JULY 2017

ASIAN DEVELOPMENT OUTLOOK SUPPLEMENT

HIGHLIGHTS

- Unanticipated external demand has improved growth prospects for developing Asia, prompting this *Supplement* to upgrade the growth forecast for the region from 5.7% to 5.9% this year and from 5.7% to 5.8% in 2018. Excluding Asia's high-income newly industrialized economies, growth should hit 6.4% this year and 6.3% in 2018.
- The resulting boost to net exports all but suspends growth moderation in the People's Republic of China, which is now expected to expand by 6.7% in 2017 and 6.4% in 2018, while lifting the pace of growth this year in the Republic of Korea and Taipei,China. This *Supplement* raises East Asia's growth projections from 5.8% to 6.0% for 2017 and from 5.6% to 5.7% for 2018.
- India is expected to achieve April forecasts of 7.4% growth in 2017 and 7.6% in 2018, primarily from strong consumption. Growth projections for South Asia are likewise maintained as prospects remain robust.
- High first quarter growth in Malaysia, the Philippines, and Singapore keeps Southeast Asia on track to meet forecasts of 4.8% growth this year and 5.0% in 2018.
- Central Asia is recovering more strongly than expected, prompting upgraded forecasts in this *Supplement*. The Pacific will likely realize earlier projections.
- Ample supply has held world oil prices low despite rising demand, while favorable weather has kept food prices stable. This *Supplement* forecasts inflation in 2017 at 2.6%, revised down by 0.4 percentage points, and at 3.0% next year.

CAUTIOUS OPTIMISM FOR ASIA'S OUTLOOK

Growth outlook

With export demand stronger than expected in the first quarter of 2017, the region's gross domestic product (GDP) is forecast to expand somewhat faster than forecast in April in *Asian Development Outlook 2017* (*ADO 2017*). Developing Asia is now expected to grow by 5.9% in 2017, or 0.2 percentage points higher than the rate previously envisaged. The smaller upgrade in the 2018 growth forecast—5.7% in *ADO 2017* to 5.8%—reflects a cautious view on the pace of the turnaround in external demand. Excluding the newly industrialized economies of the Republic of Korea (ROK), Singapore, Taipei,China, and Hong Kong, China, growth projections for the region are revised up to 6.4% for 2017 and to 6.3% for 2018. Projections are upgraded for Central and East Asia but unchanged for the other three subregions (Table 1).

The combined growth forecast for the major industrial economies—the United States, the euro area, and Japan—is retained from *ADO 2017*. Although the growth projection for the US this year is now 0.2 percentage points lower in the wake of disappointing first quarter results, upward revisions for the euro area and Japan, supported by robust domestic demand, compensate to maintain the collective forecast (Box 1).

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.

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East Asia

East Asia's growth forecasts are revised up from 5.8% to 6.0% for 2017 and from 5.6% to 5.7% for 2018 on upward revisions for the People's Republic of China (PRC), the ROK, and Taipei,China. Economic growth in the PRC has so far turned out to be stronger than expected in 2017, with official figures showing GDP growth in the first half at 6.9% (year on year, here and below). Consumption continued to hold up well, supported by solid wage growth and more generous social spending. Investment growth is lower than last year, despite government support for infrastructure and a still buoyant property market, as manufacturing investment remains constrained by excess capacity and high debt. However, exports have responded to a pick up in demand from developed and developing economies alike, driven in part by the mild rebound in some commodity prices from their 2016 lows, resulting in a positive contribution to growth from net exports in the first half of the year. Growth is still expected to decelerate in the second half of 2017 and in 2018, as the government moves to reduce financial risks. Government regulations have been tightened, particularly on nonbank financial institutions and monetary conditions, more generally, are expected to become tighter over the forecast period. Moreover, softer commodity prices may weigh on commodity-exporting economies, weakening their demand for PRC's products. Nevertheless, given the stronger-than-expected growth outturn in the first half of 2017, the PRC growth forecast is revised up to 6.7% for 2017 and 6.4% for 2018.

