WORLD BANK **EAST ASIA AND PACIFIC ECONOMIC UPDATE** 2012, VOLUME 2

Remaining Resilient

THE WORLD BANK

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THE WORLD BANK
Washington, D.C.

1818 H Street NW
Washington DC 20433
Telephone: 202-473-1000
Internet: www.worldbank.org

1 2 3 4 13 12 11 10

ISSN: 2079-5874

Key title: World Bank East Asia and Pacific Economic Update … (Print)

Abbreviated key title: World Bank East Asia Pac. Econ. Update (Print)

Cover photo: The World Bank Photo Collection

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ABBREVIATIONS

ADB	Asian Development Bank
ASEAN	Association of Southeast Asian Nations
ASEAN-4	ASEAN members Indonesia, Malaysia, Philippines and Thailand
ASEAN-5	ASEAN members Indonesia, Malaysia, Philippines, Thailand and Vietnam
BIS	Bank for International Settlements
BNM	Bank Negara Malaysia
BOJ	Bank of Japan
BOP	Balance of payments
CEIC	CEIC Data Company Ltd.
CPI	Consumer price index
DECPG	Development Economics Prospects Group, of the World Bank
DSA	Debt Sustainability Analysis
ECB	European Central Bank
EAP	East Asia and Pacific Region, World Bank classification
e.g.	For example
ETFs	Exchange traded funds
EU	European Union
FAI	Fixed asset investment
FASBI	Bank of Indonesia deposit facility
EPFR GLOBAL	Emerging Portfolio Funds Research
FDI	Foreign direct investment
F$	Fiji dollar
FY	Fiscal year
GDP	Gross development product
IMF	International Monetary Fund
IDR	Indonesian rupiah
LIBOR	London inter-bank offer rate
MSCI	Morgan Stanley Capital International
NBER	National Bureau of Economic Research
NEET	Not in education, employment or training
NIEs	Newly-industrialized economies
NPLs	Non-performing loans
OECD	Organization for Economic Cooperation and Development
OPR	Overnight policy rate
PMI	Purchasing managers index
PGK	Papua New Guinea kina
PPP	Purchasing power parity
QE1	Quantitative easing by the U.S. Federal Reserve, round 1
QE2	Quantitative easing by the U.S. Federal Reserve, round 2
QE3	Quantitative easing by the U.S. Federal Reserve, round 3
qoq	Quarter-on-quarter
saar	Seasonally-adjusted annual rate
SBD	Solomon Islands dollar
sq. km.	Square kilometers
US	United States
US$	United States dollar
VAT	Value-added tax
WDI	World Development Indicators
WDR	World Development Report
WTO	World Trade Organization
SBV	State Bank of Vietnam
RHS	Right-hand-side axis of the graph
SOEs	State-owned enterprises
THB	Thai baht
yoy	Year-on-year

Countries

CHN	China
FJI	Fiji
HKG	Hong Kong, SAR China
IDN	Indonesia
KHM	Cambodia
KOR	Republic of Korea
LAO	Lao People's Democratic Republic (PDR)
MNG	Mongolia
MMR	Myanmar
MYS	Malaysia
PHL	The Philippines
PNG	Papua New Guinea
SLB	Solomon Islands
SGP	Singapore
THA	Thailand
TMP	Timor-Leste
TWN	Taiwan, China
VNM	Vietnam

PREFACE AND ACKNOWLEDGMENTS

The *East Asia and Pacific Economic Update* was prepared by a team led by Keiko Kubota and including Antonio Ollero, Manohar Sharma, Jennifer Golan, Douglas Addison, Fitria Fitrani, Truman Packard, and Abhas Kumar Jha. The team worked under the guidance of Shubham Chaudhuri (Sector Manager, Poverty and Economic Management, East Asia and Pacific Region), Sudhir Shetty (Director, Poverty Reduction and Economic Management, East Asia and Pacific Region) and Bert Hofman (Chief Economist, East Asia and Pacific Region). Andrew Beath of the Chief Economist Office East Asia and Pacific coordinated the Office's contributions.

World Bank country economists throughout the East Asia and Pacific Region provided country write-ups and tables and assisted with the analysis. They include: Xiaofan Liu, Min Zhao, Xiaoli Wan, Ashley Taylor, Alex Sienaert, Magda Adriani, Frederico Gil Sander, Intan Nadia Jalil, Kai Kaiser, Karl Kenrick Tiu Chua, Marianne Juco, Tehmina Khan, Kirida Bhaopichitr, Amornsak Mala, Nattaporn Triratanasirikul, Habib Rab, Viet Tuan Dinh, Enrique Aldaz-Carroll, Huot Chea, Genevieve Boyreau, Somneuk Davading, Keomanivone Phimmahasay, Tae Hyun Lee, Altantsetseg Shiilegmaa, Khwima Nthara, Virginia Horscroft, Tobias Hauqe, Lucy Pan, Timothy John Bulman, and Hans Anand Beck. The country economists worked under the supervsion lead economists Chorching Goh, James Brumby, Mathew Verghis, Rogier J. E. Van Den Brink, Deepak Mishra, and Vivek Suri.

Other World Bank officers and staff provided inputs to the report, including Andrew Burns, Ekaterine Vashakmadze, and Theo N. Janse Van Rensberg of the Development Prospects Group (DECPG), and Carl Patrick Hanlon, Chisako Fukuda and David Llorico Llorito of East Asia and Pacific External Affairs (EAPXT). The report was edited by Carollyne Hutter and designed and typeset by Budy Wirasmo.

Developing East Asia and Pacific as used in this report includes China, Indonesia, Malaysia, Philippines, Thailand, Vietnam, Cambodia, Lao People's Democratic Republic, Mongolia, Myanmar, Timor-Leste, Fiji, Papua New Guinea, Solomon Islands and other island economies in the Pacific. The Newly Industrialized Economies (NIEs) include Hong Kong, SAR China, the Republic of Korea, Singapore, and Taiwan, China. The ASEAN member countries are Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam. The ASEAN-4 are Indonesia, Philippines, Thailand and Malaysia.

EXECUTIVE SUMMARY

Economies in the East Asia and Pacific (EAP) region have generally remained resilient in 2012 amidst a lackluster and, at times, volatile external environment. In 2012, the region's economy is projected to grow by 7.5 percent, lower than the 8.3 percent growth recorded in 2011, but set to recover to 7.9 percent in 2013. Growth in EAP is still the highest of any developing region and constitutes almost 40 percent of global growth. With the weakness in global demand for exports, domestic demand has remained the main driver of growth for most economies.

In 2012, aside from weak external demand, the region's growth slowdown resulted from China's economic performance, which is projected to reach 7.9 percent in 2012, 1.4 percentage points lower than 2011 and the lowest annual growth rate since 1999. This decline is mainly due to lower domestic demand growth in the first part of 2012, driven by stabilization measures implemented in 2011. East Asia excluding China is expected to grow by 5.6 percent in 2012, one percentage point higher than in 2011. The rebound in economic activity in Thailand following the floods of 2011, strong growth in the Philippines, and relatively mild slowdowns in Indonesia and Vietnam contributed to this increase. Fiscal and monetary policies were generally supporting growth in 2012. More recently, monetary policy rates have rightly been held steady, as most economies now operate at or close to full capacity.

For 2013, we expect the region to benefit from continued strong domestic demand and a mild global recovery that would nudge the contribution of net exports to growth back into positive territory, a trend projected to continue into 2014. For China, we expect this year's monetary easing, local fiscal stimulus and more rapid approval of large investment projects to boost growth to about 8.4 percent. By 2014, China is projected to be growing at around 8 percent, which is in line with the country's potential growth rate. This rate is gradually declining as productivity and labor force growth are tailing off.

In the last few years, services contributed more to production growth in the region than manufacturing. In part, this reflects the strong growth in domestic demand relative to external demand. However, the current growth in the service sector represents longer-term trends that are driven by the growing middle class in the region, the low level of services-to-GDP ratios in many EAP countries, and the development of services export industries in the Philippines and elsewhere. As these trends continue, services can emerge as a new driver of growth for EAP.

Most countries in the region have retained their strong macroeconomic fundamentals and should be able to withstand external shocks—but considerable risks remain. While the probability of a catastrophic event in the Eurozone is substantially lower than before, delays in implementation of the plans to solidify the institutional foundations of the Euro could cause renewed financial market volatility and renewed slowdown in global growth. In addition, the by now well known fiscal cliff in the USA could result in a loss of growth for EAP. And while a gradual decline in China's investment growth is the base scenario, a sudden drop in investment growth could have ripple effects across the globe. In this eventuality, though, China's authorities could use their ample fiscal space to counter the impact.

Recent announcements by central banks in the G-3 have renewed concerns regarding the possibility of excessive capital inflows into the region that could render exchange rates uncompetitive, lead to asset price bubbles and excessive credit growth, raise the risk of future sudden outflows, or lead to costly sterilization measures from monetary authorities. At the same time, monetary easing in advanced countries need not lead to more capital inflows into the region: QE1 did but QE2 did not. Moreover, the bulk of capital flows into EAP consists of FDI, which creates jobs and growth in production capacity. Nevertheless, monetary authorities should closely monitor developments on the capital account, especially in countries that have recently experienced rapid credit growth. In the short term, capital controls could play a role in dampening excessive inflows, but capital markets development and appropriate exchange rate arrangements offer the best cushion against volatile capital flows in the medium term. The macro-prudential measures that some countries in the region have recently shored up also protect their banking systems against the risks of excessive credit growth.

If a shock to growth occurs, most countries could counter the impact by easing of fiscal policies. Countercyclical fiscal measures would ideally stimulate the economy in the short run as well as improve medium-term growth prospects. Investments in public infrastructure and other public goods are examples of such productivity enhancing measures. In practice, for EAP economies that face difficulties in budget execution, particularly of the capital budget, fiscal interventions aimed at increasing private domestic demand such as targeted social assistance or investment tax credits, are worth considering.

This edition of the East Asia Half-Yearly Update introduces two new sections—one that looks at selected emerging issues in the region, including Myanmar, covered for the first time in this Update. The section on the medium term regional development agenda focuses on jobs and disaster risk management.

Myanmar's emergence from decades of relative isolation offers new opportunities and challenges as the country's prospects for trade, investment and development aid improve. Growth in Myanmar in 2012 is expected at 5.5 percent, increasing to 6.3 percent in 2013. Myanmar is pursuing formidable reforms to create an enabling environment for the private sector, sustainably manage natural resources, effectively deliver public services, and alleviate infrastructure constraints. Tackling these challenges would allow Myanmar to capitalize on economic opportunities derived from its strategic location within a large regional and global export market, as well as vast untapped natural resources.

While economic growth in East Asia has created jobs, the quality of jobs has become a growing concern. For Pacific Island countries, the large number of youths without jobs is the focus of attention. Implications for policy reflect the diversity of economies in the region: For rapidly urbanizing countries, the jobs policy priority is to make cities work, including good urban planning to increase flexibility of land use. This gives incentives for firms in cities and towns to grow and create jobs. For resource rich countries, macroeconomic management and fiscal policy are the most important policy areas to sustain employment creation, in order to diversify the economy and manage resource related risks such as currency appreciation and inflation.

As the most disaster-stricken region in the world, disaster risk management is essential for supporting sustainable growth in EAP. Policy makers need to develop practical tools for risk identification and communication, invest in disaster preparedness and resilient development, and strengthen institutional capacity and coordination for recovery and reconstruction.

Part I. Recent developments and outlook

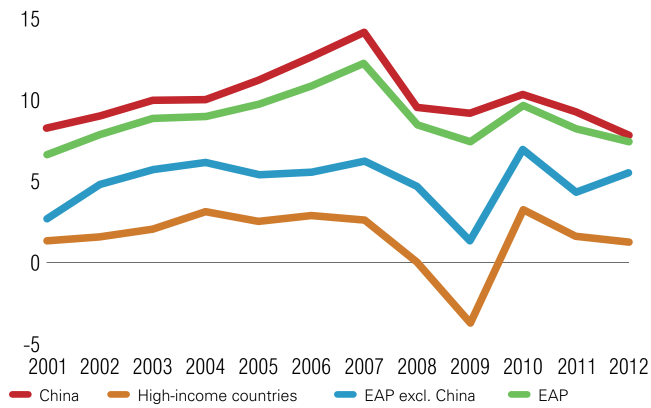
I.A. Recent developments

EAP countries remained resilient in 2012

Economies in the East Asia and Pacific (EAP) region remained resilient in 2012 amidst a lackluster external environment. While economic growth across developing economies in EAP is projected to decline to 7.5 percent in 2012 from 8.3 percent in 2011, this decline has been driven mainly by the slowdown of the Chinese economy during the first part of the year. Growth rates in other major developing economies in the region have held up well in an unfavorable global context. With the rebound in economic activity in Thailand following the floods of 2011, the strong growth performance of the Philippines, and the relatively mild slowdown thus far in Indonesia and Vietnam, developing EAP excluding China is projected to grow 5.6 percent in 2012, up from 4.6 percent in 2011 (Figure 1).

Figure 1. EAP is resilient

real GDP growth, in percent



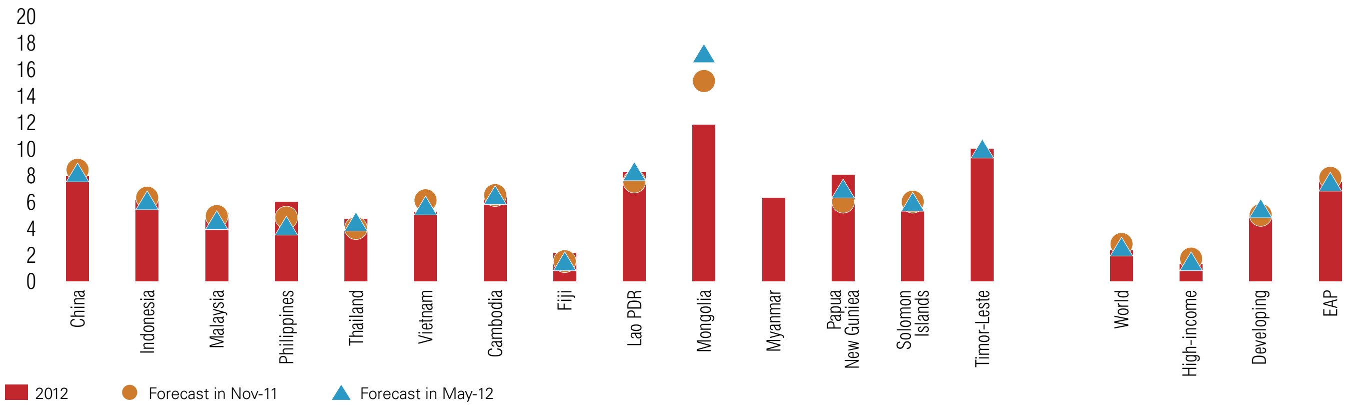
Source: World Bank.

China's economic growth is expected to reach 7.9 percent in 2012, significantly down from 9.3 percent in 2011. This slowdown has been caused mainly by a slowdown in domestic demand following domestic policy tightening in late 2011 to cool an overheating housing sector, although weaker external demand from high-income economies has also been a contributing factor. The slowdown in the Chinese economy appears to now have bottomed out. While third quarter growth, at 7.4 percent year-on-year (yoy), is still low compared to last year, quarter-on-quarter growth has picked up notably, reaching 9.1 percent in the third quarter (seasonally-adjusted, annualized rate [saar]). The most recent data suggest that, despite further weakening in the external environment, China's growth rate will continue to recover in the remainder of the year and into next year.

Among other developing economies in the region, Fiji, Lao PDR, Myanmar, the Philippines, and Thailand are projected to record higher growth in 2012 as compared to 2011. With the exception of a few commodity exporters that experienced sharper drops in growth, most other EAP developing economies are generally projected to grow at the same or slightly lower rates than in 2011. Indonesia and Malaysia have both been affected by weak external demand and easing commodity prices, while Vietnam's growth has slowed due to the impact of last year's stabilization policies on investment growth, despite strong export performance. Thailand has been recovering well from the severe flooding in 2011, although residual effects continue to impact manufacturing production through the third quarter. The Philippines reported a remarkable 7.1 percent growth in the third quarter (yoy), boosting its growth rate to 6.5 percent year-to-date, on the strength of private consumption and booming construction. Commodity exporters, such as Mongolia, Papua New Guinea and the Solomon Islands, have generally seen lower growth in 2012 relative to the very high levels recorded in 2011, due to lower prices and a sharp decline in demand, particularly from China.

Throughout 2012, macroeconomic policies pursued by governments across the region have contributed to limiting the impact of unfavorable external conditions. Accommodative monetary policies and prudent fiscal policies supported growth and aided in maintaining consumer and investor confidence. The absence of any major supply side disruptions has also supported growth across the region, while recovery from last year's disasters supported growth in some countries. Although the region's growth rate of 7.5 percent this year has been revised slightly downward from the May 2012 forecast of 7.6 percent, growth remains the highest among developing regions.

Figure 2. Projections for 2012 shifted over the past year

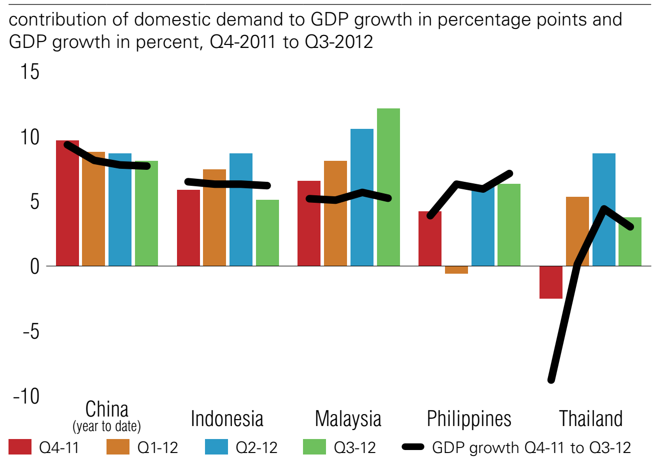


Source: World Bank.

Domestic demand made up for weak external demand

With net exports proving a drag on overall growth, the contribution of domestic demand, both consumption and investment, has been critical to sustaining growth. In particular, domestic demand in ASEAN-4 countries (Indonesia, Malaysia, Thailand, and the Philippines) grew at 7.0 percent in the third quarter (yoy), boosting the overall growth rate (Figure 3).

Figure 3. Domestic demand supported GDP growth



Source: Haver Analytics and national statistical agencies.

Consumption growth was robust in the region. In China, consumption accounted for 55 percent of the first three quarter GDP growth,[1] supported by continued strong household income growth. Malaysia's consumption grew strongly partly due to expansionary fiscal policy. In the Philippines, overseas remittances fuelled an increase in private

1 China does not publish quarterly data on the expenditure side of the national accounts. Retail sales and Fixed Asset Investment (FAI) are imperfect proxies for consumption and investment.

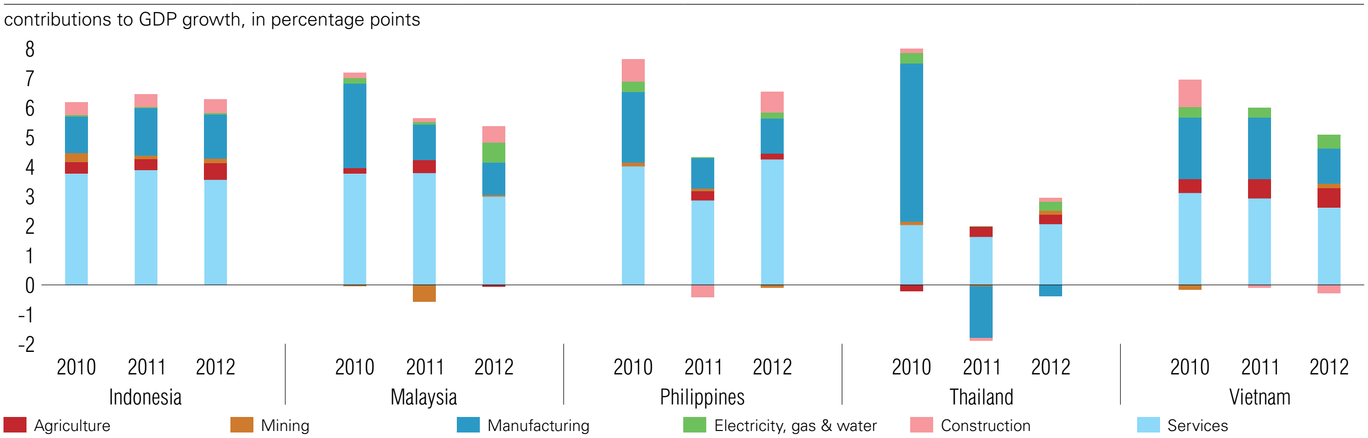
consumption of 6.2 percent, which in turn contributed 4.3 percentage points to growth. Indonesia's private consumption also continues to be a reliable engine of growth, and was up 5.7 percent in the third quarter (yoy).

Investment has also been strong across the region. In China, fixed asset investment (FAI) grew by 21.1 percent in September (yoy), 3.6 percentage points higher than in August, due to the impact of policy easing earlier in the year and local government stimulus programs. Investment growth in China is expected to continue into 2013, as the authorities have accelerated the approval of large investment projects. Investment is also booming in the ASEAN-4. In Thailand, this reflects reconstruction following last year's floods, while investment-to-GDP ratios in Indonesia have, for the first time, reached levels on a par with those recorded before the Asian Financial Crisis. In contrast, Vietnam's investment growth slowed considerably in the past year, as the authorities have focused on fighting inflation and restructuring state-owned enterprises, banks, and the public investment system.

Services grew robustly while manufacturing recovered

On the supply side, the services sector has been the largest contributor to GDP growth in the ASEAN-4 and in Vietnam in 2012. Contributions ranged from 54 percent of growth in Vietnam to 80 percent in Thailand (Figure 4). Services are the largest sector in all of these countries, constituting roughly half of total GDP. The robust growth in services this year in part reflects strong domestic demand, but is also associated with longer-term trends caused by rising incomes.

Figure 4. Services are contributing more to growth

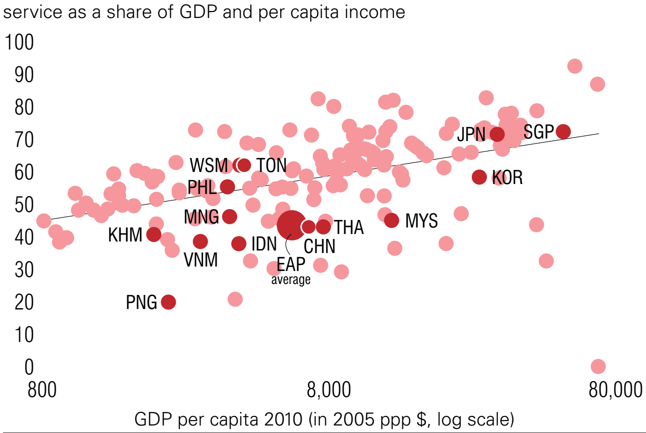


Source: Haver Analytics and national statistical agencies. Note: 2012 pertains to the first three quarters of the year.

Notwithstanding the recent growth in the sector, many economies in East Asia have smaller services sectors than would be expected based on their income levels (Figure 5). This partially reflects the relative success of manufacturing among countries in the region. It may also stem from the limited adoption of high-value modern services, such as information and communication technology, finance, and professional business services in most countries.[2] In particular, few EAP countries other than the Philippines have proved successful in developing robust industries focused on the export of modern services.

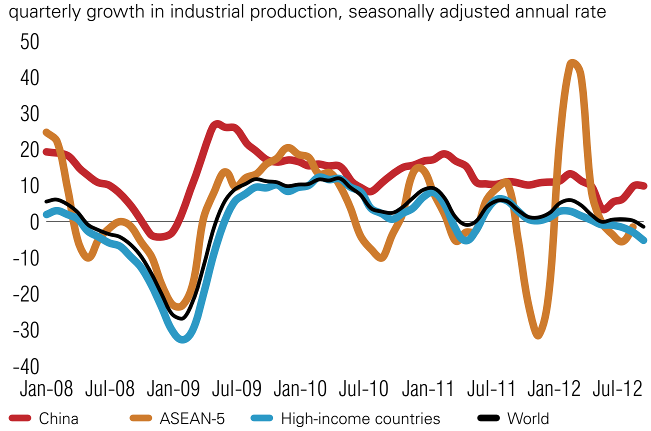
2 See ADB, 2012, Asian Development Outlook 2012 Update: Services and Asia's Future Growth.

Figure 5. Services still lagging in EAP



Source: World Bank World Development Indicators

Figure 6. Industrial production shows signs of picking up



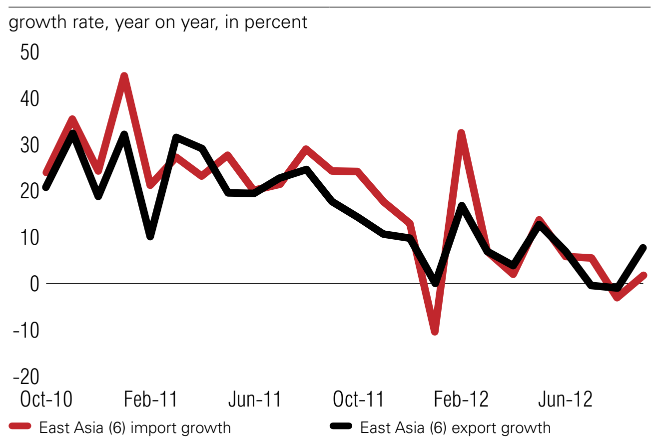
Source: World Bank.
Note: East Asia (6) consists of ASEAN-4, China and Vietnam.

Across EAP, the manufacturing sector contributed about one quarter of growth in 2012. Growth in manufacturing has been slowing in the region since a post-crisis peak in early 2010 and the sector's contribution to growth is currently below its economy-wide share in all EAP countries for which data are available. In Thailand, the sector actually contracted in the first and third quarters due to the lingering effects of the 2011 flooding. In recent months, however, industrial production across EAP has started to rebound. Led by China and Indonesia, regional growth in industrial production reached 8.2 percent in the third quarter (Figure 6). Some countries are still struggling, but Malaysia and the Philippines appear to have bottomed out and recent indicators in Thailand have also been strong (the Manufacturing Production Index grew 36 percent in October [yoy]). Industrial production also recovered in other developing countries, growing by 5.5 percent in the third quarter (saar), but it continued to weaken in high-income countries, declining at a 3.4 percent pace.[3]

Current account surpluses shrank

While the region's overall trade balance stayed in surplus, trade as a whole did not contribute to the region's growth in the first three quarters of 2012. East Asia's exports continued to expand until June, but fell in the third quarter, following the global contraction in trade. Import growth followed suit, as imports and exports are closely linked through regional supply chains (Figure 7).

Figure 7. Export and import growth fell in tandem



Source: Haver Analytics, Thomson Datastream.
Note: East Asia (6) consists of ASEAN-4, China and Vietnam.

In China, export growth was only 1.4 percent (yoy) in the third quarter, but the negative contribution of net exports to output growth has narrowed to

3 Industrial production declined by 0.4 percent in the U.S. and by 15.8 percent in Japan, and grew only modestly, by 0.7 percent, in the Euro area.

-0.4 percentage points in the first three quarters from -0.7 percentage points in the first half of the year. Light manufactured goods contributed the most to export growth, while EAP countries were the destination that saw the fastest export growth. China's trade balance was also supported by improving terms of trade, with export prices of manufacturing goods holding up better than the prices of imported commodities. In Indonesia and Thailand, exports declined by about 2 percent. This lackluster trade performance is in stark contrast with last year, when third-quarter export growth rates ranged from -14.3 percent (yoy) for the Philippines, 20.6 percent (yoy) for China to 39.6 percent (yoy) for Indonesia. Vietnam is an exception to this trend: exports grew by 18.4 percent in the first 10 months of 2012 (yoy), following impressive growth of 34 percent in 2011. Vietnam's export performance is in part due to the slowdown in domestic demand in the course of stabilization, but also in part because new production capacity in a number of export-oriented foreign-owned enterprises, predominantly in electronics, came on line. This followed an impressive export growth rate of 34.2 percent in 2011.

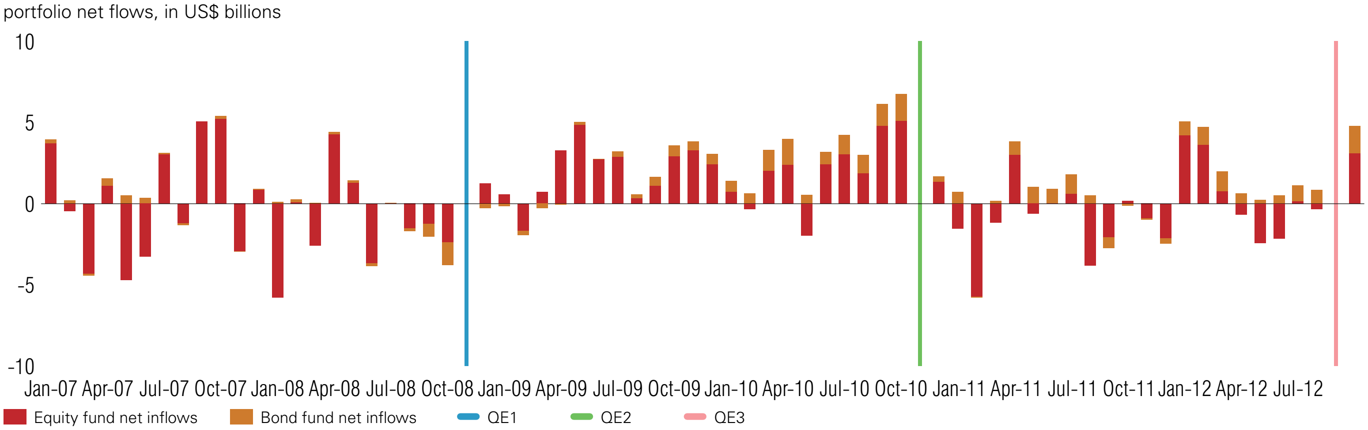
By September 2012, the decline in global trade seems to have bottomed out, and trade in most of the EAP countries has been recovering. The impact of the downturn through the first nine months of the year can be seen in the considerable narrowing of the collective current account surplus of the ASEAN-4 from 3 percent of the combined GDP for the same period last year to 0.1 percent this year. Malaysia's current account surplus fell to 5.3 percent of GDP in the first three quarters of 2012 from 11.5 percent last year. Indonesia's current account has turned into a deficit of around 2.4 percent of GDP this year to date, while Thailand's current account turned into a slight surplus of under 1 percent after running a deficit in the first half of the year. China's current account surplus shrank three quarters in a row until the first quarter of 2012, before bouncing back. Its current account surplus is around 2.6 percent of GDP this year to date, down from 2.9 percent for the same period last year. Helped by strong remittances, the Philippines has consistently run a current account surplus this year despite running a trade deficit.

Capital inflows resumed in the second half of 2012, but are still below 2011

During the first half of 2012, capital generally flowed out of EAP, but the trend reversed in the second half of the year as Euro area bank deleveraging slowed and emerging market bond spreads declined to long-term average levels. Portfolio inflows jumped after the announcements of further monetary easing by the European, Japanese and US central banks (Figure 8), although given the pattern in capital flows that followed QE2, it is not altogether clear whether this will be sustained. Net FDI inflows to the region have remained robust, totaling approximately US$ 250 billion, about 70 percent of total net capital inflows, although declining somewhat from the previous two years ($290 billion and $275 billion for 2010 and 2011, respectively). Short term net debt inflows of $85 billion contributed about a quarter of net inflows.

Capital inflows have been most notable in Indonesia and Thailand. Indonesia's capital account surplus increased to 2.7 percent of GDP in the third quarter, compared to 1.5 percent of GDP for last year, as portfolio flows in the second and third quarters averaged $3.9 billion and FDI flows $4.4 billion. In Thailand, net capital inflows topped $9.9 billion in the first three quarters, reversing the net capital outflows of $5.2 billion recorded last year, while FDI inflows of $6.1 billion in the first eight months of the year surpassed levels attained over the same period last year. As a result of robust capital inflows, some of the region's central banks resumed accumulating foreign reserves in the third quarter of 2012.

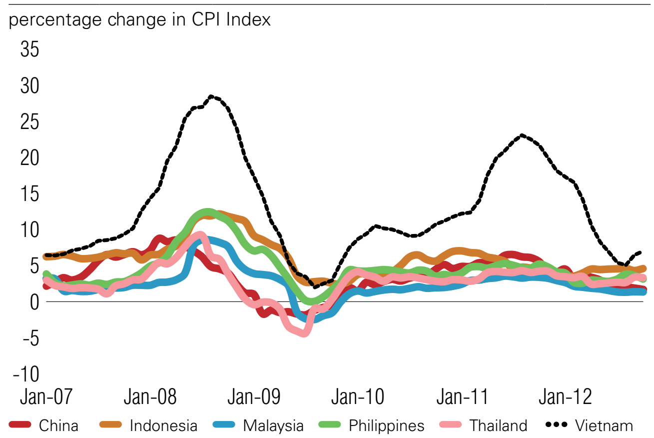
Figure 8. Will renewed quantitative easing spark more capital inflows into EAP?



Source: EPFR Global.
Note: Inflows are to China, Indonesia, Malaysia, Thailand and Vietnam.

Inflation is receding

Figure 9. Inflation has receded



Source: Haver Analytics and national statistical agencies.

Inflation receded in EAP over 2012. The ASEAN-4 and China all had CPI inflation below 5 percent (yoy), ranging from China's 1.7 percent to Indonesia's 4.6 percent. Vietnam recorded inflation of 9 percent in 2012, which, although high for the region, represents a significant improvement over 2011, during which inflation averaged 18.7 percent.

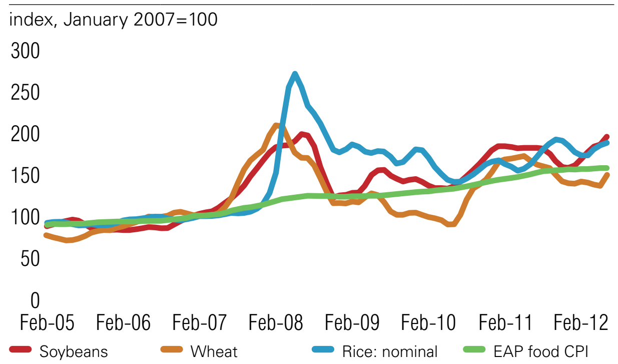
The recent global food price increases have had limited impact on EAP, as the markets for rice, the region's main staple, have remained largely unaffected. Global maize and wheat prices have been more stable during the past two months, following the 40 percent jump in the summer. However, in its September update, the USDA left the 2012/13 global crop outlook largely unchanged, implying that supply conditions for maize and wheat will remain tight. End-of-season stocks for these commodities are expected to be 10 percent lower than last season, with maize reaching its lowest level since 1973. In contrast, rice prices have been relatively stable, and may well decline, as stocks in Thailand, which continue to build as a result of the new floor price policy, are likely at some point to be released on the world market. In addition, good rice harvests in Cambodia, Vietnam and the Philippines also promise to limit price pressures on the international market. In contrast, prices of meat, in particular pork, could be affected by higher prices for maize and soybeans, which are important components of pigfeed. Food price inflation across the region has continued to come down in recent months (see Box 1).

Box 1. Food price inflation is less of a concern for most EAP countries

Food price increases in most EAP countries have been relatively muted. The regional food price inflation rate has generally fallen over 2011 and 2012 for two main reasons. First, the staples that have experienced international price increases, corn and wheat, are not principal staples in the Asian consumer basket. Second, the full magnitude of an international price shock is not fully transmitted to domestic prices, partly due to counteracting domestic policies (e.g., price controls). The exceptions to this overall trend are Mongolia, where wheat and corn are relatively important staples, and Indonesia, where domestic rice prices rose at the end of 2011 and have remained at elevated levels.

The price of rice is of particular concern to EAP consumers and producers, but the probability of price spikes in the commodity is lower now than in 2008. In particular, the US dollar is currently stable against major currencies, thus reducing the pressure on dollar denominated prices to adjust. Energy prices are also more stable and lower than they were in 2008, stabilizing the price of inputs for agriculture and reducing the use of crops for fuel. In addition, there is some evidence to suggest that rice prices in the region are not likely to be as strongly affected as in past crises, due to rising stocks (e.g., in Thailand and Indonesia) and abundant harvests. However, as the food crisis of 2008 demonstrated, national policies, especially those related to food exports and stocks, could influence rice prices in ways beyond what the global supply and demand conditions indicate.

Box Figure 1. Regional Food CPI less volatile than international market prices



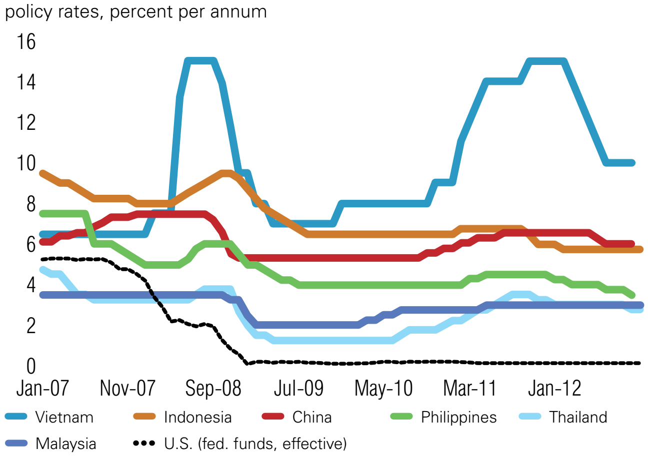
Source: World Bank DECPG.
Note: The EAP food CPI is constructed as the population weighted average of country-level food CPIs. Values shown are three month moving average (nominal).

Monetary policies loosened and credit growth has been rapid

Monetary policy shifted to a more accommodative stance in most EAP countries in 2012 as inflationary pressures receded and concerns shifted back to growth. Most major central banks in the region lowered their policy rates in 2012, with the exception of Malaysia, which did not cut rates in light of strong domestic demand. The State Bank of Vietnam reduced interest rates most aggressively, cutting its refinance rate from 15 percent at the end of last year to 10 percent beginning in July. The Philippines' Bangko Sentral trimmed the overnight reverse repo rate four times during the year, by a combined 100 basis points, the latest move done in October. China's People's Bank cut the prime lending rate twice, reduced reserve requirements and took other measures to increase liquidity, including repo transactions.

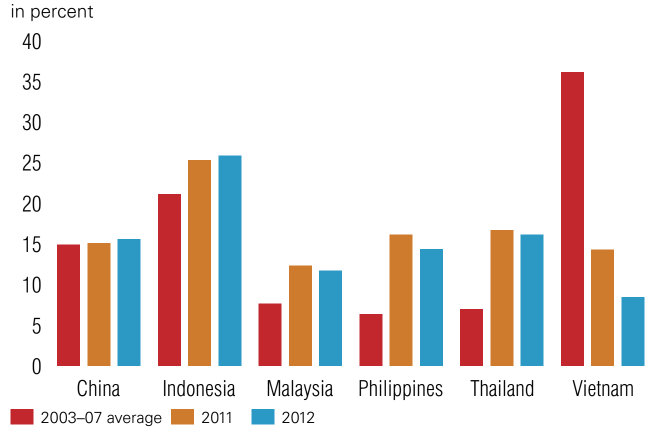
Ample liquidity has fed buoyant credit growth in Indonesia and the Philippines and reignited credit growth in China in recent months. In China and the ASEAN-4, credit to the private sector has been growing at a faster rate over the last year than it had been in the five years (2003-2007) prior to the global financial crisis (Figure 11). Among these countries, the expansion in domestic credit growth has outpaced GDP growth

Figure 10. Monetary stances became more accommodative in 2012



Source: Haver Analytics and national central banks.

Figure 11. Recent trends in credit growth

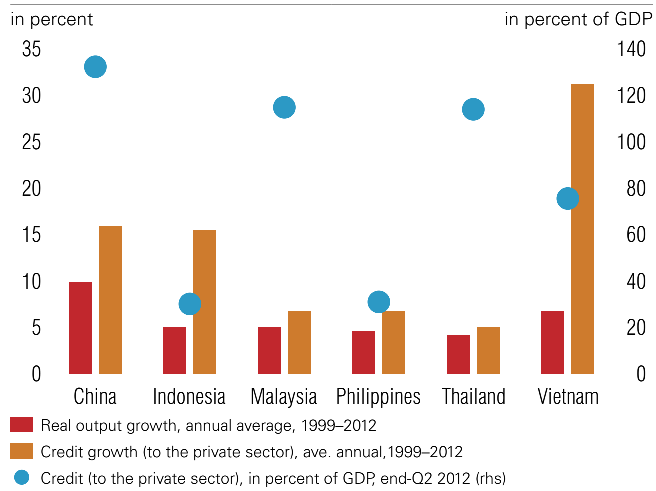


Source: IMF International Financial Statistics.

rates, raising concerns about possible inflationary pressures and about the quality of banks' credit portfolios. In Vietnam, however, the authorities have made concerted efforts to dampen credit growth following the overheating in 2009–2010.

The recent rapid expansion in credit reflects medium-term trends. Specifically, between 1999 and 2012, growth in credit to the private sector outstripped GDP growth by a large margin in some EAP countries, notably in Vietnam and Indonesia and, to a lesser extent, in China and the Philippines (Figure 12). While some of this expansion is due to deepening of financial intermediation, the rapid growth may nonetheless trigger inflation and a deteriorating bank portfolio or financial bubbles, such as in the real estate sector. While such risks provide cause for caution, a moderating factor is that, with the exception of China, credit-to-GDP ratios remain modest for most EAP economies relative to their income levels.

Figure 12. Growth of credit to non-government outstripped GDP growth over the last decade

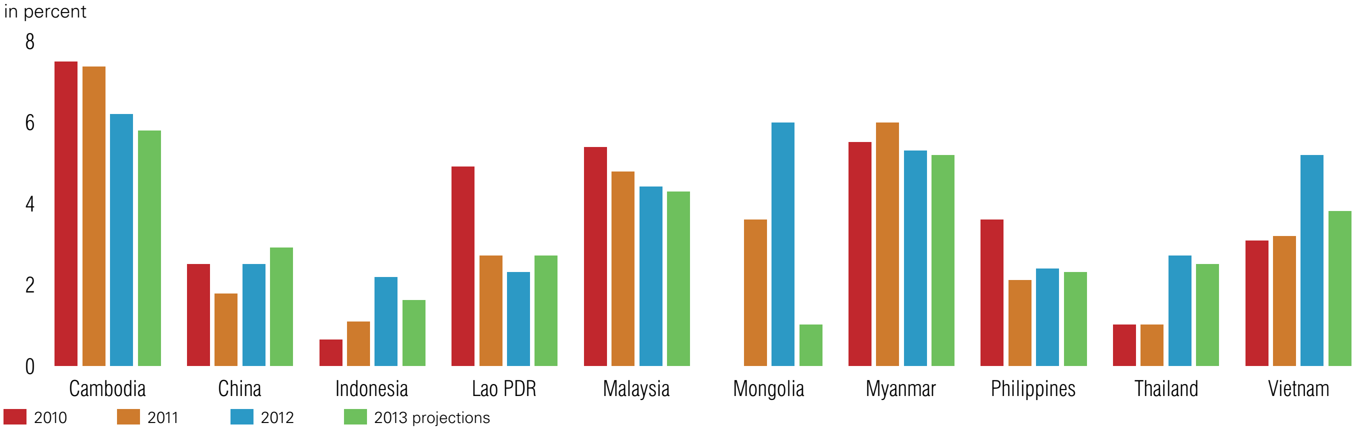


Source: Haver Analytics and IMF International Financial Statistics.

Fiscal policies became more supportive for growth

Fiscal policies have generally been accommodative this year. In China, Indonesia, Mongolia, the Philippines, Thailand, and Vietnam, fiscal deficits in 2012 are set to increase relative to 2011. These deficits remain moderate, however, and are projected to come down in 2013 (Figure 13). In Cambodia, Lao PDR, Malaysia, and Myanmar, budget deficits as a share of GDP fell in 2012 and are projected to fall further in 2013, except in Lao PDR.

Figure 13. Fiscal deficit as a share of GDP



Source: World Bank and national statistical agencies.

Factors underlying fiscal performance varied from country to country. Lower commodity prices played a role in some countries, while in others a more proactive policy to stimulate the economy or election related spending led to modestly higher deficits. In Mongolia, lower commodity prices and export volumes reduced revenues below expectations, while expenditures were largely maintained in the 2012 election year. In Vietnam, a combination of economic slowdown and tax relief for enterprises contributed to lower than expected domestic revenues. In the Philippines, government infrastructure spending accelerated, contributing to the strong growth performance in the first three quarters of the year, but the budget deficit was contained as revenue growth has been strong because of ongoing tax administration reforms and robust GDP growth. In China, several local governments started their own stimulus programs focused on infrastructure, despite concerns on local government debt. In Indonesia, the budget deficit is likely to come in at just above 2.5 percent of GDP, 1 percentage point higher than originally planned. Spending on fuel subsidies is expected to exceed last year's level by 18 percent, while commodity-related revenues softened. However, disbursement challenges for core spending, particularly on infrastructure, will partly offset these factors. In Malaysia, the budget deficit widened to 3 percent of GDP in the first half of 2012, up from 1 percent in the same period in 2011, and is expected to reach 4.4 percent of GDP by year-end. Both expenditures and revenues were considerably higher than planned, with spending on infrastructure, civil service compensation, and cash transfers to households leading expenditure increases.

