

HIGHLIGHTS

- Third quarter data largely met expectations underlying the projections in *Asian Development Outlook 2015 Update*, despite softer prospects in the major industrial economies. This *Supplement* forecasts growth in developing Asia at 5.8% in 2015 and 6.0% in 2016.
- Growth in the People's Republic of China held up well in the first 9 months of the year, so this *Supplement* revises the 2015 forecast up by 0.1 percentage points to 6.9%. The forecast for East Asia is nevertheless unchanged at 6.0% for this year and next because of dampened growth expectations elsewhere in the subregion.
- Growth in India is expected to pick up further in the second half of fiscal 2015 to reach 7.4% and, in the next fiscal year, 7.8%, as envisaged in the *Update*. Growth forecasts for the whole of South Asia are maintained at 6.9% in 2015 and 7.3% in 2016.
- Southeast Asia as a whole is maintaining its growth pace despite marginal downward revisions for Indonesia, the Philippines, and Singapore. This *Supplement* retains forecasts of 4.4% growth in 2015 and 4.9% next year.
- Soft oil prices and economic malaise in the Russian Federation weigh on Central Asia's outlook. In the Pacific, low commodity prices are straining public finances in the larger economies, and unfavorable weather is affecting others, pulling down the subregional growth forecast.
- Continued softness in international commodity prices will keep inflation low. The inflation forecast for 2015 is maintained at 2.3% but trimmed to 2.7% for 2016, or 0.3 percentage points below the *Update* forecast.

GROWTH HOLDS ITS OWN
IN DEVELOPING ASIA

Growth outlook

Despite some softening in prospects for the major industrial economies, developing Asia is poised to meet growth forecasts published in September in *Asian Development Outlook 2015 Update*. The outlook for aggregate gross domestic product is unchanged from the *Update* at 5.8% expansion in 2015 and 6.0% in 2016 (Table 1), as subregional forecasts are unchanged except for slight downward revisions for Central Asia and the Pacific.

The regional forecast is sustained in the face of a lower combined growth outlook for the major industrial economies of the United States (US), the euro area, and Japan. Sluggish recovery in the US and further contraction of gross domestic product (GDP) in Japan prompt downward revisions in the growth projections for these economies in 2015 and 2016 (Box 1).

East Asia

The outlook for growth in East Asia continues to be subdued, maintained at 6.0% in both 2015 and 2016 as trends in subregional economies are broadly in line to meet the projections in the *Update*. The slight upward adjustment for the People's Republic of China (PRC) offsets diminished expectations for Taipei, China in 2015.

In the PRC, 7.0% GDP growth year on year in the first half of 2015 was followed by third quarter growth at 6.9%, which was stronger than expected in the *Update*. Investment growth remains weak, though, under a substantial housing overhang and persistent excess capacity in industry. In the first 10 months of 2015, urban fixed asset investment expanded by 10.2% year on

The Asian Development Bank Regional Economic Outlook Task Force led the preparation of the revised outlook for this *Asian Development Outlook Supplement*. The task force is chaired by the Economic Research and Regional Cooperation Department and includes representatives from the Central and West Asia Department, East Asia Department, Pacific Department, South Asia Department, and Southeast Asia Department.

Table 1 Gross domestic product growth, developing Asia (%)

	2014	2015		2016	
		ADO 2015 Update	ADOS	ADO 2015 Update	ADOS
Developing Asia	6.2	5.8	5.8	6.0	6.0
Central Asia	5.1	3.3	3.2	4.2	3.7
Kazakhstan	4.3	1.5	1.5	3.3	2.8
East Asia	6.5	6.0	6.0	6.0	6.0
China, People's Rep. of	7.3	6.8	6.9	6.7	6.7
Hong Kong, China	2.5	2.4	2.4	2.7	2.7
Korea, Rep. of	3.3	2.7	2.7	3.4	3.3
Taipei, China	3.8	1.6	1.0	2.6	2.4
South Asia	6.7	6.9	6.9	7.3	7.3
India	7.3	7.4	7.4	7.8	7.8
Southeast Asia	4.4	4.4	4.4	4.9	4.9
Indonesia	5.0	4.9	4.8	5.4	5.3
Malaysia	6.0	4.7	4.7	4.9	4.9
Philippines	6.1	6.0	5.9	6.3	6.3
Singapore	2.9	2.1	2.0	2.5	2.3
Thailand	0.9	2.7	2.7	3.8	3.8
Viet Nam	6.0	6.5	6.5	6.6	6.6
The Pacific	6.7	6.7	6.3	3.9	3.8

ADO = Asian Development Outlook, ADOS = ADO Supplement.

