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## **Working Paper**

# Current Situation and Cause Analysis of Inflation in Asia

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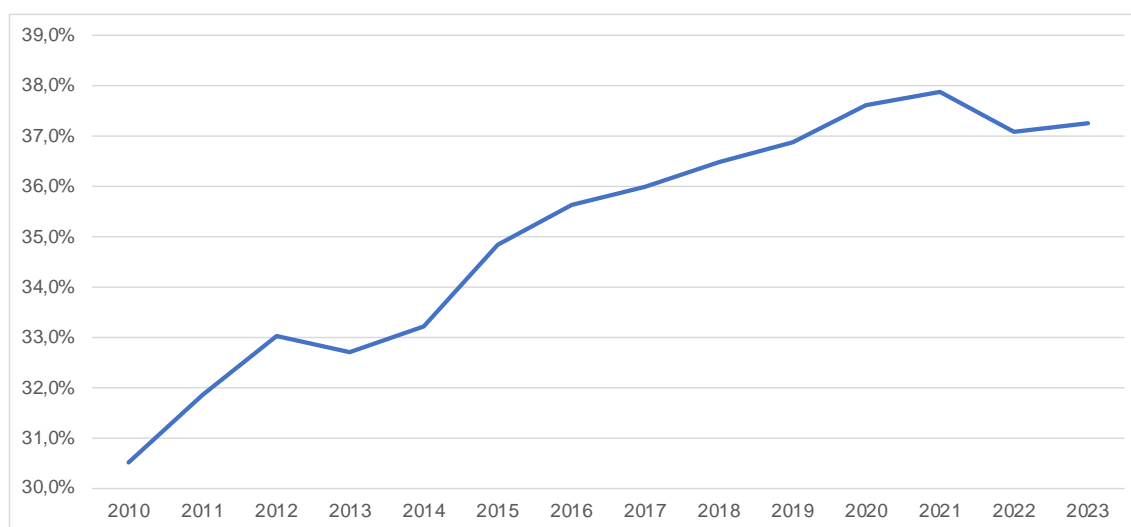
# Current Situation and Cause Analysis of Inflation in Asia

Long lasting lockdowns, supply chain disruptions regarding global trade, deep breaks in the supply of food and energy as well as widespread sanctions have been symbols for this apparently "new normal".

The IMF baseline forecast is for growth to fall from 3.5 pct in 2022 to 3.0 pct in 2023 and 2024. The forecast for 2023 and 2024 remains well below the historical 2000 to 2019 annual average of 3.8 pct.

Advanced economies are expected to see an especially pronounced growth slowdown, from 2.7 pct in 2022 to 1.4 pct in 2024. Growth in emerging and developing Asia is on track to rise from 4.5 pct in 2022 to 5.3 pct in 2023, then to moderate to 5.0 pct in 2024, growth in the middle East and Central Asia is expected to decline from 5.4 pct in 2022 to 3.2 pct in 2024.

Currently, the IMF estimates the overall share of the Asian economies in global gross domestic product (GDP) at about 37 pct, a loss by 0.6 pp over the last two years. However, since 2010 this share has surged by almost 7 pp.



**Exhibit 1: Asian countries' share in global GDP**

Source: International Monetary Fund, World Economic Outlook April 2023. Including estimates for 2023, for selected countries already from 2020 to 2022, respectively.

## I. Durable inflation rates

Inflation is back in most countries, with the big exception of China. In most Asian countries the swings and even the absolute levels in inflation rates were lower than in Europe and North America, especially if 2018 data are compared with 2022 data. According to the 2024 IMF estimate inflation rates in many Asian countries will fall below European levels.

Despite the more favorable inflation rates in an international comparison, cost of capital has been risen to levels not seen for many years. For a comparison, the yields of the 10-year government bonds could serve as an indicator of that steep increase, but many countries show yield levels comparable to European or North American levels. This demonstrates the resilience of these economies against currency, other macroeconomic and political factors.

