ASIAN DEVELOPMENT OUTLOOK

SUPPLEMENT JUNE 2020

HIGHLIGHTS

- Developing Asia will barely grow in 2020, the 0.1% forecast in this *Supplement* is a further downward revision from 2.2% projected in April in *Asian Development Outlook 2020* and the region's slowest growth rate in 6 decades. From this low base, growth will pick up to 6.2% in 2021. Excluding newly industrialized economies, regional growth is forecast at 0.4% in 2020 and 6.6% in 2021.
- Growth prospects for East Asia in 2020 are downgraded from 2.0% to 1.3%. This reflects expansion in the People's Republic of China by only 1.8% in 2020, rebounding to 7.4% in 2021 and lifting subregional growth to 6.8%.
- South Asia will contract by 3.0% in 2020 but stage a recovery in 2021, when growth is projected at 4.9%. The Indian economy is expected to contract by 4.0% in fiscal 2020, then grow by 5.0% the following year as economic activity normalizes gradually.
- Southeast Asia has suffered broad declines in consumption, investment, and trade. The subregion is now expected to contract by 2.7% in 2020 before growing by 5.2% in 2021.
- Central Asia and the Pacific will not escape the pandemic's effects. As Pacific economies contract by 4.3% this year under a collapse of global tourism, Central Asia will experience milder contraction by 0.5%.
- Regional inflation will remain benign at 2.9% in 2020 and 2.4% in 2021, reflecting depressed demand and lower oil prices.

LOCKDOWN, LOOSENING, AND ASIA'S GROWTH PROSPECTS

Recent developments

Coronavirus disease (COVID-19) has continued to spread, and containment measures have greatly disrupted economic activity. In the 2 months since *Asian Development Outlook 2020* was released on 3 April, the number of COVID-19 cases worldwide has risen from less than 1 million to over 7 million by 12 June, with developing Asia accounting for 10.7% of the total (Figure 1). Domestic outbreaks have occurred in more economies in the region, with 21 of the 46 Asian Development Bank (ADB) developing member economies recording more than 1,000 cases each. In response, many governments have imposed lockdowns of varying stringency and duration, with average stringency higher in South and Central Asia and lower in East Asia (Figure 2). Many economies are now starting to exit their lockdowns.

The relative stringency of lockdowns across economies is strongly associated with a relative decline in mobility outside the home, though some economies such as the Republic of Korea have been able to use "smart lockdowns" that allowed for continued mobility (Figure 3). Both indicators are associated with declines in economic activity in a global sample of economies for which gross domestic product (GDP) data for the first quarter (Q1) are available (Figure 4).

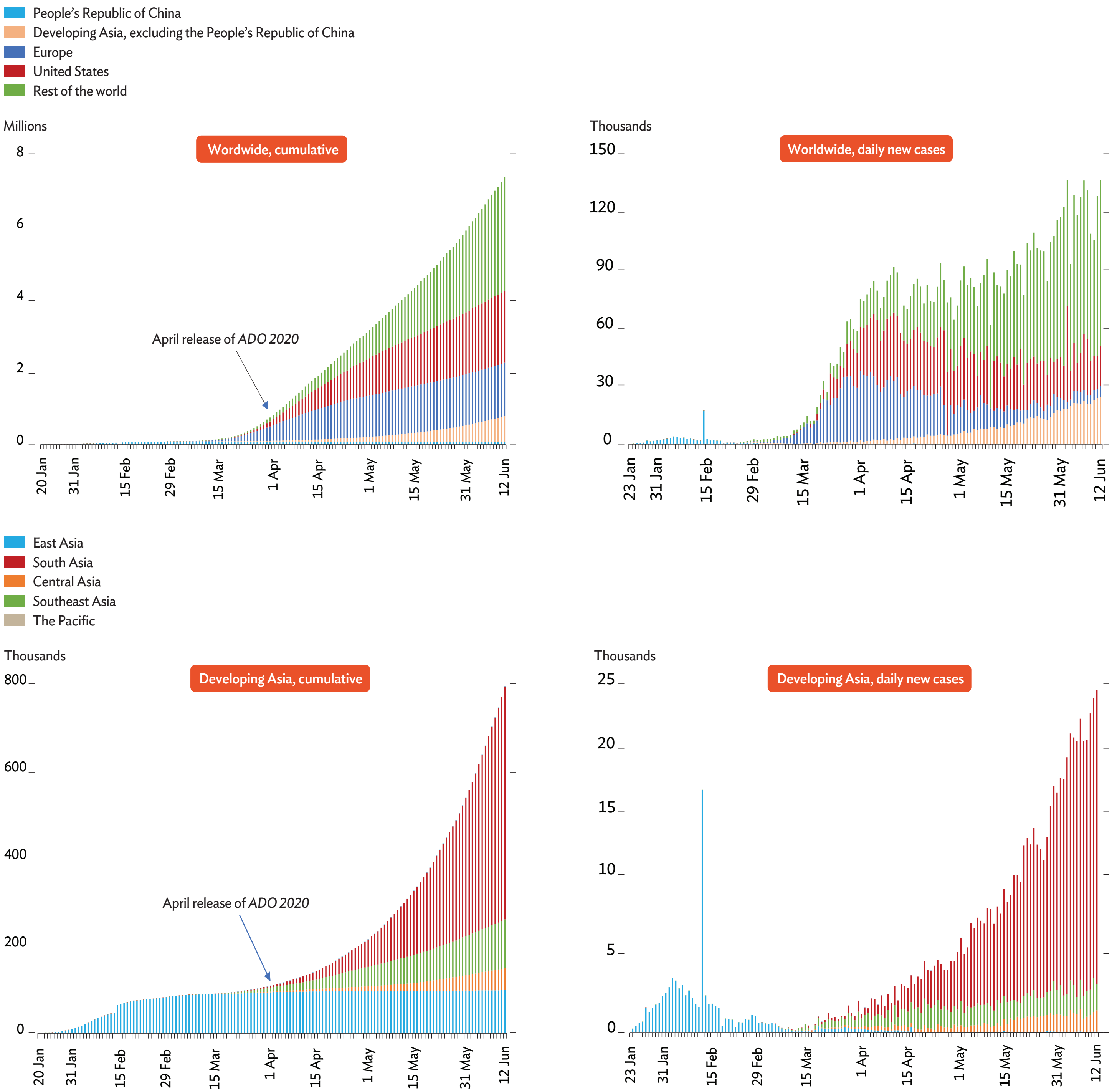
In addition to the decline in domestic economic activity brought about by the lockdowns, the external environment has taken a turn for the worse. In nine economies with data on tourist arrivals available for April, declines range from 87% to 100% year on year (Figure 5). External demand for other goods and services has also weakened. A deeper contraction is now under way in the major advanced economies of the United States, the euro area, and Japan. All three economies shrank in Q1 of 2020, and the contraction will be much more severe in Q2. In aggregate, these major advanced economies are projected to contract by 5.8% in 2020 before growth resumes at 4.1% in 2021 (Box 1).

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

ADB

Figure 1 COVID-19 cases, worldwide and by subregion, cumulative and new cases

COVID-19 has continued to spread globally and across much of developing Asia.

