ASIAN DEVELOPMENT OUTLOOK 2014

FISCAL POLICY FOR INCLUSIVE GROWTH

HIGHLIGHTS

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ADO 2014—Highlights

Developing Asia is expected to extend its steady growth. The region's growth is projected to edge up from 6.1% in 2013 to 6.2% in 2014 and 6.4% in 2015. Moderating growth in the People's Republic of China as its economy adjusts to more balanced growth will offset to some extent the stronger demand expected from the industrial countries as their economies recover.

Risks to the outlook have eased and are manageable. The monetary policy shift in the United States may invite some volatility ahead in financial markets, albeit mitigated by accommodative monetary policy in Japan and the euro area. The regional growth outlook depends on continued recovery in the major industrial economies and on the People's Republic of China managing to contain internal credit growth smoothly.

Widening income gaps in developing Asia strengthen the case for greater use of fiscal policy to foster equality of opportunity. While the region has benefited from fiscal prudence in the past, demographic and environmental challenges are expected to compete for public resources in the coming years. To boost public spending on equity-enhancing programs such as education and health without undermining fiscal sustainability, the authorities will need to explore a wide range of options for mobilizing revenue and to build equity objectives into their fiscal plans.

Key messages

- Developing Asia's gross domestic product (GDP) expanded steadily by 6.1% in 2013, the same pace as in the previous year. Higher demand from recovering advanced economies will be dampened somewhat by moderating growth in the People's Republic of China (PRC), such that growth in the region is forecast to edge up to 6.2% in 2014 and 6.4% in 2015.

- The major industrial economies—the United States (US), euro area members, and Japan—grew by a collective 1.0% in 2013. The momentum is expected to quicken to 1.9% in 2014 and 2.2% in 2015. US monetary authorities began phasing out their direct asset purchases as the US economy strengthened, but the consequent tightening of global liquidity can be mitigated by accommodative monetary policy in the euro area and Japan.

- Output in the PRC grew by 7.7% in 2013, matching the performance of the previous year. However, growth is set to slow somewhat in the years ahead as policy promotes growth that is more equitable, sustainable, and balanced. A downtick in growth to 7.5% is forecast for 2014 with additional easing to 7.4% in 2015.

- Growth in India is picking up to 4.9% in FY2013 (ending 31 March 2014), but the economy is still operating below its potential. Reform to resolve impediments to investment could allow growth to accelerate to 5.5% in this fiscal year and further to 6.0% FY2015.

- Soft global commodity prices continue to lighten pressure on consumer prices, allowing inflation to ease to 3.4% in developing Asia. Although further declines in food and fuel prices are envisaged, inflation is forecast to rise to 3.6% in 2014 and 3.7% in 2015 as the authorities in some countries adjust subsidized fuel and power rates.

- The region's current account surplus has flattened, after falling continuously since its peak in 2007. The narrowing surplus recorded by the PRC as it rebalances toward domestic demand will be offset somewhat by the pickup in exports from other export-oriented manufacturing economies and from some natural resource producers.

- Risks to the outlook have eased, and developing Asia can manage them. A shock to PRC growth, or recovery faltering in the major industrial economies, could undermine demand for the region's exports. Another risk that cannot be ruled out is a shock to global financial markets from changes in US monetary policy.

- During the recent period of US quantitative easing, countries that allowed capital inflows to fuel real exchange rate appreciation and undermine their current account balances are most vulnerable to the risk of destabilizing capital outflows. Fortunately, most regional economies have strengthened their economic fundamentals. Looking ahead, strengthening macroprudential measures before the boom can help avert sudden capital reversals that accompany the bust.

- For resource-dependent economies, commodity price swings matter more than volatile capital flows. However, they share equally with other economies the need to strengthen underlying macroeconomic fundamentals and institutions, which can insulate their economies from the destabilizing impacts of commodity price shocks. Better fiscal management and capital budget planning and implementation can convert the benefits of commodity booms into permanent social and physical assets.

- Fiscal policy can help the region tackle rising inequality by fostering equality of opportunity. In the past, Asia used fiscal policy more to support growth than to affect income distribution. The challenge ahead for Asian policy makers is to expand well-designed investments in inclusive growth without jeopardizing the fiscal prudence that has served the region well.

