



Regional Economic Outlook

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Key messages

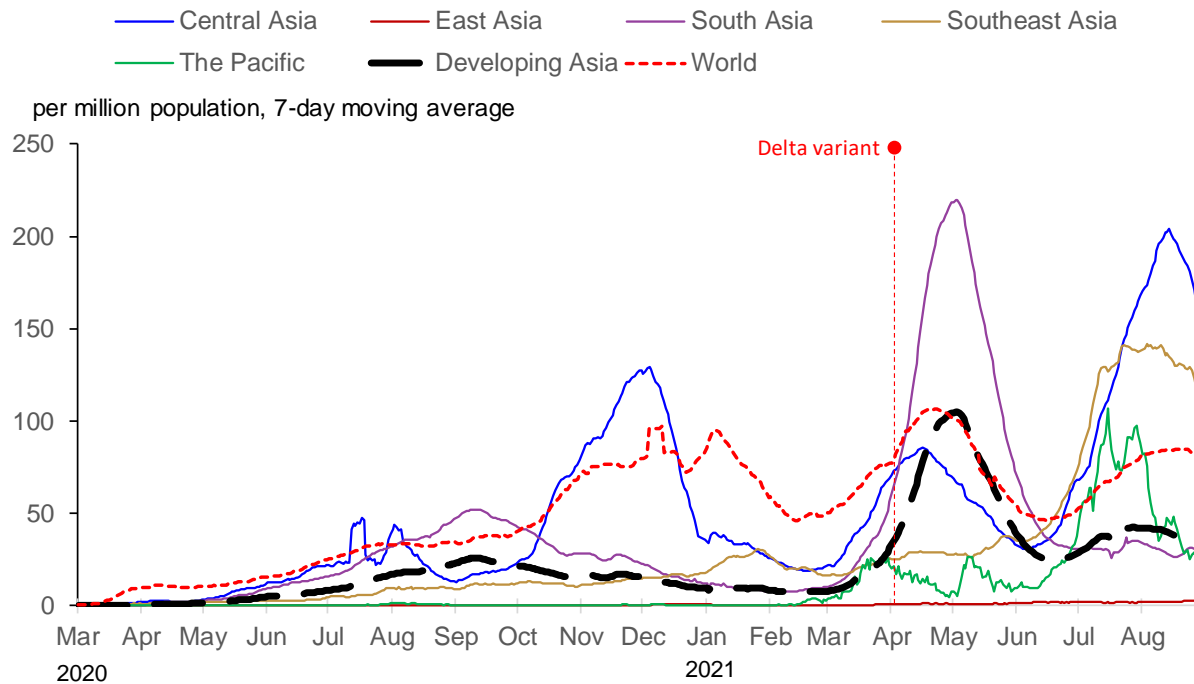
- Amid renewed outbreaks and uneven progress on vaccination, COVID-19 continues to besiege developing Asia
- Regional growth paths are diverging—economies that have successfully contained the pandemic and actively rolled out vaccines are benefiting more than others from the recovery in global demand
- The region's output is forecast to expand by 7.1% in 2021 and 5.4% in 2022. Inflation is projected at 2.2% in 2021 and 2.7% in 2022
- A resurgence in the COVID-19 pandemic—possibly due to new virus variants, waning effectiveness of vaccines, or slow progress on vaccination—remains the main risk

The COVID-19 pandemic continues to besiege developing Asia

New and more infectious variants are driving outbreaks across developing Asia.

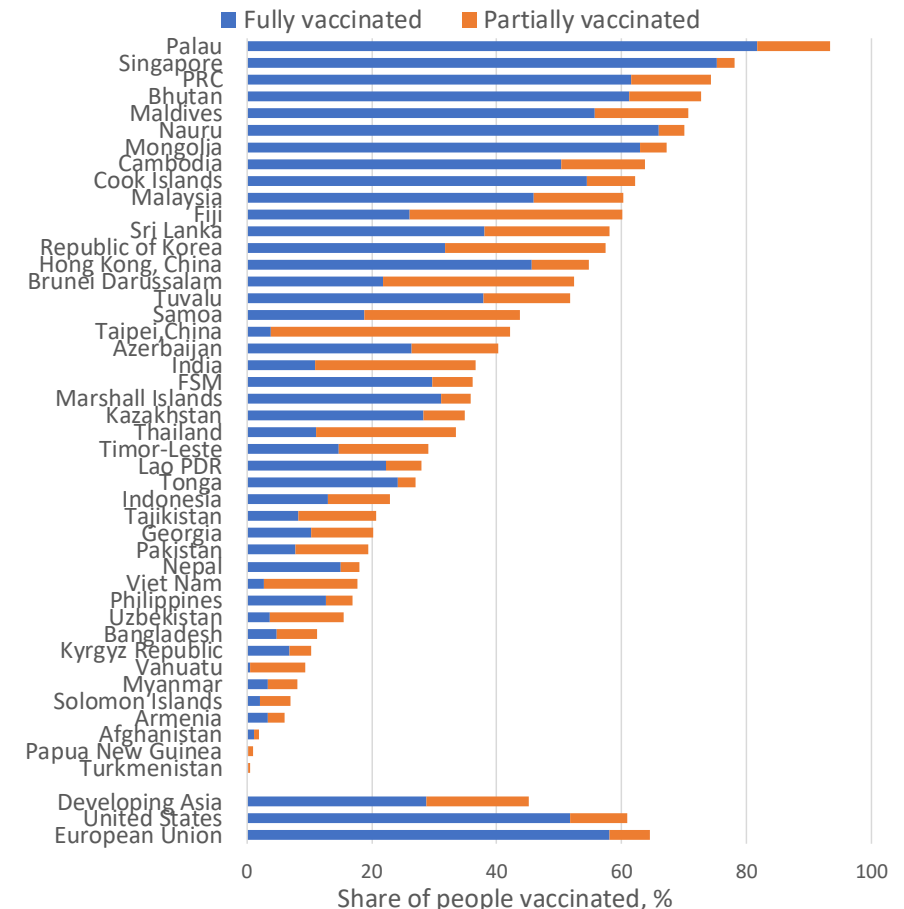
Vaccination progress remains uneven and lags advanced economies.

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



Sources: CEIC Data Company (accessed 6 September 2021); Ministry of Healthcare of Kazakhstan.

