Macroeconomic Performance and Outlook for Asia and the Pacific

Expert Group Meeting on
Boosting affordable and longer-term financing for governments

Session 3: Macroeconomic prospects, challenges and policies
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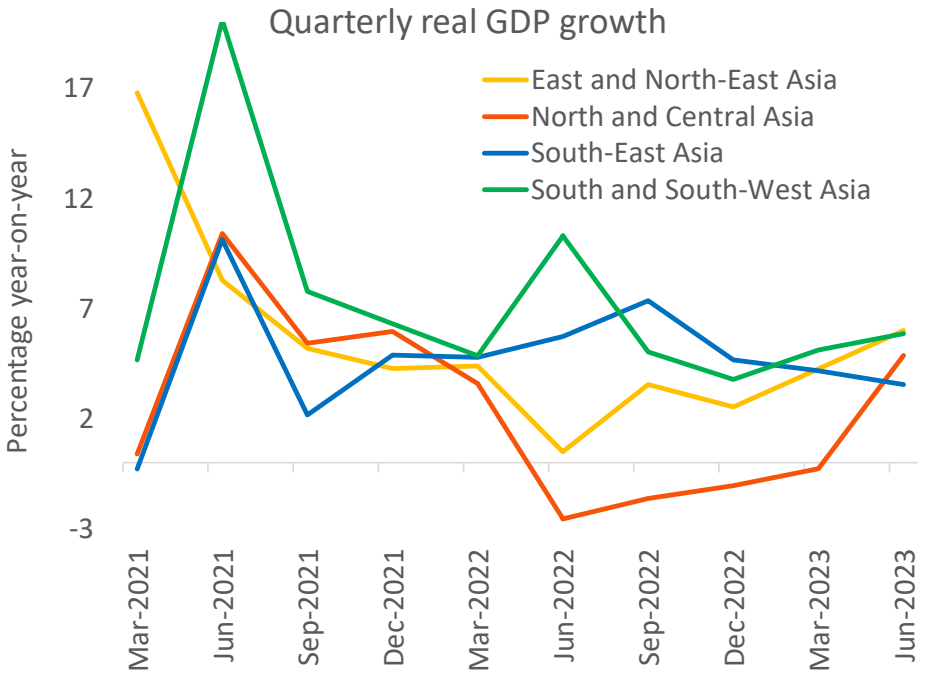
ESCAP
Economic and Social Commission for Asia and the Pacific

Main messages

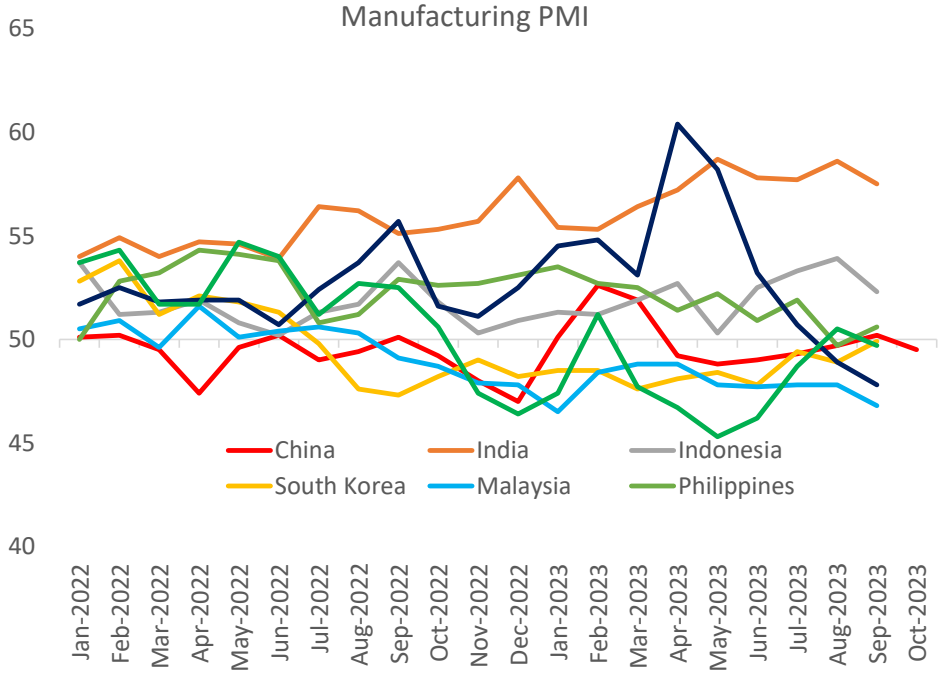
- Growth in Asia-Pacific in 2023 supported by domestic demand and services despite global headwinds and remains the fastest growing region
- Inflation subsided after a spike in 2022, but renewed price pressures seen towards the latter half of 2023
- Monetary policy remains tight and will have implications on consumption and investment
- Growth in 2024 is projected to slightly moderate on the back of a weak outlook in China and major global economies
- As fiscal space remains constrained, the ability of economies in Asia-Pacific to maintain developmental spending to support SDG achievement will be limited