- Public spending on education, health care, and direct transfers can contribute to equity, but Asia underspends not only the advanced economies in these areas but also its peers in Latin America. Though many countries have headroom to increase public spending on equity-promoting programs, sizable future fiscal demands such as those from an aging population will compete for scarce resources. Generating sufficient resources to reverse rising inequality and maintain fiscal sustainability will require exploring all revenue categories.

- Strategic planning and innovative policies can contribute to more inclusive fiscal policy in Asia. A medium-term fiscal framework for inclusive growth should systematize plans for incorporating equity objectives into fiscal policy. Support for such a framework comes from fiscal data able to inform evidence-based policy and from strong political commitment. Innovative measures, such as leveraging information and communication technology for more efficient tax administration, can amplify how effectively fiscal policy supports inclusive growth in the region.

Charting a course for steady growth

Developing Asia's growth prospects

- **Developing Asia adapts to the shifting global landscape.** The US is winding down its crisis-response stimulus as tentative recovery takes hold there. The prospect of tighter global liquidity, mitigated by accommodative monetary policy in Japan and the euro area, has investors pulling back from emerging financial markets. However, developing Asia has managed to stay on top of this transition. Even with reversals of foreign capital flows knocking the region's equity markets and currencies at midyear, GDP expanded by 6.1% in 2013, the same pace as in 2012. With moderating growth in the PRC somewhat balancing improved demand from the advanced economies, developing Asia should expect steady growth extending to the forecast horizon, edging up to 6.2% in 2014 and to 6.4% in 2015.

  » **Growth momentum is building in the major industrial economies.** Combined GDP growth in the US, the euro area, and Japan is expected to pick up to 1.9% in 2014 from 1.0% in 2013 before strengthening further to 2.2% in 2015. Prompted by the strengthening economy, the US Federal Reserve started phasing out its unconventional monetary policies—policies that helped keep the US from sinking back into recession but also spilled over into international capital markets. While the policy shift may mean further volatility ahead in financial markets, developing Asia can manage the risk with appropriate policy responses.

  » **PRC growth is moderating as authorities engineer a more balanced model.** GDP growth in the PRC slowed to 7.7% in 2013 for several reasons: tightened credit growth, pared industrial overcapacity, deepening local government debt, rising wages, currency appreciation, and the continuing shift in the government's development priorities away from quantity toward quality. These underlying factors remain largely relevant. PRC economic expansion is forecast to slow to 7.5% in 2014 and 7.4% in 2015, which will drag somewhat on regional growth.

  » **Despite a forecast pickup in growth, India still underperforms its potential.** India's 4.9% GDP expansion in FY2013 remained well below the estimated long-term pace of 6.0%. Despite this cyclical slowdown, India's capacity for more rapid growth over the long term is high, with a promising outlook for labor, worker skills, capital, infrastructure, and productivity.

But reforms are needed before the economy can achieve and sustain this faster pace. Although growth is envisaged accelerating—to 5.5% in FY2014 and then to 6.0% in FY2015—this forecast rests on the elimination of structural bottlenecks that impede investment.

» **Country-specific factors are temporarily softening growth in the ASEAN-5.** After expanding by 5.2% in 2013, growth in the five largest economies in the Association of Southeast Asian Nations—Indonesia, Malaysia, the Philippines, Thailand, and Viet Nam—will be steady into 2014. Domestic factors and moderating growth in the PRC will largely offset the benefits of higher demand expected from the major industrialized economies. The growth outlook improves to 5.6% in 2015, driven by better performances in the two largest ASEAN economies as inflation cools in Indonesia and political disruption recedes in Thailand.

- **Declining international commodity prices will keep regional inflation low.** Developing Asia experienced relatively mild inflation in 2013, with consumer prices rising by 3.4% on average. Commodity price movements are expected to continue to keep inflation low in the years ahead. The price of crude oil is forecast to soften as higher output from producers outside of the Organization of the Petroleum Exporting Countries offsets rising demand. International food prices, which declined by 7.1% in 2013, will fall further as supplies pick up. Inflation in developing Asia is projected to rise gradually to 3.6% in 2014 and 3.7% in 2015, partly because some authorities are taking advantage of soft oil prices to adjust subsidized fuel and power rates.

- **After 5 consecutive years of decline, the trend for the region's current account surplus has flattened out.** In 2007, before the global financial crisis, developing Asia's current account surplus peaked at 6.5% of its GDP. After narrowing to 1.8% of GDP in 2012, the surplus widened slightly to 2.1% in 2013. However, it is forecast to narrow again to 1.9% through the forecast period. A declining surplus in the PRC, from that economy's shift toward more reliance on domestic demand, is expected to be offset by the widening surpluses (or narrowing current account deficits) of some export-oriented East and Southeast Asian economies and several natural resource exporters.