Note: **Developing Asia** refers to the 45 members of the Asian Development Bank listed below. **Central Asia** comprises Armenia, Azerbaijan, Georgia, Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan. **East Asia** comprises the People's Republic of China; Hong Kong, China; the Republic of Korea; Mongolia; and Taipei, China. **South Asia** comprises Afghanistan, Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan, and Sri Lanka. **Southeast Asia** comprises Brunei Darussalam, Cambodia, Indonesia, the Lao People's Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Viet Nam. **The Pacific** comprises the Cook Islands, Fiji, Kiribati, the Marshall Islands, the Federated States of Micronesia, Nauru, Palau, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu, and Vanuatu.

Sources: Asian Development Bank. 2015. *Asian Development Outlook 2015 Update*; Asian Development Bank. 2015. *Pacific Economic Monitor*, December; Asian Development Bank estimates.

year, down from 15.9% in the same period last year. Despite a recent stock market correction, private consumption continues to be the bright spot, with retail sales growing in nominal terms by 11.0% in October. This reflects stronger sales of automobiles, food and beverages, and clothing. The government has provided targeted support to stabilize growth and made further progress with gradual structural reform. Interest rate liberalization passed a milestone as the People's Bank of China, the central bank, removed the deposit rate ceiling. Benchmark lending and deposit rates were reduced by 25 basis points on 24 October. The reserve requirement ratio for large banks was lowered by 50 basis points and by an additional 50 basis points for certain institutions to support small and medium-sized enterprises and agriculture. Against this backdrop, the growth forecast for 2015 is revised slightly up from 6.8% to 6.9%. Growth deceleration is likely to continue, however, given the

shrinking working age cohort and rising wage costs. Forecast at 6.7% in 2016, growth will be driven increasingly by services and consumption.

Elsewhere in East Asia, forecasts are maintained for the Republic of Korea and for Hong Kong, China but are revised down for Taipei, China in 2015. The economy of Hong Kong, China decelerated in the third quarter of 2015 to 2.3% year on year as anemic growth in domestic demand more than offset improvements in the external sector. However, with a healthy labor market and solid growth in real wages to support domestic demand, growth projections are maintained at 2.4% for 2015 and 2.7% for 2016, as in the *Update*. In contrast, growth prospects for Taipei, China are dragged down by disappointing exports. The economy shrank year on year for the first time in 6 years in the third quarter of 2015, by 1.0%. Merchandise exports fell by 9.6% year on year in the first 10 months of 2015, reversing 3.2% growth in the same period a year earlier, primarily because of lower shipments of industrial products. Exports to the PRC and Hong Kong, China—the largest combined destination for exports from Taipei, China—fell by 11.1% during the same period, owing to slowing domestic demand in the PRC. The growth outlook for Taipei, China continues to weaken, the forecast sharply downgraded from 1.6% in the *Update* to 1.0%. Growth is forecast to rebound in 2016 to 2.4% but remain 0.2 percentage points lower than projected in the *Update*.

In the Republic of Korea, economic growth quickened to 2.6% year on year in the third quarter of 2015 from 2.2% in the second, marking the first time that growth has accelerated since the first quarter of 2014. Gross fixed capital formation expanded by 5.0%, more than double the rate in the second quarter and outperforming growth in the same period of last year. In the first 3 quarters, GDP expanded by 2.4%, supported by relatively strong expansion in gross fixed capital investment and government spending. Considering that the adverse impact of the Middle East respiratory syndrome outbreak in mid-2015 is waning, the economy is expected to recover more strongly over the coming quarters, supported by both fiscal stimulus and an accommodative monetary policy. The growth forecast of 2.7% for 2015 is thus maintained, but the forecast for 2016 is slightly lowered from 3.4% to 3.3% in light of sluggish exports.

