

HIGHLIGHTS

- The outlook for developing Asia remains broadly as forecast in *Asian Development Outlook 2016 Update*. Despite an extraordinary and temporary growth dip affecting one of the region's largest economies, this *Supplement* expects the region as a whole to expand by 5.6% in 2016, only 0.1 percentage points less than earlier forecast, and by 5.7% in 2017, as forecast.
- The People's Republic of China is on course to meet growth expectations of 6.6% in 2016 and 6.4% in 2017. East Asia as a whole is seen to expand by 5.8% this year and 5.6% in 2017 as growth stabilizes in the subregion in line with earlier forecasts.
- India's surprise demonetization of large banknotes will likely dampen growth this year, but South Asia remains the region's fastest-growing subregion. It is now expected to grow in 2016 by 6.6%, or 0.3 percentage points less than previously forecast, and in 2017 by 7.3%, as in the *Update*.
- Growth in the major Southeast Asian economies in the third quarter met projections and even surpassed them in Malaysia and the Philippines. In aggregate, the subregion is still forecast to expand by 4.5% in 2016, picking up to 4.6% in 2017.
- The continued rise in commodity prices has not sufficed to offset fiscal drag in the oil-producing economies of Central Asia. Forecasts in the Pacific are largely unchanged from the *Update*, though cyclone damage in Fiji is seen to be having a bigger impact on its economy than earlier envisaged.
- Although oil price prospects brightened with the agreement of major oil producers to cut production beginning in 2017, inflation remains subdued. This *Supplement* retains the *Update* inflation forecasts for the region at 2.6% in 2016 and 2.9% in 2017.

ASIA'S ECONOMIES STEADY
DESPITE GLOBAL UNCERTAINTY

Growth outlook

Developing Asia's growth outlook continues to be stable despite a slight downgrade to the 2016 forecast. The region is now expected to grow this year by 5.6%, or 0.1 percentage points off the rate envisaged in *Asian Development Outlook 2016 Update* as slower growth is now expected in India, one of the region's largest economies. Growth is expected to edge back up to 5.7% in 2017, the pace envisaged in the *Update*. By subregion, growth forecasts are revised slightly down for South Asia in 2016 and the Pacific in 2017 but otherwise unchanged (Table 1).

The combined growth forecast for the major industrial economies—the United States, the euro area, and Japan—is revised up from *Update* projections as third-quarter outcomes in the US and euro area proved to be stronger than expected. Robust consumer spending growth supported the US economy, while supportive monetary policy and improving labor markets fueled growth in the euro area. Despite a stronger yen, the external sector still led the expansion in Japan (Box 1).

East Asia

East Asia's growth outlook is maintained at 5.8% in 2016 and 5.6% in 2017. In the People's Republic of China (PRC), gross domestic product (GDP) grew by 6.7% in the first 9 months of this year. Private consumption and services were the key drivers of growth, supported by steady wage growth and urban job creation. Public investment in infrastructure also supported growth, but expansion in private investment remained weak, up by only 2.5% in the first 9 months of 2016

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 of the Central and West Asia Department, East Asia Department, Pacific Department, South Asia Department, and Southeast Asia Department.

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over the same period last year because of sluggish external demand. Exports also weighed on growth as their dollar value fell by 6.9% in the first 10 months of 2016 from the same period of last year. The PRC is still expected to grow by 6.6% in 2016. Consumption will remain the main growth driver for the rest of the year thanks to steady income growth. Government investment in infrastructure may accelerate further, but private investment will remain constrained by an unfavorable business climate and an uncertain export outlook. Going forward, downward pressure on PRC growth will come from a declining working-age population, an ongoing shift toward consumption and services and away from investment and manufacturing for export, and convergence with slower-growing high-income economies. However, these forces can be countered by structural reform that improves productivity. Despite continued monetary and fiscal support, growth in 2017 is still expected to moderate to 6.4% as forecast in the *Update*.