I.B. Outlook and risks

External conditions are expected to improve only slowly

High income countries are expected to recover only slowly despite renewed monetary stimulus measures in the G-3. Fiscal consolidation and deleveraging in the banking systems continue to be a drag on growth, which is only partially offset by stronger net export contributions to growth. In 2013, high-income countries are projected to grow at 1.3 percent, only slightly faster than 2012, while global growth is expected to be around 2.4 percent. In 2014, global growth is forecast to reach 3.1 percent, aided by the recovery in both high-income and developing countries.

Table 1. East Asia and the Pacific: GDP Growth Projections

percent change form a year earlier

			Forecast			Changes from May-12 (in percentage points)	
	2010	**2011**	**2012**	**2013**	**2014**	**2012**	**2013**
East Asia	9.3	7.1	5.8	6.6	6.6	-0.5	-0.4
Developing East Asia	9.7	8.3	7.5	7.9	7.6	-0.1	-0.1
China	10.4	9.3	7.9	8.4	8.0	-0.3	-0.2
Indonesia	6.2	6.5	6.1	6.3	6.6	0.0	-0.1
Malaysia	7.2	5.1	5.1	5.0	5.1	0.5	-0.1
Philippines	7.6	3.9	6.0	6.2	6.4	1.8	1.2
Thailand	7.8	0.1	4.7	5.0	4.5	0.2	0.0
Vietnam	6.8	5.9	5.2	5.5	5.7	-0.5	-0.8
Cambodia	6.0	7.1	6.6	6.7	7.0	0.0	0.0
Fiji	0.1	1.9	2.1	2.2	2.3	0.6	0.5
Lao PDR	8.5	8.0	8.2	7.5	7.5	-0.1	0.0
Mongolia	6.4	17.5	11.8	16.2	12.2	-5.4	4.4
Myanmar	5.3	5.5	6.3	6.5	6.6	..	..
Papua New Guinea	7.6	9.0	8.0	4.0	7.5	1.0	-1.0
Solomon Islands	7.8	10.5	5.3	4.0	3.3	-0.7	0.0
Timor-Leste	9.5	10.6	10.0	10.0	10.0	0.0	0.0
Developing East Asia excl. China	7.0	4.4	5.6	5.7	5.8	0.4	0.1
Assumptions about the external environment:							
World	4.3	2.7	2.3	2.4	3.1	-0.3	-0.6
High-income countries	3.3	1.6	1.3	1.3	2.0	-0.2	-0.6
Developing countries	7.5	5.9	5.1	5.5	5.8	-0.4	-0.2

Source: World Bank data and staff estimates.

The EAP region will recover further next year

In 2013, developing countries in EAP are expected to grow by 7.9 percent, 0.4 percent more than in 2012, and well above the developing country average of 5.5 percent. Developing countries in the region other than China are projected to grow slightly above that average, at 5.8 percent, supported by strong domestic demand and a slight recovery in external demand.

China's growth is projected to recover in 2013 to 8.4 percent due to the combination of lagging effects of earlier monetary expansions, local government fiscal stimuli, accelerated approval of central investment projects, and an upswing in the business cycle. China's growth is, however, expected to slow slightly in 2014, in line with an expected gradual slowdown in potential growth. Continued high investment will add to potential growth, albeit at a declining rate. But China's labor force growth will further moderate, and turn negative later this decade, thus lowering labor's contribution to growth, and then reversing it. Productivity increases are also expected to slow from their brisk pace of the past, as the "easy" gains in productivity, notably those based on moving labor from low productivity agriculture to manufacturing and services will no longer be available, and instead China will have to rely more on innovation and better use of capital to achieve productivity increases.[4]

Indonesia, Malaysia and the Philippines are expected to continue their gradual recovery into 2014, with investment booms sustaining economic momentum. Indonesia and Malaysia are also likely to be helped in the coming years by favorable commodity prices. Vietnam is also expected to stay on its current path of moderate recovery, although additional banking sector and SOE reforms could deliver a significant boost to growth.

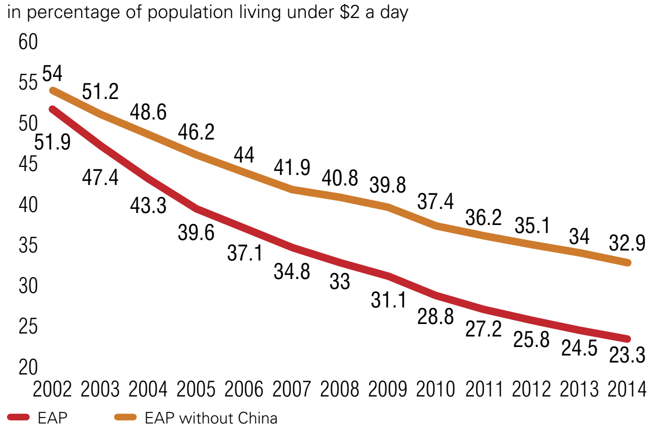
For Thailand, 2013 is expected to be the first full year that it operates at full capacity since the 2011 floods. Growth is expected to moderate somewhat in 2014, as the low base effect dissipates, and as public investments slow after the completion of the bulk of water projects during the previous year. Mongolia's growth rate is highly variable, mostly depending on the performance of the mining sector. It is expected to receive a one-off boost when Oyu Tolgoi, one of the largest copper-gold mines in the world, goes into production, currently expected in 2013. Growth is projected to moderate in 2014 to a rate similar to 2012.

Poverty will continue to decline

With the continuation of relatively high rates of economic growth across developing countries in EAP, poverty is expected to continue to decline over the coming years. Specifically, the share of people living under $2 per day in the region is forecast to reach 23.3 percent by the end of 2014, down from 28.8 percent in 2010. However, maintaining the rate of poverty reduction will be more difficult as growth will have to reach the remaining poor, many of whom reside in remote areas. One way of reaching them is to ensure that as they continue to expand, the economies in EAP also create jobs accessible to the poor (see Part III for the challenges in this regard).

Figure 14. Poverty has fallen and is likely to continue to do so

in percentage of population living under $2 a day



Sources: PovcalNet and World Bank Staff calculations.
Note: Poverty estimates from PovcalNet until 2008. The projections beyond 2008 are based on the latest poverty estimate, the elasticity of growth, which is defined as a function of the change in poverty relative to the change in monthly per capita income/consumption between 2005 and 2008, and real GDP per capita growth and growth projections.

4 China 2030 sketches the medium term analysis on which this slowdown in total factor productivity is based.

Several risks confront the EAP region

The economic outlook of the Euro area remains uncertain although global financial conditions have improved significantly since July 2012. Continued improvement is contingent on progress implementing the structural and fiscal reforms. Failure to pursue these reforms, or a significant disappointment in growth, may prompt markets to lose confidence once again, potentially pushing the currency area into a serious crisis. Such an eventuality could cut regional growth in EAP by one or more percentage points due to reduced import demand from high-income countries, much tighter international capital conditions, and increased precautionary saving within the region.

A second global risk is the "fiscal cliff" in the United States, which would create more headwinds in the global economy. The nature of this risk is less complex than the one associated with the Euro area, but the impact on global demand would nevertheless be substantial. Current legislation, unless modified, would impose a fiscal contraction representing 5 percent of GDP in 2013, as compared to 1.4 percent of GDP assumed in the baseline projection. Such an event would trigger a deep recession in the United States and would reduce the growth rate of the EAP region by around 1 percent of GDP.

A third risk is capital inflows surging above what can be absorbed in productive investments, which would put pressures on prices and inflate asset bubbles. Even productive investments could set off a spiral by boosting the growth outlook of the economy, which in turn makes it more attractive to invest in the economy, increasing the likelihood of overheating. Rapid inflows also expose the economy to the possibility of rapid outflows when the tide turns. At high risk are countries that experienced rapid credit expansion, especially if the credit to GDP ratio is already high, and those with weak financial sector supervision. International experiences suggests that rapid credit expansion leads to declining quality of investments, as banking sector talent needed for assessing investments is stretched thin.

Concerns remain over a further slowdown in China. There is a possibility that the uptick in growth observed in the third quarter may not be sustained. As policy makers attempt to balance support for growth with concerns of a rebound in housing prices, a reversal of short-term capital inflows, and goals of a more balanced development pattern, it seems unlikely that the government will introduce a major fiscal stimulus package. On the other hand, large investments already undertaken or approved this year are likely to continue to support growth next year, which makes the risk of a "hard landing" for the Chinese economy relatively small. While a slow progressive decline in China's unusually high investment rate is the most likely outcome, if this position were to unwind abruptly there would be significant domestic and global consequences.[5] If a major slowdown results from such an event, China's authorities are likely to use their fiscal space to maintain growth at acceptable levels.

Commodity export-dependent countries are most at risk in the event of a renewed global slowdown, while commodity importers will need to contend with inflationary pressures if commodity prices increase. Countries such as Mongolia, Lao PDR, Timor-Leste, and Papua New Guinea, for which commodity exports make up at least 80 percent of total exports, would experience a sharp terms of trade shock in the event of a major global slowdown. A further slowdown in China would affect commodity exporters in the region particularly strongly, since, with the exception of Timor-Leste, China is their major trade-partner in commodities.

5 For a more detailed discussion on the medium term challenge of China transitioning to lower investment equilibrium, see China 2030. The risk of not managing the transition process well is discussed in detail in the forthcoming Global Economic Prospects January 2013.

Such a slowdown may also decrease private investments and government spending in natural resource sectors. Fiscal revenues from commodities are also relatively high for Indonesia and Malaysia, and particularly so in Timor-Leste. Timor-Leste would, however, be well placed to mitigate such risks given its large sovereign wealth fund of accumulated commodity revenues. Indonesia and Malaysia are hedged in part against the impact of oil price shocks on government revenues, as their spending on fuel subsidies would drop with increases in oil prices.

EAP countries, especially the small Pacific Island countries, are the most exposed to natural disaster risks in the world. In 2011, losses caused by natural disasters reached a record of US$380 billion,[6] almost doubling the previous record of $262 billion in 2005. Aside from the devastation and loss of lives that the Tohoku Earthquake and Tsunami and the Thai floods caused, these disasters also cascaded through supply chains worldwide. In 2011, East Asia and Pacific sustained 80 percent of global losses and, since 2000, more than 1.6 billion people—mostly the poor, vulnerable, and marginalized—have been affected by disasters in the region. Annual average expected losses are particularly high for Cambodia, Lao PDR, Myanmar, the Philippines, and Vietnam, while the small Pacific Island countries are among those most affected globally in terms of how the size of shocks compare to the overall economy and the budget. While urbanization is the main factor inflating the economic and human costs of disasters, these may be further aggravated in coming years by the effects of climate change. Accordingly, countries in EAP would do well to invest more in managing disaster risk (see Part III).

6 Figures from Munich Re NatCatService (2012).

I.C. Policy considerations

EAP economies are at capacity—continued preparedness against shocks is recommended

Most countries in EAP appear to no longer be in a cyclical growth downturn—output is close to potential, in terms of historical trends—and macroeconomic fundamentals are strong (Table 2). Inflation is contained in most countries in the region, and, with the exception of Vietnam, credit growth is in line with output growth. Fiscal deficits of most countries are moderate or low and external balances are robust, with most countries reporting current account surpluses or modest deficits and holding sufficient international reserves to cover international payment obligations. China, the Philippines and Thailand may, in fact, have too many reserves as a result of strong capital inflows. Banking systems are also generally well-capitalized, profitable, and have relatively few non-performing loans (except in Vietnam and Timor-Leste). Central banks in the region have also introduced macro-prudential measures, such as high down-payments for mortgages in China and limits on vehicle loans in Indonesia, further solidifying the banks. The challenge for the authorities in the coming months is to maintain the momentum for economic growth and poverty reduction without much support from external demand, while enhancing the economies' capacity to absorb shocks.

Table 2. Most large EAP economies are growing close to capacity

	Domestic		External		Fiscal		Monetary	
	Output gap	Inflation	Current Account, % GDP	Reserves, months imports of goods	Deficit, % GDP	Gov't Debt, % GDP	Policy rate relative to Taylor rule	Credit growth to GDP growth, average
China								
Indonesia								
Malaysia								
Philippines								
Thailand								
Vietnam								

Note on thresholds:
1. Output gap: green if output gap (actual – potential output) is below -0.75%, red if gap is above 0.75%, and yellow otherwise.
2. Inflation: red if inflation is approximately 10% or higher, yellow if approximately between 5% and 9%, and green if lower.
3. Current account: green if the current account deficit is approximately below 5% of GDP, red if above 10%, and yellow otherwise.
4. Reserve: red if less than 3 months of import cover or if the reserves deviate more than approximately 1.5 standard deviation (std.) from 1999–2007 average, green if the current reserves do not deviate more than approximately 0.5 std., and yellow otherwise.
5. Fiscal deficit: green if deficit does not deviate more than 0.5 std. from 1999–2007 average, red if the deviation is larger than 1.0 std., and yellow otherwise.
6. Debt: green if debt to GDP ratio is approximately below 30%, red if higher than 60%, yellow otherwise.
7. Deviation from Taylor: green if the real rate is significantly tighter than predicted by the Taylor rule, yellow if approximately par, and red if significantly looser.
8. Domestic credit growth to GDP growth (average of 1999–2011): green if less than twice, red if higher than four times, and yellow otherwise.

Most EAP economies have the fiscal space to respond if the external environment deteriorates

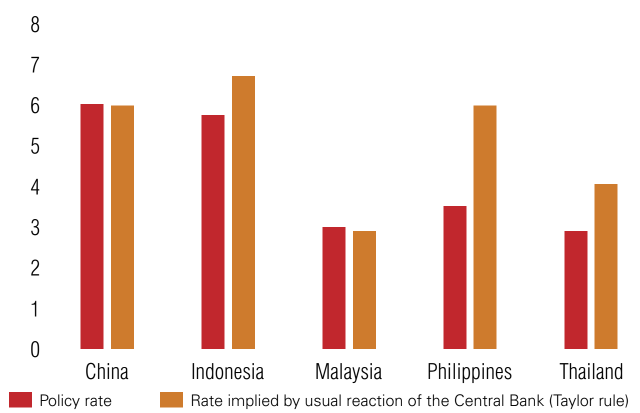
In the case of a major downturn, most countries have sufficient fiscal space to pursue expansionary measures, with the possible exceptions of Vietnam and Malaysia. Vietnam's fiscal deficit in 2012 is relatively high (5.2% of GDP), but is expected to shrink in 2013–2014. Malaysia's fiscal deficit (4.4% of GDP), is also higher than other countries' in the region, but not particularly high relative to its own history and is in line with the government's target for 2012 despite significant expenditure over-runs.

Countercyclical fiscal measures would ideally stimulate the economy in the short run as well as improve medium-term growth prospects. Investments in public infrastructure and other public goods are often held up as examples of such productivity enhancing measures. In practice, in many EAP economies, difficulties in budget execution, particularly of the capital budget, limit the feasibility of quickly ratcheting up public investments in response to a downturn. Thus, fiscal interventions that are aimed more directly at increasing domestic demand from consumers or stimulating private investments, such as targeted social assistance or investment tax credits, are worth considering.

There is less scope for monetary easing

Monetary policy stances in the region are largely appropriate in the current environment, in which negative shocks remain a dominant concern. The policy rates of China and Malaysia are roughly in line with those suggested by the Taylor Rule[7], which calls for raising rates if the inflation rate is above the target[8], or if the economy is overheating (Figure 15). In Indonesia, the Philippines and Thailand, the current policy rates are lower than those implied by the Taylor Rule, suggesting that monetary policy is already relatively relaxed. Consequently, further easing may be constrained in these countries unless conditions change dramatically. This is particularly true for Thailand, which has a negative policy interest rate in real terms.

Figure 15. Taylor rule says policy rate are at par or slightly too low



Source: World Bank staff estimates.

Receding inflation in most countries suggests that there is no need for immediate monetary tightening in the region in the absence of major shocks. One prominent exception is Mongolia where core inflation is over 10 percent, and stabilization is desirable. Indonesia and Vietnam would need to monitor inflation closely. Indonesia's inflation is moderate, but it is projected to rise in 2013 on the back of high levels of consumer credit growth, the ongoing pass-through from the depreciation to date of the rupiah, and the possibility that planned increases in administered energy prices and minimum wages may trigger broader cost-push inflation. In Vietnam, inflation has started to increase again, albeit modestly, in response to renewed loosening of monetary

7 Computed by estimating $i_t = \pi_t + r_t^* + a_\pi(\pi_t - \pi_t^*) + a_y(y_t - \hat{y}_t)$, where i_t is the target short-term nominal interest rate, π_t is the rate of inflation as measured by the GDP deflator, π_t^* is the desired rate of inflation, r_t^* is the assumed equilibrium real interest rate, y_t is the log real GDP and $\hat{y}_t$ is the log potential output, as determined by a linear trend. For countries not targeting inflation, the historic average is used as a proxy.

8 Some central banks, such as Bank Indonesia and the Philippines' Bangko Sentral, announce formally their target inflation rates, while others do not, but generally maintain implicit targets.

policies earlier this year. In the event of a shock, such as a sharp increase in commodity prices as a result of a more rapid than expected global recovery, these three countries would need to tighten monetary policy.

Intensifying capital inflows will have to be managed

The recent resurgence in capital inflows to the region have not yet been associated with strong appreciation pressures on the currencies, due in part to the offsetting weakness in the current accounts. However, if the capital inflows continue, appreciation pressures may accumulate, raising the costs to the region's central banks of sterilized intervention in the exchange rate market. Authorities would then face the decision to either reduce domestic interest rates, let the exchange rate appreciate, or control capital flows. According to the Taylor Rule, lowering the domestic interest rates is currently not a good option for most countries in the region, while appreciation of the local currency would make exports more expensive and is not widely considered an attractive option among policy makers in the region.

Some recent studies have found that policies to moderate capital inflows may be desirable under certain circumstances, particularly where a country has a high level of debt denominated in foreign currency.[9] The studies recommend such measures to tighten with the countries' indebtedness, and to be tighter for foreign currency-denominated debt. However, such measures also have drawbacks and should not be introduced without thorough consideration of potential costs. Specifically, currency controls are a blunt instrument that could affect investor confidence to the detriment of the country, especially those that are pursuing investment grade status. In addition, controls are difficult to roll back once introduced, as they tend to create vested interests. Finally, uncoordinated imposition of controls could have negative effects on other recipient countries, or lead to competitive escalation of measures.

If global liquidity expands further with renewed monetary stimulus by the ECB and the BOJ, short term capital flow warrants close monitoring by the region's authorities. Countries that have experienced high credit growth should be particularly alert. In parallel with the deliberations on other policy options, efforts are needed to improve the effectiveness of banking sector supervision in crucial areas, such as risk management, information disclosure requirements and corporate governance, and to enhance macro-prudential regulations. It is advisable that such efforts are dispensed pre-emptively, as many commonly used barometers of banking sector health, such as non performing loans, are a lagging indicator, and do not have predictive power.

9 "The New Economics of Prudential Capital Controls: A Research Agenda", Antonio Korinek, IMF Economic Review, August 2011. "Bubble Thy Neighbor: Direct and Spillover Effects of Capital Controls", Kristin Forbes, Thomas Kotska and Roland Straub, NBER Working paper No. 18052, May 2012. "Multilateral Aspects of Managing the Capital Account", Jonathan Ostry, Atish Ghosh and Anton Korinek, IMF Staff Discussion Note, September 2012.

Part II. Selected emerging issues

II.A. Introducing Myanmar

A new reformist administration has been undertaking political, social, and economic reforms that have seen Myanmar emerge from decades of international isolation. In recognition of these reforms, the international community has been taking steps towards normalization of relations with the country by lifting various sanctions, establishing diplomatic relations, and through high profile visits to the country. Development partners, including the World Bank, have also been taking steps to resume normal development assistance through the provision of financial assistance and analytical and advisory services. This section provides a brief introduction to the country as it features for the first time in the EAP economic update. It briefly outlines the economic and development context in Myanmar, the triple transition that is underway, and the economic opportunities and challenges going forward.

A. Economic and development context

Myanmar is the largest country in mainland South East Asia in terms of land size. At 653,520 km^2, it is second only to Indonesia (1,904,569 km^2) in the ASEAN region. The last population census was conducted in 1983, but it is estimated that there may now be between 48–60 million people, which would put Myanmar around 5th position in the region after Indonesia, the Philippines, Vietnam, and Thailand. It shares borders with India, Bangladesh, China, Laos and Thailand. Myanmar is an ethnically diverse country. It is believed that there are at least 135 distinct ethnic groups and 108 different ethno-linguistic groups in Myanmar. Administratively, the country is divided into seven states and seven regions which represent the tier below the Union (Central) Government. It also has one union territory, Nay Pyi Taw, as the country's capital.

Agriculture is currently still the largest contributor to national output and to people's livelihoods. It accounts for 43 percent of GDP, generates about 54 percent of employment, and provides livelihoods to more that 70 percent of the population. The major agricultural product is rice which covers about 60 percent of the country's total cultivated land area and accounts for 97 percent of total food grain production by weight. Other prominent agriculture products are pulses, forestry products, fisheries, and livestock. The country has large natural gas reserves, with current production accounting for 33 percent of export revenues and 61 percent of Union fiscal revenues expected for 2012–13. The contribution of the gas sector will likely increase by 2014. Contracts were signed in July 2010 for two other gas fields (Shwe and Zawtika), with reserves that will almost double existing capacity and potential to increase annual production by about 60 percent in 2014–15. Apart from gas and agricultural products, Myanmar is also a major exporter of gems. Manufacturing is still in its infancy, and is largely limited to agro-processing. A substantial portion of economic activity in Myanmar is informal, with small and medium-sized enterprises accounting for over 90 percent of the country's enterprises.

The share of exports in GDP is roughly 20 percent, as is the share of imports. Myanmar's trade has been limited to the region because of international sanctions. China has been the main source of imports while Thailand has been Myanmar's main export destination. The country's principal export product is natural gas. Other major exports are wood products, pulses and beans, fish, rice, clothing, jade and gems. Its principal imports are fabrics, petroleum products and crude oil, fertilizer, plastics, machinery, transport equipment, cement and construction materials, and food products and edible oils.

Myanmar is one of the poorest countries in the South East Asian region.[10] Its GDP is currently estimated at approximately US$50 billion, and with population figures ranging between 48 million and 60 million, per capita income is estimated to be in the range of $800–$1,000. A nationwide integrated household living conditions survey conducted by UNDP, UNICEF, and SIDA in 2009/10 found that 26 percent of the population was living below the poverty line which was estimated at US$1 dollar a day[11]. The country's level of infrastructure development is still very low. About 75 percent of the population has no access to electricity and power outages are common throughout the country. Almost half of the roads are not passable during the monsoon rainy season while railways are old and rudimentary, with few repairs since their construction in the late 19th century. Telecommunications and internet access is very limited. Most social indicators are also poor. For example, 32 percent of children under five suffer from malnutrition, the highest in the EAP. Myanmar's government has been spending the least percentage of its GDP on health care of any country in the world.

B. A Country in triple transition

Myanmar can arguably be characterized best as a country on a triple transition path: (a) from military rule to a democratic and decentralized system of governance (b) from 60 years of internal conflict to peace in the border areas; and (c) from a centrally-directed socialist economy to a modern, market-oriented, and open economy. If successful, these transitions together present a chance for Myanmar's positive transformation. In unfolding simultaneously, they also pose the risk that setbacks in any one of these realms will affect the others. Each of these transitions is complex and on their own would challenge the capacity of most states.

Transition towards democracy under a decentralized system of government

The administration of President Thein Sein, brought to office following elections in 2010, has signaled its intent to chart a new direction for the country. In his inaugural address in March 2011, President Thein Sein reached out to long-time critics of the former regime, urging that differences be put aside in order to work together for the good of the country, including through national reconciliation, good governance, and economic development. As part of this process, the Thein Sein administration has undertaken far-reaching moves towards political reconciliation with opposition groups. The government resumed a previously stalled dialogue with Aung San Suu Kyi that led to a historic meeting between President Thein Sein and Aung San Suu Kyi in August 2011 and the re-registration of her National League for Democracy (NLD) as a legal political party. Following parliamentary by-elections on 1 April 2012, the NLD became the largest opposition party in parliament, with Aung San Suu Kyi and 42 other NLD delegates taking their parliamentary seats in May 2012. There has also been large-scale releases of political prisoners (including in May and October 2011 and January and September

10 A key limitation in understanding the development challenges in Myanmar is the lack of accurate and consistent data, especially at the national level.

11 Caution is urged in the interpretation of data, since the surveys did not include populations in parts of the border areas, potentially masking large pockets of poverty and skewing final results.

2012) and members of the Myanmar Diaspora are being welcomed back, including prominent critics of the government. These high-profile political developments have been accompanied by less reported but equally tangible changes in people's everyday lives, in particular increased civil and political freedoms. Changes in the national legal framework allowed the formation of trade unions and public gatherings for the first time in 20 years. More broadly, an increased freedom of expression, including a new media law which reduces media and internet censorship, led to new public discussions of previously taboo topics such as poverty and corruption. The general elections scheduled for 2015 will be an important milestone and test of the democratic transition.

Another key feature of Myanmar's transition to democracy is the move towards a more decentralized system of Government. In line with the new constitution, Myanmar has from 2011 moved from a centralized unitary form of government to a hybrid system of central local relations, falling somewhere between unitary and federal systems. While the Union (central) level of government has sole legislative authority and key financing responsibilities, regions and particularly states (both first order sub-national government units) exercise varying degrees of autonomy in service delivery and administration. In particular, the 14 states and regions have their own parliaments and executive governments, headed by a Chief Minister. They also prepare their own budgets which have to be approved by their respective parliaments. However, unlike in fully fledged federal systems, the state and regional budgets also need to be approved by the national parliament. Further, there are no publicly known guidelines or formulae, if at all they exist, that guide vertical allocation of resources between central and the lower tier of government and horizontal allocation, amongst the 14 states and regions.

Achieving peace in the Border States

The second type of transition has focused on ensuring an end to conflicts in the border areas, many of which have been going on for 60 years. Myanmar has 11 major ethnic groups that have been involved in conflict, spread across seven states, and many smaller groups and militias. A series of ceasefires were reached in the 1980s and 1990s but these did not last. Soon after coming to power, the new administration made the need to achieve lasting peace in the conflict areas one of its top priorities. Ceasefires have been agreed or renewed with 10 out of the 11 groups. The conflict in the northwestern state of Rakhine poses another ongoing challenge. In order to improve the chances of finding long lasting peace, the Government is establishing a Peace Center whose role will be to improve the coordination of the peace process between government, international organizations, civil society, NGOs, and donors.

Transition towards a modern, market-oriented, and open economy

The third transition seeks to achieve economic development by moving away from an approach where the Government dominates the economic space to one where development is achieved through a flourishing private sector operating in a modern, market-oriented, and open economy. Myanmar's centrally planned approach to economic management and development was adopted in 1962 when shortly after a military coup, the ruling Revolutionary Council introduced what was known as the "Burmese Way to Socialism" as a blueprint for economic development. In the context of this framework, some of the policies pursued between 1962 and 1988 included the following: most firms and businesses were nationalized to create State Economic Enterprises (SEEs) which received Government subsidies on foreign exchange and inputs; there were fixed multiple exchange rates and access to foreign exchange was strictly controlled; all land rights belonged to the Government which would also dictate crop choices and require the sale of a portion of most farm produce to the government at prices below international levels; and the financial sector was heavily controlled and regulated.

In 1987, some variations to the framework started being introduced. For example, farmers were given more freedom to sell surplus produce in private markets. Although rice export was still under the state monopoly, domestic paddy/rice marketing was deregulated, resulting in active participation by private traders. Similarly, following the official abandonment of the Burmese Socialism in 1988, SEEs started being privatized although many still remained under the direct control of government ministries. Transition to a market economy continued but many elements of a centrally planned economy remained.

Like the other two transitions, the move to a market-based economy has received renewed impetus under the new administration which is operating under the framework of the new Constitution that has a clear provision for a market-based economy. Important steps already undertaken include the introduction of a managed float exchange rate system on April 1, 2012 leading to legal use of a realistic and less distortionary exchange rate; greater transparency in use of public funds through parliamentary discussion and approval and then publishing of the national budget; significantly increased budget allocations to health and education; providing greater economic decision making to regions and states; reduction in barriers to trade; and approval of a Foreign Direct Investment Law. These are critical initial steps, but much will depend on the implementation of these changes.

There are a number of other economic reforms that are under discussion. These include, but are by no means limited to, the preparation of a new law to improve the functioning of the central bank; joining the open Government partnership and the Extractive Industries Transparency Initiative (EITI); financial sector liberalization; a new agricultural land law that allows farmers for the first time to sell or lease their farming rights; and a comprehensive education sector review. The scale of reform that is planned provides an opportunity to bring about significant improvement in people's lives in Myanmar, but will challenge the Government's ability to manage all these changes.

C. Economic opportunities and challenges

The country's economic opportunities lie in its strategic location within a large regional and global export market, vast untapped natural resources, and the improving prospects for trade, investment, and development aid as it re-engages with the wider international community. Being close to the large export markets of China, India, and other countries in the ASEAN region places Myanmar in a uniquely advantageous position for an export-led transformation of its economy, particularly in areas where it has a comparative advantage such as natural gas, agriculture products, textiles, and minerals. While these are already prominent destinations for Myanmar's exports, the market potential for Myanmar's products in these countries remains large. In particular, the country has not fully utilized its location advantage by being more competitive in these markets. Second, there are still significant opportunities for Myanmar to increase production and export levels in its natural resource sector. Finally, with many Governments lifting sanctions on Myanmar and development partners re-engaging, the country will start enjoying favorable market access opportunities in OECD countries as well, and will have expanded opportunities for inflows of portfolio and direct investments. Similarly, the country will also be able to benefit from financial and technical support from development partners.

Reaching Myanmar's potential will require addressing a number of challenges, including: the creation of an enabling environment for the private sector; the effective and sustainable management of natural resources and delivery of public services; effective use of public resources; initiatives for addressing infrastructure constraints particularly in power and transport sectors; reforms for improving the financial and telecommunication sectors; and, initiatives for improving the quality of statistics.

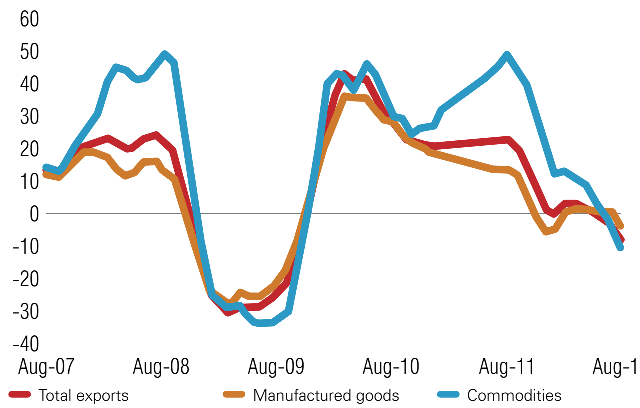
II.B. The near-term dynamics and long-term trends in exports of the ASEAN-4 economies

The weak external environment has affected the exports of the ASEAN-4

While regional growth, and in particular domestic demand, has generally held up in 2012, the weakness in the external environment has clearly affected the performance of regional exports. Fragility in the Euro area, halting progress in the U.S., and slower growth in China and Japan have depressed the demand for East Asia's exports. International commodity prices have declined as well. As of November, energy commodity prices were down 13 percent, in U.S. dollar terms, from their recent highs in March. Prices for some key commodities for the region, such as coal and crude palm oil, have fallen by considerably more. As a result, the growth rate of total exports from the ASEAN-4 (Indonesia, Malaysia, the Philippines, and Thailand) turned negative by the middle of the year, with commodity exports particularly hit (Figure 16).

Figure 16. Export growth of the ASEAN-4 has weakened, particularly for commodities…

year-on-year growth of the three-month moving average of export values, in percent



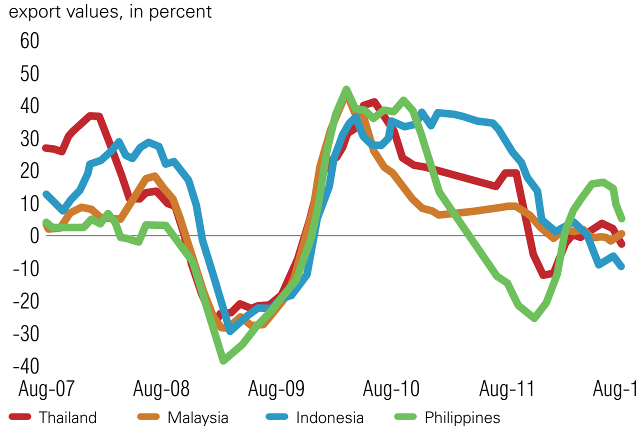
Source: CEIC and World Bank staff calculations.
Note: Commodity exports include oil and gas, coal, copper, and agricultural commodities.

Manufacturing exports have not been immune to the downturn…

While the growth of manufacturing exports from the ASEAN-4 economies has generally slowed, the picture is more mixed for individual countries (Figure 17). Malaysia, with strong and sizable links to high-income countries through electronic and electrical product exports, has seen little manufacturing export growth over the year as personal consumption remains in the doldrums in the high-income economies. In Thailand, the devastating floods in 2011 knocked down industrial production, sizably cutting manufacturing for export through at least the first quarter of this year. In addition, the commodity channel is also affecting commodity-related manufacturing exports in the

Figure 17. …as well as for manufactured goods

year-on-year growth of the three-month moving average of manufactured export values, in percent



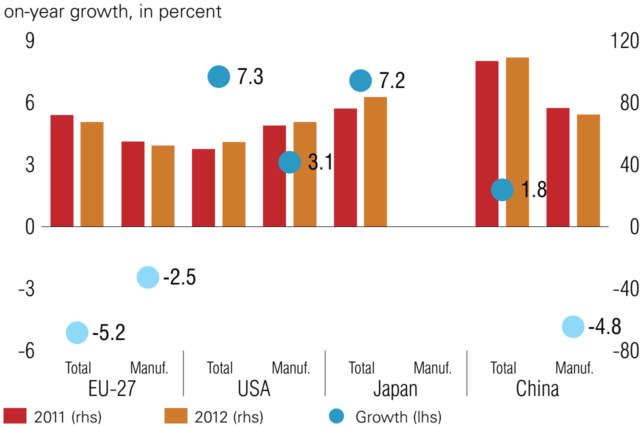
Source: CEIC and World Bank staff calculations region. Indonesia—which counts on agriculture commodity-based manufactured goods for 17 percent of its exports, in addition to commodities which comprise the bulk 46% of total exports—is particularly affected. The Philippines has been the exception, with manufacturing exports growing, albeit modestly at 7.5 percent year-on-year through September, on a more diversified product mix.

...with one channel of transmission running through regional production networks

The emergence of regional production networks and the rising trade in intermediate goods means that lower demand from high-income countries affects manufacturing exports increasingly indirectly as well as directly.[12] In the first eight months of 2012, the EU's imports of manufactured goods from the ASEAN-4 fell by 2.5 percent (Figure 18). Over the same period, China's imports from the ASEAN-4 declined by 4.8 percent. The latter reflects not only the slowdown in China's final demand, but also the indirect impact of weakening demand from Europe[13]. Indeed, over this period, the EU's imports of manufactured goods from China fell by 8.8 percent (Figure 19), principally affecting those manufactured goods—electric machinery, telecommunications products, and clothing and footwear—for which the ASEAN-4 countries have become key suppliers to China of inputs and components.

Figure 18. The imports of manufactured goods by China and the EU from ASEAN countries have contracted...

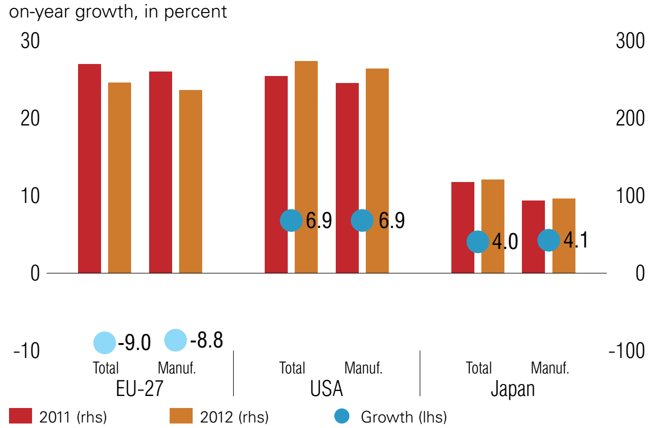
value of imports from ASEAN, January–August 2012, in US$ billions, and year-on-year growth, in percent



Source: CEIC and World Bank staff estimates.

Figure 19. ...while the impact of Europe's slowdown has also been seen in its lower imports from China

value of imports from China, January–August 2012, in US$ billions, and year-on-year growth, in percent



Source: CEIC and World Bank staff estimates.

12 Production networks appear to be more extensive in East Asia than in other regions and are the heart of the growth of intraregional trade. Much regional trade is accounted by a triangular pattern of exports, in which Japan and the NIEs export a significant share of parts and components to middle-income ASEAN and China where processing is completed. Final products are then exported to the European Union and the United States. See Homi Kharas and Indermit Gill, eds., An East Asian Renaissance: Ideas for Economic Growth, (Washington D.C.: World Bank), 2007.

13 World Bank (2012), East Asia and Pacific Economic Update: Capturing New Sources of Growth. Box 3 provides further information on the centrality of China for East Asian trade with Europe.

China is likely to play a growing role in regional trade, presenting both opportunities and challenges...

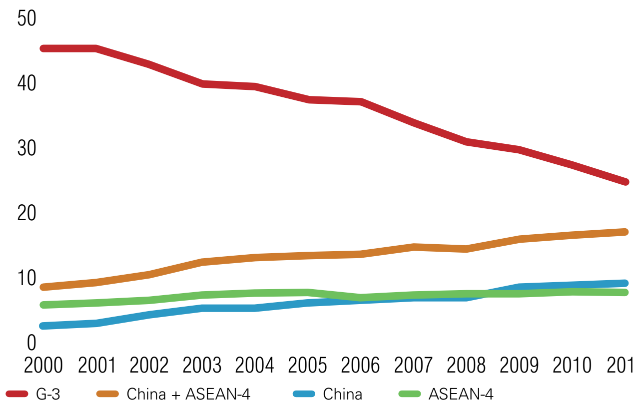
These recent developments reflect the medium-term trends in the region's export patterns. China now accounts for a larger share of regional exports than five years ago. Overall, the relative importance of direct exports to higher-income markets, such as the U.S., Europe and Japan, has fallen. Intra-regional exports (within ASEAN-4 and with China) have risen (Table 3, Panels A and B), not only due to increasing relative income levels and growing market size in the region, but also in line with the closer linkages forged among the region's exporters through international supply chains. Shifts in the manufacturing locations of multinationals are also changing the pattern of intra-regional trade, as companies relocate, for example, in response to labor cost pressures in China or in response to the production risks exposed by the natural disasters of last year, including the floods in Thailand.

For the ASEAN-4 countries, much of the increase in intra-regional manufacturing exports has consisted of higher and rising exports to China (Figure 20). A recent IMF report estimates that China accounts for one half of all intra-regional intermediate goods imports in Asia and that a 1 percentage point drop in Chinese export growth would lower the growth of exports of Asian economies to China by about two-thirds of a percentage point[14].

Looking ahead, the importance of the Chinese economy for intra-regional trade is likely to grow further, although the composition of this trade may change with the rebalancing of demand in China. This process could yield sizable export gains to countries which are able to tap into this new source of final goods demand in China. However, for countries which remain reliant on commodity exports, the impact may be less benign as China's rates of fixed investment and construction decline.

Figure 20. The share of ASEAN-4 manufacturing exports to the region have risen

ASEAN-4 manufacturing exports per destination, as a share of the ASEAN-4's total exports, in percent



Source: U.N. COMTRADE and World Bank staff calculations.

...but new extra-regional markets also provide real opportunities for export growth

Other than the intra-regional market, developing country markets outside the region also offer considerable potential to East Asia's exporters. The share of manufacturing exports from China and the ASEAN-4 headed to markets beyond the major trading blocs is sizable and growing. Over 2005 to 2011, the share in total exports of manufactured exports to economies outside the major trading blocs rose by 5.4 percentage points for the ASEAN-4 and by 10 percentage points for China (Table 3, Panel B). For the ASEAN-4, this increase was greater than the increases in export shares within the region.

14 IMF (2012), Regional Economic Outlook - Asia and Pacific: Managing Spillovers and Advancing Economic Rebalancing.

Table 3. Rising dependence on China and a higher share of commodity-based exports

Panel A. The pattern of the major EAP countries' manufacturing exports by destination, 2011

exports by category, as a share of total exports, in percent

Exporter	Export products:	Export to:							
		China	ASEAN4	NIEs	JPN	EU25	USA	RoW	World
China	Raw materials	..	0.4	0.8	0.5	0.5	0.3	1.1	3.5
	Agri res-based manuf.	..	0.2	0.4	0.5	0.5	0.5	1.3	3.4
	Other res-based manuf.	..	0.3	0.7	0.4	0.7	0.5	1.7	4.4
	Textile, footwear, clothing	..	0.5	1.4	1.8	3.8	3.1	5.9	16.4
	Other low-tech manuf.	..	0.7	2.5	0.9	2.8	3.2	4.5	14.6
	Mach, elec., proc. manuf.	..	2.8	13.6	3.9	10.6	9.8	16.9	57.6
	Total exports	**..**	**5.0**	**19.4**	**8.0**	**18.8**	**17.5**	**31.4**	**100**
	Manufacture exports	*..*	*4.6*	*18.5*	*7.5*	*18.4*	*17.2*	*30.3*	*96.5*
ASEAN4	Raw materials	3.7	2.2	4.9	6.1	1.4	1.5	5.9	25.6
	Agri res-based manuf.	2.3	1.5	1.2	1.5	1.9	1.3	6.0	15.7
	Other res-based manuf.	1.3	0.6	0.9	1.0	0.3	0.1	1.2	5.3
	Textile, footwear, clothing	0.2	0.2	0.3	0.4	1.2	1.6	1.2	5.0
	Other low-tech manuf.	0.1	0.6	1.4	0.7	0.8	0.8	1.8	6.3
	Mach, elec., proc. manuf.	5.2	4.9	8.2	4.0	5.0	4.0	10.9	42.2
	Total exports	**12.7**	**10.0**	**16.9**	**13.5**	**10.7**	**9.3**	**26.9**	**100**
	Manufacture exports	*9.0*	*7.8*	*12.0*	*7.5*	*9.3*	*7.8*	*21.1*	*74.5*

Panel B. Comparing the pattern of major EAP countries' manufacturing exports by destination, 2005 and 2011

percentage point change in share of total exports, from 2005 to 2011

Exporter	Export products:	Export to:							
		China	ASEAN4	NIEs	JPN	EU25	USA	RoW	World
China	Raw materials	..	0.0	-0.4	-0.3	0.0	-0.1	0.2	-0.6
	Agri res-based manuf.	..	0.1	-0.1	-0.3	0.0	-0.1	0.6	0.1
	Other res-based manuf.	..	0.1	-0.2	-0.1	-0.1	0.1	0.5	0.3
	Textile, footwear, clothing	..	0.2	-1.5	-0.9	0.7	-0.5	0.6	-1.3
	Other low-tech manuf.	..	0.3	0.2	-0.2	-0.1	-1.4	1.7	0.5
	Mach, elec., proc. manuf.	..	0.2	-1.6	-1.1	-0.9	-2.2	6.6	1.0
	Total exports	**..**	**1.0**	**-3.6**	**-3.0**	**-0.3**	**-4.3**	**10.2**	**..**
	Manufacture exports	*..*	*1.0*	*-3.2*	*-2.6*	*-0.3*	*-4.2*	*10.0*	*0.6*
ASEAN4	Raw materials	1.8	0.4	1.4	1.6	0.4	0.3	2.0	7.8
	Agri res-based manuf.	1.2	0.6	0.2	0.1	0.3	0.2	2.7	5.3
	Other res-based manuf.	1.0	0.0	0.2	0.1	-0.1	-0.1	0.2	1.2
	Textile, footwear, clothing	0.0	0.0	-0.1	0.0	-0.2	-1.0	-0.1	-1.5
	Other low-tech manuf.	-0.1	0.1	0.5	-0.1	-0.3	-0.7	0.2	-0.4
	Mach, elec., proc. manuf.	0.9	-0.5	-4.2	-2.2	-2.6	-6.3	2.5	-12.4
	Total exports	**4.8**	**0.5**	**-2.0**	**-0.5**	**-2.6**	**-7.6**	**7.4**	**..**
	Manufacture exports	*3.0*	*0.1*	*-3.4*	*-2.1*	*-3.0*	*-7.9*	*5.4*	*-7.8*

Source: U.N. COMTRADE and World Bank staff calculations.