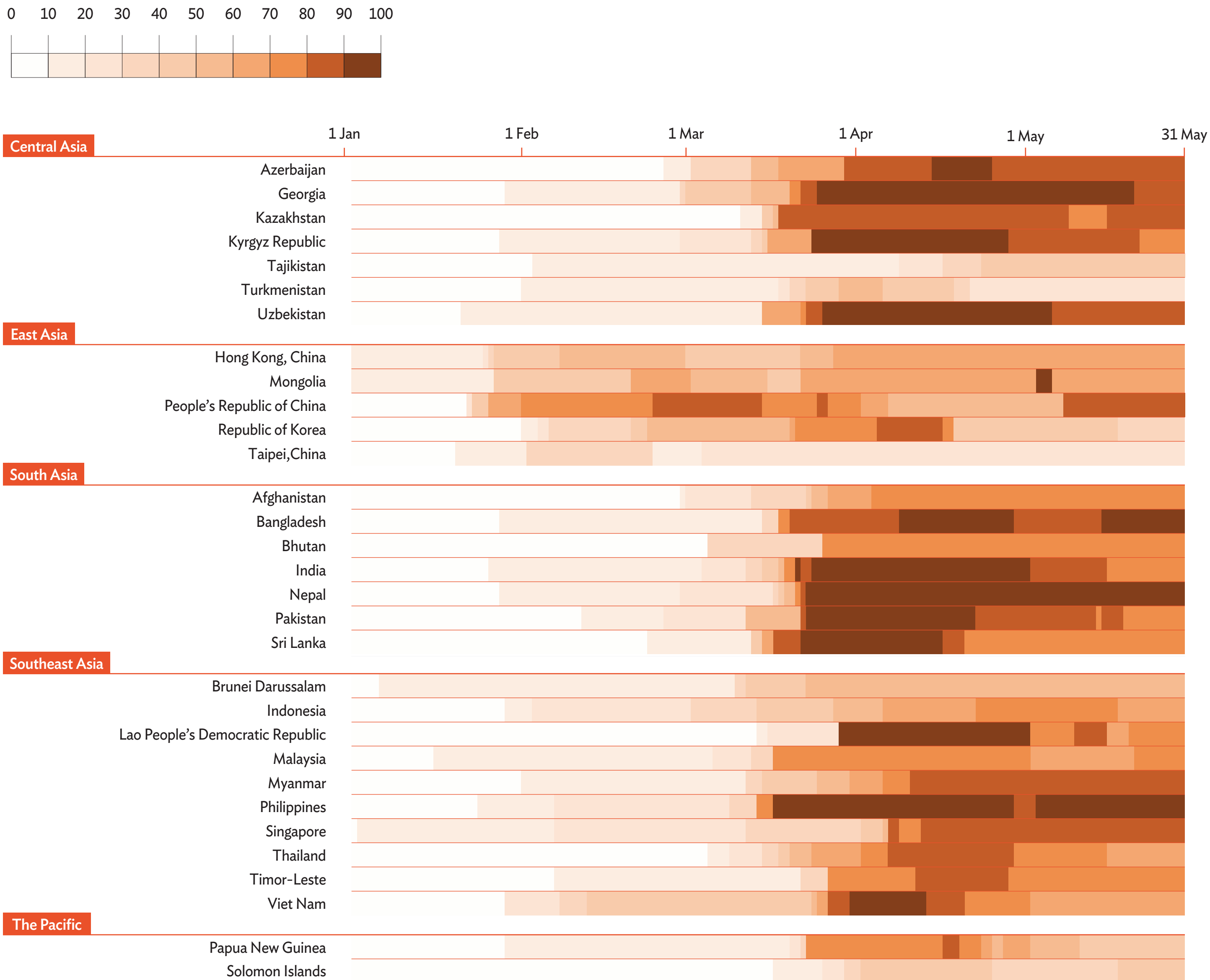


Notes: The discrete jump in the People's Republic of China series in mid-February is due to the change in the diagnostic criterion applied to identify infections. Europe refers to the 27 member countries of the European Union, the United Kingdom, and Switzerland.

Sources: CEIC Data Company; World Health Organization (accessed 14 June 2020).

Figure 2 COVID-19 Government Response Stringency Index

Governments have responded with containment measures of varying stringency and duration.



Note: The Government Response Stringency Index is a composite measure of nine response indicators including school closures, workplace closures, and travel bans, rescaled to a value from 0 to 100, with 100 being the strictest response.

Sources: University of Oxford; ADB estimates.

Growth outlook and risks

As the pandemic plays out, developing Asia is now projected to grow by only 0.1% in 2020 (Table 1). This will be the lowest regional growth outcome since 1961. Contraction is now expected in all subregions except in East Asia, where the People's Republic of China (PRC) and Taipei,China are still projected to experience positive growth (Figure 6). Growth will rebound to 6.2% in 2021, but this will be mainly a favorable base effect from comparing 2021 with a very weak 2020. Composite GDP next year will remain below what had been envisioned and below its pre-crisis trend, and this will thus not be a V-shaped recovery. Continued social distancing will hamper activity, and recurrent outbreaks are possible. Even if an individual economy succeeds in normalizing domestic activity, it will face an environment of very weak external demand. Excluding the newly industrialized economies of Hong Kong, China; the Republic of Korea (ROK); Singapore; and Taipei,China, the regional growth outlook is lowered to 0.4% in 2020 and adjusted down to 6.6% in 2021.

Risks to the outlook remain on the downside. The COVID-19 pandemic may return in multiple waves in the coming period, as happened during the 1918–1919 global influenza pandemic. Sovereign and financial crises cannot be ruled out, and social unrest is possible. A further risk is renewed escalation in US–PRC trade tensions.

East Asia

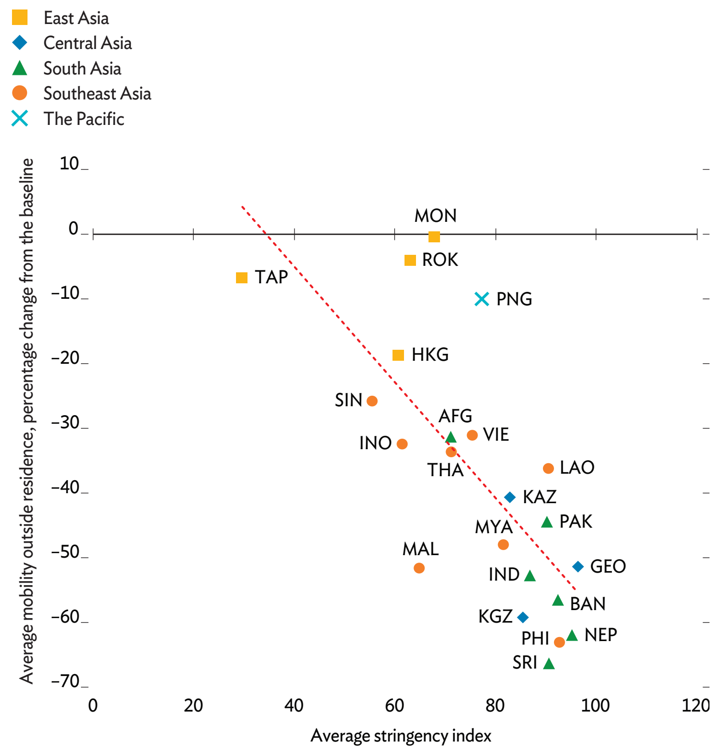
East Asia is the only subregion projected to experience positive growth in 2020, though the forecast is downgraded slightly to 1.3%. In 2021, the subregion is expected to recover and grow by 6.8%. The PRC, the largest economy in the subregion by far, saw GDP contract by 6.8% year on year in Q1, during the peak of its COVID-19 outbreak. In the first 5 months of 2020, value added in industry declined by 2.8%, while real growth in retail sales is estimated to have fallen by 15.8%. In the same period, nominal fixed asset investment declined by 6.3% as manufacturing investment contracted 14.8%, while real estate and infrastructure investment also fell. Meanwhile, merchandise imports declined by 8.2%, reflecting reduced imports of investment goods, while exports fell by 7.7% as a result of lower external demand, with exports to the US declining by 14.1% and those to the European Union by 17.4%.

