ADO 2012—Highlights

Developing Asia will largely maintain its growth momentum in the next couple of years despite weak global demand. From a moderate 7.2% in 2011, growth in the region will ease to 6.9% in 2012 before picking up to 7.3% in 2013.

Inflation for most regional economies subsided in the second half of 2011 as international commodity price rises slackened, but threats of oil supply disruptions risk further price spikes. Volatile foreign capital flows remain a concern as investors shift their risk perceptions in response to the changing global environment.

The greatest risk to the outlook is uncertainty surrounding the resolution of sovereign debt problems in the eurozone. But in the absence of any sudden shocks, developing Asia can manage the effects on its financial markets and trade flows. There is no clear case for policy makers in the region to pursue short-term fiscal or monetary stimulus measures.

Developing Asia has made great strides in raising living standards and reducing poverty, but swelling income disparities threaten to undermine that success. Regional policy makers need to ensure that the benefits of growth are widely shared.

Key messages

- Despite the weak global environment, developing Asia's growth momentum continues. The region's gross domestic product (GDP) growth will cool somewhat to 6.9% in 2012, from 7.2% in 2011, and then edge back up to 7.3% in 2013. The region is generally adjusting toward a more sustainable long-run growth path.

- Strong domestic demand provided necessary support in 2011, and this will need to continue in light of the soft export demand expected from the major industrial economies of the United States (US), eurozone, and Japan. Collectively, they are expected to expand by only 1.1% in 2012 and 1.7% in 2013.

- The greatest risk to the outlook is the continued uncertainty over resolving the sovereign debt problems in the eurozone. The "orderly default" on Greece's debt in March 2012 diminished the risk of a liquidity crunch in the short run, but calls for fiscal austerity across the eurozone will act as a drag on growth.

- The effects on developing Asia's financial stability and trade flows can be managed if there are no future shocks, but policy makers need to be ready to respond if the eurozone situation worsens. Global value chains—the cross-border production networks of developing Asia—and sudden reductions in trade finance tend to magnify external shocks.

- Even if a major external risk to the forecasts materializes, developing Asia has some scope for a macroeconomic policy response. Although the policy stimulus that it adopted in response to the global economic crisis has used up some of its policy space, the region has since regained some of that space. Budget deficits have come down, policy interest rates have been raised, and regional and global safety nets for liquidity support have been strengthened.

- In the absence of further global shocks, there is no clear case for developing Asia to make short-term countercyclical macroeconomic policy responses. The gap between potential production and the actual level of output in most developing Asian economies—unlike the advanced economies—is not large enough to warrant aggressive stimulus measures. Instead, policy makers may need to focus on maintaining price stability while sustaining the growth momentum.

- Inflation is not an immediate threat for most regional economies—decelerating international commodity price rises from late 2011 have eased some of the pressures. Consumer prices in developing Asia are forecast to rise by 4.6% in 2012 and 4.4% in 2013, down from 5.9% in 2011. However, the unstable geopolitical situation in the Middle East could trigger further oil price spikes, reviving inflation in developing Asia.

- Many economies had been normalizing their accommodative monetary policy in early 2011, but they stopped or even reversed the process in the second half, as uncertainties in the major industrial countries damped global demand, and as pressures from international commodity price rises eased. If inflationary pressures build again and capital inflows resume, there may be a need to readjust monetary policy to maintain price stability.

- Volatile capital flows remain a concern. Widely shifting risk perceptions among foreign investors in 2011 affected capital flows to developing Asia as funds flowed out toward risk-free assets. If changing investor sentiment causes large swings in capital flows again—building up inflationary pressures or making exchange rates more volatile—policy makers have various measures of capital flow management at their disposal, but such measures need regional coordination to be effective. Greater exchange rate flexibility may also damp speculative capital movements.

- Fiscal policy must balance the pursuit of long-term macroeconomic stability and support for growth. Debt-to-GDP ratios spiked in the region after the massive fiscal responses to the global crisis, but they are now trending downward, although lower growth or higher interest rates could quickly undermine this position. Moreover, the region faces additional sources of fiscal strain in the years ahead, such as adjusting to aging populations and building adequate social safety nets.