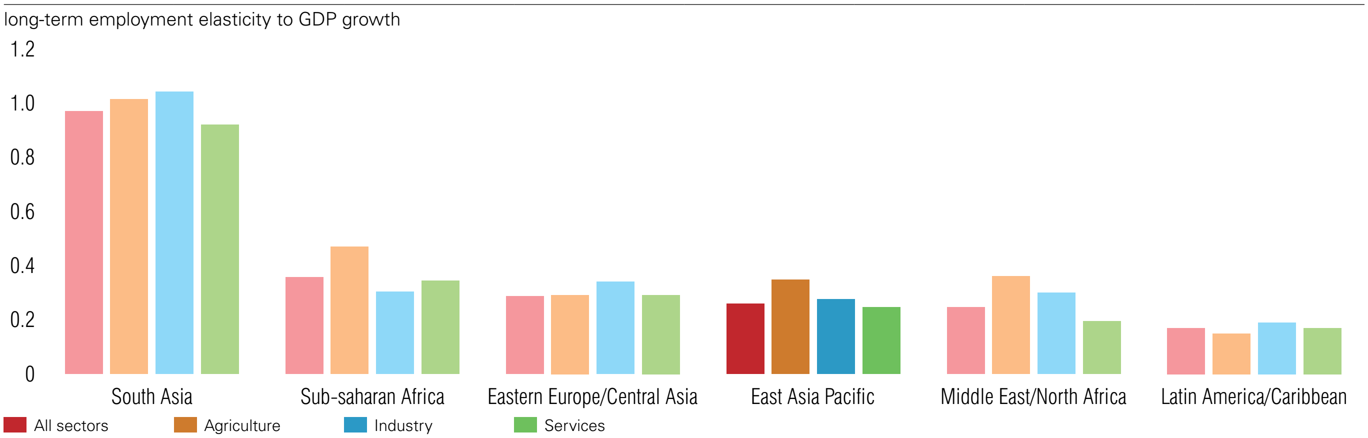
Note: In Panel A, a darker color indicates a larger share of total exports. In Panel B, the figures represent the percentage point changes in total exports from 2005 to 2011 (for example, the share of ASEAN-4 commodity exports to China grew by 1.8 percentage points from 1.9 percent in 2005 to 3.7 percent in 2001). Yellow represents little change, shades of red, levels of decline, and shades of green, levels of increase.

Part III. The medium term development agenda

III.A. The jobs context in East Asia and the Pacific [15]

Economic growth in the East Asia Pacific region has created jobs. A positive relationship between employment and GDP growth in the region was not as strong as in South Asian countries, but since 1991 matched and in some cases surpassed the average for low and middle-income countries. In fact, while the strength of the relationship between employment and growth varies considerably across countries, when taken in aggregate, growth in East Asia matched the long-run average for upper-middle-income countries (Figure 21).[16] Job creation in the wake of growth was even faster in China, Malaysia, and Thailand from 2001 to 2011.[17]

Figure 21. Growth has created jobs, although less in EAP than in some other regions



Source: Crivelli, E., D. Furceri and J. Toujas-Bernate (2012).

Yet despite these trends, there is a growing preoccupation with jobs in the East Asia and Pacific region and globally. This rising concern was reflected in the presentation of the 2013 World Development Report (WDR) on Jobs[18] in October at the annual meetings of the World Bank and the International Monetary Fund in Tokyo. This section summarizes the conceptual framework and main findings of the WDR on Jobs, and previews a program of analysis sponsored by the EAP Regional Chief Economist to synthesize the report's implications for East Asia and Pacific countries.

Growth in the region is characterized by a greater degree of export orientation and openness to world trade and especially between East Asian countries than in other low income and emerging market regions. Relatively high rates of growth have been sustained for longer periods than high growth spurts elsewhere. Perhaps reflecting hard-learned lessons during the region's crisis in the late 1990s, countries in East Asia continued to generate employment even during the global economic slow-down and contraction of 2009, although with a substantial downward adjustment in earnings.

15 Prepared by EAP Jobs regional study team.

16 Crivelli, E., D. Furceri and J. Toujas-Bernate, 2012, "Can Policies Affect Employment Intensity of Growth? A Cross-Country Analysis", IMF Working Paper WP/12/218, Washington DC.

17 Hanusch, M., 2012, "Jobless Growth? Okun's Law in East Asia", World Bank Policy Research Working Paper 6156, Washington DC.

18 World Bank, 2012, World Development Report 2013: Jobs, Washington DC: World Bank.

These contextual factors shape not only the speed of structural transformation, but the relative returns to labor, the skills profile required to maintain productivity, and the vulnerability of jobs to shocks. Although growth in East Asia has clearly resulted in a greater quantity of jobs, households and the governments that serve them are nonetheless concerned about the quality of jobs. In the island countries of the Pacific that experience very different economic forces, the substantial—even growing—share of youth in the population and the large number of these young people who are not working, provide similarly strong motivation for governments to pay attention to employment.

A profile of EAP labor force: Who is working and where?

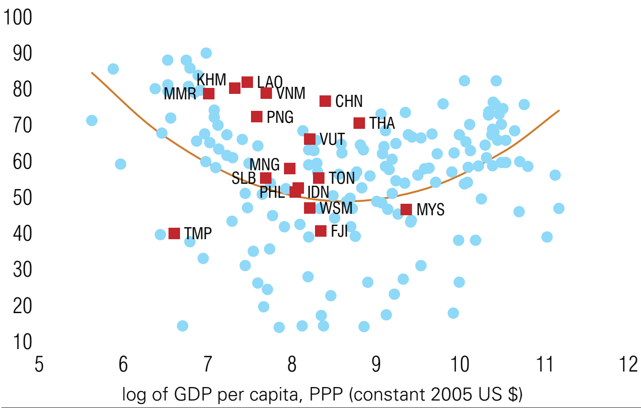
What does the word "job" really mean in EAP countries where the share of the labor force engaged in small-scale agriculture is still large; where many working people are sole-traders and otherwise self-employed; and where "unemployment" -i.e. a lengthy period of search, without any remunerated activity- is rare? The WDR points out that the commonly understood concepts of "jobs", "employment" and "unemployment" lose much of their meaning in countries where only a fraction of the labor force works for a wage or salary, and where the coverage of income support systems to protect household consumption during periods without work is scant. To be useful to policy makers in developing countries, the WDR uses *jobs* to refer to a broader variety of working forms, including farm employment, unpaid family work in household's market-enterprise, self-employment, and casual labor.

From the data presented in the charts below a profile of working people in EAP countries quickly becomes apparent. The data here are presented in cross section for two reasons. First, to show how East Asia Pacific countries as a group are different from other countries. Second, to show how different East Asian countries and particularly those in the Pacific are from each other. But an important dimension is not shown: the rapid changes over time, which as mentioned earlier have arguably been more dramatic in East Asian countries than elsewhere.

Who is working in East Asia Pacific countries? The first important characteristic to note is that most people still live and work in rural areas. This is particularly apparent for Pacific countries. The share of the population living in towns and cities—although growing fast—remains lower than expected at their level of income. The second characteristic is that the share of the population participating in the labor force (working or seeking work), is higher in most EAP countries than in comparable countries elsewhere. And among people participating, women represent a larger share in most EAP countries than in other parts of the world (with the notable exception of Malaysia in East Asia and Fiji in the Pacific). In East Asian countries young people (ages 16–25) are more likely to be participating. And while falling fertility is causing East Asia's populations to age quickly, older people (ages 56 and above) are more likely to be economically active than elsewhere. Inversely, Pacific populations are younger.

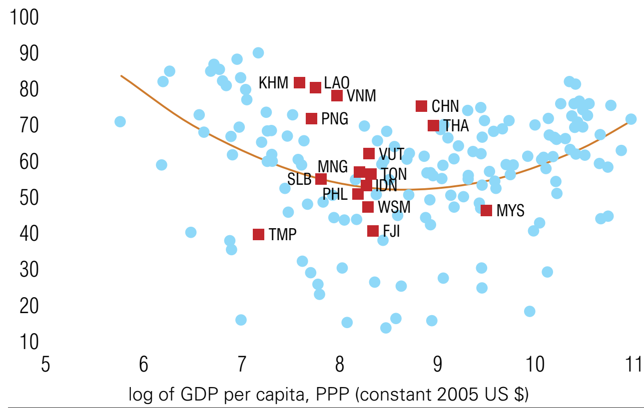
Reflecting one of the contextual factors—the degree of regional and global integration of East Asian countries—the region is both a host to a large number of immigrants, as well as an exporter of labor. Pacific countries like Samoa and Tonga lead in sending emigrants as a share of their small populations. The Philippines is probably the best known country for exporting labor. Available data are inexact, but as of 2010 East Asia and Pacific countries hosted 7 million immigrants, and received US$90 billion in remittances from up to 21 million emigrants.

Figure 22. Participation rates are generally higher than elsewhere



Source: World Bank's World Development Indicators.

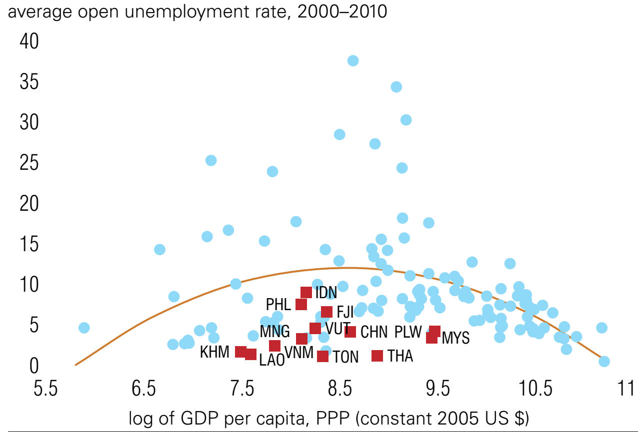
Figure 23. Also among women, but with important exceptions



Source: World Bank's World Development Indicators.

Where are people working? Most working people in East Asian countries—Malaysia, Thailand, Philippines and Indonesia—earn their living in small and medium enterprises. Indeed, in this regard findings from the Jobs WDR counter widely held assumptions that large firms are the engines of job creation in low and middle income countries. Taking account of a representative sample of firms in emerging economies—and not just a sample of registered firms, which can "censor" small businesses—reveals that many new jobs are created in small enterprises. Relatedly, a large share of the labor force works in the primary sectors. This ranges from about 34% in the Philippines to 70% in Lao PDR.

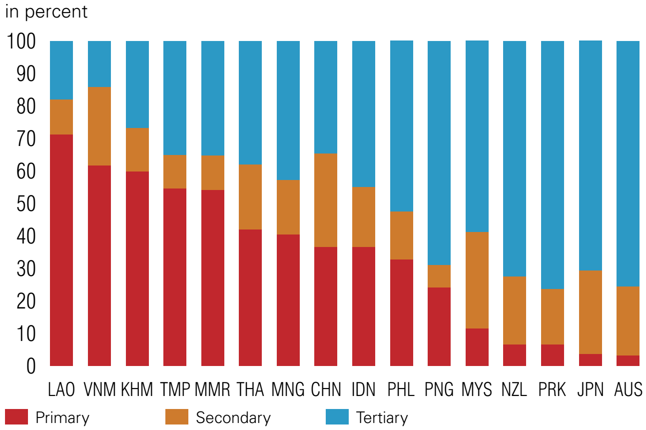
Figure 24. Open unemployment remained low



Source: World Bank's World Development Indicators.

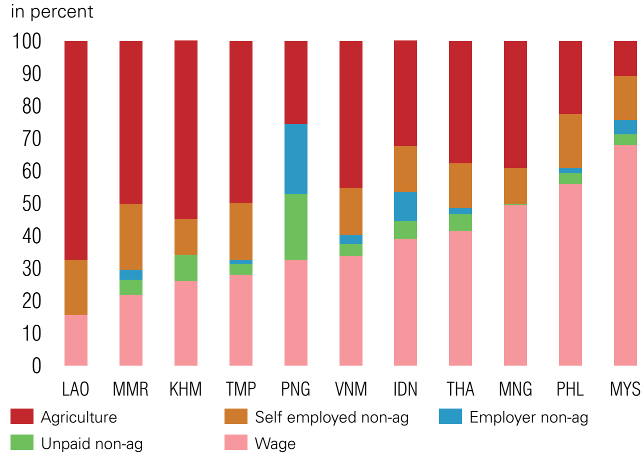
Finally, and critical to explaining why jobs are a growing policy concern in the region, employment in EAP is also characterized by a high degree "informality"—that is, work or other transactions on unregulated and untaxed markets. A large portion of this in countries like Lao PDR, Cambodia and PNG, is *structural informality*, explained by a large share of the labor force still working in subsistence or small-share holder farming. In most countries this portion decreases with the structural change out of mainly agrarian economies. However, setting aside people who are self-employed farmers or non-paid workers in a family business (what labor economists refer to as "residual earners"), in all middle-income countries, there is a persistent remainder that can vary widely in size. The remaining share of informal workers—whether measured by proxies such as non-farm self-employment, the share of people working in micro-enterprises with five or fewer workers, or the workforce that is not contributing for social security coverage—is higher in many EAP countries than in other parts of the world at similar levels of income. The share of the labor force in "formal" wage and salaried employment in EAP countries is among the lowest across low and middle income regions (surpassed only by countries in Sub-saharan Africa).

Figure 25. Primary industries dominate



Source: Staff estimates using the World Bank's International Income Distribution Database (I2D2).

Figure 26. Vulnerable employment prevalent



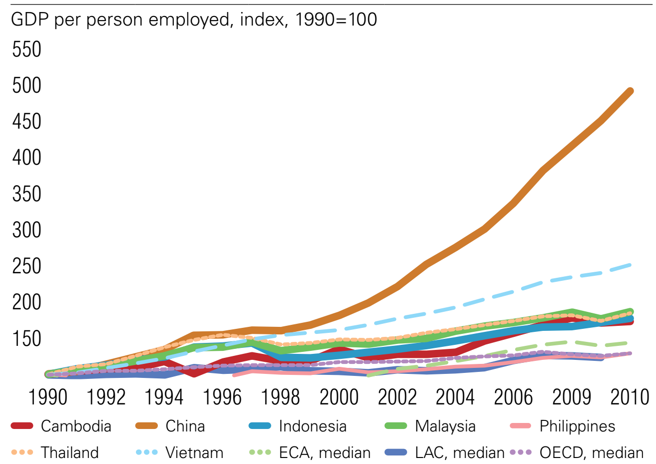
Source: Staff estimates using the World Bank's International Income Distribution Database (I2D2).

Jobs and the three "development transformations" in EAP

The WDR 2013 argues that jobs (as the report broadly defines that term) link individual, household and societal assets such as education, land, and capital, to improving development outcomes. In doing so jobs are the *conduits* connecting and enabling three critical development transformations: gains in productivity, improvements in living standards, and greater social cohesion. These are the transformations that can pull a country form low to middle income and from middle to high income. Have these transformations been observed in East Asia? Probably more dramatically than in other emerging market regions.

Productivity. In recent decades East Asian countries have experienced exceptionally strong economic growth. Rapid structural change in tandem with large movements of people into urban areas and into non-agricultural work has propelled factor productivity. In EAP the shift out of primarily agricultural economies has been happening faster than in most other low and middle-income country regions, with the exception is South Asia. The shift of people off the farm and into urban manufacturing and services has steadily increased the productivity of labor and changed the character of work. In recent years, the importance of human capital in raising productivity has grown even faster than the structural shift of the labor force.

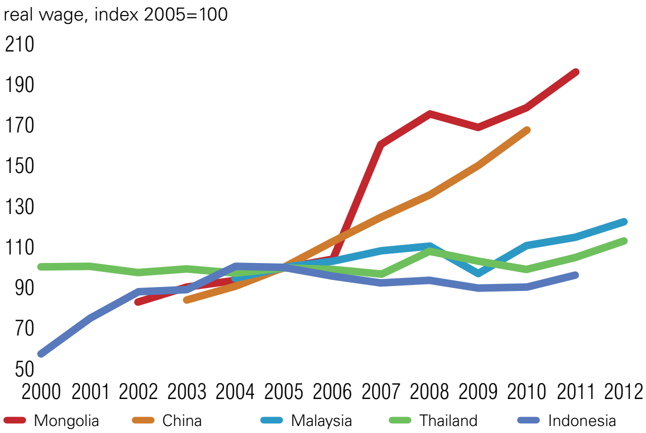
Figure 27. Labor productivity has risen across the region



Source: ILO, Key Indicators of the Labor Market, and WB staff estimates.

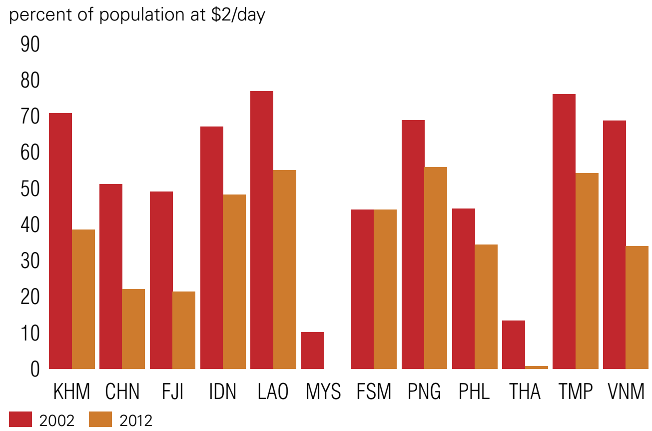
Living standards. High and sustained economic growth in the region has been accompanied by historic rates of poverty reduction in many countries. Indeed, poverty has declined more quickly in the EAP than in any other developing region. The rise in average wages in the last fifteen years is China alone has propelled more people out of poverty and into middle-class than in any previous period.[19] In the same sense, the rising tides of real wages in manufacturing have lifted many boats across the region. To cite evidence gathered for the WDR, in Vietnam "labor-related events" (finding a new job or increasing wages) accounted for 62% of movements out of poverty during the 1990s. In Indonesia job changes were the most important factor in explaining household income changes.[20] In Thailand since 2000, rising agricultural labor income was the primary driver of falling poverty.[21] In the Philippines earnings from non-farm work and remittances were the largest component of rising rural household incomes from late 1980s through 2000s.[22]

Figure 28. Real wages mostly rising



Source: Staff estimates using National Household Income and Expenditure Surveys, and East Asia Poverty Database.

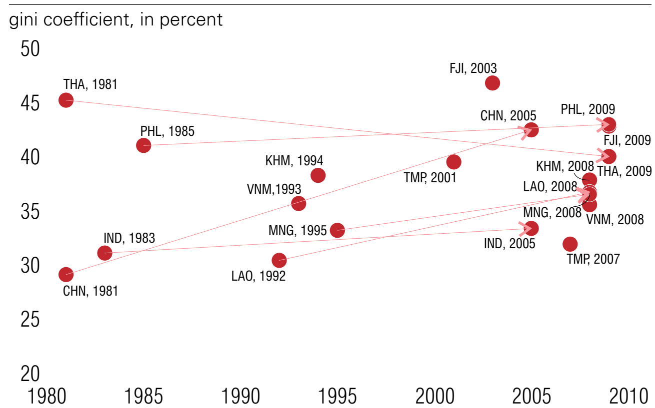
Figure 29. Poverty has declined across the region



Source: Staff estimates using National Household Income and Expenditure Surveys, and East Asia Poverty Database.

Social cohesion. As noted, the region's success in raising living standards and reducing poverty has been driven by rising wages especially for skilled workers. But with the premium for skilled workers—still relatively rare in the labor force—has also come rising earnings inequality. Inequality has risen in several East Asian countries between the late 1990s and 2000s raising concerns among policy makers for widening disparities in the welfare of people in economically leading and lagging areas, as well as the risk of increasing social polarization, particularly in the region's large, culturally

Figure 30. Inequality is on the rise in several EAP countries



Source: WDI Database, 2012.

19 Li, Hongbin, Lei Li, Binshen Wu and YanYan Xiaong, 2012, "The End of Cheap Chinese Labor", Journal of Economic Perspectives – Volume 26, Number 4, pp. 57-74.

20 Inchauste, G., 2012, "Jobs and Transitions out of Poverty: A Literature Review", background paper for the WDR 2013 on Jobs, World Bank, Washington DC.

21 Inchauste, G., S. Olivieri, J. Saavedra and H. Winkler, 2012, "What is Behind the Decline in poverty Since 2000? Evidence from Bangladesh, Peru and Thailand", background paper for the WDR 2013 on Jobs, World Bank, Washington DC.

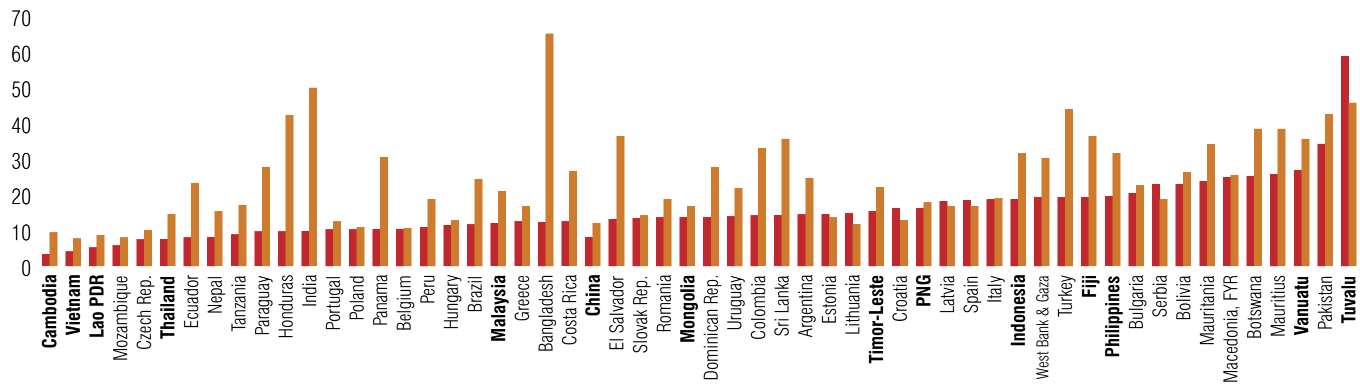
22 Estudillo, J., T. Matsumoto, H. Chowdhury, Z. Uddin, N. Kumanayake and K. Otsuka, 2012, "Labor Markets, Occupational Choice, and Rural Poverty in Selected Countries in Asia and Sub-Saharan Africa", background paper for the WDR 2013 on Jobs, World Bank, Washington DC.

heterogeneous countries. In Indonesia, for example, wage inequality increased as salaried workers' welfare grew 1.5 times faster than welfare of those of the poor who, as elsewhere in the region, remain concentrated in agricultural employment.

A less widely prevalent concern for social cohesion is presented by high levels of youth unemployment, and particularly the high rates of young people not in *employment, education* or training (the so called "NEETs"). High levels of this indicator have been linked to violence, but even where violence is not a concern, high rates of disengagement among youth can have a lasting impact on their later economic prospects. In a global ranking of countries by young people NEET rates the placement of several countries in EAP raises concern. Some of the highest NEET rates in the world are found in the Pacific island countries of Tuvalu, Vanuatu, and Fiji. But the problem appears prevalent in Philippines and Indonesia as well.

Figure 31. Youth unemployment

youth (15–24) not in employment, education or training circa 2010, in percent

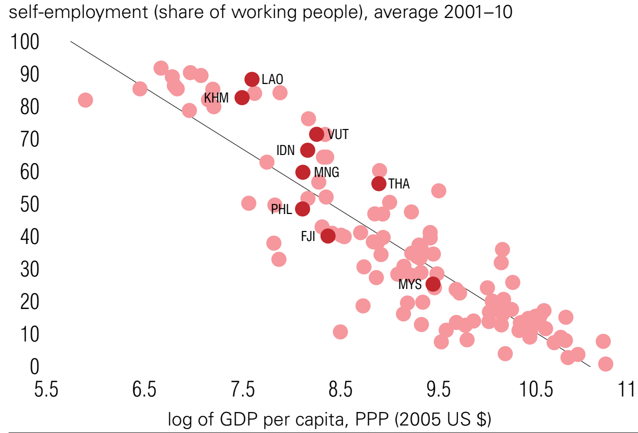


Source: Staff estimates using the World Bank's I2D2.

More generally, however, is the prevalence in the region of forms of work that may be relatively more vulnerable to earnings-risks and impoverishing shocks. By most proxy measures of informal or "vulnerable" employment, as shown in the previous section, EAP countries show higher levels than their level of development alone explains. Indeed, it is the prevalence of vulnerable -or informal- forms of work that are motivating calls to policy makers for national "jobs strategies". As discussed below, the WDR provides plausible and insightful explanations for why these calls are being made more frequently and becoming louder particularly in the East Asian middle-income countries.

Figure 32. Informality relatively high

self-employment (share of working people), average 2001–10



Source: Staff estimates using World Bank's WDI.

The policy framework for jobs in East Asia & emerging job challenges

Given calls for national jobs strategies, is the current policy framework in East Asian countries "pro jobs"? For policymakers in any country, establishing the fundamentals for private-sector led job creation involves actions that serve two purposes: reducing uncertainty and providing a basic level of public goods. Employers creating jobs, as well as working people, need to know how their investment of capital and work effort will yield returns and results—so the government has a role to foster stability. These public goods include macroeconomic stability and rule of law, together with investments in basic infrastructure and basic human capital. They also include other aspects of the enabling environment, for example making entry, operations and exit of private enterprises efficient, allowing the development of a financial sector that allocates resources to the most productive enterprises that can create jobs, and allowing competition that continuously reallocates resources to their most productive uses.

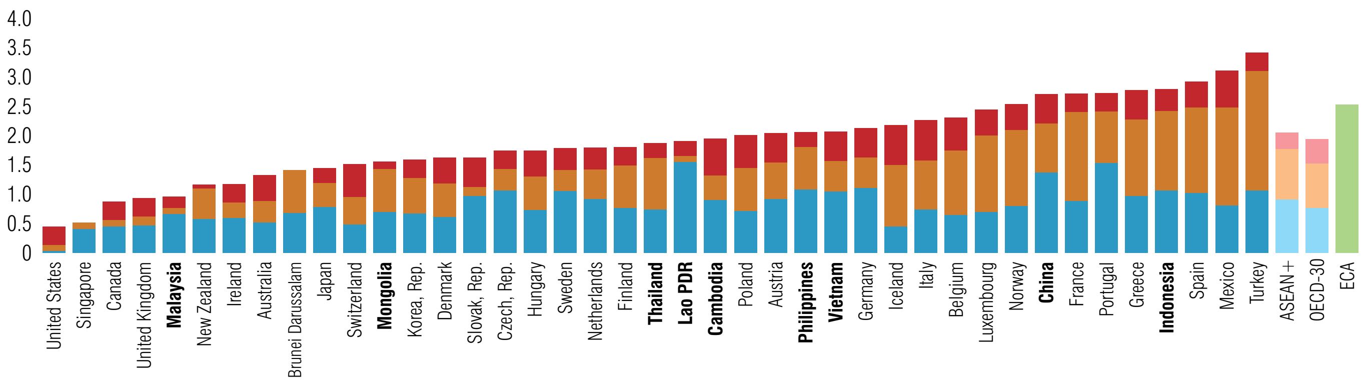
Starting with macroeconomic management and fiscal policy, the East Asian model, made famous by the *Tiger* economies and the countries that have sought to emulate those successes, is stable and business friendly. The recent experience of East Asia's emerging market economies has—with a few exceptions—been one of fast growth with price stability, and encouraging for employment creation. Inflation has slowed markedly since 2008. Fiscally, confidence in price stability is supported by generally modest government outlays and low levels of public debt. The average marginal tax rate on individual income is higher than in Latin America (reaching as high as 45% in China and 35% in Vietnam) however, the maximum corporate rate is relatively modest. The share of firms in East Asian countries that identify tax rates or dealing with tax administration as a "major constraint" is the lowest among all the countries for which the World Bank collects enterprise survey data. Also contributing to stability and confidence is increasing central bank independence, and a notable shift toward floating exchange rate regimes. Countries hit hardest by the East Asian crisis—experienced by many people as plunging wages, sudden job losses and protracted period of unemployment—have introduced floating exchange rates. Among these are Thailand, Indonesia, and the Philippines. All else equal, floating exchange rate regimes can better protect households from the risk of job-losses in the wake of external shocks.

Turning to the business environment, despite the East Asian reputation of business friendly places for investment, the picture is mixed. Ranked by their score on the World Bank's ease of doing business indicator, Thailand (17th) and Malaysia (18th) are among the most business friendly, China (91st) and Vietnam (98th) rank moderately, and Indonesia (129th), Philippines (138th) and Cambodia (140th), rank poorly.

Labor policies—labor regulations, collective bargaining, active labor market programs and social protection—attempt to address the imperfections that exist in labor markets in the form of inadequate information, uneven bargaining power, limited ability to enforce long-term commitments, and insufficient insurance against work-related risks. The effects of these policies on job creation have long been debated, but there is broad consensus that at very high levels of regulation, these create distortions of their own, rather than correcting market imperfections. The WDR argues that the relatively modest impact of labor policies on the level of employment and wages doesn't seem to merit the heated tones of the debate. Most countries are avoiding extremes of too little and too much regulation. However, even on a "plateau" between these two extremes where the impact on efficiency is modest, labor policies tend to redistribute gains toward middleaged men, at the expense of women and young people.[23] This finding is no surprise, since most labor policies were first conceived at a time when men where the largest group in the labor force.

In East Asia, higher income countries (Singapore, Korea and Japan) exhibit levels of regulation and protection more similar to Anglo-Saxon countries. Governments in many emerging market countries in East Asia have recently started to step into this area of policy making, but with an orientation similar to European countries. A simple reading of the labor codes in ASEAN member countries and China shows that the average level of employment protection is higher than the OECD average. In EAP, employment protection legislation (EPL) is most restrictive in Indonesia, where workers whose employment is regulated by the labor code enjoy more protection than workers in France, Portugal or Greece, and only a little less protection than workers in Spain.

Figure 33. Regulation high in some countries



Source: Countries' labor regulation surveyed for the EAP Jobs regional study, forthcoming.
Notes: Score range from 0 (least stringent) to 6 (most restrictive). OECD and ASEAN unweighted average. OECD average includes a sample of 30 countries. OECD figures are for 2010.

With high levels of structural informality and widespread avoidance of labor regulation in the manufacturing and service sectors, restrictive regulations on paper may have little direct relevance for most people employed. Indeed, the relatively restrictive labor codes in emerging East Asian economies has probably had only minor impact on the three transformations, relative to the impact of structural change. But this may not be sufficient reason for complacency, as explained below. When combined with poor implementation and enforcement capacity, even reasonable labor policies can aggravate the market failures that they were designed to overcome, creating segmentation and exclusion.

Most of the policies that affect job creation and the ability of jobs to act as the conduits for the three development transformations, have to do with ensuring a stable economy, a fiscal stance that encourages investment and innovation, and a regulatory framework for factor and product markets that encourages enterprise, particularly for small and medium firms—the segment where most East Asians are working.

Beyond these broadly accepted guidelines, the Jobs WDR offers a country typology of eight groups, each with its priority "jobs challenge". The typology takes account of levels of development, demography, natural endowments, political situation, and which of these factors is dominant in shaping the opportunities and

23 Betcherman, G., 2012, "Labor Market Institutions: A Review of the Literature", background paper for the WDR 2013 on Jobs, World Bank, Washington DC.

constraints on people offering and firms seeking labor. The eight country types, and their predominant features, are below (Figure 34, panel a).

Figure 34. The eight country types of the WDR

Agrarian	Majority of the population lives in rural areas.
Conflict-affected	Livelihoods altered by war and violence.
Urbanizing	Agricultural modernization and rural-urban migration rapidly taking place.
Resource-rich	Extractive industries make a substantial contribution to exports.
Small islands	The size of the population doesn't support economies of scale or specialization.
High youth unemployment	Youth unemployment rates and idleness rates at unusually high levels.
Formalizing	An urban middle class and a large share of informal employment coexist.
Aging	Rapidly increasing old-age dependency ratios.

Agrarian	Cambodia, Lao PDR, Myanmar, Papua New Guinea, Thailand, Timor-Leste, Vietnam
Conflict-affected	Timor-Leste, Solomon Islands
Urbanizing	China, Indonesia, Lao PDR, Malaysia, Mongolia, Philippines, Vietnam
Resource-rich	Myanmar, Mongolia, Papua New Guinea, Lao PDR, Timor-Leste, Indonesia
Small islands	Fiji, Kiribati, Marshall Islands, Micronesia, Palau, Samoa, Solomon Islands, Tonga, Tuvalu, Vanuatu
High youth unemployment	Indonesia, Mongolia, Philippines
Formalizing	China, Malaysia, Mongolia, Philippines
Aging	China, Indonesia, Thailand, Vietnam

Source: WDR 2013 and EAP Jobs Regional Report (forthcoming).

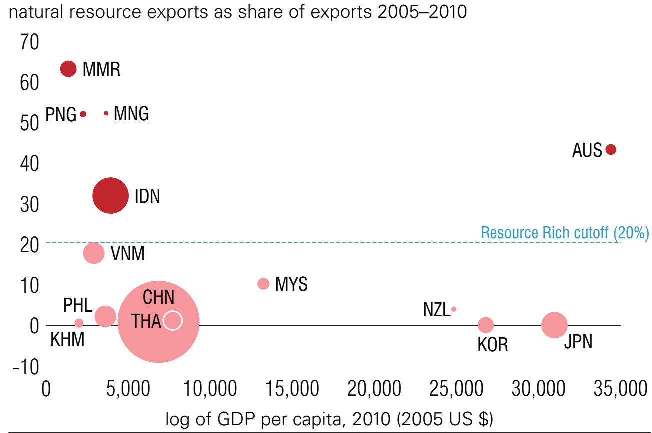
Reflecting the diversity in the region, most countries can reasonably be mapped to more than one type (see panel b). As an illustration, even among the most strictly defined type—'small island' countries—there are some affected by conflict, some that are rapidly urbanizing and others that are ageing. Indeed, in the East Asia and Pacific region the likelihood that a country can be mapped to more than one type, is greater than in other emerging market regions, like Europe and Central Asia (mostly 'aging'), Latin America and the Caribbean (mostly 'formalizing'), or Middle East and North Africa (mostly 'high youth unemployment'). The typology is a useful tool not because it can correctly and exhaustively diagnose *all* of a country's jobs challenges, but because it helps to identify which is likely to be the most pressing for policy makers to confront.

What are the implications for policy?

What guidance does the Jobs WDR offer? Many of the Bank's clients in EAP fall indisputably in the 'small island' type. In small island countries, employment creation led by private enterprise is significantly constrained by small, dispersed populations. Outside of niche sectors, this makes it almost impossible to achieve sufficient scale. However, the Pacific island countries are additionally constrained by great distances, which conspire against their gaining competitiveness even in activities where endowments should otherwise have given them a comparative advantage. Under these constraints on jobs, policy makers have to focus on preparing young people with the human capital they will need to succeed abroad as migrant workers. In doing so, service provision itself, can become a force for job creation when populations are dispersed on difficult to reach islands. And while the Pacific island countries are too constrained by economic geography to compete in manufacturing or even processing their natural resources for export, managing the exploitation of these resources and tourism offer opportunities for jobs.

Several countries in EAP are near or surpass the stylized threshold to be considered 'resource rich' (Figure 35). The obvious two are Mongolia and Papua New Guinea. But Myanmar, Indonesia, Vietnam, Lao PDR and Timor-Leste can also reasonably be included in this type. In these countries the most important challenges to jobs are price volatility and loss of competitiveness. Macroeconomic management and fiscal policy become the most important arenas of policy to sustain employment creation, in order to diversify the economy, and manage resource related risks such as currency appreciation and inflation. An active, export-oriented growth policy, and the encouragement of foreign investment can create the conditions for "spill-overs" and jobs connected to world markets. In resource rich countries with weak institutions, all of the above should be underpinned with governance reform, transparency and accountability.

Figure 35. Resource-rich EAP

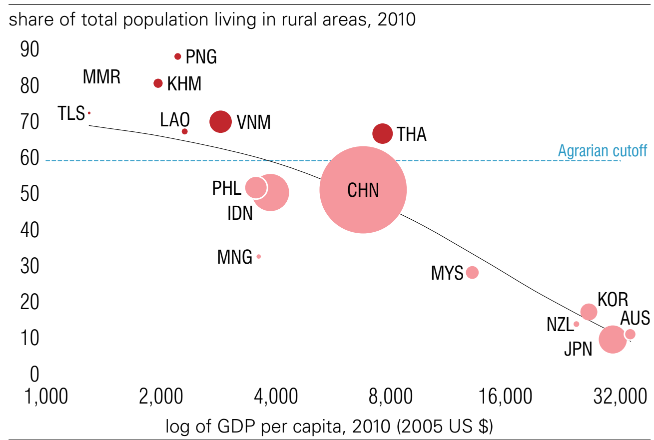


Source: Staff estimates, EAP Jobs regional study, forthcoming.
Note: Size of the bubble reflects the size of the population.

Most people in EAP work in countries that are nearing the end of the structural transition from 'agrarian' to 'urbanizing' economies. Even in the small Pacific island countries, the rate of urbanization is picking up. For this reason, the guidance offered for these types of countries, is most salient for the region. During the transition from agrarian to urbanizing, the economic forces released from the large-scale movement of people from rural farms to urban factories and firms, are so powerful that they propel all three development transformations with only a minimal need for policy intervention. Gains in productivity, rising living standards and improvements in social cohesion happen in tandem. However, as the process of urbanization starts to peter out and countries enter a new stage—what the WDR calls 'formalizing'—one or more of the three transformations can lag. The development trajectories of East Asia's high-income country success stories—Japan, Singapore, Korea and others—also included these transition periods when similar calls for jobs strategies were heard. But the answers that made sense for those countries at the time may not be viable today. In the meanwhile, some helpful insights and guidance can already be ventured from the tools offered by the global report.[24]

For countries that are still mainly *agrarian* (Figure 36), the jobs policy priority is to increase the productivity of agriculture, to free labor to work in rural off-farm enterprise and eventually to migrate to towns and cities. The instruments for increasing agriculture productivity and facilitating the structural transition are land reform, agriculture extension programs, deregulation, rural infrastructure and good quality education and health services to build human capital. Policies and programs that create implicit or explicit restrictions to labor moving off the farm and into rural non-farm industry and to manufacturing and services in cities should be identified and removed. Government action should enable as fluid a structural transition as possible. The WDR showcases Vietnam's experience in the

Figure 36. Rural EAP



Source: Staff estimates, EAP Jobs regional study, forthcoming.
Note: Size of the bubble reflects the size of the population.

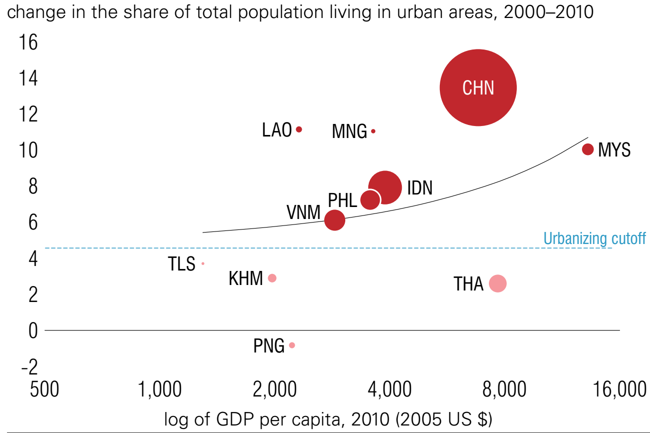
24 Readers are encouraged to avail of the extensive material available at www.worldbank.org/wdr2013

1990s and the first decade of the 21st century as an example of success. The danger to be avoided is urbanization in-spite of rather than enabled by policy, characterized by unproductive use of land, migration in the search of better health and education services, cities unprepared for fast population growth, and rapid divergence in living standards between town and country.

For countries that are already rapidly *urbanizing* (Figure 37), the jobs policy priority is to make cities work. Somewhat counter-intuitively in a discussion of jobs, the factor market that policy makers should pay the greatest attention to is the market for land. Since land is the least mobile factor of production, good urban planning becomes the key to increase the flexibility of land use. Urban planning becomes the area of policy making with the greatest impact on the incentives of firms in towns and cities to form, to grow, to move up the value chain, and thus to create and sustain jobs. Also important are urban infrastructure and service provision, to ensure that growing cities with plenty of skilled people, foster economies from agglomeration rather than incur burdening costs from congestion. Korea's example is instructive in this regard and provides valuable guidance for East Asian policy makers.

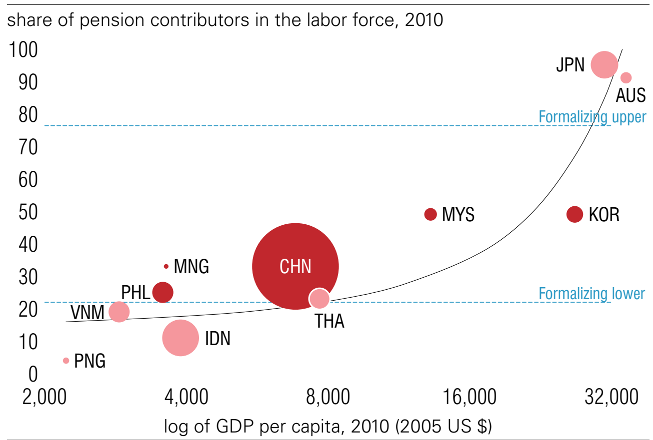
For countries where most people live in cities and a rising share of economic activity is *formalizing* (Figure 38) the priority jobs challenge lies in avoiding the formation or entrenchment of a policy and regulatory environment that causes segmentation. Segmentation can be caused by differences in how income from different sources is taxed; by rules for providing credit that explicitly or implicitly exclude self-employed people; by the types of work that are recognized in the labor code; and how non-wage social protection benefits are designed and financed . The overarching principle to follow to avoid segmentation is *neutrality*. This principle of neutrality can be applied across every arena of policy making, from monetary and fiscal, to regulation. But it is most easily illustrated in how social protection is offered formally in most countries. Models that tie eligibility to certain forms

Figure 37. Urbanizing EAP



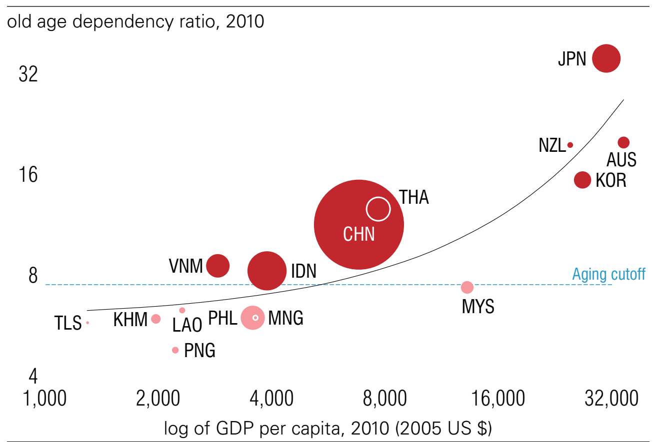
Source: Staff estimates, EAP Jobs regional study, forthcoming.
Note: Size of the bubble reflects the size of the population.

Figure 38. Formalizing EAP



Source: Staff estimates, EAP Jobs regional study, forthcoming.
Note: Size of the bubble reflects the size of the population.

Figure 39. Ageing EAP



Source: Staff estimates, EAP Jobs regional study, forthcoming.
Note: Size of the bubble reflects the size of the population.

of work, and are financed from mandatory contributions from employees and employers, are not neutral as they create segmentation by design, even when they are administered perfectly. In most countries segmentation by design is aggravated by institutional and administrative weaknesses. An example of following a neutral stance is to provide protection that is not specific to where or how a person works. An excellent recent example of a neutral approach is Thailand's extension of health coverage enjoyed by people in every sector and without regard to the nature of their engagement in the labor market. Achieving a neutral policy and regulatory stance can encourage factor mobility and help countries make the difficult transition out of middle income, and grow in wealth before they enter the more difficult job challenges of an *ageing* economy (Figure 39). This is the current quandary of "trapped" middle income countries in Central Europe and the Southern Cone of Latin America that *got old* before they *got rich*. Their example should strike a note of caution for policy makers in East Asian countries where the average age of the labor force and the share of elderly in the population is quickly rising.

III.B. Towards managing disaster risk and building resilience in EAP [25]

"We need a culture of prevention, no country can fully insulate itself from disaster risk, but every country can reduce its vulnerability. Better planning can help reduce damage—and loss of life—from disasters, and prevention can be far less costly than disaster relief and response."

