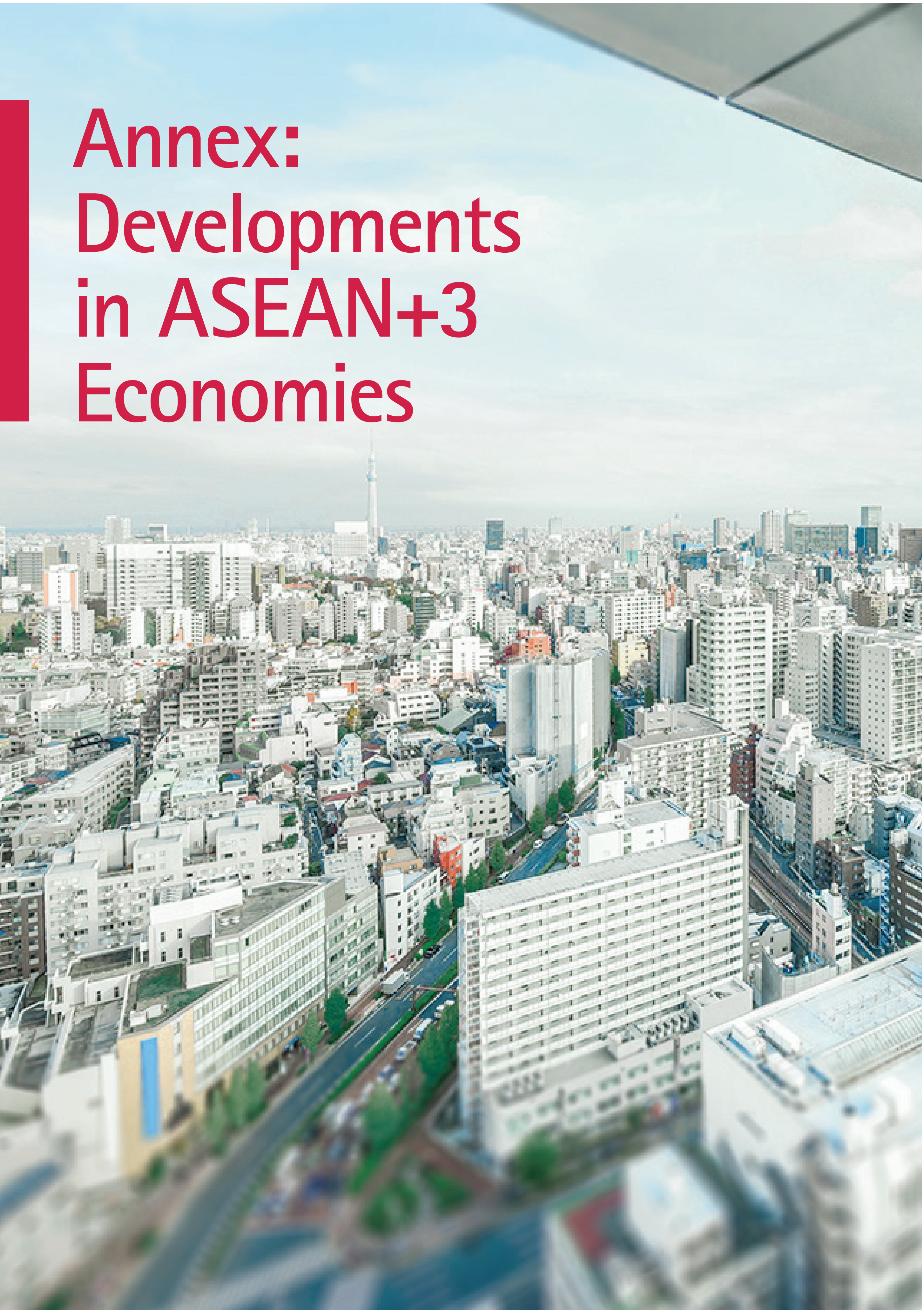
Annex: Developments in ASEAN+3 Economies



Brunei Darussalam

After recording a strong rebound in 2017, Brunei's economic growth slowed to 0.1 percent in 2018. The economy started to recover in Q2 2017 and grew strongly in Q4 2017 for an overall expansion of 1.3 percent. However, the decline in oil and LNG production in 2018, despite the higher oil and LNG prices, resulted a slowdown in growth. Real GDP grew at 2.8 percent in Q1 2018 and contracted by 2.6 percent and 1.1 percent in Q2 and Q3 2018, respectively. The meagre economic growth was also caused by the contraction of the financial sector. GDP growth slowed to 0.1 percent in 2018, and then pick up to 2.1 percent in 2019, led by the start of Hengyi's refinery production in 2019 and the continuation of stronger foreign direct investment inflows.

Consumer price inflation returned to the positive territory in 2018, mainly driven by rising food prices. On average, CPI inflation rose from -0.2 percent in 2017 to 0.1 percent in 2018. The rise in inflation in 2018 was mainly attributable to supply-side factors, such as the increase in excise tax on food and beverage. Inflation is expected to remain positive at around 0.4 percent in 2019, in line with the expected strengthening in domestic demand.

The trade surplus for 2018 is estimated to have narrowed slightly reflecting a sharp increase of the import of capital goods for infrastructure and FDI projects. After widening in Q4 2017, as exports rebounded sharply on the strength of LNG production and prices, the trade surplus narrowed significantly in Q2 2018 following an unexpected decline in oil and LNG production. It is estimated to have improved slightly during the remainder of the year with the continued increase in oil and LNG prices. For the full year of 2018, the trade surplus is expected to be slightly smaller than in 2017 as import growth will exceed export growth. The current account surplus is anticipated to narrow in 2018, but should rebound to a somewhat higher level in 2019. Overall, the external position remains strong with ample official reserves and foreign assets.

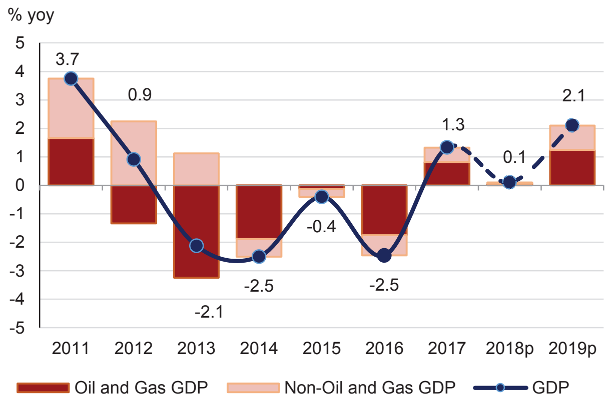
The banking sector remains sound. Banks continue to be well-capitalized and their risk exposures are relatively well-managed. As of Q4 2018, the capital adequacy ratio was 18.4 percent of risk-weighted assets. However, the gross non-performing loans (NPL) ratio rose from 4.4 percent in 2017 to 4.8 percent in 2018 while the net NPL ratio increased from 1.6 percent to 2.4 percent over the same period. The rising trend of the NPL ratio is attributable to the fragile economic recovery.

The government budget improved, but remained in substantial deficit. The budget deficit narrowed from 16.6 percent of GDP in the FY2016/17 to 12.7 percent of GDP in the FY2017/18, as a result of a significant increase in oil and gas revenue, as well as from the continuing restraint in total fiscal spending. The FY2018/19 budget targets a smaller deficit of around 9.0 percent of GDP. Based on revenue realization in the first-half of the fiscal year, the budget deficit will likely narrow to around 7.5 percent of GDP.

In the medium term, the major risks to the economy are mainly from domestic factors as result of the high reliance on the oil and gas sector. Following the price recovery since 2016, an unexpected shortfall in oil and LNG production in 2018 has affected economic growth. It will also hamper the government's ability to support the economy. On the external side, the major risk mainly stems from the possibility of a sharp decline in global oil and gas prices, while other external risks are expected to have a smaller impact to the economy. In particular, Brunei is less susceptible to spillovers from the global trade conflicts given its relatively low engagement in the global value chain.

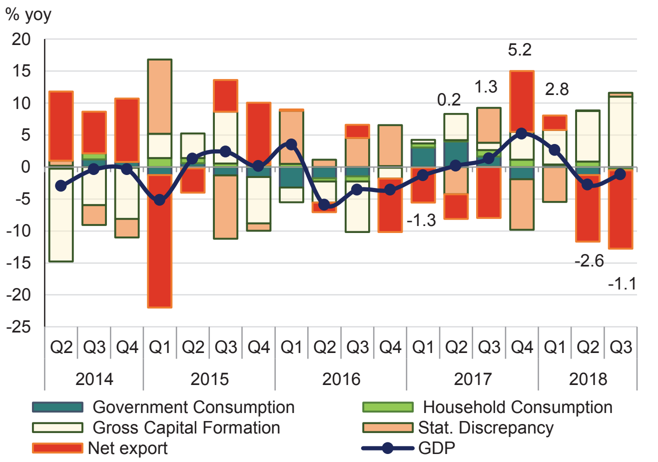
Brunei Darussalam: Selected Charts

Brunei's economic growth is expected to decline in 2018, dragged down by moderate oil and LNG production.



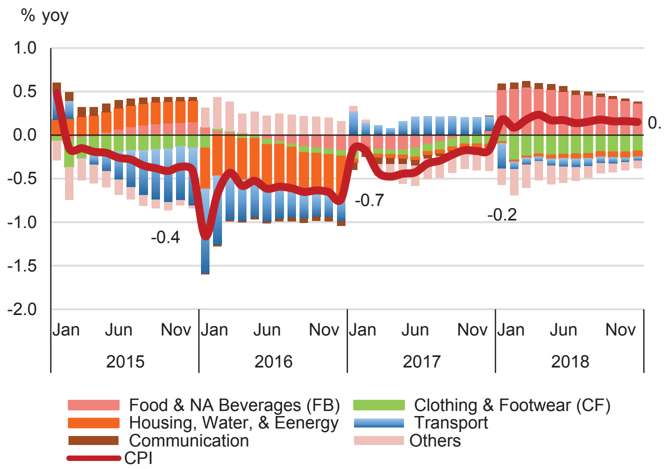
Sources: Department of Economic Planning and Development; and AMRO staff estimates.

The slower GDP growth in 2018 was underpinned by the sluggish growth in net exports, while investment growth continued to increase.



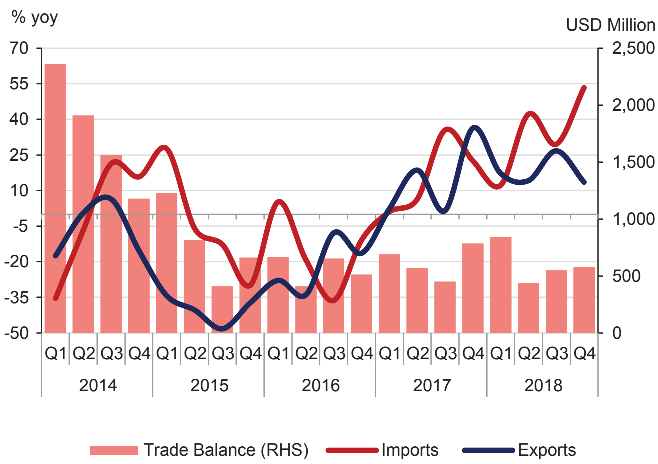
Sources: Department of Economic Planning and Development; and AMRO staff calculations.

Consumer price inflation has been rising to positive territory in 2018, mainly driven by rising food prices and communication costs.



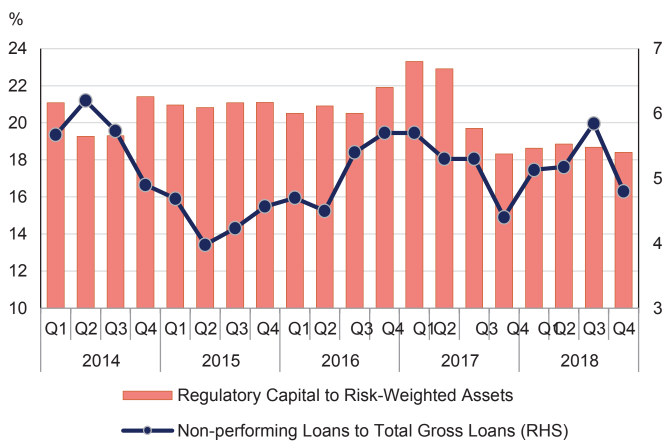
Sources: Department of Economic Planning and Development; and AMRO staff calculations.

Trade account will remain in surplus, but is expected to narrow as exports decline while imports rise.



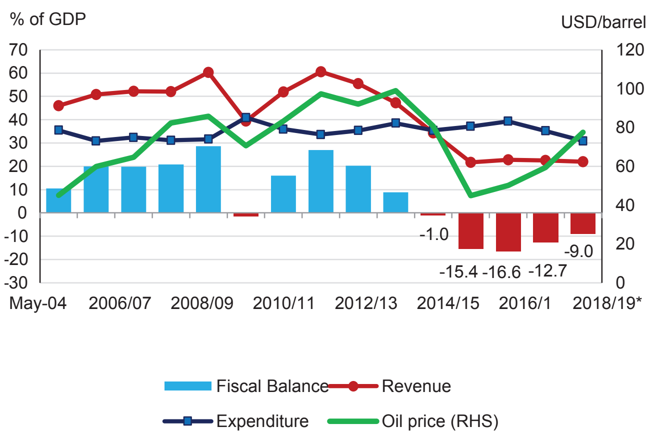
Sources: Department of Economic Planning and Development; and AMRO staff calculations.

The banking sector remains sound and well capitalized.



Sources: Autoriti Monetari Brunei Darussalam; and AMRO staff calculations.

Despite improving, the government budget continued to show a sizable deficit in FY2017/2018.



Sources: Ministry of Finance and Economy; and AMRO staff calculations.
Note: *) Budget data.

Brunei Darussalam: Selected Economic Indicators

	2015	2016	2017	2018 [1)]
National income and prices	(In percentage change unless specified)			
Real GDP	-0.4	-2.5	1.3	0.1
Final consumption	0.0	-4.2	5.9	-
Private sector	5.2	-1.3	4.1	-
Public sector	-3.6	-6.5	7.4	-
Gross capital formation	6.6	-11.1	8.0	-
Exports of Goods	-10.8	-1.9	-2.7	-
Imports of Goods	-11.7	2.7	1.3	-
Prices				
Consumer price inflation (average)	-0.4	-0.7	-0.2	0.1
External sector	(In USD million unless specified)			
Current account balance	2,157.0	1,470.0	2,020.0	1,559.0
(In percent of GDP)	16.6	12.9	16.7	12.6
Trade balance	2,910.0	2,153.0	2,403.0	2,028.0
Overall balance	72.0	144.0	-282.0	74.0
Gross official reserves	3,367.0	3,489.0	3,488.0	3,562.0
(In months of imports of goods & services)	8.3	9.8	7.4	6.9
Central government [2/]	(In percent of GDP)			
Total Revenue	21.7	22.7	22.5	26.6
Oil and Gas Revenue	16.2	16.2	17.5	21.3
Non-Oil and Gas Revenue	5.5	6.5	5.0	5.3
Total Expenditure	37.1	39.3	35.2	34.2
Current Expenditure	29.2	31.2	30.0	29.0
Capital Expenditure	8.0	8.1	5.2	5.2
Budget Balance	-15.4	-16.6	-12.7	-7.5
Monetary and financial sector	(In percentage change unless specified)			
Domestic credit [3/]	28.5	-21.3	-14.2	5.9
Of which: private sector	4.9	-8.4	-3.3	-3.0
Broad Money	-1.8	1.5	-0.4	3.8
Memorandum Items				
Exchange rate period avg. (In BND/USD)	1.37	1.38	1.38	1.35
Exchange rate end of period (In BND/USD)	1.42	1.45	1.34	1.37
Nominal GDP (In USD million)	12,390.0	11,400.0	12,136.0	13,567.0
Nominal GDP (In BND million)	17,664.0	15,748.0	16,747.0	18,301.0

Sources: Brunei authorities; and AMRO staff projections

Note: [1/] Figures for 2018 are based on AMRO staff projection except for inflation.

[2/] Figures are for fiscal year that run from April to March.

[3/] Domestic credit is based on Domestic claims data in Monetary Survey.

Cambodia

Cambodia's economy continued its robust growth trajectory in 2018. The economy grew steadily at 7.0 percent in 2017, at par with the previous two years. A moderation in garment manufacturing in 2017 was offset by strong construction activity, solid growth in tourist arrivals and better agriculture production. Helped by stronger export growth, a high number of tourist arrivals and buoyant domestic demand—in particular, government consumption and investment—growth is expected to have accelerated to 7.2 percent in 2018, but to inch slightly lower to 7.1 percent in 2019, reflecting weaker global economic growth.

Headline inflation has remained relatively subdued. It averaged 2.5 percent in 2018, compared to the 2.9 percent recorded in the previous year. Upward pressure from rising energy prices in the first-half of 2018 was moderated by administrative measures by the government. Towards the end of 2018, falling energy prices, in tandem with better supply conditions, had brought down transportation cost and food prices, two main components of CPI. Both components recorded deflation in November and December, in month-on-month terms.

The overall external position continued to strengthen, benefiting from sustained foreign direct investment inflows. Although the current account deficit remained sizable and is estimated to have widened in 2018 as import outpaced export growth, it would have been more than offset by the surplus in the capital and financial accounts on the back of strong FDI inflows. As a result, the overall balance of payments should have remained in surplus, leading to a further build-up in foreign reserves. Gross international reserves went up to USD 10.1 billion as of December 2018, sufficient to cover almost six months of goods and services imports.

Financial sector indicators have remained generally sound. Amidst the implementation of prudential regulations including new minimum capital requirements and liquidity coverage ratios, bank lending to private sector moderated from 19.8 percent in 2016 to 18.5 percent in 2017. As of Q3 2018, however, credit had started to pick up again, growing at 21.3 percent, on the back of relatively stable domestic conditions following the general election and underpinned by stronger economic activity. The loan-to-deposit ratio inched higher as credit growth accelerated faster than deposit. Overall, the financial sector remained well-buffered with the capital adequacy ratios of both commercial banks and other monetary financial institutions remaining above the required regulatory minimum.

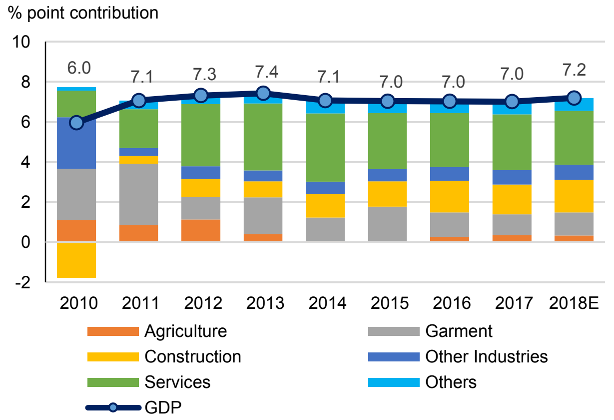
The fiscal position improved amid continued strong revenue performance. The preliminary data for 2018 showed that domestic revenue collection was nearly 12 percent above the target. On the other hand, disbursement of spending, in particular, capital spending, slowed, resulting in a significantly lower overall fiscal deficit than budgeted. Fiscal balance in 2018 registered a deficit of 2.1 percent of GDP, down from the initial 5.8 in the Budget. The current budget surplus inched up higher to 5.1 percent of GDP in 2018 from 4.3 percent, helping the government build up deposits that can be used as fiscal a buffer and for financing public investment projects.

Headwinds to the growth outlook are mainly from external factors. Given its high reliant on the EU market under the Everything But Arms (EBA) preferential trade arrangement, a suspension of the EBA scheme could substantially weaken its export competitiveness in that market. Another external risk arises from the possible escalation of the U.S.-China trade war—where it would result in weaker growth momentum in these two economies and intensify the global trade protectionism sentiment. In addition, given China's increasing investment in Cambodia, FDI inflows—in particular into the real estate sector—have become more susceptible to any sudden policy change by China.

In order to sustain a high growth potential in the medium-term, Cambodia needs to continue its efforts to enhance external competitiveness and economic diversification. Improving infrastructure and human resources, as well as trade facilitation, are critical to enhancing competitiveness and productivity. In addition, given a relatively narrow growth base, continuing efforts to diversify growth are also essential, and the tourism-related service sector shows great potential.

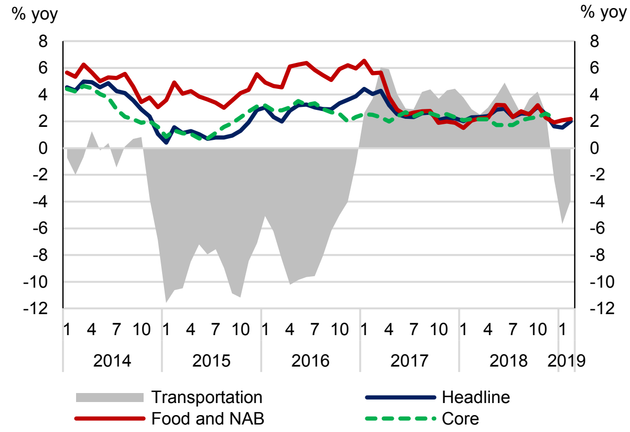
Cambodia: Selected Charts

Cambodia's economy continued its high growth trajectory supported by strong construction activity, garment manufacturing and tourism related services.



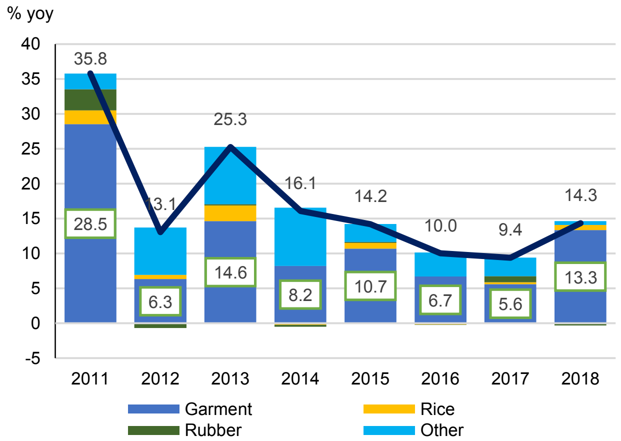
Source: National Institute of Statistics.
Note: 2018E refers to AMRO staff estimates.

Headline inflation remained subdued with improved food production and falling energy prices towards the end of 2018.



