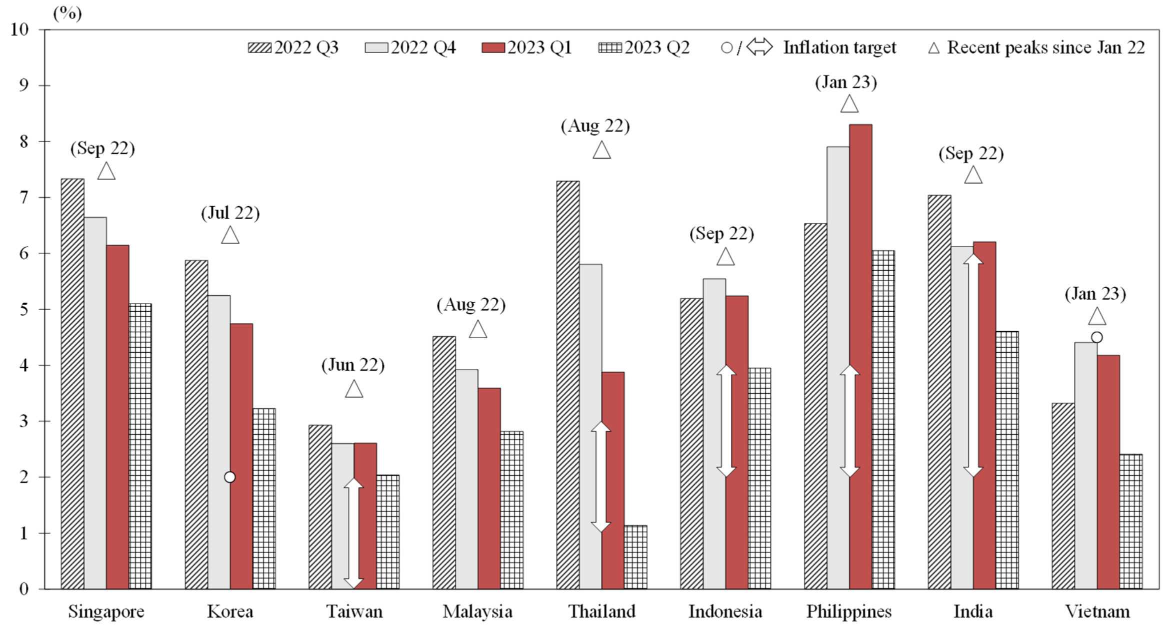
Box 2.1

Inflation situation in selected Asian economies

Global price pressures increased notably in 2022. The rapid escalation of geopolitical tensions triggered an upsurge in international energy and commodity prices. Meanwhile, reviving global demand against lingering pandemic-related supply disruptions further fuelled inflation. Consequently, inflation soared to multi-decade highs in many advanced economies in the latter part of 2022. Many Asian economies also faced increased inflationary pressures, albeit less intense than in the advanced economies. Headline consumer price index (CPI) inflation of most selected Asian economies[1] peaked in the third quarter of 2022 before showing some easing towards the year-end (***Chart 1***).

Chart 1: Headline consumer price inflation for selected Asian economies



Sources : CEIC and internal estimation.

Note : Central banks of Taiwan, Thailand, Indonesia, the Philippines and India set their inflation targets in the form of ranges, while those of Korea and Vietnam adopt specific point targets. Central banks of Singapore and Malaysia do not have explicit inflation targets, though the former considers a core inflation rate (which excludes the costs of accommodation and private transport) of 2% consistent with overall price stability.

Inflation of the selected Asian economies generally continued to moderate on entering 2023, and the downtrend turned more apparent in the second quarter. In particular, the headline CPI inflation of Taiwan, Thailand, Indonesia and India have receded back within their central banks' inflation target ranges, and that of Vietnam has even slipped below the target. Inflation of the Philippines and Singapore, while still elevated at 6.0% and 5.1% respectively in the second quarter of 2023, were notably lower than their recent peaks.

The moderation of consumer price inflation in selected Asian economies can be attributed to a number of factors. First, receding food prices have substantially relieved inflationary pressures, as food is the largest CPI component in most selected Asian economies[2]. According to the Food and Agriculture Organisation for the United Nations, global food prices have recorded 15 consecutive months of declines since peaking in March 2022, leading to a

(1) Include Singapore, Korea, Taiwan, Malaysia, Thailand, Indonesia, the Philippines, India and Vietnam.
(2) Food is the largest CPI component for India, Thailand, the Philippines, Vietnam, Malaysia, Taiwan and Indonesia, carrying shares of 46%, 40%, 38%, 34%, 30%, 25% and 22% respectively.

Box 2.1 (Cont'd)

cumulative 23.4% drop. Positive supply shocks including good harvests as well as the extension of Black Sea Grain Initiative[(3)] contributed to the continued decline in global food prices. Besides, the retreat in energy prices also played a role in containing inflation. According to the International Monetary Fund (IMF)'s energy price index, energy prices as of May 2023 have receded by 55.0% from its recent high in August 2022. As most of the selected Asian economies are net energy importers, the decline in international energy prices helped tame price pressures on their energy-related items such as transport costs.

Moreover, the selected Asian economies have implemented an array of measures to contain inflation. Many Asian economies have introduced price controls and subsidies for selected consumption items with a view to mitigating the impact of inflation on people's livelihood. For example, Thailand has placed price controls on numerous essential goods (including food items such as rice, corn, egg, etc.) and services (e.g. medical services) which will stay effective till June 2024. Korea has extended automotive fuel tax reductions to August 2023, while Malaysia has continued its fuel subsidies. Furthermore, central banks of the selected Asian economies progressively tightened their monetary policies via multiple interest rate hikes throughout 2022 and early 2023 (***Table 1***) or, in the case of Singapore, appreciation of domestic currency[(4)]. As inflation gradually recedes in the region, most central banks have halted their policy tightening more recently, with Vietnam even cutting its policy rates twice by a total of 1.5 percentage points in the first half of 2023.

Table 1: Pace of interest rate hikes (as at 4 August 2023)

	Number of rate hikes since March 2022[(*)]	Cumulative increment (%-points)	Latest round of rate hike	Latest policy rates (%)
US	11	5.25	July 2023	5.25-5.5
Korea	7	2.25	January 2023	3.5
Taiwan	5	0.75	March 2023	1.875
Malaysia	5	1.25	May 2023	3.0
Thailand	7	1.75	August 2023	2.25
Indonesia	6	2.25	January 2023	5.75
Philippines	9	4.25	March 2023	6.25
India	6	2.50	February 2023	6.5
Vietnam	2	2.00	October 2022	3.0

Note : (*) The US Federal Reserve began the current round of monetary tightening in March 2022.

Looking ahead, inflationary pressures worldwide are expected to ease further in the near term. In the latest *World Economic Outlook*, the IMF projected the global inflation to ease to 6.8% in 2023, a downward revision from the previous forecast of 7.0%. While upside risks to global food prices re-emerged lately as a result of geopolitical tensions and extreme weather-related events, central banks in the region may need to seek a balance between containing inflation and supporting growth as global economic headwinds remain.

(3) It is an agreement between Russia, Ukraine and Türkiye as proposed by the United Nations, allowing for commercial food and fertilizer to leave Ukrainian ports with effect from 22 July 2022 to ensure global food security. The agreement was subsequently renewed in November 2022 and May 2023, but suspended in July 2023.

(4) The Monetary Authority of Singapore tightened its exchange rate-based monetary policy three times during March 2022 to October 2022.