Jim Yong Kim

World Bank Group President

Summary

East Asia and the Pacific is the most disaster-stricken region in the world. In relative terms, the small Pacific Island countries are among those most affected globally. In 2011, losses from disasters reached the historically unprecedented level of US$380 billion, of which East Asia and the Pacific suffered 80 percent in the first nine months alone.[26] With increasing urbanization, one of the biggest drivers of risk is unplanned or poorly-planned cities which put more people and assets in harm's way. To assuage these risks, the World Bank is supporting innovation in disaster risk management to assist decision-makers in developing practical tools for risk identification and communication; investing in disaster preparedness and resilient development; and strengthening institutional capacity and coordination for sustainable recovery and reconstruction.

Part 1: Drivers of disaster losses

East Asia and the Pacific is the most disaster-stricken region in the world. Since 2000, more than 1.6 billion people have been affected by disasters in East Asia and the Pacific.[27] Disasters disproportionally affect the poor, vulnerable, and marginalized. Women, for instance, are more likely than men to die from natural disasters.[28] Disasters can also push affected households further into debt with the poor carrying the greatest debt burden. In Myanmar, two years after Cyclone Nargis, for instance, indebtedness of laborers, small farmers and fishermen had more than doubled. The challenges of dealing with disaster are compounded in a region which has the second largest number of fragile and conflict-stricken states after Africa, with high rates of poverty and political insecurity.

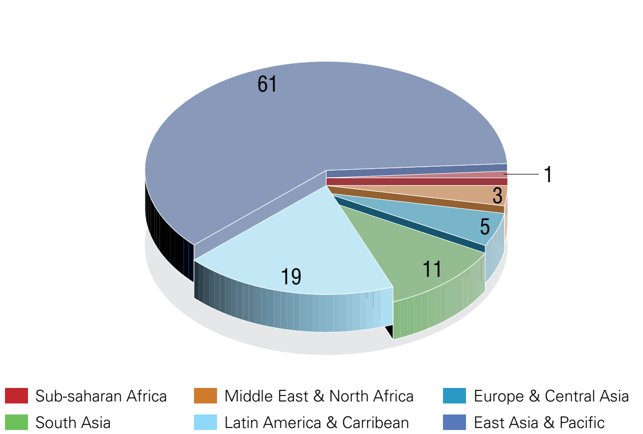
25 This brief benefits from information from World Bank (Forthcoming) Strong, Safe, and Resilient: A Strategic Policy Guide for Disaster Risk Management in East Asia and the Pacific. Washington DC: The World Bank.

26 Figures from Munich Re NatCatService (2012). Note that estimates differ: EM-DAT (2012) estimates damage losses at US$366.1 billion for natural disasters that occurred in 2011. The Swiss Re estimate is US$370 billion.

27 EM-DAT (2012). Calculation based on EM-DAT data accessed online in September 2012. See Appendix Table 11.

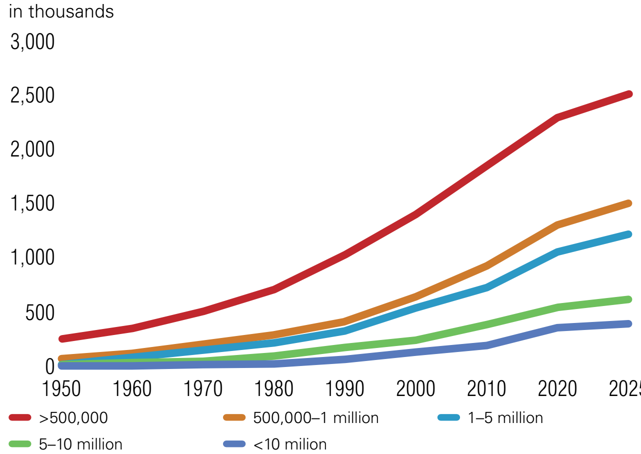
28 Neumayer and Plümper (2007).

Figure 40. Global hazard losses classified by World Bank regions, 2000–2011



Source: CRED EM-DAT.

Figure 41. Growth of urban population in Asia

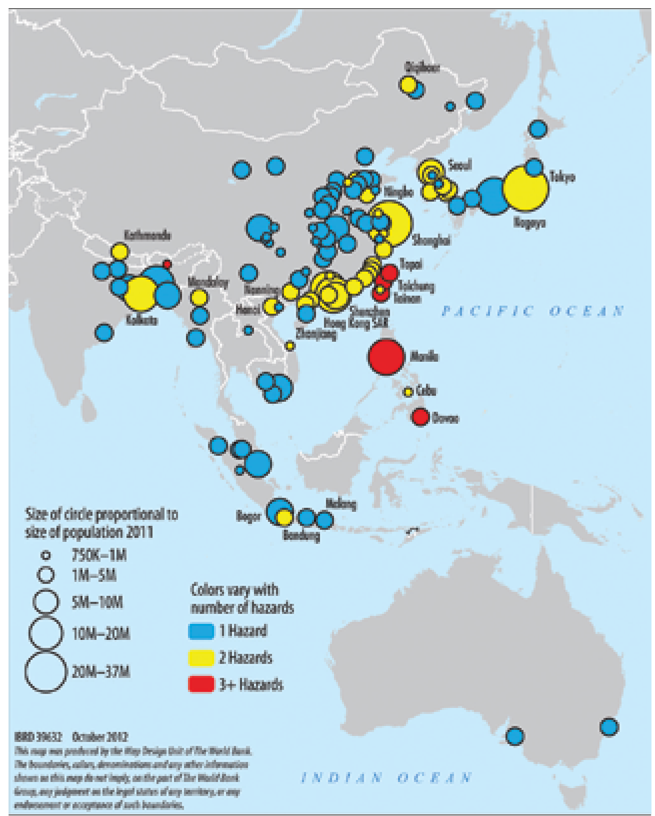


Source: UN 2011c.

The risks in East Asia and the Pacific will continue to rise as urbanization increases.[29] From 1980 to 2010, Asia added over one billion people to its cities—more than all other regions combined— and another billion will live in cities by 2040.[30] In 2010 Asia was home to over half, or 12 of 23, of the world's megacities; by 2025 the number of megacities in Asia is expected to increase to 21 out of a global total of 37.[31]

Rapid and unplanned urbanization puts more people and assets in harm's way. Due to the limited availability and affordability of land in megacities across the region, rapid urban growth will likely take the form of informal settlements located in areas at risk, placing a significant number of particularly vulnerable households in jeopardy. For example, in metropolitan Manila, it is estimated that about 800,000 people,[32] mostly informal settlers, live in high-risk areas. Natural disasters often, however, bring broad-based economic consequences. In Ayutthaya province near Bangkok, industrial parks expanded across former swamps that used to yield good quality rice due to regular flooding. The 2011

Figure 42. Vulnerability of cities to multiple hazards in East Asia and the Pacific



Source: World Bank staff with data from UN DESA 2012 and CIESIN.

29 According to the IPCC SREX report (2012), globally, the growth of people and assets is by far the largest driver or risk. This agrees with findings of Barthel and Neumayer (2011a, 225) and Pielke, et al (2008) for example.

30 UN (2011a).

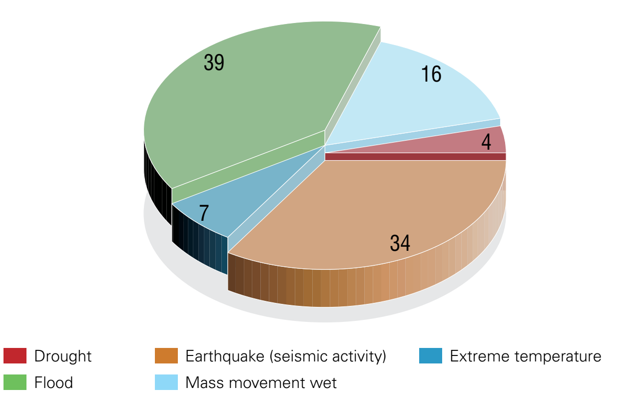
31 ADB (2012); UN (2011b).

32 The Greater Manila region, inhabited by some 17 million people, is exposed to flooding. The Greater region includes Metro Manila (home to some 12 million people) and the surrounding areas.

Thai floods besieged the six-meter high levees built to protect these estates, resulting in the closure of 891 factories that employed about 460,000 people.[33]

Figure 43. Hazard losses in East Asia and the Pacific, 2000–2011

in percent



Source: CRED EM-DAT.

Urban flooding is becoming increasingly costly. Over the past 30 years, EAP has accounted for 40 percent of the total number of floods worldwide. Increasing urbanization, as well as the concentration of megacities along coastlines and major rivers, is expected to result in some 410 million urban residents being placed at risk of coastal flooding by 2025.[34] This trend presents a major challenge for national disaster management agencies, and a major threat for the poor population living in vulnerable areas.

The increasing cost of natural disasters is due to changes in the size, location and value wealth of cities. Although climate change will have an increasing impact on growth in the future, the main cause of the rising cost of disasters is the increasing concentration of the world's population and economic activity in vulnerable locations near earthquake faults, on subsiding river deltas, and along tropical coastal zones. Given uncertain future projections, the Intergovernmental Panel on Climate Change Special Report on Extreme Events reports that "long-term trends in normalized losses have not been attributed to natural or anthropogenic climate change" (IPCC SREX, 2012), with no significant changes in disaster damage between 1980 and 2009 once the growth of population and assets over time is accounted for.[35]

Complex networks and systems are at risk from failures with cross-boundary impacts. Many East Asian cities are part of complex global supply chains where single disasters can cause a cascading series of reactions which extend beyond the boundaries of an urban area, country, or region. In 2011, several developing countries

Figure 44. East Asia and the Pacific disasters and economic losses in 2011

Great Tohoku earthquake March 2011	Thailand flooding September 2011	Christchurch earthquake February 2011	Australia flooding January 2011	Philippines flooding January 2011
The Japanese combined earthquake and tsunami disasters left 15,853 dead, 6,013 injured, and 3,286 missing	*Flooding in September and October caused 680 deaths and affected more than 13 million people*	*The Christchurch earthquake left more than 172 people dead*	*Flooding along Australia's east coast affected more than 3 million people and resulted in 22 deaths*	*Flooding left 68 people dead, half a million homeless, and one million affected*
Damage US$210 billion	**Damage US$46.5 billion**	**Damage US$12 billion**	**Damage US$9.8 billion**	**Damage US$4.5 billion**

Sources: Adapted from UN OCHA 2011 with data from CRED EM-DAT; for Japan, Ministry of Finance 2012.

33 Source: Thai Industrial Estate and Strategic Partners Association.

34 ADB (2012).

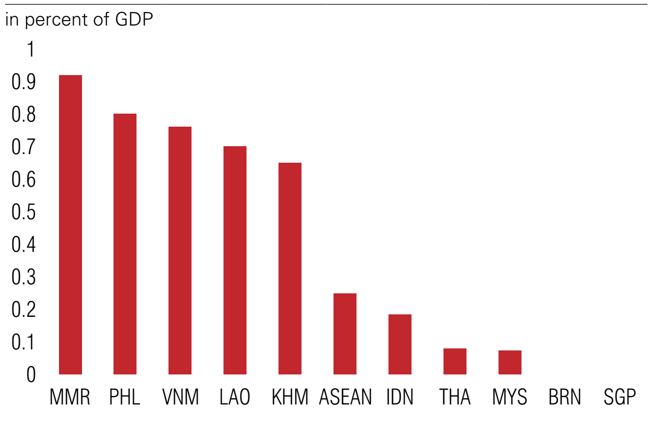
35 Barthel and Neumayer (2011a, 225) who argue that "[at a global scale] no significant trend is discernible. Similarly, we do not find a significant trend if we constrain our analysis to non-geophysical disasters in developed countries." See also Pielke et al. (2008).

in EAP experienced a decline in economic growth "due to lower-than expected growth in manufacturing exports that followed supply disruptions in the wake of the Japan earthquake and tsunami and the severe flooding in Thailand and Lao PDR" (World Bank [2011]).[36] As a result, 2011 was the costliest year on record for economic losses due to natural disasters, with the 2011 figure of US$380 billion almost doubling the 2005 record of US$262 billion.[37]

Part 2: Fiscal Impacts [38]

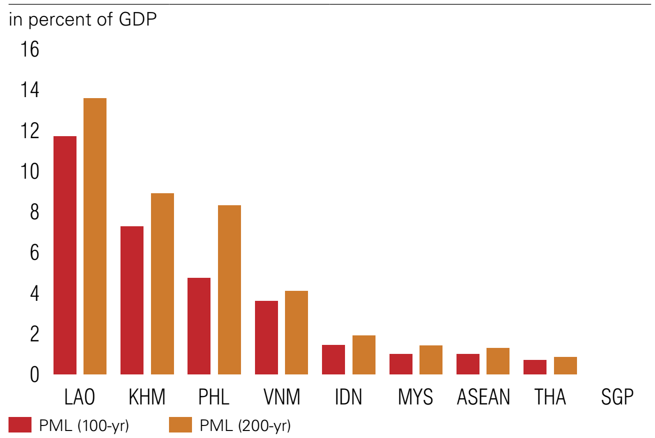
The region is exposed to large fiscal risks due to disasters. Cambodia, Lao PDR, Myanmar, the Philippines, and Vietnam face particularly high annual average expected losses relative to the size of their economies (Figure 45). Cambodia, Lao PDR, and the Philippines could face costs totaling 18 percent or more of total public expenditure in the event of a 1-in-200 year catastrophic event (Figure 46).[39] On average, China incurs US$27.4 billion (0.4 percent of GDP) of damages every year, although with large variation between years (Figure 46). Due primarily to the impact of the Sichuan earthquake, 2008 reported the highest losses on record.

Figure 45. Annual expected economic losses in ASEAN countries



Source: World Bank 2012a.
Note: Original data from CRED EM-DAT and Willis Research Network.

Figure 46. 1-in-100 and 1-in-200 year probable maximum loss (PML)



Source: World Bank 2012a.
Note: Original data from CRED EM-DAT and Willis Research Network.

In relative terms, Pacific Island countries are among the world's most affected by natural disasters. Each year, on average, Pacific Island countries experience damage caused by natural disasters estimated at US$284 million, or 1.7 percent of regional GDP. In the Solomon Islands, the 8.1 magnitude earthquake and tsunami that struck in April 2007 induced losses estimated at 95 percent of the government's budget and caused a short-term cash crunch alleviated only by donor assistance. The tsunami that hit Samoa in September

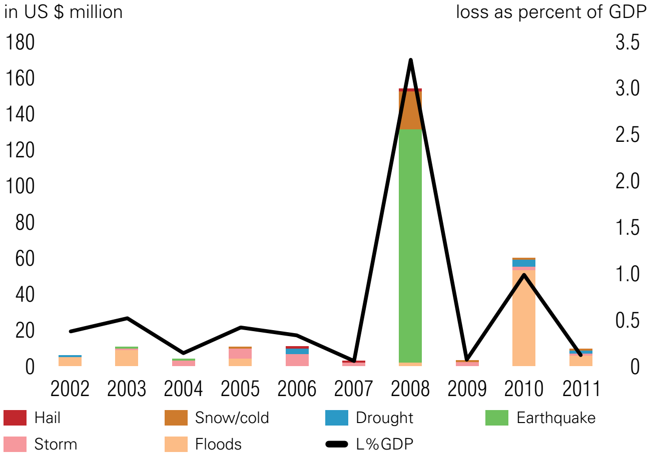
36 World Bank (2011). Capturing New Sources of Growth East Asia and Pacific economic Update. Volume 1.

37 Figures from Munich Re NatCatService. Note that estimates differ: EM-DAT estimates damage losses at US$366.1 billion for natural disasters that occurred in 2011. The Swiss Re estimate is US$370 billion.

38 This section benefits from information provided by the World Bank Disaster Risk Financing and Insurance (DRFI) team, and World Bank (2012a) ASEAN: Advancing Disaster Risk Financing and Insurance in ASEAN Countries: Framework and Options for Implementation. Volume 1. Washington, DC: World Bank.

39 World Bank (2012) ASEAN: Advancing Disaster Risk Financing and Insurance in ASEAN Countries: Framework and Options for Implementation. Vols. 1 and 2. Washington, DC: World Bank. Note that the availability of catastrophe risk assessment for financial applications is variable across countries in East Asia and the Pacific.

Figure 47. Disaster losses for China, 2002–2011

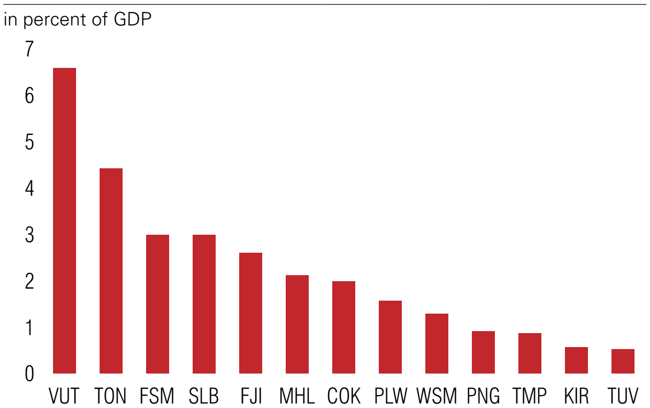


Source: World Bank Disaster Risk Financing and Insurance (DRFI) Program, data from Swiss Re 2012.

2009 caused losses estimated at 22 percent of GDP. Average annualized losses estimated for Vanuatu are 6.6 percent of GDP and 4.3 percent for Tonga (Figure 48).

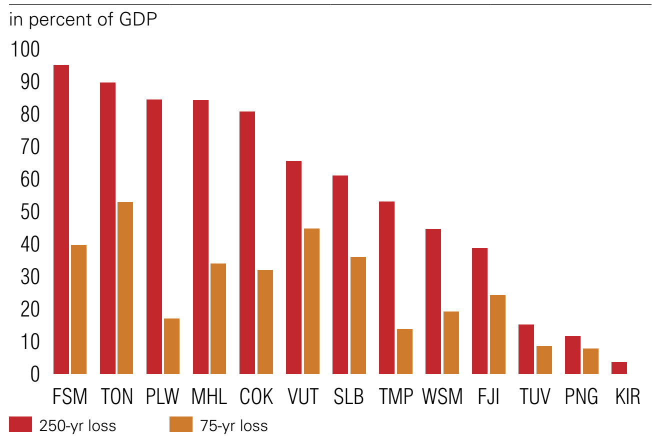
The impact of a catastrophic event would overwhelm the fiscal capacity of many small states in the region. The contingent liability estimates for Pacific Island countries and the Association of Southeast Asian Nations (ASEAN) member states are indicative of the significant fiscal impacts of disasters (Figure 50).[40] For the Pacific island countries, a 1-in-50 year earthquake, tsunami, or cyclone is estimated to inflict emergency response

Figure 48. Estimated average annual loss



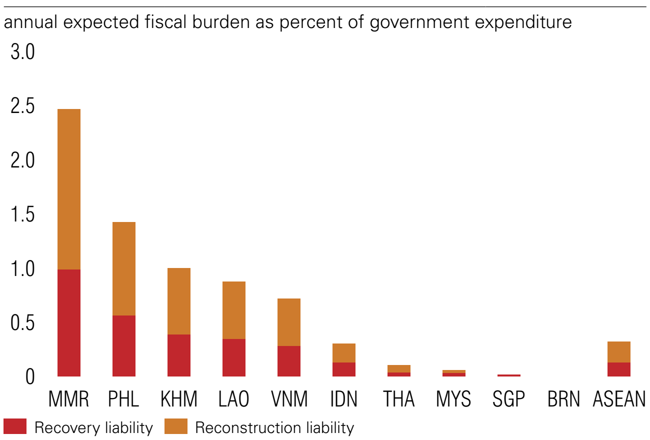
Source: Pacific Catastrophe Risk Financing and Insurance Initiative (PCRAFI) 2011.

Figure 49. Estimated 75-Year and 250-Year probable maximum loss



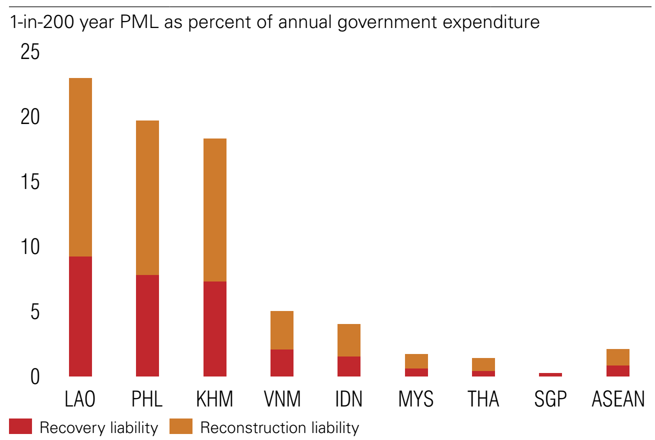
Source: Pacific Catastrophe Risk Financing and Insurance Initiative (PCRAFI) 2011.

Figure 50. Average annual fiscal burden



Source: World Bank. 2012a.
Note: Limited data were available for Myanmar, and therefore its average estimated loss may not accurately reflect long-term average annual losses.

Figure 51. 1-in-200-Year probable maximum loss



Source: World Bank. 2012a.
Note: Myanmar and Brunei Darussalam did not present sufficient number of loss years, either historically or simulated, to compute reliable PMLs.

40 World Bank (Forthcoming). Strong, Safe, and Resilient: A Strategic Policy Guide for Disaster Risk Management in East Asia and the Pacific. Limited information is available on the contingent liability of governments in East Asia and the Pacific to disasters.

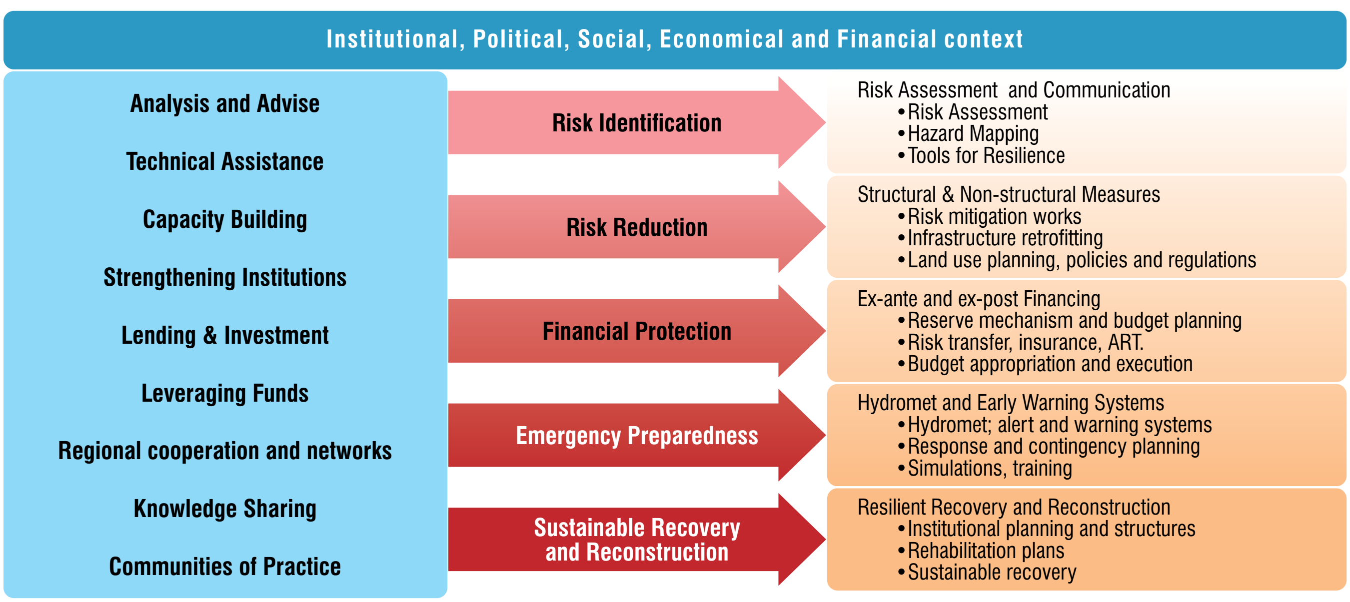
costs of at least 10 percent of government expenditure; in many countries, this figure is even larger (Figure 51).[41] In ASEAN member states, three governments spend at least 1 percent of their budget on recovery and reconstruction costs each year, with the potential for much greater fiscal impacts from more extreme events.[42]

Several governments in East Asia and the Pacific have insufficient funding in place for major disasters, which can exacerbate their adverse socioeconomic consequences. Available information suggests that governments in East Asia and the Pacific heavily rely on ex-post instruments—such as budget reallocation, debt, and donor assistance—to finance the costs of disasters. Over-reliance on such ex-post instruments entails significant fiscal uncertainty, because these require time to mobilize and can imply excess costs in a post-disaster environment.[43]

Part 3: Recommendations for a more resilient Asia

Disaster risk management is essential for supporting sustainable growth in East Asia and the Pacific. Disaster risk management (DRM) is a pro-active and systematic approach to dealing with disaster impacts and seeks to reduce hazard exposure and vulnerability, manage residual risk and uncertainties, and strengthen institutions to prepare and respond to disasters. Through a comprehensive framework based on five core areas of DRM—risk identification, risk reduction, emergency preparedness, financial protection, and sustainable recovery and reconstruction—the World Bank supports countries in managing disaster and climate risks (3).

Figure 52. Core areas of DRM



Source: World Bank/Global Facility for Disaster Reduction and Recovery (GFDRR).

41 World Bank (Forthcoming). Strong Safe, and Resilient. This is a conservative estimate which does not take into account reconstruction costs which could be significant.

42 World Bank (Forthcoming). Strong Safe, and Resilient.

43 Cummins and Mahul (2009:1).

The World Bank report 'Strong, Safe, and Resilient: A Strategic Policy Guide for Disaster Risk Management in East Asia and the Pacific' takes stock of the key challenges in the region, and provides decision-makers with concrete recommendations and examples how of the World Bank can support their decisions and investments. There are three guiding principles for mainstreaming DRM into development:

1. **Preventive investments in risk reduction and emergency preparedness are cost-effective and can greatly reduce the impact of natural hazards.** In the United States, cost-benefit analyses found that every US$1 spent on mitigation saved countries US$3 to US$4.1.[44] For instance, investments in hazard forecast and hydrometeorological services provide a high benefit-cost ratio. In China, the cost-benefit ratio of strengthening national meteorological services was estimated to range between 1:35 and 1:40. Evidence suggests that in East Asia and the Pacific, limited funds are allocated for DRM[45], although data is limited[46].

   To reduce the liquidity problems that governments commonly face after natural disasters, the World Bank is helping countries to develop risk financing strategies that help fund emergency and recovery needs. A number of countries in East Asia and the Pacific are moving to an ex-ante approach to disaster risk financing. In December 2011, the Philippines became the first country in the region to benefit from the World Bank's contingent financing facility, the Catastrophe Deferred Drawdown Option (Cat-DDO), with a US$500 million loan. As part of the Pacific Catastrophe Risk Assessment and Financing Initiative (PCRAFI)[47], a pilot program covering five Pacific countries will test the feasibility of a regional catastrophe financing pool to mitigate budgetary shocks caused by catastrophic natural disasters. Based on parametric triggers and state-of-the-art catastrophe risk models, the pilot program allows country-specific catastrophe risks to be transferred to the international reinsurance market as a single, well-diversified portfolio with an aggregate of coverage around US$50 million.

2. **It is important to strike a balance between engineered and non-engineered solutions.** Non-engineered measures include institutional arrangements, land-use regulations, enforcement of building codes, public education, and social protection. For example, after the 2006 earthquake and the 2010 volcanic eruption in Yogyakarta, Indonesia, the World Bank supported the adoption of a risk-based approach to reconstruction, with resettlement offered to communities when risks could not be mitigated by other means. Often, restoring natural ecosystems, such as mangroves, can be more cost-effective than engineered solutions. In Vietnam, the protection of 12,000 hectares of mangroves cost US$1.1 million and provided cost reductions in dike maintenance of US$7.3 million per year and improved livelihoods of 7,750 families.[48] In the Philippines, the cost-benefit ratio for protecting the city

44 U.S. Department of Homeland Security (2012) cites Congress of the United States, Congressional Budget Office, Potential Cost Savings from the Pre-Disaster Mitigation Program (Washington, DC, 2007); and National Institute of Building Sciences, The Multihazard Mitigation Council, Natural Hazard Mitigation Saves: An Independent Study to Assess the Future Savings from Mitigation Activities (Washington, DC 2005).

45 World Bank (2012a).

46 World Bank (2010, 106–10). DRM expenditures are often difficult to track; most preventive measures are embedded in the design and construction of infrastructure or other sectoral spending.

47 Launched in 2007, PCRAFI is an effort to provide disaster risk assessment and modeling tools for enhanced disaster risk management and climate change adaptation in the Pacific region. PCRAFI is a joint initiative of the World Bank, the Secretariat of the Pacific Community (SPC), and the Asian Development Bank with the financial support of the Government of Japan, the Global Facility for Disaster Reduction and Recovery (GFDRR) and the European Union. The Pacific Catastrophe Risk Insurance Program is piloted in the Republic of Marshall Islands, the Independent State of Samoa, the Solomon Islands, the Kingdom of Tonga, and the Republic of Vanuatu. The participating countries purchase catastrophe risk coverage against earthquake or tropical cyclones, with premium subsidies funded by the Government of Japan.

48 Kay et al. (2002).

of Angeles from lahar flows was calculated as 30-to-1 for rain forestation farming, 14.7-to-1 for bamboo plantations, and 3.5-to-1 for river channel improvement.[49]

Investing in reliable risk information at the national, regional, city and community levels helps to assess and communicate disaster impacts, formulate effective disaster risk management strategies, and guide development plans and practices. Making use of local-level information and empowering communities with tools to develop their own risk information with local technology has a high-return potential for disaster risk reduction. The Indonesia Scenario Assessment for Emergencies, (InaSAFE), is a free and publicly available tool that analyzes disaster impacts and helps keep Indonesia one step ahead on emergency planning. Participatory mapping, through OpenStreetMap tools for example, allows local knowledge about critical infrastructure and social vulnerability to be included in preparedness planning.

3. **Effective resilience requires cooperation among multiple levels of government, the private sector, civil society, and the international community.** Encouraging greater openness in collecting, managing, and sharing disaster risk information can be beneficial, especially in areas of weather and hazard forecasting, early warning systems, emergency preparedness, risk financing, and insurance. The Pacific Catastrophe Risk Assessment and Financing Initiative, (PCRAFI), is helping the region collect and share risk information through an open-source platform for projects on urban development, risk financing, and emergency and reconstruction planning. This initiative leverages the efforts of various development partners for the benefit of the local stakeholders. Through partnerships with ASEAN, JAXA, Republic of Korea NEMA, AusAID and AIFDR, SOPAC, NASA and many others, the World Bank—together with the Global Facility for Disaster Reduction and Recovery (GFDRR)—has worked to put the latest disaster risk solutions in the hands of emergency planners.

49 Tidwell (2005).

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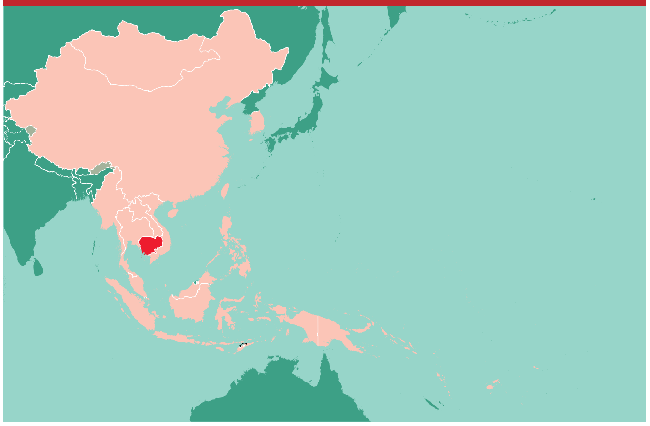
Country Pages and Key Indicators

CAMBODIA



Population	14.3 million
Population growth	1.2 percent
GDP (PPP, int'l US$ billions)	33.9
GDP per capita (PPP, int'l US$)	2,372
Surface area	181,040 sq. km.
Capital	Phnom Penh

Source: World Development Indicators.

Recent Economic Developments

Cambodia recorded very strong economic growth last year (2011), reaching a four-year high of 7.1 percent, which resulted from a strong recovery of the agricultural sector and expansion of an increasingly diversified export portfolio, private and public investment, and consumption. The growth for 2012 is projected to continue its strong trajectory but at a slower pace with an estimated rate of 6.6 percent (the same projection World Bank did in April 2012). However, the country's future prospect is seen to remain healthy with forecasted medium-term growth averaging about 7.0 percent per annum over the next five years.

An expected slower merchandise export mainly to the U.S. and EU markets mainly explain the slower growth pace of 2012. Country merchandise exports are estimated to expand by about 11 percent this year (against 34 percent in 2011). The projected slower merchandise export is based on the slowdown of export growth to the U.S. and EU markets over the first six months being expected to continue over the rest of the year. Garment exports to the United States actually grew by 2.0 percent only during the first half of 2012 (compared to 18 percent of the same period last year), while apparel exports to the EU expanded by only 29 percent (compared to 61 percent of the same period last year). The overall impact on the industry sector is somewhat mitigated by the strong performance of the construction sector in the first half of 2012, witnessing a three-fold growth (in dollar terms) of new projects approved in Phnom Penh and 36 percent growth of projects approved nationwide. The industry sector growth (which includes construction) is, therefore, estimated to slow down to 9.7 percent for 2012 (against 14.5 percent last year). In the meantime, a stronger than expected service sector cushions the economy and is projected to expand by 6.8 percent this year (against 5.0 percent in 2011). The strength of the service sector is led by booming tourism and financial sector. The arrival of international tourists jumped up by 27 percent in the first half of 2012 (against 14 percent of the same period last year). The country is expected to welcome 3.4 million visitors this year, representing an increase of 18 percent. At the same time, the financial sector became very vibrant with deposits estimated to increase by 24 percent to $6.4 billion[50] and lending projected to go up by 34 percent to $5.7 billion by the year-end 2012.

Despite experiencing some sporadic drought and seasonal floods, the agricultural sector is anticipated to remain unfaltering with a forecasted growth of 3.0 percent in 2012. The dollar value of milled rice exports increased by 15 percent compared to the first half of 2011, even though lower quantity of milled rice exports was recorded in the first half of 2012 (76 thousand tons in first half of 2012 against 85 thousand tons during the same period of 2011). Being able to penetrate such new markets as China (Cambodia exported nearly 1,300 tons during the first six months of 2012) and Africa provides potential opportunities for Cambodia's rice market to develop. France, by far, remains the single most important destination market, absorbing nearly a third of the

50 All dollar amounts are U.S. dollars unless otherwise indicated.

country total milled rice exports in the first half of 2012.

An important part of Cambodia's growth, private consumption continued to expand, representing 87 percent of gross domestic product (GDP) by 2011 (up from 84 percent of GDP in 2010). Cambodia's real private per capita expenditure rose by 9 percent over these two years and nearly doubled, if compared to the past decade, reflecting strong private activities.

The external sector is expected to slightly deteriorate for 2012 owing to weakening exports. Current account balance deficit is projected to increase to 10 percent of GDP (up from 8.7 percent of GDP last year). Foreign direct investment inflow is expected to account for 9.3 percent of GDP for 2012. Seventy-two new projects were approved in the first half of 2012, led by Chinese and Korean investors (compared to 57 projects approved over the same period last year). In the meantime, the number of new firms registered at the Ministry of Commerce also increased by 10 percent to 1,712 new firms approved during the first half of 2012 (compared to 1,563 of the same time last year). Gross foreign reserves continue rising, reaching $3.2 billion mark by June 2012 and are projected to amount to $3.5 billion by year-end 2012,representing 4.5 months of imports.

The impact of the recent international food price increases on Cambodia's consumer price inflation has been relatively muted. Global food prices rose in the recent months, with the World Bank food price index—which measures international prices of a basket of commodities, such as grains, vegetable oil, and meat—reaching the 2008 food crisis levels in July 2012. However, the main price increases so far have been on wheat, corn and soya, which do not represent a significant share of the food consumption basket in Cambodia. Consumer price stability in Cambodia was maintained during the first half of this year with the price of rice—the main food staple—increasing only slightly (averaging 3 percent over this period while average rice prices in the international market rose by 12 percent). Consumer price inflation, which cooled down during the first half of 2012, is estimated to shrink slightly to around 4 percent by year-end 2012 (from 4.9 percent last year), on the back of relatively stable foods—which account for nearly half of Cambodia's consumer price inflation basket—and energy prices.

The nominal exchange rate in the meantime has remained stable, appreciating by 1.3 percent against the U.S. dollar in June 2012 (end-of-period rate). Similarly, Cambodia's real effective exchange rate also appreciated by 3 percent against a basket of nine other garment exporters, posing risks of weakening competitiveness in its exports. The National Bank of Cambodia's intervention policy has continued: it injected $117 million worth of local currency into the market during the first half of 2012. The sale or purchase of foreign exchange is believed to be efficient in maintaining the riel stability in Cambodia given the relatively small amount of riels in the economy.

The financial sector has continued to expand in an environment of high dollarization. The euro crisis appears to have minimally impacted Cambodia's banking system or portfolio investment as the country has limited global financial integration. The newly run Credit Bureau Cambodia (launched in March 19, 2012) will play an increasingly important role in helping safeguard and reduce credit risk and support the growth of the banking system. By June 2012, there were 39 commercial banks operating in the country (four new banks entered the market over the past 12 months) with bank lending continuing its impressive growth. Bank lending growth averaged 34 percent per month over the past six months (nearly half of this lending focusing on wholesale/retail trade, tourism-related activities, and manufacturing), reflecting continued strong growth of private sector, but also pointing to potential financial risks and supervisory capacity challenges. The National Bank of Cambodia (Central Bank) recently has increased the rate of reserve requirement from 12 percent to 12.5 percent, a move to tighten the monetary policy and to precautionarily address the credit boom in recent months. July 2008, the Central Bank raised the reserve requirement rate from 8 percent to 16 percent to prevent spillover impacts of global financial crisis. Later in January 2009, it dropped the rate from 16 percent to 12 percent, to stimulate economic activities.

On the fiscal front, the government continues its efforts to strengthen revenue administration and enhance public financial management reform. The government's recent introduction of using the banking system for tax collections, implementing more forcefully the property tax, and expanding the customs automation system to cover more customs sites will help revenue collection prospect in the medium term. The National Assembly on January 3, 2012 enacted the Public Procurement Law to boost the fiduciary administration. The Revenue Mobilization Strategy has been drafted and expected to be submitted for the government's endorsement next year. However, as revenue collection did not increase much in 2011 (at 13.2 percent of GDP in 2011, similar to that of 2010) and general government outlays were unchanged at 20.6 percent of GDP in 2011, the fiscal deficit remained relatively at a similar level of year 2010, recording at 7.4 percent of GDP in 2011(compared to 7.5 percent of GDP in 2010 when the government exercised an aggressive cut of non-essential current expenditures). Fiscal deficit remained higher than the last five-year average but on balance it is expected to improve in the medium term as public financial management reform is strengthened and the revenue mobilization strategy is in place. Government has not yet been able to achieve its precrisis saving levels, which would be needed to build a precautionary buffer to address potential shocks. Government reserves stood at 4.2 percent of GDP in June 2012 (compared to 6.4 percent of GDP in June 2008).

Strong current and capital spending (mainly led by government development investment projects) continue to lead the fiscal outlay in 2011. Capital expenditure of public investment projects in 2011 is estimated at 8.7 percent of GDP, higher than 7.2 percent of the past five year average, largely attributable to the increase of concessional borrowing, including Chinese credit disbursements. The trend of strong capital investment expenditure is expected to continue for 2012 and 2013. In the meantime, domestically financed spending for the social sector, namely for the health and education sectors, continues to receive high priority, as well as timelier disbursements.

Prospects for fiscal balance are anticipated to improve this year and the next year, too, as revenue collection has improved. Revenue collection increased by 29 percent in the first half of 2012, compared to the same periond last year, which is attributed to growth of direct and indirect taxes (35 percent and 28 percent, respectively, over that of the first half of 2011). While the fiscal management remains under control, it is increasingly vulnerable to unpredictable external financing and increased pressure of operation and maintenance budget.

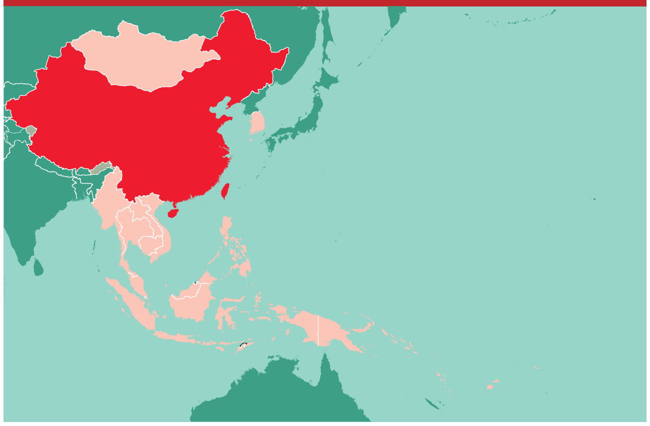
The Executive in October 2012 prepared and endorsed the draft 2013 Budget Law, which has now been transmitted to the Legislature (the National Assembly) for final approval. The Draft 2013 Budget seeks to raise domestic revenues by 0.5 percentage point of GDP with spending limits at a similar level of last year (around 20 percent of GDP). Capital expenditures for development investment projects remain a priority of the government with targeted outlays at a similar level as last year's Budget (around 8 percent of GDP). To finance this, the Executive (in the 2013 Budget Law) proposes to borrow up to SDR 600 million for the development investment projects for year 2013. The government, in the meantime, plans to increase civil servants salary by 20 percent for 2013. This is the eighth consecutive year of civil service wage bill increase since 2005.

Cambodia: Key Indicators

	2010 Year	2011e Year	2012f Year	2013f Year	2014f Year
Output, Employment and Prices					
Real GDP (% change y-y)	6.0	7.1	6.6	6.7	7.0
Domestic demand (% change y-y)	10.7	11.8	13.0	13.4	13.8
Industrial production index (2000=100)	263	301	316	341	370
(% change y-y)	13.6	14.5	5.0	8.0	8.5
Consumer price index (% change y-y)	3.1	4.9	4.0	5.0	5.0
Public Sector					
Government revenues (% GDP)	13.1	13.2	13.8	14.2	14.5
Government expenditures (% GDP)	20.6	20.6	20.0	20.0	20.0
Government balance (% GDP)	-7.5	-7.4	-6.2	-5.8	-5.5
Foreign Trade, BOP and External Debt					
Trade balance (millions US$)	-1,582	-1,490	-1,680	-1,807	-1,941
Exports of goods (millions US$)	3,884	5,220	5,768	6,460	7,235
(% change y-y)	29.7	34.4	10.5	12.0	12.0
Key export (% change y-y) 1/	24.4	31.7	15.0	15	15
Imports of goods (millions US$)	5,466	6,710	7,448	8,267	9,176
(% change y-y)	21.7	22.7	11.0	11.0	11.0
Current account balance (millions US$)	-1,171	-1,122	-1,400	-1,350	-1,200
(% GDP)	-10.4	-8.7	-10.0	-8.7	-7.0
Foreign direct investment (millions US$) 2/	762	1,332	1,300	1,352	1,406
External debt (millions US$)	3,206	3,611	3,992	4,336	4,337
(% GDP)	29	28	29	28	25
Short-term debt (millions US$)	262	264	268	270	275
Debt service ratio (% exports of g&s)	1.4	1.2	1.2	1.4	1.6
Foreign exchange reserves, gross (millions US$)	2,653	3,032	3,456	3,871	4,335
(months of imports of g&s)	4.5	4.5	4.5	4.5	4.5
Financial Markets					
Domestic credit (% change y-y)	35.3	37.7	33.0	25.0	25.0
Short-term interest rate (% p.a.)	15.0	15.0	15.0	15.0	15.0
Exchange rate (Riel/US$, eop)	4,053	4,039	4,100	4,100	4,100
Real effective exchange rate (2000=100)	122.5	124.8	126.2	,,	,,
(% change y-y)	-0.4	1.9	1.1	,,	,,
Memo: Nominal GDP (millions US$)	11,242	12,828	13,944	15,473	17,053

Sources: National data sources, IMF, and World Bank staff estimates.
e = estimate
f = forecast
1/ Garments
2/ From 2011, includes FDI related to public-private power sector projects

CHINA



Population	1.344 billion
Population growth	0.5 percent
GDP (PPP, int'l US$ billions)	11,379.2
GDP per capita (PPP, int'l US$)	8,466
Surface area	9,598,088 sq. km.
Capital	Beijing

Source: World Development Indicators.

Recent Economic Developments

The growth rate of China's economy in the third quarter was 7.4 percent (year on year), below the historic trend and the lowest in the past 14 quarters. However, the data on industrial production and fixed asset investments suggested that China's economy was bottoming out. Quarter on quarter growth (seasonally adjusted annualized rate) picked up from 8.2 percent in second quarter to 9.1 percent in third quarter. The negative contribution of net exports to gross domestic product (GDP) growth also narrowed from -0.7 percentage points in the first half to -0.4 percentage points in the first three quarters.

