

Session 1:
Global and Regional Economic and Market Outlook

Asian Development Outlook September 2026: Navigating Prolonged Energy Shocks and El Niño

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Asian Development Bank

**2026 ASIAN REGIONAL FORUM
ON INVESTMENT MANAGEMENT
OF FOREIGN EXCHANGE RESERVES**



ASIAN DEVELOPMENT OUTLOOK

SEPTEMBER 2026

Navigating Prolonged Energy Shocks and El Niño

*2026 Asian Regional Forum on Investment
Management of Foreign Exchange Reserves
Hanoi, Viet Nam, 7-9 October 2026*

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Energy shocks and El Niño challenge the outlook

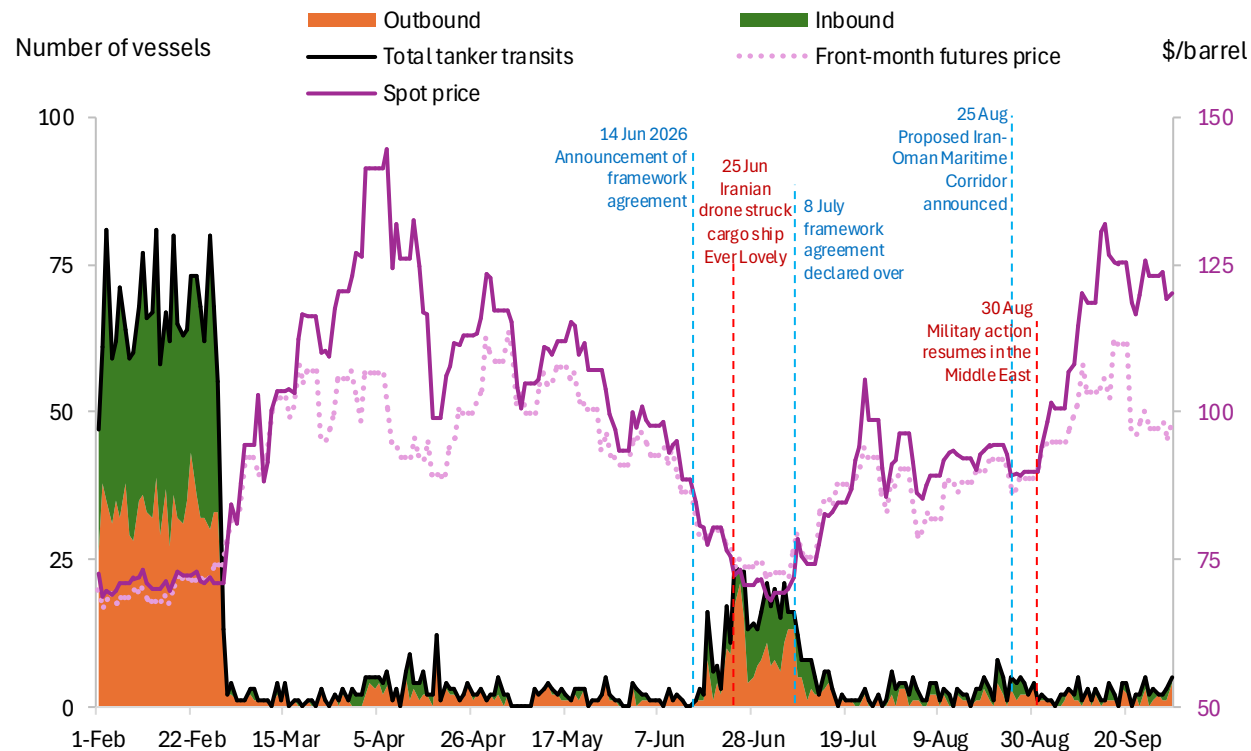
- Regional growth slowed in Q2, dented by energy disruptions. Inflation increased in August, on higher energy prices and firmer food inflation.
- Oil price forecasts, finalized on 4 September, are revised upward to \$90/barrel in 2026 and \$78/barrel in 2027 on renewed geopolitical tensions. A very strong El Niño is expected to amplify inflationary pressures.
- Regional growth for 2026 is projected at 5.0%, 0.1 pps higher than in the ADO July, supported by strong investment in India and robust technology exports in developing Southeast Asia. The 2027 forecast is unchanged at 5.1%. However, both are below the 5.5% growth in 2025.
- The inflation forecast is trimmed by 0.1 pps to 4.2% for 2026, as fiscally costly broad subsidies cushion energy prices. The forecast is revised up to 3.5% for 2027. Both remain above the 3.0% recorded in 2025.
- Downside risks dominate, including worsening geopolitical tensions and energy disruptions, a worse-than-expected El Niño, tighter financial conditions, and renewed trade policy uncertainty. Faster normalization of energy markets is the main upside.

Strait of Hormuz disruptions continue to reverberate across commodity markets

Hormuz tanker transits remain depressed; broadening energy disruptions pushed Brent above \$100 in September, with spot prices still elevated.

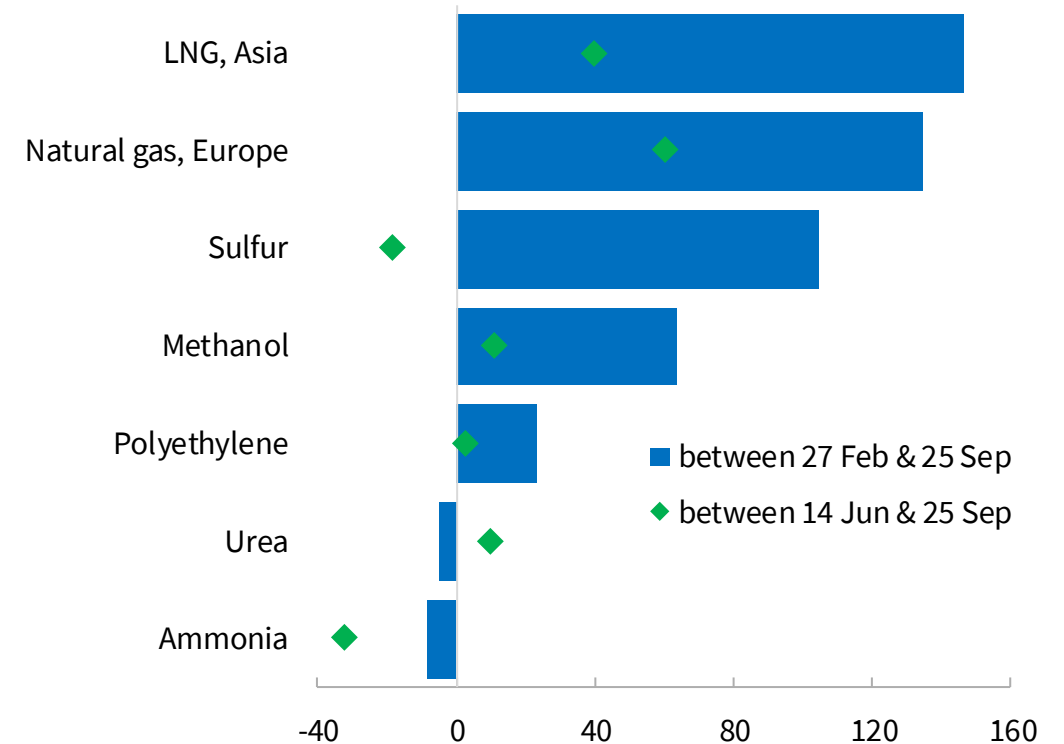
Most other non-oil commodity prices kept rising, especially gas prices.

Tanker transits through the Strait of Hormuz and Brent crude oil prices, 2026



Source: Bloomberg. Last observation: 30 September 2026.

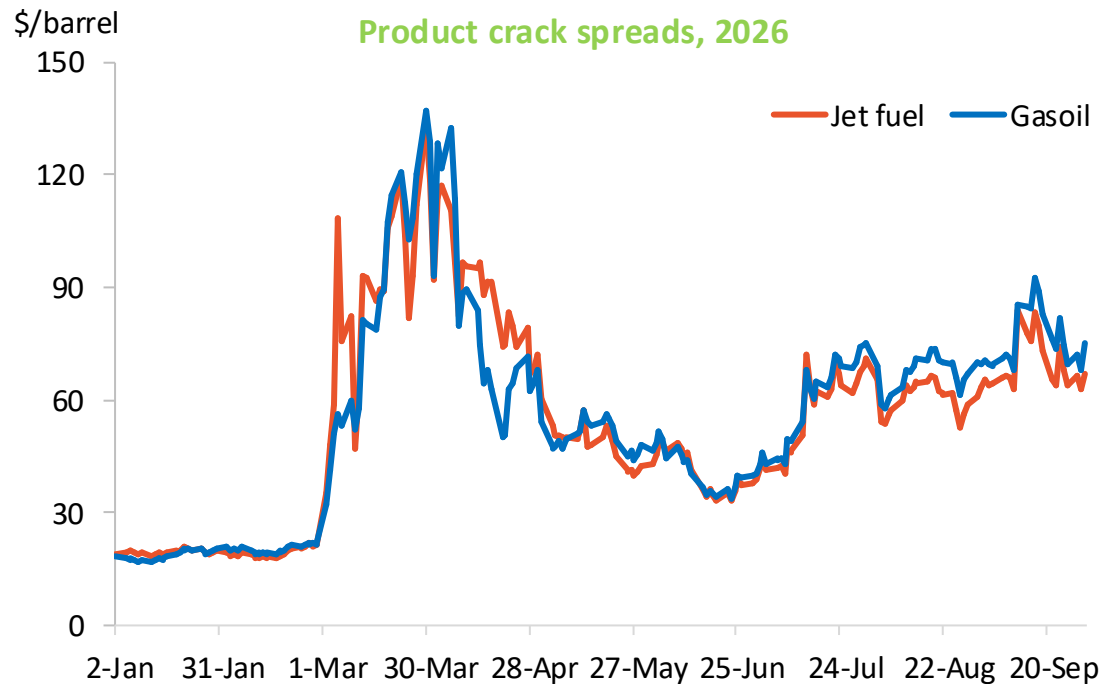
Other Non-Oil Commodity Prices, % change



Sources: Bloomberg, Trading Economics. Last observation: 25 September 2026.

