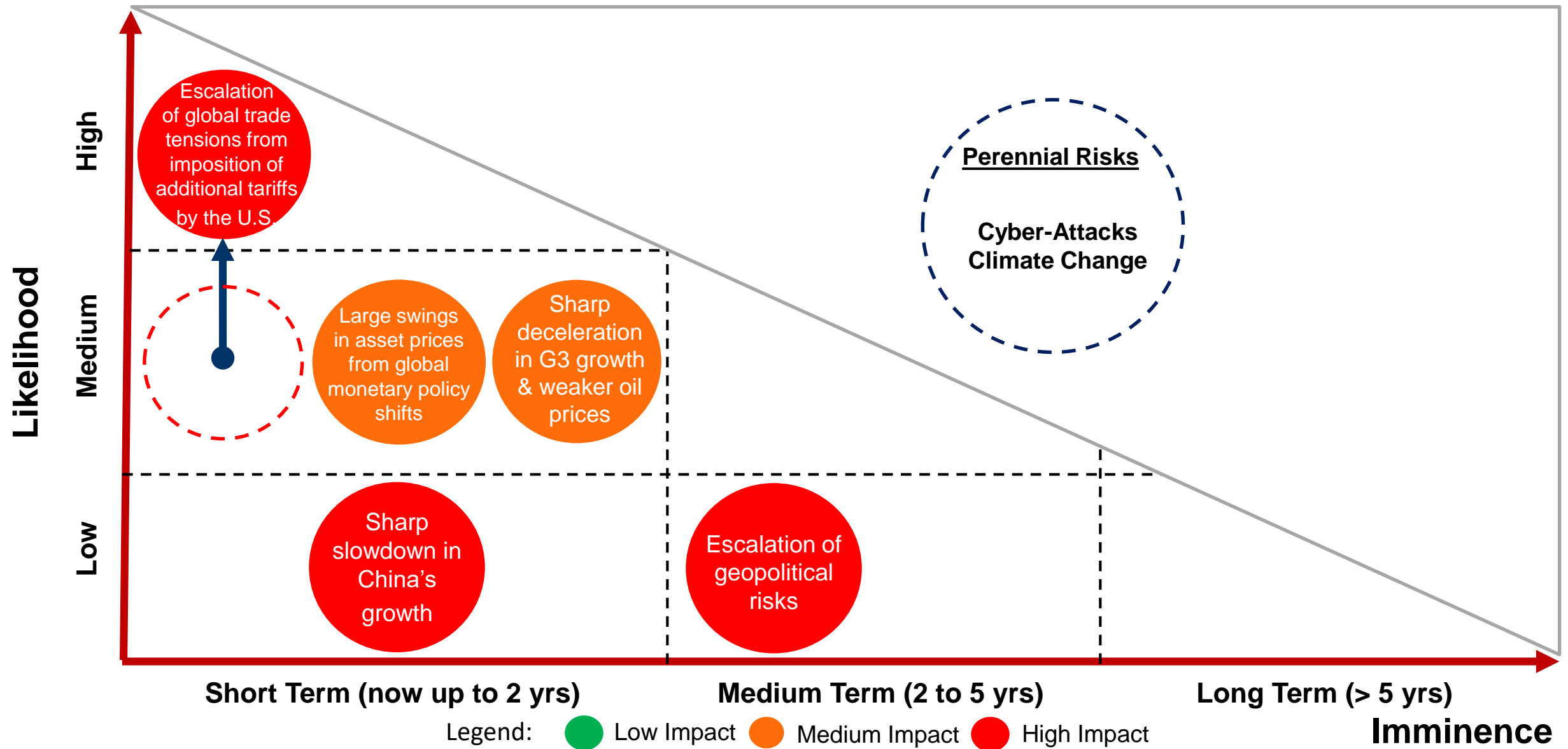


# ASEAN+3 Regional Economic Outlook 2019: Building Capacity and Connectivity for the New Economy

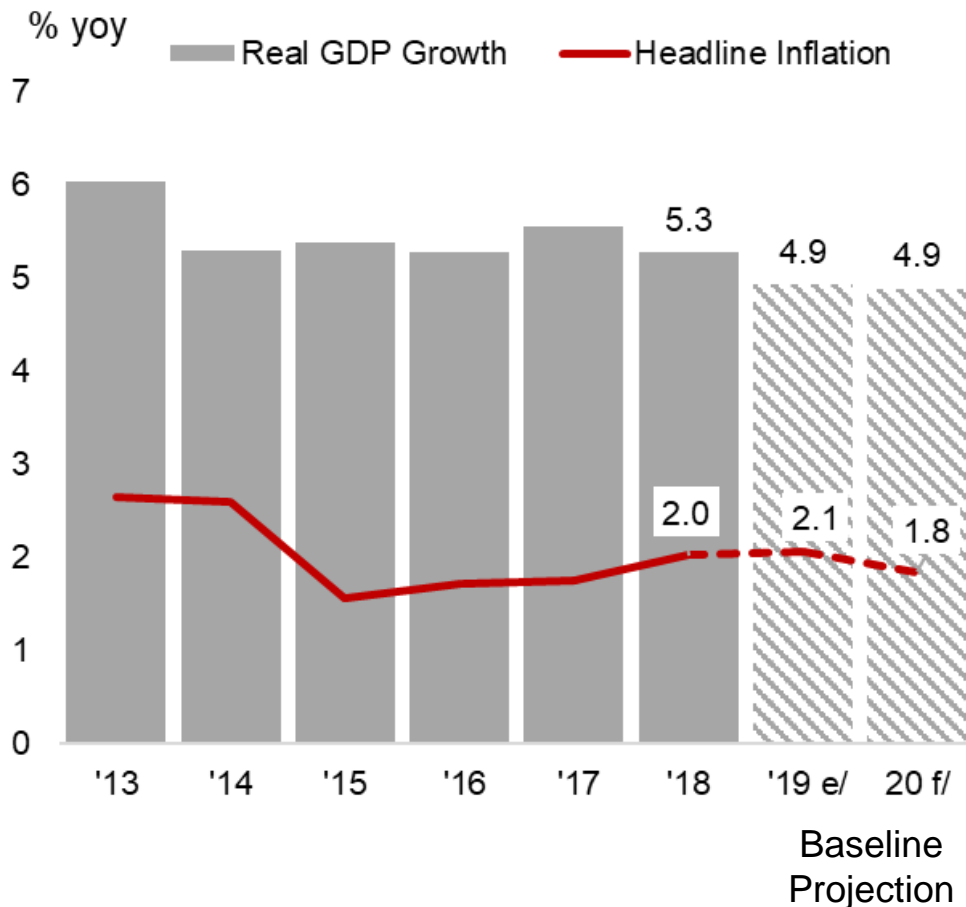
19 June 2019  
Manila, Philippines

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




- 1 | Near Term Macroeconomic Prospects & Challenges**
- 2 | Longer Term Structural Shifts:  
Building Capacity and Connectivity for the New Economy**






**Regional growth in 2019-20 is expected to moderate slightly, below 5%, taking into account the re-escalation of global trade tensions and earlier policy support**



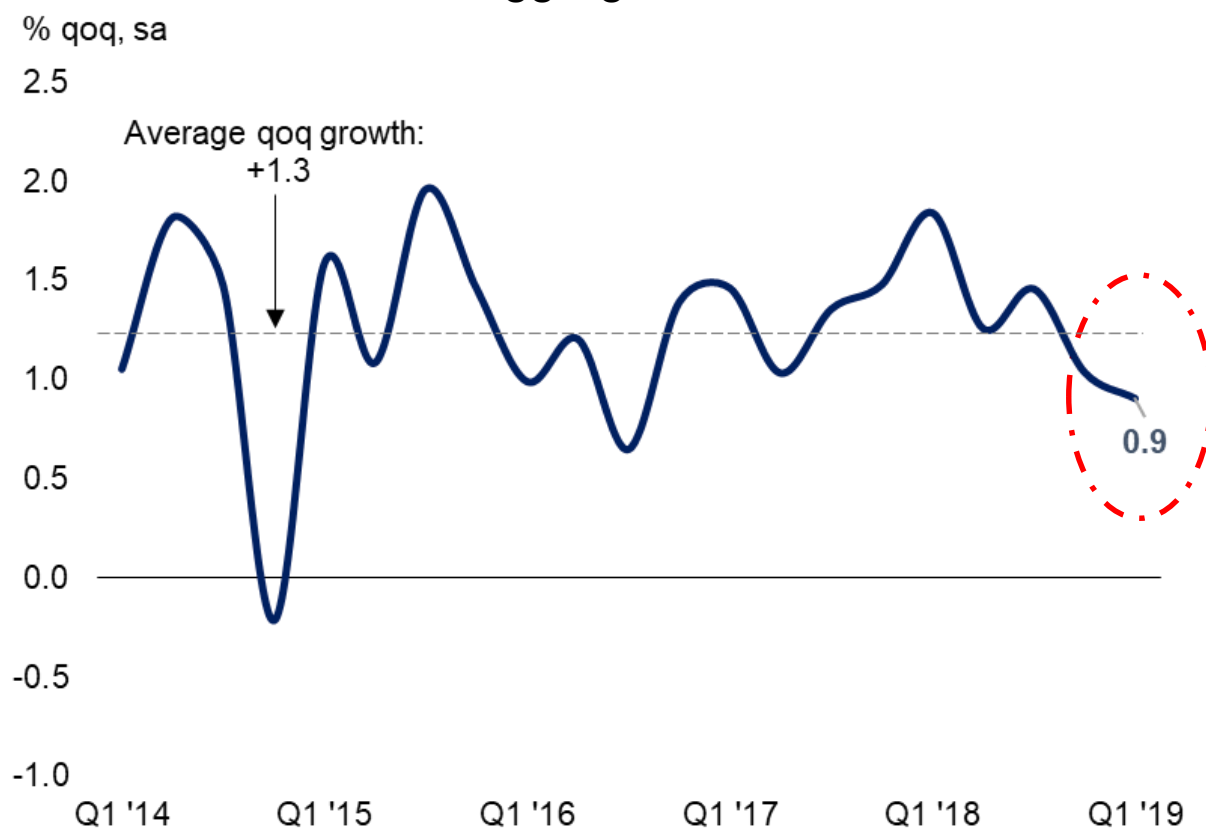
AMRO's Revised Baseline Growth Estimates for 2019-20 (Jun '19)

