ANNEX B: DEVELOPMENTS IN ASEAN+3 ECONOMIES

Brunei Darussalam

After a short period of improvement in 2015, the economy contracted again in 2016 due to the oil and gas production decline. The economy recorded a contraction of 2.5 percent in 2016 following a significant decline in the oil and gas production. On the expenditure side, tighter government revenue on the back of lower oil prices has constrained government consumption as well as public investment. Government consumption has recorded a contraction for two years in a row. Brunei's growth prospects in the next few years, therefore, would depend mainly on the progresses of oil and gas production and some FDI projects construction, as well as on the success of recent diversification efforts. The economy is estimated to remain in contraction in 2016 with weaker oil and gas sector contribution due to disruption in oil and gas production. The economy is projected to recover gradually in 2017 on the back of the progress in the refurbishment work of oil and gas production facilities and construction of some large FDI projects.

Negative inflation continued, mainly because of low import prices and relatively weak demand. The economy has experienced negative inflation for the third year in a row on the back of the appreciation of BND against trading partners' currencies, as well as subdued domestic demand. The inflation is expected to increase marginally in 2017 as commodity prices have been trending upward recently combined with the gradual improvement in domestic demand.

On the external side, the trade balance has remained in surplus but narrowed over the past three years with falling oil prices. As the export decline outpaced imports with falling oil and gas prices, the trade surplus continued to shrink. As services and secondary income accounts remained in deficit, current account surplus continued to shrink. However, the external position remains well-buffered with international reserves able to cover around 15 months of imports.

Bank intermediation generally remained limited with a slight decreasing trend in 2016. Bank intermediation in Brunei remained relatively limited as reflected in its relatively low loan-to-deposit ratio (LDR). As of Q3 2016, the LDR was 38.2 percent[1], lower than at end-2015 owing to decelerating bank loan growth with weaker domestic economic activity. Although non-performing loan ratio has been trending up slightly, banks in general continued to remain well capitalized.

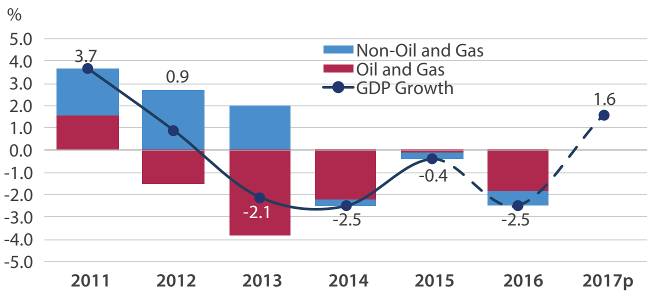
Despite some recent pick-ups in oil and gas prices, the fiscal position is still under substantial pressures. After four years of surplus, the fiscal balance turned into deficit of around 1.0 percent of GDP in FY2014/2015. In FY2015/2016 the deficit widened to 15.4 percent of GDP, and is projected to improve slightly to around 13.1 percent of GDP in FY2016/2017 as oil prices has been picking up since H22016. The rising fiscal deficit was mainly due to a sharp decline in oil-related revenue on account of low oil prices which overwhelmed the small spending cuts. However, the sizeable fiscal buffer accumulated from fiscal surpluses in past decades enabled Brunei to finance its deficits in recent years.

Recent economic developments in Brunei have reemphasized the need for structural reform policies towards a more diversified and competitive economy. The government of Brunei has recently intensified its reform efforts to spur the private sector's role in the economy and attract more FDI. For instance, under PENGGERAK (a coordinating unit under Prime Minister Office), the government has recently formed two statutory bodies, namely FAST (FDI Action and Supporting Center) and DARE (Darussalam Enterprise) to facilitate FDI and to develop domestic business — in particular SMEs. On the fiscal side, the government has started to adopt performance program budgeting in the effort to improve public financial management.

[1] The loan to deposit ratio (LDR) here is calculated as a ratio between total Loans and Advance/Financing to total Deposits (Non-bank Customers) based on the AMBD's Monthly Statistical Bulletin as of December 2016.

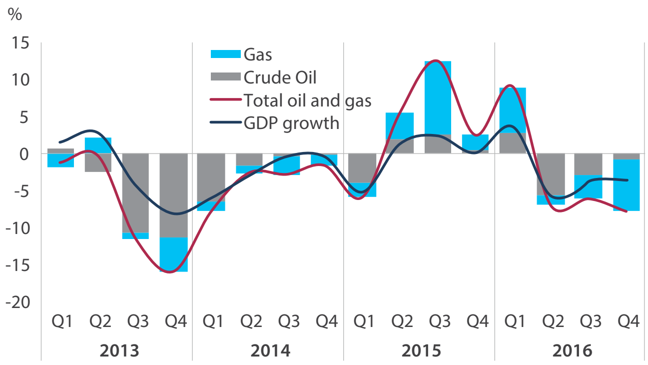
Brunei Darussalam: Selected Charts

GDP growth has been in contraction for four years in a row, but is expected to recover gradually in 2017.



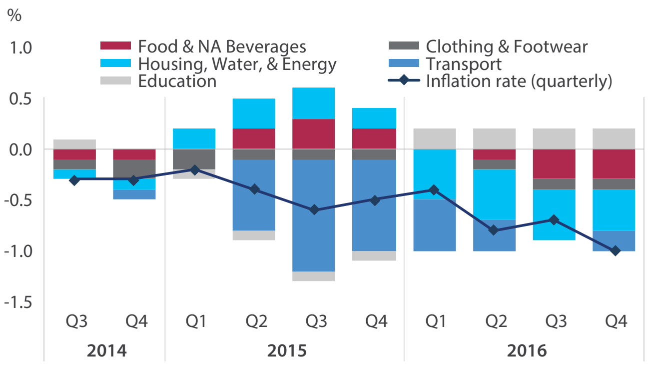
Note: 2016e and 2017p refers to AMRO staff estimates and projections, respectively

GDP growth correlates closely to the oil and gas production…



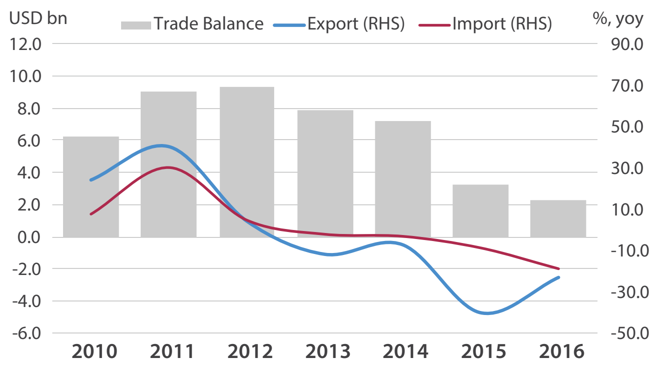
Sources: National Authorities, AMRO staff calculations

Negative inflation continued in 2016 on the back of weak domestic demand and a relatively stronger BND.



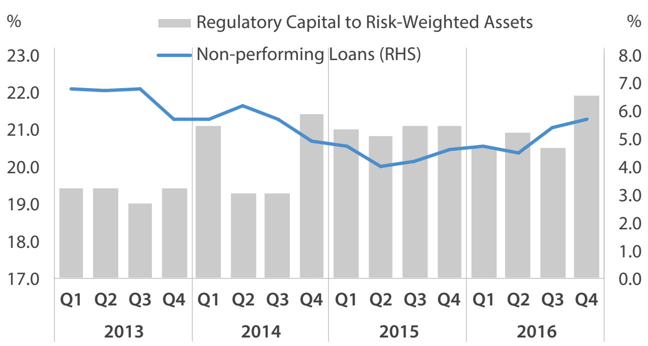
Sources: CEIC, AMRO staff calculations

The trade surplus continued to shrink as export contraction outpaced the decline in imports.



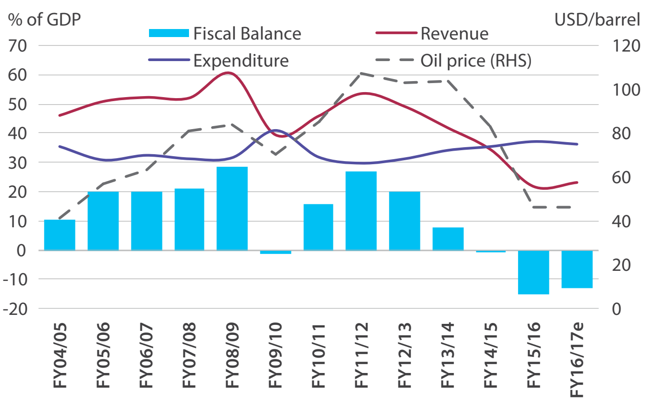
Sources: CEIC, AMRO staff calculations

Banks remained well buffered with a relatively high capital adequacy ratio, despite some uptick in NPLs.



Sources: CEIC, AMRO staff calculations

The fiscal balance has worsened with falling oil prices.



Sources: National Authorities, AMRO staff calculations

Brunei Darussalam: Selected Economic Indicators

	2013	2014	2015	2016 Est.
Real Sector and Prices	**(in annual percentage change, unless specified)**			
Real GDP	-2.1	-2.5	-0.4	-2.5
Government Consumption	3.6	1.8	-3.6	-6.5
Household Consumption	6.0	-3.7	5.2	-1.3
Investment	11.9	-31.2	6.6	-11.1
Export Goods & Services	-5.7	0.9	-10.8	-9.2
Import Goods & Services	14.5	-30.9	-11.7	1.8
Investment (in percent of GDP)	39.6	27.4	35.2	34.6
GDP deflator	-2.8	-1.8	-17.6	-9.2
Consumer price inflation (average)	0.3	-0.2	-0.4	-0.7
External Sector	**(in millions of BND, unless specified)**			
Trade balance	8,652	9,418	4,267	3,047
Current account balance	4,721	6,644	3,204	1,084 e/
In percent of GDP	20.9	30.6	18.0	7.0 e/
Overall balance (million USD)	116	72	-261	110 e/
Gross international reserves (million USD)	3,406	3,479	3,218	3,329
In months of imports of goods & services	11.3	11.6	11.9	15.0
Fiscal Factor	**(in percent of GDP)**			
Revenue and grants	41.8	34.3	21.9	23.3 e/
Oil and gas revenue	38.1	29.8	16.8	17.2 e/
Expenditure	34.1	35.3	37.3	36.4 e/
Current Spending	24.2	26.5	29.2	28.5 e/
Capital Spending	9.8	8.8	8.0	7.9 e/
Budget Balance	7.7	-1.0	-15.4	-13.1 e/
Monetary and Financial Sector	**(in annual percentage change, unless specified)**			
Domestic credit (private)	6.0	1.9	2.4	-5.3
Broad money	1.5	3.2	-1.8	1.5
Reserve money	2.4	1.1	5.1	5.4
Memorandum Items				
GDP (in millions of USD)	18,094	17,122	12,930	11,270
GDP (in millions of BND)	22,639	21,664	17,778	15,747.7
Exchange rate (BND/USD) average	1.25	1.27	1.37	1.38
Exchange rate (BND/USD) end-period	1.27	1.32	1.41	1.45

Notes:
1) Fiscal Year: April/March
2) The figures ending with e/ indicate estimates
Sources: National Authorities, IMF and AMRO staff calculations

Cambodia

Cambodia's economy is expected to maintain stable growth in 2017, amid continuing downward pressure from external demand. The economic growth is estimated at 6.9 percent in 2016 as garment export softened and tourist arrivals growth moderated. Improvement in agriculture and a stable construction sector supported the overall growth in 2016. The economic growth is projected to remain stable at around 6.8 percent in 2017 and 2018, supported by a domestic demand while external demand remains sluggish. Headline inflation, which rose to 3.0 percent in 2016, is forecast to increase further to 4.0 percent in 2017 and 4.2 percent in 2018 with continuing recovery of oil prices and rising food prices.

The external position strengthened significantly with a sizeable decline in current account deficit while FDI inflows were sustained. Trade deficit improved in 2016 as the slowdown in both export and consumption-related imports outpaced the decline in export growth. As the balance of payments surplus continued, gross international reserves reached USD6.73 billion in December 2016, covering 5.5 months of goods and services imports.With a new regulation on capital requirement, FDI into the financial sector showed a strong growth of 25.0 percent while FDI into other sectors remained mixed. Going forward, the recently agreed real estate investment projects from China, if realized, may substantially increase FDI inflows.

While trade deficit is improving, enhance export competitiveness against headwinds is critical. Rising labor costs due to minimum wage hikes may undermine cost competitiveness over time. In addition, the strong U.S. dollar and the competition from neighboring countries also contributed to the slowdown of garment export growth to E.U. market and the contraction in U.S. market in 2016. As Cambodia is not a member of TPP, it may gain from the trade pact's demise and sustain foreign direct investment. Going forward, maintaining labor cost competitiveness, improving infrastructure and diversifying exports will be the key to its export growth.

The exchange rate remained stable against U.S. dollar, with continued high degree of dollarization. The month-on-month changes of KHR/USD fluctuated within a small band of +/- 1.0 percent during Q4 2016. The foreign currency deposits as a percentage of broad money and of total deposit, were 83.2 and 93.7 percent at year-end, respectively. Efforts to promote the use of local currency and support its liquidity have been continuing through measures such as liquidity-providing operations and requirement on theminimum share of the loans in local currency out of total loan portfolio.

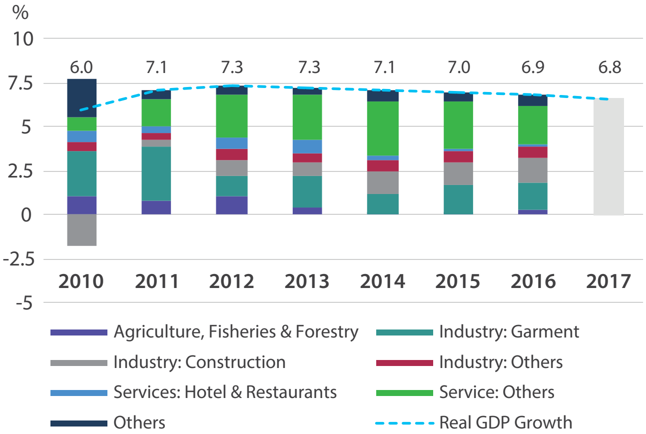
The private sector credit growth continued to slow down in 2016. At the end of 2016, credit growth of commercial banks to both corporates and households decelerated to 20.1 percent, with corporate loans slowing from 20.4 percent in 2015 to 17.5 percent, and household loans from 44.7 percent to 36.8 percent. Such a deceleration could partly result from the regulations on the minimum capital and liquidity coverage. With deposit growth also slowing, the loan-to-deposit ratio remained stable, and other financial indicators have remained sound so far. While slower credit growth helps reduce risks to overall financial stability, it may lead to stress on asset quality with potential spillovers. Higher lending rates from the U.S. Fed rate increases and lender's tighter control on loans rollover may marginally add up to the deterioration of asset quality in some banks and MFIs.

The domestic real estate market, especially the condominium segment, is likely to experience pressure on prices. Heightened supply going forward will continue to put pressure on price, and changing market expectations can turn the market cycle through depressed demand.

Fiscal position improved in FY2016 over a strong revenue collection, a slow expenditure disbursement and an increase in spending efficiency. A narrowed fiscal deficit of -2.5 percent of GDP is expected in FY2016 as revenue growth continued to be strong while capital expenditure disbursement remained slow. In FY2017, current expenditure and wages are budgeted to increase by 17.0 percent and 21.0 percent respectively while revenue is expected to grow at double-digit rates, but at a slower rate.

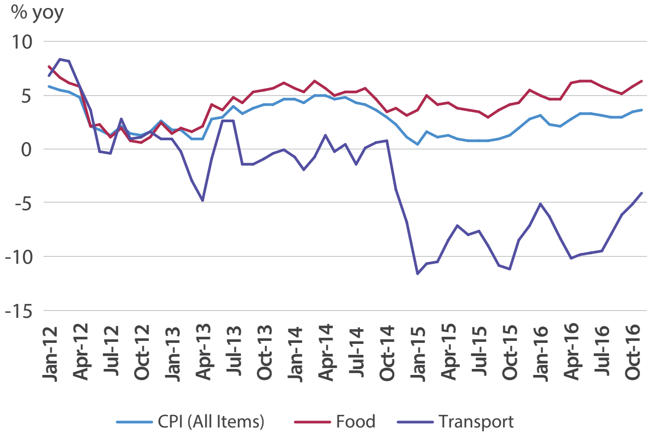
Cambodia: Selected Charts

Economic growth is expected to be stable but slightly lower in 2017.



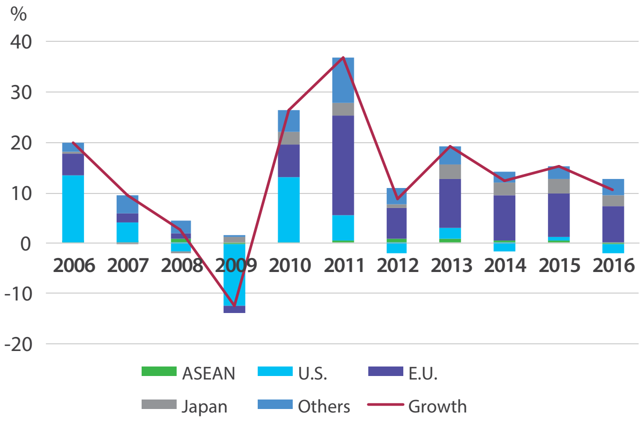
Notes: "e" stands for "estimate"; "p" stands for projection. The 2016 and 2017 numbers are AMRO estimates and projections.
Sources: National Authorities, AMRO staff estimates

Inflation edged up in 2016 due to an uptick in food prices.



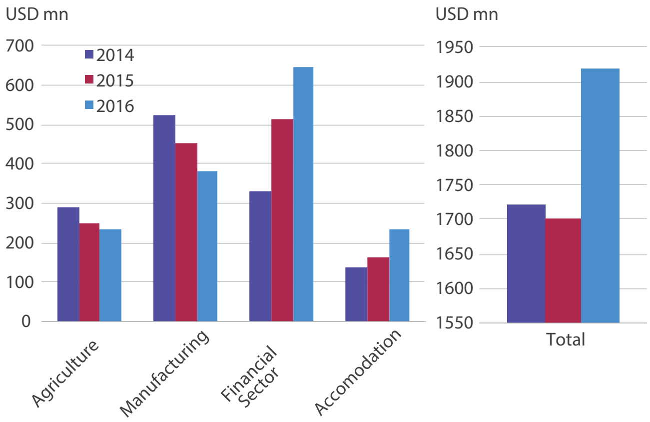
Source: National Authorities

Garment exports account for three-fourths of total exports by value. Its growth decelerated in 2016 due to a slowing E.U. market and a contraction in the U.S. market.



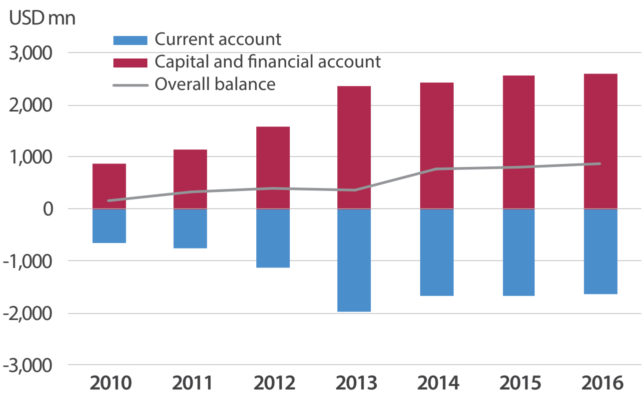
Note: It is growth contribution of exports value.
Sources: National Authorities, AMRO staff calculations

FDI inflows to financial sector grew and inflows to non-financial sector remained mixed in 2016.



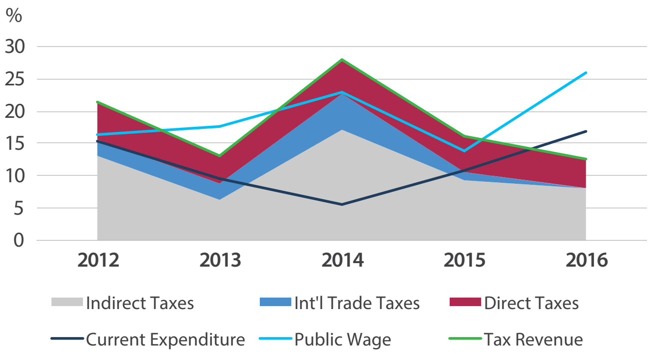
Notes: Financial sector includes both banks and MFIs. Accommodation includes hotel, resort and casino.
Source: National Authorities

With improved trade deficit and FDI growth, the overall balance remained in surplus in 2016.



Source: National Authorities

Revenue collection, particularly tax revenue, outperformed the budget again in 2016, but tax revenue growth is getting slower.