Given the sharp contraction in Q1 and economic recovery slower than anticipated both domestically and globally, the PRC is now expected to grow by only 1.8% in 2020. This forecast factors in strong fiscal and monetary support. Consumer purchasing power remains burdened by high food prices, rising unemployment, and declining household income in Q1 of 2020—all of these factors weakening domestic demand. Investment will be supported by higher infrastructure investment financed by local government issues of special bonds. Real estate investment should gradually recover in the remainder of 2020, but manufacturing investment is expected to contract in the whole of 2020 as producer prices, corporate profits, and exports suffer under weaker global and domestic demand. Economic growth is now forecast to bounce back from a low base to 7.4% in 2021. The main downside risks to the forecast are disappointing global economic recovery and possible reescalation of the trade conflict with the US.

The economy of Hong Kong, China contracted sharply by 8.9% in Q1 of 2020 from a year earlier, its steepest fall on record. The recession deepened as the threat of COVID-19 and the impact of containment measures seriously disrupted domestic and external demand. A fall in private consumption expenditure reached 10.1% as social distancing measures disrupted consumption-related activities and worsening labor market conditions dealt a severe blow to consumer sentiment, while investment expenditure overall contracted by 14.3% amid subdued business sentiment and as construction slowed. Exports of goods declined by 9.9% and those of services plummeted by 37.8% as inbound tourism and cross-border transport and other commercial services suffered.

Figure 3 Stringency and mobility in developing Asia

Lockdowns have reduced mobility.



AFG = Afghanistan, BAN = Bangladesh, GEO = Georgia, HKG = Hong Kong, China, IND = India, INO = Indonesia, KAZ = Kazakhstan, KGZ = Kyrgyz Republic, LAO = Lao People's Democratic Republic, MAL = Malaysia, MON = Mongolia, MYA = Myanmar, NEP = Nepal, PAK = Pakistan, PNG = Papua New Guinea, PHI = Philippines, ROK = Republic of Korea, SIN = Singapore, SRI = Sri Lanka, TAP = Taipei,China, THA = Thailand, VIE = Viet Nam.

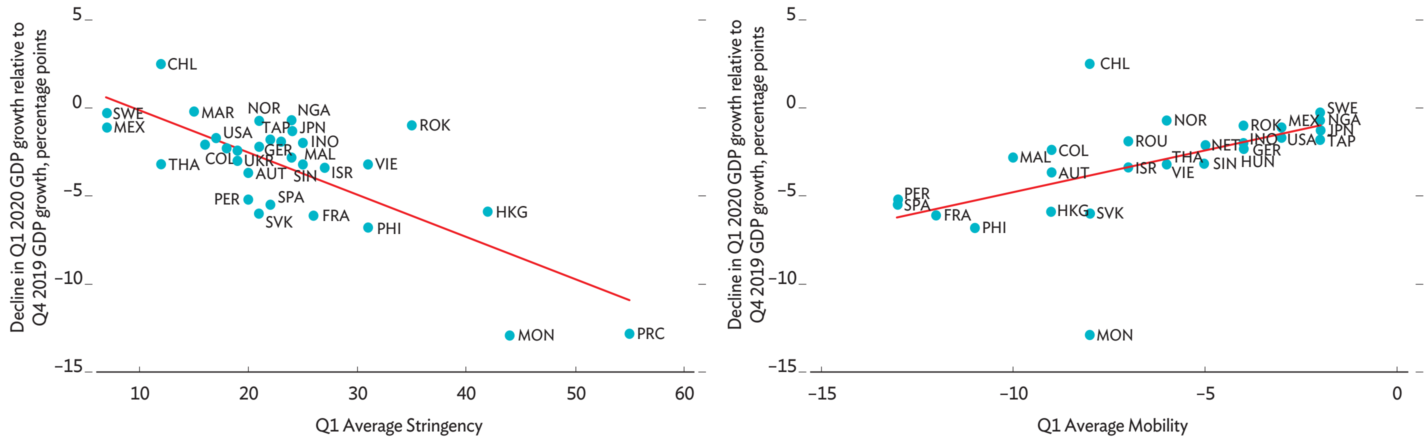
Sources: ADB estimates using data from University of Oxford. Our World in Data. https://ourworldindata.org/grapher/covid-stringency-index; Google. Community Mobility Reports. https://www.google.com/covid19/mobility.

Uncertainty surrounding the COVID-19 pandemic and the global recession will continue to dampen economic sentiment. Risks of a deeper downturn are significant, with renewed local political tensions posing a further threat to economic recovery. Such key drivers of growth as exports and tourism are likely to remain subdued. Even with a massive relief package and assuming some gradual recovery from the second half of this year, activity is expected to contract by 6.5% for 2020 as a whole. The forecast for 2021 is growth at 5.1%.

In the Republic of Korea, Q1 GDP growth slowed to 1.3% year on year as social distancing hit consumption hard and kept businesses closed, and as global economic activity deteriorated. Private consumption posted its sharpest quarterly decline since the Asian financial crisis of 1997–1998, by 4.7% year on year, as COVID-19 weighed on sentiment and kept people homebound. Government consumption grew by 7.1%, however, and fixed investment rebounded by 2.7% thanks to an upturn before the outbreak. Similarly, exports of goods and services grew by 4.9% in Q1 on the strength of shipments of key exports before the crunch—quickly reversing

Figure 4 GDP growth declines in Q1 of 2020 and their association with Q1 stringency and mobility

Both lockdown stringency and decline in mobility are associated with weaker economic activity.



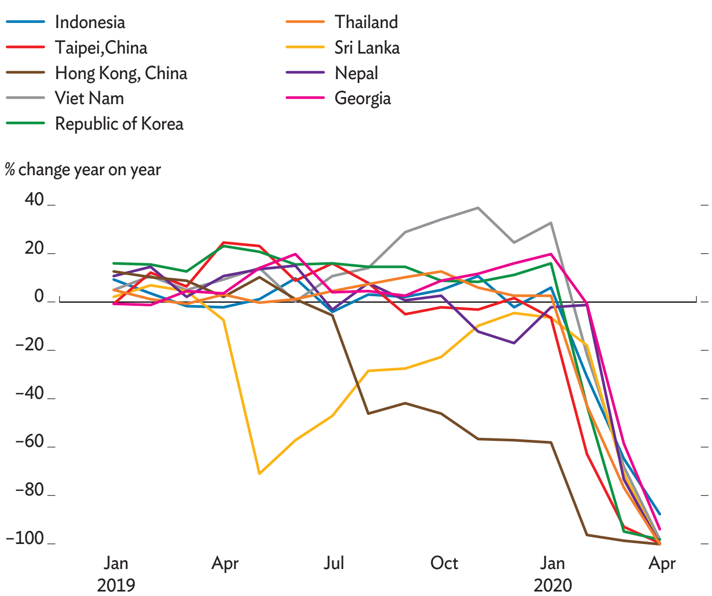
AUT = Austria, CHL = Chile, COL = Colombia, FRA = France, GDP = gross domestic product, GER = Germany, HKG = Hong Kong, China, HUN = Hungary, INO = Indonesia, ISR = Israel, JPN = Japan, MAL = Malaysia, MAR = Morocco, MEX = Mexico, MON = Mongolia, NET = Netherlands, NGA = Nigeria, NOR = Norway, PER = Peru, PHI = Philippines, PRC = People's Republic of China, Q = quarter, ROK = Republic of Korea, ROU = Romania, SIN = Singapore, SPA = Spain, SVK = Slovakia, SWE = Sweden, TAP = Taipei,China, THA = Thailand, UKR = Ukraine, USA = United States, VIE = Viet Nam.

Notes: GDP growth declines in Q1 of 2020 are calculated relative to GDP growth in Q4 of 2019. Stringency is the Q1 average of the stringency index, and mobility is the Q1 average of nonresidential components of Google's mobility index.

Sources: CEIC Data Company, ADB estimates using data from University of Oxford. Our World in Data. https://ourworldindata.org/grapher/covid-stringency-index; Google. Community Mobility Reports. https://www.google.com/covid19/mobility.