Refined products are bearing the brunt of persistent supply disruptions

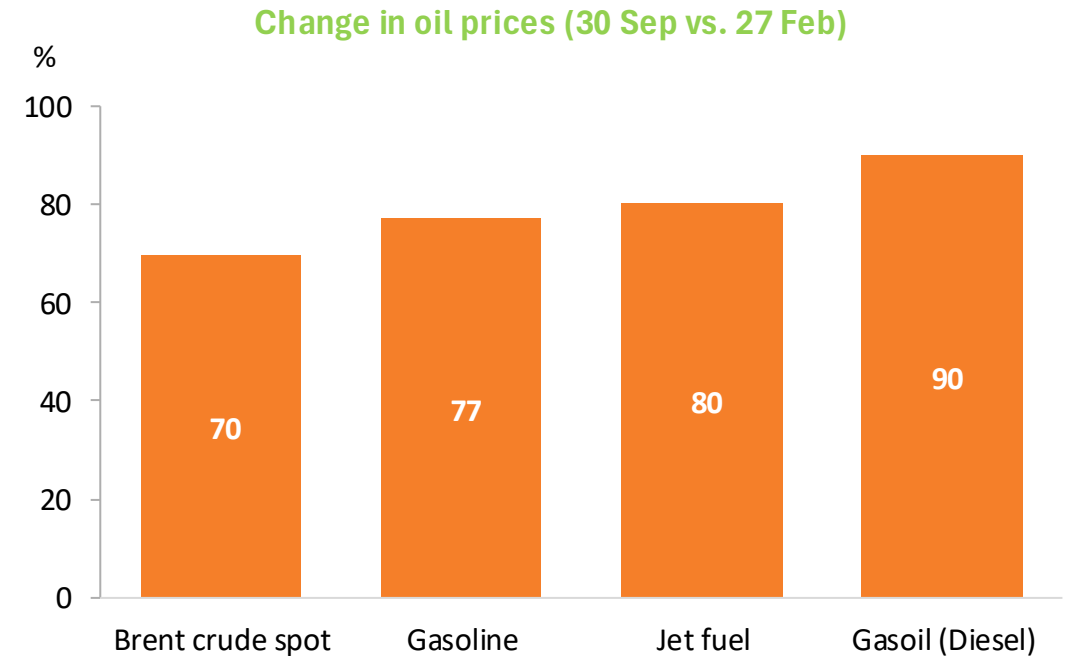
Refining margins have surged again since the July re-escalation in the Middle East and remain well above pre-conflict levels...



Note: Data refer to Singapore jet fuel and gasoil crack spreads relative to Brent crude. Crack spreads measure the difference between refined-product and crude-oil prices.

Source: LSEG Workspace. Last observation: 30 September 2026.

...so end-use fuel prices have risen far more than crude, with jet fuel and diesel hit hardest.



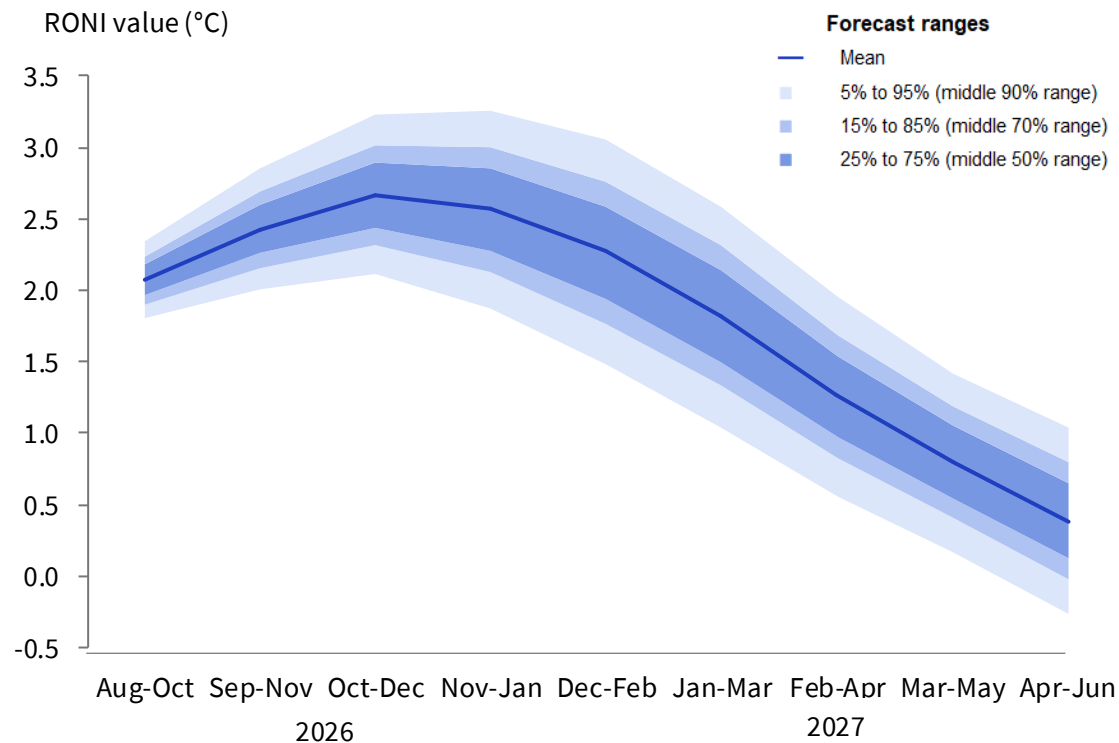
Notes: Refined products refer to Singapore benchmark prices. Gasoil is a refined petroleum product used for various purposes, including as diesel fuel, heating oil, and fuel for generators and off-road machinery. Gasoil price is a close proxy for diesel prices.

Source: Bloomberg. Last observation: 30 September 2026.

A strengthening El Niño could add to food price pressures

El Niño is forecast to reach very strong intensity by late 2026 and persist into 2027.

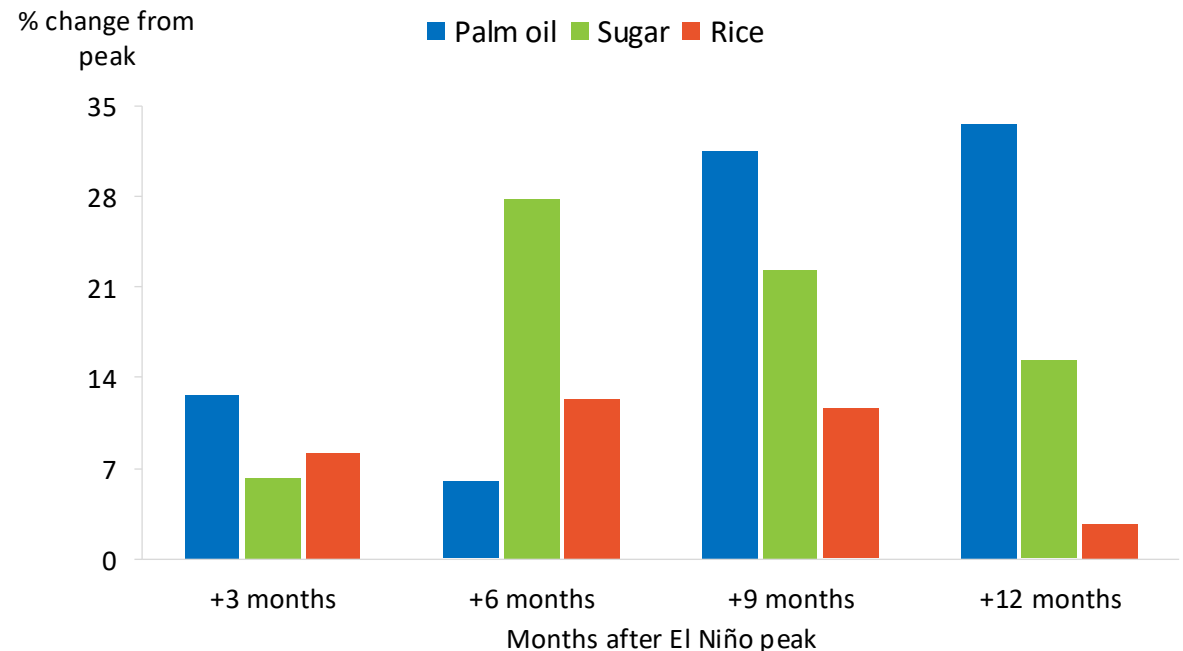
El Niño Outlook, September 2026



RONI = Relative Oceanic Niño Index
Source: NOAA Climate Prediction Center.