Elsewhere in East Asia, growth forecasts for Taipei,China are revised upward from those in the *Update* as that economy has continued to show resilience toward the end of the year. Preliminary third-quarter GDP data show that the economy accelerated to grow by 2.1% year on year as robust domestic demand was bolstered by strong growth in both private and government consumption, as well as in investment. Exports of goods and services also gained strength supported by higher demand from the PRC for semiconductors. These encouraging signs prompt an upgrade to the Taipei,China growth forecast for 2016 from 0.9% to 1.2%. The growth forecast for 2017 is likewise upgraded, from 1.5% to 1.6%, as confidence has improved since the new government completed its assumption of office and began carrying out projects that had been put on hold before the presidential election.

In the Republic of Korea, growth averaged 2.9% year on year in the first 3 quarters of 2016, supported by domestic demand. Private consumption expanded by 2.7%, outpacing 1.8% growth in the same period last year. With the government spending up by 4.0%, total consumption expanded by 3.0%. Investment grew by 5.1% on strong construction boosted by low interest rates, which outweighed declines in plant and equipment. On the supply side, industry and services continued to expand. However, GDP growth in the third quarter was weaker than in either the first half or the third quarter last year. Given a still fragile external environment and the likely impacts of ongoing corporate restructuring and heightened political uncertainty, growth is expected to remain weak in the coming quarters. The GDP growth forecast for 2016 is maintained at 2.6%, but that for 2017 is downgraded to 2.7%.

In Hong Kong, China, GDP grew by 1.9% year on year in the third quarter of 2016, bringing the average in the first 9 months of the year to 1.4%. Domestic demand strengthened during the quarter, while external demand also saw improvement over the first half of the year. Supported by favorable employment and earnings conditions, private

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

	2015	2016		2017	
		ADO 2016 Update	ADOS	ADO 2016 Update	ADOS
Developing Asia	5.9	5.7	5.6	5.7	5.7
Central Asia	3.0	1.5	1.5	2.6	2.6
Kazakhstan	1.2	0.1	0.1	1.0	1.0
East Asia	6.1	5.8	5.8	5.6	5.6
China, People's Rep. of	6.9	6.6	6.6	6.4	6.4
Hong Kong, China	2.4	1.5	1.5	2.0	2.0
Korea, Rep. of	2.6	2.6	2.6	2.8	2.7
Taipei,China	0.6	0.9	1.2	1.5	1.6
South Asia	7.0	6.9	6.6	7.3	7.3
India	7.6	7.4	7.0	7.8	7.8
Southeast Asia	4.4	4.5	4.5	4.6	4.6
Indonesia	4.8	5.0	5.0	5.1	5.1
Malaysia	5.0	4.1	4.2	4.4	4.4
Philippines	5.9	6.4	6.8	6.2	6.4
Singapore	2.0	1.8	1.6	2.0	2.0
Thailand	2.8	3.2	3.2	3.5	3.5
Viet Nam	6.7	6.0	6.0	6.3	6.3
The Pacific	7.1	2.7	2.7	3.5	3.3

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. 2016. *Asian Development Outlook 2016 Update*; Asian Development Bank. 2016. *Pacific Economic Monitor*, December; Asian Development Bank estimates.

spending growth accelerated to 1.2% year on year from 0.5% in the second quarter, while overall investment rebounded strongly by 6.0% after declining for 4 successive quarters. Machinery and equipment acquisition drove the rebound as it returned to positive growth after contracting by double digits since the third quarter of 2015. Exports of goods grew steadily as demand continued to improve from major export markets, particularly in Asia. The growth forecast is maintained, as in the *Update*, at 1.5% for 2016 and picking up to 2.0% in 2017 as external performance continues to stabilize and shore up business sentiment.

In Mongolia, industrial output slowed significantly in the third quarter of 2016 with declines in copper production, oil output, and construction. Growth is expected to stabilize in 2017 after the significant slowing down and volatility this year.

