

East Asia: Testing Times Ahead



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Executive Summary

Last year Developing East Asia recorded its highest growth rate in over a decade (10.2 percent), capping a decade of improvements following its home-grown financial crisis in 1998.¹ Yet this is hardly a time for celebration, but rather one for concern. The global economy is once again facing a testing time, with soaring fuel and food prices, on the one hand, and, on the other, an unfolding sub-prime crisis emanating in the United States and spreading to other countries and asset classes, bringing in its wake a plunging dollar and a slowdown in global trade and growth.

Although East Asia will undoubtedly be affected, it is reasonably well positioned to navigate this crisis without incurring significant damage to its prospects. True, much depends on how the crisis unfolds, and of course, some countries in the region will be affected more than others. But, broadly speaking, the region's investment in sound macroeconomic policies and structural reforms over the last decade has added economic resilience and flexibility that will help deal with these challenges over the next year or two. Foreign exchange reserves are at all time highs, non-performing loans of banks have been steadily lowered, external and public debt burdens are at acceptable levels, most governments have unused fiscal space, the real economy has momentum, and diversification of trade and financial flows provides some flexibility in adjusting to the impending global slowdown.

Yet the challenges ahead should not be underestimated. The crisis in the United States has deepened as asset prices struggle to find a new equilibrium and financial institutions go through a painful process of de-leveraging and recapitalization. Further surprises cannot be ruled out. Previous experiences of real estate price busts suggest they can last twice as long and twice as deep as equity price busts. And this is also the first financial crisis in the post-securitized world, in which most intermediation is done through securities markets not depositary institutions — which means it could take even longer to resolve. Fortunately, the authorities of the affected countries have responded speedily to the crisis, lowering interest rates aggressively, providing fiscal stimulus, and using innovative approaches to inject liquidity and rescue failing financial institutions. But even if these interventions help stabilize the financial system and prevent a downward spiral in asset prices and asset values on balance sheets, the impact of the financial turmoil on global growth, trade, and financial flows will

¹ Developing East Asia comprises all low and middle income economies in East Asia, including China, Indonesia, Malaysia, Philippines, Thailand, Vietnam and a number of smaller economies including Pacific Island economies. Emerging East Asia refers to Developing East Asia plus four Newly Industrialized Economies or NIEs (Hong Kong, Korea, Singapore and Taiwan, China).

undoubtedly be adverse, although the magnitude of the impending effects remains highly uncertain.

This heightened uncertainty makes forecasting the impact on East Asia a particularly challenging task at this time. The latest data from the region indicates that the momentum of output and trade remains strong, but this is hardly surprising. The impact of a slowing US economy will take time to feed through trading and financial channels and its full force may only be felt in the second half of this year. Yet even in the first couple of months of 2008, data indicate adjustments in trade patterns that are suggestive of emerging trends that may become more evident with time. For example, export growth is shifting from the United States to other markets in industrial and developing countries, encouraged by the depreciating dollar and by continued strong momentum in the developing world (including East Asia itself), as well as in Europe.

In addition, the underlying trend in East Asia's growth has long been much higher than the trend in industrial country growth, even as East Asian cycles around that trend have often been correlated with cycles in industrial countries, and may become more so as the region continues to integrate with the world economy. The region's strong long run growth trend is not driven by year to year fluctuations in world demand, but, rather, by improvements in productivity, innovation, quality control, education and skills. These underlying sources of trend growth are unlikely to be affected by the financial turmoil or by a slowing global market — suggesting that, with continued prudent economic management, East Asia, and especially China, can continue to emerge as a growth pole in the world economy, providing a possible counterweight to the slowing industrial economies.

While the sub-prime crisis in the United States has had relatively little direct impact on banks and financial institutions in East Asia, perhaps the most immediate and visible impact of the financial turmoil in the United States has been the steep decline in securities markets across East Asia, especially equity and, to a lesser extent, offshore bond markets. This decline has been driven not just by uncertainty and the liquidation of portfolio holdings of foreign financial institutions, but also by a more realistic revaluation of risk in global financial markets as a whole and an adjustment in expected returns of the underlying investments. At the same time domestic credit — supported by ample domestic savings — continues to provide resources for investment even as portfolio inflows and loans from international banks taper off. More worrying would be if the decline in stock prices had a contagion effect through the balance sheets of corporations and/or banks, one among the many financial sector issues that the authorities in East Asia will need to keep a sharp eye on.

Building on our analysis of expected trade and financial flows, and the future course of key economic variables, we project Developing East Asian growth could decline by 1-2 percentage points to around 8 ½ percent in 2008 compared to 2007. While such a decline in growth is a matter of concern, especially for the poor in these countries for whom every percentage point of growth counts, the resulting growth rate is still significant and considerably higher than in other regions of the developing world. Of course, the US financial turmoil could still take an unexpected turn that may affect this outlook — especially if the contagion were to spread to other industrial countries in a major way — and this may require further downward adjustments in the forecast. But in such a circumstance, the strong fiscal situation in most East Asian countries will allow them the space to soften the blow by stimulating domestic demand through tax and public expenditure policies.

Quite apart from the challenge of growth, the East Asian countries also have to deal with current very high fuel and food prices. In virtually every East Asian country, inflation is climbing to uncomfortable levels due to these cost-push pressures, while monetary and credit growth is difficult to contain owing to substantial capital inflows. Some countries are resorting to price controls and other administrative measures to temporarily curb inflation, but these only distort market signals and encourage black markets over the longer term, and eventually have to be removed. In other countries, fuel subsidies have climbed to the point where they are becoming a large fiscal burden.

Dealing with high food and fuel prices probably constitutes a greater challenge to governments in East Asia than the financial turmoil in the United States and a slowing global economy. In the medium term, the answer clearly lies in greater fuel efficiency, stronger and more productive global agriculture and an open international trading system. But in the short term, the bigger concern is to alleviate the harsh burden this imposes on the poor. True, some economies in the region are net exporters of these commodities and so are enjoying gains in overall national income. And true, higher food prices do help farmers – although small farmers are usually net consumers of food and are thus hurt. But the non-farm poor living in rural and urban areas (and small farmers) – who devote between a third to two-thirds of their expenditures to food – are seeing their real incomes decline substantially as a result of the increase in food prices. Similarly, while higher fuel prices affect everyone, the poor are hurt disproportionately. Although this difficult problem has neither easy answers nor a one-size-fits-all solution, East Asia has faced these challenges before and adopted a variety of solutions in the past to fit different circumstances, ranging from targeted subsidies to conditional cash transfers to school lunch programs. These programs now need to be considered again and reintroduced before the problem becomes too acute.

Introduction

Despite falling growth in exports to the US, rising volatility in global financial markets, high and volatile international commodity prices, and an increasingly clouded outlook for the world economy, economic activity in most East Asian economies continued at strong rates through the end of 2007 and into early 2008. Fortunately, the countries of East Asia are generally better prepared than ever to deal with the vicissitudes of the global economy in this more uncertain time. Reflecting lessons learned from the East Asian financial crisis of a decade ago, today most economies in the region have strong external payments positions and large international reserves, prudent fiscal and monetary policies, better regulated banking systems, and profitable and competitive corporations. East Asia's trade and financial relations with the rest of the world have become steadily more diverse. The region is becoming more of a growth pole in the world economy, proving to be a force for stability at a time when the industrial economies are slowing.

This is not to say that East Asia is immune from developments elsewhere. On the contrary, its increased integration in the world's trading and financial system makes it sensitive to global economic conditions. Whether the unfolding turmoil in US and other financial markets will gather force or start to abate, and how large its impacts on world economic activity will be, is still uncertain. On balance, however, the financial turmoil has substantially increased the likelihood of a US recession and a significant slowdown in world growth in 2008, including in East Asia. Economic cycles in East Asia have indeed often been correlated with cycles in the industrial countries. But these have generally been cycles around an East Asian trend rate of economic growth that has for many decades run at 4–5.5 percentage points faster than trend growth in industrial countries. High trend growth has been driven by fundamental factors such as robust productivity gains, ability to absorb knowledge from abroad, high savings, and growing education and skills. And these fundamentals are unlikely to be displaced by the present financial turmoil and cyclical slowdown.

Looking forward, growth in Developing East Asia in 2008 is expected to come down from 2007's exceptional pace of over 10 percent by a hefty 1.5 percentage points. Nevertheless, that decline still would leave regional output expanding by a healthy 8.5 percent or so (table 1). Growth in China is expected to come down by 2 full percentage points to 9.4 percent. A further slowing in export growth will likely be a leading element in the impending East Asian slowdown. One of the striking features of the past six months has been how modestly East Asian exports have decelerated, as weaker exports to the US by have been offset by increasing exports to Europe, other East Asian economies, and—a notable development—surging exports to other developing regions, especially those benefiting from high oil prices. It is

Table 1. East Asia economic growth

	2006	2007	2008	2009
Emerging East Asia	8.4	8.7	7.3	7.4
Develop. E. Asia	9.8	10.2	8.6	8.5
S.E. Asia	5.5	6.1	5.6	6.0
Indonesia	5.5	6.3	6.0	6.4
Malaysia	5.9	6.3	5.5	5.9
Philippines	5.4	7.3	5.9	6.1
Thailand	5.1	4.8	5.0	5.4
Transition Econ.				
China	11.1	11.4	9.4	9.2
Vietnam	8.2	8.5	8.0	8.5
Small Economies	7.2	6.6	6.4	6.1
Newly Ind. Econ.	5.6	5.6	4.6	5.0
Korea	5.0	4.9	4.6	5.0
3 other NIEs	6.1	6.2	4.6	5.0
Japan	2.2	2.1	1.5	2.0

Source: World Bank East Asia Region; March 2008 Consensus Forecasts for NIEs.

impose a loss of income on East Asia of perhaps close to 1 percent of GDP. (Of course, the region contains a number of net commodity-exporting economies that will enjoy gains in national income due to higher commodity prices.) Rising food prices are exacerbating headline inflation and hurting the incomes of the poor. These developments could stall or even set back the progress made in reducing poverty over the last decade while heightening political tensions.

The task of macroeconomic management in this environment will not be an easy one, although policy-makers in most East Asian countries will be able to confront the problems from a relatively strong position.

Current account surpluses and large foreign reserves provide a buffer that will enable economies to accommodate volatility in international capital flows without forcing the kinds of sudden large adjustments in domestic demand that became inevitable during the 1997–98 financial crises. Fiscal positions generally also have become stronger over recent years, creating the scope for more stimulative fiscal policies should an unexpected fall-off in private sector domestic make them desirable.

The role of monetary policy is likely to be especially challenging. In principle, the rise in headline inflation caused by higher international commodity prices should be temporary, reflecting a change in relative prices that, by itself, does not call for action by the central bank. However, monetary policy will need to remain vigilant to ensure that the rise in fuel, food, and other commodity prices does not set off an inflationary spiral leading to rising core inflation rates, especially in economies already showing signs of domestic over-heating and excessively rapid credit growth. Continued movements toward greater exchange rate flexibility will provide countries greater flexibility in using monetary policies to meet inflation challenges. Countries also face difficult challenges in addressing the harmful distributional effects of higher food and fuel prices on the living standards of the poor. Well-targeted cash transfer schemes may be helpful, although they need to be considered within the context of the country's overall fiscal position.

nevertheless likely that exports will turn lower more distinctly in coming months, as US imports themselves begin to fall (rather than merely growing more slowly or stagnating), and as the US downturn and financial market turmoil begin to affect more decisively other regions that are East Asian export markets.

The US financial market turmoil has already led to increased volatility in East Asian equities markets and to rising offshore bond financing costs. However, given that lending by domestic banks—the main source of financing in the region—has been little affected so far, the impact of these developments on domestic activity may be limited. Rising oil, metals, and food prices will also

Global Financial Turmoil

The turmoil in the US sub-prime mortgage market that began last August has continued to broaden and intensify, leading to a tightening in global credit markets and failing financial institutions – most dramatically with the collapse of the Bear Stearns investment bank in mid March 2008. How this will play out and its potential effects on world economic growth, trade and financial flows is one of the two or three major uncertainties facing economic policy makers in East Asia at present.

The roots of the crisis are tangled but one certainly lies in the long boom in the US housing market that came to an end in 2006. One category of loans that had expanded rapidly since the mid-1990s was US sub-prime mortgages—mortgages owed by people with a risky credit profile or mortgages that are too large to be eligible for reinsurance through government backed mortgage agencies. Issuance of such mortgages surged in the latter years of the housing boom, in 2004-2006 in particular.

House prices began falling from mid 2006, while the rate of defaults on sub-prime mortgages soared (figure 1). By early 2007 the rate of serious delinquencies on sub-prime mortgages with adjustable interest rates climbed to 11 percent, about double the rate in mid-2005. These rising mortgage delinquencies were the trigger for a virtual collapse in the price of mortgage backed securities in secondary markets that began in the third quarter of last year. Lehman Brothers estimates that losses on the existing stock of mortgages could total \$250 billion with a 15 percent housing price decline. Greenlaw, Hatzius et al (2008) estimate that mortgage credit losses on the current stock of mortgages could total \$400 billion.² They estimate that losses will be split roughly half and half between US and foreign leveraged institutions such as investment banks, commercial banks, and hedge funds.

A second broad set of factors were financial innovations in the 1990s and 2000s which, while they have played a key role in promoting deep and more efficient capital markets and providing instruments for trading and spreading risk, have also been instrumental in transmitting the shock of rising delinquencies in the mortgage market more broadly through the financial system. One of these is securitization, which involves the transformation of illiquid assets like mortgage loans into securities that can be traded in capital markets. Another

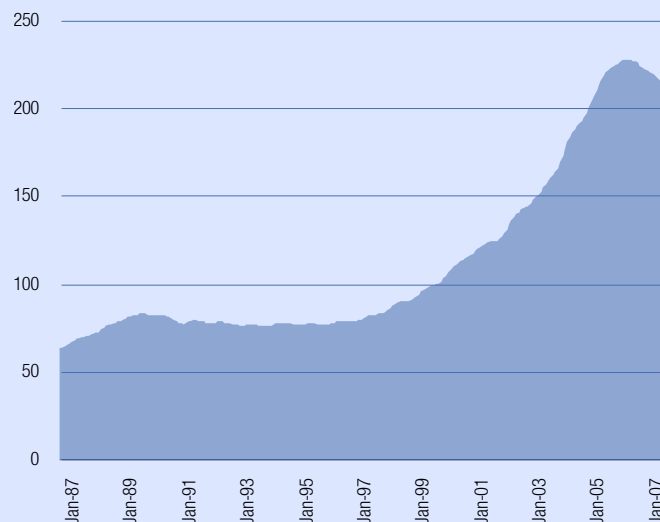
² David Greenlaw, Jan Hatzius, Anil K. Kashyap, Hyun Song Shin. (2008). “Leveraged Losses: Lessons from the Mortgage Market Meltdown.” US Monetary Policy Forum Conference Draft. (February 29).

is the development of new risk transfer instruments that have allowed market participants to slice the risks embedded in traditional financial instruments and trade them separately, thereby allowing these risks to be spread across a large number of market participants. A sizeable proportion of sub-prime mortgages were securitized in collateralized debt obligations (CDOs) and found their way onto the balance sheets of banks, investment funds or 'structured investment vehicles' (often affiliates of banks) and institutional investors such as pension funds, insurance companies, and individuals worldwide. It is estimated that at the time the crisis started sub-prime securities made up some 15-20 percent of total CDOs, which, in turn, were estimated to amount to US\$ 1 trillion in the US and US\$ 1.5-2.0 trillion worldwide.

Rising mortgage delinquencies would certainly have hurt the balance sheets of mortgage lenders in any case, but, with securitization, market participants have found it difficult to estimate 'who holds what' and the magnitude of the exposure to risk of different financial institutions. Heightened uncertainty then led to negative spillovers and a fall in prices of a broader set of instruments such as CDOs, mortgage backed securities, jumbo mortgages and asset backed commercial paper, imposing further balance sheet losses.

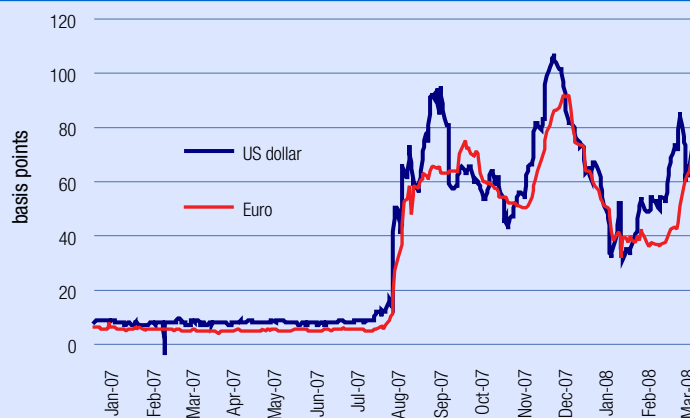
Rising uncertainty about the distribution of losses and the creditworthiness of borrowers also contributed to a sharp rise in spreads and a drying of credit in a number of key short term funding markets such as the interbank market and the asset backed commercial paper market. Reflecting the funding squeeze in the interbank market, the spread between the 3 month US dollar LIBOR rate (at which banks lend to each other) and the OIS rate (a measure of the expected overnight federal funds policy rate) surged from less than 15 basis points on August 8 2007 at over 50 on August 10 and over 90 basis points by mid September. As Figure 2 shows, the LIBOR-OIS spread has remained high, surging whenever new waves of concern about the creditworthiness of financial institutions affect the market. Euro denominated LIBOR spreads have also widened sharply.

Figure 1. S&P/Case-Shiller Composite Home Price Index (Jan. 1987 – Jan. 2008)



Source: Bloomberg, Datastream.

Figure 2. Term liquidity spreads: 3-month Libor/3-month OIS. Jan. 2007 – Mar. 2008



Source: Bloomberg, Datastream.

A third factor in the amplification and spread of the crisis is the process of pro-cyclical active balance sheet management by leveraged financial institutions. When the value of assets in balance sheets are marked to market, a rise in the price of assets held by financial institutions will be reflected in an increase in their net worth. With active balance sheet management, banks then borrow more (to maintain a target ratio between leverage and net worth) and acquire more assets, which tends to push asset prices up even more. When – as today – asset prices are falling, this multiplier goes into reverse. As leveraged institutions suffer losses on their assets their net worth falls and they are obliged to pay down their borrowings, which they do by selling assets. This pushes down asset prices, which further damages the asset side of bank balance sheets.

Greenlaw, Hatzius et al (2008) suggest that is the active balance sheet management and deleveraging process which explains the progressive broadening of classes of assets affected by price declines and tightening credit conditions in late 2007 and early 2008, including wider classes of mortgage loans, corporate debt, sovereign debt and equities. These developments have resulted, overall, in a significant tightening of credit availability, especially in the US and the Euro Area. How far could the deleveraging process go? Under a plausible scenario, Greenlaw, Hatzius et al (2008) calculate that balance sheets of US financial institutions could contract by \$1.98 trillion. They estimate that this, in turn, could reduce GDP growth by 1-1 ½ percentage points over the course of a year.

The Federal Reserve has undertaken a series of strong and innovative actions aimed at maintaining the liquidity of leveraged financial institutions and the flow of credit in the economy – slashing the benchmark interest rate to just over 2 percent, widening the assets against it is willing to lend to include mortgage backed securities, and allowing a wider set of financial institutions to borrow directly from its discount window. But how successful these actions will be in staunching the crisis in credit markets is not yet clear. There is now an unusually high level of uncertainty about the economic outlook, given the vast innovations in financial markets over the past decade and the as-yet poor understanding of the new and complex linkages within the post-securitization financial system and between the financial system and the real economy.

Given the high level of uncertainty surrounding the global outlook we have assumed an interim scenario with a range of outcomes for the external environment facing East Asia rather than point forecasts. (Table 2). This scenario sees growth in the industrial world in 2008 slowing from 2007 by roughly 1.0-1.5 percentage points, with the sharpest slowdowns from 2007 occurring in the US and Europe, the two areas most seriously affected by the financial turmoil.

Table 2. International Economic Environment

	2007	2008	2009
GDP Growth (%):			
World	3.6	2.4 – 2.8	2.8 – 3.2
High Income OECD	2.5	1.1 – 1.6	1.4 – 2.0
USA	2.2	0.5 - 1.4	1.0 - 2.0
Euro-zone	2.7	1.3 - 1.7	1.5 - 1.9
Japan	2.1	1.3 - 1.7	1.6 - 2.0
World trade (%)	7.5	4.0 – 5.0	5.0 – 6.0
Oil price (\$/bbl)	71.1	80 - 90	80 - 90
Non-oil commodity	15.8	10 - 20	-10 - 0

*World Bank East Asia and Pacific Region.
Interim scenario March 2008.*

East Asian Developments ... A Case for Guarded Optimism?

STRONG GROWTH MOMENTUM UNDER CLOUDED SKIES

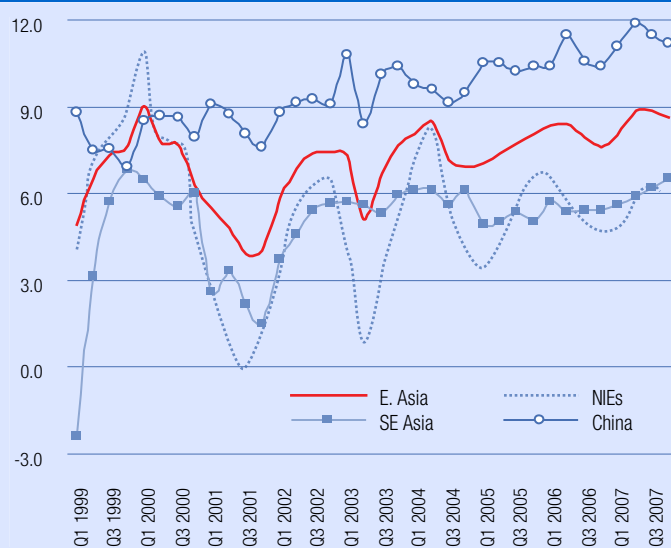
Developing East Asian GDP growth reached 10.2 percent in 2007, the highest since the early 1990s. Growth generally continued at strong rates in the third and fourth quarters of the year, despite growing concerns about the potential impacts of the financial turmoil in the United States. Growth in China exceeded 11 percent throughout the year, easing only gradually over the course of the year as moderating export growth was mostly offset by rising domestic investment and consumption growth. Low income economies such as Cambodia, Lao PDR, Mongolia and Vietnam also continued to see strong growth in a 7-10 percent range for the third or fourth year in succession.

Most middle income countries in South East Asia enjoyed an increase in the pace of output growth over the course of 2008 (Figure 3), generally on the basis of accelerating domestic demand. Rising remittances flows in the Philippines supported robust consumption growth, while recent improvements in the fiscal position allowed a strong increase in public infrastructure spending. Growth in Indonesia accelerated to a 10 year high of 6.3 percent, principally on the basis of booming private investment and consumption. Running counter to the regional trend, private consumption and investment in Thailand were generally weak for much of the year because of unsettled political conditions, but growth still came in at a respectable 4.8 percent because of resilient overall export growth, despite weaker exports to the US and a 9 percent appreciation of the baht against the dollar. Growth in Thailand accelerated to an unexpectedly strong 5.7 percent in the fourth quarter because of a late year surge in exports to Europe, Japan, the rest of East Asia and – reflecting a trend across East Asia – in exports to other developing regions and countries, especially those benefiting from high oil prices, such as the Middle East and Russia.

Growth in most of the high income Newly Industrialized Economies (NIEs) in the region also picked up to an average pace of around 6 percent in the second half of 2007, supported by robust consumption growth and unexpected strength in exports. Real growth in exports of goods and services in Taiwan (China) and Korea accelerated to 13 percent and 16 percent

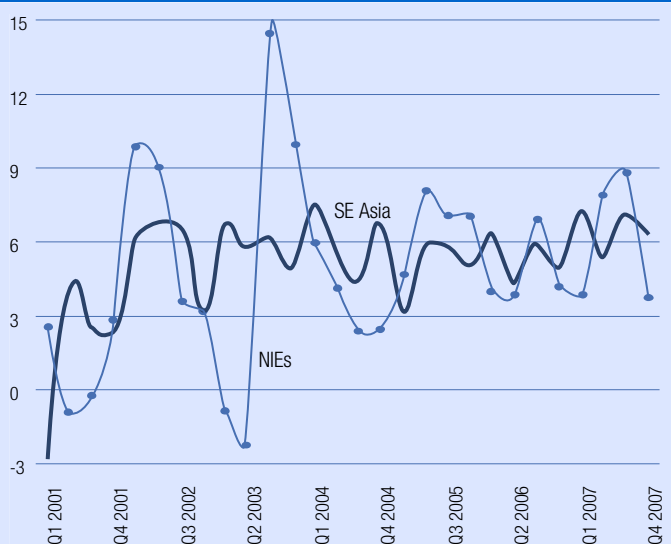
respectively in the fourth quarter, for example. Singapore however saw year on year GDP growth decelerate sharply from close to 10 percent in the third quarter to just over 5 percent in the fourth because of falling manufacturing sector growth. Fourth quarter output contracted at a seasonally adjusted annual rate of -4.8 percent from the third quarter, contributing to the downturn in quarter on quarter growth of NIEs as a group shown in Figure 4. Singapore's Ministry of Trade and Industry observed that the fall reflected a sharp decline in biomedical manufacturing rather than the impact of the slowing US economy.

Figure 3. East Asia – Quarterly GDP Growth (% Change Year Ago)



Source: World Bank data and staff estimates.

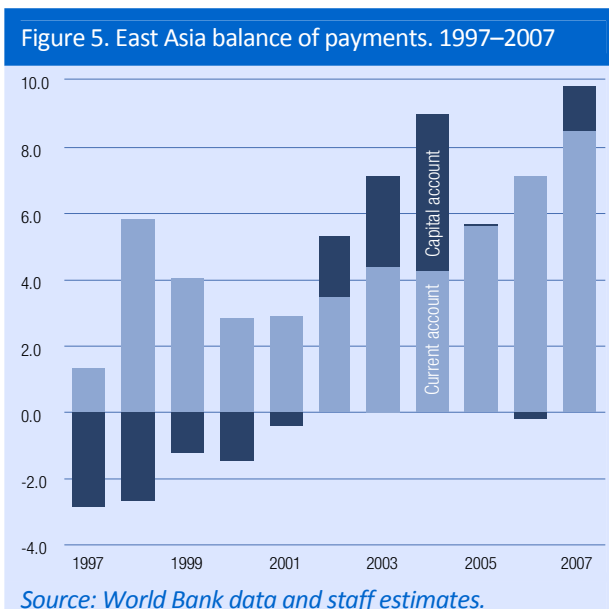
Figure 4. East Asia – Quarterly GDP Growth (% Change Quarter Ago, SAAR)



Source: World Bank data and staff estimates.

FINANCIAL LINKAGES: US TURMOIL AFFECTS EAST ASIAN SECURITIES MARKETS, NOT SO MUCH BANKS

The most obvious effects of the US financial turbulence on East Asia have been sharp declines in East Asian equity markets. Rising uncertainty and risk aversion have also pushed spreads on sovereign and private offshore borrowings higher. A number of economies experienced net portfolio outflows in the latter part of the year, a reversal of large inflows earlier in the year. A number of banks in the region have written off losses on US sub-prime mortgage-related assets, although the impact on overall banking system profits and balance sheets has so far been small. However, it remains to be seen what additional losses banks in the region may experience as the US credit market turmoil affects a widening array of assets.



