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"Asian Development Outlook 2015"

Asian Development Bank (ADB) has recently released 'Asian Development Outlook for 2015' (ADO 2015). We have reviewed and compared some of the data with those of the report of World Bank and the International Monetary Fund.

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ADB estimated that the Developing Asia will grow at a steady 6.3% in 2015 and 2016—the same pace as 2014—supported by a strengthening recovery in the major industrial economies and soft global commodity prices. The drop in international oil prices is taking pressure off of consumer prices. Inflation will slow from 3.1% in 2014 to 2.6% this year. As oil prices gradually rebound, inflation will pick up to 3.0% in 2016.

GDP growth rate of Asia

Growth rate of GDP (% per year)

Subregion/Economy	2012	2013	2014	2015	2016
Central Asia	**5.6**	**6.6**	**5.1**	**3.5**	**4.5**
Azerbaijan	2.2	5.8	2.8	3.0	2.8
Kazakhstan	5.0	6.0	4.3	1.9	3.8
East Asia	**6.6**	**6.8**	**6.6**	**6.5**	**6.3**
China, People's Rep. of	7.7	7.7	7.4	7.2	7.0
Hong Kong, China	1.7	2.9	2.3	2.8	2.9
Korea, Rep. of	2.3	3.0	3.3	3.5	3.7
Taipei,China	2.1	2.2	3.7	3.7	3.6
South Asia	**5.1**	**6.5**	**6.9**	**7.2**	**7.6**
Bangladesh	6.5	6.0	6.1	6.1	6.4
India	5.1	6.9	7.4	7.8	8.2
Pakistan	3.8	3.7	4.1	4.2	4.5
Sri Lanka	6.3	7.2	7.4	7.0	7.3
Southeast Asia	**5.8**	**5.1**	**4.4**	**4.9**	**5.3**
Indonesia	6.0	5.6	5.0	5.5	6.0
Malaysia	5.6	4.7	6.0	4.7	5.0
Philippines	6.8	7.2	6.1	6.4	6.3
Singapore	3.4	4.4	2.9	3.0	3.4
Thailand	6.5	2.9	0.7	3.6	4.1
Viet Nam	5.2	5.4	6.0	6.1	6.2
The Pacific	**6.0**	**4.1**	**6.1**	**10.7**	**4.5**
Fiji	1.8	4.6	4.2	4.0	4.0
Papua New Guinea	7.7	5.1	8.0	15.0	5.0
Developing Asia	**6.2**	**6.5**	**6.3**	**6.3**	**6.3**
Major industrial economies	**1.2**	**1.2**	**1.6**	**2.2**	**2.4**

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.