Real GDP Growth (% y/y)	'18	'19 e/	'20 p/	Average '19 – '20
		Jun '19		Adverse Trade Scenario (Prelim)
China	6.6	6.2 	6.1 	5.9
Japan (FY)	0.6	0.5 	0.5 	0.4
Korea	2.7	2.4 	2.4 	2.1
ASEAN-4 & VN	5.1	5.0 	5.0 	4.9
BCLM	6.7	6.8 	6.9 	6.9
HK & SG	3.1	1.7 	2.0 	1.3
<b>ASEAN+3</b>	<b>5.3</b>	<b>4.9</b> 	<b>4.9</b> 	<b>4.7</b>

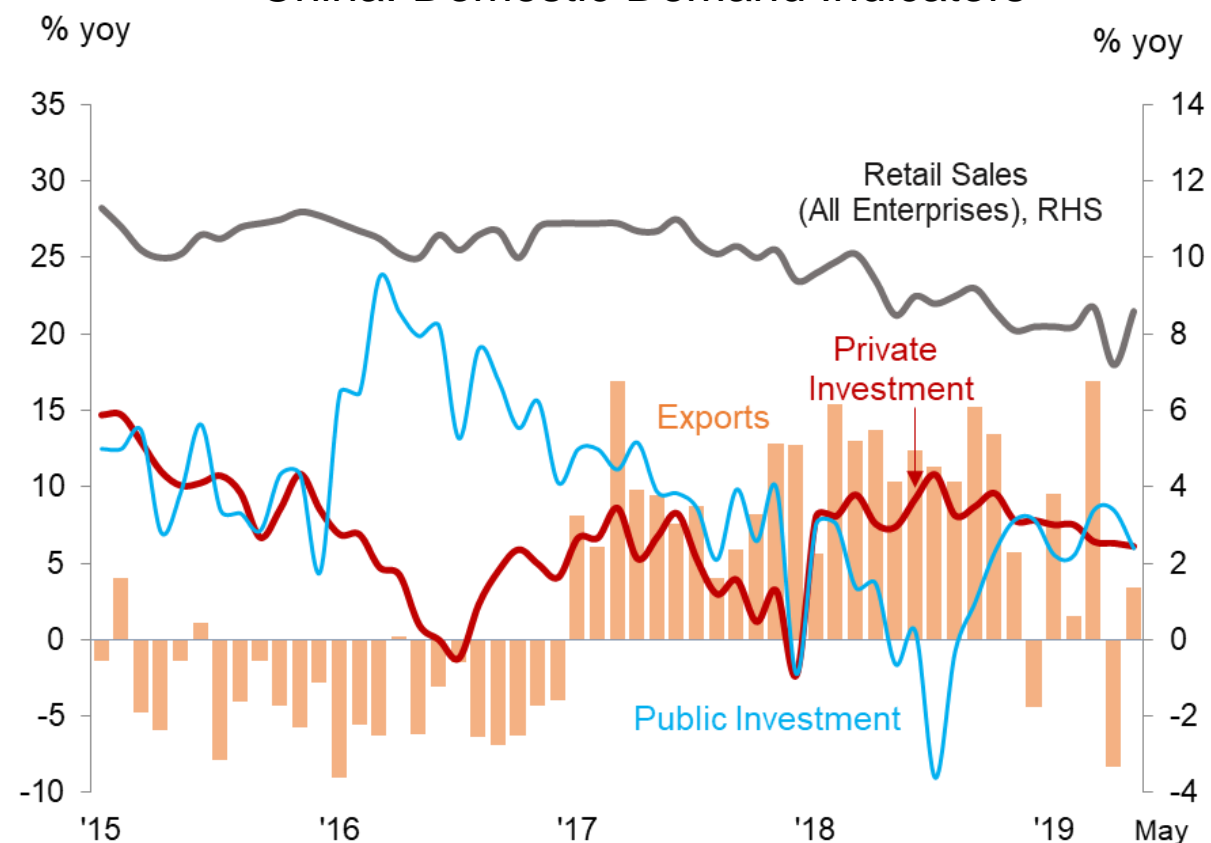
Legend:  Upward revision from AREO 2019 (May)  
 Downward revision from AREO 2019 (May)  
 No change from AREO 2019 (May)

**Domestic demand in the region has moderated in Q1 2019, after a robust growth in early 2018. In China, recent indicators in April-May suggest a somewhat mix outlook**

ASEAN-4 and Korea: Aggregate Final Domestic Demand



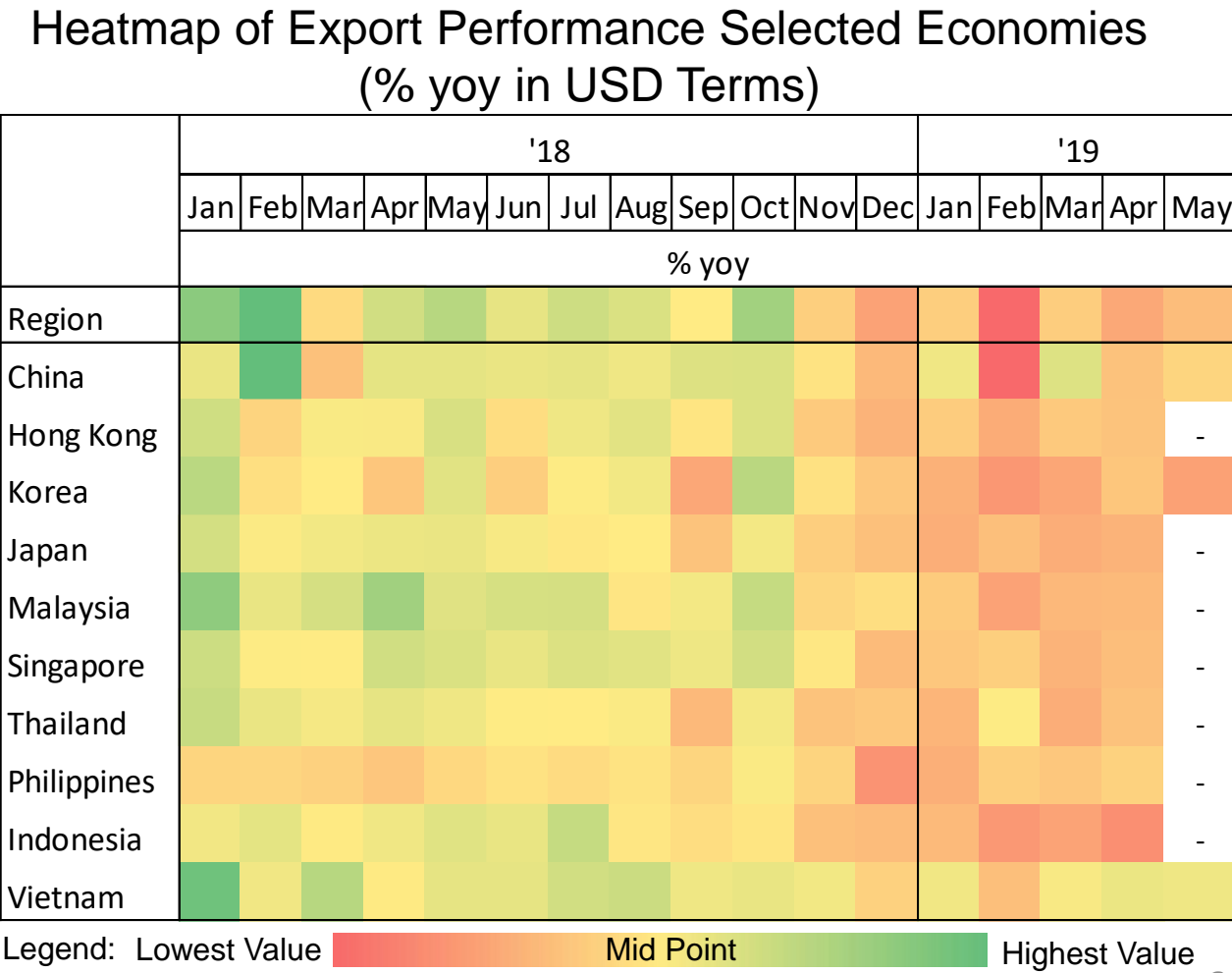
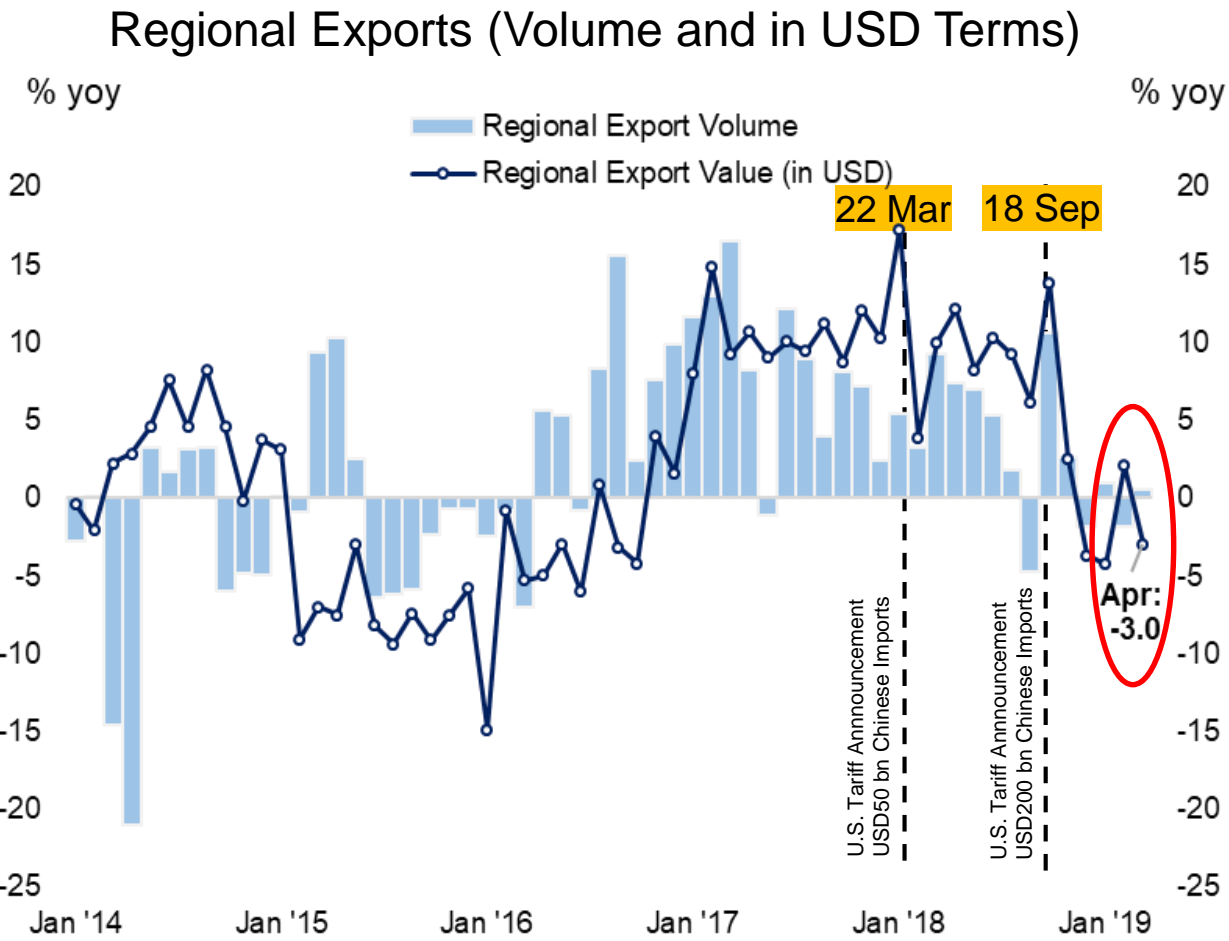
China: Domestic Demand Indicators