The macroeconomic effects of US and global financial volatility and associated financial sector losses in East Asia seem relatively limited. This assessment could change if the global credit market turmoil intensifies in coming months in ways that more severely affect domestic financial systems in East Asia. At the broad macro level, most of the region's larger economies are running large current account surpluses and have sharply reduced their net external liabilities over the last decade. East Asia is a large net supplier of funds to the global financial system rather than a borrower. In 2007 net current account surpluses totaled close to 9 percent of regional GDP (or a median 7.4 percent among the 9 largest economies), while net capital inflows were worth an additional percentage point of regional GDP (figure 5). In many economies, lower private capital

inflows actually will reduce the monetary management and exchange rate appreciation pressures that their central banks have been grappling with. Most business investment in the region continues to be financed from internal earnings or domestic bank borrowing, where there is thus far little sign of a domestic credit crunch. This could change if banks suffer bigger losses on foreign mortgage-related assets than have been exposed thus far.

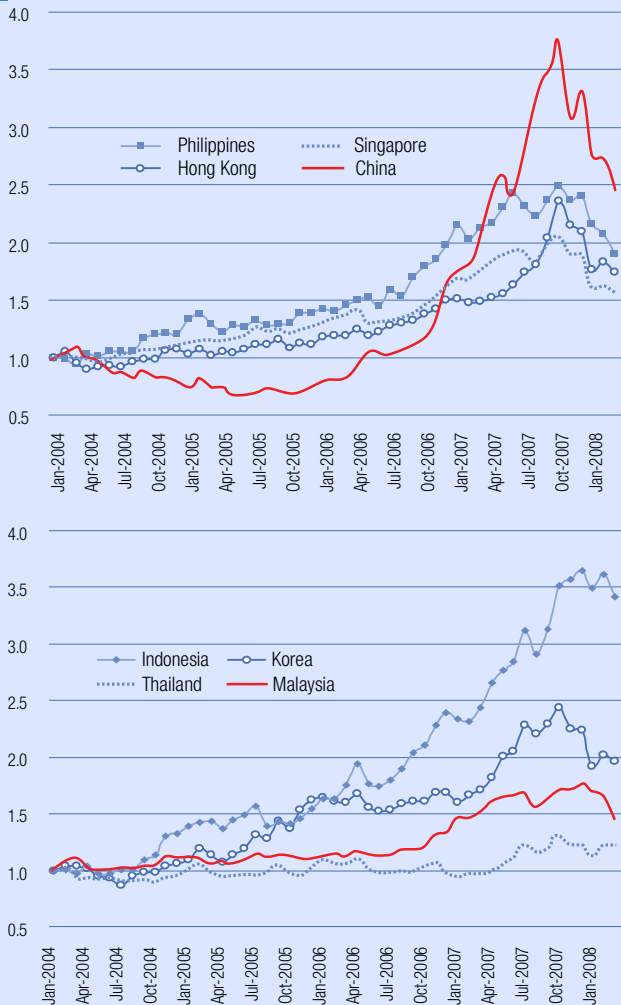
Equity markets sell off

Looking at some of these financial linkages and impacts in more detail, equity prices in the major economies have fallen a median 19 percent between their peak (generally October 2007) and early March 2008. The steepest falls were in China, Hong Kong, the Philippines, and Singapore, and smaller declines in Indonesia and Thailand (figure 6). The major factors behind the equity price declines are heightened uncertainty about the global economic outlook, rising risk aversion, and a significant pullback in portfolio equity and bond flows to emerging markets

after the start of the US financial turbulence in August 2007. In most cases, though, the recent price declines are but a partial reversal of previous large and probably unsustainable increases between the end of 2006 and October 2007. In some cases, price-earnings (PE) ratios have come down from probably excessive to more realistic levels. For example, the PE ratio on the IFC's China investible index fell from 43 in October 2007 to 28 in January 2008.

Initial public offerings (IPOs) in regional financial centers such as Hong Kong and Singapore have plummeted. IPOs in Singapore totaled only \$24 million in the first 6 weeks of 2008, down from \$283 million in the same period of 2007.³ Equity markets play a significant role in corporate finance in the high-income economies of East Asia such as Hong Kong, Korea, and Singapore. However, equity markets are less important in most of the developing economies, for which internal corporate earnings and bank lending are more important sources of financing.

Figure 6. Equity Market Indexes
(Jan. 2004 (=1) to March 2007)



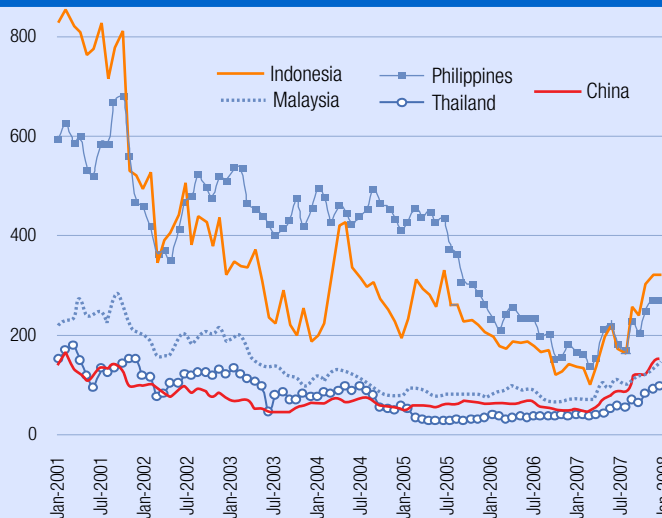
Source: Haver Analytics.

³ *Business Week*, "Asia's IPOs Hit by a Drought," February 22, 2008.

Offshore bond financing costs rise

Spreads for offshore borrowing also have widened significantly for both sovereign and other borrowers (figure 7). Spreads moved from exceptionally low levels of approximately 140 basis points in mid-2007 to approximately 270 and 320 basis points by early March 2008 for Philippines and Indonesia, respectively. Nevertheless, the latter remain well below historical levels in the early-mid 2000s and also well below spreads in US high-yield debt markets. Spreads also have moved higher for China, Malaysia, and Thailand. However, appropriately for countries with much lower net external debt, at 100–150 basis points, their spreads remain considerably lower than those of Philippines and Indonesia.⁴ The iTraxx Asia ex-Japan Credit Default Swap (CDS) Index measures how the cost of offshore financing has increased for a basket of issuers that includes East Asian banks and non-banks as well as governments (figure 8). The premium on such contracts surged almost 300 basis points between mid-2007 and early March 2008, a much larger move than for spreads on sovereigns alone.

Figure 7. Emerging Market Spreads (Jan. 2001 – March 2008)



Source: JP Morgan EMBI+; World Bank data.

Figure 8. iTraxx Asia ex-Japan CDS Index (Premium (bid) in basis points)



Source: Datastream.

⁴ Indeed, foreign reserves held by China, Malaysia, and Thailand exceed their total stocks of external debt by significant margins. In Indonesia and Philippines, foreign reserves stand at 30 percent–40 percent of total external debt.

...but domestic credit conditions little affected

How fully rising offshore spreads are reflected in domestic borrowing costs remains to be seen. In Indonesia, yields for domestic government borrowing have risen from less than 9 percent in mid-2007 to over 10 percent in early 2008. As regards private sector borrowing, however, retained earnings and domestic bank borrowing remain the most important sources of external financing for firms in most of developing East Asia. Here it is difficult to see obvious signs of bank credit becoming more costly or harder to obtain. Average bank lending rates generally trended lower or were broadly flat through the end of 2007, tracking the trend of policy interest rates (figure 9). Bank lending rates trended higher in China, but again this reflected the government's policy of tightening monetary policy to avert the danger of economic overheating and higher inflation. Growth in bank credit to the private sector was accelerating strongly in China, Hong Kong, Indonesia, and Singapore in late 2007 or early 2008, while running in line with trends of recent years elsewhere (table 3).

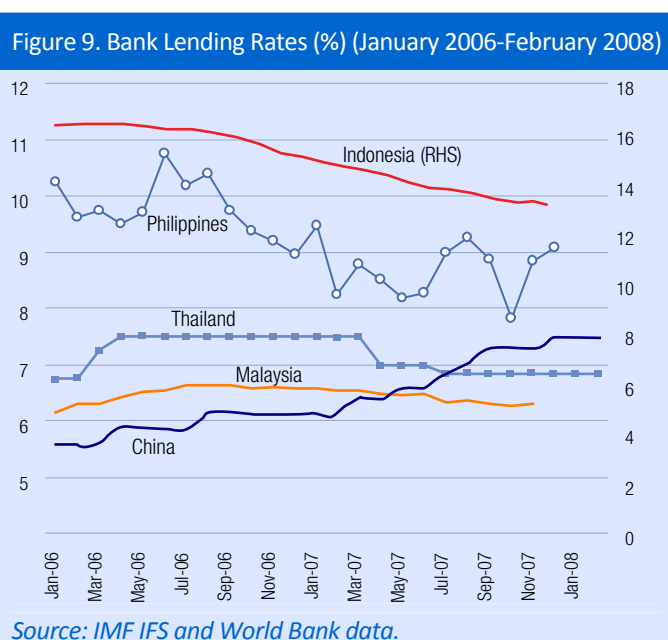


Table 3. Bank Credit to Private Sector (% change year ago)

	2003	2004	2005	2006	2007*
China	20.8	11.2	9.2	14.3	19.3
Indonesia	21.1	33.0	24.8	12.5	22.4
Malaysia	6.8	6.6	9.2	6.9	11.2
Philippines	1.1	9.3	-2.2	7.4	1.9
Thailand	-1.3	11.3	7.7	4.0	4.6
Hong Kong	-2.8	3.7	6.0	1.8	12.4
Korea	8.9	1.3	7.4	14.5	12.4
Singapore	5.4	4.4	2.0	4.9	17.6

Source: IMF International Finance Statistics.

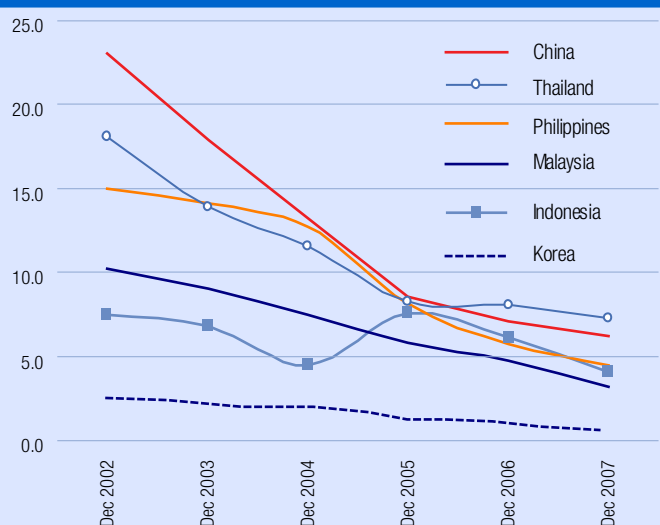
* Latest available in late 2007 or early 2008.

Impact on East Asian bank balance sheets seems limited so far – but needs monitoring

How well East Asian banks continue to perform their intermediation and other key economic functions also will depend on the quality of their balance sheets. This introduces another potential channel through which the US credit market crisis could affect East Asian financial systems by damaging the quality of assets on bank balance sheets. Measures of non-performing loan ratios and capital adequacy in the larger economies generally continue to show improvements (figure 10). Nevertheless, past experience shows that underlying deterioration in bank asset quality can remain obscured during a period of fast growth such as East Asia has experienced in recent years.

Initial assessments by regulators, credit rating agencies, and investment banks suggested that emerging East Asian financial sector exposure to US sub-prime-related assets was relatively limited. Such exposure was concentrated in some more developed financial markets such as Korea and Singapore, as well as in China, and in a few institutions in each country: Woori Bank in Korea, DBS in Singapore, and Bank of China and Industrial and Commercial Bank of China. Indeed, China is the largest overseas holder of US mortgage-backed securities—approximately \$260 billion—mostly through the central bank's international reserve holdings and also through holdings of commercial banks. However, most of these holdings are backed by US government agencies such as Fannie Mae and Freddie Mac. Among commercial banks, Bank of China disclosed an exposure of \$7.95 billion in assets related to US sub-prime mortgages at the end of September 2007. At the end of December, these assets had been reduced to \$4.99 billion, against which the bank booked charges of \$1.3 billion. Nevertheless, Bank of China's net profits rose an unexpectedly strong 31 percent to 56.3 billion yuan (\$7.99 billion) in 2007. This increase came despite the write-off on sub-prime assets driven by strong loan volume, higher interest margins, and surging fee and commission income (the latter driven by the rapid development of China's domestic capital market).

Figure 10. East Asia non-performing loan ratios, 2002–07



Source: World Bank data and staff estimates.

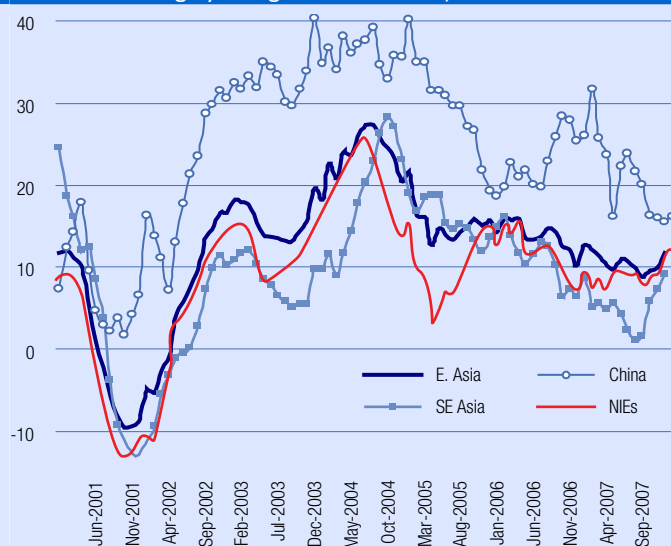
Finally, there is also a risk that banks in emerging markets could suffer liquidity or funding problems on the liability side of their balance sheets if the turmoil in global credit markets causes international banks suffering large losses on mortgage related assets to begin liquidating their loans to emerging market banks.⁵ However, Bank for International Settlements (BIS) data suggest that external borrowings by banks in some of the main East Asian developing economies are considerably lower today than, for example, before the 1997 financial crisis. Thai bank liabilities to BIS reporting banks stood at approximately 9 percent of GDP in late 2007, for example, compared to 48 percent of GDP in June 1997. East Asian banks also have built up their own loans and deposits with international banks. Thus, for example, while Philippine banks' net borrowings from international banks were 8.4 percent of GDP in June 1997, they were -4.4 percent of GDP in September 2007, that is, a net credit position.

Overall, the initial assessment of relatively limited spillovers from the US credit market turmoil onto the East Asian financial sector appears to be holding in early 2008. However, it will need to be closely monitored and re-evaluated as the credit market turmoil intensifies and spreads from starting point of sub-prime mortgages to affect increasingly wider classes of assets.

TRADE LINKAGES: WEAKENING US DEMAND OFFSET BY OTHER MARKETS – SO FAR

Although exports from a number of economies were showing unexpected resilience and revival late in 2007 and early 2008, growth in East Asian exports as a whole eased lower over the course of 2007. In US\$ terms, Emerging East Asian exports slowed from year-on-year growth of approximately 22 percent in January 2007 to 15 percent–16 percent in the third quarter. Export growth eased in China as well as in the South East Asian middle-income economies and the newly industrialized economies (NIEs) (figure 11). More recently, though, a rebound in export growth in South East Asian economies including Indonesia, Malaysia, and Thailand and in NIEs such as Korea and Taiwan (China) has pushed overall regional dollar export growth back up to 18 percent–19 percent.

Figure 11. East Asia Export Growth (US\$ 3 mo. average - % change year ago. Jan.00-Jan 08)

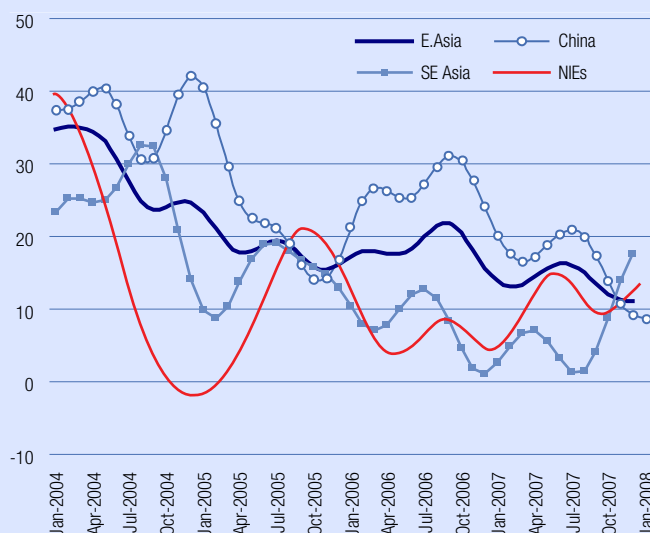


Source: World Bank data and staff estimates.

⁵ The World Bank's forthcoming "Global Development Finance 2008" report studies this linkage in more detail.

Given the steep decline of the dollar in 2007, it also is worth looking at exports in local currency terms. And to get a more detailed view of export momentum, consider seasonally adjusted quarter-on-quarter growth in the rolling three-monthly average. The local currency export momentum for Emerging East Asia as a whole eased off from approximately 16 percent in the fourth quarter of 2006 to 11 percent in the fourth quarter of 2007 (figure 12). The analysis confirms that export momentum in South East Asia and the NIEs was rebounding in late 2007, while also suggesting that export momentum from China continued to gradually ease into late 2007 and early 2008. Interestingly, recent months are among the rare times when export growth in other main East Asian economies is running higher than in China.

Figure 12. East Asia Export Momentum (Local currency. 3 mo/3mo - % change SAAR. Jan.04-Jan 08)

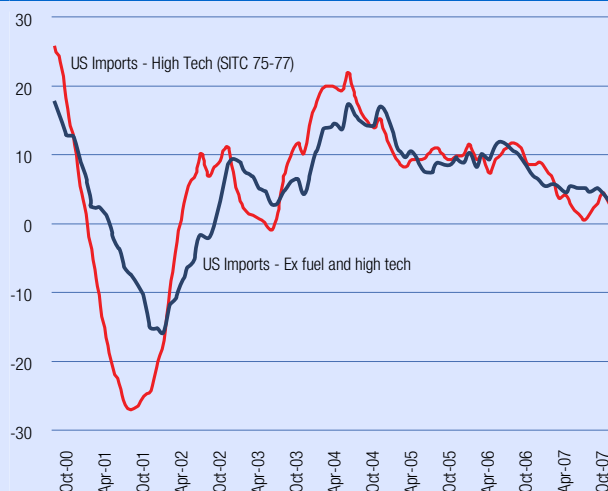


Source: World Bank data and staff estimates. Cencus X-12 trend-cycle component. Regional weights using 2000US\$ exports

This pattern of a gradual easing in East Asian export growth, or even of export recovery during a global economic slowdown, is very different from the last major US downturn in 2001. At that time, East Asian local currency export momentum plunged from 25 percent to negative 10 percent over 12 months. But if the more recent pattern continues into 2009, it could help the region achieve more of a “soft landing” than a steep downturn or recession as experienced in 2001. Several factors explain the difference between the recent shallow descent of East Asian export growth compared to its sudden, steep plunge in 2001.

First, US import growth itself eased lower gradually in 2007 (figure 13). Year-on-year US\$ import growth will doubtless become negative as US economic growth slows further in 2008. Yet, the pace of decline may remain shallower than in 2001. One reason is that US electronics and high-technology imports,

Figure 13. US Import Growth (% change year ago. Oct 2000-Jan 2008)



Source: World Bank data and staff estimates.

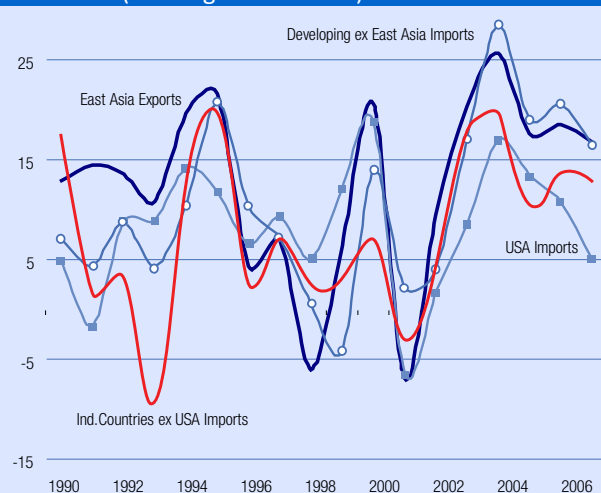
especially important markets for East Asian exporters, have declined at about the same pace as overall non-fuel/non-high tech exports. This is quite unlike the 2001 recession, when the end of a high-tech spending boom led to a sudden and steep collapse in US high-tech imports, followed by a sharp fall in other imports. Recent data on high-tech equipment orders in G3 countries and on world semiconductor sales suggests that global high-tech demand indeed is waning in line with the broader downshift in domestic demand growth in developed countries. This decline is likely to be reflected in weaker East Asian export growth in the months ahead. However, there is little in the data so far to suggest a steep high-tech-led downturn of the 2001 type.

A second factor explaining the recent resilience of East Asian exports is that export markets other than the US have held up well, and East Asian exporters have nimbly made the most of the opportunity. Figure 14 shows that US\$ import growth in non-US industrial countries ran at approximately 13 percent in 2007, well above the 5 percent import pace in the US. Imports by developing countries outside East Asia also grew by approximately 17 percent in 2007. Strong East Asian exports to booming developing country markets elsewhere—in particular to oil-rich markets in the Middle East and Russia—are one of the factors contributing to the unexpected strengthening of exports from many East Asian economies in late 2007 and early 2008.

The growing importance and resilience of emerging countries as factors in world output and trade growth are 2 of the most important global economic developments over the last 5 years. In fact, while US imports have fallen from 19 percent in 2000 to less than 15 percent of total world imports, developing countries outside East Asia now comprise 22 percent of the total, and East Asia comprises another 19 percent (figure 15).

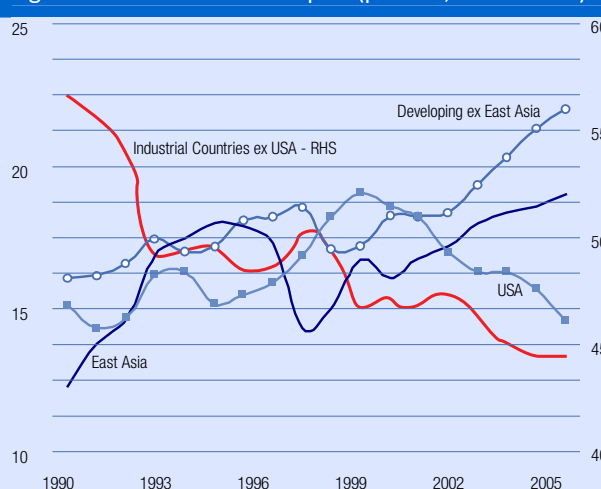
What about intra-East Asian trade, which comprises a little over 40 percent of overall East Asian exports? Can it help sustain East Asian growth during a US recession, in particular, through exports from the rest of East Asia to China? As many observers (including the authors of this report) have pointed out, a significant part of intra-East Asian exports, perhaps two-thirds, comprises

Figure 14. East Asian Export and Global Import (% change 1990 - 2007)



Source: IMF IFS.

Figure 15. Share of World Import (percent, 1990 - 2007)



Source: IMF IFS.

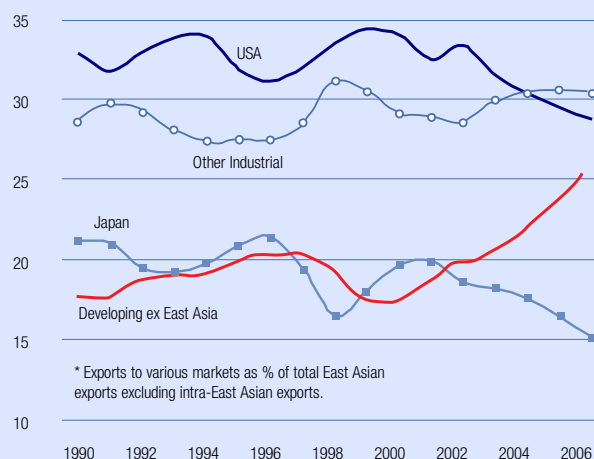
trade in intermediate products that are ultimately exported outside the region.⁶ Thus, a significant slowdown in exports outside the region also would be reflected in slower intra-Asian exports within the region.

Two provisos could be added to this widely accepted story. First, the share of East Asian exports to the US is declining even after accounting for intra-Asian trade. A simple way to see this is to imagine East Asia as a single integrated economy, netting out all intra-East Asian trade. Exports to the US as a share of East Asia's purely extra-regional exports have fallen from 34 percent in 1999 to 29 percent in 2006 (figure 16). Meanwhile, the share of other developing countries surged from 17 percent in 1999 to 26 percent in 2006—almost as important as the US market.

Second, the character of intra-East Asian trade flows also is likely to undergo structural change over time. Observers have noted that China's increasingly sophisticated domestic production capacity is allowing it to source more of its input needs from within China. This has meant that imports have become increasingly delinked from exports in the last 2–3

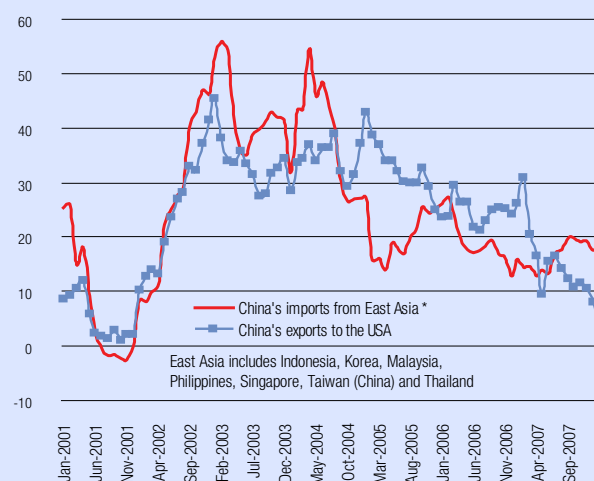
years. The association of China's imports with its exports fell sharply in both size and statistical significance between 1994–99 and 2000–05, while the association with domestic demand increased just as dramatically.⁷ If this trend continues and if other East Asian economies are able to exploit these new opportunities in China's domestic market, then, over time, China also is likely to become an increasingly important independent growth pole for the rest of East Asia. Figure 17 shows interesting differences in the pattern of China's imports from those of the rest

Figure 16. Integrated East Asia's Export Markets *
(Percent of total exports; 1990–2006)



Source: IMF DOT and World Bank staff estimates.

Figure 17. China – Imports from East Asia
(US\$. 3.mo. averages - % change year ago)



Source: World Bank data and staff estimates.

⁶ World Bank East Asia Update, November 2006.

⁷ Li Cui and Murtaza Syed, "The Shifting Structure of China's Trade and Production," IMF Working Paper WP/07/214, September 2007.

of East Asia between the 2001 recession and today. In 2001 China's imports from East Asia fell off rapidly in line with the fall in its own exports to the US. In contrast, in late 2007 and early 2008, China's imports from East Asia have grown steadily at 15 percent–20 percent a year while, on the other hand, China's exports to the US have fallen off almost as sharply as in 2001. Of course, the link between the two may well reassert itself if the US downturn intensifies. Nonetheless, this is an intriguing pattern.

VOLATILE COMMODITY PRICES NOW AT THE FOREFRONT OF POLICY MAKERS' ATTENTION

Since 2003, oil and non-oil commodity prices have respectively more than tripled and doubled. However, of greater immediate concern for policy makers is the surge in commodity prices over the last 6–9 months—especially for food—that has pushed headline inflation higher and sparked concerns about the adverse effect on the poor.