- **Risks to the outlook have diminished, and regional policy makers can manage them.** The outlook already envisages some slowing of growth in the PRC. However, if efforts there to curb credit expansion are too abrupt and excessively undermine growth, the PRC's deeper slowdown could drag down prospects for its trade partners. Similarly, data on the recovery in the major industrial economies have been mixed, pointing to the possibility that demand for the region's goods from these countries may be softer than envisaged. Finally, most markets have so far taken the ending of US quantitative easing in their stride, but a shock to global financial markets from changes in US monetary policy cannot be ruled out.

Navigating unpredictable financial flows

- **Price stability and prudent fiscal policy are key defenses against external financial shocks.** All countries that received large foreign capital inflows during the episodes of US quantitative easing took on the risk that eventual tapering would trigger sudden outflows. The most vulnerable were those that allowed the influx of capital to induce rapid appreciation in their real exchange rates, undermining their current account balances. Other factors determining the extent of the impact were past inflation and the size of the fiscal deficit. In this respect, emerging Asia economies were no different than other emerging markets across the globe.

- **Macroprudential policies should be preemptive to capital flow reversals, not remedial.** Policies that restrain domestic credit expansion and stabilize real exchange rates soften the impact that external shocks have on domestic financial systems. Evidence suggests that economies with such measures in place before US authorities hinted at tapering their quantitative easing were largely spared the subsequent market turmoil. Macroprudential measures should therefore be implemented during boom times, as they can later help preempt the busts that would otherwise follow capital outflow.

- **Most regional economies have strengthened their economic fundamentals, but more is needed.** The countries that were most buffeted by turnarounds in capital flows in mid-2013 showed symptoms of vulnerability in at least four areas: very high domestic credit growth, escalating inflation, widening current account deficits, and worsening fiscal deficits during the capital-influx stage. Economies in developing Asia have generally improved these indicators but still need to do more to further safeguard their financial sectors. Now may be the time to tighten macroprudential policies, as capital is currently flowing back into the region.

Coping with volatile export prices

- **For resource-dependent economies, commodity price swings matter more than capital flow reversals.** Unexpected commodity price movements account for 10%–30% of real GDP fluctuation in resource-dependent economies. Market-based instruments like forward contracts to hedge against price volatility remain underdeveloped. While precautionary saving is often suggested as a form of insurance, simply setting up a wealth fund is insufficient to guard against commodity market instability. Moreover, resource-dependent countries need to develop diverse economic sectors apart from resources to make themselves less vulnerable to external shocks.

- **Strengthening absorptive capacity can buffer commodity price shocks to foster stability in resource-dependent economies.** As with financial flows, how vulnerable an economy is to swings in export commodity prices often depends on domestic factors. A country's absorptive capacity—that is, the skills mastered by its bureaucracy, the state of its infrastructure, and the quality of its institutions—affects its ability to use a sudden influx of funds effectively. Economies with the skills, capital, and institutions to put a windfall to good use can apply these strengths to manage a price swing.

- **Better capital budget planning and implementation is needed to prolong the benefits of commodity booms.** How efficiently a government uses revenues from natural resources often determines whether windfalls help make growth sustainable. Developing Asia has room to improve its absorptive capacity. Papua New Guinea and Timor-Leste, for example, struggle to meet planned public investment spending despite currently having sufficient funds. These economies need to strengthen their budget planning and implementation and enhance the skills of their civil servants.

- **To translate natural resource wealth into inclusive growth, build institutional and human capacity.** Fiscal policy can play a vital role in narrowing inequality if it is well designed and implemented. As explored in the theme chapter of this publication, public spending on education and health can directly improve the well-being of the poor and augment their productive capacity.

Outlook by subregion

- **Global and regional headwinds will have disparate impacts on subregions in developing Asia.** Just as the financial shock in mid-2013 from the prospective end of US quantitative easing had divergent impacts on emerging financial markets in the region, the gradual US exit is likely to be felt more in financially open economies. Similarly, the extent that growth moderation in the PRC stymies the growth pickup in the major industrial economies depends on patterns of trade. In the absence of major external shocks, though, domestic factors are playing primary roles in individual country outlooks.