In the ROK, the economy expanded by 2.9% in the first quarter of 2017, outpacing the 2.4% posted in the fourth quarter of 2016. A sharp upswing in machinery and equipment outlays and persistently high construction growth helped boost GDP growth overall, though consumption growth was modest. By sector, manufacturing posted growth at 2.1%, up from 1.8% in the previous quarter. Political uncertainty receded after the new president won a clear victory, and the new administration has hinted at some fiscal expansion. Supported by an improving global outlook and strong export performance, the growth forecast is revised up to 2.7% from 2.5% for 2017, while the 2018 forecast is maintained at 2.7%.

Taipei,China grew by 2.6% in the first quarter of 2017, underpinned by steady domestic consumption growth and a pickup in exports on higher external demand for electronic components. Although first quarter growth was slower than in the previous quarter, the latest quarterly indicators point to a brisk start for the year. Unemployment neared a 2-year low in April, and strong real wage growth in the first quarter paved the way for solid private consumption growth expected in the second quarter. Exports of semiconductors were also stronger than expected, and investment in machinery and equipment was higher. The GDP growth forecast for 2017 is thus revised up to 2.0% from 1.8% in *ADO 2017*. The forecast for 2018 is unchanged at 2.2%.

Table 1 Gross domestic product growth (%)

	2016	2017		2018	
		ADO 2017	*ADOS*	*ADO 2017*	*ADOS*
Developing Asia	**5.8**	**5.7**	**5.9**	**5.7**	**5.8**
Developing Asia excluding the NIEs	**6.3**	**6.3**	**6.4**	**6.2**	**6.3**
Central Asia	**2.1**	**3.1**	**3.2**	**3.5**	**3.8**
Kazakhstan	1.0	2.4	2.6	2.2	2.9
East Asia	**6.0**	**5.8**	**6.0**	**5.6**	**5.7**
China, People's Rep. of	6.7	6.5	6.7	6.2	6.4
Hong Kong, China	1.9	2.0	2.0	2.1	2.1
Korea, Rep. of	2.8	2.5	2.7	2.7	2.7
Taipei,China	1.5	1.8	2.0	2.2	2.2
South Asia	**6.7**	**7.0**	**7.0**	**7.2**	**7.2**
India	7.1	7.4	7.4	7.6	7.6
Southeast Asia	**4.7**	**4.8**	**4.8**	**5.0**	**5.0**
Indonesia	5.0	5.1	5.1	5.3	5.3
Malaysia	4.2	4.4	4.7	4.6	4.6
Philippines	6.9	6.4	6.5	6.6	6.7
Singapore	2.0	2.2	2.4	2.3	2.5
Thailand	3.2	3.5	3.5	3.6	3.6
Viet Nam	6.2	6.5	6.5	6.7	6.7
The Pacific	**2.6**	**2.9**	**2.9**	**3.3**	**3.3**

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*; ADB estimates.

Hong Kong, China grew by 4.3% in the first quarter of 2017 on continued momentum from the previous year. Domestic demand remained strong during the quarter, while external trade in goods recorded its fastest growth in 4 years. Favorable hiring and income conditions buoyed domestic sentiment, as did higher asset prices, pushing private consumption growth to 3.7%. Capital spending expanded by 6.4%, helped by robust construction even as machinery and equipment acquisition remained subdued. Strengthening global conditions and expanding regional trade and manufacturing spurred exports, while robust domestic demand propelled faster growth in imports. Whether this strength in first quarter growth will be sustained in the next few quarters remains to be seen in view of uncertainty regarding Brexit, the normalization of

Box 1 Outlook for the major industrial economies

The growth outlook for the major industrial economies—the US, the euro area, and Japan—is unchanged from *ADO 2017* projections. Disappointing results in the US in the first quarter weigh down the outlook for 2017 but are offset by unexpectedly strong growth in the euro area and Japan, leaving the collective outlook for these economies steady at 1.9% in both 2017 and 2018.