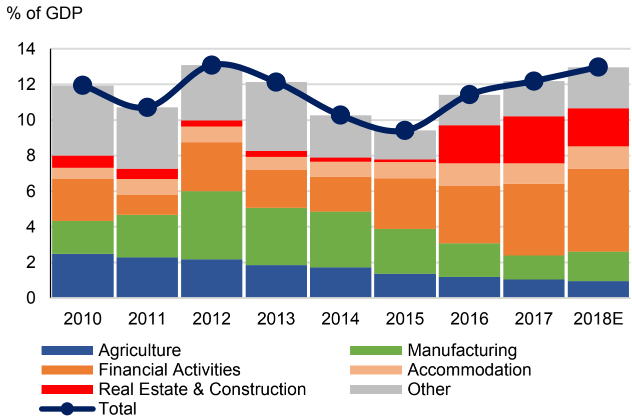
Source: National Bank of Cambodia.

Exports growth rebounded in 2018 with a strong increase in garment exports.



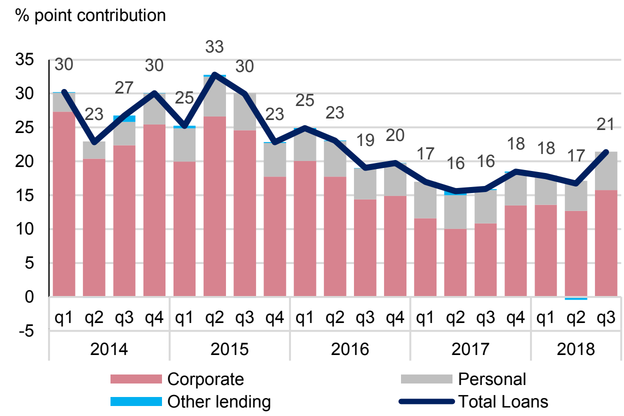
Source: National Bank of Cambodia.

FDI inflows remained strong, especially in the financial sector and real estate related activities.



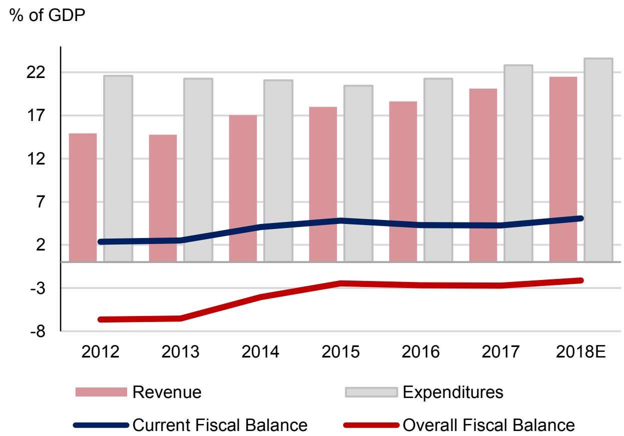
Source: National Bank of Cambodia.
Note: 2018E refers to AMRO staff estimates based on data for the first three quarters.

Domestic credit growth from commercial banks to the private sector started to pick up in H2 2017, especially credit to corporate sector.



Sources: National Bank of Cambodia; AMRO staff projections.

The fiscal position continued to strengthen in 2017, but is estimated to post a larger deficit in 2018 owing to increases in capital and public wage spending.



Source: Ministry of Economy and Finance.
Note: 2018E refers to AMRO staff estimates based on the preliminary budget implementation (TOFE) up to December 2018.

Cambodia: Selected Economic Indicators

	2015	2016	2017	2018
National income and prices	(In percentage change, unless specified)			
Real GDP	7.0	7.0	7.1	7.2
Agriculture	0.2	1.3	1.7	1.8
Construction	19.2	21.8	18.0	17.9
Garment Manufacturing	9.8	6.7	5.8	6.4
Private Consumption	5.9	6.7	4.6	4.7
Government Conusmption	4.4	5.7	6.5	6.1
Gross Investment	9.9	10.0	6.0	6.8
Consumer price inflation (average)	1.2	3.0	2.9	2.5
Balance of payments	(In USD million, unless specified)			
Trade balance	-3,948.8	-3,846.5	-4,278.0	-5,258.6
Services, Net	1,712.3	1,602.4	1,878.4	2,345.3
Current account balance	-1,567.4	-1,687.5	-1,782.4	-2,230.2
(In percent of GDP)	-8.7	-8.4	-8.0	-9.1
Overall balance	830.7	872.6	1,434.6	1,380.6
Gross international reserves	5,093.3	6,730.8	8,757.9	10,138.5
(In months of imports of goods & services)	3.9	4.9	5.8	5.6
External Debt	8,693.5	9,754.3	11,438.4	12,704.5
(In percent of GDP)	48.2	48.7	51.6	51.9
General government	(In percent of GDP)			
Revenue and grants	19.9	20.9	22.0	22.8
of which: tax revenue	15.8	15.9	17.3	18.7
Expenditure	20.4	21.3	22.8	23.6
Current Expense	13.0	14.2	15.7	16.2
Net Acquisition of Non-Financial Assets	7.4	7.1	7.2	7.4
Current Net Lending/Borrowing	4.8	4.3	4.3	5.1
Net Lending/Borrowing	-2.4	-2.7	-2.7	-2.1
Government Debt	31.2	29.2	30.1	30.9
Monetary sector	(In percentage change, unless specified)			
Domestic credit	24.3	21.9	15.6	21.1
Private sector	27.1	22.5	18.5	23.2
Broad money	14.7	17.9	23.8	24.0
Memorandum items:				
Nominal GDP (In KHR billion)	73,422.7	81,241.9	89,753.6	99,102.3
Nominal GDP (In USD million)	18,050.0	20,016.7	22,158.2	24,501.0
GDP per capita (In USD)	1,163.2	1,269.9	1,384.4	1,489.5
Exchange rate (KHR/USD, average)	4,067.8	4,058.7	4,050.6	4,044.8

Sources: Cambodia authorities; and AMRO staff estimates.

China

China's economic growth has continued to soften. Investment, exports and consumption have slowed since Q3 2018 as a result of the strong impact of financial deleveraging in the economy and the U.S.-China trade conflict. In particular, infrastructure fixed asset investment has moderated significantly. Exports have weakened considerably since December 2018, while private consumption has also slowed. Calibrated policy measures have been rolled out to support growth. The Chinese authorities have actively engaged with the U.S. administration in trade negotiations, which has lifted market sentiment and contributed to some improvement in the outlook for exports. Corporate confidence and investment are expected to improve as a result of the value-added tax cut, as well as the proposal to lower the social security premium contributed by employers. Personal tax cuts and other targeted measures, such as subsidies on new energy vehicles, have been deployed to support corporate activity and consumption.

Policy measures have also been taken to boost credit in the system. The accelerated issuances of new local government bonds and the immediate injection of funds into investment projects should help narrow the funding gap. Monetary policy measures, such as cuts to the reserve requirement ratio and the targeted medium-term lending facilities, are expected to enable more lending to the real economy.

Leading indicators have shown improvement following the introduction of the policy measures. Total social financing rebounded strongly in the first two months of 2019; as did the offical and Caixin PMI . The improved funding conditions and the recently approved infrastructure projects should further support investment.

The unemployment rate has stayed low, owing to the buoyant services sector. In December 2018, the surveyed unemployment rate stood at 4.9 percent in urban areas, with services employment remaining resillient.

Inflation has been subdued. CPI inflation stood at 1.5 percent in February 2019 and is expected to remain low and stable. PPI inflation was at 0.1 percent in February 2019, trending down from high levels in 2017, which had affected upstream industrial profits and investment.

Going forward, China's economic growth is expected to moderate further amid structural adjustments, financial deleveraging and elevated external risks. Growth is projected to moderate from 6.6 percent in 2018 to 6.3 in 2019 and to 6.2 percent in 2020, due to the impact of the trade conflict and the moderate and calibrated stimulus package. Risks to economic growth are tilted to the downside given that the trade conflict could escalate and the effects of financial deleveraging could linger.

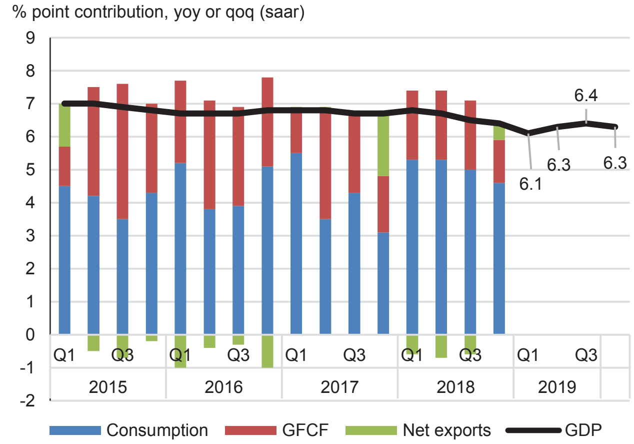
In AMRO staff's adverse trade scenario, China's GDP growth could slow significantly in 2019. Although inward foreign direct investments and portfolio investments have been strong, and China's foreign reserves have continued to be stable, sentiment in the domestic stock market remains fragile. If the trade conflict were to escalate, China may face pressure from renminbi depreciation and capital outflows. Based on a model simulation, the negative impact on China's GDP growth, if the tariffs were to be raised to 25 percent for all Chinese exports is assessed at about 0.5–0.7 percentage point each, in 2019 and 2020.

Some banks will need to raise a sizable amount of capital in a cautious capital market. The strengthened regulation and deleveraging efforts, in particular on shadow banking activities, have reduced the risks to the financial system. However, capital adequacy ratios of joint stock banks, city commercial banks and rural commercial banks are all only slightly above 12 percent. To comply with more stringent future requirements, these banks will need to raise a sizable amount of (costly) capital in order to be able to extend loans to the economy.

It is imperative for China to continue with its structural economic reforms while addressing the near-term headwinds. Corporate leverage remains high albeit declining. Household debt has also risen rapidly. The stimulus should continue to be fine-tuned to avoid a build-up of risks. Further reforms to state-owned enterprises (SOEs) are necessary to reduce the high debt levels and address the pockets of vulnerable sectors. The endeavor to provide a "level playing field" across SOEs, private and foreign firms would further shore up confidence in the private sector, attract foreign capital, reinforce SOE reform and unleash productivity.

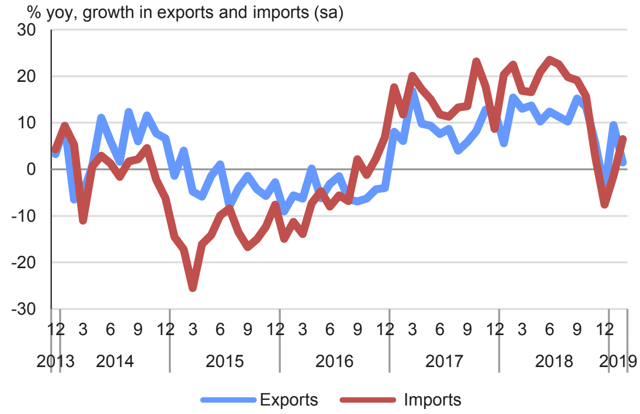
China: Selected Charts

China's GDP growth has been moderating, albeit still at a respectable level.



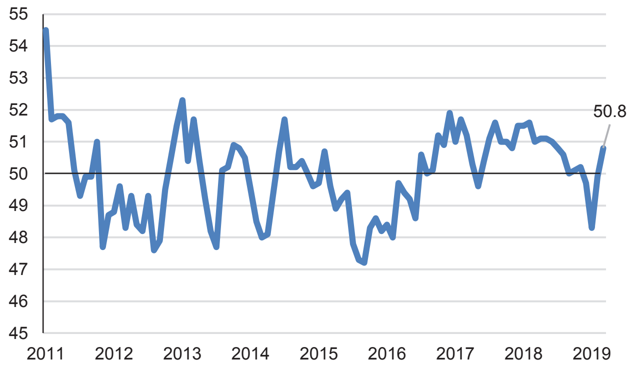
Sources: National Bureau of Statistics; Wind; and AMRO staff estimates.

Trade declined as higher tariffs kicked in and global demand for mobile phones fell.



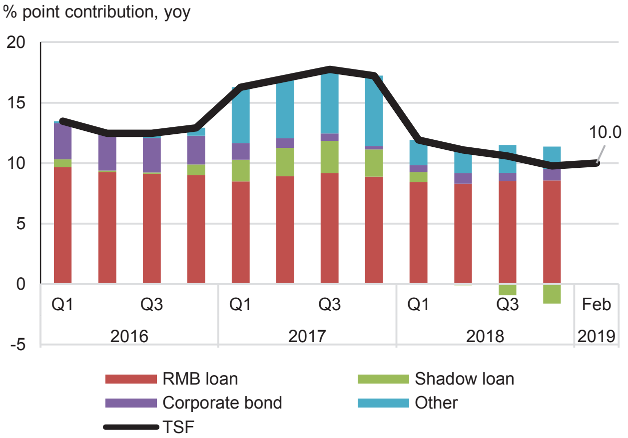
Sources: General Administration of Customs; and AMRO staff calculations.

Supported by proactive policy measures, leading indicators, such as the Caixin PMI, show some tentative signs of improvement.



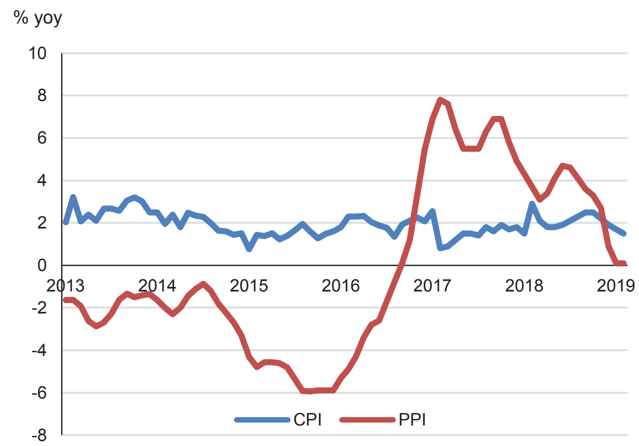
Source: National Bureau of Statistics.

In addition, total social financing growth rebounded in January 2019.



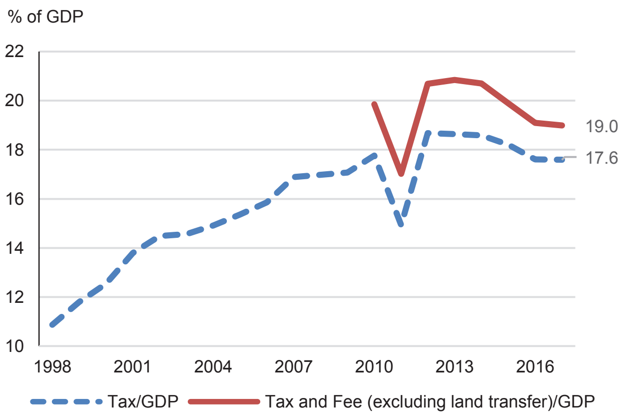
Source: People's Bank of China.

CPI inflation has remained low and stable, but PPI inflation has slowed sharply.



Source: National Bureau of Statistics; and AMRO staff calculations.

With a supportive fiscal policy, the ratio of tax and fees to GDP has declined as a result of reforms to reduce tax and fees.



Source: Ministry of Finance.

China: Selected Economic Indicators

	2015	2016	2017	2018
National income and prices	(In percentage change unless specified)			
Real GDP	6.9	6.7	6.8	6.6
Consumption	7.8	8.3	7.2	9.2
Gross capital formation	6.0	6.0	4.8	4.6
PMI (Mfg)	49.9	50.3	51.6	49.4
PMI (non-Mfg)	53.6	53.7	54.6	55.6
Labor Market				
Average Registered Unemployment Rate: Urban, percent)	3.6	3.7	3.7	3.8
Average Wages	10.1	8.9	10.0	10.0
Prices				
Consumer price inflation (period average)	1.4	2.0	1.6	2.1
Producer Price Index (period average)	-5.2	-1.4	6.3	3.5
External sector	(In USD billion unless specified)			
Current account balance	304.2	202.2	164.9	49.1
(In percent of GDP)	2.8	1.8	1.4	0.4
Financial account balance	-434.1	-416.4	148.5	59.6
(In percent of GDP)	-4.0	-3.7	1.2	0.4
Foreign direct investment	135.6	133.7	136.3	135.0
Outward direct investment	145.7	196.1	120.1	121.1
External Debt, Gross	1383.0	1415.8	1710.6	-
Foreign Reserves	3330.4	3010.5	3139.9	3072.7
Exchange Rate (Against USD, Period Average)	6.23	6.64	6.75	6.62
General government	(In percent of GDP unless specified)			
Revenue (In percent yoy)	5.8	4.5	7.4	6.2
Expenditure (In percent yoy)	13.2	6.3	7.6	8.7
Revenue	22.1	21.5	20.9	20.8
Expenditure	25.5	25.2	24.6	24.6
Overall Balance	-2.4	-2.9	-2.9	-2.6
Central Government Debt	15.5	16.2	16.4	16.7
Monetary and financial sector	(In percentage change unless specified)			
Aggregate Financing	12.6	16.6	13.4	9.8
Total Loan	14.5	12.8	12.1	12.9
Shanghai Stock Exchange Composite Index (Index)	3539.0	3104.0	3307.0	2494.0
Shanghai Interbank Offered Rate, Overnight (In percent)	2.0	2.2	2.8	2.6
10 Year Treasury Bond Yield (In percent)	3.4	2.9	3.6	3.6
Banking Capital Adequacy Ratio (In percent)	13.5	13.3	13.7	14.2
NPL Ratio (percent)	1.7	1.7	1.7	1.9
Memorandum Items				
Nominal GDP (In RMB trillion)	68.6	74.0	82.1	90.0
Nominal GDP (In USD trillion)	10.9	11.1	12.2	13.6

Sources: China authorities; and AMRO staff estimates.

Hong Kong, China[1]

Hong Kong's economic growth momentum has slowed, due in large part to the U.S.-China trade conflict and China's growth moderation. AMRO staff's 2019 forecast of 2.7 percent is lower than the 2018 growth outturn of 3 percent. In Q4 2018, exports plunged while fixed investment turned negative. Consumption growth has remained fairly buoyant, in line with firm wage increases, but looking ahead, could be affected by external uncertainties and the property market downshift. Higher-frequency indicators point to continued growth deceleration in early 2019. PMI readings and trade indicators remain in the contractionary range.

Inflation remains firm but inflationary pressures could be subdued in the period ahead, in tandem with the moderation in the property market. Private housing rental has accounted for about 40 per cent of headline inflation. As momentum in the housing market moderates, disinflation could take place with a lag. Inflation was at 2.5 percent year-on-year in December 2018 and 2.4 percent in January 2019, and fell further to 2.1% in February. Private housing accounted for the bulk of the dip. Counterbalancing that is firm wage growth, with median household income having risen strongly in succesive quarters.

Credit expansion is likely to decelerate owing to the above factors. In brief, it could be caused by (i) trade conflict-related uncertainty; (ii) slower overall growth; and (iii) property market moderation. The growth in total loans and advances has slowed through 2018, with expansion in recent months being well below 10 percent year-on-year. The softening has been broad-based across most economic sectors.

The property market moderated in the second half of 2018, with some stabilization in early 2019. Residential property prices in February 2019 were about 7.5 percent lower than the peak in July while office space prices dipped in late-2018 and early-2019.

Hong Kong's fiscal position remains very strong. Surpluses continue to be expected for 2019 and 2020, given authorities' conservative assumptions for policymaking, including about the contribution of land premium to revenue.

The U.S.-China trade conflict and a sharp slowdown in China's growth are the top risks for Hong Kong, given the likelihood of significant spillovers. Should the United States impose higher tariffs on all imports of Chinese goods, and China were to retaliate, the spillovers to Hong Kong could be very significant. Based on AMRO staff estimates, up to 1.0 percentage point could be shaved off Hong Kong's GDP in 2020. The transmission of the shock would largely be through Hong Kong's trade-related services, including offshore trade and non-trade services exports, of which a significant portion of demand comes from China and the United States. The trade conflict, together with corporate and financial deleveraging, could lead to a sharp slowdown in China and affect Hong Kong through weaker demand and market sentiment.

The moderation in the property market could be a healthy development. A gradual downshift could be beneficial if seen in the context of: (a) buoyant residential property prices in 2018, (b) banks having strong buffers in terms of LTV ratios; and (c) an opportunity for new homebuyers to take on less leverage. However, if the property market enters a sharp downturn, it could weaken private consumption considerably and exert a domestic drag on growth, which is already facing external headwinds. A slower economy could in turn affect wages, leading to second-round effects.

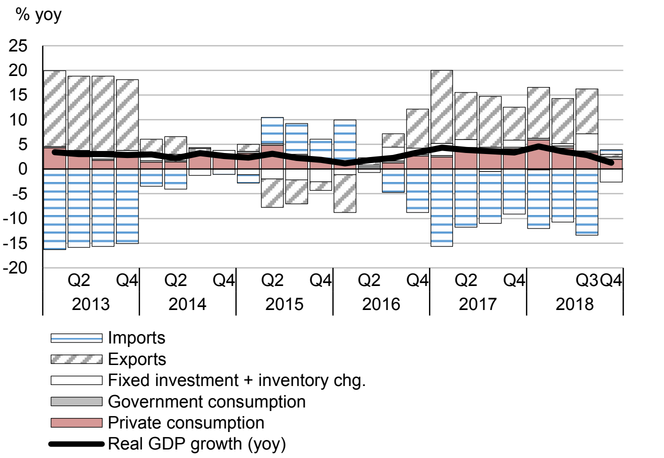
Policymakers are addressing the issue of how best to soften the impact of the U.S.-China trade conflict on Hong Kong's services sector and the broader economy, and have introduced useful measures including increasing SME financing guarantees. Further fiscal measures could be deployed to support the economy through higher public investment and financial support for lower-income groups. It may also be useful to consider how to further increase the value-add of different types of services exports even though Hong Kong's services sector is already highly developed. Policies to diversify trade and investment to other regions such as ASEAN could help mitigate the impact.

Authorities are open to adjusting property market measures if price corrections show signs of being potentially destabilizing. It would be desirable if any change in property market momentum were to be gradual to avoid a large drag on already-slowing economic growth.

Fiscal policy remains sound and well-considered. Efforts to use fiscal resources to enhance growth potential and address population ageing challenges, while maintaining fiscal prudence, continue to be the appropriate policy direction.