- **East Asia sees its growth trend flatten as growth moderates in the PRC.** The subregion grew by 6.7% in 2013, a slight uptick from 2012, and is expected to maintain that rate into 2014 and 2015. GDP expansion in the PRC that is forecast to moderate from 7.7% in 2013 to 7.5% in 2014 and 7.4% in 2015 is offsetting upswings in the newly industrialized economies of the Republic of Korea; Hong Kong, China; and Taipei,China. As policies tighten to curb inflation, growth in Mongolia will moderate in 2014 and remain broadly stable in 2015. Inflation in East Asia hit a 4-year low of 2.4% in 2013 and will remain manageable at 2.5% in 2014 and 2.9% in 2015. Other than Mongolia, where concerted efforts are needed to end double-digit inflation, consumer price increases will be mild across the East Asian economies. Inflation in the PRC will remain at 2.6% in 2014 but rise to 3.0% in 2015 following energy price reforms.

- **South Asia needs successful reform in India to accelerate growth.** Although growth is inching up, South Asia remained one of the slowest growing subregions, with GDP expanding by 4.8% in 2013. Moderation in India—marked by stalled infrastructure and corporate investment, persistent inflation, and fiscal and external imbalances—had an outsized impact on the subregional average. Growth is forecast to improve to 5.3% in 2014 and 5.8% in 2015, with projected recovery in India to 5.5% and 6.0%, assuming the implementation of long-delayed structural remedies. Wide-ranging adjustments in Bangladesh and Pakistan to strengthen economic fundamentals are expected to bear fruit with higher growth in 2015. Inflation in South Asia eased to 6.2% in 2013 as global commodity and oil prices were broadly stable. Inflation is expected to edge up to 6.4% in 2014 before subsiding to 6.2% in 2015 on country-specific factors such as currency depreciation, pressures on food prices, and energy price adjustments as subsidies are withdrawn.

- **Southeast Asia displays growth patterns dominated by country factors.** Subregional GDP decelerated to 5.0% in 2013 as soft export markets and slowdowns affected Indonesia, Thailand, and Malaysia. Growth in Indonesia, the biggest of these economies, was dampened by policies the government adopted to subdue inflation after it sharply raised fuel prices. Against this trend, GDP in the Philippines quickened to 7.2%, driven by stronger private consumption and fixed investment. Subregional growth is forecast to be similar in 2014, as gains from better export markets are offset by moderating domestic demand. However, labor tensions in Cambodia and political unrest in Thailand are restraining growth in these neighbors. The outlook improves in 2015, with growth picking up in Indonesia after inflation ebbs, and Thailand's economy rebounding if political disruption recedes. Southeast Asia's inflation rate accelerated to 4.2% in 2013, driven by hikes in administered fuel prices in Indonesia and Malaysia. It is forecast to inch up further to 4.3% in 2014 but to ease again to 4.0% in 2015 on lower global commodity prices.

- **Central Asia should maintain its growth pace as its largest economy boosts public spending.** Unexpectedly strong performance in Kazakhstan, which accounts for nearly half of subregional GDP, and sharp gains in Azerbaijan and the Kyrgyz Republic raised Central Asia's growth rate by nearly a percentage point to 6.5% in 2013. The subregion is forecast to maintain this rate through 2015, though tensions arising from events in Ukraine pose downside risk. Increased public spending in Kazakhstan to mitigate the effects of the sharp currency devaluation will help support growth there, while high government outlays and rising private consumption should maintain growth in Uzbekistan. However, plateauing oil production in Azerbaijan and slackening investment in the Kyrgyz Republic will dampen growth in these economies, while additional gas exports will give only a temporary fillip to Turkmenistan's 2014 output. Inflation in Central Asia is projected to accelerate sharply to 9.0% in 2014, reflecting currency depreciation in Kazakhstan, the Kyrgyz Republic, and Tajikistan and higher growth in Georgia and Turkmenistan. Inflation should slow to 7.4% in 2015 as the impact of depreciation wanes and as growth decelerates in Azerbaijan, Turkmenistan, and Uzbekistan.