Figure 5 Decline in tourist arrivals, selected economies in developing Asia

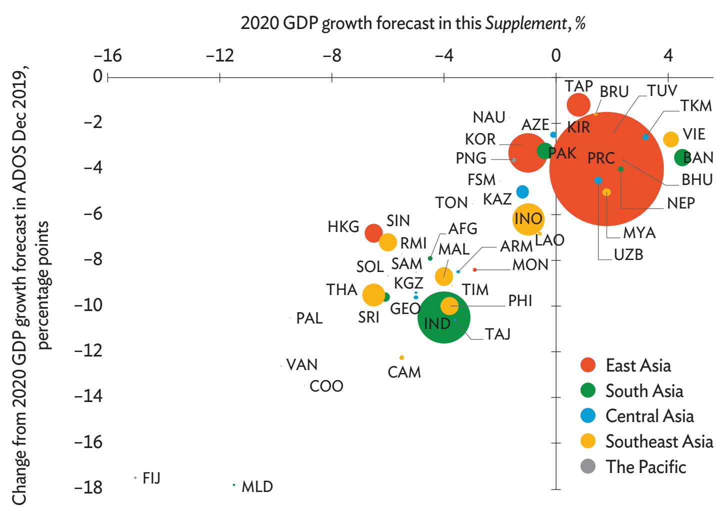
Developing Asia has been hit hard by the global tourism collapse.



Source: CEIC Data Company.

Figure 6 COVID-19 impact on developing Asia's growth

Contractions in activity are now expected in most of developing Asia.



ADOS = *Asian Development Outlook Supplement*, AFG = Afghanistan, ARM = Armenia, AZE = Azerbaijan, BAN = Bangladesh, BHU = Bhutan, BRU = Brunei Darussalam, CAM = Cambodia, COO = Cook Islands, FIJ = Fiji, FSM = Federated States of Micronesia, GDP = gross domestic product, GEO = Georgia, HKG = Hong Kong, China, IND = India, INO = Indonesia, KAZ = Kazakhstan, KGZ = Kyrgyz Republic, KIR = Kiribati, LAO = Lao People's Democratic Republic, MAL = Malaysia, MLD = Maldives, MON = Mongolia, MYA = Myanmar, NAU = Nauru, NEP = Nepal, PAK = Pakistan, PAL = Palau, PHI = Philippines, PNG = Papua New Guinea, PRC = People's Republic of China, RMI = Republic of the Marshall Islands, ROK = Republic of Korea, SAM = Samoa, SIN = Singapore, SOL = Solomon Islands, SRI = Sri Lanka, TAJ = Tajikistan, TAP = Taipei,China, THA = Thailand, TIM = Timor-Leste, TKM = Turkmenistan, TON = Tonga, TUV = Tuvalu, UZB = Uzbekistan, VAN = Vanuatu, VIE = Viet Nam.

Note: Bubble size indicates the value of 2019 nominal GDP.

Sources: *Asian Development Outlook* database; ADB estimates.

Box 1 Outlook for the major advanced economies

Contraction in the global economy in the second quarter (Q2) of 2020 will be very sharp. Containment policies to stem the COVID-19 outbreak are inhibiting economic activity in many economies, not least in the largest ones. The global recovery will be protracted, not V-shaped, as normalization will be hampered by continued social distancing, possible outbreak recurrences, a very weak external environment, and disrupted supply chains. Q1 GDP releases showed contraction in the major advanced economies, even though the outbreaks and lockdowns in the United States and Europe intensified only in March, the quarter's final month. All three economies expect deep contraction in 2020. In aggregate, the major advanced economies are expected to contract by 5.8% in 2020 before growth resumes at 4.1% in 2021 (box table).

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

	2019	2020		2021	
Area	Actual	*ADO 2020*	*ADOS*	*ADO 2020*	*ADOS*
Major advanced economies	**1.7**	**–0.3**	**–5.8**	**1.8**	**4.1**
United States	2.3	0.4	–5.3	2.1	3.8
Euro area	1.2	–1.0	–7.0	1.6	5.5
Japan	0.7	–1.5	–5.0	0.9	2.0

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. 2020. *Asian Development Outlook 2020*; ADB estimates.

GDP in the United States contracted by 5.0% in Q1 of 2020 in seasonally adjusted annualized terms (as assumed for all quarterly growth rates in this box unless otherwise stated). This was the sharpest drop since Q4 of 2008 and all the more worrisome considering that the US surpassed 1,000 cases nationwide only in the second week of March. All components of aggregate demand fell except for government spending, which was raised to cushion the economic downturn. Private consumption fell sharply, plunging from 1.8% growth in Q4 of 2019 to 6.8% contraction in Q1 of 2020, mostly from a fall in spending on durable goods. Investment contracted by 10.5%, mainly in areas other than residential.

Measures to contain the pandemic such as social distancing, business closures, and travel restrictions have hit the economy hard. Retail sales and industrial production slipped in March before plunging in April. The labor market suffered unprecedented collapse, with nonfarm employment losing 1,373,000 jobs in March and a staggering 20,687,000 jobs in April, sending the unemployment rate soaring to 14.7%, the highest since the Great Depression of the 1930s. Consumer confidence slipped and fell from an index reading of 128.3 in February to 114.9 in March and 82.9 in April. The composite purchasing managers' index (PMI) sank to 41.8 in April, its lowest since March 2009, with manufacturing and nonmanufacturing components alike plunging deeply into contractionary territory. Economic activity improved somewhat in May as the containment measures were gradually relaxed. Unemployment rate fell to 13.3% as nonfarm employment regained 2,509,000 jobs, and both consumer confidence and the composite PMI improved a little to 83.8 and 45.1, respectively.

To cushion the negative impact of the pandemic, the government pledged $484 billion for the Paycheck Protection Program and Health Care Enhancement Act, and an estimated $2.3 trillion, equal to 11% of GDP, for the Coronavirus Aid, Relief, and Economy Security (CARES) Act, which funds fast and direct economic assistance for American workers, families, and small businesses, as well as measures to preserve jobs in American industry. Turning to monetary policy, the Federal Reserve cut the fed funds rate to the floor and introduced facilities to support credit flow, which in some cases is backed by the Treasury using funds appropriated under the CARES Act.

Economic growth is expected to plunge in Q2 before consolidating in Q3 and reaccelerating in Q4. Strong growth should continue to the first half of 2021 and normalize in the second half, but GDP will languish below its pre-COVID level to the end of 2021. On an annual basis, GDP is forecast to contract by 5.3% in 2020, then grow by 3.8% in 2021.

Euro area GDP plummeted by 14.2% in Q1 of 2020, the worst contraction since before the common currency was launched in 1999. Across the major economies, growth shrank by 21.4% in France, by 19.4% in Spain, and by 17.7% in Italy, despite the latter's lockdown being in place for longer. Growth in Germany contracted by 8.6% in Q1.

Leading indicators suggest a much steeper fall in activity in Q2, when most economies adopted stricter lockdowns. The composite PMI plunged from 29.7 in March to 13.5 in April, its lowest since July 1998. The service sector suffered the steepest fall, its PMI sliding from 26.4 in March to 11.7 in April. The travel and tourism, accommodation, and restaurant industries were severely hit. The manufacturing PMI also fell, from 38.5 in March to 18.4 in April, while the economic sentiment indicator slumped from 94.2 in March to 67.0 in April. Labor market conditions had already begun to deteriorate in March as the number of unemployed increased by 197,000, edging the unemployment rate up from 7.3% in February to 7.4%.

The COVID-19 pandemic is hammering the euro area economy, disrupting both supply and demand. Private consumption this year is expected to contract sharply, with household spending constrained by lockdowns and lost income, and expenditure on travel and services projected to remain subdued even after containment measures are lifted. Investment is likely to take a double-digit hit, given

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Box 1 *Continued*

the worsening economic environment. External trade is expected to fall by 13% as global and intraregional value chains are disrupted.