Food prices have tended to rise in the year following very strong El Niño episodes.

Historical Median Price Change After Very Strong El Niño Peaks

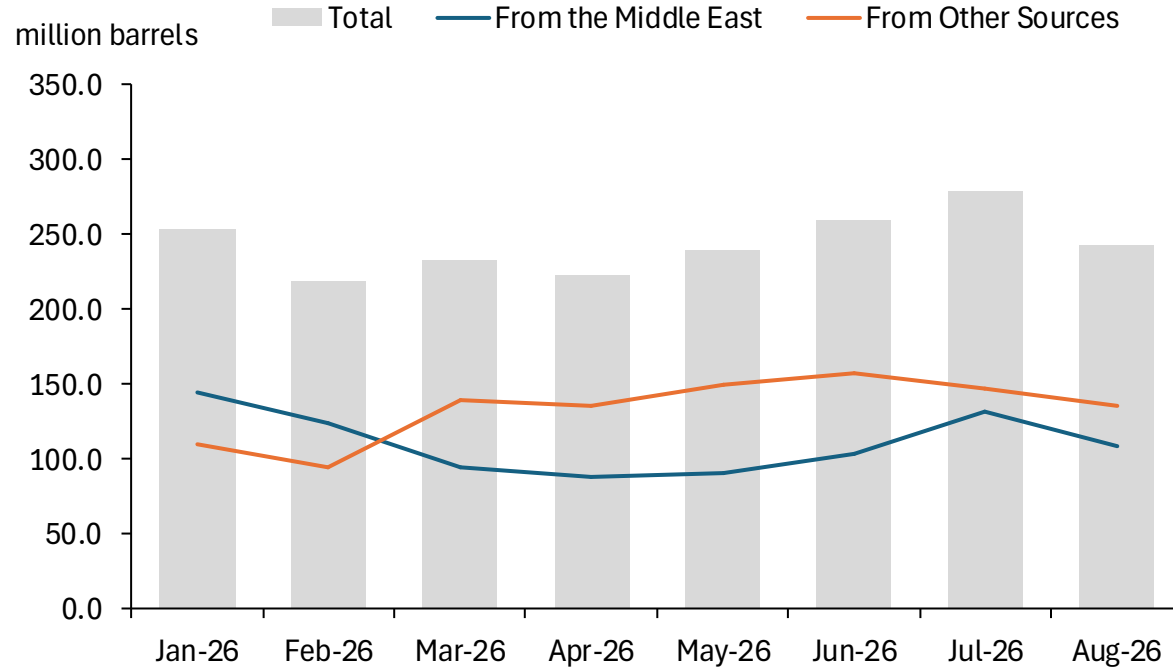


Note: Data refer to Malaysian crude palm oil, raw sugar, and Thai rice (5% broken).
Source: ADB estimates using data from World Bank Commodity Price database.

Regional crude sourcing shifted away from the Middle East; the PRC cut imports sharply

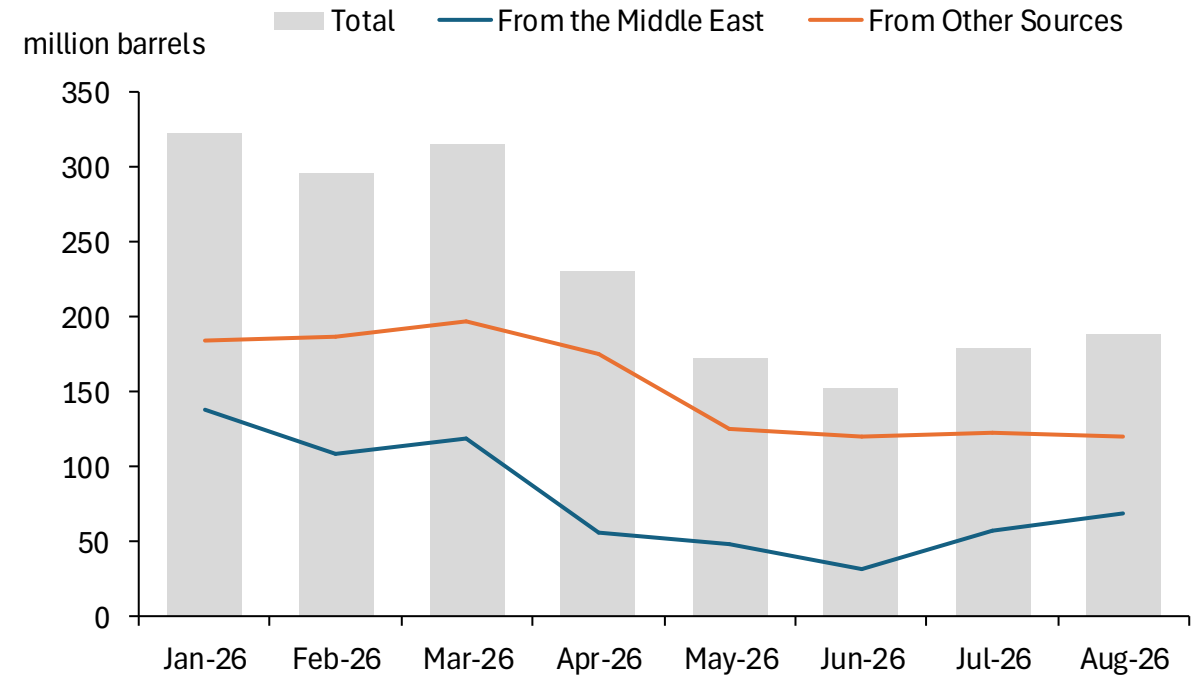
Outside the PRC, total imports held up as other suppliers replaced lost Middle East volumes.

Volume of Crude Oil Imports, DAP excl PRC



The PRC cut Middle East crude imports by two-thirds and reduced purchases from other suppliers too, nearly halving total imports.

Volume of Crude Oil Imports, PRC

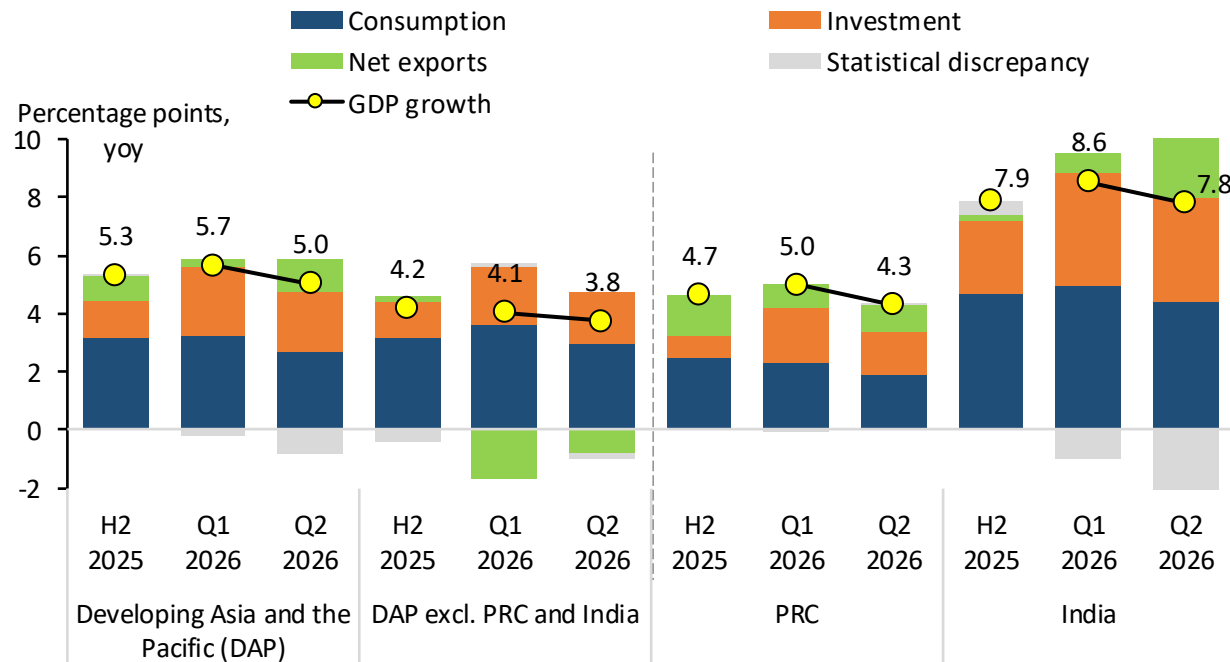


PRC = People's Republic of China.
Source: ADB staff calculations using data from LSEG.