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

Area	2016	2017		2018	
	Actual	*ADO 2017*	*ADOS*	*ADO 201*	*ADOS*
Major industrial economies	**1.6**	**1.9**	**1.9**	**1.9**	**1.9**
United States	1.6	2.4	2.2	2.4	2.4
Euro area	1.7	1.6	1.8	1.6	1.7
Japan	1.0	1.0	1.1	0.9	0.9

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*; ADB estimates.

After strong expansion at 3.5% in the third quarter of 2016 and a 2.1% gain in the fourth quarter, US economic growth decelerated in the first quarter of 2017 at a seasonally adjusted annualized rate (saar) of 1.4%. Government spending dragged on growth while domestic consumption moderated as uncommonly warm winter weather depressed spending on utilities. Private investment and net exports contributed to growth in the first quarter. The consumer confidence index has been on a rising trend since October 2016, and this trend continued in the second quarter of the year with a pickup in April retail sales. Fixed investment recorded strong growth at 11.0% saar in the first quarter, enabling 3.7% growth in private domestic investment after accounting for private inventory depletion. Investment is projected to be on a stable footing as the industrial production index and the purchasing managers' index both show moderate but steady expansion in US production. Unemployment dropped to a 17-year low of 4.3% in May. Despite lower inflation, with both headline and core inflation declining since March 2017, the Federal Reserve has raised the federal funds rate twice this year, by 25 basis points in March and again in June, and is expected to continue this gradual moderation of its expansive monetary policy. It is the unexpected deceleration in first quarter growth, though, that prompts this *Supplement* to downgrade the 2017 growth outlook from 2.4% to 2.2%. The 2018 growth forecast is kept at 2.4%.

In the euro area, first quarter GDP growth came in at 2.3% saar, an improvement from 2.1% in the last quarter of 2016. Private and government consumption both grew by 1.4%, while investment increased by 5.9%, reflecting strengthening business activity and market sentiment. Domestic demand continues to be buoyed by accommodative monetary policy and improving labor markets. At 9.3% in May, the unemployment rate was at its lowest since April 2009. Better labor markets are lifting consumer confidence and spending, allowing retail sales to resume a positive trend month on month and to maintain it since the start of the year. Industrial production is similarly regaining a solid footing after a weak start in January. Buoyant economic sentiment and higher demand for investment loans are expected to accelerate business activity in the coming quarters. Early indicators for the second quarter suggest that expansion is likely to continue through the rest of the year. The purchasing managers' index rose to 56.3 in June, taking the second quarter average to its highest since March 2011. Economic sentiment rose to 111.0 in June, its highest since August 2007. Strong export orders and job creation, particularly in manufacturing, drove up the index in almost every euro area economy. Political uncertainties remain a drag on sentiment but have abated since the French election. The GDP forecast for this year is upgraded to 1.8% from 1.6% in *ADO 2017*. The GDP forecast for 2018 is also revised up, to 1.7%.

Japan's economic recovery continues, with output expanding for a fifth consecutive quarter. GDP growth in the first quarter of 2017 was, at 1.0% saar, dragged down by private investment but boosted by private consumption. A weak yen and stronger global demand meant that net exports continued to drive growth. The rebound in the external sector is slowly feeding into domestic manufacturing, with data showing moderate production expansion in the second quarter. Business sentiment is becoming more upbeat, and machinery orders have edged up, so investment may improve. The purchasing managers' index dropped in June, but its value above 50 still bodes well for manufacturing growth in the third quarter. Since the start of this year, consumption has been growing, and the Bank of Japan's consumption activity index recorded strong gains in April. While prospects for consumer spending are still positive, the latest data show slower retail sales growth in May, a dip in consumer confidence in June, and the unemployment rate rising from 2.8% in April to 3.1% in May. The Bank of Japan kept its accommodative monetary policy unchanged at its last meeting. Merchandise exports registered a 11.8% increase in May, continuing their 12-month growth streak owing to healthy demand for semiconductors and machinery. On balance, the GDP growth forecast for 2017 is raised to 1.1% and maintained at 0.9% for 2018.