Substantial monetary and fiscal relief has been enacted to mitigate the effects of the crisis. To prevent temporary liquidity shortages from snowballing into solvency crises, the European Central Bank announced the Pandemic Emergency Purchase Programme in mid-March and, on 30 April, lowered its rates on long-term liquidity auctions. On 9 April, euro area ministers approved an emergency package worth €540 billion to help countries through the European Stability Mechanism, companies through the European Investment Bank, and workers through the newly established Support to Mitigate Unemployment Risks in an Emergency (SURE). Taking these measures into account and assuming lockdowns are gradually relaxed in the second half of this year, the euro area is forecast to contract by 7.0% in 2020, recovering to 5.5% growth in 2021.

Japan—having recorded in Q4 of 2019, following October's consumption tax hike, its worst contraction in more than 5 years—saw contraction deepen further in Q1 of 2020 to 3.4%. A slight recovery bracketing the turn of the year was immediately reversed as the pandemic slowed economic activity significantly in March, such that Q1 private consumption fell by 2.8%, investment by 4.3%, and exports by a sharp 21.8%. An increase in the number of COVID-19 cases prompted the government to declare a state of emergency on 16 April, at first in only a few prefectures but later nationwide. Restrictions took the form of recommendations rather than strict rules and were lifted in many areas by the end of May. While supply disruption may be less damaging in Japan than in other countries, a severe hit to consumption and external demand will further drag down growth in Q2.

While retail sales in March fell by 4.5% from the previous month, consumer spending overall may have fared worse, as the retail sales figure excludes expenditure on services which was severely hit. Industrial production in March fell by 3.8% from the previous month. Exports, which had started to recover at the top of the year, declined sharply in April by 19.1% year on year.

The manufacturing PMI dropped in May to 38.4, its lowest recorded value, while the services PMI improved from a low of 21.5 to 25.3 as restrictions eased in some prefectures. According to the Tankan Survey of Enterprises, manufacturers' sentiment on business conditions was very weak in Q1. Consumer confidence plunged from 31.2 in March to 22.1 in April as concerns over income and job security deepened under stringent containment measures. Amid weak activity and a plunge in oil prices, headline inflation fell from 0.4% in March to 0.2% in April. Core inflation, which excludes fresh food and energy, turned negative for the first time since 2016 with 0.2% deflation.

Fiscal stimulus worth ¥117 trillion, equal to 21% of GDP, and accommodative monetary policy are the main tools for softening the economic impact and supporting a recovery expected from the second half of 2020. However, the severe hit to sentiment and damage to supply chains and external demand will make for a slow recovery. The GDP forecast is revised down to 5.0% contraction in 2020, with growth returning at 2.0% in 2021. The main risks to the outlook are slumps in consumption and investment that exceed current expectations and weak external demand stemming from the prolonged impact of the pandemic.

to double-digit declines in April and May, a trend that is likely to persist given global recession. Private consumption will remain soft because of continuing uncertainty, high debt servicing costs, and subdued employment. With fiscal stimulus and accommodative monetary policy providing some support, GDP is now expected to contract by 1.0% in 2020, rebounding to 3.5% in 2021.

Economic growth in Taipei,China has been relatively resilient, but expansion by 1.5% year on year in Q1 of 2020 was the economy's lowest quarterly growth rate since Q1 of 2016. Domestic activity drove the slowdown as the COVID-19 pandemic weakened domestic consumption, which contracted by 1.6% from a 3.0% growth in the previous quarter. Investment growth declined to 5.7% from 10.1% as heightened uncertainty hit business confidence, while government consumption expanded by 3.3% from 1.8% on the back of fiscal stimulus measures. Net exports narrowed by 4.1% in Q4 of 2019 but increased by 4.7% in Q1 of 2020. Exports declined by 2.4 % due to waning external demand from a previous quarter growth of 2.4% and imports shrunk by 3.9% after expanding by 4.3% in Q4 of 2019 as domestic demand and investment growth dropped. The GDP growth forecast is revised down to 0.8% for 2020 with the expectation that private consumption will remain weak in Q2 before recovering slightly in the second half of the year. Growth is forecast at 3.5% in 2021, facilitated by accommodative monetary policy and fiscal stimulus worth $35 billion, equal to 5.6% of GDP.

South Asia

With the impact of COVID-19 on South Asia becoming clearer, the economic outlook is grim. After the introduction of lockdowns in late March, economic activity in South Asia has stalled. While the pandemic continues to spread throughout the subregion, containment measures have started to ease, and economic activity has resumed somewhat in many countries in the subregion since late May. The projection for 2020 is revised down, from growth at 4.1% in *Asian Development Outlook 2020* (*ADO 2020*) to contraction by 3.0%. The projection for 2021 is revised down from 6.0% to 4.9%. The authorities in the subregion have applied

