DECEMBER 2017

ASIAN DEVELOPMENT OUTLOOK SUPPLEMENT

HIGHLIGHTS

- Trade expansion helped firm the outlook for developing Asia to 6.0% growth in 2017 from 5.9% projected in September. Meanwhile, this *Supplement* retains the 5.8% outlook for 2018. Excluding Asia's newly industrialized economies, growth is now expected at 6.5% in 2017 and 6.3% in 2018.
- Robust outcomes boosted by exports and domestic consumption lift the growth forecast for East Asia this year from 6.0% to 6.2%. The subregion is on track to meet the 5.8% projection for 2018. The People's Republic of China is expected to grow by 6.8% in 2017 before moderating to 6.4% in 2018.
- South Asia's growth projection for 2017 is revised down from 6.7% to 6.5%, with India now seen expanding by 6.7% this fiscal year, or 0.3 percentage points less than previously forecast. The subregional growth outlook for next year is retained at 7.0%.
- Growth in the larger Southeast Asian economies surpassed expectations in the third quarter of this year, benefitting from rising investment and exports. Most now have upgraded growth forecasts, with the subregion projected to expand by 5.2% in both 2017 and 2018.
- Strong recovery in several Central Asian economies has lifted growth projections for the subregion in 2017. Forecasts for the Pacific are largely unchanged.
- Though oil prices rose more than anticipated in September, inflation in the region remains subdued. This *Supplement* retains earlier inflation forecasts of 2.4% for 2017 and 2.9% for 2018.

A FIRMER GROWTH OUTLOOK FOR ASIA

Growth outlook

The growth outlook for developing Asia this year is upgraded to 6.0%, or 0.1 percentage points higher than the rate envisaged in September in *Asian Development Outlook 2017 Update*, as unexpectedly strong expansion in Central, East, and Southeast Asia more than offsets a downward adjustment to growth forecasts for South Asia. In 2018, regional growth is expected to slow slightly to 5.8%, as predicted in the *Update*. Excluding the newly industrialized economies of the Republic of Korea (ROK), Singapore, Taipei,China, and Hong Kong, China, the growth outlook for the region is revised up to 6.5% from 6.4% for 2017 but unchanged at 6.3% for 2018 (Table 1).

The collective growth forecasts in the major industrial economies—the United States, the euro area, and Japan—are revised up to 2.2% from 2.0% for 2017 and to 2.1% from 2.0% for 2018. The upgrade reflects third quarter stronger-than-expected growth in the euro area, supported by domestic demand, and in Japan by private investment and net exports. (Box 1).

Regional trade

With the ongoing global recovery and a rebound in global commodity prices, trade growth in developing Asia turned around in the fourth quarter of last year after stagnation or worse in most of 2015 and 2016. The revival in regional

The Asian Development Bank Regional Economic Outlook Task Force led the preparation of this 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.

50 YEARS ADB

trade gathered momentum in 2017, growing 13.3% by value in the first 8 months of the year. The region's 10 largest economies, which account for 93% of its trade, saw average trade volume grow by 5.3% in the first 9 months despite downside risks posed by policy uncertainty among the world's major trading partners and the potential for bilateral trade friction.

East Asia

East Asia's growth projection is raised from 6.0% to 6.2% for 2017 on upward revisions for its larger economies. The forecast remains at 5.8% for 2018 as growth in most economies moderates. In the People's Republic of China (PRC), the growth forecast for 2017 is revised up to 6.8% from 6.7% in the *Update* in light of expansion faster than anticipated in the third quarter, and despite broadly expected moderation in the fourth quarter. Third quarter expansion hit 6.8% (year on year, here and below, unless otherwise specified), underpinned by resilient consumption. In 2018, consumption will likely remain the primary driver of growth as household incomes rise and consumer confidence stays high. Meanwhile, investment growth will decelerate further, continuing a trend that began in 2013 in response to structural and cyclical factors. Lackluster investment growth in heavy industries with excess capacity will be only partly offset by strong investment in less capital-intensive emerging industries, consumer-oriented industries, and services. Further, notwithstanding a surge in exports in early 2017, the business outlook for export-oriented industries remains uncertain, inhibiting investment growth in them. Real estate investment will support growth but less so than in 2017 because of purchase restrictions in many municipalities and somewhat reduced access to mortgage loans. Government investment in infrastructure cannot fully compensate for the falloff in investment elsewhere. Thus, the share of investment in the gross domestic product (GDP), though still high at above 40%, will continue to fall. Net exports are expected to contribute 0.2 percentage points to growth in 2017, reversing drag on growth in the previous 2 years that averaged 0.3 percentage points. However, net exports are forecast to subtract from growth again in 2018. The GDP growth forecast for 2018 remains at 6.4%, unchanged from the *Update*.