Note: On a fiscal year basis for all charts in Figure 3
Source: National Authorities

Cambodia: Selected Economic Indicators

	2013	2014	2015	2016 Est.
Real Sector and Prices	**(in annual percentage change, unless specified)**			
Real GDP	7.4	7.1	7.0	6.9
Consumption (in percent of GDP)	84.3	83.0	82.2	86.2
Investment (in percent of GDP)	20.0	22.1	22.5	20.6
GDP deflator	0.8	2.6	1.7	2.6
Consumer price inflation (average)	3.0	3.9	1.2	3.0
Consumer price inflation (end of period)	4.6	1.1	2.8	3.9
External Sector	**(in millions of USD, unless specified)**			
Trade balance	-3,218.8	-3,208.9	-3,443.3	-3,413.6
Current account balance	-1983.4	-1639.7	-1674.8	-1657.3
In percent of GDP	-13.0	-9.8	-9.3	-8.3
Overall balance	351.8	754.4	797.9	873.4
Gross international reserves 1/	3,642.0	4,391.0	5,093.0	6,730.0
In months of imports of goods & services	3.8	4.2	4.4	5.5
Fiscal Sector (General government)	**(in percent of GDP)**			
Revenue and grants	19.0	19.1	19.7	19.2
Revenue	15.1	16.8	17.8	18.5
of which: tax revenue	12.7	14.7	15.8	16.1
Expenditure	21.3	21.1	20.4	21.0
Expense	12.1	12.7	13.0	14.6
Net acquisition of non-financial assets	9.2	8.4	7.4	6.4
Overall budget balance, excl. grants	-6.3	-4.3	-2.6	-2.5
Net lending/borrowing balance	-2.3	-1.9	-0.7	-1.8
Primary net lending/borrowing balance	-1.6	-1.6	-0.4	-1.4
Monetary and Financial sector	**(in annual percentage change, unless specified)**			
Domestic credit	17.9	28.5	24.3	21.9
Private sector	26.7	31.3	27.1	22.5
Broad money	14.6	29.9	14.7	17.9
Reserve money	13.0	24.6	21.7	25.0
Memorandum Items				
Nominal GDP (in millions of USD)	15,228.0	16,700.5	18,077.7	19,859.3
Nominal GDP (in billions of riels)	61,326.9	67,436.8	73,422.7	80,529.3
Exchange rate (Riels/USD, period average)	4,027.3	4,038.0	4,060.5	4,055.0
Exchange rate (Riels/USD, end of period)	3,995.0	4,075.0	4,050.0	4,037.0

Notes:
1) Investment includes change of inventories.
2) Gross international reserves exclude unrestricted foreign currency deposits held as reserves at the NBC; reflected RMB inclusion in the SDR basket on Oct 1, 2016;
Sources: National authorities, AMRO staff calculations; 2016 figures are based on AMRO staff estimates and projections.

China

Growth has shown signs of stabilization recently. On the demand side, growth in 2016 was mainly driven by expanding consumption and infrastructure investment but weighed down by moderating private investment and slowing exports. On the supply side, the growth drivers included expanding activities in the property and automobile sectors. On the other hand, industrial overcapacity reduction continued to affect growth.[1] The authorities recently set the growth target at about 6.5 percent for 2017, or slightly higher if possible. We expect the economy to grow by around 6.5 percent in 2017, with momentum sustained from further expansion in private consumption, the services sector (including the internet economy) and infrastructure investment amid headwinds from continuing overcapacity reduction, external uncertainties and slowing property transactions.

A further pickup in producer prices is uncertain, potentially constraining profit improvements going forward. CPI inflation remains moderate. PPI growth has reversed to the positive side since September 2016 due to rising commodity prices amid ongoing overcapacity reduction as well as speculation. The low-base effect also helped the PPI to rebound. The rising PPI and tax breaks have led to improved industrial profits, helping contain the increase in NPLs. That said, further improvements in the PPI and profits are still uncertain as industrial overcapacity remains a challenge and slowing overall investment could weigh on the demand for commodities.

Capital outflows have eased recently due to further signs of growth stabilization, moderating USD as well as strengthened capital flow management. Notwithstanding, capital outflow risks remain as market confidence is susceptible to moderate growth, reform uncertainties and external shocks.

The depreciation pressure on the RMB against the USD has lessened since early-January. In December 2016 and early-January 2017, the strong USD — boosted by U.S. President Donald Trump's economic stimulus prospects and the effect of the potentially faster Fed rate hikes — was the driving factor leading to further RMB depreciation vis-a-vis the USD. Since early January, the depreciation pressure has eased due to moderating USD, signs of economic stabilization and slowing capital outflows.

Macroprudential measures have helped curb the rise in the property prices in bigger cities but upward pressures on property prices remain. These pressures are related to limited investment options in other asset markets, continued urbanization, and ample liquidity.

Moving forward, risks and excessive volatility in the financial markets need to be further addressed by financial regulation and monetary policy. The authorities have put macroeconomic stability as the top priority in the *2017 China Annual Government Work Report* and have committed to pay greater attention to financial risks. In this regard, strengthening regulation on shadow-banking products is important. Further macroprudential measures may be needed to curb speculation in the property markets. The recent neutral monetary policy stance (with a slightly tightening bias), is apt as it can help curb leverage in the financial markets and support the RMB exchange rate.

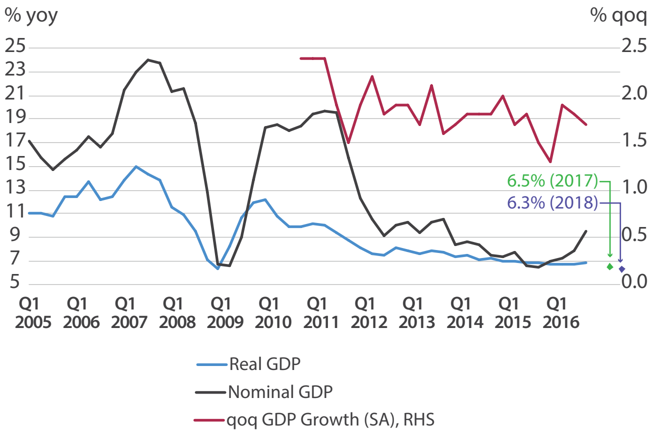
Fiscal policy should focus on smoothening overcapacity reduction, facilitating SOE reforms, enhancing infrastructure and strengthening social safety nets. Meanwhile, improving spending efficiency and investment returns continues to be crucial. In addition, further efforts are encouraged to manage contingent liabilities and local borrowing ahead.

High corporate debt, persistent industrial overcapacity, and slow SOE reforms continue to be significant challenges to sustainable growth in the medium- to long-term. The corporate debt-to-GDP ratio stood at around 155 percent of GDP in 2016 and is estimated to rise further in 2017, according to AMRO's calculations. A faster pace of SOE reforms could help improve efficiency and resource allocation and help expedite the process of corporate debt deleverage and overcapacity reduction. Employing market-based approaches and strengthening policy coordination are important to address overcapacity, reduce high debt levels and push further SOE reforms.

[1] According the Guideline to Resolve Industrial Overcapacity released by the State Council on 6 October 2013, steel is the industry with serious overcapacity as its utilization capacity ratio (percentage of production/capacity) was 72.0 percent as of end 2012, lower than international standards. On 1 February 2016, the State Council released the Guideline to Resolve Coal-mining Overcapacity, indicating that coal mining is another sector with serious overcapacity. In AMRO's view, overcapacity of an industry refers to excess supply over demand in a structural sense, which has led to sluggish product prices, low returns, persistent losses and rising defaults. Recently, according to the 2017 China Annual Government Work Report, in 2016, steel production capacity was cut by more than 65 million metric tons and coal by over 290 million metric tons. In 2017, the government pledges to take solid and effective steps to cut overcapacity, aiming to further reduce steel production capacity by around 50 million metric tons and shut down at least 150 million metric tons of coal production facilities.

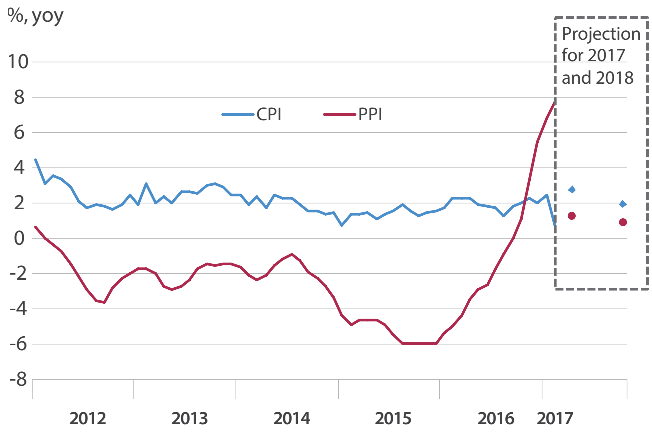
China: Selected Charts

Growth has shown signs of stabilization recently



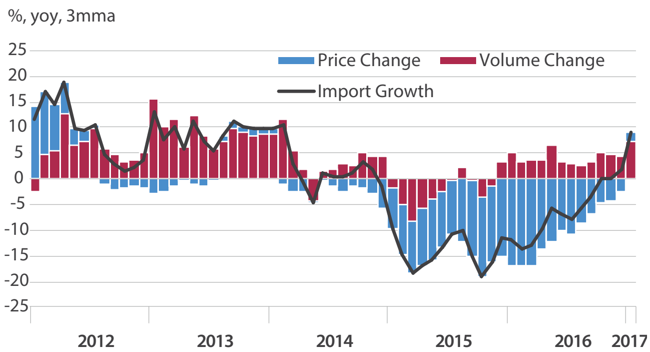
Source: NBS, AMRO staff projections

CPI inflation remains moderate while PPI growth has turned positive since September 2016



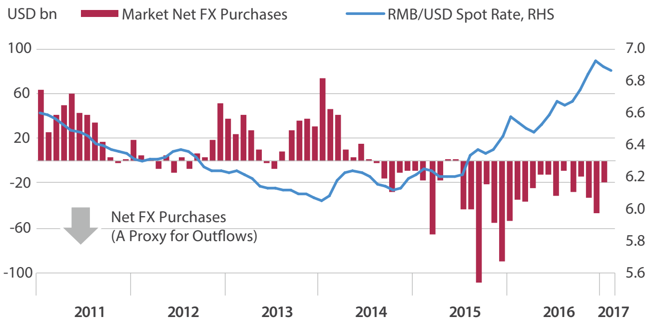
Sources: NBS, AMRO staff projections

Import volume expanded continually, especially for goods related to consumption



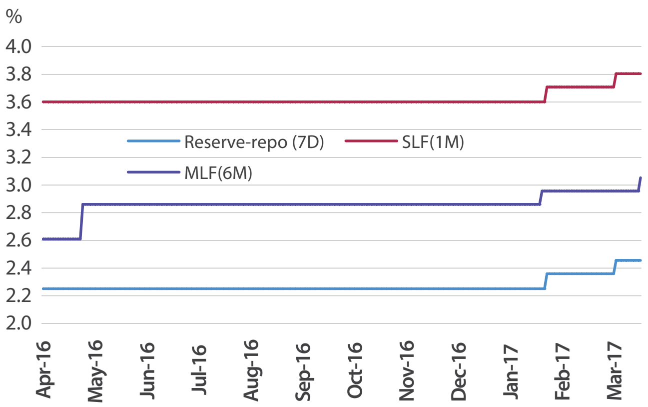
Sources: General Administration of Customs, AMRO staff estimates

Capital outflows have eased recently due to further signs of growth stabilization, moderating USD as well as strengthening capital flow management



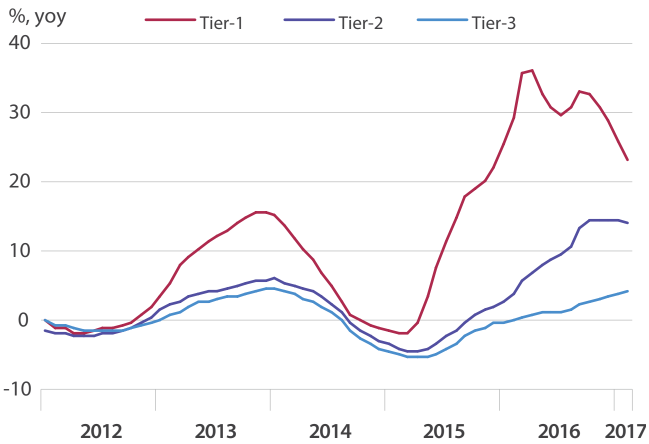
Source: PBC

The recent neutral monetary policy stance (with a slightly tightening bias), is apt as it can help curb leverage in the financial markets and support the RMB exchange rate



Source: Wind

Property prices remain high in tier-1 cities while the momentum has moderated recently



Source: Wind

China: Selected Economic Indicators

	2013	2014	2015	2016
Real Sector and Prices	**(in annual percentage change, unless specified)**			
Real GDP	7.8	7.3	6.9	6.7
Nominal GDP	10.2	8.2	7.0	8.0
Fixed asset investment	19.6	15.7	10.0	8.1
Purchasing Managers' Index (Mfg, period end)	51.0	50.1	49.7	51.4
Purchasing Managers' Index (non-Mfg period end)	54.6	54.1	54.4	54.5
Registered unemployment rate: urban, % average)	4.1	4.1	4.0	4.0
Wages (average)	10.1	9.5	10.1	-
Consumer Price Index (CPI, average)	2.6	2.0	1.4	2.0
Core CPI (average)	1.7	1.6	1.6	1.6
Producer Price Index (average)	-1.9	-1.9	-5.2	-1.4
New constructed home prices (average)	5.9	2.6	-3.8	6.2
Second hand home prices (average)	3.2	1.1	-2.8	5.3
External Sector	**(in billions of USD, unless specified)**			
Exports	2,210.7	2,343.2	2,282.4	2,136.6
Imports	1,949.3	1,963.1	1,680.8	1,589.5
Trade balance	261.4	380.1	601.7	547.1
Trade balance (% of GDP)	2.7	3.6	5.5	4.9
Current account balance	148.2	277.4	330.6	210.4
Current account (% of GDP)	1.5	2.7	3.0	1.9
Financial and capital balance (excl. reserves)	346.1	-51.4	-485.3	-490.6
FDI	123.9	128.5	135.6	126.0
ODI	107.8	123.1	145.7	-
External debt (gross)	863.2	1,779.9	1,416.2	-
International reserves	3,821.3	3,843.0	3,330.4	3,010.5
RMB Exchange rate (against USD, average)	6.19	6.14	6.23	6.64
Fiscal sector	**(in percent of GDP, unless specified)**			
Revenue	22.0	21.8	22.1	21.4
Expenditure	23.8	23.6	25.5	25.2
Overall balance	-2.0	-2.1	-2.4	-3.0
Central government debt	14.6	14.9	15.8	16.1
Revenue (% yoy)	10.1	8.6	5.8	4.5
Expenditure (% yoy)	10.9	8.2	13.2	6.4
Monetary and Financial Sector	**(in annual percentage change, unless specified)**			
M2 (period end)	13.6	12.2	13.3	11.3
Aggregate Financing (period end)	17.6	14.3	12.5	12.8
Total loan (local & foreign currency, period end)	13.9	13.3	13.4	12.8
Lending rate (1y, period end, %)	6.0	5.6	4.4	4.4
10 Year treasury bond yield (period end, %)	4.63	3.64	2.83	3.04
Banking capital adequacy ratio (period end, %)	12.2	13.2	13.5	13.3
NPL ratio (period end, %)	1.00	1.25	1.67	1.74
Memorandum Items				
Nominal GDP (in billions of USD)	9,616.2	10,488.2	11,060.2	11,206.7
Nominal GDP (In billions of RMB)	59,524.4	64,397.4	68,905.2	74,412.7

Note:
1) RMB external debt has been included since 2015
Sources: State Statistics Bureau, PBC, China Customs, Ministry of Finance, China Banking Regulatory Commission, State Administration of Foreign Exchange, AMRO staff calculations

Hong Kong, China

GDP growth in Hong Kong has started to pick up since H2 2016 on account of receding external and domestic headwinds. The full year GDP growth rate in 2016 was 1.9 percent, slowing down from 2.4 percent in 2015 due to subdued global trade, weak tourism demand as well as lackluster private consumption. However, the growth momentum recovered moderately toward the latter part of the year, with the firming global growth prospects, especially in the U.S. and China, and reviving regional trade. Meanwhile, private consumption growth gradually picked up on the back of the stable labor market conditions. The GDP growth rate in 2017 is projected to increase to around 2.3 percent as the recovery continues.

The economy is highly exposed to downside risks from the external environment through both real and financial channels. As Hong Kong's economy is trade-dependent, the potential implementation of protectionist policies by the new U.S. administration could pose downside risks to Hong Kong's export sector. Should such a policy direction result in retaliations by China, the negative spillovers to Hong Kong will likely be significant. In addition, political risks in Europe, including uncertainty relating to Brexit-related negotiations, may also dampen the global trade outlook. Such uncertainties could also lead to subdued private fixed investment.

Uncertainty over the pace of the U.S. interest rate up-cycle continues to pose downside risks. Should there be a faster-than-expected pace of interest rate increases, possible sudden capital outflows from the region could lead to a rapid rise in HKD interest rates. This will increase debt-servicing burdens for households and the corporate sector. Such risks, however, could be cushioned by a sizeable Aggregate Balance in Hong Kong as well as the macroprudential measures and other supervisory measures in place. Furthermore, the stronger HKD REER will negatively impact external competitiveness. That said, the economic stimulus package of the U.S. and resulting better global growth perspectives, as well as the flexible price and wage structures in Hong Kong, would offset such negative impacts to some extent.

Inflationary pressure has been checked due to the strong HKD and the lagged effects of the housing rent adjustment. Headline inflation in 2016 stood at 2.4 percent, lower than 3.0 percent in 2015. As the currency appreciation and the housing market softening continue, headline inflation is projected to decline further to around 1.8 percent this year.

Overall, domestic financial conditions remain accommodative. Domestic interbank interest rates rose in late-2016 partly reflecting the year-end funding demand and a catch-up with increases in the U.S. interbank interest rates, and the momentum has receded along with the subsequent decline in funding demand. Meanwhile, loan growth recovered further toward the end of 2016 owing to improving domestic economic activities.

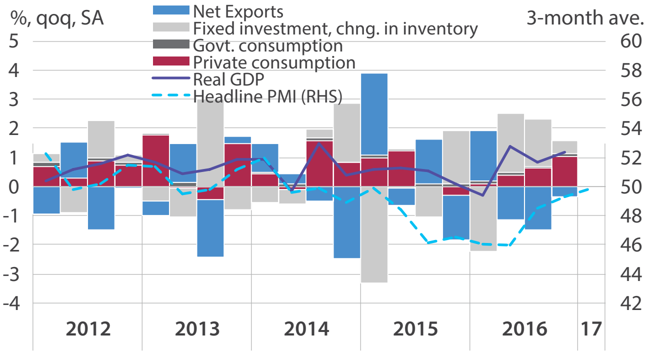
The banking system remains sound and well-capitalized. Banks in Hong Kong maintain a prudent lending stance with ample capital buffers. The classified loans ratio is at low level, stabilizing from the recent slight pickup.

In the residential property market, transaction volumes have declined and an upward momentum in flat prices have softened immediately after the introduction of the ad valorem stamp duty in November 2016. The sequence of macroprudential and demand-side management measures introduced since 2009 have mitigated financial stability risks. Notwithstanding, given the high household debt level and rapidly recovering mortgage loans with floating HIBOR-based interest rates, the faster pace of Fed rate hikes could increase households' debt servicing burdens. In the longer-term, measures by the government to increase housing supply will improve affordability.

Fiscal conditions are expected to remain sound throughout FY2017/18. According to the Budget Speech by the Financial Secretary in February 2017, revenue in FY2016/17 is estimated to increase by 12 percent more than the original estimate due to the increase in revenue from land sales and stamp duties. In the FY2017-18, the government plans to boost expenditure by 5.3 percent with measures to support social welfare, education and healthcare. The fiscal position will remain strong, marking the 14th consecutive year of surplus with ample fiscal reserves amounting to 23.2 months of government expenditure as of March 2018.

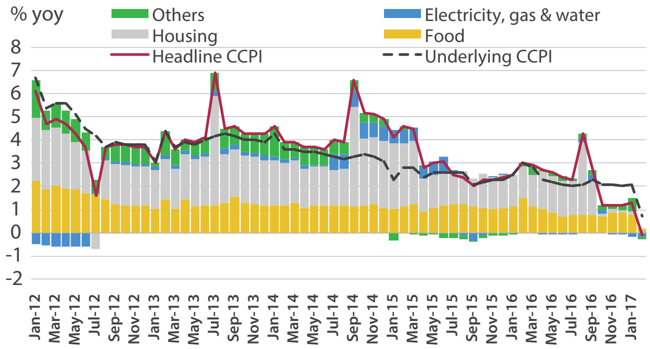
Hong Kong, China: Selected Charts

Real GDP growth has picked up steadily from the negative territory in Q1 2016 on the back of resilient private consumption and improved external demand.



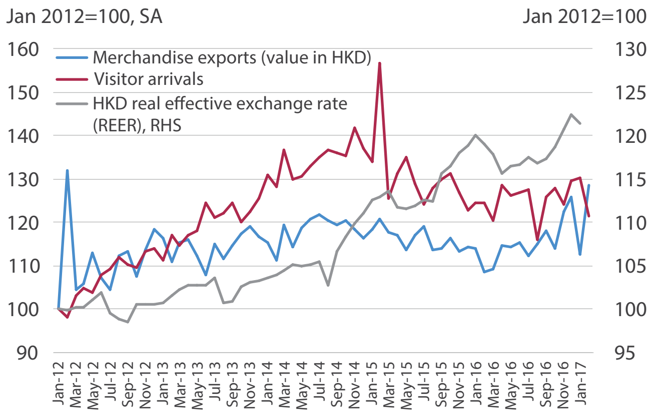
Note: Figure for Q1 2017 is as of January.
Sources: CEIC, Markit

Inflationary pressure has been subdued, mainly due to currency appreciation and the lagged effect of the past housing rent adjustment.