Regional growth weakened, with manufacturing improving unevenly

After a resilient Q1, regional growth slowed in Q2 as higher energy prices weighed on domestic demand.

Contributions to Demand-side GDP Growth, Selected DAP Economies



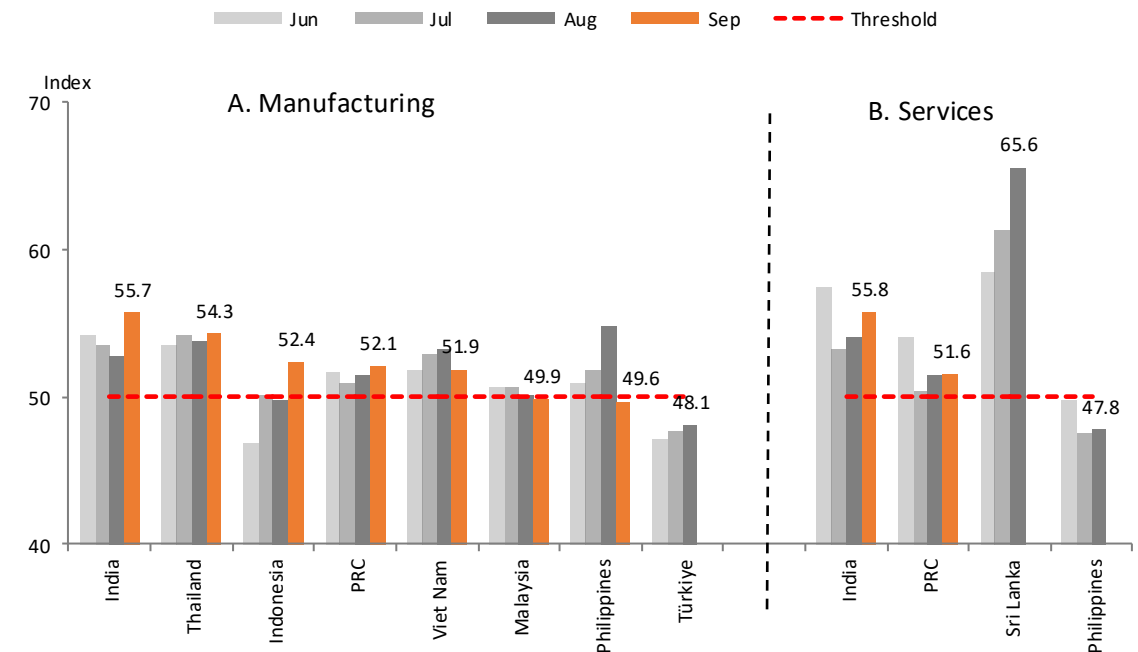
DAP = developing Asia and the Pacific, GDP = gross domestic product, H = half, PRC = People's Republic of China, Q = quarter, yoy = year on year.

Notes: DAP economies included in this analysis are the PRC, India, Indonesia, Malaysia, the Philippines, Thailand, and Türkiye, which have quarterly GDP figures and supply- and demand-side data. These economies account for 89% of DAP GDP weighted by purchasing power parity. Totals may not sum precisely due to statistical discrepancies and chain-linking.

Sources: Asian Development Bank estimates using data from Haver Analytics; CEIC Data Company; official sources.

The latest PMIs show manufacturing improving in most economies, with services expanding in the PRC, India, and Sri Lanka.

Purchasing Managers' Index, Selected DAP Economies



Notes: A PMI reading above 50 signals an expansion in activity from the previous month, while a reading below 50 indicates contraction.

Sources: Haver Analytics; CEIC Data Company; iMetricsAsia.

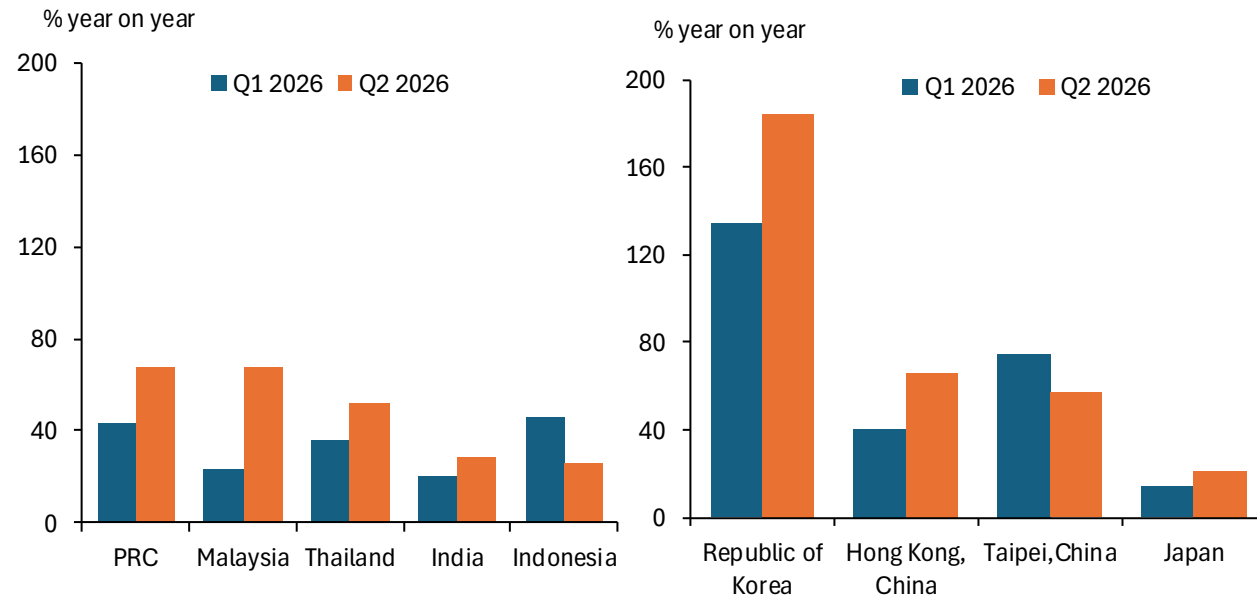
AI-driven exports maintained strong growth; tourism eased

AI-related exports kept growing strongly, led by the PRC and ROK, with momentum more uneven elsewhere.

Nominal Export Growth of AI-Related Products

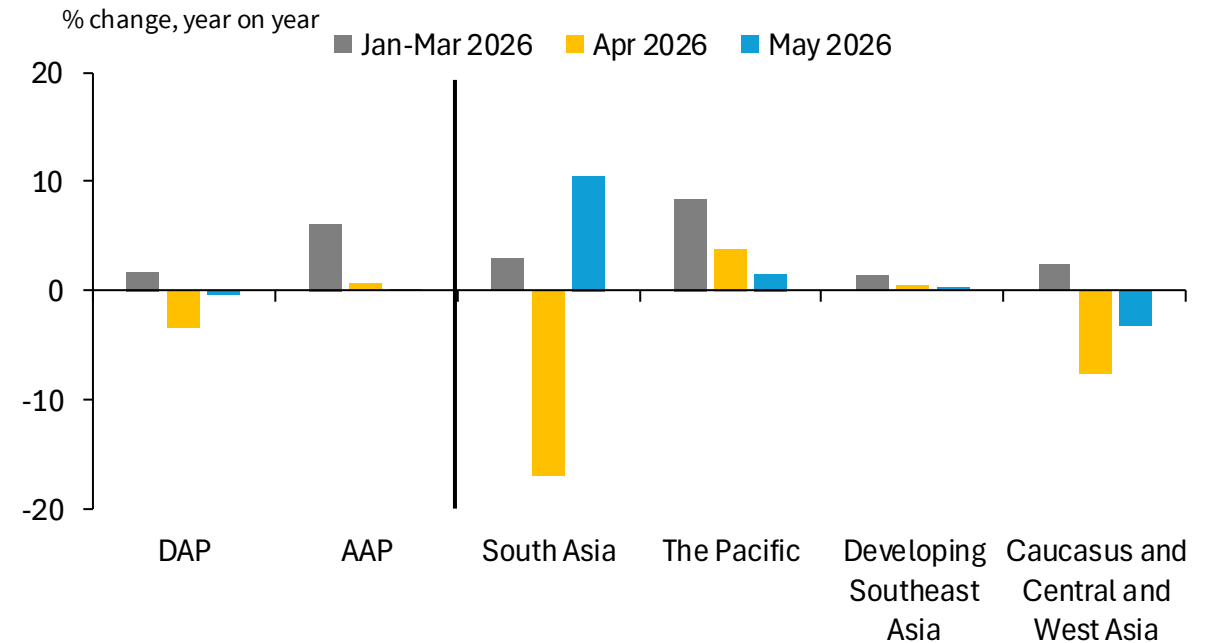
A. DAP

B. AAP



Tourist arrivals in DAP fell in April, with South Asia hardest hit, and again slightly in May. Arrivals in AAP remained slightly higher than a year earlier.