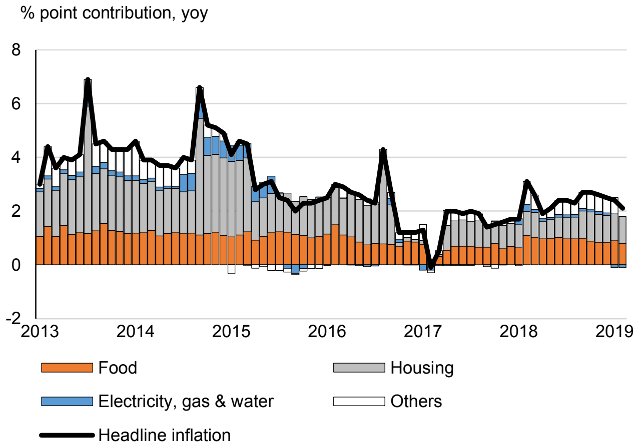
Hong Kong, China: Selected Charts

Hong Kong's growth momentum has slowed, largely as a result of the U.S.-China trade war.



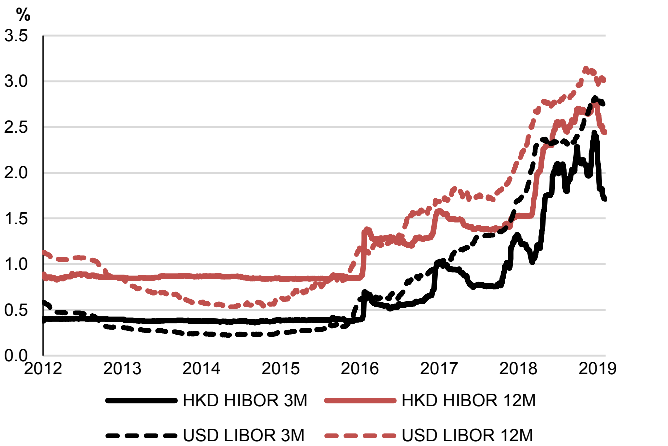
Sources: CEIC; and AMRO staff estimates.

Inflation remains firm but price pressures could become more subdued in the period ahead.



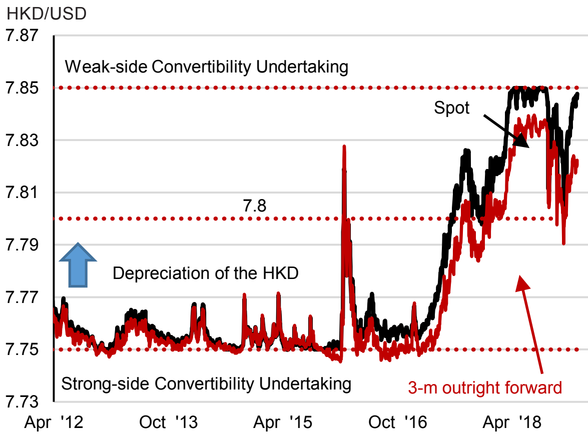
Source: CEIC.

The Hong Kong dollar HIBOR has been rising and catching up with the U.S. dollar LIBOR due to various factors including IPOs, seasonality and prime rate hike talks. But the gap has widened recently.



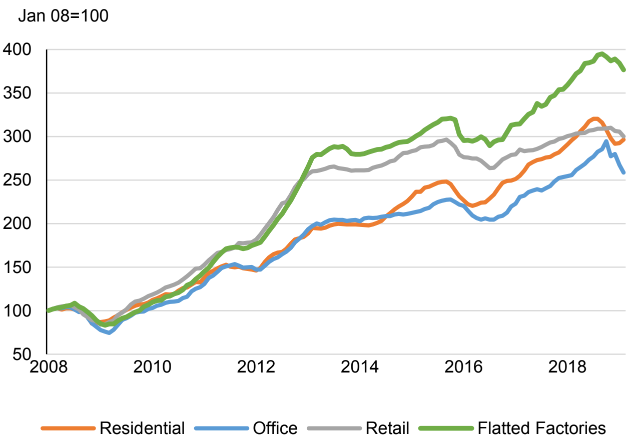
Sources: CEIC; and AMRO staff calculations.

The renewed divergence of interest rates has increased arbitrage activity again, and the Hong Kong dollar has depreciated.



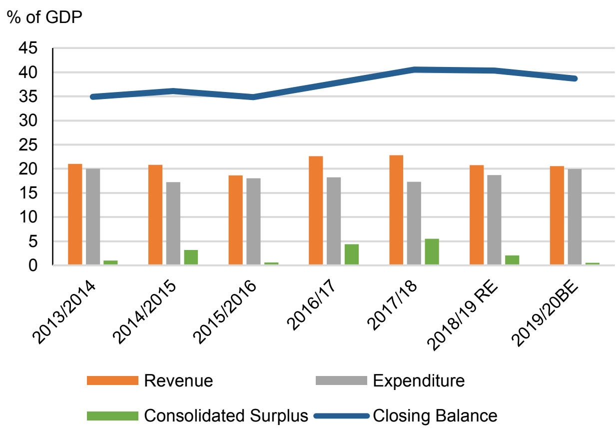
Sources: CEIC; and AMRO staff calculations.

Property prices have started to fall, which could be a healthy development, but the risks associated with a possibly sharp correction are considerable.



Sources: CEIC; and AMRO staff calculations.

The government's financial position continues to be strong, and expectations are of continuing budget surpluses and a further buildup in fiscal reserves.



Sources: Financial Services; and the Treasury Bureau.

Hong Kong, China: Selected Economic Indicators

	2015	2016	2017	2018
Real Sector and Prices	(In percentage change unless specified)			
Real GDP	2.4	2.2	3.8	3.0
Private consumption	4.8	2.0	5.5	5.6
Government consumption	3.4	3.4	2.8	4.2
Gross domestic fixed capital formation	-3.2	-0.1	2.9	2.2
Exports	-1.4	0.7	5.9	3.8
Goods	-1.7	1.6	6.5	3.5
Services	0.3	-3.5	2.9	4.9
Imports	-1.8	0.9	6.6	4.5
Goods	-2.7	0.7	7.3	4.9
Services	5.0	2.0	2.1	2.2
GDP deflator	3.6	1.6	3.0	3.7
Labor Market				
Unemployment rate (In percent, period average)	3.3	3.4	3.1	2.8
Prices				
Headline inflation (Period average)	3.0	2.4	1.5	2.4
Underlying inflation (Period average)	2.5	2.3	1.7	2.6
External Sector	(In USD billion unless specified)			
Current account balance (In percent of GDP)	3.3	4.0	4.7	4.3
Trade balance (In percent of GDP)	2.4	2.3	1.1	0.1
Exports, f.o.b	494.0	502.0	532.0	547.0
Imports, cif	515.0	518.0	554.0	577.0
Overall balance	36.0	1.1	32.0	1.0
(In percent of GDP)	11.8	0.4	9.4	0.3
Gross official reserves excluding net forward position	358.8	386.2	431.0	425.0
(In months of retained imports of goods)	32.1	36.0	36.8	32.7
Total external debt	1,300.3	1,357.0	1,579.0	1,691.0
Short-term external debt (In percen of international reserves)	251.3	237.3	244.0	266.0
Fiscal Sector (General Government)	(In percent of FY GDP)			
Revenue	18.8	23.0	23.3	-
Expenditure	18.2	18.6	17.7	-
Consolidated budget balance	0.6	4.5	5.6	-
Public debt	0.1	0.1	0.1	-
Monetary and Financial Sector	(In percentage change, period end)			
Total loans	3.5	6.5	16.1	-
Total loans (In percent of GDP)	314.2	322.1	349.8	-
Loan to deposit ratio (In percent)	70.1	68.4	73.0	-
Classified loan ratio (In percent)	0.69	0.72	0.56	-
Capital adequacy ratio (In percent)	18.3	19.2	19.1	-
Three-month Hibor (In percent, end of period)	0.4	1.0	1.3	-

	2015	2016	2017	2018
Memorandum Items	(In percentage change unless specified)			
Exchange rate (In HKD/USD)	7.75	7.76	7.79	-
Exchange rate (In HKD/USD)				
GDP (In HKD billion)	2,398.3	2,490.6	2,662.5	2,845.3
GDP (In USD billion)	309.4	320.9	341.6	363.0
GDP per capita (In USD)	42,431.9	43,736.0	46,216.0	48,717.0
Asset prices				
Hang Seng Index (end of period, 1964=100)	21,914.4	22,000.6	29,919.2	25,846.0
(In percent yoy)	-7.2	0.4	36.0	-13.6
Residential property prices (end of period, 1999=100)	285.0	307.4	352.9	368.0
(In percent yoy)	2.4	7.9	14.7	1.9

Sources: Hong Kong authorities; and AMRO staff estimates.

Indonesia

Indonesia's economic growth in 2018 was supported by a pick-up in domestic demand. Real GDP growth increased from 5.1 percent in 2017 to 5.2 percent in 2018, driven by stronger consumption and investment. Net exports, meanwhile, turned into a drag on overall growth, as export growth slowed on lower external demand alongside elevated imports. High-frequency data point to solid domestic consumption and investment into 2019, which are expected to continue supporting growth amid ongoing external headwinds.

Inflation has been well-anchored within Bank Indonesia's target band of 3.5±1 percent. Headline inflation stood at 3.1 percent (year-on-year) as of December 2018, while core inflation increased slightly to around 3.1 percent. Headline CPI eased to below 3 percent in early 2019, driven by lower food and energy inflation. Core CPI, meanwhile, remained relatively stable at about 3.0 percent, as of March 2019.

A deteriorating trade balance weighed on the current account deficit. The current account deficit increased to close to 3 percent of GDP in 2018, up from 1.6 percent in 2017. Higher oil prices amidst growing domestic demand in the first 9 months of 2018 drove the oil and gas (OG) trade deficit higher. The non-OG trade surplus, meanwhile, contracted on weakening commodity exports amid robust imports related to increased domestic economic activity. On a positive note, service and primary account deficits narrowed, reflecting higher receipts from rising tourist arrivals and lower profit repatriation overseas. The recent decline in oil prices, coupled with the ongoing implementation of policy measures, such as the B-20 policy and trade and export facilitating measures, are expected to help contain the current account deficit going forward.

Shifting external dynamics have eased downward pressure on the rupiah and renewed foreign investors' appetite for rupiah-denominated assets. Indonesia's financial markets experienced volatility in the first 10 months of 2018, reflecting foreign investors' pullback from emerging markets, driven by a stronger U.S. dollar, coupled with continued U.S. Federal Reserve rate hikes and escalating global trade tensions. Foreign investors have, however, returned to net-purchases of government bonds and equities, following a recent pause in the Fed's rate hike cycle. The rupiah, having depreciated by about 10 percent to IDR15,178 per U.S. dollar, on average, in October 2018, rebounded to about IDR 14,211 per USD in March 2019. A stronger rupiah and the return of capital inflows supported Bank Indonesia (BI) in replenishing its gross foreign reserves from USD 114.8 billion in September 2018 to USD 124.5 billion, as of March 2019. BI has also put its policy rates on hold, after six hikes totaling 175 basis points between May–November 2018.

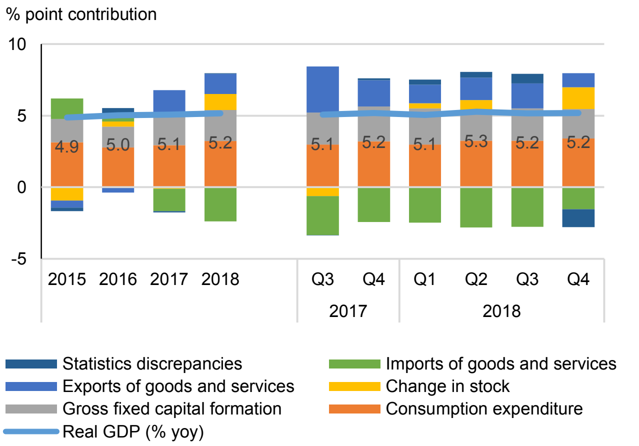
Monetary conditions have tightened somewhat. Broad money growth accelerated to 6.0 percent in February 2019 from 5.5 percent in January, albeit having moderated from around 8 percent a year earlier. Domestic credit, having peaked to 13.3 percent in October, held up at 12.0 percent, as of February 2019. Banks have lifted deposit rates in response to policy rate hikes, while lending rates have been kept relatively stable. The overall banking sector remains sound, supported by strong capital buffers, moderating non-performing loan ratios, and improving profitability.

Budget realization improved in 2018. The overall fiscal balance narrowed to 1.8 percent of GDP, driven by increased revenue. Budget revenue has risen to 13.1 percent of GDP for the first time since 2015, benefiting from an oil windfall and strengthened non-OG tax revenue on the back of a broader tax base and tax administration enhancement. Tax revenue collection is expected to remain robust in 2019, supporting an expansion in expenditure in the election year and a stable deficit of 1.8 percent of GDP.

Shifts in external dynamics remain Indonesia's key risks to the downside. In light of elevated foreign holding of local currency assets, including government bonds and equities, Indonesia is still vulnerable to risks of capital flow volatility. A sharper-than-expected slowdown in global demand, particularly from major trading partners such as China, could weigh on the price and demand for Indonesia's major export commodities. In light of ongoing external uncertainties, the authorities are expected to continue recalibrating its policy mix to maintain economic stability and strengthen resilience against external shocks. On the upside, the recent moderation in fuel prices may provide some respite for Indonesia's widening current account deficit and provide room for necessary adjustments to the current fuel subsidy policy.

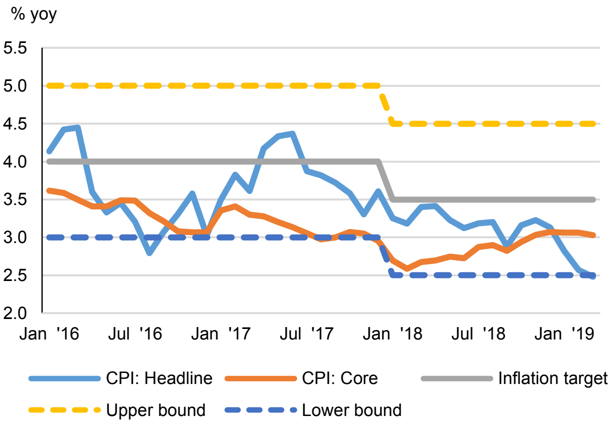
Indonesia: Selected Charts

Strengthened domestic demand supported a pick-up in growth last year, amid external headwinds.



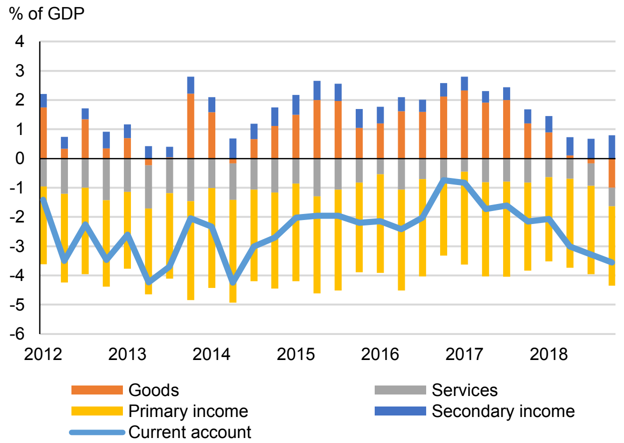
Source: Statistics Indonesia.

Inflation continued to be anchored within Bank Indonesia's target band.



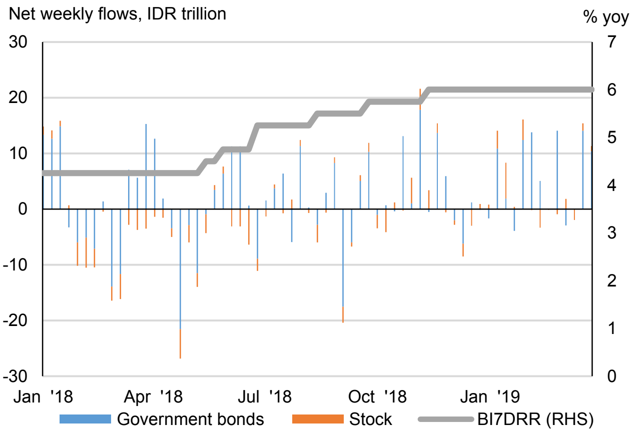
Source: Statistics Indonesia.

A deteriorating trade balance weighed on the current account deficit.



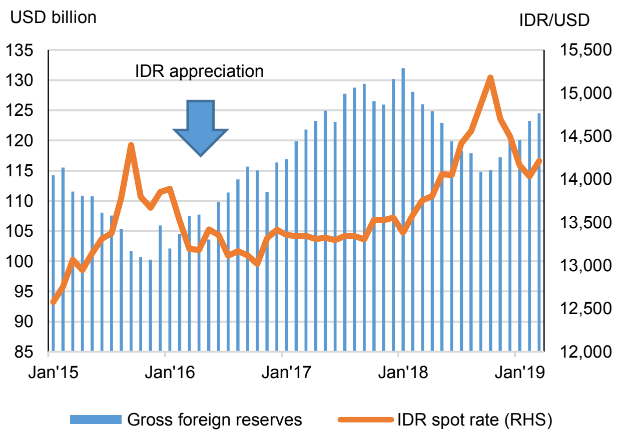
Source: Bank Indonesia.

On the back of the recent return of net capital inflows, Bank Indonesia has put policy rates on hold, following six hikes between May-November 2018...



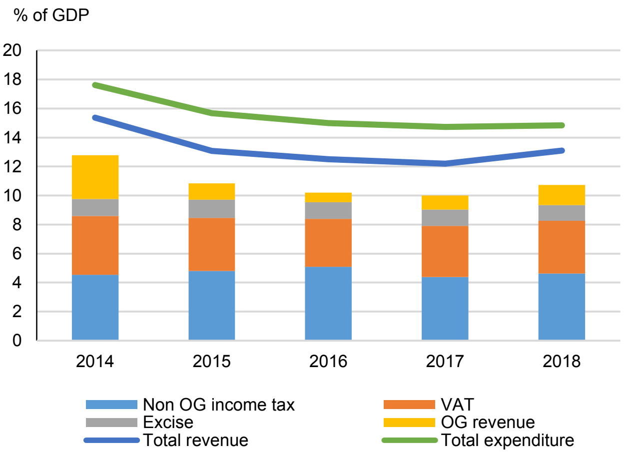
Sources: Bank Indonesia; and Ministry of Finance.

…and replenished its gross foreign reserves in recent months.



Source: Bank Indonesia.

An oil revenue windfall and strengthened tax collection supported fiscal consolidation.



Source: Ministry of Finance.

Indonesia: Selected Economic Indicators

	2015	2016	2017	2018
National Income	(In percentage change)			
Real GDP	4.9	5.0	5.1	5.2
Household consumption	5.0	5.0	4.9	5.0
Government consumption	5.3	-0.1	2.1	4.8
Gross fixed capital formation	5.0	4.5	6.2	6.7
Export	-2.1	-1.7	8.9	6.5
Import	-6.2	-2.4	8.1	12.0
Balance of payments	(In percent of GDP)			
Current account balance	-2.0	-1.8	-1.6	-3.0
Trade balance	1.6	1.6	1.9	0.0
Oil and gas	-0.7	-0.5	-0.7	-1.1
Non-oil and gas	2.2	2.1	2.5	1.1
Financial account balance	2.0	3.1	2.8	2.4
Foreign direct investment (net)	1.2	1.7	1.8	1.3
Portfolio investment (net)	1.9	2.0	2.1	0.9
Other investment (net)	-1.2	-0.6	-1.1	0.2
Overall balance	-0.1	1.3	1.1	-0.7
Central government	(In percent of GDP)			
Revenue and grant	13.1	12.5	12.3	13.1
Expenditure	15.6	15.0	14.7	14.9
Budget balance	-2.6	-2.5	-2.5	-1.8
Central government debt	27.0	28.0	29.4	28.9
Monetary and Financial Sector	(In percentage change)			
Broad money	9.0	10.0	8.3	6.3
Private sector credit	8.9	9.3	7.7	12.6
Memorandum Items	(In USD billion, unless specified)			
Headline inflation (yoy, end of period)	3.4	3.0	3.6	3.1
BI policy rate (In percent p.a.)	7.50	4.75	4.25	6.00
Exchange rate (In IDR/USD, period avg)	13,392.0	13,307.0	13,384.0	14,246.0
International reserves	105.9	116.4	130.2	120.7
External debt (In percent of GDP)	36.1	34.3	34.7	36.2
Nominal GDP	861.0	932.0	1015.0	1042.0

Sources: Indonesia authorities; and AMRO staff estimates.

Japan

In 2018, the Japanese economy continued to grow at around its potential, while quarterly GDP fluctuated widely. The volatility in growth has been largely due to one-off factors, such as bad weather and natural disasters. In Q4, GDP growth rebounded by 1.9 percent, partially recovering from the sharp contraction (-2.4 percent) in Q3. In 2018, private consumption picked up, albeit with volatility, supported by increases in household income amid a tight labor market. Business fixed investment remained firm, backed by strong demand for labor-saving types of investment. Export growth remained positive, while imports continued to see moderate growth. Although exports have shown some weakness in 2019, owing to the slowdown in overseas markets, Japan's economy is expanding moderately led by domestic spending.

Looking ahead, real GDP is expected to maintain moderate growth of 0.6 percent in FY2019, before easing slightly to 0.5 percent in FY2020.[1] Growth in FY2019 would be mainly driven by domestic demand, while being constrained by slow external demand and negative spillovers from the U.S.-China trade conflict. The scheduled consumption tax hike in October 2019 and moderating investment, with the completion of projects relating to the 2020 Tokyo Olympics, will be a drag on growth.

Consumer price inflation continues to remain below 1 percent. During the first two months of 2019, CPI (less fresh food) rose by 0.8 percent, edging down from the 0.9–1.0 percent range in the previous months. Despite strong labor market conditions, core CPI (less fresh food and energy) inflation stayed low, within the 0.3–0.4 percent range in H2 2018. Meanwhile, medium-term inflation expectations remained around 1.0 percent. Going forward, consumer price is expected to rise moderately by 0.8 percent in FY2019 and 0.7 percent (excluding the effects of the consumption tax hike) in FY2020. That said, it is unlikely that inflation will reach the Bank of Japan's 2 percent target in the near- to medium-term.

The external position remains strong, given the sizable current account surplus. In 2018, the current account surplus declined to 3.5 percent of GDP from 4.0 percent of GDP in 2017. The goods trade surplus shrank to JPY1.2 trillion in 2018 from JPY5.0 trillion in 2017, as imports grew faster than exports due to oil price surge throughout the year. The primary income surplus remained firm at JPY20.8 trillion, reflecting Japan's large accumulated overseas investments. Meanwhile, capital outflows continued to be driven by residents' outward investments in search of higher returns and backed by the sizable current account surplus.