Persons vaccinated against COVID-19

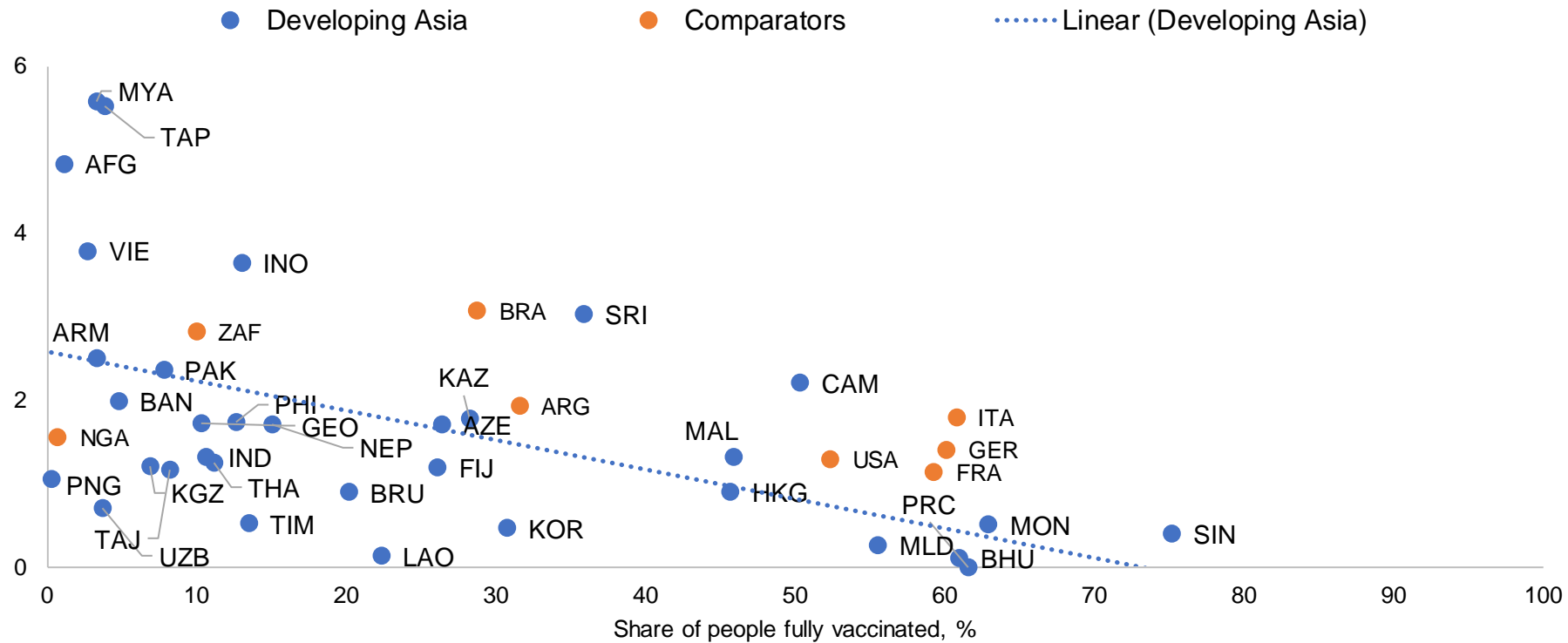


Notes: FSM = Federated States of Micronesia, Lao PDR = Lao People's Democratic Republic, PRC = People's Republic of China
 Date of data is latest available for August for all economies except Turkmenistan (April).
 Source: CEIC Data Company (accessed 6 September 2021); Our World in Data (accessed 3 September 2021).

Vaccines are changing the nature of the pandemic

Higher vaccination rates are associated with fewer deaths per COVID-19 case.

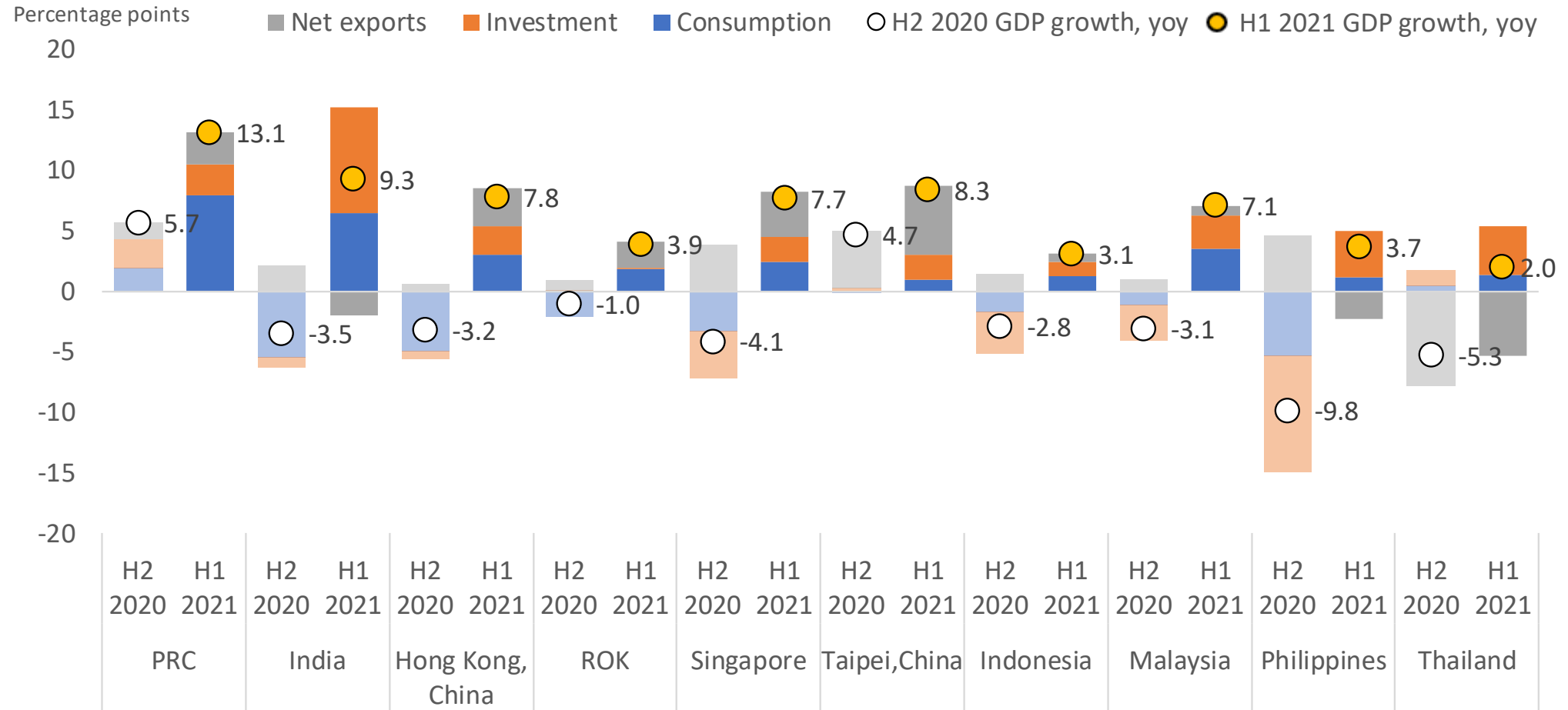
deaths per 100 cases, 14-day lagged cases



Note: Number of deaths per 100 cases is based on the total confirmed deaths and total confirmed cases since March. It is calculated as the ratio between total confirmed deaths and total confirmed cases 14 days prior to account for the lag between the onset of illness and death.

Source: Our World in Data. <https://ourworldindata.org/coronavirus> (accessed 2 September 2021).

The strength of the recovery in the first half of 2021 has varied across economies



GDP = gross domestic product, H = half, PRC = People's Republic of China, ROK = Republic of Korea, yoy = year on year.

Note: H1 in India refers to first half of the calendar year.

Source: CEIC Data Company (accessed 8 September 2021).

Activity has slowed in recent months amid renewed outbreaks

Falling purchasing managers' indexes in Q3 of 2021 demonstrate the recovery's fragile nature.

Manufacturing PMI, seasonally adjusted

Economy	2021							
	Q1			Q2			Q3	
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
PRC	51.5	50.9	50.6	51.9	52.0	51.3	50.3	49.2
India	57.7	57.5	55.4	55.5	50.8	48.1	55.3	52.3
Indonesia	52.2	50.9	53.2	54.6	55.3	53.5	40.1	43.7
Malaysia ^a	51.9	50.7	52.9	56.9	54.3	42.9	43.1	46.4
Philippines	52.5	52.5	52.2	49.0	49.9	50.8	50.4	46.4
Republic of Korea	53.2	55.3	55.3	54.6	53.7	53.9	53.0	51.2
Taipei,China	60.2	60.4	60.8	62.4	62.0	57.6	59.7	58.5
Thailand	49.0	47.2	48.8	50.7	47.8	49.5	48.7	48.3
Viet Nam	51.3	51.6	53.6	54.7	53.1	44.1	45.1	40.2

Services PMI, seasonally adjusted

PRC	52.0	51.5	54.3	56.3	55.1	50.3	54.9	46.7
India	52.8	55.3	54.6	54.0	46.4	41.2	45.4	56.7

PMI = Purchasing managers' index PRC = People's Republic of China, Q = quarter.