US monetary policy, and other external factors. The growth forecast is thus maintained at 2.0% for 2017 and 2.1% for 2018, as in *ADO 2017*.

South Asia

The economic outlook for South Asia remains robust, with growth on track to meet *ADO 2017* projections of 7.0% for 2017 and 7.2% for 2018. In Bangladesh and Pakistan, preliminary government growth estimates for FY2017 (ended 30 June 2017) beat *ADO 2017* forecasts. Agriculture growth in Bangladesh in FY2017 was higher than anticipated. Services growth also outperformed expectations, supported by agriculture growth and solid performances in wholesale and retail trade, real estate, hotels and restaurants, and transport. In Pakistan, growth was similarly supported by a revival in agriculture, as well as by continued expansion in construction and steady growth in services. Strong private consumption remained the largest contributor to growth. Robust growth in industry and services lifted growth prospects for Nepal in FY2017 (ended 15 July 2017), as did accelerated earthquake reconstruction, while an improved prognosis for the important tourism sector is providing a boost to Maldives. These improved prospects for Bangladesh, Maldives, Nepal, and Pakistan are balanced by slower growth projected for Bhutan and Sri Lanka. The construction of hydropower projects has been delayed in Bhutan, undermining economic growth there. In Sri Lanka, heavy rain caused severe floods in 15 of 25 districts and triggered landslides in some areas in May 2017. Disrupted economic activity and damage to agriculture will slow growth in 2017, but subsequent recovery may boost GDP growth somewhat in 2018.

In India, economic growth slowed to 7.1% in FY2016 (ended 31 March 2017) from 8.0% in FY2015. The slowdown can be partly attributed to the demonetization and replacement of high-denomination banknotes in November 2016, which affected economic activity in several cash-dependent sectors. However, other factors such as sluggish private sector investment and weak bank lending contributed to the slowdown. In the first quarter of FY2017, manufacturing inched up, as indicated by purchasing managers' index improvement from 51.2 in the fourth quarter of FY2016 to 51.7. Consumption is likely to continue to be the main driver of growth. Higher crop sowing, helped by a healthy monsoon, and an uptick in rural wage growth will bolster rural consumption, while urban consumption will get a boost from pay hikes for central and state government employees. The implementation this year of a national goods and services tax is expected to improve the ease of doing business and facilitate growth in the medium term, though there may be some teething pains as firms adjust to the new system. Front-loading central government capital expenditure should further propel the pickup in growth in FY2017. Growth forecasts are maintained at 7.4% for FY2017 and 7.6% for FY2018.

Southeast Asia

In Southeast Asia, the growth outlook remains at 4.8% for 2017 and 5.0% for 2018 despite revisions for four of its economies. High growth in Malaysia, the Philippines, and Singapore is dampened somewhat by disappointing growth in Brunei Darussalam. Robust domestic demand, particularly private consumption and investment, will continue to support economies in the region. Higher public investment boosted first quarter growth in the Philippines and Thailand, while private investment was strong in Malaysia and Viet Nam. Exports rebounded in Indonesia, the Philippines, Malaysia, and Viet Nam.

The Indonesian economy grew by 5.0% in the first quarter of 2017, with growth driven by solid export performance and robust private consumption. The strong export performance was influenced by improving prices for commodities such as coal, palm oil, rubber, and nickel, as well as by recovery in export markets. Growth in fixed investment edged up to 4.8% in the first quarter of 2017 from 4.7% in the same period of last year and is expected to continue to accelerate with the implementation of public investment projects. Improvements in revenue performance and expenditure quality reduce the likelihood of major spending cuts being introduced in the revised state budget for 2017. Private investment is expected to be boosted by continuing measures to enhance the ease of doing business and by improved investor confidence in response to a recent ratings upgrade from Standard & Poor's. These developments support growth projections in *ADO 2017* at 5.1% for 2017 and 5.3% for 2018.

