

HIGHLIGHTS

- Economic growth forecasts for developing Asia are downgraded slightly to 7.0% in 2021 and 5.3% in 2022 as the recent emergence of a highly mutated virus variant and a rise in infections globally indicate that the pandemic is far from over.
- East Asia's growth forecasts are revised down marginally for both 2021 and 2022, with the People's Republic of China now expected to grow more slowly, by 8.0% in 2021 and 5.3% in 2022.
- The growth forecast for South Asia is revised down to 8.6% for 2021, while the forecast for 2022 is maintained at 7.0%. India's projection is lowered to 9.7% for fiscal 2021 and remains unchanged at 7.5% for 2022.
- After growth in Southeast Asia decelerated in the third quarter, the subregional forecast is revised down from 3.1% to 3.0% for 2021 but revised up to 5.1% for 2022.
- Central Asia's growth prospects are substantially upgraded from 4.1% to 4.7% for 2021 and then from 4.2% to 4.4% for 2022. The Pacific is still forecast to contract by 0.6% in 2021, then grow by 4.7% in 2022, slightly slower than earlier forecast.
- Regional inflation remains manageable, with the inflation forecast revised down a notch to 2.1% for 2021 and unchanged at 2.7% for 2022.

RECOVERY CONTINUES

Recent developments

Coronavirus Disease 2019 (COVID-19) has receded in developing Asia, but rising infections worldwide and the emergence of a fast-spreading variant suggest that the pandemic will take time to play out. Since the release of *Asian Development Outlook 2021 Update* in September, COVID-19 infections in the region have declined steadily (Figure 1). As of 30 November, average new cases daily in developing Asia had fallen to about 50,000, down by 71% from an August peak and by 88% from the worst peak so far, in May. However, the number of cases globally is on the rise again, driven by a renewed wave of infections in Europe. The recent emergence of the highly mutated Omicron coronavirus variant is a sobering reminder that further outbreaks remain a possibility.

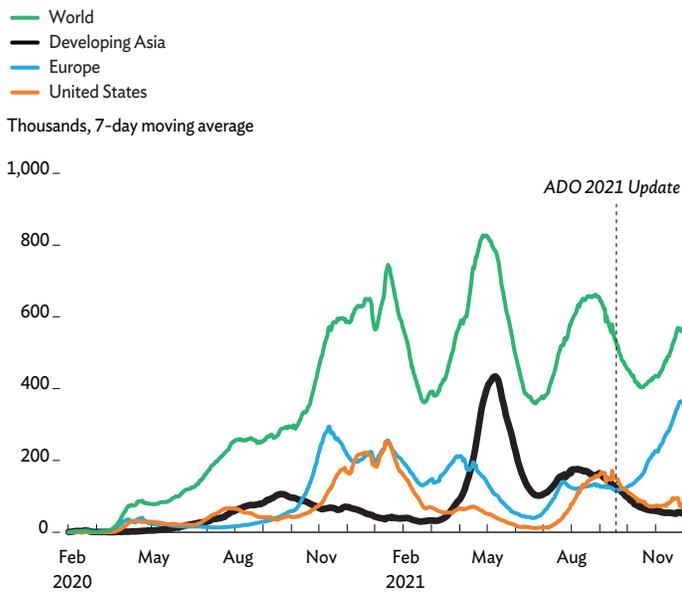
Most economies in the region have scaled up their vaccine rollouts, but progress continues to vary considerably. As of 30 November, 48.7% of developing Asia's population was fully vaccinated, a marked improvement over the 28.7% rate just 3 months earlier, at the time of the *Update*. But this still lags behind a 58.1% vaccination rate in the US and 67.2% in the European Union. And vaccine progress in the region remains highly uneven (Figure 2). In 20 economies in developing Asia, the share of the population that is fully vaccinated is still less than 40%, leaving them susceptible to renewed outbreaks.

Declining cases and vaccine progress have allowed many economies in developing Asia to start reopening. As a result, forward-looking purchasing managers' indexes (PMIs) rebounded in October from a sluggish third quarter (Q3), which was held back by virus outbreaks and associated restrictions (Figure 3). Regional trade has also picked up, with developing Asia's merchandise

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

Figure 1 New COVID-19 cases daily

Cases have declined in developing Asia but are rising globally.



ADO = Asian Development Outlook.

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

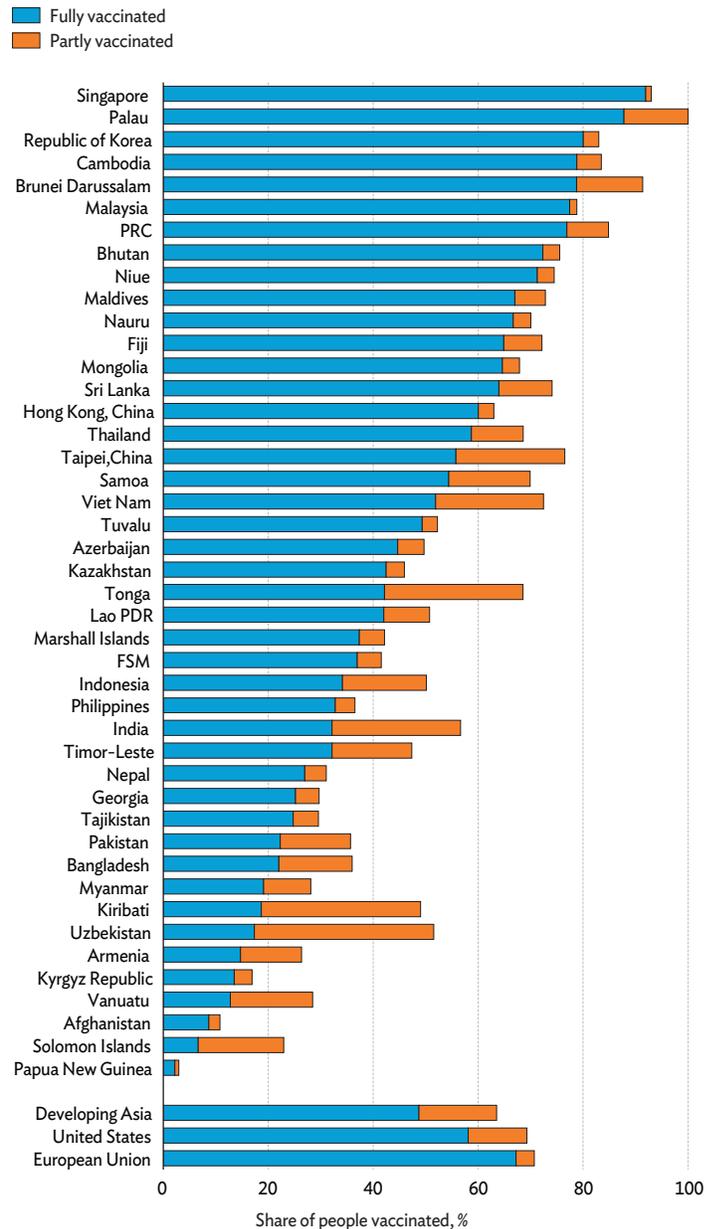
exports continuing to strengthen, outpacing expansion in global trade (Figure 4). Tourism has yet to recover, however, as continued outbreaks and restrictions restrain international travel. The decision by many countries to quickly close borders in response to the Omicron variant suggests that international tourism will continue to face headwinds.

