



ASIAN DEVELOPMENT

# OUTLOOK SUPPLEMENT

GROWTH HESITATES IN DEVELOPING ASIA

# **Asian Development Outlook Supplement**

## **Growth hesitates in developing Asia**

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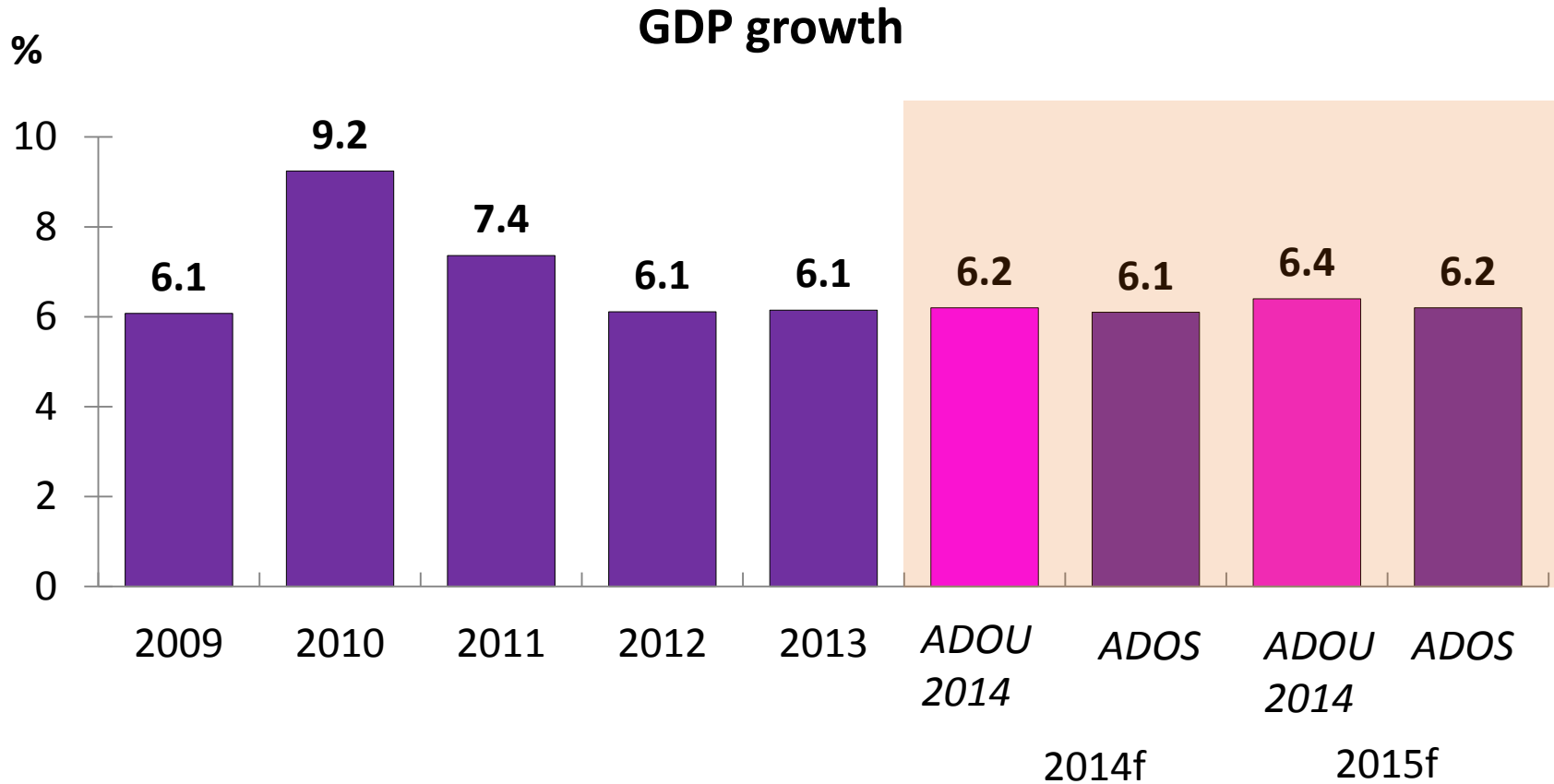
**January 2015**

# Key messages

- Developing Asia's growth lost some momentum in the second half of 2014.
- ADO Supplement revises developing Asia's growth projections to 6.1% from 6.2% in 2014, and 6.2% from 6.4% in 2015.
- In the People's Republic of China, growth moderated somewhat more than expected.
- Expectations remain high for a reform-driven pick up in India.
- Inflation is expected to be lower than previously forecast.