- Developing Asia's economies need to push through growth-supportive expenditure policies without undermining their fiscal positions. They can do this by adjusting the composition of government expenditure toward education, health, and social safety nets and by expanding expenditure alongside revenue enhancements. Such shifts in fiscal policy will be increasingly important as the region confronts rising income inequality while fostering continued economic expansion.

- In the last two decades, income disparities widened in the 11 economies that account for more than four-fifths of the region's population. Rising inequality can damp the poverty impact of economic growth, and even undermine the basis of growth itself.

- The forces of technological progress, globalization, and market-oriented reform—the primary drivers of the region's rapid growth—are putting a wedge between the incomes of the rich and poor. These factors tend to favor owners of capital over labor, high-skilled over low-skilled workers, and urban and coastal centers over rural and inland areas.

- Policy makers must meet the challenge of rising inequality without hindering future growth. They can do this through policies that put in place efficient fiscal measures, that promote regional balance, and that make growth more employment friendly.

Maintaining growth in an uncertain world

Developing Asia's outlook

- **Developing Asia's growth is feeling the effects of weak global demand.** Expansion in the region's GDP moderated to 7.2% in 2011 from 2010's post–global crisis rebound of 9.1%. Growth in developing Asia is expected to ease further to 6.9% in 2012 before coming back to 7.3% in 2013. These growth projections are still strong compared with other regions of the world, and are part of the adjustment toward a more sustainable long-run growth path in the more advanced regional economies.

- **Developing Asia's main trading partners have yet to return to their precrisis growth rates.** Growth in the major industrial countries of the US, eurozone, and Japan was subdued in 2011, with GDP growing collectively by a disappointing 1.2%. Their prospects are also uninspiring, with growth set to stall at 1.1% in 2012 before gaining some lift to 1.7% in 2013. Fiscal consolidation efforts and insipid private domestic demand growth will stay a drag on these economies, and the slipstream from the eurozone's sovereign debt crisis is buffeting that bloc back into recession. Developing Asia should expect relatively weak demand for its exports from these three economies in the near term.

- **That is why domestic demand, which is providing increasing support for the region's producers, is welcome.** Private consumption continues to be a major factor in the region's growth. Yet investment weakened appreciably toward end-2011, weighing on the outlook for the coming quarters, particularly for export-led economies such as the People's Republic of China (PRC); Hong Kong, China; the Republic of Korea; Malaysia; and Taipei,China.

- **The shift toward domestic demand is apparent in further declines in developing Asia's current account surplus.** The surplus continued to narrow to 2.6% of GDP in 2011 from 4.0% in 2010, reflecting moderating demand for exports, solid domestic demand pushing imports upward, and higher prices for imported oil and commodities. Steady, real exchange rate appreciation in many regional economies has supported this shift. The current account surplus is forecast to be trimmed further in 2012 to 1.9% of GDP, given continued growth in import demand in most economies while exports face soft global demand.

- **Inflation is set to recede, but volatile commodity prices are a potential threat.** Higher food and fuel prices drove up inflation in developing Asia to 5.9% in 2011 from 4.4% in 2010. With relatively stable (but elevated) oil prices, some respite offered by easing food prices, and lower demand for the region's exports, inflation in the region is forecast to slow to 4.6% in 2012 and 4.4% in 2013. However, continued instability in the Middle East, including threats of oil supply disruptions, could lead to another round of temporary price spikes, in turn fanning the embers of inflation in developing Asia.

- **Volatile capital flows remain a concern.** Net capital inflows to developing Asia increased from the second half of 2010 and into the first half of 2011. The PRC was the main beneficiary of the influx, much in the form of foreign direct investment. At the onset of the eurozone turmoil and the ratings downgrade of US long-term sovereign credit in the second half of 2011, global investors sharply curtailed their risk appetite. Consequently, regional capital inflows slowed, even switching to outflows for some countries. Major industrial countries are likely to maintain accommodative monetary policies over the forecast period, and so policy makers in developing Asia will need to be prepared for potentially large swings in capital flows based on fluctuations in global investors' risk appetites.