In the ROK, growth surged in the third quarter of 2017 to 3.8% from 2.7% in the second quarter, boosted by a jump in exports and increased government spending. This brought average GDP growth in the first 3 quarters to 3.1%. Exports soared by 17.3% in the first 10 months of 2017, sharply reversing a 7.8% decline a year earlier. Government consumption was a standout performer in the third quarter as it grew by 4.6%, the fastest pace in more than a year. Recent data on consumer and business confidence confirm upbeat sentiment. Improved diplomatic relations with the PRC will further fuel exports and revive tourism in the coming months. With the improving global outlook, robust export performance, and rising fiscal spending, this *Supplement* revises growth projections upward, from 2.8% to 3.1% for 2017 and from 2.8% to 3.0% for 2018.

Hong Kong, China grew by 3.6% in the third quarter of 2017. Average GDP growth during the first 9 months of the year now stands at 3.9%. Following very strong 4.3% expansion in the first quarter of the year, moderation in the subsequent 2 quarters was expected and explained by less favorable base effects. The economy continues to benefit from strengthening global demand and sustained domestic spending. Positive employment and income trends made private spending the main driver of growth. Spending growth accelerated to 6.7% from 5.4% in the second quarter. Investment dragged on growth, however, contracting

Table 1 Gross domestic product growth (%)

	2016	2017		2018	
		ADO 2017 Update	*ADOS*	*ADO 2017 Update*	*ADOS*
Developing Asia	**5.8**	**5.9**	**6.0**	**5.8**	**5.8**
Developing Asia excluding the NIEs	**6.3**	**6.4**	**6.5**	**6.3**	**6.3**
Central Asia	**2.2**	**3.3**	**3.6**	**3.9**	**3.9**
Kazakhstan	1.1	2.7	3.7	3.0	3.3
East Asia	**6.0**	**6.0**	**6.2**	**5.8**	**5.8**
China, People's Rep. of	6.7	6.7	6.8	6.4	6.4
Hong Kong, China	2.0	3.6	3.7	3.2	3.2
Korea, Rep. of	2.8	2.8	3.1	2.8	3.0
Taipei,China	1.5	2.0	2.3	2.2	2.2
South Asia	**6.7**	**6.7**	**6.5**	**7.0**	**7.0**
India	7.1	7.0	6.7	7.4	7.3
Southeast Asia	**4.6**	**5.0**	**5.2**	**5.1**	**5.2**
Indonesia	5.0	5.1	5.1	5.3	5.3
Malaysia	4.2	5.4	5.8	5.4	5.3
Philippines	6.9	6.5	6.7	6.7	6.8
Singapore	2.0	2.7	3.2	2.7	2.9
Thailand	3.2	3.5	3.8	3.6	3.8
Viet Nam	6.2	6.3	6.7	6.5	6.7
The Pacific	**2.4**	**2.9**	**2.9**	**3.2**	**3.2**

ADO = *Asian Development Outlook*, *ADOS* = *ADO Supplement*, NIEs = newly industrialized economies (Republic of Korea, Singapore, Taipei,China, and Hong Kong, China).

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, the Republic of Korea, Mongolia, Taipei,China, and Hong Kong, 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, 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. 2017. *Asian Development Outlook 2017 Update*; 2017. *Pacific Economic Monitor, December;* ADB estimates.

Box 1 Outlook for the major industrial economies

The growth outlook for the major industrial economies of the US, the euro area, and Japan is now forecast to exceed earlier expectations in 2017. Unanticipated gains in the euro area and Japan lift the combined growth outlook for these economies to 2.2% this year from 2.0% in the *Update,* and to 2.1% from 2.0% for 2018.

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

Area	2016	2017		2018	
	Actual	*ADO 2017 Update*	*ADOS*	*ADO 2017 Update*	*ADOS*
Major industrial economies	**1.5**	**2.0**	**2.2**	**2.0**	**2.1**
United States	1.5	2.2	2.2	2.4	2.4
Euro area	1.8	2.0	2.3	1.8	1.9
Japan	1.0	1.5	1.8	1.1	1.2

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. 2017. *Asian Development Outlook 2017 Update*; ADB estimates.