Source: National Authorities, AMRO

Note: Final domestic demand excludes changes in inventories

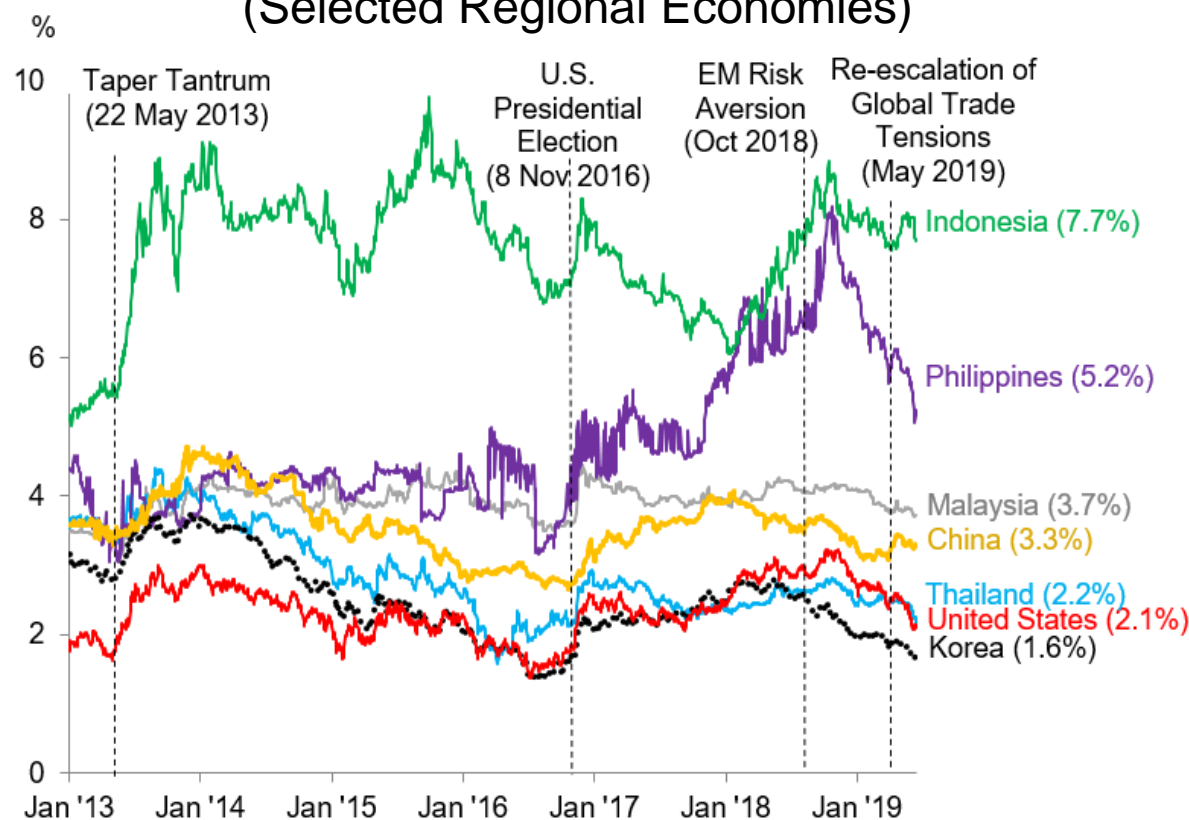
# Regional exports contracted in Q1 2019, with latest April-May data indicating further weakness



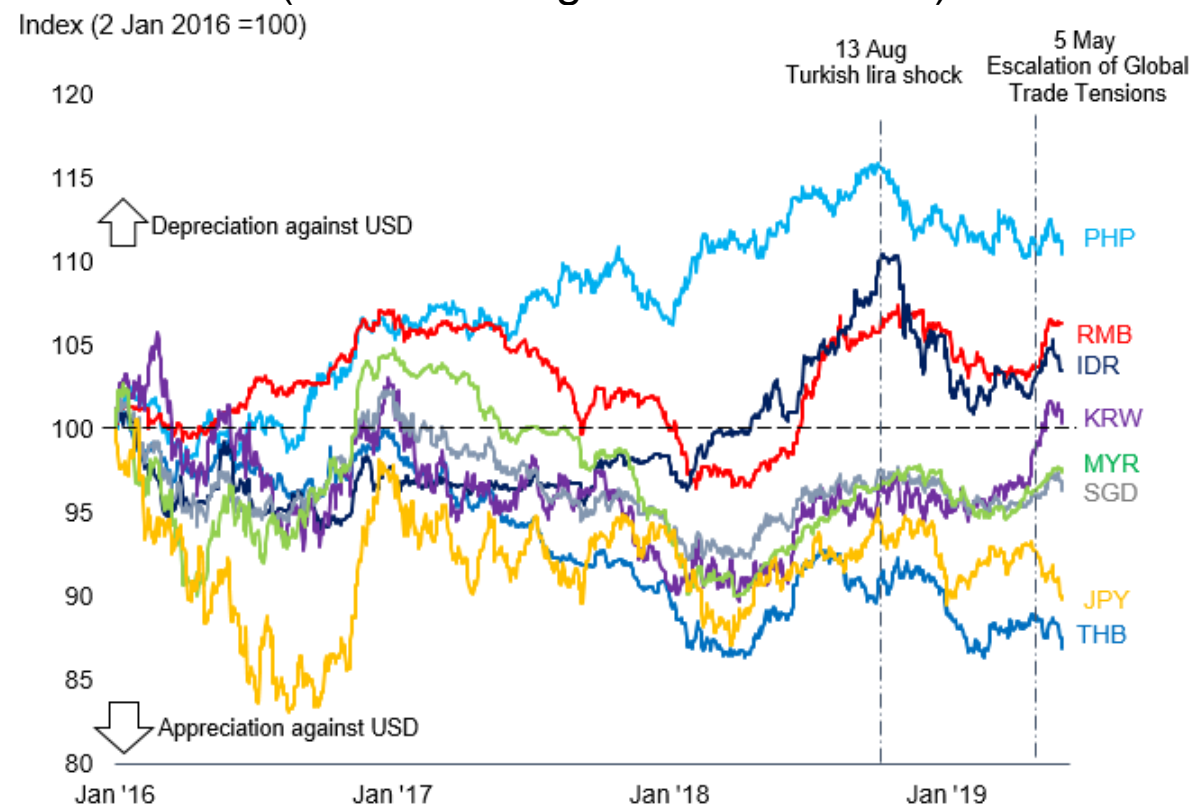
Source: National authorities, Haver Analytics

**Borrowing costs have largely declined post May 5, as major global central banks signalled more easing ahead. The KRW has weakened the most amongst regional EM peers**

10Y Sovereign Yields  
(Selected Regional Economies)



FX Performance  
(Selected Regional Economies)