As global activity has bounced back, demand for goods has frequently outrun supply. In the world as a whole, PMI supplier delivery time has steadily increased this year with delays caused by shipping bottlenecks and shortages of key parts such as semiconductors (Figure 5). However, the same indicator for developing Asia shows that supply disruption has not been as much of an issue in the region. Analysis of a global cross section of economies reveals positive correlation between supplier delivery time and inflation, suggesting that supply disruption is adding to inflation in some economies, notably the US and Europe, and a relative lack of supply disruption in developing Asia helps to explain the smaller increase in inflation the region has seen so far this year (Figure 6).

Gross domestic product (GDP) growth forecasts in aggregate for the United States, the euro area, and Japan remain strong, albeit revised down somewhat for 2021, and forecasts for 2022 are now a tad higher (box). Slower consumption depressed by recent surges in new COVID-19 cases and fading fiscal support in the US and Japan weighed on Q3 performance, prompting downward revisions to 2021 growth forecasts for both economies. This was partly offset by a strong Q3 outturn in the euro area attributed, to continued recovery in consumption. In the US, the Federal Reserve

Figure 2 Vaccinated against COVID-19

Vaccination progress remains uneven and lags advanced economies.



FSM = Federated States of Micronesia, Lao PDR = Lao People's Democratic Republic, PRC = People's Republic of China.

Sources: CEIC Data Company; Our World in Data. <https://ourworldindata.org/coronavirus> (both accessed 2 December 2021).

remains committed to a low federal funds rate target but also began slowing monthly net asset purchases. Nevertheless, robust growth in the major advanced economies will support continued export growth in developing Asia.

The regional outlook remains broadly unchanged relative to the *Update* (table). Developing Asia is expected to sustain its strong rebound as envisaged in September. The growth projection for the region in 2021 is revised down slightly from 7.1% to 7.0% as forecasts for East, South, and Southeast Asia are

Figure 3 Purchasing managers' indexes

Purchasing manager indexes have picked up after outbreak-induced declines in Q3.

Manufacturing purchasing managers' index, seasonally adjusted

Economy	2021										
	Q1			Q2			Q3			Q4	
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
PRC	51.5	50.9	50.6	51.9	52.0	51.3	50.3	49.2	50.0	50.6	49.9
India	57.7	57.5	55.4	55.5	50.8	48.1	55.3	52.3	53.7	55.9	57.6
Indonesia	52.2	50.9	53.2	54.6	55.3	53.5	40.1	43.7	52.2	57.2	53.9
Malaysia ^a	51.9	50.7	52.9	56.9	54.3	42.9	43.1	46.4	51.1	55.2	55.3
Philippines	52.5	52.5	52.2	49.0	49.9	50.8	50.4	46.4	50.9	51.0	51.7
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
Taipei,China	60.2	60.4	60.8	62.4	62.0	57.6	59.7	58.5	54.7	55.2	54.9
Thailand	49.0	47.2	48.8	50.7	47.8	49.5	48.7	48.3	48.9	50.9	50.6
Viet Nam	51.3	51.6	53.6	54.7	53.1	44.1	45.1	40.2	40.2	52.1	52.2

Services purchasing managers' index, seasonally adjusted

PRC	52.0	51.5	54.3	56.3	55.1	50.3	54.9	46.7	53.4	53.8	52.1
India	52.8	55.3	54.6	54.0	46.4	41.2	45.4	56.7	55.2	58.4	58.1

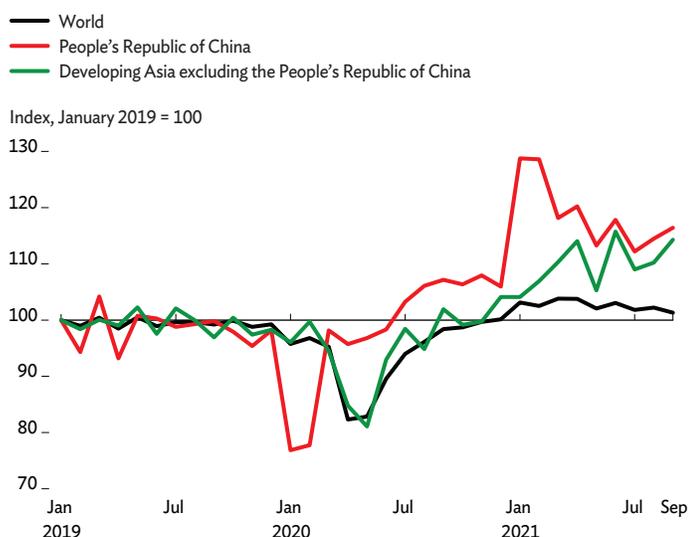
PRC = People's Republic of China, Q = quarter.