Table 1 GDP growth rate and inflation, % per year

	GDP growth					Inflation				
	2019	2020		2021		2019	2020		2021	
		ADO 2020	*ADOS*	*ADO 2020*	*ADOS*		*ADO 2020*	*ADOS*	*ADO 2020*	*ADOS*
Central Asia	**4.9**	**2.8**	**–0.5**	**4.2**	**4.2**	**7.5**	**7.6**	**8.0**	**6.3**	**6.6**
Armenia	7.6	2.2	–3.5	4.5	3.5	1.4	2.8	1.2	2.2	2.5
Azerbaijan	2.2	0.5	–0.1	1.5	1.2	2.6	2.5	2.8	3.5	3.5
Georgia	5.1	0.0	–5.0	4.5	5.0	4.9	4.5	5.0	3.0	3.5
Kazakhstan	4.5	1.8	–1.2	3.6	3.4	5.3	6.0	7.9	5.7	6.2
Kyrgyz Republic	4.5	4.0	–5.0	4.5	4.0	1.1	3.5	7.0	3.0	5.0
Tajikistan	7.5	5.5	–3.6	5.0	7.0	8.0	9.0	10.0	8.0	8.5
Turkmenistan	6.3	6.0	3.2	5.8	5.8	13.4	13.0	8.0	8.0	8.0
Uzbekistan	5.6	4.7	1.5	5.8	6.5	14.6	13.0	13.0	10.0	10.0
East Asia	**5.4**	**2.0**	**1.3**	**6.5**	**6.8**	**2.6**	**3.2**	**2.9**	**1.8**	**1.8**
Hong Kong, China	–1.2	–3.3	–6.5	3.5	5.1	2.9	2.0	1.5	2.5	2.5
Mongolia	5.1	2.1	–1.9	4.6	4.7	7.3	6.6	6.4	7.9	8.2
People's Republic of China	6.1	2.3	1.8	7.3	7.4	2.9	3.6	3.3	1.9	1.9
Republic of Korea	2.0	1.3	–1.0	2.3	3.5	0.4	0.9	0.5	1.3	1.3
Taipei,China	2.7	1.8	0.8	2.5	3.5	0.6	0.4	0.2	0.8	0.8
South Asia	**4.3**	**4.1**	**–3.0**	**6.0**	**4.9**	**5.0**	**4.1**	**4.0**	**4.4**	**4.5**
Afghanistan	3.0	3.0	–4.5	4.0	3.0	2.3	2.3	5.0	3.5	4.5
Bangladesh	8.2	7.8	4.5	8.0	7.5	5.5	5.6	5.6	5.5	5.5
Bhutan	4.4	5.2	2.4	5.8	1.7	2.8	3.8	2.8	4.0	4.0
India	4.2	4.0	–4.0	6.2	5.0	4.8	3.0	3.0	3.8	4.0
Maldives	5.9	–3.0	–11.3	7.5	13.7	0.2	1.0	1.0	1.2	1.2
Nepal	7.0	5.3	2.3	6.4	3.1	4.6	6.0	6.6	5.5	6.5
Pakistan	1.9	2.6	–0.4	3.2	2.0	6.8	11.5	11.0	8.3	8.0
Sri Lanka	2.3	2.2	–6.1	3.5	4.1	4.3	5.0	4.0	4.8	4.2
Southeast Asia	**4.4**	**1.0**	**–2.7**	**4.7**	**5.2**	**2.1**	**1.9**	**1.0**	**2.2**	**2.3**
Brunei Darussalam	3.9	2.0	1.4	3.0	3.0	–0.4	–0.2	0.4	0.1	0.4
Cambodia	7.1	2.3	–5.5	5.7	5.9	1.9	2.1	2.1	1.8	1.8
Indonesia	5.0	2.5	–1.0	5.0	5.3	2.8	3.0	2.0	2.8	2.8
Lao People's Dem. Rep.	5.0	3.5	–0.5	6.0	4.5	3.3	4.0	5.5	4.5	5.0
Malaysia	4.3	0.5	–4.0	5.5	6.5	0.7	1.0	–1.5	1.3	2.5
Myanmar	6.8	4.2	1.8	6.8	6.0	8.6	7.5	6.0	7.5	6.0
Philippines	6.0	2.0	–3.8	6.5	6.5	2.5	2.2	2.2	2.4	2.4
Singapore	0.7	0.2	–6.0	2.0	3.2	0.6	0.7	–0.2	1.3	0.8
Thailand	2.4	–4.8	–6.5	2.5	3.5	0.7	–0.9	–1.3	0.4	0.7
Timor–Leste	3.4	–2.0	–3.7	4.0	4.0	0.9	1.3	1.3	1.8	1.8
Viet Nam	7.0	4.8	4.1	6.8	6.8	2.8	3.3	3.0	3.5	3.5
The Pacific	**3.7**	**–0.3**	**–4.3**	**2.7**	**1.6**	**3.0**	**2.7**	**2.9**	**3.8**	**3.8**
Cook Islands	5.3	–2.2	–9.0	1.0	–15.4	0.8	1.5	1.5	1.7	1.7
Federated States of Micronesia	3.0	1.6	–2.0	3.0	–1.5	1.0	0.5	0.5	1.0	1.0
Fiji	0.5	–4.9	–15.0	3.0	–0.7	1.8	1.5	1.2	3.5	3.0
Kiribati	2.4	1.6	0.6	1.8	1.8	–1.8	1.0	1.0	1.1	1.1
Marshall Islands	3.8	2.5	–5.5	3.7	–1.4	0.1	0.3	0.3	0.5	0.5
Nauru	1.0	0.4	–1.7	1.1	0.8	3.9	2.8	1.5	2.3	1.7
Niue	...	...	...	...	...	...	...	...	...	...
Palau	–1.8	–4.5	–9.5	1.2	–12.8	0.6	0.4	0.4	0.8	0.8
Papua New Guinea	4.8	0.8	–1.5	2.8	2.9	3.6	3.3	3.3	4.4	4.4
Samoa	3.5	–3.0	–5.0	0.8	–2.0	2.2	2.0	2.8	2.5	2.5
Solomon Islands	1.2	1.5	–6.0	2.7	2.5	1.6	2.0	4.5	2.3	3.0
Tonga	3.0	0.0	–3.0	2.5	–4.0	4.1	1.3	1.3	2.2	1.8
Tuvalu	4.1	2.7	2.0	3.2	2.5	3.3	3.5	3.0	3.5	3.0
Vanuatu	2.9	–1.0	–9.8	2.5	2.0	2.5	1.5	4.0	2.0	2.2
Developing Asia	**5.1**	**2.2**	**0.1**	**6.2**	**6.2**	**2.9**	**3.2**	**2.9**	**2.3**	**2.4**
Developing Asia excluding the NIEs	**5.6**	**2.4**	**0.4**	**6.7**	**6.6**	**3.3**	**3.6**	**3.2**	**2.5**	**2.5**

... = not available, ADO = *Asian Development Outlook*, ADOS = *ADO Supplement*. GDP = gross domestic product, NIEs = newly industrialized economies of Hong Kong, China; the Republic of Korea; Singapore; and Taipei,China.

Sources: *Asian Development Outlook* database; ADB estimates.

significant fiscal and monetary support to fight the pandemic and cushion its adverse impact. However, the partial and slow reopening of economies as infections continue to rise makes for a difficult growth environment. Recovery is expected to be slow. Growth in Indian GDP slowed to 3.1% in the last quarter of fiscal year 2019 (FY2019, ended 31 March 2020), its slowest since early 2003. Economic growth slowed to 4.2% in the whole of FY2019 as both exports and investment started to contract. High-frequency indicators such as purchasing managers' indexes fell to all-time lows in April, reflecting the bleak outlook. Migrant workers have gone home to their villages after losing their jobs in the cities and will be slow to return even after containment measures are relaxed. GDP is expected to contract by 4.0% in FY2020 before rebounding by 5.0% in FY2021.

Bangladesh, Bhutan, and Nepal are likely to grow in FY2020, but, with the pandemic affecting the last quarter of their fiscal years (ending 30 June 2020 in Bangladesh and Bhutan and 15 July 2020 in Nepal), their growth projections are downgraded. Bangladesh had strong growth before the pandemic, but COVID-19 has hit export earnings, and remittances are likely to have fallen sharply in March and April. GDP growth there is projected to slow to 4.5% in FY2020 but recover to 7.5% in FY2021, helped by strong manufacturing. In Bhutan, border closings affect not only tourism but also manufacturing and construction, which depend on migrant labor from India, so the effect of COVID-19 may be greater in FY2021 than in FY2020. GDP growth is therefore projected at 2.4% in FY2020 before falling to 1.7% in FY2021. In Nepal, the official advance estimate of GDP growth is 2.3% in FY2020, a drop by more than two-thirds from FY2019 as COVID-19 affected construction, transport, tourism, wholesale and retail trade, and remittances. If the lockdown is extended, growth this year will be even lower. Growth in FY2021 is projected at 3.1%, still significantly below trend. Pakistan's economy was on the path to recovery before COVID-19 and a national lockdown initiated on 1 April. It is projected to contract by 0.4% in FY2020 (ending 30 June 2020) as the outbreak further restricts economic activity. Once the COVID-19 impact subsides, Pakistan will resume its efforts to address macroeconomic imbalances and initiate structural reform, likely holding economic growth to a projected 2.0% in FY2021.

Afghanistan, Maldives, and Sri Lanka will bear the full impact of COVID-19 in the 2020 calendar year, with their economies expected to contract significantly. In Afghanistan, transport and trade are disrupted by international border closures, and remittances fell sharply as many Afghans returned from work overseas. This fragile economy is expected to contract by 4.5% in 2020. The Maldives has received no tourist arrivals since 27 March, when visas were suspended and all scheduled flights canceled. Economic growth collapsed, and the economy is expected to contract by 11.3% in 2020. Sri Lanka's forecast for 2020 is downgraded to contraction by 6.1%, with stringent domestic lockdown measures and the global spillover from COVID-19 assumed to have pummeled economic activity in the second quarter. If the pandemic dissipates in 2021, these three economies are set to rebound to growth by 3.0% in Afghanistan, 13.7% in Maldives, and 4.1% in Sri Lanka. Maldives' recovery is expected to be particularly strong as its high-end tourist clientele have been less affected by the pandemic.

Southeast Asia

The global battle against COVID-19 left Southeast Asia experiencing a broad decline in consumption, investment, and trade. All subregional economies decelerated under restrictions on movement imposed by governments to contain the outbreak. The more open economies of Malaysia, Singapore, Thailand, and Viet Nam were hit by slumping global trade and demand. In addition, tourist arrivals plunged in response to stringent travel restrictions and quarantine requirements, eviscerating the aviation, hospitality, and retail industries. Most countries in the subregion have started to relax restrictions, but weak consumer confidence may hinder economic recovery. Moreover, external demand will remain muted for the rest of this year as the global economy contracts.

