven by lower PRC shipping services exports...

...while India's services exports continue to expand, led by software development

Contributions to Services Export Growth in Developing Asia



Note: Miscellaneous = Intellectual property, construction, financial, government, insurance & pension, maintenance & repair, and manufacturing services.
Source: CEIC Data Company.

Financial market conditions improved since November overcoming a period of tightening in Q3 2023

Most equity markets rallied since November, amid expectations of less hawkish US monetary policy

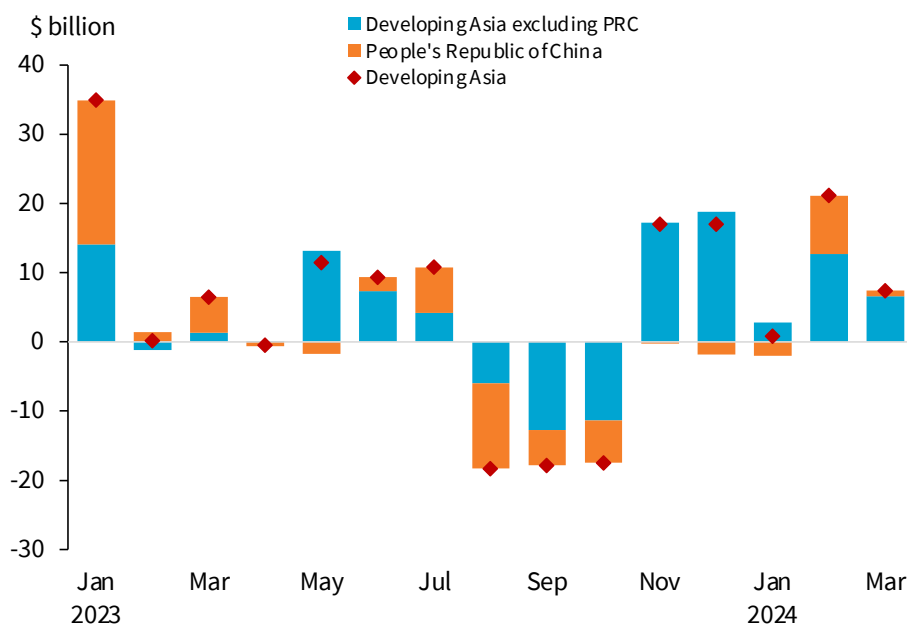
Net portfolio flows turned positive since November on improved investor sentiment

Equity Market Performance



Note: Data is as of 12 March 2024.
Source: Bloomberg.

Net Portfolio Flows into the Region



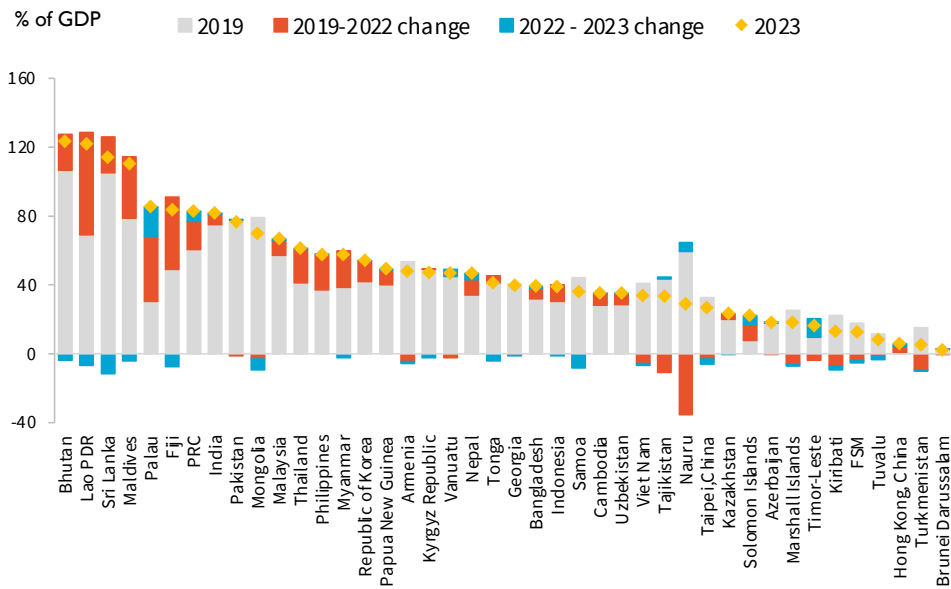
Note: Data for March is up to 14 March 2024.
Source: Bloomberg.