Eurozone uncertainties and developing Asia

- **Continued uncertainties in the eurozone present the greatest risk to the global outlook.** Despite recent progress easing the eurozone's sovereign debt problems somewhat, the weaker growth momentum in Europe poses risks. The voluntary private sector participation agreement reached in March 2012 helped restructure Greece's government debt, thus removing the immediate risk of a disorderly default that could have sparked a global liquidity crisis. As the nature of the primary risk to developing Asia has shifted from financial contagion to slower export growth, developing Asia's policy makers need to prepare for the possibility of an extended period of low European demand for exports.

- **In the absence of any sudden shocks, the effects on developing Asia's financial stability and trade flows can be managed.** The region's direct exposure to eurozone banks is relatively small, and reserves are sufficient to cover short-term external debt repayments, helping shield the region from financial contagion. The region is more vulnerable to the risk of a trade shock, the main channel through which Asia was affected by the global financial crisis. Europe is a key export market for Asia, and will remain so in the near future despite its declining share in recent years. But as long as the slowdown is confined to the eurozone—as opposed to a synchronized advanced-country recession—developing Asia should be able to absorb the impact of lower export demand.

- **If the situation in the eurozone worsens to the extent of undermining global recovery, developing Asia's policy makers need to be prepared to act quickly.** Recent history shows that two areas in particular—global value chains and trade finance—interact with an external trade shock to intensify its impact.

  » **Global value chains—the production model behind East and Southeast Asia's export success—amplify external shocks.** The 2008–2009 global trade collapse highlighted this vulnerability, as external demand for final goods dried up and the impact rippled through the region's supply chains. Asia's export production structure and demand sources have changed little since then, and a steep drop in final goods demand from the major industrial countries would still strongly compress aggregate demand for exports throughout the region. This vulnerability underscores the need to diversify the destinations for the region's final goods and to accelerate the shift to more reliance on domestic demand.

» **Trade finance shortages exacerbate the impact of an export demand shock that is accompanied by a credit squeeze.** Trade finance is generally short term and low risk, and in noncrisis periods mainly takes the form of credits between firms. But during a severe crisis, these interfirm credits may dry up, raising firms' need for bank lending. However, the deleveraging of European banks, which are traditionally active in supporting trade in Asia, could cut into the supply of trade finance. In addition, Basel III regulations could skew bank incentives away from trade finance. Policy makers may need to pay special attention to trade finance when credit is squeezed, especially for small and medium-sized enterprises.

Responding to the unsettled global environment

- **Developing Asia has some scope for a macroeconomic policy response if a major downside risk to the outlook materializes.**
  The stimulus measures adopted in response to the global crisis were a departure from the prudent fiscal and monetary policy that regional authorities had generally pursued. Budget deficits, though not back to precrisis levels, have narrowed and policy interest rates have been raised, providing room for a new policy response if needed. Further, regional and global safety nets for liquidity support have been strengthened.

- **However, there is no clear case for a short-term countercyclical policy response to the current global economic environment.** Although the slowdown in Europe is putting a brake on the region's growth, the impact is manageable. Output gaps of most Asian economies, unlike the advanced economies', are not large enough to warrant aggressive countercyclical support.

- **The region can fine-tune monetary policy to support growth while keeping a focus on stabilizing inflationary expectations.** In the face of inflationary pressures, the relatively accommodative monetary policy that began in late 2008 was tightened until mid-2011. However, in the second half of the year, many countries stopped—and in some cases reversed—the course of monetary tightening as uncertainties in the major industrial countries damped global demand and pressures from international commodity price rises eased. If inflationary pressures build again and capital inflows resume, there may be a need to readjust monetary policy to maintain price stability.

- **Foreign capital flows will need to be managed to mitigate the impact of their fluctuations.** Investors' assessments of global market risks swung widely after the onset of the global crisis in 2008, and the continued global economic uncertainty suggests that moves may be similarly volatile in the forecast period. If large swings of capital flows to the region reoccur, various measures of capital flow management may be deployed, but they require regional coordination to be effective. Greater exchange rate flexibility may also help deter speculative capital flows.