Growth momentum in the first half in Asia-Pacific in 2023

- Growth in Asia-Pacific in the first half of 2023 broadly supported by China's reopening, consumption and investment and tourism recovery, despite headwinds from developed economies



- However, more recent data shows slowing growth momentum in the region, impacted by China's recovery losing steam with problems in its property sector



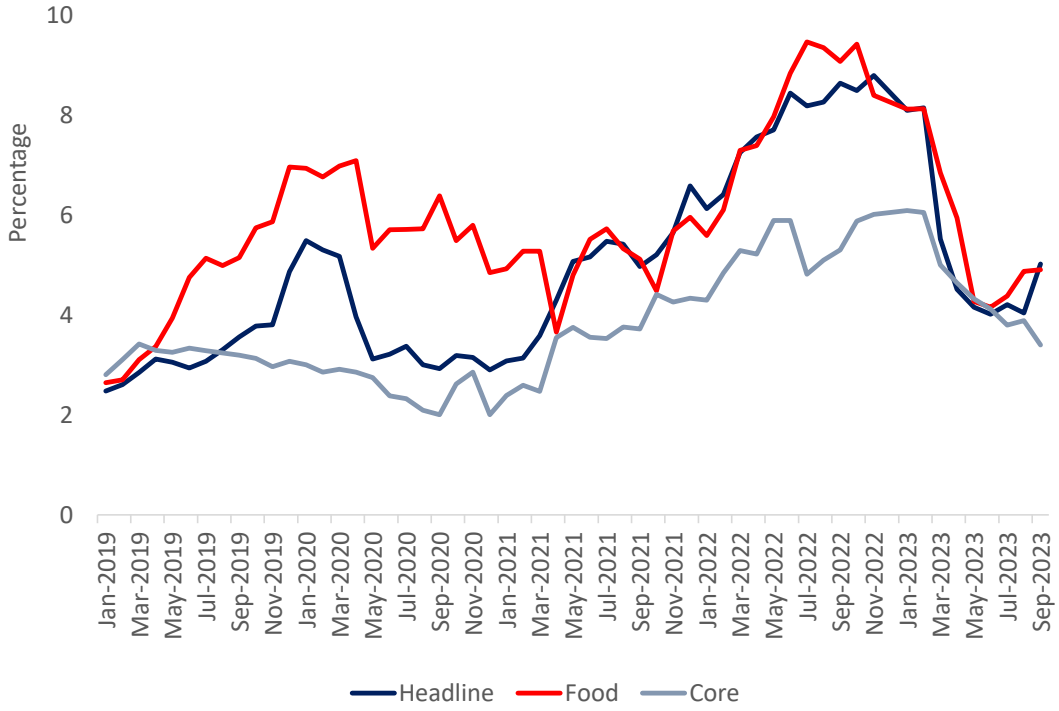
Source: ESCAP based on CEIC, accessed on 22 September 2023. *Note:* Subregional data are weighted averages using GDP in current prices of US dollars as weights. PMI >50 indicates improvement from previous month