Note: ^a For Malaysia, the series is adjusted by adding 3 points, as historical experience suggests that value above 47 are consistent with expansion. Manufacturing PMI and doses administered represent the averages of July and August 2021.

Source: CEIC Data Company (accessed 6 September 2021).

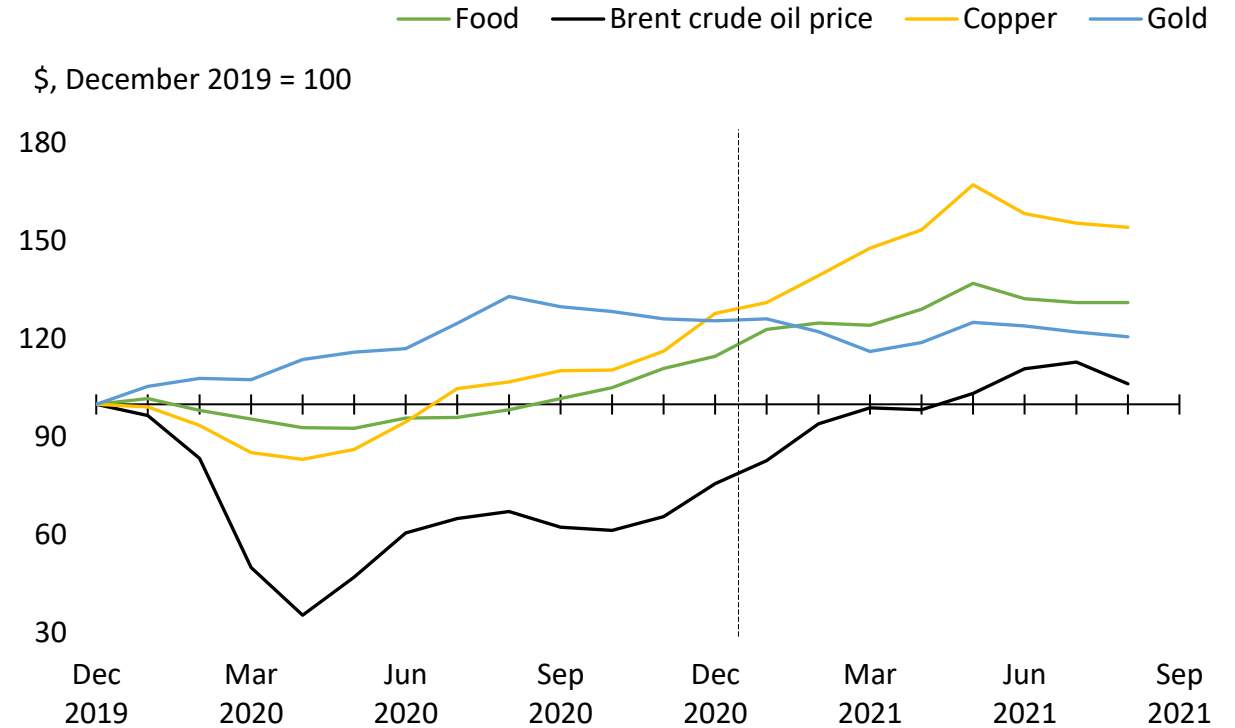
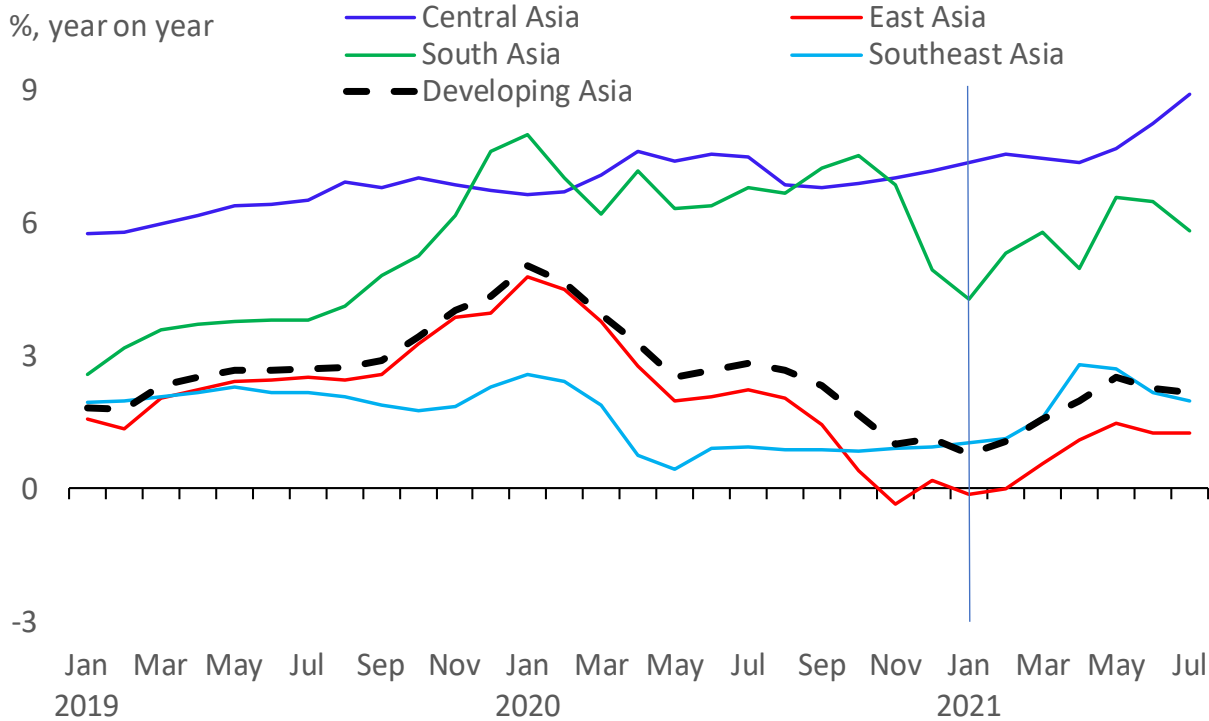
Inflation has picked up across developing Asia, with rising global commodity prices a possible factor

After a continuous decline in 2020, headline inflation edged up in the first half of 2021.

Commodity prices have surged since the second half of 2020.