The US economy grew solidly at a seasonally adjusted annualized rate (saar) of 3.1% in the second quarter of this year and 3.3% in the third quarter. Consumption remained the top contributor to growth, but rebounds in government spending and private investment reinforced growth in these 2 quarters. Net exports contributed to growth as a surge in exports exceeded a slower pickup in imports. Consumer confidence recovered strongly in October and November, indicating robust consumption growth ahead. Upbeat industrial production and purchasing managers' indexes suggest continuing expansion in US production, with the latter index leaping to 59.9, its highest reading since August 2005. The unemployment rate fell to a 17-year low of 4.1% in October. Headline inflation reached 2.2% in September as core inflation remained at 1.7%, signifying the influence of higher global oil prices. Despite continuing low inflation, the Federal Reserve is expected to stick to its gradual normalization of monetary policy, to keep the economy from overheating as the labor market strengthens. With these developments, the economy is on track to meet projected growth of 2.2% in 2017. Tax legislation that Congress is expected to pass in early 2018 could provide some fiscal stimulus to the economy within the forecast period, but significant impact is unlikely before 2019. The growth forecast for 2018 is therefore kept at 2.4%.

In the euro area, GDP grew at 2.5% saar in the third quarter of 2017, following 2.6% growth in the second. Monthly indicators spanning July to September show domestic demand continuing to be the main growth driver. Exports have strengthened along with global demand, and the widening trade surplus suggests only limited constraint from a strong euro. At 8.9% in September, the unemployment rate reached its lowest since February 2009. Improving labor markets continued to lift consumer confidence, supporting stable growth in retail sales during the past 3 quarters. Meanwhile, strong business sentiment is boosting investment. The composite purchasing managers' index averaged 56.1 in the third quarter, indicating healthy expansion, while growth in industrial production improved slightly from its second quarter average. The economic sentiment index rose to 114.0 in October, its highest since early 2001. A surprisingly strong global recovery has translated into higher export orders and new hires, prompting firms to upgrade their earnings outlook. Inflation slowed to 1.4% in October from 1.5% in September and stands at 1.6% for the year to date. Despite strengthening growth, the European Central Bank left interest rates unchanged at its 26 October meeting. As anticipated, it announced a taper of its bond-buying program to begin next month, toward completion not before the end of September 2018. To reflect economic performance beyond expectations, this *Supplement* revises the GDP forecast for this year to 2.3% from 2.0% in the *Update*, and for 2019 to 1.9% from 1.8%.

In Japan, recovery continued as the economy expanded for a seventh consecutive quarter. Driven by private investment and net exports, GDP grew by 2.5% saar in the third quarter. Recent data showed that manufacturing inched up by 0.5% in the third quarter, following a strong increase of 2.1% in the second. Core machinery orders—a leading indicator for business investment—rose moderately. The purchasing managers' index improved in November, staying above the threshold of 50, which suggests continued expansion in production as business sentiment remains optimistic. Private consumption, which had struggled to gather steam since a sales tax hike in 2014, picked up strongly in the second quarter of 2017 but dragged down growth considerably in the third quarter in what is considered a temporary setback. Despite sluggish wage growth, demand is expected to strengthen with consumer confidence hovering around a 4-year high, buoyed by higher incomes as unemployment reaches a 2-decade low. Headline inflation picked up in August to 0.7% and remained at this rate in September, while core inflation languished near zero. The Bank of Japan kept its expansionary monetary policy unchanged at its last meeting, with the aim of achieving stable inflation of more than 2%. Merchandise exports slowed but still registered a 5.2% increase in September. The outlook for Japan is continued moderate GDP growth, and on the basis of healthy external demand and rising domestic activity, forecasts are revised up from 1.5% to 1.8% for 2017 and from 1.1% to 1.2% for 2018.

by 1.7% because of subdued machinery and equipment acquisition, even as construction expanded. Export growth accelerated on account of vibrant regional trade and higher tourist arrivals. The GDP growth forecast for 2017 is revised slightly upward to 3.7%. The forecast for 2018 remains at 3.2%, as in the *Update*, with external factors stabilizing further and market sentiment remaining strong.