Indonesia saw growth in Q1 of 2020 drop to 3.0% year on year, its slowest pace since 2001. Domestic consumption growth fell to 2.8% as households reduced discretionary spending, though public consumption picked up gradually. Growth in fixed investment decelerated to 1.7% as investment in buildings and other structures wound down and investment in machinery and equipment contracted. Meanwhile, sustained demand for palm oil and metal ores partly countered contraction in exports of services and oil and gas. With household consumption falling sharply in Q1 of 2020 and limited prospects for recovery of investment and exports in the near term, growth is forecast to contract by 1.0% in 2020, but then expand by 5.3% in 2021 on stronger household discretionary spending and global economic recovery. Investment reform in 2020 should spur growth further in the second half of 2021.

Growth in Malaysia fell to just 0.7% year on year in Q1 of 2020. As the COVID-19 pandemic affected global supply chains in Q1, exports of goods and services shrank by 7.1%. Investment also declined as public investment fell by 11.3% and private investment by 2.3%. Consumption remained a bright spot in the economy, growing by 6.5% as stronger public consumption offset weaker private consumption. However, with movement throughout the country restricted since 18 March to arrest the spread of COVID-19, domestic consumption is expected to contract in Q2. External demand is likely to be similarly weak as trade partners continue to grapple with the effects of COVID-19. With the outlook having deteriorated since *ADO 2020*, the Malaysian economy is expected to contract by 4.0% in 2020 before recovering to 6.5% growth in 2021.

The Philippines contracted by 0.2% year on year in Q1 of 2020 as border restrictions crimped tourism receipts and quarantine measures depressed demand. Growth in household consumption, comprising three-fourths of GDP, was flat, and investment slumped by 18.3%, mainly on lower outlays for machinery and equipment. Government consumption, however, rose by 7.1%. Exports and imports fell as external demand weakened and supply chains were disrupted. On the supply side, all major sectors decelerated. Growth in services slid from 7.1% in Q1 of 2019 to 1.4% with weakening transport and accommodation, food services, and trade. Industry dropped by 3.0% with lower construction and manufacturing, and agriculture fell by 0.4%. The forecast for 2020 is revised down to 3.8% contraction because household consumption and investment have slowed more than expected. The contraction in the global economy will continue to drag external trade, tourism and remittances. The forecast for 2021 is maintained at 6.5%, supported by public infrastructure spending and anticipated recovery in consumer and business confidence.

Singapore shrank by 0.7% year on year in Q1 of 2020 as services contracted by 2.4% and construction by 4.0%. Meanwhile, manufacturing grew by 6.6%, buoyed by the biomedical manufacturing, precision engineering, and transport engineering clusters. Domestic demand grew by 0.5% on growth in public consumption expenditure and in investment, both public and private. In the rest of 2020, construction is seen to suffer as it grapples with interrupted supplies of materials and migrant labor. External demand and trade will be affected by supply chain disruption, but the impact may vary by industry. Oil and electronics will continue to drop, but biomedical manufacturing and precision engineering may see positive demand arising from the pandemic in the short term. Growth in most service segments will continue to be weighed down, but information and communication technology will expand as more business moves online. The forecast for 2020 is adjusted down to contraction by 6.0% following stringent measures to contain COVID-19 and the weakening of external demand and trade. The GDP growth forecast for 2021 is revised up to 3.2% with gradual recovery in most areas, but this depends on how well the pandemic is contained domestically and globally, as well as on developments in persistent US–PRC trade tensions.

Thailand contracted by 1.8% year on year in Q1 of 2020 as consumption and investment slumped, the public side of both categories shrinking as the budget was delayed. Private investment was hampered by weaker domestic consumption and business sentiment under the COVID-19 pandemic. On the supply side, merchandise exports grew moderately, aided by high gold prices, but were constrained as declines hit exports of rice, rubber, vehicles, and chemical and petrochemical products. Service exports plunged in tandem with a significant fall in tourism receipts. With these developments and weaker external demand outlook, which is likely to drag export of goods and services substantially lower, the forecast for contraction in Thailand is deepened from 4.8% to 6.5% in 2020, but the projection for growth in 2021 is revised up from 2.5% to 3.5%.

Growth in Viet Nam decelerated to 3.8% year on year in Q1 of 2020 but regained some strength in May since the lifting of social distancing in mid-April. Agriculture stagnated under lower external demand for agricultural exports and prolonged drought. Growth in services was halved from 6.5% in 2019 to 3.2% year on year in Q1 of 2020. A strong uptick in domestic tourism in May was not enough to offset a 98% drop in foreign tourists compared to May 2019. The trade surplus in January to May declined significantly as demand from the economy's principal export markets plunged. Growth of agriculture, industry, and services is forecast to continue to decelerate in 2020 due to sharp fall in external demand. Although domestic consumption has revived in May, it still lacks steam because corporate and individual incomes have declined. The global economic weakness is seen to inhibit growth and the growth forecast for 2020 is thus adjusted down to 4.1% in 2020. Growth is expected to bounce back to 6.8% in 2021.

Central Asia

The COVID-19 pandemic prompts a downward adjustment to the 2020 projection for Central Asia from 2.8% growth to 0.5% contraction. The 4.2% growth projection for 2021 is unchanged. The 2020 forecast for Kazakhstan, the largest economy in the subregion, is revised down from 1.8% growth to 1.2% contraction, with the growth forecast for 2021 only marginally adjusted from 3.6% to 3.4%. The first 4 months of 2020 saw contraction by 0.2% year on year. The service sector was the most significantly affected, shrinking by 4%, while growth remained positive in the rest of the economy. Mining grew by 6%, primarily from oil and gas extraction, but such growth is unlikely in the rest of this year as Kazakhstan adheres to oil production cuts agreed by the Organization of the Petroleum Exporting Countries and others (OPEC+). A 1-month state of emergency declared on 15 March was subsequently extended several times to 11 May, and local quarantine measures and strict social distancing will likely continue to be applied selectively. The government's fiscal stimulus package, equal to 9% of GDP, is expected to mitigate the economic downturn. As of early May, social protection payments were made to 4.5 million applicants who had lost incomes because of the emergency measures. Bonuses and additional payments were given to medics, police, and other staff involved in COVID-19 prevention and treatment.

As the pandemic drags on, growth projections for all other economies in the subregion are revised down for 2020, but with some of them expected to recover more firmly in 2021 than earlier projected. Growth rates for Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, and Tajikistan are expected to turn negative this year. Armenia and Georgia have been affected by deteriorating external demand caused by losses in tourism, net exports, and foreign direct investment, as well as lower remittances from the Russian Federation and reduced household incomes. In Tajikistan, an estimated 500,000 migrant workers—5.2% of the whole population—

were unable to return to work abroad at the start of the 2020 migrant work season because of rapidly falling oil prices in Q1 of 2020 and other negative impacts on the Russian Federation caused by COVID-19. In the Kyrgyz Republic, COVID-19 disrupted imports of raw materials, equipment, and food from the PRC and other major trade partners, and remittances are expected to fall with economic slowdowns in Kazakhstan and the Russian Federation. Despite the absence of officially reported COVID-19 cases, the economy of Turkmenistan has been hit hard by trade disruption and low oil and gas prices. Remittances into Uzbekistan are expected to decline until the beginning of 2021 as migrant workers are unable to travel to seasonal employment in the Russian Federation, and demand for export commodities remains weak throughout 2020. For Azerbaijan, this year's growth projection turned negative mainly because of sluggish public and private investment, among other factors.

The Pacific

Economic contraction in the Pacific is now forecast at 4.3% in 2020 because of the COVID-19 pandemic, much deeper than the 0.3% drop projected in *ADO 2020*. In Papua New Guinea (PNG), the Pacific's largest economy, restricted trade and travel are seen driving down economic activity in construction, transport, and hotels and restaurants. Although mining seems largely unaffected by the pandemic, the prolonged closure of a major gold mine for other reasons is expected to further dampen PNG growth prospects. Elsewhere, pandemic-related travel restrictions are expected to cause significant declines in Pacific economies dependent on either tourism or labor exports, as both arrivals and departures plunge. Solomon Islands and Vanuatu must contend as well with the aftermath of Cyclone Harold last April.