- **The Pacific will rebound as natural gas production in its largest economy drives growth.** GDP growth slowed in the Pacific for the second consecutive year, falling to 4.8% in 2013 as construction on the liquefied natural gas project in Papua New Guinea (PNG)—the subregion's predominant economy—wrapped up. The commencement of gas exports in late 2014 and the first full year of production in 2015 will boost growth in PNG and the subregion in aggregate through the forecast period. Meanwhile, growth in most other Pacific economies is expected to pick up in 2014, contributing to subregional GDP growth that is projected to reach 5.4% in 2014 before skyrocketing on PNG gas exports to 13.3% in 2015. Inflation rose to 4.5% in 2013 and is projected to rise further to 5.9% in 2014 before ebbing to 5.1% in 2015. Currency depreciation in late 2013 and surging government investment will stoke PNG inflation to 6.5% in 2014. Increased government spending in Timor-Leste is expected to keep inflation close to double-digit, at 9.5% in 2014 and 9.0% in 2015.

Fiscal policy for inclusive growth

The emerging case for inclusive fiscal policy

- **Widening income gaps in developing Asia strengthen the case for government response.** The region's past economic growth boosted living standards and lifted millions out of poverty, but now widening inequality is undermining this success. Asian Development Outlook 2012 notes that, during the 1990s and 2000s, more than 80% of the region's population lived in countries with worsening Gini coefficients, a common measure of inequality. The same market forces that have enhanced growth—globalization, technological progress, and market reform—now exacerbate inequality.

- **Fiscal policy that fosters equality of opportunity can help tackle the region's rising inequality.** International experience shows that public spending can reduce income inequality. For example, government spending on education and health care broadens access for the poor to these vital services and thus levels the playing field. But policy makers in developing Asia have generally used fiscal policy more to support growth than to affect income distribution. Authorities in advanced economies, by contrast, have extensively used fiscal tools to improve social equity.

- **The region has benefited from a legacy of fiscal prudence.** Sound fiscal positions have served the region well in the past, promoting macroeconomic stability and ensuring the ability to respond in times of economic crisis. Pragmatic fiscal policy has given many regional economies scope today to direct more public resources toward enhanced inclusion. Future scope may narrow, though, as long-term demographic and environmental trends encroach on fiscal space and the spending flexibility it provides.

- **The dilemma facing developing Asia is how to use fiscal policy to promote inclusion while maintaining fiscal sustainability.** Making the growth process more inclusive is likely to require some expansion of public spending. But expanding public expenditure without adequate revenue mobilization can be unsustainable. Governments thus need to calibrate spending programs to better meet the needs of the poor as they strengthen the revenue base through improved mobilization.

Public spending to foster inclusive growth

- **Among fiscal policy tools, government expenditure, more than taxation, has a tangible effect on inequality.** Policies on both spending and revenue can promote inclusive growth through, for example, antipoverty programs and progressive taxation. The evidence from advanced and developing economies alike suggests that government expenditures have somewhat stronger impact on income distribution than do revenues because spending can easily target low-income groups. However, revenue provides the resources required for such programs, in addition to redistributing income.

- **Public expenditures can mitigate inequality if well designed and implemented.** Public spending on education and health care, targeted subsidies and transfers, and physical infrastructure can all contribute.

  » **Education and health services directly improve the well-being of the poor and augment their productive capacity.** Policy simulations suggest that permanently raising public spending on education by the equivalent of 1 percentage point of GDP lowers the Gini coefficient by 1.1 percentage points within a decade; doing the same for health care buys a gain of 0.3 percentage points.

  » **Targeted subsidies and transfers protect the most vulnerable and deprived segments of society.** Moreover, replacing distortionary general subsidies with targeted assistance to the poor can contribute to growth, as shown by analysis of fuel subsidy reform in India, Indonesia, and Thailand.

  » **Extending public infrastructure can magnify the inclusive impact of public spending on education and health.** Spending 1 percentage point of GDP more on infrastructure can boost growth by an estimated 1.3 percentage points. Further, making infrastructure affordable and accessible allows the poor to take better advantage of the economic opportunities that come with improved education and health.

- **Developing Asia lags other regions in fiscal spending to promote equity.** Public spending on education averages 5.3% of GDP in the advanced economies, 5.5% in Latin America, but only 2.9% in Asia. The difference is starker for health care (8.1% in advanced economies, 3.9% in Latin America, but only 2.4% in developing Asia) and doubly so for social protection (20.0% in advanced economies, 12.0% in Latin America, but only 6.2% in developing Asia).

- **While the amount of fiscal spending is important, so is its composition.** Education policy can amplify how public spending promotes inclusion by prioritizing basic education or expanding technical and vocational training to give students the practical skills and knowledge they need for work. Public health policy can do the same by dedicating the last dollar to a new rural clinic rather than to the latest medical marvel for the urban rich.