Taipei,China saw third quarter growth climb to 3.1% from 2.1% in the previous quarter. The largest contributor to growth was net exports, adding 3.7 percentage points. Private consumption contributed 1.0 point to growth, and government consumption added a marginal 0.1 points, while gross capital formation subtracted 1.7 points. GDP growth in the first 3 quarters of the year is estimated at 2.6%. The growth forecast for 2017 is now 2.3%, revised up from 2.0% in the *Update*. The revision mostly reflects the continuation in the third quarter of stronger-than-expected private consumption and exports, led by electronics exports. The forecast for 2018 is retained at 2.2%.

South Asia

GDP growth in India, the largest economy in South Asia, rebounded to 6.3% in the second quarter of FY2017 (ending 31 March 2018) from 5.7% in the first, reversing 5 consecutive quarters of deceleration. The pickup was led by manufacturing, which grew by 7.0% as retailers restocked shelves depleted ahead of the implementation of a goods and services tax in July, and as exports expanded and the performance of private corporations improved. Investment grew by 4.7%, the highest rate in 5 quarters, but still trailed GDP growth. Agriculture remained subdued as the summer harvest fell from the previous year. Construction growth was tepid. Growth in services moderated in line with weak growth in bank deposits and credit, as well as restrained growth in public services as the government pulled back spending to meet its fiscal deficit target. Private consumption also grew at a slower pace of 6.5% as urban consumer sentiment stayed weak. Growth is expected to pick up in the remaining 2 quarters of FY2017 as the government implements measures to ease firms' compliance with the new goods and services tax and as it works to improve the balance sheets of government-owned banks, in part through an augmented bank-recapitalization program—and thanks to a supportive global environment. However, owing to tepid growth in the first half of FY2017, the lingering effects of demonetization in November 2016, transitory challenges of a new tax system, and some risks to agriculture stemming from a spotty monsoon in 2017, the economy is now expected to grow by 6.7%, slower than the 7.0% forecast in the *Update*. The growth projection for FY2018 is revised down to 7.3% from 7.4% mainly because a faster recovery in crude oil prices likely in 2018 will add fiscal pressure, and because private investment growth is expected to remain soft.

For most of the rest of South Asia, growth projections are in line with those in the *Update*. The exceptions are Bangladesh and Bhutan. In Bangladesh, official national account figures for FY2017 (ended 30 June 2017) released after the *Update* showed higher GDP growth than was estimated in September. In Bhutan, recently released national account data showed stronger growth than was expected, mainly supported by transport and communications services and construction. Growth projections for Afghanistan, Maldives, Nepal, Pakistan, and Sri Lanka are as in the *Update*. In aggregate, the growth forecast for South Asia is now revised down to 6.5% for 2017 but maintained at 7.0% for 2018.

Southeast Asia

Economic growth in Southeast Asia is picking up faster than forecast in September. GDP is now seen to expand by 5.2% in 2017 and 2018. The subregion is benefiting from robust investments and exports. Growth forecasts are revised up for Brunei Darussalam, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam. Cambodia, Indonesia, the Lao People's Democratic Republic, and Myanmar are on track to meet growth forecasts for 2017. Infrastructure investment continued to play important roles in Indonesia, the Philippines, and Thailand. Private consumption aided by benign inflation has provided strong support to most subregional economies in 2017.

The Indonesian economy grew by 5.1% in the third quarter of 2017, up from 5.0% in the first half of the year, as investment, external trade, and government consumption strengthened. Growth in investment accelerated to 7.1% in the third quarter from 4.2% in the same period last year, supported by higher allocations for public infrastructure and stronger growth in investment, both foreign and domestic. Net external demand contributed 0.7 percentage points to third quarter growth as commodity prices improved and export markets recovered. Government consumption expanded by 3.5% in the third quarter after contracting earlier in the year. On the supply side, business services and information and communication services posted strong growth, while growth in agriculture and mining remained subdued. Public and private investments are expected to boost growth in the remaining quarter of 2017, with business sentiment remaining positive and the government poised to accelerate infrastructure spending. With ongoing reform to improve the business climate, including amendments to licensing and electronic tax administration, investment should continue to accelerate in 2018. A downside risk is a shortfall in government revenue that could delay government expenditure, including development spending. On balance, conditions support the growth projections in the *Update*, at 5.1% for 2017 and 5.3% for 2018.