Oil prices return to 1979 high in real terms

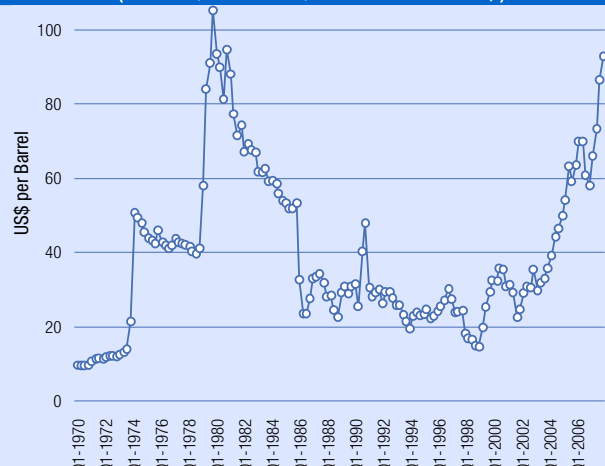
Crude oil prices continued to move higher over almost all of 2007 and into 2008, from \$53.4 per barrel in January 2007 to \$89.4 in December, and on to an average \$101.7 in 2008 (figure 18).⁸ In inflation-adjusted terms, the oil price in March 2008 was barely 6 percent below the record of \$105.7 per barrel (in 2007 US CPI inflation-adjusted prices) set in the fourth quarter of 1979 (figure 19).

Figure 18. Monthly Average Crude Oil Price (\$/bbl - Jan 1990 - March 2008)



Source: World Bank data and staff estimates.

Figure 19. Average Real Oil Price (1970 Q1 - 2008 Q1. Constant 2007 \$)



Source: World Bank data and staff estimates. Deflated by US CPI

⁸ This reference price is an average of Brent, Dubai, and West Texas Intermediate (WTI) crudes. Through March 25 for March 2008 data.

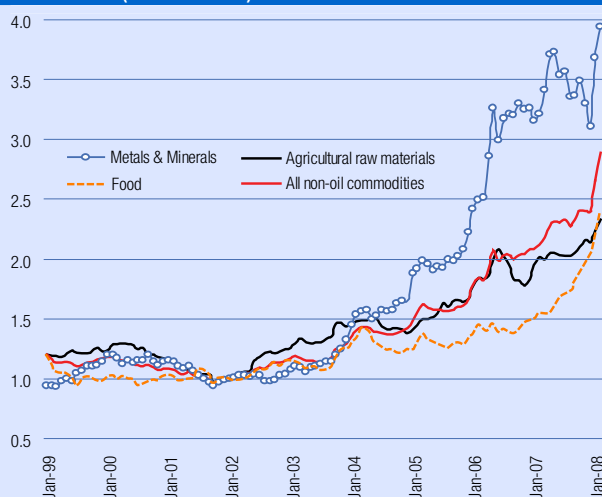
Factors supporting the latest surge in prices likely include increased investment demand as a hedge against the falling US dollar and inflation in the wake of the recent sharp relaxation in US monetary policy, itself provoked by the credit market crisis. While strong world demand had been a primary factor supporting much of the rise in oil prices since 2003, supply factors recently have become more important. OPEC reduced its production ceiling in late 2006 and in 2007, and OPEC oil ministers declined to increase production above the existing 29.67 mb/d production target at their meeting in early March 2008, citing concerns about the falling dollar and a weaker global economy. Non-OPEC supply prospects for the year also continue to be downgraded due to unexpected production outages, rising input costs and other problems in oil capacity development, and uncertainties about political conditions and the investment climate in a range of oil-producing developing economies. On the demand side, high prices have curbed consumption in OECD countries—which fell 1.1 percent in 2006 and a further 0.5 percent in 2007. However, demand in developing economies has continued to grow, increasing 4 percent in 2006 and 3.2 percent in 2007. These increases kept overall world demand rising by a little over 1 percent per year in 2006–07.

Oil prices are likely to remain high and volatile over 2008–09, although perhaps not at the levels of the recent spike. Oil prices are forecast to average in the \$80–90 a barrel range in 2008 and 2009, easing from the average \$95 per barrel average in the first quarter of 2008. The main factors supporting some easing from recent highs is lower expected demand due to the possible recession in the US economy and slowdown in overall OECD growth, as well as the projected moderation in China's growth toward its potential rate. Rising upstream investment in both OPEC and non-OPEC countries should also result in new capacity and gradually expanding supply potential. The implications for East Asia are taken up below.

Non oil commodities: continued increases in food and metals

Non-oil commodity prices increased 15 percent in dollar terms over 2007, a fifth year of solid dollar price gains. That was only a precursor to even more rapid 20 percent gains in just the first 2 months of 2008 (figure 20). Grains, edible oils, and metals prices have been especially buoyant in recent months, supported by strong investment and physical demand (the latter especially from developing countries) as well as by a variety of more specific factors on both the demand and supply sides of the markets. Low initial stocks; rising input costs (especially energy); competition for limited arable land; weather-related

Figure 20. Non-oil Commodity Prices U.S. Dollar Indexes (Jan.2002=1)



Source: World Bank data and staff estimates. Deflated by US CPI

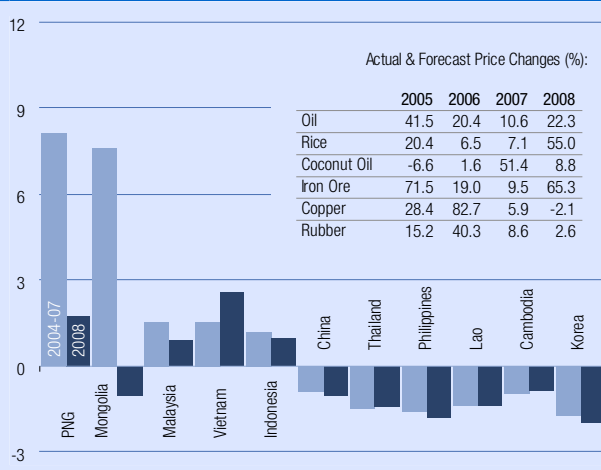
production shortfalls; and strong demand for food, animal feeds, and bio-fuels have produced a surge in prices for corn, wheat, rice, and soybeans. Grain and edible oil prices rose 21 percent and 15 percent, respectively, in just the first 2 months of 2008. Metals prices gained 27 percent in the same period, led by iron ore, copper, lead, aluminum, and precious metals. China's consumption of the 6 main metals traded on the London Metal Exchange (LME) grew by nearly one-third, or 5.8 million tons, in 2007, up from an average 16 percent growth rate in the previous 7 years. Growth in Chinese demand alone more than offset lower 2007 consumption in the OECD. A 21 percent increase in China's steel production—the largest in the world—helped set the scene for a 65 percent increase in iron ore prices in early 2008.

Macro implications of high commodity prices: complicated terms of trade impacts

Higher primary commodity prices have generated a complicated pattern of national income gains and losses around the region. Overall, Emerging East Asia is estimated to have experienced income losses due to worse terms of trade worth approximately 0.9 percent of regional GDP per year on average in 2004–07. Within the region, net energy and non-energy primary commodity exporters such as Indonesia, Malaysia, and Vietnam are estimated to have received windfall terms of trade gains of 1–2 percent of GDP per year in 2004–07, rising to 8 percent of GDP in an economy such as Papua New Guinea, which benefited from higher oil, copper, and gold prices (figure 21). Mongolia also received net terms of trade gains worth 7 percent–8 percent of GDP per year, with large gains in metal prices overriding its higher import bill for oil. However, significant net oil importers including Korea, Lao PDR, Philippines, and Thailand are estimated to have experienced terms of trade losses of 1.5 percent–2 percent of GDP in 2004–07, while China saw more moderate income losses of approximately 0.9 percent of GDP per year.

The pattern of terms of trade losses and gains in 2008 should be qualitatively similar to that of the last four years, but with higher food prices adding a new twist. Higher food prices are expected to have relatively small effects at the level of national income—as distinct from possible distributional effects—in economies such as Cambodia, Indonesia, and Lao PDR. Economies such as China, Philippines, and Papua New Guinea could see somewhat larger net losses of approximately 0.5 percent of GDP. On the other hand, rice exporters such as Thailand and Vietnam likely will see substantial income gains because of high rice prices. Combining the effect of higher food prices with those of additional increases in oil and metals prices, the region could experience an aggregate income loss of approximately 1 percent of GDP in 2008. Income losses of this size perhaps could have been overlooked when the region's economy was growing very rapidly in 2006–07. However, they could have a more negative effect if the global credit market crisis results in significantly lower growth in East Asia.

Figure 21. Income gains/losses due to commodity price changes (As % of GDP)



Rising headline inflation – it's not just commodity prices

Inflation in developing countries has increased sharply as commodity prices have soared. East Asia is no exception, notwithstanding the repression of fuel and energy prices through price controls in some of the major economies.

In a few countries—China, Cambodia, Mongolia, and Vietnam—inflation, particularly food inflation, is generally higher than in other emerging markets (table 4). Headline inflation in Mongolia and Vietnam exceeds 15 percent, and has reached nearly 9 percent in China and 11 percent in Cambodia. Food inflation in each of these countries was running at or above 20 percent as of February 2008. In addition to higher imported food prices, specific factors in each country have contributed to higher prices. Examples are the outbreak of disease among pigs in China, tariff adjustments in Mongolia, and bad weather in Vietnam. Nonetheless, where inflation is highest, the common feature has been rapid monetary growth driven in large part by intervention to slow the appreciation of the local currency against the US dollar. The 3 clearest cases of excessive monetary growth are Cambodia (60 percent M2 growth), Vietnam (47 percent), and Mongolia (over 40 percent).⁹ In each case, the local currency barely moved vis-à-vis the falling dollar in 2007, notwithstanding significant terms of trade gains in Mongolia and Vietnam (figure 22). Moreover, where monetary growth has been rapid and price controls are significant, bubbles have tended to develop in markets that are freer, such as in real estate and equities.

China's case is less clear cut. China has maintained its controlled appreciation against the dollar and increased the pace of appreciation since October 2007. It also has been more successful in sterilizing capital inflows. As a result, money and credit have grown at about the pace of nominal GDP. Nevertheless, reserves have accumulated at a torrid pace, and allowing faster appreciation and a slower reserve build up would have moderated price increases from imports, dampening overall inflation. In the mean time sterilized intervention in the future will become more costly and less effective as US interest rates fall and Chinese rates rise.

⁹ The Mongolia figure is August 2007. Domestic credit growth at end-2007 is estimated at over 90 percent. Latest available figures for other countries.

Table 4. East Asia: Consumer price inflation

	2006 Year	2007 Year	2007 Q3	2007 Q4	Latest Month	
"Headline" consumer price inflation						
China	1.5	4.8	6.2	6.7	8.7	Feb
Indonesia	13.1	6.4	6.5	6.7	7.4	Feb
Korea	2.2	2.5	2.3	3.4	3.6	Feb
Malaysia	3.6	2.0	1.8	2.2	2.7	Feb
Philippines	6.2	2.8	2.5	3.3	5.4	Feb
Thailand	4.6	2.2	1.6	2.9	5.4	Feb
Vietnam	7.4	8.3	8.6	10.7	15.7	Feb
"Food" consumer price inflation						
China	2.3	12.3	11.7	15.0	23.3	Feb
Indonesia	14.7	11.4	11.7	11.9	12.2	Feb
Korea	0.5	2.5	3.1	2.2	1.6	Feb
Malaysia	3.4	3.0	2.7	3.7	4.5	Feb
Philippines	5.5	3.3	2.9	4.1	6.8	Feb
Thailand	4.6	4.1	4.3	2.7	7.9	Feb
Vietnam	8.7	11.2	12.1	15.9	25.2	Feb
"Core" inflation						
China	0.8	0.9	0.8	1.0	1.1	Feb
Indonesia	8.8	5.9	5.8	6.2	7.3	Feb
Korea	1.8	2.3	2.3	2.4	2.8	Feb
Philippines	5.6	0.0	2.8	2.4	4.0	Feb
Thailand	2.3	1.0	0.7	1.1	1.5	Feb

Source: World Bank data and staff estimates.

The Philippines provides a useful contrast. The peso appreciated by approximately 17 percent against the dollar even as reserves accumulated; growth accelerated to its highest pace in 30 years; monetary growth was contained; and inflation was held to below 5 percent in 2007. These results occurred despite the fact that the Philippines is a large food importer and the largest importer of rice in the world.

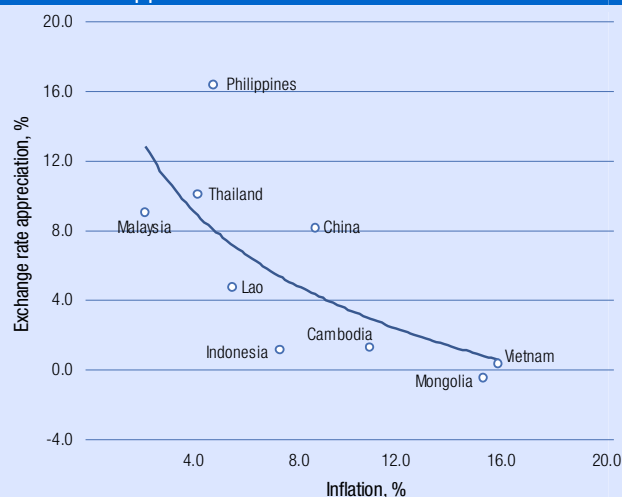
Rising food price inflation and distributional implications

The sharp rise in international food prices is likely to have a significant impact on the living standards of the poor throughout the developing world, posing one of the more urgent and difficult problems facing governments today. Food comprises a larger share of the consumption basket of the population in most developing East Asian economies than it does in developed countries. In the U.S. the share of food in the consumption basket of the average household is 15 percent, while in East Asia it ranges between 31 and 50 percent (31 percent in Malaysia, 34 percent in China, 36 percent in Thailand, 40 percent in Indonesia, 43 percent in Vietnam, and 50 percent in the Philippines). In Cambodia the share of food in total consumption is 59 percent in rural areas and 40 percent in urban. Internationally traded food products are also a large proportion of the food consumption of the poor – 56 percent in Cambodia for example, and 64 percent in Vietnam.

The impact of food price increases on the poor also depends on whether they are net food consumers whose real income will be reduced by higher food prices, or net producers of food, who will tend to benefit. The urban poor and landless rural workers are generally net food consumers as, typically, are a significant fraction of poor small landholders. In Cambodia these three types of poor households comprise 46 percent of the poor, with another 18 percent being small land holders who are self-sufficient but not net sellers of food. In Vietnam the proportion of net consumers among the poor is 47 percent, with another 19 percent being net self-sufficient. In Indonesia 76 percent of the poor are net rice buyers, including some 72 percent of the rural poor. Here it is estimated that every 10 percent increase in rice prices reduces the real value of the expenditure of poorest tenth of the population by 2 percent.

Other things being equal, the surge in food prices is therefore likely to increase poverty in the low and lower middle income countries of the region, although against that must be set the poverty reducing impact of continued robust economic growth. We estimate that every 1 percent increase in per capita consumption reduces the poverty rate for East Asia as a whole by around 1 percent (at the \$1 a day level). In the slightly longer term there will also be a supply response as net food consumers move towards becoming net food producers in response to higher prices. What the net effect of these complex interactions on poverty rates in the region in 2008 will be is not yet clear. But it seems probable that, depending on how much food prices increase during the year, the pace of poverty reduction in the region will not

Figure 22. East Asia: Inflation and exchange rate appreciation



Source: World Bank data and staff estimates.

be as rapid as in the recent past and may even reverse. (Poverty rates at the \$1 a day level fell by 11-12 percent a year in 2002-2007, while those at the \$2 day level fell by 8-9 percent a year. See Appendix Table 5).

Rising food prices are quickly taking on a high profile around the region, eliciting a range of policy responses. Broadly speaking these have been designed to protect the poor through new or existing safety net programs or to moderate the rise in food prices by one means or another. The instruments applied are generally fiscal measures such as taxes and subsidies or administrative measures. Table 5 provides details of some responses for selected East Asian countries (China, Indonesia and Mongolia). In other countries, such as Vietnam, government strategy is to design and adopt safety net programs that are universal but where participation by the poor is fully subsidized and participation by the near poor is partially subsidized.

Table 5. East Asia: Policy Response to Recent Food Price Increases

Country (food share in CPI)	Fiscal	Administrative
China (34%)	1. School feeding program. 2. Cash transfer program for poor households. 3. Subsidies for grain and pig production.. 4. Export taxes on food grains.	1. Export ban on number of staple foods. 2. Export quotas for food grains. 3. Price controls on instant noodles and university cafeteria prices. 4. Large producers/wholesalers to seek consent of authorities prior to raising prices of basic necessities, including grain, edible oil, meat products, eggs and milk. 5. Increased supply of food grains using reserve stockpile. 6. Bilateral agreements on food grain imports to ease supply constraint.
Indonesia (40%)	1. Monthly quota of subsidized rice for poor households increased. 2. Program to provide subsidized cooking oil to poor households. 3. Price subsidy for small scale producers of processed soybean. 4. Import tariff on flour and soybeans removed 5. Export tax on palm oil increased. 6. Cooking oil exempted from VAT.	1. Increased supply of rice from government stocks. 2. Relaxed flour fortification standards.
Mongolia (42%)	1. Subsidy to wheat/grain farmers who sell to domestic flour mills. 2. Wheat flour imports exempted from VAT and import duty eliminated.	1. Voluntary price controls on flour during Lunar New Year. 2. Bilateral agreement with Russia to import 40,000 tons of wheat.

In general, administrative measures such as price controls may be helpful for managing expectations and could stabilize conditions for short periods but they suffer from serious drawbacks in the way they affect incentives in the medium to longer term. On the supply side price controls typically discourage supply and lead to a reduction of both quantity and quality. On the demand side, capping prices in the face of changing market conditions prevents both the reduction in demand and the substitution to other similar products that would normally allow markets to re-equilibrate. Administrative measures such as price controls are also difficult to enforce and encourage illegal activity such as black markets. Similarly, export bans create supply disincentives and encourage black markets.

Perhaps more useful may be targeted transfers to poor households such as feeding programs (particularly for vulnerable groups such as children and women), food for work programs and cash transfer programs, although these need to be evaluated also from the perspective of the government's fiscal position. In some limited settings, when other options are not available, subsidies on inferior food products consumed chiefly by the poor may also be considered, although broad or universal subsidies need to be avoided as they can quickly become fiscally ruinous. In some cases governments may also be in the position where removing policy distortions will help reduce the cost of food for the poor while also improving economic efficiency, for example by reducing or removing import restrictions on food imports. In the Philippines, for example, rice imports are subject to a 50 percent import tariff, as well as quantitative import controls. The efficiency cost of the Philippines' rice self-sufficiency policy is estimated to have cost an average 1.6 percent of GDP in 2000-2005.

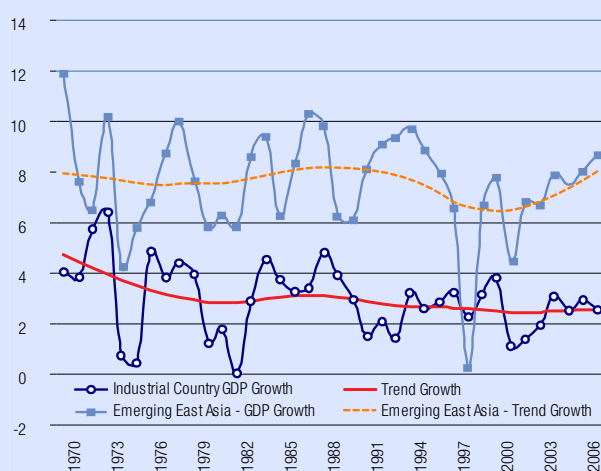
East Asian Outlook

East Asian economies will face testing times in 2008. Most analysts now expect the US economy to see either near zero or negative growth in the first half of the year, followed by a mild recovery in the second half of the year, accompanied by slower growth in Japan and Europe. In the scenario supporting this forecast US growth is expected to lie in a range of 0.5–1.4 percent in 2008, (down from 2.2 percent in 2007), followed by a mild recovery in the 1-2 percent range in 2009. Overall OECD growth in this scenario would fall from 2.5 percent in 2007 to perhaps 1.1-1.6 percent in 2008. World trade volume growth is assumed to dip to around 4-5 percent in 2008, down from 7.5 percent in 2007. Substantially higher world oil and food prices will further erode incomes in the bulk of the East Asian region, the latter particularly hurting the poor.

Developing East Asian economic growth in this global slowdown scenario is expected to fall to 8.6 percent in 2008, the lowest since 2002, down from 10.2 percent in 2007. (Table 1 earlier). China's growth is expected to finally dip below 10 percent, after five years at 10 percent plus rates, mainly due to lower export growth, although the decline likely will be welcomed by the government, which is seeking to avert economic overheating and to moderate inflationary pressures. Elsewhere growth is expected to ease more modestly to the 5-6 percent range for middle income economies like Indonesia, Malaysia and Philippines. In Thailand, for example, improved consumer and investor confidence, clearer policy direction and expanded public development spending after the December 2007 elections are expected to result in growth increasing modestly to 5 percent in 2008.

The overall picture of a cyclical slowing combined with a relatively high underlying trend rate of growth is fairly typical for East Asia. The trend rate of growth in Emerging East Asia has been 4-5 ½ percentage points higher than in the industrial countries over the last four decades (figure 23). High trend growth has been driven by fundamental factors such as robust productivity gains, ability to absorb knowledge from abroad, high savings, and growing education and skills. These fundamentals are unlikely to be displaced by the present financial turmoil and cyclical slowdown. At the same time, as figure 24 shows, East Asian business cycles around its high long run trend growth are often, through not always, correlated with cycles in industrial country growth. The present, then, is expected to be one of the times when the business cycle in East Asia reflects a downswing in the industrial country business cycle, although it will be a cycle around its high long run trend.

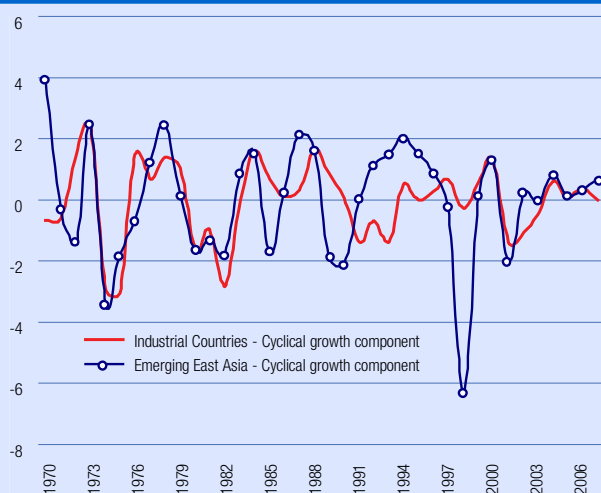
Figure 23. Growth Trends 1970 - 2007



Source: World Bank data and staff estimates.

Looking at the outlook in a little more detail, somewhat lower export growth will be one of the main factors leading output growth lower. As the experience of late 2007 and early 2008 suggests, however, growth in exports to other developing regions, intra-regional exports and exports to Europe and Japan may provide some offset to falling exports to the US. The near term outlook for the region will depend to a large extent on the robustness of domestic demand in the face of slowing exports.

Figure 24. Growth Cycles 1970 - 2007



Source: World Bank data and staff estimates.

Many economies in the region ended 2007 growing more rapidly in the second half of the year than in the first, despite a sharp slowdown in US import growth mainly because exports to other markets and domestic demand remained strong. Private consumer spending accelerated in most economies, while business investment spending was particularly strong in economies like China, Indonesia and Vietnam. Looking forward, business investment spending will also likely slow in response to the export slowdown, but may prove more resilient than in the previous 2001 recession, due to higher

levels of capacity utilization and stronger corporate balance sheets and profitability. Domestic banks appear to have suffered relatively minor exposure to sub-prime mortgage related assets and domestic credit flows have remained generally healthy despite volatility in equity markets and a rise in offshore bond financing costs. Current account surpluses and large foreign reserves should provide a buffer that will enable economies to accommodate volatility in international capital flows without forcing the kinds of sudden large adjustments in domestic demand that became inevitable during the 1997-98 financial crises.

Fiscal positions generally also have become stronger over recent years, creating the scope for more stimulative fiscal policies should an unexpected fall-off in private sector domestic make them desirable. Fiscal balances are generally restrained (in low deficits or surplus), while public sector debt to GDP ratios have fallen substantially over the course of this decade in most of the larger economies. (Table 6). The scope for fiscal measures will nevertheless need to be evaluated in line with the individual circumstances of each economy. In Thailand the government has run fiscal surpluses for several years and is in a strong position to undertake a proposed expansion of public

infrastructure spending. In Indonesia careful fiscal management has contributed to a halving in the government debt to GDP ratio from over 70 percent in 2001 to 35 percent in 2007. Recently however rising world oil prices have caused a surge in fuel subsidies. Even with planned offsetting cuts in other spending, the fiscal deficit is expected to increase to a little over 2 percent of GDP in 2008 (providing a net stimulus to aggregate demand). In the Philippines the government recorded a 0.1 percent of GDP deficit, more than meeting its budget target for the year. The improved fiscal situation is allowing the government to expand much needed public infrastructure spending. Much of the improvement in 2007 came from one-time privatization revenues, however, so that there is still a need to put the fiscal improvement on a more sustainable basis, in particular by strengthening the tax effort.

The role of monetary policy is likely to be especially challenging. Headline inflation rates are rising in most economies in the region, mostly as a result of sharp increases in food prices, reflecting recent major gains in international food prices, as well as, in some cases, domestic supply problems. Core inflation rates are generally much lower than headline rates, but are also beginning to move gradually higher in some economies. Inflation has risen sharply in countries like Cambodia, Mongolia and Vietnam, which are experiencing rapid domestic credit growth, due in large part to substantial balance of payments inflows under an exchange rate pegged to the US dollar. In principle, the rise in headline inflation caused by higher international commodity prices should be temporary, reflecting a change in relative prices that, by itself, does not call for action by the central bank. However, monetary policy will need to remain vigilant to ensure that the rise in fuel, food, and other commodity prices does not set off an inflationary spiral leading to rising core inflation rates, especially in economies already showing signs of domestic over-heating and excessively rapid credit growth. Continued movements toward greater exchange rate flexibility will provide countries greater flexibility in using monetary policies to meet inflation challenges.

Finally, as the more detailed discussion Section 2.4 suggests, governments also face difficult challenges in addressing the adverse distributional impact of rising food prices on the poor in ways that are fiscally sustainable and minimize the efficiency costs to the economy. Well targeted cash transfer schemes may provide a useful alternative here.

Table 6. East Asia – Fiscal Indicators

	2005	2006	2007	2008 (f)
Fiscal balance (As % of GDP)				
China	-1.3	-1.0	-0.6	-0.9
Indonesia	-0.5	-0.9	-1.1	-2.2
Malaysia	-3.6	-3.3	-3.2	-3.2
Philippines	-2.7	-1.0	-0.1	0.0
Thailand	-0.6	1.1	1.7	2.0
Vietnam		-0.3	-1.0	-2.0
Government Debt (as % GDP)				
China	17.9	16.9	14.5	13.5
Indonesia	44.9	39.6	34.9	31.9
Malaysia	44.0	42.3	42.3	42.2
Philippines	71.5	63.8	56.5	52.0
Thailand	47.6	40.4	37.5	38.5
Vietnam		43.1	43.2	44.0

Source: World Bank data and staff estimates.

Country Sections

LARGER ECONOMIES

CHINA

China's economic growth was strong in 2007, with some slowdown in the second half. GDP grew 11.4 percent in 2007, making it the fifth year in a row with double-digit growth. On a quarterly basis, GDP growth slowed from 11.9 percent in the second quarter year-on-year (yoy) to 11.2 percent in the fourth quarter.