Malaysia's economy beat expectations in the first quarter of 2017 as it grew by 5.6%, the highest rate in 2 years, supported by sharp expansion in domestic demand. Fixed investment led the way, growing by double digits as it was propelled by larger investments in services and manufacturing, as well as by increased government investment. Private consumption surged, fueled by higher wages, strong hiring, and government subsidies to low-income households. Exports also recovered, but, as imports rose faster on increased demand for capital and intermediate goods, net exports dragged on growth. Looking ahead, the expansion in government infrastructure spending and private capital spending will continue in 2018, albeit at a slightly slower pace than in 2017. Household spending is projected to remain healthy but will face downward pressure from elevated inflation and rising servicing costs for household debt. Growth in exports is expected to remain firm, supported by a weaker currency and improvements in global trade. This *Supplement* revises up the growth forecast for 2017 to 4.7% from 4.4% in *ADO 2017*. The growth forecast for 2018 is unchanged.

The Philippine GDP grew by 6.4% in the first quarter of 2017, its moderation from 6.9% in the same period in 2016 partly reflecting a base effect from election spending last year.

Investment and consumption were the key drivers of growth. Merchandise exports improved but not enough to offset imports. By sector, services and manufacturing remained the major contributors to growth. Services generated nearly two-thirds of GDP growth, spurred largely by trade, business process outsourcing, and finance. Manufacturing growth has remained robust. Agriculture output has recovered after being hit by a dry spell last year caused by El Niño. The government is making progress in ramping up infrastructure investment. In addition, tax reform likely to be approved in the second half of 2017 will unleash purchasing power in 2018 through lower personal income tax. Growth forecasts are upgraded from 6.4% to 6.5% for 2017 and from 6.6% to 6.7% for 2018.

Singapore's economy grew by 2.5% in the first half of 2017. Robust growth in manufacturing, at 8.2%, was driven primarily by the electronics and precision engineering cluster, which expanded on higher global demand for semiconductors and equipment to manufacture them. Services grew by 1.6%, supported by transportation and storage, business services, and information and communications. Construction declined by 5.9% with continued weakness in private construction. Despite external risks to the outlook, manufacturing and domestic services are expected to remain robust for the rest of the year, supporting upgrades in GDP growth forecasts to 2.4% for 2017 and 2.5% for 2018.

Thailand's economy grew by a moderate 3.3% in the first quarter of 2017. Merchandise exports recovered to 6.6% growth, led by exports of rubber products, petroleum products, vehicle parts, and chemicals. Public investment remained an important contributor to growth, expanding by 9.7%. Private consumption continued to improve, boosted by a turnaround in agriculture. Rising prices for agricultural products and the end of drought in the second half of 2016 raised farm income. Growth forecasts are maintained at 3.5% for 2017 and 3.6% for 2018 as economic developments are on track to meet projections in *ADO 2017*.

An unexpected decline in mining and quarrying output dragged Viet Nam's GDP growth lower to 5.1% in the first quarter of 2017 from 5.5% in the same quarter of 2016. Industry and construction expanded by only 4.2%, well below 7.2% growth in the same period of last year. Other sectors of the economy remained strong. Services recorded higher growth than a year earlier, coming in at 6.5% against 6.0% in the first quarter of 2016. As expected, agriculture recovered to 2.0% growth from 1.3% contraction in the same period of last year. Foreign direct investment continues to increase, with disbursements by the end of the first quarter estimated at $2.7 billion, up by 4% against the same time last year, and accounting for 6.5% of GDP. This *Supplement* retains growth forecasts at 6.5% for 2017 and 6.7% for 2018. However, these will be revisited if the industry and construction sector remains sluggish.

Central Asia

The outlook for Central Asia in 2017 has improved with unexpected recovery in some countries driven by both domestic and external factors. While most hydrocarbon-exporting economies in the subregion are still locked, as expected, in a lower oil price environment, growth in Armenia, Kazakhstan, and Tajikistan is benefiting from strong first quarter outcomes in manufacturing and mining. Georgia also exceeded expectations in the first quarter of 2017, with construction being the biggest single contributor to growth as infrastructure spending kicked in. Stronger domestic demand contributed to recovery in Armenia and Kazakhstan, which is improving the outlook for both economies in 2018 as well. However, oil production has not met expectations in Azerbaijan, tempering the pace of recovery there. Lower public investment and inflows of foreign direct investment will likely result in a more moderate growth in Turkmenistan next year. Growth in the subregion as a whole is expected to reach 3.2% in 2017 and 3.8% in 2018, higher than the 3.1% and 3.5% forecast in *ADO 2017*.