# Developing Asia lost some growth momentum...



f: forecast

# ...which concur with forecasts for the major industrial economies

GDP growth (%)	2012	2013	2014f		2015f	
	Actual	Actual	<i>Update</i>	<i>ADOS</i>	<i>Update</i>	<i>ADOS</i>
Major industrial economies	1.1	1.2	1.5	<b>1.4</b>	2.1	<b>2.1</b>
United States	2.3	2.2	2.1	<b>2.2</b>	3.0	<b>3.0</b>
Euro area	-0.7	-0.4	0.8	<b>0.8</b>	1.0	<b>1.0</b>
Japan	1.5	1.5	1.0	<b>0.2</b>	1.4	<b>1.5</b>

f: forecast



# Growth in Central, East and Southeast Asia are revised down...

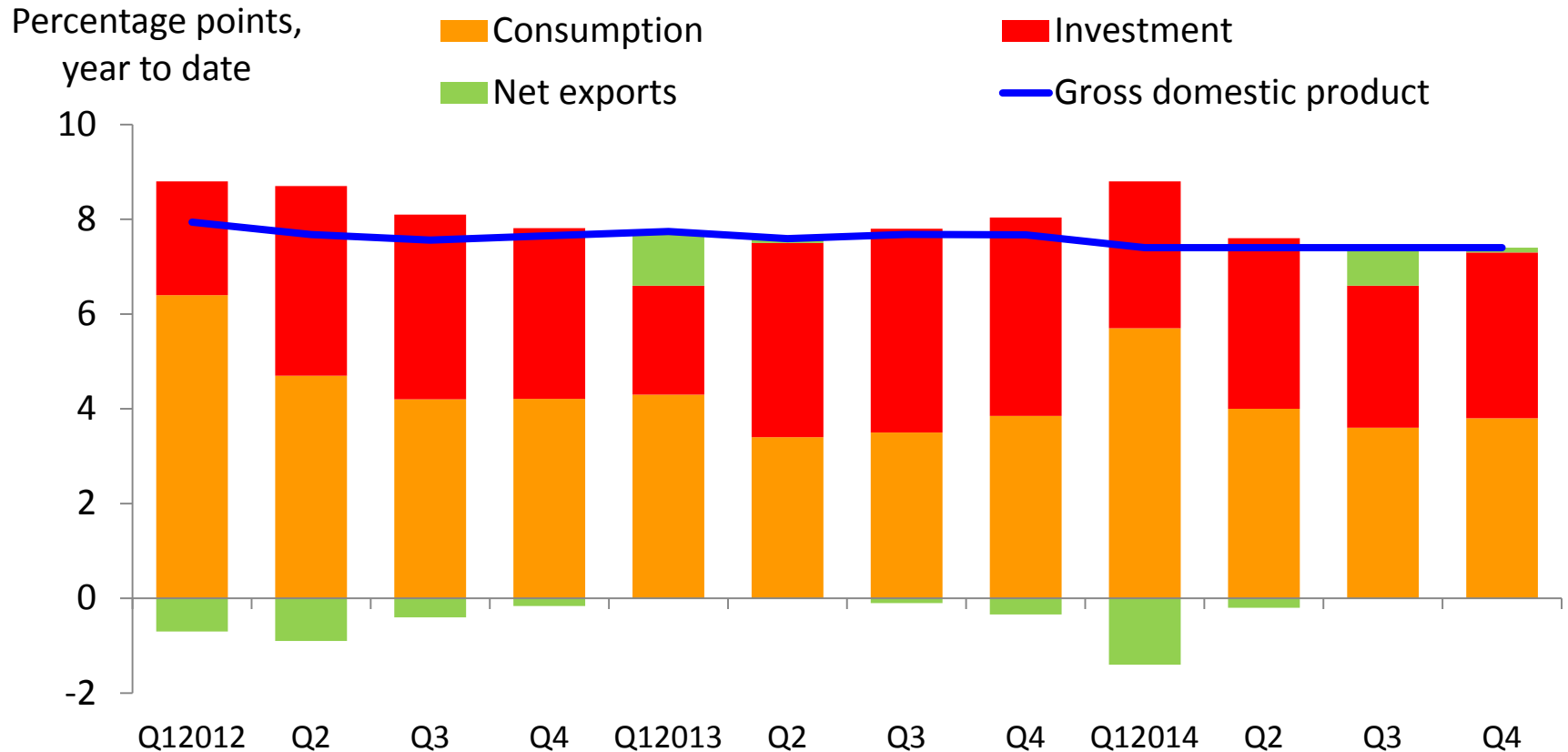
	2013	2014 <sup>f</sup>		2015 <sup>f</sup>	
		<i>Update</i>	<i>ADOS</i>	<i>Update</i>	<i>ADOS</i>
<b>South Asia</b>	<b>4.7</b>	<b>5.4</b>	<b>5.4</b>	<b>6.1</b>	<b>6.1</b>
India	4.7	5.5	5.5	6.3	6.3
<b>Southeast Asia</b>	<b>5.0</b>	<b>4.6</b>	<b>4.4</b>	<b>5.3</b>	<b>5.1</b>
Indonesia	5.8	5.3	5.1	5.8	5.6
Malaysia	4.7	5.7	5.7	5.3	5.3
Philippines	7.2	6.2	6.0	6.4	6.4
Singapore	3.9	3.5	3.2	3.9	3.5
Thailand	2.9	1.6	1.0	4.5	4.0
Viet Nam	5.4	5.5	5.6	5.7	5.8