Inflation subsided but renewed pressures are evident

- Supply-side pressures waned in the early part of 2023

- Renewed price pressures on food and energy from
  - weather disruptions
  - export bans to control agricultural supplies
  - oil production cuts
  - geopolitical events

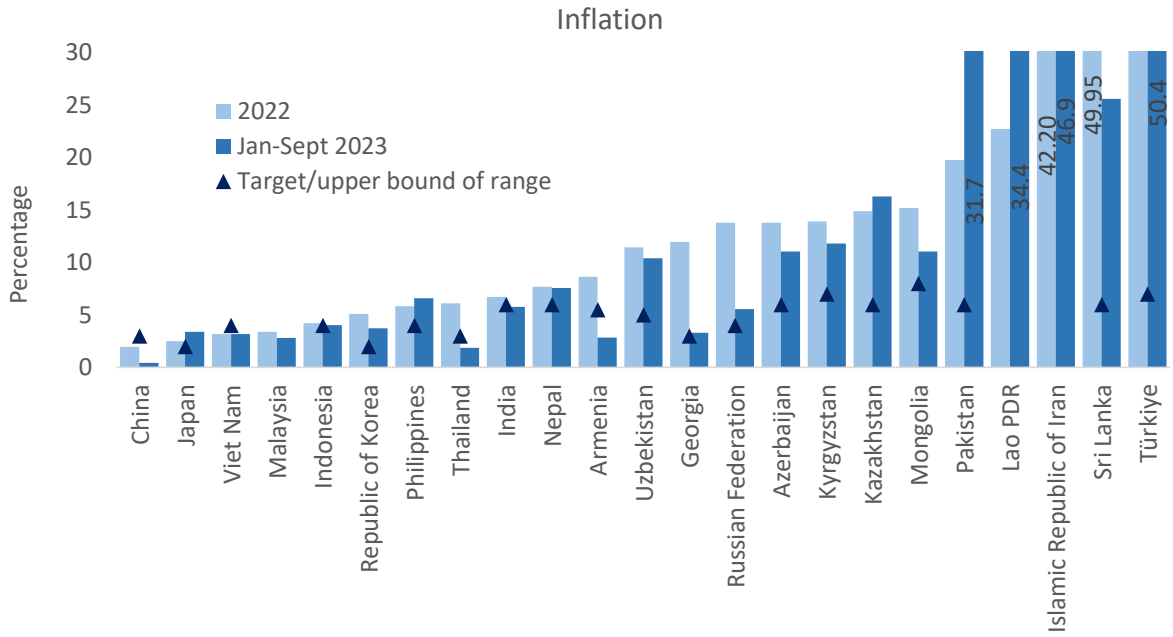
Headline, core and food inflation in developing Asia-Pacific