In Malaysia, GDP growth in the third quarter of 2017 hit its fastest pace in more than 3 years, expanding by 6.2% and bringing average growth in the first 3 quarters to 5.9%. Growth was broad-based, led by a solid recovery in exports, particularly for electrical and electronic products. Private consumption was boosted by higher wages in an improving labor market. Gross fixed investment more than tripled its growth rate over last year with the implementation of several large projects in the service and manufacturing sectors and higher spending by public corporations, driving double-digit growth in imports. On the supply side, services picked up, while agriculture recovered from last year's slump with better palm oil yields and rubber production. Industry growth was comprehensive. Manufacturing growth was driven by machinery and equipment and by electrical and electronic products, while infrastructure projects brought significant expansion in construction. In response to these trends—and to the prospect of continuing robust domestic demand and to external demand more buoyant than earlier expected—this *Supplement* revises the GDP growth projection up to 5.8% in 2017. With the higher base in 2017, growth is forecast to ease to 5.3% in 2018.

The Philippine economy expanded by 6.7% in the first 3 quarters of 2017 on accelerating investment and robust consumption. Public expenditure accelerated, particularly for infrastructure. The government is on track to achieve its target of spending 5.3% of GDP on public infrastructure this year. Meanwhile, household consumption remained strong despite moderating slightly from last year. Net exports turned positive in the first 9 months, reversing a deficit in 2016. On the supply side, services generated nearly 60% of GDP growth, spurred largely by trade, business process outsourcing, finance, and real estate services. Manufacturing contributed about 30% of the expansion in GDP, with food processing a major contributor. Finally, agriculture recovered from a dry spell last year under El Niño. The government revised upward its figure for actual GDP growth in the second quarter to 6.7% with adjustments to finance, construction, real estate, and business process outsourcing. GDP growth forecasts are raised from 6.5% to 6.7% for 2017 and from 6.7% to 6.8% for 2018. This outlook assumes that growth in the government's infrastructure program will accelerate, supported by improvements in budget execution, with more large investment projects under way.

Growth in the Thai economy averaged 3.8% in the first 3 quarters of 2017. Private consumption continued to expand in the third quarter. Private investment is showing strong signs of recovery in line with 4.3% growth in manufacturing production, the highest recorded in 18 quarters. Merchandise exports have been much better than earlier projected, expanding by 9.7% in the first 10 months of 2017. Strengthening growth in private investment is expected to accelerate further in 2018, in line with improvement in exports and the implementation of the Eastern Economic Corridor that aims to upgrade the seaboard provinces of Chachoengsao, Chonburi, and Rayong into a leading economic zone. Government investment slowed in 2017 but is likely to recover in 2018 as construction starts on several infrastructure projects for which bidding is completed. Growth forecasts are revised up from 3.5% to 3.8% for 2017 and from 3.6% to 3.8% for 2018.

Singapore grew by 2.7% in the first half of 2017 and saw growth surge to 5.2% in the third quarter on double-digit growth in manufacturing and robust growth in services, in particular finance and insurance. By contrast, construction declined by 7.6%, dragged down by weakness in private construction. The unexpected surge in the third quarter prompts an upward revision to the 2017 growth forecast from 2.7% to 3.2%, with manufacturing and export-oriented services continuing to support growth for the rest of year. The forecast for GDP growth in 2018 is upgraded to 2.9% from 2.7%, supported by robust growth in the domestic service sector.

In Viet Nam, the first 3 quarters of 2017 saw GDP grow by 6.4%, up from 6.0% in the same period of 2016. Agriculture recovered and grew by 2.8% in the first 9 months as drought eased in the Mekong Delta and the Central Highlands. Industry and construction remained strong despite drag from the mining and oil subsector, which contracted by 8.1% in the first 9 months of the year. Manufacturing grew robustly, expanding by 12.8% in the first 3 quarters of 2017. This highest rate of growth in the sector since 2011 is likely to be surpassed in the fourth quarter, which is traditionally its strongest in the year. Driven by buoyant tourism and strong banking activity, services growth sped to 7.3% from 6.7% in the corresponding period in 2016. With growth expected to strengthen further in the fourth quarter, this *Supplement* lifts the growth forecasts for Viet Nam to 6.7% in both 2017 and 2018.