	2013	2014 <sup>f</sup>		2015 <sup>f</sup>	
		<i>Update</i>	<i>ADOS</i>	<i>Update</i>	<i>ADOS</i>
<b>Central Asia</b>	<b>6.5</b>	<b>5.6</b>	<b>5.1</b>	<b>5.9</b>	<b>5.4</b>
Kazakhstan	6.0	4.5	4.3	5.2	4.6
<b>East Asia</b>	<b>6.7</b>	<b>6.7</b>	<b>6.6</b>	<b>6.7</b>	<b>6.5</b>
PRC	7.7	7.5	7.4	7.4	7.2
Hong Kong, China	2.9	2.5	2.3	3.2	3.2
Korea, Rep. of	3.0	3.7	3.5	3.8	3.8
Taipei,China	2.1	3.4	3.6	3.3	3.6
<b>The Pacific</b>	<b>4.5</b>	<b>5.3</b>	<b>5.4</b>	<b>13.2</b>	<b>13.4</b>

f: forecast

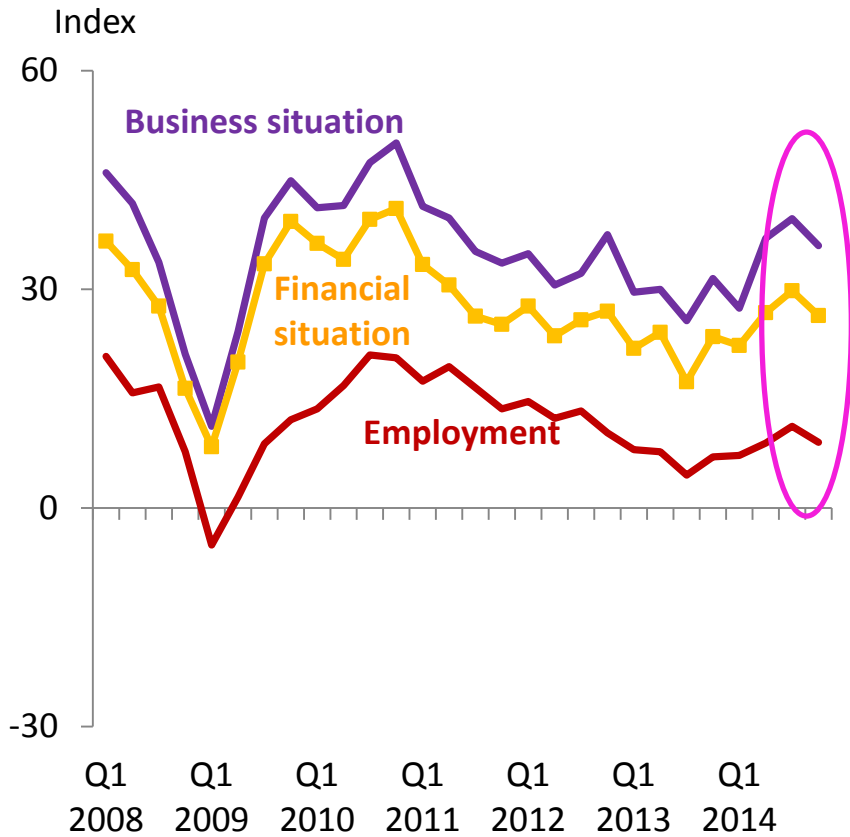
# ...PRC shows progress in rebalancing the economy...