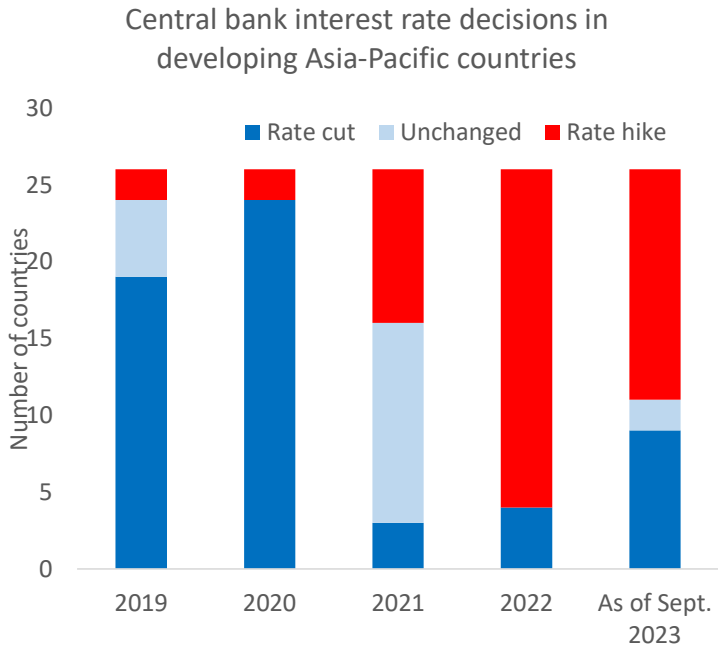


Source: ESCAP based on CEIC, accessed on 23 September 2023. *Note:* Headline and food inflation rates are based on the median value of 27 countries, and 15 countries for core inflation.

Interest rates in Asia-Pacific remains elevated

- Inflation remains above central bank targets in a majority of countries in Asia-Pacific
- Central banks in Asia-Pacific are keeping interest rates elevated as rates in developed economies remain “higher for longer”