International Tourist Arrivals



AAP = Advanced Asia and the Pacific, DAP = Developing Asia and the Pacific, Q = quarter, ROK = Republic of Korea.
 Notes: AI-related products are those under HS Codes 8541 (semiconductor devices), 8542 (integrated circuits), 8471 (computers), and 8473 (computer parts), 8486 (semiconductor manufacturing equipment), 851762 (switching, routing, and data transmission), 852351 (solid-state non-volatile storage), 850440 (static converters). Q2 average for Thailand includes only April and May 2026.
 Sources: ADB staff calculations using data from ITC Trade Map and Malaysia External Trade Statistics.

Notes: South Asia includes Bhutan, India, Maldives, Nepal, and Sri Lanka. The Pacific includes Cook Islands, Fiji, Palau, Samoa, and Tonga. Developing Southeast Asia includes Cambodia, Indonesia, Malaysia, Philippines, Thailand, and Viet Nam. Caucasus and Central and West Asia includes Armenia, Georgia, and Türkiye.
 Sources: CEIC Data Company; official sources.

Regional inflation picked up on rising energy and food inflation

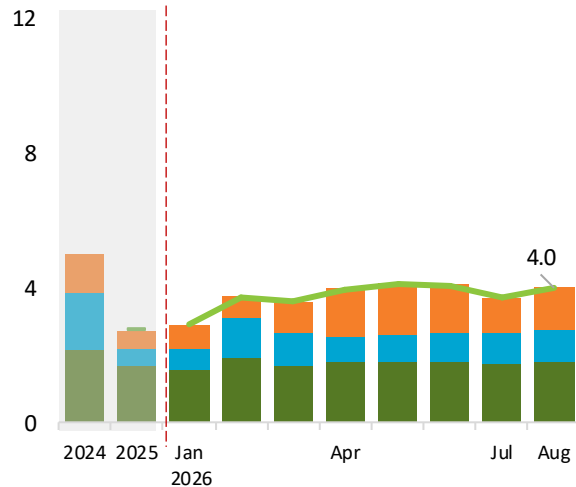
Headline inflation accelerated in August, as higher energy costs and emerging food-price pressures fed through to broader consumer prices.

Contributions to Inflation, Developing Asia and the Pacific

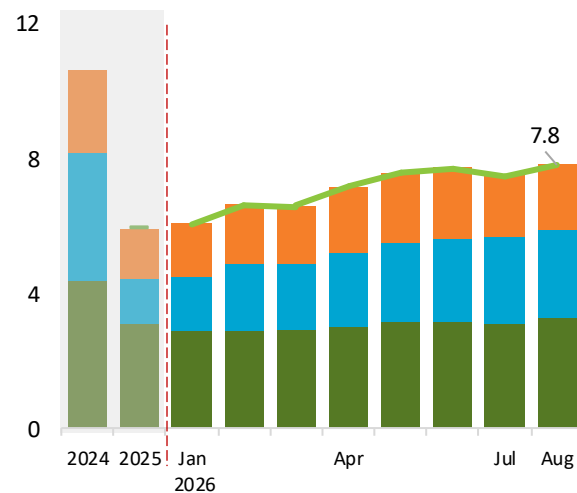
Core Food Energy related Headline, %

A. DAP

Percentage points, year on year



B. DAP excluding PRC



DAP = Developing Asia and the Pacific; PRC = People's Republic of China

Notes: Core inflation excludes food and energy; for most economies, it is estimated as the residual between headline inflation and the contributions of food and energy-related items. Energy-related consumer prices for most economies include housing, water, and non-fuel transport. Regional averages are weighted by shares of GDP at purchasing power parity across 19 economies.

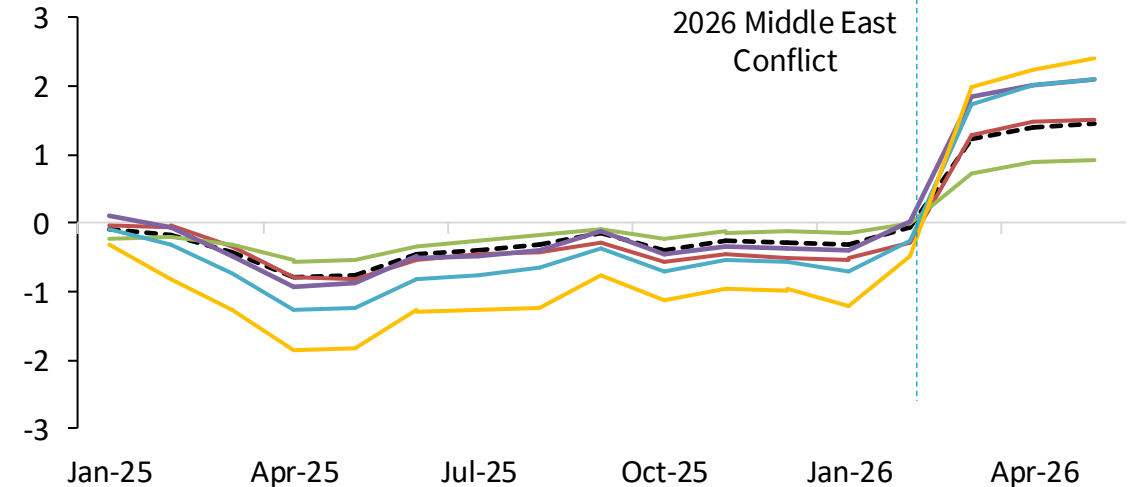
Sources: ADB staff estimates using data from Haver Analytics; Oxford Economics; official sources.

Import costs jumped and remain elevated, with pass-through to consumer prices likely to continue.

Import Price Index (Import-to-GDP Weighted), Developing Asia and the Pacific

DAP Developing East Asia Developing Southeast Asia Caucasus and Central and West Asia South Asia The Pacific

% change, year on year



DAP = Developing Asia and the Pacific.

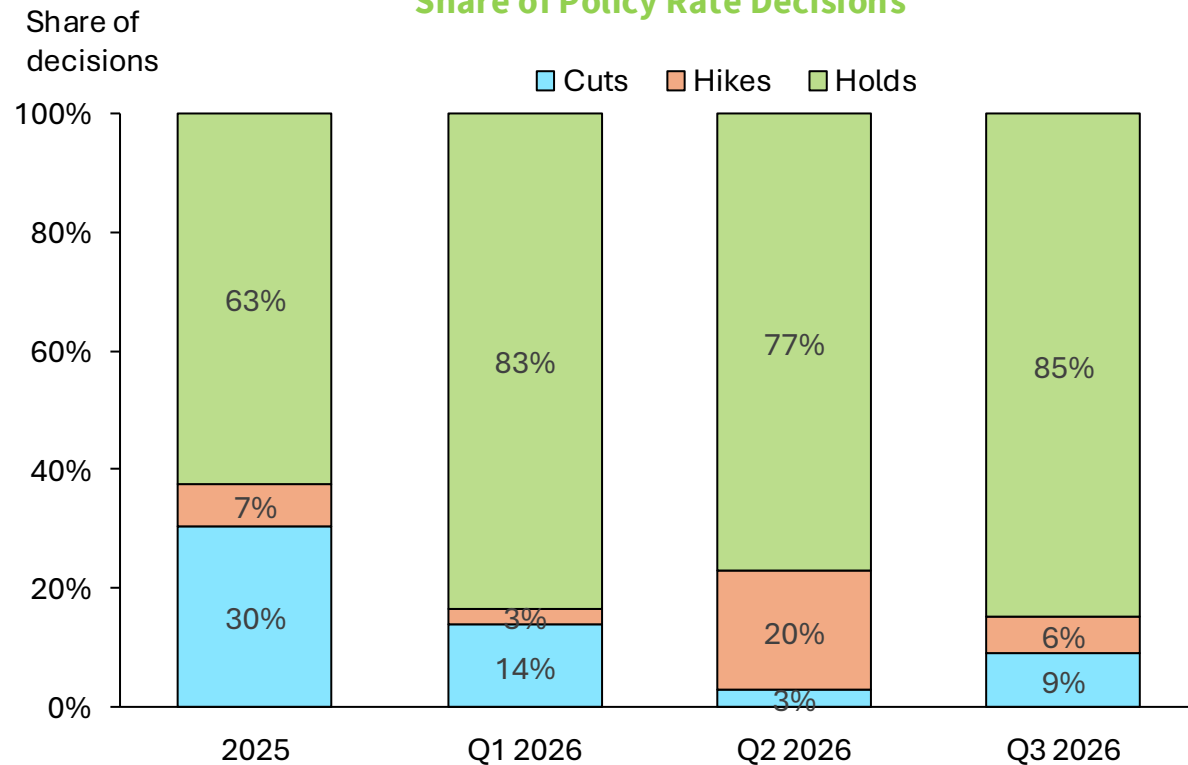
Notes: The data refer to the Import Price Index, weighted by imports-to-GDP ratios. DAP and subregional averages are aggregated using GDP PPP.

Sources: ADB staff estimates based on data from International Monetary Fund Commodity Terms of Trade Database; CEIC Data Company

Regional monetary policy remains cautious, with divergent paths ahead

Most central banks held rates in 2026; hikes picked up in Q2 as energy prices surged, then mostly paused in Q3 as inflation eased.