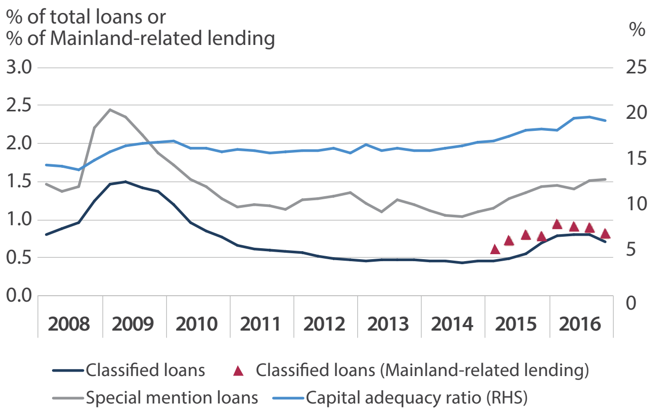
Source: CEIC

External headwinds remain albeit moderating, with concerns over the U.S. and China growth and policy uncertainties as well as appreciating HKD.



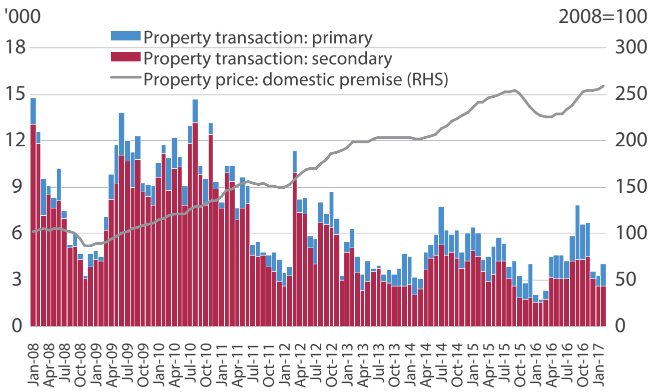
Note: Data for visitor arrivals and HKD REER are available up to December 2016.
Sources: CEIC, AMRO staff calculations

Banks are well-capitalized while the classified loans ratio is at low level, stabilizing from the recent slight pickup.



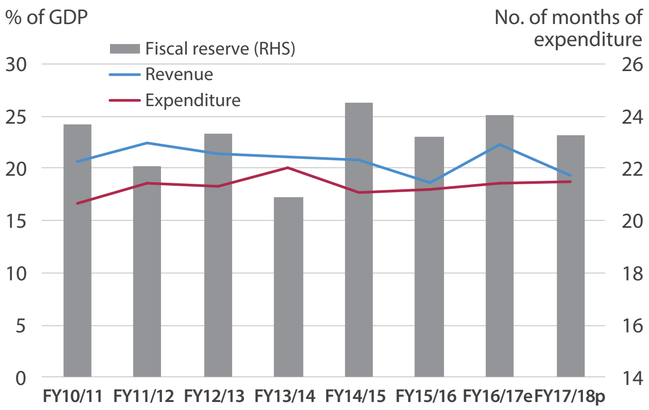
Sources: CEIC, HKMA

Transaction volumes of residential premises have declined since last December mainly due to the increased ad valorem stamp duty and reduced demands amid higher interest rates.



Source: CEIC

The fiscal position remains strong with ample policy space, although expenses for healthcare and social welfare will continue to increase due to aging population.



Sources: CEIC, The 2017-18 Budget Speech, AMRO staff projections

Hong Kong, China: Selected Economic Indicators

	2013	2014	2015	2016 Est.
Real Sector and Prices	**(in annual percentage change, unless specified)**			
Real GDP	3.1	2.8	2.4	1.9
Private consumption	4.6	3.3	4.8	1.6
Government consumption	2.7	3.1	3.5	3.3
Gross domestic fixed capital formation	2.6	-0.1	-3.2	-0.5
Building and construction	-4.3	9.3	2.2	3.6
Machinery, equipment and intellectual property products	11.3	-8.7	-7.7	-4.6
Exports	7.8	1.0	-1.4	0.9
Goods	8.2	0.8	-1.7	1.7
Services	6.0	1.6	0.3	-3.1
Imports	8.3	1.0	-1.8	1.2
Goods	9.9	1.5	-2.7	1.0
Services	-2.1	-2.2	5.1	1.9
GDP deflator	1.8	2.9	3.7	1.8
Headline inflation	4.3	4.4	3.0	2.4
Underlying inflation	4.0	3.5	2.5	2.3
Unemployment rate (%)	3.4	3.3	3.3	3.4
External Sector	**(in percent of GDP)**			
Overall BoP	2.7	6.2	11.8	0.4
Current account	1.5	1.4	3.3	4.5
Financial non-reserve assets	-1.3	2.9	6.4	-4.6
Fiscal Sector (General Government)	**(in percent of GDP, end-Mar of fiscal year)**			
Revenue	21.0	20.8	18.6	-
Expenditure	20.0	17.3	18.0	-
Consolidated budget balance	**1.0**	**3.6**	**0.6**	-
Monetary and Financial Sector	**(in annual percentage change, end-period, unless specified)**			
M1	9.7	13.1	15.4	12.3
M3	12.4	9.6	5.5	7.7
Total loans	16.0	12.7	3.5	6.5
Classified loan ratio (%)	0.5	0.5	0.7	0.7
Capital adequacy ratio (%)	15.9	16.8	18.3	19.2
Memorandum Items				
Nominal GDP (in billions of USD)	275.7	291.4	309.4	320.7
Nominal GDP (in billions of HKD)	2,138.3	2,260.0	2,398.4	2,489.1
Interest rates (%, end-period)				
HSBC's Best lending rate	5.0	5.0	5.0	5.0
Three-month Hibor	0.4	0.4	0.4	1.0
Asset prices				
Hang Seng stock index (end of period, 1964=100)	23,306	23,605	21,914	22,001
Residential property prices (end of period, 1999=100)	245.1	278.3	285.0	307.1
Spot exchange rate (HK$/US1$, period ave.)	7.756	7.754	7.752	7.762
Official reserve assets (US$bn, end-period)	311.2	328.5	358.8	386.2

Sources: Bloomberg, CEIC

Indonesia

Output growth decreased to 4.9 percent in Q4 from 5.0 percent in Q3, driven by contraction in government consumption. Household consumption remained firm, while exports have started to rebound. On an annual basis, GDP growth in 2016 was 5.0 percent, a slight improvement from 4.9 percent the previous year.

Inflation picked up to 3.8 percent yoy in February on the back of increases in some food and administered prices. In light of a rebound in price pressure and rising global interest rates, Bank Indonesia (BI) has kept the policy rate unchanged at 4.75 percent since October last year.

The current account deficit narrowed to 0.8 percent of GDP in Q4 from 1.9 percent in Q3 as rebounding commodity prices drove export growth. On an annual basis, the current account registered 1.8 percent in 2016, compared to 2.0 percent in 2015. As the economy picks up, the deficit will likely increase as import demand expands. Meanwhile, the prospects for the recovery of exports are contingent on the trajectory of commodity prices. We project the current account deficit to rise to around 2.1 percent of GDP in 2017.

While the tax amnesty bill was relatively successful in mobilizing revenue, it was not sufficient to stem the revenue decline, as the 2016 budget deficit was 2.5 percent of GDP, compared to the revised budget's target of 2.4 percent of GDP. The higher-than-expected deficit was largely due to relatively weak collection of non-oil and gas income tax and VAT amid moderated economic performance and low commodity prices.

Banking credit growth slightly moderated in 2016 at 7.9% yoy, but expected to expand by 9-12% in 2017, in line with the improving domestic outlook. Meanwhile, the deterioration in banks' asset quality seems to have abated, and the banking sector remains well-capitalized to administer credit expansion. Despite subdued growth in banks' lending activity, nonbank financing gained significantly as domestic consumption strengthened. Banking sector is expected to gain momentum, shortly following the pick-up in nonbank financing sector.

Global uncertainties which hit the emerging markets in 2016 seemed to have a temporary effect on the Indonesian financial market. The rupiah posted a 2.3% gain over the course of the year. In addition, capital market continued to demonstrate a strengthening trend. This strengthening trend was accompanied by significant nonresident inflows, especially in the government debt market.

The main risks to growth are factors that may hamper investment and government consumption. One is the effectiveness of the economic policy packages in improving the investment climate for the private sector. One key challenge in public investment is overcoming obstacles in implementing infrastructure spending.

Inflation risks are moderate in light of firmer commodity prices and further potential increases in administered prices. Monetary policy would need to be carefully calibrated to both support growth and maintain external stability in the event of heightened volatility in global financial markets.

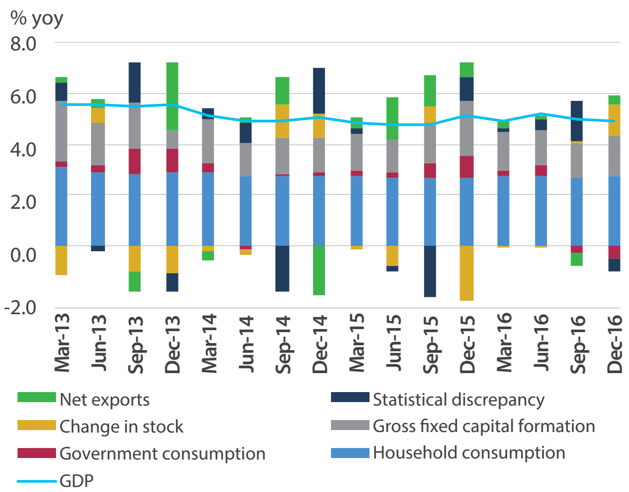
A key risk in the external sector remains the volatile capital flows. The current account deficit has narrowed, supported by the recent rebound in commodity prices, while it may increase going forward as import demand expands along with infrastructure investment. As far as the financial account is concerned, vulnerability lies in potential episodes of acute outflows.

The government's strong commitment to tax reform should help broaden the tax base and increase revenue intake to finance for needed infrastructure investment. As tax amnesty expired in March and the rebound in economic growth has yet to gain full traction, it may be challenging for the government to meet its revenue target. It is critical that the authorities remain committed to fiscal reform in order to raise revenue to fund essential infrastructure investment and other social programs in the period ahead.

The rise in NPL over the past few years has been well-mitigated, although it warrants monitoring going forward. The banking sector, particularly the four largest banks, has a relatively ample capital cushions and should be able to absorb losses on most banks' balance sheets.

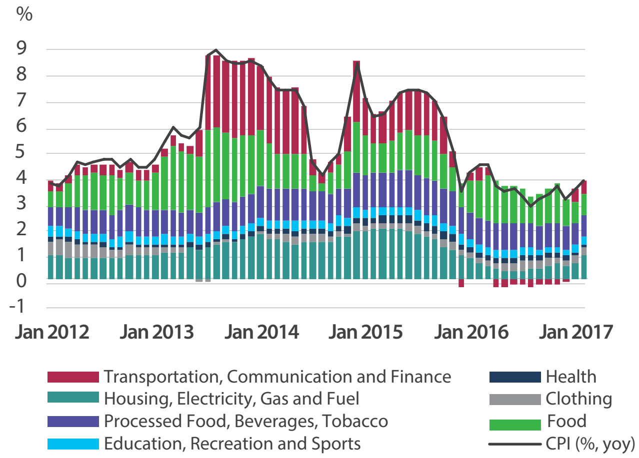
Indonesia: Selected Charts

GDP growth increased slightly last year…



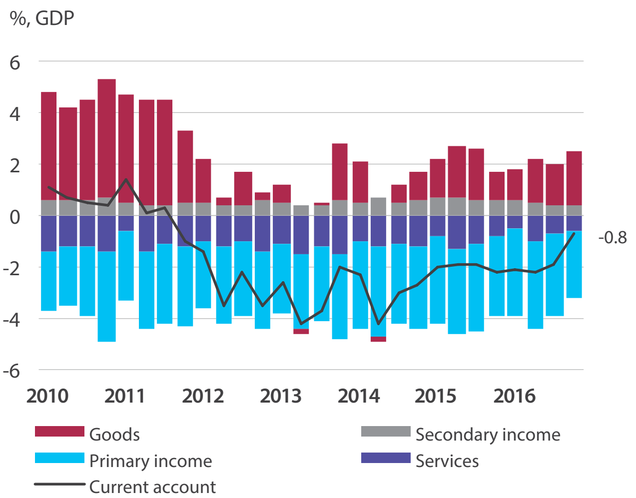
Source: Central Bureau of Statistics

…and inflation has bottomed out and started to pick up….



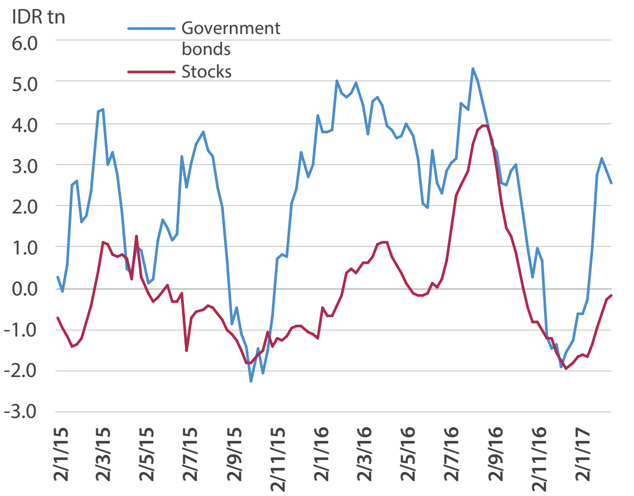
Source: Central Bureau of Statistics

…while import compression and rebounding commodity prices helped contain the current account deficit.



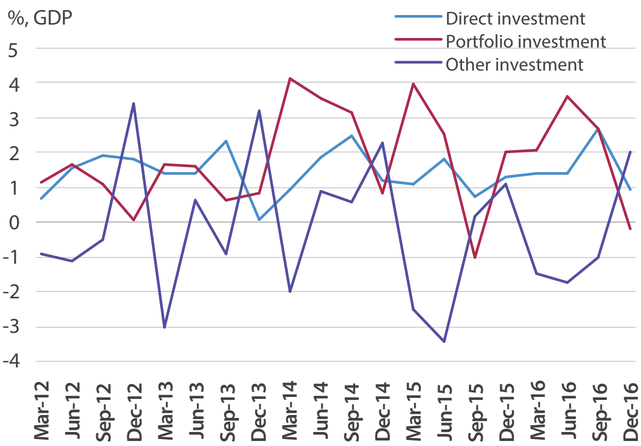
Sources: Bank Indonesia, AMRO staff calculations

The country experienced bouts of volatile capital flows in the latter half of last year…



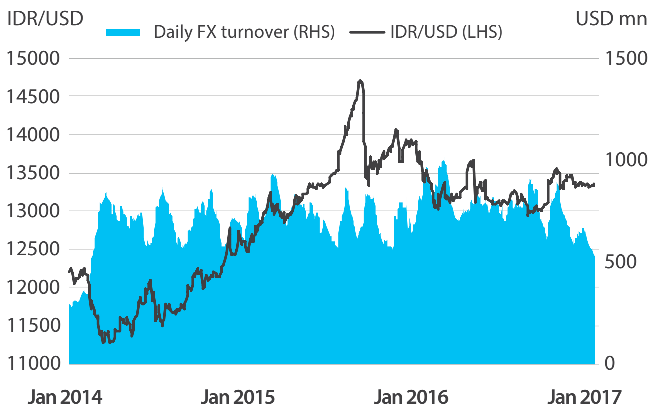
Sources: Bank Indonesia, Central Bureau of Statistics

…but net capital flows were positive for the whole year…



Sources: Bank Indonesia, AMRO staff calculations

…leading to currency appreciation.



Sources: Bank Indonesia, AMRO staff calculations

Indonesia: Selected Economic Indicators

	2013	2014	2015	2016
Real Sector and Prices	(in annual percentage change)			
Real GDP	5.6	5.0	4.9	5.0
Household consumption	5.4	5.1	5.0	5.0
Government consumption	6.7	1.2	5.3	-0.1
Gross fixed capital formation	5.0	4.4	5.0	4.5
Change in stocks	-28.6	31.4	-31.0	23.7
Export	4.2	1.1	-2.1	-1.7
Import	1.9	2.1	-6.4	-2.3
Headline inflation (end-period)	8.1	8.4	3.4	3.0
External Sector	(in percent of GDP)			
Current account balance	-3.2	-3.1	-2.0	-1.8
Trade balance	0.6	0.8	1.6	1.6
Oil and gas	-1.1	-1.3	-0.7	-0.5
Non-oil and gas	1.7	2.1	2.3	2.2
Financial account balance	2.4	5.0	2.0	3.1
Foreign direct investment (net)	1.3	1.7	1.2	1.6
Portfolio investment (net)	1.2	2.9	1.9	2.0
Other investment (net)	-0.1	0.5	-1.2	-0.5
Overall balance	-0.8	1.7	-0.1	1.3
Fiscal Sector (Central Government)	(in percent of GDP)			
Revenue and grant	15.1	14.7	13.1	12.5
Expenditure	17.3	16.8	15.7	15.0
Budget balance	-2.2	-2.1	-2.6	-2.5
Monetary and Financial Sector	(in annual percentage change)			
Broad money	12.8	11.9	9.0	10.0
Private sector credit	20.0	12.6	9.6	7.7
BI Policy Rate	7.5	7.8	7.5	4.75
Memorandum Items				
Nominal GDP (in billions of USD)	913.5	890.3	861.0	932.9
Nominal GDP (in millions of rupiah)	9,546.13	10,569.71	11,531.72	12,406.81
Exchange rate (rupiah/USD)	10,461.2	11,865.2	13,389.4	13,312.7
International reserves (USD bn)	112.8	111.9	105.9	116.4
External debt (percent of GDP)	29.0	32.0	33.0	33.6

Sources: Central Bureau of Statistics, Ministry of Finance, Bank Indonesia, AMRO staff calculations.

Japan

Japanese economy will likely continue its strong growth above potential in FY2017. Real GDP grew by an annualized 1.2 percent in the Q4 2016, following the strong growth of average 1.8 percent for the previous three quarters. Exports picked up rapidly in Q4 on the back of economic recovery in advanced economies. Business investment remained resilient, staying in the moderate increasing trend. Meanwhile, private consumption has been still sluggish despite the steady increase in wages and employment and the growth of residential investment has been moderating. In FY2017, the real GDP is expected to be grow by 1.3 percent in FY2017, helped by external demand and domestic policy supports. Risk to this outlook is tilted toward downside as the emergence of trade protectionism and its repercussion to global growth would weigh on the recovery of Japanese exports. In addition to a support by macroeconomic policies, structural reforms are crucial for the sustainability of high growth.

Consumer prices have remained subdued and the accommodative monetary policy has continued. CPI (less fresh food) inflation had been negative or zero for one year, before it turned to positive 0.1 percent in January 2017. Downward pressures remain sizable with appreciated JPY, offset somewhat by the gradual recovery trend in commodity prices. The CPI inflation is likely to increase gradually to around 0.6 for FY2017 in line with the increase in commodity prices as well as domestic economic activities. Since the introduction of QQE with Yield Curve Control (YCC), JGB yield curve seemed to be in line with the current guideline for its market operations, in which the target level of 10-year JGB yields is around zero percent.

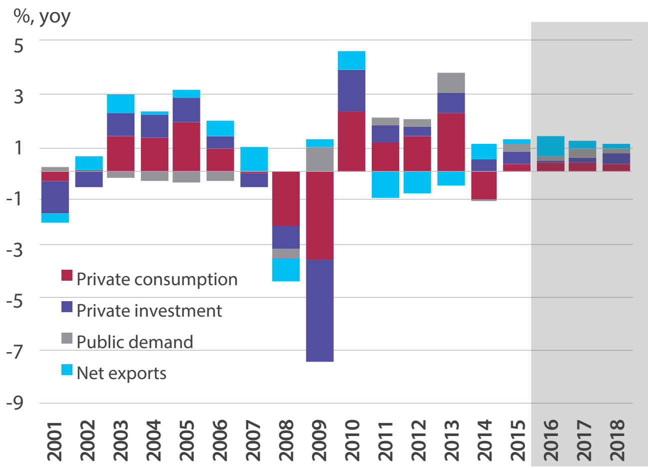
The external position has been robust with a sizable current account surplus. Trade surplus has widened as exports have picked up while imports have contracted. Since December 2016, Japanese investors have reduced their positions of foreign bonds and equities on a net basis. In the foreign exchange market, the JPY has been volatile, mainly due to uncertainties related to U.S. monetary, fiscal and trade policies.

Financial sector has remained stable, but the stress in the banking sector needs to be monitored. The overall financial condition continued to be accommodative as credit has increased at an accelerated pace of over 2.5 percent. Most banks in Japan have sufficient capital buffers, but suppressed interest margins continued to weigh on the banking sector profitability, particularly for small regional banks and Shinkin banks. The stress in the FX funding has eased recently, but it could increase again when Japanese investors resume their foreign purchases. Meanwhile, liquidity indicators suggest that the liquidity in the JGB market has remained deteriorated amid persistently large purchase of JGBs by the BOJ.

Fiscal discipline and sustainability remained key challenges for the government. The fiscal stance remained expansionary with a sizable stimulus package, together with the delay in the consumption tax hike. FY2017 budget aims to run the central government primary deficit at around 2.0 percent of GDP compared to 2.5 percent estimated for FY2016. The budget is viewed as well targeted with measures to address ageing population and low fertility rate. However, pressures for additional spending exist with the implementation of the economic stimulus package announced last year as well as rising demand for social security and infrastructure investment. Further shift to fiscal expansion could raise concerns about the government's commitment to fiscal discipline and consolidation. Any event that negatively affects fiscal sustainability could increase pressures on sovereign ratings and JGB yields.

