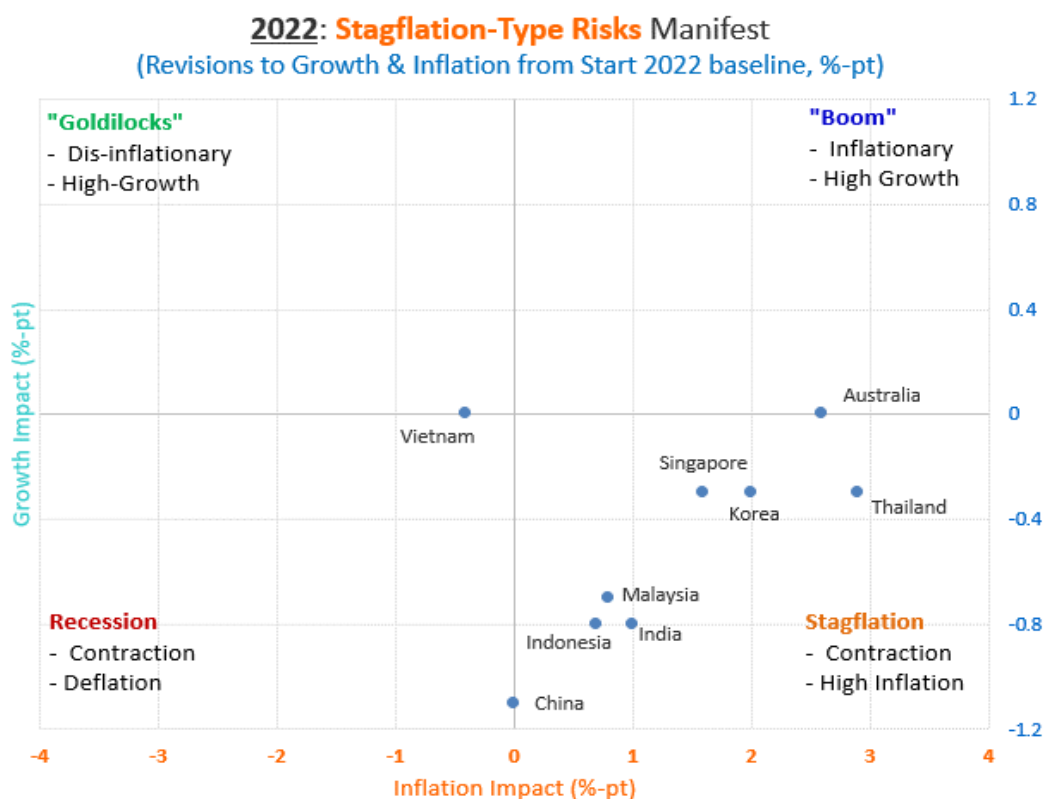


EM Asia: Stagflation-Type Risks Mount



“It is stupidity rather than courage to refuse to recognize danger when it closes upon you.”
– Sherlock Holmes

Stagflation-type risks for EM Asia are magnified not despite, but precisely because, of an aggressively hawkish US Fed; which threatens to impose *disproportionately greater downside growth risks as inflation dampening objectives are fettered* by more profound, pervasive and persistent supply-side quirks.

EM Asia central banks forced to tighten in tandem to deflect macro-stability risks is one more transmission of asymmetric tightening. But not just that. Insofar that inflation is de-sensitized to policy tightening due to supply-side quirks, **demand may be further subdued by compromised affordability**/bottom-line. And it is hard to refute Holmes that it is “stupidity rather than courage” to not recognise clear and present danger.

Fed’s Asymmetric Growth-Inflation Dampener: To be sure, **stagflation risks, notably for EM Asia, are amplified by asymmetric growth-inflation impact** from the Fed’s tightening. Point being, **the Fed’s brutal tightening path imposes sweeping downside risks to precarious, if not fragile, demand recovery**. Even more so as pressures on EM asset markets amid capital outflow risks threaten to exacerbate economic risks via financial channels. **Whereas, global inflation risks may be far more unyielding**. Particularly given that *inflation may be de-sensitized to demand drag induced by monetary policy tightening* amid a **perfect storm of supply-side COVID cost-push, geo-political price shocks and food security risks** (which trigger self-sabotaging exports control/hoarding by food producers and middlemen).