Share of Policy Rate Decisions



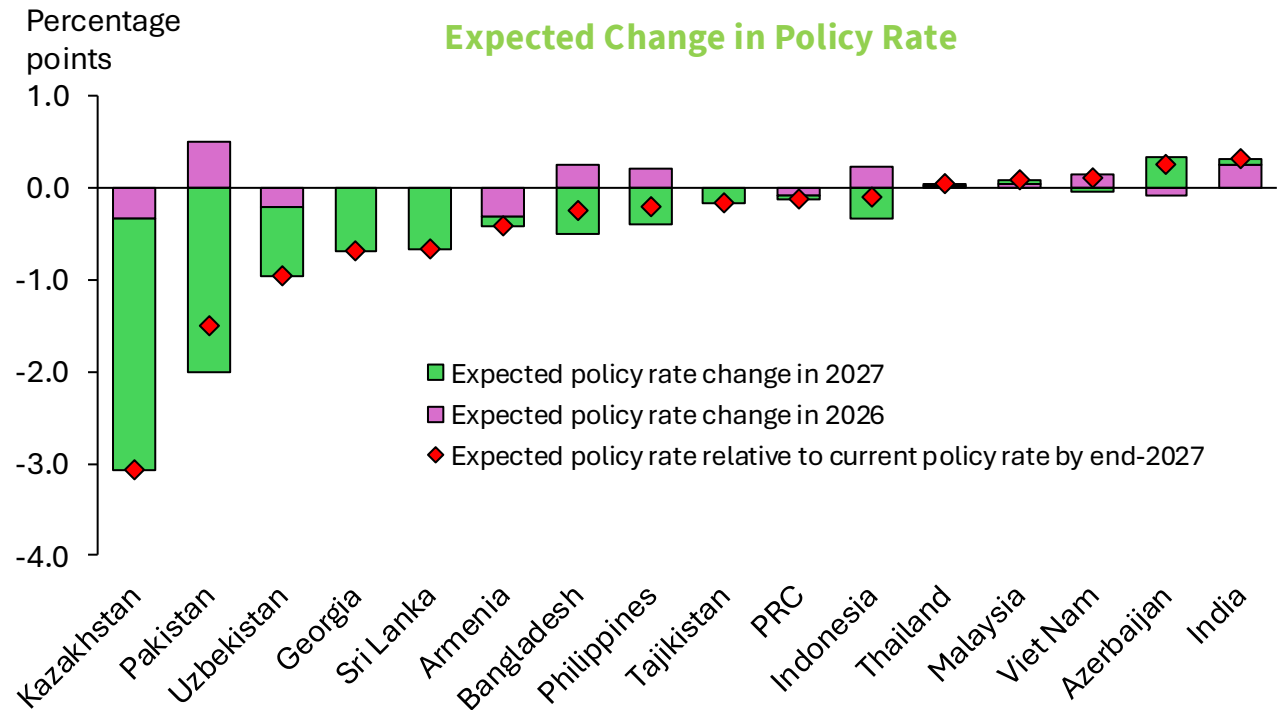
Q = quarter.

Notes: Includes policy decisions from Armenia, Bangladesh, Fiji, Georgia, Indonesia, Kazakhstan, Kyrgyz Republic, Lao People's Democratic Republic, Malaysia, Mongolia, Nepal, Pakistan, Papua New Guinea, Philippines, PRC, Samoa, Sri Lanka, Tajikistan, Thailand, Türkiye, Uzbekistan, and Vanuatu. There were 128 policy decisions in 2025, 36 in Q1 2026, 35 in Q2 2026, and 33 in Q3 2026.

Source: ADB estimates using data from official sources.

Expected policy rate paths through end-2026 are mixed, with broad easing anticipated to resume in 2027.

Expected Change in Policy Rate



PRC = People's Republic of China

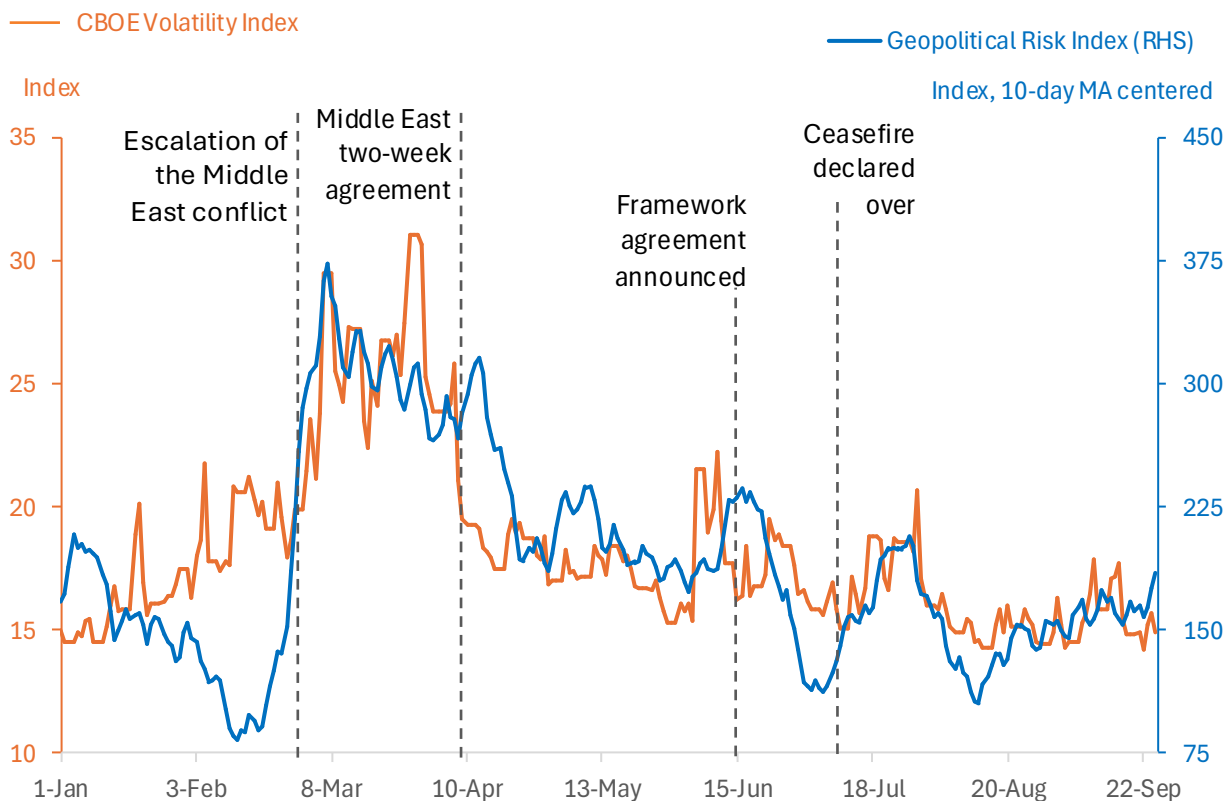
Notes: The purple bar indicates the expected movement of current policy rate as of 1 October 2026 by end-2026. The green bar indicates the expected movement of policy rate from the end-2026 forecast to the end-2027 forecast. The red marker depicts the change between the current policy rate and end-2027 policy rate. Policy rate expectations are derived from Focus Economics reports published in August 2026 for CCWA economies and September 2026 for the rest. Economies are ordered based on their expected policy rates by end-2027 relative to current policy rate.

Source: ADB estimates using data from CEIC Data Company, Focus Economics.

Financial market conditions remain tight over elevated bond yields

Geopolitical risk and market volatility have returned close to pre-conflict levels, with only a brief spike during the July re-escalation.

Geopolitical Risk and Market Volatility, 2026



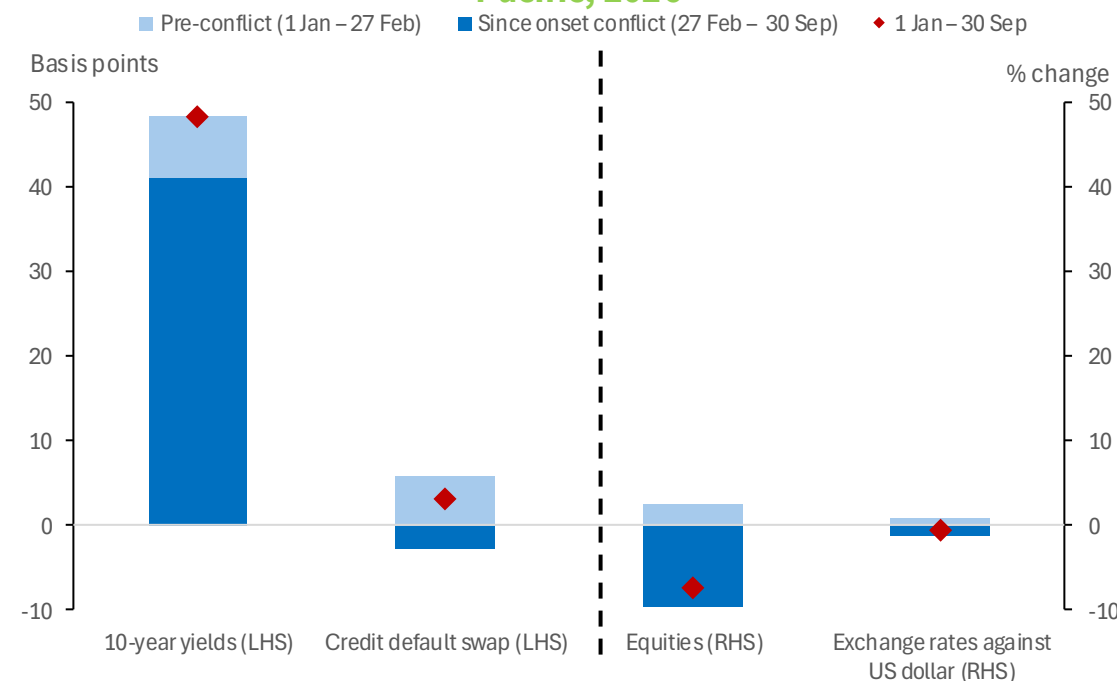
CBOE = Chicago Board Options Exchange, RHS = right hand side, US = United States.