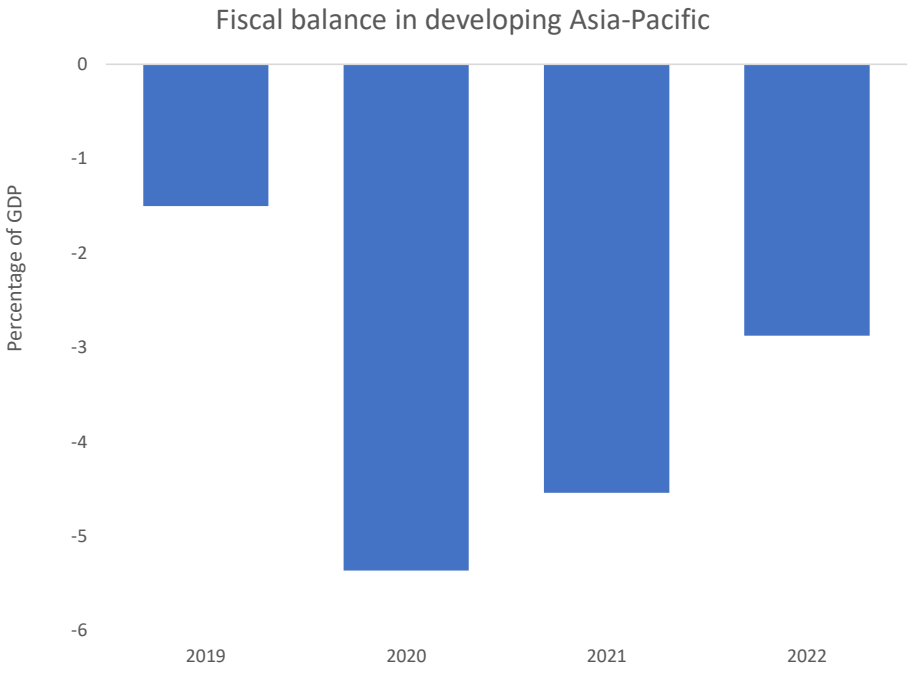


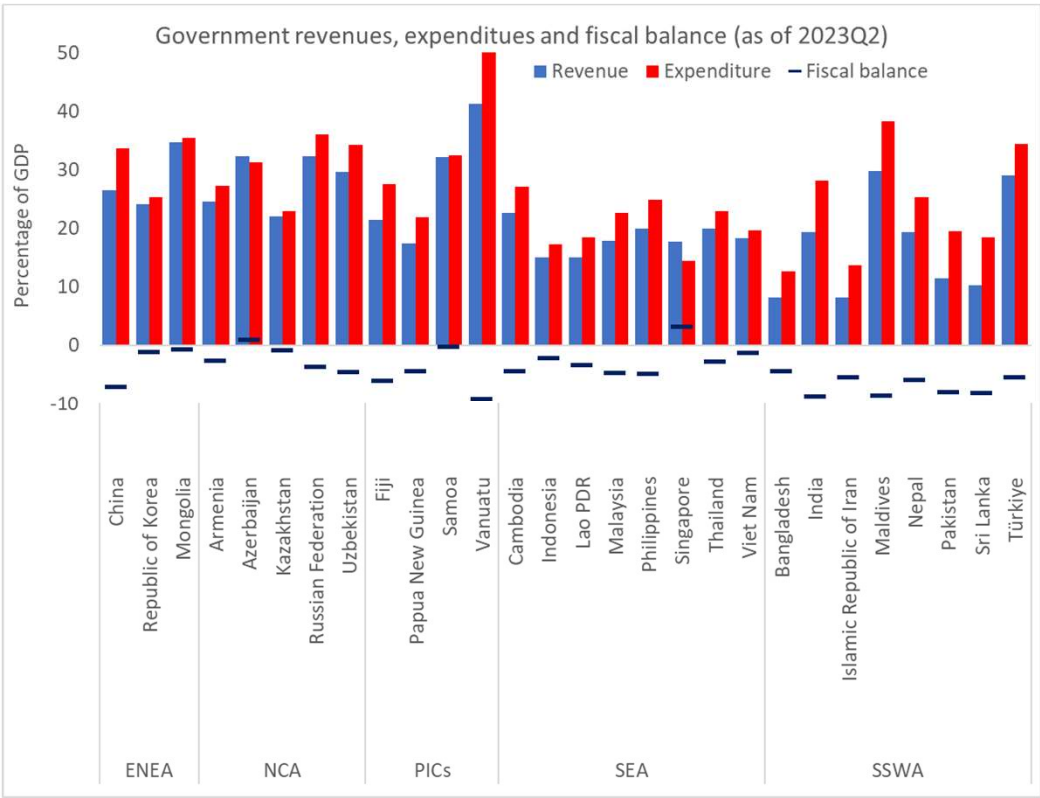


Source: CEIC, as of 23 September 2023. *Note:* Central bank interest rate decisions are based on policy rate data for 26 developing countries in the Asia-Pacific region.

Fiscal deficit moderated but remain high

- Fiscal deficits have narrowed slightly since 2021 but lingering effects of the pandemic and high cost of living will require further fiscal support for SDG progress