The slowdown was due to a lower contribution of external trade to growth, offset partly by a higher contribution of domestic demand. In the second half of 2007, in particular, import growth picked up because of brisk domestic demand while export growth declined as demand from other countries, especially the United States, eased. Imports outpaced exports in the last 3 months of 2007 and the first 2 months of 2008. As a result, the contribution of net trade to growth fell, particularly in the fourth quarter. Most of the impact on overall GDP growth was offset by a rebound in domestic demand, which became more pronounced toward the end of 2007.

Inflation rose throughout 2007 and into 2008 due to higher food prices. Pork prices increased because of shortfalls in supply, in part due to the outbreak of disease. Another factor was the increase in the price of food products in international markets. Food price inflation has been 17 percent–18 percent (yoy) since August 2007, increasing to 23 percent in February. This factor has raised headline inflation from 2.2 percent in January 2007 to 8.7 percent in February 2008.¹⁰ With households spending on average more than one-third of their incomes on food, the food price hikes have affected purchasing power, particularly of the urban poor and some rural groups, although higher food prices benefit net food producers in rural areas. In addition,

¹⁰ Sharp increases in global prices of industrial commodities (mainly metals) in recent years have driven up China's raw material prices and, to a lesser extent, producer prices. However, their impact on consumer prices was modest. International oil prices also soared, but this hike was only partly reflected in China's prices because of domestic price controls on fuels.

international prices of energy, industrial materials, and agricultural products continue to rise and will gradually exert their influence on domestic prices.

So far, few signs are evident of excess demand, but there is little spare capacity in the economy. Non-food inflation has remained low despite high economic growth because potential output growth has broadly kept up with actual output growth. Potential output growth has been supported by high investment and rapid productivity growth, although there is evidence that the economy is near full capacity. There are some signs that real wage growth is already on the rise, especially in manufacturing. Policy-makers have been keen to prevent any acceleration in inflation arising from excess demand pressures, including by raising interest rates and introducing specific price freezes. The objectives of the latter are to temporarily dampen price rises, keep basic goods affordable, and manage expectations. Ultimately, these price freezes will need to be replaced by targeted subsidies, which are affordable given China's strong fiscal position.

These price and cost developments take place against a backdrop of large balance of payment surpluses that boost liquidity. Such liquidity could lead to demand-led inflation. China's external surpluses stem from very large current account surpluses and capital inflows under its relatively fixed exchange rate regime. Since July 2005, the RMB has appreciated at 6.6 percent a year against the US dollar. In contrast, the trade-weighted nominal effective exchange rate strengthened on average by only 2.1 percent per year. In 2007, with a current account surplus estimated at US\$359 billion, incoming FDI of US\$83 billion (partly offset by rising FDI outflows), and large net portfolio inflows, official foreign reserves surged to US\$1.5 trillion.¹¹ The PBC is issuing central bank bills and hiking reserve rates to sterilize the impact on liquidity. In addition, window guidance has been relatively successful in reducing credit expansion. M2 growth of 16.7 percent (yoy) at the end of 2007 was lower than nominal GDP growth of 20 percent in the fourth quarter, although it rebounded to 18.9 percent (yoy) in January.

So far, the increased liquidity seems to have affected share and house prices but not prices of goods. The massive increase in share prices in 2006 and 2007 has been influenced by low deposit rates. A key reason that deposit rates are low is that the authorities are reluctant to raise domestic interest rates for fear of attracting portfolio capital inflows. Although the rise in real estate prices is low by international standards, the liquidity is contributing to housing market increases.

While the uncertain global outlook may slow China's exports, the country's growth is expected to remain robust, and the authorities are well positioned to stimulate demand if needed. Growth is projected at around 9.5 percent for 2008, a significant 2 percentage points slower than in 2007 but still rapid by international standards. This still solid growth forecast reflects not only the ability of Chinese exporters to seek alternative export markets but also the growing role of domestic demand. If the global slowdown becomes more pronounced, the authorities could stimulate demand by easing fiscal policy, although current inflation concerns make lowering interest rates or relaxing liquidity management less obvious.

¹¹ This excludes foreign exchange reserves "offloaded" to other institutions and commercial banks.

INDONESIA

Despite a slowing global economy, in 2007 Indonesia's economic growth accelerated to a 10-year high of 6.3 percent. This growth rate reduced poverty from 17.8 percent to 16.6 percent based on the government's poverty line. This growth rate also reversed the recent trend toward jobless growth by causing unemployment to fall from 10.3 percent to 9.1 percent. The drivers of growth shifted over the course of the year. During the first half, the economy drew strength from external demand; in the second half, the driving force was investment and consumer demand. High commodity prices continued to play an important role, with coal and palm oil exports growing rapidly. Inflation ended the year at the upper end of the government's inflation target—6.6 percent—but since has risen further to 7.4 percent due to rising food prices. The government budget deficit was 1.3 percent of GDP. Meanwhile, the debt-to-GDP ratio continued to decline rapidly, falling to below 35 percent by the end of 2007, down from 80 percent in 2000. The nominal exchange rate weakened in 2007, but the rupiah remained within the Rp 9,000–Rp 9,500 range and strengthened again in early 2008.

Global financial turmoil is beginning to have an effect. The commodity-heavy Indonesian stock market enjoyed one of the world's best performances in 2007, during which it grew by 52 percent. It continued to perform well until March 2008, when—along with global financial markets—it saw a significant correction. Similarly, despite an upgrade in Fitch's sovereign long-term foreign debt rating for Indonesia to BB (speculative grade) in February 2008, the financial turmoil raised international risk premiums (up from a low of 130 bps mid-year 2007 to over 300 in 2008), and increased domestic interest rates for government borrowing (from well under 9 percent mid-year to well over 10 percent in 2008 for a 10-year bond).

High commodity prices make the state of the economy in early 2008 difficult to read. On the one hand, high prices in energy, mining, and agriculture are positive for the Indonesian economy as a whole. For example, net oil and gas exports were estimated to be US\$6.6 billion in 2007, while exports of coal, copper, and CPO were US\$6.7, US\$7.3, and US\$7.4 billion, respectively. All are growing at double-digit rates. These commodities contributed to a current account surplus of 2.6 percent in 2007. On the other hand, high commodity prices also have downsides. Most immediately, high agricultural commodity prices are feeding through into domestic food prices with food inflation year-on-year in February 2008 running at 10.4 percent, far higher than overall inflation at 7.4 percent. These higher food prices affect the poor. Fortunately, the domestic rice price, the largest single item in the consumption basket of the poor, was virtually constant over the past year.

Another important area of growing concern is the central government budget. Fixed domestic prices for gasoline, transportation diesel, and kerosene account for over two-thirds of fuel sales. However, their subsidies have grown rapidly and, based on the government's estimate of US\$95 a barrel, will reach Rp 130 trillion (US\$14.3 billion) in 2008. At this level, total energy subsidies (to electricity as well as fuel) will equal total central government capital and social spending. Driven by the increase in subsidies, measures have been proposed to cut spending in line ministries, reduce subsidies to electricity, and ration kerosene to ensure that it goes only to the poor. With these measures, the government expects the budget deficit to rise from 1.7 percent to just over 2 percent of GDP.

Investment picked up substantially in 2007, reaching 24.8 percent of GDP. In addition, there was progress on reforms, and business perceptions showed improvement. In fact, in its upgrade, Fitch attributed this pick-up in investment to the government's efforts to improve

the investment climate. Hopefully, the upturn also reflects the beginning of a turnaround in perceptions of Japanese global investors, who returned Indonesia to the 8th most desirable investment location from 9th in 2006, still down substantially from 4th in 2002.

On the downside, discussions among the government, employers, and workers on labor regulations on severance provisions have not been concluded, and formal sector employment growth continues to lag. Indonesia's inability to maximize its tremendous potential in mining is another area of weakness (especially given current prices). No Contract of Work (CoW) for a major mining company has been signed in the past 10 years, and an amended mining law continues to languish in parliament.

Looking ahead, the slowdown in the world economy and increasing risks make projecting outcomes for 2008 and 2009 more difficult than usual. Indonesia is expected to weather the global slowdown reasonably well, with growth slowing to 6.0 percent in 2008 before returning to 6.4 percent in 2009. These projections see export growth slowing from 8 percent in 2007 to 7.0 percent in 2008. Domestic demand, especially investment and consumption, should also remain robust as the economy's momentum carries into 2008. With higher international fuel prices and subsidies, the budget deficit is projected to widen to over 2 percent of GDP with the debt-to-GDP ratio falling further to 31 percent by the end of 2008.

MALAYSIA

Real GDP in Malaysia grew by 6.3 percent in 2007, up from 5.9 percent in 2006. Growth was driven mainly by domestic demand, which offset slower goods and services exports growth. Private consumption jumped 11.7 percent driven by pay increases for government officials, stable interest rates, and favorable commodity prices. Public consumption also grew to 6.4 percent from 5.0 percent a year earlier. Gross investment finally started to recover after the 1997 crisis, reaching 10.2 percent in 2007—more than triple the annual average over the last 5 years. FDI rose by 54 percent, amounting to US\$9.4 billion in 2007. On the supply side, the growth was broad-based. The services sector continued to perform well (9.7 percent growth), and mining sector and construction rebounded after a few years of negative growth. Reflecting slowing exports, the manufacturing sector expanded only 3.1 percent, the slowest pace since 2001. Agricultural sector growth also slowed to 2.2 percent, mainly from sluggish rubber production.

The current account surplus remained high at 15 percent of GDP in 2007. Gross export growth slowed in 2007 to 2.7 percent, compared to an average of 12.1 percent during 2002–06. Electronic and electrical exports (E&E), which account for about 60 percent of total manufactured exports, decreased by 4.2 percent. Slowing E&E exports were partially offset by agricultural and commodity products that expanded 14.5 percent due mainly to higher commodity prices. Exports to the US dropped 14.5 percent in 2007. Exports to Singapore, which re-exports many Malaysian products to the US, also fell by 2.5 percent. Exports grew to China (24.3 percent), Japan (5.8 percent), and the EU (3.8 percent). The balance of payments position remains favorable with reserves rising by end-February 2008 to US\$116.1 billion—equivalent to 9.6 months of retained imports and 6.8 times the short-term external debt. Total external debt as a percentage of GDP continues to fall and was 31.3 percent for 2007.

[Inflation began to show signs of rising in late 2007.](#) Annual inflation for the year remained moderate at 2.7 percent, down from 3.6 percent in 2006. However, the monthly CPI for food and nonalcoholic beverages increased from 2.3 percent in June 2007 to 4.2 percent in February 2008 driven by high commodity prices. Furthermore, although fuel price subsidies were reduced in 2005 and 2006, subsidies were maintained in 2007, suggesting that further adjustment will be needed. The Malaysian Ringgit continued to appreciate against the US dollar. As of 26 March 2008, the Ringgit stood at RM 3.18 per US dollar, appreciating from RM 3.53 and 3.31 at the ends of June and December 2007, respectively. Compared to other East Asian currencies, Malaysia's real effective exchange rate has appreciated only modestly. Meanwhile, the key policy interest rate has been maintained at 3.5 percent since its last change in April 2006.

[The fiscal deficit amounted to 3.2 percent in 2007, slightly below the 2006 level.](#) Fiscal policy has been expansionary, with increases in spending for emoluments, agriculture and rural development, trade and industry, transport, education, and housing. Government is aware of the need for fiscal consolidation although the budget for 2008 leads to further fiscal expansion. Similar to the level at end-2006, federal government domestic debt in 2007 reached 42.3 percent, which is high relative to other East Asian countries.

[The banking sector remains sound. Non-performing loans \(NPLs\) as a percentage of total loans decreased from 4.1 percent in June 2007 to 3.1 percent in January 2008.](#) The risk-weighted capital ratio stood at 13.2 percent in January 2008, a slight decline from June 2007. There are no reports of Malaysian commercial banks affected by the US sub-prime mortgage crisis, possibly because the rules that limit foreign investments were relaxed only recently. As for the stock market, the Kuala Lumpur Composite Index (KLCI) performed reasonably well in 2007, up from 1,096 at end-2006 to 1,445 at end-2007. However in 2008, it has retreated, especially after the announcement of general elections outcomes in which the government won many fewer parliamentary seats and states than expected. The index dropped 9.5 percent on March 10, 2008 alone.

[Real GDP growth is projected to slow to 5.5 percent in 2008 before picking up to 5.9 percent in 2009.](#) A sharp recovery in export performance is unlikely, given possible economic downturns in other large economies. Private consumption, which was Malaysia's growth engine last year, should continue to propel the economy, supported by recent government measures that seek to boost consumer spending. Although reduced subsidies had been widely expected before the elections, the government recently announced that prices of fuel, gas, and electricity will remain unchanged in the near-term future (that is, their price subsidies will not be cut). The fiscal deficit is projected to increase from 3.2 percent in 2007 to 3.5 percent in 2008. Downside risk factors to the growth projections include a deeper global economic slowdown, mounting inflationary pressure, and higher political uncertainty after the elections. Rising political uncertainty also might restrain private fixed investment, both domestic and foreign, which is needed to propel several mega projects in the economic corridors under the Ninth Malaysia Plan.

PHILIPPINES

Despite domestic political tensions and increased market volatility, the Philippine economy performed unusually well in 2007—ending the year with its highest growth in three decades, benign inflation, a strong balance of payment position and an improving public sector fiscal situation. Notwithstanding this performance, the economy continued to show persistent structural weaknesses—a low tax effort, high unemployment and underemployment, and rising poverty. These weaknesses, together with mounting global uncertainties and domestic political instability, raise concerns whether the economy's high growth can be sustained over the medium-term.

GDP expanded by 7.3 percent in 2007 largely on account of strong domestic demand. Private consumption was again the main driver, supported in part by rising remittances (the appreciation of the peso notwithstanding). Stimulated by higher public investment, private investment picked up too but the growth came mostly from construction; durable equipment growth remained lackluster. Export growth declined sharply over the four quarters of 2007 reflecting slower demand from key trading partners (except China). The peso's sharp appreciation was also a factor although high infrastructure cost remains a key bottleneck to improving competitiveness. Negative real import growth was a surprise given the strength of domestic demand and the appreciation of the peso. On the production side, the services sector was the star performer, growing by an impressive 8.7 percent. The banking sector recorded double-digit growth despite the sub-prime induced volatility in the second half. Agriculture remained robust but manufacturing growth slowed further for the fourth straight year.

The economy's strong performance in the last four years has not translated into poverty reduction. Between 2003 and 2006, poverty incidence increased from 30.0 percent to 32.9 percent despite average GDP growth of 5.4 percent. The Gini coefficient remains high at 0.45. Both urban and rural poverty increased on average and only 4 of 17 regions recorded an improvement in the poverty headcount. Falling real incomes of families and compression of public spending contributed to the rise in poverty.

Inflation was benign in 2007, averaging 2.8 percent. Higher food and oil prices were muted by the strong peso which appreciated by nearly 20 percent in the last two years—the most among the currencies in the region. In early 2008, inflation breached the central bank's 4-5 percent target as international food and oil prices surged. Alarming, rice prices grew by 7.7 percent in February. The government has begun to secure its rice requirements by asking Vietnam to guarantee the country 1.5 million tons of rice and by tapping the emergency regional rice reserve.

Tight monetary policy slowed money growth last year. In the last six months, the central bank reduced the overnight borrowing rate by 1 percentage point compared to 2.75 percentage points in the US. M3 growth fell from 22.3 percent in end-2006 to 10.4 percent in end-2007.

The domestic financial system exhibited resilience in the face of international market turbulence. With the exception of a handful of banks, the banking system as a whole was mildly affected given their small holdings of sub-prime-linked securities (0.2% of total assets according to the BSP). There was more, albeit still quite small, collateral damage resulting from falling sovereign bond prices.

High remittance inflow (\$14.4 billion) in 2007 far outweighed the slowdown in exports, turning a large trade deficit into a healthy current account surplus of 4.4 percent of GDP. At the same time, net capital inflow was positive, aided by stronger portfolio investment (\$3.1 billion) and other investment (\$1.6 billion) inflows. As a result, reserves climbed by 50 percent, and reached \$36 billion by February 2008 (6.1 months of imports). The strong reserve position enabled the country to pre-pay close to \$3 billion in foreign debts last year of which \$1.1 billion came from the public sector. Total external debt in 2007 is estimated to fall to about 40 percent of GDP.

The consolidated public sector deficit improved to a surplus through September 2007. Proceeds from privatization of 1.4 percent of GDP helped compensate for lower tax revenues. Administrative inefficiencies such as the under-registration of taxpayers, the lack of risk-based audits, and weak anti-smuggling enforcement, and built-in policy weaknesses such as the non-indexation of excise tax rates, have continued to undermine revenue collection. Decade-low interest rates and spreads provided the government more flexibility in increasing capital and social spending. The primary surplus (almost 4 percent of GDP) helped trim government debt (55.8 percent of GDP in end-2007 from 63.8 percent in end-2006).

THAILAND

Real GDP in Thailand is projected to grow at 5.0 percent in 2008, up from 4.8 percent growth in 2007 – making it the only larger economy in East Asia where growth is expected to accelerate this year. The key reason is the economic bounce expected from a return to democracy and the election of a new government late in 2007. Last year's better-than-expected growth was due to buoyant export performance throughout the year even as domestic consumption and investment declined amidst the uncertain political environment and sudden shifts in policy. But this year, the opposite is likely. The new government announced a set of economic policies and measures – including higher levels of public investment – which are expected to boost domestic demand by reviving confidence and stimulating private investment and consumption. The balance of trade, on the other hand, is likely to contribute less to real GDP growth than last year, in part because rising aggregate demand will boost import growth while exports will be constrained by an appreciating Thai baht and the slowdown in major export markets. Inflation, although rising, is projected to remain within the target range set by the Bank of Thailand, so interest rates are expected to remain low and supportive of private investment. Most of the risks to this forecast are on the downside, but these should be muted (barring some unforeseen event) as the government has the fiscal and macroeconomic space to respond to negative external shocks.

Private investment should recover after its slump last year. Private investment growth in 2007 was a mere 0.5 percent (in real terms), the lowest since 2000. Foreign direct investment fell to US\$21 billion, well below its post-crisis peak of US\$32 billion. Capacity utilization reached 75 percent in 2007, the highest since the crisis, and in many industries, it exceeded 80 percent. Several policy changes took their toll on investor confidence, including the introduction of unremunerated reserve requirements on capital inflows and the proposed amendments to the Foreign Business Act that would increase restrictions on foreign investments. The new government announced measures to boost public and private investment. Growth in public investment is expected to more than double this year, as implementation is expected to resume on public mega-infrastructure investment projects such as the mass transit lines in

Bangkok and the dual track rail system. To boost private investment, the new government removed the 30 percent unremunerated reserve requirement for capital inflows and has introduced tax cuts for firms listed in the stock exchange and on property transactions. Several large firms announced plans to increase investment in plant and equipment that had been put on hold last year. Real private investment growth is expected to increase to 10 percent this year.

The external current account may weaken slightly in 2008, as the global downturn slows exports and robust domestic demand stimulates imports. Growth in exports of goods and services is expected to slow from around 18 percent to 13 percent (in US dollars) due to sluggish demand in Thailand's key export markets, although intra-regional trade will mitigate some of the slowdown. The appreciation of the baht could also play a role.¹² Growth in exports of services, especially tourism, is also expected to slow as high fuel prices and sluggish income growth in industrial countries dampens international travel globally. Imports on the other hand are expected to rise as higher investment and consumption increases demand for imported consumer, intermediate, and capital goods.

Inflation is on the rise, driven by fuel and food prices. Headline inflation was only 2.6 percent in 2007 compared to 4.7 percent in 2006. But inflation began to rise in the fourth quarter of 2007, reaching 4.3 and 5.6 percent in January and February 2008 respectively despite an appreciating Thai baht and price controls on more than 200 products. Higher prices for meat, vegetables, fruit and fuel were the key contributors.

The rise in agricultural prices has meant higher incomes for the rural population and has somewhat helped the rural poor. Around forty percent of the population and of the poor are engaged in agriculture. The rise in agricultural prices since 2004 has raised farm incomes by more than 15 percent annually. Farm incomes are estimated to have climbed by another 22 percent in January this year. From 2004 to 2006, Thailand's poverty headcount fell by almost 2 percentage points (over 1 million people) with most of the reduction occurring in rural areas. This trend is expected to have continued in 2007 and early 2008. But there is evidence that the urban poor, as well as the rural poor engaged in fishing and other non-farm activities have been adversely affected.

Should conditions for the poor worsen – perhaps because of a deteriorating international economic environment, a disappointing private investment response, or further increases in the relative price of food and energy – Thailand has adequate fiscal and macroeconomic space to stimulate the economy. Foreign reserves have climbed to over \$90 billion, some four times short term external debt, and public debt currently stands at a relatively comfortable 37.5 percent of GDP. The Government has signaled its intention to use some of this space by announcing two stimulus packages – one lowering taxes and the other increasing pro-poor expenditures – totaling 0.6 percent of GDP. This would raise the projected 2008 budget deficit

¹² Thailand's key exports (such as integrated circuits and computers) have high import content, and so the exchange rate appreciation is likely to be of limited consequence. Those exports with low or no import content for which the appreciation would matter more (such as canned fruits and furniture) represent only a small share in total exports.

from 1.8 percent of GDP to around 2 percent.¹³ Finally, while there is some room for monetary easing, the recent rise in inflation warrants some caution going forward.

VIETNAM

Vietnam's growth reached 8.5 percent in 2007, making it the third consecutive year above the 8-percent benchmark. Fears that the WTO accession (early in 2007) would adversely affect agriculture and retail trade failed to materialize. The business climate continued to improve, with the investment rate reaching 40.4 percent of GDP. Growth was increasingly driven by the private sector, with 59 thousand new enterprises registering during the year, 26 percent over the year before. Foreign direct investment (FDI) commitments almost doubled, to \$20.3 billion, whereas stock market capitalization reached 43 percent of GDP by end 2007, compared to 1.5 percent two years earlier. Non-oil exports grew by 27 percent, bringing total exports to 68 percent of GDP by year end. International reserves increased by over \$ 10 billion to \$21.6 billion, equivalent to 30.2 percent of GDP or 3.3 months worth of imports. Business surveys consistently show a large majority of respondents foreseeing continued expansion in 2008.

The economy shows signs of overheating. Inflation accelerated from 6.6 percent (year on year) in December 2006 to 15.7 percent by February 2008. To some extent, this reflects the rapid increase in international prices, especially for food, oil, and construction materials. With the dong loosely pegged to the dollar and a very open economy, changes in world prices are rapidly reflected in domestic prices. Higher domestic oil prices also reflected the removal of government subsidies to local distributors, a sound policy on fiscal grounds.

The current account of the balance of payments recorded an unusually large deficit in 2007 in the range of 9.3 to 9.7 percent of GDP.¹⁴ Imports surged by almost 40 percent, with growth especially strong for capital goods (56.5 percent) due mainly to imports of commercial aircraft and oil refinery equipment. Growth was also strong for intermediate goods (40 percent) used in the production of garments and footwear, chemical products, plastic and livestock.

Asset prices also climbed rapidly in 2007—stocks in the first half of the year and real estate in the second. When the State Bank of Vietnam (SBV) capped lending for the purchase of securities, and the number and size of companies listed expanded rapidly, the stock market fever receded. But the fever moved to the real estate market, where rapid increases in property prices have raised the prospect of a potentially dangerous bubble.

Overheating is not the result of excessive government spending. Indeed, the overall budget deficit for 2007 stood at around 1 percent of GDP. This preliminary figure does not represent a significant departure in relation to previous years. The overall fiscal balance was larger at around 5 percent of GDP, including the issuance of government bonds for education, infrastructure and the re-capitalization of State-Owned Commercial Banks (SOCBs).

¹³ The tax package includes a higher deductible for personal income taxes, a reduction in corporate income tax rates, increased tax deduction on machines and equipment for investment purpose, and reduced property sales transaction fees. The expenditure package includes a direct transfer to grassroots communities of roughly Bt20 billion this year.

¹⁴ It is difficult to provide a precise figure for the current account deficit, due to limitations in data..

On the other hand, there was rapid acceleration in credit growth, from 25.4 percent in 2006 to 50.6 percent by November 2007. This frenetic pace raises concerns about the quality of the portfolios of banks. Lending by joint stock banks grew by a remarkable 95 percent, but state-owned commercial banks were more cautious, increasing lending by only 25 percent to improve the overall quality of their loan portfolio prior to equitization.

The expansion in credit was underpinned by growth in base money predominantly due to the build-up of record foreign exchange reserves. Reserves accumulated as authorities purchased foreign exchange to prevent (or perhaps slow) the appreciation of the dong in the face of growing capital inflows. SBV widened the trading band for the dollar from ± 0.25 percent to ± 0.5 percent in January 2007, then to ± 0.75 percent in December and again to ± 1 percent in March 2008. The dong had stayed virtually stationary against the dollar over 2007 but then started to appreciate in the first months of 2008.

Towards the end of 2007 and in early 2008 the central bank took dramatic contractionary measures resulting in a severe lack of liquidity. It stopped foreign currency purchases, increased reserve requirements, forced placement of SBV bonds with banks, and stopped rolling over reverse repos. This led to a sharp spike in overnight interest rates that peaked at 40 percent.

More recently, in early March 2008, the authorities announced a new policy package containing a mixture of monetary and fiscal measures designed to cool the economy while minimizing the effect on growth. Its success will very much depend on how it is implemented in practice, and how well the authorities are able to adjust policies in light of changing circumstances.

SMALLER ECONOMIES

CAMBODIA

Cambodia continues to grow rapidly. GDP grew an estimated 9.6 percent in 2007, easing somewhat from the double-digit growth of the preceding 3 years but in line with the 2000–06 average of 9.5 percent. Garment exports rose almost 8 percent in 2007; tourist arrivals jumped nearly 20 percent; and construction activity doubled.¹⁵ With exports decelerating somewhat, the 2007 GDP growth was driven by consumption and investment. Foreign direct investment (FDI) inflows reached US\$600 million (7 percent of GDP), slightly more than the country received in official aid. Domestic investment, driven largely by the private sector, accounted for 23.4 percent of GDP. Approximately 2,860 new businesses registered for operation in 2007, a 71 percent increase over 2006.

Although risks have increased, economic prospects for 2008 remain strong. The projected 7.5 percent growth rate for 2008 reflects a mix of growth in services (mainly tourism) and construction combined with a slowdown in garment exports. Export growth, especially to the US, began to slow in late 2007 accompanied by stiffer competition from Vietnam and emerging risks (slowdown in the US economy and lifting of safeguards on China's exports). Although exports of cash crops have grown fast in recent years, developments in the garment

¹⁵ Housing is more vibrant than industrial construction.

industry have a major impact on Cambodia's export performance. On the other hand, Cambodia's exporters might benefit from the depreciation of the dollar. Another risk is uncertainties in the construction sector. However, although the boom driven by real estate could slow, other sources of demand—tourism and infrastructure—could enable continued growth in construction.

Slower exports and the rapid growth of domestic demand have enlarged the trade deficit. The current account deficit is expected to widen from 6.8 percent in 2007 to 7.3 percent of GDP in 2008. Even so, large amounts of external assistance and FDI have enabled Cambodia to continue to accumulate international reserves, with a 47 percent increase in 2007 to US\$1.6 billion. Projected international reserves of nearly US\$2 billion by end 2008 would equal 2.8 months of imports of goods and services.

Inflation has picked up in recent months, adding to the government's policy challenges. By end 2007, the year-on-year inflation rate reached 10.8 percent, hitting a 9-year record high. This jump was driven by food (20 percent) and fuel (12 percent). Part of the inflation was imported through the depreciating dollar (the economy is largely dollarized). High food prices alone are unlikely to pose a serious threat to Cambodian growth. However, in a country of mainly net food consumers, the poor—who spend approximately 70 percent of their total household consumption on food—will be adversely affected.¹⁶ High oil prices, too, are affecting the cost of doing business.