Box 1 Outlook for the major industrial economies

Following unexpected gains in the third quarter of this year, the combined growth outlook for the major industrial economies—the US, the euro area, and Japan—is revised up for 2016 from the projection published in September in *Asian Development Outlook 2016 Update*. The forecast for 2017 still stands, with these economies now projected to grow by 1.5% in 2016 and 1.8% in 2017.

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

Area	2015	2016		2017	
	Actual	ADO 2016 Update	ADOS	ADO 2016 Update	ADOS
Major industrial economies	2.1	1.4	1.5	1.8	1.8
United States	2.6	1.5	1.6	2.4	2.4
Euro area	1.9	1.5	1.6	1.4	1.4
Japan	1.2	0.6	0.8	0.8	0.8

ADO = *Asian Development Outlook*, ADOS = *ADO Supplement*.

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

Sources: Asian Development Bank. 2016. *Asian Development Outlook 2016 Update*; Asian Development Bank estimates.

After a weak start in the first half of 2016, US economic activity strengthened in the third quarter, growing at a seasonally adjusted annualized rate (saar) of 3.2%. A moderate rebound in government consumption and private investment helped to firm the contribution to growth from private consumption. Net exports also contributed positively as a surge in exports exceeded a relatively slow pickup in imports. Consumption continues to grow, with consumer confidence rebounding quite strongly in November. Manufacturing is gradually recovering. The industrial production and purchasing managers' indexes show moderate expansion in US production. Meanwhile, a positive trend in the labor market continued as the unemployment rate fell further from 4.9% in October to 4.6% in November. The US Federal Reserve is likely to resume interest rate normalization in December, but only gradually unless strong indications firm up even more that momentum is building toward overall economic recovery. Slow growth in the first half of 2016 still overshadows the growth rebound in the third quarter. This *Supplement* nevertheless adjusts the growth outlook for 2016 slightly upward to 1.6% while keeping the 2017 projection at 2.4% pending greater clarity about the new US administration's economic policies.

Recovery in the euro area is continuing with third quarter growth at 1.4% saar, up from 1.2% in the second quarter.

Exports have grown steadily since August, following 6 consecutive months of decline. Domestic demand is supported by monetary and fiscal policy, as well as an improving labor market. The unemployment rate dropped to 10% in September, its lowest since June 2011. Consumer confidence has improved as a result, but not enough to buoy stagnating retail sales or consumer spending. Industrial production has been recovering throughout the year, and the composite purchasing managers' index rose to 54.1 in November. Similarly, economic sentiment climbed to a year high of 106.5 in November. With results above expectations in the third quarter and steady recovery anticipated in the fourth, the GDP growth forecast for 2016 is revised up from 1.5% in the *Update* to 1.6%. The 2017 GDP forecast is unchanged at 1.4%, however, in expectation of highly complex and potentially disruptive negotiations on the United Kingdom's separation from the European Union, which are likely to be a drag on growth starting early next year. Further uncertainty for the euro area stems from the "no" vote in Italy's December referendum on constitutional change, which heralds a period of political instability in that country at a time of heightened concern about unresolved vulnerability in its banking sector.

Japan's economy slowed sharply in the third quarter of 2016 to 1.3% saar, dragged down by lackluster private investment. Net exports contributed positively to growth despite a strong yen, and both private and government consumption made small but positive contributions. Monthly indicators suggest that domestic demand remains weak, so the recovery may lose more steam. Following 8 quarters of decline, manufacturing growth turned positive in the third quarter of 2016 and continued to improve in October, albeit only slightly. The purchasing managers' index fell in November from the previous month's 9-month high but remains above the threshold of 50, indicating expansion in manufacturing activity. Business sentiment remains cautious. Consumer confidence, which hit its highest level in 3 years in September, dampened in the following months owing to weak wage growth. Despite monetary easing, core inflation declined to a 3-year low toward the end of the third quarter. Though a slight inflation uptick was recorded in October, downward pressure on prices remains strong. Based on revised estimates of strong results in the first half of the year, the growth forecast for Japan is upgraded to 0.8% in 2016. Looking ahead, though, global uncertainty over trade and other policies following the US election may affect Japan's external sector. This, coupled with subdued domestic demand, keeps the forecast for 2017 unchanged at 0.8%.