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Recent stabilization in debt levels and improved fiscal positions, but risks persist

Public debt was mostly flat in 2023 but remains elevated for some economies

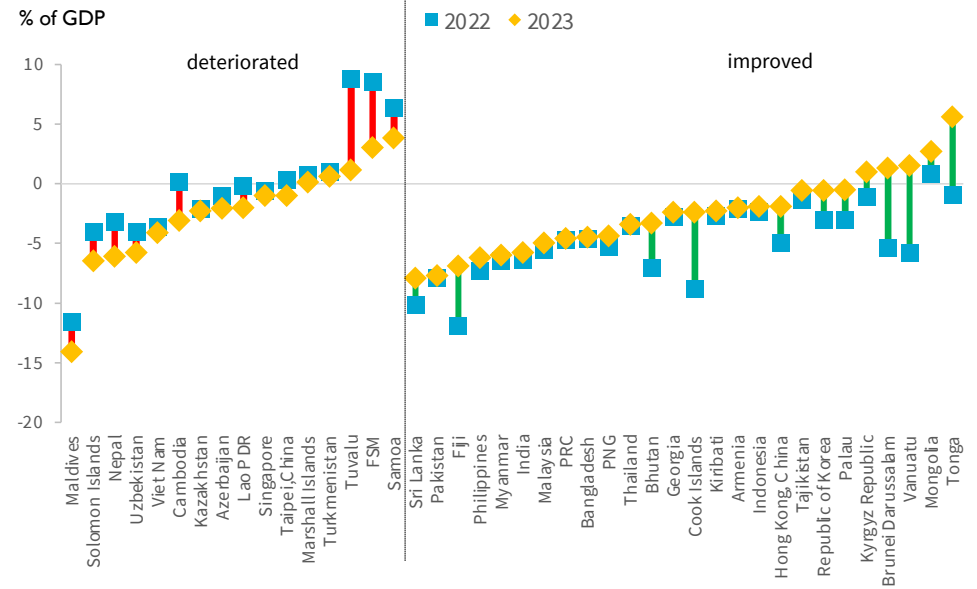
Public Debt



FSM = Federated States of Micronesia, Lao PDR = Lao People's Democratic Republic, PNG = Papua New Guinea, PRC = People's Republic of China
Source: IMF World Economic Outlook

Fiscal positions improved for most economies, but deficits remain sizeable for some

Fiscal Balance



FSM = Federated States of Micronesia, Lao PDR = Lao People's Democratic Republic, PNG = Papua New Guinea, PRC = People's Republic of China
Source: Asian Development Outlook database.

Slowing global growth will gradually be offset by monetary easing

Major advanced economies will be affected by the ongoing slowdown in global trade.

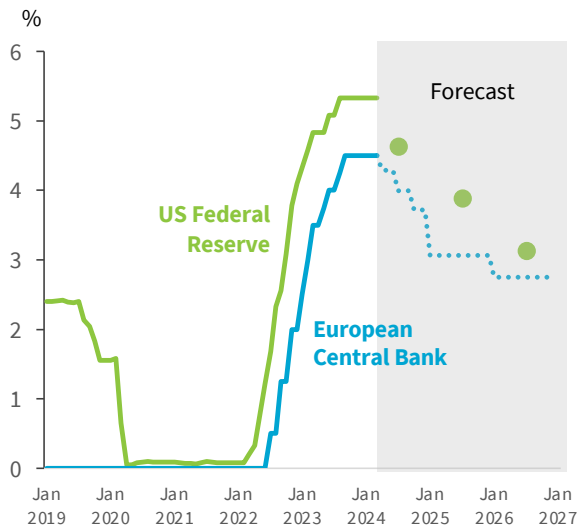
Monetary policy is expected to start easing by mid-2024

Oil prices will remain around \$80; rice prices have climbed.

	2023	2024	2025
	Estimate	Forecast	
GDP growth, %			
Major advanced economies	1.7	1.3	1.5
United States	2.5	1.9	1.7
Euro area	0.5	0.7	1.4
Japan	1.9	0.6	0.8
Inflation, %			
Major advanced economies	4.5	2.4	2.0
United States	4.1	2.6	2.2
Euro area	5.4	2.4	2.0
Japan	3.3	1.9	1.3

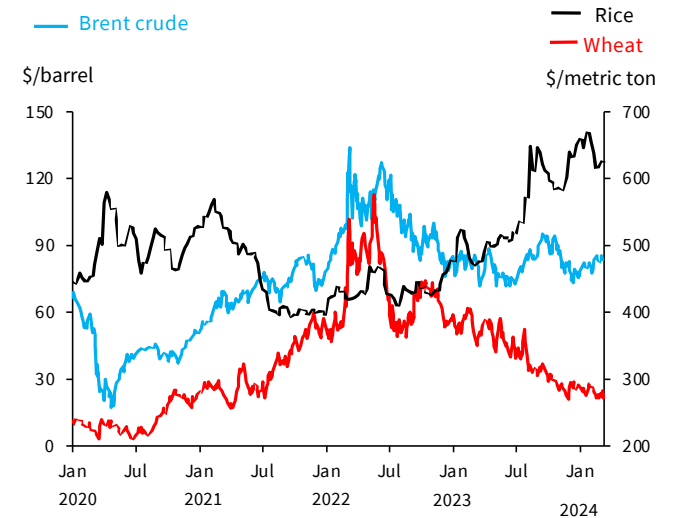
Sources: Bloomberg; CEIC Data Company; Haver Analytics; IMF World Economic Outlook; Asian Development Bank estimates.