Inflation in developing Asia

Commodity prices

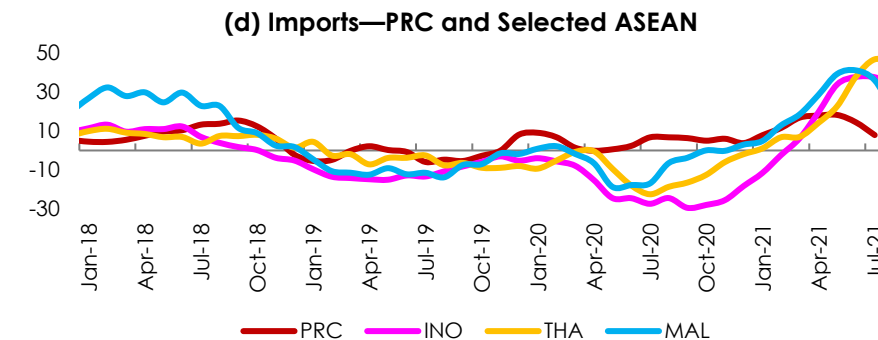
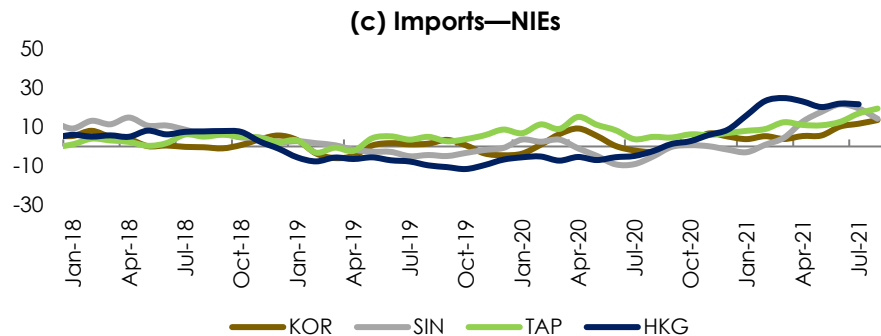
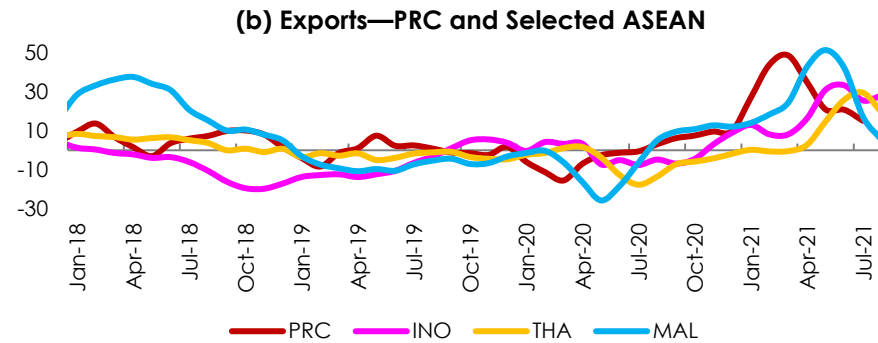
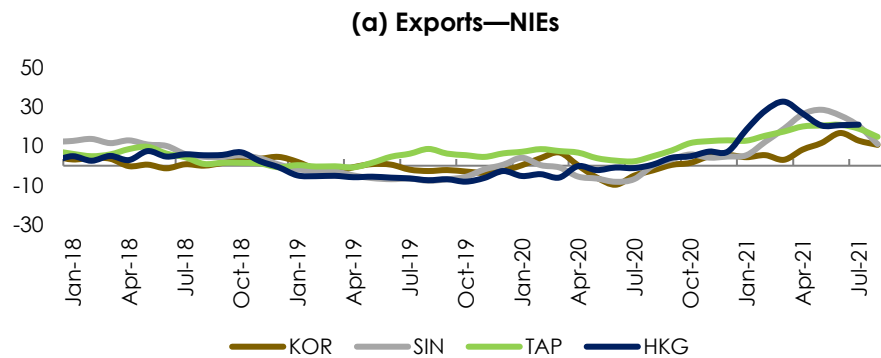


Note: The Pacific is excluded because data is not available.
Source: CEIC Data Company (accessed 3 September 2021)

Source: World Bank. Commodity Markets, Pink Sheet data (accessed 7 September 2021)

The timing of trade recovery has been varied among Asian economies

Monthly Trade Volume Growth – NIEs, PRC, and Selected ASEAN (% , y-o-y)



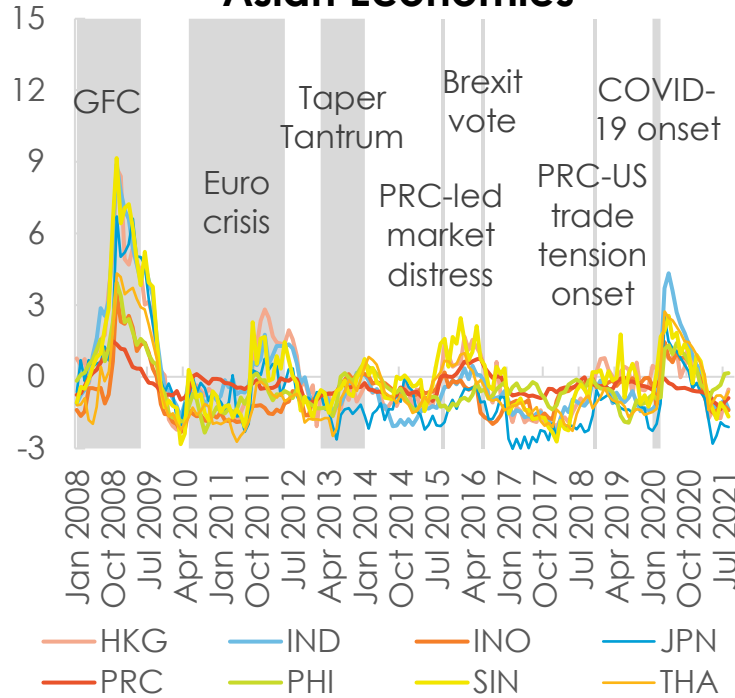
y-o-y = year-on-year.

Notes: Latest data is July 2021 for all economies, except HKG and PRC (June 2021). Data for the PRC refers to the export and import volume index from CPB Netherlands Bureau for Economic Policy Analysis. For the rest, export and import volume is computed by deflating export and import values by their corresponding price indexes.

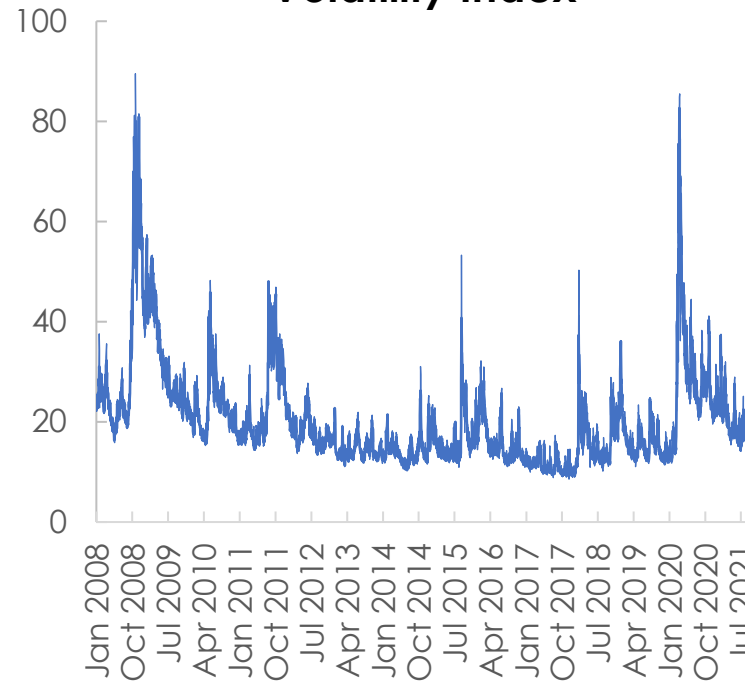
Source: ADB calculations using data from CPB Netherlands Bureau for Economic Policy Analysis. World Trade Monitor. <https://www.cpb.nl/en/world-trade-monitor-july-2021>; and Haver Analytics (accessed October 2021).