South Asia

The economic outlook for South Asia remains strong, with growth on track to meet *Update* projections of 6.9% in 2015 and 7.3% in 2016. Continued strong economic expansion in India balances a slowdown in Bhutan and the Maldives in 2015, and in Nepal in 2016. The downward revision for Bhutan reflects hydroelectric sales below expectations and for the Maldives a weaker tourism outlook. In Pakistan, provisional GDP growth in FY2015 (ended 30 June 2015) is as forecast in the *Update*. The economic slowdown forecast for Nepal in 2016 reflects lower expectations for the summer crop harvest following unfavorable weather and unforeseen delays in earthquake-related reconstruction. Growth

Box 1 Outlook for the major industrial economies

The growth outlook for the major industrial economies—the US, the euro area, and Japan—is revised slightly down from the *Update*, as the pace of recovery in the US has been slower than expected and Japan's economy has contracted for 2 consecutive quarters. Although recovery continued in the euro area, risks remain firmly on the downside. Together, the major industrial economies are projected to expand by 1.8% in 2015 and 2.0% in 2016.

Gross domestic product growth in the major industrial economies (%)

Area	2014	2015		2016	
	Actual	ADO 2015 Update	ADOS	ADO 2015 Update	ADOS
Major industrial economies	1.4	1.9	1.8	2.3	2.0
United States	2.4	2.6	2.5	2.9	2.6
Euro area	0.9	1.5	1.5	1.6	1.6
Japan	-0.1	0.7	0.5	1.4	0.8

ADO = Asian Development Outlook, ADOS = ADO Supplement.

Note: Average growth rates are weighed by gross national income, Atlas method.

Sources: Asian Development Bank. 2015. *Asian Development Outlook 2015 Update*; Asian Development Bank estimates.

The US economy fell short of expectations as it grew at a seasonally adjusted annualized rate (saar) of 2.1% in the third quarter, down from 3.9% in the second. Domestic consumption and government spending contributed positively, but private investment fell in the third quarter. Relatively strong October industrial production and purchasing managers' indexes suggest a pickup by the end of the year. Despite weaker consumer confidence in October, retail sales held up. Although an appreciating dollar and weak commodity prices softened headline inflation, core inflation rose slightly from 1.6% in January to 1.9% in October. The surge of 270,000 nonfarm jobs in October pushed the unemployment rate down to 5.0%. The strength of the economy and the pickup in core inflation argue for the US Federal Reserve to raise interest rates soon, possibly as early as December. The private sector is expected to expand further, but feeble global prospects continue to temper the pace of the US recovery in the near term. Late data prompt downward adjustments to US growth projections, from 2.6% for 2015 to 2.5%, with only modest improvement to 2.6% in 2016.

Growth in the euro area slowed to a saar of 1.2% in the third quarter from 1.4% in the second, dampened by weak export demand. The industrial production index remained stagnant in the third quarter, but the economic sentiment indicator and the purchasing managers' index both picked up, suggesting improved business confidence and activity at the start of the

fourth quarter. Deterioration in the consumer confidence index and in retail sales, on the other hand, foretells slow growth in consumption demand. Unemployment fell to 10.8% in September, the lowest since January 2012 but still historically high and masking wide variation across member economies. After slipping into negative territory in September, inflation rose to 0.1% in October. To boost prices, the European Central Bank continues to purchase assets while keeping policy rates unchanged. Loose monetary policy, low oil prices, and a weak euro have sustained growth in the euro area, but the recovery is fragile and may fade in subsequent quarters. While a bailout bought reprieve from the Greek crisis, other downside risks to growth include global financial volatility and a slowdown in emerging markets. The large influx of refugees and migrants may affect European economies in the short and long term through aggregate demand, labor market, and fiscal channels. As recovery in the euro area may still be hampered by multiple risks, the forecast for growth is unchanged from the *Update* at 1.5% in 2015 and 1.6% in 2016.

Japan's economy contracted for a second straight quarter, with GDP shrinking by a saar of 0.8% in the third quarter. A fall in investment by nonresidents and a drop in private inventories contributed to this contraction. The outlook over the near term is mixed. On the upside, the purchasing managers' index gradually improved to 52.4 in October from below 50.0 in April, indicating a return to expansion. The Tankan survey of business conditions was steady in the third quarter. Consumer confidence remained weak, but private consumption of durable goods and housing investment are expected to increase in 2016 ahead of the value-added tax rate hike from 8% to 10% in April 2017. On the downside, public works orders have steadily declined over the past year as the government pursued fiscal consolidation. With inventories gradually piling up, industrial production is seen adjusting to unexpectedly weak demand in the coming months. Some fiscal stimulus is possible within the forecast horizon, but no major package is expected. External demand is expected to improve in 2016 but only gradually. In sum, Japan's GDP is expected to grow by 0.5% this year and 0.8% in 2016—both years more slowly than forecast in the *Update*.