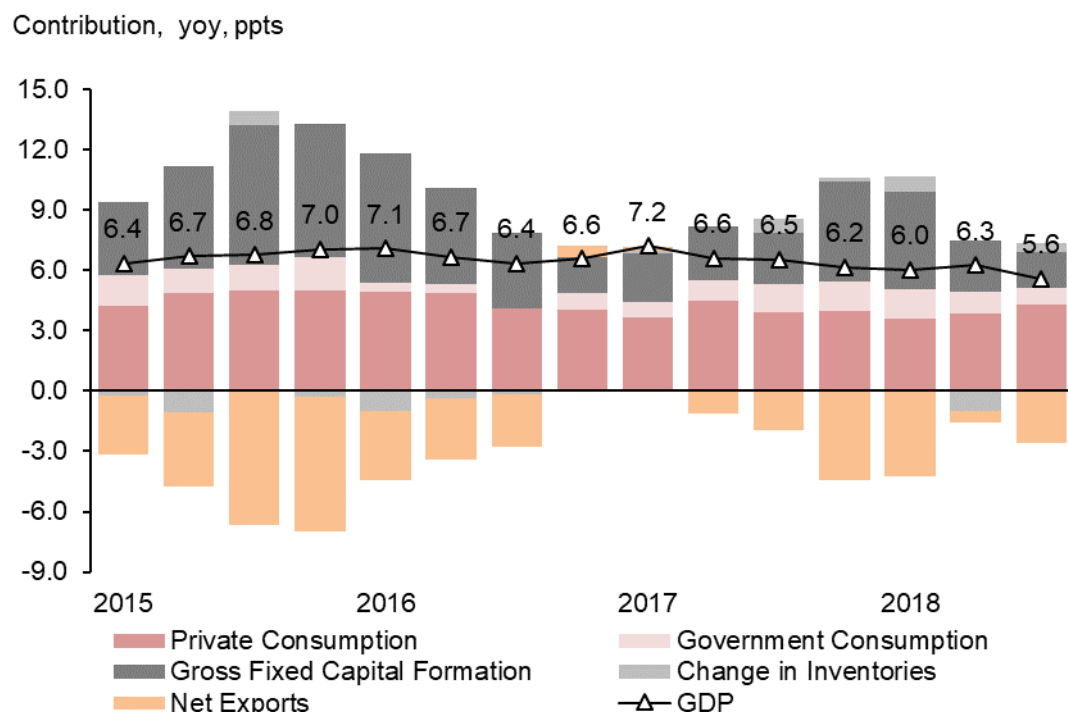
Source: National authorities, AMRO

Notes: Data as of 14 June 2019

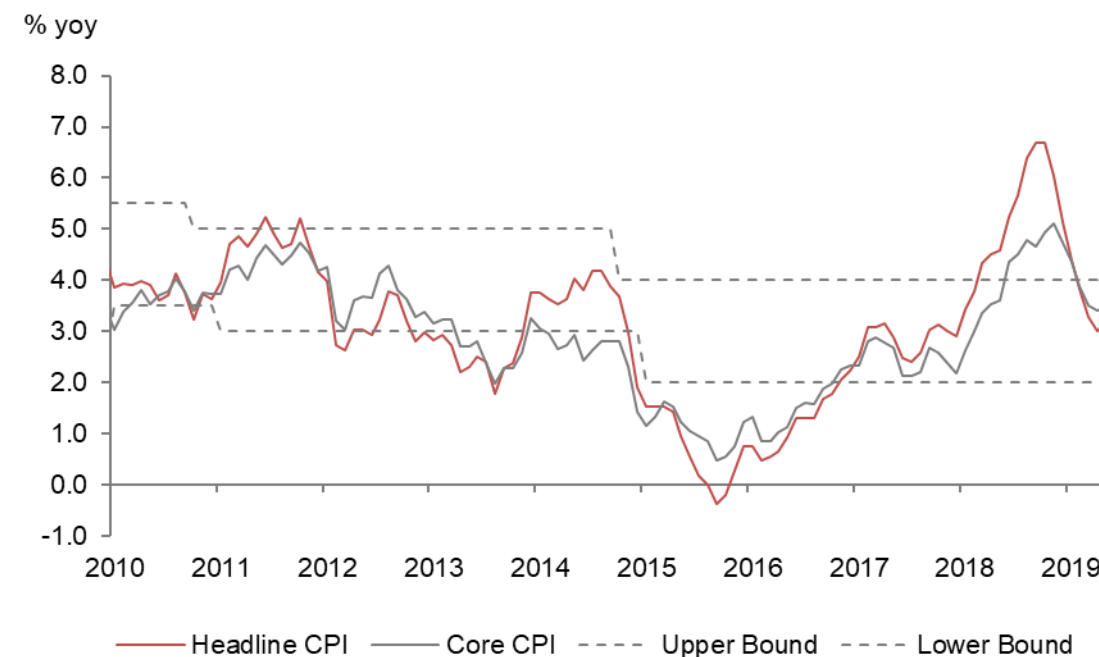
**Economic growth slowed down sharply in Q1 2019 and is expected to gradually recover to 6.3% for 2019 and to grow further to 6.5% for 2020.**

**Inflation has decelerated to around the middle of the target range and is likely to remain in the range for 2019-20**

GDP Growth and Contributions (Quarterly)



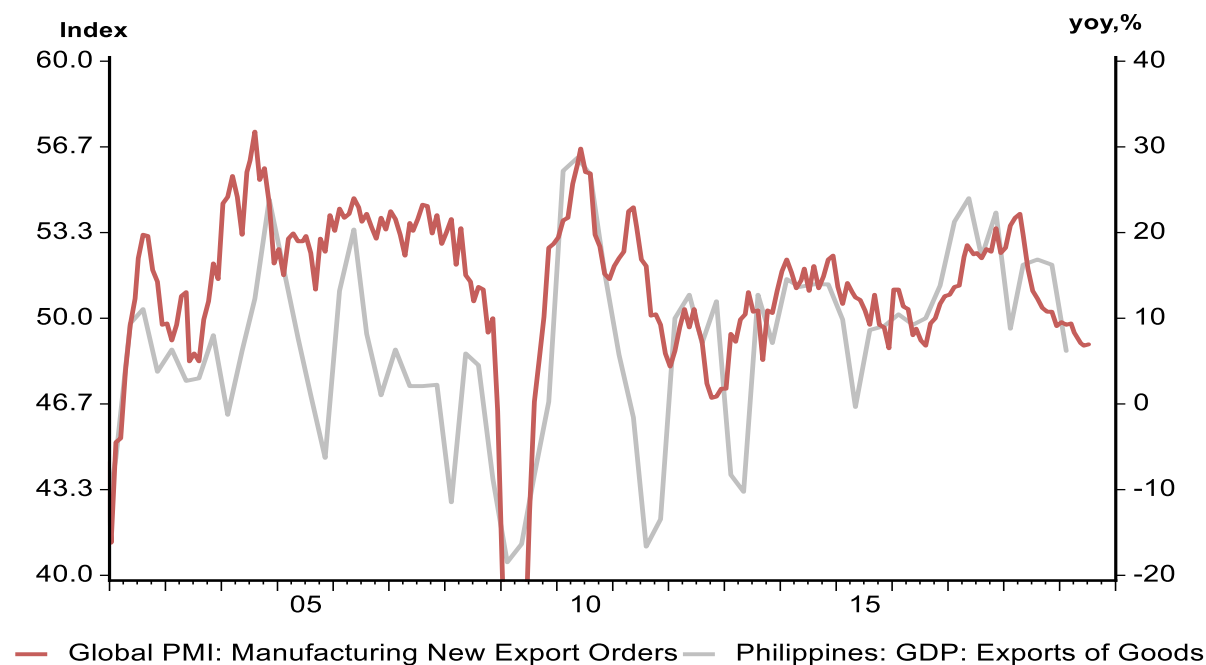
Headline and Core Inflation



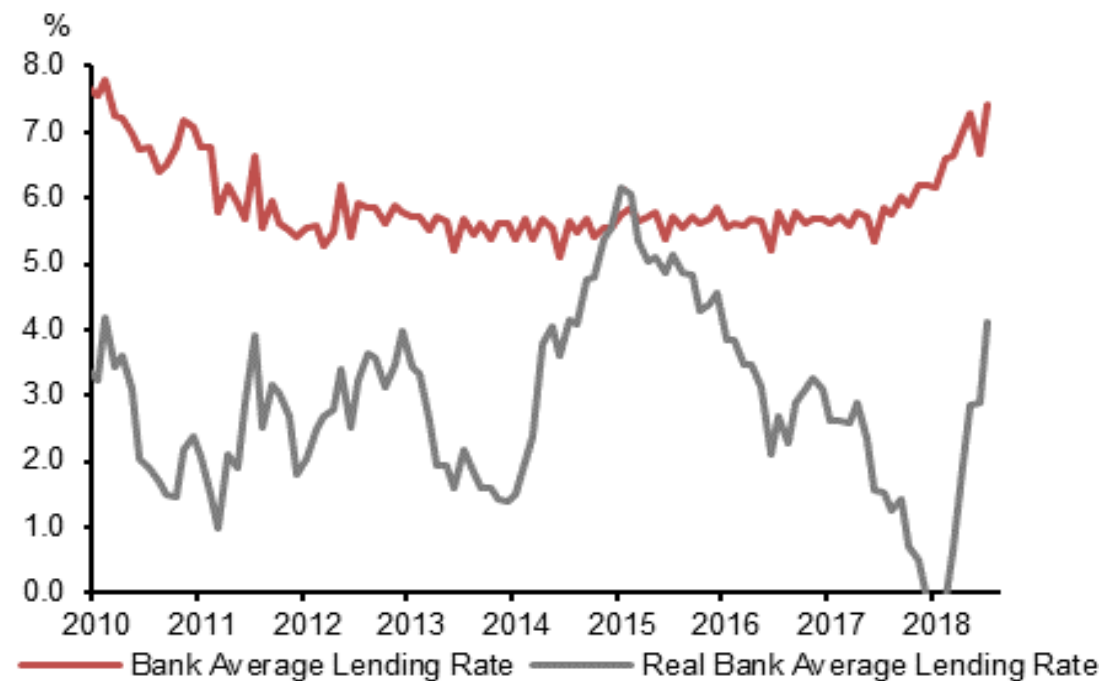


**As growth headwinds is on the rise, the policy emphasis can be oriented more toward supporting growth**

Global Exports Orders and Philippines Exports Growth



Nominal and Real Bank Lending Rate



# Policy mix is broadly appropriate with some recalibration to support growth

### Suggested Policy Mix

#### Monetary

- Some room to ease policy given benign inflation
- For economies with external vulnerabilities, to hold current policy settings

#### Fiscal

- Maintain supportive policy to sustain growth
- Reprioritizing spending, where fiscal rule is binding

#### Macroprudential

- Maintain current tight policy to guard against build up of financial imbalances