**Table 1: Inflation rates and Government bond yields for selected countries**

Country	Inflation, end of year consumer prices (pct)			10-year government bond yield (pct)
	2018	2022	2024	
Bangladesh	5.5	7.6	5.6	8.51
China	1.8	1.8	1.3	2.60
India	2.5	6.3	4.3	7.19
Indonesia	3.2	5.5	2.8	6.44
Japan	0.9	3.9	1.6	0.64
Malaysia	0.2	3.8	3.1	3.91
Pakistan	5.2	21.3	16.4	16.91
Philippines	5.3	8.1	3.0	6.58
Saudi Arabia	1.9	2.0	2.3	n.a.
South Korea	1.3	5.0	2.0	3.85
Thailand	0.4	5.9	1.5	2.58
United Arab Emirates	3.1	4.8	2.0	n.a.
Vietnam	3.0	4.6	4.1	2.70
For comparison				
European Union	1.7	10.6	4.3	2.55*
United States of America	1.9	6.6	2.1	4.11

\* Yield for German "Bunds" only.

Source: International Monetary Fund, World Economic Outlook Database April 2023 (Inflation, end of year consumer prices percent change; 2024 estimate). Investing.com, 10-year Government Bonds as of 30 August 2023, close of business.

## II. Mutually reinforcing reasons

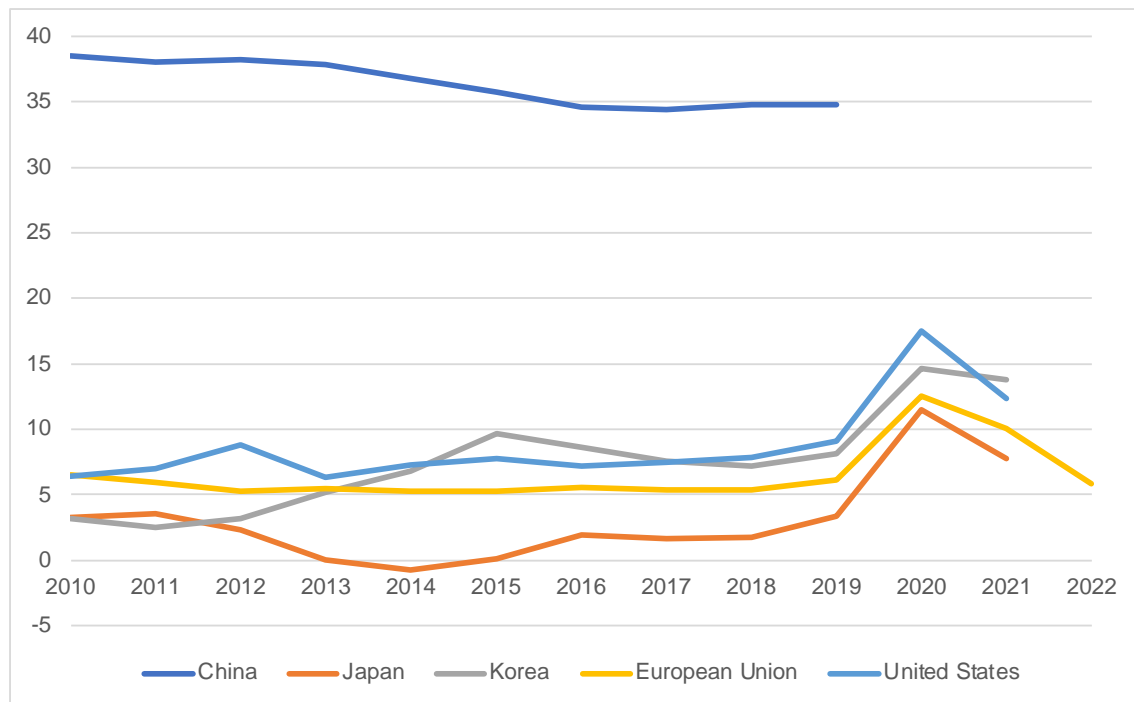
Multiple reinforcing reasons are responsible for this increase in inflation. The reference to consumers' hunger for adventure and entertainment, which has been pent up by travel restrictions, is particularly popular. In China, around 274 million people traveled during Golden Week in 2023, and domestic tourism sales reached 101% of pre-pandemic levels.