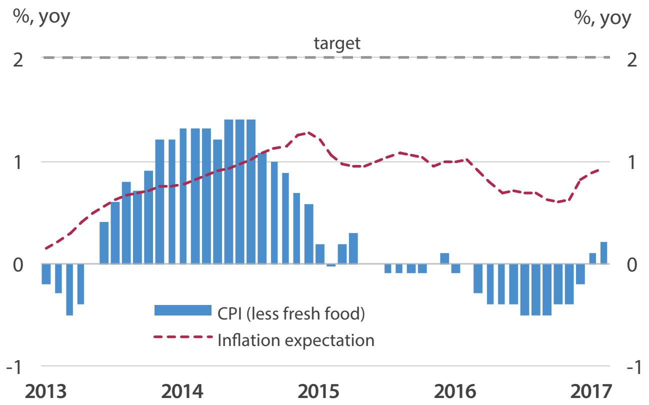
Japan: Macroeconomic Developments

Real GDP has grown above its potential.



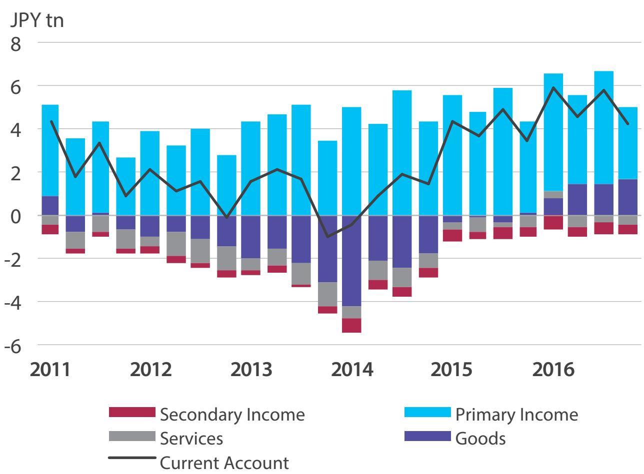
Source: Cabinet Office

CPI inflation remained subdued.



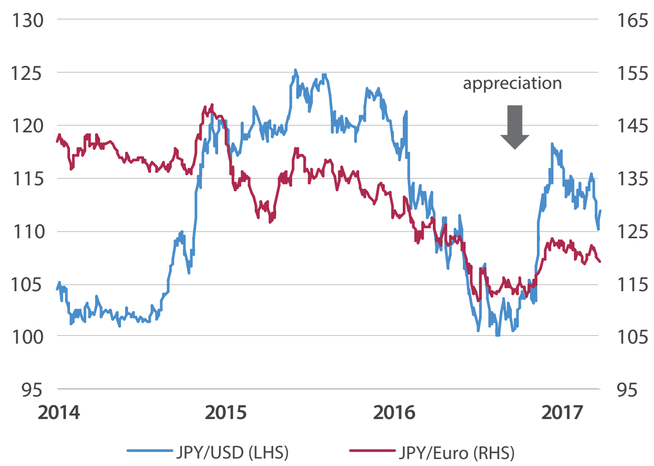
Sources: Statistics Bureau (Ministry of Internal Affairs and Communications), Japan Center for Economic Research.

Current Account Surplus remained sizable.



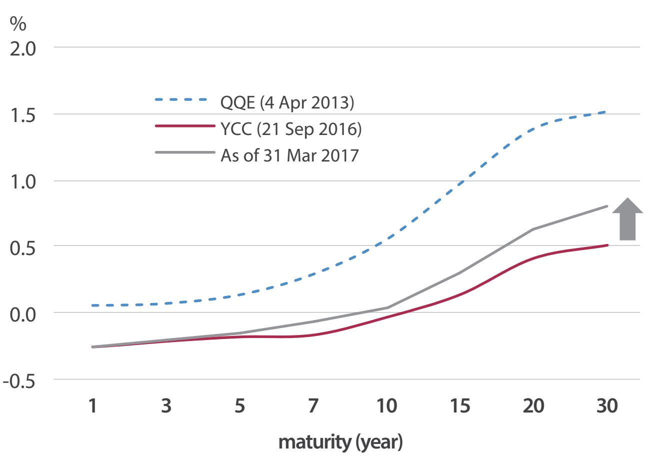
Source: Ministry of Finance

The JPY has appreciated since December 2016.



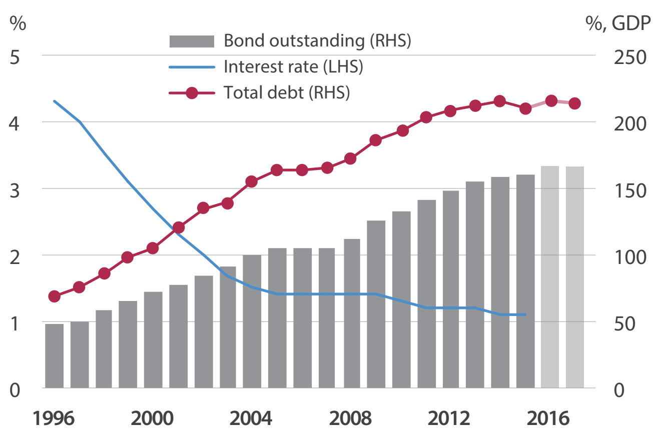
Source: Bank of Japan

The JGB yield curve has stiffened recently.



Source: Ministry of Finance

Central government debt remained heightened.



Source: Ministry of Finance

Japan: Selected Economic Indicators

	2012	2013	2014	2015	2016 Est.
Real Sector and Prices	(in annual percentage change, unless specified)				
GDP growth	0.9	2.6	-0.4	1.3	1.4
Private consumption	1.8	2.7	-2.7	0.5	0.7
Business investment	2.4	7.0	2.4	0.6	3.1
Residential investment	5.1	8.3	-9.9	2.7	6.4
Government consumption	1.3	1.7	0.4	2.0	0.5
Public investment	1.3	8.6	-2.1	-2.0	-0.3
Net export (ppts)	-0.8	-0.5	0.6	0.2	1.0
Exports	-1.6	4.4	8.8	0.8	5.7
Imports	3.8	7.1	4.2	-0.2	1.5
Labour Market	(in monthly average for the period)				
Unemployment rate (%, sa)	4.3	3.9	3.5	3.3	3.1
Ratio of job offers per one applicant (sa)	0.8	1.0	1.1	1.2	1.4
Prices	(in monthly average for the period)				
CPI (all items)	-0.3	0.9	2.9	0.2	-0.1
CPI (less fresh food)	-0.2	0.8	2.8	0.0	-0.3
External Sector	(in JPY trillion, unless specified)				
Current account balance	4.2	2.4	8.7	18.0	18.5
Current account balance (% of GDP)	0.9	0.5	1.7	3.4	3.4
Trade balance	-8.2	-13.8	-9.1	-1.1	5.6
Exports of goods, fob	63.9	70.9	74.7	74.1	72.5
Imports of goods, cif	72.1	84.6	83.8	75.2	66.9
Current account: income	14.5	18.3	20.0	20.6	14.8
Financial account	1.5	-1.0	13.8	23.8	21.0
International reserves (USD bn, period end)	1,254	1,279	1,245	1,262	-
Fiscal Sector (Central Government)	(in percent of GDP)				
Tax revenues	8.9	9.3	10.4	10.6	10.4
Expenditures	19.6	19.7	19.1	18.5	18.6
Primary balance	-5.6	-5.3	-3.1	-2.7	-2.5
Outstanding gov. debt (JPY tn)	992	1,025	1,053	1,049	1,095
Outstanding gov. debt	200.5	202.0	203.4	197.2	202.9
Monetary Sector	(in annual percentage change, unless specified)				
Monetary base	8.8	43.7	39.7	32.3	-
Overnight uncollateralized call rate (%)	0.082	0.073	0.068	0.063	-0.045
Memorandum Items					
Nominal GDP (in billions of USD)	5,939	5,056	4,678	4,433	4,982
Nominal GDP (in trillions of JPY)	494.7	507.4	517.8	532.1	539.7
Exchange rate (JPY/USD, period average)	82.9	100.1	109.7	120.1	108.3
Exchange rate (JPY/USD, end of period)	94.0	103.0	120.2	112.4	111.8
Nikkei 225 (JPY, end of period)	12,398	14,828	19,207	16,759	18,909
JGB 10 year yield (%, end of period)	0.56	0.64	0.40	-0.05	0.04
Non-performing loan ratio (%, end of period)	0.33	1.33	1.10	0.97	-

Notes:
1) The fiscal year is from April 1 to March 31
2) The BOP data in external sector follow the IMF BPM6 standard.
3) In the column of AMRO estimation for FY2016, actual data are used for overnight uncollateralized call rate, exchange rate (JPY/USD), Nikkei225, JGB 10 year yield.
Sources: National Authorities, IMF, AMRO staff estimates

Korea

The Korean economy continued to show modest growth in 2016. In Q4, Korea's GDP growth slowed further but less severely hit by the outbreak of political turmoil than expected, mainly due to a strong rebound in facilities investment. With this Q4 outturn, annual GDP growth has recorded 2.8 percent, which is the same as in the previous year.

Employment growth remains stagnant, showing a lack of improvement. Manufacturing sector employment growth has turned negative since July 2016 when corporate restructuring started in earnest. In contrast, service sector employment steadily increased, but may be adversely influenced by worsening consumer sentiment.

Inflationary pressure emerged, mainly due to cost-push factors. In recent months, consumer and producer prices showed a surge, mainly driven by a delayed pass-through of oil price rises and food supply disruptions from the avian influenza and foot-and-mouth disease outbreak. However, demand-side inflation pressure remains subdued with negative output gap.

In 2016, the current account continued to register a slew of surplus, while the financial account showed an increase in net portfolio investment asset. The current account surplus amounted to around 7 percent of GDP, reflecting the goods account surplus. In the financial account, residents' overseas portfolio investment, seeking for higher yields, strongly increased, whereas foreigners' portfolio investment showed slight capital outflows over the year. In Q4 2016, the Korean won depreciated sharply against the U.S. dollar with elevated external uncertainties and net capital outflows. In Q1 2017, however, the currency reverted to appreciate amid weaker anticipation of strong U.S. dollar.

In the financial sector, household debt piled up amid a rise in borrowing rates. In Q4 2016, household credit rose to a record-high of KRW1,344 trillion. Tighter regulations on banks introduced last year contributed to a slower commercial bank loans, while led to a heightened growth in non-bank household loans. In recent months, benchmark lending rates showed a pick-up along with rising long-term bond yields, synchronized with the U.S. Treasury yields.

Looking ahead, the Korean economy is projected to grow by 2.5 percent in 2017, and 2.6 percent in 2018 amid rising global demand. Exports and facilities investment driven by a rising global demand of the IT products are expected to buttress growth, while private consumption remains sluggish and construction investment slows. The headline CPI inflation is expected to rise by 1.8 percent and 1.9 percent in 2017 and 2018, respectively.

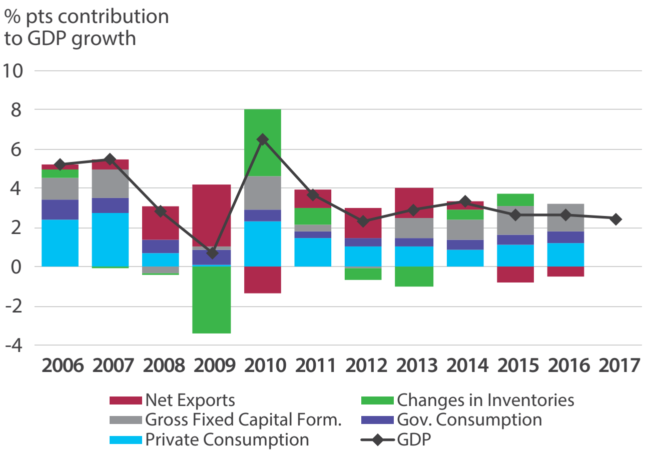
High household debt and corporate restructuring should be addressed effectively in such a way that adverse impacts on growth and financial markets are minimized. Notwithstanding Korea's modest loan-to-value ratios and low default rates, vulnerable group of borrowers with poor credit ratings and low income as well as self-employed borrowers are highly vulnerable to unfavorable interest rate and income shocks. Furthermore, corporate restructuring on selected industries with overcapacity, such as shipbuilding and shipping, may deteriorate labor markets even further, leading to negative spillovers to downstream industries and financial markets. Despite some potential side effects in the near-term, steadfast structural reform efforts on selected key areas — labor, public, finance and education — are highly encouraged to enhance growth potentials.

On the external front, the economy faces elevated uncertainties from the U.S. economic policies. The potential disputes between the U.S. and its trading partners on exchange rates and trade surpluses may pose downward pressures to Korea's trade prospects, while the anticipated Fed rate hike remains the foremost game-changer with regard to potential capital outflows.

Noteworthily, the U.S. trade policies against China may lead to adverse spillovers to Korean exporters via indirect channels. High dependence of Korean exporters on processing trades with China suggests that the potential trade conflicts between the U.S. and China may erode the exports destined to China more significantly if materialized.

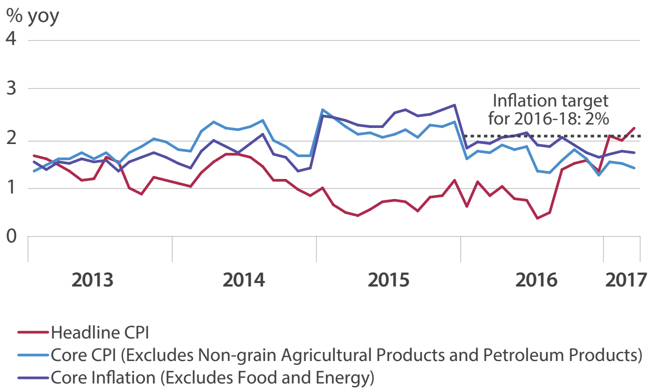
Korea: Selected Charts

In 2016, domestic demands continued to buttress growth, despite negative contributions from net exports.



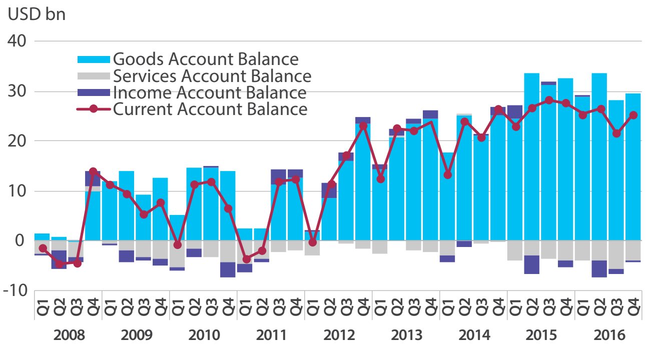
Sources: The Bank of Korea, AMRO Staff Estimates

Since H2 2016, the headline inflation showed a pick-up, largely due to cost-push pressures.



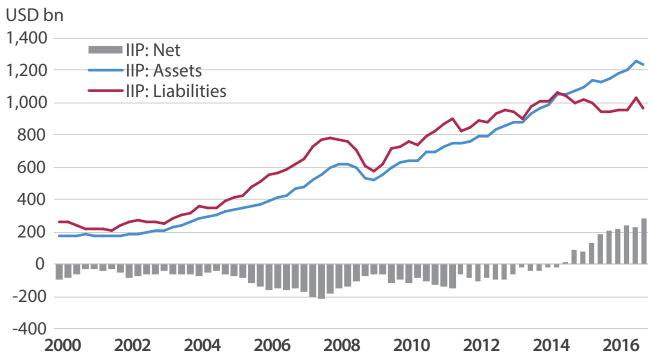
Source: Statistics Korea

In BOP, the current account continued to register a slew of surplus in 2016.



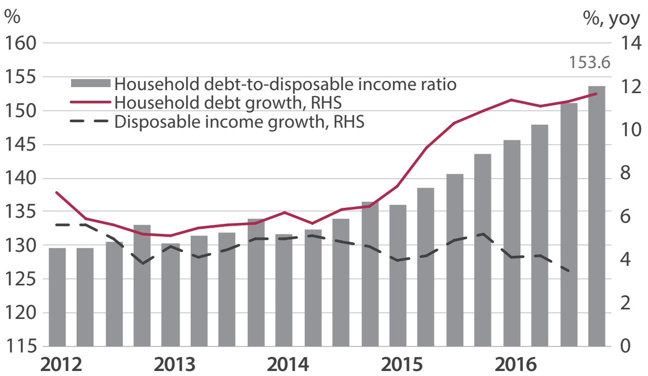
Source: The Bank of Korea

On the financial side, residents' overseas investments exceed inward foreign investments in stock.



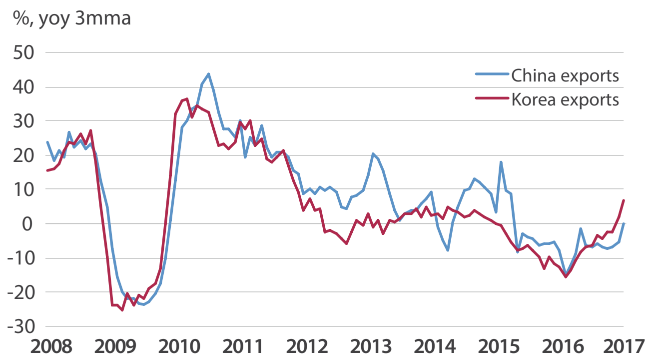
Source: The Bank of Korea

Household debt-to-income ratios continued to increase as the debt grew faster than the disposable income.



Source: The Bank of Korea

Korea's export performances have been closely associated with China's via global value chains.



Sources: Korea Customs Service, General Administration of Customs of China

Korea: Selected Economic Indicators

	2013	2014	2015	2016
Real Sector and Prices	(in annual percentage change, unless specified)			
Real GDP	2.9	3.3	2.8	2.8
Private consumption	1.9	1.7	2.2	2.5
Construction investment	5.5	1.1	6.6	10.7
Facilities investment	-0.8	6.0	4.7	-2.3
Exports of goods and services	4.3	2.0	-0.1	2.1
Imports of goods and services	1.7	1.5	2.1	4.5
Labor Market				
Unemployment rate (in percent)	3.1	3.5	3.6	3.7
Nominal wage growth	3.9	2.5	3.5	3.8
Prices				
CPI Inflation	1.3	1.3	0.7	1.0
Core Inflation, excluding food and energy	1.5	1.7	2.4	1.9
External Sector	(in billions of USD, unless specified)			
Current account balance	81.1	84.4	105.9	98.7
Current account balance (percent of GDP)	6.2	6.0	7.7	7.0
Trade balance	44.0	47.2	90.3	89.2
Exports	559.6	572.7	526.8	495.4
Imports	515.6	525.5	436.5	406.2
Financial account balance	80.1	89.3	106.3	100.4
Direct investment, net	15.6	18.8	19.7	16.4
Portfolio investment, net	9.3	30.6	49.5	66.3
Financial derivatives, net	-4.4	-3.8	1.8	-3.2
Other investment, net	43.3	25.9	23.3	13.1
Gross international reserves (end-period)	346.5	363.6	368.0	371.1
Fiscal Sector (Central Government)	(in percent of GDP)			
Consolidated fiscal revenue	22.0	21.6	21.8	22.9 e/
Consolidated fiscal expenditures	21.0	21.0	21.8	21.9 e/
Consolidated fiscal balance	1.0	0.6	-0.01	1.0 e/
Consolidated fiscal balance, excluding social security funds	-1.5	-2.0	-2.4	-1.4 e/
Monetary and Financial Sector	(in percent per annum, end-period, unless specified)			
Bank of Korea base rate	2.50	2.00	1.50	1.25
3-year Treasury bond yield	2.9	2.1	1.7	1.6
3-year, AA- Corporate bond yield	3.3	2.4	2.1	2.1
Broad money growth (percent change)	6.5	8.7	9.0	7.9
Exchange rate (won per USD, average)	1,095.0	1,053.1	1,131.5	1,160.4
Exchange rate (won per USD, end-period)	1,055.4	1,099.3	1,172.5	1,207.7
Memorandum Items				
Nominal GDP (in billions of USD)	13,054.0	14,110.0	13,824.0	14,110.0
Nominal GDP (in trillions of won)	1,429.4	1,486.1	1,564.1	1,637.4

Note:
1) The figures ending with e/ indicate estimates.
Sources: National Authorities, AMRO staff estimates

Lao PDR

Growth of the Lao economy is expected to pick up slightly in 2017 after some moderation in the previous year. Growth for 2017 is anticipated to increase slightly to 7.0 percent, supported by an emerging hydropower sector and a growing services sector. Headline inflation has continued to be low, but edged up over recent months, and is expected to rise further to around 3.0 percent in 2017, mainly driven by a rise in fuel prices and a pickup in domestic food prices.

The fiscal deficit is estimated to widen to 6.2 percent of GDP in FY2015/16 from 5.2 percent in FY2014/15, as tax revenue declined significantly on account of a fall in profit taxes, VAT and royalties.[1] As for 2017, the fiscal deficit is expected to widen further to 6.9 percent of GDP. Fiscal risks are growing largely due to increasing challenges to revenue mobilization.

Revenue collection will likely continue to face downside pressure. This is because further improvement in commodity prices could be limited, and an improvement in fiscal management could be slow. Efforts to improve tax administration with the implementation of new measures, and to diversify the sources of revenue should be stepped up. As widening deficits are mostly financed by increased external borrowings, risk of debt distress may be building up, and a medium-term fiscal consolidation plan is needed to contain such risks. Furthermore, the Laos-China railway project, is likely to have implications for both fiscal and external debt positions and management.