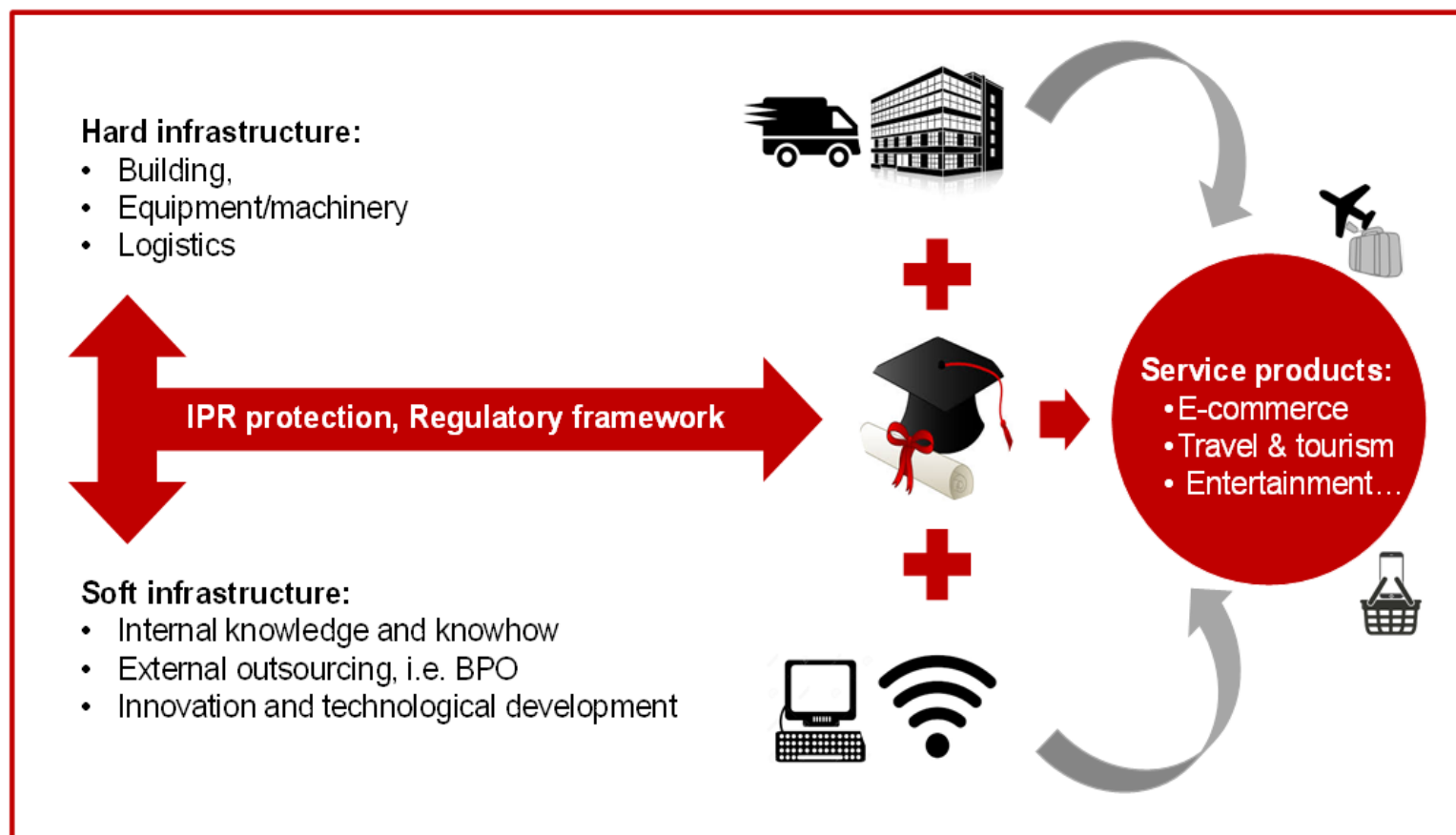
#### Structural

- Building capacity and connectivity to foster future growth potential and resilience

- 1 | Near Term Macroeconomic Prospects & Challenges
- 2 | **Longer Term Structural Shifts:  
Building Capacity and Connectivity for the New Economy**

# 1 Technology (e.g. 4IR) – A growth enabler for services/new economy

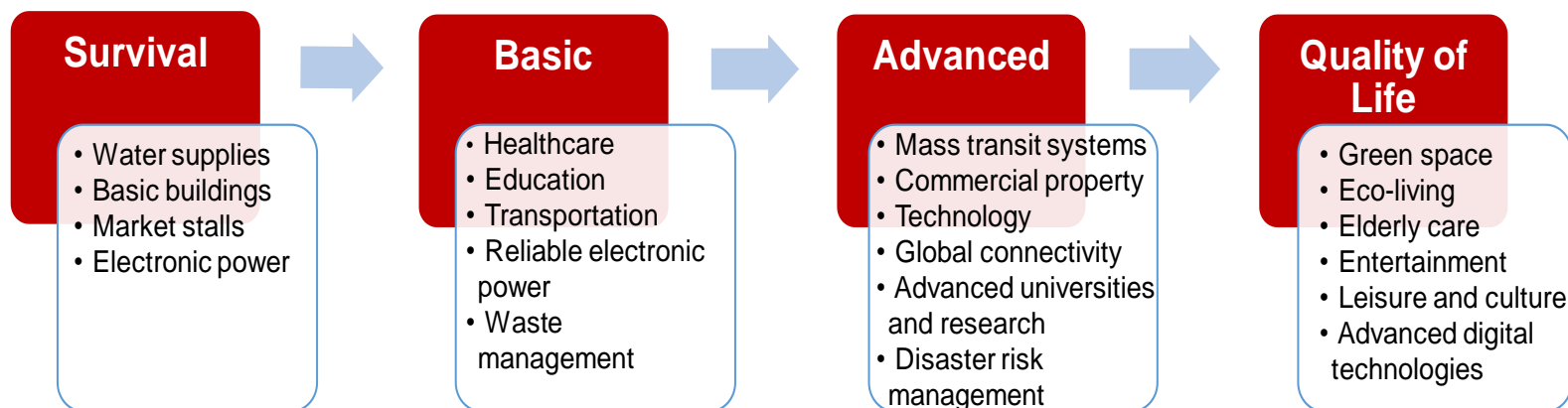
## Services Value Chains in the New Economy: Stylized Representation