Source: Asian Development Outlook

Highlights of the ADO 2015

Steady growth and stable prices in developing Asia

- Growth in developing Asia maintains a steady pace. Gross domestic product (GDP) in the region is forecast to expand by 6.3% in 2015 and 2016, as in 2014. Soft commodity prices and recovery in the major industrial economies generally aid the region's growth momentum. The expected pickup in India and in most members of the Association of Southeast Asian Nations (ASEAN) could help balance gradual deceleration in the region's largest economy, the People's Republic of China (PRC).
- Targeted support will guide the PRC gradually to its new normal. Growth decelerated in 2014 as investment in the PRC slowed, particularly in real estate. Weaker investment is expected to further curtail growth to 7.2% in 2015 and 7.0% in 2016. This is a much more moderate rate than the average growth of 8.5% recorded in the period since the global financial crisis but still in line with the government's loose target of about 7.0%.
- Structural reform is expected to boost India's prospects. The initial phase of the government's effort to remove structural bottlenecks is lifting investor confidence. With the support of stronger external demand, India is set to expand by 7.8% in FY2015 (ending 31 March 2016), a sharp uptick from 7.4% growth recorded in FY2014. This momentum is expected to build to 8.2% growth in FY2016, aided by the expected easing of monetary policy in 2015 and a pickup in capital expenditure.
- Growth picks up as the ASEAN Economic Community approaches. The combined GDP of the 10 ASEAN economies is forecast to expand by 4.9% in 2015, lifted from 4.4% in 2014 by recovery in Indonesia and Thailand. Though outcomes vary widely among the economies in the subregion because of their diverse circumstances, collectively the group is expected to enjoy further growth acceleration to 5.3% in 2016, the inaugural year of the ASEAN Economic Community.
- Falling international commodity prices have contained inflation. Regional inflation is forecast to slow from 3.1% in 2014 to 2.6% in 2015 before bouncing back to 3.0% in 2016. Global commodity prices are expected to stay moderate in the forecast horizon, removing price pressure on consumer items. Tamed inflation provides space for monetary policy to shore up weak domestic demand if necessary. Central Asia is an exception, as depreciating currencies are expected to exacerbate inflation in the next 2 years.
- Lower import bills will temporarily widen the current account surplus. The drop in commodity prices, for oil in particular, will enlarge developing Asia's current account surplus by 0.2 percentage points to 2.5% of GDP in 2015. However, as food price declines flatten out and the price of crude picks up, the current account balance will revert to 2.3% of GDP in 2016. While the trend reflects the region's position as a net oil importer, oil exporters like those in Central Asia will see their surpluses whittled away, with Kazakhstan even falling into current account deficit.

- Reversals in an otherwise supportive environment could dampen growth. If the PRC falters as it adjusts to its new normal, or if India reforms less decisively than anticipated, their slower growth could spill over to others in developing Asia. Outside the region, the Greek debt crisis and deepening recession in the Russian Federation may have global consequences. The impending rise in US interest rates may reverse capital flows to the region, requiring monetary responses to maintain stability. Finally, the benefits flowing from the low price of crude oil could evaporate if geopolitical tensions push it sharply higher.
- Low oil prices have been a boon for the global recovery and growth in Asia. An environment of low oil prices fuels higher economic growth globally, particularly in the major industrial economies. It slows inflation and hence enhances the scope for lower interest rates that can continue stimulating economic activity. Policy makers should take advantage of this moment to pursue structural reform. For oil importers, falling oil prices present an opportunity for governments to eliminate costly fuel subsidies or even raise fuel taxes with minimal disruption to household and business budgets. Oil exporters may similarly find that the time is ripe to pursue subsidy and tax reform to ease the strain on their public finances, as well as take steps to diversify their economies.
- Asia has experienced rapid credit growth since the global financial crisis. From 2009 to 2013, proliferating bank loans and bonds in the 14 large economies of developing Asia almost doubled total domestic debt from $18.3 trillion to $34.1 trillion. While the banking sector remains the largest part of the financial system, bonds have been gaining ground as sources of finance. A large portion of the growth in debt comes from rapid credit expansion in the PRC, which accounted for two-thirds of total debt in 2013. Most of the new debt is in the private sector, where indebtedness more than doubled from 2009 to 2013, while government debt increased by just 58%.

Mongolian economic outlook in the ADO 2015

Economic growth decelerated in 2014 reflecting a drop in foreign direct investment. Inflation required monetary tightening, but the current account deficit moderated. Fiscal deficits remained high, and international reserves continued to shrink. Growth is forecast sharply lower in 2015 and 2016, with lower inflation but current account deficits persisting or widening. A major policy challenge is to implement prudent macroeconomic management that retains sufficient scope for productive investment and social protection.