## Demand-side contributions to growth

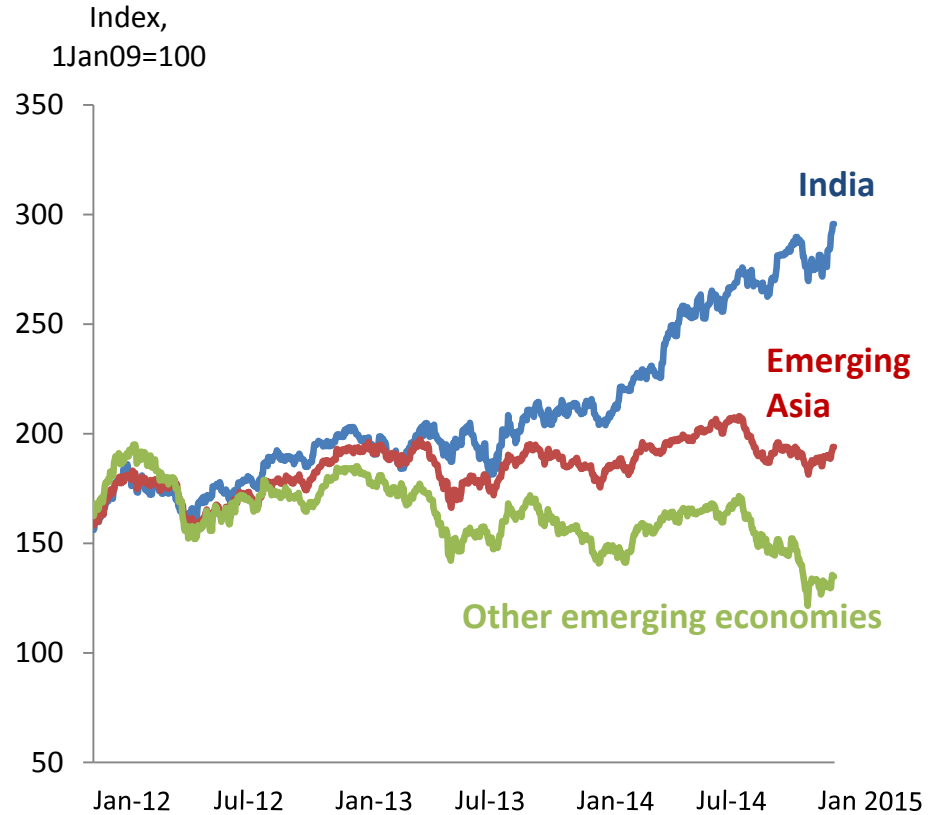


# ...and confidence is bolstered in the Indian economy

## Industrial outlook survey

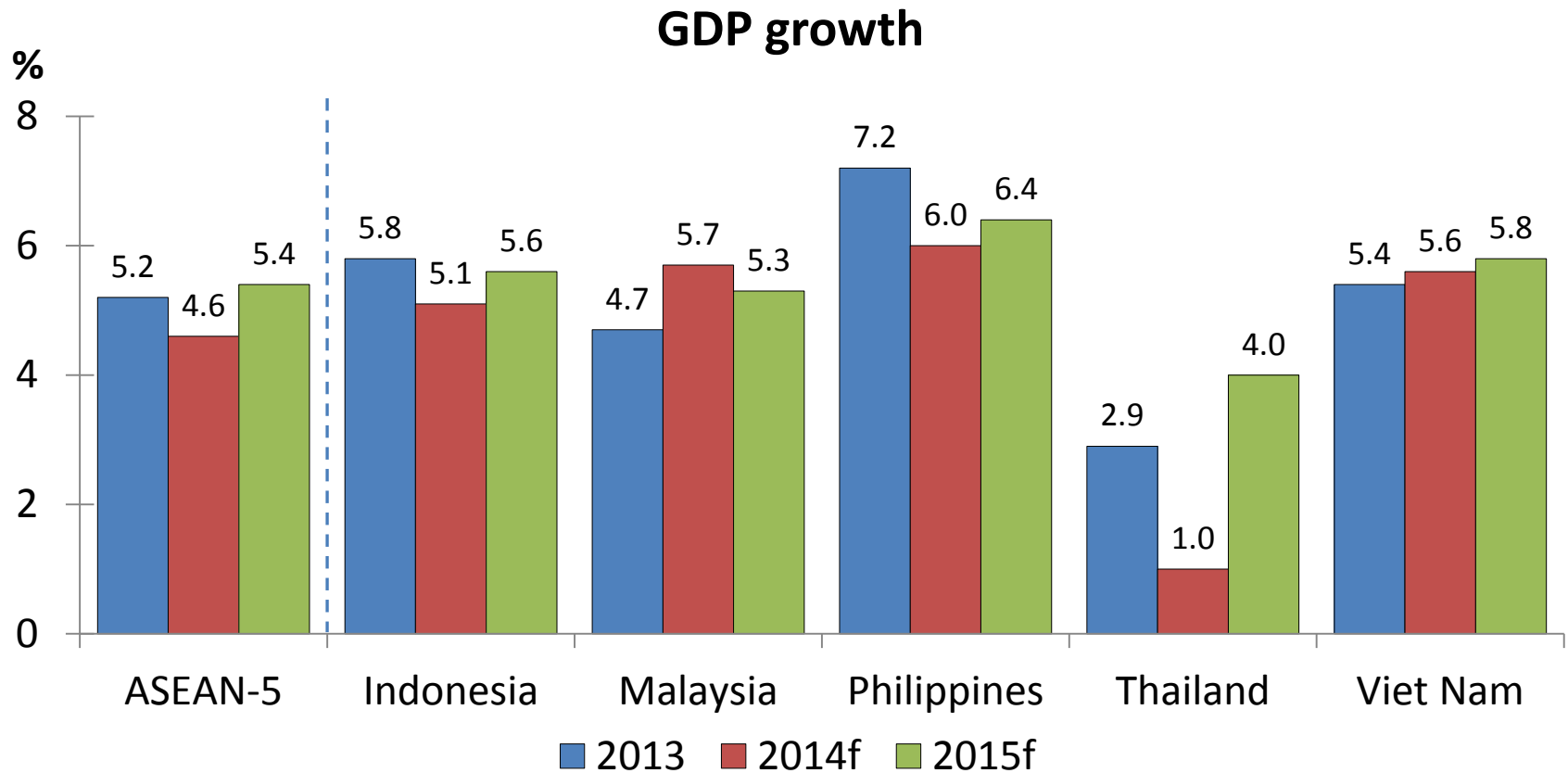


## Stock price indexes (Sensex; MSCI)



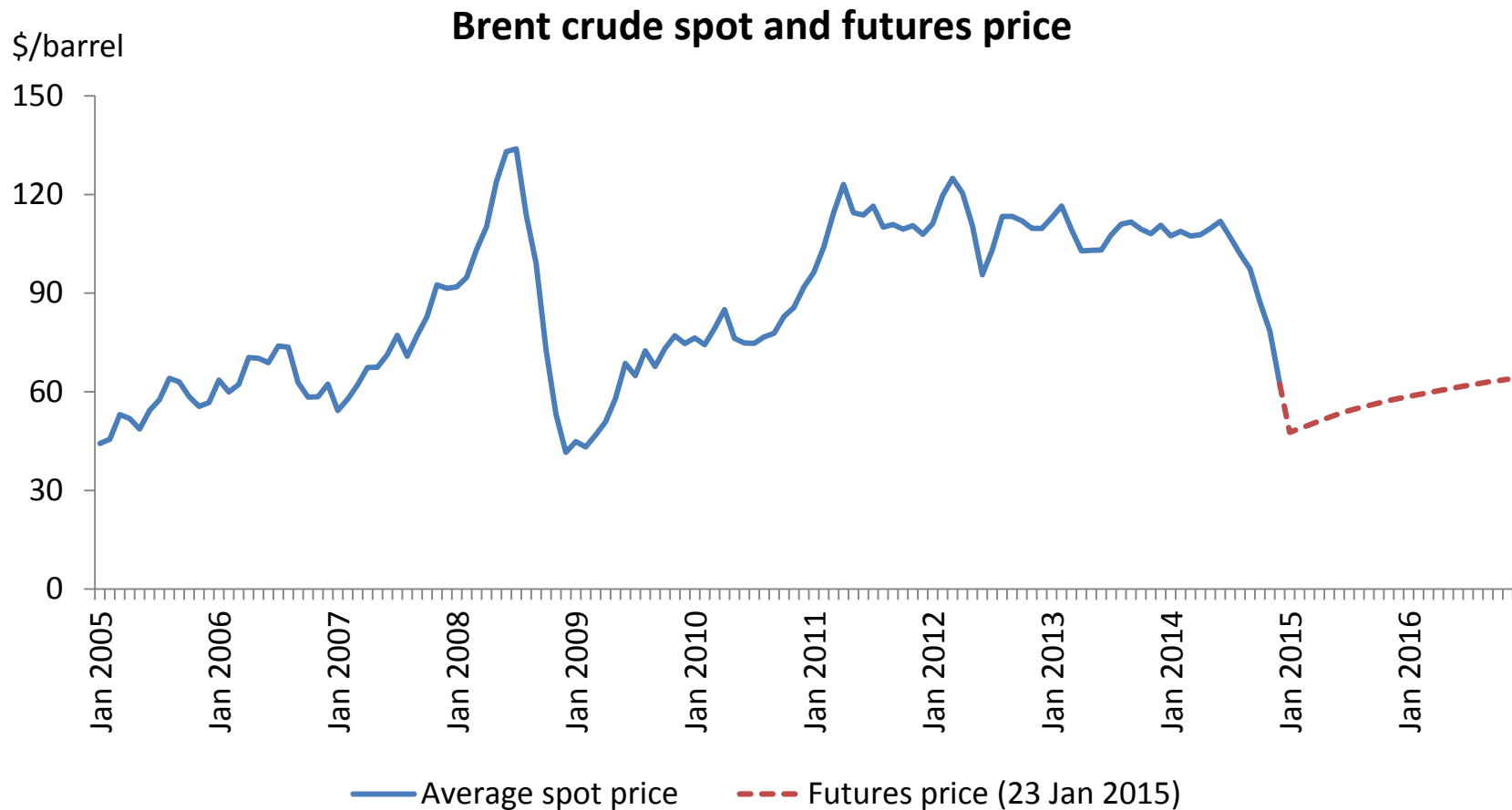


# ASEAN-5 growth easing slightly before rebounding



f: forecast

# Oil prices plunged in the second half of 2014



# Impact of oil price decline

- **Most of developing Asia will benefit from lower oil prices.**
  - Consumers will have more money to spend
  - Governments like Indonesia can use this time to cut costly fuel subsidies