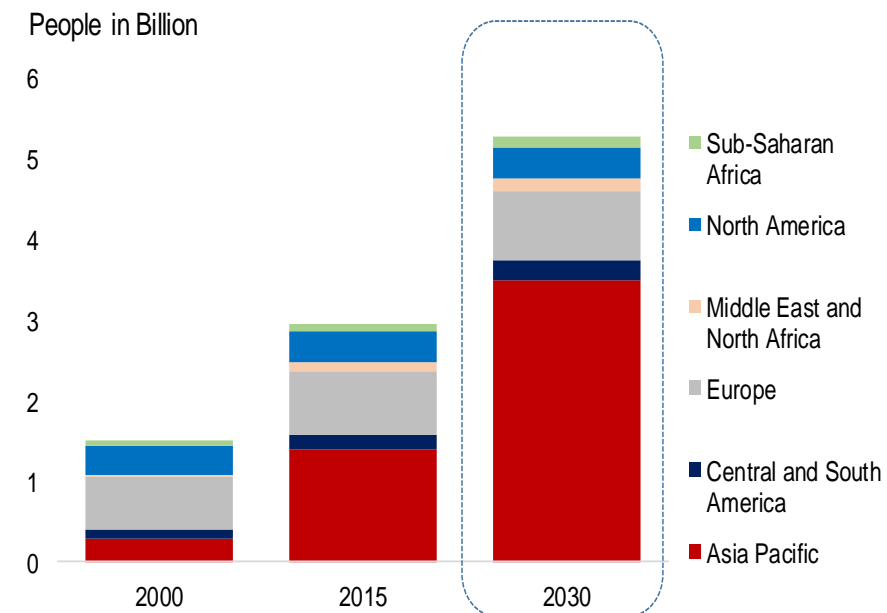
## 2

## Maturing population & rising middle class – Driving new demand

### Infrastructure Needs for Demographic Shifts Alongside Economic Development



### Global Middle Class Population

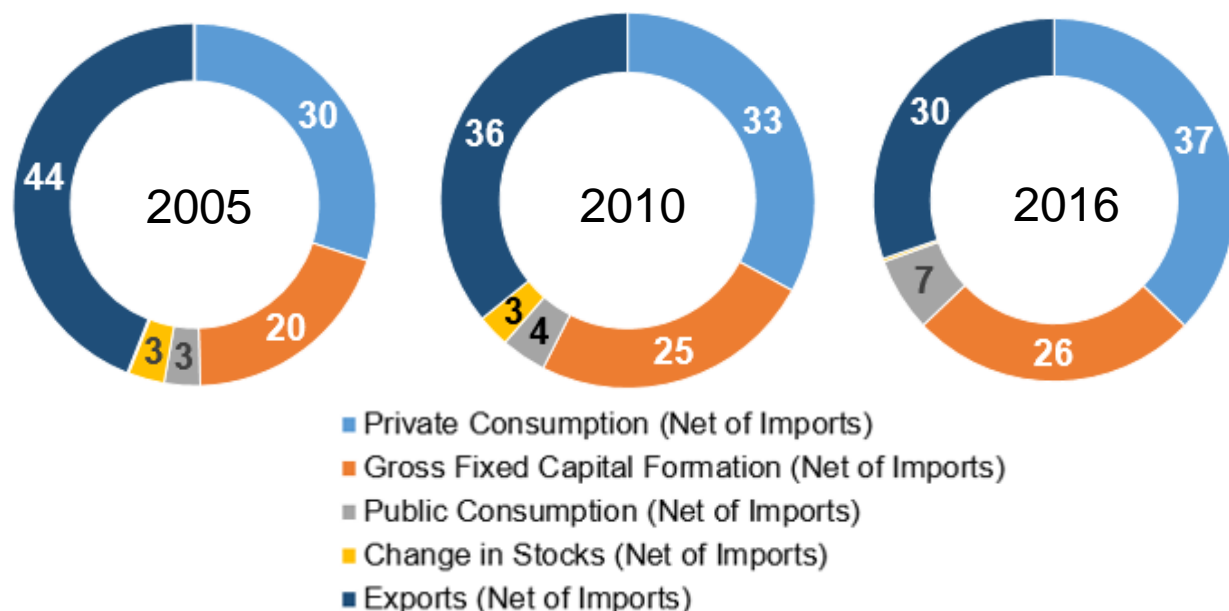


2

## Growth rebalancing & regional integration – Driving regional demand

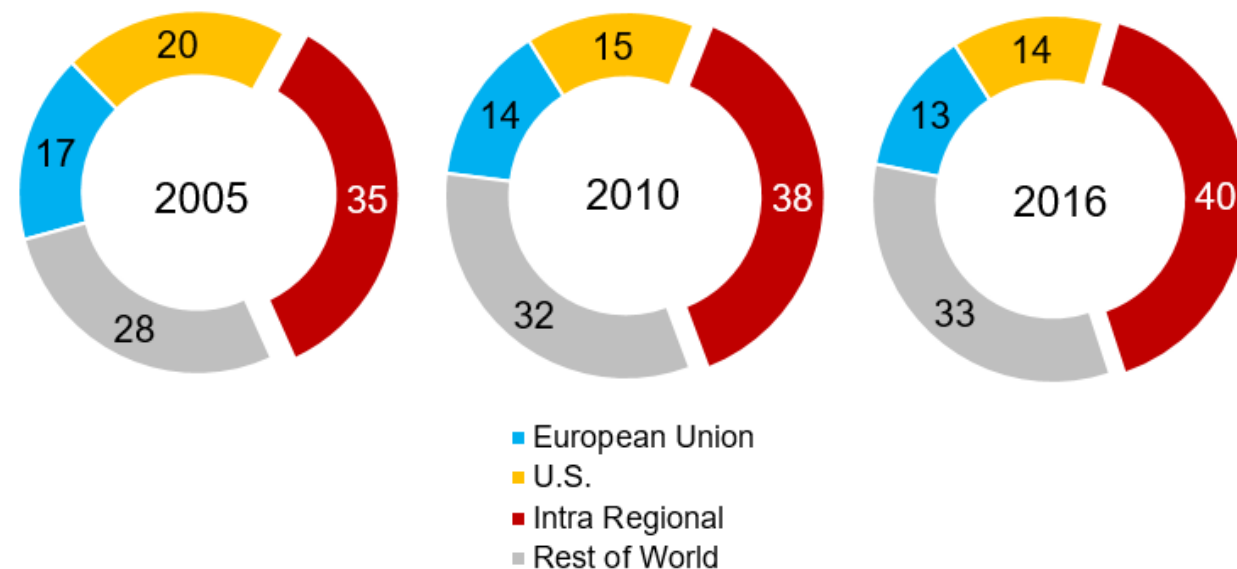
ASEAN-4 and Vietnam

(Share of Real GDP by Expenditure, Import-Adjusted Method)



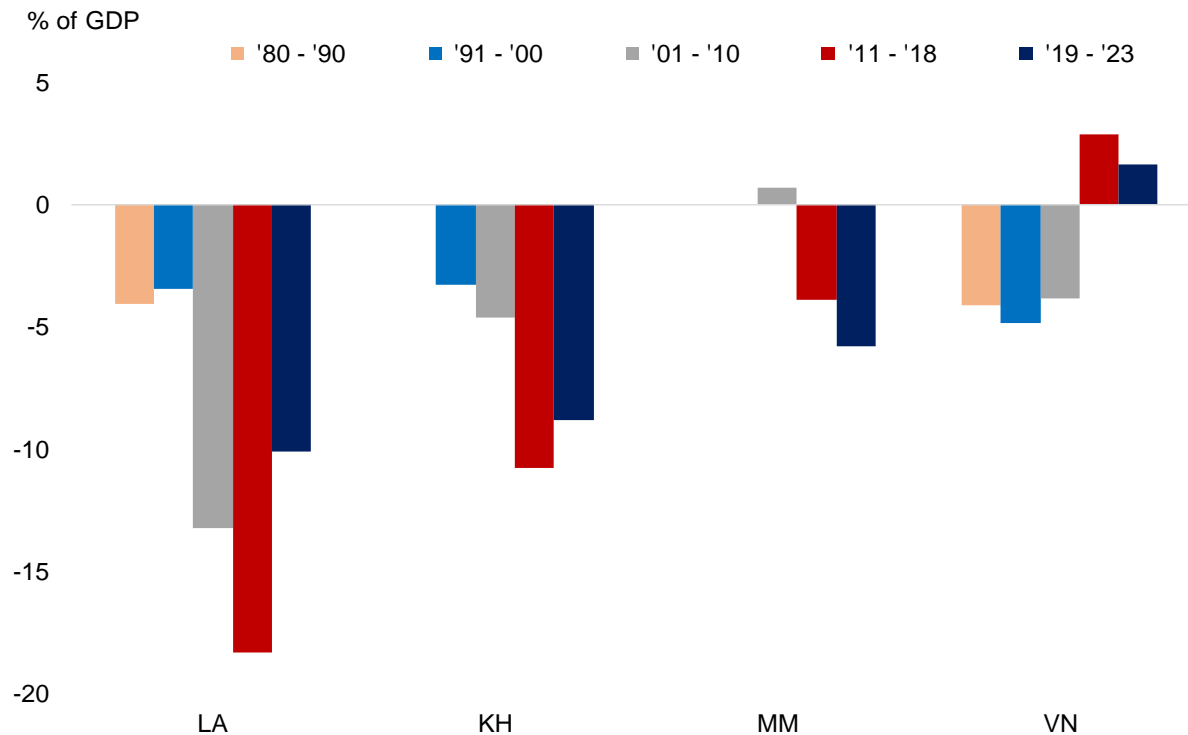
ASEAN's Value-Added Exports

(% Share, by Major Destinations)