Central Asia

The economic outlook for Central Asia in 2017 has further improved with recovery in several countries driven by domestic and external factors alike. Growth in the subregion as a whole is now expected to reach 3.6% in 2017, higher than the 3.3% forecast in the *Update*, mainly reflecting a higher growth forecast for Kazakhstan, the subregion's largest economy. Azerbaijan and Kazakhstan are, as hydrocarbon exporters, profiting from the recent rise in oil prices. Azerbaijan should also benefit from increased public investment spending and the commencement of production from the Shah Deniz Stage 2 gas field in 2018. In contrast, Uzbekistan is expecting slower growth in the remainder of 2017 and into 2018 following foreign exchange reform and devaluation in September 2017. In Georgia and Tajikistan, growth is expected to come in slightly higher in 2017 than earlier forecast thanks to a benign external environment and continued strong public investment. The growth forecast for the subregion in 2018 remains unchanged at 3.9%, with lower growth in Uzbekistan expected to balance the improved outlook for Azerbaijan and Kazakhstan.

Kazakhstan enjoyed a strong economic upswing in the year to September, with GDP growth at 4.3% backed by solid expansion in industry and transport services. At the same time, growth drivers started to weaken somewhat in the third quarter of 2017. During the first 9 months of 2017, the biggest driver of growth was industry, which expanded by 8.3%, with extractive industries growing at 11.3% on double-digit growth in coal, crude oil, and metals. Manufacturing expanded by 5.7%. Agriculture, services, and construction grew moderately. Given the double-digit growth in extractive industries, GDP growth is now expected to reach 3.7% in 2017, significantly revised up from 2.7% forecast in the *Update*. Assuming higher oil prices in 2018 and further recovery in domestic demand, growth is likely to slow only a little in 2018, despite the higher base in 2017. The growth forecast for 2018 is raised to 3.3% from 3.0% in the *Update*.

The Pacific

Growth in the Pacific is expected to accelerate to 2.9% in 2017, as forecast in the *Update*. This reflects mainly a slight pickup in economic activity in Papua New Guinea—the subregion's largest economy—following a sharp dip in growth in 2016 caused by fiscal contraction. Despite recent increases in international prices for crude oil, Papua New Guinea's main export, serious fiscal challenges remain and continue to hold back economic growth. The growth forecasts for this economy are therefore retained. Fiji's strong rebound following major cyclones has contributed to subregional economic acceleration in 2017. Fiscal stimulus, partly to finance post-disaster reconstruction, and higher visitor arrivals are leading the recovery. Similar drivers are boosting growth in Vanuatu, which continues to recover from its own large disaster in 2015. The Republic of the Marshall Islands and the Federated States of Micronesia each recorded higher growth thanks to construction of infrastructure projects during their recently concluded fiscal years (ended on 30 September 2017), and Kiribati is on track to follow suit. Meanwhile, Palau is now estimated to have suffered a small economic contraction in FY2017 (ended 30 September 2017) caused by a continuing decline in tourist arrivals, and weaker fiscal stimulus is constraining economic activity in Solomon Islands and Timor-Leste. Subregional growth is seen to accelerate further to 3.2% in 2018, as projected in the *Update*.

Inflation outlook

Commodity prices may be rising but not enough to upset the generally tame and stable inflationary environment in the region. This *Supplement* maintains inflation projections for developing Asia at 2.4% in 2017 and 2.9% in 2018, as in the *Update* (Table 2).

Amid news of supply constraints and buoyant demand, Brent crude oil prices have remained above $60/barrel since 27 October. On 6 November, Brent traded at $64.10/barrel, which was 15% higher than a month earlier and the highest since June 2015. This benchmark for global crude oil markets was up by 40.7% year on year. Oil prices continued to benefit from an output accord agreed by the Organization of the Petroleum Exporting Countries (OPEC) and several producers outside of OPEC, with most members producing at or below their agreed quotas. In its 30 November meeting, OPEC leaders agreed to extend the production cut from March 2018 to the end of 2018 and to review this decision at their next meeting, in June 2018. Political tensions in Saudi Arabia and supply disruptions in Algeria, Iraq, Nigeria, and Venezuela have further spurred the price rally, as has production below expectations in Mexico, the North Sea, and the US. Firmer prices are largely explained by these supply disruptions and geopolitical concerns, the expectation that the production cut will be extended, and robust demand growth. Despite signs that the global oil glut

Table 2 Inflation (%)