- **Fiscal policy must balance the pursuit of long-term macroeconomic stability with support to growth momentum.** Debt-to-GDP ratios in the region spiked due to the fiscal response to the global crisis, but they are now generally on a downward path. However, governments have no room for complacency, since sustained falling debt ratios depend on continued favorable growth and interest rates, which are subject to sudden reversal in the case of a renewed global economic downturn or a financial crisis. Moreover, the region faces additional sources of fiscal strain in the years ahead, such as adjusting to aging populations and building adequate social safety nets.

- **Growth-supportive expenditure policies can be achieved without undermining fiscal positions.** This can be done with budget-neutral measures that shift the composition of government spending to education, health, and social safety nets, and by expanding expenditure alongside revenue enhancements. Such shifts in fiscal policy will be increasingly important as the region confronts rising income inequality while fostering continued economic expansion—an issue analyzed in the theme chapter of *Asian Development Outlook 2012*.

Outlook by subregion

- **Global factors have given way to country-specific issues in developing Asia's outlook.** In the aftermath of the collapse of Lehman Brothers in the third quarter of 2008, most regional economies were affected by the sharp drop in global demand and subsequent recovery. But as the global environment has become less volatile—although growth is still slower than before the global crisis—country- or subregion-specific shocks are playing a bigger role, leading to wider variation among economic trends at those levels. Factors include natural disasters, the availability of resources, and the strength of domestic demand.

- **East Asia's growth will moderate to 7.4% in 2012 but will still lead the other subregions.** Growth has decelerated markedly since the 9.8% rebound in 2010, dropping to 8.0% in 2011 as the deteriorating global outlook in the second half of 2011 affected directly the contribution to growth of net exports and indirectly investment and consumption. An uptick to 7.7% is forecast for 2013. Growth for the PRC is forecast to moderate to 8.5% and 8.7% in the next 2 years (though this still exceeds the growth envisaged in the 12th Five-Year Plan). East Asia's inflation is forecast to slow to 3.7% in the next 2 years. The exception is Mongolia, where double-digit rates will prevail as surging government and private spending boosts domestic demand.

- **South Asia will see growth improve a shade in 2012 to 6.6%.** Growth in 2011 fell sharply to 6.4%, mainly reflecting slumping investment and India's marked monetary tightening in the face of persistent inflation. Growth in Pakistan declined because of disastrous flooding, while Bangladesh and Sri Lanka did well on brisk exports. The pace of India's growth is projected to edge up to 7.0% in 2012 and 7.5% in 2013, providing most of the lift for subregional growth to reach 7.1% in 2013. Pakistan's growth will advance only slightly in both years because electricity will remain a bottleneck on the supply side. South Asia's inflation is expected to fall from 9.4% last year to 7.7% in 2012 and further to 6.9% in 2013. Some cutbacks in the heavy fuel and electricity subsidies in most countries are expected, and will set a floor to how far inflation can fall.

- **Growth in Southeast Asia for 2012 is seen picking up to 5.2%.** Overall GDP growth decelerated to 4.6% in 2011, as Southeast Asia was hard hit by weakened export markets, domestic policy tightening, and natural disasters that disrupted trade and production—only partly redeemed by strong growth in the subregion's largest economy, Indonesia. The pickup in growth in 2012 largely reflects recovery in Thailand from major flooding as its growth rate rebounds from 0.1% in 2011 to 5.5% in 2012. Subregional growth is forecast to climb to 5.7% in 2013. Indonesia will continue its solid growth performance, expanding by 6.4% in 2012 and 6.7% in 2013. Higher food and fuel prices drove up aggregate inflation to 5.5% in 2011, but assumed relatively steady global oil prices and easing food prices in 2012 seem likely to slow inflation to 4.4% over the next 2 years.

- **Central Asia should just about keep up the momentum at 6.1% in 2012 and 6.2% in 2013.** This year's outturn reflects the combination of a weak eurozone and slower growth in the Russian Federation, offset by a bounceback in growth in Azerbaijan. In 2011, strong demand for petroleum boosted growth in Kazakhstan and Turkmenistan, but Azerbaijan's minimal growth, due to temporary closure of some oil production facilities, dragged down the subregional rate. Inflation accelerated in 2011 to 9.0%, mainly on rapid increases in world fuel and food prices. More moderate food price inflation and expected stable oil prices are seen helping slow inflation to 7.2% in 2012 and 7.3% in 2013.