Policy Rates



Sources: European Central Bank; US Federal Reserve

Commodity Prices



Source: Bloomberg

Regional growth is forecast at 4.9% for both 2024 and 2025

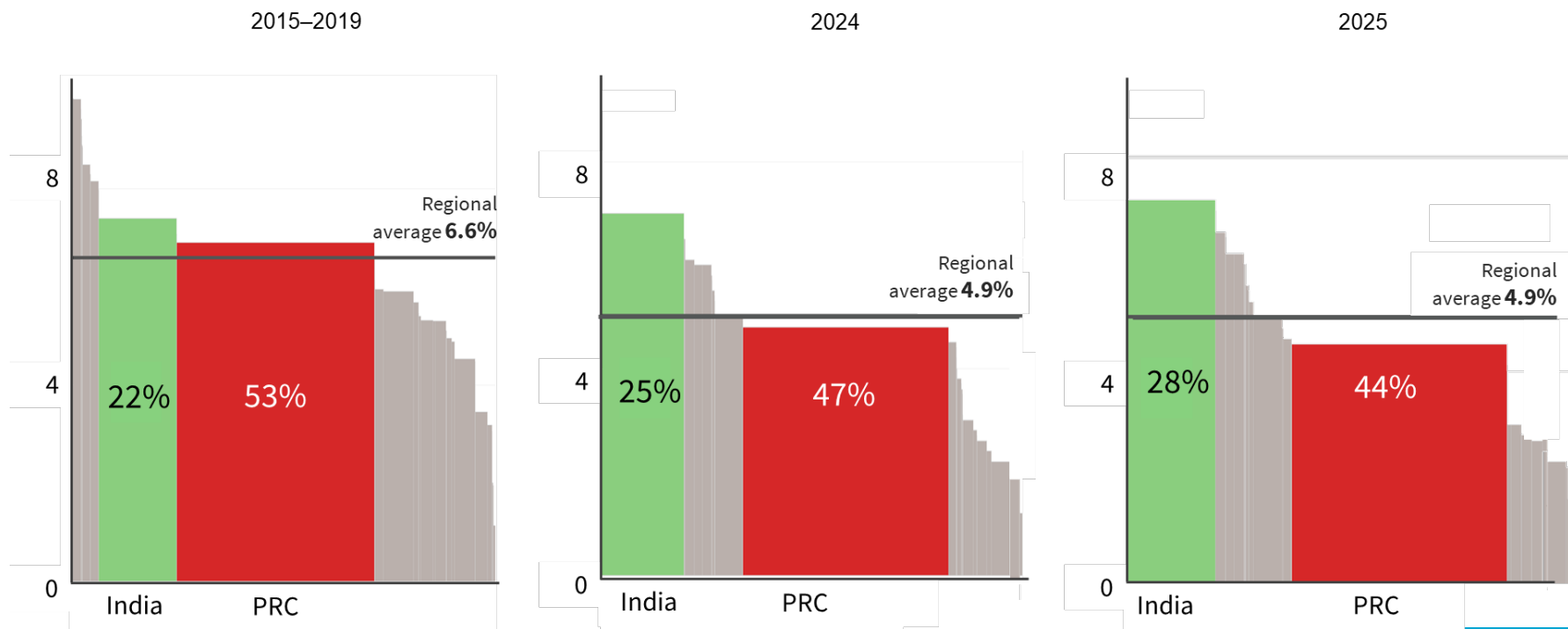
	2022	2023e	2024f	2025f
Developing Asia	4.3	5.0	4.9	4.9
Developing Asia excluding the PRC	5.5	4.8	5.0	5.3
Caucasus and Central Asia	5.2	5.3	4.3	5.0
Kazakhstan	3.2	5.1	3.8	5.3
Uzbekistan	5.7	6.0	5.5	5.6
East Asia	2.9	4.7	4.5	4.2
Hong Kong, China	-3.7	3.2	2.8	3.0
People's Republic of China	3.0	5.2	4.8	4.5
Republic of Korea	2.6	1.4	2.2	2.3
Taipei, China	2.6	1.3	3.0	2.7
South Asia	6.6	6.4	6.3	6.6
Bangladesh	7.1	5.8	6.1	6.6
India	7.0	7.6	7.0	7.2
Pakistan	6.2	-0.2	1.9	2.8
Sri Lanka	-7.3	-2.3	1.9	2.5

	2022	2023e	2024f	2025f
Southeast Asia	5.7	4.1	4.6	4.7
Indonesia	5.3	5.0	5.0	5.0
Malaysia	8.7	3.7	4.5	4.6
Philippines	7.6	5.6	6.0	6.2
Singapore	3.8	1.1	2.4	2.6
Thailand	2.5	1.9	2.6	3.0
Viet Nam	8.0	5.0	6.0	6.2
The Pacific	7.9	3.5	3.3	4.0
Fiji	20.0	7.8	3.0	2.7
Papua New Guinea	5.2	2.0	3.3	4.6

e = estimate, f = forecast
Source: Asian Development Outlook database.