^a For Malaysia, the series is adjusted by adding 3 points, as historical experience suggests that an index value above 47 is consistent with expansion. Pink to red indicates contraction (<50), and white to green indicates expansion (>50).

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

Figure 4 Real exports by volume

Developing Asia's exports have outpaced the global recovery in trade.



Note: Developing Asia excluding the PRC comprises Hong Kong, China; India; Indonesia; the Republic of Korea; Malaysia; Pakistan; the Philippines; Singapore; Taipei,China; Thailand; and Viet Nam.

Source: CPB World Trade Monitor. <https://www.cpb.nl/en> (accessed 25 November 2021).

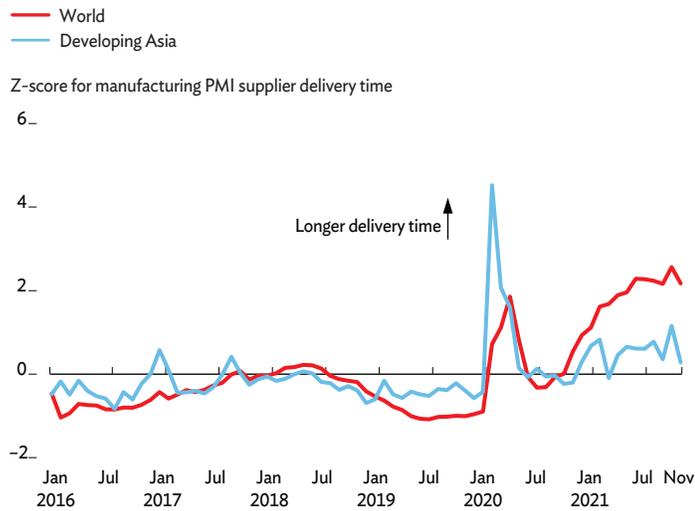
downgraded. The regional growth forecast for 2022 is similarly revised down from 5.4% to 5.3% to reflect recovery in East Asia below earlier expectations.

Inflation looks set to remain manageable in Asia, which will allow monetary policy to stay supportive. The 2021 inflation forecast for developing Asia is revised down marginally from 2.2% in the *Update* to 2.1% in this *Supplement*, reflecting a lower projection for the People's Republic of China (PRC). Inflation is still expected to reach only 2.7% in 2022, as envisaged in the *Update*. This provides room for policy to remain accommodative in light of continued risks from the pandemic.

The main risk to the outlook remains a resurgence in COVID-19 cases. Recent developments in Europe show that extensive virus outbreaks can occur even in highly vaccinated countries and force governments to retighten mobility restrictions. The emergence of the highly mutated Omicron variant brings additional uncertainty. As it appears to be significantly more transmissible than earlier variants, its economic impact could be substantial. Developing Asia could be affected through various channels. The zero-COVID approach currently followed in the PRC could severely disrupt economic activity in the largest regional economy. New pandemic waves could reverse the current reopening trend in many economies owing to still-insufficient vaccination coverage. The emergence of the Omicron variant

Figure 5 Supplier delivery time

Supply disruption as measured by increased delivery time has been less severe in developing Asia.



PMI = purchasing managers' index.

Note: Z-scores measure how many standard deviations the index is above or below the mean. Developing Asia line plots the weighted average for India; Indonesia; Malaysia; Myanmar; the Philippines; the People's Republic of China; the Republic of Korea; Taipei, China; Thailand; and Viet Nam.

Source: IHS Markit (accessed 2 December 2021).

could also result in the reimposition of tighter international travel restrictions, dampening growth prospects for tourism-dependent economies. Aside from the pandemic, a protracted correction in the housing market could induce an unexpectedly sharp slowdown in the PRC. Another risk is rising inflation, which could induce the US to tighten monetary policy earlier than expected and trigger financial volatility. Finally, persistent global supply disruption could constrain export performance and recovery.

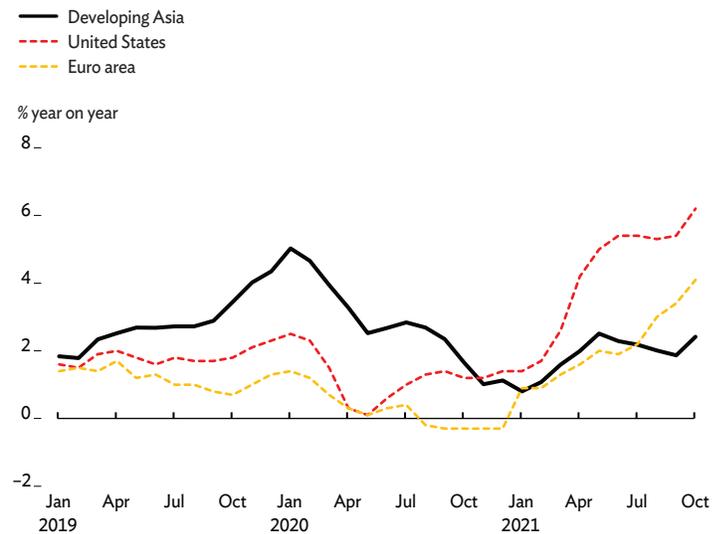
Growth and inflation outlook

East Asia

Subregional growth forecasts are revised down slightly from 7.6% to 7.5% for 2021 and from 5.1% to 5.0% for 2022 as recovery in the PRC is now seen to be weaker than earlier expected. The PRC saw GDP expand by 9.8% year on year in the first 3 quarters of 2021, with growth in industry at 10.6% outpacing that of services at 9.5%. Then, in the first 10 months of 2021, value added in industry grew by 10.9% year on year, while real growth in retail sales is estimated to have expanded by 13.3%. In the same 10-month period, nominal fixed asset investment grew by 6.1% as investment in manufacturing expanded by 14.2% and in real estate by 7.2%—but in infrastructure by only 1.0% because of restraint on local governments' issuance of special bonds. Meanwhile,

Figure 6 Inflation

Inflation rose slightly in 2021 but by less than in most advanced economies.