Financial conditions remain largely stable

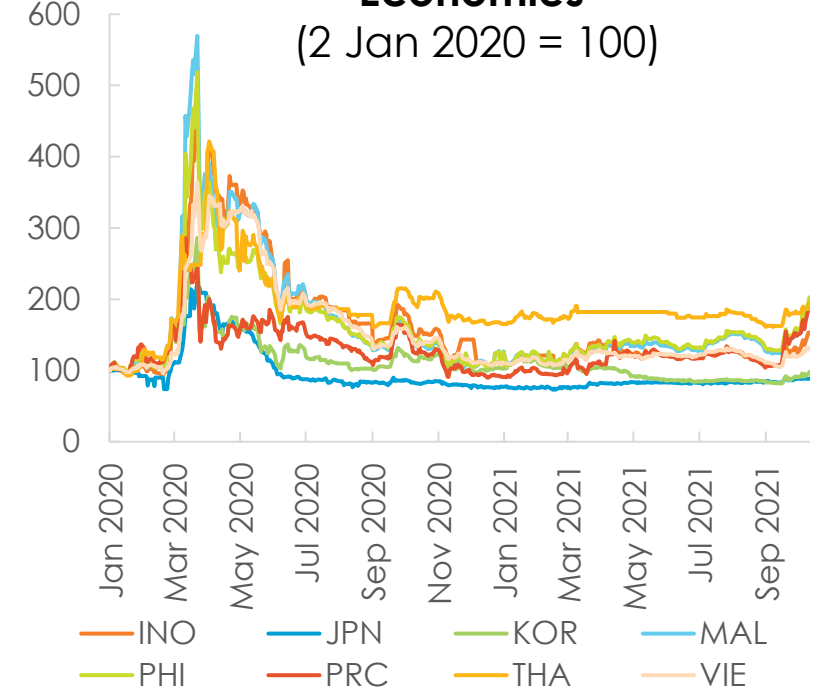
Financial Stress Index – Selected Asian Economies



Volatility Index



Credit Default Swaps – Selected Asian Economies (2 Jan 2020 = 100)



COVID-19 = coronavirus disease; GFC = global financial crisis; HKG = Hong Kong, China; IND = India; INO = Indonesia; JPN = Japan; KOR = Republic of Korea; PHI = Philippines; PRC = People's Republic of China; SIN = Singapore; THA = Thailand; US = United States.

Sources: ADB calculations using data from Bloomberg; CEIC; Haver Analytics; the International Monetary Fund. International Financial Statistics. (accessed September 2021); and methodology by Park and Mercado (2014).

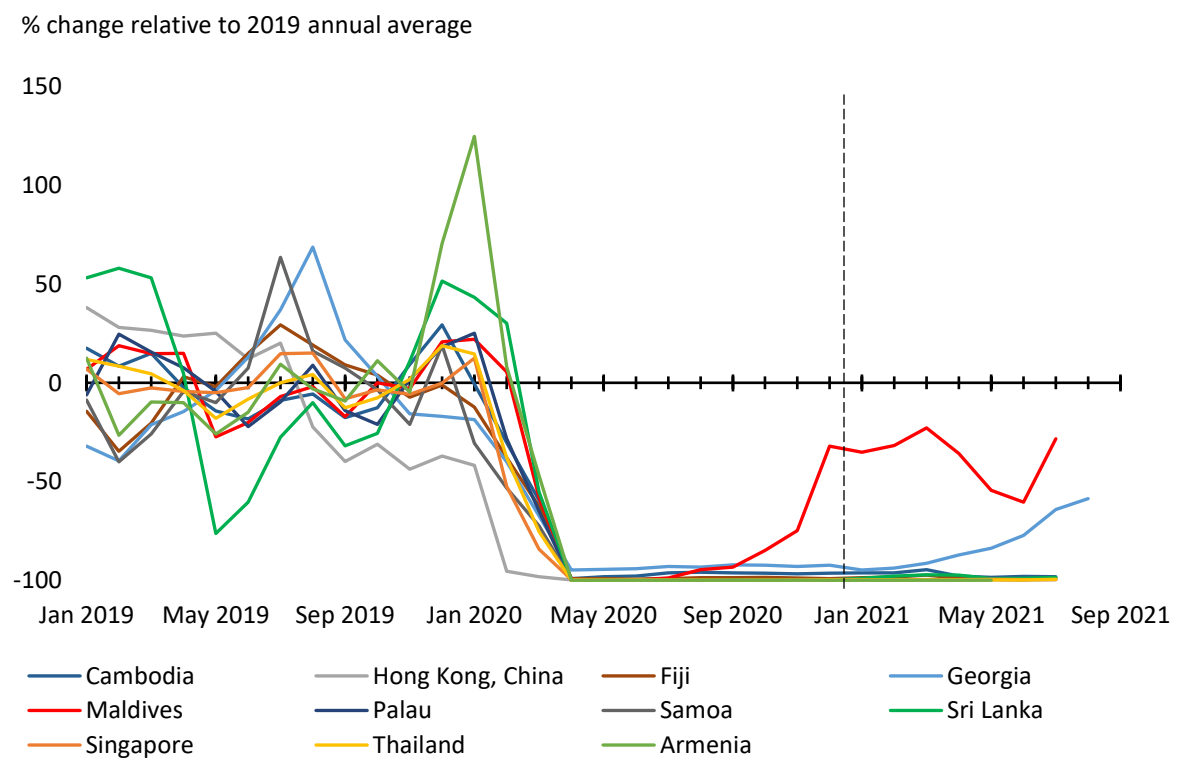
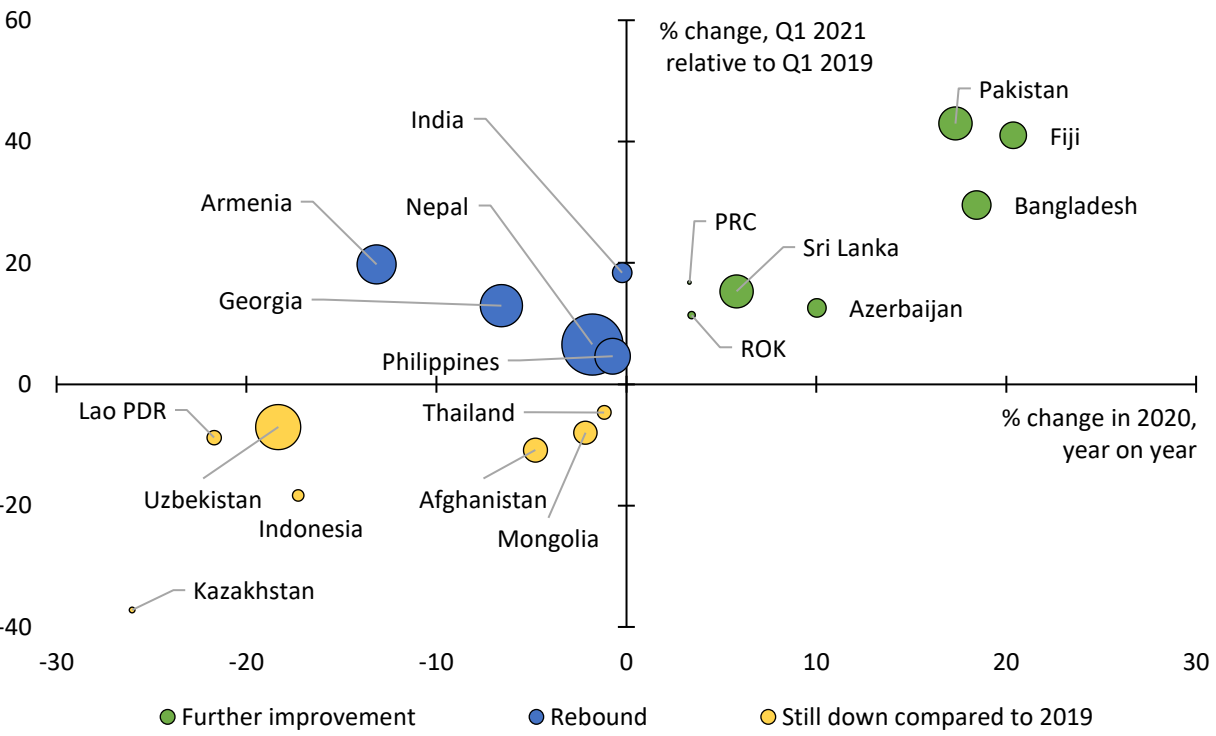
Remittances remain resilient, but tourism has yet to recover