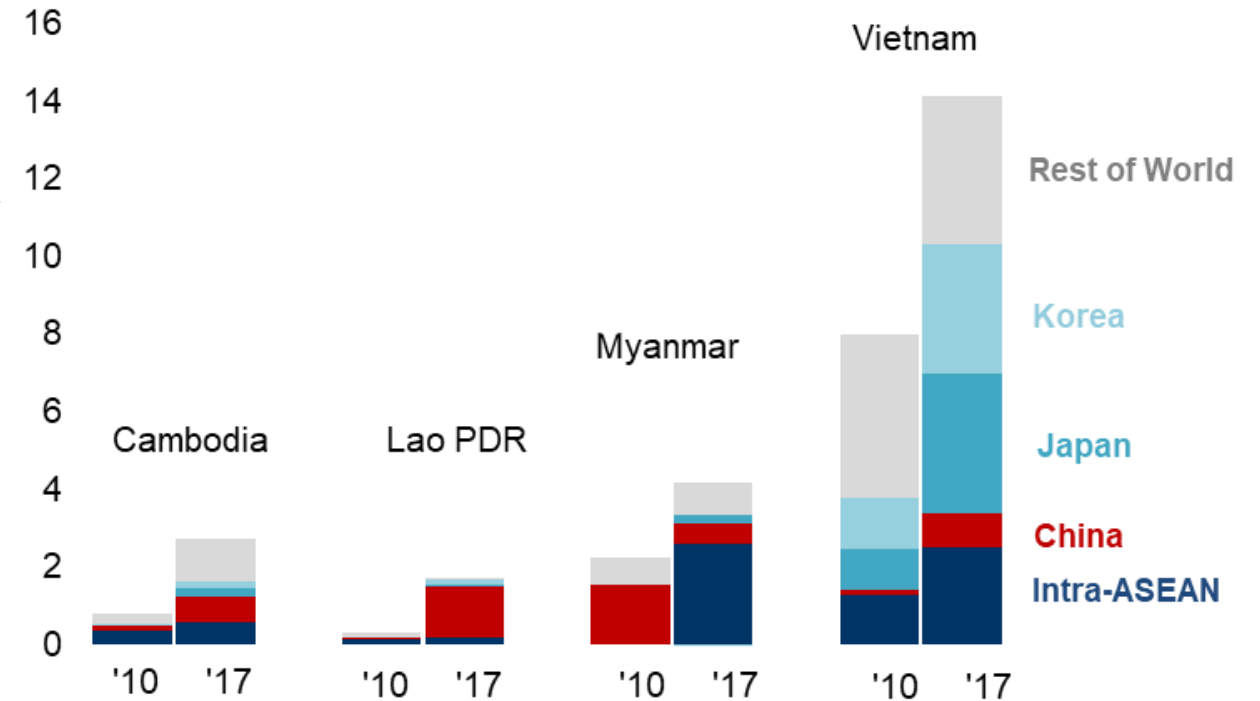


## Funding Gap in CLMV countries – Low savings rate, but high investment needs

Current Account Balance:  
CLMV Economies

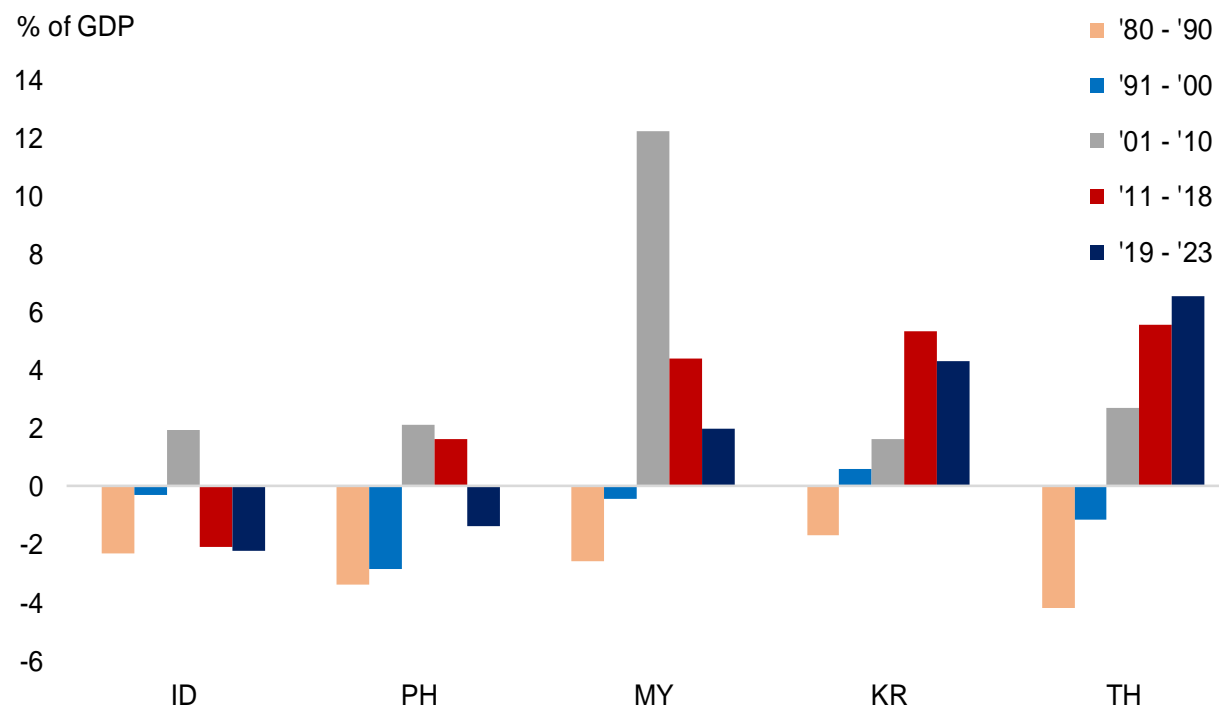


Inward FDI Flows into CLMV Economies  
by Source Countries

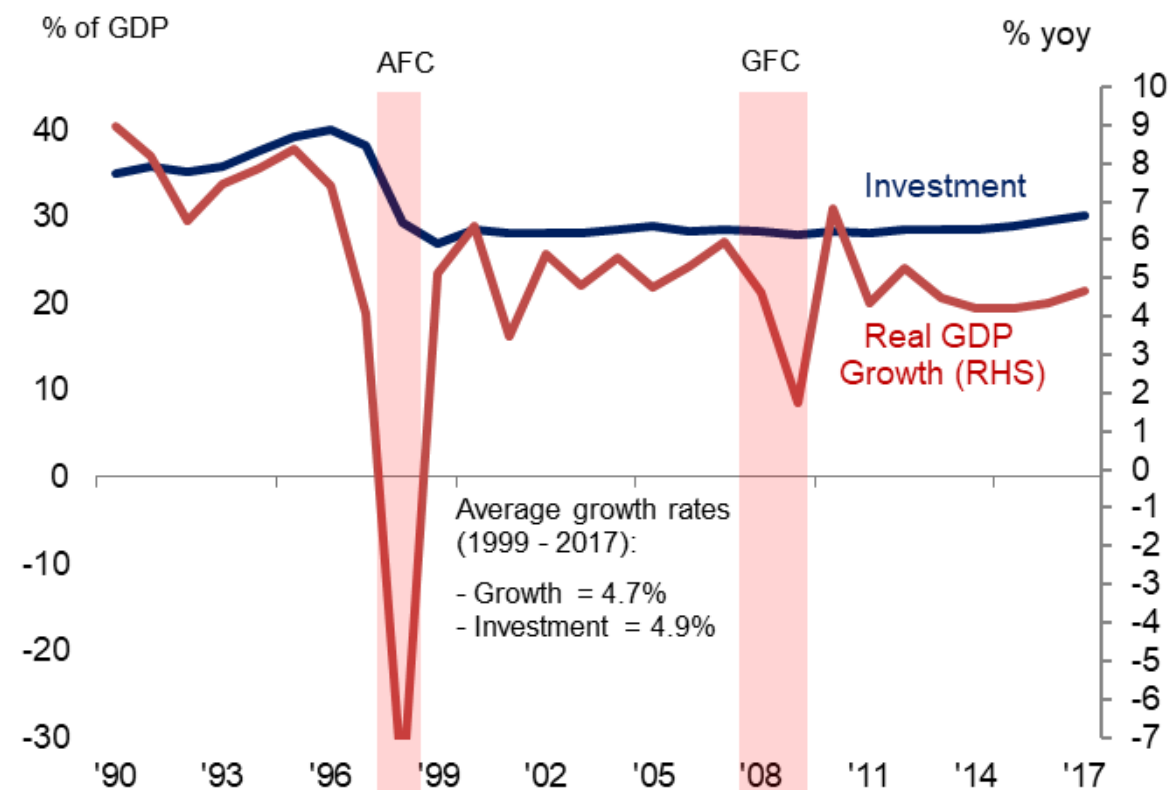


## FX Gap in ASEAN-4 & Korea – Needed to save more, holding down investment

ASEAN-4 and Korea:  
Current Account Balance



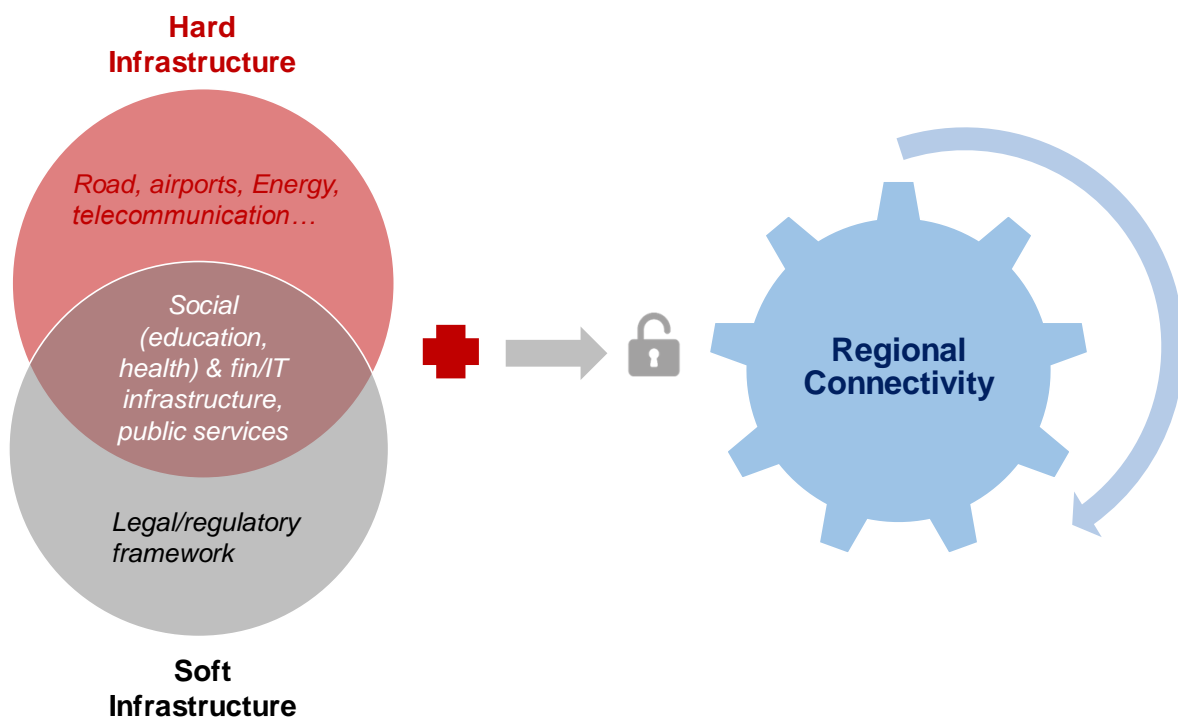
ASEAN-4 and Korea:  
Investment and Overall Real GDP Growth





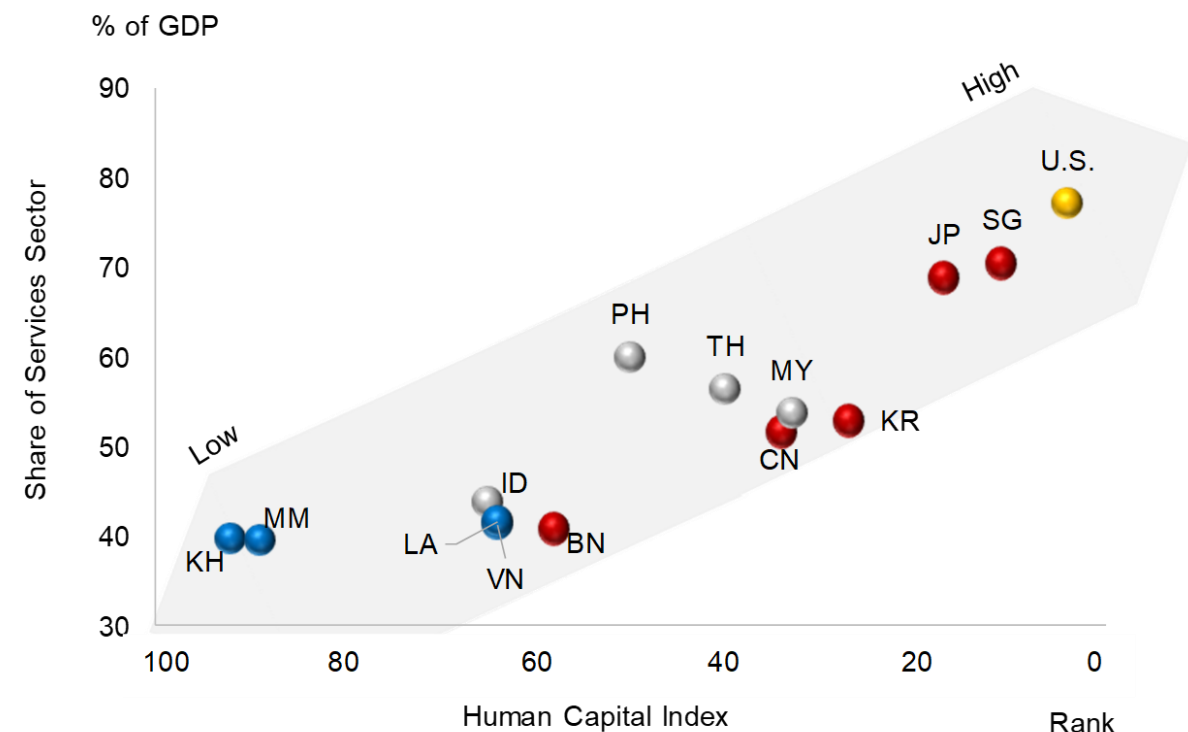
**Hard infrastructure is indispensable for development, but soft infrastructure – including cross-country connectivity – is also key for unleashing the region’s growth potential and facilitating its transition to the “new economy”**

Hard and Soft Infrastructure and Regional Connectivity



Source: AMRO staff.