Source: CEIC Data Company (accessed 22 November 2021).

external trade was robust, with merchandise exports in the first 10 months of 2021 up by 32.0% and imports by 31.0%.

Economic growth is expected to decelerate further from 4.9% in Q3 2021 as base effects turn from tailwind to headwind in Q4 2021. Though slowing, export growth is expected to continue to support industry in the remainder of 2021. In 2022, growth in industry should moderate given lower export growth calculated from a high base. Existing tightening measures on the real estate market will likely be finetuned to stabilize real estate investment. Gradual recovery in household demand is expected to continue in 2022 and support growth in services. Monetary and fiscal policies are expected to be supportive overall but without providing major stimulus. On balance, GDP growth forecasts are revised down slightly for both years, to 8.0% in 2021 and 5.3% in 2022.

Elsewhere in East Asia, ongoing recovery in Hong Kong, China moderated in Q3. Mostly owing to base effects, GDP growth fell from 7.6% year on year in Q2 to 5.4% in Q3. Domestic demand continued to pick up, buoyed by an improving local pandemic situation. Private consumption rose by 7.1% on an improving labor market, and fixed investment increased by 10.8% on better business sentiment. Exports of goods expanded by 14.2%, underpinned by growth in major trade partners and vibrant trade flows, while service exports expanded by 4.2%. Real GDP increased by 7.0% in the first 3 quarters, and despite slowing recovery in the PRC and globally, growth should remain positive in Q4. Vaccination progress underpins expectations of continued economic

revival, with 70.6% of the population having received at least one vaccine dose by the end of November, and 67.3% having received a second dose. A consumption voucher scheme and improving employment and income conditions promise further support for growth in the near term. This *Supplement* thus raises the growth forecast to 6.4% for 2021. For 2022, the forecast is maintained at 3.4%, as in the *Update*, with growth seen to moderate under both base effects and a slowing global economy. GDP is anticipated to recover its precrisis value in Q2 2022.

In the Republic of Korea, GDP grew by a healthy 4.0% year on year in January–September 2021, fueled by exports and equipment investment. Growth slowed from 6.0% in Q2 to 4.0% in Q3 with a renewed COVID-19 outbreak in July and the imposition of stringent mobility restrictions. Private consumption grew by 2.7% in the first 9 months despite stalling in Q3. Government spending expanded by 4.6%, supporting demand. Private investment rose by 5.1% on solid growth in information technology, which benefited from strong exports of semiconductors. Exports of all goods and services grew by 11.0% while imports expanded by 11.4% in tandem with domestic economic recovery. GDP forecasts are retained at 4.0% for 2021 and 3.1% for 2022. Private consumption is expected to recover in Q4, which has seen the easing of social distancing measures and the vaccination rate surpass 70%.

After a robust performance in the first half of 2021, GDP growth in Taipei, China slowed to 3.8% in Q3 as private consumption plummeted despite loosening COVID-19 restrictions. Nonetheless, the economy grew by 6.7% year on year in the first 3 quarters. Investment was the main driver of growth in Q3, expanding by a remarkable 28.0% as technology giants and related supply chain companies stepped up capital expenditure and investment plans for 5G network technology. Government consumption added 0.5 percentage points to growth. Exports continued to surge to meet strong global demand for electronics but were outpaced by imports, such that net exports subtracted 0.3 percentage points from GDP growth. Economic conditions in Q4 are expected to be brighter given that private expenditure is set to be boosted by the government's new stimulus voucher program and by recovering consumer confidence. As recent developments have been broadly in line with expectations in the *Update*, growth forecasts are maintained at 6.2% in 2021 and 3.0% in 2022.

Inflation forecasts for East Asia are revised down from 1.4% to 1.2% in 2021 and from 2.2% to 2.0% in 2022 on account of lower inflation expectations in the PRC. Consumer prices in the PRC increased by an average of 0.7% year on year in the first 10 months of 2021, down from 3.0% a year earlier. Inflation was dragged down by a 1.7% decrease in food prices led by pork price deflation. Compared with a year earlier, nonfood inflation increased by 0.9 percentage points to 1.3%. Consumer price inflation is expected to rise in 2022 as food price inflation revives and pass-on effects from producer prices become more pronounced as commodity

prices stay elevated. PRC inflation is now forecast at 1.0% in 2021 and 2.1% in 2022, somewhat lower than in the *Update*, reflecting the slightly lower growth forecast.

For the Republic of Korea, by contrast, inflation forecasts are revised up, to 2.3% in 2021 and 1.9% in 2022, reflecting stronger demand and rising oil prices. Consumer price inflation has exceeded the Bank of Korea 2.0% target every month since April 2021 because of accelerating increases for petroleum products and for services, averaging 2.2% in January–October.

In Hong Kong, China, headline inflation fell from 1.6% in August to 1.4% in September as the effect of an upward adjustment to public housing rentals faded and the increase in food prices narrowed. While domestic inflation may rise slightly in tandem with recovery, overall price pressure continues to be muted because significant slack remains in the economy. The inflation forecast is thus unchanged at 1.5% for 2021 and 2.0% for 2022.

In Taipei, China, inflation averaged 1.8% in January–October, reflecting mainly spikes in petroleum product and food prices. This is marginally higher than the central bank's forecast of 1.7%. During September and October, the consumer price index rose by 2.6% year on year, its fastest rate since March 2012. Core inflation in January–October rose from 0.1% in the same period of 2020 to 1.3%, mainly on higher costs for transportation and communication and for entertainment. As recent price movements have been above expectations, the 2021 inflation forecast is revised up from 1.5% to 2.0% but the 2022 forecast is kept at 1.1%.

South Asia

South Asia is forecast to expand less than projected in the *Update* for 2021, reflecting a modest downward revision to forecast GDP growth in India with manufacturing now projected to grow more slowly than anticipated in the *Update*. In contrast, other economies in the region have benefitted from higher global demand and rebounding domestic activity with COVID-19 largely contained across the subregion. On balance, the GDP growth forecast for the subregion in 2021 is lowered from 8.8% in the *Update* to 8.6% and maintained at 7.0% in 2022.