Growth is still forecast to resume in the Pacific in 2021 but now at 1.6%, not the 2.7% rate forecast in *ADO 2020*. Recovery is expected to begin in most economies in the subregion as trade and travel restrictions are eased, led by PNG, Solomon Islands, and Vanuatu. However, the Cook Islands, Palau, and Tonga are forecast to contract further: their tourism downturns are expected to persist as they continue to impose travel restrictions to safeguard their limited healthcare systems from possible COVID-19 outbreaks.

Inflation outlook

The 2020 inflation forecast for developing Asia is revised down from 3.2% to 2.9%, reflecting depressed demand and lower oil prices. In 2021, inflation is expected to ease to 2.4%, a slightly higher rate than envisaged in *ADO 2020*.

The impact of COVID-19 has been severe for the oil market. Crude oil prices have fallen by as much as 75% since their January 2020 peak as petroleum producers have been hit by weak demand and oversupply. Mitigation measures to stem the pandemic, transport disruptions, and the global economic decline coincided with the collapse of the OPEC+ production agreement last 6 March, putting more downward pressure on oil prices. Although OPEC+ finally reached a new production agreement on 12 April, the agreed cuts failed to lift prices above their pre-COVID 19 levels. The Brent crude price forecast is maintained at $35/barrel for 2020 but revised down to $45/barrel for 2021. Thus, oil prices are still expected to rise in 2021, but less than previously forecast as global recovery is slower than anticipated.

The inflation forecast for East Asia is revised down from 3.2% to 2.9% for 2020 but maintained at 1.8% for 2021. In the PRC, consumer prices increased by an average of 4.1% year on year in the first 5 months of 2020, much higher than 2.1% as recorded a year earlier but broadly in line with expectations in *ADO 2020*. Inflation was driven by a 17.2% increase in food prices, with pork prices more than doubling. Nonfood inflation moderated from 1.7% a year earlier to 0.8%. Producer prices declined by 1.7%, undercut mainly by declines for oil and industrial metals. As the sharp drop in global oil prices was unforeseen, the inflation forecast for the PRC is adjusted down by 0.3 percentage points to 3.3% in 2020. The inflation forecast for 2021 remains unchanged at 1.9%, the projected decline mainly thanks to retreating pork prices.

Elsewhere in East Asia, inflation in Hong Kong, China slowed from 2.3% year on year in March to 1.9% in April. Consumer price pressures are likely to ease in the near term as local and global economic conditions remain subdued and with recent strengthening of the local currency. Thus, the inflation forecast is cut from 2.0% to 1.5% for 2020 but maintained at 2.5% for 2021. In the ROK, inflation in the first 4 months of 2020 was 0.9% year on year. It is expected to remain low through Q3 as people continue to avoid outside activities and global oil and commodity prices remained low. The inflation forecast for 2020 is thus revised down from 0.9% in *ADO 2020* to 0.5%, while the 1.3% forecast for 2021 is retained. Inflation in Taipei,China slipped from 1.9% year on year in January to 1.0% deflation in April, with sharp falls in transportation and communication prices pushing core inflation down to 0.2% contraction. Food inflation was halved from 2.6% in January to 1.3% in April. The inflation forecast for 2020 is revised down to 0.2% but maintained for 2021 at 0.8%.

South Asia is expected to keep inflation muted as overall demand stays weak. Low global oil and commodity prices will put further downward pressure on inflation because South Asia is a big oil importer, and as containment measures suppress demand and reduce incomes. However, expansionary fiscal and monetary policies to fight the pandemic and support recovery could fuel demand and apply upward pressure on prices if demand resumes more quickly than supply, hobbled as it is by supply chain disruption and the slow return of migrant workers. Inflation projections are revised down for 2020 from 4.1% in *ADO 2020* to 4.0% but similarly up for 2021 from 4.4% to 4.5%. In India, fuel prices softened in May 2020, but food inflation stayed elevated that month at 7.4% year on year as supply faltered. As food supply disruption is expected to ease from Q2 of FY2020, inflation projections are unchanged at 3.0% for FY2020 but revised up marginally to 4.0% for FY2021 on accelerating demand. Similarly, food supply disruption and panic buying strongly elevated food prices in Afghanistan, Bhutan, Nepal, and Sri Lanka after the pandemic struck. Inflation projections for Afghanistan and Nepal in 2020 and 2021 are revised up from *ADO 2020*, while those for Bangladesh and Maldives are unchanged. Inflation projections for Bhutan in 2020 and for Pakistan and Sri Lanka in 2020 and 2021 are revised down from *ADO 2020* in line with sharply contracting demand.

Inflation forecasts for Southeast Asia are revised down to 1.0% in 2020 and adjusted slightly up to 2.3% in 2021. Global oil prices have caused domestic fuel and energy prices to slump, particularly in Malaysia, Singapore, Thailand, and Viet Nam. Malaysia slipped into deflation in April 2020, mired mainly by a huge drop in transportation costs brought by plummeting petrol prices. With oil prices likely to remain low, Malaysia is expected to experience deflation at 1.5% in 2020 before crossing back to inflation at 2.5% in 2021. In Singapore, lower prices for transportation, electricity and gas, services, and retail goods brought deflation in April. The forecast for the city-state is revised to 0.2% deflation in 2020 and 0.8% inflation in 2021. In Indonesia, inflation remained low, with administered prices unchanged and prices contained for housing and for transport and communications. In the Philippines, inflation edged lower in April, averaging 2.6% year on year in the first 4 months of 2020. Inflation forecasts for this economy are maintained, however, as lower oil prices offset possibly higher prices for food from feared domestic supply disruption. Across Southeast Asia, ongoing stringent mobility measures in most economies and weakened labor market conditions curbed consumer demand, limiting price pressures for goods and services.

The projected inflation rate for Central Asia as a whole is revised up from 7.6% to 8.0% for 2020 and from 6.3% to 6.6% for 2021, but with notable variation for individual economies. The inflation forecast for 2020 is adjusted upward for Azerbaijan, Georgia, Kazakhstan, the Kyrgyz Republic, and Tajikistan but down for Armenia and Turkmenistan. In Azerbaijan, food prices have been rising under supply constraints. In Georgia, a period of relative price stability early in 2020 ended as inflation started to rise above the central bank target of 3.0% with food price inflation accelerating and the local currency rapidly depreciating. On 3 April 2020, the National Bank of Kazakhstan lowered its key policy rate by 250 basis points to 9.50%, accepting higher inflation in exchange for economic stimulation. With border closures and currency depreciation, inflation in the Kyrgyz Republic is expected to accelerate on higher prices for food and other products. In Tajikistan, average annual inflation sped to 10.6% at the end of April 2020 because of demand side and external factors, including currency depreciation. In Armenia, weak domestic demand, lower international commodity prices, and a bountiful domestic harvest helped contain inflation in the first 4 months of 2020. With weaker demand in Turkmenistan, inflation is projected to decelerate slightly in 2020. In Uzbekistan, inflationary and monetary policy trends remain unchanged from the trajectory presented in *ADO 2020*, as do inflation forecasts.

The 2020 inflation outlook for the Pacific is raised from 2.7% in *ADO 2020* to 2.9%. Despite higher prices now anticipated in Samoa and Solomon Islands from trade bottlenecks related to the COVID-19 pandemic, and in Vanuatu for food in the wake of Cyclone Harold, slower inflation is seen in other economies, notably Fiji, Nauru, and Tuvalu, in line with weaker economic conditions and lower international commodity prices. The subregional inflation projection for 2021 remains at 3.8%.

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