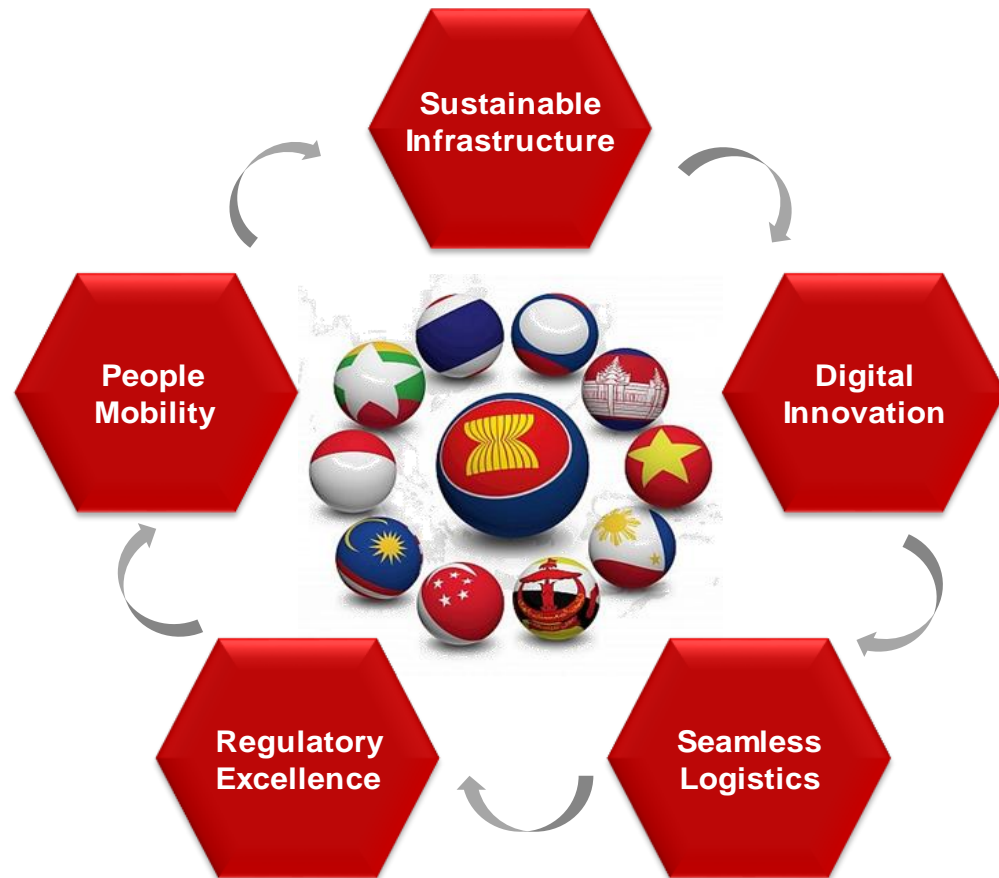
Human Capital and Services Sector Development, 2017



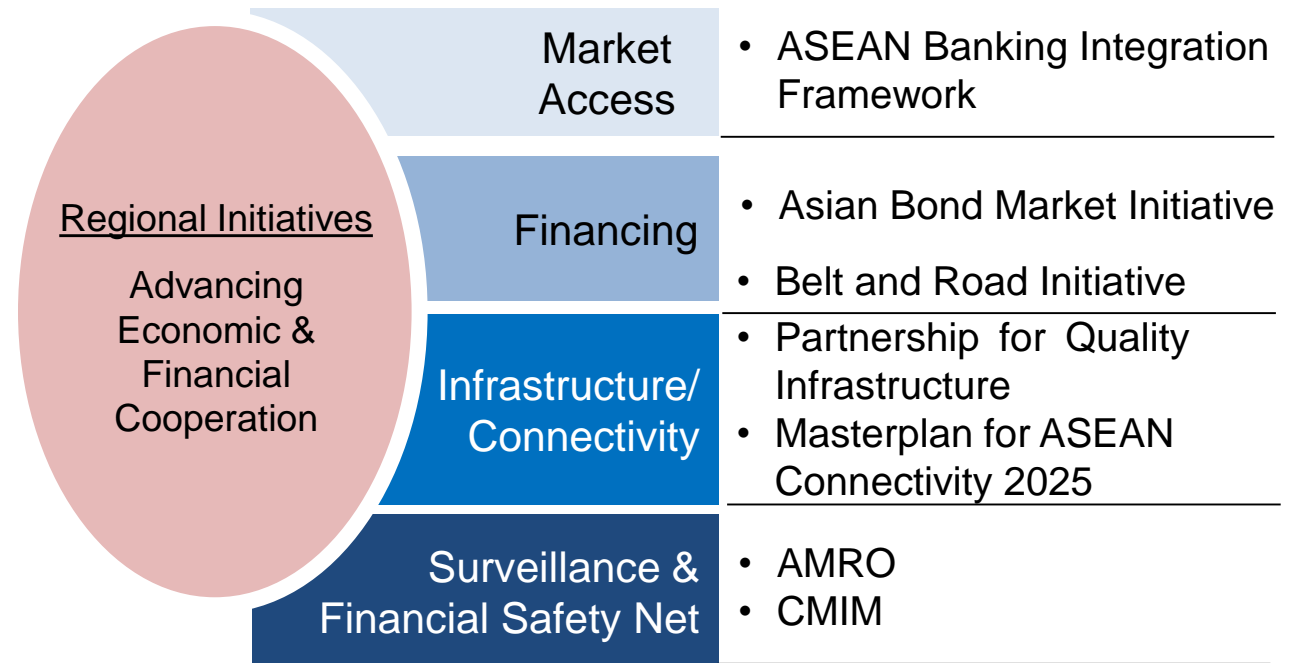
Source: World Economic Forum.

## While leveraging on regional initiatives

ASEAN: Master Plan for ASEAN Connectivity

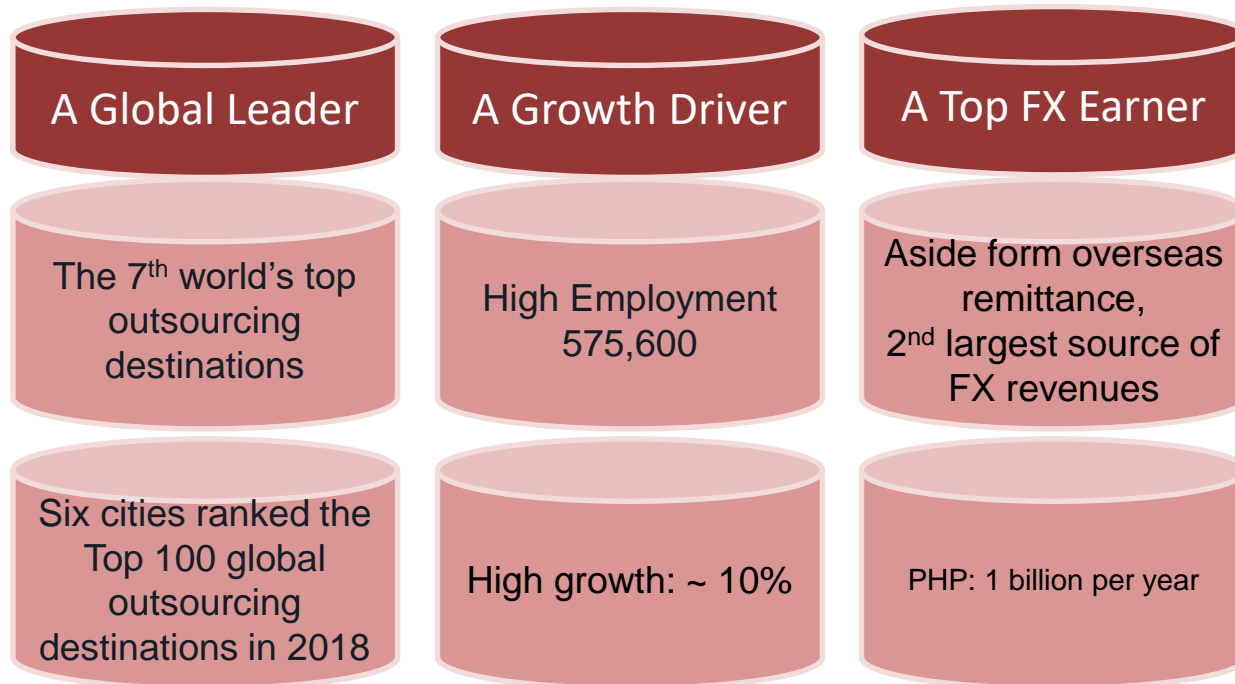


ASEAN+3: Regional Economic and Financial Cooperation

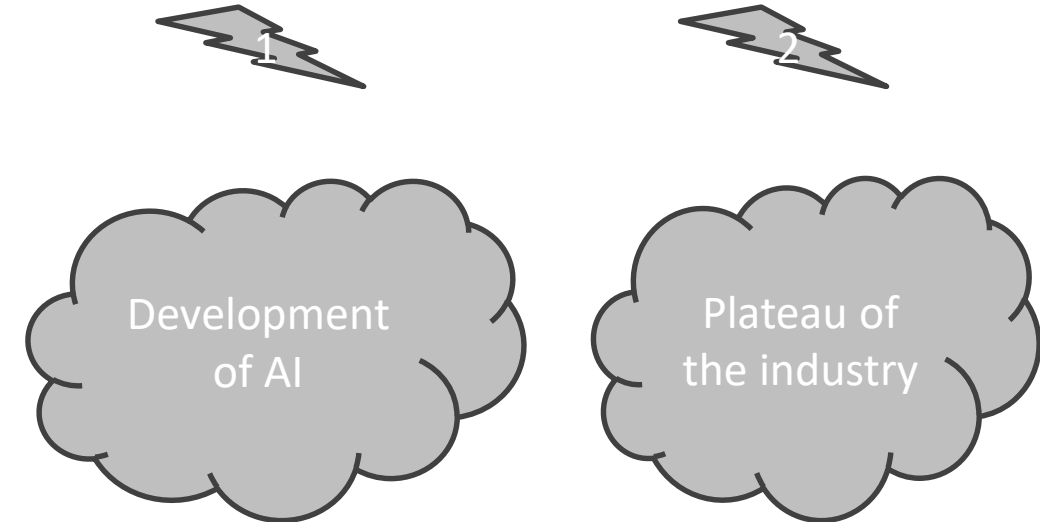


- Better positioned for the New Economy, nonetheless challenges remains

## State of BPO Industry in the Philippines



## Key Challenges to the BPO Industry



The government's "Build, Build, Build" Program will help the economy to adjust to the challenges

Promoting infrastructure investments will support:

Transport Infrastructure



Tourism Development



Agriculture Development



Social Infrastructure Program



*\*Medium-Term Infrastructure Investment includes NG infrastructure, and transfers to LGUs and support to GOCCs intended for infrastructure programs/projects. Consistent with the macroeconomic assumptions and fiscal targets approved during the 175<sup>th</sup> DBCC meeting on March 13, 2019.*

# Thank You

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