On the domestic front, fixed asset investment (FAI) growth increased, mainly in government-influenced sector. In September, FAI grew by 21.1 percent (year on year) in real terms, 3.6 percentage points higher than in August. FAI-financed by state budget, bank loans, and SOEs picked up, as the impact of easing credit conditions and public investment in infrastructure is beginning to show. The impact is expected to continue to be felt into 2013, as the authorities have accelerated the approval of large projects: some 25 urban rail projects, three highway construction projects, 10 city infrastructure projects, and seven ports and waterways projects totaling more than 1 trillion yuan were announced in September. One area where FAI growth rate slowed was the real estate sector as the central government sought to cool down the housing market, which has been showing signs of overheating. However, some policy fine-tuning was seen recently, for example, on housing provident fund and mortgage subsidies.

Consumption growth was robust, accounting for 55 percent of the first three quarter GDP growth, supported by continued household income growth. Labor market conditions were favorable, with employment growing robustly, and demand for labor still outnumbering supply. Wage growth was 7.7 percent in the third quarter. Inflationary pressure remains at bay. Consumer price index (CPI) grew by 1.7 percent (year on year) in October, marginally lower than 1.9 percent (year on year) in September. With the slowing domestic economy and weak global demands, producer price index. (PPI) growth has declined for the eight consecutive month, reaching -2.8 percent (year on year) in October, driven by falling commodity (raw materials) prices.

On the external front, real exports grew by 11.1 percent, and imports, by 4 percent (year on year) in September, a rebound from 1.4 percent, and 1.7 percent, respectively, in August. Light manufactured goods were the biggest contributor to export growth. While exports growth to the three major trade partners (United States, EU, and Japan) slowed, those to the rest of the world remained robust, and the export to Asia, excluding Japan, grew fastest. China's external terms of trade continue to improve as import prices of commodities decelerate more rapidly than export prices of manufactured goods. Foreign direct investment remained weak, growing only by 3.8 percent (year on year) in the first three quarters. These developments dampened foreign exchange accumulation.

The monetary stance has been accommodating in the third quarter, leading to an increase of total social financing. People's Bank of China decreased the benchmark interest rate by 0.25 percent in June and then again in July, which was the first cut since 2008. In the third quarter of 2012, the traditional bank loans grew 16.1 percent (year on year) on average. Meanwhile, corporate bond financing expanded sharply, growing 78 percent (year on year) in the first three quarters, albeit from a low base.

Outlook and Emerging Challenges

Our projections for GDP growth in 2012 and 2013 are 7.9 percent and 8.4 percent, respectively, reflecting weak external environment, property market corrections, and impact of supportive policy measures. CPI inflation is likely to stay on its declining trend and average 2.8 percent for 2012 as growth stays moderate, commodity prices weaken, and asset price increase decelerate. It is expected to rise slightly to 3.3 percent in 2013 from a growth pickup and the lagged effects of the loose monetary stance in the second half of 2012. With uncertainties in the global economy, rising labor costs, and a recovery in domestic demand, China's current account surplus is estimated to narrow from 2.8 percent of GDP in 2011, to 2.3 percent in 2012, and 2.2 percent in 2013. However, downside risks remain in the uncertainty of the euro area, China's biggest trade partner.

In the longer run, GDP growth is projected to moderate somewhat because of the structural shift of the economy, which is anticipated to move away from investment- and export-driven growth. The anticipated slow recovery of the global economy, ebbing effects of this round of domestic stimulus, and the aging population contribute to this forecast. Consumption is projected to remain strong and inflation to remain moderate at around 3 percent, but investment growth will likely slow. World Bank forecasts are consistent with the government's target annual growth rate in the new five-year plan of 7.5 percent.

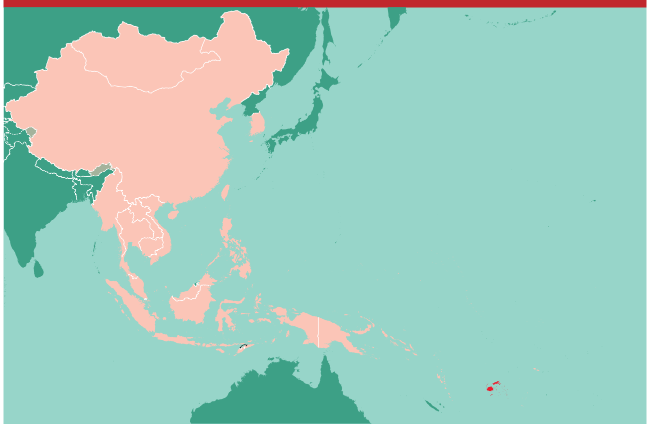
China's near-term policy challenge is about balancing the trade-off between supporting growth and reforming. There are concerns about the inertia for a structural reform to shift away from investments. Given China's still significant fiscal space and the already accommodative monetary stance, the burden of any countercyclical response should fall on fiscal policy. Currently, most of the stimulus policy is still through the government-influenced infrastructure investment. However, the policy response would need to be crafted with longer-term effects and objectives in mind. Relative to previous episodes, fiscal stimulus would ideally be less credit-fueled, less local government-funded, and less infrastructure-oriented. Fiscal measures, such as targeted tax cuts, social welfare spending, and other social expenditures to support consumption, should attract first priority.

China: Key Indicators

	2010	2011	2012f	2013f	2014f	2011	2012			2012			
	Year	Year	Year	Year	Year	Q4	Q1	Q2	Q3	Jul	Aug	Sep	Oct
Output, Employment and Prices													
Real GDP (% change y-y)	10.4	9.3	7.9	8.4	8.0	8.9	8.1	7.6	7.4	..	..	..	..
Domestic demand (% change y-y)	8.9	8.6	..	..	..	..	..	..	..	..	..	..	..
Industrial production index /1	..	..	..	..	..	..	..	..	..	..	..	..	..
(% change y-y)	12.1	10.7	..	..	..	12.8	11.6	9.5	9.1	9.2	8.9	9.2	..
Unemployment (%) 2/	4.1	4.1	..	..	..	4.1	4.1	4.1	..	..	..	..	..
Real wages (% change y-y)	9.7	8.5	..	..	..	..	..	..	..	..	..	..	..
Consumer price index (% change y-y)	3.3	5.4	2.8	3.3	3.0	4.6	3.8	2.9	1.9	1.8	2.0	1.9	..
Public Sector													
Government revenues (% GDP)	20.7	22.0	22.1	21.9	21.6	..	..	..	..	..	..	..	..
Government expenditures (% GDP)	22.4	23.1	24.6	24.8	24.5	..	..	..	..	..	..	..	..
Government balance (% GDP)	-2.5	-1.8	-2.5	-2.9	-2.9	..	..	..	..	..	..	..	..
Domestic public sector debt (% GDP) /3	16.8	20.0	..	..	..	..	..	..	..	..	..	..	..
Foreign Trade, BOP and External Debt													
Trade balance (billions US$)	184.5	157.9	163.0	182.0	180.0	48.1	1.1	68.8	79.5	25.1	26.7	27.7	..
Exports of goods (billions US$)	1,578.4	1,899.3	2,032.0	2,183.0	2,342.0	506.7	430.1	524.6	541.3	176.9	178.0	186.3	..
(% change y-y) 4/	31.3	20.3	7.0	7.4	7.3	14.3	7.6	10.5	4.5	1.0	2.7	9.8	..
Key export (% change y-y) 5/	31.4	20.2	..	..	..	14.2	7.8	11.3	4.9	1.6	3.1	10.3	..
Imports of goods (billions US$)	1,393.9	1,741.4	1,869.0	2,001.0	2,162.0	458.6	428.9	455.7	461.8	151.8	151.3	158.7	..
(% change y-y) 4/	38.9	24.9	7.3	7.1	8.0	20.6	7.1	6.5	1.6	5.7	-2.7	2.3	..
Current account balance (billions US$)	237.8	201.7	195	207	203	60.5	23.5	53.7	70.6	..	..	..	..
(% GDP)	3.9	2.7	2.3	2.2	1.9	..	..	..	..	..	..	..	..
Foreign direct investment (billions US$) /6	105.7	116.0	..	..	..	29.3	29.5	29.6	24.3	7.6	8.3	8.4	..
External debt (billions US$)	558.3	685.4	645.0	618.0	..	..	..	..	..	..	..	..	..
(% GDP)	9.1	9.3	7.8	6.6	..	..	..	..	..	..	..	..	..
Short-term debt (billions US$)	348.0	477.0	..	..	..	..	..	..	..	..	..	..	..
Debt service ratio (% exports of g&s)	1.6	1.7	..	..	..	..	..	..	..	..	..	..	..
Foreign exchange reserves, gross (billions US$)	2,853.8	3,187.6	3,490.0	3,881.0	4,180.0	3,187.7	3,311.6	3,246.6	3,291.7	3,246.6	3,279.5	3,291.7	..
(months of imports of g&s)	24.6	22.0	21.5	22.2	22.0	20.9	23.2	21.4	21.4	21.4	21.7	20.7	..
Financial Markets													
Domestic credit (% change y-y)	19.9	14.3	..	..	..	15.8	15.7	16.0	16.3	16.0	16.1	16.3	..
Short-term interest rate (% p.a.) 7/	3.3	3.3	..	..	..	3.3	3.3	3.3	3.3	3.3	3.3	3.3	..
Exchange rate (RMB/US$, eop)	6.62	6.30	6.30	6.24	6.24	6.33	6.31	6.32	6.34	6.33	6.34	6.34	..
Real effective exchange rate (2000=100)	109.2	115.8	..	..	..	115.8	116.5	116.8	115.6	116.8	116.4	115.6	..
(% change y-y)	4.3	6.1	..	..	..	6.1	8.8	9.3	1.5	8.9	6.1	1.5	..
Stock market index (Dec. 19, 1990=100)/8	2,808	2,199	..	..	..	2,199	2,263	2,225	2,086	2,104	2,048	2,086	..
Memo: Nominal GDP (billions US$)	6,062.7	7,505.0	8,303.0	9,386.0	10,425.0	..	..	..	..	..	..	..	..

Source: National data sources.
f = forecast
1/ Annual data are not comparable with the quarterly and monthly data. Annual data cover all industrial enterprises while the quarterly and monthly ones only refer to those enterprises with sales value above RMB 5.0 million.
2/ Official urban unemployment only, not including laid-off workers
3/ Includes treasury bonds, policy financial bonds and other financial bonds (end-period outstanding)
4/ Nominal growth rate
5/ Manufactured exports
6/ Gross FDI utilized
7/ Central Bank loans to financial institutions, less than 20 days
8/ Shanghai Stock Exchange A-Share Price Composite

FIJI



Population	868,000
Population growth	0.9 percent
GDP (PPP, int'l US$ billions)	4.2
GDP per capita (PPP, int'l US$)	4,787
Surface area	18,270 sq. km.
Capital	Suva

Source: World Development Indicators.

Recent Economic Developments

As a consequence of the Global Economic Crisis in 2008, Fiji's economy contracted by 1.3 percent in 2009, and was followed by marginal growth in 2010. The economy picked up in 2011, with growth reaching 1.9 percent. Growth was largely driven by a recovery in tourism and related sectors, as well as in agriculture, which recovered well from the 2010 cyclones. Growth is expected to continue in 2012, led by continued strength in tourism and a pick-up in the industrial sector. However, the Fijian economy remains vulnerable and policy space to respond to future external shocks, such as a global economic downturn or a commodity price shock, is limited.

Fiji's economy is projected to grow by more than 2 percent in 2012, led by continued strength in the tourism sector and improvements in manufacturing, construction, and mining. Travel-related cash receipts rose by 7 percent year-on-year in the first seven months of 2012, with Australia and New Zealand continuing to be the main source countries. Growth is expected to continue as the supply of rooms and facilities increases in line with the completion of new tourism projects in 2013/14. Construction sector value of work put in place and new building permits increased by 7.5 and 14.7 percent year-on-year, respectively in the first quarter of 2012. Reconstruction activities related to the two floods earlier in 2012 drove the uptick in the construction sector, but government infrastructure spending, as well as tourism and mining investments, also provided a boost. Mining investments include bauxite and iron-sand projects. The Reserve Bank of Fiji expects total investment to reach 18 percent of gross domestic product (GDP) in 2012 from 16 percent in 2011.

Inflation moderated in 2012 to 3.7 percent in September as the effects of one-off factors—such as the 2011 increase in VAT rate—abated. Food prices have also declined steadily, despite the swings in commodity prices. The large number of items under price control could explain this decline. Inflation is projected to moderate further, to 3.5 percent by year-end.

Foreign reserves remain adequate, at $891[51] million at the end of October 2012, equivalent to five months of imports of Goods and Non-Factor Services. Slower growth in Australia, one of the major trading partners, could have a negative impact on the external accounts.

The monetary stance remains accommodative in 2012 to encourage growth. The policy rate was reduced to 0.5 percent earlier in 2012 and has remained at that level. Other policy measures, such as increasing bank lending requirements to agriculture and renewable energy sectors, were also employed to encourage credit growth. The accommodative monetary policy has resulted in ample liquidity (F$577 million at the end of September 2012) and a pick-up in credit growth, with private sector credit rising by 6.3 percent in June, after a growth of 3.5 percent in the previous quarter. Bank lending rates have fallen from around 7.5 percent a year ago, to under 7 percent as at September 2012.

51 All dollar amounts are U.S. dollars unless otherwise indicated.

Consumption has shown some signs of recovery in 2012, as indicated by a 14.2 percent increase in domestic VAT collections, for the period to August 2012. Labour market conditions have also shown positive signs, with the job advertisement survey showing a 14 percent rise in vacant positions for the year to August. Inward remittances on the other hand declined by 8.2 percent in the first half of 2012, compared to the same period in 2011, possibly reflecting weak labour markets abroad. The effects of the income tax measures introduced as part of the 2012 budget is not yet clear. The impact of any increase in consumption on the domestic economy may be tempered by the fact that a large portion of current consumption spending is on imported items.

The budget deficit for 2012 is forecast to be less than 2.0 percent of GDP compared to the budgeted 2.5 percent deficit. The improved budget performance is largely based on higher revenue expectations. Revenues (estimated at 28.7 percent of GDP) rose significantly compared to 2011, possibly due to implementation of revenue measures announced in the 2012 budget, including higher collection targets for VAT and departure tax and a modified personal income tax structure. Current expenditure (estimated at 22.3 percent of GDP) rose compared to 2011, largely because of a 3 percent general pay rise for civil servants. Net capital expenditure, including capital transfers (estimated 8.1 percent of GDP), fell compared to 2011 because of a smaller allocation for the restructuring of Fiji Sugar Corporation (FSC). The recently announced 2013 budget projects a widening of the deficit (2.8 percent of GDP) which is largely explained by a 30 percent increase in infrastructure spending.

Fiji's public sector debt stood at 52 percent of GDP as at the end of 2011. Public sector debt consists of mainly domestic debt (40 percent of GDP), with external debt at 12 percent of GDP. The government is expected to fund a portion of the capital projects identified in the 2012 budget with debt financing. The government has signed a F$220 million loan (3.3 percent of GDP) with China Export-Import Bank, for the sealing of the Dreketi to Nabouwalu highway, which is expected to be completed over the next two and half years. The government is also expected to complete the issuance of new Fiji Infrastructure Bonds in the domestic market, totalling F$196 million (2.9 percent of GDP) by the end of 2012. State guarantees are expected to increase with the provision of a guarantee for the F$120 million (1.8 percent of GDP) structured trade finance facility for FSC.

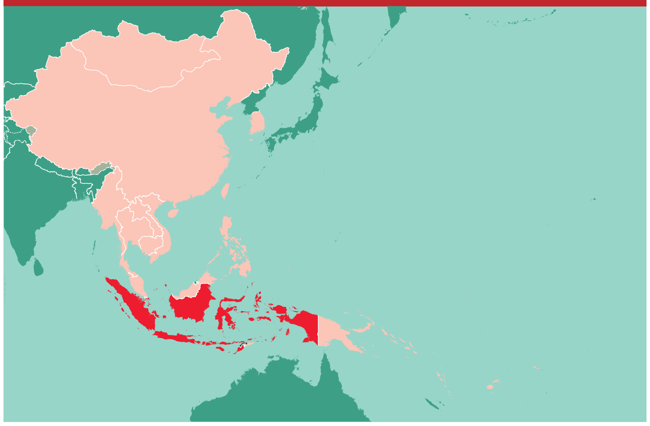
In the October monetary policy statement, the Reserve Bank noted that downside risks have worsened for Fiji, pointing to subdued demand in major trading partner economies. The tourism sector, which underpinned the economic recovery, particularly depends on tourists from Australasia and is vulnerable to a further deterioration in the global economy. Remittances are also contingent on global economic conditions. In addition, Fiji is vulnerable to international commodity price shocks, which may result in a slowdown to mining-related earnings and investments, or a rise in cost of food and fuel imports. Although reserve levels remain adequate, fiscal and monetary policy space to respond to exogenous events is limited. Rising government debt would tend to constrain the government's ability to provide fiscal stimulus and the space for further monetary easing is constrained given the low existing policy rate.

Fiji: Key Indicators

	2010 Year	2011 Year	2012f Year	2013f Year	2014f Year
Output, Employment and Prices					
Real GDP (% change y-y)	0.1	1.9	2.1	2.2	2.3
Tourist arrivals (thousands)	632	678	703	..	..
(% change y-y)	16.5	7.3	3.7	..	..
Unemployment rate (%)	..	..	..	..	..
Consumer price index (% change y-y)	5.0	7.7	3.5	..	..
Public Sector					
Government revenues (% GDP)	24.9	25.6	28.7	..	..
Government expenditures (% GDP)	27.0	29.1	30.5	..	..
Government balance (% GDP)	-2.1	-3.5	-1.7	..	..
Domestic public sector debt (% GDP)	45.8	40.6	39.7	..	..
Foreign Trade, BOP and External Debt					
Trade balance (millions US$)	-753	-867	..	..	..
Exports of goods (millions US$)	520	502	..	..	..
(% change y-y)	32.2	-3.4	..	..	..
Key export (% change y-y) 1/	-61.8	147.3	..	..	..
Imports of goods (millions US$)	1,556	1,728	..	..	..
(% change y-y)	25.3	11.1	..	..	..
Current account balance millions US$)	-248	-379	..	..	..
(% GDP)	-7.7	-9.9	..	..	..
Foreign direct investment (millions US$)	189	211	..	..	..
Total external debt (millions US$)	431	589	..	..	..
(% GDP)	12.7	15.9	..	..	..
Short-term debt (millions US$)	..	..	..	..	..
Debt service ratio (% exports of g&s)	2.5	11.1	..	..	..
Foreign exchange reserves, gross (millions US$) 2/	716	831	..	..	..
(months of imports g&s)	4.1	4.6	..	..	..
Financial Markets					
Domestic credit (% change y-y) 3/	3.1	7.6	..	..	..
Short-term interest rate % p.a.)	3.6	2.2	..	..	..
Exchange rate (FJ$/US$, eop)	1.82	1.82	..	..	..
Real effective exchange rate (2000=100)	87.9	91.9	..	..	..
(% change y-y)	-2.7	4.6	..	..	..
Memo: Nominal GDP (millions US$)	3,226	3,754	3,746	..	..

Source: National data sources.
e = estimate
f = forecast
1/ Sugar.
2/ Rise in debt service ratio in 2011 reflects the maturity of the US$150 million global bond, which may be refinanced.
3/ Includes foreign assets of non-bank financial institutions.
4/ Domestic credit to the private sector.

INDONESIA



Population	242.3 million
Population growth	1 percent
GDP (PPP, int'l US$ billions)	1,131
GDP per capita (PPP, int'l US$)	4,668
Surface area	1,904,570 sq. km.
Capital	Jakarta

Source: World Development Indicators.

The Indonesian economy is set to record strong growth for 2012 as a whole, powered by robust domestic demand. In the baseline scenario, this should continue into 2013. However, there are some signs of moderation in investment spending, while the commodity-intensive export sector remains under pressure. So much depends on developments in the external environment. Slower growth in China presents the key external risk. On the domestic front, it will be important to maintain policy clarity and continuity ahead of the 2014 elections, while continuing to improve the quality of public spending.

Recent Economic Developments

Indonesia's economy has grown robustly so far in 2012. Since the World Bank's May 2012 regional update, GDP expanded by 6.4 percent in the second quarter and by 6.2 percent in the third quarter. On a seasonally adjusted quarterly basis, the pace of growth moderated from 1.6 percent in the second quarter to 1.3 percent in the third quarter, slightly below its post-global financial average (from 2009 to present) of 1.5 percent per quarter. Private consumption demand continues to be a reliable engine of growth, and was up 5.7 percent year-on-year in the third quarter. Strong investment spending has also been a notable feature of growth so far in 2012, with investment rising 12.3 percent year-on-year in the second quarter and 10 percent year-on-year in the third quarter. However, while capital spending remains at high levels, investment growth has decelerated recently, dropping 0.4 percent on a seasonally adjusted quarter-on-quarter basis in the third quarter.

Although the large share of private domestic demand in the economy has helped shield Indonesia from the worst effects of a weaker global economy, the impact has clearly been felt in the external accounts. Net exports were a significant drag on growth in the last quarter of 2011 and the first half of 2012, subtracting 3.7 percent from cumulative growth of 4.8 percent over this period. In dollar terms, exports fell 1.7 percent in the first half of 2012 compared with the same period in 2011, while imports were up 15.4 percent. In the third quarter, exports remained under pressure, dropping 2.4 percent on a seasonally adjusted quarterly basis, but imports fell even more sharply, contracting 8.7 percent on a seasonally adjusted quarterly basis (the decline in imports in part reflects weaker demand for export-related inputs). Consequently, net exports added to quarterly GDP growth for the first time in 2012, boosting seasonally adjusted quarterly growth by a substantial 2.3 percent.

From a supply side perspective, economic growth remains broad-based. The manufacturing sector performed particularly strongly in the third quarter, with growth picking up to 6.4 percent year on year, up from 5.5 percent in the second quarter. Service sector growth also remains robust, though the pace moderated in the third quarter to 7.3 per cent year on year (compared with 8.1 percent year on year in the second quarter). However, tepid global commodity demand has been felt in mining and quarrying, with this sector recording the weakest growth performance in the third quarter of all major sectors, contracting 0.1 per cent year-on-year.

The sharp drop in imports seen in the third quarter helped narrow the current account deficit to 2.4 percent of GDP, compared with 3.5 percent of GDP in the second quarter. Meanwhile, Indonesia has continued to attract sizable net foreign direct investment, totaling $13.2[52] billion in 2012 through the third quarter, compared with $19.2 billion for the whole of 2011. Along with sizable inward portfolio investment (totaling close to $4 billion in both the second and third quarters), this situation has resulted in large financial and capital accounts surpluses. In the third quarter, the more modest current account deficit coupled with strong capital inflows resulted in the overall balance of payments moving into a modest surplus of $800 million, reversing four consecutive quarters of net balance of payment outflows. Foreign exchange reserves stood at $110.2 billion in September, having dipped to $106.5 billion in the second quarter. An orderly depreciation of the rupiah facilitated the adjustment of Indonesia's external balances to weaker global conditions. For the year to the end of October, the rupiah was 6 percent weaker against the U.S. dollar.

Inflation has thus far held at moderate levels, despite the robust pace of domestic demand and the weaker currency. Both headline and core consumer price index (CPI) inflation stood at 4.6 percent year-on-year in October. This is close to the midpoint of Bank Indonesia's 2012 inflation target range of 4.5 +/- 1 percent. The stability of headline inflation suggests that inflation expectations have, to date, been contained in the absence of large administered price shocks and subdued commodity price shocks, offsetting any pass-through from the nominal currency depreciation over the year. However, it will be important to watch for signs of future inflationary pressures in the general economy and in particular sectors, for example, certain property markets that have seen strong recent increases. Nominal credit growth also remains high at 22.9 percent year-on-year in September, although this has slowed from a high of 26 percent in May.

52 All dollar amounts are U.S. dollars unless otherwise indicated.

While Bank Indonesia has maintained its policy rate at a record low of 5.75 percent since February, it tightened monetary policy in August by raising the lower bound of the interbank rate corridor (its deposit facility [FASBI] rate) by 25 basis points to 4 percent. With global economic conditions set to remain soft, Bank Indonesia will need to balance the need to support growth while remaining watchful for any incipient inflation pressures, including managing the risks of these being triggered by future administered price increases.

Following the missed opportunity to raise subsidized fuel prices in 2012, the approved government budget for 2013 allows for a possible increase should economic developments deviate substantially from the official assumptions. The 2013 Budget also allows for a phased 15 percent increase in electricity tariffs. Meanwhile, subsidy spending, particularly on fuel, remains high. The government has projected that energy subsidy spending will reach IDR 306 trillion in 2012, exceeding the allocation in the revised budget by IDR 94 trillion (or 44 percent). The overspending on this subsidy, coupled with moderating income tax revenues and lower receipts from commodity-related activities, lead the World Bank to project a 2012 Budget deficit of 2.5 percent of GDP, somewhat higher than the government's revised estimate of 2.2 percent of GDP. Overall, however, the fiscal stance remains conservative, with the planned 2013 Budget deficit narrowing to 1.7 percent of GDP, and the Medium-Term Budget Framework targeting a gradual move to a surplus of 0.3 percent of GDP by 2016.

Outlook and Emerging Challenges

The baseline scenario sees Indonesia's economy maintaining its solid performance. GDP growth is projected at 6.1 percent for 2012, accelerating to 6.3 in 2013 as global economic conditions improve. The risks to this forecast remain to the downside, largely because of ongoing external uncertainties, notably over sovereign debt and banking sector developments in the euro area, the U.S. fiscal outlook in 2013, and the slowdown in China's economic growth compared to previous years. Another key uncertainty is the impact on international portfolio capital flows and commodity prices of renewed monetary easing by major central banks. A repeat of the large inflows to emerging market assets, including to Indonesia, that were seen in 2010 is possible and would raise significant monetary and fiscal policy challenges. However, such a repeat is by no means guaranteed given the current policy uncertainties weighing on investor sentiment and developments in the international economy since the more immediate post-global financial crisis period.

Of particular interest, given its role as a major engine of Indonesia's domestic demand growth, is how any spillovers from developments in China affect domestic investment in Indonesia, which is still strong, but is showing some signs of moderating. Investment has tended to be closely positively correlated with global commodity prices and the pace of investment growth may yet prove susceptible to external headwinds. Even if economic growth as a whole proves relatively robust to softening commodity prices, households and businesses in regions highly dependent on commodities for livelihoods and income could feel significant localized impacts.

The ongoing uncertainties of the international environment raise the importance of Indonesia continuing to build on the progress it has already had in making its economy more resilient. This will equip the country to benefit fully from the gradual improvement in global growth expected in the baseline outlook, as well as to weather any further deterioration in external conditions, should this occur. Therefore, the policy challenge for Indonesia, as well as across developing economies, is to maintain a twin focus on short-term crisis preparedness and on longer-term structural measures (such as support for the development of infrastructure, skills, and education) aimed at boosting the sustainable growth rate.

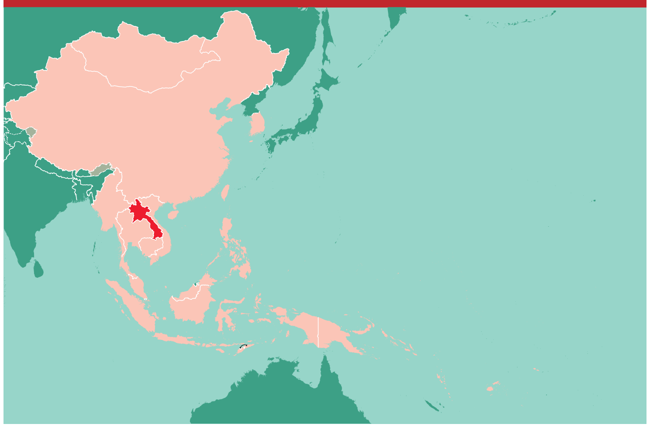
Maintaining policy consistency and clarity, particularly in the area of business and investment regulation, furthers both of these objectives. It will be important to avoid policy missteps, such as policies that aim to address a near-term issue, yet may carry longer-term risks and costs. In addition, maintaining a clear and consistently reform-oriented policy framework will be particularly important given the likely rise in political uncertainty in the lead-up to national elections in 2014 and the continued fragility of investor confidence around the globe. More measures are needed to increase the flexibility to respond to any downturn in growth, which remains limited by disbursement challenges in infrastructure and the continued burden of energy subsidies (accounting for one quarter of central government spending, excluding regional transfers, in the 2013 budget). Therefore, there is a need to improve further the quality of both the allocation and the efficiency of spending. Failure to make such improvements in the medium-term could lower the growth outlook going forward and the government's ability to meet its development objectives.

Indonesia: Key Indicators

	2010	2011	2012f	2013f	2014f	2011	2012			2012			
	Year	Year	Year	Year	Year	Q4	Q1	Q2	Q3	Jul	Aug	Sep	Oct
Output, Employment and Prices													
Real GDP (% change y-y) 1/	6.2	6.5	6.1	6.3	6.6	6.5	6.3	6.4	6.2	..	..	..	..
Domestic demand (% change y-y)	5.3	5.7	7.5	5.9	7.0	6.4	6.4	7.4	6.1	..	..	..	..
Industrial production index (2000=100)	134.6	140.0	..	..	..	139.7	139.4	143.9	..	..	..	..	..
(% change y-y)	4.6	4.1	..	..	..	22.9	23.3	21.2	..	..	..	..	..
Unemployment (%)	7.1	6.6	6.3	..	..	..	..	..	..	..	..	..	..
Real wages (% change y-y)	0.4	4.7	..	..	..	..	..	..	..	..	..	..	..
Consumer price index (% change y-y) 2/	7.0	3.8	4.4	5.1	5.0	3.8	4.0	4.5	4.3	4.6	4.6	4.3	4.6
Public Sector 3/													
Government revenues (% GDP)	15.5	16.3	15.9	16.3	16.6	..	..		..	..	..	..	..
Government expenditures (% GDP)	16.2	17.4	18.2	17.9	18.0	..	..	..	..	..	..	..	..
Government balance (% GDP)	-0.7	-1.1	-2.2	-1.7	-1.4	..	..	..	..	..	..	..	..
Government debt (% GDP)	26.1	24.3	24.1	22.9	21.5	24.3	23.4	23.4	23.7	..	..	..	..
Foreign Trade, BOP and External Debt													
Trade balance (billions US$) 4/	21.3	24.2	-18.9	-23.5	-25.9	3.5	1.7	-2.1	0.6	-0.3	0.0	0.8	..
Exports of goods (billions US$) 5/	158.1	200.8	236.8	245.8	275.9	50.7	48.4	47.5	45.6	15.7	13.7	16.1	..
(% change y-y)	32.1	27.0	17.9	3.8	12.2	10.6	5.3	-8.2	-13.0	-6.9	-26.0	-4.8	..
Key export (% change y-y) 6/	39.0	32.8	..	..	..	19.6	11.0	-4.2	-20.7	..	..	..	..
Imports of goods (billions US$) 5/	127.4	166.0	227.4	238.4	268.5	44.1	44.5	46.7	42.5	16.0	13.7	15.3	..
(% change y-y)	43.7	30.3	37.0	4.9	12.6	20.5	21.6	9.7	-0.3	1.1	-6.7	2.8	..
Current account balance (billions US$)	5.1	1.7	-21.2	-16.4	-20.1	-2.3	-3.1	-7.7	-5.3	..	..	..	..
(% GDP)	0.7	0.2	-2.3	-1.6	-1.7	-1.1	-1.4	-3.5	-2.4	..	..	..	..
Foreign direct investment (billions US$)	13.8	19.2	..	..	..	5.4	4.5	3.2	5.5	..	..	..	..
External debt (billions US$)	202.4	224.8	240.1	236.9	234.7	224.8	228.8	235.4	237.6	241.8	241.3	244	..
(% GDP)	28.6	26.5	26.8	23.1	19.8	26.4	26.4	27.0	27.3	..	..	..	..
Debt service	54.3	92.8	..	..	..	..	..	..	..	..	..	..	..
(% exports of g&s)	34.4	46.2	..	..	..	..	..	..	..	..	..	..	..
Foreign exchange reserves, gross (billions US$)	96.2	110.1	110.2	123.4	143.6	110.12	110.49	106.50	110.17	106.6	109.0	110.2	110.3
(months of imports of g&s)	7.5	6.7	4.7	5.0	5.2	6.7	6.4	6.0	6.2	..	..	..	..
Financial Markets													
Domestic credit (% change y-y)	17.5	24.4	..	..	..	25.4	24.7	25.9	23.9	25.2	23.6	22.9	..
Short-term interest rate (% p.a.) 7/	6.5	6.6	..	..	..	6.2	5.8	5.8	5.8	5.8	5.8	5.8	5.8
Exchange rate (Rupiah/US$, ave)	9,090	8,770	9,350	9,400	9,400	9,024	9,088	9,412	9,544	9,485	9,560	9,588	9,615
Real effective exchange rate (2000=100)	160.4	160.1	..	..	..	159.6	159.8	159.4	157.3	158.9	157.8	155.3	154.6
(% change y-y)	12.7	-0.1	..	..	..	0.5	0.7	-0.9	-2.4	-1.6	-2.3	-3.4	-3.3
Stock market index (Aug. 1982=100) 8/	3,095	3,746	..	..	..	3,776	4,016	3,990	3,977	4,142	4,060	4,263	4,350
Memo: Nominal GDP (billions US$)	708.1	846.8	897.6	1,024.0	1,186.6	212.9	217.6	218.0	222.4	..	..	..	..

Source: National data sources and World Bank staff estimates
f = forecast
1/ Based on GDP 2000 base
2/ End of period.
3/ Government projections
4/ Goods and services trade balance
5/ Goods trade on BOP basis from Bank Indonesia with exception of monthly figures from BPS
6/ Crude oil and gas exports
7/ Policy rate
8/ Jakarta Composite Index, end of period

LAO PEOPLE'S DEMOCRATIC REPUBLIC



Population	6.3 million
Population growth	1.4 percent
GDP (PPP, int'l US$ billions)	17.7
GDP per capita (PPP, int'l US$)	2,809
Surface area	236,800 sq. km.
Capital	Vientiane

Source: World Development Indicators.

Summary

Lao People's Democratic Republic (PDR) continues to maintain robust growth this year, but faces a challenge to manage domestic demand. The Lao economy is expected to benefit from both resource and nonresource sectors growth this year. Even with robust growth, inflation has been declining, mainly because of lower food and fuel price inflation. Fiscal performance in FY2011–12 is expected to improve due to revenue growth while further expansionary fiscal stance will take place in FY12–13 because of a substantial wage increase. Home-grown and external risks associated with low reserves coverage, increased exposure to mining revenues, fast banking expansion with limited supervision, and a large number of newly announced large projects warrant close monitoring to preserve macroeconomic stability and sustainability.

Recent Economic Developments

The Lao economy is expected to grow at 8.2 percent in 2012, benefiting from construction, manufacturing, mining, and services. This is slightly lower than the projection of 8.3 percent in May because of a projected fall in garment export this year. Nevertheless, growth will remain strong at above 8 percent for the third consecutive year. One key driver on the demand side is the surge in investment this year in infrastructure and housing, along with the preparation for the 9th Asia-Europe Meeting (ASEM) in Vientiane Capital. On the supply side, this development has a positive spillover to manufacturing sectors through demand for cement and construction materials. In addition, food and beverages benefit from boosted domestic demand. Upgraded and new mining projects offers a higher contribution to growth compared to last year as shown in the positive performance in the past three quarters. Additionally, the service sector will benefit from higher trading, tourism, transport, and telecommunication, while agriculture will recover from the impact of last year's floods.

Inflation has trended downward, driven by lower food and energy inflation. The headline inflation fell notably from 5.3 percent (year on year) in March 2012 to 3.5 percent in October. Food inflation significantly declined from 8.2 percent in March to 3.6 percent in October, driven by the continuous drops in rice prices, which resulted from the government control of rice exports. The rice price reduction has offset the increase in meat and vegetable prices, which is associated with higher demand from local residents as well as inflow foreign workers. However, fuel inflation has significantly declined from 7.9 percent year on year in March to 3.8 percent in October. Core inflation has picked up moderately from 3 percent year on year in March to 3.5 in October, mainly because of higher prices of construction materials, cooked food, and electricity tariffs.

The overall fiscal deficit for FY11–12 is lower than initially projected because of higher revenue performance and grants. The overall fiscal deficit is estimated to decline to 2.3 percent of gross domestic product (GDP) from 2.7 percent. Higher-than-expected grants to support the ninth ASEM preparation and outperformance in domestic revenue are likely to drive total revenue from

18.6 percent of GDP to 19.7 percent in FY11–12. Domestic revenue is estimated to outperform the plan by about 5 percent resulting from a combination of i) higher gold and copper output, ii) higher hydro revenue, and iii) nonresource revenues, especially turnover, value added tax, and income tax. On the expenditures side, recurrent spending and public investment, some of which related to ASEM, drive total public spending. Despite improvement in overall fiscal deficit, the nonmining and nonresource fiscal deficits are expected to worsen from 7.7 and 8.3 percent in FY10–11 to 8.2 and 9.2 percent in FY11–12, respectively, indicating the increased exposure to mining revenue.

The planned wage increase will add to the fiscal deficit in FY12–13 estimated at 2.7 percent. Wage expenditure is expected to increase significantly by 35 percent (0.5 percent of GDP). As a result, total spending as a ratio to GDP is expected to climb to 22.5 percent in FY12–13. On the other hand, the total revenue as share of GDP will stabilize at previous year's level at 19.7 percent due to a decline of grants as percent of GDP because of mostly once-off ASEM-related spending in FY11–12. Domestic revenue as a ratio to GDP is likely to climb to 17.6 percent, attributable to higher mining extraction and increased income tax following the wage increase.

Lao PDR's risk of debt distress is reclassified from high to moderate following the country's improved policy performance.[53] According to the 2012 Debt Sustainability Analysis, the Public and Publically Guaranteed (PPG) debt stock as ratio to GDP declined from 50.3 percent to 44.4 percent in 2011 because of strong economic growth and the Kip appreciation against the U.S. dollar. Multilateral creditors still hold majority of the public external debt. However, bilateral creditors have an increasing share in external PPG debt. The recently announced megaprojects[54] call for enhanced scrutiny over debt management and sustainability. The government has now deployed a Debt Management and Financial Analysis System (DMFAS) and has developed a Presidential Decree on Public Debt management. All these efforts are steps in the right direction and should be sustained together with the development of a debt management strategy.

Credit growth remains high and puts a pressure on falling reserves. Credit growth has picked up from 33 percent (year on year) in June 2011 to 47 percent (year on year) in June 2012 driven by credit to private sector and state-owned enterprises (SOEs). Buoyant growth in construction, manufacturing, and service sectors is driving private sector credit. Central Bank disbursements to local infrastructure projects have moderated compared to the peak in 2009 while continuing only on the basis of previous commitments.

Continued strong domestic demand puts pressure on external reserves, which are reaching a critical low, raising concerns over the country's capacity to absorb any adverse external shock. The overall balance of payment is expected to remain in a deficit of 0.7 percent of GDP at the end of 2012 as a result of continued demand for imports. The expected gains from investments in both resource[55] and nonresource sectors[56] are to be offset by the deterioration of the current account deficit to 16.3 percent of GDP due to growing imports and higher net income payment from the resource sector. As a result, foreign reserves are expected to fall by about 9 percent year on year, reaching a critical low level of $620[57] million in December, or 2.5 months of nonresource imports. Slowing down internal demand through fiscal and credit tightening would be essential.

53 The average rating of Country's Policy and Institutional Assessment for Lao PDR has been above 3.25 thresholds for two consecutive years, bringing Lao PDR's policy performance from weak to medium. This is based on the Joint IMF-WB Debt Sustainability Framework for Low Income Countries.

54 These projects include the satellite, radio, and television project, fiber optic project, Lao-China railway project, and others (KPL Newspaper November 2012, page 7)

55 Hydro projects under construction and mining upgrade and new projects.

56 These include hotels and constructions most of which are related to the preparation for the ASEM.

57 All dollar amounts are U.S. dollars unless otherwise indicated.

The Bank of Lao PDR has consistently pursued a managed floating exchange rate regime as the main instrument to maintain exchange rate stability. The Lao Kip has appreciated marginally by 0.3 percent against the U.S. dollar during January to October 2012 while depreciated against Thai baht by 2.8 percent in the same period because of the appreciation of baht against the U.S. dollar. The exchange rate interventions, including the recent removal of the foreign currency exchange cap, also contribute to the pressure on reserves. The real effective exchange rate has continued to appreciate both in nominal term and, to a greater extent, in real term.

Outlook and Emerging Challenges

Taking into account uncertainties in the global economy and continued implications to regional economic developments, Lao PDR's medium-term growth outlook is projected at 7.6 percent on an annual average. This outlook assumes successful operations of key large power projects under constructions and pipeline.[58] The nonresource sector is expected to maintain dynamic growth in the context of continued strong domestic consumption and sustained demand from key trading partners.

Nevertheless, risks and challenges on both external and domestic fronts are foreseen in the near to medium term. Recent commitments to finance large-scale infrastructure projects with possible public or publically guaranteed borrowing raise concerns over public debt sustainability and over the country's absorptive capacity. Strong domestic demand expansion pushed by large inward investments and high credit growth translates into high import and falling foreign reserves. Tightening domestic demand through credit and fiscal policies would be important to building up reserves and promote more resilience.

Finally, since the Lao economy is exposed to developments in the region, particularly neighboring countries, a downside deviation from their current projected growth may negatively affect Lao PDR.

Lao PDR's accession to the World Trade Organization (WTO) is one important step but this action would require continued reform efforts in order to fully reap the benefits. After 15 years of preparation, Lao PDR has been accepted as the 158th member in 2012 after Russia and Vanuatu. This means signing up for the WTO core principles of nondiscrimination, transparency, and predictability and ensuring that these principles are incorporated into Lao law. In addition, the accession calls for a series of more substantial reforms to bring Lao legislation into line with the WTO agreements on issues, such as subsidies, price controls, restrictions, and state enterprises. While this achievement is an important externally verified signal of reforms and sustained commitment to reforms, the implementation of identified commitments and avoidance of backsliding after accession will be a challenge to realizing potential benefits from this WTO membership.

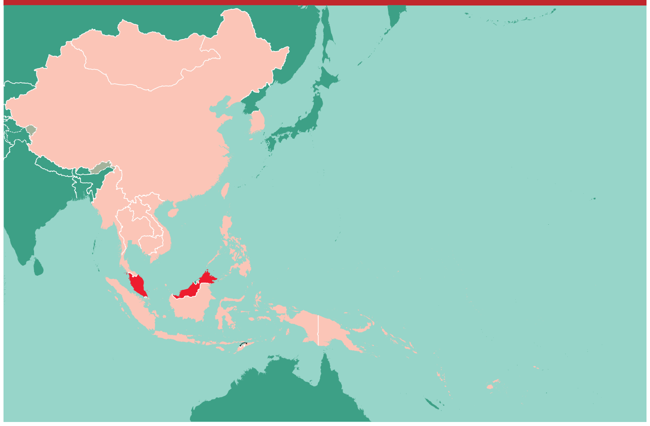
58 Hongsa Lignite power plant, Xepian-Xenamnoi, Nam Khan 2, and other potential projects.

Lao PDR: Key Indicators

	2010	2011e	2012f	2013f	2014f
	Year	Year	Year	Year	Year
Output, Employment and Prices					
Real GDP (% change y-y)	8.5	8.0	8.2	7.5	7.5
Consumer price index (% change y-y)	6.0	7.6	5.5	6.0	6.0
Public Sector 1/					
Government balance (% GDP) 2/	-4.9	-2.7	-2.3	-2.7	-2.7
Foreign Trade, BOP and External Debt					
Trade balance (millions US$)	-424	-827	-1,317	-1,577	-1,818
Exports of goods (millions US$)	2,149	2,619	2,845	3,003	3,023
(% change y-y)	44.3	21.9	8.6	5.5	0.7
Key export (% change y-y)	43.4	16.2	11.7	4.2	-1.3
Imports of goods (millions US$)	2,573	3,446	4,162	4,580	4,842
(% change y-y)	16.2	33.9	20.8	10.1	5.7
Current account balance (millions US$)	-446	-937	-1,539	-1,884	-2,159
(% GDP)	-6.2	-11.4	-16.3	-18.1	-19.0
Foreign direct investment (millions US$)	770	1,128	1,621	1,857	1,894
External debt (millions US$)	6,719	7,623	8,887	10,419	12,181
(% GDP)	88	83	88	94	102
Debt service ratio (% exports of g&s)	80.9	63.2	60.5	78.5	76.0
Foreign exchange reserves, gross (millions US$) 3/	730	679	690	799	888
(months of imports of g&s)	3.2	2.3	1.9	2.0	2.1
Financial Markets					
Domestic credit (% change y-y) 4/	46.0	38.2	32.9	26.5	24.7
Short-term interest rate (% p.a.) 5/	7.0	7.0	..	..	..
Exchange rate (Kip/US$, ave)	8,259	8,052	7,932	7,900	7,939
Real effective exchange rate (2000=100)	122.3	127.2	..	..	..
(% change y-y)	3.6	4.0	..	..	..
Memo: Nominal GDP (millions US$)	7,156	8,194	9,430	10,411	11,371

Source: National data sources
e = estimate
f = forecast
1/ Fiscal year basis
2/ After grants
3/ Excluding gold
4/ Excludes government lending funds
5/ Treasury bill rate

MALAYSIA



Population	28.9 million
Population growth	1.6 percent
GDP (PPP, int'l US$ billions)	449.9
GDP per capita (PPP, int'l US$)	15,589
Surface area	329,740 sq. km.
Capital	Kuala Lumpur

Source: World Development Indicators.