The Australian economy will continue to expand in 2015 and 2016 but only slowly. GDP growth faltered to a saar of 0.7% in the second quarter of 2015 from 3.6% in the first. However, third quarter indicators such as retail sales, consumer confidence, and the manufacturing index point to some strengthening ahead. New Zealand's economic growth is still weak. GDP growth slipped to a saar of 0.9% in the second quarter from 1.1% in the first. Although business confidence improved in October, consumer confidence softened, and the New Zealand economy is expected to remain weak in the forecast period.

4 ASIAN DEVELOPMENT OUTLOOK SUPPLEMENT

projections for Bangladesh and Sri Lanka remain in line with those in the *Update*. Strong domestic demand on the back of an expected pickup in investment and improved garment exports will continue to support growth in Bangladesh, while the alleviation of political uncertainty in Sri Lanka is seen to revive private investment.

India is on track to reach the *Update* forecast of 7.4% growth in FY2015 (ending 31 March 2016), as growth picked up to 7.4% in the second quarter from 7.0% in the first. Industrial production accelerated to 4.6% in the second quarter from 3.3% in the first. Growth in public capital expenditure also continued to be robust at about 30% in the second quarter. Leading indicators such as sales of commercial vehicles, car sales, and air passenger traffic were also gathering momentum. However, continued weakness in external demand will likely cause exports to contract this year. India's economy faces further downside risks from sluggish private investment and rural demand weakened by slow wage growth and muted increases in support prices for agricultural products.

Southeast Asia

GDP growth across Southeast Asia is projected at 4.4% in 2015 and 4.9% in 2016, as envisaged in the *Update*. The growth forecast for Indonesia, the largest economy in the subregion, is trimmed slightly for 2015 and 2016 as budget disbursement has been below expectations, and as further delays in export recovery are likely. The growth forecasts for the Philippines and Singapore in 2015 are similarly trimmed to reflect lower-than-expected growth in the third quarter. Meanwhile, the growth forecast for Myanmar in 2015 and 2016 is revised up on expectations of higher investment and tourist arrivals.

Growth in Indonesia was stable at 4.7% year on year in the third quarter, as in the second. Government spending improved significantly to grow by 6.6% year on year, much higher than in the previous quarter. Expansion in fixed investment was supported in part by the start of several public projects, and household consumption remained robust. As expected, net exports continued their positive contribution to GDP growth, at 1.2 percentage points as in the first half of the year. The rate of capital budget disbursement by the end of 2015 is projected to be slightly lower than the 80%–85% assumed in the *Update*, curbing growth in the second half slightly more than previously expected. GDP growth in 2015 is now projected at 4.8%, down from the 4.9% projected in September. In 2016, growth is seen accelerating to 5.3%, revised slightly down from the previous projection as export recovery is likely to be further delayed.

After growing at 5.3% in the first half of 2015, the Malaysian economy expanded by 4.7% in the third quarter, the slowest pace in more than 2 years. Decelerating domestic demand continued to drag down growth in the third quarter,

as private consumption eased following the introduction in April of a 6% tax on goods and services. Business sentiment has been hurt by lackluster prospects for exports, a sharp depreciation of the Malaysian ringgit, a slide in stock prices, and spare manufacturing capacity. On the other hand, the ringgit's depreciation supported export expansion and net exports growth at 3.3% in the third quarter, reversing 10.5% contraction in the second. Although the rest of the year will see private consumption buffeted by headwinds caused by sagging consumer confidence, the new tax on goods and services, slowing growth in credit to households, and signs of softening in the labor market, growth will find support in better prospects for exports. Growth forecasts are therefore maintained at 4.7% for 2015 and 4.9% for 2016.