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South Asia

After a strong start to the fiscal year, India's surprise demonetization of large banknotes is expected to interrupt GDP expansion in the second half. The Indian economy grew by 7.2% in the first half of FY2016 (ending 31 March 2017), supported by robust private and government consumption. However, investment weakened despite numerous initiatives to remove structural bottlenecks and otherwise improve the ease of doing business. Growth aside from agriculture also slowed. While the *Update* envisaged growth picking up in the second half of FY2016, led mostly by consumption, the government's decision to demonetize and replace high-denomination banknotes—temporarily erasing 86% of the value of cash in circulation—will defer consumption to FY2017 for lack of cash to pay for it. This will delay the expected growth acceleration. Small and medium-sized enterprises may also witness some disruption, along with agriculture, as a substantial part of transactions in these sectors are in cash. Economic growth in FY2016 is therefore likely to be slower than the 7.4% forecast in the *Update* and is now forecast at 7.0%.

While some disruption may persist until the first quarter of FY2017, growth in FY2017 is likely to benefit as higher bank deposits should force down lending rates and thereby boost investment. Further, the suppression of demand in FY2016 will likely enable additional policy rate cuts that will be positive for investment. Finally, greater disclosure of heretofore unaccounted income should improve tax collection and allow the government to boost its capital spending in FY2017. In sum, the Indian economy is expected to grow by 7.8% in FY2017, in line with the *Update* forecast.

Turning to the rest of South Asia, GDP growth in Bhutan and the Maldives is unlikely to reach the *Update* forecasts. In Bhutan, strong construction is somewhat offset by disappointing hydropower production and exports, as well as by poor performance in tourism. Growth is expected to pick up in 2017 with an anticipated recovery in hydropower production. In the Maldives, meanwhile, recovery in tourism underperformed expectations, potentially pulling down growth prospects for both 2016 and 2017. In Pakistan, GDP growth is expected to be on track in FY2017 (ending 30 June 2017), driven mainly by the service sector. Nepal's economic growth in FY2017 (ending 15 July 2017) is still envisaged as in the *Update* as earthquake reconstruction accelerates, and as trade and supply disruptions from Terai unrest in FY2016 recede. The growth forecast for 2016 in Sri Lanka is retained as growth will likely slow under monetary tightening toward end of 2016 before inching up again as the investment climate improves. Growth projections for Afghanistan and Bangladesh remain in line with those in the *Update*.

Subregional growth is now forecast at 6.6% in 2016, revised down from the 6.9% projected in the *Update* because of the recovery delay now expected in India. Growth is seen to pick up to 7.3% in 2017, as envisaged in the *Update*.

Southeast Asia

Growth forecasts for Southeast Asia remain at 4.5% in 2016 and 4.6% in 2017, with forecasts that are revised down for Brunei Darussalam, Myanmar, and Singapore balanced by upward revisions for Malaysia and the Philippines. Cambodia, Indonesia, the Lao People's Democratic Republic, and Viet Nam are on track to meet growth forecasts for 2016. Infrastructure investment continued to play an important role in driving growth in the Philippines and Thailand. Private consumption aided by benign inflation has provided strong support to most economies in the region in 2016 and is projected to pick up in 2017.