In some countries there is even talk of "Swiftflation". The term refers to the ticket prices for concerts by world-famous stars reaching new heights, but also accommodation and gastronomy around these events are at peak values and thus measurably influencing the inflation rates of the countries concerned.

The ticket prices for the ten shows by Taylor Swift in Tokyo and Singapore in February and March 2024 vary between 60 U.S. dollars in the cheapest area and 850 U.S. dollars in the VIP area, not taking into account the proportions allocated to the individual categories. Even without such concerts, the prices for hotel accommodation in major Asian destinations rose significantly in the first half of 2023 compared to the same period last year: in Tokyo, for example, by 106 pct, in Hong Kong by 92 pct and in Bangkok by 53 pct.

This anecdotal evidence corresponds with private household savings as a driver of the inflation push. The reopening of the economies has led to a rapid release of pent-up demand, supported by high levels of previous excess savings. OECD data for Japan, South Korea, the United States, and the European Union show a consistent pattern and should therefore be transferable to Asian countries. OECD data for China, with its savings rate that is unique among leading economies, is currently only available up to 2019.

Due to the lack of being able to consume during the lockdown, private savings rose to historic record values within a twelve-month period in 2020; in Japan from 3.36 pct of disposable income to 11.45 pct, in South Korea from 8.13 pct to 14.68 pct. With the easing, these values fell again. In the European Union, for which data are already available for 2022, from 12.5 pct to 5.83 pct.



**Exhibit 2: Household Savings for selected countries**

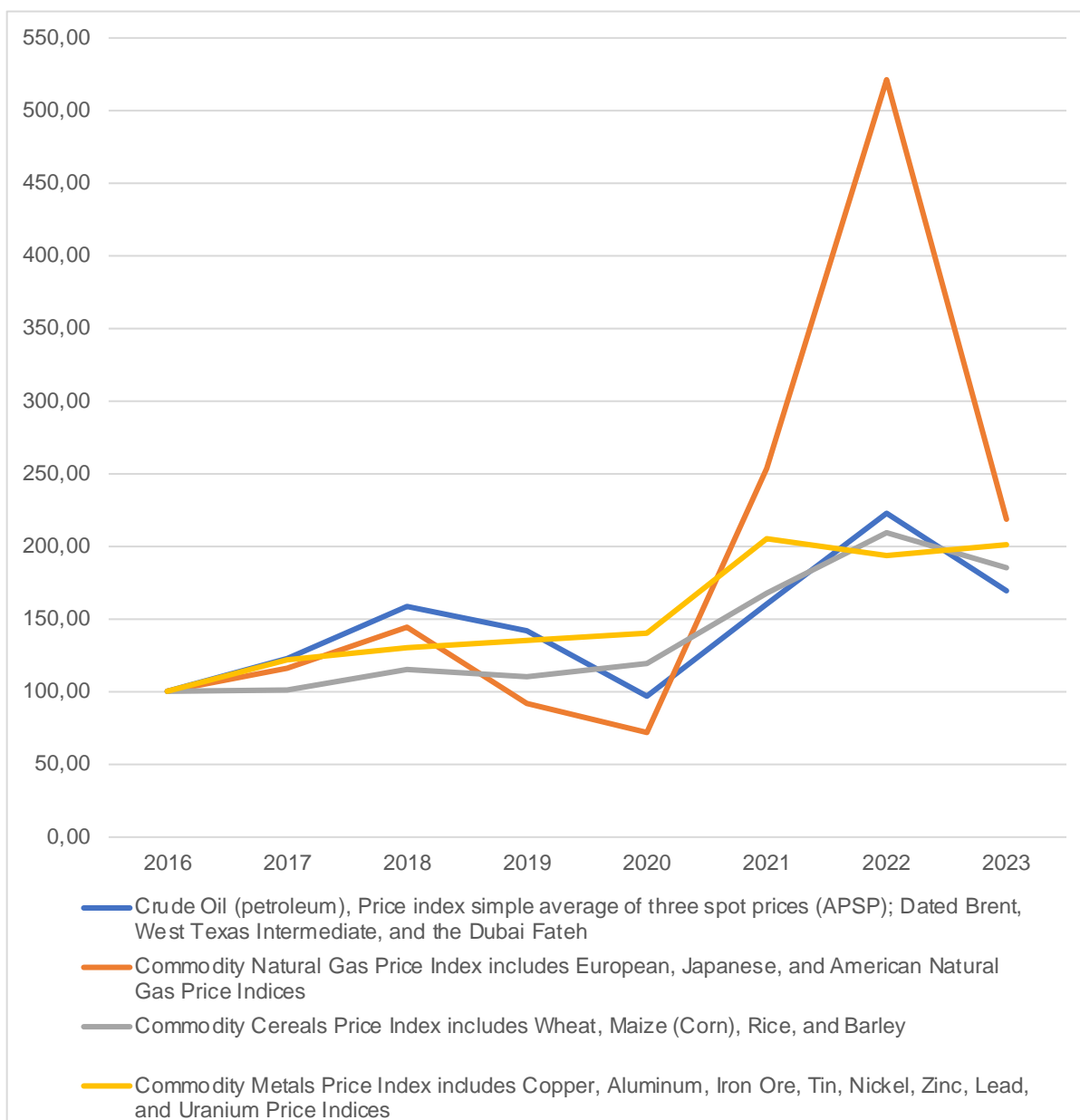
*Pct of household disposable income. Data available as of 30 August 2023.*