Public revenues to safeguard fiscal sustainability

- **The region currently has the fiscal space to finance government programs that mitigate poverty and inequality.** Policy makers in developing Asia generally have a strong record of fiscal prudence, granting the region some scope today to expand inclusive expenditures. There are, however, some exceptions in South and Central Asia.

- **Yet medium-term demographic and environmental challenges will pose their own fiscal demands.** Structural changes will compete for public finances with efforts to make growth more inclusive. Aging populations in the region will raise the share of public spending on health care from 2.4% of GDP in 2010 to 7.3% by 2050. For fast-aging East Asia, the increase is particularly dramatic, from 3.0% to 9.7% in the same period. As policy makers should not assume that current fiscal space guarantees future fiscal space, the region needs stronger revenue systems that can efficiently mobilize fiscal resources.

- **Developing Asia needs to expand and strengthen its comparatively limited fiscal resource base.** During the 2000s, the ratio of tax revenue to GDP averaged 17.8% in developing Asia, below the 21.8% recorded in Latin America, 31.9% in the OECD, and 28.6% worldwide. This clearly shows that the region must improve its mobilization of fiscal resources across all categories. A stronger and broader fiscal resource base will secure the fiscal space needed to accommodate inclusive fiscal policies.

- **Greater mobilization of fiscal revenues requires exploring all possible sources.** Options include broadening the base for personal income tax and value-added tax (VAT), enlarging corrective taxes and nontax revenues, and introducing naturally progressive taxes on property, capital gains, and inheritance.

» **Broadening the base for personal income tax and VAT offers scope for raising far more revenues.** This can be done by reducing various exemptions, deductions, and tax incentives. For some Asian countries, lowering income thresholds for the higher tax rates can net more personal income tax revenues. Expanding VAT—or introducing one where it does not exist—generates revenue efficiently. Earmarking new VAT revenues to increase public social spending can make this regressive tax progressive on balance.

» **Corrective taxes and nontax revenues can promote efficiency and equity while raising revenue.** Evidence from the Philippines suggests that a sin tax on cigarettes—a form of corrective tax—yields a triple dividend of equity, efficiency, and fiscal revenues. Nontax revenues are lower in Asia than in the rest of the world and could be new contributors.

» **Taxing property, capital gains, and inheritance can make the tax structure more progressive and equitable.** These taxes are inherently progressive because the poor own less capital and usually less valuable property. Further, property tax is a good revenue source for local governments.

Planning and innovation for a more inclusive Asia

- **A medium-term fiscal framework for inclusive growth should systematize plans for incorporating equity objectives into fiscal policy.** Such frameworks require careful annual review of inclusive government programs. They must align concrete medium-term targets with the means to finance them. Importantly, the inclusive elements must be integral to the overall medium-term fiscal framework to preserve fiscal sustainability.

- **Support for a framework comes from fiscal data able to inform evidence-based policy and from strong political commitment.** Improved fiscal data will enable Asian policy makers to better track public programs and assess their effectiveness toward improving their design and implementation. Political commitment will safeguard fiscal sustainability and ensure a more equitable allocation of scarce fiscal resources.

- **Innovative measures can amplify how fiscal policy contributes to inclusive growth.** Examples include leveraging information and communication technology to enhance tax administration efficiency, and forging public–private partnerships in social infrastructure to extend the reach of education and health care services. Such measures can provide additional financing for public services and improve their delivery, thus promoting equity.

- **Fiscal policy can and should play a bigger role in promoting inclusive growth in Asia.** To put the region on a growth path of broadly shared benefits, Asian governments need to actively target inclusion in their fiscal plans. Because achieving inclusive growth is necessarily a long-term challenge, policy makers must plan and act now.

Growth rate of GDP (% per year)