The Indonesian economy grew by 5.0% in the first 3 quarters of 2016 on buoyant private consumption. However, investment growth slowed to 4.1% year on year in the third quarter, down from 5.1% in the second. Government spending contracted by 3.0% with budget cuts and changes in procurement scheduling. Net external demand dragged on growth as exports of goods and services decelerated faster than imports. On the production side, the finance sector posted strong growth, as did information and communication, but agriculture and mining remained subdued. Employment growth and spending on regional elections are expected to boost private consumption in the fourth quarter of 2016. Public investment is expected to pick up modestly this year and more in 2017 following the government's approval of higher budget allocations for infrastructure investment. These developments support the growth projections in the *Update*, at 5.0% for 2016 and 5.1% for 2017.

Malaysia's economy staged a surprise turnaround in the third quarter, expanding by 4.3% after 5 straight quarters of decline. Growth accelerated largely on narrower export contraction and a surge in private consumption spurred by a minimum wage hike, improved consumer confidence, and benign consumer prices. On the supply side, services registered the biggest increase, while manufacturing and construction slowed. Investments will likely remain subdued along with business sentiment. However, exports will likely benefit from a fall in the ringgit against the US dollar and a recent rise in global fuel prices. The growth forecast for 2016 is upgraded slightly from 4.1% in the *Update* to 4.2%. Growth is expected to pick up gradually to 4.4% in 2017 as more robust recovery in the major industrial economies lifts external demand and the budget that was unveiled in October provides some additional support to the domestic economy.

In the Philippines, robust domestic demand across the economy spurred stronger-than-expected GDP growth at 7.0% year on year in the first 3 quarters. The biggest contributor to growth from the demand side was investment, both public and private. Domestic demand was partly supported by election-related spending ahead of national polls in May. Net exports dragged on growth, though only to lesser extent in the third quarter as exports improved. On

the supply side, service expansion at 7.6% and manufacturing expansion at 7.0% together contributed nearly 90% of the total growth. Construction also grew on higher investment in public and private projects alike. Agriculture contracted largely because of unfavorable weather but managed to post a modest rebound in the third quarter. GDP growth forecasts are raised from 6.4% in the *Update* to 6.8% for 2016 and from 6.2% to 6.4% in 2017. Such brisk growth is expected to ease as the impact of spending for the May elections fades, and in light of global economic uncertainties. In 2017, domestic demand will continue to underpin economic growth. This outlook assumes that investments will continue to be expanded on efforts to upgrade public infrastructure and improve the business environment.

Singapore's economy grew by 1.1% year on year in the third quarter of 2016, slowing from the 2.0% recorded in the previous quarter as growth was weighed down primarily by weak performance in financial services and in wholesale and retail trade. Although manufacturing expanded by 1.3% with robust growth in electronics and precision engineering, trade contracted by 1.5% and financial services by 0.7%. Growth is seen moderating in the last quarter of 2016 as global trade remains troubled, potentially undermining business and consumer confidence despite the pickup in manufacturing and social services. The forecast for growth in 2016 is revised down from 1.8% in the *Update* to 1.6%, before reviving as forecast to a modest 2.0% in 2017.

Growth in the Thai economy averaged 3.3% in the first 3 quarters of 2016. Public spending continued to lead growth as public investment expanded by 10.5% year on year in the first 3 quarters. Large infrastructure investment projects are progressing, with expansion begun at Suvarnabhumi Airport and bid documents for two mass rapid transit lines under evaluation. Private investment contracted in the third quarter as commercial car sales slowed. Meanwhile, private consumption increased by 3.5% year on year, aided by government stimulus and flat consumer prices. Merchandise export value increased for the first time in 7 quarters, rising by 0.4% as prices improved for some commodities and agricultural produce. The trade balance continued to register a large surplus as imports of goods fell. On the supply side, the service sector continued to be the engine of growth, led by 15.9% growth in hotels and restaurants. Growth is seen to be on track as forecast in the *Update* at 3.2% in 2016 and 3.5% in 2017.