- **The Pacific economies are relatively insulated from developments in the eurozone.** Robust expansion in the resource-exporting economies of Papua New Guinea (which accounts for roughly 60% of Pacific GDP), Timor-Leste, and Solomon Islands, and strong growth in the tourism-oriented economies of the Cook Islands, Fiji, Palau, and Vanuatu, lifted subregional growth to 7.0% in 2011—making this the only subregion to post faster growth in 2011 than 2010. Yet the Pacific is forecast to slow to 6.0% and 4.1% over the next 2 years due to lower resource export revenue, the winding down of infrastructure projects that stimulated growth in 2011 (Papua New Guinea, the Marshall Islands, and Vanuatu), lower international agricultural prices, and flooding impacts (Fiji). Inflation is expected to fall to 6.6% in 2012 from 8.6% in 2011.

Special theme: Confronting rising inequality in Asia

Asia's rising inequality

- **Developing Asia's impressive growth continues, but is paced by a new challenge—inequality on the rise.** Over the last few decades, the region has lifted people out of poverty at an unprecedented rate. But more recent experience contrasts with the "growth with equity" story that characterized the transformation of the newly industrialized economies in the 1960s and 1970s. In the 11 economies that account for more than four-fifths of the region's population, income disparities expanded during the last two decades—despite the region's world-beating performance in raising average incomes and reducing poverty.

  » Inequality widened in 11 of the 28 economies with comparable data, including the three most populous countries and drivers of the region's rapid growth—the PRC, India, and Indonesia. From the early 1990s to the late 2000s, the Gini coefficient—a common measure of inequality—worsened from 32 to 43 in the PRC, from 33 to 37 in India, and from 29 to 39 in Indonesia. Treating developing Asia as a single unit, its Gini coefficient went from 39 to 46 in that period.

  » Although Asia's inequality levels are generally below those in other developing regions—the average Gini coefficient across developing Asian economies was 37 compared with an average of 52 for Latin American economies—incomes are becoming more equitable elsewhere.

- **Inequality of opportunity is also prevalent in developing Asia.** Disparities in the means to raise one's living standards—such as physical assets (e.g., capital and land), human capital (e.g., education and health), and market access (e.g., labor and finance)—are common. Unequal access to public services, especially education and health, is central to generating inequality of opportunity. National household surveys conducted in the mid- to late 2000s revealed many facets of diverging opportunities:

  » School-age children from households in the poorest income quintile were three to five times as likely to be out of primary and secondary school as their peers in the richest quintile in some countries. The situation was even more dire for tertiary education where poorer college-age individuals were 10–20 times more likely not to attend college than their better-off peers.

  » Infant mortality rates among the poorest households in some countries were double or treble the rates among the richest households. In the most extreme examples, the chance of a poor infant dying at birth was more than 10 times higher than for an infant born to a rich family.

  » With few exceptions, the region's economies have made significant progress toward gender parity in primary and secondary education. Yet high gender disparities in tertiary education remain in South Asia and the Pacific.

- **Inequality of opportunity is a crucial factor in widening income inequality in developing Asia.** Moreover, these two forms of inequality can lead to a vicious circle as unequal opportunities create income disparities, which in turn lead to differences in future opportunities for individuals and households.

Why inequality matters

- **Rising inequality can damp the poverty impact of economic growth.** If inequality had remained stable in the Asian economies where it increased, the same growth in 1990–2010 would have taken about 240 million more people out of poverty—equivalent to 6.5% of developing Asia's population in 2010 and 8.0% of those countries with rising inequality.

- **Inequality can weaken the basis of growth itself.** High and rising inequality can curb medium-term growth by reducing social cohesion, undermining the quality of governance, and increasing pressure for inefficient populist policies.

- **Asian policy makers are becoming more concerned about inequality.** In an informal, web-based survey of Asian policy makers in January–February 2012, over 65% of respondents agreed that income inequality in their countries was high or very high. Almost all felt that incomes in their countries were becoming more unequal. Moreover, a majority believed that success in reducing poverty was insufficient to justify widening inequality. This concern is increasingly being addressed through development plans across the region, as they include explicit goals to make growth more inclusive.