The current account deficit improved in 2016, but is expected to widen somewhat in 2017. In 2016, the current account deficit is anticipated to decline, mainly due to an improvement in exports and further import contraction. For 2017, the current account deficit is expected to widen somewhat. Imports are likely to increase, reflecting continued construction activities and stronger domestic demand, while exports are projected to increase at a more moderate pace. Official gross reserves have continued to drop since Q2 2015 and reached USD815 million in 2016, sufficient to cover about 1.3 months of imports of goods and services, approximately 3 months of non-FDI related imports, according to AMRO's estimates.[2]

The kip has appreciated significantly in real effective terms. Since 2015, in terms of nominal exchange rate, the kip has moved within a very narrow range against the U.S. dollar and appreciated against the Thai baht, the Chinese RMB and other regional currencies. In real effective terms, the kip is estimated to have appreciated by as much as 40.0 percent since the global financial crisis period of 2007-08.[3]

The gap between the parallel rate and the official rate which has narrowed since early 2017 may resume if demand for foreign currencies surges driven by fast rising imports. This could further affect official gross reserves should the official FX rate continue to move narrowly against the U.S. dollar.

Risks related to increasing NPLs and low capital adequacy levels at state-owned banks remain significant. In addition, lending in foreign currencies has also risen rapidly, funded by overseas borrowing through banks. This could lead to increasing currency-mismatch risks. Macroprudential measures could be employed to reduce such risks in view of the rising private sector borrowing in foreign currencies.

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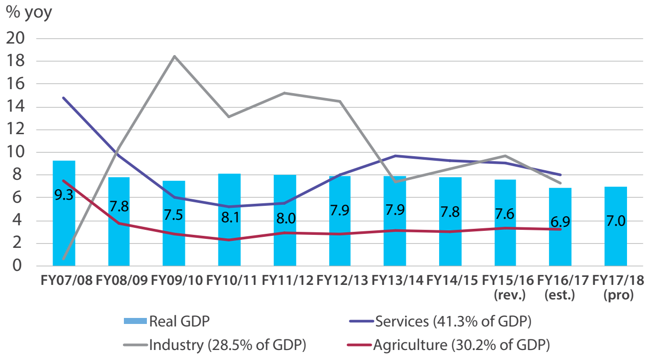
1 The fiscal year is from October to September. Starting from 2017, the fiscal year will be the same as the calendar year.
2 The import cover reported by the BoL was 5.3 months of non-FDI related imports as of end-2016.
3 Based on AMRO's estimates, using exchange rates and inflation rates of 20 trading partners of Lao PDR for the period of 2004-2017.

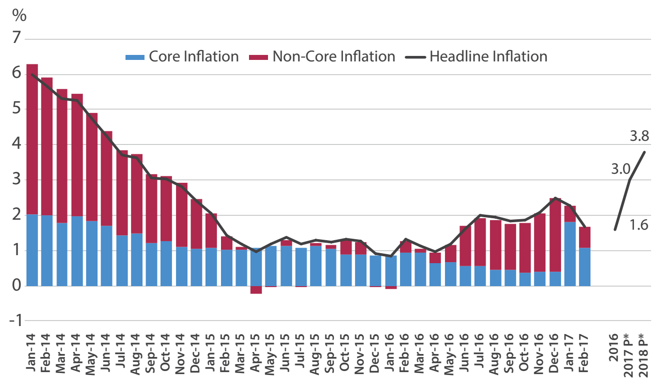
Lao PDR: Selected Charts

After some moderation in the previous year, GDP growth is estimated to slightly pick up in 2017, supported by an emerging hydropower sector and a growing services sector.



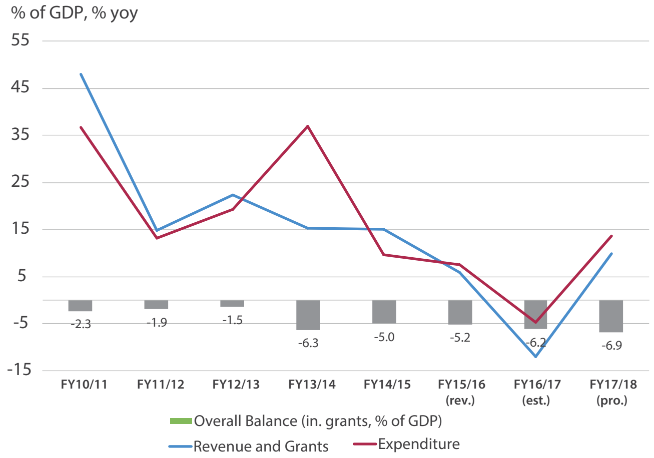
Note: (est.) and (p*) denote estimates and projections of GDP growth.
Source: Lao Statistics Bureau

Headline inflation has continued to be low, but edged up over recent months, and is expected to rise further to around 3.0 percent in 2017.



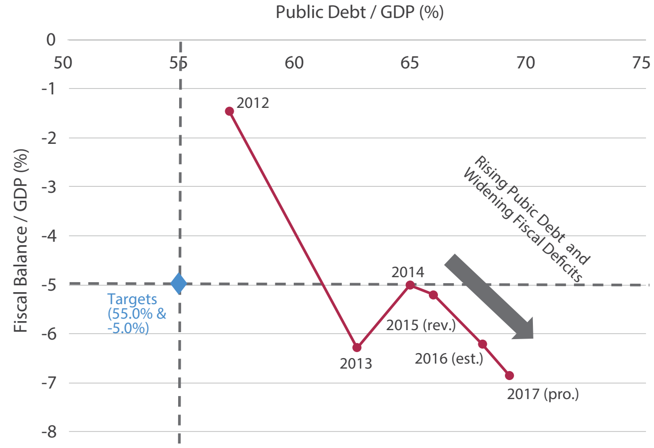
Note: (p*) denotes inflation projections.
Sources: Lao Statistics Bureau, Bank of Lao PDR, AMRO staff projections

Expenditure is likely to grow faster than revenue and grants, leading to widening fiscal deficits.



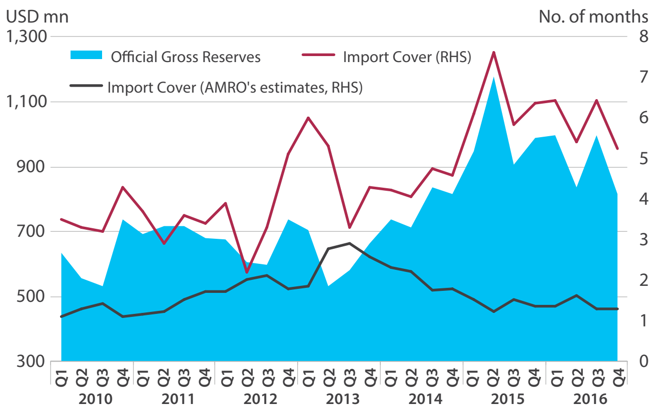
Note: (rev.), (est.) and (pro.) denote revised, estimated and projected fiscal data.
Source: Ministry of Finance

Mitigating fiscal risks and increasing fiscal space remain crucial for the authorities.



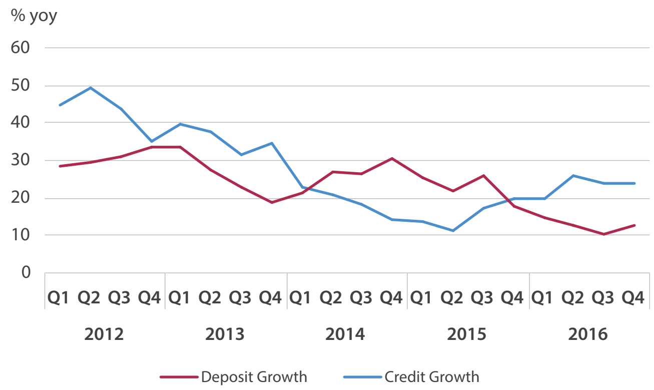
Source: Ministry of Finance

Official gross reserves have continued to drop since Q2 2015 and reached USD815 million at end-2016, able to cover 5.3 months (official calculations) against 1.3 months (AMRO's estimates).



Sources: Bank of Lao PDR, AMRO staff estimates

Since the introduction in August 2015, the new interest rate policy (caps on kip interest rates) has driven a pick-up in credit growth and a significant decline in deposit growth.



Sources: Bank of Lao PDR, AMRO staff estimates

Lao PDR: Selected Economic Indicators

Indicators	2013	2014	2015	2016
Real Sector and Prices	(in annual percentage change, unless specified)			
Real GDP	8.4	7.8	7.6	6.9
Consumer price inflation (average)	6.4	4.1	1.3	1.6
External Sector	(in billions of USD, unless specified)			
Export	3.9	4.7	4.4	4.6
Import	7.4	8.0	7.5	6.9
Trade balance	-3.5	-3.3	-3.1	-2.2
Current account balance	-3.1	-2.9	-2.8	-2.0
In percent of GDP	-30.2	-25.7	-22.9	-14.7
Capital and financial balance	1.3	2.3	2.8	2.4
In percent of GDP	12.8	19.9	22.8	17.3
Overall balance	-0.1	0.2	0.2	-0.2
External debt, gross	4.2	5.4	5.6	-
In percent of GDP	41.2	47.8	45.2	-
Official gross reserves	0.7	0.8	1.0	0.8
In months of imports of goods & services	1.0	1.2	1.5	1.3
In months of non-FDI imports	2.2	2.5	3.4	3.0
Exchange rate (against USD, period average)	7,833	8,042	8,125	8,124
Fiscal Sector (General government)	(in percent of GDP, unless specified)			
Revenue and grants	24.3	24.8	23.7	19.1
Expenditure	30.6	29.9	28.9	25.2
Current expenditure	19.7	18.9	17.6	16.5
Capital expenditure	10.9	10.9	11.1	8.8
Interest payment	1.2	0.9	1.1	1.2
Net lending/borrowing balance (ex. Grants)	-12.4	-10.8	-10.5	-7.9
Net lending/borrowing balance (incl. Grants)	-6.3	-5.0	-5.2	-6.2
Primary net lending/borrowing balance (in. Grants)	-5.1	-4.2	-4.1	-5.0
Monetary Sector	(in annual percentage change)			
Domestic credit	34.5	14.2	19.9	23.7
Credit to the private sector	36.3	11.7	19.3	22.0
Credit to SOEs	28.0	23.7	8.2	46.1
Deposit	18.9	30.3	17.6	12.7
In foreign currencies	16.8	29.6	16.0	19.0
In local currency	21.1	31.1	19.2	6.6
Banking capital adequacy	-	22.3	19.6	17.7
NPLs	2.1	2.2	3.1	3.0
Memorandum Items				
Nominal GDP (in billions of USD)	10.2	11.3	12.4	13.7
Nominal GDP (in billions of LAK)	80,199	90,823	100,413	111,636
Exchange rate (against USD, average)	7,833	8,042	8,125	8,124

Notes:
1) GDP data and fiscal sector data are on a fiscal year basis, up to FY2015/16, starting from October to September. Starting from 2017 onward, the authorities will adopt the calendar year as the fiscal year.
2) Data for external sector in 2016 are AMRO staff estimates.
3) Data for 2016 are AMRO staff estimates.
Sources: Lao Statistics Bureau, Bank of Lao PDR, Ministry of Finance, CEIC, ADB, IMF, World Bank, AMRO staff estimates and projections.

Malaysia

Growth picked up to 4.3 percent in Q3 2016 and 4.5 percent in Q4 2016, after moderating for five consecutive quarters on the back of robust household consumption. Net exports turned around to register an average positive contribution of 0.5 percentage point (ppt) in the H2 2016, compared to the average negative contribution of 0.54 ppt from Q1 2015 to Q2 2016. Going forward, the outlook is for the economy to expand at a slighter faster pace of 4.5 percent in 2017. Meanwhile, inflation increased to 4.5 percent in February 2017, from 1.3 percent in Q3 2016.

In USD terms, Malaysia's exports contracted in 2015 and in the first seven months of 2016, but turned around starting August 2016. Overall, both exports and imports have been on a declining trend since 2014 following the sharp decline in oil and commodity prices. However, starting August 2016, exports growth returned to positive territory (except in October 2016). The current account surplus likewise have declined to 0.6 percent of GDP in Q2 2016 but increased to 1.9 percent and 3.7 percent of GDP in Q3 2016 and Q4 2016, respectively.

The government achieved its goal of having fiscal-deficit-to-GDP ratio of 3.1 percent in 2016, and is targeting a deficit of 3.0 percent in 2017. We commend the government's efforts towards fiscal consolidation. Although low oil prices resulted in significantly lower petroleum-related revenues in 2016, goods and services tax (GST) and fuel subsidy reforms helped strengthen the fiscal sector and enabled the government to achieve the deficit target of 3.1 percent. In 2017, the government targets a deficit of 3.0 percent, and expects a revenue increase of 3.4 percent, as well as operating expenditure and development expenditure to increase by 3.7 percent and 2.4 percent respectively.

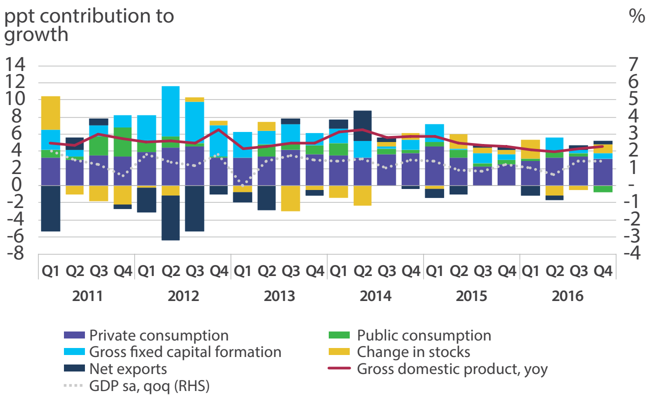
Amid heightened external and financial market volatility associated with a series of events starting with the possibility of Fed rate hike, and continuing with the outcome of the U.S. elections, and the actual Fed rate hike in December, capital flowed out in H2 2016. Exchange rate flexibility helped weather external sector volatilities. Moreover, *Bursa Malaysia* data reveal reduced net foreign selling by foreigners. So too, the ringgit and the amount of international reserves appear to have stabilized. Nonetheless, the need for vigilance remains, as it is possible that the bout of capital flow volatility is not over, considering the possibility of further Fed rate hike(s) in 2017. Although capital outflows seem to have abated recently, they need to be monitored carefully in terms of financial market volatility and the effect on reserves. As of 15 March 2017, the reserves stood at USD94.9 billion, equivalent to 1.1 times short-term external debt, or 8.3 months of imports.

Though slightly decreased in 2016, household debt as percentage of GDP remains among the highest in the region, and requires continued vigilance. Although macroprudential measures have helped contain the risks and households have substantial financial assets, continued monitoring is warranted.

A slowdown in China, a possible fallout from Brexit, as well as slower-than anticipated growth in the E.U., may pose downside risks to Malaysia's growth prospects. On the other hand, the U.S. fiscal stance may have some positive spillover effects on Malaysia's growth. AMRO staff studies indicate that on impact, the cumulative response of Malaysia's GDP growth to a China growth shock represents about 65 percent of the China growth shock. With respect to concerns about the possible fall-out from Brexit, our study estimates that a shock to E.U.'s output gap has a smaller impact on Malaysia's output gap as compared to a shock in China. Although China has become Malaysia's top trading partner recently, a large part of the final demand for Malaysia's exports still goes to advanced economies like the U.S. instead of China.

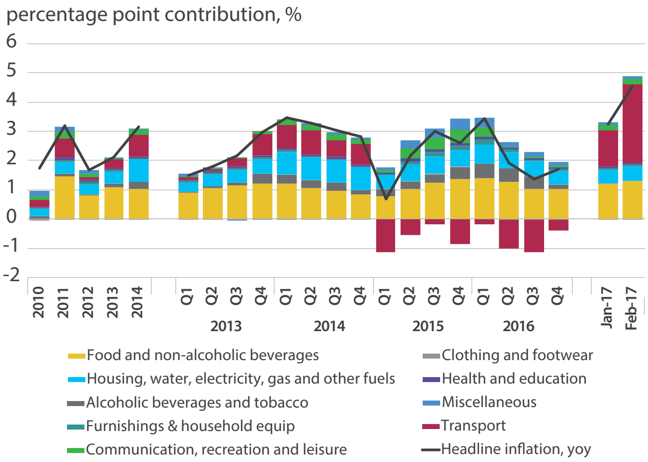
Malaysia: Selected Charts

GDP growth moderated for the fifth consecutive quarter in Q2 2016, but picked up in Q3 and Q4 2016.



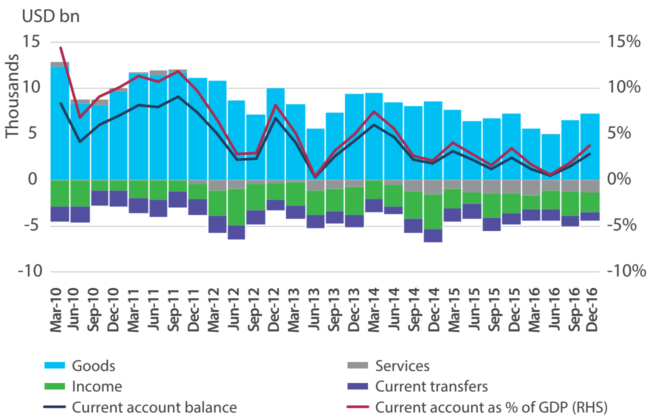
Sources: CEIC, Department of Statistics Malaysia

Inflation has been low, but picked up in recent months.



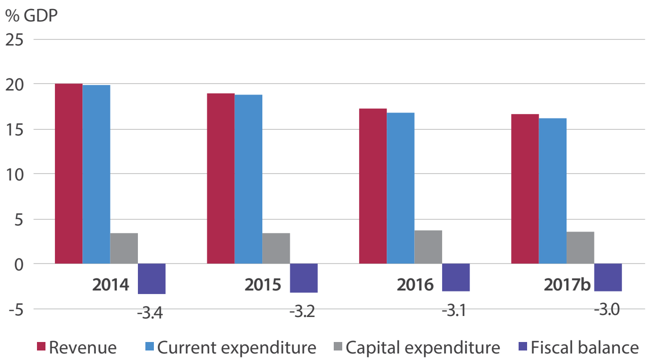
Sources: CEIC, Department of Statistics Malaysia

The current account surplus declined to 0.6 percent of GDP in Q2 2016, but increased to 1.9 percent and 3.7 percent in Q3 and Q4 2016, respectively.



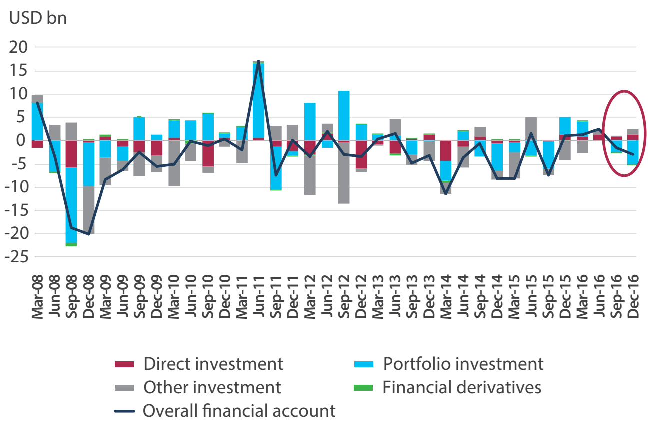
Sources: CEIC, Department of Statistics Malaysia

The government achieved its target of fiscal-deficit-to-GDP ratio of 3.1 percent in 2016, and is targeting a deficit of 3.0 percent in 2017.



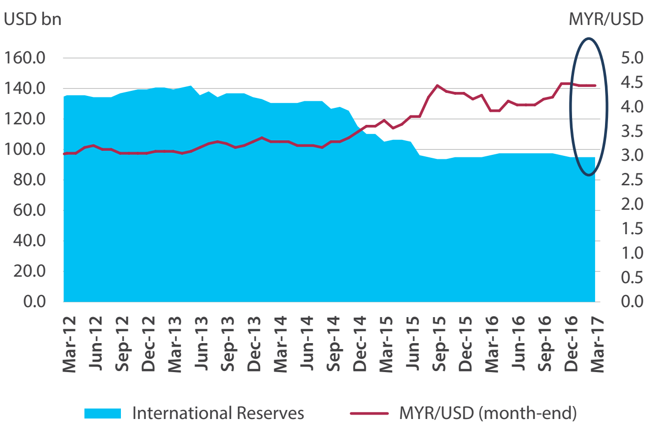
Note: 2017b = 2017 budget estimate by MOF
Sources: CEIC, Bank Negara Malaysia, MOF, Economic Report 2016/2017

Portfolio outflows ensued amid heightened external and financial market volatility in H2 2016.



Sources: CEIC, Department of Statistics Malaysia

The ringgit and reserves have been under pressure, but appear to have stabilized recently.