Monetary growth has been rapid. Broad money (32.5 percent of GDP) rose by 63 percent in 2007, while credit to the private sector expanded by 76 percent. More than 90 percent of liquidity growth came from the surge in net foreign assets. The remainder stemmed from the increase in net domestic assets supporting rapid growth in private investment. The number of commercial banks increased to 23 by the end of 2007 with a return on equity (ROE) of approximately 14 percent. Banks' end-of-period deposit portfolio is projected to reach US\$1.8 billion, while lending is estimated to be US\$1.1 billion. In addition, some 17 registered microfinance entities provided approximately US\$50 million annually to micro, small, and medium enterprises. Non-performing loans (NPLs) remain relatively low, accounting for approximately 10 percent of the total portfolio. Nevertheless, the rapid development of the financial sector and sharp growth in credit (including to real estate) are being closely monitored by the authorities.

The government's fiscal stance remains prudent. Substantial progress has been made in mobilizing revenues, with the revenue-to-GDP ratio rising from 11.5 percent in 2006 to 12.3 percent in 2007. With expenditures limited to 12.6 percent of GDP, the overall fiscal deficit (before grants) declined from 2.8 percent in 2006 to 0.4 percent of GDP in 2007. Under the public financial management (PFM) reform program, fiscal performance has been improving on a number of fronts. These include revenue mobilization, budget operational system, a new chart of accounts, internal audit department, and national treasury.

The government is also making progress on structural reforms. Customs reform has advanced since the implementation in January 2008 of a Single Administrative Document (SAD). This will become an electronic system in May 2008 with the implementation of ASYCUDA at the Sihanoukville seaport, the country's largest trade gateway. In addition, a number of important

¹⁶ Cambodia Socio-Economic Survey, 2003-04. National Institute of Statistics of Cambodia.

new laws and related regulations were introduced last year, including a Law on Anti-Money Laundering and Combating Terrorist Financing (April 2007), Law on Publishing (Issuance) and Trading Non-government Securities (September 2007), Law on Concessions (October 2007), Law on Customs (October 2007), and Law on Bankruptcy (October 2007).

Finally, Cambodia has made remarkable strides in social development in recent years. They include increasing primary school enrollment and reducing HIV prevalence and infant and child mortality. The government has embarked on its mid-term review of the country's five-year National Strategic Development Plan (NSDP 2006–2010). The review will assess progress over the past two years, identify performance shortfalls, introduce corrective policies, and address emerging issues.

FIJI

Since the takeover of Fiji's Parliament in December 2006, the Interim Government led by the military commander has continued to face international sanctions by some donors. These include the suspension of parts of the aid program and immigration restrictions. Restoration of bilateral relations with key external partners remains largely dependent on the Interim Government's demonstrating a commitment to return Fiji to democracy. National elections are expected in the first quarter of 2009.

Fiji's real GDP contracted by an estimated 4 percent in 2007, largely reflecting the effect of recent political events on the tourism and construction sectors. Tourism earnings fell by an estimated 20 percent while construction activity declined by one-third in the first 9 months of the year. Sugar production declined by 23 percent due to unfavorable weather conditions and supply chain inefficiencies. Copra production declined by 9 percent. Garment export earnings have remained subdued since the expiry of the US preferential agreement in 2005.

The trade balance showed some improvements in 2007. Export earnings rose slightly (led by mineral water, fish, and timber), while imports dampened, reflecting tightened credit conditions (following the imposition of credit ceilings on commercial banks). The trade and current account deficits remain large at approximately 27 percent and 16 percent of GDP, respectively. Despite the current account deficit, the balance of payments recorded a small surplus largely attributable to foreign direct investment. With the import cutback driven by investment goods, investment declined from 19 percent of GDP in 2006 to approximately 15 percent in 2007. Domestic demand weakened in 2007, as indicated by slower domestic credit growth (from an average of 28 percent in 2006 to 6 percent in September 2007), sluggish employment conditions, fall in remittance receipts, and declined imports of consumption goods.

On a positive note, gross foreign reserves stabilized in 2007 to reach US\$618 million as of December. Excluding foreign assets of non-bank financial institutions, gross reserves were estimated at US\$510 million at end-2007 (sufficient to cover approximately 3 months of imports).

The budget was in near balance in 2007 through a substantial reduction in capital expenditure and a cut in civil service wages. The 2008 budget targets a fiscal deficit of 2 percent of GDP,

focusing on consolidating Fiji's fiscal position and reducing public debt from 50 percent to 45 percent of GDP over the next 3 years.

[Inflation for 2007 was estimated at 4 percent](#), reflecting increases in excise duties and higher food prices following supply shocks (flood- and cyclone-related losses). However, it jumped to 7.4 percent at end-January 2008 as higher global oil prices affected domestic transport and electricity costs, and higher international wheat prices and cyclone-led disruptions in local supply increased food prices. The inflation rate projected for end-2008 has been revised upwards to 5 percent.

[A modest recovery of approximately 2 percent real GDP growth is forecast for 2008](#) linked to expected growth in tourism. However, economic recovery remains vulnerable to political instability, natural disasters (cyclones, floods), high global oil prices, and uncertain relations with key development partners. Reforms in macroeconomic policy, public sector management, land, and the sugar sector are much needed but difficult to implement under present circumstances.

LAO PEOPLE'S DEMOCRATIC REPUBLIC

[The economic outlook for Lao PDR remains favorable, but rising inflation poses a risk.](#) GDP growth in 2007 remained stable at above 7 percent, and this stability is expected to continue into 2008. However, inflation has been climbing in recent months and reached approximately 6.5 percent in January 2008, from 4.5 percent in 2007. The government's fiscal position continued to improve in FY2006–07 owing to higher-than-targeted revenue collection and lower-than-planned expenditures, with steady implementation of the public finance management reform agenda. Although the legal framework is in place to support international trade and private sector activity, implementation remains incomplete.

[Notwithstanding a more challenging international economic environment, real GDP growth is projected to rise to 7.6 percent, up from 7.1 percent in 2007.](#) Approximately 2 percentage points of this growth are expected to come from new hydro and mining projects, including the construction of four hydro-power dams and a large copper plant. The remaining 5 percentage points are expected to come from investments in plantations for agricultural crops and industrial forestry, steadily rising tourism revenues, and newly emerging food and nonfood processing industries.

[The recent upward trend of inflation is due mostly to higher oil and food prices](#), the latter reflecting low grain harvests caused by bad weather in 2007 and the culling of poultry to avoid the spread of avian flu. The rise in the food CPI has slowed in recent months although food inflation remained high at 6 percent in January 2008.

[High commodity prices have proved to be a mixed blessing.](#) Fuel prices pushed up the cost of transport, construction, land clearing, and agriculture. However, since Lao PDR exports metals (copper, gold, tin, and others) and non-metal commodities (rubber, sugar, and other agro-industrial products), strong non-oil commodity prices have proved to be a net benefit. In the last two years, production and exports of Lao agricultural products (maize, coffee, rice, fruits, and vegetables) also have increased due to growing demand from neighboring countries.

Given recent trends, the government's inflation target of 6 percent will be difficult to meet.

This stems partly from the high level of circulation of US dollars and Thai baht in the Lao economy, limiting the effectiveness of the central bank's monetary policy. Notwithstanding, the government has established an interagency committee to tackle inflation. Included in this committee are the Bank of Lao PDR to maintain tight monetary policies and stable exchange rates, Ministry of Finance to sustain good fiscal performance and revenue management, Ministry of Agriculture and Forestry to promote agricultural production, and Ministry of Industry and Commerce to monitor retail prices and warn of incipient price increases.

The kip has appreciated against the US dollar but remained steady against the Baht, and the respective real exchange rates have moved similarly. Foreign exchange reserves increased sharply to approximately \$540 million in 2007, (more than 5 months of non-resource imports) and are expected to rise further given high mining and agricultural export prices and strong tourism receipts and FDI inflows. At the same time, imports associated with large mineral and hydro projects will exert pressure on the external current account deficit.

The government's fiscal position has continued to strengthen, allowing a slight decrease in Lao PDR's high external debt ratios. The government achieved its revenue targets for a second consecutive year; with revenues increasing from 12.7 percent of GDP in 2005–06 to approximately 13.8 percent in 2006–07. If expenditures remain unchanged, the overall budget deficit is likely to be close to 3 percent of GDP in FY2006–07. Lao PDR's external public debt burden remains elevated. At end-2006, public and publicly guaranteed external debt in present value terms was equal to 70 percent of GDP, 135 percent of exports, and 377 percent of fiscal revenues. All three indicators exceed the indicative sustainability thresholds for countries with comparable CPIA ratings, placing Lao PDR at "high risk of debt distress", according to IDA's debt sustainability framework. However, debt servicing indicators remained less than indicative thresholds, due to the high concessionality of debt (75 percent).

The reform agenda for public financial management is being implemented steadily. A new Budget Law was promulgated in early 2007 allowing recentralization of the Treasury, Customs, and Tax Departments, including a new revenue sharing mechanism. Progress has been made on a revised Chart of Accounts (COA) which is expected to be deployed in the FY2008–09 budget. To strengthen audit performance and oversight of state-owned enterprises, a new Audit Law promulgated in July 2007 requires the Supreme Audit Office (SAO) to report directly to the National Assembly instead of to the Prime Minister.

Progress is being achieved in reforming private sector and trade policies but implementation continues to lag. The Negative List of Business Activities under the new Enterprise Law was approved in November 2007. The new Mining Law and implementing decree of the Tourism Law are other important contributions. To facilitate cross-border trade, the government reduced the number of agencies at border checkpoints from 16 in 2006 to 3 (immigration, customs, and quarantine) in 2007. A new Commercial Banks Law was endorsed and amendments to the Presidential Decree on Foreign Exchange and Precious Metals adopted in 2007. It is now important these new laws and implementing decrees are implemented.

MONGOLIA

Mongolia's real GDP growth rate was 9.9 percent in 2007. Growth was driven by agriculture (which contributed 3.4 percentage points), and services (4.3 percentage points). In the agriculture sector, the December 2007 annual livestock census reported an increase of 15 percent from 34.8 to 40.3 million livestock, with the number of goats, sheep and cattle increasing by 18, 15 and 14 percent respectively. While most of the foreign direct investment (FDI) coming into Mongolia continues to go to mining, the value-added of the sector grew by only 1.7 percent this year (mainly from coal extraction). The services sector continues to show strong growth, driven in particular by transport and trade (2.1 and 1.3 points of economic growth respectively). At the end of February 2008, the number of registered unemployed had declined by 5.1 percent.

Despite a planned budget deficit of 3.9 percent of GDP, the government's fiscal balance recorded a surplus again, for the third consecutive year. Preliminary outturns suggest a 2.2 percent fiscal surplus in 2007, with revenues reaching 40.6 percent of GDP and expenditures 39.4 percent of GDP. This was the result of higher-than-expected revenues and lower-than-planned expenditures. The key reasons for strong revenue performance were: (i) higher than anticipated commodity prices and the imposition of the windfall tax on gold and copper; (ii) robust economic growth; and (iii) improved revenue administration. Expenditures were below budgeted levels because the execution rate for capital expenditures fell below expectations. The resulting fiscal surplus enabled the Government to build additional reserves at the Bank of Mongolia of about \$169 millions (4.4 percent of GDP). At end 2007, government deposits at the central bank were equal to \$531 million (14 percent of GDP)

Inflation accelerated to reach 15.1 percent in 2007, the highest level in a decade. The price index climbed 4.6 percent in the first two months of 2008 alone. This marked rise was due to rapid monetary growth, public sector wage increases, and increases in the price of key imports, especially food. At the end of February 2008, money supply (M2) increased by 48.5 percent. Total loans outstanding increased by 67.2% of which loans to private sector increased by 78.9%.

Declining (officially recorded) gold exports and robust import growth led to a trade deficit in 2007. Compared to a year ago, exports grew by 22.5 percent (reaching \$1.9 billion) and imports rose by 42.5 percent (reaching \$2.1 billion). Since the imposition of the windfall tax on gold and copper exports, officially recorded gold exports have started to decline as more and more gold is now allegedly being smuggled out of the country to avoid the tax. For the first year, the (positive) price impact of high international prices for copper and gold on export earnings has been outweighed by the (negative) impact of the windfall tax on recorded gold exports. Meanwhile, import growth has remained robust in 2007, led by strong economic growth which translated in sustained demand for consumption and investment goods.

The fixed nominal exchange rate has led to real appreciation of the currency vis-à-vis the dollar and a sharp increase in foreign exchange reserves. At end 2007, the nominal exchange rate against the US dollar was stable at 1,169.97 togrogs/dollar (1171.8 at end February 2008), leading to significant real appreciation against the US dollar. Given that the currency is allowed to fluctuate within a margin of ± 1 percent against the US dollar, the IMF re-classified Mongolia's exchange rate arrangement from floating to a conventional peg. There is no

commitment to keep the parity irrevocably. At end-2007, the Mongolia's net international reserves (NIR) climbed 41.5 percent to reach \$972.4 million, equivalent to over 5 months of imports. Difficulty in sterilizing this reserve accumulation has led to the sharp increase in money supply and the consequent acceleration in inflation.

Mongolia should maintain rapid growth in 2008 and beyond in part because of construction activity associated with large FDI inflows that begins in 2008 and the world class Oyu Tolgoi copper mine starts operations in 2010. In addition, continued high (albeit declining) gold and copper prices will allow the authorities to maintain their expansionary fiscal stance and this is expected to be supported by sustained growth in agriculture (livestock sector), and continued expansion in services (led by trade and transport). Mongolia's principal challenge is to husband its windfall gains from the current commodity price boom in international markets and translate these assets into a reliable revenue stream that will serve future expenditure needs and help reduce poverty over the long term. In this regard, it could usefully emulate other East Asian countries that are exploring ways to maximize long-term returns on their fiscal and foreign exchange surpluses.

SOLOMON ISLANDS

Macroeconomic stability has been maintained since the start of the Australian-led Regional Assistance Mission to Solomon Islands (RAMSI) in 2003 to help end the civil conflict in the islands. Law and order has been restored. Economic growth averaged 6 percent in 2003–07, but is heavily reliant on logging and foreign aid. Per capita income is the lowest in the region. The political environment remains fluid. A motion of no confidence was recently voted against the Prime Minister. A new Prime Minister was elected on December 21, 2007 and has formed the Coalition for National Unity and Rural Advancement. The new government has publicly stated support for RAMSI operations and is looking to improve cooperation with RAMSI.

Non-logging real GDP grew by an estimated 3.5 percent in 2007, aided by increased production of palm oil, cocoa, and copra boosted by rising international prices. Including logging activity (10 percent of GDP and 70 percent of exports), real GDP growth was estimated at 5.5 percent in 2007. However, the current unsustainable logging rate implies a rapid decline in timber stocks ending in depletion by 2015.

The current account deficit widened from 26.5 percent of GDP in 2006 to an estimated 40 percent of GDP in 2007. The increase was attributable to a larger food, fuel, and investment-related import bill. Gross foreign reserves are expected to remain at reasonable levels—covering approximately 4 months of next year's imports of goods and services—thanks to continued strong official development assistance and FDI linked to palm oil and gold mine projects.

The budget surplus narrowed from 4 percent of GDP in 2006 to an estimated 0.5 percent of GDP in 2007. The reduction stemmed mainly from higher spending related to disaster relief efforts and an increase in the public wage bill. A government proposal to raise reference prices for logs as of October 2007 was deferred, resulting in a loss of potentially significant log revenue collection.

Government initiatives to regularize debt and its current policy of no new borrowing have reduced debt levels. Total public debt declined from 73 percent of GDP in 2006 to 67 percent in 2007, and is projected to continue to decline in the medium term. The external debt service ratio is estimated to have fallen from 7 percent of exports in 2005 to 4 percent in 2006 and 2007. However, the current debt burden remains at high risk of distress.

Inflation decelerated from 8 percent in 2006 to approximately 6 percent in 2007, led by easing pressures on prices for domestic food and other goods. On the other hand, rising prices for diesel and petrol continue to pose risks to the inflationary outlook.

Real GDP growth of approximately 4 percent is forecast for 2008, with non-logging growth expected to strengthen to 4 percent–5 percent as new investment projects commence. Reforms for improving natural resource management and revenue collection, continued fiscal discipline and targeted spending on priority areas, and reducing the cost of doing business (improving utilities, transportation, and the predictability of the investment environment) remain important for long-term sustainable growth.

PAPUA NEW GUINEA

A prudent macroeconomic policy mix together with favorable terms of trade trends has helped Papua New Guinea maintain macroeconomic stability, strong external balances and solid economic growth over the past five years. Formal employment, although very low as a share of the labor force, has also expanded. The country, however, faces difficult development challenges, including weaknesses in governance, infrastructure, human development, the business climate, public financial management, security, and service delivery.

The political situation in PNG has stabilized in recent years. The coalition government headed by Prime Minister Somare between 2002 and 2007 was the first since independence to serve a full term. The mid-2007 national elections returned PM Somare's coalition to power. Political stability and the resulting greater consistency of policies have contributed to the recent strong macroeconomic performance.

In the past five years, PNG has seen the longest period of uninterrupted growth since independence in 1975. Real GDP growth in 2007 climbed to around 6 percent, the highest in a decade. Growth was led by construction, telecommunications and export-oriented agriculture (coffee, copra and palm oil) and mining. Formal employment across most sectors has grown by around 10 percent annually since 2005. Growth is expected to continue although structural constraints are likely to slow its pace over the medium term.

The fiscal position remains strong. Budget revenue is booming as world market prices for PNG's key exports (oil, copper and gold) reach new highs. The government has prudently restrained expenditures, directing part of the windfall mineral revenues to public debt repayments and saving a part in trust accounts for one-off investment spending in the future. As a result the central budget had a strong fiscal surplus (around 6 percent of GDP) in both 2006 and 2007. The non-mineral budget deficit, meanwhile, remained relatively steady over the past two years at around 7-8 percent of GDP, indicating that the injection of windfall revenues into the economy remains under control. By end-2007 the windfall revenues in trust

accounts designated for future investment reached about 17 percent of GDP. The 2008 budget and the newly prepared medium-term fiscal framework envision continued fiscal restraint and expenditure smoothing over the commodity price cycle.

[The public sector debt burden has been substantially reduced in the past five years.](#) Healthy growth, an appreciation of the real exchange rate, tighter external borrowing policy and prepayment of public debt using a portion of windfall revenues, have led to a fall in the public debt-to-GDP ratio from over 60 percent in 2003 to around 35 percent in 2007, and the declining trend is expected to continue in coming years.

[Inflation appears to remain subdued:](#) consumer prices rose by an average of 0.9 percent in 2007 compared to 2.3 percent in 2006.¹⁷ But average consumer price inflation excluding seasonal products, goods subject to price controls, and changing excises, was close to 7 percent in 2007, an acceleration compared to the previous year. In the medium term inflation is expected to pick-up as the economy will have to cope with continued monetary expansion coming from accumulation of foreign exchange reserves, strong growth of credit to the private sector, and record low interest rates.

[The current account surplus rose to over 4 percent of GDP in 2007,](#) thanks to high commodity prices. In the medium term it is expected to decline as import growth rises in line with per capita income, investment, and output. International reserves increased from US\$1.4 billion at end-2006 to US\$2.1 billion at end-2007, equivalent to about 4.5 months of imports of goods and services or about a year of non-mineral project-related imports. Reserves have stabilized in early 2008 as imports have been increasing. The kina has been fairly stable in recent years, appreciating against the US dollar in 2007 by around 2 percent. Given the expected continued strong commodity export inflows, some appreciation pressure on the kina will remain in the coming year or two.

[Notwithstanding Papua New Guinea's comfortable macro-fiscal position, significant structural and policy challenges limit its long-term growth potential.](#) Most notable among these is the institutional and policy framework for public financial management. Critical areas for improvement are the integrity of budget processes, intergovernmental financial arrangements, efficiency of sectoral expenditure and service delivery, performance of the civil service and parastatals, and transparency and accountability in budget management. To stimulate private sector investment, particularly outside mining, the critical priority is improvement in the business climate, especially by opening more markets to competition, reducing the regulatory and licensing burden, clarifying property rights (especially for land), and maintaining law and order.

TIMOR-LESTE

[Timor-Leste has experienced prolonged political volatility since the outbreak of conflict in April 2006.](#) The presidential and parliamentary elections were held in April/May and June 2007, respectively. Following a second-round election, Jose Ramos Horta became the new President. With no single party gaining enough seats to form a government, the President invited a

¹⁷ This is based on official figures. The quality of price data (as well as other statistics) in PNG needs substantial strengthening.

coalition, the Parliamentary Majority Alliance (AMP), headed by former President Xanana Gusmao to form the government, which took office in August 2007. The appointment of the AMP government sparked violent protests in the east of the country by supporters of the former ruling party, Fretelin, which claimed a right to govern as the party with the most votes polled, though lacking partners to form a majority coalition. Although the political unrest subsequently abated, President Ramos Horta was wounded in an assassination attempt in February 2008, in a plot that also involved an unsuccessful attack on the Prime Minister.

There are still about 30,000 displaced people living in camps in the capital, Dili, and another 70,000 in the districts in a total of 58 camps. Stabilizing the security situation thus remains of high priority for the new government. The United Nations has been requested to continue its presence in the country, backed by foreign troops.

The crisis compounded weak economic performance over the previous five years. Implementation of the Government's investment program remains constrained by delays in capital budget execution due to weak capacity. Private investment and job creation have also been weak, and inflation, which had increased to nearly 7 percent in 2006 in part reflecting supply disruptions, remained above 7 percent through much of 2007. In 2007, non-oil GDP is estimated to have expanded sharply, aided by higher government spending and the demand generated by buildup of the new UN mission. But this followed a contracting non-oil economy in 2006, when private activity was disrupted by the unrest, and some government departments were also temporarily closed.

The lack of productive jobs is a critical problem, which has exacerbated recent tensions. Only about 400 formal jobs per year were created in recent years versus over 15,000 annual entrants to the labor market, and youth unemployment in Dili is estimated to have risen to 40 percent following the crisis. The majority of the population depends on subsistence agriculture, and large segments face seasonal food shortages. According to a recent report by FAO/WFP, up to 220,000 Timorese were projected to be in need of food assistance during the lean months of October 2007 to March 2008.

Rapidly growing petroleum revenue, reflecting global price trends and increased production, has contributed to large budget and current account surpluses, of over 300 and 200 percent of non-oil GDP, respectively. These surpluses are projected to increase in the medium term as revenue and royalties from offshore oil and gas fields continue to grow. Deposits accumulated in the Petroleum Fund reached nearly \$2 billion by end-2007. The rising petroleum revenue has meant that "sustainable" budget spending is presently estimated at over \$300 million per year.

A critical challenge for the new government is to improve budget execution so that legitimate spending priorities, as reflected in annual budgets, can be better realized. In the short term, increased government spending will be the primary mechanism to revive the domestic economy on a sustained basis. There is also an urgent need to develop a social safety net to provide support to the poor and vulnerable segments of the population. Success in these efforts would help the challenges of rebuilding trust and addressing the security situation and the rule of law, while addressing the basic humanitarian needs of the displaced population.

APPENDIX TABLES

Table 1. Quarterly Real GDP Growth (% Change Year Ago)

	China	Hong Kong	Indonesia	Korea	Malaysia	Philippines	Singapore	Taiwan (China)	Thailand	East Asia
Q1-2002	8.8	-1.0	3.4	6.5	2.7	4.2	-0.6	1.3	4.5	5.8
Q2-2002	9.2	0.5	4.1	7.0	4.7	4.6	4.9	4.8	5.0	6.8
Q3-2002	9.3	2.8	5.2	6.8	7.1	3.3	6.6	6.7	5.8	7.4
Q4-2002	9.1	4.8	4.7	7.5	6.9	5.5	5.9	5.7	6.0	7.4
Q1-2003	10.8	4.1	4.9	3.8	6.3	4.8	3.6	3.6	6.9	7.3
Q2-2003	8.4	-0.9	5.2	2.2	5.9	4.3	-1.8	-0.2	6.6	5.1
Q3-2003	10.1	3.8	4.6	2.3	4.6	5.4	4.1	4.1	6.7	6.7
Q4-2003	10.4	4.7	4.2	4.1	6.5	5.1	8.1	6.3	8.3	7.6
Q1-2004	9.8	7.7	4.1	5.4	8.2	7.2	9.1	8.0	6.7	8.0
Q2-2004	9.6	12.0	4.4	5.7	7.9	7.1	12.6	9.2	6.6	8.5
Q3-2004	9.2	6.6	4.6	4.7	6.4	5.6	7.6	5.4	6.3	7.1
Q4-2004	9.5	7.9	7.1	3.3	4.9	5.8	7.0	2.5	5.9	6.9
Q1-2005	10.5	6.2	6.0	2.9	5.4	4.4	4.2	2.2	3.6	7.0
Q2-2005	10.5	7.1	5.9	3.4	3.9	5.0	6.9	3.1	4.7	7.3
Q3-2005	10.2	8.1	5.7	4.8	5.2	4.6	8.9	4.4	5.5	7.7
Q4-2005	10.4	6.9	5.1	5.5	5.5	5.4	9.1	6.9	4.3	8.1
Q1-2006	10.4	9.0	5.1	6.3	6.0	5.7	10.4	5.1	6.3	8.3
Q2-2006	11.5	6.2	5.0	5.1	6.1	5.5	8.2	5.1	5.3	8.4
Q3-2006	10.6	6.4	5.9	4.8	6.0	5.1	7.4	5.3	4.5	8.0
Q4-2006	10.4	6.6	6.0	4.0	5.7	5.5	7.0	4.1	4.3	7.6
Q1-2007	11.1	5.5	6.1	4.0	5.5	7.1	7.0	4.2	4.2	8.0
Q2-2007	11.9	6.4	6.4	5.0	5.8	7.5	9.1	5.2	4.3	8.8
Q3-2007	11.5	6.3	6.5	5.2	6.6	7.4	9.5	6.9	4.8	8.8
Q4-2007	11.2	6.7	6.3	5.5	7.3	7.4	5.4	6.4	5.7	8.6

Source: Haver Analytics and national sources.

Quarterly data for China is estimated using new annual production side GDP data.

Table 2. Growth in Real GDP and Components of Aggregate Demand (% Change Year Ago)

	Indonesia	Malaysia	Philippines	Thailand	Hong Kong	Korea	Singapore*	Taiwan, China	S.E. Asia	NIEs
GDP										
2006	5.5	5.9	5.4	5.1	7.0	5.0	8.2	4.9	5.5	5.6
2007	6.3	6.3	7.3	4.8	6.3	5.0	7.7	5.7	6.1	5.6
2007 H1	6.3	5.6	7.3	4.2	6.0	4.5	8.1	4.7	5.8	5.1
2007 H2	6.4	7.0	7.4	5.3	6.5	5.3	7.4	6.6	6.4	6.1
Consumption										
2006	3.2	7.1	5.5	3.2	6.0	4.2	3.3	1.8	4.3	3.7
2007	5.0	11.7	6.0	1.4	7.8	4.4	4.6	2.6	5.5	4.4
2007 H1	4.7	10.8	5.9	1.1	5.2	4.1	3.9	2.3	5.1	3.8
2007 H2	5.4	12.5	6.1	1.7	10.3	4.7	5.4	2.9	5.9	5.1
Investment										
2006	2.5	7.9	1.4	3.8	7.0	3.2	15.9	0.6	3.7	4.1
2007	9.2	10.2	9.5	1.4	6.0	4.1	20.2	2.4	7.3	5.3
2007 H1	7.0	8.1	9.3	-0.5	6.4	6.9	24.4	3.6	5.6	7.4
2007 H2	11.2	12.3	9.8	3.3	5.7	1.7	16.8	1.3	9.1	3.5
Exports										
2006	9.4	7.4	11.2	8.5	9.4	12.4	8.3	10.4	9.1	11.0
2007	8.0	3.7	3.1	7.1	7.9	11.8	5.4	8.9	6.1	9.8
2007 H1	9.0	2.5	6.8	8.3	8.8	10.9	4.6	5.5	7.1	8.5
2007 H2	7.1	4.9	-0.5	6.0	7.1	12.8	6.2	12.0	5.1	11.1

Source: Haver Analytics, national data sources and World Bank staff estimates.
Regional averages are 2000 US\$ GDP weighted. * Singapore exports are net exports.