Driven largely by strong domestic demand, GDP growth in the Philippines picked up to 6.0% in the third quarter, bringing growth in the first 3 quarters to 5.6%. Private investment recorded robust expansion, and household spending was supported by higher employment, low inflation, and remittance inflows from Filipino workers overseas. Government expenditure accelerated rapidly, with public expenditure rising by 41.2% in the third quarter as budget execution was enhanced. Net external demand weighed on GDP growth in the first 3 quarters, however, reflecting brisk expansion in imports on strong domestic demand and only a modest rise in merchandise exports. The unexpectedly sharp drop in net external demand prompts a small downward revision in the growth forecast to 5.9% in 2015. The growth forecast for 2016 is maintained at 6.3%. On the supply side, services and manufacturing were the key growth drivers. Services generated two-thirds of GDP growth in the first 3 quarters, spurred by transport, communications, retail trade, business process outsourcing, and real estate. Manufacturing generated nearly one-fourth of the increase in GDP, supported by domestic demand. Agricultural output was nearly flat in the first 3 quarters as El Niño brought drought.

The Thai economy expanded by 2.9% year on year in the first 3 quarters of 2015. Third quarter growth was also 2.9% year on year, in line with expectations. Private consumption remained weak as consumer confidence continued to decline and household debt remained high. Private investment contracted further as the business sentiment index continued to decline. Public investment growth slowed in the third quarter but was still high at 17.5% year on year. On the production side, agriculture contracted by 5.9% in the first 3 quarters of 2015 while manufacturing increased by 0.8% from a year earlier. Merchandise exports showed signs of improvement as they contracted by only 1.9% following declines of 4.0% in the second quarter and 2.5% in the first. Exports of automotive products, integrated circuits, and air conditioners expanded well in the third quarter. Meanwhile, services continued to perform handsomely, expanding by 17.5% year on year despite a slowdown in

hotels and restaurants to 10.9% in the third quarter—mainly a reaction to a deadly explosion in Bangkok in August. The growth outlook remains unchanged at 2.7% for 2015 and 3.8% for 2016.

In Singapore, the initial growth estimate for the third quarter of 2015 was 1.4% year on year—a drop from the revised estimate of 2.0% growth in the second quarter. Manufacturing was largely to blame for the sluggish growth, as it contracted steeply by 6.0% in the third quarter with output declines for electronics, biomedical manufacturing, and transport engineering. Construction grew by 1.6%, but this was less than the 2.0% growth recorded in the previous quarter due to weaker private sector construction. Growth in services moderated along with slower growth in wholesale and retail trade, and in finance and insurance. The GDP growth forecast for 2015 is thus trimmed to 2.0% from 2.1% in the *Update*. In 2016, manufacturing will continue to drag on growth, and the GDP growth forecast is downgraded to 2.3% from 2.5% in the *Update*.

In Viet Nam, the first 3 quarters of 2015 saw GDP growth accelerate to 6.5%, the fastest growth rate in the past 5 years. Growth was driven by industry and construction, which contributed nearly half of the total. Export-oriented manufacturing output and continuing high foreign direct investment provided further boosts. Services grew by 6.2%, while agriculture recorded more modest growth at 2.1%. On the demand side, available data for the first half of 2015 show domestic demand continuing to serve as the main driver of growth. With economic recovery gaining traction in 2015, rising interest in the country as a destination for foreign direct investment, and recent progress on major trade deals, growth forecasts for Viet Nam are maintained at 6.5% in 2015 and 6.6% in 2016.

Central Asia

Low global commodity prices and slow recovery in the Russian Federation continue to undermine economic performance in Central Asia. Growth in the subregion's energy exporters—Azerbaijan, Kazakhstan, Turkmenistan, and Uzbekistan—remains dampened by low export revenues stemming from low oil and gas prices. The energy importers—Armenia, Georgia, the Kyrgyz Republic, and Tajikistan—are witnessing, together with Uzbekistan, weak domestic consumption resulting from lower remittances, in particular from the Russian Federation. Agriculture, mining, and services supported growth in the first 10 months of the year, as did construction associated with public investment programs, while trade and export-oriented manufacturing remained sluggish due to weak external demand. At the same time, import adjustments are under way in several economies in the region following local currency devaluation or depreciation. The aggregate growth projection for Central Asia is downgraded slightly to 3.2% from the 3.3% projected in the *Update*. The growth forecast for 2016 is revised down more steeply to 3.7% from the 4.2% projected in the *Update*,

reflecting weak performance in the subregion's energy exporters, a slowdown in major trading partners (especially the PRC), and lagging recovery in the Russian Federation.