Sources: CEIC, Bank Negara Malaysia

Malaysia: Selected Economic Indicators

	2013	2014	2015	2016
Real Sector and Prices	**(in annual percentage change, unless specified)**			
Real GDP (in billions of USD)	303.3	309.5	272.2	267.5
Real GDP	4.7	6.0	5.0	4.2
Private consumption	7.2	7.0	6.0	6.1
Public consumption	5.8	4.3	4.4	1.0
Gross Fixed Capital Formation	8.1	4.8	3.7	0.0
Private	12.8	11.1	6.4	4.4
Public	1.8	-4.7	-1.0	-0.5
Net exports	-9.8	13.2	-3.8	-1.8
Exports	0.3	5.0	0.6	0.1
Imports	1.7	4.0	1.2	0.4
Unemployment rate (in percent of labor force)	3.1	2.9	3.1	3.4
Headline CPI inflation (in percent, average)	2.1	3.2	2.1	2.1
Core CPI inflation (in percent, average)	n.a.	n.a.	n.a.	2.5
External Sector	**(in billions of USD, unless specified)**			
Exports	228.6	234.0	199.1	189.8
Imports	206.0	208.8	175.7	168.7
Trade balance	22.6	25.2	23.4	21.0
Current account	11.3	14.8	8.9	6.1
Current Account (in percent of GDP)	3.5	4.4	3.0	2.0
External debt (in percent of GDP)	68.4	67.6	72.1	73.9
International Reserves	134.9	115.9	95.3	94.5
Fiscal Sector	**(in percent of GDP)**			
Revenue	20.9	19.9	18.9	17.3
Expenditure	24.7	23.3	22.1	20.4
Current expenditure	20.7	19.8	18.8	n.a.
Capital expenditure	4.0	3.5	3.4	n.a
Fiscal balance	-3.8	-3.4	-3.2	-3.1
Federal government debt	53.0	52.7	54.5	52.7
Monetary Sector	**(in percent)**			
Policy rate (average)	3.1	3.3	3.9	4.1
Treasury bill rate (average)	3.0	3.1	3.1	2.8
10-year government securities (average)	3.7	4.0	4.0	3.8
Memorandum Items				
Nominal GDP (in billions of USD)	323.3	338.3	297.2	296.9
Nominal GDP (in billions of Ringgit)	1,018.6	1,106.5	1,157.1	1,229.4

Notes:

1) As of 2014, external debt has been redefined in line with international standards to include non-resident holdings of local-currency denominated debt paper and other debt-related non-resident financial flows such as trade credits, currency and deposits, and other loans and liabilities. The numbers here follow the new definition.

2) Starting 2016, MYR21.9 billion of debt (approximately 1.8% of 2016 GDP) has been transferred from the federal government to the Public Sector Home Financing Board. The numbers here reflect such change.

Sources: CEIC, Department of Statistics Malaysia, Bank Negara Malaysia, Malaysia External Trade Development Corporation

Myanmar

After a slowdown in FY 16/17 due to the floods, growth will likely improve in FY 17/18. Myanmar's economic growth in FY16/17 (ending 31 March) is expected to moderate to 6.0 percent from the previous year's 7.3 percent due to slowing agriculture and construction and declining gas prices. The economy is anticipated to strengthen in FY17/18 to around 7.0 percent, driven by higher manufacturing growth and a recovery in agriculture. The improvement in medium-term growth prospects could come largely from increased investments with the implementation of the new Investment Law; and improved export performance with the development of Special Economic Zones, including the commencement of production in Thilawa.

Inflation has declined due to base effects and monetary policy tightening. Inflation is expected to be around 6.8 percent in FY16/17, down from 10.0 percent a year ago due to diminished impact of the 2015 floods and tighter monetary policy. Authorities' efforts to enhance the monetary policy framework through stepped-up deposit auctions, full implementation of the new reserve requirement regime, and improved forecasting techniques have enhanced the central bank's ability to better manage inflation. A slightly higher inflation of 7.1 percent is expected in FY17/18 due to continued pressures from money supply and credit growth warrants continued tight monetary policy.

The current account deficit remains high, driven by a widening trade deficit while FDI inflows moderate. Expectations of a modest recovery in exports and high import growth for FY2016/17 are behind the projected widening of the current account deficit to 7.9 percent of GDP from 5.4 percent. Higher tourism receipts and remittances could not fully offset the rise in trade deficit, while FDI is seen to moderate as investors could put on hold new projects pending firmer economic policy pronouncements.

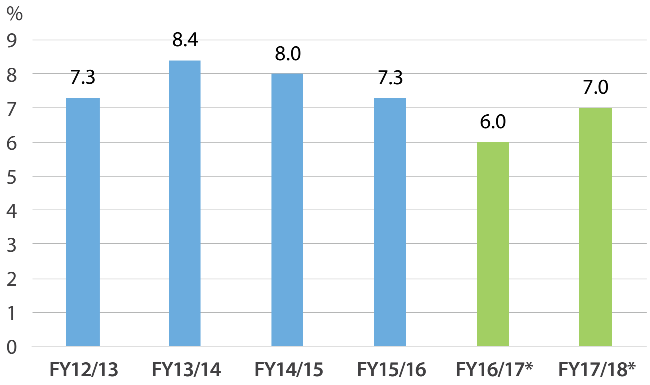
Risks to the financial sector come from continued high credit growth. Domestic credit has stabilized, but remains high at 30.0 percent. Also, non-performing loans (NPLs) have been rising along with loan portfolio, reaching 3.7 percent as of end-September 2016 from 1.7 percent at end-June 2015. The passage of the Financial Institutions Law is a welcome achievement. Regular onsite and offsite supervision for commercial banks and publication of financial soundness indicator are likewise positive measures that would further support financial stability. The issuance and implementation of regulations under the new law will be the next important step for financial sector risk mitigation.

External stability risks remain significant as the current account deficit continues to widen amid elevated global uncertainty. External sector risks emanate from the rising current account deficit. FDI is seen to grow at a slower rate of around 3.0 percent in FY2016/17 following double-digit growth in past years. Central bank foreign reserves are projected to remain below the conventional threshold of three-month import cover. It is essential to ensure that the gap between the formal and informal exchange rates does not widen significantly during the periods of increased FX pressures ahead.

The outlook for the fiscal sector remains challenging as falling revenues will require tighter expenditure management. After rising sharply to 4.5 percent of GDP in FY2015/16 due to falling revenues and rising expenditures, the fiscal deficit for FY2016/17 is expected to increase to 4.8 percent of GDP. Authorities' response in the form of continued enhancements in revenue administration, particularly the introduction of income tax self-assessment at the large taxpayer office is commendable. The authorities have also been exercising prudent spending even as needed social spending has been maintained. However, lower revenues, mainly from the resource sector, could translate to higher deficits. Authorities' commitment to cap central bank financing of the deficit at progressively lower shares of total financing until its full phase-out is thus welcome. Efforts to develop the Treasury bill market through market-determined interest rates and foreign bank participation, along with the launch of the Treasury bonds market are noteworthy. The development of the domestic debt market, allowing greater access to concessional loans and grants, will contribute to the government's objective to fully phase out deficit monetization by the central bank.

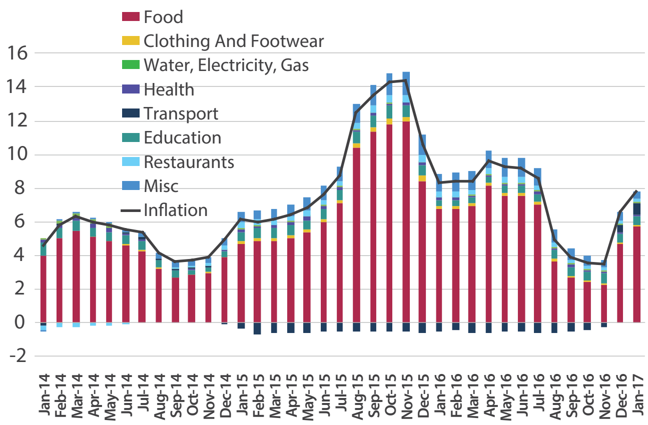
Myanmar: Selected Charts

Growth is expected to dip further in FY16/17 before recovering in FY17/18, driven by manufacturing and stronger agriculture.



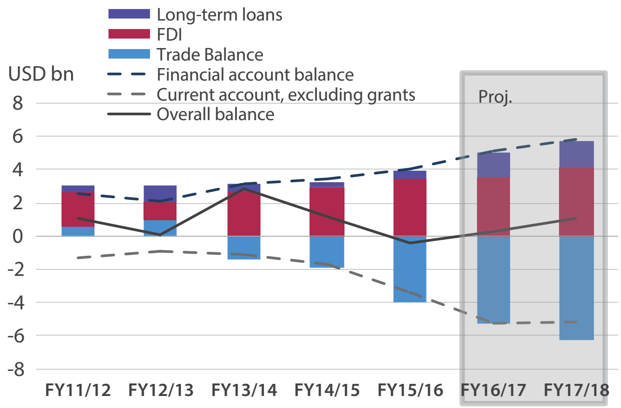
Note: Data for 2016/17-2017/18 represent AMRO staff estimates.
Sources: Planning Department, AMRO staff calculations

After falling due to base effects and tightened monetary policy, inflation has started to rise again driven by rising food and transportation prices.



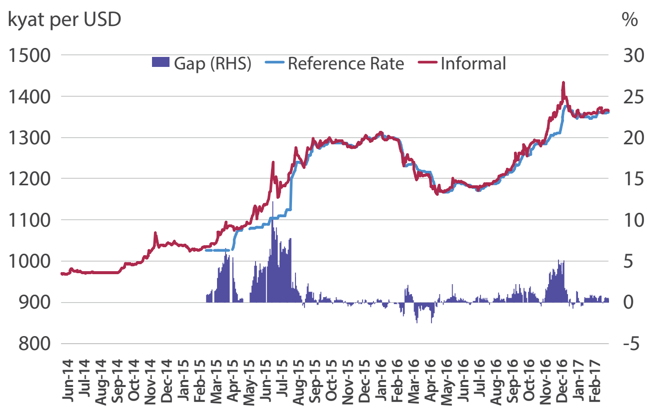
Source: Central Statistics Office

The current account deficit is projected to widen as imports rise while the external environment remains challenging.



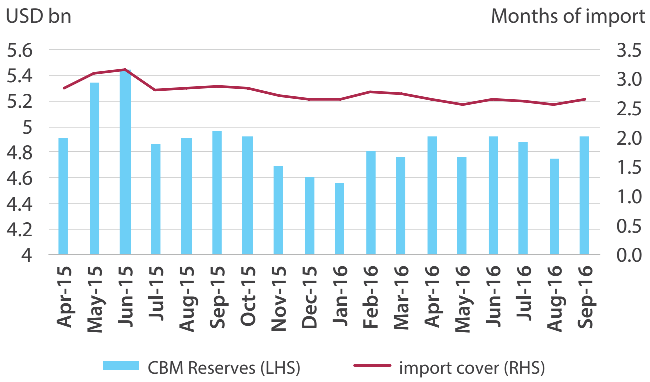
Sources: Central Bank of Myanmar, AMRO staff calculations

The gap between the reference and informal rate widened in Dec 2016 due to some rigidity in the reference rate, but has closed since then.



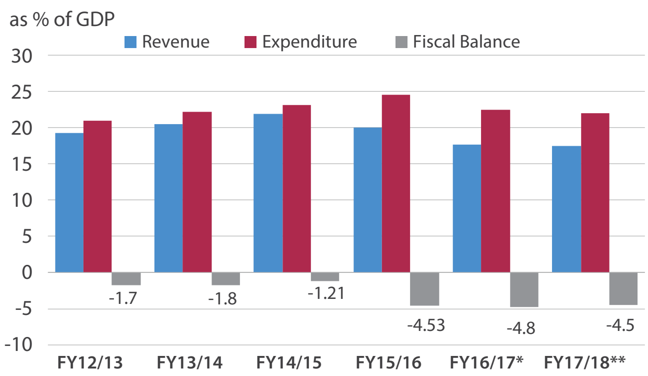
Sources: Central Bank of Myanmar, AMRO staff calculations

International reserves remain below the conventional threshold of three-month import cover.



Note: Import cover is in months of imports of goods and services
Sources: Central Bank of Myanmar, AMRO staff calculations

Revenue is expected to remain stable while lower spending keeps the fiscal deficit in check for FY2017/18.



Source: Budget Department

Myanmar: Selected Economic Indicators

	FY12/13	FY13/14	FY14/15	FY15/16	FY16/17 Est.
Real Sector and Prices			(in annual percentage change)		
Real GDP	7.3	8.4	8.0	7.3	6.0
CPI (base year=2012, end-period)	8.1	6.3	7.4	8.4	7.9
CPI (base year=2012, period average)	3.8	5.7	5.9	10.0	6.8
External Sector			(in millions of USD)		
Current account balance	-931	-1,091	-1,716	-3,413	-5,241
Trade balance	936	-1,395	-1,859	-4,006	-5,217
Exports	8,749	10,270	10,385	9,506	9,647
Gas Exports	3,573	3,024	4,294	3,707	2,719
Imports	-7,813	-11,665	-12,244	-13,512	-14,864
Services, net	-2,371	-891	-1,941	-1,521	-2,350
Transfers, net	1,553	1,684	2,401	2,498	2,748
Financial account	2,090	3,160	3,454	4,029	5,141
Foreign direct investment, net	1,152	2,621	2,916	3,443	3,546
ODA, net	927	525	315	445	1,482
Overall balance	51	2,855	1,169	-419	256
CBM reserves					
in millions of USD	3,156.0	4,419.0	5,124.6	4,764.0	5,019.8
in months of imports goods & services	2.4	2.8	3.4	3.0	2.7
External debt					
in billions of USD	13.7	10.2	7.9	8.5	-
in percent of GDP	23.0	18.0	12.1	12.6	-
Exchange rate (kyat/USD, end period)	879.5	965.0	1,034.5	1,211.0	-
Exchange rate (kyat/USD, period average)	862.7	962.5	997.2	1,218.2	-
Fiscal Sector (Consolidated Public Sector)			(in percent of GDP)		
Total Revenue	19.3	20.5	21.9	20.0	17.6
of which: Tax revenue	6.6	7.7	7.8	8.7	7.9
Non-tax revenue	0.9	1.5	3.6	2.4	1.8
SEE receipts	10.3	9.7	9.5	7.2	6.7
Total Expenditure	21.0	22.2	23.2	24.5	22.4
Fiscal Balance	-1.7	-1.8	-1.2	-4.5	-4.8
Public debt	39.6	34.2	29.7	32.3	-
Monetary and Financial Sector			(in annual percentage change)		
Reserve money	38.5	16.3	4.6	19.6	14.5
Broad money	46.6	31.7	17.6	26.3	18.6
Domestic credit	5.1	24.6	22.9	32.3	26.3
Private sector	50.5	52.5	36.3	34.2	27.1
Memorandum Items			(in annual percentage change)		
Nominal GDP (in billions of USD)	59.4	60.3	65.4	59.7	64.5
Nominal GDP (in billions of Kyat)	51,259	58,012	65,262	72,780	81,878

Notes:
1) The fiscal year is from April 1 to March 31
2) Real GDP series base year is 2010/11 prices
3) Consolidated public sector includes union and state/ region governments and state economic enterprises
Sources: National Authorities, AMRO staff estimates

The Philippines

Philippines' economy softened in the last quarters of 2016 on account of weather-related agriculture production shocks and slowdown in private sector construction. The economy is forecast to grow at 6.8 percent this year, supported by infrastructure investment, investment on transportation equipment, and household consumption. However, the growth may be lower than expected in the occurrence of shocks to the global economy that can affect the domestic economy, for instance through the remittances income as well as export. A stronger-than-expected impact of extreme weather conditions may also hinder food production.

Consumer price index has sped up since Q4 2016 due to weather disturbance's effect on food production and the increasing fuel prices. This year's average headline inflation is forecast to be in the upper band of the target at 3.1 percent, reflecting the diminishing effects of low energy prices and effect of planned excise tax hike on fuel and car in H2 2017.[1] Yet inflation may be higher than this forecast if crude oil prices increase faster than expected and impact of weather disturbances are more severe than expected.

The external position remains strong despite declined international reserves. The balance of payments recorded a deficit of 2.5 percent of GDP in Q4 2016 following an expanded infrastructure-related imports and increased foreign portfolio outflows post U.S. election. The gross international reserve decreased by USD5.4 billion in Q4 2016 but remained sufficient in terms of imports and short-term debt coverage. With faster infrastructure investment and increased price of oil imports expected going forward, the current account balance is forecast to record a deficit of 0.6 percent of GDP in 2017.

External position may be weakened if infrastructure-related imports grow faster than expected and global financial markets condition worsens. The current account balance may also be smaller than estimated if the U.S. protectionist policies unfavorably affect business process outsourcing (BPO) and remittances. Meanwhile, adverse developments in global financial markets may occur going forward, triggered by uncertainty from the Brexit process, further Fed rate hikes, and concerns on geopolitical tensions.

Tax revenue remained buoyant in 2016, while government infrastructure investment quickened, driven mainly by road infrastructure projects. The overall deficit is expected to be at 3.0 percent of GDP this year provided that sufficient revenue-increased tax reform is implemented in H2 2017 as planned. The successful implementation of the comprehensive tax reform is crucial to finance infrastructure spending, as well as to support a more inclusive household consumption and boost business competitiveness. However, fiscal deficit may exceed the target of 3.0 percent of GDP this year if the planned implementation of tax reform in the second half of 2017 is delayed. Government revenue may fall short of the target if the revenue enhancing measures fail to offset the decline in income tax revenue stemming from the income tax rate cut.

The BSP has been on a tightening cycle since the absorption of liquidity through TDF auction, resulted in increased TDF rate and bank's deposit rate. Despite this liquidity absorption, the position of monetary operation decreased, as the BSP requires trust entities to gradually empty their placement in its deposit facilities by end of June 2017. Yet reserve money softened and money supply (M3) slightly moderated. The interbank money market rates have been relatively stable, indicating a still ample liquidity, as reflected in the bid coverage ratio greater than one.

The banking system has remained sound with adequate capital buffers, sustained profitability, ample liquidity, and a low rate of non-performing loans. Bank loan and property demand slowed down as of end-January 2017 but are expected to strengthen this year, in view of the prospect of accelerated public construction and sustained BPO.

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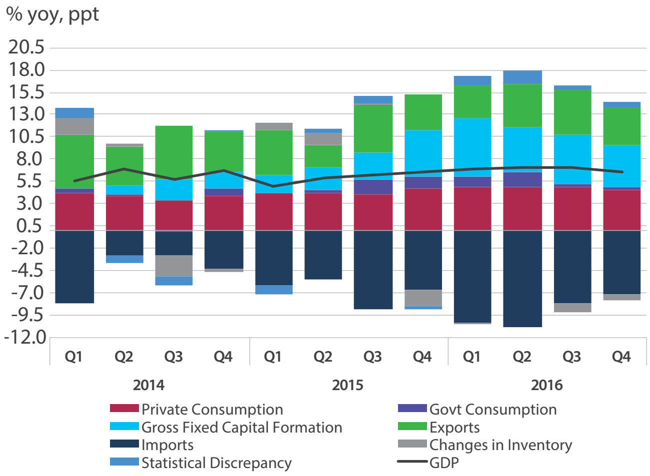
1 Food inflation is expected to be more manageable, supported by the government plan to lift restriction on rice imports this year.

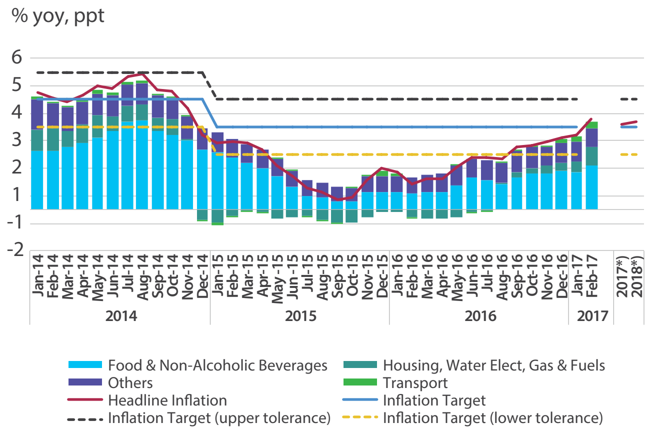
The Philippines: Selected Charts

Real GDP softened in Q4 2016 due to weather-related agriculture production shocks and slowdown in private sector construction.



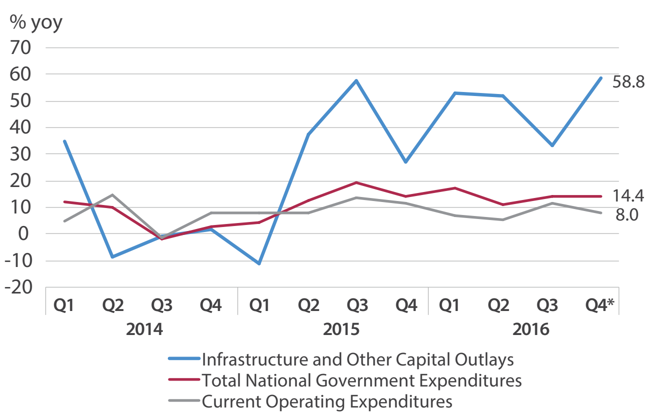
Source: Philippine Statistics Authority (PSA)

Headline inflation accelerated, driven by the crept up oil prices and food supply shocks.



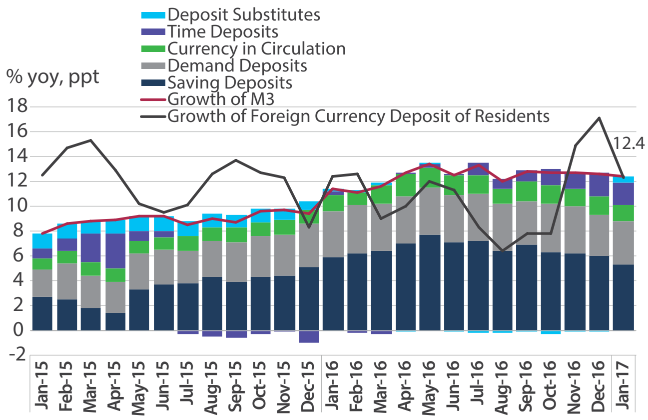
Sources: PSA, Bangko Sentral ng Pilipinas (BSP)

Government infrastructure investment quickened, driven mainly by road infrastructure projects.