Table 3. East Asia: Merchandise Export Growth (US \$; % change form a year ago)

	2006	2007	Q4 2006	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08
East Asia (9)	18.9	16.8	18.3	17.1	17.0	15.5	17.8	12.8	19.9	16.8	16.8	22.0
SE Asia	16.1	12.2	15.2	12.5	11.6	8.1	16.7	8.4	22.0	14.4	14.0	25.4
Indonesia	17.4	13.0	18.2	15.2	14.2	9.2	14.0	8.4	17.6	10.0	14.4	33.2
Malaysia	14.0	9.7	11.2	7.7	7.7	6.9	16.0	7.9	24.4	14.8	9.7	18.5
Philippines	14.2	6.7	7.5	12.3	4.2	1.6	9.6	4.6	10.5	-2.1	21.2	6.4
Thailand	18.5	16.8	21.1	16.7	17.4	11.0	22.2	10.5	26.8	22.7	16.9	35.4
China	27.2	25.7	28.9	27.8	27.5	26.2	22.2	22.7	22.3	22.8	21.7	26.7
NIEs	13.5	10.9	11.1	10.5	10.2	8.9	14.1	5.5	16.9	12.1	13.3	16.5
Hong Kong	9.4	8.8	11.5	8.3	11.1	7.8	8.3	8.5	10.3	6.7	7.8	15.7
Korea	14.4	14.1	13.8	14.6	14.1	9.4	18.2	-1.1	22.9	17.0	14.8	15.5
Singapore	18.4	10.1	10.5	9.9	7.2	8.5	14.8	5.7	19.9	11.9	12.7	22.3
Taiwan , China	12.5	10.3	7.2	8.2	6.7	10.0	15.8	11.3	14.9	12.8	19.8	11.9

Table 4. East Asia and the Pacific: GDP Growth Projections

	Forecast								
	2001	2002	2003	2004	2005	2006	2007	2008	2009
East Asia	4.6	7.0	6.8	8.0	7.7	8.4	8.7	7.3	7.4
Developing East Asia	6.7	8.0	8.9	9.1	9.2	9.8	10.2	8.6	8.5
South East Asia	2.4	4.8	5.6	6.0	5.1	5.5	6.1	5.6	6.0
Indonesia	3.8	4.4	4.7	5.0	5.7	5.5	6.3	6.0	6.4
Malaysia	0.5	5.4	5.8	6.8	5.0	5.9	6.3	5.5	5.9
Philippines	1.8	4.3	5.0	6.4	4.9	5.4	7.3	5.9	6.1
Thailand	2.2	5.3	7.1	6.3	4.5	5.1	4.8	5.0	5.4
Transition									
China	8.3	9.1	10.0	10.1	10.4	11.1	11.4	9.4	9.2
Vietnam	6.9	7.1	7.3	7.8	8.4	8.2	8.5	8.0	8.5
Small Economies	4.0	3.7	5.1	6.6	7.8	7.2	6.6	6.4	6.1
Cambodia	8.0	6.5	8.5	10.0	13.5	10.8	9.6	7.5	7.0
Timor-Leste	16.5	-6.7	-6.2	0.4	2.3	-3.4	16.5	4.3	1.4
Lao PDR	5.8	5.9	6.1	6.4	7.1	7.6	7.1	7.6	8.2
Mongolia	1.3	4.2	6.1	10.8	7.1	8.6	9.9	8.7	8.1
Fiji	2.0	3.2	1.0	5.3	0.7	3.6	-3.9	2.0	2.0
Kiribati	1.8	5.8	1.4	-2.9	-0.2	5.8	2.5	1.6	1.1
Marshall Islands	5.5	4.0	1.8	0.4	3.5	3.0	3.5	3.0	2.5
Micronesia, Fed. Sts.	0.3	1.4	3.3	-4.4	1.5	-0.7	1.8	1.0	1.0
Palau	1.3	-3.5	-1.3	4.9	5.5	5.7	5.5	4.8	4.4
Papua New Guinea	-0.1	-0.2	2.2	2.7	3.4	2.6	6.2	5.8	4.7
Samoa	7.1	4.4	1.6	3.2	5.4	2.3	3.1	3.5	3.0
Solomon Islands	-9.0	-1.6	6.4	8.0	5.0	6.1	5.4	4.2	2.8
Tonga	2.6	3.0	3.2	1.4	2.3	1.4	-3.5	0.8	1.3
Vanuatu	-2.6	-7.4	3.2	5.5	6.5	7.2	5.0	5.0	5.0
East Asia NIEs	1.1	5.3	3.2	6.1	4.9	5.6	5.6	4.6	5.0
Hong Kong (SAR)	0.5	1.8	3.0	8.5	7.1	7.0	6.3	4.8	5.1
Korea	3.8	7.0	3.1	4.7	4.2	5.0	5.0	4.6	5.0
Singapore	-2.4	4.2	3.5	9.0	7.3	8.2	7.7	5.2	5.9
Taiwan (China)	-2.2	4.6	3.5	6.2	4.2	4.9	5.7	4.3	4.6

Source: World Bank data and staff estimates.

East Asia is the sum of Developing East Asia and the Newly Industrialized Economies.

Table 5. Regional Aggregates for Poverty Measures in East Asia

	\$1-a-day			\$2-a-day		Population (mill.)
	Mean Consumption (1993 PPP\$/ month)	Headcount Index (%)	Number of Poor (mill.)	Headcount Index (%)	Number of Poor (mill.)	
EAP						
1990	61.56	29.6	456.9	68.8	1,060.8	1542.6
1996	89.50	15.1	251.6	50.9	849.8	1668.5
1999	92.55	15.9	274.3	51.2	883.2	1723.4
2000	103.12	14.2	247.5	47.0	818.4	1740.3
2001	110.81	13.3	233.4	44.3	778.6	1756.0
2002	120.51	12.0	212.1	41.2	729.9	1772.0
2003	128.83	10.8	192.5	38.3	684.7	1788.1
2004	138.60	9.7	174.9	35.3	636.0	1803.3
2005	151.16	8.5	154.1	32.0	582.1	1818.6
2006	164.02	7.8	143.2	29.9	549.0	1833.3
2007	183.18	6.4	118.8	26.5	490.3	1847.9
EAP less China						
1990	74.46	24.1	96.3	65.4	261.2	399.2
1996	101.34	11.4	50.8	49.1	218.2	444.6
1999	91.16	12.0	55.9	55.8	259.6	465.6
2000	96.23	11.1	52.7	53.1	251.1	472.9
2001	97.91	10.5	50.4	51.9	249.0	479.7
2002	103.97	9.2	44.7	48.2	234.7	487.5
2003	107.29	8.1	40.3	45.2	224.0	495.8
2004	111.39	8.3	41.6	43.3	218.0	503.5
2005	116.68	7.1	36.3	40.4	206.7	511.1
2006	116.85	8.0	41.5	41.9	217.2	518.8
2007	124.50	6.7	35.2	38.7	203.7	526.6
S.E.Asia 4 (Indonesia, Malaysia, Philippines, Thailand)						
1990	82.33	17.8	56.0	60.3	189.7	314.6
1996	111.23	7.9	27.5	43.6	152.7	350.2
1999	97.26	10.1	36.9	52.8	193.5	366.2
2000	102.89	9.2	34.4	49.9	185.5	372.0
2001	104.31	8.6	32.4	48.7	183.7	377.2
2002	111.64	7.0	26.9	44.7	171.2	383.4
2003	114.28	6.7	26.1	42.1	164.3	390.0
2004	117.35	7.3	29.0	41.6	164.9	396.0
2005	122.60	6.4	25.9	39.2	157.5	401.9
2006	121.42	7.9	32.4	41.8	170.7	408.0
2007	129.63	6.5	27.1	38.6	160.0	414.1
Lower Income EA (Cambodia, Laos, PNG, Vietnam)						
1990	45.21	47.7	40.3	84.6	71.6	84.6
1996	64.65	24.6	23.3	69.4	65.5	94.4
1999	68.67	19.2	19.1	66.5	66.1	99.3
2000	71.68	18.1	18.3	64.9	65.5	100.9
2001	74.35	17.5	18.0	63.7	65.3	102.5
2002	75.68	17.0	17.7	61.0	63.5	104.1
2003	81.54	13.5	14.2	56.4	59.7	105.8
2004	89.40	11.7	12.6	49.4	53.1	107.5
2005	94.86	9.6	10.4	45.1	49.2	109.1
2006	100.06	8.2	9.1	42.0	46.5	110.8
2007	105.63	7.2	8.1	38.9	43.7	112.5

Table 6. Poverty in East Asia - Country Estimates

	\$1-a-day			\$2-a-day		Gini Coefficient	Population (mill.)
	Mean Consumption (1993 PPP\$/month)	Headcount Index (%)	Number of Poor (mill.)	Headcount Index (%)	Number of Poor (mill.)		
Cambodia							
1990	55.95	32.5	3.4	76.3	7.9	--	10.3
1996	66.43	24.2	2.8	69.3	8.1	--	11.7
1999	70.67	21.0	2.6	66.6	8.3	--	12.5
2000	70.42	22.6	2.9	67.8	8.6	--	12.7
2001	71.88	21.4	2.8	66.8	8.7	--	13.0
2002	70.76	23.7	3.1	68.1	9.0	--	13.3
2003	74.33	18.9	2.6	64.6	8.7	--	13.5
2004	76.56	19.0	2.6	63.9	8.8	41.7	13.8
2005	86.02	12.4	1.7	56.2	7.9	--	14.1
2006	91.57	10.6	1.5	53.1	7.6	--	14.4
2007	96.92	9.3	1.4	50.5	7.4	--	14.6
China							
1990	57.05	31.5	360.6	69.9	799.6	36.0	1143.3
1996	85.20	16.4	200.8	51.6	631.6	39.3	1223.9
1999	93.07	17.4	218.4	49.6	623.6	42.6	1257.9
2000	105.69	15.4	194.8	44.8	567.4	43.9	1267.4
2001	115.65	14.3	183.0	41.5	529.6	44.9	1276.3
2002	126.79	13.0	167.4	38.5	495.2	45.7	1284.5
2003	137.09	11.8	152.2	35.7	460.7	--	1292.3
2004	149.15	10.3	133.2	32.2	418.0	46.4	1299.9
2005	164.64	9.0	117.8	28.7	375.4	--	1307.6
2006	182.63	7.7	101.8	25.2	331.8	--	1314.5
2007	206.56	6.3	83.7	21.7	286.6	--	1321.3
Indonesia							
1990	61.58	20.6	36.7	71.1	126.7	28.9	178.2
1996	86.62	7.8	15.4	50.5	99.6	36.5	197.2
1999	66.80	12.0	24.9	65.1	135.0	31.0	207.4
2000	72.53	9.9	20.9	59.5	125.3	--	210.5
2001	73.44	9.2	19.7	58.7	125.2	--	213.2
2002	81.72	7.2	15.5	53.5	115.6	34.3	216.2
2003	83.98	6.6	14.5	50.1	110.0	34.1	219.4
2004	85.58	7.4	16.5	49.0	109.1	34.7	222.7
2005	90.21	6.0	13.6	45.2	102.1	34.9	226.1
2006	85.65	8.5	19.5	49.6	113.8	35.4	229.5
2007	95.26	6.7	15.5	45.2	105.3	37.6	232.9
Laos							
1990	39.16	53.0	2.2	89.6	3.7	--	4.2
1996	48.27	41.3	2.0	83.1	4.1	--	4.9
1999	51.56	36.6	1.9	80.5	4.2	--	5.3
2000	53.31	33.9	1.8	79.4	4.3	--	5.4
2001	55.48	31.3	1.7	77.4	4.3	--	5.5
2002	56.91	28.1	1.6	75.0	4.2	34.6	5.7
2003	58.86	25.8	1.5	73.3	4.3	--	5.8
2004	61.51	22.8	1.4	71.0	4.2	--	5.9
2005	64.52	19.8	1.2	68.4	4.2	--	6.1
2006	67.89	17.1	1.1	65.4	4.1	--	6.2
2007	71.10	14.4	0.9	62.3	4.0	--	6.4

Table 6. Poverty in East Asia - Country Estimates (Continued)

	\$1 –a-day			\$2-a-day		Gini Coefficient	Population (mill.)
	Mean Consumption (1993 PPP\$/month)	Headcount Index (%)	Number of Poor (mill.)	Headcount Index (%)	Number of Poor (mill.)		
Malaysia							
1990	195.32	2.0	0.4	18.5	3.4	--	18.2
1996	261.87	0.8	0.2	13.1	2.8	--	21.1
1999	271.70	< 0.5	--	12.6	2.9	49.1	22.7
2000	304.27	< 0.5	--	9.7	2.3	--	23.3
2001	304.71	< 0.5	--	9.7	2.3	--	23.8
2002	313.79	< 0.5	--	8.9	2.2	--	24.3
2003	330.54	< 0.5	--	7.7	1.9	--	24.7
2004	357.46	< 0.5	--	6.0	1.5	--	25.1
2005	382.91	< 0.5	--	4.6	1.2	--	25.5
2006	403.40	< 0.5	--	3.6	0.9	--	25.9
2007	420.62	< 0.5	--	2.8	0.7	--	26.2
PNG							
1990	82.18	29.7	1.2	59.4	2.3	--	3.9
1996	93.15	24.6	1.1	54.4	2.5	48.4	4.6
1999	78.35	30.7	1.5	61.6	3.1	--	5.0
2000	71.87	35.3	1.8	65.0	3.3	--	5.1
2001	66.43	38.0	2.0	69.2	3.6	--	5.3
2002	63.43	39.2	2.1	70.4	3.8	--	5.4
2003	63.35	39.2	2.2	70.8	3.9	--	5.6
2004	63.78	38.8	2.2	70.6	4.0	--	5.7
2005	63.68	39.0	2.3	70.6	4.1	--	5.9
2006	63.57	39.6	2.4	70.5	4.2	--	6.0
2007	64.95	38.8	2.4	69.5	4.3	--	6.2
Philippines							
1990	90.32	19.1	12.0	53.5	33.5	--	62.6
1996	107.15	14.8	10.6	46.5	33.4	--	71.9
1999	107.20	13.5	10.0	46.9	34.9	--	74.4
2000	106.93	13.5	10.3	47.2	36.0	46.2	76.3
2001	106.10	13.5	10.5	46.7	36.3	--	77.9
2002	109.12	12.4	9.9	45.1	35.9	--	79.5
2003	105.78	12.9	10.5	45.2	37.0	44.0	81.9
2004	103.41	13.5	11.3	46.6	39.0	--	83.6
2005	106.27	12.9	11.0	45.4	38.7	--	85.3
2006	103.84	13.4	11.6	46.9	40.8	--	87.0
2007	108.26	11.9	10.6	44.9	39.8	--	88.7
Korea							
1990	301.09	< 0.5	--	< 0.5	--	29.9	42.9
1996	480.46	< 0.5	--	< 0.5	--	29.7	45.5
1999	450.06	< 0.5	--	< 0.5	--	30.0	46.6
2000	496.18	< 0.5	--	< 0.5	--	--	47.0
2001	520.51	< 0.5	--	< 0.5	--	--	47.4
2002	559.60	< 0.5	--	< 0.5	--	--	47.6
2003	549.12	< 0.5	--	< 0.5	--	--	47.8
2004	544.02	< 0.5	--	< 0.5	--	--	48.1
2005	557.48	< 0.5	--	< 0.5	--	--	48.3
2006	583.01	< 0.5	--	< 0.5	--	--	48.5
2007	608.66	< 0.5	--	< 0.5	--	--	48.7

Table 6. Poverty in East Asia - Country Estimates (Continued)

	\$1-a-day			\$2-a-day		Gini Coefficient	Population (mill.)
	Mean Consumption (1993 PPP\$/month)	Headcount Index (%)	Number of Poor (mill.)	Headcount Index (%)	Number of Poor (mill.)		
Thailand							
1990	102.88	12.5	7.0	47.0	26.1	43.8	55.6
1996	143.92	2.2	1.3	28.2	16.9	43.4	60.0
1999	123.50	3.1	1.9	33.6	20.7	--	61.7
2000	125.42	5.2	3.2	35.6	22.0	43.2	61.9
2001	131.21	3.6	2.2	32.0	19.9	--	62.3
2002	139.38	2.4	1.5	27.7	17.6	42.2	63.5
2003	145.46	1.6	1.1	24.0	15.3	--	64.0
2004	151.53	1.8	1.2	23.8	15.4	42.5	64.6
2005	154.50	1.9	1.2	23.8	15.5	--	65.1
2006	158.61	1.8	1.2	23.1	15.2	--	65.7
2007	163.88	1.5	1.0	21.4	14.1	--	66.2
Vietnam							
1990	41.73	50.8	33.6	87.0	57.6	--	66.2
1996	63.66	23.6	17.3	69.4	50.8	--	73.2
1999	68.90	16.9	13.0	65.9	50.5	--	76.6
2000	73.16	15.2	11.8	63.5	49.3	--	77.6
2001	76.62	14.6	11.5	61.8	48.7	--	78.7
2002	78.67	13.6	10.9	58.2	46.4	37.5	79.7
2003	85.63	9.9	8.0	52.9	42.8	--	80.9
2004	95.36	7.8	6.4	43.9	36.0	37.0	82.0
2005	100.77	6.2	5.2	39.7	33.0	--	83.1
2006	106.50	4.9	4.1	36.3	30.6	--	84.2
2007	112.65	4.0	3.4	32.9	28.1	--	85.3

The poverty lines in Tables 5 and 6 are set at \$1.08 and \$2.15 per person per day (in 1993 PPP\$) for all countries. For most countries, 1993 World Bank PPP estimates are used. The PPP for the Philippines is from the Penn World Tables, while that for PNG is the 1996 World Bank PPP. PPPs for Vietnam, Lao PDR and Cambodia have been further adjusted using a calorie price ratio between Indonesia and Vietnam. For years for which household surveys are available, poverty estimates are directly based on the survey data. For non-survey years, either historical macroeconomic data from national statistical agencies or projections based on World Bank macroeconomic forecasts are used. Wherever possible, the projections utilize information on sectoral GDP growth rates, changes in the food CPI relative to the general CPI, changes in the GDP deflator relative to the CPI, and changes in the consumption-income ratio. The projections assume that there is no change in relative inequalities within sectors. For China, the projections are done separately for rural and urban China, and then aggregated using population shares. Estimates for all countries except Malaysia and China are based on surveys of household consumption. The estimates for Malaysia and China use income surveys. For China, a survey-based estimate of mean consumption is used in conjunction with the income Lorenz curves to derive poverty estimates. These poverty estimates differ from those commonly found in national poverty assessments for two main reasons. First, country assessments use national poverty lines that differ from the uniform international poverty lines used here. Second, national poverty lines also typically allow for spatial cost of living differentials within countries, but such adjustments are omitted here to maintain a consistent methodology across countries. For instance, in the case of Thailand, these differences explain why the above estimates indicate a small increase in poverty between 1998 and 2000 (in spite of adjusting the CPI by the change in the national poverty lines over this period), while national poverty line-based estimates indicate a decline. Also for Thailand, the 2002 estimate is based on a longer consumption module, which could lead to a small overestimation of consumption relative to 2000. Poverty estimates for the Philippines for the years 2001 and 2002 are an average of a "forward" projection using survey data for 2000 and a "backward" projection using survey data for 2003.

Table 7. Primary Commodity Prices (US Dollars - % change from a year ago)

Commodity	Actual									Projections	
	1980-90	1991-98	2001	2002	2003	2004	2005	2006	2007	2008	2009
Crude oil average	0.0	-5.7	-13.7	2.4	15.9	30.6	41.5	20.4	10.4	22.3	-4.4
Non-Energy Commodities	-0.8	0.4	-9.1	5.3	10.2	17.5	13.4	24.6	15.7	13.3	-6.9
Agriculture	-1.9	0.8	-9.1	8.6	9.6	10.5	8.0	12.0	15.0	14.0	-2.5
Cocoa	-7.3	4.0	18.0	66.4	-1.5	-11.5	-0.8	3.5	21.9	13.4	-4.4
Coffee, arabica	-3.6	12.6	-28.5	-1.2	4.3	25.3	42.7	-0.4	7.4	5.2	-2.9
Coconut oil	-1.4	10.6	-29.4	32.4	11.0	41.4	-6.6	-1.6	51.4	8.8	-3.1
Palm oil	-3.0	12.3	-7.9	36.6	13.6	6.3	-10.4	13.3	63.3	34.4	-3.8
Rice, Thai, 5%	0.8	2.1	-14.6	11.0	3.0	20.3	20.4	6.5	5.8	55.0	4.0
Sugar, world	16.4	-2.8	5.6	-20.3	3.0	1.1	37.9	49.5	-31.9	26.1	7.1
Logs, Malaysia	1.9	3.4	-16.3	2.7	14.5	5.4	3.0	17.9	12.8	1.9	1.8
Sawnwood, Malaysia	4.1	-0.1	-19.1	9.4	4.6	5.5	13.4	13.6	7.8	4.0	-1.8
Rubber, RSS1, Singapore	-1.7	0.5	-13.8	33.0	41.5	20.4	15.2	40.3	8.6	2.6	-2.6
Metals and minerals	2.9	-2.6	-9.6	-3.1	12.7	37.1	26.7	50.9	13.9	8.6	-14.4
Tin	-6.7	-0.7	-17.5	-9.5	20.5	73.9	-13.3	19.0	65.7	10.0	-18.8
Copper	4.3	-4.1	-13.0	-1.2	14.1	61.1	28.4	82.7	6.4	-2.1	-14.3

Source: World Bank DEC Prospects Group. Projections as of 2/28/08.

Table 8. East Asia: Exchange Rates (LCU/\$)

	China	Indonesia	Korea	Malaysia	Philippines	Singapore	Taiwan, China	Thailand	Yen
Mar-2007	7.73	9118	940.30	3.46	48.26	1.52	33.09	35.02	117.65
Apr-2007	7.71	9083	929.40	3.42	47.51	1.52	33.28	34.77	119.6
May-2007	7.65	8828	929.90	3.40	46.27	1.53	33.02	34.65	121.62
Jun-2007	7.62	9054	926.80	3.45	46.33	1.53	32.74	34.54	123.23
Jul-2007	7.57	9186	923.20	3.45	45.61	1.51	32.81	33.81	118.95
Aug-2007	7.56	9410	939.90	3.50	46.70	1.52	33.00	34.33	116.2
Sep-2007	7.51	9137	920.70	3.42	45.06	1.49	32.58	34.27	115.05
Oct-2007	7.47	9103	907.40	3.34	43.95	1.45	32.41	34.00	114.75
Nov-2007	7.40	9376	929.60	3.36	42.80	1.45	32.27	33.85	110.3
Dec-2007	7.30	9419	938.20	3.31	41.40	1.44	32.44	33.75	114
Jan-2008	7.19	9291	943.90	3.24	40.63	1.42	32.20	33.03	106.405
Feb-2008	7.11	9051	943.90	3.19	40.36	1.39	30.95	31.87	106.585

Table 9. East Asia: Foreign Reserves Minus Gold (US\$ Billion)

	China	Indonesia	Malaysia	Philippines	Thailand	Hong Kong (SAR)	Korea	Singapore	Taiwan, China	Total
Dec-1997	142.8	17.4	20.8	7.3	26.3	92.8	20.4	71.3	83.5	482.5
Dec-1998	149.2	23.5	25.6	9.3	28.8	89.7	52.0	75.1	90.3	543.4
Dec-1999	157.7	27.3	30.6	13.3	34.1	96.2	74.0	77.0	106.2	616.4
Dec-2000	168.3	29.4	29.5	13.1	32.0	107.5	96.1	80.2	106.7	662.9
Dec-2001	215.6	28.0	30.5	13.5	32.4	111.2	102.8	75.7	122.2	731.7
Dec-2002	291.1	32.0	34.2	13.3	38.1	111.9	121.3	82.2	161.7	885.9
Dec-2003	408.2	36.3	44.6	13.7	41.1	118.4	155.3	96.2	206.6	1120.3
Dec-2004	614.5	36.3	66.4	13.1	48.7	123.5	199.0	112.6	241.7	1455.9
Dec-2005	821.5	34.7	70.2	15.9	50.7	124.2	210.3	116.2	253.3	1697.1
Dec-2006	1068.5	42.6	82.2	20.0	65.3	133.2	238.9	136.3	266.1	2053.0
Dec-2007	1530.3	56.9	101.1	30.2	85.2	152.6	262.1	162.7	270.3	2651.5
Jan-2008	1591.9	56.0	109.0	31.0	90.3	159.9	261.8	167.4	272.8	2740.0
Feb-2008	1639.9	57.1	116.0	32.2	97.9	160.3	262.3	171.4	277.8	2814.9

Source: Haver Analytics, Datastream

Table 10a. East Asia: Balance of Payments (Percent of GDP)

	Overall Balance/a				Current Account				Capital Account/b			
	2004	2005	2006	2007/c	2004	2005	2006	2007/c	2004	2005	2006	2007/c
East Asia	8.7	5.4	6.8	10.0	4.5	5.7	7.3	8.8	4.2	-0.3	-0.4	1.2
China	10.7	9.0	8.9	14.2	3.5	7.0	9.0	11.1	7.1	2.0	-0.1	3.2
S.E. Asia	4.6	1.0	4.6	6.3	3.4	2.1	5.3	6.1	1.3	-1.1	-0.7	0.2
Indonesia	0.0	-0.6	2.2	3.3	0.6	0.1	3.0	2.5	-0.6	-0.6	-0.8	0.8
Malaysia	17.5	2.8	7.7	10.1	12.1	14.6	16.3	15.0	5.4	-11.8	-8.7	-4.8
Philippines	-0.6	2.8	3.5	7.0	1.6	1.9	4.9	4.5	-2.3	0.9	-1.5	2.5
Thailand	4.7	1.1	7.1	8.1	1.7	-4.3	1.1	6.5	3.0	5.5	6.0	1.6
NIEs	7.8	1.9	4.5	4.3	6.5	5.5	5.2	6.0	1.3	-3.7	-0.8	-1.8
Hong Kong	3.1	0.4	4.7	9.4	9.5	11.4	12.1	13.4	-6.4	-11.0	-7.4	-4.0
Korea	6.4	1.4	3.2	2.4	4.1	1.9	0.5	0.6	2.3	-0.5	2.7	1.8
Singapore	15.0	3.0	14.7	16.4	20.1	24.5	21.8	24.2	-5.1	-21.5	-7.1	-7.8
Taiwan, China	10.6	3.2	3.5	1.1	5.6	4.5	6.7	8.2	5.0	-1.2	-3.2	-7.1
Median for 9	6.4	2.8	4.7	8.1	4.1	4.5	6.7	8.2	2.3	-0.6	-1.5	0.8

/a Equals change in foreign reserves.

/b Includes errors and omissions.

/c CHN and MYS are estimates; HKG is four-quarter total through Q3-2007.