	2016	2017		2018	
		ADO 2017 Update	*ADOS*	*ADO 2017 Update*	*ADOS*
Developing Asia	**2.5**	**2.4**	**2.4**	**2.9**	**2.9**
Developing Asia excluding the NIEs	**2.7**	**2.5**	**2.5**	**3.1**	**3.1**
Central Asia	**11.0**	**8.9**	**9.0**	**7.8**	**8.1**
Kazakhstan	14.6	8.0	7.8	7.0	7.0
East Asia	**1.9**	**1.7**	**1.7**	**2.3**	**2.3**
China, People's Rep. of	2.0	1.7	1.7	2.4	2.4
Hong Kong, China	2.4	1.7	1.5	1.8	1.8
Korea, Rep. of	1.0	1.8	2.0	1.9	1.9
Taipei,China	1.4	1.1	0.8	1.2	1.0
South Asia	**4.5**	**4.2**	**4.0**	**4.7**	**4.7**
India	4.5	4.0	3.7	4.6	4.6
Southeast Asia	**2.1**	**3.1**	**3.0**	**3.1**	**3.1**
Indonesia	3.5	4.0	4.0	3.7	3.7
Malaysia	2.1	3.7	4.0	2.7	2.7
Philippines	1.8	3.2	3.2	3.5	3.5
Singapore	−0.5	1.0	0.6	1.5	1.0
Thailand	0.2	0.7	0.7	1.5	1.5
Viet Nam	2.7	4.5	4.0	5.5	5.5
The Pacific	**4.5**	**5.3**	**5.3**	**5.3**	**5.3**

ADO = *Asian Development Outlook*, *ADOS* = *ADO Supplement*, NIEs = newly industrialized economies (Republic of Korea, Singapore, Taipei,China, and Hong Kong, China).

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, the Republic of Korea, Mongolia, Taipei,China, and Hong Kong, 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, 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. 2017. *Asian Development Outlook 2017 Update*; 2017. *Pacific Economic Monitor, December;* ADB estimates.

is finally easing after 3 years, a possible rise in output by US shale oil producers and continued concerns about whether participants in the OPEC deal can stick to their production quotas are somewhat tempering the upward trajectory of crude oil prices. Brent crude is now forecast to average $54/barrel in 2017 and $58/barrel in 2018, or $2 higher than expected in the *Update*.

Food prices were down by 1.5% in November 2017 from the same month a year earlier. The World Bank food price index remains 31.1% below its all-time high in nominal terms, registered in August 2012. Prices for edible oils and other food fell in October. The retreat for edible oils was led by soybeans, whose price eased on good progress in the US harvest and forecasts of ample global availability in the 2017/18 crop season. Palm oil prices were little changed from a year earlier as production in Malaysia and elsewhere in Southeast Asia remained strong. The "other food" index declined as sugar prices fell in November by 26% because of higher supply prospects for 2017/18. For the fifth consecutive month, the change in the grain index year on year remained positive, with grain prices increasing by 6.8% in November. Among the major cereals, wheat and rice quotations were higher than a year earlier on tight supply and buoyant demand. Early indications for 2017/18 continue to point to a favorable crop yield. Demand is forecast to dip but not as much as supply, thereby lowering the ratio of stocks to use. The outlook for edible oils remains favorable. Food prices from January to November barely changed from a year earlier. The index is forecast to turn slightly negative in 2017 before edging back to 1.0% in 2018.

By subregion, revisions to inflation forecasts are mixed. Projections for East Asia are maintained from the *Update* at 1.7% in 2017 and 2.3% in 2018. In the PRC, headline inflation reached 1.9% in October, with inflation averaging 1.5% in the year to date. The effects of strong consumer demand, higher wages, and continued price deregulation will persist for the rest of the 2017, bringing average inflation to 1.7% for the whole year and to 2.4% in 2018, as forecast in the *Update*. In the ROK, inflation averaged 2.0% in the first 11 months of the year with a pickup in utility prices and higher food prices due to drought. This matched the 2.0% target set by the central bank, which, on 30 November, hiked its policy rate to 1.5%, the first such increase since June 2011. The inflation forecast for the ROK in 2017 is revised up slightly to 2.0% from 1.8% in the *Update*, in line with the pickup in growth and impending wage hikes. Hong Kong, China adjusted its 2017 inflation forecast from 1.7% down to 1.5% as limited external price pressures and an unexpectedly moderate increase in local costs, especially for food, housing, and utilities, held the turnout in the first 10 months below projections. In Taipei,China, inflation averaged only 0.6% in the first 10 months of 2017. Owing to this surprisingly low trend, to persistent appreciation of the local currency against the US dollar, and to weak domestic investment, forecasts are revised down from 1.1% to 0.8% for 2017 and from 1.2% to 1.0% for 2018.