Fiscal consolidation has lagged behind schedule and fiscal policy has been more expansionary than planned. The overall fiscal deficit has been reduced, largely driven by strong tax revenue collection owing to robust economic growth and declining interest expense on JGB bonds. Amid continued expansionary fiscal policy, however, the primary deficit of the central and local governments has remained significantly wider than the medium-term fiscal consolidation plan announced in 2015 with the target to achieve a primary surplus by FY2020.

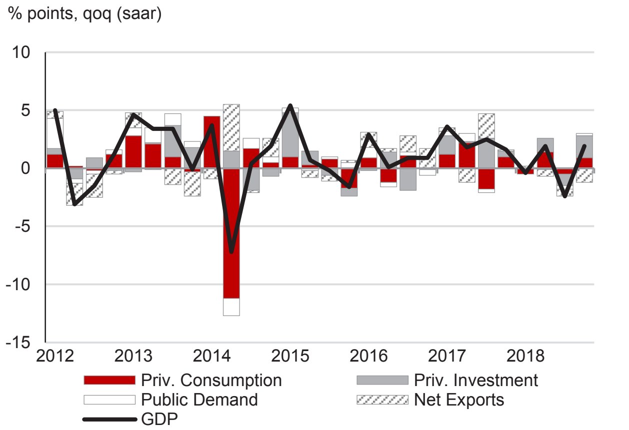
Downside risks to the near-term outlook have intensified, mainly due to external risk factors. These include a further escalation of the U.S.-China trade conflict, a sharper economic slowdown in major trading partners, and a recurrence of emerging market crises or heightened geopolitical tensions. Domestically, the scheduled consumption tax hike in October 2019 may cause demand fluctuations, although mitigating measures will be implemented.

Japan's structural challenges could critically undermine the economy's long-run growth and stability. First, rapid population aging and low birth rates will reduce the labor force and lower the economy's growth potential in the long-term. Moreover, the associated increase in social security-related spending and shrinking tax bases could bring about a deterioration in the fiscal balance. Second, the repeated delays in fiscal consolidation could negatively affect fiscal discipline, leading to a further build-up in public debt and financial vulnerabilities. Third, the prolonged easing in monetary policy has led to a reduction in the net interest margins of financial institutions and forced them to take more risks, especially regional banks, pension funds and insurance companies. It has also impaired the market's functioning in the Japanese Government Bond markets. Downward pressure on regional banks' profitability due to tight interest margins and the consequent build-up of risky portfolios may impede their financial intermediation function should a negative shock occur.

[1] Our baseline projection has not considered the potential effect of temporary offsetting measures, including temporary fiscal stimulus (worth JPY2 trillion). If these measures are successfully implemented, they may pose upside risks to the growth outlook in FY2019.

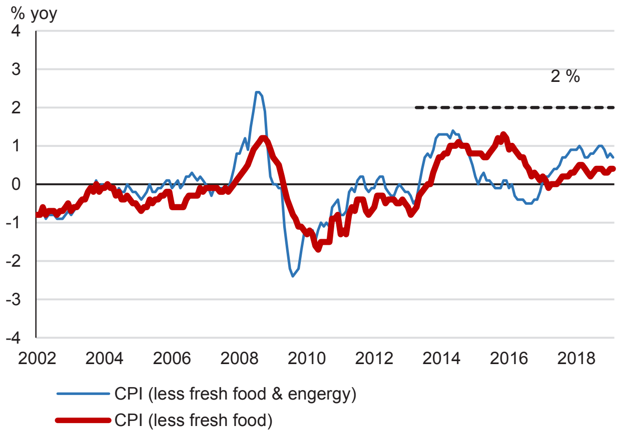
Japan: Selected Charts

In 2018, real GDP grew by 0.8 percent, while showing a highly volatile growth trajectory.



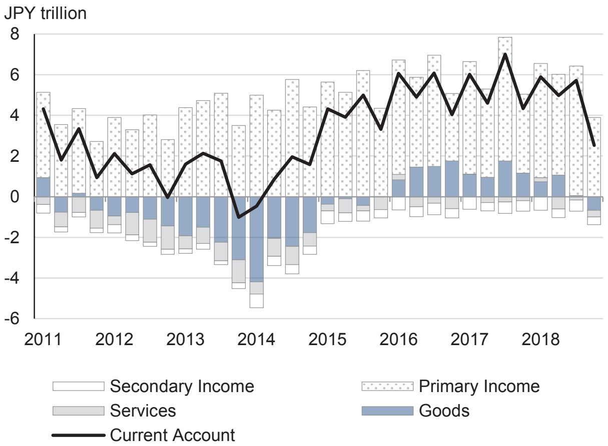
Source: Cabinet Office.

CPI inflation has increased gradually, but remains stubbornly low, short of the 2 percent target.



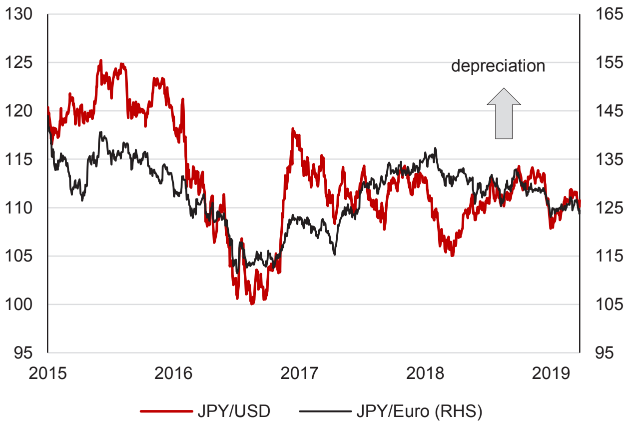
Source: Ministry of Internal Affairs and Communications.

The current account surplus remained sizable at 3.5 percent of GDP in 2018.



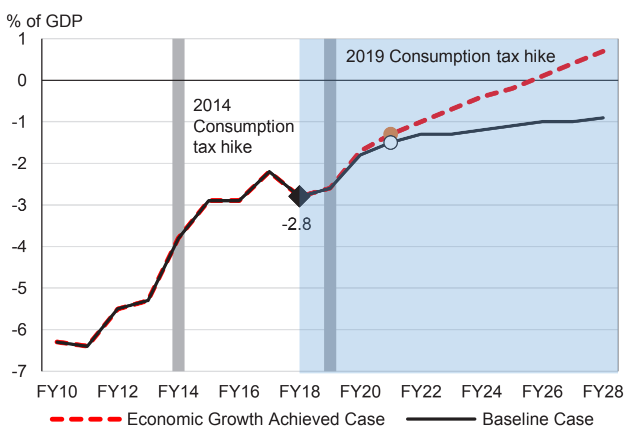
Source: Ministry of Finance.

Since the beginning of 2019, the Japanese yen has depreciated gradually against the U.S. dollar amid easing trade tension.



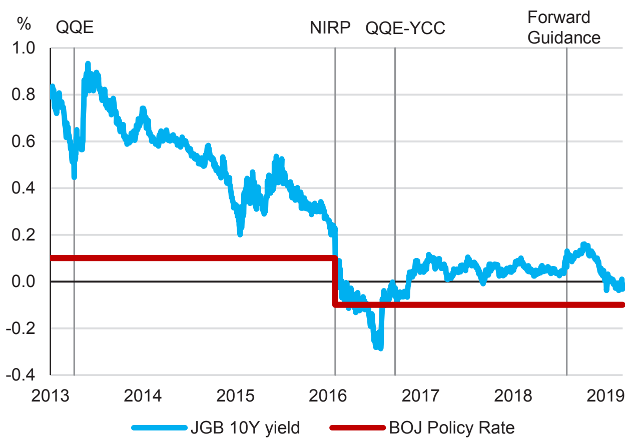
Source: Bank of Japan.

The primary balance in terms of GDP is projected to remain in deficit until FY2026.



Source: Cabinet Office (January 2019).
Note: The primary balance is for central and local government.

10-year JGB yields has fallen to around zero although the BOJ allowed for a wider band in July 2018.



Source: Bank of Japan.

Japan: Selected Economic Indicators

	FY2015	FY2016	FY2017	FY2018 Projection
Real Sector and Prices	(In annualized percentage change, unless specified)			
GDP growth	1.3	0.9	1.9	0.6
Private consumption	0.7	0.0	1.1	0.7
Private non-residential investment	1.6	-0.5	4.6	3.5
Private residential investment	3.7	6.3	-0.7	-4.4
Government consumption	1.9	0.7	0.4	1.1
Public investment	-1.6	0.6	0.5	-3.3
Net exports (ppts)	0.1	0.8	0.4	-0.2
Exports of goods and services	0.8	3.6	6.4	1.9
Imports of goods and services	0.4	-0.9	4.0	3.2
Labor market	(Average of monthly data)			
Unemployment rate (In percent, sa)	3.3	3.0	2.7	2.5
Ratio of job offers per one applicant (sa)	1.23	1.39	1.54	1.60
Prices	(Average of monthly data)			
CPI (all items)	0.2	-0.1	0.7	0.8
CPI (less fresh food)	0.0	-0.2	0.7	0.8
CPI (less fresh food and energy)	1.0	0.3	0.2	0.4
External Sector [1/]	(In JPY trillion, unless specified)			
Current account balance	18.3	21.0	21.8	20.9
Percent of GDP	3.4	3.9	4.0	3.8
Trade balance, customs cleared	-1.1	4.0	2.4	1.5
Exports of goods, customs cleared	74.1	71.5	79.2	80.7
Imports of goods, customs cleared	75.2	67.5	76.8	79.3
Primary income balance	21.3	18.7	19.9	20.0
Financial account balance	24.3	24.7	19.6	21.0
International reserves (In USD billion, period end)	1,262.0	1,230.0	1,268.0	-
Fiscal Sector (Central and Local Governments) [2/]	(In percent of GDP)			
Primary balance	-2.9	-2.9	-2.2	-2.8
Fiscal balance	-4.4	-4.4	-3.6	-4.3
Outstanding debt	185.2	187.6	188.2	189.2
Monetary Sector [3/]	(In percentage change, unless specified)			
Monetary base	32.3	23.4	14.2	7.2
Overnight call rate (In percent)	-0.002	-0.060	-0.068	-0.066
Memorandum Items [3/]				
Exchange rate (In JPY/USD, FY-period average)	120.1	108.3	110.8	111.3
Exchange rate (In JPY/USD, end of March)	112.4	111.8	106.2	110.4
Nikkei 225 (In JPY, end of March)	16,758.7	18,909.3	21,454.3	20,014.8
JGB 10 year yield (In percent, end of March)	-0.049	0.067	0.043	0.013
Non-performing loan ratio (In percent, end of March, Major banks)	0.97	0.87	0.66	-
Nominal GDP (In USD billion, FY)	4,437.0	4,955.0	4,940.0	5,003.0
Nominal GDP (In JPY trillion, FY)	533.0	536.8	547.4	550.3

Sources: Japan authorities; and AMRO staff estimates.

Note: [1/] The BOP data in external sector follow the IMF BPM6 standard.

[2/] FY2018 figures are based on AMRO staff projections.

[3/] FY2018 figures reflect the data up to the end-December 2018 (except for monetary base up to the end-Sep 2018); Fiscal year-based nominal GDP in the U.S. dollar is based on AMRO staff estimates.

[4/] Based on fiscal year, unless otherwise mentioned.

Korea

Korean economic growth was moderate in 2018. GDP growth declined to 2.7 percent from 3.1 percent in 2017, driven by subdued investment. Domestically, a correction in investment continued throughout 2018, along with the suppressing effects from tighter measures on the real estate market. Meanwhile, private consumption continued to grow on the back of rising household income, despite weaker consumer sentiment in the second-half of the year. Government spending also expanded to maintain growth momentum. Externally, exports posted solid growth, driven by strong global demand for information technology and petrochemical products.

Employment remained fragile. Slow employment growth in 2018 was underpinned by slower hiring in the trade, hotels and restaurants, business facilities, as well as manufacturing sectors. The unemployment rate stayed at 3.8 percent, on average, while the youth unemployment rate was 9.5 percent. Subdued employment was due to corporate restructuring, an aging population, more use of automation and, to some extent, the 16.4 percent increase in the minimum wage in early-2018.

Headline inflation stayed below the Bank of Korea's 2 percent target. Notwithstanding the 2 percent inflation recorded from September to November, headline inflation hovered around 1.0–1.5 percent throughout 2018, as agricultural, livestock and marine products, and public service prices stabilized. Demand-side pressures were subdued with stable core inflation.

The external position remained strong. In 2018, the current account surplus amounted to a sizeable USD 76.4 billion, equivalent to 4.7 percent of GDP, on the back of a large merchandise trade surplus and a smaller service account deficit. The substantial surpluses tended to be invested abroad as evidenced by rising overseas portfolio investment, mainly led by pension and insurance companies. Market concerns over any adverse impact from global trade protectionism on the Korean economy manifested through non-resident flows. Inflows to the Korean bond market lessened, while the stock market experienced outflows in Q4 2018.

Korea's financial sector was generally stable. Credit to the private sector expanded at a slower pace in 2018. Household loan growth decelerated gradually as a result of tightened macroprudential measures, while corporate loans continued to increase modestly. The quality corporate loans by the banking sector improved, as reflected in the declining proportion of substandard-and-below loan categories. However, financial institutions remained generally well-capitalized with high capital adequacy ratios. The rise in house prices in Seoul and surrounding areas moderated after the government tightened measures on multiple-home ownership in September 2018.

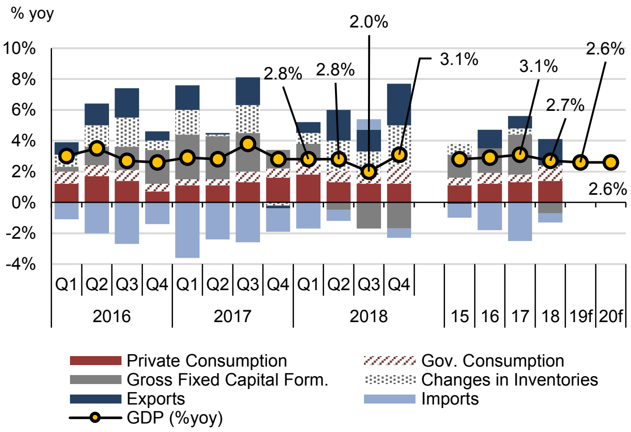
Despite increased fiscal spending to support growth, fiscal buffers remain ample owing to strong revenue collection. In 2018, central government spending was expanded to 24.3 percent of GDP, rising from 23.7 percent in 2017. The spending focused on the government's policy priorities, namely, job creation and social welfare. Meanwhile, revenue collection continued to grow, underpinned by strong corporate earnings and increased property-related tax rates. Managed fiscal balance deficit registered at -0.6 percent of GDP, narrowing from -1.1 percent in 2017. Central and local government debt was relatively low, at 38.2 percent of GDP. In 2019, budget expenditure was expanded further, to 25.1 percent of GDP, amidst heightened risks from the slowdown in global trade and economic activity.

Going forward, the growth rate is likely to slow further but remain around its potential. The Korean economy is projected to grow at 2.6 percent in 2019 on the back of a weak investment climate and a slowdown in exports. Headline inflation is expected to decline to 1.0 percent from weakening global oil prices and soft demand. Headwinds to the growth outlook would be in the form of any adverse spillover effect from the as-yet unresolved global trade conflicts, U.S. tariffs on auto imports, a faster-than-expected slowdown in the global information technology industry and moderating growth in regional economies. Tailwinds would come from expansion in fiscal expenditure.

From a longer-term perspective, the key challenges for the economy focus on declining potential growth. Besides an aging population, the labor market is also facing structural challenges from high youth underemployment. Moreover, excessive concentration in the ICT industry may result in the Korean economy being susceptible to shocks arising from a global ICT downturn. In addition, expansion of overseas outsourcing of main manufacturing sectors such as ICT and automotive sectors will weaken domestic employment and investment.

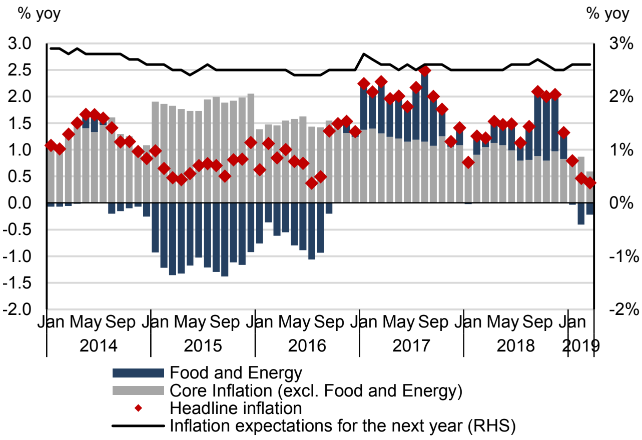
Korea: Selected Charts

The Korean economy is expected to grow at a moderate pace in 2019.



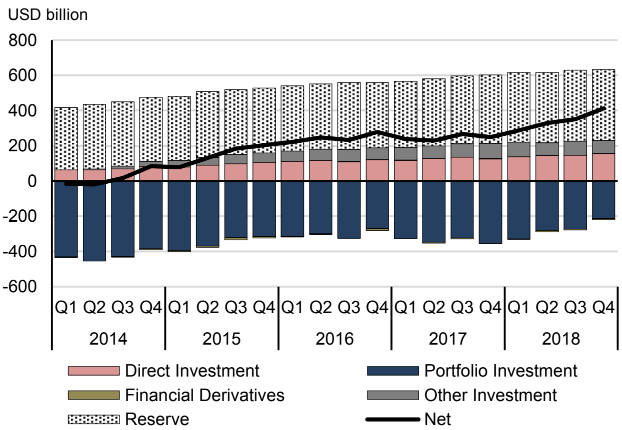
Sources: Bank of Korea; and AMRO staff estimates.

Headline inflation decelerated recently following the fall in global oil prices.



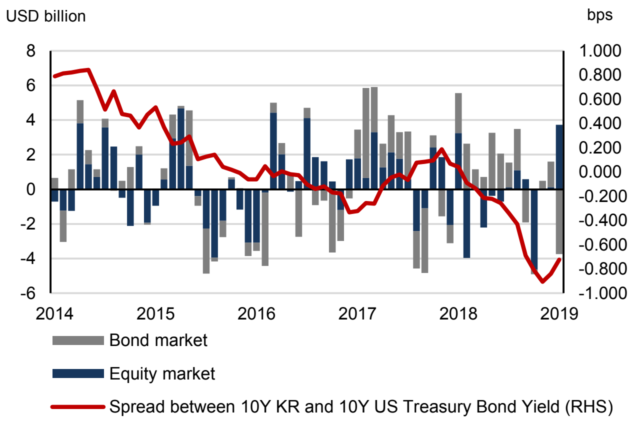
Source: Statistics Korea.

In tandem with a large current account surplus, Korea's overseas assets have been growing since 2012.



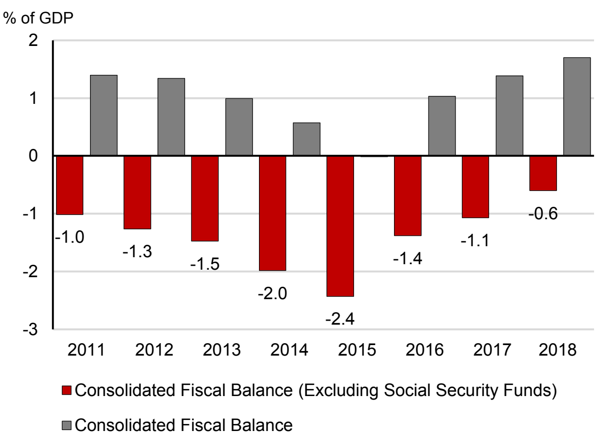
Sources: Bank of Korea; and AMRO staff calculations.

Korean bond and stock markets recorded inflows of non-resident portfolio investment in early 2019.



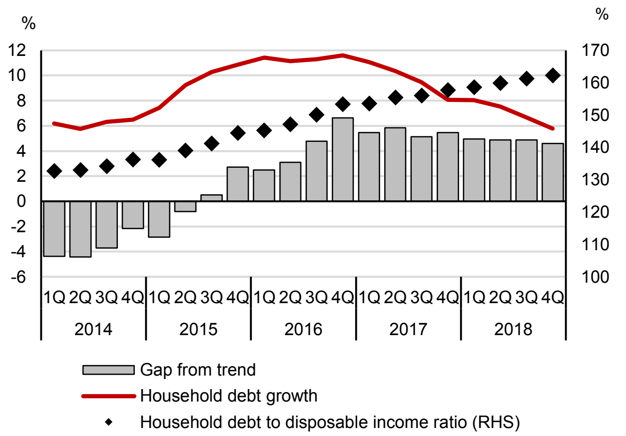
Sources: Bank of Korea; and AMRO staff calculations.

The managed fiscal deficit (overall fiscal balance excluding Social Security Fund) narrowed in 2018.



Sources: Ministry of Strategy and Finance; and AMRO staff estimates.

Household debt moderated gradually as a result of tightened macroprudential measures.



Sources: Bank of Korea; Statistics Korea; and AMRO staff calculations.
Note: The trend is calculated by the Hodrick-Prescott one-sided filter (λ= 400,000).