Contributions to Growth

The PRC's contribution to regional growth is the largest, India's continues to increase



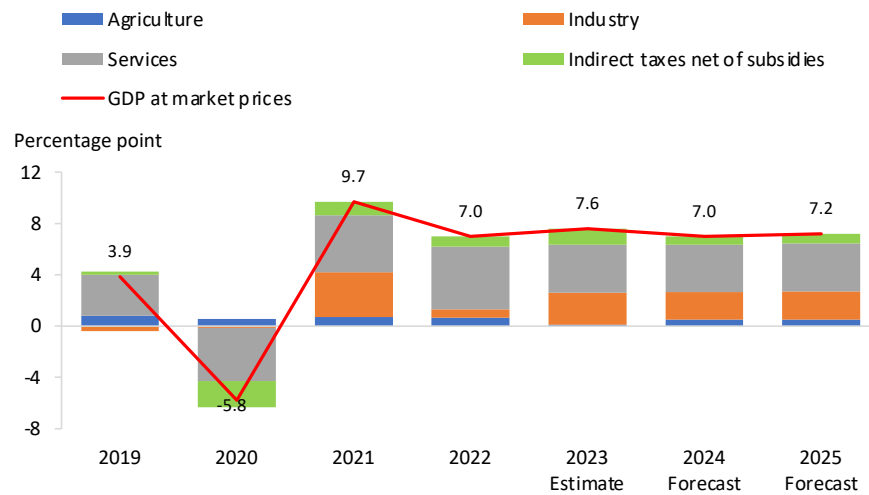
Source: Asian Development Outlook database

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India: Strong growth momentum

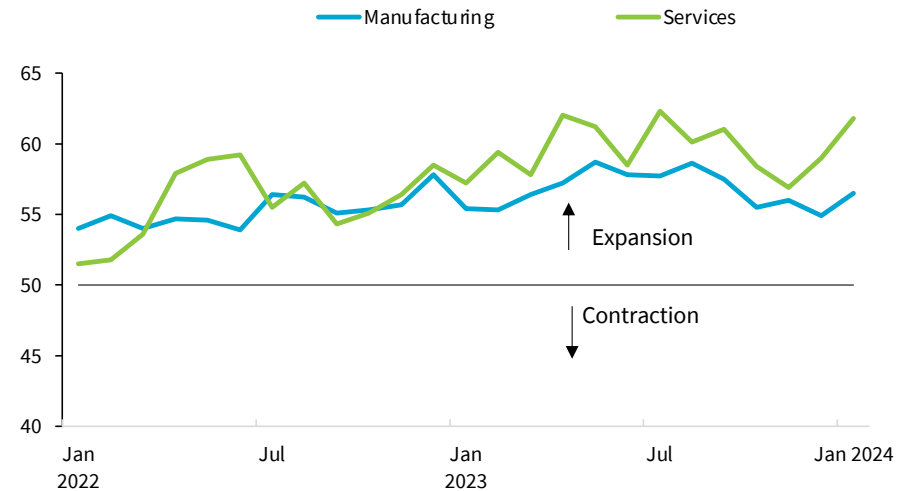
Growth crossing 7% on the back of accelerating industrial growth and robust services activity

Supply-side Contribution to Growth



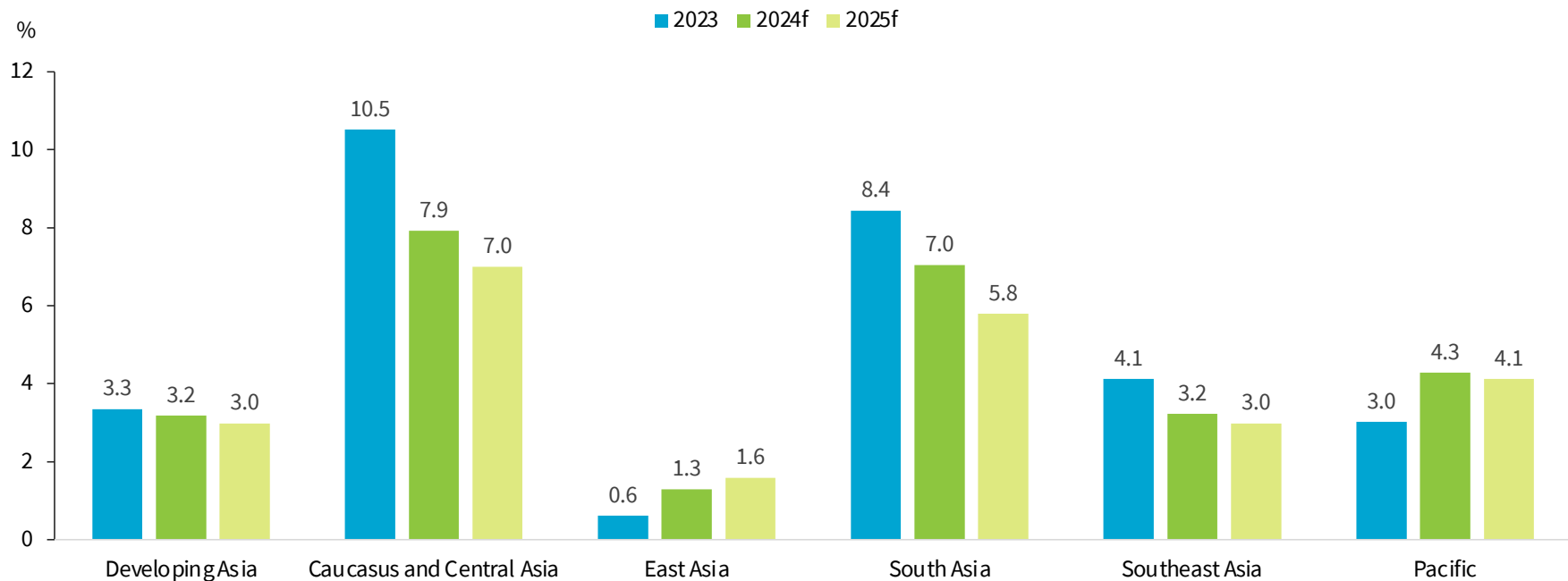
Note: Years are fiscal years ending on 31 March of the next year
Sources: Ministry of Statistics and Programme Implementation. <http://www.mospi.nic.in> and ADB.