  - Even oil-dominated countries like Kazakhstan and Brunei can use this time to speed up plans to diversify their economies



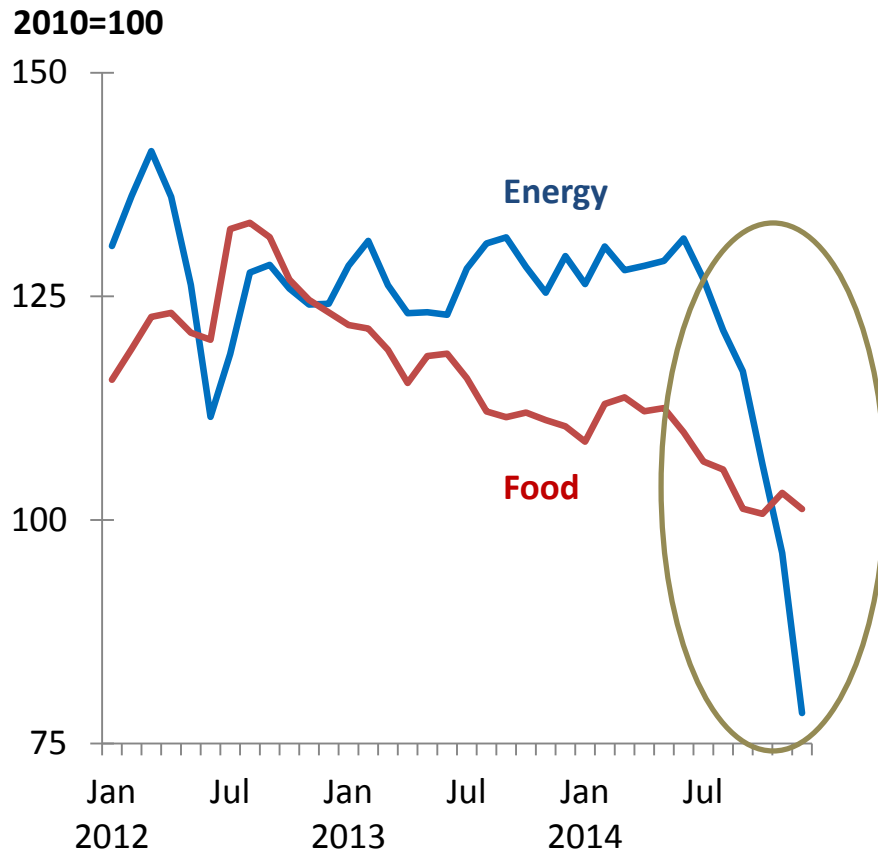
# Impact of oil price decline

- **Our modeling simulations show a big effect on growth.**
  - Even with a small bounce back in oil prices this year, emerging Asia (excluding PRC) could add 0.7 percentage points to its average growth in 2015.
  - PRC could add 0.6 percentage points, which could help offset the some of the expected slowdown.
- **But there are some negative effects.**
  - The increased market volatility is a challenge for macroeconomic management
  - Low oil prices may reduce the urgency to develop and install clean energy technologies.