Korea: Selected Economic Indicators

	2015	2016	2017	2018
National income and prices	(In percentage change unless specified)			
Real GDP	2.8	2.9	3.1	2.7
Final consumption	2.4	3.0	2.8	3.5
Private sector	2.2	2.5	2.6	2.8
Public sector	3.0	4.5	3.4	5.6
Gross capital formation	7.3	5.6	10.1	-1.9
Construction	6.6	10.3	7.6	-4.0
Facilities investment	4.7	-1.0	14.6	-1.6
Intellectual property products	1.8	3.5	3.0	1.9
Exports of Goods	-0.6	2.1	3.8	4.0
Imports of Goods	0.7	3.3	7.4	1.9
Labor Market				
Unemployment rate (In percent, period average)	3.6	3.7	3.7	3.8
Prices				
Consumer price inflation (period average)	0.7	1.0	1.9	1.5
Core inflation, excluding food and energy (period average)	2.4	1.9	1.5	1.2
External sector	(In USD billion unless specified)			
Current account balance	105.1	97.9	75.2	76.4
(In percent of GDP)	7.6	6.9	4.9	4.7
Trade balance	120.3	116.5	113.6	111.9
Services (net)	-14.6	-17.3	-36.7	-29.7
Financial account balance	90.7	92.2	80.1	53
Direct investment (net)	19.6	17.8	16.2	24.4
Portfolio investment (net)	49.5	67.0	57.9	43.9
Other investment (net)	19.8	10.9	14.3	-14
Overall balance	12.1	7.6	4.4	17.5
Gross official reserves	368	371.1	389.3	403.7
(In months of imports of goods & services)	8.3	8.8	7.9	7.5
Short-term external debt (In percent of international reserves)	28.3	28.2	29.8	31.4
Central government	(In percent of GDP)			
Total Revenue	23.8	24.5	24.9	26.1
Total Expenditure	23.8	23.4	23.5	24.4
Overall balance including Social Security Fund	0.0	1.0	1.4	1.7
Managed balance	-2.4	-1.4	-1.1	-0.6
Central and local government debt	37.8	38.2	38.2	38.2
Monetary and financial sector	(In percentage change)			
Domestic credit	6.8	5.5	5.6	5.4
(In percent of GDP)	191.7	192.7	193.1	197.2
Exchange rate (KRW per US$, end of period)	1,172.00	1,208.50	1,071.40	1,118.10
10-year government bond yield (in percent, end of period)	2.2	2.2	2.5	2.0
Property price (In percentage change, period average)	3.4	2.7	1.3	2.2
Memorandum Items				
Nominal GDP (In KRW trillion)	1,564.1	1,641.8	1,730.4	1,782.3
Nominal GDP (In USD billion)	1,382.4	1,414.7	1,530.2	1,619.8

Sources: Korea authorities; and AMRO staff estimates.

Lao PDR

Lao PDR's economic growth slowed in 2018. Growth is estimated to have moderated to 6.5 percent in 2018, from 6.9 percent in 2017. The economy was dragged down by falling output from mining while the electricity sector made a relatively minor contribution to growth, as there was no major increase in installed capacity. Output from agriculture also slowed as a result of flooding, while tighter fiscal policy also inhibited growth. The services sector was the main driver of the economy in 2018, supported by the strong wholesale and retail trade activity, and the improvement in tourism-related sectors as arrivals grew after two years of contraction. Growth is expected to recover slightly to 6.6 percent in 2019, as the impact of the flood dissipates, large hydropower projects commence operations towards the second half of the year, and construction activity is boosted by foreign direct investment (FDI) projects and infrastructure development.

Inflation has increased from the low base of last year. After registering an inflation rate of 0.8 percent in 2017—the lowest in 8 years—inflation rose to 2.0 percent in 2018, driven by rising food and fuel prices. Core inflation likewise rose to 2.2 percent in 2018, from 0.9 percent in 2017, due to higher prices of personal items such as clothing and footwear, furnishings and household equipment. Prices in restaurants and hotels also rose as a result of the recovery in tourist visitors. Inflation remained low for the first three months of 2019, at 1.6 percent, and is expected to trend slightly upward but remain manageable throughout the year.

The current account deficit widened further in 2018. It rose to 7.8 percent of GDP in 2018 from 7.0 percent of GDP in 2017, driven by the large trade deficit which reached 4.8 percent of GDP, and larger outflows from the primary income and lower inflows from the secondary income accounts, as profit repatriation and interest payments rose while remittance inflows declined, respectively. Meanwhile, the services account saw a slight improvement with positive growth in tourist arrivals. The overall balance of payments ended 2018 with a deficit, owing to the wider current account deficit, despite robust FDI inflows and external bond issuances. There was significant pressure on the exchange rate in 2018, with the gap between the parallel and commercial rates widening by as much as 4 percent in the third quarter of 2018. The gap has since narrowed, with the appreciation of the parallel rate and gradual depreciation of the commercial rate. Reserves dropped to USD 858.61 million at the end of February 2019, down from USD 1.02 billion at the end of 2017.

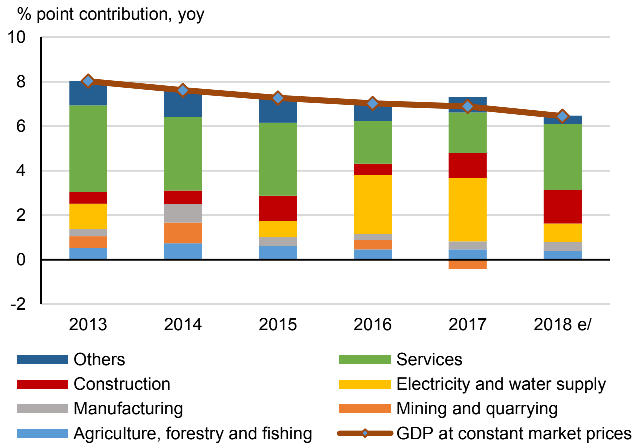
Credit growth slowed owing to the moderation in economic activity and fiscal tightening. Credit growth to the private sector and state-owned enterprises (SOEs) slowed to 2.3 percent in December 2018, from 10.8 percent in December 2017. Fiscal restraint also played a part as credit to SOEs contracted and public investment slowed down. In May 2018, the restriction on foreign currency lending was lifted, reversing earlier tightening policies. However, credit growth remained weak with foreign currency and Kip lending increasing by 3.2 and 2.1 percent, respectively, in Q4 2018. The interest ceilings that had been in place since 2015 were lifted in February 2019 to allow banks to better price credit risks.

The banking system appears sound based on aggregate indicators. Overall capital adequacy ratio for the banking system was at 17.8 percent in September 2018, well above the minimum requirement of 8 percent. The loan-to-deposit ratio is at 87.4 percent as of end-2018. Bank profitability is inching up with the return on asset of 0.68 percent in the third quarter of 2018. Meanwhile, the overall non-performing loan ratio rose slightly to 3.1 percent in the third quarter of 2018. Notwithstanding the general soundness of the banking system, weaknesses remain, such as low capitalization for some state banks. Meanwhile, the process of clearing legacy government arrears related to past projects is ongoing.

The fiscal deficit is expected to narrow in 2018, despite challenges to revenue generation, as authorities clamp down on expenditure. The fiscal deficit is expected to improve to 4.6 percent of GDP in 2018, from 5.6 percent of GDP in 2017, despite flat growth in tax collection, as expenditure has been tightly controlled. Challenges against fiscal consolidation are expected to continue. The fiscal deficit is expected to rise slightly to 4.7 percent of GDP in 2019, as major revenue enhancing reforms are only expected to take effect in 2020, thus emphasizing the need for careful expenditure management during the year to cap the deficit. The authorities' strong commitment to fiscal consolidation is essential to reverse the trend of rising public debt-to-GDP, which needs to be complemented with carefully coordinated policy efforts to sustain strong growth momentum.

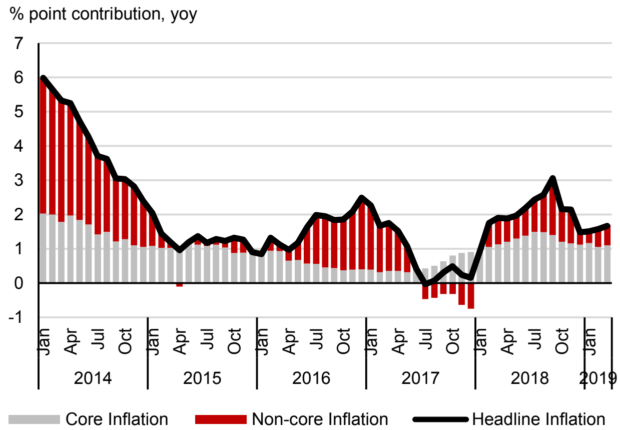
Lao PDR: Selected Charts

Growth moderated in 2018 as a result of the slowdown in the resource sector and tight fiscal management.



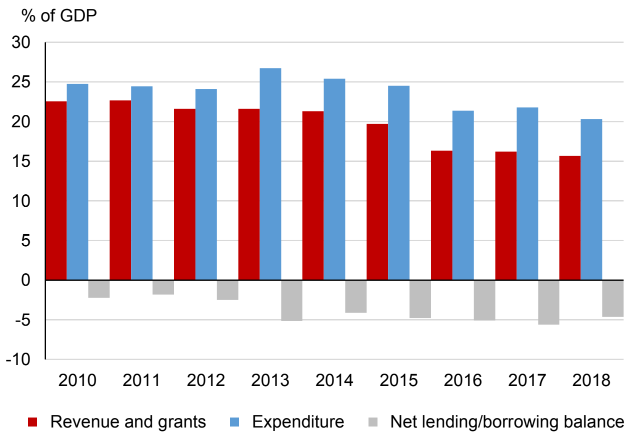
Source: Lao Statistics Bureau.

Inflation rose to 2.0 percent in 2018, driven by rising food and fuel prices.



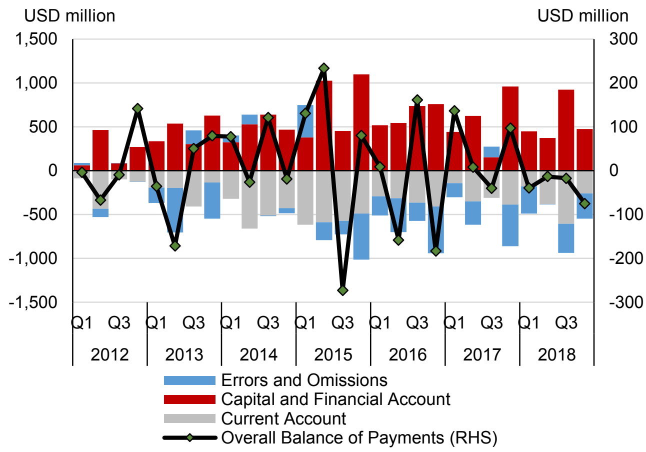
Source: Lao Statistics Bureau.

Fiscal consolidation continued as tighter expenditure control compensated for low revenue growth in 2018.



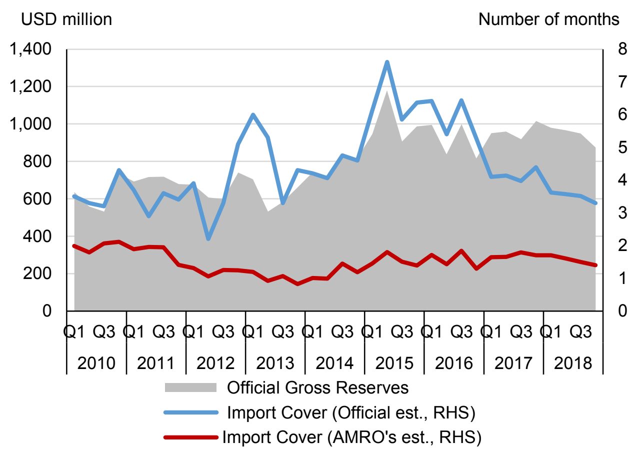
Source: Ministry of Finance.

Steady inflows of foreign direct investment and portfolio inflows, partially financed the sizeable current account deficit, as the BOP registered an overall deficit for 2018.



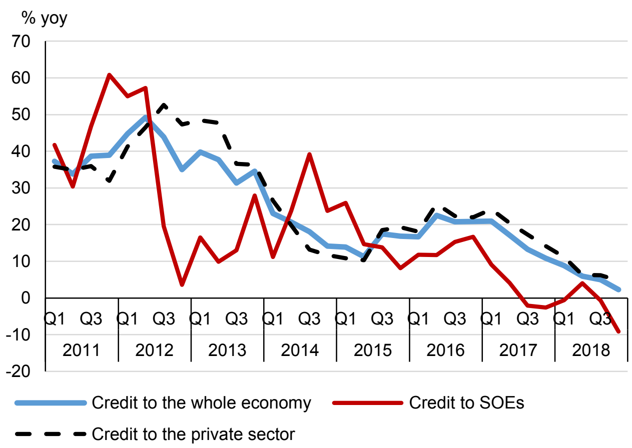
Source: Bank of Lao PDR.

Foreign exchange reserves declined to USD 873 million at the end of 2018, equivalent to about 1.4 months of imports.



Sources: Bank of Lao PDR; and AMRO staff estimates.

The moderation in credit growth could be ascribed to the contraction of credit to SOEs and lower private sector credit growth.



Sources: Bank of Lao PDR; and AMRO staff calculations.

Lao PDR: Selected Economic Indicators

	2015	2016	2017	2018
Real Sector and Prices	(In percentage change unless specified)			
Real GDP	7.3	7.0	6.9	6.5
GDP deflator	2.3	3.0	1.9	1.7
Consumer price inflation (average)	1.3	1.6	0.8	2.0
Unemployment rate	1.3	1.4	1.5	-
External Sector	(In USD million unless, unless specified)			
Export	3,653.0	4,245.0	4,823.0	5,295.0
Import	5,675.0	5,372.0	5,636.0	6,164.0
Trade balance	-2,022.0	-1,128.0	-813.0	-869.0
(In percent of GDP)	-14.0	-7.1	-4.8	-4.8
Current account balance	-2,268.0	-1,385.0	-1,193.0	-1,430.0
(In percent of GDP)	-15.7	-8.7	-7.0	-7.8
Capital and financial account balance	2,919.0	2,534.0	2,156.0	2,219.0
(In percent of GDP)	20.2	15.9	12.6	12.1
Overall balance	171.0	-172.0	201.0	-146.0
Official gross reserves	987.0	815.0	1,016.0	873.0
(In months of imports of goods & services)	1.8	1.5	1.8	1.4
Export volume	18.4	15.9	6.7	7.0
Import volume	13.0	-6.2	2.3	6.9
External debt, gross	11,663.0	13,523.0	14,497.0	15,923.0
(In percent of GDP)	80.8	85.0	84.9	87.4
Fiscal Sector (General Government)	(In percent of GDP)			
Revenue and grants	19.7	16.3	16.2	15.7
Expenditure	24.5	21.4	21.8	20.3
Current expenditure	15.2	15.3	12.5	12.0
Capital expenditure	9.3	6.1	9.3	8.2
Net lending/borrowing balance	-4.8	-5.1	-5.6	-4.6
Primary net lending/borrowing balance	-3.8	-3.8	-4.3	-2.9
Public debt	57.7	58.5	60.1	62.9
Monetary and Financial Sector	(In percent per annum, end-period unless specified)			
Domestic credit	17.9	18.5	6.4	9.2
Government	31.2	-8.8	-60.6	304.4
State Enterprises	8.2	16.7	-2.6	-9.1
Private Sector	19.3	22.0	14.2	4.7
Private Sector credit (In percent of GDP)	37.1	41.0	43.0	41.6
Broad money	14.7	10.9	12.2	8.3
Reserve money	6.6	-1.4	9.5	5.0
Memorandum Items				
Nominal GDP (In LAK billion)	117,251.0	129,280.0	140,749.0	152,375.0
Nominal GDP (In USD million)	14,430.0	15,913.0	17,070.0	18,224.0
GDP per capita (In USD)	2,222.8	2,409.9	2,585.1	2,777.7
Exchange rate (In LAK/USD, average)	8,125.00	8,124.40	8,245.60	8,361.10

Sources: Lao PDR authorities; and AMRO staff estimates.

Malaysia

The economy remained resilient despite a moderation in 2018. Robust private consumption drove real GDP to expand by 4.7 percent in 2018, although growth moderated from a three-year high of 5.9 percent in 2017 owing to lackluster investment and a slower pace of export expansion. In 2019-2020, GDP growth is expected to remain moderate at around 4.6–4.7 percent, reflecting the ongoing fiscal consolidation, slowdown in the global electronics cycle, lower crude oil prices and spillovers from the uncertainty over the global trade outlook arising in part from the U.S. China trade tension.

Subdued inflation is likely to persist over the medium term. Inflation was generally on a declining trend in 2018. Headline and core inflation dipped below 1 percent in June through August, when the GST was zero-rated, and have remained low despite the re-introduction of the sales and services tax (SST) in September. Looking ahead, headline inflation is expected to climb 60 basis points higher to 1.6 percent in 2019 before reverting towards the long-run trend of nearly 2.5 percent in 2020.

Merchandise exports have slowed sharply, exhibiting signs of vulnerability to external headwinds. After accelerating to nearly 20 percent in U.S. dollar terms in H1 2018, export growth slowed to 9 percent in H2 and fell by 5.1 percent in the first two months of 2019. Netting out re-exports, domestic exports recorded a sharper slowdown amid the escalation in the U.S.-China trade tension and weaker global demand.

The external position remains supported by a sustained current account surplus and steady foreign direct investment inflows. The current account remained in surplus in 2018, although narrower owing to the wider primary account deficit. After easing sharply in Q2 and Q3, foreign direct investment inflows rebounded in Q4 for a full-year average of 2.4 percent of GDP. These net foreign inflows cushioned the sizable non-resident portfolio investment outflows in 2018, particularly in May and June following the unexpected change in the Malaysian government and broader risk aversion. The Balance of Payments recorded a modest surplus in 2018, while reserves have remained above USD 100 billion and are sufficient to finance seven months of retained imports and equivalent to the short-term external debt.

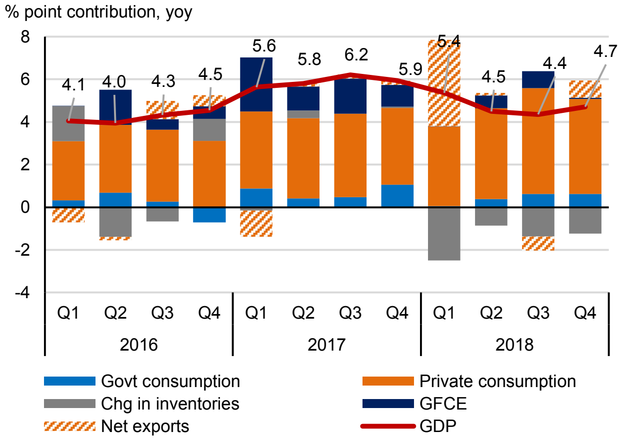
Financial conditions have remained accommodative, notwithstanding the policy rate adjustment and capital outflows in 2018. Bank lending rates stabilized over the course of the year after rising in tandem with the 25 basis point policy rate hike in January 2018. Despite the capital outflows, banks' excess ringgit liquidity with Bank Negara Malaysia was fairly stable throughout the year, while credit gained pace after a multi-year period of moderation. Banks have significant capital and liquidity buffers, stable asset quality and healthy funding profiles, although they are vulnerable to elevated private sector debt and the supply overhang in the property market.

Fiscal consolidation continues under the new government. The budget deficit targets for 2018 and 2019 were revised up to 3.7 percent of GDP and 3.4 percent, respectively, to incorporate provisions for the outstanding tax refunds and commitments that were unbudgeted under the previous government as well as the one-off special dividend from Petronas. Despite the revision, fiscal consolidation continues in 2019, reflecting the 50-basis point decline in the adjusted deficit to 2.9 percent of GDP after netting out the one-off expenses and revenue item. Fiscal consolidation has to continue given the sizable debt burden, especially when including the transfers for the servicing of some of the government-guaranteed debt.

A sustained and concerted effort to boost productivity is crucial in attaining a more inclusive and high-income nation. Innovation and research and development need to be promoted to attract high value-added private investments, and consequently, raise the quality of employment and improve income distribution. In this regard, greater efforts should be made to ensure fair competition, greater technological adoption among firms and human capital development.

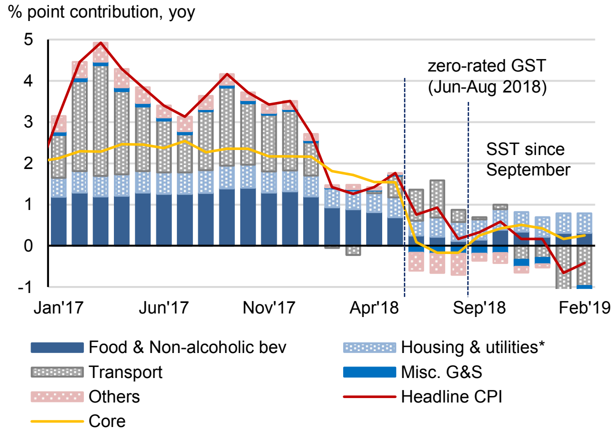
Malaysia: Selected Charts

Growth eased in 2018 owing to anemic investment activity and slower exports expansion.



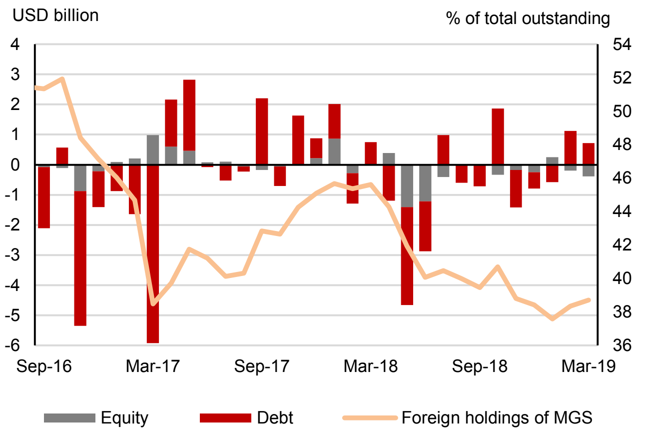
Sources: Department of Statistics Malaysia; and AMRO staff calculations.

Inflation has remained low despite the resumption of the sales and service tax in September 2018.



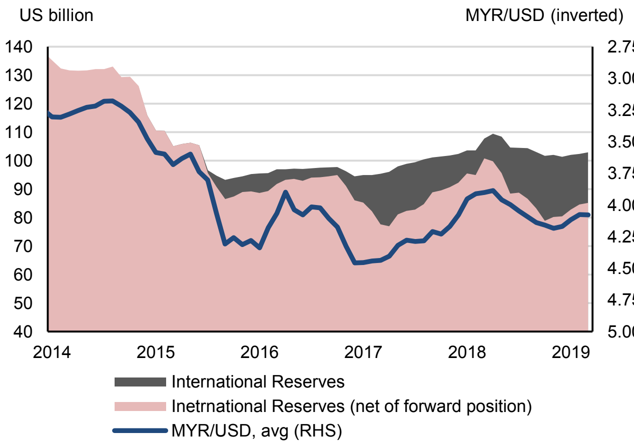
Sources: Department of Statistics Malaysia; and AMRO staff calculations.

Non-residents have become net buyers of bonds and stocks in early 2019 after the sell-off for most of 2018. Foreign holdings of MGS have stabilized at around 38 percent.