Recent Economic Developments

The Malaysian economy maintained a vigorous pace in the first nine months of 2012, despite external headwinds. GDP expanded by 5.3 percent in the first three quarters of 2012 compared to the same period in 2011. The pace of GDP growth decelerated to 4.6 percent in the third quarter (quarter-on-quarter, SAAR) from 6.9 percent in the second quarter and 4.8 percent in the first quarter of 2012. Malaysia's performance in the first nine months of 2012 continues a trend of the past two years in which domestic demand absorbs rapid expansion of value-added (and, in parallel, production by domestically oriented industries), while external demand (and externally oriented industries) stagnates.

Exports slowed down further as commodity shipments moderated and noncommodity performance remained subdued. Exports of goods and services grew by 2.6 percent in nominal terms (0.6 percent in real terms) in the first nine months of 2012, slowing down from a 7.9 percent expansion in the same period of 2011. The effect of moderating demand from China and Japan (Malaysia's largest markets for agricultural commodities and a significant market for fuels and commodity-related manufacturing) spread weakness to commodity-related exports, which had been performing well until recently. Meanwhile, shipments of noncommodities remained subdued in line with the weak economy in the major importing countries (the United States and especially Europe).

Investment from both public and private sources was a key driver of growth. Gross fixed capital formation surged in the first three quarters of 2012, taking the share of investment in GDP to 27 percent, the highest level since 1997. Growth slowed in the third quarter to 7.3 percent (quarter-on-quarter, SAAR) following rapid growth of 29.1 and 31.7 percent in the previous two quarters, respectively. The private sector represented about 65 percent of the expansion in fixed investment, with the public sector (including government-linked companies) contributing the additional 35 percent. Inventories were a drag on growth as expected, following several quarters of restocking. Overall investment (fixed and inventory) expanded by 22 percent in the first three quarters of the year.

Domestic demand was broad-based, as both private and public consumption remained robust. Cash transfers, a tight job market and higher civil service wages helped prop up private consumption in the face of softer commodity prices, somewhat stricter credit conditions, and greater uncertainty on the external front. Consumption indicators demonstrated a mixed trend, with spending on big-ticket items (such as cars) perhaps circumscribed by the imposition of new rules for household loan applications, but otherwise keeping to the vigorous pace observed in 2011. Meanwhile, after a strong expansion in the second quarter (10.9 percent) because of higher spending on public wages and supplies and services, public consumption growth moderated to 2.3 percent in the third quarter, bringing growth in the first three quarters of the year to 7.2 percent from the same period in 2011. This pace represents a sharp reduction from the 16.1 percent growth registered by public consumption in 2011.

Robust domestic demand was linked to a strong performance of domestically oriented industries. On the supply-side, the strongest-performing sectors—construction and services—produce primarily for Malaysia's domestic market. In line with the surge of investments in structures, the construction sector expanded an average of 18.7 percent for the first nine months of 2012. The services sectors expanded by 6.7 percent in the first three quarters of the year. The performance of externally oriented industries reflected developments in export markets, with continued weakness in electrical and electronic equipment and a deceleration in commodity-related sectors. Primary commodity sectors slowed the most, while commodity-related manufacturing was up. Manufacturing of electrical and electronic products remained sluggish, gaining 1.6 percent in the first nine months of the year.

Inflation continued to decline into the third quarter of 2012 as food prices stabilized and fuel prices declined. Consumer price inflation has been on a downward trend in 2012, decelerating from 2.3 percent in the first quarter to 1.7 percent in the second quarter and 1.4 percent in the third quarter. Benign inflation dynamics were underpinned primarily by a decline in fuel prices following trends in global oil prices, and by a moderation in food inflation, which declined from 5.2 percent in the fourth quarter of 2011 to 2.6 percent in the third quarter of 2012. Although headline inflation declined uniformly across the country, food inflation was higher in Sarawak, where it averaged 3.9 percent in the third quarter compared to 2.4 percent for peninsular Malaysia and 2.8 percent in Sabah.

The government is likely to meet its deficit target for 2012, despite significant expenditure overruns. Revenue collections for 2012 are likely to exceed significantly their target on improvements on both tax and nontax receipts. Oil-related revenues are expected to comprise 33 percent of revenues in 2012. The nonoil primary deficit is likely to come in between 9.5 and 10 percent of GDP, below its level in 2011. However, additional government consumption is expected to absorb additional revenues. Operating expenditures (81 percent of estimated 2012 expenditures) were up 18 percent in the first half of 2012 and are expected to increase by 11 percent for the year as a whole, exceeding the original budget allocation by 11.5 percent. Capital expenditures are estimated to shrink for the year as a whole, but considering the increase in the amount of government guarantees, it appears that some capital expenditure has been moved off-budget. Overall expenditures for the first half of 2012 increased by 20 percent from the same period in 2011, suggesting that government spending supported the outperformance of GDP in the second quarter. Overall, the government is likely to meet its deficit targets and public debt is expected to close the year at about 52 percent of GDP, below the government's self-imposed 55 percent ceiling.

Heightened external risks and declining inflation have been offset by domestic strength, leading Bank Negara Malaysia to keep monetary policy in a holding pattern throughout the year. Monetary policy has been pulled in two directions in 2012. On the one hand, factors calling for a resumption of the normalization of interest rates initiated in 2010 include the strength in domestic demand, rising real estate prices, and a positive output gap. On the other hand, factors that suggest further monetary accommodation include declining inflation rates, heightened external risks, and further monetary easing by Group of 3 (United States, Japan, and the economies of the euro zone) and other ASEAN central banks. Given these opposing forces, Bank Negara Malaysia (BNM) has decided to keep its benchmark interest rate (the overnight policy rate [OPR]) unchanged at 3 percent throughout 2012. At 0.6 percent, the real policy rate remains below its 2007 level, and monetary policy remains supportive of economic growth but watchful of emerging risks.

The overall current account balance registered the smallest surplus in 10 years. This was attributed to the slower growth of exports of commodities, but primarily to the sharp deterioration of the noncommodity current account balance, which has been negative since the first quarter of 2011. The slowdown in the commodity balance reflected mainly lower production and prices of, respectively, crude palm oil and rubber during the period. Manufacturing exports expanded moderately as electrical and electronics exports remained weak owing to slower external demand. In contrast, imports of capital and consumption goods were strong, driven by the robust expansion in domestic demand, particularly investments in construction-related activities. Foreign direct investment inflows picked up in the first half of 2012, driven by direct investments in the mining, construction, and agriculture sectors. Portfolio flows turned negative in the second quarter because of heightened concerns regarding the euro-zone debt crisis. This was despite a solid performance of Malaysian stock markets and a major initial public offering, (Felda Global Ventures, an oil palm plantation). Increasing reserves in the third quarter suggest that capital flows have returned in the wake of aggressive measures by central banks in advanced economies.

Outlook and Emerging Challenges

Propelled by domestic demand, Malaysia's economy is likely to weather a weak global environment and grow by 5.0 percent in 2013. In 2012, Malaysia performed well in the context of weakening demand from advanced economies as well as China. This dichotomy can be sustained into 2013 because of three factors. First, there is momentum in investment growth. A number of projects that contributed to the surge in investment in the first half of 2012 will continue to contribute a larger amount of value-added to the economy in the near term. Second, there is a positive feedback loop among the implementation of investment projects, fiscal policy, and private consumption. This feedback loop operates primarily through the labor markets, which have been tight and will support continued growth in consumption. Finally, commodity prices are unlikely to decline significantly in 2013, providing support to fiscal policy, as well as investment growth, much of which is linked to commodities.

This fairly benign outlook comes with important caveats. First, although the global outlook for 2013 is weak, it is still expected to be an improvement over 2012. Should a new shock lead to a significant deviation from this baseline, exports would contract and commodity prices would decline, which would unravel the favorable dynamics described above. Second, domestic fiscal policy will have to walk a fine line toward needed consolidation without disrupting the growth momentum.

Most importantly, the sustainability of Malaysia's favorable near-term outlook into the medium-term hinges on the implementation of structural reforms. Malaysia's near-term outlook owes much to commodity sectors. A significant portion of investments has been directly in the oil and gas sector; the expansion in public consumption and capital formation has been financed to a significant degree by commodity revenues (present and future); and investments in real estate are, to some extent, also linked to the recycling of commodity revenues. These investments are part of a sound strategy to ensure that the resource sector continues to provide revenues in years to come, but by themselves they bring risks related to possible shocks to commodity prices and, conversely, higher commodity prices may lead to "Dutch disease" and a loss of competitiveness in tradable manufacturing and services sectors. To mitigate these risks, Malaysia needs to accelerate the implementation of productivity-enhancing reforms to boost capabilities and competition, and thus raise productivity of noncommodity sectors.

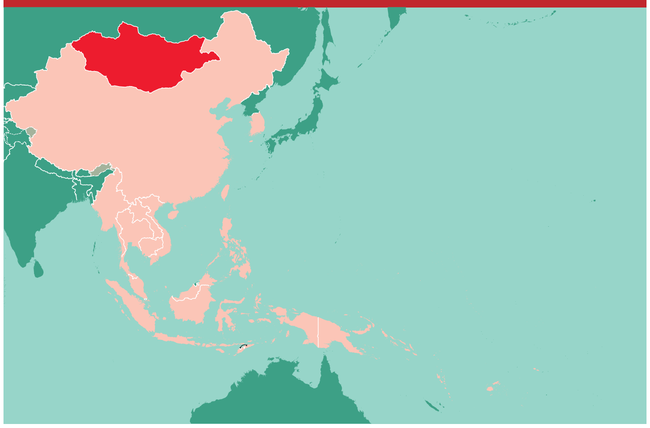
Malaysia: Key Indicators

	2010	2011	2012f	2013f	2014f	2011	2012			2012			
	Year	Year	Year	Year	Year	Q4	Q1	Q2	Q3	Jul	Aug	Sep	Oct
Output, Employment and Prices													
Real GDP (% change y-y)	7.2	5.1	5.1	5.0	5.1	5.2	5.1	5.6	5.2	..	..	..	..
Domestic demand (% change y-y)	10.4	7.3	10.9	6.5	7.4	7.5	9.5	12.2	13.9	..	..	..	..
Industrial production index (2000=100)	107.1	108.4	..	..	..	110.6	111.4	111.2	112.1	110.7	110.9	114.7	..
(% change y-y)	7.2	1.2	..	..	..	2.3	3.5	4.9	2.4	2.5	-0.2	4.8	..
Unemployment (%)	3.2	3.1	..	..	..	3.1	3.0	3.0	3.0	3.1	2.7	..	..
Real wages (% change y-y) 1/	6.4	0.6	..	..	..	4.0	5.9	4.6	3.0	1.8	3.5	3.7	..
Consumer price index (% change y-y)	1.7	3.2	2.0	3.0	3.0	3.2	2.3	1.7	1.4	1.4	1.4	1.3	1.3
Public Sector													
Government revenues (% GDP) 2/	20.1	21.0	21.7	21.1	21.2	..	..	..	..	..	..	..	..
Government expenditures (% GDP) 2/	25.5	25.9	26.1	25.4	25.1	..	..	..	..	..	..	..	..
Government balance (% GDP) 2/	-5.4	-4.8	-4.4	-4.3	-3.9	..	..	..	..	..	..	..	..
Domestic public sector debt (% GDP) 2/	51.2	51.8	52.1	52.1	51.1	51.8	52.5	52.3	..	..	..	..	..
Foreign Trade, BOP and External Debt													
Trade balance (billions US$) 3/	42.5	45.8	38.3	35.6	30.8	10.5	10.5	8.3	7.1	..	..	..	..
Exports of goods (billions US$)	199.2	227.8	..	..	..	57.6	56.9	57.1	55.9	18.5	17.9	19.6	..
(% change y-y)	26.6	14.3	..	..	..	9.7	4.4	3.1	-1.2	-2.6	-4.5	2.6	..
Key export (% change y-y) 4/	5.3	9.4	..	..	..	4.5	-7.9	-5.7	-3.6	-8.5	-5.2	3.1	..
Imports of goods (billions US$)	157.3	179.4	..	..	..	45.9	45.2	47.6	47.8	17.3	15.6	17.5	..
(% change y-y)	34.0	14.0	..	..	..	8.7	7.1	8.5	7.0	9.5	2.8	9.6	..
Current account balance (billions US$)	27.4	31.8	..	..	..	7.1	5.9	3.1	3.0	..	..	..	..
(% GDP)	11.1	11.0	7.7	5.8	3.7	9.7	8.0	4.1	4.0	..	..	..	..
Foreign direct investment (billions US$) 5/	9.1	12.0	..	..	..	2.1	2.4	2.0	3.1	..	..	..	..
External debt (billions US$)	73.6	81.0	..	..	..	81.0	81.3	84.5	..	..	..	..	..
(% GDP)	29.8	28.1	..	..	..	28.1	27.8	28.6	..	..	..	..	..
Short-term debt (billions US$)	25.8	32.7	..	..	..	32.7	33.0	34.6	..	..	..	..	..
Debt service ratio (% exports of g&s)	7.7	10.3	..	..	..	10.3	8.3	12.6	..	..	..	..	..
Foreign exchange reserves, gross (billions US$)	106.5	133.6	..	..	..	133.6	135.7	134.2	137.5	134.4	134.9	137.5	138.3
(months of imports of g&s) 3/	5.5	6.1	..	..	..	7.1	7.3	6.9	7.1	..	..	..	..
Financial Markets													
Domestic credit (% change y-y) 6/	11.3	13.2	..	..	..	13.1	12.1	12.3	12.4	13.0	12.4	11.9	..
Short-term interest rate (% p.a.) 7/	2.50	2.92	..	..	..	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Exchange rate (Ringgit/US$, eop)	3.08	3.18	..	..	..	3.18	3.07	3.19	3.07	3.14	3.13	3.07	3.06
Real effective exchange rate (2000=100) 8/	100.0	99.9	..	..	..	97.9	100.4	99.3	99.0	98.5	99.3	99.3	99.8
(% change y-y)	5.2	-0.1	..	..	..	-2.2	-1.2	-0.9	-0.7	-1.9	-0.8	0.6	2.0
Stock market index (Jan. 1, 1997=100) 9/	1,379	1,509	..	..	..	1,531	1,596	1,599	1,637	1,632	1,646	1,637	1,673
Memo: Nominal GDP (billions US$)	247.5	288.1	..	..	..	72.9	73.9	74.6	76.0	..	..	..	..

Source: National data sources, World Bank staff estimates.

f = forecast
1/ Manufacturing wages only
2/ Federal government only
3/ Balance of goods and services
4/ Thermionic valves & tubes, photocells, etc.
5/ Inward FDI
6/ Total loans in the banking system
7/ Overnight Policy Rate (OPR)
8/ Source: BIS
9/ FTSE Bursa Malaysia Composite, end-period

MONGOLIA



Population	2.8 million
Population growth	1.6 percent
GDP (PPP, int'l US$ billions)	13.3
GDP per capita (PPP, int'l US$)	4,764
Surface area	1,566,500 sq. km.
Capital	Ulaanbaatar

Source: World Development Indicators.

Recent Economic Developments

The Mongolian economy is at the start of a huge expansion as it begins to develop its mineral wealth. The construction of the Oyu Tolgoi (OT) copper-gold mine—among the five largest in the world—lifted gross domestic product (GDP) growth at 17.5 percent in 2011, making the country the fastest growing economy in the world. However, the pace of economic growth has been experiencing constant slowdown in 2012 .The economic growth rate decelerated to 5.6 percent year on year in real terms in the third quarter, down from 16.5 percent and 11 percent in the first and second quarters of the year. As a result, the growth of the economy slowed to 10.2 percent (year on year) during the three quarters of 2012 from 16.5 percent during the same period of the previous year. The significant economic slowdown in 2012 was mainly because of shrinking commodity demand in China, which challenged volume and price of Mongolian mineral exports, the major drivers for the highest growth. Construction and transportation industries led the significant slowdown of growth during the first nine months, showing only 15.3 percent and 3.1 percent growth, respectively, from staggering 81.3 percent and 14.8 percent growths during the same period last year, driven by declining commodity exports, transport sector bottlenecks, and limited absorptive capacity in the economy.

Mongolia made a successful debut in the international financial market by issuing a US$ 1.5 billion sovereign bond on November 28. The oversubscription (of ten times the issue amount) demonstrated the rising interest of the international financial community in the fast growing Mongolian economy. The external borrowing is equivalent to around 15 percent of GDP. Given the massive size of the bond issue and signs of overheating of the economy, it will be an important task for Mongolia going forward to use the proceeds in a way that meets urgent infrastructure and development demands in an economically and fiscally sustainable manner.

Despite the recent slowing trend of economic expansion, Mongolia's medium-term prospects look promising. As the OT and Tavan Tolgoi (TT) mines go into production, economic growth is projected to be in the double digits, with sustained increases in exports and fiscal receipts. The World Bank has recently revised Mongolia's growth for 2012 down to 11.8 percent from original forecast of 17.2 percent, given the short term risks and barring any severe negative shock.[59]

However, the economy faces significant risks in the near term, as reflected in the steep drop in exports since April of this year. These risks reflect an uncertain global economic outlook, slowing growth in China, and procyclical fiscal policy over the past three years with large increases in government spending contributing to high inflation and pressures on the balance of payments. Any delay in commercial production at the OT mine could also impact the near term growth trend. Mongolia set up a stabilization fund in 2011 as required by the Fiscal Stability Law (FSL) and so far it has saved only a small amount (about 2.2 percent of GDP), which is likely to be

59 The World Bank. October 2012. Mongolia Quarterly Economic Update.

insufficient in case of substantial shock. The 2013 budget, which Parliament has just passed, should present an opportunity to mitigate these risks by reining in spending and anchoring fiscal policy to the FSL that goes into effect on January 1, 2013.

The external balance remains under heavy pressure. Exports fell by 39 percent and 21 percent year on year in July and August, which were considered as the largest fall since mid-2009, followed by further pressures in an already overheating economy. The nationwide headline rate was 14.8 percent in September, driven mostly by the food (meat) prices. Core inflation (excluding all food and energy prices) also remains over 10 percent since the start of the year, reaching 10.7 percent in September.

The fiscal deficit for 2012 is projected to increase from the original target of 1 percent to 4.2 percent as per the September amended budget, on account of weak revenue growth because of the slowdown in exports, lower commodity prices, and sustained expenditure increases. The actual outturn may turn out to be worse as budgeted expenditures have not been reduced significantly and growth forecasts remain overly optimistic. These numbers also do not reflect the significant off-budget financing of capital expenditures by the DBM and by construction companies on the condition of repayment by the budget ("build-transfer" schemes), which will also likely impact the budget next year and beyond. Including the DBM spending, the deficit could reach 9 percent of GDP in 2012. Although the OT mine is expected to start producing early next year, net revenues from the mine are only expected to enter the budget with a lag (around 2015–16).

The financial market also remains vulnerable. Monetary tightening over the past year has helped to slow the pace of credit growth from 73 percent at the end of 2011 to 35 percent in September; however, it is still high. Mongolia's banking system remains highly dollarized, with one third of deposits (32.7 percent as of September) denominated in dollars and easy convertibility out of the Togrog. A sharp economic slowdown or escalated macroeconomic instability could pose risks to individual banks and to the overall financial system going forward.

Outlook and Emerging Challenges

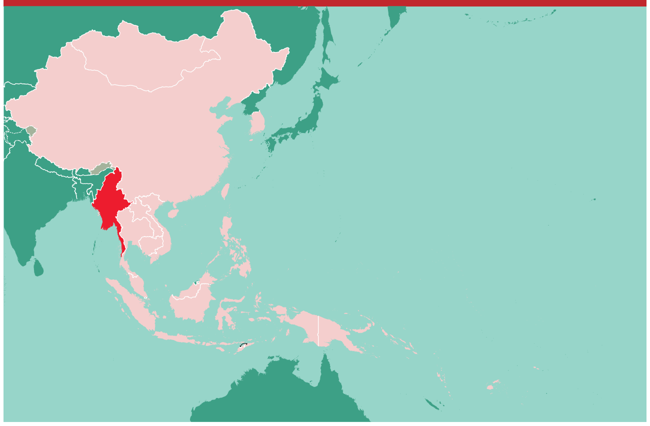
Mongolia's policy makers need to be cautious given the macroeconomic risks and the prospect of continued slow growth of the global economy. The immediate requirement is a more conservative and macroeconomically sustainable fiscal policy stance, calling for the government spending not to increase faster than the GDP. The government spending needs to be prioritized in a way that unlocks infrastructure bottlenecks and promotes long-term growth through investments in social sectors. The recently approved 2013 budget should provide an opportunity to rein in government spending (both on and off-budget via the DBM) and to abide by the rules of the FSL that goes fully into effect in January 2013. Safeguarding the FSL will also require correcting some of the weaknesses in the Law of the Development Bank. The BoM should maintain the floating exchange rate regime with interventions in the foreign exchange market limited to market smoothing operations that do not attempt to reverse the underlying market forces, while remaining vigilant with respect to banking sector risks.

Mongolia: Key Economic Indicators

	2010e Year	2011 Year	2012f Year	2013f Year	2014f Year
Output, Employment and Prices					
Real GDP (% change y-y)	6.4	17.5	11.8	16.2	12.2
Industrial production index	..	..	..		
(% change y-y)	10.0	9.7	8.0	51.0	35.0
Consumer price index (% change y-y)	14.3	11.1	13.0	12.0	12.0
Public Sector					
Government revenues (% GDP)	36.6	44.2	36.5	31.4	29.9
Government expenditures (% GDP)	36.6	40.6	41.5	32.4	31.2
Government balance (% GDP)	0.0	-3.6	-6.0	-1.0	-1.3
Non-mineral government balance (% GDP)	-10.5	-16.0	-28.7	-13.1	-8.0
Total public sector debt (% GDP)	42.2	47.1	47.6	39.8	33.0
Foreign Trade, BOP and External Debt					
Trade balance (millions US$)	-379	-1,049	-1,312	181	850
Exports of goods (millions US$)	2,899	3,825	3,978	5,529	6,525
(% change y-y)	52.0	31.9	4.0	39.0	18.0
Imports of goods (millions US$)	3,278	4,874	5,290	5,348	5,674
(% change y-y)	53.8	53.4	8.0	1.1	6.1
Current account balance (millions US$)	-887	-2,587	-2,664	-269	435
(% GDP)	-14.3	-15.1	-18.0	-1.5	3.0
Foreign direct investment (millions US$)	1,630	5,310	1,500	1,996	842
External debt (millions US$)	2,022	1,902	1,743	2,017	1,814
(% GDP)	30.2	21.7	17.0	13.9	12.5
Foreign exchange reserves, gross (millions US$)	2,288	2,984	3,302	3,679	3,976
(month of imports of g&s)	4.2	4.9	5.8	6.2	6.7
Financial Markets					
Domestic credit (% change y-y)	26.7	72.8	40.0	..	..
Short-term interest rate (% p.a.) 1/	11.0	12.3	13.3	..	..
Exchange rate (Tugrik/US$, eop)	1,257	1,265	1,360	..	..
Real effective exchange rate (2000=100)	..	..	..	..	..
(% change y-y)	26.9	-4.6	..	..	..
Stock market index (Dec. 2000=100) 1/	2,931	4,059	..	..	..
Memo: Nominal GDP (millions US$)	6,694	8,767	10,255	14,508	14,509

Sources: Bank of Mongolia, National Statistical Office, Ministry of Finance, IMF and World Bank staff estimates.
e = estimate
f = forecast
1/ Yield on 14-day bills until 2006 and on 7-day bills for 2007 onward
2/ Top-20 index

MYANMAR



Population	48.3 million
Population growth	0.8 percent
GDP (PPP, int'l US$ billions)	..
GDP per capita (PPP, int'l US$)	..
Surface area	653,520 sq. km.
Capital	Nay Pyi Taw

Source: World Development Indicators.

Summary

The Myanmar economy continued to accelerate in 2011-12 with GDP growth at 5.5 percent and expected to end the 2012-13 fiscal year at 6.3 percent. Inflation remains low (in single digit), but has been on the rise in recent months and is projected to end higher (6.1 percent) in 2012-13 compared to last fiscal year (4 percent). The consolidated fiscal deficit was at 6.0 percent of GDP in 2011/12 and is projected to improve to 5.3 percent in 2012-13. The current account deficit has also been increasing due to higher growth of imports compared to exports while the international reserve position is improving and expected to close the 2012-13 fiscal year with 4 months of import cover. With portfolio capital flows still limited, the capital account is dominated by foreign direct investment. A deficit of -1.0 percent on the overall external balance registered in 2011-12 is projected to turn into a surplus of 2.1 percent in 2012-13 due to a significant projected increase in foreign direct investment. After a heavily overvalued exchange rate for decades, considerable progress has been made since April towards unifying the exchange rate. With good prospects for clearing its arrears to Japan and multilateral lenders in early-2013, Myanmar will likely be at low risk of debt distress following clearance of these arrears. The main risks to Myanmar's economic prospects come from limited capacity to design and implement reforms, opposition to specific reforms, and an escalation of internal conflict.

Recent Economic Developments

The Myanmar economy continued to accelerate in 2011-12. Real GDP growth has increased steadily from 3.6 percent in 2008-09 to 5.5 percent in 2011-12 and is expected to increase to 6.3 percent in 2012-13.[60] On the supply side, the manufacturing and services sectors drove this acceleration: real growth in agricultural value-added (43 percent of total GDP) fell from 4.7 percent in 2009-10 to 4.4 percent per annum in 2010-11 and 2011-12. Heavy flooding in some parts of the country in August 2012 may further negatively affect real agricultural growth. Demand-side drivers included higher fiscal spending before the 2012 by-elections held in April, growth in commodity exports, and strong investment.

Inflation

Inflation remains low (in single digit) but has been on the rise in recent months and is projected to end higher than last fiscal year. After declining from 8.9 percent in 2010-11 to 4 percent in 2011-12, inflation (year-on-year) continued to decline at the start of 2012-13 mainly due to falling food prices and reduced levels of deficit monetization. However, it has recently been increasing, driven by higher international food prices as well as increasing prices of non-food commodities such as housing. In the month of August, headline inflation had reached 2.2 percent, year-on-year. It is projected to end the 2012-13 fiscal year higher than last year, at 6.1 percent.

60 IMF staff estimates. Official estimates are twice as high and flat through 2010-11. Official estimates for 2011-12 are not available yet.

Monetary and Exchange Rate Developments

The conduct of monetary policy has been consistent with macroeconomic stability although the framework is still rudimentary, relying mostly on direct monetary policy instruments such as reserve requirements and interest rate controls. Growth in broad money supply (M2) has slowed in 2011-12 to 26.3 percent from 36.3 percent in 2010-11. It is expected to increase to 28.6 percent in 2012-13. Growth in private sector credit exceeded that of net credit to the government for the first time in many years, increasing by 65.4 percent in 2010-11 and 60.1 percent in 2011-12. By contrast, net credit to the government grew by 28.5 percent and 16.6 percent, respectively, in the same years. The administratively controlled central bank policy rate was reduced to 10 percent at the start of 2012-13 from 12 percent previously. In addition, since September 2011, the deposit and lending rates were cut by a cumulative 4 percentage points to 8 and 13 percent, respectively. The September adjustment also placed the Treasury bond rates above the minimum deposit rate, which provides an incentive for banks to hold Treasury bonds, and helped reduce deficit monetization.

On April 1, 2012, a land mark reform on exchange rate policy was introduced. In particular, a managed float system of exchange rate determination was adopted so that the local currency (the Kyat) could trade at exchange rates that reflect more closely market realities. This marked a significant first step toward a unified exchange rate regime. Before this reform, there were a number of official exchange rates that were administratively fixed and applied for different purposes and players in the economy. For example, Foreign Exchange Certificates (FECs) were a separate currency introduced to prevent foreigners from using the local currency. As part of the broad economic reforms currently underway, the authorities have committed to remove the remaining foreign exchange distortions and to phase out FECs in order to have a unified exchange rate regime by the end of 2013. Meanwhile, in the first few months following the introduction of a managed float exchange rate regime, the exchange rate has been relatively stable. It initially showed an appreciating trend that worried policy makers and exporters alike as it risked eroding Myanmar's export competitiveness. More recently, with the continued surge in imports following the removal of various restrictions, the Kyat has been depreciating but in a steady manner. Overall, the nominal exchange rate has depreciated by about 4 percent since it was floated. In November 30, 2012, it was trading at 852 Kyats per one US dollar compared to 819 Kyats on the first day of trading when it was floated in April.

Fiscal Developments

The fiscal deficit of the consolidated government worsened from -5.5 percent of GDP in 2010-11 to -6.0 percent in 2011-12. While total revenues remained unchanged at 13.0 percentage of GDP, expenditures increased from 18.4 percent to 19.0 percent of GDP. As a consequence, the stock of domestic public debt grew from 22.9 percent of GDP in 2010-11 to 25.1 percent of GDP in 2011-12. It is projected that the fiscal deficit will close at -5.3 percent of GDP in 2012–13, lower than in 2011-12. This is due to a number of factors. First, the 2012-13 budget received a significant boost from higher fiscal revenues in the export sector, particularly from natural gas, due to the application of a higher exchange rate for valuation after the introduction of a managed float exchange rate regime. Second, the Government has introduced a limit on the subsidy for financing the raw materials of State Economic Enterprises (SEEs). In particular, the subsidy in 2012-13 budget is capped at 22 percent of raw material costs down from 100 percent previously. Finally, although the 2012-13 budget has increased allocations to education and health, these will partly be funded by reductions in expenditures on other areas.

External Position

Myanmar's current account deficit has been increasing recently while the international reserve position is improving. In 2011-12, the current account deficit was at -2.5 percent of GDP, up from -1.2 percent in 2010-11. This was because of a worsening trade balance as imports grew at a much higher rate (24.4 percent) than exports (13.3 percent). The Government has been easing restrictions on imports as well as exports, and this development shows that the response has been stronger on the imports side. The current account deficit is projected to increase further to -3.9 percent of GDP in 2012-13. Although the current account deficit has increased, gross international reserves have been accumulating. They are projected to end the 2012-13 fiscal year at US$5.1 billion which is equivalent to 4 months of imports, up from US$3.8 billion in 2011-12 which was equivalent to 3.3 months of import cover.

There have been limited movements on the capital account in the past due to sanctions. However, in the wake of recent reforms, the capital account is now having a noticeable impact on the overall external balance. Portfolio capital flows remain limited and therefore recent developments have mostly been on account of inflows of foreign direct investments. In 2011-12, the overall external balance registered a deficit of -1.0 percent of GDP. However, due to the projected increase in foreign direct investment from 3.8 percent of GDP to 4.5 percent, it is expected that the overall external balance in 2012-13 will register a surplus of 2.1 percent.

Myanmar's total external debt including arrears in 2011-12 was estimated at US$15 billion, equivalent to 28 percent of GDP. Of this amount, 72 percent or US$11 billion was arrears to various creditors of which 60 percent (US$6.6 billion) are owed to Japan. A coordinated international effort is currently underway to help resolve these arrears. A recent debt sustainability analysis (DSA) conducted jointly by the World Bank and the IMF shows that due to its large arrears, Myanmar is assessed as being in debt distress. However, it would move to a low risk of debt distress once arrears are resolved. It is noted that significant progress has been made to clear arrears to Japan and multilateral institutions.

Outlook and Emerging Challenges

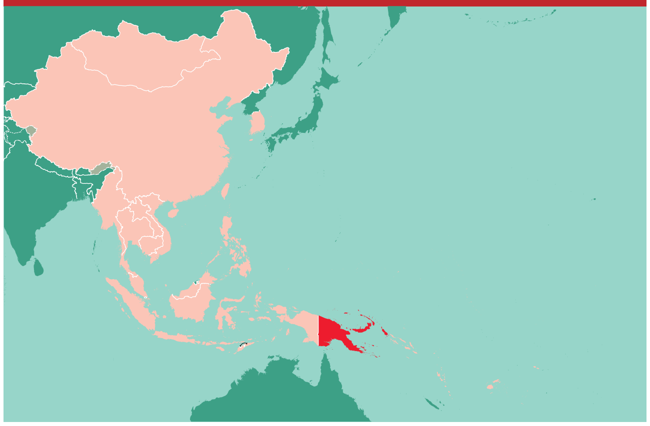
There is a risk that limited capacity could hinder implementation of reforms leading to deterioration in the macroeconomic framework. The IMF is providing support on macroeconomic issues, including through intensive monitoring. Second, there are risks to the macroeconomic program that could emanate from events on the political front. The key ones are the emergence of alliances of vested interests seeking to disrupt the reform process and the prospect of escalation in internal strife in some of the border areas and resumption of conflict where ceasefire agreements have been signed.

Myanmar: Key Indicators

	2010/11 Fiscal Year	2011/12 Fiscal Year	2012/13f Fiscal Year	2013/14f Fiscal Year	2014/15f Fiscal Year
Output, Employment and Prices					
Real GDP (% change y-y) 1/	5.3	5.5	6.3	6.5	6.6
Industrial production index 2/					
(% change y-y)	6.3	6.5	7.2	7.2	7.2
Consumer price index (% change y-y)	8.2	4.0	6.1	5.7	5.1
Public Sector					
Government revenues (% GDP) 3/	13.0	13.0	19.3	19.8	20.3
Government expenditures (% GDP) 3/	18.4	19.0	24.6	25.0	25.3
Government balance, official (% GDP) 3/	-5.5	-6.0	-5.3	-5.2	-5.0
Domestic public sector debt (% GDP)	22.9	25.1	25.3	25.6	26.0
Foreign Trade, BOP and External Debt					
Trade balance (millions US$)	796	-10	-1,313	-1,077	-776
Exports of goods (millions US$)	8,980	10,170	11,308	12,907	15,170
(% change y-y)	25.8	13.3	11.2	14.1	17.5
Imports of goods (millions US$)	8,184	10,180	12,621	13,984	15,946
(% change y-y)	15.8	24.4	24.0	10.8	14.0
Current account balance including grants (millions US$)	-526	-1,299	-2,010	-2,280	-2,844
(% GDP)	-1.2	-2.5	-3.9	-4.0	-4.6
Foreign direct investment (millions US$)	969	1,992	2,325	1,811	2,050
External debt arrears (millions US$) 4/	9,850	10,592	2,372	0	0
Total External debt including arrears (millions US$)	13,643	14,632	12,251	11,230	12,666
(% GDP)	30.1	27.8	23.6	19.8	20.6
Debt service ratio (% exports of g&s)	5.1	8.5	1.9	1.8	2.4
Foreign exchange reserves, gross (millions US$)	3,309	3,818	5,071	5,697	6,134
(months of imports of g&s)	3.5	3.3	4.0	3.9	3.8
Financial Markets					
Domestic credit (% change y-y)	34.4	25.1	28.0	23.7	..
Short-term interest rate (% p.a.)	..	..	..	..	..
Official exchange rate (Kyat/US$) 5/	5.4	5.2	864.0	..	..
Parallel effective exchange rate 5/	861.0	824.0	864.0	..	..
(% change y-y)	-14.3	-4.3	4.9	..	..
Memo: Nominal GDP (millions US$) 6/	45,380	52,663	51,849	56,661	61,468

Sources: Myanmar Central Statistics Office, Ministry of Finance and Revenue, Central Bank of Myanmar, IMF 12/104, and World Bank staff estimates.
1/ Staff working estimates
2/ Including manufacturing, power, construction, energy and mining.
3/ Consolidated public sector including Union Government and State Economic Enterprises.
4/ For 2012/13, incorporates the terms of bilateral arrears clearance agreement with Japan.
5/ Authorities adpopted a managed float on April 1, 2012.
6/ Before FY2012/13, GDP converted at a weighted exchange rate, where the official and FEC market rates are weighted with about 8 and 92 percent, based on the respective shares of the public and private sectors in GDP.

PAPUA NEW GUINEA



Population	7.0 million
Population growth	2.2 percent
GDP (PPP, int'l US$ billions)	18.9
GDP per capita (PPP, int'l US$)	2,695
Surface area	462,840 sq. km.
Capital	Port Moresby

Source: World Development Indicators.

Recent Economic Developments

Papua New Guinea's (PNG) economy continued to expand strongly through the first half of 2012, albeit less quickly than in 2010 and 2011. Over 2012, the economy appears to be on track to grow by around 8 percent, compared with growth of near 9 percent in 2011. Domestic demand remained the key driver, with pre-election spending of government funds augmenting the effects of ongoing construction of the PNG-LNG (liquefied natural gas) project and spin-off investments. The appreciation of the Kina (PGK) in 2011 and early 2012 and weakening international commodity prices into the second half of 2012 both reduced rural incomes and government receipts, while also slowing the growth in urban consumer prices. The 2012 national and provincial elections led to the re-election of Peter O'Neill as Prime Minister. His predecessor and main rival, Sir Michael Somare, supported Mr. O'Neill in the parliamentary vote.

Construction of PNG-LNG and of the various spin-off investments remained the key drivers of PNG's economic growth into the second half of 2012. The Treasury Department's midyear expectations were for construction activity to grow by over one-fifth in 2012. Wholesale and retail trade, transport, and communications activity are expected to expand only a little less rapidly than construction in 2012, following several years of 10 to 20 percent annual growth. All these sectors are benefiting from the one-off surge in demand associated with the PNG-LNG project, which will reverse as construction winds down in 2013 and 2014; however, there also appears to be a component of this growth that reflects a boost to domestic firms' physical and organizational capacity that can be sustained beyond the PNG-LNG project.

The first half of 2012 was also notable for the deteriorating fiscal position and stimulus to domestic consumption as government funds were spent in the lead-up to the elections midyear. Government spending was faster than usual, with 40 percent of the 2012 appropriation spent by the end of June, 25 percent more than was disbursed in the first six months of 2011. Meanwhile revenues were weaker than expected. Midyear forecasts were for tax collections in 2012 to be PGK 341 million (5 percent) below budget, with the deterioration entirely because of weaker mining and petroleum receipts. The ensuing deficit has been funded through issuance of 6 to 12 month Treasury bonds and by drawing down the government's cash reserves. At the same time, deposits in trust accounts, earmarked for future spending (held at both Bank of Papua New Guinea [BPNG] and commercial banks), fell by PGK 732 million in the first six months of the year. About one-third of this draw down was attributable to the first payments under the government's new tuition fee subsidy program.

External conditions have become less favorable for commodity exporters. Copra, cocoa, and coffee farmers all saw their incomes compressed by the falls in international prices through the first half of 2012, amplifying the appreciation of the PGK in 2011. Domestic factors, such as the shut-down of processing mills and supply chain issues, further reduced production. Minerals production was hampered by wetter-than-usual weather and infrastructure problems in the first half of the year. Although Treasury still expects output to rise by almost 9 percent in real terms in 2012, lower international prices will dampen the value of exports. The Ramu Nickel/Cobalt mine started operations in the second quarter of 2012 and is expected to reach full production by late 2013, several years later than expected following repeated court injunctions related to its deep-sea tailings outfall system, among other issues. The mine is expected to employ 700 PNG nationals by late 2013, but it will not contribute to tax revenues until a ten-year tax holiday has expired.

The PNG-LNG project manager reported in mid-November 2012 that 70 percent of construction had been completed and the project remained on schedule for first deliveries in 2014. However, the project would cost significantly more to develop than originally estimated: $19[61] billion, compared with an initial estimated cost of $15 billion. Project developers attributed the higher costs to currency movements, especially the stronger AUD, work stoppages and land access issues, and wetter-than-normal weather, which aggravated logistical challenges. These higher development costs are likely to require the government to contribute approximately $180 million to maintain its equity share. Offsetting the higher development costs will be upward revisions to expected production by 5 percent and expected prices by 30 percent.

Inflation slowed through the first three quarters of 2012. The expanded tuition fee subsidy, pass-through of the stronger Kina into the prices of imported items, and the ongoing effects of the government's tariff reduction program have all contributed to the slower rate of growth of consumer prices. Headline inflation fell to 1.4 percent in the year's second quarter, and was 2.0 percent in the third quarter, compared with rates near or above 6 percent since the economy accelerated out of the global downturn in 2009. The central bank has assessed underlying inflation to be at 3 to 3½ percent.

61 All dollar amounts are U.S. dollars unless otherwise indicated.

BPNG broadly held the stance of monetary policy between February and November 2012. On the one hand, it took advantage of the fall in inflation to lower the Kina Facility Rate (KFR) by 100 basis points to 6.75 percent in October. This is the first easing since 2009, and follows a total increase of 100 bps in 2011. But the KFR tends to have limited effect because of the high level of excess liquidity in the banking system. In June BPNG sought to reduce this liquidity while protecting its balance sheet, by raising banks' reserve requirements 100 bps to 8.0 percent. Perhaps the most effective influence on inflationary pressures, given the nature of recent shocks, has been the controlled appreciation of the PGK. BPNG allowed the exchange rate to appreciate by 27 percent against the U.S. dollar between June 2010 and April 2012, at the same time as it expanded its foreign exchange reserves by nearly $ 1.8 billion.

Outlook and Emerging Challenges

The government's 2013 budget represents a significant shift from recent years. It targets a one-quarter increase in spending, largely allocated to new and rehabilitated infrastructure, increased direct funding to district and local-level governments and constituency funds (PGK 1.5 billion compared with less than PGK 200 million in 2012), plus some additional allocations for subsidized health and education services. The government argues that the deeper decentralization of spending responds to limited implementation capacity in national institutions. The government expects improvements in the global economy and commodity prices and ongoing strength of the domestic economy to raise government revenues by over 6 percent in 2013. With these projections, the government projects a budget deficit of 7.2 percent of GDP in 2013, following a deficit a little over 1½ percent of GDP in 2012. Despite weakening in minerals revenues in 2014 and 2015, the government expects to be able to return the budget to surplus by 2017. The government expects that financing these deficits, largely through domestic borrowing, will raise the debt ratio to around 35 percent of GDP (not including contingent and off-balance sheet liabilities. This will require a revision of the Medium-Term Debt Strategy, to target maintaining debt-to-GDP below 35 percent in 2013 and 2014, before returning the target ceiling to 30 percent from 2015.

In 2013 and 2014 aggregate gross domestic product (GDP) growth is expected to slow, as construction of the PNG-LNG project and spin-off private sector investments conclude, partially offset by the commissioning of the Ramu Nickel/Cobalt mine. In 2014 and 2015 aggregate and nonmineral GDP are expected to diverge significantly. Production from PNG-LNG will raise the level of aggregate GDP by around 20 to 25 percent; however, growth of the nonmineral economy will slow further on the decline in construction and transport activity and loss of an important impulse for domestic demand. The stabilization in international commodity prices may abate the decline in cash crop production. The pipeline of new resource projects may create some additional impetus to the nonresource economy in 2014 or 2015, although the probability of major new constructions being approved has declined somewhat, alongside international commodity prices and investors' ease of access to finance.

The revenue and spending pressures surrounding the 2013 budget are likely to intensify mid-decade. Revenue growth is expected to slow further, while it may be difficult to reverse many of the new spending commitments in the 2013 budget. The pressure to respond to PNG's significant human development needs will continue to grow. The 2009-2010 PNG Household Income and Expenditure Survey data, released by the government in August, found large ongoing challenges, including high rates of malnutrition among children, limited physical assets for most households, and significant exposure to violent disputes, while also finding areas of change, such as improving literacy among younger Papua New Guineans, and the importance of mobile phones and income transfers for many households.

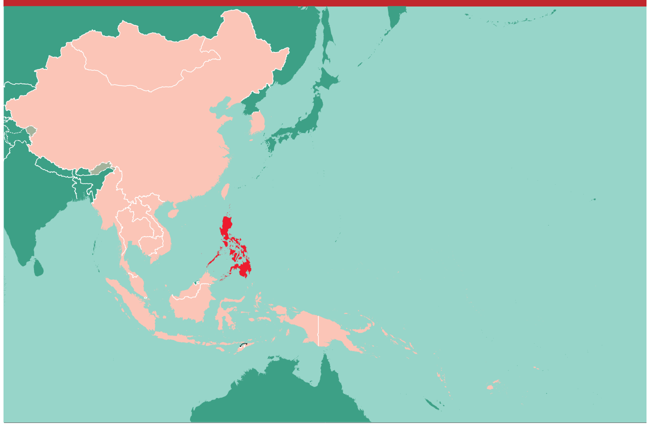
Stronger institutions of governance and accountability across the public sector, supported by aligning the incentives for public servants with the community's interests, can help achieve the government's public service delivery goals, even when resources are scarcer.