Purchasing Managers' Index



Source: CEIC Data Company.

Inflation is expected to moderate further



f = forecast
Source: Asian Development Outlook database.

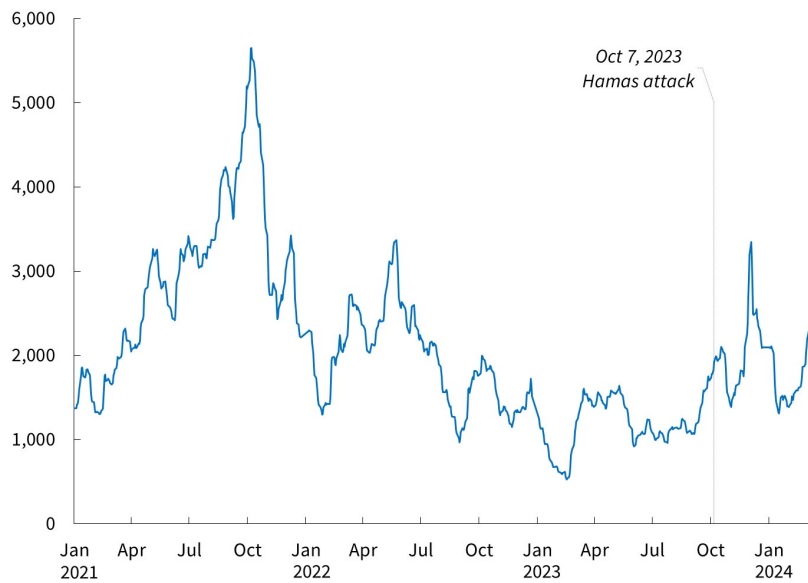
Near-term risks

- **Conflicts in the Middle East and geopolitical tensions**
 - Escalations could lead to renewed supply chain disruptions, higher food and energy prices, and increased global economic uncertainty and risk aversion.
- **Path of US monetary policy**
 - Persistent or renewed inflationary pressures could trigger higher-for-longer interest rates, denting global financial conditions. In contrast, faster-than-expected disinflation and policy easing would support growth and alleviate debt sustainability concerns.
- **Spillovers from the PRC**
 - Intensified property market weakness and possible deflation in the PRC, as well as escalating trade frictions, could depress domestic demand, affecting PRC's trading partners.
- **El Niño and weather-related events**
 - Adverse weather conditions could push up commodity prices and exacerbate food insecurity.

Potential impacts of rising shipping costs on inflation

Conflicts in the Middle East led to a spike in shipping costs

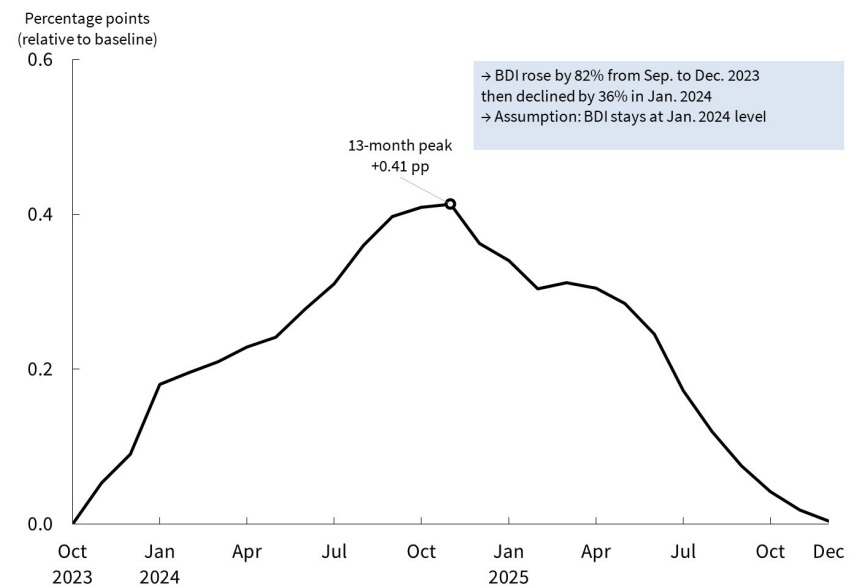
Baltic Exchange Dry Index (BDI)



Source: CEIC Data Company.