In South Asia, inflation below expectations in India prompts a downward revision to the 2017 forecast, to 4.0% from 4.2% in the *Update*. Inflation in India remained subdued in the first 7 months of FY2017, averaging 2.7%, with food prices low and demand still not fully recovered from demonetization. However, inflation has picked up since July 2017 on a price uptick for food, especially pulses and vegetables. Fuel prices also inched up in response to rising global crude oil prices and the government's decision to hike controlled prices for kerosene and cooking gas cylinders. Prices are expected to increase further in the remaining months of FY2017 but not as much anticipated in the *Update*. Inflation is now projected to average 3.7% in FY2017, somewhat below the 4.0% earlier forecast. Elsewhere, projections for inflation remain in line with those in the *Update* for the rest of the subregion except Sri Lanka, where a sharp spike in food inflation pushed consumer prices above earlier expectations. The subregional inflation forecast for 2018 is maintained at 4.7%, as projections are unchanged for all individual economies except Sri Lanka, where expected higher fuel prices next year will likely exert upward pressure on other prices as well. In India, inflation is still expected to inch up to 4.6% in FY2018, driven by an uptick in fuel prices and higher aggregate demand.

The inflation forecast for Southeast Asia in 2017 is now a tad lower than envisaged in the *Update*. Upward adjustment for Malaysia is more than offset by downward revisions for Singapore and Viet Nam. In Malaysia, inflation climbed to 4.0% in the first 10 months of 2017 from 2.2% in the same period last year, largely because of a one-off adjustment to fuel prices affecting transport in the first half of 2017 and, in the second half, the pass-through of rising international fuel prices. Food price inflation year on year to October was also notable at 4.0%. Consequently, the inflation forecast for 2017 is revised up to 4.0% from 3.7% in the *Update*. Inflation in Malaysia is expected to slow to 2.7% in 2018, unchanged from the *Update*, as domestic price pressures subside. In Viet Nam, average inflation edged up in the first 10 months of 2017 but remained modest at 3.7%. Rising administered prices for health care and education fees added to an uptick in market-determined underlying inflation, which is now around 6%, but this continues to be offset by moderation in administered prices for food, energy, and transportation. As a result, recent months have seen the pace of inflation slow. In October, the Viet Nam consumer price index rose by only 3.0%, significantly lower than the 5.2% posted at the beginning of 2017. This prompts a revision to the forecast for 2017, from 4.5% to 4.0%. In Singapore, inflation averaged 0.6% in the first 10 months of 2017, subdued by declines for housing and utilities. With the continued easing of accommodation costs, coupled with a fall in car prices and premiums for certificates of entitlement to register motor vehicles, the inflation forecast for 2017 is revised down from 1.0% to 0.6%. Continuing declines for accommodation in 2018 are seen to further dampen price rises but to a lesser extent, prompting a downward revision of the forecast for 2018 from 1.5% to 1.0%.

Despite this revision for Singapore, this *Supplement* retains the Southeast Asia inflation forecast for 2018 at 3.1%, as forecasts for most other economies are unchanged.

Inflation in Central Asia is now projected to be higher in 2017 than earlier forecast on account of stronger growth in the subregion and country-specific factors such as higher fuel prices caused by cuts to subsidies and local fuel supply shortages. Small adjustments to inflation forecasts are made for Georgia, where inflation is now expected to come in a bit higher in 2017 in line with higher growth, then lower in 2018 because of base effects, and in Armenia, where inflation is now expected to be lower in 2017 despite solid growth and higher in 2018. In Kazakhstan, average annual inflation in the first 10 months of 2017 stood at 7.5%, slightly lower than expected. Recent shortages of gasoline and diesel induced substantial price increases for fuel, which will push prices up in the remainder of 2017. In sum, the inflation forecast for Kazakhstan in 2017 is revised slightly down, to 7.8% from 8.0% in the *Update*. By contrast, inflation in Uzbekistan and Turkmenistan is now seen rising more quickly in 2017 and 2018. In Turkmenistan, a recent reduction in fuel subsidies is expected to have an impact through 2018, and in Uzbekistan the cost of foreign exchange reform and devaluation has been inflation higher and more prolonged than expected in September. Inflation in the subregion is now forecast to reach 9.0% in 2017, up from 8.9% forecast in the *Update*, before easing to 8.1% in 2018, still higher than the 7.8% earlier forecast.

Inflation projections for the Pacific are unchanged from the *Update*. Driven by higher international commodity prices and firmer domestic demand, inflation is expected to rise to 5.3% in 2017 and remain at that rate in 2018.

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