Kazakhstan, Central Asia's largest economy, enjoyed an unexpected economic upswing in the first quarter of 2017, with GDP growing by 3.6%. Economic indicators have continued to improve at least through May 2017, with industry having risen by 7.8% on increased mining production, which rose by 9.2%. Mining, manufacturing, and trade together contributed 2.1 percentage points to growth in the first quarter of 2017. Rising domestic demand reflected further growth in households' real incomes in the first quarter of 2017 after a strong increase in the last quarter of 2016. GDP growth is now expected to reach 2.6% in 2017, up from the 2.4% forecast in *ADO 2017*. Assuming stable domestic demand and increasing exports, economic recovery is likely to continue. The growth forecast for 2018 is substantially upgraded from 2.2% to 2.9%.

The Pacific

As expected in *ADO 2017*, growth in the Pacific is projected to accelerate to 2.9% in 2017 from 2.6% last year. This acceleration is driven mainly by gradual recovery in Papua New Guinea, the subregion's largest economy, where mining and agriculture output are rebounding from last year's poor performances. Growth is also picking up in Fiji and Vanuatu as these economies continue to rebuild and recover from recent disasters. That said, growth is on a slowing track in half of the 14 Pacific economies. Although Samoa outperformed forecasts in FY2017 (ended 30 June 2017) with stronger agriculture and nonfood manufacturing, GDP growth still slowed because of reduced fiscal stimulus and the dissipation of a base effect from last year's spike in fishery output. In Timor-Leste, the implementation of public investment projects is being delayed by this month's elections and the formation of a new government.

The delays are expected to suppress public expenditure somewhat and thus hold back economic expansion this year. Growth in the subregion is seen to accelerate further in 2018 to 3.3%, as projected in *ADO 2017*, on continued recovery in agriculture and mining output in Papua New Guinea. Stronger tourism prospects are also expected to boost economic growth, particularly in Fiji and Palau.

Inflation outlook

Despite rising energy demand, ample supply has kept international oil prices in check, while favorable weather has held food prices fairly steady in developing Asia. This *Supplement* revises down the *ADO 2017* inflation forecasts for the region from 3.0% to 2.6% in 2017 and from 3.2% to 3.0% in 2018. Excluding the newly industrialized economies of the ROK, Singapore, Taipei,China, and Hong Kong, China, inflation in the region is now projected at 2.8% in 2017 and 3.2% in 2018 (Table 2).

Although the price of Brent crude oil averaged $52/barrel in the first half of the year, spot prices have fallen below $50/barrel since 1 June. The Organization of the Petroleum Exporting Countries (OPEC) met on 25 May and extended voluntary production cuts, originally set to end in June 2017, to March 2018. OPEC deemed the 9-month extension necessary to help stabilize the oil market, reduce the massive oil glut, and support prices. However, oil prices failed to rebound following the decision because market participants had expected more aggressive measures such as deeper cuts of longer duration or the inclusion of more countries in the deal. On 21 June, Brent crude hit a new 2017 nadir, dropping to $44.20/barrel, its lowest since November 2016. So far, the OPEC agreement has exerted only modest impact on global inventories because supply has risen from producers not participating in the accord, notably Libya and Nigeria, and the US in particular. The US rig count rose to 758 in the week ending 23 June, extending a year-long drilling recovery to the highest level since April 2015. Also, while compliance has been surprisingly solid since the implementation of the production cuts, market analysts believe that the extension of the deal could force countries facing large fiscal imbalances to deviate from their quotas. Despite strengthening demand for oil, forecast increases in global production are exerting downward pressure on prices and minimizing the potential for significant crude oil price increases through 2018. Forecasts for Brent crude are therefore lowered by $2 to $54/barrel in 2017 and by $3 to $55/barrel in 2018.