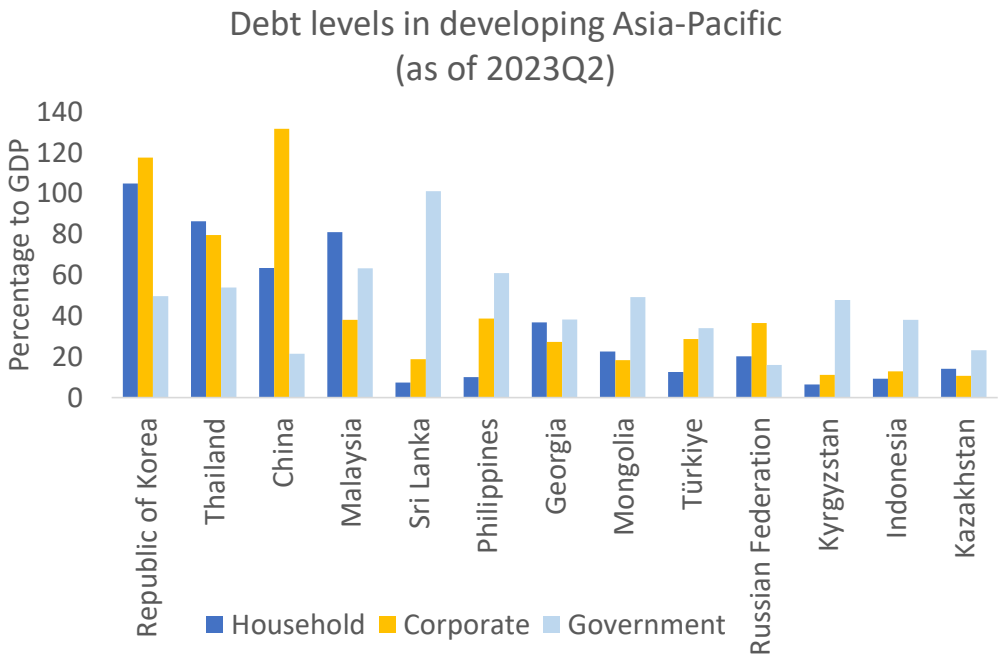




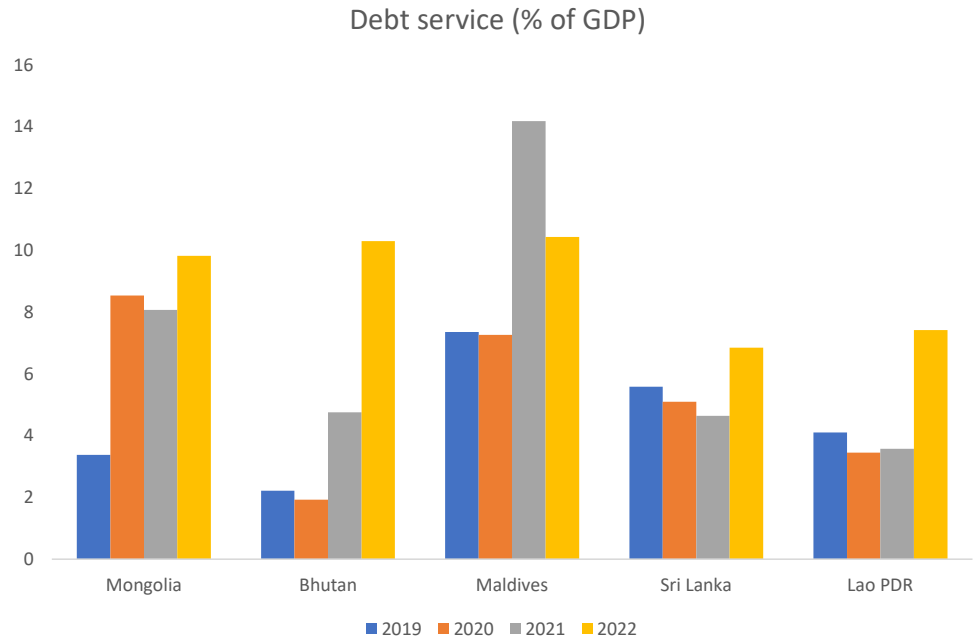
Source: CEIC, accessed on 10 October 2023

Debt servicing burden is rising amid high interest payments

- Ability of governments to support fiscal resources through debt is also under pressure due to growing debt stocks



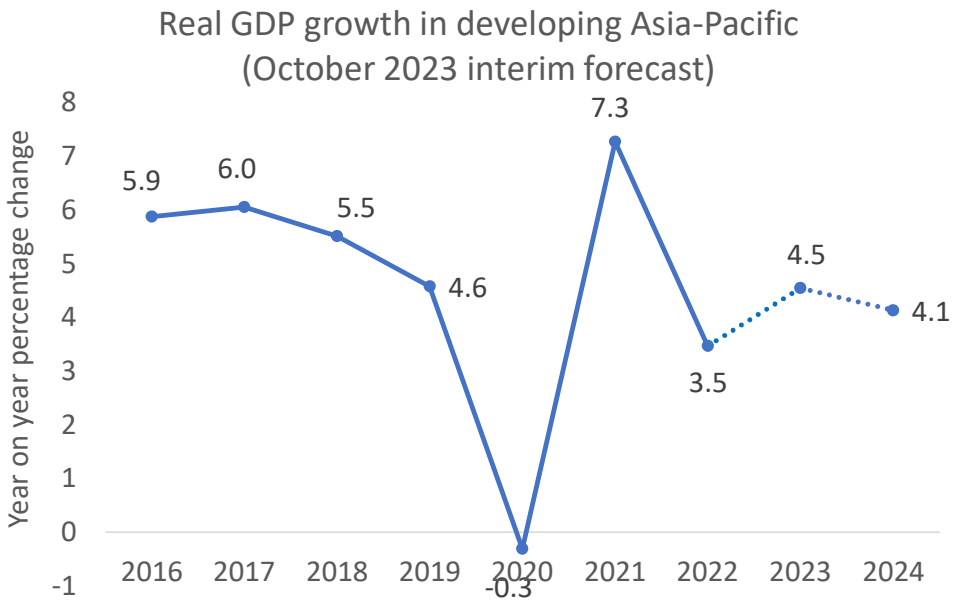
Source: CEIC, accessed on 10 October 2023.