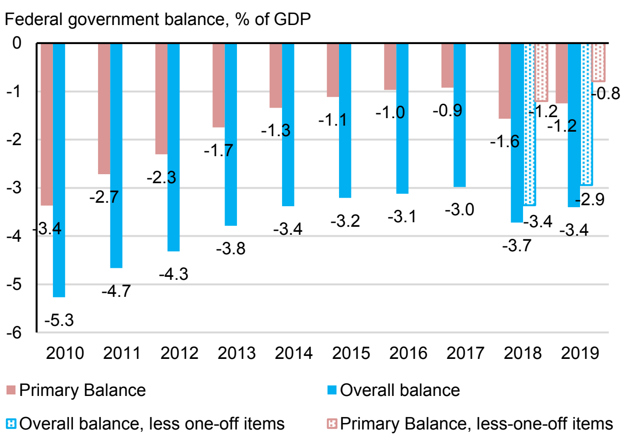
Source: Bank Negara Malaysia; Bursa Malaysia.

FX reserves and the MYR improved slightly in Q1 2019 after declining through the latter half of 2018.



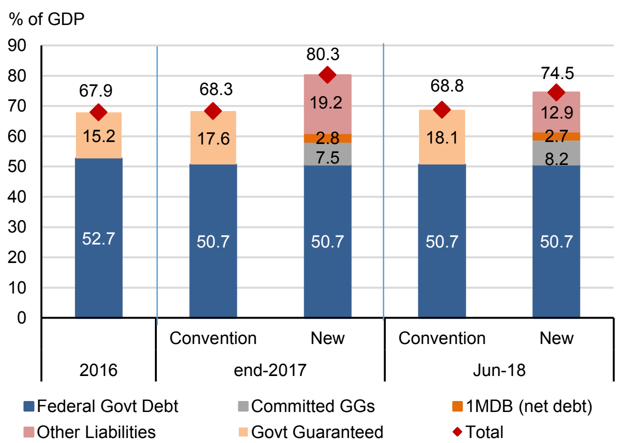
Source: Bank Negara Malaysia.

Fiscal deficit targets for 2018–19 have been re-adjusted to provide largely for previously non-budgeted expenses and revenue items.



Sources: Department of Statistics Malaysia; and Ministry of Finance.

The government debt remains below the self-imposed limit of 55 percent of GDP, although total liabilities have risen to include committed GGs, 1MDB debt and others.



Source: Ministry of Finance.
Note: Other Liabilities refer to those projects under Public-Private Partnership (PPP), Pembinaan Blt Sdn Bhd (PBLT), and private finance initiatives (PFI). The Federal Government Debt stood at 51.8 percent of GDP as of end-2018.

Malaysia: Selected Economic Indicators

	2015	2016	2017	2018
Real Sector and Prices	(In percentage change, unless specified)			
Real GDP	5.1	4.2	5.9	4.7
Private consumption	6.0	6.0	7.0	8.1
Government consumption	4.5	0.9	5.4	3.3
Gross capital formation	6.7	3.3	6.4	-4.4
Gross fixed capital formation	3.6	2.7	6.2	1.4
Exports of goods and services	0.3	1.3	9.4	1.5
Imports of goods and services	0.8	1.3	10.9	0.1
Labor market	(Percent)			
Unemployment rate	3.2	3.5	3.4	3.3
Prices	(In percentage change, unless specified)			
Consumer price inflation (period average)	2.1	2.1	3.7	1.0
Core inflation (period average)	N.A.	2.5	2.3	0.8
GDP deflator	-0.4	2.0	3.8	0.9
External Sector	(In USD billion, unless specified)			
Current account balance	9.0	7.2	9.4	8.3
(In percent of GDP)	3.0	2.4	3.0	2.3
Trade balance	28.0	24.6	27.2	30.1
Exports, f.o.b.	174.5	165.9	187.8	207.4
Imports, f.o.b.	146.5	141.0	160.5	177.3
Services balance	-5.3	-4.6	-5.3	-4.9
Receipts	34.8	35.6	37.0	39.7
Payments	40.1	40.1	42.3	44.5
Primary income, net	-8.2	-8.4	-8.5	-12.2
Secondary income, net	-5.5	-4.5	-4.0	-4.7
Financial account balance	-14.2	-0.1	-1.1	4.6
Direct investment, net	-0.5	3.3	3.8	2.8
Direct Investment Assets	-10.2	-10.2	-5.6	-5.8
Direct Investment Liabilities	9.7	13.5	9.4	8.6
Portfolio investment, net	-6.7	-3.4	-3.6	-11.0
Net acquisition of financial assets	-2.3	-3.6	-4.5	-2.3
Net incurrence of liabilities	-4.4	0.2	1.0	-8.7
Other investment, net	-6.9	0.2	-1.2	12.6
Net error and omission	-8.3	-5.8	-4.4	-11.0
Overall balance	1.0	1.4	3.8	1.9
Official reserves asset (end-period)	95.3	94.5	102.4	101.4
(In months of goods & services imports)	6.1	6.3	6.1	5.5
Total external debt (In percent of GDP)	72.2	74.3	65.4	64.7
Short-term external debt (In percent of total)	42.0	41.3	39.7	43.8
Short-term external debt (In ratio to international reserves)	1.2	1.1	1.2	1.0

	2015	2016	2017	2018
Fiscal sector (National Government)	(In percent of GDP)			
Government revenue	18.9	17.3	16.3	16.3
Government expenditure	22.1	20.4	19.3	20.0
Fiscal balance	-3.2	-3.1	-3.0	-3.7
Primary balance	-1.1	-1.0	-0.9	-1.5
Government debt	54.4	52.7	50.7	51.8
Government debt, including contingent liabilities	15.3	15.2	17.6	18.1
Monetary Sector	(In percentage change, end-period unless specified)			
Broad money	3.0	3.2	4.9	8.0
Of which: Private sector claims	8.3	5.8	5.8	6.4
Of which: Loans	8.2	6.0	3.8	5.0
Of which: Securities	8.6	4.0	23.6	16.7
Memorandum Items				
Exchange rate (In MYR/USD, average)	3.91	4.15	4.30	4.04
Exchange rate (In MYR/USD, eop)	4.29	4.49	4.08	4.17
Nominal GDP (In MYR billion)	1,158.5	1,231.0	1,353.4	1,429.8
Nominal GDP (In USD billion)	297.5	297.3	315.3	354.5
GDP per capita (In USD)	9,515.5	9,397.3	9,832.6	10,948.5

Sources: Malaysia authorities; and AMRO staff estimates.

Myanmar

Myanmar's economy is expected to rebound in FY2018/19. Growth softened to 6.5 percent in FY2018 interim,[2] mainly as a result of the disruption in agriculture due to natural disaster and softer telecommunication-related service activities. Contained public spending also weighed on growth, as the government aimed to lower the budget deficit during the fiscal year transition. Travel facilitation measures and expanded overseas air routes have been supporting tourist arrivals, which started to pick up in H2 2018. Supported by sustained manufacturing growth and renewed economic reforms, the economy is projected to grow at 7.3 percent in FY2018/19.

While inflation edged up in Q2–Q3 2018, it showed signs of softening towards year-end. Inflation registered 7.0 percent in FY2018 interim, due to the effects of flooding and the depreciating currency in 3Q. With the exchange rate stabilizing and the effects of the flood evanishing, the inflation rate has declined since November 2018. The headline inflation for FY2018/19 is forecast to be around 5.0 percent.

The external position remained weak, but the current account balance and foreign direct investment (FDI) inflows have started to improve. Exports continued to grow at 10.5 percent and imports declined by 3 percent in the first four months of FY2018/19, which translated into a narrower trade deficit. Meanwhile, the recovery in tourist arrivals strengthened the service account. The current account deficit is expected to improve to -3.6 percent of GDP in FY2018/19 from -4.4 percent in FY2017/18. FDI approvals rebounded during the first four months of FY2018/19. Foreign exchange reserves remained flat at around USD 5.3 billion as of September 2018, equivalent to 4.0 months of imports.

While broad money growth continued to decelerate, credit growth has started to stabilize. Credit growth grew by 23.8 percent as of August 2018, likely bottoming out from the slowdown in FY2017/18. Recent measures to ease the restriction on banks' international remittance business and allow foreign currency settlement in international trade should help to expand the domestic credit and support the development of the banking sector going forward.

The approved FY2018/19 budget provides for an expansion in spending to support growth. The realized revenue in FY2018 interim was higher than the original estimate. Together with contained expenditure disbursement, the actual fiscal deficit was reduced to 1.8 percent of GDP in FY2018 interim. However, the government plans a higher budget deficit in FY2018/19, close to 5.8 percent of GDP, to support economic growth and social welfare.

Key downside risks include the on-going tensions in the Rakhine State and the related potential withdrawal of the preferential trade treatment by the European Union. These ongoing concerns have triggered a wait-and-see attitude among existing and potential investors, dampening the inflows of foreign investment and local business sentiment.

The external position is also vulnerable to adverse shifts in relations with major trading partners. On the export front, agriculture continues to be subject to geopolitical risks with neighboring countries, and the labor-intensive garment sector could slow sharply if the current preferential trade treatment form the European Union is withdrawn. The investment inflows—especially to export-oriented manufacturing—would also be adversely affected. Constrained by low foreign reserves and the presence of a large informal market, the ability of the authorities to smooth exchange rate movement remains limited.

The acceleration of structural reforms is critical to maintaining investor confidence and developing a market-based economy. Reforms to develop a more market-based economy—including hard and soft infrastructure, and the regulatory and legal frameworks—should be strengthened. Accelerating the pace of liberalization and deregulation would be an effective strategy to instill investor confidence amid external uncertainties.

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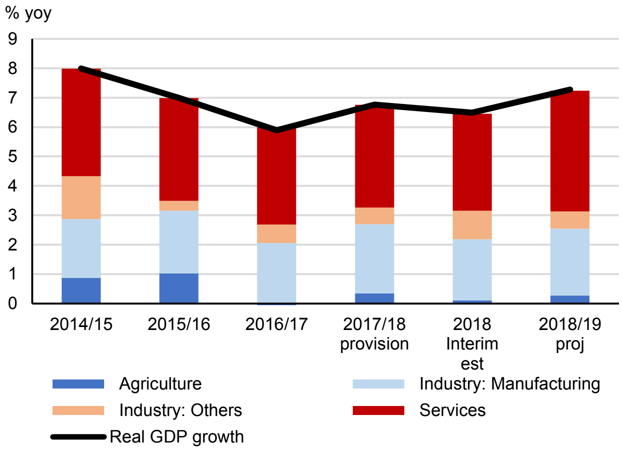
[2] FY2018 Interim refers to a half-year period from April to September 2018. The new fiscal year cycle starts in October and ends in September in the following year.

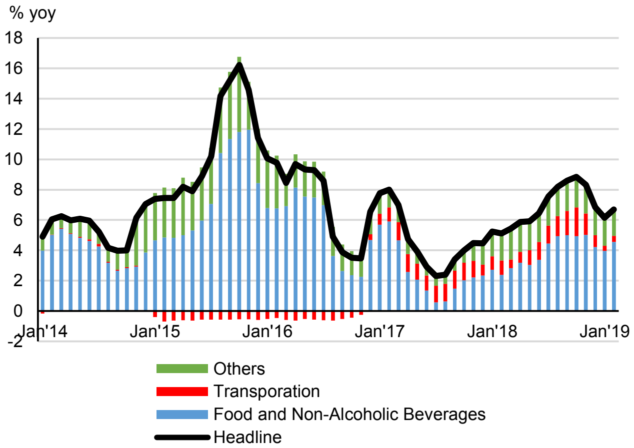
Myanmar: Selected Charts

Growth is expected to pick up in FY2018/19, after softening in 2018.



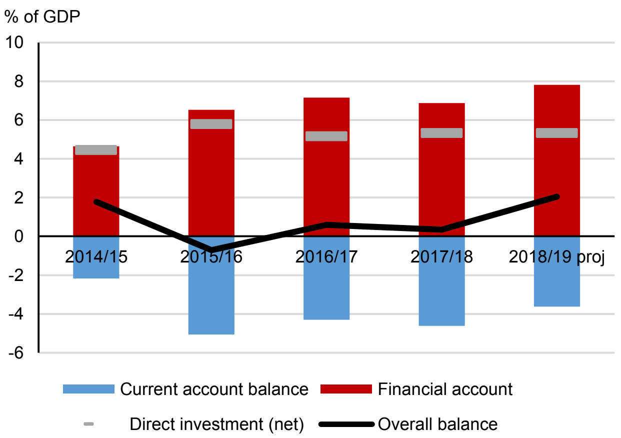
Sources: Ministry of Planning and Finance; and AMRO staff calculations.

Inflation has started to slow since November 2018, with less pressure from fuel prices and the exchange rate and from the diminishing flood effects.



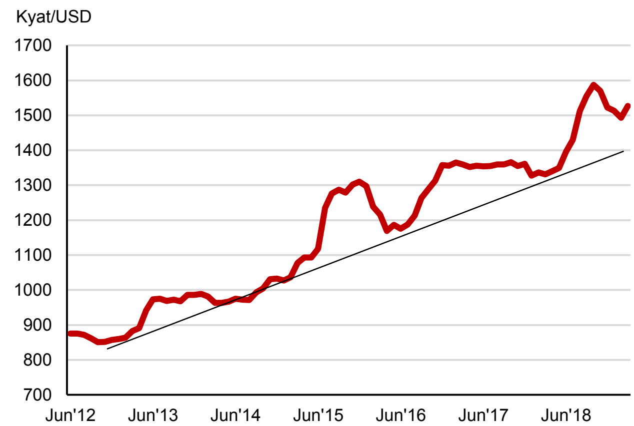
Source: Central Statistical Organization.

The financial account was supported by continued FDI inflows, which offset the current account deficit.



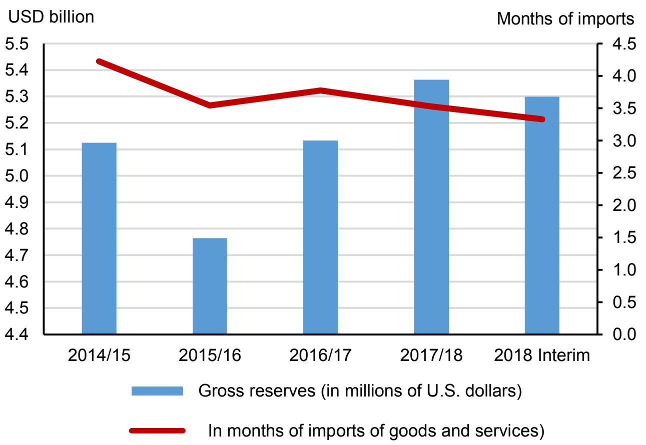
Source: Central Bank of Myanmar.

The sharp depreciation in the Kyat was contained towards the end of 2018.



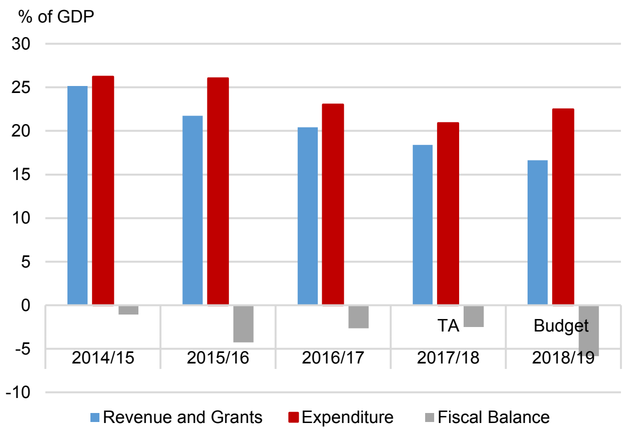
Source: Central Statistical Organization.

Myanmar's foreign exchange reserves dropped slightly during Q3 2018, resulting in lower import cover.



Sources: Central Bank of Myanmar; and Directorate of Investment and Company Administration.

The budgeted deficit increased sharply in FY2018/19.



Source: Ministry of Planning and Finance.

Myanmar: Selected Economic Indicators

	2015/16	2016/17	2017/18	2018/19
Real Sector and Prices	(In percentage change)			
Real GDP [1/]	7.0	5.9	6.8	7.3
CPI (2012=100, period average)	10.0	6.8	4.0	5.0
CPI (2012=100, end-period)	8.4	7.0	5.4	5.1
Balance of payments	(In USD million, unless specified)			
Trade balance	-4,048.0	-4,394.2	-4,680.2	-4,734.0
Current account balance	-3,009.5	-2,721.2	-3,104.5	-2,307.1
(In percent of GDP)	-5.1	-4.3	-4.6	-3.6
Financial account	3,885.8	4,533.1	4,634.3	4,975.3
Direct investment (net)	3,443.0	3,260.2	3,588.7	3,390.6
ODA (net)	444.5	-35.0	224.7	350.0
Total external debt (In percent of GDP)	16.7	13.4	15.5	15.8
Gross international reserves	4,764.0	5,133.9	5,364.0	6,597.0
(In months of imports)	3.5	3.8	3.5	4.1
Fiscal sector [2/]	(In percent of GDP)			
Revenue and grants	21.7	20.4	18.6	16.6
Tax revenue	8.6	8.9	8.1	7.6
SEE receipts	10.2	9.1	8.2	7.8
Expenditure	26.0	23.0	21.1	22.5
Fiscal balance	-4.3	-2.6	-2.5	-5.8
Primary balance	-3.1	-1.3	-1.1	-4.4
Public debt	38.1	35.6	38.4	42.4
Monetary and Financial Sector	(In percentage change, end-period, unless specified)			
Domestic credit	32.4	24.5	20.2	25.8
Private sector	34.2	33.5	23.4	26.4
Broad money	26.3	19.4	18.0	20.3
Reserve money	22.8	8.8	6.0	10.0
Loan-to-deposit ratio	70.6	69.2	70.0	-
Memorandum Items				
Exchange rate (In MMK/USD, average)	1,222.4	1,260.6	1,355.8	1,565.0
Exchange rate (In MMK/USD, end of period)	1,216.0	1,362.0	1,335.0	1,550.0
Nominal GDP (in USD billion)	59.5	63.2	67.3	63.6
Nominal GDP (in MMK billion)	72,714.0	79,722.9	90,450.9	106,096.3

Sources: Myanmar authorities; and AMRO staff estimates.
Note: 2018/19 data refers to projections and a new fiscal year starting from October.

The Philippines

Economic growth in the Philippines slowed in 2018, as high inflation eroded household purchasing power and weaker external demand weighed on exports. Nonetheless, active government spending has supported a resilient economy, as witnessed by strong growth in gross fixed capital formation and government consumption. The economy expanded by 6.2 percent in 2018, the lowest in the last three years. Economic growth is expected to gradually recover on the back of buoyant domestic demand and will likely expand by 6.4 percent in 2019, albeit with the balance of risks to growth tilted to the downside.

Inflation stayed above the target range in 2018, largely as a result of supply shocks. Headline inflation rose by 5.2 percent in 2018, much higher than the target band of 3.0 percent ± 1.0 percentage point. A sharp increase in food prices, soaring oil prices, excise tax hikes, and a weaker peso, all contributed to the increase. Owing to the implementation of various non-monetary measures, including the passage of the rice tariffication law and lower oil prices, average inflation is forecast to settle within the target band of 3.0 percent ± 1.0 percentage point in 2019.

The external position has weakened, but buffers remain adequate. The current account deficit widened to 2.4 percent of GDP in 2018, mainly driven by strong imports of capital goods and raw materials. The financial account registered a net inflow of USD 7.8 billion, supported by strong foreign direct investment inflows, although it was not sufficient to cover the current account deficit and outflows captured by errors and omissions. The resultant funding gap was mainly met by a drawdown of the Banko Sentral ng Pilipinas' international reserves. Accordingly, gross international reserves declined to USD 74.7 billion by the end of October 2018 and then edged up to USD 82.8 billion as of February 2019—more than sufficient to cover the country's gross external financing needs.

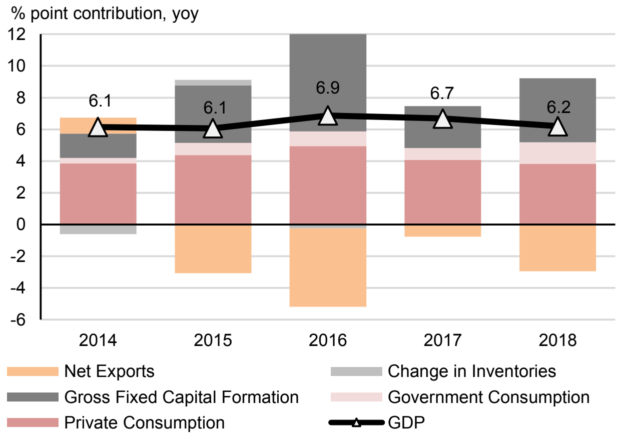
Monetary conditions have tightened, but credit continues to expand. Tightening monetary policy operations amid intensified short-term capital outflows have led all market rates to rise markedly. Supported by strong demand and growing competition, banks have continued to expand credit strongly. Credit growth is anticipated to remain elevated, but as real borrowing cost starts to rise, it is likely to moderate. Notwithstanding the rise in credit, the banking system remains generally sound, but there may be potential weaknesses in the non-banking sector.

The fiscal position has been markedly enhanced as the first phase of the Tax Reform for Acceleration and Inclusion Act has taken effect and tax administration has improved. The expanded fiscal space has allowed the government to pursue development programs more aggressively. Supported by improved revenues, the government stepped up the pace of disbursement to other agencies and enhanced its implementation capacity. As a result, government spending was able to outpace the fiscal program for the first time. The government is shifting its budget from an obligation basis to a cash basis in 2019, as part of its efforts to enhance fiscal efficiency.

The major risks facing the Philippine economy are mostly short-term ones. Externally, escalating global trade tensions remain the major risk. Domestically, elevated inflation and pockets of financial vulnerabilities are the main concerns. Global trade tensions and a slowdown of the global economy may exert significant drag on Philippine economic activity. As global financial conditions have eased, the pressure from short-term capital outflows has dissipated. Inflation has come down sharply but uncertainty from global oil prices may delay its return to the mid-point of the target range. Rapid credit growth over the past several years could potentially give rise to financial vulnerabilities. Overall, risks appear to be moderating.

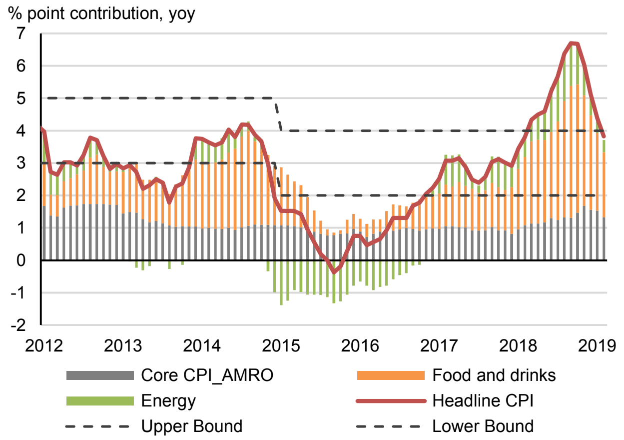
The Philippines: Selected Charts

Economic growth slowed in 2018 as a result of weaker external demand and private consumption.