Food inflation averaged 2.6% in the first 6 months of 2017. While grain prices continued their general downward trend, the other two World Bank price indexes that track food prices rose. Edible oil and meal prices was one, increasing by 4.0% from January to June of this year. After strengthening in 2016, international quotations for oilseeds and derived products embarked on a downward trend to February 2017, responding to an increasingly positive outlook for supply over demand. The drop in edible oil prices primarily reflects a sharp fall in international soybean prices triggered by greatly improved production prospects for South America and the US. On the other hand, palm oil prices reversed course in May, increasing by 2.9% year on year after having contracted by 5.1% in April. The price rebound largely reflected expectations of higher export demand. The other rising index, for "other food," saw prices increase by 7.1% from January to June. Increased demand and limited supply pushed up meat prices. After increasing year on year in the first 4 months of the year, international sugar prices were down by 28.5% year on year in June, hitting a 13-month low with expectations of better output in Brazil and larger exports from Pakistan.

Table 1 Inflation (%)

	2016	2017		2018	
		ADO 2017	*ADOS*	*ADO 2017*	*ADOS*
Developing Asia	**2.5**	**3.0**	**2.6**	**3.2**	**3.0**
Developing Asia excluding the NIEs	**2.7**	**3.2**	**2.8**	**3.5**	**3.2**
Central Asia	**11.0**	**7.8**	**8.1**	**7.3**	**7.4**
Kazakhstan	14.6	8.0	8.0	7.0	7.0
East Asia	**1.9**	**2.3**	**1.9**	**2.6**	**2.4**
China, People's Rep. of	2.0	2.4	2.0	2.8	2.6
Hong Kong, China	2.4	2.0	2.0	2.1	2.1
Korea, Rep. of	1.0	1.7	1.8	1.8	1.8
Taipei,China	1.4	1.3	1.1	1.2	1.2
South Asia	**4.5**	**5.2**	**4.2**	**5.4**	**4.7**
India	4.5	5.2	4.0	5.4	4.6
Southeast Asia	**2.1**	**3.3**	**3.3**	**3.5**	**3.4**
Indonesia	3.5	4.3	4.3	4.5	4.5
Malaysia	2.1	3.3	4.0	2.7	2.7
Philippines	1.8	3.5	3.5	3.7	3.7
Singapore	-0.5	1.0	1.1	1.5	1.5
Thailand	0.2	1.8	1.2	2.0	1.6
Viet Nam	2.7	4.0	4.0	5.0	5.0
The Pacific	**4.6**	**5.2**	**5.4**	**5.4**	**5.4**

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*; ADB estimates.

Meanwhile, grain prices fell by 5.4% from January to June. Concerns about unfavorable weather in the US and the European Union pushed wheat prices up to a 7-month high in February. However, with global supply remaining ample and harvests in Argentina and Australia beating expectations, wheat prices resumed their downward trend. Similarly, abundant supply and sharp export competition continued to put downward pressure on maize prices. By contrast, rice prices strengthened in US dollar terms, buoyed by increasing demand and currency movements. Global food commodity markets are broadly stable, supported by adequate supply. Market prospects remain favorable for the 2017/18 crop year. The food inflation forecast is maintained at 3.0% for 2017 and 2.0% for 2018.

By subregion, inflation projections for East Asia are revised down from 2.3% to 1.9% in 2017 and from 2.6% to 2.4% in 2018. While core inflation in the PRC is rising steadily, as expected, on higher prices for services, headline inflation there has fallen over recent months as oversupply of pork and vegetables has pushed their prices down every month since February 2017, and because administered fuel prices were cut in May and June 2017. Inflation forecasts are thus lowered for Asia's largest economy to 2.0% in 2017 and 2.6% in 2018. The inflation projection for Taipei,China in 2017 is trimmed to 1.1% from 1.3% in *ADO 2017* with lower-than-expected price increases for domestic food, particularly for vegetables and fruit, and the lackluster recovery in oil prices.