Table 10b. East Asia: Capital Account Components (Percent of GDP)

	Net FDI				Net Portfolio				Net Other Capital			
	2004	2005	2006	2007/c	2004	2005	2006	2007/c	2004	2005	2006	2007/c
East Asia	1.5	2.2	1.5	1.5	-0.2	-0.9	-2.5	-1.9	1.5	-0.6	0.4	0.7
China	2.7	2.9	2.2	2.3	1.0	-0.2	-2.4	-0.6	2.0	-0.2	0.5	1.4
S.E. Asia	1.1	2.2	1.5	1.2	2.3	1.4	1.6	0.9	-2.0	-3.1	-3.7	-2.5
Indonesia	-0.6	1.8	0.6	0.3	1.7	1.5	1.1	1.6	-0.4	-3.3	-1.0	-1.4
Malaysia	2.1	0.7	0.0	1.9	7.0	-2.7	2.3	2.1	-4.9	-5.1	-9.8	-8.4
Philippines	0.1	1.7	1.7	-0.4	-2.0	3.5	2.0	2.1	0.0	-3.0	-5.1	0.9
Thailand	3.6	4.3	3.9	3.4	1.9	3.1	1.8	-1.9	-3.2	-1.1	-2.9	-1.9
NIEs	0.0	1.0	0.5	0.3	-3.3	-3.1	-4.9	-5.9	2.5	0.0	2.3	1.3
Hong Kong	-7.0	3.6	0.0	5.2	-23.7	-17.7	-14.1	-12.8	18.6	2.0	3.2	-5.5
Korea	0.7	0.3	-0.5	-1.4	1.3	-0.2	-2.6	-2.0	-0.6	0.9	5.4	4.3
Singapore	10.8	8.3	9.2	7.3	-6.4	-6.9	-6.5	-10.3	-11.1	-17.3	-12.9	-8.4
Taiwan, China	-1.6	-1.2	0.0	-1.0	-1.4	-0.8	-5.2	-10.4	5.4	3.0	0.1	1.3
Median for 9	0.7	1.8	0.6	1.9	1.0	-0.2	-2.4	-1.7	-0.4	-1.1	-1.0	-1.4

/c CHN and MYS are estimates; HKG is four-quarter total through Q3-2007.

Table 11. NPLs in the Commercial Banking System of the Crisis-Affected Countries (% of total loans)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007			
	Dec	Dec	Dec	Dec	Dec	Dec	Dec	Dec	Dec	Dec	Mar	Jun	Sep	Dec
China						23.1	17.9	13.2	8.6	7.1	6.6	6.5	6.2	6.2
Indonesia /a	7.2	48.6	32.9	18.8	12.1	7.5	6.8	4.5	7.6	6.1	6.0	5.8	5.2	4.1
Korea /b	6.0	7.3	13.6	8.8	3.3	2.4	2.2	2.0	1.3	0.9	0.9	0.8	0.8	0.7
Malaysia /c	..	10.6	11.0	9.7	11.5	10.2	9.0	7.5	5.8	4.8	4.4	4.1	3.5	3.2
Philippines /d	4.7	10.4	12.3	15.1	17.3	15.0	14.1	12.7	8.2	5.7	5.3	5.2	5.2	4.5
Thailand /e	..	45.0	39.9	19.5	11.5	18.1	13.9	11.6	8.3	8.1	7.5	7.9	8.0	7.3

(a) Excludes IBRA's AMC. (b) Excludes KAMCO/KDIC. (c) Excludes Danaharta. This NPL series, used by Bank Negara Malaysia, is net of provisions and excludes interest in suspense; (d) From September 2002 onwards, the NPLs ratios are based on the new definition of NPLs under BSP Circular 351 which allows banks to deduct bad loans with 100 percent provisioning from the NPL computations; (e) Excludes transfers to AMCs. (The jump in headline NPLs in December 2002 was a one-off increase, reflecting a change in definition and did not affect provisioning)

Key Indicators

Cambodia

	2002	2003	2004	2005	2006	2007 /e	2008 /p	2009 /p
	Year	Year	Year	Year	Year	Year	Year	Year
Output, Employment and Prices								
Real GDP (% change, previous year)	6.5	8.5	10.0	13.5	10.8	9.6	7.5	7.0
Industrial production index (2000=100)	130.2	145.9	170.1	191.7	226.7	255.0	280.5	300.0
(% change, previous year)	17.1	12.0	16.6	12.7	18.3	12.5	10.0	7.0
Unemployment rate (%)	..	..	1.0	..	..	..	..	..
Real wage growth (%)	..	..	..	..	..	..	..	..
Consumer price index (end-of-period % change)	3.7	0.5	5.6	6.7	2.8	10.8	7.0	5.0
Public Sector								
Government balance (% GDP)	-6.6	-6.0	-4.6	-2.7	-2.8	-0.5	-2.0	-2.0
Domestic public sector debt (% GDP)	..	..	..	..	..	..	..	..
Foreign Trade, BOP and External Debt								
Trade balance (US\$ million)	-563	-581	-681	-1,018	-1,056	-1,312	-1,470	-1,650
Exports of goods, (US\$ million)	1,755	2,087	2,589	2,910	3,693	4,112	4,540	5,000
(% change, previous year)	11.7	18.9	24.1	12.4	26.9	11.4	10.4	10.1
Key export, Garments (% change, previous year)	15.7	19.7	22.6	11.4	19.8	7.9	6.0	5.0
Imports of goods, (US\$ million)	2,318	2,668	3,270	3,928	4,749	5,424	6,010	6,650
(% change, previous year)	10.7	15.1	22.5	20.1	20.9	14.2	10.8	10.6
Current account balance (US\$ million, excl. off. transfers)	-357	-497	-436	-591	-525	-587	-725	-750
(% GDP)	-8.4	-10.7	-8.2	-9.5	-7.2	-6.8	-7.3	-6.7
Foreign direct investment (US\$ million)	139	74	121	375	475	598	660	750.0
Total Debt Outstanding (US\$ million)	2,587	2,868	3,080	3,155	3,302	2,431	2,613	2,818
(% GDP)	60.8	61.7	58.2	50.5	45.0	28.0	26.4	25.3
Short-term debt (US\$ million)	216.8	221.4	262.1	279.4	209.1	230.0	235.0	250.0
Debt service ratio (% exports of g&s), accrual basis	2.6	2.6	2.1	1.8	1.4	0.8	0.8	1.0
Reserves, Gross (\$US million)	663	737	809	915	1,097	1,616	1,850	2,200
(months of imports of goods and services)	3.0	2.8	2.1	2.0	2.0	2.7	2.8	3.0
Financial Markets								
Domestic credit (% change, previous year)	8.6	28.3	33.0	22.6	35.7	70.7	25.0	25.0
Short-term interest rate (one-year US\$ loans)	17.5	17.3	16.7	16.2	16.4	15.5	15.0	14.0
Exchange rate (end-period)	3935	3980	4031	4116	4061	4003	4050	4050
Real effective exchange rate (2000=100)	101.4	95.3	93.4	93.4	94.3	95.3	96.6	97.0
(% change, previous year)	1.3	-6.0	-2.1	0.0	1.0	1.0	1.4	0.4
Stock market index (end-period, Aug 88=100)	..	..	..	..	..	..	..	..
Memo: Nominal GDP in US\$ million	4,258	4,650	5,295	6,242	7,340	8,696	9,906	11,120

e = estimate

p = projection

China

	2002	2003	2004	2005	2006	2007	2008/p	2009/p	2007				2008			
	Year	Year	Year	Year	Year	Year	Year	Year	Q1	Q2	Q3	Q4	Nov	Dec	Jan	Feb
Output, Employment and Prices																
GDP (% change previous year)	9.1	10.0	10.1	10.4	11.1	11.4	9.4	9.2	11.1	11.9	11.5	11.2	..	..	..	..
Industrial production index (value-added)/8	10.0	12.8	11.5	11.6	12.5	10.5	10.0	8.0	18.3	18.7	18.5	17.5	17.3	17.4	..	15.4
Unemployment rate (%) /1	4.0	4.3	4.2	4.2	4.1	4.2	4.2	4.2	..	..	..	..	..	..	..	..
Real wage growth	15.5	12.0	10.5	12.8	12.7	..	..	..	..	..	..	..	..	..	..	..
Consumer price index (% change, previous year)	-0.8	1.2	3.9	1.8	1.5	4.8	4.6	4.0	2.7	3.6	6.1	6.6	6.9	6.5	7.1	8.7
Public Sector																
Government balance (% GDP)	-3.0	-2.5	-1.5	-1.3	-0.5	-0.6	-0.9	-1.4	..	..	..	..	..	..	..	..
Domestic public sector debt (% GDP)/7	18.3	18.6	18.0	17.5	16.1	14.2	13.2	12.8	..	..	..	..	..	..	..	..
Foreign Trade, BOP and External Debt																
Trade balance (\$US billion)	44.1	44.8	59.0	134.2	170.0	262.0	270.0	239.0	46.4	66.0	73.2	75.8	26.3	22.5	19.3	8.6
Exports of goods (\$US billion)	325.6	438.4	593.4	762.5	969.1	1218.0	1449.0	1708.0	252	294.6	331.6	339.5	117.6	114.2	109.5	87.4
(% change, previous year)/2	22.4	34.6	35.4	28.4	27.1	25.7	18.9	17.9	27.8	27.4	26.3	22.1	22.7	21.4	26.4	6.5
Key export (% change, previous year) /3	23.9	35.8	37.0	29.0	29.1	27.1	19.6	18.4	28.6	27.8	21.7	9.2	10.8	7.8	20.6	..
Imports of goods (\$US billion)	281.5	393.6	534.4	628.3	754.0	956.0	1179.0	1469.0	205.6	228.6	258.4	263.7	91.3	91.7	90.2	78.8
(% change, previous year)/2	21.2	39.8	35.8	17.6	17.9	20.8	23.2	24.6	20.6	18.3	20.6	25.4	25.2	25.5	27.5	35.1
Current account balance (\$US billion)	35.4	45.9	68.7	160.8	230.0	359.0	378.0	339.0	..	..	..	..	..	..	..	..
(% GDP)	2.4	2.8	3.6	7.2	8.7	11.0	9.3	6.8	..	..	..	..	..	..	..	..
Foreign direct investment (US\$ billion)/4	49.3	47.1	54.9	79.1	78.1	85.4	85.0	87.0	..	..	..	..	..	..	..	..
Total external debt (\$US billion)	186.4	208.7	248.9	281.6	322.8	350.9	410.2	470.4	..	..	..	..	..	..	..	..
(% GDP)	13.0	12.6	12.8	12.2	11.6	10.8	10.3	9.9	..	..	..	..	..	..	..	..
Short-term debt (\$US billion)	65.7	88.1	115.8	148.3	173.4	..	..	..	..	..	..	..	..	..	..	..
Debt service ratio (% exports of g&s)	7.8	7.1	3.3	3.0	2.5	3.0	1.6	1.6	..	..	..	..	..	..	..	..
Reserves, including gold (\$US billion)	292.0	409.2	615.5	822.5	1074.0	1533.0	1991.0	2345.5	..	..	..	..	..	..	..	..
(months of imports of goods and services)	10.5	10.6	12.0	14.9	16.2	19.2	18.9	18.3	17.5	18.7	19.1	19.2	19.2	19.2	19.2	19.2
Total reserves excl. gold (\$US billion)	291.1	408.2	614.5	821.5	1070.0	1529.2	1987.2	2341.4	1204.0	1334.6	1345.6	1530.3	1499.0	1530.0	..	..
Financial Markets																
Domestic credit (% change, previous year, nominal)	29.3	19.6	8.8	10.7	16.3	..	..	..	14.5	..	..	..	..	..	..	..
Short-term interest rate (less than 20 days)/5	2.7	2.7	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3
Exchange rate (end-period)	8.3	8.3	8.3	8.2	7.8	7.3	6.8	6.4	7.7	7.6	7.5	7.3	7.4	7.3	7.1944	7.12
Real effective exchange rate (+ = appn) 2000=100	101.9	95.2	92.7	92.5	94.4	..	..	..	97.3	98.2	100.7	..	..	..	..	..
(% change, previous year)	-2.8	-6.6	-2.6	-0.2	2.1	..	..	..	..	..	..	..	..	..	..	..
Stock market index (Dec. 19, 1990=100), close/6	1358.0	1497.0	1266.5	1161.0	2675.0	5261.6	..	..	3184.0	3924	5552.3	5261.6	4871.8	5216.6	4383.4	4348.5
Memo: GDP (US\$ billion)	1453.8	1641.0	1931.7	2243.9	2645.0	3378.0	4182.0	5080.0	689.0	774.0	812.0	1103.0	..	..	..	..

p = projection

1/ Official unemployment only, not including laid-off workers

2/ Nominal growth rate

3/ Manufactured exports

4/ Gross FDI

5/ Central Bank loans to financial institutions6/ Shanghai Stock Exchange High Comprehensive Index (A share, Dec.19, 7/ Includes treasury bond, policy financial bond and other financial bond (end-period outstanding)1990=100)

8/Annual data are not comparable with the quarterly and monthly data. Annual data cover all industrial enterprises while the quarterly and monthly ones only refer to those enterprises with sales value above Rmb5 millions.

Indonesia

	2002	2003	2004	2005	2006	2007	2008 /p	2009 /p	2007				2007		2008	
	Year	Year	Year	Year	Year	Year	Year	Year	Q1	Q2	Q3	Q4	Nov	Dec	Jan	Feb
Output, Employment and Prices																
GDP (% change previous year) /1	4.4	4.7	5.0	5.7	5.5	6.3	6.0	6.4	6.1	6.4	6.5	6.3	..	..	..	..
Industrial production index (2000=100)	108	114	117	119	117	123	..	..	117	123	129	124	125	126	..	..
(% change, previous year)	2.8	5.5	3.3	1.3	-1.6	5.3	..	..	7.2	6.9	3.8	3.6	3.3	1.6	..	..
Unemployment Rate (%)	9.1	9.5	9.9	10.3	10.6	..	..	..	..	..	..	..	..	..	..	..
Real Wage Growth (%)	1.0	7.1	0.3	7.4	-4.2	..	..	..	..	..	..	..	..	..	..	..
Consumer price index (% change, previous year)	11.5	6.8	6.1	10.5	15.4	6.9	5.7	..	6.4	6.0	6.5	6.7	6.7	6.6	7.4	7.4
Public Sector																
Government balance (% GDP) /2	-1.1	-1.7	-1.0	-0.5	-0.9	-1.3	-1.7	..	..	..	..	..	..	..	..	..
Domestic public sector debt (% GDP)	34.9	30.1	27.5	22.3	20.8	19.4	18.0	..	..	..	..	..	..	..	..	..
Foreign Trade, BOP and External Debt																
Trade balance (million US\$)	23,513	24,563	20,152	17,534	29,660	33,084	33,550	..	7,803	8,198	7,579	9,504	..	..	..	..
Exports of goods, (million US\$)	59,165	64,109	70,767	86,995	103,528	118,014	128,918	..	26,626	29,202	30,009	32,177	..	..	..	..
(% change, previous year)	3.1	8.4	10.4	22.9	19.0	14.0	9.2	..	14.4	14.6	8.7	22.0	..	..	..	..
Key Exports, (% change, previous year) /3	-8.7	-3.6	16.1	15.3	18.1	16.8	..	..	-5.0	-16.8	-65.8	56.3	..	..	..	..
Imports of goods, (million US\$)	35,652	39,546	50,615	69,462	73,868	84,930	95,368	..	18,823	21,004	22,430	22,673	..	..	..	..
(% change, previous year)	2.8	10.9	28.0	37.2	6.3	15.0	12.3	..	13.6	13.5	18.0	19.7	..	..	..	..
Current account balance (\$million US)	7,823	8,106	1,563	278	14,510	12,543	11,328	..	2,892	2,533	2,194	3,389	..	..	..	..
(percent GDP)	3.8	3.4	1.2	0.1	2.9	2.5	2.0	..	3.2	2.8	2.4	3.8	..	..	..	..
Foreign Direct Investment (million US\$) /4	145	-950	1,896	1,066	-2,703	-4,407	-3,390	..	-1,262	390	-1,413	-2,123	..	..	..	..
Total external debt (million US\$)	132,254	132,852	133,633	128,813	129,594	128,208	136,640	..	..	..	..	..	..	..	..	..
(% GDP)	64.9	55.2	52.0	45.1	36.0	29.6	30.7	..	..	..	..	..	..	..	..	..
Short-term debt (million US\$)	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Debt service ratio (% exports of g&s)	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Reserves, including gold (billion US\$)	32,046	36,253	36,303	36,089	44,034	57,926	..	..	..	..	..	..	..	..	..	..
(months of imports of goods and services)	7.6	7.0	5.6	..	4.5	6.4	..	..	..	..	..	..	..	..	..	..
Financial Markets																
Domestic credit (% change, previous year)	4.7	5.3	17.8	11.1	8.5	14.5	..	..	7.7	8.0	10.2	14.5	12.7	14.5	..	..
Short-term interest rate /5	12.9	8.3	7.4	9.2	11.6	8.4	..	..	9.0	8.5	8.3	8.0	8.3	8.0	8.0	8.0
Exchange rate (average period)	9,311	8,500	8,938	9,704	9,283	9,200	..	..	9,114	9,086	9,113	9,164	9,376	9,419	9,240	9,104
Real effective exchange rate (2000=100 and + = appn)	114.7	121.6	115.7	114.2	133.8	134.8	..	..	136.3	138.2	134.4	130.5	128.7	128.6	..	..
(% change, previous year)	..	6.0	-4.8	-1.3	17.1	0.7	..	..	8.7	2.4	1.4	-3.6	..	..	..	..
Stock market index (end-period, Aug 88=100)	425	653	753	1,162	1,805	2,746	..	..	1,831	2,139	2,359	2,746	..	..	2,627	2,722
Memo: GDP in US\$ million (based on ave exch rate)	212,282	246,516	256,835	285,861	359,741	432,503	444,558	..	100,972	105,968	113,378	113,611	..	..	..	..

p = projection

/1 Based on GDP 2000 base

/2 Central Government budget. Indonesia fiscal year: April-March until the year FY1999; covers only nine months April-December in FY2000; and, starting FY2001, changes to January-December.

/3 Crude oil exports

/4 FDI reporting uses a new classification starting in 2004

/5 One-month Bank Indonesia Certificates

Fiji

	2002	2003	2004	2005	2006 /e	2007/e	2008/p	2009/p
	Year	Year	Year	Year	Year	Year	Year	Year
Output, Employment and Prices								
GDP (% change previous year)	3.2	1.0	5.3	0.7	3.6	-3.9	2.0	2.0
Tourist arrivals ('000)	397.9	430.8	502.8	549.9	545.2	539.3	..	..
(% change, previous year)	14.3	8.3	16.7	9.4	-0.9	-5.0	..	..
Unemployment rate (%)	..	8.1	..	..	..	..	..	..
Real wage growth (%)	..	..	..	..	..	..	..	..
Consumer price index (% change, previous year)	0.8	4.2	2.8	2.4	2.5	4.3	5.0	3.0
Public Sector								
Government balance (% GDP)	-5.6	-6.0	-3.2	-3.6	-3.0	-0.1	-1.0	-1
Domestic public sector debt (% GDP)	43.2	44.9	44.7	44.5	53.0	49.1	47.2	45.1
Foreign Trade, BOP and External Debt								
Trade balance (Customs data, US\$million)	-310.5	-423.5	-620.1	-763.8	-928.5	-763.9	-1053.4	-1093.5
Exports of goods (Customs data, US\$million)	489.4	640.4	665.6	697.8	711.4	741.7	761.9	783.5
(% change, previous year)	-4.8	30.9	3.9	4.8	1.9	4.3	2.7	2.8
Key export: Sugar (% change in value, previous year)	8.4	11.1	1.4	9.6	-6.1	6.7	-7.5	-22.1
Imports of goods (Customs data, US\$million)	799.9	1063.9	1285.7	1461.6	1639.9	1654.4	1759.2	1877.0
(% change, previous year)	2.9	33.0	20.8	13.7	12.2	0.9	6.3	6.7
Current account balance (US\$million)	-20.5	-94.6	-370.4	-396.4	-715.3	-548	-613.3	-662.0
(percent GDP)	-1.1	-4.1	-13.6	-13.2	-22.8	-16.3	-17.4	-17.8
Foreign direct investment (US\$million)	26.2	29.1	102.7	-15.0	373.1	89.0	113.0	123.0
Total external debt (US\$million)	281	357	357	396	445	..	..	..
(% GDP)	15.7	15.5	13.1	13.2	14.2	..	..	..
Short-term debt (US\$million)	36.7	86.1	75.3	111	0	..	..	..
Debt service ratio (% exports of g&s)	1.8	1.7	1.5	1.3	1.7	2.5	2.2	2.2
Reserves, including gold (US\$million)	437.9	547.9	635.6	471.3	494.6	620.5	..	..
(months of imports of goods and non factor services)	6.3	5.6	5.6	4.0	3.3	4.3	..	..
Financial Markets								
Domestic credit (private, % change, previous year)	5.0	16.8	18.0	24.5	23.7	6.9	..	..
Short-term interest rate	1.25	1.19	1.75	2.25	n.i.	4.25	..	..
Exchange rate (end-of-period)	2.06	1.72	1.65	1.74	1.66	1.545	..	..
Real effective exchange rate (2000=100 and + = appn)	100.8	107.6	109.8	109.2	107.0	109.77	..	..
(% change, previous year)	0.3	6.7	2.0	-0.5	-2.1	2.6	..	..
Stock market index (end-period, Aug 88=100)	..	..	..	..	..	..	..	..
Memo: GDP in US\$ million	1796.8	2309.3	2728	2997.9	3137.9	3367.0	3520.3	3717.6

e = estimate

p = projection

1/ Reserves data includes foreign assets of non-bank financial institutions as reported by the Reserve Bank of Fiji.

Korea

	2002	2003	2004	2005	2006	2007	2008	2009	2007				2007		2008	
	Year	Year	Year	Year	Year	Year	Year	Year	Q1	Q2	Q3	Q4	Nov	Dec	Jan	Feb
Output, Employment and Prices																
GDP (% change, previous year)	7.0	3.1	4.7	4.2	5.0	5.0	4.6	5.0	4.0	5.0	5.2	5.5	..	..	..	..
Industrial production index (2000=100)	80.7	85.2	94.0	100.0	108.3	115.7	..	..	109.5	114.8	112.6	126.1	127.4	122.6	125.9	..
(% change, previous year)	8.0	5.5	10.4	6.3	8.3	6.8	..	..	3.9	6.1	6.0	10.9	7.7	9.6	11.8	..
Unemployment rate (%)	3.3	3.6	3.7	3.7	3.5	3.3	..	..	3.6	3.3	3.1	3.0	3.0	3.1	3.3	3.5
Norminal wage (% change)	11.5	9.4	6.5	6.4	5.6	0.0	..	..	5.5	5.6	4.3	6.9	5.6	4.6	-8.3	..
Real wage growth (% change previous year)	8.5	5.7	2.8	3.5	3.3	-2.5	..	..	3.4	3.1	1.9	3.4	2.0	0.9	-11.7	..
Consumer price index (% change, previous year)	2.8	3.5	3.6	2.7	2.2	2.5	..	..	2.0	2.4	2.3	3.4	3.5	3.6	3.9	3.6
Public Sector																
Government balance (% GDP) 1/	2.3	2.7	2.2	1.9	1.8	1.5	..	..	..	..	..	..	..	..	..	..
Consolidated central government debt (% GDP) 2/	18.5	21.9	25.2	29.5	33.4	33.4	..	..	..	..	..	..	..	..	..	..
Foreign Trade, BOP and External Debt																
Trade balance (\$US billion) 3/	10.3	15.0	29.4	23.2	16.1	14.7	..	..	2.5	5.0	4.5	2.7	1.9	-9	-3.7	-0.8
Exports of goods (\$US billion) 3/	162.5	193.8	253.8	284.4	325.5	371.5	..	..	84.7	93.0	90.5	103.3	35.8	33.0	32.4	31.5
(% change, previous year) 3/	8.0	19.3	31.0	12.0	14.4	14.1	..	..	14.7	14.1	9.4	18.2	17.0	14.8	15.5	20.2
Imports of goods (\$US billion) 3/	152.1	178.8	224.5	261.2	309.4	356.8	..	..	82.3	88.0	86.1	100.6	35.8	33.0	32.4	31.5
(% change, previous year) 3/	7.8	17.6	25.5	16.4	18.4	15.3	..	..	13.4	14.7	7.3	25.9	26.8	23.2	31.1	27.3
Current account balance (\$US billion)	5.4	11.9	28.2	15.0	5.4	6.0	..	..	-1.7	0.0	4.4	3.2	1.5	-8	-2.6	..
(% GDP)	1.0	1.8	4.1	1.9	0.5	0.6	..	..	-0.8	0.0	1.8	1.2	..	..	..	..
Foreign direct investment, net (US\$ billion) 4/	-0.2	0.1	4.6	2.0	-4.5	-13.7	..	..	-1.0	-2.9	-2.4	-7.4	-1.7	-1.3	-2.5	..
Total external debt (\$US billion)	141.5	157.4	172.3	187.9	260.1	380.7	..	..	281.7	311.6	342.9	380.7	..	..	..	..
(% GDP)	25.8	25.9	25.3	23.7	29.3	39.4	..	..	32.2	32.6	34.9	36.1	..	..	..	..
Short-term debt (\$US billion)	48.2	50.8	56.3	65.9	113.7	158.7	..	..	128.7	137.5	146.3	158.7	..	..	..	..
Debt service ratio (% exports of g&s) 5/	12.5	13.1	10.7	7.9	7.4	7.6	..	..	..	..	..	..	..	..	..	..
Usable reserves (\$US billion)	121.3	155.3	199.0	210.3	238.9	262.1	..	..	243.8	250.6	257.2	262.1	261.9	262.1	261.8	262.3
(months of imports of goods and services)	7.9	8.6	8.8	8.0	7.7	7.3	..	..	7.2	7.1	7.3	6.5	6.5	6.5	5.9	..
Financial Markets																
Domestic credit (% change, previous year) 6/	18.2	9.3	2.4	9.4	14.8	..	..	..	15.5	14.4	..	..	..	..	..	..
Short-term interest rate 7/	4.2	4.0	3.6	3.3	4.2	4.8	..	..	4.6	4.6	4.9	5.0	5.0	5.0	5.0	4.97
Exchange rate (end-period)	1186.2	1192.6	1035.1	1011.6	929.8	936.1	..	..	940.9	923.8	915.1	936.1	921.1	936.1	943.9	939
Real effective exchange rate (2000=100) (+ = appn)	98.4	100.0	101.8	114.2	122.7	122.8	..	..	123.6	124.3	122.7	120.8	120.4	119.3	..	..
(% change, previous year)	4.9	1.7	1.8	12.1	7.5	-38.5	..	..	1.9	1.2	0.2	-2.9	-3.5	-4.5	..	..
Stock market index (1/4/1980=100)	627.6	810.7	895.9	1379.4	1434.5	1897.1	..	..	1452.6	1743.6	1946.5	1897.1	1906.0	1897.1	1624.7	1711.62
Memo: GDP (US\$ billion)	548.7	608.5	682.1	791.2	888.9	966.9	..	..	218.5	239.1	245.5	263.8	..	..	..	..

p = projection

1/ Consolidated central government. Excludes privatization proceeds. Starting 2000, includes the civil service pension fund.

2/ Domestic & external debt. In 2003-06, W49 trillion in government-guaranteed KDIC/KAMCO bonds were converted to treasury bonds.

3/ Trade figures are on a customs-clearance basis.

4/ Foreign direct investment is on a net basis as reported in the BOP.

5/ source: IMF

6/ source: IMF IFS

7/ Overnight repo rate (end-of-period).