Kazakhstan, Central Asia's largest economy, shifted its monetary policy in the third quarter toward reining in inflation and away from a managed exchange rate band. As a result, the tenge plunged from T198 to the dollar on 19 August 2015 to T307 on 30 November. While growth had already slowed in the first half of 2015 as investment languished, especially in the oil sector, and trade volume slowed, growth in the second half of the year may suffer further from lower private consumption in response to higher import prices. The strong service sector, the growth driver in recent years, decelerated significantly during the first 6 months of 2015. The growth forecast for 2016 is revised down to 2.8% from the 3.3% projected in the *Update*.

The Pacific

Economic growth in the Pacific is now seen to moderate to 6.3% in 2015 from 6.7% last year. This is a 0.4 percentage point downgrade from the forecast in the *Update*, reflecting a weaker growth outlook for Timor-Leste as several large private investment projects suffer delayed implementation. GDP growth in Samoa in FY2015 (ended 30 June 2015) is estimated at 1.7%, slightly less than the earlier projection, as agriculture suffered more than expected under El Niño, and nonfood manufacturing and construction also disappointed. Other forecasts remain largely unchanged from the *Update*. Although growth projections for Papua New Guinea have been retained, diminished public revenue due to low international commodity prices is putting the government's expenditure plans at risk. The recently released 2016 budget cuts planned expenditures and places fiscal policy on a sounder footing, underpinned by commodity price assumptions that are more modest but still optimistic. Negative commodity price shocks are also intensifying Papua New Guinea's debt burden. Across the Pacific, average growth is now projected to moderate to 3.8% in 2016, or 0.1 percentage points lower than forecast in the *Update*, as weaker growth is expected in Fiji following the announcement of planned fiscal consolidation in the 2016 budget.

Inflation outlook

Declining commodity prices are keeping inflation low in Asia and the Pacific. Brent crude oil prices averaged \$48 per barrel in October, an increase of \$1 per barrel from September but not the rebound foreseen in the *Update*. Prices rallied in early October on the expectation of declining US oil production and rising tensions in the Middle East. Brent crude inched up to hover at around \$50 per barrel during the second week of October, only to slide again on news of further growth moderation in the PRC, reports of a buildup of crude oil stocks in the US as oil production there fails to fall as expected, and a stronger US dollar. With Brent crude remaining below \$45 per barrel since mid-November, prices are now expected to average \$54 per barrel for the whole of 2015. Although expectations for lower US oil production and relentless geopolitical tensions in the Middle East continue to exert upward price pressure, persistent worries over the pace of global economic growth should offset this pressure, such that prices are forecast to average \$52 per barrel in 2016.

Food prices declined by 15.3% in the first 10 months of 2015. All subindexes recorded declines—in double digits for edible oils at 22% and grains at 14%. The latest forecasts from the November 2015 report of the US Department of Agriculture suggest that supplies of major agricultural commodities will remain ample. In view of well-supplied markets for most grains, oilseeds, and edible oils, the food commodity price index is expected to average 13% lower in 2015 than in 2014 and to decline further by 1% in 2016. Recent evidence suggests that the current El Niño could be one of the strongest on record but, because of the ample supplies of major agricultural commodities, is unlikely to cause a spike in global agricultural prices.

The inflation forecast for developing Asia is maintained at 2.3% in 2015. With sustained low commodity prices and a delayed pickup in global demand, the 2016 inflation forecast is revised down to 2.7% from 3.0% in the *Update* (Table 2).

In East Asia, inflation will remain subdued, forecast at 1.4% in 2015, as in the *Update*, but revised down to 1.8% in 2016 from 2.1%. In the PRC, lower commodity prices, weaker demand, and decelerating credit growth contain price pressures. Consumer price inflation averaged 1.4% year on year in the first 10 months of 2015. Inflation has been benign for the rest of the subregion as well. The forecasts for the Republic of Korea, Mongolia, and Hong Kong, China are revised down for 2015 and 2016. Although still relatively low, inflation projections are adjusted slightly upward for Taipei, China, mainly reflecting the continued weakness of the local currency against the US dollar and its effect on import prices.