In Viet Nam, the first 3 quarters of 2016 saw GDP grow at 5.9%, slower than in the same period of 2015. Agriculture recovered and grew by 0.7% in the first 9 months as drought eased in the Mekong Delta and the Central Highlands. On the upside, manufacturing grew robustly, with the manufacturing purchasing managers' index rising to 52.9 in September, its highest level in the past 16 months. Industry, construction, and services remained relatively strong. With growth expected to remain higher in the fourth quarter, this *Supplement* retains growth forecasts for Viet Nam at 6.0% in 2016 and 6.3% in 2017.

Central Asia

The ongoing recession in the Russian Federation and low global commodity prices, in particular for oil and natural gas, continue to burden the growth outlook for Central Asia. Growth in the subregion's energy exporters—Azerbaijan, Kazakhstan, Turkmenistan, and Uzbekistan—suffers as lower revenues from hydrocarbon exports squeeze public budgets, leaving no room for significant increases in public investment. In energy-importing Armenia, Georgia, and Tajikistan the share of remittances in GDP has been declining. At the same time, moderate inflation has helped keep retail trade resilient in these economies and in the Kyrgyz Republic. While agriculture and, in most economies, construction partly fueled by public investment supported growth in the first 9 months of 2016, industrial output remained sluggish for the most part or even declined under weak demand. Aggregate economic growth in Central Asia in 2016 is projected at 1.5%, as in the *Update*. Growth higher than expected in the *Update* in the Kyrgyz Republic and Tajikistan compensate for moderating growth in Armenia and slightly diminished growth prospects for Georgia. In the third quarter of 2016, Kazakhstan showed a slight pickup in growth, driven mostly by public construction, while Azerbaijan has yet to show any signs of recovery. The growth forecast for the subregion in 2017 remains at 2.6% with a slightly more optimistic outlook for the Kyrgyz Republic and Tajikistan.

In Kazakhstan, Central Asia's largest economy, preliminary data show GDP growing by 0.4% in the first 9 months of 2016 over the same period in 2015, mostly thanks to fiscal stimulus that pushed construction up by 6.9%. In the same period, industrial production contracted by 2.1% because of higher input prices and weak demand, while agriculture expanded by 4.9%. The service sector grew by a marginal 0.4% in the first 3 quarters of 2016, suffering as private consumption was kept lackluster by continued high inflation, though the value of the Kazakh tenge has held broadly stable since the second quarter of the year. The uncertain outlook keeps the growth forecast at 0.1% for 2016 and 1.0% for 2017.

The Pacific

Growth in the Pacific is seen to slow from 7.1% in 2015 to 2.7% this year, unchanged from the *Update* forecast. Continuity in the subregional forecast masks offsetting developments in individual economies. Projected growth in Fiji is downgraded further on account of the extent of damage and losses from Cyclones Winston and Zena. By contrast, prospects for Kiribati, Samoa, and Tuvalu have improved. In Samoa, the upgrade is driven mainly by strong growth in fisheries with the start of two deep-sea fishing operations, as well as by work on the international airport and hotels that buoyed construction and inbound tourism. The outlook for Tuvalu likewise improved on increased public spending for recovery following Cyclone Pam, and for school improvement and a waterfront reclamation project. In Kiribati, economic stimulus from construction remains robust even as

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infrastructure projects near completion, prompting an upgrade to the 2016 growth projection.

Subregional growth that is significantly lower than last year mostly reflects weaker performance in Papua New Guinea, the Pacific's largest economy, where fiscal contraction continues to hamper economic activity. Revenue shortfalls mean cuts in government expenditure, and budget execution bottlenecks further limit scope for economic stimulus from public investment. Growth in the Pacific is projected to recover slightly to 3.3% in 2017. This is 0.2 percentage points lower than in the *Update* because of slower expansion expected in Fiji.

Inflation outlook

Developing Asia continues to operate in a low-inflation environment. Although reviving, commodity prices remained depressed. This *Supplement* retains the *Update* inflation forecasts for the region at 2.6% in 2016 and 2.9% in 2017 (Table 2).