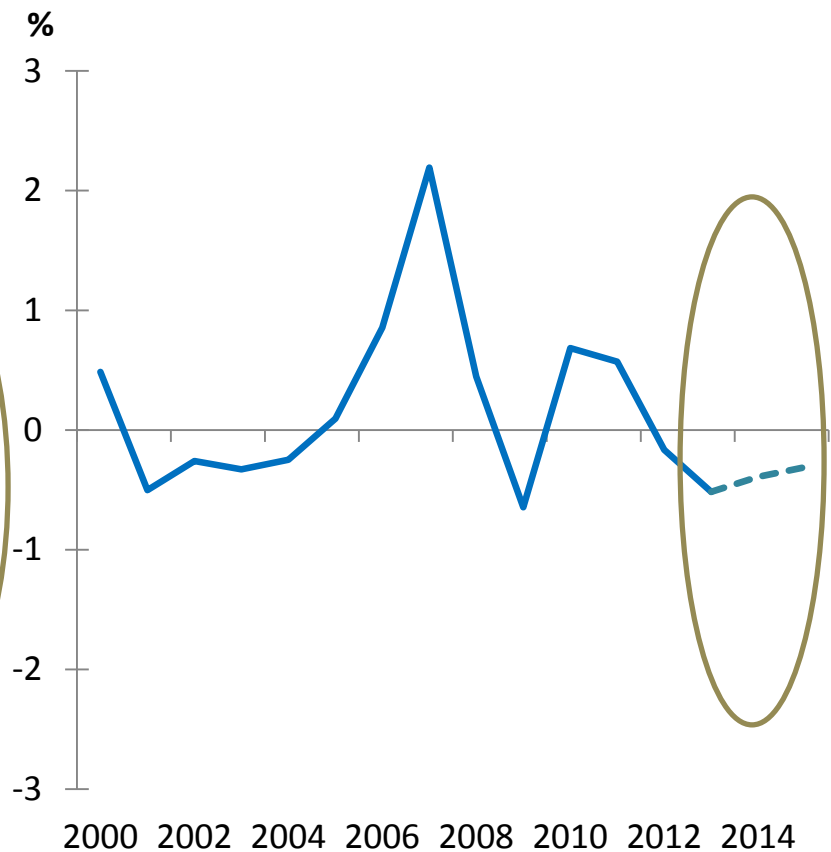


# Falling commodity prices and subdued demand pressures...

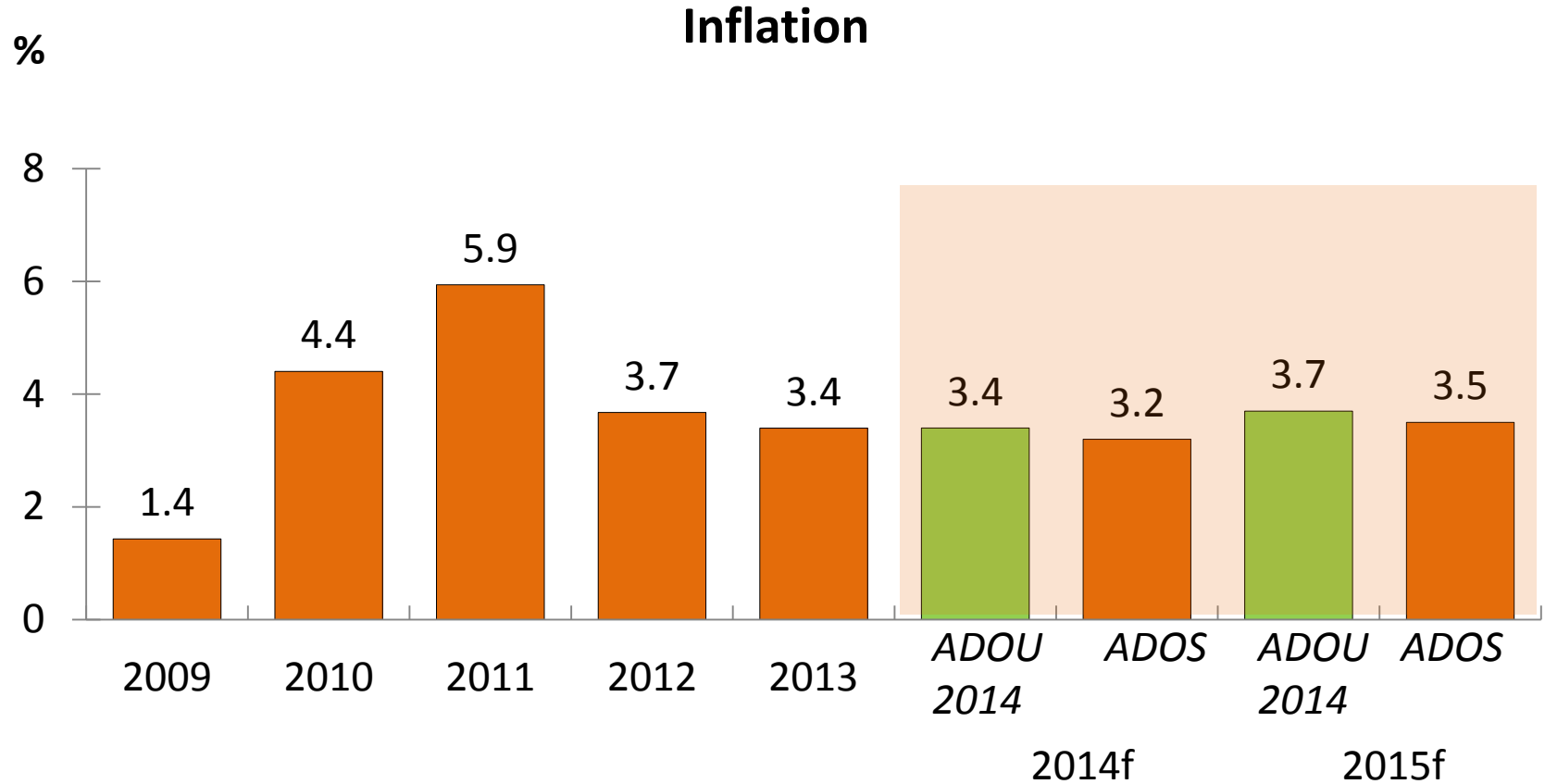
Global commodity price indexes



Output gap, % of potential GDP

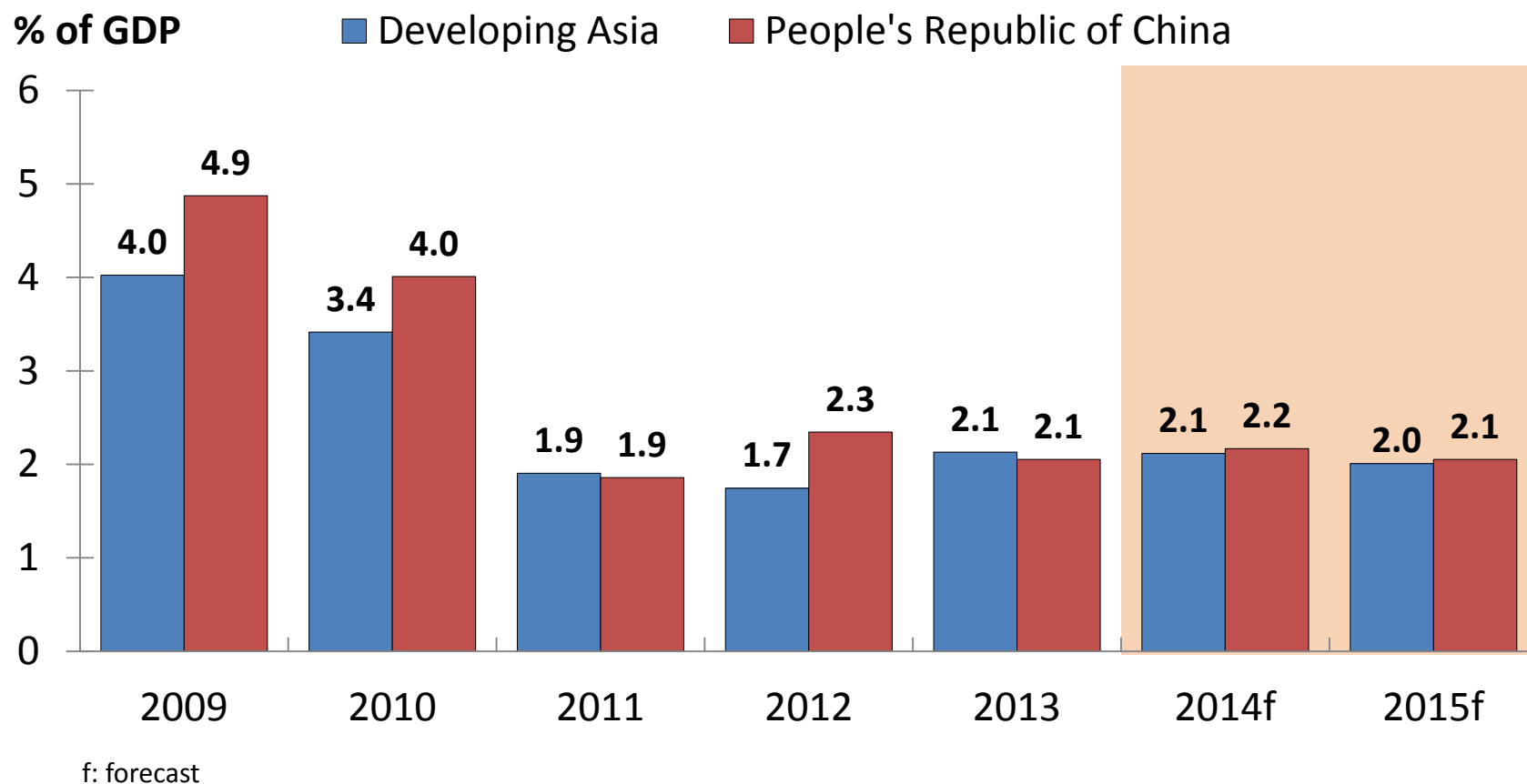


# ...continue to temper inflation



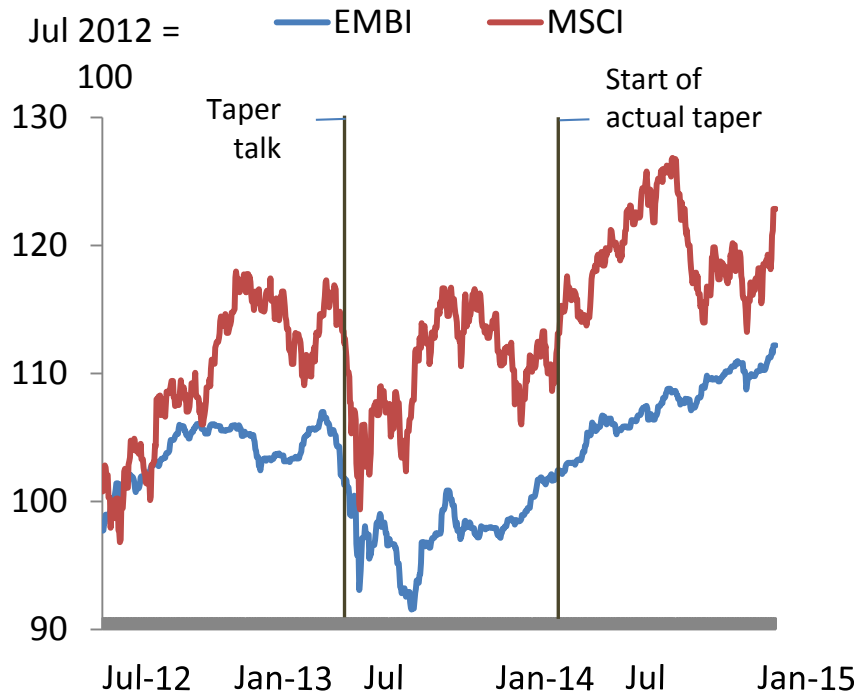
# Current account surplus remains steady

## Current account

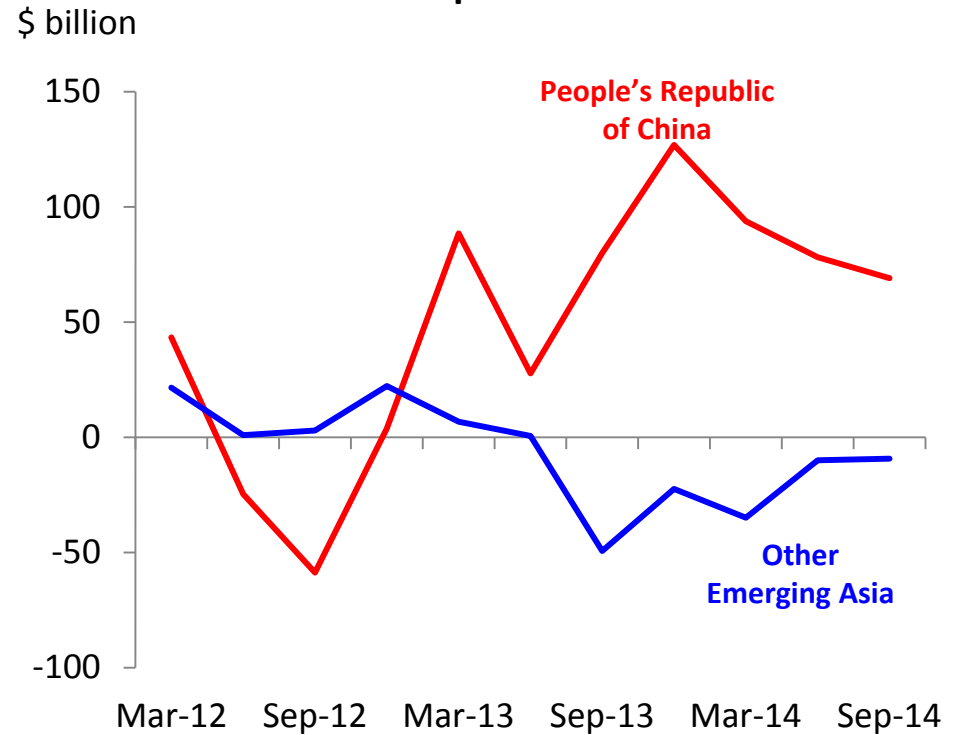


# Asian financial markets unfazed by the end of US QE...

**Bond and stock market movements**



**Net capital flows**



EMBI = JP Morgan emerging markets bond index.  
MSCI = Morgan Stanley Capital International.



# ...but US monetary tightening could still surprise

- Gradual increase in US interest rates already assumed
- Any surprise would coincide with stronger US recovery than expected
- Asia seems prepared for eventual tightening



**Repeat of “taper tantrum” unlikely**



# Risks to the outlook

- View that risks less than previous years still holds
  - Pace of planned reforms
  - Weaker advanced economies' performance
  - Geopolitical risk may lead to oil price volatility
- Policy makers can manage them



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