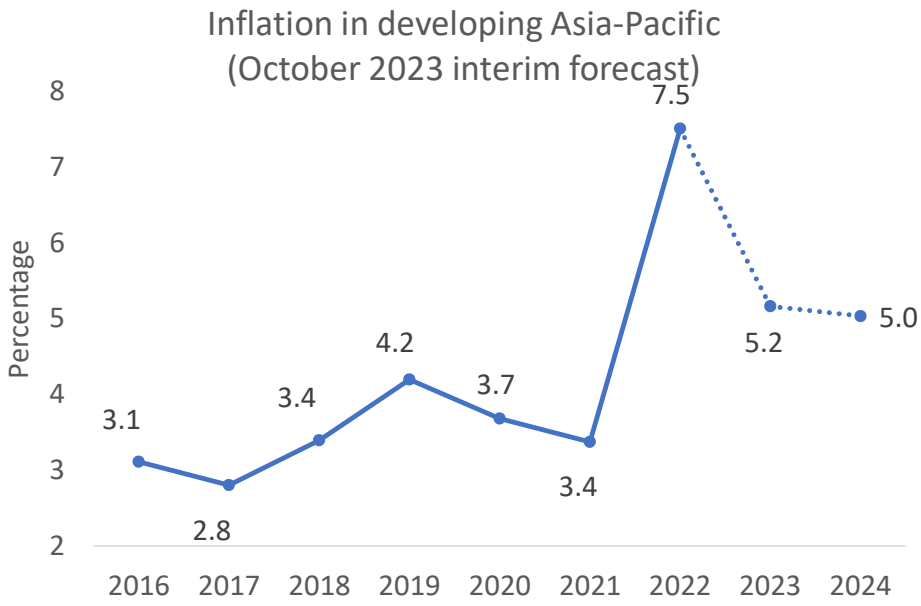


Sources: ESCAP debt dashboard, accessed 30 October 2023.

Developing Asia-Pacific outlook

- Slight moderation in 2024 on the back of outlook in China and major global economies
- Inflation projected to decline further in 2024





Source: ESCAP estimates and forecast as of October 2023.

Risks

- Extent of China's economic slowdown due to weak property sector will be a risk to China's own recovery and will hold back regional growth
- Monetary policy stance of developed economies and persistence of inflation in the region will play a large role in shaping the region's interest rate outlook and household consumption
- The extent of the impact of El Niño on agricultural output, economic activities, food prices, and food security
- Geopolitical tensions and geoeconomic fragmentation pose risks of trade disruptions, volatile adjustments in commodity prices, and declining sentiment

Policy considerations

- Monetary policy balance between supporting development and maintaining macroeconomic stability
- Sustaining developmental spending amidst ongoing fiscal pressure
- Growing momentum for international support to fund climate action

Work in progress

- On growth: Alternative measure to supplement GDP, scarring and employment impacts, and applications of SEEA accounts in Asia-Pacific

- On impact of high inflation: on purchasing power, update of ESCAP poverty estimates, gender perspectives on inflation

- On indebtedness and financial fragilities: refining discussion on indebtedness and financial fragility, implications on households, small businesses, gender aspects of high interest rates and household debt

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