Papua New Guinea: Key Indicators

	2010 Year	2011e Year	2012f Year	2013f Year	2014f Year
Output, Employment and Prices					
Real GDP (% change y-y)	7.6	9.0	8.0	4.0	7.5
Real non-mineral GDP (% change y-y)	8.5	10.8	7.5	3.9	4.0
Formal employment (BPNG index, % change y-y)	1.1	6.5	6.0	2.0	-1.0
Consumer price index (% change y-y)	6.0	8.4	3.0	6.0	6.5
Public Sector					
Government revenues (% GDP)	31.3	30.0	30.1	29.3	28.1
Government expenditures (% GDP)	28.2	28.9	32.3	36.6	34.0
Government balance (% GDP)	3.1	1.1	-2.2	-7.3	-5.9
Nonmineral government balance (% GDP)	-3.6	-5.1	-5.7	-10.7	-9.6
Public and publically-guaranteed debt (% GDP) 1/	25.6	25.2	27.0	32.2	34.8
Foreign Trade, BOP and External Debt					
Trade balance (millions US$)	1,582	861	1,325	1,998	2,792
Exports of goods (millions US$)	5,843	7,047	7,788	7,944	8,738
(% change y-y)	29.5	20.6	10.5	2.0	10.0
Key export (% change y-y) 2/	29.1	17.3	14.0	2.0	10.0
Imports of goods (millions US$)	4,261	6,186	6,463	5,946	5,946
(% change y-y)	30.8	45.2	4.5	-8.0	0.0
Current account balance (millions US$)	-2,532	-4,605	-4,374	-3247	-2365
(% GDP)	-25.6	-35.0	-30.0	-20.0	-13.0
Foreign direct investment (millions US$)	858	1750	1200	1000	1800
External debt (millions US$)	6.7	11.7	14.6	17.9	16.7
(% GDP)	67.2	91.9	95.0	105.6	90.0
Debt service ratio (% exports of g&s)	14.7	15.7	16.5	15.3	31.0
Foreign exchange reserves, gross (millions US$)	2,895	4,126	4,099	4,487	4,619
(months of imports of g&s)	4.3	4.9	4.5	5.3	9.3
Financial Markets					
Domestic credit (% change y-y)	25.2	17.0	15.0	12.0	10.0
Short-term interest rate (% p.a.)	7.0	7.8	7.8	..	..
Exchange rate (Kina/US$, eop)	2.64	2.15	2.06	2.10	2.15
Real effective exchange rate (2005=100)	113.0	127.4	149.4	153.0	150.0
(% change y-y)	-2.8	12.7	17.3	2.4	-2.0
Memo: Nominal GDP (billions US$)	10.0	12.7	15.4	17.0	18.6

Source: National data sources, IMF, and World Bank staff estimates.
e = estimate
f = forecast
1/ Not including debts of state-owned enterprises, or assets of Bank of Papua New Guinea.
2/ Mineral exports

PHILIPPINES



Population	94.9 million
Population growth	1.7 percent
GDP (PPP, int'l US$ billions)	392.7
GDP per capita (PPP, int'l US$)	4,140
Surface area	300,000 sq. km.
Capital	Manila

Source: World Development Indicators.

Recent Economic Developments

The Philippines economy has emerged as one of the fastest growing economies in East Asia, with growth accelerating to 7.1 percent in the third quarter. Higher economic growth was driven by the strong performance of the construction sector and buoyed by robust private consumption and the recovery of government spending. The acceleration of domestic demand since the first quarter of 2012 reflects the country's strong macroeconomic fundamentals, stronger government finances, and high confidence in the Aquino government's commitment to reform. Stronger macroeconomic fundamentals, in particular, as seen in low inflation, and large current account surpluses and foreign exchange reserves, have continued to shield the economy from external headwinds while a more diversified export basket allowed overall exports to grow despite the decline in electronics exports. Overall, the economy is expected to expand by over 6 percent this year from 3.9 percent last year.

1. Higher economic growth in Q3 was driven by the strong performance of the construction sector and recovery of government spending. Construction grew by 24.3 percent, its fastest pace in nearly two years, and contributed 1.9 percentage points (ppt) to GDP growth. Private construction grew by over 25 percent as demand for office and residential buildings increased with the rapid growth of the business process outsourcing (BPO) industry and the low interest rate environment. Growth in public construction (i.e., infrastructure) was equally impressive although this reflects more the recovery of infrastructure spending from last year's slump (i.e., the base effect) rather than new infrastructure spending. Government consumption grew by 12 percent (from 6.8 percent in 2Q), contributing 1.2 ppt to growth following the release of the 4th tranche of the government-wide salary increase and an acceleration of government disbursements for program and project implementation, notably in social services. As in previous years, private consumption, supported by large inflows of overseas worker remittances, was the underlying source of growth. It grew by 6.2 percent y-o-y in 3Q and contributed 4.3 ppts to overall growth.

A more diversified export basket allowed overall exports to grow despite the decline in electronics exports. Exports have recovered from last year's slide mainly supported by growing demand for non-electronics and service exports. Despite weak off-shore demand for electronics, exports rebounded strongly this year, growing by 6.9 percent in 3Q reflecting rising shipments of non-electronics exports (mostly to Japan) and buoyant services exports growth. However, equally strong growth in imports of 8.6 percent, mostly fuel, consumer goods, industrial machinery and transport equipment resulted in a negative growth contribution of net exports (-0.7 ppt).

On the production side, the resilient services sector continues to be the key driver of growth. The 7 percent growth in the sector was led by the trade subsector and the real estate, renting, and business activity subsector, which includes the fast growing BPO industry. Manufacturing growth improved to around 6 percent in line with the revival in exports in the first nine months, in turn contributing to pull up growth in the industrial sector to a stronger 8.1 percent in the third quarter. Growth in agriculture increased at a faster pace to 4.1 percent (from 0.4 percent in the second quarter), notwithstanding the crop production disruptions from typhoons and monsoon rains in July and August.

Despite higher spending compared to last year, the government's budget deficit stood at Php115 billion (1.1 percent GDP) through September, significantly below government target of 2.7 percent of GDP for the year. Efforts to improve the pace and efficiency of public spending was reflected in the 14.4 percent growth in government expenditures for the first nine months of the year, following the transparency and accountability measures introduced in government's implementing agencies in 2011. The government continues to improve tax administration as the main vehicle for generating more tax revenues. Revenue collection grew by 10 percent from last year, on account of improved tax administration. On tax policy, the Lower and Upper House recently passed the excise tax reform bill estimated to yield 0.3 to 0.4 percent of GDP in additional revenues, which will be earmarked for the universal healthcare program and assistance to tobacco farmers who will shift to other crops.

The global environment had a limited impact on the economy and the country's external position remains healthy. The Philippines has become less dependent on exports compared to its regional peers with the share of exports to GDP falling from 70 to 30 percent in last decade. Merchandise exports grew modestly by 8 percent through September 2012 thanks to a diversified product mix (e.g., electronics, minerals, agriculture and furniture). Remittance growth has not been affected greatly by global trends, growing by 5.5 percent through September. The sustained inflows of foreign currencies led to record high levels of gross international reserves. They rose to $82 billion in October, about 30 percent higher than the country's external debt of $62.5 billion in June 2012,[62] and sufficient to cover one year's worth of imports, or 658 percent of the country's short-term external debt based on residual maturity.

Amid a benign inflation environment, the central bank has cut policy rates to further boost domestic demand and curb speculative foreign exchange inflows. Headline inflation which averaged 3.2 percent through October on the back of lower food price inflation, remains within central bank target of 3 to 5 percent. The Monetary Board has cut policy rates by a cumulative 100 bps to a low of 5.5 percent and 3.5 percent for the overnight lending and borrowing rates respectively, as of October. The interest rates for special deposit accounts were also cut. Bank lending grew on the back of the low interest rate environment. In particular, exposure to the real estate sector has increased to an all-time high of 15 percent of banks' total loan portfolio in June. The central bank asserts that these are well below the cap of 20 percent of total loan portfolio. Bank balance sheets remain healthy with non-performing real-estate loans below 5 percent, lower than last year.

Outlook and Emerging Challenges

Going forward, the country's high growth could be sustained and made more inclusive provided that (i) economic reforms are aggressively pursued to create more and better jobs and reduce poverty at a faster rate, (ii) more revenues are raised to finance higher spending in physical and human capital, and (iii) global growth is supportive and rebalancing in the region continues. Baseline growth projection for the Philippines is at 6.0 percent for 2012 and 6.2 percent for 2013. Consumption, which accounts for 75 percent of GDP, is expected to drive overall growth underpinned by continued growth in remittances and higher government spending with the national elections next year. The current account is projected to remain in surplus, driven

62 Latest available figure. Government definition.

by remittances and some recovery in electronics exports early in the year. Risks to the growth projection remain on the downside—the continued high levels of global economic uncertainty combined with weak economic activity in the G3, diminishing returns to quantitative easing in the United States (of which a third round has just been launched) and the looming United States fiscal cliff, and a slowing Chinese economy are weighing down on global growth prospects.

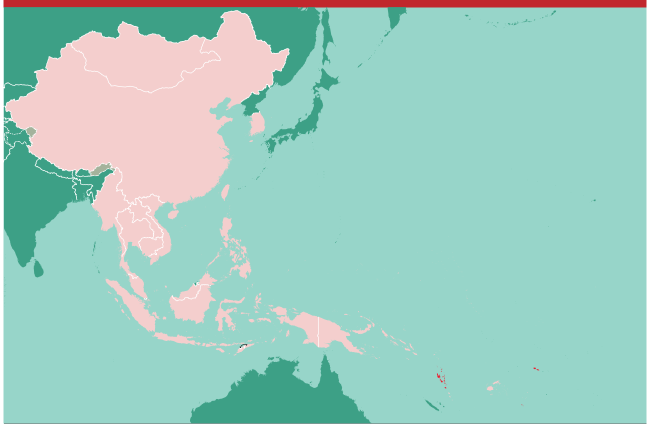
For the Philippines, a window of opportunity exists today to accelerate reforms that become a platform for more inclusive and higher growth. The country is currently benefiting from strong macroeconomic fundamentals, political stability, and a popular government that is seen by many as committed to improving the lives of the people. Several reforms have successfully started, notably in public financial and debt management, anti-corruption, and tax policy. With further structural reforms, especially in areas which will have more impact on the lives of the poor, along with investments in infrastructure, education, and health, the Philippines can take advantage of new opportunities arising from the global economic rebalancing and the strong growth prospects of the East Asia region. By building on its previous and current successes and by ensuring that it is prepared to take advantage of the opportunities that are coming its way, the government stands to make a significant difference in the lives of Filipinos.

Philippines: Key Indicators

	2010	2011	2012f	2013f	2014f	2011	2012			2012			
	Year	Year	Year	Year	Year	Q4	Q1	Q2	Q3	Jul	Aug	Sep	Oct
Output, Employment and Prices													
Real GDP (% change y-y) 1/	7.6	3.9	6.0	6.2	6.4	4.0	6.3	6.0	7.1	..	..	..	..
Industrial production index (1994 = 100)	92.0	93.0	..	..	..	93.1	97.1	96.2	..	101.8	..	..	..
(% change y-y)	23.2	1.1	..	..	..	-8.9	7.2	4.0	..	4.7	..	..	..
Unemployment (%) 2/	7.3	7.1	..	..	..	6.4	7.2	6.9	7.0	..	..	..	..
Nominal wages (% change y-y) 3/	3.8	4.6	..	..	..	5.4	5.4	7.1	4.7	4.7	4.7	4.7	4.7
Real wages (% change y-y) 3/	-0.1	0.6	..	..	..	1.6	2.5	4.7	1.0	1.6	0.2	1.1	1.8
Consumer price index (% change y-y)	3.9	4.7	3.5	4.0	4.0	4.7	3.1	2.9	3.5	3.2	3.8	3.6	3.1
Public Sector													
Government balance (% GDP) 4/	-3.6	-2.1	-2.4	-2.3	-2.1	-1.5	-0.3	0.0	-0.7	..	..	..	..
Domestic public sector debt (% GDP) 5/	41.4	49.0	..	..	..	49.0	..	..	..	..	..	..	..
Foreign Trade, BOP and External Debt													
Trade balance (billions US$) 6/	-11.0	-15.5	..	..	..	-4.7	-4.0	-2.4	..	..	..	..	..
Exports of goods (billions US$) 6/	50.7	47.2	..	..	..	10.6	12.7	13.8	..	..	..	..	..
(% change y-y)	34.9	-6.9	..	..	..	-17.7	5.8	11.7	..	..	..	..	..
Key export (% change y-y) 7/	38.9	-21.3	..	..	..	-31.4	6.1	-3.5	-7.1	-20.3	-10.9	9.8	..
Imports of goods (billions US$) 6/	61.7	62.7	..	..	..	15.3	16.7	16.2	..	..	..	..	..
(% change y-y)	32.9	1.6	..	..	..	-5.0	5.1	4.0	..	..	..	..	..
Current account balance (billions US$) 8/	8.9	7.1	8.1	8.5	8.9	1.8	0.9	2.8	..	..	..	..	..
(% GDP)	4.5	3.1	3.2	2.9	2.7	2.9	1.5	4.6	..	..	..	..	..
Foreign direct investment (billions US$)	0.7	1.3	1.5	2.0	2.5	0.5	0.7	-0.4		..	..	..	..
External debt (billions US$) 9/	60.0	61.7	..	..	..	61.7	62.9	62.5	..	..	..	..	..
(% GDP)	30.1	27.5	..	..	..	27.5	25.6	26.6	..	..	..	..	..
Short-term debt (billions US$) 9/	6.3	7.0	..	..	..	7.0	7.4	7.0	..	..	..	..	..
Debt service ratio (% exports of g&s)	8.7	8.9	..	..	..	8.9	7.1	7.1	..	..	..	..	..
Foreign exchange reserves, gross (billions US$) 9/	62.4	75.3	83.2	83.4	83.6	75.3	76.1	76.1	82.0	79.76	80.73	82.03	82.09
(months of imports of g&s) 10/	9.5	11.1	11.8	11.2	10.6	11.1	11.2	11.0	11.9	11.52	11.66	11.85	11.86
Financial Markets													
Domestic credit (% change y-y) 11/	8.7	5.2	..	..	..	5.2	12.5	13.5	12.4	14.6	10.5	12.0	..
Short-term interest rate (% p.a.) 12/	4.2	4.6	..	..	..	4.7	4.4	4.1	3.9	4.1	3.9	3.9	3.8
Exchange rate (Peso/US$, ave)	45.1	43.3	..	..	..	43.5	43.0	42.8	41.9	41.9	42.0	41.7	41.5
Real effective exchange rate (2000=100)	126.8	127.2	..	..	..	127.9	128.6	131.2	..	135.5	135.0	..	..
(% change y-y) 13/	4.6	0.4	..	..	..	..	..	..	..	..	..	..	..
Stock market index (Jan. 2, 1985=100) 14/	3,524	4,189	..	..	..	4,240	4,819	5,092	5,249	5,252	5,234	5,261	5,402
Memo: Nominal GDP (billions US$)	199.6	225.9	254.3	287.7	326.3	54.7	56.3	61.3	..	..	..	..	..

Source: National data sources
f = forecast
1/ The GDP series has a break in 2000.
2/ New methodology. Figures are based on the 2000 census.
3/ Non-agriculture minimum wage, National Capital Region
4/ IMF Government Financial Statistics (GFS) basis
5/ Total public sector domestic debt
6/ Central bank data, Balance-of-payments basis
7/ Electronics and other electronics
8/ Estimates
9/ Central bank data, % of annual GDP for quarterly figures
10/ Based on end-of-period gross international reserves
11/ Based on Depository Corporations Survey
12/ Interbank call rate
13/ World Bank staff estimates
14/ PSEi Composite, period average for annual figures

SMALL PACIFIC ISLAND COUNTRIES



Source: World Development Indicators.

Summary

The small Pacific Island economies (Samoa, Tonga, Kiribati, and Tuvalu) are facing common challenges to growth and fiscal sustainability in the context of continued global economic uncertainty and vulnerability to external shocks. Traditional drivers of growth—remittances, aid expenditure, and tourism—are impacting unevenly, as governments work to consolidate public expenditure and strengthen revenue to rebuild fiscal buffers.

Recent Economic Developments

The economy of **Samoa** grew by around 1.5 percent in FY2012, with growth of 1.9 percent expected in FY2013. Subdued growth reflects the winding down of stimulus from reconstruction spending following the 2009 tsunami. Continued remittance growth (10 percent year-on-year increase for the first eight months of FY2012) has partially offset the impact of declining agriculture and fisheries exports, and falling tourism receipts. Over the medium-term, growth is expected to return to around 2.5 percent, but this is subject to substantial downside risks, given the possibility of weakening global demand impacting the Samoan economy through declines in exports, tourism receipts, and remittances.

Inflation has fallen over the recent months with ongoing declines in global food and fuel prices and recent recovery of local fruit and vegetable production after weather-related disruption early in the year. It is expected to average 6 percent for the year. The Central Bank of Samoa (CBS) has maintained an accommodative monetary since the onset of the global economic crisis, with official interest rates at close to 0 percent. With monetary transmission mechanisms weak, as in many Pacific countries, monetary policy has had a limited impact on credit growth and inflation. CBS has also pursued on-lending programs through the Development Bank of Samoa and the Samoa Housing Corporation, providing private sector credit at rates below those offered by commercial banks to assist with post-tsunami reconstruction.

The fiscal deficit has been declining gradually from a peak of 7.5 percent of gross domestic product (GDP) immediately following the tsunami in FY2010. The fiscal deficit for FY2012 was 6 percent (0.5 percent higher than budgeted largely because of supplementary appropriations), unchanged from FY2011. Revenues remain slightly below the projected level (25 percent of GDP, down from 28 percent in FY2011), reflecting lower imports and a delay in implementing excise tax increases. The current account deficit has widened sharply over recent years, to around 11 percent of GDP in FY2012, driven by high imports for reconstruction and slow recovery in tourism and exports. Foreign reserves have declined, but remain at comfortable levels (about 4.3 months of next year's imports). According to the IMF, the currency may be overvalued by 11 to 25 percent. Steps to address the overvaluation to improve the external position would need to take account of impacts on external debt dynamics and inflation.

Samoa faces important challenges in reducing its fiscal deficit and public debt, while maintaining economic growth and living standards. To reduce current levels of debt (46 percent of GDP), the fiscal deficit will need to be reduced significantly over coming years. Given ongoing needs for infrastructure investment, difficult reductions in recurrent expenditure are likely to be required.

Tonga's economy grew by only 1.3 percent in FY2012, down from 4.7 percent in FY2011. Declines in growth reflect the winding down of major debt-financed development projects in the context of a difficult international environment. Remittances, which are equivalent to around 20 percent of GDP, continued a prolonged decline, falling a further 23 percent year-on-year, during the first ten months of FY2012, before ticking up slightly. While tourist visitor numbers increased slightly, tourism receipts fell by 7.9 percent for the year because of shorter stays and price discounting. Growth for FY2013 is projected to fall slightly to 1 percent as infrastructure projects are completed. Downside risks include further declines in remittances and tourism earnings.

Inflation peaked at 8.5 percent in FY2011, and has since been on a downwards path. Inflation declined to 4.6 percent in FY2012 due to moderating global food and fuel prices and exchange rate appreciation. Moderate inflation of 4.5 percent is expected in FY2013. Despite a continued accommodative monetary stance by the National Reserve Bank of Tonga, credit to the private sector continues to decline, with loans to firms falling a further 24.7 in the year to April 2012. Despite amble liquidity, commercial banks remain risk-averse following a lending surge during FY2009-10 which has left a large proportion of non-performing loans on commercial bank balance sheets (15.2 percent at end of FY2011).

Government revenues fell slightly in nominal terms during FY2012, with a total 17 percent fall in tax revenues since FY2009. Government has consolidated expenditure, and with the assistance of budget support grants is projecting a small deficit (0.3 percent of GDP) for FY2013 to be financed from cash reserves. It maintains its policy of avoiding any new debt, but debt remains at 39 percent of GDP. The current account deficit widened to 6.1 percent of GDP during FY12, reflecting increased imports for major capital projects. Foreign exchange reserves remain at comfortable levels—around 5.9 months of import cover—largely because of donor inflows. Improvements in the current account position and adequacy of reserves remain subject to recovery in tourism and remittances over the medium-term.

Government faces challenges in maintaining service delivery in the context of sluggish growth, weak revenue performance, possible permanent declines in remittances, and growing debt-repayment obligations. Debt servicing is expected to increase rapidly over coming years, to reach 16 percent of total revenue by FY2016. Medium-term priorities include administrative and policy reforms to improve revenue performance and continued reallocation of expenditure toward policy priorities, including social and economic sectors.

The economy of **Kiribati** grew by around 2 percent in 2011, following several years of weak and volatile growth. Growth of 2.5 percent is expected for 2012, driven by a vibrant retail sector and an influx of aid spending associated with major infrastructure projects. Over the medium-term, growth will depend heavily on the implementation of planned donor projects and the commencement and expansion of a new fish processing operation in Betio.

Inflation remains subdued, with consumer prices expected to increase by 2.5 percent during 2012. While world prices for most import products are continuing to decline, constraints on shipping capacity may lead to some price pressure in the context of donor project-driven demand. Inflation is expected to remain at similar levels in 2013.

Kiribati faces severe challenges to fiscal sustainability because of declining revenues and insufficient expenditure restraint. Compliance problems have led to steady revenue declines, while recurrent expenditure has exceeded budgeted levels. After fiscal deficits averaging 19 percent of GDP between 2009 and 2011, unexpectedly high fishing license fees during 2012 helped offset continued weak import, personal tax, and company tax revenue performance. A deficit of around 14 percent of

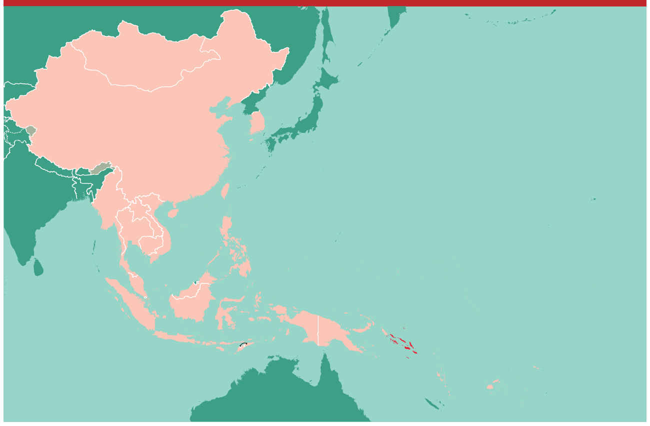
GDP is expected for 2012. Deficits have been primarily financed by drawdowns from the Revenue Equalization Reserve Fund (a trust fund that was initially capitalized from proceeds of phosphate mining) and nonconcessional borrowing from a commercial bank. The current account balance (including official transfers) reached 23.6 percent of GDP in 2012, up slightly from 22.7 percent in 2011, with the impact of increased imports for donor projects offset by historically high fishing license fee receipts.

Over the medium-term, fiscal imbalances need to be addressed. Drawdowns from the Revenue Equalization Reserve Fund have substantially exceeded sustainable limits, while the accumulation of commercial debt has imposed avoidable financing costs. Government is working to improve compliance and is introducing a VAT to broaden the tax base and reduce reliance on trade taxes. On the expenditure side, efforts to restrain expenditure remain priorities, including reducing subsidy payments to state-owned enterprises (SOEs) and avoiding further expansion in the number of temporary public service workers.

After two years of contraction, **Tuvalu's** economy grew by 1.1 percent in 2011. Growth of 1.2 percent is expected in 2012. Increased competition in the retail sector has driven recovery, while remittances from seafarers (Tuvalu's primary source of private-sector employment) continue to lag in the context of uncertain international economic conditions. Inflation is expected to remain moderate (2 to 3 percent) in 2012, although up from 0.5 percent in 2011. Increased retail competition and currency appreciation have helped to keep prices down in light of movements to global commodity prices. Fiscal consolidation continues, following a period of expansionary fiscal policy during the global economic crisis during which the fiscal deficit reached 30 percent of GDP. A fiscal surplus equal to 4.2 percent of GDP is expected in 2012, following a small surplus (1.1 percent of GDP) in 2011, mostly attributable to reduced expenditure. Despite consolidation, fiscal buffers remain inadequate, with trust fund resources available to government in addressing any further shocks equal to around 11 percent of GDP (versus a sustainable target level of around 45 percent of GDP). The current account deficit reached 8 percent of GDP in 2011, with a trade deficit of 58 percent of GDP financed largely by donor grants and income from foreign assets and fishing revenues. The current account deficit is expected to reduce to 3 percent of GDP in 2012, with foreign exchange reserves remaining at comfortable levels (currently 6.7 months of import cover, largely from aid grants).

Downside risks are significant given Tuvalu's exposure to external economic shocks and natural disasters (vulnerabilities include further declines in demand for seafarer labor and further declines in trust fund asset values). The only policy instrument for dealing with external shocks is fiscal policy, given Tuvalu's use of the Australian dollar, heavy reliance on imported goods, and minimal financial diversification. Accumulation of adequate fiscal buffers to manage future shocks is, therefore, crucial. Improving tax compliance, especially among SOEs, is a key priority along with implementing planned increases in value-added tax (VAT) rates. On the expenditure side, government is working toward continued consolidation and tighter prioritization of public investment toward basic healthcare and education. Progress with reform of public enterprises needs to continue in order to reduce the current drain on public resources.

SOLOMON ISLANDS



Population	552 thousand
Population growth	2.6 percent
GDP (PPP, int'l US$ billions)	1.6
GDP per capita (PPP, int'l US$)	2,943
Surface area	28,900 sq. km.
Capital	Honiara

Source: World Development Indicators.

Summary

The Solomon Islands economic growth slowed through the middle quarters of 2012. This was largely because of weaker prices of exports and stabilizing output from earlier drivers of growth, such as logging and the opening of the Gold Ridge mine. Meanwhile, fiscal policy took a more expansionary stance, raising concerns around the sustainability and the quality of spending. Inflationary pressures slowed, and external balances remained relatively strong.

Recent Economic Developments

The Solomon Islands economy is on course to expand by around 5 to 5½ percent in 2012, following growth near 10½ percent in 2011. Mining is estimated to again contribute around 2 percentage points to 2012 growth. The slowdown in aggregate growth is due to lower production across a range of major commodities. As global prices weaken and the incremental appreciation of the Solomon Islands dollar (SBD) relative to the U.S. dollar (in which most exports are denominated), producers are reducing output. The central bank's index of production of major commodities declined for three consecutive quarters leading to the second quarter, before rebounding in the third quarter, but was still 7.6 percent lower than a year earlier.

Farmers have been responding to lower prices. Copra production was one-quarter lower in the first half of 2012 than in the corresponding period in 2011, as domestic prices fell from a record high of over SBD 6 per kilogram in March 2011 to SBD 2.35 per kilogram in June 2012. Cocoa production, the other key source of rural cash incomes, followed a similar pattern, with output in second quarter 2012 one-quarter lower than a year earlier as prices weakened. In contrast, palm oil production rose slightly, while prices were only a little weaker (palm oil in Solomon Islands is mostly produced on larger plantations). Lower copra and cocoa prices and production are reducing revenue received by farmers, who are largely in rural areas where there are few alternative sources of cash income: for example, farmers received SBD 20 million from copra in second quarter 2012, 60 percent less than in the corresponding period in 2011, according to central bank estimates.

Other key drivers of Solomon Islands production and revenue growth stabilized through mid-2012. Log production was affected by rains in second quarter, but overall exports were comparable to the first half of 2011, at almost 1 million cubic meters (well above most estimates of sustainable logging rates). Receipts, however, weakened over the four quarters to mid-2012 because of lower international prices, attributed by the central bank to weaker demand from China. Gold production from the Gold Ridge mine, plus alluvial extraction, stabilized in the first half of 2012 at fewer than 36,000 ounces. Production, which was affected once again by unplanned operational issues, was 20 to 25 percent below pre-reopening estimates of the mine's capacity. With the weakening in external conditions, the number of new and scale of applications for foreign direct investment retreated in second quarter from recent record highs. Despite the weakness in the external sectors, domestic demand remained robust through mid-2012. Manufacturing (largely for domestic consumption) and urban building continued recent upward trends. A notable boost to private consumption and government spending came from the Festival of Pacific Arts (FoPA), which was held around Honiara in July.

The deterioration in export production and prices, in contrast to the robustness of domestic demand, brought the trade balance back to deficit in the June quarter, after a record four consecutive quarters of surpluses. Several of the factors behind this deterioration may be temporary or reflect timing (for example, the FoPA and delays in fish shipments), and preliminary data for third quarter show a rebound in export values, returning the trade balance to a small surplus. Overall, the current account was in surplus over the first half of 2012, largely because of donors' budget support grants offsetting private outflows. The exchange appreciated to 7.1 SBD per U.S. dollar in October 2012, 1.0 percent stronger than in January 2012, while foreign exchange reserves also increased (to $470[63] million in October 2012 compared with $435 million in January, near 10 months' import cover). The central bank announced that from September 2012, it would target a basket of currencies in its exchange rate policy, rather than the U.S. dollar alone.

Weaker revenues and overspending shifted fiscal policy to a much more expansionary stance up to August 2012 relative to the previous two years. The weakening in exports and production slowed growth in government revenues over the first half of 2012 compared with budget projections, although revenues were still 7 percent higher than the equivalent period in 2011, reflecting improved compliance and growth in domestic consumption. The cost of tax exemptions was about double the budgeted amount, while PAYE (pay as you earn) income tax receipts were quarter below budget forecasts, in part because of an underestimation of the impact of an increase in the tax-free threshold. The strength of imports supported trade tax receipts, despite the weakening in exports. Improved compliance is likely to have further supported trade tax receipts. Total government spending in the second quarter 2012 was 28 percent more than in corresponding period of 2011, largely because of strong spending on goods and services ahead of the FoPA. Development budget spending remained slow—less than a quarter of the development budget was disbursed in the first half of the year, compared with 20 percent in 2011. The government may also be delaying earlier plans to repay some debt ahead of schedule, given that only 29 percent of the amount budgeted to service debt was disbursed in the first half of 2012. Nonetheless, the stock of debt declined slightly and, for the second consecutive quarter, the government made significant advanced payments on outstanding restructured domestic bonds. Solomon Islands was again assessed to be at a "moderate" risk of debt distress under the IMF-World Bank Debt Sustainability Analysis.

Resurgent international prices for wheat, corn, and some other foods have not affected Solomon Islands. Indeed, inflation has slowed on improved local growing conditions and stable import prices for rice (the main imported food, which is especially important for poorer urban households lacking access to gardens), wheat, and fuel (which affects all prices through high transport and electricity generation costs). The food component of the CPI peaked in April 2012 and, combined with the fall in local fuel prices, overall CPI inflation has slowed to 4.4 percent. Monetary conditions remain stable and appear to be consistent with price stability. Excess liquidity remains high, but banks continue to struggle to find new opportunities to lend that comply with their prudential standards. Growth in the money supply has largely been due to the growth in foreign exchange reserves.

The government continues to make progress on an ambitious reform agenda, including some notable policy achievements but for the most part focused on strengthening technical and process issues. The

63 All dollar amounts are U.S. dollars unless otherwise indicated.

Honiara Club agreement that followed Solomon Islands sovereign debt defaults of the early 2000s was renegotiated following an improvement in the country's debt sustainability assessment. The government can now borrow on concessional terms within certain limits intended to maintain debt sustainability. Public financial management systems are being upgraded. The transparency around the use of public resources has improved and the first steps are being taken to develop greater social accountability for government spending. Significant liquidity and cross-debt issues between the two key utilities have been resolved and the utilities' tariffs placed on to a sustainable footing. A new Public Finance and Audit Act is being prepared. The scale of the reform program has added to pre-existing capacity constraints, with a focus for the remainder of 2012 and 2013 shifting to ensuring that recent reforms are secured and routinized and that a more sustainable, long-term agenda is developed, especially in light of the transition from the large RAMSI advisory support programs to support provided through bilateral aid programs. Political instability continued, including ongoing efforts by the parliamentary opposition to pass a no-confidence motion in the government. These have failed through lack of political support, although the opposition is developing a reputation for acting as a watchdog around issues of public resource use and spending management.

Outlook and Emerging Challenges

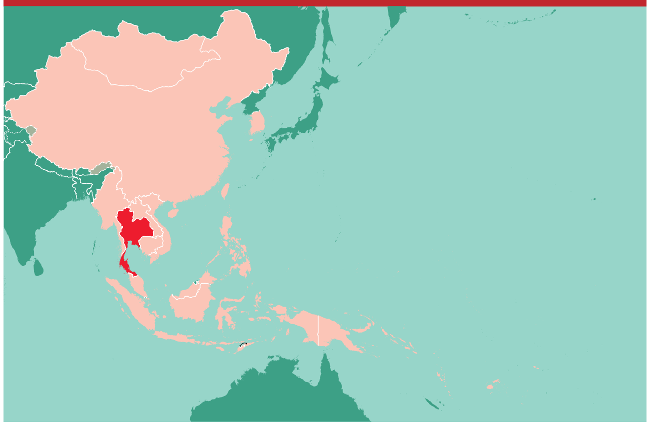
The outlook is for a further moderation in the rate of growth of the Solomon Islands economy. A modest further increase in production from the Gold Ridge mine is expected in 2013, but this is likely to be offset by some unwinding from recent, unsustainable logging rates associated with weaker global timber prices and improvements in revenue collection. Demand in the nonresource economy has benefited from both donor flows and government spending; both are likely to follow cash crop receipts to be weaker in coming years than in the recent past. This weaker outlook emphasizes the importance of returning fiscal policy to a sustainable footing after the slippages in 2012, with growing demands for better service delivery met through increasing the effectiveness of spending, rather than the amount.

Solomon Islands: Key Indicators

	2010e Year	2011 Year	2012f Year	2013f Year	2014f Year
Output, Employment and Prices					
Real GDP (% change y-y)	7.8	10.5	5.3	4.0	3.3
Real non-mineral, non-logging GDP (% change, y-y)	5.4	7.3	3.4	3.3	4.0
Consumer price index (% change y-y)	0.9	7.4	4.8	4.5	5.0
Public Sector					
Government revenues (% GDP)	62.6	60.2	58.8	57.8	57.0
Government expenditures (% GDP)	56.4	51.2	59.4	59.0	59.0
Government balance (% GDP)	6.2	9.0	-0.6	-1.2	-2.0
Public sabd publicly-guaranteed debt (% GDP)	28.5	22.7	18.3	15.0	14.0
Foreign Trade, BOP and External Debt					
Trade balance (millions US$)	-218	-47	-66	-159	-141
Exports of goods (millions US$)	330	557	601	601	601
(% change y-y)	40.6	68.5	8.1	0.0	0.0
Imports of goods (millions US$)	548	604	667	761	743
(% change y-y)	59.2	10.3	10.5	0.0	-2.4
Current account balance millions US$)	-210	-52	-58	-116	-102
(% GDP)	-30.8	-6.0	-5.8	-10.9	-9.0
Foreign direct investment, net (millions US$)	236	257	115	93	91
Total external debt (millions US$)	218	223	219	224	227
(% GDP)	31.9	25.7	21.6	20.9	20.0
Debt service ratio (% exports of g&s)	4.7	2.5	2.6	2.7	3.5
Foreign exchange reserves, gross (millions US$) 2/	266	412	465	465	450
(months of imports g&s)	5.8	8.2	8.4	7.3	7.3
Financial Markets					
Domestic credit (% change y-y) 3/	-6.8	3.9	4.9	6.0	8.0
Exchange rate (SBD$/US$, eop)	7.80	7.25	7.15	7.36	7.51
Real effective exchange rate (2005=100)	108.0	116.0	116.0	116.0	116.0
(% change y-y)	-4.4	7.4	0.0	0.0	0.0
Memo: Nominal GDP (millions US$)	682	869	1,012	1,071	1,134

Source: National data sources, IMF, and World Bank staff estimates
e = estimate
f = forecast
n.i. = no issues
1/
2/ Includes foreign assets of non-bank financial institutions.
3/ Domestic credit to the private sector.

THAILAND



Population	69.5 million
Population growth	0.6 percent
GDP (PPP, int'l US$ billions)	605
GDP per capita (PPP, int'l US$)	8,703
Surface area	513,120 sq. km.
Capital	Bangkok

Source: World Development Indicators.

Recent Economic Developments

The Thai economy this year has rebounded from the severe floods at the end of 2011 in the second half of this year but continued to be negatively affected by the slowdown in the global economy; the full recovery next year should help raise exports and hence GDP growth. Real GDP this year is projected to grow by 4.7 percent supported mainly by the rebound in household consumption and greater investments by both the private and public sectors as part of flood rehabilitation. Net exports, on the other hand, contributed negatively to GDP growth as exports were affected by production disruptions in the first half of the year and the sharp slowdown in demand from the EU, China, and ASEAN in the second half. Nevertheless, capital inflows especially foreign direct investment (FDI) remains strong. Inflation also remains low at around 3 percent and is expected to be so next year. The economy should be able to grow by 5 percent next year as manufacturing production fully recovers from the floods. Moreover, domestic demand, particularly investments, will continue its momentum from this year as FDI rises sharply and the Government steps up its investments in water management projects. Policies of which impacts are to be monitored next year include the paddy pledging scheme and the nation-wide rise in minimum wages.

The Thai economy in 2011 was severely affected by the earthquake in Japan, the Eurozone crisis and the severe flood during the last quarter of 2011. The Manufacturing Production Index (MPI) sharply dropped by 8.1 percent year on year in April last year after the Japan earthquake before contracting by 34 percent yoy in the last quarter when the industrial estates were flooded. As a result, exports, household consumption and investments fell yoy in the final quarter of 2011. Real GDP in the last quarter of 2011 contracted by 8.9 percent year-on-year, dragging growth of the entire 2011 down to only 0.1 percent.

The economy this year, while recovered from last year's floods, will be affected by the Eurozone crisis and will grow by 4.7 percent. Manufacturing production has begun to recover in April from the floods after contracting year-on-year since October last year[64]. However, it contracted year-on-year sharply again since June onwards as the impact of the Eurozone crisis was more severely felt. Sectors that contracted most are those whose final export destination is the Eurozone—hard disk drive, integrated circuits, and apparels. This is also reflected in the year-on-year contraction of exports to the European Union and of total exports since June this year.

Exports, the major engine of growth of the Thai economy, will mostly likely grow by less than 5 percent this year in US dollar terms. Affected by both the incomplete recovery of the manufacturing sector from the floods in the first half of the year and the intensifying impact of the Eurozone crisis in the second half, export growth this year is dampened. This is particularly true for manufactured exports which are affected both directly and indirectly by the Eurozone slowdown. Moreover, agricultural

64 Data from the Ministry of Industry shows that the manufacturing sector has almost fully recovered by the end of the second quarter.

products has also declined sharply mainly from the fall in rice exports by almost half that of last year's after the introduction of the aggressive paddy pledging program since last October. The program has raised Thai rice prices to around US$200 above international market prices. As a result, exporters have so far been unable to export rice, while the Government has so far not release the rice stocks on to the global markets.

Imports have also risen sharply in the first half of the year in part from the imports of machineries to replace those damaged by the floods, but will slowdown in the second half of the year. Imports grew by around 10 percent year-on-year in the first two quarters of this year before slowing down in the third quarter. Imports of raw materials and intermediate goods, which include fuels, have contracted in the third quarter year-on-year as manufacturing production contracted and fuel prices softened. As a result, Imports (in US dollar terms) will grow by less than 10 percent this year.

Domestic demand, on the other hand, has expanded continuously in all quarters of this year. Household consumption and private investments have contributed most to the expansion of domestic demand this year. Household consumption in the first half of the year has been expanding rapidly year-on-year as households rehabilitate from the severe floods in the last quarter of 2011. Household consumption continues to expand sharply in the second half of the year as the as the impact of the government policies to stimulate consumption is realized plus the effect of the low base in the final quarter of last year. Moreover, inflation has been low at less than 3.5 percent and real deposit rate has been hovering around zero. Private investments have also expanded as recovery from the floods had started in the first quarter of this year.

Private investment which had contracted during the floods had gained strength since the beginning of this year. Private investment has rebounded with a 9.2 percent and 11.8 percent year-on-year growth in real terms in the first and second quarters of the year. This is particularly true for real imports of capital goods, domestic machinery sales, and commercial car sales. For the second half of the year, private investment growth should continue to be at a similar pace as or slightly higher than in the first half. Although investments for flood rehabilitation may slow down, but investment approvals of the BOI and foreign direct investments which have been growing firmly over the past quarters indicate that future investments will continue to expand. In addition, given the low base in 2011Q4, year-on-year growth of private investment in the last quarter of this year should be in the double digits. Private investment should be able expand by around 11 percent in real terms this year, compared to 7.2 percent last year.

Flows of foreign direct investment (FDI) into Thailand were not deterred by the floods and continued to be strong into the first half of this year. FDI[65] into Thailand peaked in the last quarter of 2011 at almost US$3.5 billion as a result of the increase in Japanese investments into Thailand as part of the diversification plan after the Tohoku earthquake earlier last year. FDI continued into Thailand throughout the first eight months of this year with the amount of US$ 6.2 billion, surpassing that in the same period of 2012. Moreover, FDI from the European Union has been positive since the second quarter of last year, as European firms diversify to East Asia, including Thailand where markets and their prospects are stronger than that in the Eurozone.

Following the relaxation of Bank of Thailand's investment rules for Thai investment abroad, Thai direct investments abroad have increased since the last quarter of 2010. Major market for Thai investments remains in ASEAN. In 2011, major investment abroad by Thai firms included additional stakes of BANPU in Australia's coal market and PTT Exploration and Production purchase of a 40 percent equity stake in a major Norwegian oil firm. Going forward, Thai FDI overseas will likely rise as pressures from the minimum wage increase in Thailand plus the

65 FDI comprises of equity, debt, retained earnings.

prospects from the ASEAN Economic Community 2015 prompt firms to increasingly invest abroad in order to maintain their competitiveness.

Public investment, which had contracted last year, should see an expansion this year. Public investment in 2011 contracted by 8.7 percent from the delay in the implementation of the FY 2012 budget (October 2011-September 2012) after the change in Government in July 2011. Moreover the floods during the last quarter of 2011 have also delayed public investments. Public investment from the second quarter of 2012 onwards expanded as the FY2012 budget was implemented beginning in February. These should help raise public investments in 2012 by around 7 percent in real terms.

Budget deficit was 2.7 of GDP in FY2012 and will be at 2.54 percent of GDP for FY2013 with additional off budget spending for water resource management projects in FY2013, possibly raising public debt[66] close to 50 percent of GDP by end-2013. The budget for FY2013 is THB2.4 trillion, a 0.8 percent increase from that of last year. Budget deficit for FY2012 was THB400 billion while that of FY2013 is at THB300 billion. The government has earlier this year issued the off-budget Emergency Decree on Investment Loan for Water Resource Management and Future Development in an amount of THB 350 billion (USD 11 billion) to finance investments in water management projects over the next 3–4 years. Around THB10 billion has been disbursed this year, while another THB60 billion is expected to be disbursed next year. This would raise public investment growth in real terms to 15 percent in 2013 from around 6 percent in 2012. Should the government borrow THB350 billion by June 2013 as stipulated in the Emergency Decree, public debt could rise from 45 percent as of August this year to close to 50 percent next year.

Inflation will average around 3 percent for both 2012 and 2013. Inflation was low at less than 3 percent from April to August before accelerating slightly to 3.38 percent and 3.32 percent in September and October, respectively. Although a new excise tax rate has been imposed upon tobacco and liquor products in August and electricity (Ft) charge rates have been raised, theses will be outweighed by a slight drop in both crude oil and commodity prices resulting from a slowdown in global economy, thus, demand. Moreover, the Government continues to control the food, fuel and commodity prices, especially the diesel and NGV retail prices which will continue to be fixed in order to avoid the higher public transportation cost. Therefore, headline inflation next year should be no more than 3 percent and core inflation at around 2 percent.

Interest rates remain low and accommodative to growth. The Monetary Policy Committee (MPC) has cut the one-day repurchase rate by 25 basis points to 2.75 percent, which is the first rate cut since the cut from 3.25 to 3.00 percent in January. The main reason for the rate cut mainly was to keep the domestic demand growth momentum amidst negative impacts from the sluggish global economy.

With the large capital inflows into Thailand as well as other East Asian countries, there is pressure on baht to appreciate. Net capital inflows reached USD 9.9 billion in the first three quarters of this year compared to an outflow of USD5.2 billion last year. The large inflows so far and expected inflows in the foreseeable future will put pressure on the baht to appreciate. The Bank of Thailand continues to closely monitor and smooth exchange rate volatilities. The baht has appreciated from THB31.2 to the USD in December 2011 to THB30.7 in October this year, while the real effective exchange rate (REER) appreciated by 1.4 percent.