Remittances picked up for most economies in Q1 2021; or they declined by less than in 2020.

International tourism has mostly remained depressed.

Changes in remittances in 2020 and Q1 2021

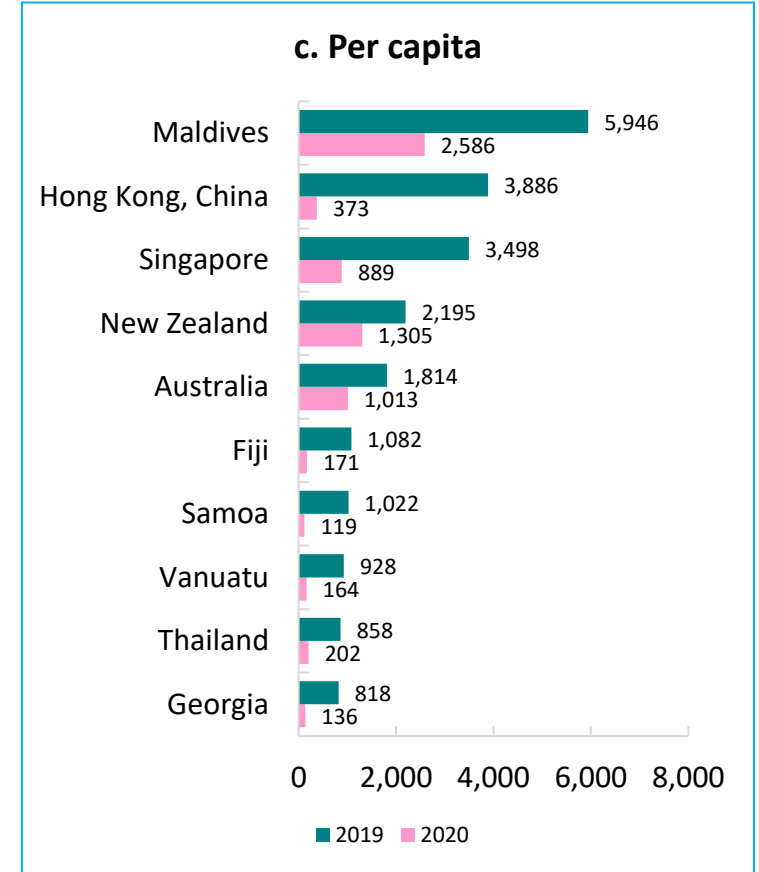
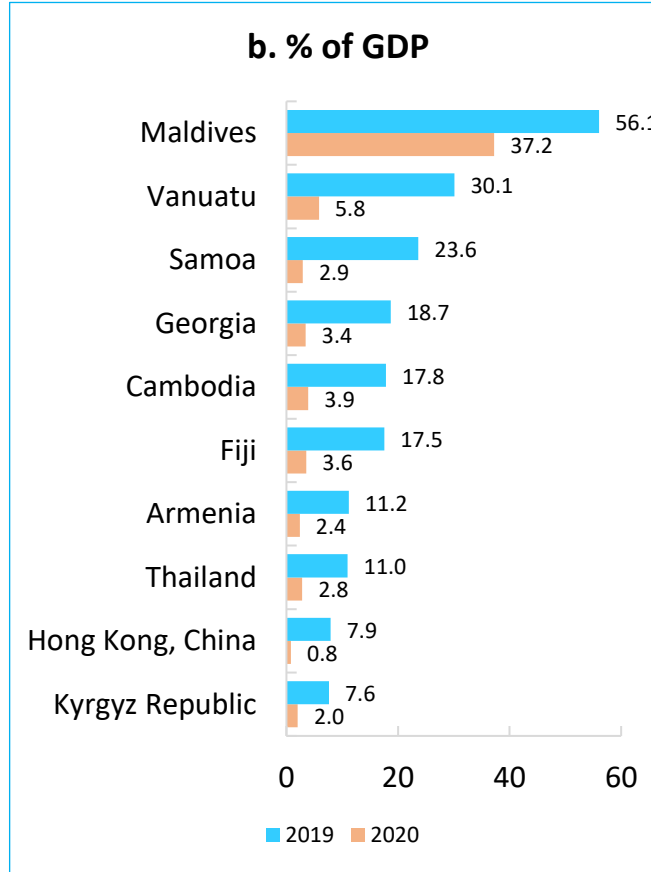
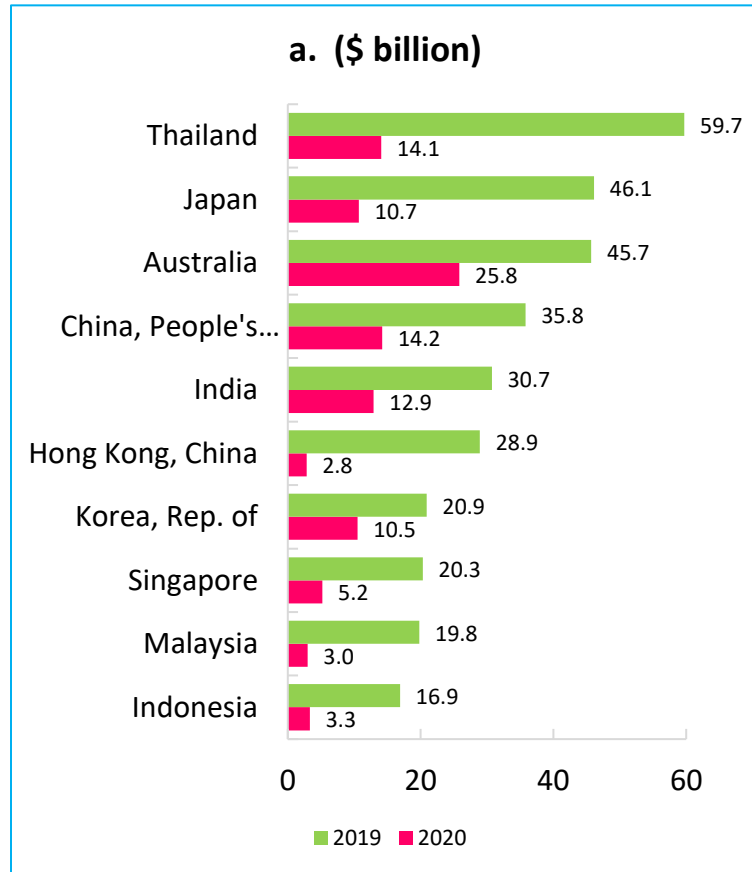
International tourist arrivals



Q = Quarter; PRC = People's Republic of China; ROK = Republic of Korea.
 Notes: The sample is restricted to the 19 economies for which data is available. Bubble areas are proportional to the share of remittances in 2019 gross domestic product.
 Sources: International Monetary Fund. Balance of Payments and International Investment Position Statistics; World Bank. World Development Indicators (both accessed 3 September 2021).