Drivers of inequality

- **Technological progress, globalization, and market-oriented reform—the primary drivers of the region's growth—are the key forces behind the rise in inequality.** These forces combined have opened new opportunities for economies to prosper, but have not benefited all people equally. Together, these drivers explain not only the increase in overall inequality, but also the sharply rising incomes of the very rich in some countries.

- **These forces affect income differences through three channels: capital, skill, and spatial bias.** The bias toward physical capital reduces labor's share of national income while increasing the income share of the owners of capital. Similarly, the heightened demand for better skilled workers raises the premium on their earnings. And spatial disparities are becoming more acute: locations with superior infrastructure, market access, and scale economies—such as urban centers and coastal areas—are better able to benefit from changing circumstances.

  » Labor's share of total income is falling in many economies in the region. Between the mid-1990s and the mid-2000s, labor income as a share of manufacturing output in the formal sector fell from 48% to 42% in the PRC and from 37% to 22% in India. The employment intensity of growth in Asia is lower than the global average and has declined in recent decades.

- » Differences in educational attainment can explain 25%–35% of inequality between households in many regional economies, and the earnings premium for skills and tertiary education has increased in recent years.
- » The combined contribution of rural–urban and interprovincial differences to total inequality ranges from 13% in Sri Lanka to 54% in the PRC. The gaps between urban and rural incomes in developing Asia have increased, as have those between prosperous and lagging areas.

Policy priorities for confronting rising inequality

- **Because the forces behind rising inequality are also the engines of productivity and income growth, policy makers should not hinder their progress.** A distinction needs to be made between the income differences that arise as economies take advantage of the new opportunities of technology, trade, and efficiency-enhancing reforms; and those that are generated by unequal access to market opportunities and public services. This latter source of inequality requires a policy response since it gets magnified by the forces, leads to inefficiency, and undermines the sustainability of growth.

- **Governments can address rising inequalities through several policy channels, three of which are highlighted in the theme chapter:**

  - » **Efficient fiscal policies. These include:**
    - ◆ spending more on education and health, especially for poorer households;
    - ◆ developing and spending more on better targeted social protection schemes, including conditional cash transfers that target income to the poorest but also incentivize the buildup of human capital;
    - ◆ reducing or eliminating general price subsidies (such as on fuel) and compensating the impact on the poor by targeted transfers; and
    - ◆ broadening the tax base and strengthening tax administration for greater and more equitable revenue mobilization.
  - » **Interventions to improve regional balance. These include:**
    - ◆ improving transport and communications networks between developed and poor regions;
    - ◆ creating growth poles in lagging areas;
    - ◆ using fiscal transfers to poorer areas in order to accelerate investment in human capital and improve access to public services there; and
    - ◆ removing barriers to within-country migration.
  - » **Policies to make growth more employment friendly. These include:**
    - ◆ encouraging structural transformation to create a greater number of productive jobs, and maintaining a balanced sectoral composition of growth between manufacturing, services, and agriculture;
    - ◆ supporting development of small and medium-sized enterprises;
    - ◆ removing factor market distortions that favor capital over labor;
    - ◆ establishing or strengthening labor market institutions; and
    - ◆ introducing public employment schemes as a temporary bridge to address pockets of unemployment and underemployment.

- **Developing Asia must turn back the tide of rising inequality.** The region has enjoyed a remarkable period of growth and poverty reduction, but the new global realities of technological progress, more globally integrated markets, and greater market orientation are magnifying the effects of inequalities in physical and human capital. Asian policy makers need to redouble their efforts to equalize opportunities in employment, education, and health to make growth more inclusive. Without such policies of job creation and efficient redistribution to enhance growth, Asia may be pulled into inefficient populist policies, which would help neither growth nor equity.