Notes: Last observation is 30 September.

Sources: Bloomberg; Caldara, D., and M. Iacoviello. 2022. Measuring Geopolitical Risk. American Economic Review 112(4) (Data downloaded from <https://www.matteoiacoviello.com/gpr.htm> on 16 September 2026).

Higher bond yields, driven by inflation and fiscal risks, keep financial conditions tight; equities weakened, CDS spreads widened slightly, and currencies are little changed year to date.

Change in Key Financial Indicators in Developing Asia and the Pacific, 2026



LHS = left hand side, RHS = right hand side, US = United States.

Notes: Average changes in yields, credit default swap (CDS) spreads, and exchange rates for DAP are aggregated using GDP PPP shares (in current international dollars) as weights. The average change in equities are weighted by market capitalization. For exchange rates, positive (negative) values indicate depreciation (appreciation) against the US dollar.

Source: Bloomberg.

Projections for advanced economies are little changed since July

Growth forecasts are maintained for the US and euro area and upgraded for advanced Asia and the Pacific on AI-driven demand.

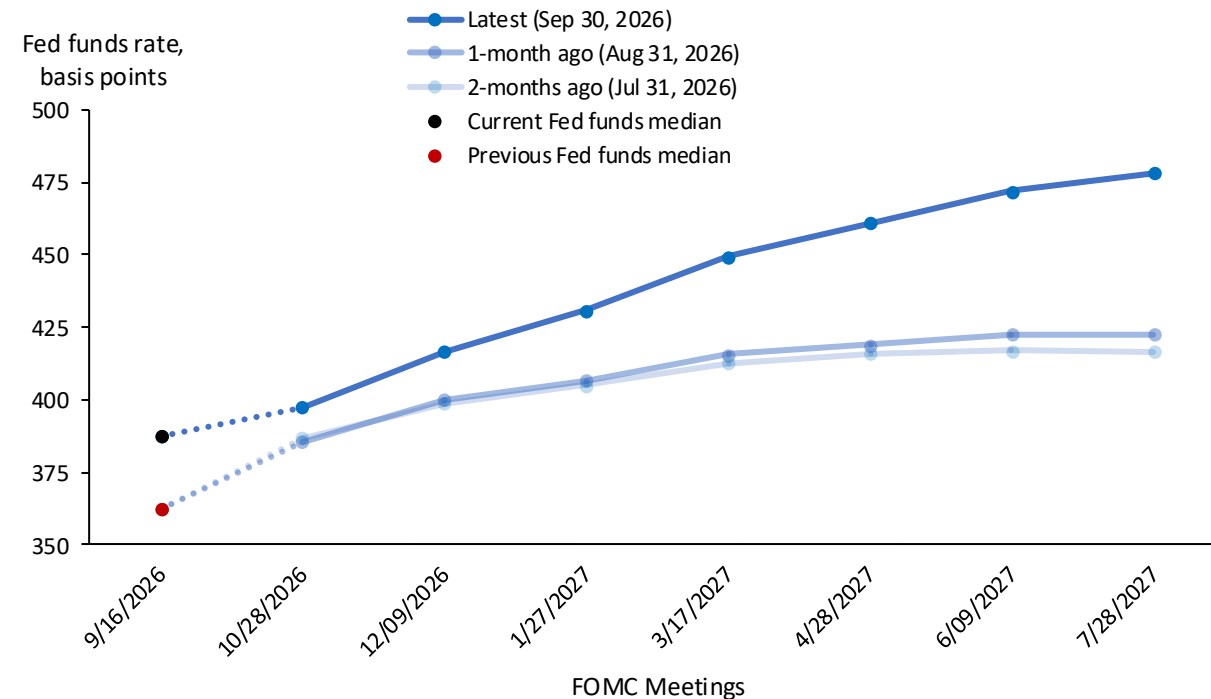
Assumptions on the International Economy

	2025	2026		2027	
		Jul	Sep	Jul	Sep
GDP growth, %					
United States	2.1	2.1	2.1	2.0	2.0
Euro area	1.4	0.8	0.8	1.2	1.2
Advanced Asia and the Pacific	2.5	2.6	3.1 ▲	1.7	2.0 ▲
Inflation, %					
United States	2.6	3.4	3.4	2.4	2.4
Euro area	2.1	2.8	3.0 ▲	2.3	2.5 ▲
Advanced Asia and the Pacific	2.5	2.6	2.4 ▼	2.1	2.1
Brent crude spot prices, average, \$/barrel	69	87	90 ▲	77	78 ▲

Notes: Arrows indicate the direction of change of September projections relative to July forecasts. Advanced Asia and the Pacific comprises Australia; Hong Kong, China; Japan; the Republic of Korea; New Zealand; Singapore; and Taipei, China.
Sources: Bloomberg; CEIC Data Company; Haver Analytics; Asian Development Bank estimates.

Markets continue to expect further US monetary tightening, with the anticipated path becoming steeper than 2 months ago.

Fed Policy Rate Expectations



Note: Values are expected means based on futures contracts.
Source: CME Marketwatch.

Growth slows and inflation rises compared to 2025, but both forecasts improve since July

Compared to July forecasts, the 2026 growth projection for the region is slightly upgraded on resilient domestic demand and strong technology exports; the 2026 inflation forecast is lowered on downward revisions for the PRC and South Asia.

Subregion/Economy	GDP GROWTH					INFLATION				
	2025		2026		2027	2025		2026		2027
		Jul	Sep	Jul	Sep		Jul	Sep	Jul	Sep
Developing Asia and the Pacific (DAP)	5.5	4.9	5.0 ▲	5.1	5.1	3.0	4.3	4.2 ▼	3.4	3.5 ▲
DAP excluding PRC	6.0	5.3	5.4 ▲	5.7	5.6 ▼	6.0	7.5	7.7 ▲	5.9	6.2 ▲
Caucasus and Central and West Asia	4.6	3.8	3.7 ▼	4.2	4.1 ▼	25.6	22.0	23.1 ▲	16.3	17.6 ▲
Kazakhstan	6.5	4.8	4.8	4.5	4.5	11.4	10.4	10.4	9.5	9.5
Türkiye	3.7	3.1	2.8 ▼	3.8	3.6 ▼	35.2	29.7	31.5 ▲	21.5	23.5 ▲
Uzbekistan	7.7	6.7	7.0 ▲	6.8	6.8	7.3	6.5	6.7 ▲	5.0	5.0
Developing East Asia	5.0	4.6	4.6	4.5	4.5	0.0	1.2	0.9 ▼	0.9	0.9
People's Republic of China	5.0	4.6	4.6	4.5	4.5	0.0	1.2	0.9 ▼	0.9	0.9
South Asia	7.0	6.0	6.4 ▲	6.7	6.5 ▼	2.9	5.7	5.5 ▼	4.8	4.8
Bangladesh	3.5	3.7	3.7	4.5	4.0 ▼	10.0	9.0	8.7 ▼	8.8	9.0 ▲
India	7.8	6.6	7.0 ▲	7.3	7.1 ▼	2.1	5.2	5.0 ▼	4.0	4.0
Pakistan	3.2	3.7	3.7	3.7	3.7	4.5	7.2	7.1 ▼	8.3	8.3
Developing Southeast Asia	4.8	4.6	4.7 ▲	4.8	4.9 ▲	2.1	3.9	4.0 ▲	2.9	3.3 ▲
Indonesia	5.1	5.2	5.2	5.2	5.2	1.9	3.0	3.3 ▲	2.5	3.0 ▲
Malaysia	5.2	4.6	4.9 ▲	4.5	4.7 ▲	1.4	2.0	2.0	1.9	2.0 ▲
Philippines	4.4	3.8	3.3 ▼	5.3	5.1 ▼	1.7	5.9	5.9	3.9	4.4 ▲
Thailand	2.4	1.8	2.0 ▲	2.0	1.9 ▼	-0.1	2.9	2.5 ▼	1.3	1.3
Viet Nam	8.0	7.2	7.8 ▲	7.0	7.6 ▲	3.3	4.0	4.3 ▲	3.8	4.0 ▲
The Pacific	4.5	3.3	3.0 ▼	3.2	2.9 ▼	2.9	4.2	4.6 ▲	3.5	4.1 ▲
Fiji	2.5	2.6	2.2 ▼	2.5	1.9 ▼	-1.4	3.6	3.9 ▲	1.9	2.5 ▲
Papua New Guinea	5.2	3.6	3.4 ▼	3.4	3.2 ▼	4.4	4.6	5.0 ▲	4.0	4.6 ▲

Note: Arrows indicate the direction of change of September projections relative to July 2026 ADO forecasts.
Source: Asian Development Outlook database.

