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Headline: Reading the Next Economic Shock: A New Risk Map for Asia-Pacific Policymakers and Investors

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New research covering 14 Asia-Pacific and Pacific-rim economies develops real-time measures to distinguish demand, supply and uncertainty shocks using professional GDP and inflation forecasts. The framework could help governments, development partners and businesses detect economic stress earlier, improve policy responses, strengthen risk planning and build resilience against future crises.

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Asia-Pacific economies are being hit by shocks that increasingly arrive from multiple directions at once, financial stress, pandemics, geopolitical conflict, trade disruption and inflation. For governments, the difficult question is not simply whether growth or prices are changing, but what is driving the change and how policy should respond. New research by Iris Claus and Leo Krippner offers policymakers a framework for answering that question by tracking how professional forecasts for growth and inflation change in real time.

The study, associated with the International Monetary Fund's Institute for Capacity Development and IMF–Singapore Regional Training Institute, alongside the Sim Kee Boon Institute at Singapore Management University, the University of Waikato and the Centre for Applied Macroeconomic Analysis at the Australian National University, constructs standardized measures of macroeconomic shocks and uncertainty across 14 economies.

The coverage includes 12 Asia-Pacific economies: Australia, Japan, China, Hong Kong SAR, India, Indonesia, Malaysia, New Zealand, Singapore, Korea, Taiwan Province of China

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and Thailand, plus the United States and Canada. The longest data series stretch back to around 1990, allowing the researchers to test the framework against more than three decades of major economic disruptions.

Reading Economic Trouble Before It Reaches Official Data

The framework uses monthly Consensus Economics surveys of professional forecasters. Changes in average forecasts for GDP growth and consumer price inflation are used to identify shocks, while differences between forecasters provide an indicator of macroeconomic uncertainty.

The approach potentially gives governments an additional real-time surveillance tool because forecast revisions can capture changing expectations before the full impact of an event appears in conventional economic statistics.

The researchers also address an important measurement problem. Forecast uncertainty naturally tends to decline during a calendar year because more economic information becomes known. A December forecast contains fewer unknowns than one prepared in January.

Their Year Advancement Pattern adjustment attempts to remove this calendar effect, producing measures that can be compared more consistently over time.

The historical results are striking. COVID-19 generated the highest GDP uncertainty for most economies in the dataset. The 1997 Asian Financial Crisis also triggered severe uncertainty across Thailand, Korea, Malaysia and Indonesia. Indonesia experienced an exceptional inflation uncertainty peak of approximately 27 percentage points in September 1998.

These episodes demonstrate why policymakers need indicators capable of distinguishing routine forecast revisions from genuine macroeconomic stress.

Demand Shock or Supply Shock? Why the Answer Matters

The researchers go beyond measuring uncertainty by separating movements in GDP and inflation expectations into demand and supply shocks using a vector autoregression framework with sign restrictions.

The distinction is crucial for policy. A demand shock generally moves GDP and inflation in the same direction. A supply shock pushes them in opposite directions.

COVID-19 was perceived as a major negative supply and demand shock across most economies examined, reflecting simultaneous disruption to production and consumption. The Asian Financial Crisis also emerged as a significant negative demand and supply disturbance across much of Asia, although China and Taiwan Province of China experienced it predominantly as a demand shock.

For central banks and finance ministries, identifying the nature of a shock can influence the choice of response. Demand weakness may create greater room for fiscal or monetary

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support. Supply-driven inflation presents a more complicated trade-off because aggressive tightening can weaken economic activity without directly resolving shortages or disrupted supply chains.

Recent geopolitical and trade events reinforce the distinction. The 2025 global trade disruptions increased uncertainty in several economies, particularly Taiwan Province of China, but the overall increase across Asia was relatively moderate. The US-Israel/Iran conflict similarly produced only moderate increases in uncertainty in some economies despite comparatively significant inflation and supply shocks.

A large economic shock, therefore, does not automatically mean forecasters are highly uncertain about its consequences.

A New Risk Lens for Governments, Investors and Development Partners

Another major finding challenges the assumption that economic policy uncertainty and macroeconomic uncertainty can be used interchangeably.

The researchers compare their indicators with newspaper-based economic policy uncertainty measures across 10 overlapping economies and find substantial differences. Newspaper indicators frequently portray uncertainty surrounding the 2025 trade disruptions as greater than during COVID-19. The survey-based macroeconomic measures generally do not.

For international development partners and development finance institutions, the distinction could be important when designing country strategies, budget support, infrastructure programmes or private-sector interventions.

A rise in political or trade-policy uncertainty may require scenario planning. But a simultaneous deterioration in GDP expectations and rising inflation uncertainty could signal deeper economic stress requiring different financing, social-protection or macroeconomic responses.

Private-sector stakeholders could also benefit from such information. Banks can incorporate changing macroeconomic uncertainty into stress tests and credit assessments. Manufacturers can reassess inventories and supply chains. Infrastructure developers can reconsider demand assumptions, while multinational investors can adjust capital allocation and country-risk scenarios.

The risk is treating the indicators as precise predictions. The researchers emphasize that their uncertainty measure primarily captures disagreement among professional forecasters, which is not identical to the full uncertainty surrounding future economic outcomes.

Turning Real-Time Signals Into Stronger Economic Resilience

The research points to several ways the framework could become more useful.

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Geographical coverage could be extended beyond the existing 14 economies to Western, Latin American and Eastern European markets covered by Consensus Economics. Using individual forecaster-level data could provide richer information about how expectations diverge during crises.

A particularly important next step would be incorporating monetary policy. Forecasts for 3-month and 10-year interest rates could potentially help distinguish monetary-policy shocks from broader demand disturbances, although limited data availability in several Asian economies remains a constraint.

The current model also uses only GDP and inflation, meaning fiscal, monetary and other shocks can become embedded within the estimated demand and supply categories. The framework should therefore complement, not replace, official statistics, structural economic models and policymaker judgment.

For Asia-Pacific governments, international development institutions and businesses, the larger lesson is clear: responding effectively to economic turbulence requires understanding not only how large a shock is, but what is causing it.

In a region connected by dense trade, investment and supply-chain networks, better real-time identification of shocks could strengthen contingency planning, improve policy calibration and help governments and investors react before temporary disruptions evolve into broader economic and development setbacks.