In India, a strong 20.1% growth rebound in Q1 of fiscal year 2021 (FY2021, ending 31 March 2022) was followed in Q2 by growth moderation to 8.4%, marginally below expectations as a chip shortage hindered the production and sale of automobiles and many electronic goods. GDP growth nevertheless remained strong, driven by growth in private consumption at 8.6% and in investment at 17.2%. On the supply side, growth was broad based driven by strong expansion in services, particularly public administration and defense, and in mining. Agriculture remained resilient at 4.5% growth, while manufacturing growth moderated to 5.5%. Supply chain factors such as chip shortages and rising semiconductor prices will continue to suppress economic growth, as reflected in double-digit contraction in motor

vehicle sales in October and in e-way bills in November 2021. Notwithstanding this slowdown toward the end of Q2, the Indian economy is expected to rebound strongly in FY2021 as a whole, albeit marginally slower than expected in the *Update*, and grow by 9.7%. New COVID-19 cases remain at about 11,000 a day as of the end of November, but the government aimed to have vaccinated the entire population with at least one dose by the first week of December. In 2022, growth is still expected to moderate to 7.5% as domestic demand normalizes.

In Bangladesh, exports and imports grew more than projected in the *Update* thanks to a surge in global demand for clothing. Faster import growth widened the trade deficit, but growth will be supported by private investment with imports of capital machinery and raw materials for garments. Maldives attracted over 1 million tourist arrivals from January to October, an increase of 139.3% over the year-earlier period. With the rebound in tourism expected to continue through the peak season in Q4, the 2021 GDP growth forecast is revised up, while the projection for 2022 is maintained. In Sri Lanka, GDP grew by 12.3% in Q2, bringing growth in the first half of the year to 8.0%, surpassing earlier expectations with improvement in all sectors. However, Sri Lankan growth prospects for 2022 are dampened by macroeconomic headwinds as reserves have declined and significant external debt repayments are due in 2022. The fiscal deficit for 2021 is likely to be higher than budgeted. Low reserves have disrupted imports, and agriculture is likely to be affected by a ban on chemical fertilizers. With these developments, growth forecasts are upgraded for 2021 but lowered for 2022.

Economies elsewhere in South Asia look to be on track for previously projected recovery. In Nepal, agriculture grew by 2.4% in FY2021 (ended 15 July 2021) on a favorable monsoon season. With the spread of COVID-19 largely contained, services rebounded to grow by 2.5% in FY2021 after contracting by 4.0% in 2020. Growth prospects for FY2021 and FY2022 remain in line with *Update* projections. Similarly in Pakistan, cotton and sugarcane production increased with favorable weather, while services bounced back as mobility tracking measures recovered beyond levels in March 2020, before the pandemic. In Afghanistan, after the fall of the democratically elected government on 15 August 2021, international assistance declined substantially, further squeezing the fiscal position of a country facing a major economic crisis.

The inflation projection for South Asia is revised up from 5.8% to 5.9% in 2021 and from 5.1% to 5.3% in 2022 on the expectation that global prices for food and other commodities remain elevated and as domestic factors come into play in specific economies. In India, inflation in the first 7 months of FY2021 averaged 5.2%, but some pressure is expected to build as chip shortages drive up semiconductor prices. The projection for the whole year is increased marginally to 5.6%.

The subregional inflation forecast for 2022 is revised up from 5.1% to 5.3% on similar expectations. Much of the forecast upgrade reflects a higher projection for Pakistan, where adjustments to energy tariffs and higher global commodity prices are expected to exert upward pressure on domestic prices. The 2022 forecast is raised for Bangladesh as well, as the expected implementation of fiscal and monetary stimulus adds to pressure from higher fuel prices.

In Sri Lanka, inflation forecasts for 2021 and 2022 are revised up in anticipation of the removal of price controls, high global prices, and import disruption. By contrast, the 2021 inflation forecast for Maldives is lowered as subsidies on staples and utilities keep domestic prices in check despite higher global commodity prices.

Southeast Asia

Subregional growth slowed modestly in Q3 2021 as mobility restrictions tightened in the quarter to curb the spread of the highly transmissible Delta coronavirus variant. Growth forecasts for Malaysia and Viet Nam are downgraded after contraction in Q3 2021 left a pessimistic outlook for the rest of the year. By contrast, economic prospects for the Philippines, Singapore, and Thailand improved after their economic performance in Q3 surprised on the upside. Growth forecasts for the rest of the subregion are retained.

In Indonesia, real GDP grew by 3.5% in Q3, broadly in line with expectations in the *Update* as mobility restrictions adopted in July and August greatly slowed growth in all components of domestic demand. However, consumption and investment are expected to bounce back in Q4 with infections abated and restrictions relaxed. Growth in both exports and imports remained robust in Q3, and net exports contributed 1.2 percentage points to growth, their largest contribution since Q3 2020. Strong demand for Indonesia's commodity exports is expected to continue. The growth projection for 2021 is retained at 3.5% and upgraded for 2022 from 4.8% to 5.0%.

Malaysia saw volatile GDP performance in 2021 as it tightened and relaxed restrictions. Lockdowns crimped businesses and depressed economic activity to yield 4.5% GDP contraction in Q3. The first 3 quarters of 2021 nevertheless recorded GDP growth by 3.0%, reversing 6.4% contraction in the same period a year earlier. As of 12 November, 75.7% of the population had been fully vaccinated, allowing more economic reopening. In October, the government eased restrictions in the Klang Valley, a region that includes Kuala Lumpur, Putrajaya, and Selangor and produces about 40% of Malaysian GDP. However, unexpected contraction in Q3 and an unsettled political environment prompt downgraded growth forecasts, from 4.7% to 3.8% for 2021 and from 6.1% to 5.9% for 2022.