Main economic indicators forecast, Mongolia

	2015	2016
GDP growth	3.0	5.0
Inflation	8.9	7.7
Current account balance (share of GDP)	-8.0	-15.0

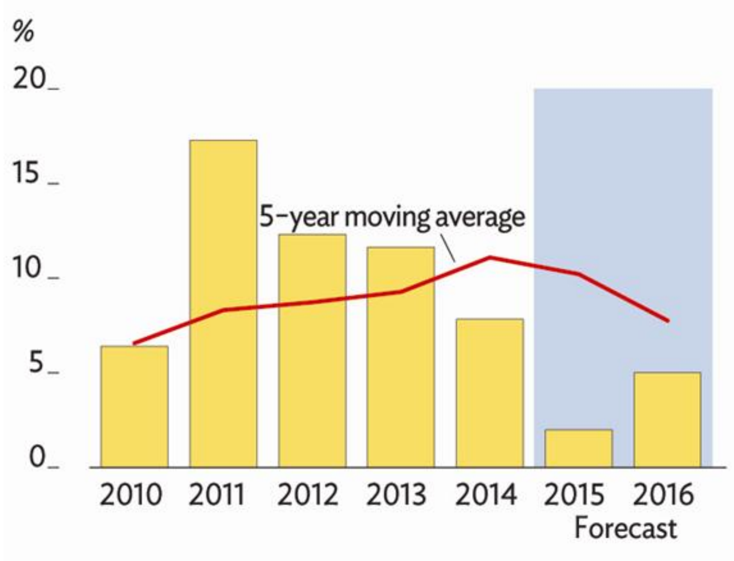
Source: ADB estimates.

Despite robust growth expected in agriculture and expanded extraction at Oyu Tolgoi, albeit less than in 2014, GDP growth is forecast to slow to 3.0% in 2015 as falling prices for exports are felt and as monetary and fiscal policy are tightened to contain inflationary and BOP pressures.

Industrial production will grow more slowly than in 2014 as a credit squeeze affects construction and real estate, and as lower export prices pressure mine operators. Services are projected to grow only marginally as other economic activity slows. Assuming a stable external environment and the resumption of major investment in mining in 2015, economic growth should recover to 5.0% in 2016 even with the continuation of restrictive fiscal and monetary policies.

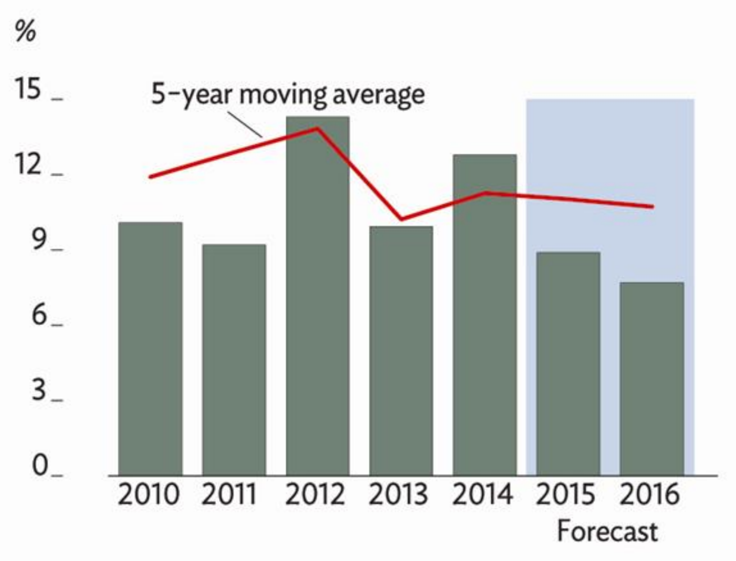
Consumer price inflation will moderate to an average of 8.9% in 2015 and 7.7% in 2016, reflecting slower growth and fiscal and monetary tightening. The forecast assumes that the central bank will prioritize its target of 7.0% year on year for consumer price inflation and achieve it by the end of December 2016. Gross international reserves are likely to remain under pressure in 2015 as FDI inflows stay weak and the current account deficit large. The deficit is forecast to be stable at 8.0% of GDP in 2015 as higher export volume is balanced by falling prices. When large new mining investments start to push up imports in 2016, the current account deficit may almost double to 15.0% of GDP.

Mongolian GDP growth forecast, by ADB



Source: Asian Development Outlook database.