Brent crude averaged \$46.4/barrel in November, 4.5% higher than a year earlier. It rose above \$50/barrel after the Organization of the Petroleum Exporting Countries (OPEC) agreed on 30 November to cut production by 1.2 million barrels per day and set a new production target of 32.5 million barrels per day starting on 1 January 2017. Iran, Libya, and Nigeria were exempted from the production cut, having already lost output because of sanctions or domestic insecurity. Economies outside of OPEC, notably the Russian Federation, are expected to cut production by 600,000 barrels per day. The agreement caused the price of Brent crude to jump the following day by more than 6% to \$53/barrel. Currently, Brent crude is trading at \$53–\$55/barrel, well above the year-to-date average of \$43/barrel. Brent crude prices are now forecast to average \$44/barrel in 2016, or \$1 higher than forecast in the *Update*, and \$52/barrel in 2017, or \$2 higher. However, current prices for futures contracts suggest deep uncertainty about the implementation of the OPEC agreement and changes in global oil inventories—and, therefore, the price outlook.

Food prices have since May been consistently higher than a year earlier. In November, they were up by 8.2% from a year earlier, led by increases for the two categories fats and oils and other food. The largest increases were for sugar and for palm and soybean oil. Unlike the two other sub-indexes, grains showed prices remaining on a downward trend. In November, grain prices were 9.1% lower than a year earlier on reports of bumper crops of maize in the US and of wheat in Australia and Central Asia. Rice production also recovered from last year's shortfall in Asia related to El Niño. Early indications for the 2016/17 crop year continue to point to high harvests. According to the November assessment of the US Department of Agriculture, global grain supply in 2016/17

Table 2 Inflation (%)

	2015	2016		2017	
		ADO 2016 Update	ADOS	ADO 2016 Update	ADOS
Developing Asia	2.1	2.6	2.6	2.9	2.9
Central Asia	6.1	11.5	11.2	6.4	6.3
Kazakhstan	6.6	14.7	14.6	6.0	6.0
East Asia	1.3	1.9	1.9	2.2	2.1
China, People's Rep. of	1.4	2.0	2.0	2.2	2.2
Hong Kong, China	3.0	2.4	2.4	2.5	2.5
Korea, Rep. of	0.7	1.1	1.0	2.0	1.8
Taipei, China	-0.3	1.3	1.3	1.5	1.5
South Asia	4.9	5.2	5.2	5.7	5.7
India	4.9	5.4	5.4	5.8	5.8
Southeast Asia	2.7	2.0	2.0	2.9	3.0
Indonesia	6.4	3.5	3.5	4.0	4.0
Malaysia	2.1	2.1	2.1	2.5	2.5
Philippines	1.4	1.8	1.8	2.8	2.8
Singapore	-0.5	-0.8	-0.5	0.8	0.8
Thailand	-0.9	0.4	0.2	2.0	2.0
Viet Nam	0.6	2.5	2.7	4.5	5.0
The Pacific	3.9	4.7	4.7	5.5	5.4

ADO = Asian Development Outlook, ADOS = ADO Supplement.

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Sources: Asian Development Bank. 2016. *Asian Development Outlook 2016 Update*; Asian Development Bank. 2016. *Pacific Economic Monitor*, December; Asian Development Bank estimates.

is projected to be 3.9% higher than in 2015/16. The outlook for edible oils also remains favorable. Food price inflation in the year to date is 1%. The food index forecast from the *Update* is retained, indicating only marginal advances in 2016 and 2017.