The impact on inflation is estimated to peak in 13 months

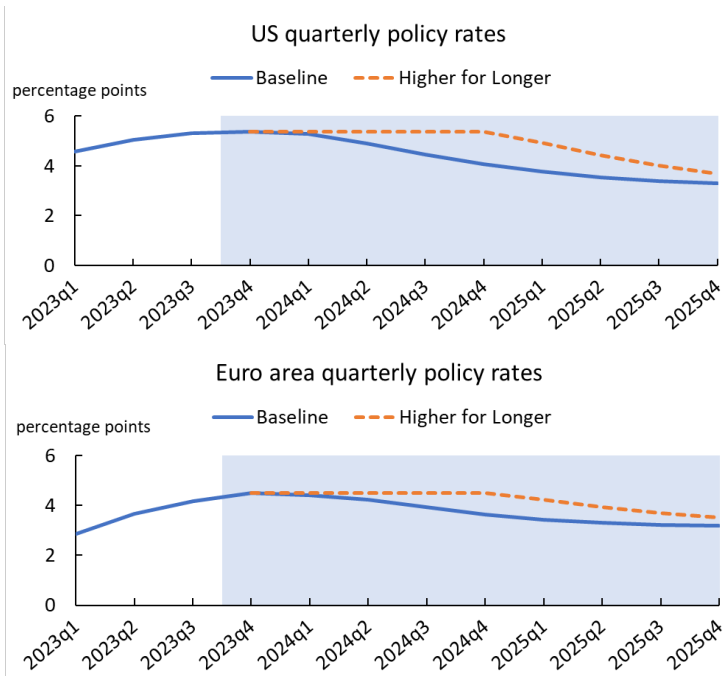
Estimated Impacts on Inflation in Asia of Recent Rise in Shipping Costs



Notes: Based on estimates from Carriere-Swallow et al. (2023). Shipping costs and inflation. Journal of International Money and Finance 130 (102771).
Source: Authors calculation.

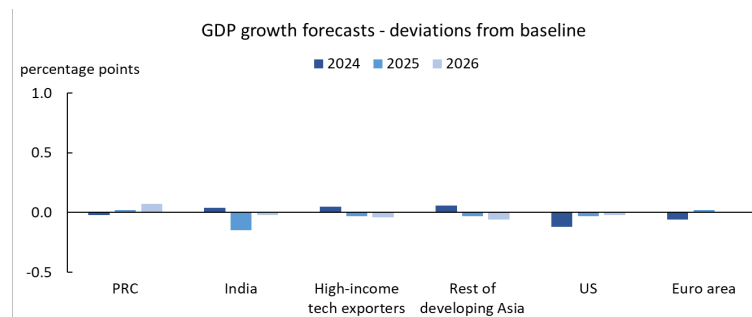
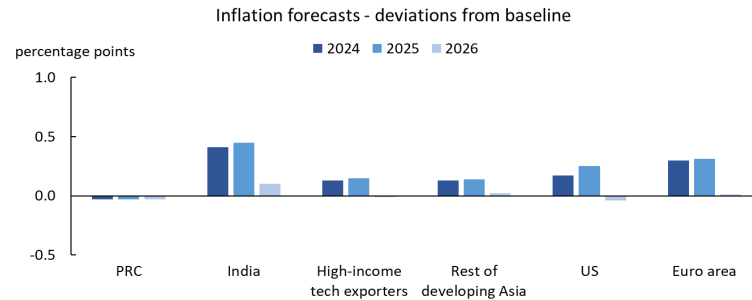
Higher for longer interest rates scenario

Interest rates in the US and the Euro area kept constant in 2024



High-income tech exporters = Hong, Kong, China; Republic of Korea, Singapore, and Taipei, China
 Rest of developing Asia = Indonesia, Malaysia, the Philippines, and Thailand

Inflationary pressures spill over, while exchange rate depreciation initially benefits growth in the region