Mongolian inflation rate forecast, by ADB



Source: *Asian Development Outlook* database.

Summary

Earlier this year, IMF and the World Bank also released their estimation of World development rate for 2015 and 2016. We tried to show the comparison at the following table.

Comparison of GDP growth rate of the Asian region

Region	ADB		WB		IMF	
	2015	2016	2015	2016	2015	2016
Developing Asia	6.3	6.3	6.7	6.7	6.4	6.2
China	7.2	7.0	7.1	7.0	6.8	6.3
India	7.8	8.2	6.4	7.0	6.3	6.5
ASEAN	4.9	5.3			5.2	5.3
Mongolia	3.0	5.0	6.0	6.1		

The table shows that, ADB is little more optimistic for the growth GDP of China and India. However, ADB is more reluctant about the Mongolia's economic growth for 2015. ADB also concerned that the not reaching the target growth of the biggest economies such as China and India, will have strong spillover impact on the countries in the region.

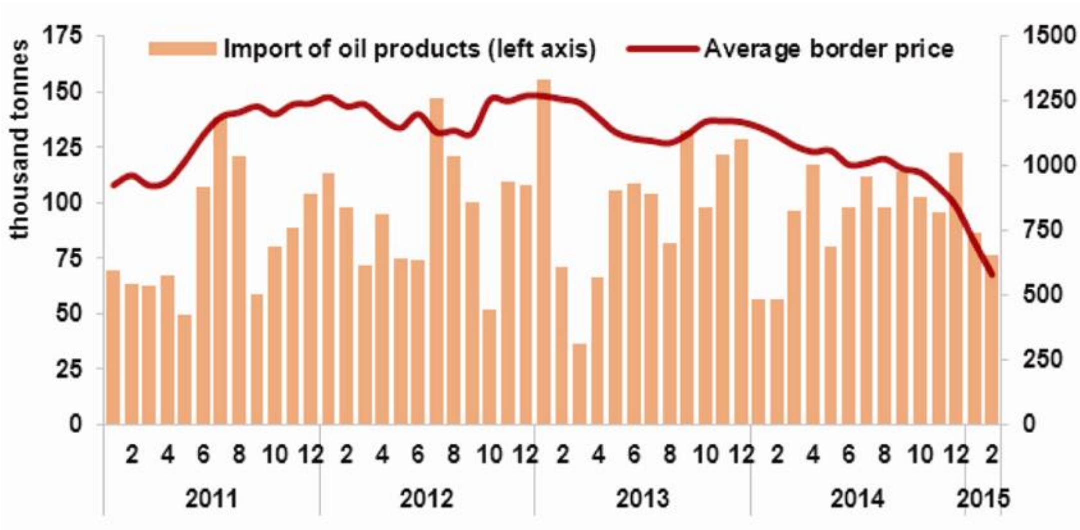
ADB concluded that some recent fiscal reforms are steps in the right direction.

Development Bank of Mongolia expenditures that were previously off-budget are now partly within structural deficit calculations. Further, the authorities revised the FSL structural deficit and debt ceilings to bring them in line with reality, and will gradually lower them to more prudent levels by 2018.

In the long run, ADB suggests that Mongolia needs to diversify its economy and better insulate itself from the vagaries of volatile price swings and large scale FDI. However, the government's immediate policy challenge is to tighten monetary and fiscal policy to address pressure on the BOP, while safeguarding financial sector stability, debt sustainability—and the welfare of the population, especially the poor.

As per the observation by the Frontier, lower oil price could have been a cushion for some macroeconomic indicators, such as current account and inflation rate.

Import of oil products, average border price



Source: Bank of Mongolia

Although the statistics of foreign trade of Mongolia, prepared by the Bank of Mongolia, suggest that the average border price of oil product import decreased dramatically for last few months, there is no impact observed on the oil product price in the Mongolian local market. Therefore, it can be concluded that Mongolia is not taking an advantage of oil price fall as other Asian countries do.

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