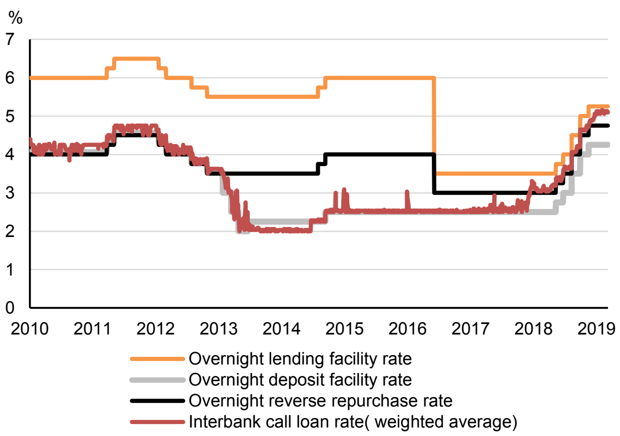
Source: Philippine Statistics Authority.

Inflation accelerated to above the upper bound of the target range in 2018, largely as a result of supply shocks but has started to decline recentlv.



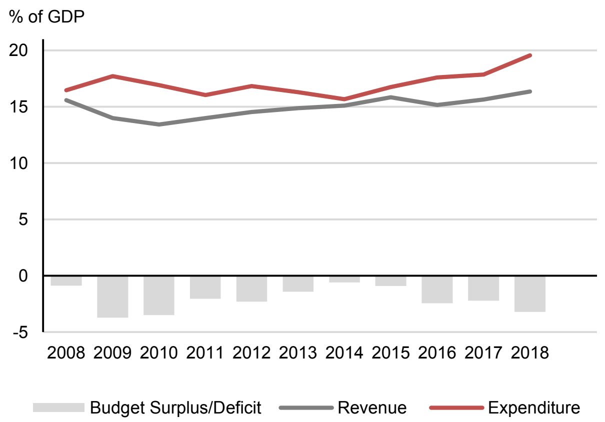
Sources: Philippine Statistics Authority; and AMRO staff calculations.
Note: Energy includes electricity, gas and other fuels under housing items and fuel and lubricant under transportation; food and drinks include all food and drinks and tobacco. The remaining components are used by AMRO staff to calculate core inflation.

Monetary conditions have tightened as the Banko Sentral ng Pilipinas started hiking its policy rate and short-term capital left.



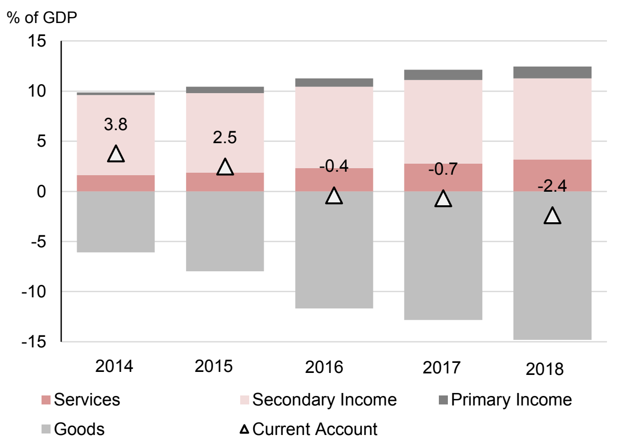
Source: Bangko Sentral ng Pilipinas.

Fiscal strength has been enhanced by tax reforms.



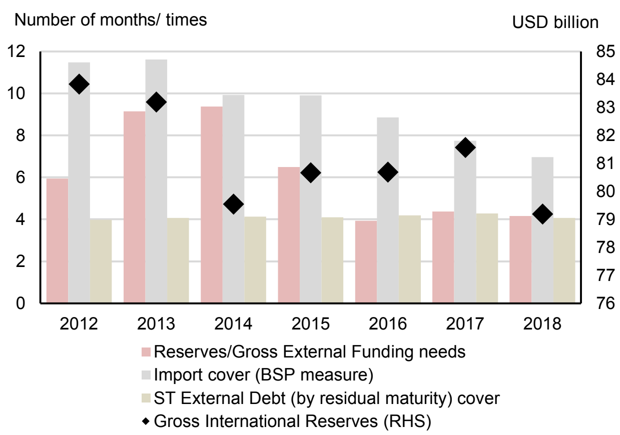
Source: Bureau of Treasury.

The balance of payments has worsened as the current account deficit widened.



Source: Bangko Sentral ng Pilipinas.

International reserves remain adequate.



Source: Bangko Sentral ng Pilipinas.
Note: Import cover refers to number of months of average imports of goods and payment of services and primary income.

The Philippines: Selected Economic Indicators

	2015	2016	2017	2018
Real sector and prices	(In percentage change, unless specified)			
Real GDP	6.1	6.9	6.7	6.2
Private consumption	6.3	7.1	5.9	5.6
Government consumption	7.6	9.0	6.2	13.0
Gross fixed capital formation	16.9	26.1	9.4	12.9
Exports of goods and services	8.5	11.6	19.7	13.4
Imports of goods and services	14.6	20.2	18.1	16.0
Prices				
Consumer price inflation (end of period 2012=100)	0.7	2.2	2.9	5.1
Consumer price inflation (period average 2012=100)	0.7	1.3	2.9	5.2
Core inflation (period average 2012=100)	1.0	1.6	2.4	4.2
GDP deflator	-0.6	1.7	2.3	3.8
External sector	(In USD billion, unless specified)			
Current account balance	7.3	-1.2	-2.1	-7.9
(In percent of GDP)	2.5	-0.4	-0.7	-2.4
Trade balance	-23.3	-35.5	-40.2	-49.0
Services balance	5.5	7.0	8.7	10.5
Primary income, net	1.9	2.6	3.2	3.8
Secondary income, net	23.3	24.7	26.2	26.8
Financial account balance	2.3	0.2	-2.8	-7.8
Direct investment, net	-0.1	-5.9	-7.0	-5.9
Portfolio investment, net	5.5	1.5	2.5	0.9
Other investment, net	-3.1	4.6	1.7	-2.8
Error and omission	-2.4	0.3	-1.6	-2.3
Overall balance	2.6	-1.0	-0.9	-2.3
Gross international reserves (end-period)	80.7	80.7	81.6	79.2
Total external debt (In percent of GDP)	26.5	24.5	23.3	23.9
Short-term external debt (In percent of total)	19.5	19.4	19.5	20.3
Fiscal sector (National Government)	(In percent of GDP)			
Government revenue	15.8	15.2	15.6	16.4
Government expenditure	16.7	17.6	17.9	19.6
Fiscal balance	-0.9	-2.4	-2.2	-3.2
Primary balance	1.4	-0.3	-0.3	-1.2
Government debt	44.7	42.1	42.1	41.8
Monetary sector	(In percentage change, end-period unless specified)			
Domestic credit	11.5	17.0	13.9	14.7
Of which: Private sector	12.1	16.6	16.4	14.9
Broad money	9.3	13.4	11.3	8.9
Memorandum items:				
Exchange rate (In PHP/USD, average)	45.5	47.5	50.4	52.7
Exchange rate (In PHP/USD, eop)	47.2	49.8	49.9	52.7
Gross domestic product at current price (In PHP trillion)	13.3	14.5	15.8	17.4
Gross domestic product at current price (In USD billion)	292.8	304.9	313.6	330.7
GDP per capita (In USD)	2,882.7	2,953.1	2,988.9	3,101.8

Sources: The Philippines authorities; and AMRO staff estimates.

Singapore

Singapore's growth remained firm in 2018, but moderated as the cyclical uplift from the global tech sector eased alongside weakening global growth. Following a strong rebound of 3.9 percent in 2017, growth moderated to 3.2 percent 2018. The manufacturing sector slowed as the impetus from the upswing in the global tech cycle waned, accentuated by softer growth in its key final demand markets. Activity in the services sector remained robust, driven mainly by financial and business services.

Improvements in the labor market continued to gather pace, contributing to higher underlying wage pressures. Despite the worsening external environment, net employment gains increased and broadened. The bulk of the gains was driven by services, while the contraction in manufacturing employment eased. Nominal wage growth improved from 3.1 percent in 2017 to 3.5 in 2018, supported by productivity growth, which had recovered strongly since 2017.

The Monetary Authority of Singapore core inflation continued to edge up to 1.7 percent in 2018, while headline inflation remained low at 0.4 percent. In February 2019, MAS core inflation remained steady at 1.5 percent while headline inflation stayed low at 0.5 percent, as rental costs fell at a more moderate pace. However, inflationary pressures are expected to increase in 2019 from a firmer labor market.

The normalization of monetary policy is in line with the objective of containing price pressures in the medium-term. The slope of the Singapore dollar nominal effective exchange rate policy band was increased slightly twice last year, from zero percent prior to April 2018, in response to the steady improvements in the labor market and above-potential growth, alongside increasing inflationary pressures.

The property market experienced a price resurgence from Q2 2017 to Q3 2018, but has started to stabilize following the tightening of macroprudential measures in July 2018. After a sharp increase of 9.6 percent from Q2 2017 to Q3 2018, on the back of robust transaction volumes from improving sentiment, private residential property prices began to stabilize, easing slightly by -0.5 percent quarter-on-quarter in Q4 2018 and Q1 2019. Potential supply is increasing as a result of the large volume of collective land sales. Accordingly, the authorities have increased the Additional Buyer's Stamp Duty (ABSD) rates and tightened the Loan-to-Value (LTV) limits to cool the property market and keep prices in line with economic fundamentals. Rents for office spaces are recovering, while rents for retail and industrial spaces continue to decline.

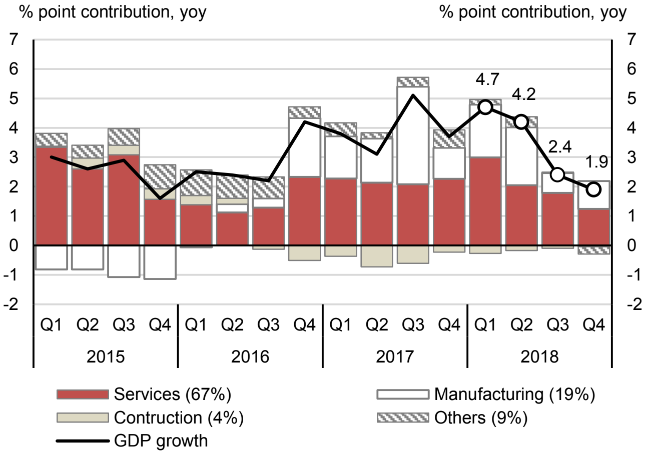
Bank lending to non-bank entities and residents grew more slowly, reflecting the moderation in economic growth, including the impact from both trade tensions and property cooling measures. Business loan growth moderated in 2018 and early-2019, owing, in part, to the general commerce segment. In the consumer segment, housing loan growth has also eased.

The revised FY2018 Budget is expansionary with a large planned increase in expenditure, especially in infrastructure. The FY2018 overall fiscal position has been revised from a slight deficit of 0.1 percent of GDP to a surplus of 0.4 percent of GDP as a result of better operating revenue growth and lower-than-expected total expenditure outlays. All 23 sector-specific Industry Transformation Maps have been rolled out in FY2018. Each ITM lays out holistic plans for a specific sector in areas of productivity, jobs and skills, innovation and internationalization. The plans will attempt to help those sectors achieve growth and competitiveness, and create quality jobs for Singapore's future economy. In FY2019, AMRO staff estimates that the fiscal impulse, which is proxied by the change in the primary balance which does not include one-off and recurring payments from the newly announced Merdeka Generation Fund and Long-Term Care Support Fund starting from 2019, will be small.

Going forward, growth is expected to expand at a more gradual pace. Growth is projected to slow to around 2.5 percent in 2019, around its longer-term growth potential. Downside risks to growth have increased, stemming from the U.S.-China trade conflict and weaker global growth. Some segments in the corporate and household sectors are vulnerable to a sharp economic slowdown.

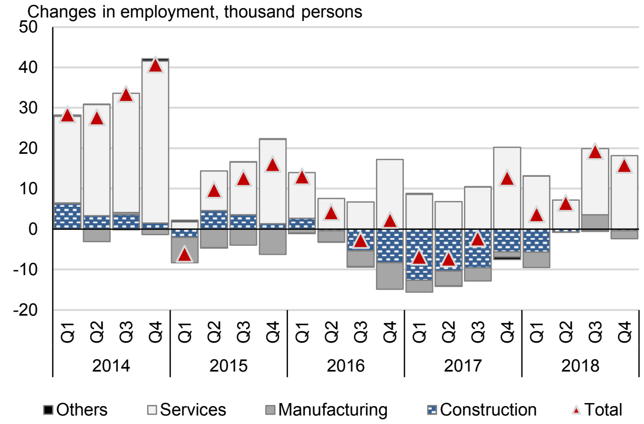
Singapore: Selected Charts

Singapore's growth moderated in 2018 as the cyclical uplift from the global tech rebound eased.



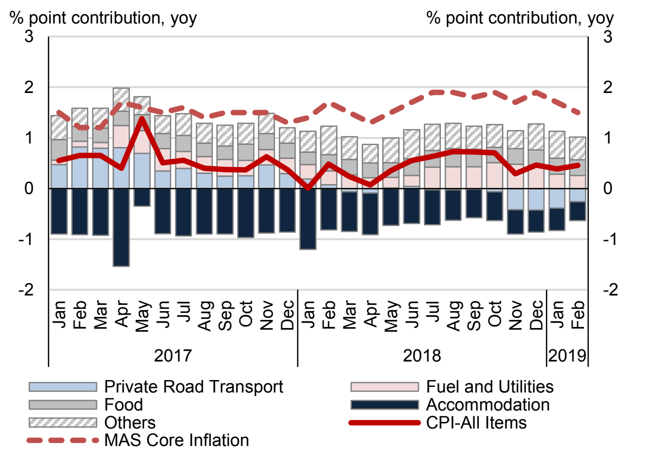
Source: Singapore Department of Statistics.
Note: GDP Shares of sectors are based on 2018 numbers.

Net employment gains accelerated, on the back of the services sector.



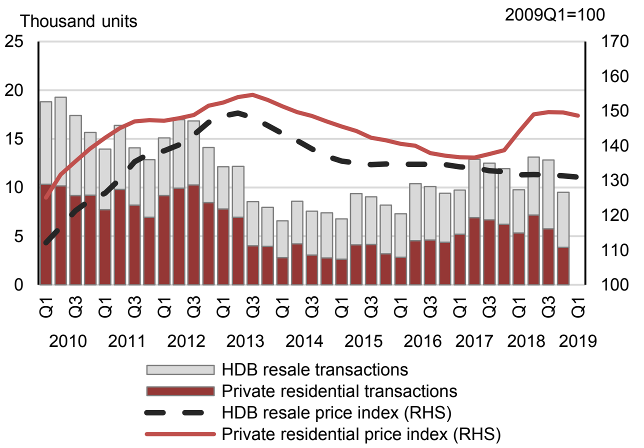
Source: Ministry of Manpower.

Headline inflation increased but stayed low while the Monetary Authority of Singapore core inflation continued to edge up, to near 2 percent.



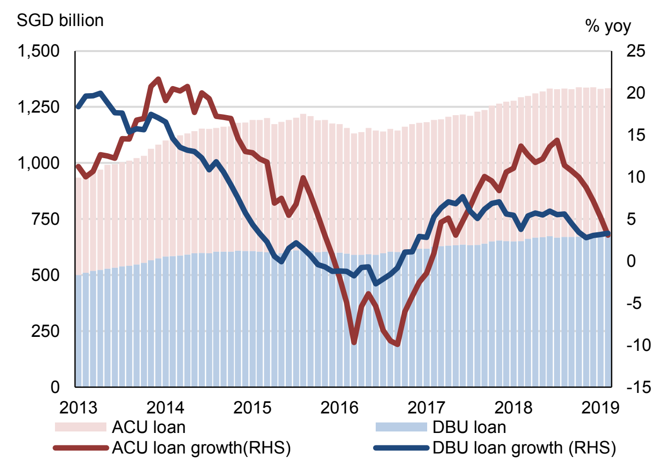
Sources: Singapore Department of Statistics; and Monetary Authority of Singapore.

The property market recovered strongly in 2018, but has started to stabilize following the recalibration of macroprudential measures in July 2018.



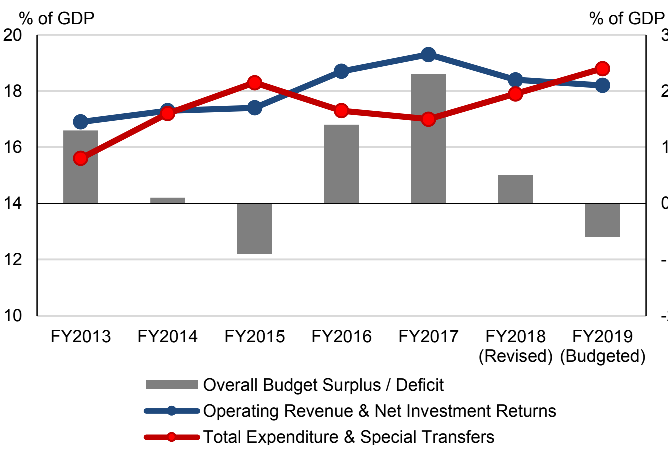
Sources: Urban Redevelopment Authority; and Housing Development Board.
Note: 2019 Q1 figures are based on advance estimates.

Growth in bank lending has started to moderate.



Source: Monetary Authority of Singapore.

The revised FY2018 overall budget surplus of 0.4 percent is expected to decline to -0.7 percent in FY2019.



Source: Ministry of Finance Singapore.

Singapore: Selected Economic Indicators

	2015	2016	2017	2018
National Income and Prices	(In percentage change, unless specified)			
Real GDP	2.5	2.8	3.9	3.2
Real private consumption	5.0	2.2	3.2	2.4
Real public consumption	7.8	4.3	4.2	3.6
Gross fixed capital formation	1.5	0.9	5.3	-3.4
Exports of goods & services	5.0	0.8	5.4	5.2
Imports of goods & services	3.6	0.6	7.0	4.5
MAS core inflation	0.5	0.9	1.5	1.7
Consumer price inflation	-0.5	-0.5	0.6	0.4
Unemployment rate, annual average	1.9	2.1	2.2	2.1
External Sector	(In percent of GDP, unless specified)			
Current account balance	17.0	17.5	16.0	17.7
Capital and financial account balance [1/]	-16.8	-17.9	-7.9	-13.9
Direct investment (net)	8.0	10.7	15.2	12.4
Portfolio investment (net)	-20.1	-6.1	-10	-6.6
Other investment (net)	-6.5	-18.1	-10.7	-15.1
Derivatives (net)	1.8	-4.4	-2.4	-4.6
Overall balance of payments	0.4	-0.6	8.1	3.5
International reserves (In USD billion, end period)	247.7	246.6	279.9	287.7
Fiscal Sector	FY2015	FY2016	FY2017	FY2018
Operating revenue (In percent of GDP)	15.3	15.4	16.2	15
Total expenditure (In percent of GDP)	15.9	15.9	15.7	16.1
Primary surplus / deficit (In percent of GDP)	-0.6	-0.5	0.5	-1.1
Overall budget surplus / deficit (In percent of GDP)	-1.0	1.4	2.3	0.4
Monetary	(In percentage change, unless specified)			
3-month SGD Sibor (In percent, end period)	1.2	1.0	1.5	1.9
Domestic liquidity indicator (end period)	0.2	-0.2	0.1	0.0
Narrow money M1	6.7	5.5	5.4	-1.2
Broad money M2	4.0	8.4	4.1	5.1
Memorandum items				
Straits Times Index (end period)	2,883.0	2,881.0	3,403.0	3,069.0
Private Residential Property Index (2009Q1=100)	141.6	137.2	138.7	149.6
Spot exchange rate (In SGD/USD, period avg.)	1.37	1.38	1.38	1.35
NPL ratio of local banks (In percent, end period)	1.1	1.4	1.6	1.5

Source: Singapore authorities.
Note: [1/] There has been a change in sign convention for the financial account, based on BPM6. A positive sign now indicates an increase in assets or liabilities, and net outflows in net balances. However, this figure still uses the previous sign conventions.

Thailand

Thailand's growth accelerated to 3.7 percent in Q4 2018 from 3.2 percent in Q3, led by private consumption and investment. Private consumption has been on an upward trend since Q4 2017, partly boosted by the end of the five-year lock-in period under the first-time car buyer scheme. The slight recovery in tourism from the boat accident off Phuket offset the negative growth contribution from net exports.

Headline inflation remains low, in part, dragged down in recent months by lower oil prices. Headline inflation was 0.7 percent in February 2018, its fourth month below the lower bound of the Bank of Thailand's target range.

The external position remains strong, reflecting large current account surplus and high international reserves. The current account surplus narrowed slightly to 6.9 percent of GDP in 2018 from 11 percent in 2017, reflecting the effects of global trade conflicts and the boat accident off Phuket, as well as the result of robust investment and consumption on imports. The current account surplus has been partially recycled and invested overseas in the form of direct investment by domestic corporates and portfolio outflows by residents.

Overall fiscal policy remains expansionary in support of the economy. In FY2018,[3] fiscal revenue decreased marginally to 15.2 percent of GDP while expenditure declined to 18.5 percent of GDP, with the overall fiscal deficit at 3.3 percent of GDP, lower than in FY2017. Disbursements of capital expenditure were low in FY 2017 and FY2018. Notwithstanding the sustained fiscal deficit, Thailand has significant fiscal space as public debt is only slightly above 40 percent of GDP.

Going forward, the Thai economy is expected to grow close to potential. It is forecast to grow at 3.8 percent in 2019 and 3.7 percent in 2020. Inflation is expected to increase to around 1.0 percent in 2019 and 2020. The current account surplus is projected to continue to narrow in 2019 and 2020, reflecting the impact of global trade conflicts on exports amid a softer external environment, and still-robust domestic consumption and investment.

Downside risks to growth stem mainly from uncertainties surrounding the U.S.-China trade negotiations and domestic political uncertainties. While positive trade diversion effects may start to offset some of the negative spillovers from the trade conflict, uncertainty over the outcome of the U.S.-China trade negotiations remains a key risk. Political uncertainties surround the general election and represent a potential risk to the Eastern Economic Corridor mega-projects and investments. Although tourist arrivals from China, a major tourism market for Thailand, have started to turn around, the lingering effects of the Phuket boat accident poses a downside risk.