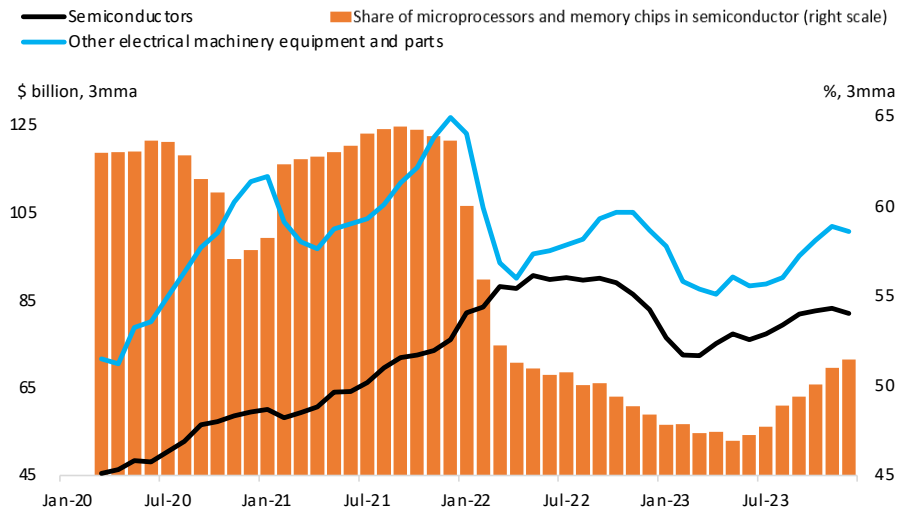


SPECIAL TOPIC

The growth of artificial intelligence (AI) is lifting demand for Asia's advanced semiconductors

Semiconductor exports rose over 2023, on higher demand for microprocessors and memory chips

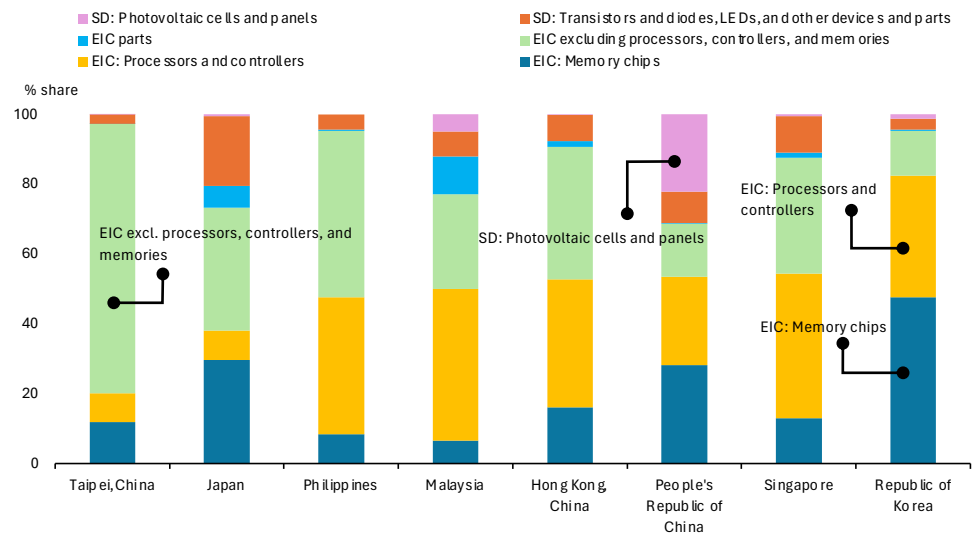
Exports of electrical machinery equipment and parts, selected economies, 2020-2023



3mma = 3 months moving average
 Notes: Semiconductors refer to the sum of HS Code 8541 and HS Code 8542. Other electrical machinery equipment and parts refer to HS Code 85 less semiconductors. Microchips refer to the sum of Microprocessors (HS Code 8542.31) and Memory chips (HS Code 8542.32). Economies covered are as shown on the right panel.
 Sources: Staff calculations using United Nations COMTRADE Database, International Trade Center Trade Map, various national government sources.

Asian economies may benefit to varying degrees from the AI boom depending on their specialization

Semiconductor exports by components, selected economies, 2023



SD = semiconductor devices, EIC = electronic integrated circuits.

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THANK YOU!

Focal person:

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Economic Research and Development Impact Department