Upshot being, there are growing risks that weakened link between demand growth and inflation will result **disproportionately larger negative growth impact**, if not an outright downturn, **without necessarily taming inflation to the same extent**.

Wars Fuel & Feed Stagflation Risks: What's more, **war waged on Ukraine by Russia reinforces stagflation risks** as it **simultaneously sets off price shocks and hollows demand**. A combination of *displaced activity, uncertainty* and *attendant confidence slippage that stifle growth multipliers* resonate with the **IMF's downgrades to global growth** (-0.8%-pts to 3.6% for 2022) on account of war in its April World Economic Outlook. Yet, the correspondent risk is that of *elevated and sticky inflation, particularly driven by energy and food price pressures*.

Insecurities About Food Security: And in EM Asia, troubling **upward pressures in energy and food could turn even more problematic** if worries about **shortages** (amid global geopolitical and farm disruptions) are exacerbated by **exports ban/hoarding** by producers and middlemen. In short, **protectionist reflexes** with regards to food security could **inadvertently amplify stagflation ripples** by **elevating prices and depressing demand** (amid compromised affordability).

Sharp Policy Trade-Offs: Moreover, **sharp policy trade-offs** imposed by an aggressively hawkish Fed also **entrench stagflation-type risks**. Specifically, an *undeniably greater growth sacrifice is required to address inflation risks*; **between forced tightening to avert macro-stability risks and maintaining accommodation at pain of capital outflows amid financial shocks**.

Path of Least Pain: The upshot is a **“perfect storm” of cost-push inflation** that is **de-sensitized to monetary tools amid clouds of geo-politics** are **set to inflict pain**; perhaps *disproportionately on EM* (including Asia) as a stronger US accentuating policy divergence amplifies policy trade-offs. Against this backdrop, *EM (Asia) policy-makers may only endeavour to navigate a path of least pain* to avert a deep downturn rather than coming off unscathed.

Key Revisions to GDP Forecasts

	2022 GDP Growth			2023 GDP Growth		
	Prev	Revised	Revision	Prev	Revised	Revision
Australia	3.7	3.7	0.0	2.8	2.7	-0.1
China	5.8	4.7	-1.1	5.5	5.3	-0.2
India	7.9(7.9)	7.1 (7.5)	-0.8(-0.4)	6.5(6.4)	5.6 (6.3)	-0.9(-0.1)
Indonesia	5.0	4.2	-0.8	5.5	5.5	0.0
Malaysia	6.0	5.3	-0.7	4.8	4.8	0.0
Philippines	7.2	5.6	-1.6	6.5	6.5	0.0
Singapore	4.1	3.8	-0.3	3.3	3.2	-0.1
Korea	3.3	3.0	-0.3	2.7	2.8	0.1
Thailand	3.5	3.2	-0.3	3.4	4.1	0.7
Vietnam	6.0	6.0	0.0	6.5	6.5	0.0

Key Revisions to Inflation Forecasts

	2022 Inflation			2023 Inflation		
	Prev	Revised	Revision	Prev	Revised	Revision
Australia	1.8	4.4	2.6	2.1	3.0	0.9
China	2.3	2.3	0.0	2.4	2.4	0.0
India	5.9 (5.7)	6.9 (6.8)	0.7(0.7)	5.1(5.2)	5.3 (5.1)	0.1(-0.1)
Indonesia	2.3	3.0	0.7	2.5	2.5	0.0
Malaysia	1.7	2.5	0.8	1.5	1.7	0.2
Philippines	3.0	4.6	1.6	3.2	3.3	0.1
Singapore	2.2	3.8	1.6	1.6	2.1	0.5
Korea	2.4	4.4	2.0	1.2	2.7	1.5
Thailand	1.6	4.5	2.9	1.0	2.7	1.7
Vietnam	3.2	2.8	-0.4	3.5	3.4	-0.1

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