Subregion/Economy	2011	2012	2013	2014	2015
Central Asia	**6.8**	**5.6**	**6.5**	**6.5**	**6.5**
Azerbaijan	0.1	2.2	5.8	5.0	4.8
Kazakhstan	7.5	5.0	6.0	6.0	6.4
East Asia	**8.2**	**6.6**	**6.7**	**6.7**	**6.7**
China, People's Rep. of	9.3	7.7	7.7	7.5	7.4
Hong Kong, China	4.8	1.5	2.9	3.5	3.6
Korea, Rep. of	3.7	2.0	2.8	3.7	3.8
Taipei,China	4.2	1.5	2.1	2.7	3.2
South Asia	**6.4**	**4.7**	**4.8**	**5.3**	**5.8**
Bangladesh	6.7	6.2	6.0	5.6	6.2
India	6.7	4.5	4.9	5.5	6.0
Pakistan	3.7	4.4	3.6	3.4	3.9
Sri Lanka	8.3	6.3	7.3	7.5	7.5
Southeast Asia	**4.8**	**5.7**	**5.0**	**5.0**	**5.4**
Indonesia	6.5	6.3	5.8	5.7	6.0
Malaysia	5.1	5.6	4.7	5.1	5.0
Philippines	3.6	6.8	7.2	6.4	6.7
Singapore	6.0	1.9	4.1	3.9	4.1
Thailand	0.1	6.5	2.9	2.9	4.5
Viet Nam	5.9	5.2	5.4	5.6	5.8
The Pacific	**8.9**	**6.1**	**4.8**	**5.4**	**13.3**
Fiji	2.7	1.7	3.6	2.8	3.0
Papua New Guinea	11.3	7.7	5.1	6.0	21.0
Developing Asia	**7.4**	**6.1**	**6.1**	**6.2**	**6.4**
Major industrial economies	**1.3**	**1.3**	**1.0**	**1.9**	**2.2**

Notes: Developing Asia refers to the 45 members of the Asian Development Bank. Central Asia comprises Armenia, Azerbaijan, Georgia, Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan. East Asia comprises the People's Republic of China; Hong Kong, China; the Republic of Korea; Mongolia; and Taipei,China. South Asia comprises Afghanistan, Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan, and Sri Lanka. Southeast Asia comprises Brunei Darussalam, Cambodia, Indonesia, the Lao People's Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Viet Nam. The Pacific comprises the Cook Islands, Fiji, Kiribati, the Marshall Islands,the Federated States of Micronesia, Nauru, Papua New Guinea, Palau, Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu, and Vanuatu.

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Inflation (% per year)

Subregion/Economy	2011	2012	2013	2014	2015
Central Asia	**8.9**	**5.1**	**5.9**	**9.0**	**7.4**
Azerbaijan	7.9	1.1	2.4	4.0	3.5
Kazakhstan	8.3	5.1	5.8	11.5	8.8
East Asia	**5.0**	**2.6**	**2.4**	**2.5**	**2.9**
China, People's Rep. of	5.4	2.6	2.6	2.6	3.0
Hong Kong, China	5.3	4.1	4.3	3.8	3.7
Korea, Rep. of	4.0	2.2	1.3	2.1	2.5
Taipei,China	1.4	1.9	0.8	1.1	1.3
South Asia	**9.5**	**7.8**	**6.2**	**6.4**	**6.2**
Bangladesh	10.9	8.7	6.8	7.5	6.5
India	8.9	7.4	5.9	6.0	5.8
Pakistan	13.7	11.0	7.4	9.0	9.2
Sri Lanka	6.7	7.9	6.9	5.0	6.0
Southeast Asia	**5.5**	**3.8**	**4.2**	**4.3**	**4.0**
Indonesia	5.3	4.0	6.4	5.7	4.8
Malaysia	3.2	1.7	2.1	3.2	3.5
Philippines	4.6	3.2	3.0	4.3	4.0
Singapore	5.2	4.6	2.4	3.0	2.9
Thailand	3.8	3.0	2.2	2.4	2.6
Viet Nam	18.7	9.1	6.6	6.2	6.6
The Pacific	**8.5**	**4.2**	**4.5**	**5.9**	**5.1**
Fiji	7.3	3.4	2.9	3.0	3.5
Papua New Guinea	8.4	2.2	4.0	6.5	5.0
Developing Asia	**5.9**	**3.7**	**3.4**	**3.6**	**3.7**
Major industrial economies	**1.7**	**1.8**	**1.3**	**1.6**	**1.6**

(continued from the previous page)

Major industrial economies comprise the United States, the euro area, and Japan.

Data for Bangladesh, India, and Pakistan are recorded on a fiscal-year basis. For India, the fiscal year spans the current year's April through the next year's March. For Bangladesh and Pakistan, the fiscal year spans the previous year's July through the current year's June.

Asian Development Outlook 2014 Update Highlights

The full report is available on the ADB website at www.adb.org/ado2014

About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to approximately two-thirds of the world's poor: 1.6 billion people who live on less than $2 a day, with 733 million struggling on less than $1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

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