In South Asia, inflation at 4.9% forecast for 2015 is slightly lower than the 5.0% projection in the *Update*. Most projections for inflation in individual economies remain current, excepting the Maldives and Sri Lanka, which can now expect lower inflation, and Afghanistan, which is looking at deflation. The subregional inflation forecast

Table 2 Inflation (%)

	2014	2015		2016	
		ADO 2015 Update	ADOS	ADO 2015 Update	ADOS
Developing Asia	3.0	2.3	2.3	3.0	2.7
Central Asia	5.7	8.1	6.8	7.5	8.4
Kazakhstan	6.7	8.9	7.1	7.9	10.5
East Asia	1.9	1.4	1.4	2.1	1.8
China, People's Rep. of	2.0	1.5	1.5	2.2	1.8
Hong Kong, China	4.4	3.2	3.0	3.3	3.0
Korea, Rep. of	1.3	0.8	0.7	2.0	1.7
Taipei, China	1.2	-0.5	-0.2	0.5	1.1
South Asia	6.2	5.0	4.9	5.5	5.5
India	5.9	5.0	5.0	5.5	5.5
Southeast Asia	4.1	3.0	2.8	3.3	3.2
Indonesia	6.4	6.7	6.4	5.1	4.8
Malaysia	3.1	2.4	2.4	2.9	2.9
Philippines	4.1	2.0	1.6	3.0	3.0
Singapore	1.0	-0.2	-0.5	1.0	0.5
Thailand	1.9	-0.7	-0.9	1.5	1.5
Viet Nam	4.1	0.9	0.9	4.0	4.0
The Pacific	3.2	4.2	4.1	4.4	4.4

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Sources: Asian Development Bank. 2015. *Asian Development Outlook 2015 Update*; Asian Development Bank. 2015. *Pacific Economic Monitor*, December; Asian Development Bank estimates.

remains at 5.5% in 2016, despite an uptick in Nepal and lower prices in Bhutan, the Maldives, and Pakistan. In India, average inflation in the first 7 months is, at 4.6%, broadly in line with the *Update* forecast of 5.0% in FY2015 (ending 31 March 2016), as inflationary pressures are expected to pick up in the remaining months as crude oil prices increase and economic activity accelerates.

Inflation projections for Southeast Asia are revised down slightly to 2.8% from 3.0% for 2015, and to 3.3% from 3.2% for 2016, because of downward revisions for several economies. Indonesia recorded deflation in September and October, largely on declines in raw food prices, bringing average inflation for the first 10 months to 6.8%. Inflation now is projected at 6.4% in 2015 and 4.8% in 2016, both lower than the *Update* projections. The Philippines saw inflation ease further to 0.4% in October on cheap oil and low food prices as rice imports supplemented domestic supplies. Inflation

averaged 1.4% in the first 10 months of 2015 but could pick up in the coming months because of the increasingly severe El Niño and the weakening of the peso, which has fallen by 5% against the US dollar in the year to mid-November. Still, inflation to date has been milder than expected, prompting downward revisions to the 2015 forecast. In Myanmar, higher fiscal spending, continued depreciation of the kyat, and the impact on agriculture output of the severe floods and landslides experienced during July and August are seen to put upward pressure on prices.

Currency devaluation and depreciation combined with rallying food prices to fan inflation in parts of Central Asia in the first 10 months of 2015. However, lower inflation

in Armenia, Azerbaijan, Kazakhstan, Turkmenistan, and Uzbekistan are pushing the aggregate inflation forecast down to 6.8% from the 8.1% projected in the *Update*. Inflation is forecast to climb again in 2016 to 8.4%, well above the 7.5% projected in the *Update*. This reflects the delayed pass-through of local currency depreciation to consumer prices, particularly in Kazakhstan.

For the Pacific, the inflation forecast is trimmed to 4.1% in 2015 from the 4.2% forecast in the *Update*, in response to low inflation outcomes so far this year in Fiji and Palau. Largely reflecting international commodity price trends, inflation is expected to reach 4.4% in 2016, unchanged from the *Update*.

Asian Development Outlook Supplement

The Asian Development Outlook is ADB's main economic forecasting product. It is published each April with an Update published in September and brief Supplements published in July and December.

Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to majority of the world's poor. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

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