Note: The sample is restricted to economies where tourism accounted for at least 5% of GDP in the latest year with available data during 2017–2019.
 Sources: CEIC Data Company; national sources (accessed 3 September 2021).

The pandemic has resulted in declines in tourism receipts

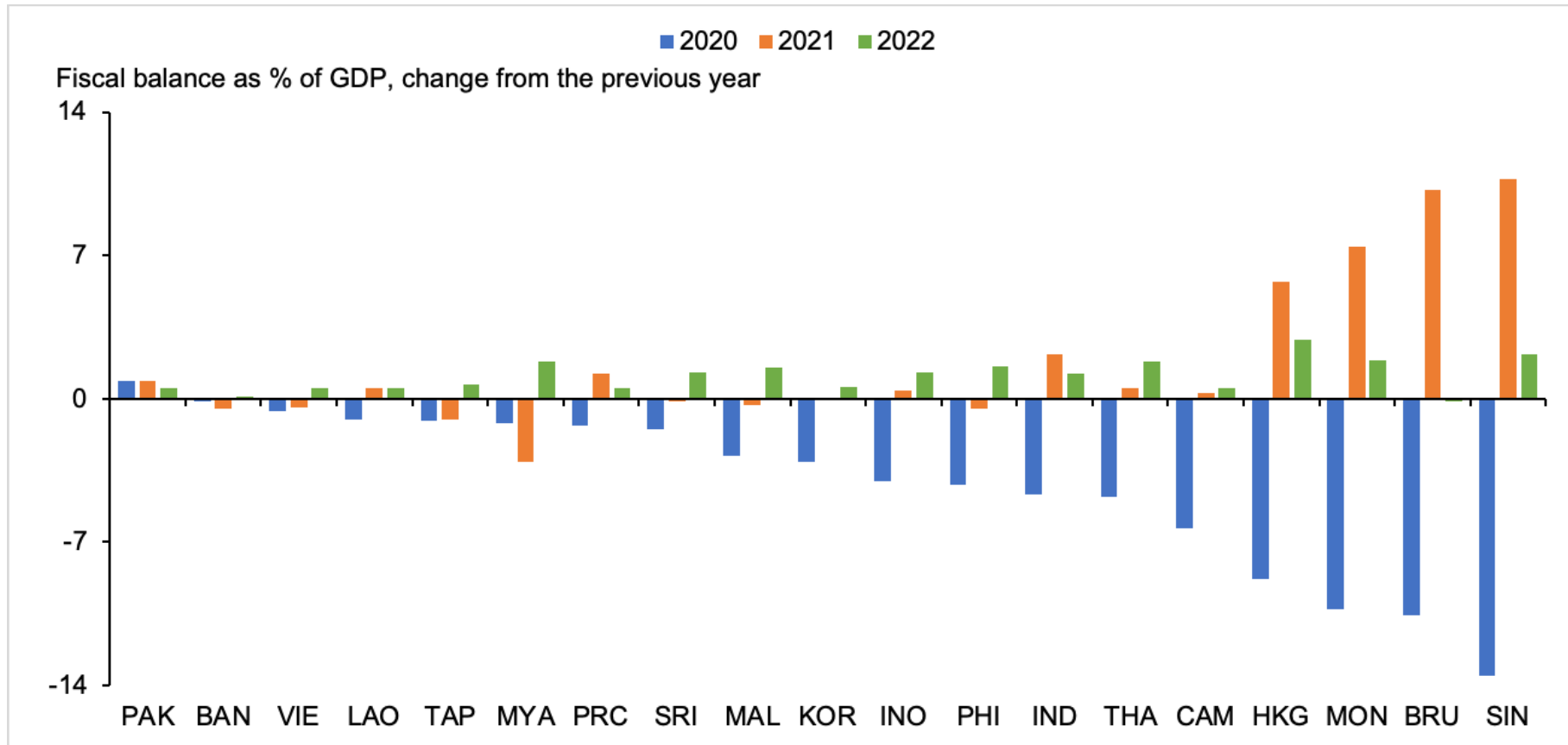


Source: UNWTO Tourism Dashboard, <https://www.unwto.org/country-profile-inbound-tourism> and <https://www.unwto.org/international-tourism-and-covid-19> (accessed September 2021); Maldives Monetary Authority Statistical Database; Pacific Tourism Organization; International Monetary Fund, World Economic Outlook; and United Nations Department of Economic and Social Affairs, Population Division.

Fiscal policy continues to support the recovery

The fiscal stance will remain accommodative in several economies this year; a general shift to consolidation is projected for 2022 and beyond

Fiscal impulse over 2020-2022, selected Asian economies



Notes: BAN=Bangladesh, BRU=Brunei Darussalam, CAM=Cambodia, HKG=Hong Kong, China, IND=India, INO=Indonesia, KOR=Republic of Korea, LAO=Lao PDR, MAL=Malaysia, MON=Mongolia, MYA=Myanmar, PAK=Pakistan, PHI=Philippines, PRC=People's Republic of China, SIN=Singapore, SRI=Sri Lanka, TAP=Taipei,China, THA=Thailand, VIE=Viet Nam.

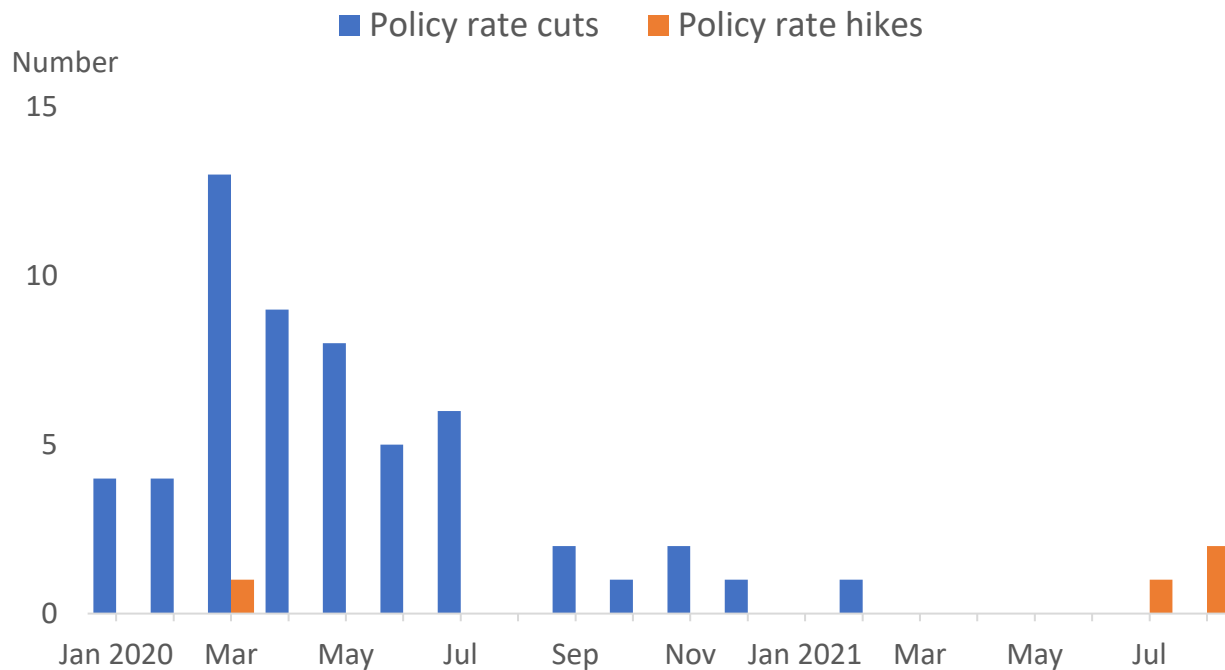
Fiscal impulse is defined as the change in the fiscal balance, expressed as percentage of GDP, from the previous year. Positive changes in the fiscal balance indicate fiscal consolidation; negative changes indicate fiscal expansion. Data for 2021 and 2022 are forecasts.