*Source: OECD data, Household savings.*

However, the current inflation is caused far more by the shocks on the supply side. Extensive global supply chain problems due to production losses and the Russian invasion of Ukraine are reflected especially in the prices for food, energy, and metals.

The IMF Index Commodity Natural Gas Price Index, which summarizes the development of European, Japanese, and American gas price indices, increased seven-fold from around 72 to 522 points from 2020 to 2022, to list at 223 in 2023, only slightly below the 2021 level.

Oil and grain indices doubled and remain trading above 2021 levels, signaling how tight energy and food markets are. The unfavorable economic outlook is only reflected in the IMF index for metals such as copper, aluminum, and iron: after a gradual increase since 2016 and a price surge in 2021, the index is stagnating.



**Exhibit 3: Price Indices for selected fuel, food and metals prices**

*Index 2016 = 100.*

*Source: International Monetary Fund, World Economic Outlook Database, April 2023.*

These sample data show that the risk of a widespread recession might be reduced compared to the expectations by end of 2022 or early 2023 but is not yet off the table. The signs for durable reduced inflation rates are still weak and hence the risk of persistently high central bank rates is very much alive. The June 2023 OECD Economic Outlook has been titled "Global growth has stabilized, but the improvement is fragile."

Overall, this environment has shifted governments' priorities and as such places a significant burden on the implementation of net zero. This focus on coping with short-term topics displaces the view on long-term developments that have already been emerged today.

### Expert Biography:

Hubertus Vaeth is a Fellow of Asian Financial Cooperation Association Think Tankers Committee, a board member of the World Alliance of International Financial Centres (WAIFC), Managing Director of Frankfurt Main Finance e.V., the financial centre initiative of the leading financial centre in Germany and the euro zone. He is trained as Economist and was, in his prior role, Chief Economist Asia Pacific at Deutsche Bank, based in Singapore.

### About AFTTC:

Asian Financial Cooperation Association(AFCA) was founded in May 2017. It is the first international financial social organization initiated by China. Asian Financial Cooperation Association Think Tankers Committee (AFTTC) is composed of over a hundred domestic and foreign experts from more than forty countries and regions. With the philosophy of "market location, global perspective, problem orientation, in-depth observation, and smart solution", AFTTC has developed AFCA working paper, Asian Financial Observation, Financial Development Report for the Guangdong-Hong Kong-Macao Greater Bay Area, and other bilingual products, conducted Quarterly Seminars, Annual Forums and other high-level financial activities, sending a strong Asian message constantly on the international stage.

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