Risks to financial stability remain contained, although some pockets of vulnerabilities remain. The search-for-yield behavior in what has been a prolonged period of low interest rates represents a potential risk particularly to savings cooperatives and mutual funds. The revised mortgage loan regulations requiring a stricter loan-to-value ratio of 70 percent for third and subsequent mortgages and 80–90 percent for second mortgages should help strengthen financial stability. The household debt-to-GDP ratio, albeit moderating, remains high compared to regional peers. The loan quality of SMEs requires continued monitoring, especially if financial conditions start to tighten.

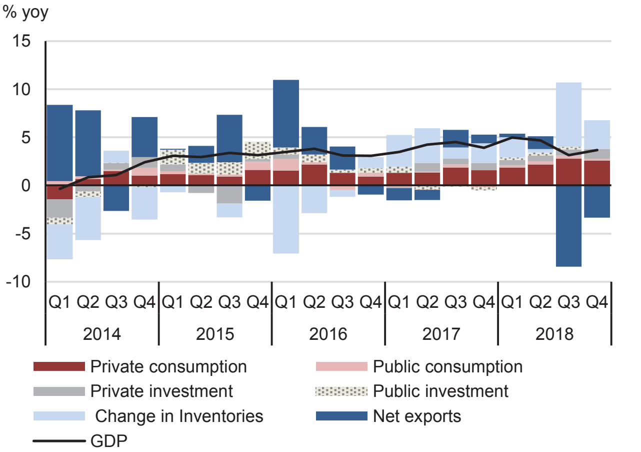
Thailand is aging at a relatively fast pace, putting it at risk of "growing old before getting rich." Thailand's aging will reduce the share of the working age population, with a consequent reduction in the contribution of labor to Thailand's potential growth. Population aging may also put pressure on the fiscal position, as pension and health-related spending will rise.

The 20-year Strategic Plan, including the Thailand 4.0 scheme, and the flagship project of Eastern Economic Corridor, is a welcome move. Labor productivity could be increased by improving the quality of education, especially in science and technology, and enhancing vocational training. A coordinated package of reforms is necessary in order to cope with the rapid pace of aging, including extending the retirement age, mobilizing previously underemployed labor in the countryside, and encouraging high-skilled immigration.

[3] Thailand's fiscal year 2018 runs from October 1, 2017 to September 30, 2018

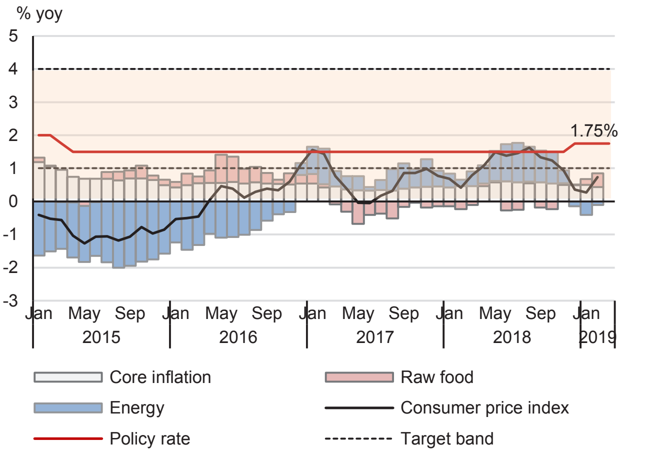
Thailand: Selected Charts

Economic growth had gained traction until H1 2018, but slowed in H2 2018 amid a turnaround in exports and a slowdown in tourism.



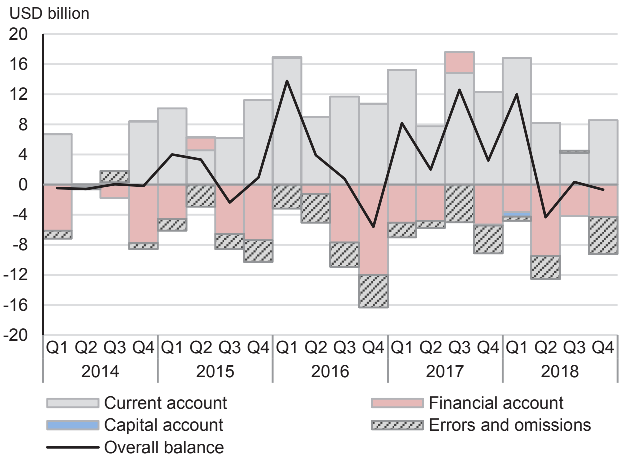
Sources: CEIC; and National Economic and Social Development Council; and AMRO staff calculations.

Headline inflation remains low, contained in recent months by lower oil prices.



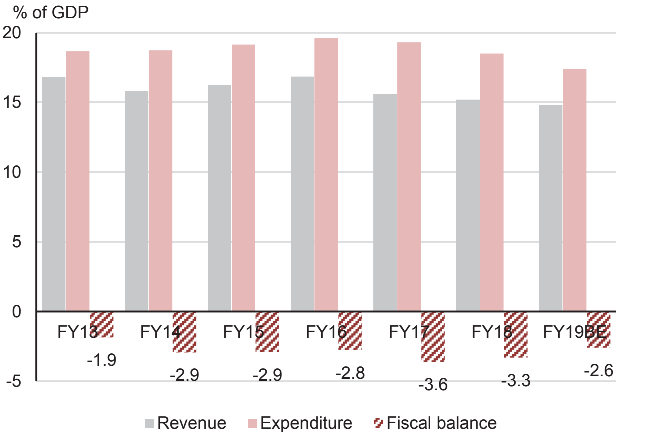
Sources: Bank of Thailand; Bureau of Trade and Economic Indices; and CEIC.

The external position remained robust while the current account surplus narrowed.



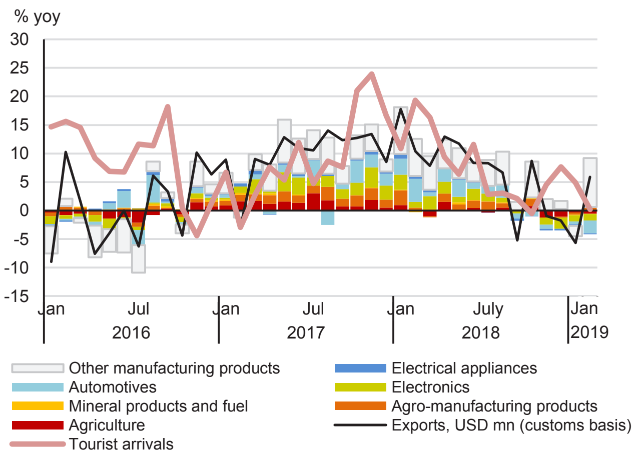
Sources: Bank of Thailand; and CEIC.

Both the revenue-to-GDP ratio and expenditure-to-GDP ratio have fallen in recent years.



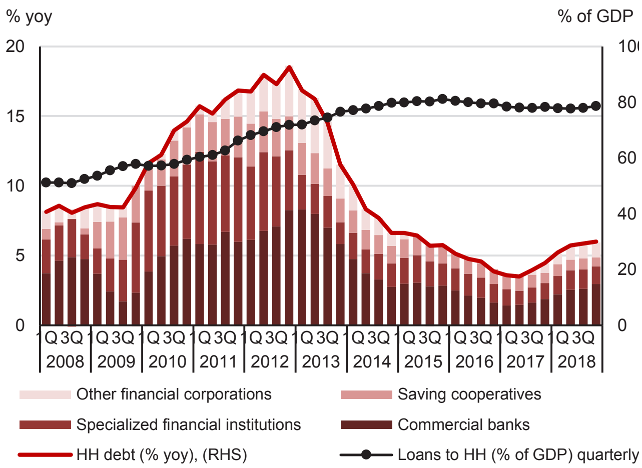
Sources: Bureau of Budget; CEIC; and Fiscal Policy Office.

Downside risks to growth stem mainly from uncertainties surrounding the U.S.-China trade negotiations and domestic political uncertainties.



Sources: Bank of Thailand; CEIC; Customs Department; Ministry of Tourism and Sports; and AMRO staff calculations.

Household debt-to-GDP ratio, albeit slowed down, remains high compared to regional peers.



Source: Bank of Thailand; and AMRO staff calculations.

Thailand: Selected Economic Indicators

	2015	2016	2017	2018
Real sector and prices	(In percentage change unless specified)			
Real GDP	3.1	3.4	4.0	4.1
Final consumption	2.4	2.7	2.3	4.0
Private sector	2.3	2.9	3.0	4.6
General government	2.5	2.2	0.1	1.8
Capital formation	4.4	2.9	1.8	3.8
Private sector	-2.1	0.6	2.9	3.9
General government	28.4	9.5	-1.2	3.3
Exports of goods and services	1.6	2.8	5.4	4.2
Imports of goods and services	0.0	-1.0	6.2	8.6
Labor market				
Unemployment rate (in percent, period average)	0.9	1.0	1.2	1.1
Prices				
Consumer price inflation (period average)	-0.9	0.2	0.7	1.1
External sector	(In USD billion, unless specified)			
Current account balance	32.1	48.2	50.2	35.2
(In percent of GDP)	8.0	11.7	11.0	6.9
Trade balance	26.8	36.5	34.2	22.3
Exports, fob	214.0	214.3	235.3	252.2
Imports, fob	187.2	177.7	201.1	229.8
Services, net	19.2	24.3	28.9	28.8
Receipts	61.8	67.8	75.5	84.1
Payments	42.5	43.5	46.7	55.3
Primary income, net	-20.6	-19.4	-20.3	24.0
Secondary income, net	6.7	6.8	7.5	8.0
Financial account balance	-16.8	-20.8	-12.4	-21.9
Direct investment, net	3.9	-10.6	-10.6	-7.2
Portfolio investment, net	-16.5	-2.8	-2.1	-5.8
Other investment, net	-5.1	-7.8	0.2	-9.0
Errors and Omissions	-9.5	-14.5	-11.7	-5.4
Overall balance	5.9	12.8	26.0	7.3
Gross official reserves excluding net forward position	156.5	171.9	202.6	205.6
(In months of imports of goods & services)	8.2	9.3	9.8	8.7
Total external debt (In percent of GDP)	32.0	32.5	36.7	35.2
Fiscal sector [1/]	(In percent of FYGDP)			
Revenue	16.2	16.8	15.6	15.2
Expenditure	19.1	19.6	19.3	18.5
Budget balance	-2.9	-2.8	-3.6	-3.3
Public Debt	43.7	40.8	41.2	41.8
Monetary sector	(In percent)			
Policy rate (In percent per annum, end of period)	1.5	1.5	1.5	1.8
10-year government bond yield (end of period)	2.5	2.7	2.5	2.5

Sources: Thailand Authorities; AMRO staff estimates.

[1/] Fiscal year 2018 runs from October 1, 2017 to September 30, 2018.

Vietnam

The Vietnamese economy continued its robust growth in 2018 and is expected to maintain the strong momentum in 2019. GDP grew by 7.1 percent in 2018 on the back of strong growth in electronics manufacturing and the wholesale and retail industry. GDP growth in 2019 is expected to be around 6.6 percent, sustained by manufacturing and services. In an attempt to mitigate inflationary pressures, the government managed the increase of administered prices, including the postponement of the environmental protection tax increase. As a result, the average headline inflation in 2018, at 3.5 percent, was kept below the 4.0 percent (de facto) target.

Surpluses in both the current account and financial account helped bolster the foreign exchange reserves buffer. Foreign exchange reserves stood at USD 55 billion as of end-November 2018. The Vietnamese dong came under downward pressure in the second half of the year following capital outflows from emerging markets, resulting in a depreciation of about 2.1 percent vis-à-vis the U.S. dollar in 2018.

Fiscal consolidation continued in line with the medium-term fiscal consolidation plan. Despite relatively buoyant tax revenue, total revenue was unchanged, at 25.7 percent of GDP in 2018, mainly owing to lower land-based revenue and trade-related revenue. Expenditure was maintained at the previous year's level, leaving the deficit unchanged at 3.5 percent of GDP. As a result of fiscal consolidation, public debt declined to 58.4 percent of GDP as of end-2018.

Credit growth has moderated, in line with the SBV's lower credit growth target. The SBV decreased the target from 18 percent in 2017 to 17 percent in 2018, with a view to safeguarding financial stability. As a result, the banking system's actual credit growth declined from 18 percent in 2017 to 14 percent in 2018. Despite more subdued credit growth, monetary conditions remained relatively accommodative, attributable in part to the SBV's lowering of the policy rate for open-market operations from 5 percent to 4.75 percent in January 2018.

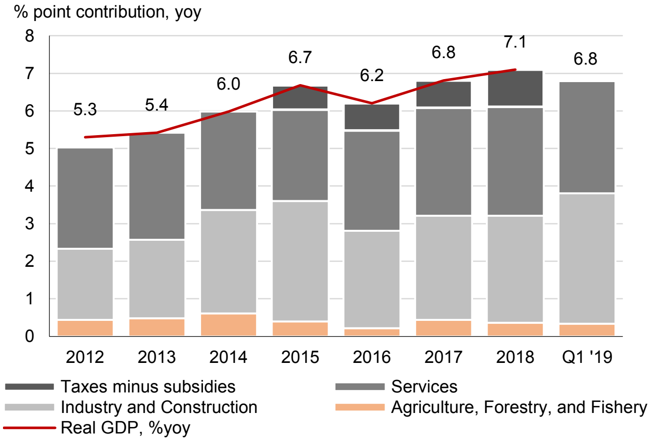
Key risks to the real and external sectors stem mainly from rising trade protectionism. Any impact from the U.S.-China trade conflict on Vietnamese exports would likely be through the global value chain and competition in the domestic and third markets. In addition, slowing global demand amid rising trade protectionism may pose a substantial challenge to Vietnam's exports. On the positive side, however, the U.S.-China trade tension may benefit Vietnam through trade diversion, as well as the potential relocation of foreign firms away from China to Vietnam.

Banking sector risks stem from the relatively low capital buffers and still-sizeable non-performing loans (NPLs). NPL resolution has sped up, with about 35 percent of NPLs acquired by the Vietnam Asset Management Company having been disposed of, as of end-2018. However, a considerable amount of legacy NPLs in the banking system still remains. Meanwhile, already-low bank capital adequacy ratios are projected to decrease further as Basel II standards for risk weights will be applied to all banks by the start of 2020.

Increased reliance on less sustainable revenue sources may undermine the fiscal position in the longer term. Corporate income tax has declined as a share of GDP in recent years, reflecting the reduction in the corporate income tax rate, while VAT and non-tax revenue have increased, offsetting the decline. The increased dependence on non-tax revenue, in particular SOE equitization and land-based revenue, may pose a concern for long-term fiscal sustainability.

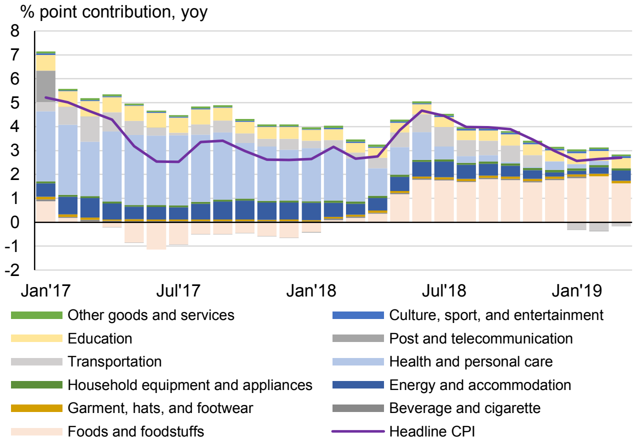
Vietnam: Selected Charts

Economic growth continued to be robust in 2018.



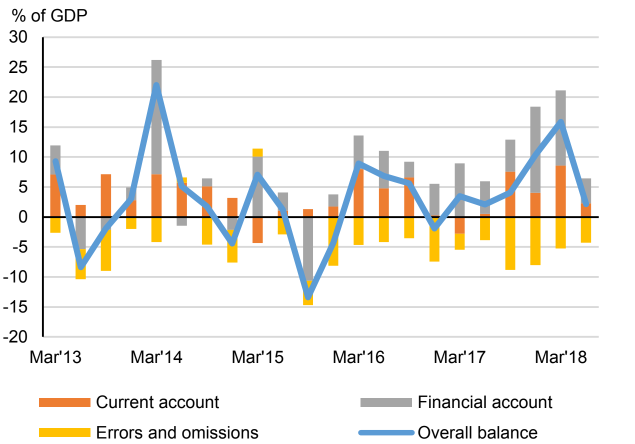
Sources: CEIC; General Statistics Office; and AMRO staff calculations.

Headline inflation was contained below the authorities' (de facto) target of 4.0 percent.



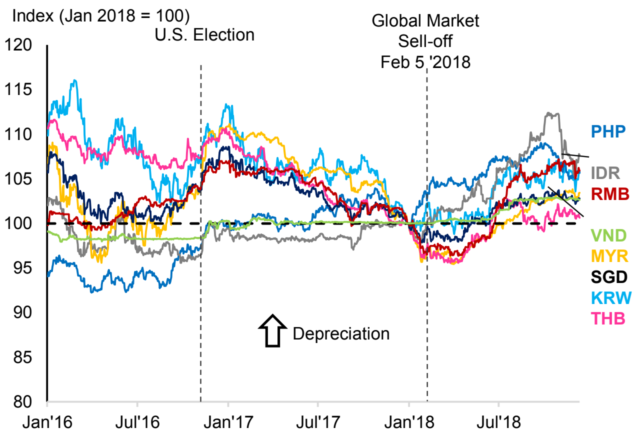
Sources: CEIC; General Statistics Office; and AMRO staff calculations.

Surpluses in the current account and capital and financial account continued to support the balance of payments.



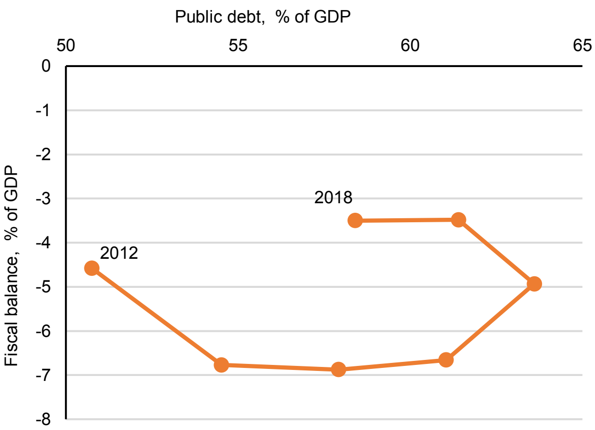
Sources: CEIC; State Bank of Vietnam; and AMRO staff calculations.

The Vietnamese dong depreciated along with other regional currencies relative to the U.S. dollar.



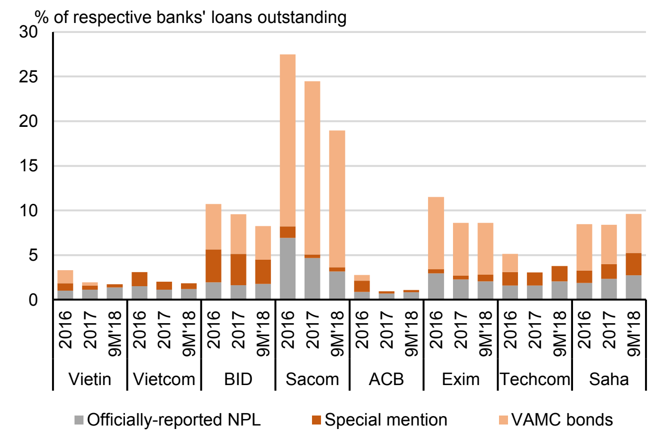
Sources: Haver Analytics; and AMRO staff calculations.

Public debt remained under control.



Sources: CEIC; Ministry of Finance; and AMRO staff calculations.

Banks have made progress in the resolution of their non-performing loans.



Sources: Financial reports of listed banks; and AMRO staff calculations.
Note: BID refers to Bank for Investment and Development of Vietnam, ACB refers to Asia Commercial Bank, The first three banks are SOCBs and the rest are domestic private banks (also known as joint stock banks).

Vietnam: Selected Economic Indicators

	2015	2016	2017	2018
National income and prices	(In percentage change)			
Real GDP	6.7	6.2	6.8	7.1
Consumer price inflation (average)	0.6	2.7	3.5	3.5
Balance of payments	(In USD billion, unless specified)			
Current account balance	0.9	8.2	6.1	10.3
(In percent of GDP)	0.5	4.0	2.7	4.2
Trade balance	7.4	14.0	11.5	9.1
Service balance	-4.3	-5.4	-3.9	-3.9
Primary income	-9.9	-8.4	-9.9	-9.5
Secondary income	7.7	8.0	8.4	8.5
Financial and capital account balance	1.6	11.0	20.2	3.6
(In percent of GDP)	0.8	5.4	9.0	1.5
Direct investment, net	10.7	11.6	13.6	18.0
Portfolio investment, net	-0.1	0.2	1.9	1.0
Other investment, net	-9.1	-0.9	4.8	-15.4
Net errors and omissions	-8.5	-10.8	-13.8	-8.1
Overall balance	-6.0	8.4	12.5	5.8
Gross international reserves	28.3	36.5	49.1	54.9
In months of imports of goods & services	2.0	2.4	2.7	2.6
Coverage of short-term debt by remaining maturity	1.9	2.1	2.6	2.4
	(In percent)			
External debt service/exports of goods and services	3.8	3.3	4.0	3.0
Total external debt/GDP	42.0	44.8	48.9	49.0
Short-term/total external debt	13.0	13.9	13.0	13.4
General government	(In percent of GDP)			
Revenue and grants	23.8	24.5	25.7	25.7
Expenditure	28.5	28.7	29.2	29.2
Net lending/borrowing balance	-4.7	-4.3	-3.5	-3.5
Public debt	61.0	63.7	61.4	61.4
Monetary sector	(In percentage change)			
Claims on the private sector	18.8	18.8	17.4	13.8
Broad money	14.9	17.9	14.3	14.0
Memorandum items:				
Exchange rate (In VND/USD) period avg	21,698.0	21,932.4	22,369.7	22,602.0
Nominal GDP (In USD billion)	193.4	205.3	223.8	244.9
Nominal GDP (In VND trillion)	4,192.9	4,502.7	5,007.9	5,535.3

Sources: Vietnam authorities; CEIC; and AMRO staff estimates.
Note: Data for 2018 refers to estimates. Direct investment and other investment figures in 2018 reflect the Sabeco transaction.