In the Philippines, GDP continued to rebound with 12.0% growth in Q2 2021 and 7.1% in Q3 2021. Growth in the first 3 quarters of the year was by 4.9%, reversing 10.1% contraction

in the same period in 2020. Household consumption and investment were the major growth drivers from January to September. Private investment bounced back while public construction growth accelerated in line with the country's Build Build Build infrastructure program. Exports rose but were outpaced by imports, with capital goods a key contributor. On the supply side, industry and services both contributed to growth in the first 3 quarters, though agriculture contracted as pork production fell. Consumer and business confidence improved steadily in Q4 2021 on acceleration in the government's vaccination program, a sharp drop in new COVID-19 cases, and further reopening of the economy. Growth forecasts are therefore raised substantially to 5.1% in 2021 and 6.0% in 2022.

Singapore's economy is expected to post solid recovery in line with an improved global economy and the government's effective efforts to manage COVID-19 and revive the economy. Following a roadmap drawn in June, the economy is transitioning toward a new policy of living with COVID-19, now that the vaccination rate exceeds 85%, with an easing of restrictions on outdoor activities and border controls. Despite a rise in infections in Q3 2021, the economy posted robust growth of 7.1% in the quarter, supported by expansion in manufacturing, construction, and services as border controls were relaxed and domestic activity increased. Private consumption, investment, and exports also expanded with continued government support, an improving business climate, and recovery in major trade partners. In view of these developments, the GDP growth forecast for 2021 is revised up from 6.5% to 6.9%. For 2022, the growth forecast is maintained at 4.1%.

Thailand suffered GDP contraction by 0.3% in Q3 2021 as private consumption continued to decline under a domestic COVID-19 resurgence. Government containment measures directly constrained economic activity, employment, and income. Consumer confidence and public investment fell as containment measures further delayed business plans and economic revival. Tourism remained subdued. Expansion in merchandise exports, private investment, and public consumption slightly exceeded expectations, however, offsetting some of the contraction in aggregate demand. The GDP growth forecast is thus revised up from 0.8% to 1.0% for 2021 and from 3.9% to 4.0% for 2022.

Viet Nam saw GDP contract by 6.2% in Q3 2021 under severe COVID-19 impacts. This dragged GDP growth in the first 9 months of the year to a historic low of 1.4%. Underemployment dampened domestic demand, as did slow social support, and a harsh lockdown caused labor shortages in Ho Chi Minh City and surrounding provinces. Trade sustained growth with a modest surplus of \$225 million in the first 11 months. Rapid vaccination in September and October presumably slowed the spread of the virus, but the sharp rise of new cases still forced some provinces to reinstate lockdowns. Prospect of a strong economic rebound in Q4 is clouded by high COVID-19 infection rates, continued mobility restrictions in some provinces,

and limited labor supply in key cities. Further, sluggish disbursement of public investment will hinder its intended boost to domestic demand. The growth forecast for 2021 is revised down from 3.8% to 2.0%. The growth forecast for 2022 is sustained at 6.5%, as expanding vaccination coverage may accelerate GDP growth.

Inflation in Southeast Asia is expected to remain subdued in 2021 despite inflationary pressure starting to rise in the Philippines, Singapore, and Thailand as economic reopening spurs demand. Higher fuel prices are also fueling inflation in some subregional oil importers. Inflation in Indonesia averaged 1.5% in January–November, well below the central bank target of 2%–4%. With much the same expected in the rest of 2021, Indonesian inflation is seen to average 1.5% in the full year, less than forecast in the *Update*. Even as economic activity picks up next year, inflation will likely remain modest. The 2022 projection is kept at 2.7%.

Inflation forecasts for Malaysia are sustained at 2.5% in 2021, slowing a bit to 2.3% in 2022. Inflation in Singapore rose to 3.2% year on year in October, the highest monthly rate in almost 9 years, lifting average inflation in the first 10 months of the year to 2.0%. Food price inflation accelerated in July–October to meet rising demand from returning workers and increased outdoor activity. Higher fuel prices kept transportation prices elevated. Meanwhile, accommodation and utility costs rose by 2.3% on higher rent and electricity tariffs. These and other price pressures lift the 2021 inflation forecast for Singapore from 1.6% to 2.0%. The 1.4% inflation forecast for 2022 is retained.

Inflation forecasts for the Philippines in 2021 and 2022 are adjusted upward mainly on rising fuel prices. Headline inflation in Thailand is still forecast at 1.1% in 2021, but the forecast for 2022 is upgraded from 1.1% to 1.4% to accommodate higher crude oil prices, improving domestic demand, and rising external demand in line with global economic recovery. Subdued demand in Viet Nam will hold inflation at 2.2% in 2021, less than earlier forecast, but the projection for 2022 is revised up to 3.8% on expected volatility in global price movements and possible weakening of the Viet Nam dong against the US dollar if a front-loaded response to heightened inflation in the advanced economies induces capital outflow.

Central Asia

The GDP growth projection for 2021 is raised substantially from 4.1% to 4.7%, reflecting an improved outlook for Azerbaijan, Georgia, Kazakhstan, Tajikistan, and Uzbekistan on account of their generally robust recovery in the first 3 quarters of the year. For 2022, the subregional growth projection is raised from 4.2% to 4.4% on better prospects for Armenia, Azerbaijan, Kazakhstan, and Tajikistan.

In Kazakhstan, the largest economy in the subregion, GDP grew by 3.4% in January–September 2021. Manufacturing recorded growth at 5.7% with state support, while mining declined by 0.8% as oil output decreased

by 3.4% and gas output by 5.6%. Services expanded by 2.9% on the gradual removal of pandemic restrictions. Construction growth remained strong at 9.7% as legislative changes introduced on 1 January 2021 permitted citizens to use some pension funds to finance housing, and as large public infrastructure development programs continued to benefit the industry. Despite livestock and crop losses to severe drought, agriculture grew by 1.4%. On 4 November 2021, oil exporters led by the Organization of the Petroleum Exporting Countries (OPEC+) agreed to raise planned oil output by 400,000 barrels per day from December 2021. Oil production will likely be further spurred by recovery in global demand for commodities and higher oil prices. These developments prompt growth projection revision for Kazakhstan from 3.4% up to 3.7% for 2021 and from 3.7% up to 3.9% for 2022.