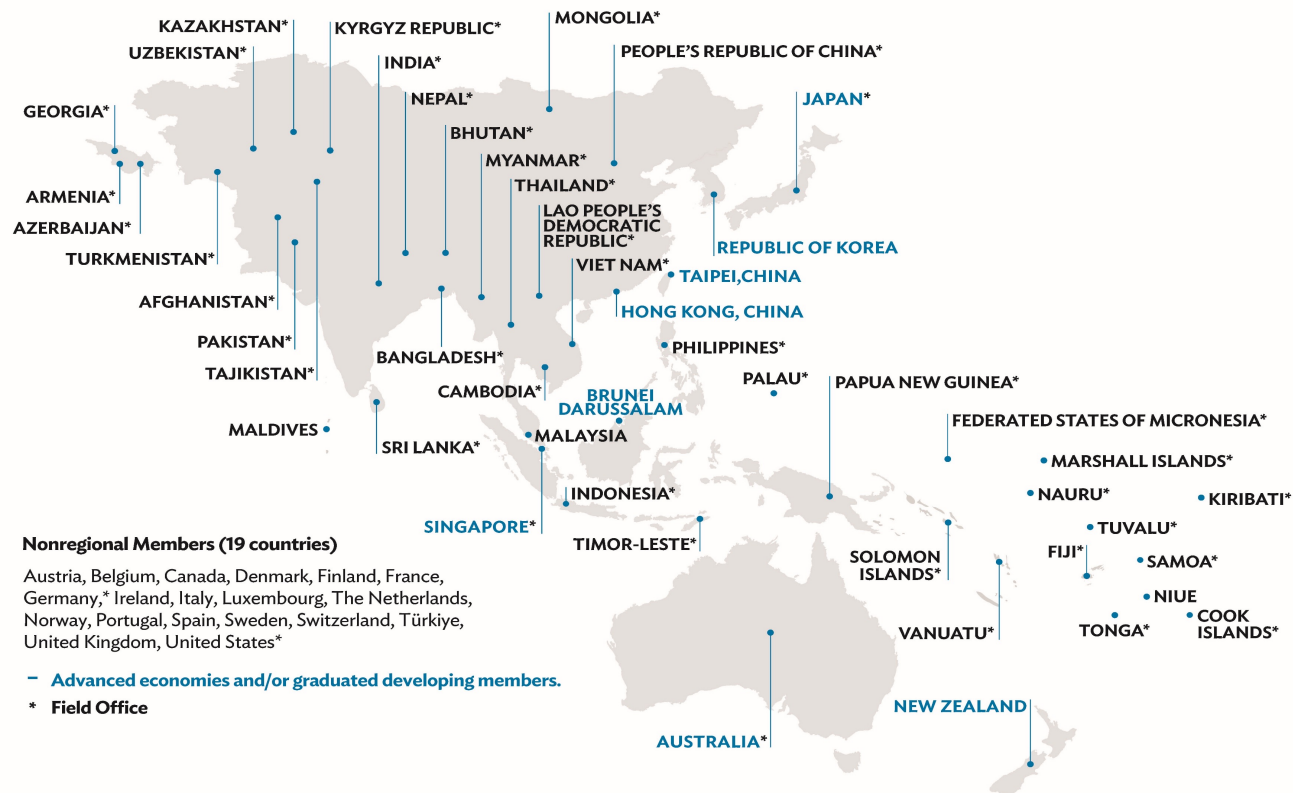
Asian Development Bank

aabiad@adb.org

Overview: Asian Development Bank (ADB)

- Founded in 1966
 - 31 founding members: 19 regional members, 12 non-regional members
 - 68 current members: 49 regional members, 19 non-regional members
 - **Developing Asia** comprises the 46 regional members of the Asian Development Bank
- Headquartered in Manila, Philippines
- Bonds issued first in Germany (1969), followed by in Austria (1970), Japan (1970), and the U.S. (1971)
- Main Roles: Help developing members in Asia and the Pacific through:
 - (i) combining finance and knowledge;
 - (ii) promoting good policies; and
 - (iii) catalyzing regional cooperation and friendship.
- 3,916 Staff (including 1,428 international staff)

ADB Regional Members (49 economies)



Contributions by Members

➤ Ordinary Capital Resources (capital share, voting power share)

Japan (15.6%, 12.8%), United States (15.6%, 12.8%), PRC (6.4%, 5.4%), India (6.3%, 5.3%), Australia (5.8%, 4.9%), Indonesia (5.4%, 4.6%), Canada (5.2%, 4.5%), Korea (5.0%, 4.3%), Germany (4.3%, 3.7%), others (30.4%, 41.7%)

➤ Asian Development Fund (cumulative contribution)

Japan (38.5%), United States (13.2%), Australia (8.2%), Canada (5.9%), Germany (5.6%), United Kingdom (5.1%), France (4.1%), others (19.4%)

➤ International Staff (1,428)

United States (141), Japan (135), India (131), Australia (94), United Kingdom (97), Korea, Republic of (81), China, People's Republic of (67), Philippines (68), Canada (56), Germany (54), Pakistan (43), France (48), Indonesia (25), others (388)

Note: All data as of 31 January 2024

ADB Operations

- **Loans** are financed from Ordinary Capital Resources (OCR)
 - Middle-income countries (per capita income \leq \$7,455): regular OCR at quasi market rate
 - Low-income countries (per capita income \leq \$1,255): concessional terms with long maturities and low interest rates
- **Asian Development Fund (ADF) grants** are offered to countries lacking in creditworthiness, e.g., Afghanistan, Tajikistan, and some Pacific island countries
- **Technical assistance** includes capacity building, project preparation, and research

(billion USD)

	2023 Commitments excluding co-financing	31 December 2023 Outstanding Loans	31 December 2023 Equity ^b
OCR (loans)	22.52	150.99	55.44
Regular	18.36	118.62	
Concessional	4.16	32.37	
ADF (grants)	0.77 ^a		1.95
Technical assistance	0.26		

^a Including other debt securities and equity investments of the private sector. Starting in 2020, ADB includes commitments from private sector programs (Trade and Supply Chain Finance Program and Microfinance Programs).

^b Figures are still subject to change based on year-end valuation results.

ADB' Strategy 2030

STRATEGY 2030'S SEVEN OPERATIONAL PRIORITIES



Addressing remaining poverty and reducing inequalities



Accelerating progress in gender equality



Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability



Making cities more livable



Promoting rural development and food security



Strengthening governance and institutional capacity



Fostering regional cooperation and integration