Monetary policy stances remain accommodative

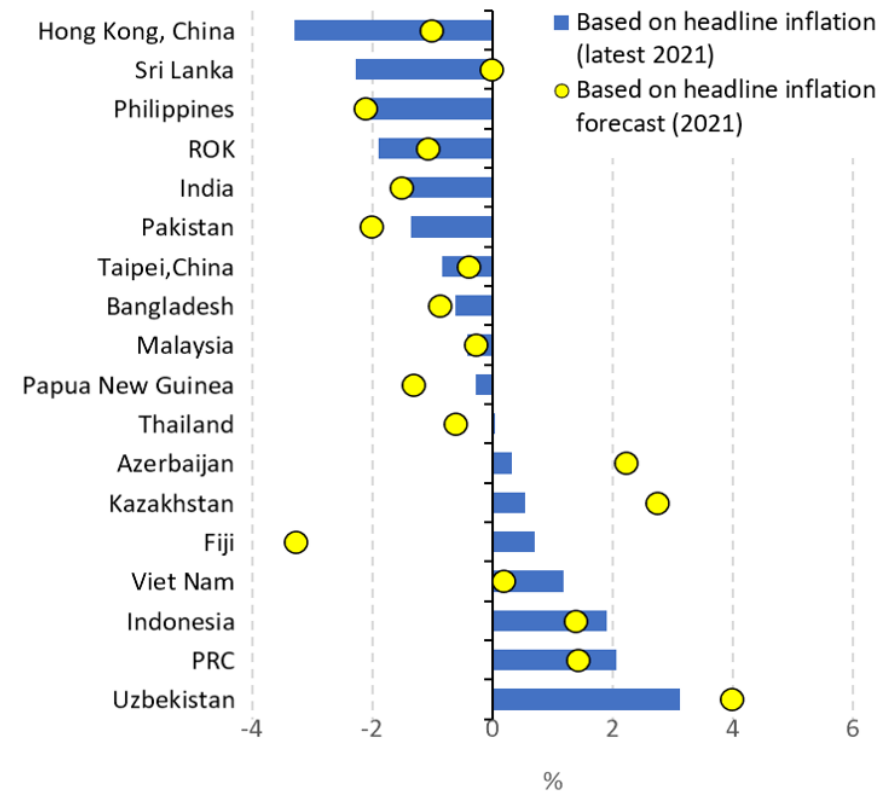
Regional central banks cut rates repeatedly last year and have kept them on hold in 2021...

...so that monetary conditions continue to be accommodative, with low or negative real interest rates in many economies

Frequency of policy rate cuts and hikes, selected economies



Inflation adjusted interest rates



Left panel: The data refers to the 18 developing Asian economies in the right panel.

Right panel: Real interest rate is the difference between the latest policy rate and headline inflation (blue bars) and the forecast inflation for 2021 in ADOS July 2021 (yellow dots). The latest data for Kazakhstan, Uzbekistan, Republic of Korea, Pakistan, Indonesia, and Viet Nam refer to August 2021; Azerbaijan, People's Republic of China, Hong, Kong, China, Taipei, China, Bangladesh, India, Sri Lanka, Malaysia, Philippines, Thailand and Fiji, July 2021; and Papua New Guinea, June 2021.

Source: Bloomberg; CEIC Data Company; Haver Analytics (all accessed 3 September 2021).

The recovery in developing Asia will continue, at a slightly slower pace

The outlook is positive, but the speed of recovery varies

GDP growth in developing Asia, in %

	2020	2021		2022			2020	2021		2022	
		ADO 2021	ADOU 2021	ADO 2021	ADOU 2021			ADO 2021	ADOU 2021	ADO 2021	ADOU 2021
Developing Asia	-0.1	7.3	7.1 ▼	5.3	5.4 ▲						
East Asia	1.8	7.4	7.6 ▲	5.1	5.1	South Asia	-5.6	9.5	8.8 ▼	6.6	7.0 ▲
Hong Kong, China	-6.1	4.6	6.2 ▲	4.5	3.4 ▼	Bangladesh	3.5	6.8	5.5 ▼	7.2	6.8 ▼
People's Republic of China	2.3	8.1	8.1	5.5	5.5	India	-7.3	11.0	10.0 ▼	7.0	7.5 ▲
Republic of Korea	-0.9	3.5	4.0 ▲	3.1	3.1	Pakistan	-0.5	2.0	3.9 ▲	4.0	4.0
Taipei,China	3.1	4.6	6.2 ▲	3.0	3.0	Central Asia	-1.9	3.4	4.1 ▲	4.0	4.2 ▲
Southeast Asia	-4.0	4.4	3.1 ▼	5.1	5.0 ▼	Azerbaijan	-4.3	1.9	2.2 ▲	2.5	2.5
Indonesia	-2.1	4.5	3.5 ▼	5.0	4.8 ▼	Kazakhstan	-2.6	3.2	3.4 ▲	3.5	3.7 ▲
Malaysia	-5.6	6.0	4.7 ▼	5.7	6.1 ▲	Uzbekistan	1.6	4.0	5.0 ▲	5.0	5.5 ▲
Philippines	-9.6	4.5	4.5	5.5	5.5	The Pacific	-5.3	1.4	-0.6 ▼	3.8	4.8 ▲
Singapore	-5.4	6.0	6.5 ▲	4.1	4.1	Fiji	-15.7	2.0	-5.0 ▼	7.3	8.8 ▲
Thailand	-6.1	3.0	0.8 ▼	4.5	3.9 ▼	Papua New Guinea	-3.3	2.5	1.3 ▼	3.0	4.1 ▲
Viet Nam	2.9	6.7	3.8 ▼	7.0	6.5 ▼						

Notes: Data for Bangladesh, India, and Pakistan are on fiscal year basis, with FY2021 ending 30 June 2021 for Bangladesh and Pakistan and ending 31 March 2022 for India. Arrows indicate changes relative to ADO2021 forecast. ▲ = value increased, ▼ = value decreased, and no arrow = unchanged.

Risks remain tilted to the downside

- The main threats to the outlook come from COVID-19, including delayed vaccine rollouts, the emergence of new variants and waning vaccine effectiveness.
- Additional downside risks are possible geopolitical tensions, global supply chain disruptions, and financial-market turbulence as US monetary policy normalizes.
- As economies recover from the pandemic, medium-term risks will return to center stage—chiefly among these, natural disasters and extreme weather events linked to climate change as well as the fall-out from rising food insecurity.