By subregion, the East Asian inflation projection is kept at 1.9% for 2016 but adjusted slightly downward to 2.1% for 2017. In the PRC, all available data align with expectations in the *Update*, with consumer prices up by an average of 2.0% in the first 11 months of 2016. Inflation forecasts are therefore maintained at 2.0% for 2016 and 2.2% for 2017. The Republic of Korea saw inflation average 1.0% in the year to November. Acceleration there in the past 2 months is likely to persist as oil prices steadily increase and poor weather hits agricultural output, but inflation will still fall short of the forecast in the *Update*. Further, weaker domestic demand is expected next

year, dampening inflationary pressures. Inflation forecasts are therefore lowered from 1.1% to 1.0% for 2016 and from 2.0% to 1.8% for 2017. In Mongolia, inflation averaged 1.1% in the first 10 months of 2016, far below earlier expectations. Herders are maintaining high slaughter rates in anticipation of another harsh winter, lowering meat prices. This *Supplement* downgrades the inflation projection for 2016 but retains it for 2017.

In South Asia, inflation forecast at 5.2% in 2016 aligns with the projection in the *Update*. Projections for inflation in individual economies remain current, except in Afghanistan and the Maldives, which can now expect higher inflation. In Afghanistan, the rise in 2016 is attributed partly to upward revisions for global commodity prices but more significantly to lagged pass-through from a depreciating local currency. In the Maldives, the government started to reduce food subsidies in the fourth quarter of 2016, causing staple prices to rise. In Sri Lanka, food contributed to accelerated inflation, especially in May and June after floods and landslides affected food production. However, food inflation started to slow after June, so the inflation forecast for 2016 is retained from the *Update*. Inflation in Nepal should subside in 2017 with higher agricultural output and the normalization of trade. Inflation projections for Bangladesh, Bhutan, India, and Pakistan remain in line with those in the *Update*.

Southeast Asia retains an inflation forecast unchanged at 2.0% for 2016 but not for 2017, which is revised up slightly from 2.9% to 3.0%. For 2016, upward revisions of inflation forecasts for Cambodia, Singapore, and Viet Nam offset downward adjustments for the Lao People's Democratic Republic and Thailand. Robust domestic demand and rising food prices in Cambodia prompt a slight upward revision for 2016. In Singapore, consumer prices dropped by only

0.1% year on year in October, somewhat less than the 0.3% fall in September. The fading base effect of low oil prices and the reemergence of domestic cost pressures prompts this *Supplement* to forecast milder deflation in 2016 than projected in the *Update*, at 0.5%. Inflation in Viet Nam averaged 2.3% at the end of October, driven up by health-care and transportation costs. These higher prices and accelerating credit growth prompt revisions to the inflation outlook, from 2.5% to 2.7% in 2016 and from 4.5% to 5.0% in 2017. By contrast, the 2016 inflation forecast for Thailand is halved from 0.4% to 0.2% because domestic prices rose more slowly than expected in the first 3 quarters as drought eased and domestic fuel prices stabilized.

Central Asian inflation forecasts are revised down from 11.5% for 2016 and 6.4% for 2017 in the *Update* to 11.2% and 6.3%. In Kazakhstan, inflation from January to October 2016 averaged 15.9%. However, this upward trend, particularly for nonfood items that are mostly imported, started to reverse in September 2016 when a base effect kicked in a year after the Kazakh tenge sharply depreciated following the abandonment of a narrow exchange rate band. A broadly stable currency in Armenia and an appreciating currency in the Kyrgyz Republic have, along with low food prices in 2016 to date, kept inflation in these economies lower than expected. Inflation forecasts for Tajikistan and Uzbekistan are similarly a bit lower than forecast in the *Update*, but the forecast for Turkmenistan is revised up slightly in light of higher prices for imported goods and reduced subsidies.

Inflation in the Pacific is seen to rise from 3.9% last year to 4.7% in 2016, as forecast in the *Update*. The 2017 inflation projection is cut by 0.1 percentage points to 5.4% as ongoing price declines suppress inflation expectations in Timor-Leste.

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Asian Development Bank
6 ADB Avenue, Mandaluyong City
1550 Metro Manila, Philippines
www.adb.org; openaccess.adb.org

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