Table 1 Growth rate of GDP (% per year)

Subregion/Economy	2009	2010	2011	2012	2013
Central Asia	**3.2**	**6.6**	**6.2**	**6.1**	**6.2**
Azerbaijan	9.3	5.0	0.1	4.1	3.5
Kazakhstan	1.2	7.0	7.5	6.0	6.5
East Asia	**6.7**	**9.8**	**8.0**	**7.4**	**7.7**
China, People's Rep. of	9.2	10.4	9.2	8.5	8.7
Hong Kong, China	-2.6	7.0	5.0	3.0	4.5
Korea, Rep. of	0.3	6.2	3.6	3.4	4.0
Taipei,China	-1.8	10.7	4.0	3.4	4.6
South Asia	**7.5**	**7.8**	**6.4**	**6.6**	**7.1**
Bangladesh	5.7	6.1	6.7	6.2	6.0
India	8.4	8.4	6.9	7.0	7.5
Pakistan	1.7	3.8	2.4	3.6	4.0
Sri Lanka	3.5	8.0	8.3	7.0	8.0
Southeast Asia	**1.4**	**7.9**	**4.6**	**5.2**	**5.7**
Indonesia	4.6	6.2	6.5	6.4	6.7
Malaysia	-1.6	7.2	5.1	4.0	5.0
Philippines	1.1	7.6	3.7	4.8	5.0
Singapore	-1.0	14.8	4.9	2.8	4.5
Thailand	-2.3	7.8	0.1	5.5	5.5
Viet Nam	5.3	6.8	5.9	5.7	6.2
The Pacific	**4.2**	**5.5**	**7.0**	**6.0**	**4.1**
Fiji	-1.3	-0.2	2.1	1.0	1.2
Papua New Guinea	6.0	7.4	8.9	7.5	4.5
Developing Asia	**6.0**	**9.1**	**7.2**	**6.9**	**7.3**

Notes: Developing Asia refers to 44 developing member countries of the Asian Development Bank and Brunei Darussalam, an unclassified regional member; East Asia comprises the People's Republic of China; Hong Kong, China; the Republic of Korea; Mongolia; and Taipei,China; Southeast Asia comprises Brunei Darussalam, Cambodia, Indonesia, the Lao People's Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Viet Nam; South Asia comprises Islamic Republic of Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka;

(continued on the next page)

Table 2 Inflation (% per year)

Subregion/Economy	2009	2010	2011	2012	2013
Central Asia	**5.9**	**7.0**	**9.0**	**7.2**	**7.3**
Azerbaijan	1.5	5.7	7.9	9.0	8.5
Kazakhstan	7.3	7.1	8.3	6.5	6.8
East Asia	**-0.1**	**3.1**	**5.0**	**3.7**	**3.7**
China, People's Rep. of	-0.7	3.3	5.4	4.0	4.0
Hong Kong, China	0.6	2.3	5.3	3.8	3.3
Korea, Rep. of	2.8	3.0	4.0	3.0	3.0
Taipei,China	-0.9	1.0	1.4	1.5	1.6
South Asia	**5.2**	**9.4**	**9.4**	**7.7**	**6.9**
Bangladesh	6.7	7.3	8.8	11.0	8.5
India	3.8	9.6	9.0	7.0	6.5
Pakistan	17.0	10.1	13.7	12.0	10.0
Sri Lanka	3.5	6.2	6.7	8.0	7.0
Southeast Asia	**2.7**	**4.1**	**5.5**	**4.4**	**4.4**
Indonesia	4.8	5.1	5.4	5.5	5.0
Malaysia	0.6	1.7	3.2	2.4	2.8
Philippines	4.2	3.8	4.8	3.7	4.1
Singapore	0.6	2.8	5.2	3.0	2.5
Thailand	-0.9	3.3	3.8	3.4	3.3
Viet Nam	6.9	9.2	18.6	9.5	11.5
The Pacific	**5.3**	**5.5**	**8.6**	**6.6**	**5.4**
Fiji	3.7	7.8	8.7	5.1	3.0
Papua New Guinea	6.9	6.0	8.7	7.0	6.0
Developing Asia	**1.4**	**4.4**	**5.9**	**4.6**	**4.4**

(continued from the previous page)

Central Asia comprises Armenia, Azerbaijan, Georgia, Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan; and The Pacific comprises the Cook Islands, Fiji, Kiribati, Republic of the Marshall Islands, the Federated States of Micronesia, Nauru, Papua New Guinea, Republic of Palau, Samoa, Solomon Islands, Democratic Republic of Timor-Leste, Tonga, Tuvalu, and Vanuatu.

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.