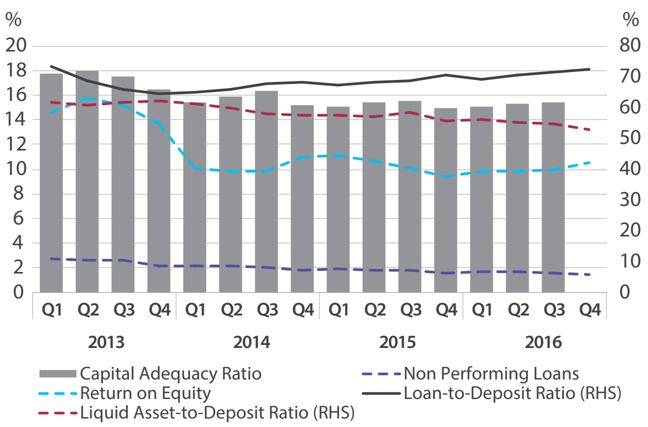
Note: *) October-November
Source: Department of Budget and Management (DBM)

Money supply growth moderated in H2 2016, driven by liquidity absorption through the TDF auction, currency substitution of residents' deposits, and FX intervention.



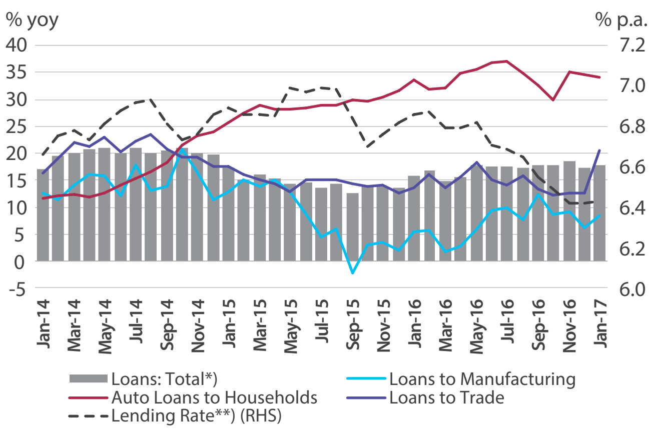
Source: BSP

The banking system has remained sound with adequate capital buffers, sufficient liquidity and a low level of non-performing loans.



Source: BSP

Growth of total loan remained soft, albeit slightly increased, while the fast growth of auto loans sustained.



Notes: 1) Universal & Commercial Banks, Net of Reverse Repurchase Arrangement; 2) High Lending Rates
Source: BSP

The Philippines: Selected Economic Indicators

	2013	2014	2015	2016
Real Sector and Prices	**(in annual percentage change, unless specified)**			
Real GDP	7.1	6.2	5.9	6.8
Final consumption	5.5	5.2	6.5	7.1
Household consumption	5.6	5.5	6.3	6.9
Government consumption	5.0	3.3	7.8	8.3
Gross fixed capital formation	11.8	6.2	15.2	23.5
Exports of goods and services	-1.0	11.7	9.0	9.1
Imports of goods and services	4.4	9.3	14.0	17.5
Unemployment rate (percent)	7.1	6.8	6.3	5.5
GDP deflator	2.0	3.2	-0.6	1.6
Consumer price inflation (period average)	3.0	4.1	1.4	1.8
External Sector	**(in billions of USD, unless specified)**			
Current account balance	11.4	10.8	7.7	0.6
Current account balance (In percent of GDP)	4.2	3.8	2.6	0.2
Trade balance	-17.7	-17.3	-23.3	-34.1
Exports, f.o.b.	44.5	49.8	43.2	43.4
Imports, f.o.b.	62.2	67.2	66.5	77.5
Services balance	7.0	4.6	5.6	7.1
Receipts	23.3	25.5	29.3	31.4
Payments	16.3	20.9	23.7	24.2
Secondary income	21.1	22.8	23.5	25.0
Receipts	21.7	23.4	24.3	25.7
Payments	0.6	0.7	0.8	0.7
Financial account balance	-2.4	-9.7	-3.3	-1.1
Direct investment, net	0.1	-1.0	0.1	4.2
Portfolio investment, net	1.0	-2.7	-5.4	-1.4
Financial derivatives, net	0.1	0.0	0.0	0.0
Other investment, net	-3.4	-5.9	2.0	-3.8
Error and omission	-4.2	-4.1	-2.0	-0.2
Overall balance	5.1	-2.9	2.6	-0.4
Overall balance (In percent of GDP)	1.9	-1.0	0.9	-0.1
Gross international reserves	83.2	79.5	80.7	80.3
Gross international reserves (In months of imports of goods & services)	11.6	9.9	9.9	9.5
Total external debt (In percent of GDP)	28.9	27.3	26.5	24.6
Fiscal Sector (National Government)	**(in percent of GDP)**			
Revenue and grants	14.9	15.1	15.8	15.2
Expenditure	16.3	15.7	16.8	17.6
Overall balance	-1.4	-0.6	-0.9	-2.4
Primary balance	1.4	2.0	1.4	-0.3
Government debt (excl. contingent liabilities)	49.2	45.4	44.7	42.1
Monetary and Financial Sector	**(in annual percentage change, unless specified)**			
Domestic credit	10.6	17.8	11.5	17.0
Of which: Private sector	16.5	19.9	12.1	16.4
Broad money	28.8	12.4	9.3	13.3
Exchange rate (peso per USD, average)	42.4	44.4	45.5	47.5
Memorandum Items				
Nominal GDP (In billions of USD)	271.8	284.8	292.5	304.3
Nominal GDP (In billions of pesos)	11,538.5	12,645.1	13,307.4	14,449.9

Sources: Philippine authorities and AMRO staff calculations

Singapore

GDP growth was surprisingly strong in Q4 2016 due to electronics and biomedical clusters with a recovery in global demand, nevertheless, most segments will continue to be faced with external headwinds and domestic structural challenges. GDP grew by 2.9 percent yoy in Q4 and manufacturing grew by a whopping 11.5 percent, primarily due to the electronics and biomedical manufacturing clusters. The electronics cluster was driven mainly by a recovery in global semiconductor demand and such recovery is likely to sustain the near future. However, other segments of the economy continued to face external headwinds. Employment has been impacted more strongly than before, with retrenchments increasing in recent quarters. Households have become more cautious and the property sector is undergoing correction. Singapore is also addressing its structural challenge in population and productivity growth. That said, near-term growth will be supported somewhat by electronics, biomedical, tourism, ICT, health and education sectors.

Inflation has increased but remain subdued and the monetary policy stance was kept unchanged in October 2016, following an easing move in April when the rate of appreciation of the SGD NEER policy band was set at zero percent. Upside pressure on core inflation is limited due to subdued demand, although some recovery may be expected in the coming quarters from the pass-through of earlier monetary easing.

In February 2017, to restructure Singapore economy, the Committee on the Future Economy (CFE) proposed seven mutually-reinforcing strategies. The CFE has studied global trends such as subdued growth, increasing protectionism and rapid technological change and re-examined Singapore's operating assumptions and model. CFE aims at building a value creating economy that is open and connected to the world, offering a multitude of opportunities, with sustainable wage growth and meaningful careers for all Singaporeans. It aims at a real growth rate of 2.0-3.0 percent per year on average, which is lower than Singapore's average growth rate in the past 10 years but higher than the performance of most advanced economies.

The budget FY2017 was also announced in February, which has maintained an expansionary stance to support the economy. Fiscal spending is budgeted to increase considerably in FY2017, especially in healthcare. In addition, Budget FY2017 continued to emphasis on long-term economic restructuring, including a budget of SGD 2.4 billion in implementing some strategies proposed by the CFE. CFE proposed strategies such as building strong digital capabilities and strengthening enterprise capabilities, Budget FY2017 proposed initiatives such as SMEs Go Digital Programme and Tech Access Initiative. At the same time, Budget FY2017 is also paying attention to address near-term headwind and building an inclusive society.

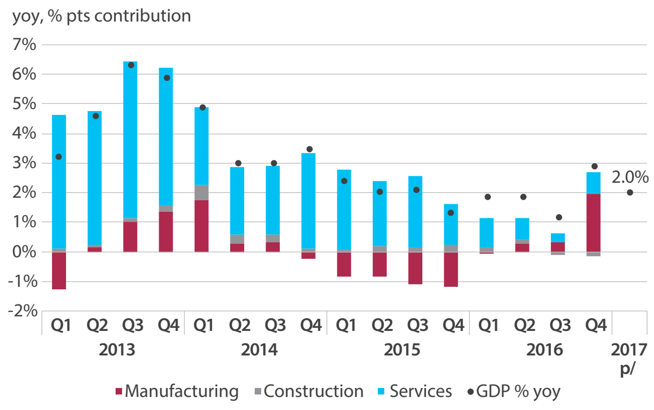
Household debt and corporate debt have stabilized, but some segments of the corporate bond market have come under stress. The household debt level has stabilized, due to the effects of macroprudential measures. The corporate debt level is declining, but remains elevated, and some companies have come under stress, especially in the oil and gas sector, which saw an increasing number of defaults and other credit events.

While the financial system is sound, there are signs of deterioration in credit quality. Although the NPL ratios of banks are still low, they have been edging up persistently over the past few quarters and there has been stress in some sectors, such as marine and offshore engineering. In addition, disruptions in some segments of the corporate bond market may reduce investor confidence.

Property prices continue to fall gradually. The prices are likely to continue to slide gradually. There is a large supply in the pipeline of both residential and commercial properties. On demand side, there has been some recovery in the sales of residential properties and demand has recently increased in the core central region reflecting the still low interest rate environment. Nevertheless, with prospect of a weak economy and looming supply in the pipeline, the property markets need to be closely monitored particularly if interest rates were to rise substantially.

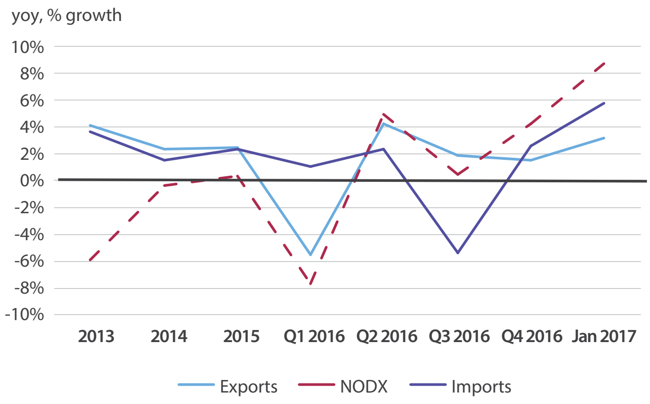
Singapore: Selected Charts

With strong external headwinds for most segments, GDP will grow modestly in 2017.



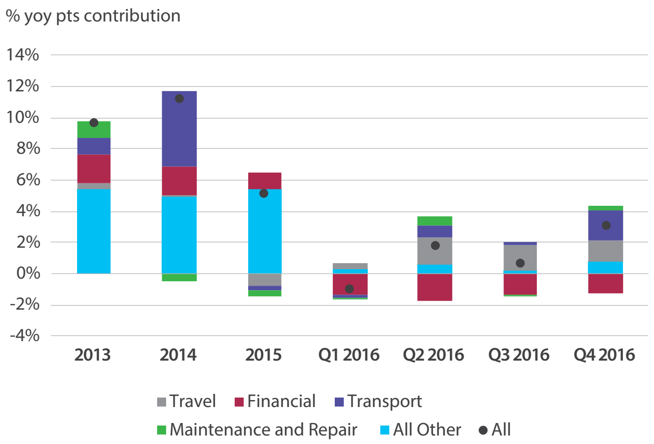
Sources: MTI, Department of Statistics (DOS)

Trade rebounded in recent months in volume terms…



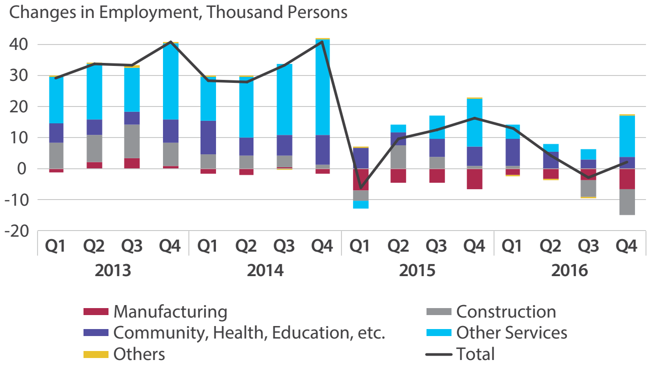
Sources: IE Singapore, CEIC, AMRO staff calculations

and growth in trade benefitted transport service export.



Sources: IE Singapore, CEIC, AMRO staff calculations

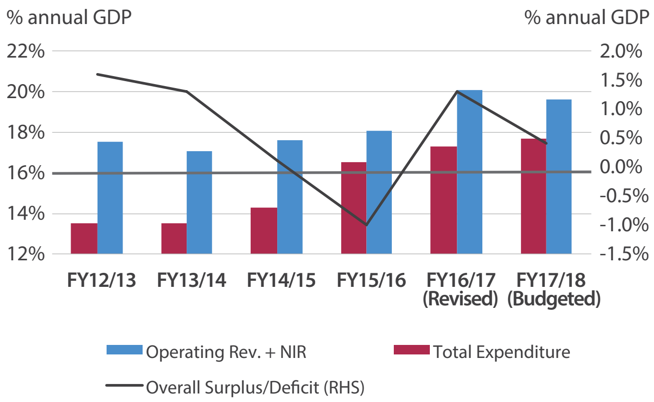
Employment growth has also slowed since 2015, especially in Q3 2016



Notes: "Community, Health, Education, etc." includes Education & Public Administration, Health & Social Services and Other Community, Social & Personal Services

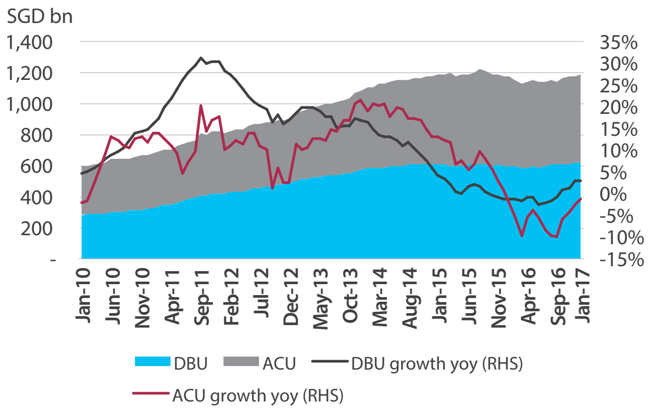
Sources: Manpower Research & Statistics Department, Ministry of Manpower (MOM)

Building on previous year's initiatives, Budget FY2017 continued to be expansionary.



Source: Ministry of Finance, DOS

Bank loans contracted slightly in recent months due to weak loan demand.



Sources: MAS, AMRO staff calculations

Singapore: Selected Economic Indicators

	2013	2014	2015	2016
Real Sector and Prices	(in annual percentage change, unless specified)			
Real GDP	5.0	3.6	1.9	2.0
Private consumption	3.3	2.4	4.6	0.6
Public consumption	11.5	0.1	8.0	6.3
Gross fixed capital formation	5.7	-1.1	1.1	-2.5
Exports of Goods & Services	5.8	4.0	2.6	1.6
Imports of Goods & Services	5.9	3.0	2.9	0.3
Manufacturing	1.7	2.7	-5.1	3.6
Construction	3.0	6.6	3.9	0.2
Services	7.2	3.9	3.2	1.0
Wholesale & Retail Trade	6.8	1.9	3.7	0.6
Transportation & Storage	4.1	3.0	1.6	2.3
Accommodation & Food Services	3.1	2.3	0.7	1.7
Information & Communications	8.0	7.4	-0.6	2.3
Finance & Insurance	17.2	9.1	5.7	0.7
Business Services	5.6	1.8	3.9	-0.9
Labor Market				
Unemployment rate, Annual Average (percent)	1.9	2.0	1.9	2.1
Changes in Employment (thousand)	136.2	130.1	32.3	16.8
Prices				
MAS core inflation	1.7	1.9	0.5	0.9
Consumer price inflation	2.4	1.0	-0.5	-0.5
External Sector	(in billions of SGD, unless specified)			
Current account	64.0	77.1	73.9	78.1
Current account (in percent of GDP)	16.9	19.7	18.1	19.0
Exports and imports				
Exports of Goods	560.2	560.9	521.8	499.5
Exports of Services	174.8	194.4	204.3	206.7
Imports of Goods	466.3	457.3	407.9	385.2
Imports of Services	184.0	202.0	212.4	214.9
Capital and Financial Account	-42.4	-66.5	-70.8	-81.9
Direct investment, net	26.4	27.6	53.9	52.1
Portfolio investment, net	-79.6	-61.1	-74.8	-28.6
Other investment, net	-5.6	-34.1	-67.1	-99.0
Overall balance	22.7	8.6	1.5	-2.5
Official reserve assets (in billions of USD, end-period)	273.1	256.9	247.7	246.6
Fiscal Sector	(in percent of GDP, unless specified)			
Operating Revenue	14.9	15.4	15.9	16.6
Total Expenditure	13.5	14.3	16.5	17.3
Primary Surplus / Deficit	1.4	1.1	-0.6	-0.7
Overall Budget Surplus / Deficit	1.3	0.1	-1.0	1.3
Monetary and Financial Sector				
3-month SGD Sibor (percent end period)	0.4	0.5	1.2	1.0
Straits Times Index (end period)	3,167	3,365	2,883	2,881
Private Residential Property Index (2009Q1=100)	153.2	147.0	141.6	137.2
Spot exchange rate (SGD per USD, period ave.)	1.25	1.27	1.37	1.38
Memorandum Items				
Nominal GDP (in billions of USD)	302.5	308.1	296.8	297.0
Nominal GDP (in billions of SGD)	378.5	390.4	408.1	410.3

Notes:
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 table use the opposite sign, which was in accordance to BPM5.
2) Fiscal sector data are in fiscal year, which is from April to March, 2016 figures are based on revised estimates.
Sources: The Singapore authorities, CEIC, AMRO staff estimates

Thailand

The Thai economy continues to expand amid external and domestic uncertainty. The economic expansion was driven by private consumption, public spending and net exports. The tourism industry rebounded after a temporary dip in Q4 2016 due to King Bhumibol Adulyadej's passing and new restrictions on Chinese zero-dollar tours. Meanwhile, private investment remained subdued due to a prolonged period of sluggish exports and excess manufacturing capacity. On the production side, easing drought and improving global commodities prices led to an increase in agricultural production. Meanwhile, manufacturing production of export-oriented sectors edged up, following a pick-up of exports in the last quarter.

Headline inflation continues on a rising trend, while monetary policy has remained accommodative. Rising global energy prices put an upward pressure on Thailand's consumer prices. Headline inflation has gradually inched up and reached 0.76 percent in March 2017. Nevertheless, core inflation fell largely on the back of high base effect from an increase in excise tax for tobacco. Meanwhile, short-term inflation expectations remained stable at around 2.0 percent respectively. The policy rate has been kept at 1.5 percent since the last rate cut in April 2015.

Expansionary fiscal stance has been employed to support the economic recovery. In the 2017 fiscal year[1], additional measures to stimulate private consumption and front-loaded spending is being implemented, while capital spending of the general government and state-owned enterprises is being expedited. Several Infrastructure projects together with the Eastern Economic Corridor development plan has been executed. Moreover, the additional budget of THB190 billion, with aims of stimulating the grass-roots economy and enhancing SMEs' competitiveness, will help stimulate the economy. In a reflection of low fiscal deficits, Thailand's fiscal position has remained strong with a prudent level of public debt.

External stability remains strong with sizable current account surpluses and ample international reserves. After experiencing a volatility in Q4 2016, the Thai financial markets and capital flows become stabilized, while the baht appreciated against the U.S. dollar and in NEER term. Meanwhile, a large current account surplus and strong international reserves, at more than three times of short-term external debt and 12 months of imports[2], would provide the economy with a cushion against potential capital flow volatility during future lifts in the U.S. Federal funds rate.

The financial system is sound albeit deteriorating credit quality, a high level of household debt and growing search-for-yield behaviors. The protracted economic recovery result in deteriorating loan quality, particularly small and medium enterprises and retail clients. However, a strong capital position and high loan loss provisions would safeguard commercial banks and state-owned specialized financial institutions against rising credit risks. Meanwhile, a concern on a high level of household debt has been gradually easing due to a moderation of household credit growth and finished debt burden from the first car scheme. Separately, amid low interest rate environment, investors continue search-for-yield behaviors and have a higher risk appetite which warrant a closer monitoring.

Going forward, the economy is projected to expand by 3.4 percent in 2017 and 3.5 percent in 2018. The government spending, infrastructure investment and tourist receipts will be a main growth engine. A broad-based recovery of domestic demand is expected to be stronger. Household purchasing power is expected to improve due to easing debt burden and improving income of exporters and farm households.

Headwinds from external factors and domestic structural issues could weigh on Thailand's economic outlook. A lingering uncertainty in global trade and a greater tendency towards trade protectionism could stall Thailand's exports. The tail risks of the U.S.–China trade tensions and political uncertainty in Europe would have spillover effects to the Thai exports. In addition, a direction change of the Thai baht movements could affect exports performance. Domestically a shortage of human capital in scientific and engineering fields remains a key challenge to the private sector which is striving to move up a global value chain. A fast-growing aging society would also pose labor force constraints to the private sector in the next few decades.