The Armenian economy grew by 4.9% in the first half of 2021, supported by higher capital spending, both public and private. Fiscal policy including increased capital expenditure is expected to continue to spur growth in 2022. In the first 9 months of 2021, Azerbaijan recorded growth at 4.8% with expansion in manufacturing particularly strong; Georgia saw growth at 11.3%, driven by both industry and services as exports were strong and tourism staged a partial recovery, but with significant fiscal stimulus playing an important role; Tajikistan grew by 8.9% with sizable expansion in both industry and services, aided by investment; and Uzbekistan enjoyed growth by 6.9% across the economy. By contrast, GDP in the Kyrgyz Republic grew by only 1.6% in the first 10 months of 2021 as agriculture and construction contracted.

Across Central Asia, heightened inflation has accompanied growth recovery. Forecasts for subregional inflation are raised from 7.7% to 8.6% for 2021 and from 6.7% to 7.3% for 2022, primarily reflecting the latest price developments in Armenia, Azerbaijan, Georgia, Kazakhstan, Tajikistan, and Turkmenistan. In Armenia, inflation accelerated to 6.9% in the first 10 months of 2021 on supply side shocks, rising global commodity prices, and the lagged

pass-through of currency depreciation in the period from October 2020 to April 2021. Inflation in Azerbaijan reached 5.7% in the first 10 months of 2021 as electricity and natural gas tariffs were increased and quarantine relaxation heated the retail market, exerting additional pressure on prices. In Georgia, annual inflation accelerated to 12.8% in October 2021 on higher global food and oil prices and increased utility tariffs. Average inflation in Kazakhstan was 7.9% in the first 10 months of 2021, with food prices up by 10.8%. In Tajikistan, inflation reached 9.6% in the first 9 months of 2021, reflecting seasonal factors and pandemic-related external supply shocks. In Turkmenistan, trade disruption in 2020 hampered imports, causing shortages of food and other goods, with lagged consumer price increases extending into 2021.

The Pacific

The subregion is still forecast to suffer GDP contraction by 0.6% in 2021, as projected in the *Update*. The driving factors continue to be developments in Fiji and Papua New Guinea, the two largest economies in the Pacific, both of which have been affected by domestic COVID-19 outbreaks but are expected to resume economic growth in 2022. Samoa contracted less in the fiscal year that ended on 30 June 2021 than was estimated in September. The subregion is expected to grow by 4.7% in 2022, slightly lower than forecast in the *Update*. Projected recovery in Samoa and Tonga is revised down because the implementation of public investment projects will likely be delayed.

Inflation in the Pacific is now projected at 3.5% in 2021, slightly lower than expected in September. The forecast for Solomon Islands is revised down because of adjustments to the consumer price index basket and movements in alcohol and tobacco prices. An earlier subregional forecast for somewhat higher inflation in 2022 is maintained, as it is expected to continue to track international commodity prices, particularly for petroleum products, and economic activity is projected to revive during the year.

Global assumptions

Growth in the major advanced economies this year will be slightly lower than anticipated in September in *Asian Development Outlook 2021 Update*. Consumption slowed by COVID-19 surges and fading fiscal support in the United States and Japan weakened third quarter (Q3) outturns, prompting downward revisions to growth forecasts for the whole of 2021. This was partly offset by strong Q3 growth in the euro area. In aggregate, the major advanced economies are now expected to grow by 4.8% in 2021 and 4.0% in 2022 (box table).

Gross domestic product growth in the major advanced economies, %

Area	2020	2021		2022	
	Actual	September Update	December ADOS	September Update	December ADOS
Major advanced economies	-4.6	5.0	4.8	3.9	4.0
United States	-3.4	6.0	5.5	4.0	3.9
Euro area	-6.5	4.6	4.8	4.2	4.5
Japan	-4.7	2.2	2.1	2.9	2.9

ADO = Asian Development Outlook, ADOS = ADO Supplement.

Note: Average growth rates are weighed by gross national income, Atlas method, in current United States dollars.

Sources: Asian Development Bank. 2021. *Asian Development Outlook 2021 Update*; Asian Development Bank estimates.

GDP growth in the US slowed to 2.1% quarter on quarter in Q3 in seasonally adjusted annualized terms (as for all growth rates in this box unless otherwise noted). This occurred as a resurgence in COVID-19 cases induced tougher mobility restrictions and delayed the reopening of commercial establishments. Aside from the resurgence in COVID-19 cases, growth deceleration reflected the fading of large fiscal support from the government. Consumer confidence slipped throughout Q3 and continues to be dictated by swings in new COVID-19 infection cases. The purchasing managers' index softened in Q3, correctly indicating somewhat slower industrial production, held back in part by supply chain disruption. However, the index improved in Q4 mainly on increases outside of manufacturing.

The unemployment rate continued to decline to 4.2% in November. However, nonfarm employment added only 210,000 new jobs that month, the lowest monthly gain in 2021. To promote its maximum employment and price stability goals, the Federal Reserve is committed to keeping its target federal funds rate low but decided to begin slowing its monthly net asset purchases in November and December 2021 by \$10 billion for Treasury securities and by \$5 billion for agency mortgage-backed securities. With the soft outturn in Q3, the US economy will grow more slowly than

previously expected. Even assuming that the pace of growth picks up in Q4, growth forecasts are adjusted down to 5.5% for 2021 and 3.9% for 2022. Consequently, the economy will take longer to recover its pre-pandemic value.

Euro area recovery accelerated further in Q3 2021, but mounting headwinds will slow growth in Q4. GDP growth surged to a historic high of 9.1% in Q3 quarter on quarter, or 3.7% year on year, boosted by robust consumer spending, which continued to rotate away from durable goods and into services. However, leading indicators suggest that global supply bottlenecks that have weighed on industrial production since August, as well as the recent surge in COVID-19 cases, will limit growth in Q4. Before picking up somewhat in November, the manufacturing purchasing managers' index fell to a 16-month low of 53.3 in October, while the services index fell to a 6-month low of 54.6, dragging the composite index down to 54.2, also a 6-month low. Further, economic sentiment eased from 118.6 in October to 117.5 in November amid rising concerns about a fourth COVID-19 wave. The reimposition of tighter restrictions in Germany and other countries, and the emergence of the new Omicron coronavirus variant, are expected to dampen consumption and economic activity in the currency bloc in December.