Inflation forecasts for South Asia are cut to 4.2% from 5.2% in 2017 and to 4.7% from 5.4% in 2018, prompted by lower increases in Bangladesh, Bhutan, India, and Nepal. Bangladesh is experiencing a steady decline in nonfood inflation, reflecting favorable international prices. In India, inflation remained subdued for a second year in FY2016, averaging 4.5%. Prices have remained surprisingly soft since April 2017 as food inflation was sharply curtailed by augmented domestic supply, higher imports, and lower global prices. Fuel inflation has also remained benign, reflecting the softening of global crude oil prices. Lower gold prices and discounts offered by retailers to clear inventory ahead of the implementation of the goods and services tax contributed to a drop in core inflation in the first quarter of FY2017. Inflation in India is now expected to average 4.0% in FY2017, well below the forecast of 5.2% in *ADO 2017*, before rising to 4.6% in FY2018. Bhutan's inflation forecasts are also revised down following the revisions to the India forecasts. Inflation in Bhutan broadly follows wholesale price movements in India because Bhutan imports more than half of its consumption from India. In Nepal, inflation in FY2017 averaged 5.0% in the first 9 months and was expected to finish the fiscal year at this rate.

The inflation forecast for Southeast Asia is 3.3% for 2017, as projected in *ADO 2017*, despite some revisions for individual economies. Upward revisions for Cambodia, Malaysia, and Singapore are balanced by downward adjustments for Brunei Darussalam, the Lao People's Democratic Republic, and Thailand. Strong domestic demand and increases in local food prices underpinned the upward revision to Cambodia's inflation forecasts. In Malaysia, higher transportation costs, cuts to cooking oil subsidies, and a weak currency are expected to push prices up further, with inflation now expected at 4.0% in 2017, revised up from the 3.3% forecast in April. Singapore's inflation is revised slightly upward to 1.1% from 1.0% in 2017 as prices in the first half, in particular for transport and food, increased faster than anticipated. Conversely, the inflation forecast for Brunei Darussalam is downgraded as a feeble oil and gas sector undercuts growth. In the Lao People's Democratic Republic, government cuts to recurrent public expenditures will help contain inflation. For 2018, subregional inflation is revised down slightly to 3.4% from 3.5%, reflecting a substantial downward adjustment for Thailand to accommodate lower prices than expected for oil and, with the end of a drought, food.

Inflation in Central Asia is higher on stronger growth and country-specific factors. In Azerbaijan, continued imported inflation and the lagged effect of the increase in electricity prices at the end of December 2016 have intensified consumer price pressures. Inflation in Kazakhstan has held close to the projection, averaging 7.7% in the first 6 months of 2017 while tracing a slightly declining trajectory. In Georgia, inflation exceeded expectations in the first half of 2017, but price pressures are expected to taper off in 2018 with the dissipation of one-off effects from recent tax reform. Government efforts to contain inflation in Turkmenistan should help to moderate consumer price pressures there. In the Kyrgyz Republic, tariff adjustments necessitated by its entry into the Eurasian Economic Union are now expected to stimulate inflation beginning only in 2018. Also in 2018, slightly higher inflation is expected in Tajikistan because of continued currency depreciation. Reflecting the more favorable economic outlook for the subregion as a whole, inflation is now forecast to reach 8.1% in 2017, up from 7.8% in *ADO 2017*, before easing to 7.4% in 2018, slightly higher than the 7.3% earlier forecast.

Inflation in the Pacific is now expected to rise from 4.6% last year to 5.4% in 2017—0.2 percentage points above the *ADO 2017* forecast—amid higher inflation expectations for Fiji, where bad weather has kept local food prices elevated. By contrast, inflation in Samoa is seen to lag earlier projections as import prices fell in FY2017, particularly during the early months. For 2018, the subregional inflation projection remains at 5.4%, as forecast in *ADO 2017*, buoyed in nearly all of these import-dependent economies by increases in international food and fuel prices.

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