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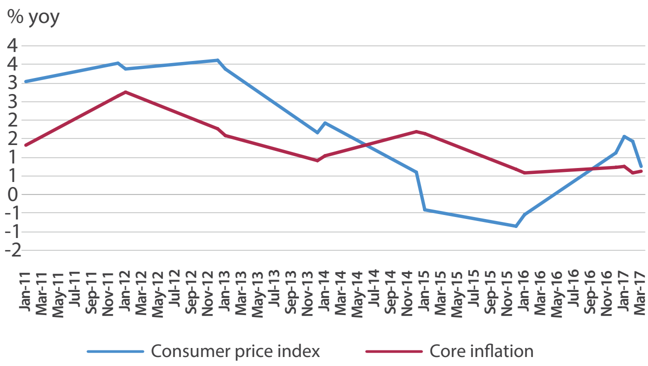
1 Thailand's fiscal year (FY) extends from October 1 to September 30. For example, FY 2017 starts from October 1, 2016 to September 30, 2017.
2 As of January 2017.

Thailand: Selected Charts

The Thai economy is on a gradual recovery path on the back of public spending and service exports.

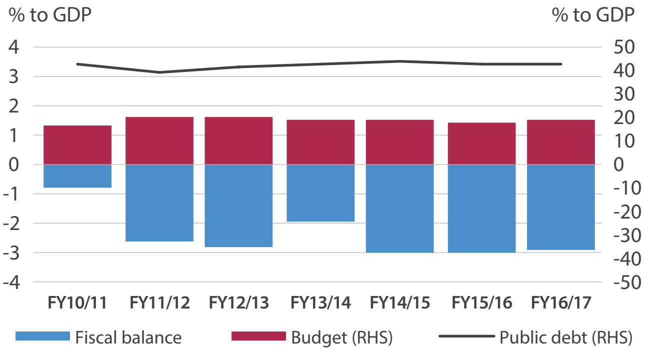
Sources: Bank of Thailand, AMRO staff calculations

Headline inflation gradually edges up, while core inflation remains soft.



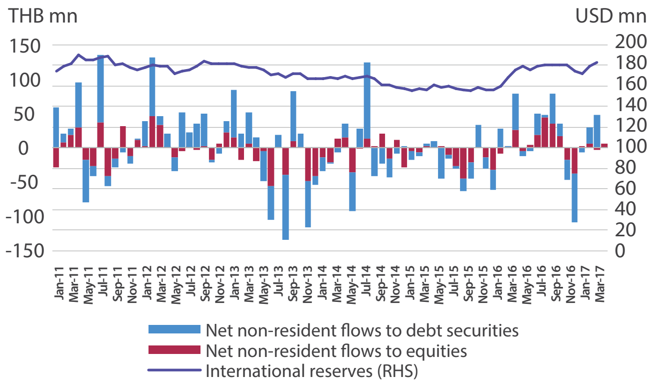
Source: Ministry of Commerce

Ample fiscal space would give the government a room for more fiscal stimulus.



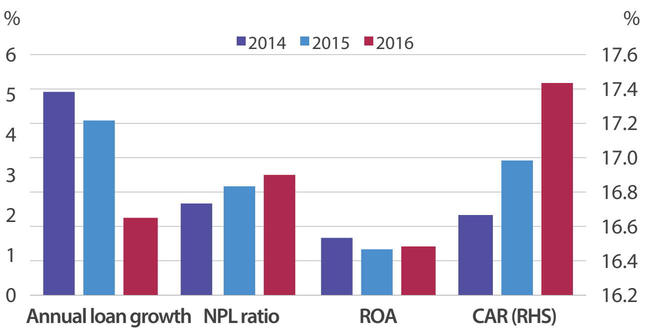
Sources: Fiscal Policy Office, Budget Bureau, Public Debt Management Office

Capital flow volatility becomes moderated in 2017, while external stability is strong with high international reserves.



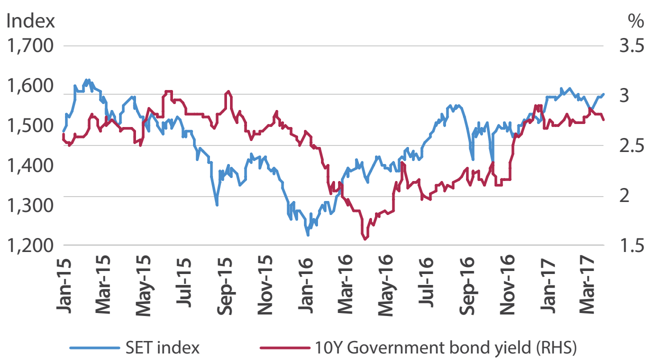
Sources: Stock Exchange of Thailand, Bank of Thailand, AMRO staff calculations

Despite rising non-performing loans, the banking system remains sound with strong capital.



Notes: Loan growth refers to total loans excluding interbank loans of commercial banks which includes Thai commercial banks and foreign bank branches. Non-performing loan ratio (NPL ratio), Return-on-asset ratio (ROA) and Capital Adequacy Ratio (CAR) composite of Thai commercial banks only.
Sources: Bank of Thailand, AMRO staff calculations

After a period of volatility especially at an onset of the U.S. Presidential Election result, Thai financial markets has stabilized.



Sources: Stock Exchange of Thailand, Thai Bond Market Association

Thailand: Selected Economic Indicators

	2013	2014	2015	2016
Real Sector and Prices	(in annual percentage change, unless specified)			
Real GDP	2.7	0.9	2.9	3.2
Final consumption (in percent of GDP)	68.6	69.6	68.7	67.8
Private sector	52.2	52.6	51.4	50.7
General government	16.4	17.0	17.3	17.1
Capital formation (in percent of GDP)	27.4	24.0	22.2	22.0
Private sector	19.7	19.5	18.3	17.8
General government	5.7	5.2	6.3	6.5
Change in inventories	2.1	-0.7	-2.4	-2.3
Savings (in percent of GDP)	26.7	28.0	30.7	33.2
Unemployment rate (percent, average)	0.7	0.8	0.9	1.0
GDP deflator	1.8	1.3	0.6	1.7
Consumer price inflation (period average)	2.2	1.9	-0.9	0.2
Consumer price inflation (end of period)	1.7	0.6	-0.9	1.1
External Sector	(in billions of USD, unless specified)			
Current account balance	-4.8	15.1	32.1	46.8
(in percent of GDP)	-1.0	3.7	8.1	11.4
Trade balance	0.1	17.3	26.8	35.8
Exports, f.o.b.	227.5	226.7	214.1	214.1
Imports, f.o.b.	227.4	209.4	187.2	178.4
Services, net	11.4	10.3	19.2	24.2
Receipts	58.8	55.5	61.8	66.4
Payments	47.4	45.2	42.5	42.2
Primary income, net	-26.9	-21.2	-20.6	-19.9
Secondary income, net	10.6	8.7	6.7	6.8
Financial account balance	-2.5	-16.2	-17.1	-25.7
Direct investment, net	3.8	-0.8	4.0	-10.5
Portfolio investment, net	-4.8	-12.0	-16.5	-2.9
Other investment (including derivatives), net	-1.5	-3.4	-4.6	-12.3
Overall balance	-5.0	-1.2	5.9	4.9
Gross international reserves excluding net forward position	167.3	157.1	156.5	171.9
(in months of imports of goods and services)	8.8	9.0	10.0	11.6
Short-term debt in percent of total debt	43.6	40.2	40.0	40.2
Fiscal Sector 1/	(in billions of Thai baht)			
Revenue	2,163.5	2,075.7	2,207.0	2,411.5
(in percent of FY GDP)	16.8	15.8	16.3	17.0
Expenditure	2,402.5	2,460.0	2,601.4	2,807.4
(in percent of FY GDP)	18.7	18.7	19.2	19.8
Budget balance	-239.0	-384.3	-394.4	-395.8
(in percent of FY GDP)	-1.9	-2.9	-2.9	-2.8
Public debt (in percent of FY GDP)	42.3	43.6	43.1	42.8
Monetary and financial sector	(in annual percentage change)			
Domestic credit	10.0	4.2	5.5	3.5
Broad money	7.3	4.7	4.4	4.2
Exchange rate (THB per USD, average)	30.7	32.5	34.3	35.3
Exchange rate (THB per USD, end of period)	32.9	32.9	36.0	35.8
Memorandum Items				
GDP at current price (in billions of USD)	420.4	406.5	399.2	406.8
GDP at current price (in billions of Thai baht)	12,921	13,204	13,673	14,361

Note:
1) Fiscal year extends from October 1 to September 30. For example, FY 2017 starts from October 1, 2016 to September 30, 2017.
Sources: Thai authorities, AMRO staff calculations

Vietnam

Vietnam's economic growth moderated in 2016 but stayed resilient amid negative shocks. Economic activity expanded at 6.2 percent in 2016, compared to 6.7 percent in 2015, as agricultural production was adversely affected by a prolonged drought and increased saltwater intrusion, and mining and quarrying output contracted. On a positive note, overall growth was supported by solid gains in the manufacturing and services sectors. From the expenditure side, growth slowdown was led by net exports and a moderation in final consumption.

Economic growth is expected to pick up slightly to around 6.4 percent in 2017, as agricultural production recovers and mining and quarrying output normalizes alongside sustained expansion in manufacturing and services. From the expenditure side, growth recovery is likely to be supported by strengthened domestic demand, offsetting the continued weakness in external demand. Real GDP growth rate slowed somewhat to 5.1 percent in Q1 2017, compared to 5.5 percent reported in the same period a year ago, driven mainly by further contraction in mining and quarrying activity.

The external position strengthened in 2016, reflecting an improved trade balance and increased FDI inflows. Against this backdrop, gross international reserves are estimated to have increased significantly in 2016, sufficient to cover about 2.4 months of imports of goods and services, up from about 2 months a year earlier. In light of rising external uncertainties, further efforts to accumulate the reserves buffer, which remains below the three-month conventional threshold, are highly recommended.

The Vietnamese *dong* has appreciated slightly against the U.S. dollar recently, following episodes of depreciation since November 2016. Greater flexibility has been allowed for the exchange rate with the State Bank of Vietnam (SBV) adopting a wider trading band for the dong since August 2015 and a daily fixing since early 2016.

Monetary conditions have stayed accommodative to support economic activity in light of the still-benign inflationary environment. While headline CPI inflation has picked up since 2016, mainly on the back of higher food and fuel price, and planned hikes in State-administered prices, the underlying inflationary pressures remain contained. After some moderation, credit growth picked up to 18.2 percent in the final month of 2016. Growth in bank lending to other activities, including to the real estate sector and for other personal consumption purposes, while slowing somewhat, stayed relatively high at 22 percent. In this regard, the SBV in May 2016 issued Circular 06, tightening a number of prudential ratios on bank lending to the real estate sector, effective from January 2017.

The non-performing loan (NPL) ratio in the banking sector has fallen to below 3 percent since end-2015, partly due to banks' transfer of NPLs to the Vietnam Asset Management Corporation (VAMC) in the past years. Latest data suggest that the NPL ratio stood at 2.46 percent of total loans outstanding, as of December 2016. The progress of NPL resolution at the VAMC has been modest, with less than a fifth of the acquired NPLs being resolved thus far. In this regard, it is encouraging that reforms have gathered momentum with the National Assembly endorsing the Economic Restructuring Plan for 2016-2020 in November 2016 and the Government accordingly issuing the Action Plan in February to spell out policy measures to accelerate structural reforms, including banking sector reform and NPL resolution, in 2017.

While preliminary data suggest budget implementation in 2016 may lead to some fiscal consolidation, the fiscal deficit remains sizeable, and likely to have stayed above 5 percent of GDP[1]. Public debt is hence, estimated to have increased to 63.7 percent of GDP in 2016, compared with the threshold of 65 percent of GDP. In this regard, it is welcome that a lower fiscal deficit of 3.5 percent of GDP[2] has been set in the Budget Plan for this year. It is also encouraging that the National Assembly recently has approved the Five-Year Fiscal Plan and the Medium-Term Public Investment Plan for 2016-2020, which should help strengthen fiscal discipline going forward and reduce the pressure from rising public debt.

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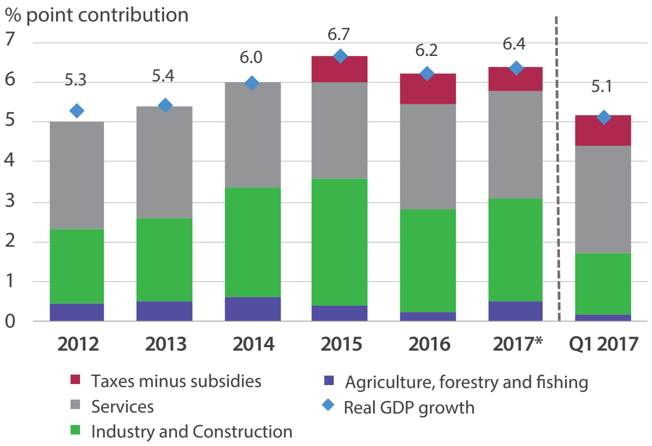
1 AMRO staff estimates for the fiscal deficit are broadly in line with the GFSM 2001 methodology, which sums up the general government budget deficit reported by the Ministry of Finance of Vietnam (MOF) in its budget account and off-budget state investment activities funded by the issuance of government bonds. According to the authorities, the general government budget deficit reported by MOF, which excludes principal repayments, was about 3.8 percent of GDP in 2016.

2 It was shared by the authorities during AMRO annual consultation visit to Vietnam in 2016 that, with the State Budget Law 2015 being effective 1 January 2017, the general government budget from 2017 onwards would also include state investment funded by the issuance of government bonds, and hence should be consistent with the AMRO staff estimates/calculations based on the methodology mentioned in the above footnote.

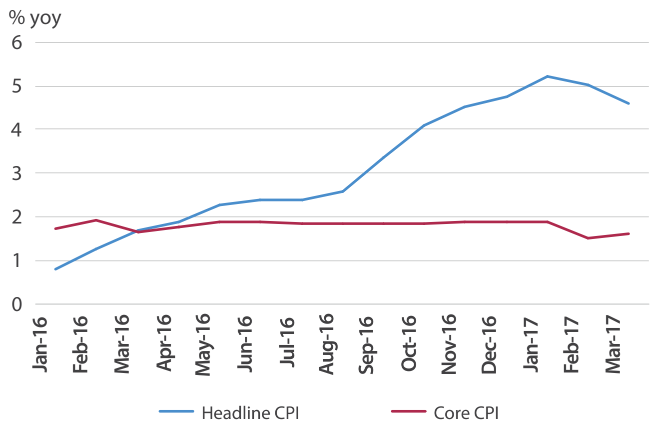
Vietnam: Selected Charts

GDP growth is expected to pick up in subsequent quarters to about 6.4 percent for the whole 2017, following some slowdown in Q1.



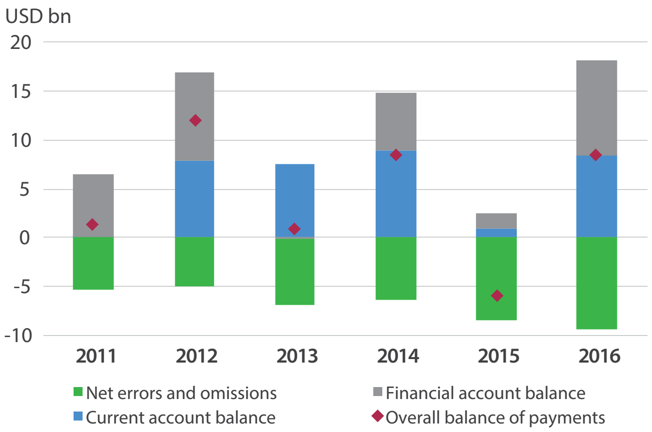
Note: Growth data for the whole year 2017 are AMRO staff projections
Sources: General Statistics Office, CEIC, and AMRO staff calculations

Headline CPI inflation peaked to above 5 percent in January 2017 but has since moderated, while core CPI remains below 2 percent.



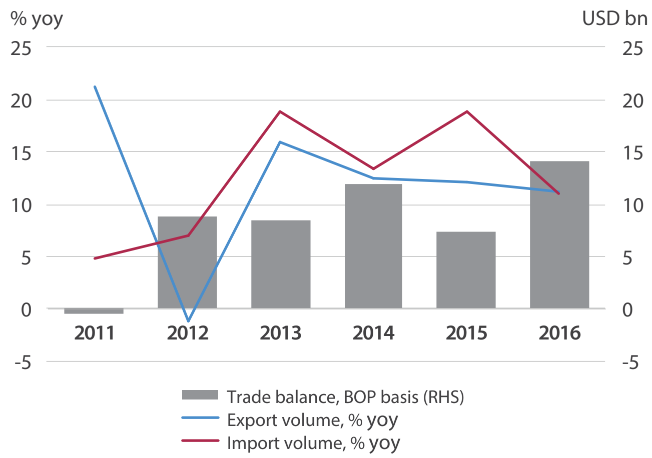
Sources: General Statistics Office, CEIC, and AMRO staff calculations

The overall balance of payments registered a significant surplus in 2016 …



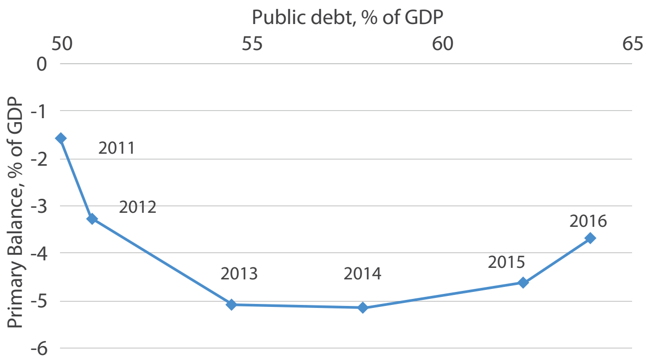
Sources: State Bank of Vietnam (SBV), IMF, and AMRO staff calculations

… as trade balance improved on the back of import growth slowdown.



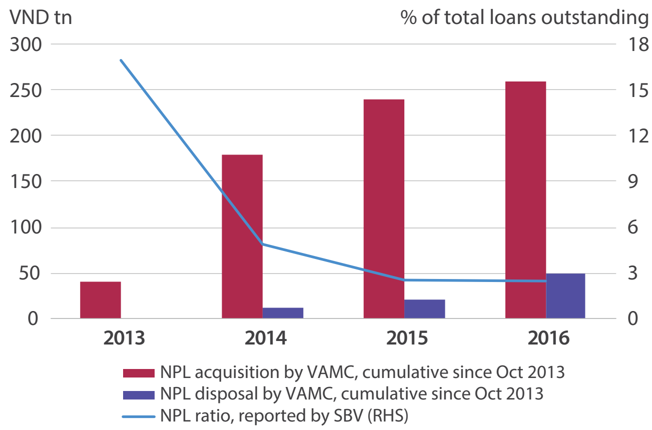
Sources: General Statistics Office, SBV, IMF, and AMRO staff calculations

Despite some fiscal consolidation, fiscal deficit remained sizeable in 2016, giving rise to public debt.



Sources: Ministry of Finance and AMRO staff calculations

The official NPL ratio has been contained below 3 percent, but progress in NPL resolution at the VAMC remains sluggish.



Sources: SBV, VAMC, CEIC, and AMRO staff calculations

Vietnam: Selected Economic Indicators

	2013	2014	2015	2016 Est.
Real Sector and Prices	(in annual percentage change)			
Real GDP	5.4	6.0	6.7	6.2
GDP deflator	4.8	3.7	-0.2	1.1
Consumer price inflation (average)	6.6	4.1	0.6	2.7
Consumer price inflation (end of period)	6.0	1.8	0.6	4.7
External Sector	(in billions of USD, unless specified)			
Trade balance	8.4	11.9	7.4	14.0
Current account balance	7.5	8.9	0.9	8.5
In percent of GDP	4.4	4.8	0.5	4.2
Overall balance	0.6	8.4	-6.0	8.4
Gross international reserves				
In months of imports of goods & services	2.3	2.7	2.0	2.4
Coverage of short-term debt by remaining maturity	2.0	2.3	2.0	2.4
	(in annual percentage change)			
Export volume	15.9	12.5	12.1	11.1
Export unit value (in USD terms)	-0.5	-2.4	-3.8	-1.8
Import volume	18.8	13.3	18.8	11.1
Import unit value (in USD terms)	-2.4	-1.1	-5.8	-5.3
Terms of trade	-0.1	0.6	2.1	2.7
Fiscal Sector (General Government)	(in percent of GDP)			
Revenue and grants	23.1	22.3	23.8	23.1
Expenditure	29.9	29.2	30.4	28.9
Expense	21.2	20.1	20.9	21.7
Net acquisition of non-financial assets	8.7	9.1	9.5	7.2
Net lending/borrowing	-6.8	-6.9	-6.6	-5.8
Primary net lending/borrowing	-5.1	-5.1	-4.6	-3.7
Monetary and Financial Sector	(in annual percentage change)			
Domestic credit	13.9	15.4	20.2	17.7
General government	25.1	29.6	29.9	14.5
Other	12.7	13.8	17.0	18.2
Broad money	21.4	19.7	13.6	19.8
Reserve money	6.1	18.7	19.3	13.2
Memorandum Items				
Exchange rate (VND/USD, period average)	20,933	21,148	21,698	21,935
Exchange rate (VND/USD, end of period)	21,036	21,246	21,890	22,159
Nominal GDP (in USD billion)	171.2	186.2	193.2	205.3
Nominal GDP (in VND trillion)	3,584	3,938	4,193	4,503

Notes:
1) Monetary sector (except domestic credit to other sectors rather than the government in the economy) data for 2016 are AMRO estimates.
2) General government data are calculated by AMRO staff using Ministry of Finance of Vietnam's final account data for 2013-2014 and estimate data for 2015-2016.
Sources: National authorities, IMF, World Bank, CEIC and AMRO staff calculations