Nevertheless, owing to surprisingly strong Q3 growth in the euro area, this *Supplement* raises its GDP growth forecasts to 4.8% in 2021 and 4.5% in 2022. The euro area economy is expected to decelerate in Q4 of this year but resume solid growth next year, buoyed by the disbursement of funds from the NextGenerationEU program, other fiscal support, highly accommodative monetary policy, and healthy external demand. However, downside risks loom from ongoing supply constraints, persistent pandemic-induced uncertainty, and high stocks of public debt.

Japan's recovery paused in Q3 2021 as private consumption dampened further. The economy shrank again as consumption was suppressed in the vacation season and as exports disappointed expectations. The country's important automobile exports plummeted in September as supply chain disruption in Southeast Asia caused shortages of chips and other auto parts that curtailed Japanese automobile production. Further, public investment leveled off following a peak in government infrastructure spending in past stimulus packages.

Notwithstanding the weak outturn in Q3, strong prospects for Q4 and beyond leave GDP growth forecasts little unchanged at 2.1% for 2021, with the latest mobility data hinting at robust consumption recovery in Q4, and 2.9% for 2022. Risks are tilted to the downside as uncertainty dogs any recovery in auto production, though an additional stimulus package may buoy the economy next year.

Brent crude oil prices jumped in October to a 3-year high averaging \$84 per barrel as rising demand encountered tight supply. The rebound in global economic activity boosted oil demand, as did elevated natural gas prices, which reached

Continued

in October their highest since February 2014. On the supply side, a decision by oil exporters led by the Organization of the Petroleum Exporting Countries (OPEC+) to restrain crude oil production further supported a rally in oil prices, as did supply disruption in the US caused by Hurricane Ida in August and September. However, the price rally lost momentum in November with the fear that the spread of the Omicron variant could derail recovery in demand for oil just as more supply hit the market. Brent crude prices dropped below \$80/barrel in the third week of November. OPEC+ nevertheless decided on 2 December to go ahead with its planned output hike in January, only to have the price fall further that week to below \$70/barrel. Despite market jitters,

demand indicators remain positive and futures prices still point to a bullish market, though to a lesser degree. Brent crude oil prices are forecast to average \$71/barrel in the whole year.

In 2022, oil prices are expected to decline from their recent highs as supply outpaces demand with revived oil production in OPEC+ and the US, averaging \$74/barrel in the whole year. Upside risks to the price forecast derive from geopolitical tensions and prolonged substitution of crude oil for natural gas, notably to heat buildings and generate electricity. Downside risks reflect concerns over the Omicron variant, renewed COVID-19 outbreaks in general, and persistent disruption to global value chains.

GDP growth rate and inflation, %

	GDP growth					Inflation				
	2020	2021		2022		2020	2021		2022	
		September Update	December ADOS	September Update	December ADOS		September Update	December ADOS	September Update	December ADOS
Developing Asia	-0.1	7.1	7.0	5.4	5.3	2.8	2.2	2.1	2.7	2.7
Central Asia	-1.9	4.1	4.7	4.2	4.4	7.5	7.7	8.6	6.7	7.3
Kazakhstan	-2.6	3.4	3.7	3.7	3.9	6.8	6.9	7.8	6.4	6.4
East Asia	1.8	7.6	7.5	5.1	5.0	2.2	1.4	1.2	2.2	2.0
Hong Kong, China	-6.1	6.2	6.4	3.4	3.4	0.3	1.5	1.5	2.0	2.0
People's Republic of China	2.3	8.1	8.0	5.5	5.3	2.5	1.3	1.0	2.3	2.1
Republic of Korea	-0.9	4.0	4.0	3.1	3.1	0.5	2.0	2.3	1.6	1.9
Taipei, China	3.1	6.2	6.2	3.0	3.0	-0.2	1.5	2.0	1.1	1.1
South Asia	-5.6	8.8	8.6	7.0	7.0	6.5	5.8	5.9	5.1	5.3
India	-7.3	10.0	9.7	7.5	7.5	6.2	5.5	5.6	4.8	4.8
Southeast Asia	-4.0	3.1	3.0	5.0	5.1	1.2	2.2	2.1	2.4	2.5
Indonesia	-2.1	3.5	3.5	4.8	5.0	2.0	1.7	1.5	2.7	2.7
Malaysia	-5.6	4.7	3.8	6.1	5.9	-1.1	2.5	2.5	2.3	2.3
Philippines	-9.6	4.5	5.1	5.5	6.0	2.6	4.1	4.4	3.5	3.7
Singapore	-5.4	6.5	6.9	4.1	4.1	-0.2	1.6	2.0	1.4	1.4
Thailand	-6.1	0.8	1.0	3.9	4.0	-0.8	1.1	1.1	1.0	1.4
Viet Nam	2.9	3.8	2.0	6.5	6.5	3.2	2.8	2.2	3.5	3.8
The Pacific	-5.3	-0.6	-0.6	4.8	4.7	3.4	3.6	3.5	4.1	4.1

ADO = Asian Development Outlook, ADOS = ADO Supplement, GDP = gross domestic product.

Note: **Developing Asia** refers to the 46 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 Hong Kong, China; Mongolia; the People's Republic of China; the Republic of Korea; and Taipei, China. **South Asia** comprises Afghanistan, Bangladesh, Bhutan, India, 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, Timor-Leste, and Viet Nam. **The Pacific** comprises the Cook Islands, the Federated States of Micronesia, Fiji, Kiribati, the Marshall Islands, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu.

Sources: Asian Development Bank. 2021. *Asian Development Outlook 2021 Update*; Asian Development Bank estimates.

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