Lao PDR

	2002	2003	2004	2005 /e	2006 /e	2007 /p	2008 /p	2009 /p
	Year	Year	Year	Year	Year	Year	Year	Year
Output, Employment and Prices								
GDP (% change previous year)	5.9	6.1	6.4	7.1	7.6	7.1	7.6	8.2
Industrial production index (1993=100)	..	..	..	..	..	..	..	..
(% change, previous year)	..	..	..	..	..	..	..	..
Unemployment rate (%)	..	..	..	..	..	..	..	..
Real wage growth (%)	..	..	..	..	..	..	..	..
Consumer price index (% change, previous year)	10.6	15.5	10.5	7.2	6.8	4.5	6.0	6.0
Public Sector 1/								
Government balance, after grants (% GDP)	-2.8	-5.6	-3.4	-4.4	-3.7	-1.3	-0.6	-0.5
Domestic public sector debt (% GDP)	..	..	..	..	..	..	..	..
Foreign Trade, BOP and External Debt								
Trade balance (US\$ million)	-262.9	-243.6	-477.6	-559.3	-388.1	-886.8	-914.8	-908.4
Exports of goods (US\$ million)	370.1	450.1	499.6	646.3	996.0	1008.9	1198.4	1276.3
(% change, previous year)	2.3	21.6	11.0	29.4	54.1	1.3	18.8	6.5
Key Export (% change, previous year)	1.7	22.0	10.8	30.3	57.8	1.1	20.3	6.9
Imports of goods (US\$ million)	633.0	693.7	977.2	1205.6	1384.1	1895.7	2113.2	2184.7
(% change, previous year)	-2.6	9.6	40.9	23.4	14.8	37.0	11.5	3.4
Current account balance (US\$ million)	-131.3	-174.6	-357.9	-582.0	-456.0	-918.0	-950.0	-800.0
(% GDP)	-7.2	-8.2	-14.3	-20.2	-13.3	-22.9	-21.1	-15.7
Foreign direct investment (net, US\$ million)	60.0	42.0	234.1	349.0	319.0	784.9	854.7	742.3
Total external debt (million US\$ million)	1614.0	2171.0	2530.0	2909.8	3133.6	3383.5	3598.1	3733.8
(% GDP)	88.8	101.0	100.9	100.8	91.2	84.4	79.8	73.4
Short-term debt (US\$ million)	150.6	71.9	95.3	108.6	..	..	..	..
Total debt service ratio (% exports of g&s)	14.0	15.1	17.4	20.9	17.7	20.3	16.4	14.4
Reserves, excluding gold (\$US million)	196.0	214.0	226.0	237.9	335.0	542.0	..	..
(months of imports) 2/	3.0	3.2	3.0	2.8	3.6	4.3	4.5	4.7
Financial Markets								
Domestic credit (% change, previous year)	-7.3	2.8	6.1	19.8	-14.4	..	..	..
Short-term interest rate 3/	21.4	24.9	16.0	15.0	14.5	11.5	..	..
Exchange rate (average)	10058	10516	10582	10636	10061	9622	9615	9615
Exchange rate (end-period)	10680	10467	10377	10767	9655	9341	..	..
Real effective exchange rate (2000=100 and + = appn)	97.3	97.6	103.2	99.0	105.0	104.7	..	..
(% change, previous year)	-0.05	0.00	0.06	-0.04	0.06	0.03	..	..
Stock market index (end-period, Aug 88=100)	..	..	..	..	..	..	..	..
Memo: GDP (US\$ million)	1818.0	2148.8	2508.1	2886.9	3437.3	4008.4	4508.5	5087.9

e = estimate

p = projection

1/ Fiscal year basis

2/ Excluding large projects

3/ Treasury bill rate

Malaysia

	2002	2003	2004	2005	2006	2007 /e	2008 p/	2009 p/	2007			2007		2008		
	Year	Year	Year	Year	Year	Year	Year	Year	Q1	Q2	Q3	Q4	Nov	Dec	Jan	Feb
Output, Employment and Prices																
GDP (% change, previous year)	5.4	5.8	6.8	5.0	5.9	6.3	5.5	5.9	5.5	5.8	6.6	7.3	..	..	..	..
Industrial production index (2000=100)	101.2	110.5	122.5	127.5	133.3	136.3	..	..	131.0	134.6	139.1	140.5	140.1	144.3	..	..
(% change, previous year)	4.7	9.2	10.8	4.1	4.5	2.3	..	..	0.4	1.7	1.7	3.7	2.5	5.0	..	..
Unemployment rate (%)	3.5	3.6	3.6	3.5	3.3	3.3	..	..	..	..	..	..	..	..	..	..
Real wage growth (%)	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Consumer price index (% change, previous year)	1.8	1.0	1.5	3.0	3.6	2.0	2.5	3.0	2.6	1.5	1.8	2.2	2.3	2.4	2.3	2.7
Public Sector																
Government balance (% GDP) /1	-5.3	-5.0	-4.1	-3.6	-3.3	-3.2	-3.5	-3.1	-1.8	2.3	-6.7	..	..	..	..	..
Domestic public sector debt (% GDP) 1/	43.0	45.1	45.7	44.0	42.3	42.3	44.0	42.2	43.3	42.2	41.0	..	..	..	..	..
Foreign Trade, BOP and External Debt																
Trade balance (\$US billion) /2	14.3	21.4	21.5	26.4	30.6	30.4	30.6	35.2	6.1	6.5	8.3	8.6	2.9	2.6	..	..
Exports of goods (\$US billion) /2	94.1	104.7	126.6	141.2	166.8	183.0	193.1	212.4	39.9	42.0	46.4	49.4	16.2	16.1	..	..
(% change, previous year)	6.9	11.3	21.0	11.5	18.1	9.7	5.5	10.0	1.0	1.3	0.9	7.5	5.9	4.3	..	..
Key export: Electronics (% change, previous year)	6.0	5.0	15.4	9.9	6.4	-4.2	..	..	-2.0	-6.7	-5.6	-2.2	-0.5	-7.4	..	..
Imports of goods (\$US billion) /2	79.8	83.3	105.2	114.8	136.1	152.6	162.5	177.1	33.9	35.4	38.1	40.7	13.3	13.5	..	..
(% change, previous year)	8.2	4.4	26.3	9.2	18.6	12.1	6.5	9.0	5.5	1.7	2.0	10.7	3	8.7	..	..
Current account balance (\$US billion)	8.0	13.3	15.1	20.0	26.5	29.1	30.9	40.1	6.0	7.1	8.9	..	..	..	..	..
(% GDP)	8.0	12.1	12.1	14.6	16.3	15.0	14.0	16.9	14.3	16.0	18.4	..	..	..	..	..
Foreign direct investment (US\$ billion) 3/	3.2	2.5	4.6	4.0	6.1	9.4	..	..	..	..	..	..	..	..	..	..
Total external debt (\$US billions)	48.9	49.4	56.8	59.8	58.9	60.7	..	..	51.5	52.7	55.1	60.7	..	..	..	..
(% GDP)	48.4	44.8	45.5	43.5	36.4	31.3	..	..	30.8	29.5	28.4	31.3	..	..	..	..
Short-term debt (\$US billion)	8.5	8.9	12.4	14.2	13.7	17.6	..	..	11.5	13.9	16.5	17.6	..	..	..	..
Debt service ratio (% exports of g&s)	6.7	6.4	4.5	5.4	4.8	3.8	..	..	3.8	4.0	4.8	3.8	..	..	..	..
Reserves, including gold (\$US billion)	33.7	44.2	66.2	70.2	82.5	101.5	106.6	117.3	88.6	98.4	98.5	101.5	..	..	..	..
(months imports of goods)	5.1	5.4	6.5	7.9	7.7	7.8	7.9	7.9	8.1	8.9	8.7	7.8	..	..	..	..
Financial Markets																
Domestic credit (% change, previous year)	4.6	4.8	8.5	8.6	6.3	8.6	..	..	6.2	6.0	9.5	8.6	10.2	8.6	9.3	..
Short-term interest rate /4	2.87	2.99	2.86	2.84	3.54	3.54	..	..	3.55	3.54	3.5	3.5	3.5	3.5	3.6	..
Exchange rate (end-period) /5	3.80	3.80	3.80	3.78	3.53	3.31	3.13	3.1	3.46	3.45	3.4	3.3	3.4	3.3	3.2	..
Real effective exchange rate (2000=100, + = appn) /6	105.0	99.2	94.9	95.2	99.0	102.4	..	..	103.0	103.6	101.3	101.8	101.0	102.2	..	..
(% change, previous year)	0.1	-5.6	-4.3	0.3	4.0	3.4	..	..	4.8	4.2	2.8	2.0	1.9	1.4	..	..
Stock market index	646.3	793.9	907.4	899.8	1096.2	1445.0	..	..	1246.9	1354.4	1336.3	1445.0	1397.0	1445.0	1393.3	1357.0
Memo: GDP (US\$ billions)	100.8	110.2	124.7	137.4	162.1	194.0	221.0	237.1	41.8	44.6	48.5	53.6	..	..	..	..

e = estimate

p = projections

1/ Federal government only

2/ Customs-clearance basis

3/ Source: UNCTAD

4/ One-month interbank rate

5/ Rates in 2008 and 2009 are from EIU

6/ Source: World Bank's estimates

Papua New Guinea

	2002	2003	2004	2005	2006	2007/e	2008/p	2009/p
	Year	Year	Year	Year	Year	Year	Year	Year
Output, Employment and Prices								
GDP (real % change previous year)	-0.2	2.2	2.7	3.4	2.6	6.2	5.8	4.7
Tourist arrivals ('000)	53.8	56.3	59.0	69.3	..	..	..	..
(% change, previous year)	-0.9	4.7	4.9	17.3	..	..	..	..
Unemployment rate (%)	..	..	..	..	..	..	..	..
Real wage growth (%)	..	..	..	..	..	..	..	..
Consumer price index (average % change, previous year)	11.8	14.7	2.1	1.7	2.3	0.9	5.0	5.0
Public Sector								
Government balance (% GDP)	-4.1	-1.2	1.7	3.7	6.8	6.0	3.9	0.6
Domestic public sector debt (% GDP)	22.4	24.5	25.2	22.3	18.1	16.7	15.8	15.4
Foreign Trade, BOP and External Debt								
Trade balance (Customs data, US\$million)	344.0	718.0	760.0	816.0	1394.0	1650.5	1491.2	..
Exports of goods (Customs data, US\$million)	1646.0	2153.0	2554.0	3278.0	4310.0	4903.0	4931.0	..
(% change, previous year)	-12.4	30.8	18.6	28.3	31.5	13.8	0.6	..
Key export: Gold (% change in value, previous year)	-6.1	32.1	10.5	6.0	9.3	27.9	22.4	12.9
Imports of goods (Customs data, US\$million)	1302.0	1435.0	1794.0	2462.0	2916.0	3252.5	3439.8	..
(% change, previous year)	-1.4	10.2	25.0	37.2	18.4	11.5	5.8	..
Current account balance (US\$ million)	-30.7	158.8	88.3	206.8	163.1	261.6	209.0	108.1
(% GDP)	-1.0	4.5	2.2	4.2	2.9	4.3	3.3	1.7
Foreign direct investment (net, US\$ million)	19.2	96.7	25.8	67.9	193.1	287.1	142.1	97.2
Total external debt (US\$ million)	2303.9	2310.9	2158.5	2048.5	2174.8	1958.7	1778.3	1665.4
(% GDP)	76.8	65.3	55.0	41.6	39.0	32.4	27.9	25.5
Short-term debt (US\$ million)	63.6	111.0	109.0	195.0	156.0	167.0	167.0	167.0
Debt service ratio (% exports of goods and services)	16.6	11.1	11.0	8.6	7.3	7.3	6.9	6.4
Reserves, including gold (US\$ million)	339.0	523.0	663.1	764.9	1427.0	2109.4	2445.0	2520.0
(months of imports of goods and non factor services)	2.0	2.7	2.8	2.4	3.8	4.7	5.2	5.3
Financial Markets								
Domestic credit (private, % change, previous year)	15.4	-4.1	0.9	23.7	38.2	30.4	19.8	7.0
Short-term interest rate	10.9	18.7	3.1	3.8	3.4	5.7	8.5	9.6
Exchange rate (end-of-period)	4.0	3.3	3.1	3.1	3.0	3.1	3.2	3.3
Real effective exchange rate (2000=100 and + = appn)	87.4	97.2	99.5	100.6	100.8	96.4	..	..
(% change, previous year)	-6.5	11.2	2.4	1.1	0.3	-4.4	..	..
Stock market index (end-period, Aug 88=100)	..	..	..	..	..	..	..	..
Memo: GDP in US\$ million	2999.5	3536.5	3927.1	4920.7	5578.7	6051.8	6363.6	6532.4

e = estimate

p = projection

Philippines

	2002	2003	2004	2005	2006	2007 / p	2008 / p	2009 / p	2007				2007		2008	
	Year	Year	Year	Year	Year	Year	Year	Year	Q1	Q2	Q3	Q4	Nov	Dec	Jan	Feb
Output, Employment and Prices																
GDP (% change, previous year) 1/	4.3	5.0	6.4	4.9	5.4	7.3	5.9	6.1	7.1	7.5	7.4	7.4	..	..	..	..
Volume of industrial production index (1994 = 100)	110.7	110.7	111.8	114.2	102.9	97.8	..	..	90.0	98.6	101.6	103.0	103.4	..	..	..
(% change, previous year)	-6.1	0.0	1.0	2.2	-9.9	-4.9	..	..	-7.2	-5.2	-2.8	-2.9	-3.0	..	..	..
Unemployment rate (%) 2/	..	7.1	7.1	7.7	7.9	7.3	..	..	7.8	7.4	7.8	6.3	..	..	7.4	..
Nominal wage (% change) 3/	10.3	0.0	3.6	1.5	5.9	5.5	..	..	7.7	7.7	3.4	3.4	..	..	..	..
Real wage (% change) [1994=100] 3/	7.0	-3.8	-1.3	41.6	-0.8	0.4	..	..	5.5	5.7	-4.7	-4.1	..	..	..	..
Consumer price index (% change, previous year)	3.0	3.5	6.0	7.6	6.2	2.8	4.5	3.0	2.9	2.3	2.6	3.3	3.2	3.9	4.9	5.4
Public Sector																
Government balance (% GDP) 4/	-5.3	-4.6	-3.8	-2.7	-1.1	-0.1	0.0	0.0	-3.4	0.7	0.1	1.6	..	..	..	..
Domestic public sector debt (% GDP) 5/	34.4	35.5	34.9	33.6	28.7	..	..	..	27.1	25.5	..	..	..	..	..	..
Foreign Trade, BOP and External Debt																
Trade balance (\$US billion) 6/	0.4	-5.5	-5.7	-7.8	-7.2	-8.2	..	..	-1.0	-1.9	-2.6	-2.7	-1.3	-0.7	..	..
Exports of goods (\$US billion) 6/	34.4	35.3	38.8	40.3	46.2	49.3	..	..	11.9	12.2	12.5	12.7	3.9	4.3	..	..
(% change, previous year)	10.0	2.8	9.8	3.8	14.6	6.9	..	..	11.6	4.9	2.2	9.2	-1.7	19.8	..	..
Key export: Electronics, semiconductors (% change)	11.3	34.5	11.2	2.5	9.3	3.3	..	..	9.2	0.6	-0.9	4.8	-5.0	11.7	..	..
Imports of goods (\$US billion) 6/	34.0	40.8	44.5	48.0	53.3	57.6	..	..	13.0	14.1	15.0	15.5	5.1	5.0	..	..
(% change, previous year)	6.2	20.1	9.0	8.0	11.1	7.9	..	..	4.4	4.5	8.6	13.8	12.3	19.3	..	..
Current account balance (\$US billion) 7/	-4	.3	1.6	2.0	5.9	6.4	..	..	2.0	1.8	1.0	1.6	-62	796	..	..
(% GDP)	-0.5	0.4	1.9	2.0	5.0	4.4	2.7	2.5	6.3	5.4	2.7	3.6	..	..	..	..
Foreign direct investment (US\$ billion)	1.7	0.2	0.1	1.7	2.0	-0.5	..	..	1.3	-2.7	0.5	0.4	0.1	0.1	..	..
Total external debt (\$US billion) 8/	53.6	57.4	54.8	55.5	53.4	..	..	..	54.0	53.0	54.4	..	..	..	..	..
(% GDP)	69.8	72.1	63.1	56.2	45.4	..	..	..	44.3	41.3	40.3	..	..	..	..	..
Short-term debt (\$US billion) 8/	5.6	6.2	5.0	6.2	5.0	..	..	..	5.1	5.9	6.9	..	..	..	..	..
Debt service ratio (% of exports of G&S and income receipts)	17.1	16.9	13.8	13.5	11.7	9.6	..	..	..	..	..	9.6	..	..	..	..
Reserves, including gold (\$US billion) 9/	16.4	17.1	16.2	18.5	23.0	33.8	38.2	40.0	24.7	26.4	30.9	33.8	32.7	33.8	34.8	36.3
(months of imports of g&s and receipts) 9/	4.7	4.3	3.8	3.8	4.4	5.9	..	..	4.5	4.7	5.4	5.9	5.7	5.9	6.1	6.4
Financial Markets																
Net Domestic credit (% change, previous year)	4.8	4.8	9.5	-4.1	6.8	4.7	..	..	9.8	7.5	9.5	4.7	5.7	4.7	..	..
Short-term interest rate 10/	7.2	7.0	7.0	7.3	7.8	7.0	..	..	7.5	7.5	6.8	6.3	6.3	6.3	5.7	..
Exchange rate (period average)	51.6	54.2	56.0	55.1	51.3	46.1	40.0	..	48.6	46.9	45.9	43.1	43.2	41.7	40.9	40.7
Real effective exchange rate (2000=100)	102.2	89.1	86.2	92.3	102.5	112.3	..	..	107.8	111.1	112.7	117.7	116.3	121.8	..	..
(% change, previous year)	0.4	-12.8	-3.2	7.0	11.1	9.6	..	..	5.9	10.9	10.2	11.2	10.1	15.5414	..	..
Stock market index 11/	1018.4	1442.4	1621.7	1983.1	2412.3	3442.9	..	..	3170.1	3468.8	3479.8	3653.0	3578.55	3621.6	3621.6	..
Memo: GDP (US\$ billion)	76.8	79.6	86.9	98.7	117.6	144.1	182.9	..	31.3	34.1	35.2	44.3	..	..	..	..

e = estimate

p = projection

1/ GDP series has a break in 2001

2/ New methodology, 2003-06 based on 1995 census; 2007 based on 2000 census

3/ Non-agriculture, National Capital Region

4/ National government

5/ Total public sector domestic debt

6/ Balance of payment basis

7/ Estimate

8/ BSP figures

9/ GIR end of period; import cover is average

10/ Interbank call rate

11/ Phisix (composite index) annual average

Thailand

	2002	2003	2004	2005	2006	2007	2008 p/	2009 p/	2007			2007		2008		
	Year	Year	Year	Year	Year	Year	Year	Year	Q1	Q2	Q3	Q4	Nov	Dec	Jan	Feb
Output, Employment and Prices																
GDP (% change, previous year)	5.3	7.1	6.3	4.5	5.0	4.8	5.0	5.4	4.2	4.3	4.8	5.7	..	..	..	..
Industrial production index (2000=100)	112.0	127.7	142.6	155.6	167.0	180.7	..	..	177.0	172.0	181.9	191.8	191.5	193.5	192.3	..
(% change, previous year)	9.1	14.0	11.7	9.1	7.4	8.2	..	..	6.0	5.5	8.9	12.1	12.1	11.6	12.5	..
Unemployment rate (%)	2.4	2.2	2.1	1.8	1.5	1.4	..	..	1.6	1.6	1.2	1.1	1.1	0.8	..	..
Real wage growth (%) 1/	-1.4	0.4	-0.4	2.4	1.6	1.0	..	..	-1.3	-0.5	2.8	1.9	..	..	..	..
Consumer price index (% change, previous year)	0.6	1.8	2.8	4.5	4.7	2.3	5.5	4.5	2.4	1.9	1.6	2.9	3.0	3.2	4.3	5.4
Public Sector																
Government balance (% GDP) 2/	-1.4	0.4	0.1	-0.6	1.1	-1.7	2.0	2.5	-6.1	2.2	0.7	-3.3	..	..	..	..
Domestic public sector debt (% GDP) 3/	..	..	..	46.5	40.4	37.5	38.5	40.0	38.6	39.0	38.3	34.6	..	..	..	..
Foreign Trade, BOP and External Debt																
Trade balance (US\$ million)	2,739	3,759	1,460	(8,254)	994	11,973	5,815	-4,809	3,318	1,240	2,942	4,473	1,964	1,069	170.0	..
Exports of goods (fob, US\$ million)	66,092	78,105	94,941	109,362	127,941	151,147	170,041	195,547	34,180	35,916	38,790	42,262	14,611	13,174	13,843	..
(% change, previous year)	4.8	18.2	21.6	15.2	17.0	18.1	12.5	18.0	17.9	18.0	12.6	24.0	24.5	19.5	33.6	..
Key exports: Rice and rubber (% change in US\$, previous yr)	-3.0	16.3	21.4	25.7	25.2	16.4	..	..	9.7	11.6	18.3	24.1	36.2	14.7	41.7	..
Imports of goods (cif, US\$ million)	63,353	74,346	93,481	117,616	126,947	139,174	164,226	200,355	30,862	34,676	35,847	37,789	12,647	12,106	13,673.5	..
(% change, previous year)	4.6	17.4	25.7	25.8	7.9	9.6	18.0	22.0	5.9	7.3	8.4	16.6	17.1	10.6	40.1	..
Current account balance (US\$ million)	4,685	4,784	2,767	-7,642	2,174	14,923	11,053	-77	4,689	1,121	2,928	6,184	2,647	1,661	1,396.0	..
(% GDP)	3.7	3.4	1.7	-4.3	1.1	6.1	3.7	0.0	8.0	1.9	4.8	9.1	..	..	..	..
Foreign direct investment, net (US\$ million) 4/	3,411	5,165	4,956	6,503	10,031	8,120	..	..	2579.2	1601.1	1960.5	1979.3	767.4	618.9	..	..
Total external debt (US\$ million) 5/	59,459	51,783	51,312	52,039	59,643	61,486	..	..	59,832	59,030	60,560	61,486	..	..	..	..
(% GDP)	48.8	40.3	35.7	32.5	32.8	29.3	..	..	31.9	30.4	30.1	29.3	..	..	..	..
Short-term debt (US\$ million) 5/	11,919	10,904	12,174	16,408	18,554	21,838.0	..	..	19,766	20,453	21,389	21,838	..	..	..	..
Debt service ratio (% exports of goods and services) 6/	19.6	16.0	8.5	10.8	11.3	11.1	..	..	18.0	11.1	7.5	8.5	..	..	..	..
Reserves, including gold (US\$ million) (months of imports of goods)	38,924	42,148	49,832	52,066	66,985	87,455	101,508	105,432	70,863	73,000	80,687	87,455	84,605	87,455	92,769	100,539
Financial Markets																
Domestic credit (% change, previous year) 6/	7.1	2.9	8.3	8.0	3.4	5.2	..	..	2.2	2.5	3.5	5.2	..	..	..	..
Short-term interest rate (average period) 7/	1.7	1.3	1.2	2.6	4.6	3.8	..	..	4.7	3.8	3.3	3.3	3.2	3.2	3.2	3.2
Exchange rate (average period)	43.0	41.5	40.3	40.3	37.9	34.5	31.5	31.0	35.6	34.7	34.1	33.9	33.9	33.7	33.2	32.6
Real effective exchange rate (1994=100)	97.5	95.3	94.8	96.6	105.2	112.2	..	..	111.0	113.3	113.1	111.3	110.6	112.0	..	..
(% change, previous year)	2.4	-2.3	-0.5	1.9	8.9	6.6	..	..	8.6	8.5	7.4	2.2	1.5	1.6	..	..
Stock market index (Dec 1996=100)	356.5	772.2	668.1	713.7	679.8	858.1	..	..	673.7	776.8	845.5	858.1	845.8	784.2	858.1	846.4
Memo: GDP (US\$ billion)	126.7	142.5	161.1	176.2	206.4	245.5	295.6	327.7	58.5	58.5	60.9	67.7	..	..	..	..

e = estimate

p = projection

1/ Average wage of employed person from Labor force survey, National Statistical Office deflated by CPI inflation

2/ Cash balance of central government.

3/ Include domestic central government (CG) debt, domestic debt of non-financial state enterprise and Financial institutions Development fund (FIDF) debt. Series was revised by adding VF & EFPO, no data before 2005 is available

4/ Non-Bank FDI

5/ Source: Bank of Thailand

6/ Loans of commercial banks

7/ One-day repurchase rate

8/ Source: World Bank's estimates

Vietnam

	2002	2003	2004	2005	2006	2007 e/	2008 p/	2009 p/
	Year	Year	Year	Year	Year	Year	Year	Year
Output, Employment and Prices								
GDP (% change previous year)	7.1	7.3	7.8	8.4	8.2	8.5	8.0	8.5
Industrial production index (% change, previous year)	14.5	15.5	16.0	17.2	17.0	17.1	16.8	17.2
Unemployment rate (% , urban areas)	6.0	5.8	5.6	5.3	4.8	4.6	4.5	4.5
Consumer price index (% change, period-end)	4.0	3.0	7.8	8.3	7.5	12.6	12.6	9.0
Public Sector								
Government balance (% GDP, excluding off-budget items)	-1.4	-1.2	0.9	-1.2	-0.3	-1.0	-2.0	-2.0
Domestic public sector debt (accumulated, % GDP) (including guaranteed and off-budget items)	10.1	13.7	42.4	43.8	43.1	43.2	44.0	44.0
Foreign Trade, BOP and External Debt								
Trade balance (\$US million)	-3,027	-5,107	-5,451	-4,314	-5,065	-14,121	-15,970	-17,603
Exports of goods, (\$US million)	16,706	20,176	26,485	32,447	39,826	48,561	59,244	72,278
Exports of goods (% change, previous year)	11.2	20.8	31.3	22.5	22.7	21.9	22.0	22.0
Key exports, (value, % change) - crude oil	4.6	16.8	48.3	30.3	12.1	2.7	7.5	5.0
Imports of goods, (\$US million, cif)	19,733	25,256	31,954	36,761	44,891	62,682	75,215	89,882
Imports of goods (% change, previous year)	22.1	28.0	26.5	15.7	22.1	39.6	20.0	19.5
Current account balance (\$US million)	-670	-1,930	-1,591	-561	-229	-6,901	-7,510	-7,979
Current account balance (percent GDP)	-1.9	-4.9	-3.5	-1.1	-0.4	-9.7	-9.0	-8.2
Foreign direct investment (inflows, US billion)	2.0	1.9	1.9	2.0	2.4	2.8	5.5	6.0
Total external debt -DOD- (\$US billion)	12.3	13.4	15.6	17.5	19.2	22.4	24.8	26.8
as percent of GDP	35.0	33.8	34.2	32.9	31.5	31.6	30.5	30.2
Debt service ratio (% exports of g&s)	8.3	7.5	6.0	5.6	5.3	5.5	5.4	5.2
Reserves, including gold (\$US billion)	3.7	5.6	6.3	8.6	11.5	21.6	22.1	22.7
Reserves (in weeks of imports of g&s)	7.2	8.7	8.4	9.4	10.4	15.2	15.0	15.0
Financial Markets								
Credit to the economy (% change, period-end)	22.2	28.4	41.6	31.7	25.4	53.9	30.0	30.0
Short-term interest rate (3-M deposits, period-end)	7.0	6.3	6.7	7.8	7.9	8.9	9.0	8.5
Stock market - VN index (Jul 2000 =100)	183	167	239	308	752	972	..	..

Sources: GSO, SBV, IMF and WB