Downside risks remain predominant

Worsening geopolitical tensions: More persistent disruptions in global energy markets could increase energy price volatility and inflationary pressures, raise risk premia, and tighten global financial conditions.

Food price and weather-related shocks: A worse-than-expected El Niño could constrain agricultural output and food supply, while higher fertilizer costs could push up global food prices.

Tightening financial conditions: Rising long-term interest rates could tighten financial conditions and compound risks from a sharp correction in elevated AI-related equity valuations, raising financial market volatility, triggering a pullback in AI investment plans, and weakening technology exports growth.

Renewed trade policy uncertainty and tariff hikes: Trade policy uncertainty could dampen business investment, while new tariffs could disrupt global trade flows and constrain regional export growth.

Upside risks: Faster normalization of the conflicts and a milder El Niño would ease supply and inflationary pressures.

El Niño and energy disruptions: Risk scenarios

Each scenario assumes oil price paths based on combined assumptions about the energy market escalation and the impacts of El Niño.

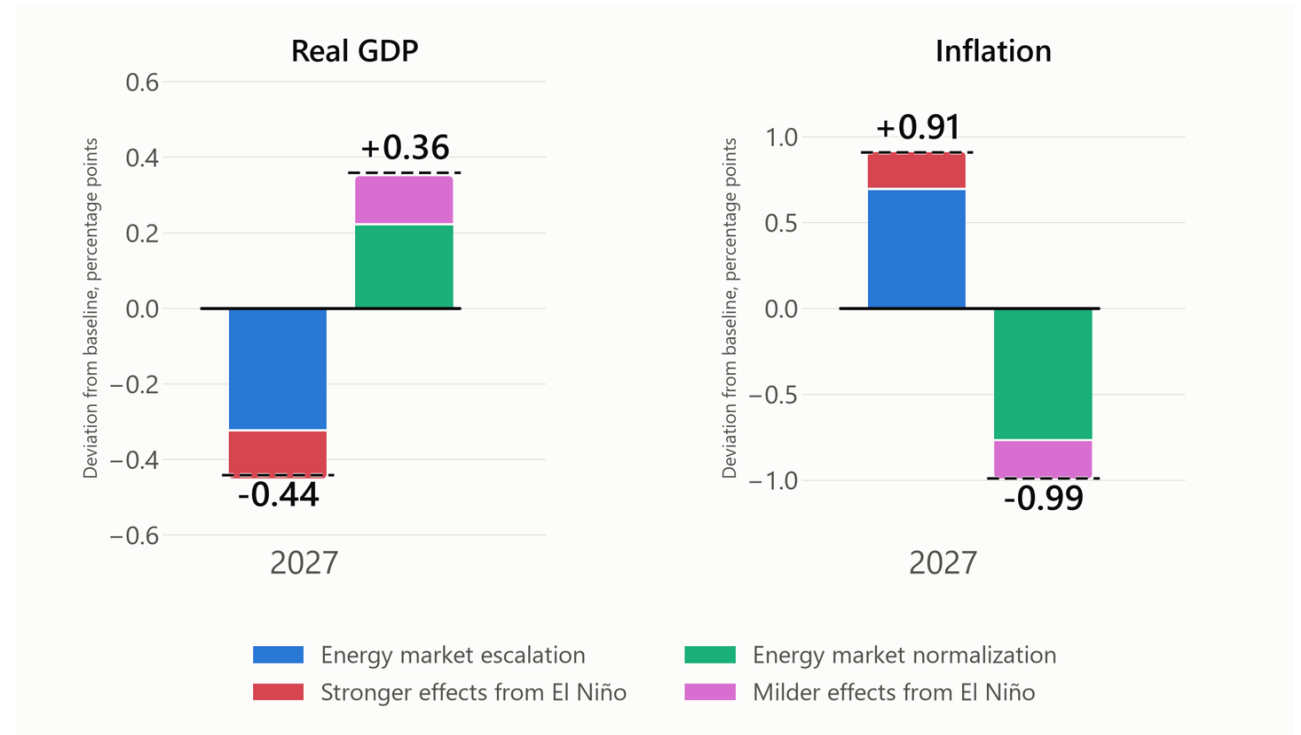
El Niño Effect and Energy Market assumptions

Energy market assumption	El Niño effects	2026 (\$/bbl)	2027 (\$/bbl)
persistent disruption	baseline	90	78
renewed escalation	baseline	98	90
renewed escalation	stronger	99	92
faster normalization	baseline	82	67
faster normalization	milder	82	65

- **Energy market escalation and El Niño are both supply shocks.** Growth falls while inflation rises, by about twice as much (a 2027 spread of 1.9 pps against 0.8 pps), leaving no comfortable policy trade-off.
- **Energy price shocks dominate.** El Niño adds around 0.1 pps to the growth effect and 0.2 pps to inflation.

Renewed energy market escalation, combined with a very strong El Niño, would take 0.44 pps off 2027 growth and add 0.91 pps to inflation.

Scenario impacts in deviation from the September baseline

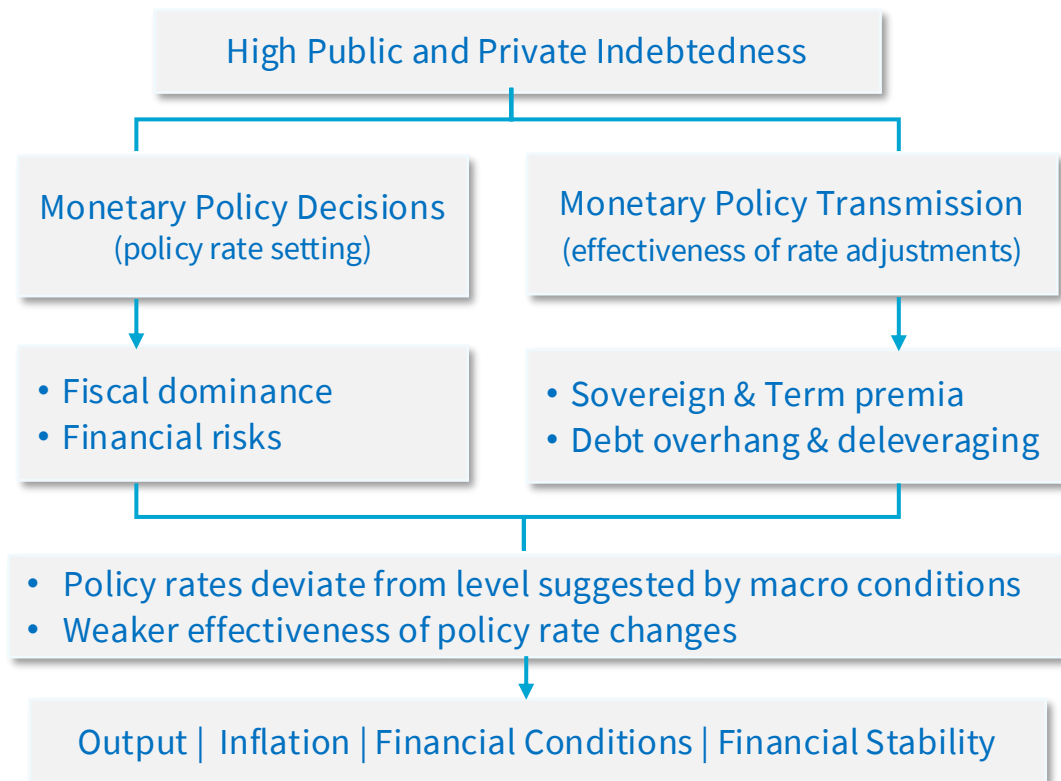


GDP = gross domestic product.
Source: Asian Development Bank Staff estimates.

Analytical Chapter: High debt constraints monetary policy – channels and key findings

Indebtedness can affect monetary policy decisions and transmission through different channels.

High debt and monetary policy



- **The ADO Analytical Chapter examines how high public and private debt shape monetary policy decisions and transmission**
 - ✓ Two-step estimation approach, using three decades of panel data covering up to 85 advanced and emerging economies. Special focus on DAP.
- **Key findings**
 - ✓ Fiscal dominance plays a significant role in policy rate decisions, especially in emerging economies
 - ✓ High debt weakens the effect of policy rate changes on output and financial conditions.
 - ✓ Central bank independence helps but can only partly offset the effects of high debt.
- **Why it matters**
 - ✓ The region is facing an inflationary shock with high debt levels and limited fiscal space, narrowing the room for both monetary and fiscal policy.



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THANK YOU!

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