

Background Note

Secretary-General at the 70th GA

Regional economic prospects for East Asia

East Asia will remain a key driver of global growth in the coming years. Economic activity in the region is forecast to grow by 6.0 per cent in both 2015 and 2016, slightly slower than in 2014. Average consumer price inflation is projected at 1.7 per cent for 2015, accelerating to 2.4 per cent in 2016. Several East Asian central banks cut their policy rates in the first half of 2015. However, concerns over debt levels, asset bubbles, and capital outflows limit the willingness of authorities to further ease their monetary policy stances.

China is projected to grow by 7 per cent in 2015 — in line with the government target — and 6.8 per cent in 2016. The stock market plunged in recent months and weaker-than-expected data on key indicators, particularly in export sector, indicate a growth slowdown in China, prompting authorities to adopt further accommodative fiscal and monetary policy measures. While China's renminbi was devalued by over 4 per cent in mid-August, the central bank indicated that markets will in the future play a greater role in determining the exchange rate. China's devaluation will likely put downward pressure on the export growth of other East Asian economies.

A number of other East Asian economies grew somewhat slower than expected in the first half of 2015 owing to a weak performance of export sectors and sluggish investment. Economic growth in the Republic of Korea decelerated in the first two quarters, due to contraction in exports. Indonesia's growth also decelerated on account of weak investment and reduced government spending. In Thailand, improved political stability is expected to boost tourism and government spending.

The region's export growth is expected to gain some strength in the second half, as most East Asian currencies depreciated against the US dollar in the second quarter and as demand from developed economies picks up. Public spending is also expected to accelerate in several economies.

Regional economic prospects for South Asia

South Asia's economic outlook is largely favourable. Most economies are expected to see an acceleration in growth in 2015-16 on the back of robust domestic demand and a pick-up in exports. The region's GDP is projected to grow by 6.7 per cent in 2015 and 6.9 per cent in 2016, up from an estimated 6.3 per cent in 2014. In most of the region's economies, growth will be driven by private sector demand amid lower inflation and more accommodative monetary policies. In the wake of the decline in energy and food prices, consumer price inflation in South Asia has fallen to the lowest level in a decade. Several central banks - including those of India, Pakistan and Sri Lanka - have responded to reduced inflationary pressures with more accommodative monetary policy stances.

India is projected to be the fastest-growing large economy in the world, with annual growth forecast at 7.6 per cent in 2015 and 7.7 per cent in 2016. Growth will likely be broad-based as government consumption, household consumption and fixed capital formation are projected to gain strength. The growth prospects of the Islamic Republic of Iran have improved after it reached a comprehensive nuclear agreement with the P5+1 countries in July. A lifting of the sanctions will allow trade (including oil exports) and investment to recover, boosting economic activity in the coming years. The prospects for Bangladesh and Sri Lanka remain broadly favourable, with growth expected to be driven by robust remittance inflows and buoyant household consumption amid lower energy prices. The economic outlook for Nepal and Pakistan is, however, more subdued. Nepal's growth forecast for 2015 has been lowered after economic activities were disrupted by the devastating earthquake in April. Reconstruction activities are, however, expected to boost growth in 2016. Despite more stable macroeconomic conditions, Pakistan's growth is projected to remain subdued at around 4 per cent as economic activities are hampered by severe energy shortages and unstable security conditions.

While the regional outlook has improved, South Asia's economies still face long-standing structural challenges, such as energy shortages, infrastructure deficits, widespread vulnerable employment and political and social unrest.