Outlook and Emerging Challenges

In 2013, the Thai economy should continue to grow by 5 percent as it fully recovers from the impact of

66 Public debt includes central government debt and debts of state-owned enterprises which are guaranteed and non-guaranteed by the central government. It also includes FIDF debt since the East Asian Crisis (around 10 percent of total public debt).

the severe floods. Manufacturing production next year will be able to operate at full capacity for the entire year in 2013 compared to this year when production only fully recovered in the third quarter. Exports growth could accelerate but only slightly due to the sight improvement in the global economy and world trade. However, import growth will decelerate as imports of machineries as part of flood rehabilitation has been mostly completed this year. Hence, foreign demand will post a positive growth in 2013 compared to a negative on this year.

Domestic demand will continue to grow in 2013. Household consumption will continued to be supported by the Government's consumption/ income stimulating policies such as the paddy pledging program for rice farmers. Public investments will also see a pickup in 2013 as implementation of the water management projects which was initiated in 2012 begins. This includes an additional amount of THB350 billion (USD11.7 billion) which is off-budget. Private investment growth will remain respectable as greater foreign direct investments will enter Thailand as seen by the increased Board of Investment applications and approvals over the last 2 years and the historically high inflows of FDI funds this year. These growths will continue to be in a low inflation environment.

Over the next year or so, the impact of the paddy pledging scheme will need to be assessed. Thailand's paddy pledging scheme has been expanded to cover all rice production since October 2011. The pledged price is set at around 50 percent above market price or around USD200 above international rice prices per metric ton of white rice. This scheme has cost the government around THB376 billion (USD12 billion) for the 2011/2012 harvest season (October 2011-September 2012) or around 3.4 percent of GDP. The Government is expected to use almost THB440 billion (USD 14.7 billion) or around 3.7 percent of GDP for the 2012/2013 harvest season as the pledged amount is expected to rise from 21.8 million metric tons last year to 25 million this year. The Government has not sold its stock so far. The actual losses from the program and the impact on the fiscal stance will need to be monitored as it will be realized only when the Government sells it stocks.

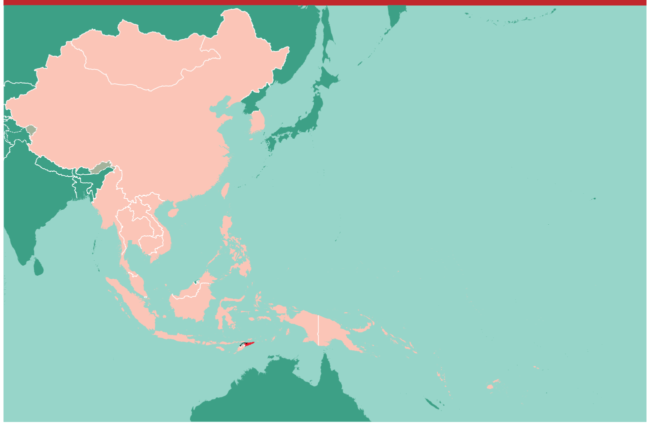
Similarly, the impact of the increase in the minimum wages on employment and firms will need to be monitored as minimum wages rise to THB300 per day nation-wide next year. On April 1, 2012, minimum wages have been raised to THB300 per day in only Bangkok and 5 vicinity provinces of Bangkok plus Phuket province; it was raised by 40 percent in the rest of the country. On January, 2013, the THB300 per day will apply nation-wide. This represents an additional nation-wide, average increase of 22.4. The impact on firm's operation and employment so far has not been large as most firms were already paying a daily rate plus benefits which is similar to the minimum wages announced on April 1st. However, the impacts vary across sectors with firms in sectors that employ low-skill worker, such as construction, being affect most. Further impacts will need to be closely monitored when the new minimum wages take effect next year.

Thailand: Key Indicators

	2010	2011	2012f	2013f	2014f	2011	2012			2012			
	Year	Year	Year	Year	Year	Q4	Q1	Q2	Q3	Jul	Aug	Sep	Oct
Output, Employment and Prices													
Real GDP (% change y-y)	7.8	0.1	4.7	5.0	4.5	-9.0	0.4	4.2	4.5	..	..	..	..
Domestic demand (% change y-y)	10.3	1.0	7.9	5.1	4.7	-3.1	6.9	10.1	4.6	..	..	..	..
Industrial production index (2000=100) 1/	190.0	172.6	177.8	184.0	189.5	125.1	174.9	178.9	175.6	178.7	174.4	173.4	173.9
(% change y-y)	14.4	-9.3	3.0	3.5	3.0	-34.2	-6.8	-1.5	-10.2	-5.5	-11.2	-15.9	36.1
Unemployment (%)	1.0	0.7	0.8	0.8	0.8	0.6	0.7	0.9	0.6	0.6	0.6	0.6	..
Real wages (% change y-y) 2/	3.3	7.2	..	..	..	8.0	8.8	14.5	10.3	7.7	5.0	..	..
Consumer price index (% change y-y)	3.3	3.8	3.0	2.8	2.8	4.0	3.4	2.5	2.9	2.7	2.7	3.4	3.3
Public Sector													
Government revenues (% GDP) 3/	16.9	18.0	17.7	17.6	..	16.5	14.5	22.4	18.9	13.4	16.4	26.9	16.1
Government expenditures (% GDP)	17.7	20.7	20.5	20.1	..	20.0	27.9	16.4	19.0	18.9	16.8	23.9	33.4
Government balance (% GDP) 4/	-1.0	-1.0	-2.7	-2.5	..	-10.5	-10.1	7.5	0.8	-5.0	0.7	6.8	-1.5
Public sector debt (% GDP) 5/	41.9	42.2	44.8	47.5	..	40.8	39.9	42.8	44.1	43.8	45.0	44.1	44.1
Foreign Trade, BOP and External Debt													
Trade balance (billions US$) 6/	31.8	17.0	8.6	7.9	8.0	-0.7	1.2	1.5	5.0	0.5	1.5	3.0	-0.1
Exports of goods (billions US$) 7/	193.7	219.1	227.0	239.5	258.0	47.7	53.8	56.7	59.3	19.2	19.6	20.5	19.1
(% change y-y)	28.4	13.1	3.6	5.5	7.7	-5.2	-3.9	-1.1	-6.3	-3.9	-5.1	-0.1	14.4
Key export (% change y-y) 8/	20.9	-2.5	..	..	..	-29.0	-8.3	3.8	-14.7	-14.9	-14.5	-14.7	16.7
Imports of goods (billions US$) 9/	161.9	202.1	218.4	231.5	250.0	48.4	52.6	55.2	54.3	18.8	18.0	17.5	19.3
(% change y-y)	37.0	24.9	8.1	6.0	8.0	12.2	9.6	10.3	-2.4	13.3	-11.0	-7.2	21.2
Current account balance (billions US$) 6/	10.0	5.9	0.6	-1.1	-1.5	0.4	1.4	-2.4	2.7	0.1	0.9	1.8	-0.2
(% GDP)	3.1	1.7	0.2	-0.3	-0.4	0.6	1.6	-2.7	3.1	..	..	..	..
Foreign direct investment (billions US$) 10/	9.1	7.8	7.0	..	..	1.9	2.5	1.8	1.7	0.8	1.0	-0.1	1.9
External debt (billions US$) 11/	100.6	104.6	..	..	..	104.6	116.9	119.9	127.3	122.5	123.9	127.3	129.4
(% GDP)	31.6	30.3	..	..	..	30.3	32.4	33.2	35.3	34.0	34.3	35.3	35.9
Short-term debt (billions US$) 11/	50.7	47.3	..	..	..	47.3	57.5	58.9	59.2	59.4	59.5	59.2	59.9
Debt service ratio (% exports of g&s)	4.7	3.4	..	..	..	3.8	4.6	3.3	..	..	..	..	..
Foreign exchange reserves, gross (billions US$) 6/	172.1	175.1	183.3	..	..	175.1	179.2	174.7	183.6	175.4	179.2	183.6	181.4
(months of imports of g&s)	12.8	10.4	10.1	..	..	8.7	9.9	9.7	10.2	9.7	9.9	10.5	9.4
Financial Markets													
Domestic credit (% change y-y) 12/	13.4	16.2	..	..	..	16.2	15.5	16.1	15.7	16.5	16.0	15.7	15.2
Short-term interest rate (% p.a.) 13/	1.5	3.0	3.0	..	..	3.3	3.0	3.0	3.0	3.0	3.0	3.0	2.8
Exchange rate (Baht/US$, ave)	31.7	30.5	31.0	..	..	31.0	31.0	31.3	31.4	31.7	31.4	31.0	30.7
Real effective exchange rate (2000=100) 14/	105.3	100.9	..	..	..	100.9	102.5	102.0	102.4	101.9	102.0	102.4	103.1
(% change y-y)	7.8	-4.1	..	..	..	-4.1	0.4	0.6	0.5	0.0	-0.3	0.5	2.1
Stock market index (Dec. 1996=100) 15/	1,033	1,025	..	..	..	1,025	1,197	1,172	1,299	1,199	1,227	1,299	1,299
Memo: Nominal GDP (billions US$)	318.7	345.7	360.9	397.4	424.0	79.1	90.3	89.8	89.3	..	..	..	..

Source: National data sources, World Bank staff estimates.
f = forecast
1/ Manufacturing Production Index
2/ Average wage of employed person, using the National Statistical Office Labor Force Survey, deflated by CPI inflation
3/ Refers to central government only. Fiscal Policy Office data.
4/ Cash balance of central government before financing
5/ Includes domestic central government (CG) debt, domestic debt of non-financial state enterprises, and the Financial Institutions Development Fund (FIDF) debt. The 2013 forecast is based on the Public Debt Management Office's 2013 Plan.
6/ Revised from BPM5 to BPM6
7/ Export figures readjusted to comply with HS2012
8/ Electronics
9/ Import figures readjusted to comply with HS2012
10/ Net FDI of all sectors. Bank of Thailand data, using BPM6.
11/ Bank of Thailand data
12/ Private credits from domestically registered commercial banks, branches of foreign banks, international banking facilities, finance companies, specialized banks, thrift and credit cooperatives, and money market mutual funds.
13/ One-day repurchase rate, average
14/ Bank of Thailand data
15/ Bangkok SET

TIMOR-LESTE



Population	1.2 million
Population growth	2.9 percent
GDP (PPP, int'l US$ billions)*	1.9
GDP per capita (PPP, int'l US$)**	1,588
Surface area	14,870 sq. km.
Capital	Dili

Source: World Development Indicators. *The equivalent in 2011 non-oil GDP at current market prices is US$ 1.054 billion. **The equivalent in 2011 non-oil GDP per capita at current market prices is US$ 893.

Recent Economic Developments

Parliamentary elections were held on July 7, 2012. Xanana Gusmao was re-elected as Prime Minister and formed the Fifth Constitutional Government of Timor-Leste with a majority coalition of incumbent parties CNRT and PD and newcomers F-Mudanca. The new government's five-year Policy Program provides continuity to the previous government's 2011–30 Strategic Development Plan, emphasizing public investment in agriculture, tourism, and a downstream petro-chemical industry. The United Nations (UN) is on track to complete the withdrawal of its integrated mission by the end of 2012.

Growth

Nonoil gross domestic product (GDP), the preferred measure of economic activity in Timor-Leste, is forecast to grow by 10 percent in 2012 relative to 10.6 percent in 2011. On the upside, there is evidence of a bumper maize and rice crop this year. On the downside, proxies for economic activity, such as total electricity consumption and motorcycle and car purchases, remain flat in 2012 relative to 2011. In addition, slower than expected government spending in the last two months of the financial year, as the new government finds its feet, may dampen growth. Estimates suggest that the UN mission's direct contribution to total 2011 GDP (oil and nonoil) was around 1 percent, which is equivalent to 4.4 percent of nonoil GDP. Four-fifths of this contribution is local payments to international staff. The UN drawdown is, therefore, estimated to have a limited overall economic impact. However, the government should remain alert to specific risks. For instance, not all East Timorese staff being released, in particular security guards may find alternative employment, and demand for accommodation and leisure services may decline.

The government recently published its National Accounts for 2004–10, the second release in the country's history, with plans for annual releases henceforth. The National Accounts confirm the dominance of the oil sector in Timor-Leste's economy. The sector represented $3.3[67] billion, or 79 percent, of total GDP in 2010. The National Accounts also show that government expenditure (final consumption and gross fixed capital formation) contributed 7 percentage points of the 9.5 percent nonoil growth in 2010, emphasizing the importance of maintaining a high quality of public spending for sustained growth.

Fiscal

The 2012 nonoil fiscal deficit is projected to be roughly 123 percent of nonoil GDP, although may improve if end-year government expenditures do not keep pace with previous years. At the end of October, just 52 percent of the $1.674 billion budget had been executed, compared with 59 percent in October 2011. This is largely because of a low execution rate for capital spending (34 percent at the end of October). Capital spending constitutes

67 All dollar amounts are U.S. dollars unless otherwise indicated.

half the total budget and is managed through the infrastructure fund.

The 2012 budget includes $136 million of domestic revenues, representing 9 percent of nonoil GDP, and 6.6 percent of the budget. By the end of October, 81 percent of this had been collected, compared with 78 percent at the same time last year. In addition, by August the government had drawn down $795 million in revenues from the Petroleum Fund, $130 million more than its full year estimated sustainable income (ESI, computed as 3 percent of the nation's estimated Petroleum Wealth) and nearly double the amount drawn down at the same time last year. Petroleum revenues flowing into the Petroleum Fund are on track to exceed the estimated $2.1 billion for the year, with just over $2.0 billion in receipts recorded by the end of August alone. This over-performance will lift the fiscal surplus (including petroleum revenues) above the 44 percent of nonoil GDP forecast for 2012.

The Parliament in October debated and approved a rectification budget to accommodate the restructured government, including new ministries, but without expanding the FY12 budget. A total of $54 million in unspent allocations ($50 million capital budget from the $168 million allocated to the Tasi Mane South Coast Development and $4 million from funds for installation of electricity meters) were used, among others, to make one-off corrections to veterans' pensions ($26.9 million added to $80.4 million) and old age pensions ($7.1 million added to $35.9 million). Early indications from the Ministry of Finance are that the FY13 budget will be very close to the FY11 budget of $1.3 billion. The approval of the FY13 budget is now likely to slip into early 2013.

Inflation and Financial Sector Issues

Inflation fell from a peak of 17.7 percent in January 2012 (headline inflation is consumer price index [CPI] in Dili) to 10 percent in March, before gradually climbing to 11.5 percent in October. The moderation in international food prices helped in the first half of the year (food constitutes 60 percent of the CPI basket and imported food represents just over half of household food consumption). The government is raising its full year 2012 inflation forecast from 8 percent. Further upside risks include recent rises in global food prices, high global oil prices, and further depreciation of the U.S. dollar (Timor-Leste's currency) against the Singapore and Australian dollar. However, this could be partially offset by continued appreciation of the U.S. dollar against the Indonesian Rupiah, and lower than anticipated second half 2012 public spending.

Credit growth to the private sector is accelerating, but access to finance remains a constraint to economic growth in Timor-Leste. Credit grew 18.6 percent in the first three quarters of 2012 to $155.8 million, compared with 18.5 percent growth for the full year 2011. But credit is growing from a low level of 12.5 percent of nonoil GDP in 2011, constrained by limited lending opportunities and a lack of collateral given uncertainty around land tenure, as well as anecdotal evidence of commercial bank risk aversion and comfortable profit margins. Deposit rates were 0.6 percent in September, the same as in in January, although spreads have widened with lending rates (6 month LIBOR plus Spread) passing 12.3 percent in September. The Construction and Transport and Communication sectors together absorb just under half of private sector credit, and individual borrowers account for nearly 40 percent. Nonperforming loans (NPLs), the majority of which are a legacy from the period around the 2006/2007 security crisis, continue to decline, reaching 31 percent in September, from 36 percent at the end of 2011. Loan loss provisions were $62.7 million, or 129 percent of the value of NPLs, effectively mitigating systemic risk to the banking system.

External Balance

Official trade data at the end of June 2012 suggests a first half trade deficit of $197 million based on imports of $209 million and exports of $11 million, and compared with a full year projected deficit of $795 million. Coffee, which dominates Timor-Leste's exports, is projected to reach $30 million of $33 million total merchandise exports in 2012. First half coffee exports were similar to 2011 volumes of 700 tons. However, in value terms exports receipts will be lower owing to the roughly 35 percent year on year decline in Arabica prices.

Petroleum revenues are recorded as income in the current account. This helps transform a 2012 projected trade deficit of 63 percent of non-oil GDP into a projected current account surplus of 142 percent of non-oil GDP. The anticipated over performance on petroleum revenues and lower than expected merchandise imports could lead to a higher than projected current account surplus in 2012.

The Petroleum Fund, Timor-Leste's sovereign wealth fund, was worth $10.8 billion at the end of August 2012, compared with an end 2011 value of $9.3 billion, or nearly nine times nonoil GDP. At the end of September, official reserves were $538 million, or 15 months of 2012 imports. Adding the Petroleum Fund increases this to roughly 325 months of cover.

Outlook and Emerging Challenges

There has been recent, and widely reported, jostling between the government and two major oil companies involved in developing Timor-Leste's present petroleum fields over allegedly unpaid production taxes. This has brought attention, and also some uncertainty, to the ongoing discussions about the development of the Greater Sunrise field in the Timor Sea. Prudently, Timor-Leste's current economic development plans, and estimated financing from the Petroleum Fund, are only based on fields currently under production. However, uncertainty of this nature and the sensitivity of finite petroleum revenues to global oil prices, reinforce the need to pay attention to fiscal sustainability and value for money in public spending.

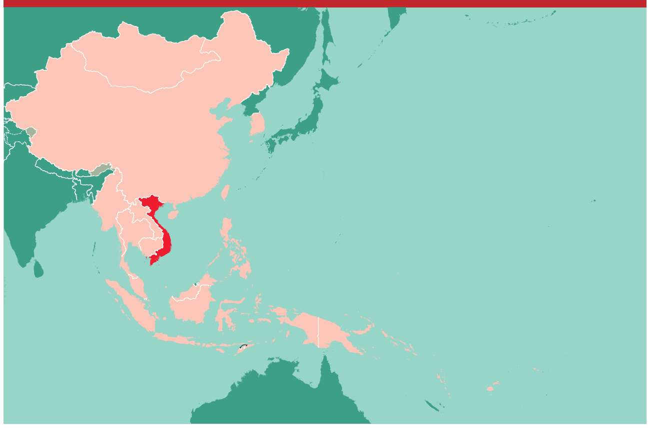
Rapid growth in aggregate demand, combined with limited local productive capacity, fluctuating global commodity prices, and occasional import supply bottlenecks have led to high and volatile inflation. Although two fuel shortages in the last six months were quickly resolved, together they raised fuel prices by roughly 15 percent. Despite ample generation capacity, power outages are again observed to be affecting the capital Dili. Electricity transmission infrastructure needs to be further strengthened to reduce outages, which tend to raise the cost of production and service delivery.

Timor-Leste: Key Indicators

	2010 Year	2011 Year	2012f Year	2013f Year	2014f Year
Output, Employment and Prices					
Real non-oil GDP (% change y-y)	9.5	10.6	10.0	10.0	10.0
Consumer price index (% change y-y, annual average)	6.8	13.1	8.0	8.0	8.0
Public Sector					
Government revenues (% GDP)	75.2	68.1	54.6	68.1	62.3
Government expenditures (% GDP)	24.8	30.3	43.3	37.0	39.3
Government balance (% GDP)	50.4	37.8	11.3	31.1	23
Non-oil government balance (% GDP)	-22.2	-25.4	-31.4	-33.2	-34.9
Non-oil government balance (% non-oil GDP)	-81.1	-113.6	-130.0	-92.8	-82.7
Public sector debt (% GDP) /1	0.0	0.0	1.1	3.0	4.9
Foreign Trade, BOP and External Debt					
Trade balance (millions US$)	-374	-667	-796	-861	-909
Exports of goods (millions US$)	18	22	33	29	43
(% change y-y)	100	22	50	-12	48
Imports of goods (millions US$)	392	689	829	890	952
(% change y-y)	1.8	75.8	20.3	7.4	7.0
Current account balance (millions US$)	1,538	2,375	1,773	1,506	1,158.0
(% GDP)	48.1	55.0	43.5	36.2	27.6
Foreign direct investment (millions US$)	5	46	55	64	75.0
External debt (millions US$)	0	0	43	123.0	204.0
(% GDP)	0.0	0.0	1.1	3.0	4.9
Debt service ratio (% exports of g&s)	0.0	0	0.0	0.0	0.1
Public foreign assets, gross (millions US$) 2/	7,310	9,743	11,487	13,013	14,202
Foreign exchange reserves, gross (millions US$)	406	405	565	716	862
(months of imports of g&s)	21.8	28.6	40.8	48.8	57.8
Financial Markets					
Domestic credit (% change y-y)	5.9	23.6	..	..	..
Short-term interest rate (% p.a.)	11.10	..	..	..	..
Real effective exchange rate (2000=100) (period average)	102.3	103.9	..	..	..
(% change y-y)	-2.7	1.6	..	..	..
Memorandum items:					
Memo: Nominal GDP (millions US$)	3,199	4,315	4,073	4,161	4,190

Source: National data sources, IMF, and World Bank staff estimates.
e = estimate
f = forecast
1/ External debt
2/ Central bank foreign exchange reserves + Petroleum Fund balance

VIETNAM



Population	87.8 million
Population growth	1.0 percent
GDP (PPP, int'l US$ billions)	301.7
GDP per capita (PPP, int'l US$)	3,435
Surface area	329,310 sq.km.
Capital	Hanoi

Source: World Development Indicators.

Summary

Tightened monetary and fiscal policies in 2011 have helped restore macroeconomic stability. Inflation has fallen significantly, but the economy has also slowed down. In response, the government has lowered key policy rates and introduced tax relief measures. But the supply side response has been muted because domestic firms are highly leveraged and credit growth has fallen sharply. Export-oriented foreign enterprises are performing well, but a prolonged global growth slowdown could adversely affect exports over the medium-term. Moreover, there is slow progress on structural challenges (state-owned enterprise [SOEs], banks, and public investment), which heightens Vietnam's vulnerability to shocks.

Recent Economic Developments

Stabilization measures and an unfavorable external environment have led to slower growth 2012. In response, the State Bank of Vietnam (SBV) cut interest rates by 500 basis points between March and July 2012. In addition, the government in May 2012 introduced a number of tax relief measures to help mainly domestic small and medium enterprises (SME; Resolution 13), after sluggish GDP growth of 4 percent in the first quarter. Growth subsequently picked up at 4.7 percent in the second quarter and 5.4 percent in the third, raising real GDP growth to 4.7 percent for the January to September 2012 period. The World Bank expects the economy to grow at 5.2 percent in 2012, which is the slowest growth rate Vietnam has experienced in a decade.

Current Inflation Cycle Reaches its Trough

The year-on-year headline inflation fell from 23 percent in August 2011 to 5 percent in August 2012. This was due to a fall in the price of food and foodstuff from 34 percent to 2 percent over the same period, and to tighter fiscal and monetary policies until earlier this year. Prices in September jumped 2.2 percent, primarily on account of higher prices of medicine, health-care services, and petroleum products. Another factor was the cost of educational services, which increased due to higher back-to school spending. Year-on-year inflation stood at 7 percent in October 2012, signaling that inflation had bottomed out at 5 percent in August 2012, and will be on an upward trajectory until the first quarter of 2013. Inflationary pressures may reemerge through the lagged effects of accommodative policies and heightened global food and oil prices.

Export Sector Continues to Perform Well

Vietnam's external balance position remains strong. Total export turnover between January and October 2012 is estimated at $93.5[68] billion, rising 18.4 percent from the same period last year. Export-oriented foreign enterprises have performed well relative to the sluggish domestic enterprise sector. This is partly because stabilization policies have affected domestic enterprises more, and partly because of recent coming on stream of production capacity

68 All dollar amounts are U.S. dollars unless otherwise indicated.

in a number of foreign enterprises predominantly in electronics—this situation causes domestic enterprises, particularly SOEs, to lose market share. Total imports are estimated at $93.8 billion, up 6.8 percent year on year. The trade balance has improved, which could contribute to a current account surplus this year. International reserves have built up from less than seven weeks of import cover (at the end of 2011) to about 10 weeks (June 2012), which amounts to roughly $20 billion.

Monetary Policy has Loosened and Exchange Remains Stable

The SBV has cut key policy rates by 500 basis points between March and July 2012. However, as of mid September, total credit has grown by only 2.35 percent since the beginning of the year, which is considerably lower than the 15 percent target for 2012. At the same time the loan to deposit ratio has gone from 100–120 percent between 2009 and 2011, to 90 percent in July 2012. The exchange rate has been stable since the beginning of 2012. The reference rate on the VND has remained the same at VND 20,828 per U.S. dollar for nearly a year. The demand for foreign currencies may rise in the last quarter to repay loans and pay import bills. But these pressures are likely to be limited in 2012 because of slower growth.

Slower Domestic Revenue Collection in the First Nine Months of 2012

A combination of economic slowdown and tax relief for enterprises has contributed to lower than expected domestic revenues in the first nine months of 2012. Revenues have declined 0.6 percent in nominal terms compared to the same period last year. Government expenditure in the first nine months of 2012 has remained on track. Discipline over capital expenditure has been maintained. The overall impact on the government's 2012 fiscal deficit target is still uncertain though may increase to around 5.2 percent of GDP. Oil revenue will be higher than what was budgeted, and tax collections may increase in the last quarter as the economy gathers pace. The preliminary estimates for the 2013 Budget show efforts to bring the fiscal deficit down to 3.8 percent of GDP, including a possible small reduction in on-budget capital expenditure.

Structural Challenges are a Drag on the Economy

Vietnam's slower growth in recent years (average 6.1 percent in 2008–11 compared to 8.3 percent in 2003–07) is due to falling productivity growth resulting from a slow pace of structural reforms. Inefficiencies in SOEs, banks, and public investments are a drag on Vietnam's long-term growth potential. The government has prioritized reforms in these areas, but progress needs to accelerate. There are concerns over the health of the financial sector. Nonperforming Loans (NPLs) are officially reported to be around 8.6 percent of total loans outstanding but in reality could be much higher. This is closely linked to the banking system's exposure to poorly performing SOEs. There is an urgent need to clean up banks' balance sheets to avoid further escalation of costs.

Banking Sector and SOE Reforms Could Unlock Growth Potential

The government in March adopted a decision to deal with weak banks, setting out targets to reduce NPLs and increase provisioning. Under this decision, the government is pursuing several options, including the following: acquisition of weak banks' equity by the SBV for eventual divestiture; allowing increased foreign ownership of domestic banks; incentives for State-Owned Commercial Banks (SOCBs) and joint stock commercial banks to purchase weak banks' assets; and selling off bad debts. In parallel to this, the government plans to significantly strengthen banking sector supervision by introducing new regulatory measures. This is the most concerted effort to date in trying to address banking sector challenges. But implementation will be a challenge, including absorption of fiscal costs from potential bank recapitalization.

In July 2012, the government adopted a decision to restructure Economic Groups (EGs) and General Corporations (GCs), which are the largest state enterprises in Vietnam. EGs and GCs are preparing restructuring plans to accelerate equitization (that is, diversifying ownership, attracting strategic investors, and promoting capital market development), strengthen corporate governance, and better monitor performance of and fiscal risks from state enterprises. The government is also introducing new measures to help strengthen regulation and oversight of state enterprises. There has been some progress. As of mid-October, around 53 EGs and GCs have prepared restructuring plans, 26 of which the government has approved. In October 2012, the Prime Minister ended the pilot of two out of twelve EGs: the Vietnam Industry Construction Group and the Housing Urban Development Group. These are welcome, although the restructuring plans are likely to require further work, and the slowdown in domestic and foreign investments will make it difficult to meet equitization targets.

Outlook and Emerging Challenges

The worsening global economy and limited policy space to maneuver domestically could jeopardize the macroeconomic stabilization gains achieved in 2012. There is an increasing degree of uncertainty in the financial markets about the state of the economy and policy directions. This uncertainty will require a delicate balancing of growth and stability objectives even during this economic downturn. Without credible restructuring of SOEs and banks, the upside growth potential will remain highly limited.

Vietnam: Key Indicators

	2010 Year	2011e Year	2012f Year	2013f Year	2014f Year
Output, Employment and Prices					
Real GDP (% change y-y)	6.8	5.9	5.2	5.5	5.7
Domestic demand (% change y-y)	10.3	-0.5	3.3	4.4	5.0
Industrial production index 1/					
(% change y-y)	9.3	6.8	5.5	6.0	6.5
Unemployment (%) 2/	4.3	3.6	4.0	4.0	4.0
Consumer price index (% change y-y)	9.2	18.6	9.0	8.5	7.3
Public Sector					
Government revenues (% GDP)	29.6	27.7	26.1	25.4	25.5
Government expenditures (% GDP)	32.7	30.9	31.3	29.2	29.1
Government balance, official (% GDP) 3/	-0.7	-1.5	-3.7	-2.3	-2.0
Government balance, general (% GDP) 4/	-3.1	-3.2	-5.2	-3.8	-3.5
Public sector debt (% GDP) 5/	54.0	55.4	53.7	53.3	53.1
Foreign Trade, BOP and External Debt					
Trade balance (billions US$)	-5.1	-0.5	6.4	5.8	5.7
Exports of goods (billions US$)	72.2	96.9	113.4	129.5	149.2
(% change y-y)	26.4	34.2	17.0	14.2	15.3
Key export (% change y-y) 6/	-23.0	45.9	15.0	5.0	5.0
Imports of goods (billions US$)	84.8	106.7	116.3	134.4	156.0
(% change y-y)	21.2	25.9	9.0	15.5	16.1
Current account balance (billions US$)	-4.3	0.2	3.7	1.9	1.4
(% GDP)	-4.1	0.2	2.7	1.3	0.9
Foreign direct investment (billions US$)	7.1	7.1	7.2	7.3	7.5
External debt (billions US$) 5/	45.4	50.1	54.7	59.8	63.5
(% GDP)	43.8	40.8	40.2	39.8	38.6
Debt service ratio (% exports of g&s)	3.3	2.8	3.4	3.7	3.1
Foreign exchange reserves, gross (billions US$)	12.4	13.6	..	..	..
(months of imports of g&s)	1.8	1.5	..	..	..
Financial Markets					
Domestic credit (% change y-y)	32.4	14.3	6.0	12.0	15.0
Short-term interest rate (% p.a.) 7/	11.6	14.9	9.0	..	
Exchange rate (Dong/US$, eop) 8/	19,498	20,828	20,828	..	..
Real effective exchange rate (2000=100)	117.4	122.7	..	..	..
(% change y-y)	1.0	4.5	..	..	..
Stock market index (Jul. 2000=100) 9/	484.7	351.6	382.1	..	..
Memo: Nominal GDP (billions US$)	103.6	122.7	135.9	150.0	164.6

Sources: Vietnam Government Statistics Office, State Bank of Vietnam, IMF, and World Bank staff estimates.
e = estimate
f = forecast
1/ The industrial production index (IPI) is a new series replacing previous "industrial production value in constant 1994 price".
2/ Urban areas
3/ Excludes off-budgetary items
4/ Includes off-budgetary items
5/Public and publicly-guaranteed debt. Forecast by Debt Sustainability Analysis 2012
6/ Crude oil (value)
7/ Three-month deposit, end-of-period. Data for 2012 is as of December 4.
8/ Central Bank's interbank exchange rate. Data for 2012 is as of December 4.
9/ Ho Chi Minh Stock Index. Data for 2012 is as of December 4.

Appendix Tables

Appendix Table 1. Real GDP Growth - % Change Year Ago

percent change from a year earlier

	China	Indonesia	Malaysia	Philippines	Thailand	Vietnam	Hong Kong SAR, China	Korea, Rep.	Singapore	Taiwan, China	East Asia
Q1-2007	14.0	6.1	5.2	6.3	4.6	7.7	5.9	4.5	8.1	4.5	6.6
Q2-2007	13.8	6.7	5.9	7.6	4.6	7.8	6.2	5.3	9.7	5.7	9.9
Q3-2007	13.4	6.7	6.4	6.3	5.5	8.2	6.7	4.9	11.0	7.1	9.9
Q4-2007	12.1	5.8	7.6	6.3	5.4	8.5	7.0	5.7	6.7	6.5	9.2
Q1-2008	11.3	6.2	7.6	4.0	6.3	7.5	7.0	5.5	8.1	7.5	9.0
Q2-2008	10.1	6.3	6.6	4.3	5.2	6.5	4.0	4.4	3.2	5.7	7.6
Q3-2008	9.0	6.3	5.1	5.3	3.1	6.3	0.9	3.3	-0.3	-1.2	5.9
Q4-2008	6.8	5.3	0.3	3.1	-4.1	6.2	-2.7	-3.3	-3.7	-7.5	2.4
Q1-2009	6.6	4.5	-5.8	1.0	-7.0	3.1	-7.8	-4.2	-8.8	-8.1	1.5
Q2-2009	8.1	4.1	-3.7	1.6	-5.2	3.9	-3.1	-2.1	-2.0	-6.6	3.3
Q3-2009	9.6	4.3	-1.1	0.5	-2.8	4.6	-1.7	1.0	1.9	-1.4	5.3
Q4-2009	10.7	5.6	4.5	1.4	5.9	5.5	2.5	6.3	5.3	8.8	8.4
Q1-2010	12.1	5.9	10.1	8.4	12.0	5.9	7.9	8.7	16.5	13.1	11.1
Q2-2010	10.3	6.3	9.0	8.9	9.2	6.2	6.4	7.6	19.8	12.9	9.8
Q3-2010	9.6	5.8	5.2	7.3	6.6	6.6	6.6	4.5	10.6	11.6	8.4
Q4-2010	9.8	6.8	4.8	6.1	3.8	6.8	6.4	4.9	12.5	6.2	8.1
Q1-2011	9.8	6.4	5.0	4.9	3.2	5.6	7.8	4.2	9.1	7.4	8.0
Q2-2011	9.5	6.5	4.3	3.6	2.7	5.6	5.1	3.5	1.2	4.6	7.1
Q3-2011	9.1	6.5	5.7	3.2	3.7	5.8	4.3	3.6	6.0	3.5	7.0
Q4-2011	8.9	6.5	5.2	4.0	-8.9	5.9	2.8	3.3	3.6	1.2	6.1
Q1-2012	8.1	6.3	5.1	6.3	0.4	4.0	0.7	2.8	1.6	0.6	5.7
Q2-2012	7.6	6.4	5.6	6.0	4.4	4.4	1.2	2.3	2.5	-0.1	5.4
Q3-2012	7.4	6.2	5.2	7.1	3.0	4.8	1.3	1.6	0.3	1.0	5.2

Source: Haver Analytics and national sources. Quarterly data for China uses annual production side GDP data. Quarterly data for Vietnam are year-to-date.

Appendix Table 2. Real GDP and Components of Aggregate Demand

percent change from a year earlier

		Indonesia	Malaysia	Philippines	Thailand	Hong Kong SAR, China	Korea, Rep.	Singapore	Taiwan, China	S.E. Asia	NIEs
GDP	2007	6.3	6.3	6.6	5.0	6.5	5.1	8.9	6.0	6.0	5.9
	2008	6.0	4.8	4.2	2.5	2.1	2.3	1.7	0.7	4.5	1.8
	2009	4.6	-1.5	1.1	-2.3	-2.5	0.3	-1.0	-1.8	1.0	-0.8
	2010	6.2	7.2	7.6	7.8	6.8	6.3	14.8	10.8	7.0	8.5
	2011	6.5	5.1	3.9	0.1	4.9	3.6	4.9	4.1	4.2	4.1
	Q1-2012	6.3	5.1	6.3	0.4	0.7	2.8	1.6	0.6	4.6	1.7
	Q2-2012	6.4	5.6	6.0	4.4	1.2	2.3	2.5	-0.1	5.7	1.5
	Q3-2012	6.2	5.2	7.1	3.0	1.3	1.6	0.3	1.0	5.4	1.3
Private Consumption	2007	5.0	10.4	4.6	1.8	8.6	5.1	6.8	2.1	5.2	4.9
	2008	5.3	8.7	3.7	2.9	1.9	1.3	3.3	-0.9	5.1	1.0
	2009	4.9	0.6	2.3	-1.1	0.8	0.0	0.1	0.8	2.1	0.3
	2010	4.7	6.6	3.4	4.8	6.3	4.4	6.5	4.0	4.9	4.8
	2011	4.7	7.1	6.3	1.3	8.2	2.3	4.1	3.1	4.7	3.6
	Q1-2012	4.9	7.4	5.1	2.9	6.4	1.6	4.4	1.9	5.0	2.8
	Q2-2012	5.2	8.8	5.9	5.3	3.1	1.1	1.7	1.6	6.1	1.7
	Q3-2012	5.7	8.5	6.2	6.0	2.8	1.5	1.1	0.9	6.4	1.6
Fixed Investment	2007	9.3	10.4	5.2	1.5	3.2	4.2	17.4	0.6	6.8	4.2
	2008	11.9	2.4	3.2	1.2	1.4	-1.9	13.0	-12.4	5.6	-2.9
	2009	3.3	-2.7	-1.7	-9.2	-3.5	-1.0	-2.9	-11.2	-1.9	-4.4
	2010	8.5	10.4	19.1	9.4	7.4	5.8	7.0	24.0	10.9	11.3
	2011	8.8	6.5	0.2	3.3	7.5	-1.1	3.3	-3.9	5.5	-0.2
	Q1-2012	10.0	16.2	3.9	5.2	12.6	4.6	18.5	-10.2	9.0	3.0
	Q2-2012	12.3	26.1	11.8	10.2	5.7	-2.1	4.9	-7.7	14.5	-1.8
	Q3-2012	10.0	22.7	8.7	15.5	8.7	-2.0	-0.9	-0.5	13.7	0.1
Exports of Goods & Services	2007	8.5	3.8	6.7	7.8	8.3	12.6	15.4	9.6	7.1	11.4
	2008	9.5	1.6	-2.7	5.1	2.5	6.6	-26.7	0.9	4.6	1.3
	2009	-9.7	-10.9	-7.8	-12.5	-10.2	-1.2	24.2	-8.7	-10.3	-2.3
	2010	15.3	11.3	21.0	14.7	16.8	14.7	39.7	25.7	15.3	20.5
	2011	13.6	4.2	-4.2	11.1	4.1	9.5	3.4	4.5	8.0	6.7
	Q1-2012	7.9	2.8	10.9	-3.2	-3.5	4.7	-11.8	-3.4	4.7	-0.4
	Q2-2012	2.2	2.1	8.3	1.1	0.4	3.2	-1.7	-2.5	3.0	0.7
	Q3-2012	-2.8	-3.0	6.9	-2.8	3.1	2.6	-8.5	1.8	-1.1	1.4

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

Appendix Table 3a. East Asia - Merchandise Export Growth

in U.S. dollars, percent change from a year earlier

	2007	2008	2009	2010	2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Jul-12	Aug-12	Sep-12	Oct-12
East Asia (10)	17.0	13.6	-16.2	29.7	17.8	9.8	4.7	4.3	0.3	-2.7	-2.3	6.2	..
China	25.7	17.4	-15.9	31.3	20.3	20.1	6.8	6.6	1.4	1.0	2.7	9.9	11.6
S.E. Asia	13.8	15.3	-16.8	29.2	18.5	11.5	7.0	7.8	2.0	-3.7	-9.7	2.0	..
Indonesia	13.2	20.1	-15.0	35.5	28.7	8.7	6.9	-9.0	-14.1	-7.6	-24.7	-9.4	-7.6
Malaysia	9.5	13.4	-21.2	26.3	14.9	8.6	3.5	-0.4	-4.6	-7.9	-8.6	2.8	..
Philippines	7.1	-2.7	-21.7	34.0	-6.5	-17.5	5.4	10.5	6.2	6.0	-9.0	22.8	..
Thailand	18.6	15.5	-14.3	26.8	15.1	-6.1	-1.4	2.0	-3.8	-4.5	-7.0	0.2	15.6
Vietnam	25.0	29.2	-10.1	26.9	32.9	29.3	28.3	23.4	13.1	9.3	11.5	19.4	23.0
NIEs	10.9	9.3	-16.2	28.3	14.7	7.1	1.3	-1.3	-2.6	-6.6	-4.5	3.7	0.8
Hong Kong SAR, China	8.8	5.3	-12.2	22.5	9.9	6.7	-1.1	2.0	4.3	-3.1	1.1	15.8	-2.5
Korea, Rep.	14.1	13.6	-13.9	28.3	19.0	9.0	3.0	-1.6	-5.7	-8.8	-6.2	-2.0	1.1
Singapore	10.1	12.9	-20.2	30.5	16.4	7.1	5.9	-0.6	-5.8	-3.3	-9.0	-4.8	5.9
Taiwan, China	10.3	3.7	-20.5	35.0	11.6	3.7	-4.5	-6.0	-2.4	-11.9	-3.8	10.1	-1.8

Source: Haver Analytics

Appendix Table 3b. East Asia - Merchandise Import Growth

in U.S. dollars, percent change from a year earlier

	2007	2008	2009	2010	2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Jul-12	Aug-12	Sep-12	Oct-12
East Asia (10)	15.0	18.1	-17.7	34.2	20.9	14.3	6.3	4.0	0.0	2.4	-4.4	2.2	..
China	20.8	18.5	-11.2	38.8	24.9	20.1	6.8	6.6	1.4	4.7	-2.5	2.4	2.4
S.E. Asia	14.0	26.2	-22.2	33.4	22.0	17.9	7.7	7.2	1.3	7.2	-4.3	0.2	..
Indonesia	22.0	73.5	-25.1	40.1	30.8	23.9	17.9	13.2	-2.0	0.9	-8.4	1.2	10.8
Malaysia	12.1	7.0	-20.9	33.0	13.9	5.6	6.4	5.4	3.9	3.5	-1.6	9.9	..
Philippines	7.2	2.2	-24.1	27.4	11.1	3.4	-0.7	2.2	0.8	-0.8	-0.4	3.6	..
Thailand	8.7	28.0	-25.4	36.8	25.1	12.8	10.4	9.2	-1.7	13.7	-8.8	-7.7	21.6
Vietnam	32.2	32.6	-11.3	21.6	24.4	16.2	7.8	9.6	6.8	16.9	6.4	-1.5	11.2
NIEs	11.3	14.7	-21.2	30.3	16.5	9.1	4.2	-0.6	-2.0	-2.2	-6.4	3.0	3.4
Hong Kong SAR, China	10.0	5.6	-10.6	24.7	11.6	9.1	1.0	2.3	5.0	-1.4	1.4	15.5	3.7
Korea, Rep.	15.3	22.0	-25.8	31.6	23.3	13.4	7.7	-2.5	-7.1	-5.4	-9.7	-6.1	1.7
Singapore	10.2	21.5	-23.1	26.5	17.7	11.2	11.6	2.5	-2.9	2.2	-11.2	1.4	9.6
Taiwan, China	8.3	9.7	-27.5	44.4	12.0	-1.0	-5.9	-5.9	-3.2	-3.2	-7.6	1.3	-1.7

Source: Haver Analytics

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

percent change form a year earlier

						Forecast	Forecast	Forecast
	2007	2008	2009	2010	2011	2012	2013	2014
East Asia	10.1	6.3	4.9	9.3	7.1	5.8	6.6	6.6
Developing East Asia	12.3	8.5	7.5	9.7	8.3	7.5	7.9	7.6
China	14.2	9.6	9.2	10.4	9.3	7.9	8.4	8.0
Indonesia	6.3	6.0	4.6	6.2	6.5	6.1	6.3	6.6
Malaysia	6.3	4.8	-1.5	7.2	5.1	5.1	5.0	5.1
Philippines	6.6	4.2	1.1	7.6	3.9	6.0	6.2	6.4
Thailand	5.0	2.5	-2.3	7.8	0.1	4.7	5.0	4.5
Vietnam	8.5	6.3	5.3	6.8	5.9	5.2	5.5	5.7
Cambodia	10.2	6.7	0.1	6.0	7.1	6.6	6.7	7.0
Fiji	-0.9	1.0	-1.3	0.1	1.9	2.1	2.2	2.3
Lao PDR	7.5	7.6	7.5	8.5	8.0	8.2	7.5	7.5
Mongolia	10.2	8.9	-1.3	6.4	17.5	11.8	16.2	12.2
Myanmar	..	3.6	5.1	5.3	5.5	6.3	6.5	6.6
Papua New Guinea	7.2	6.7	6.1	7.6	9.0	8.0	4.0	7.5
Solomon Islands	10.7	7.1	-4.7	7.8	10.5	5.3	4.0	3.3
Timor-Leste	11.7	14.6	12.8	9.5	10.6	10.0	10.0	10.0
East Asia NIEs	5.9	1.8	-0.8	8.4	4.1	1.7	3.3	4.0
Hong Kong SAR, China	6.5	2.1	-2.5	6.8	4.9	1.3	3.2	4.3
Korea, Rep.	5.1	2.3	0.3	6.3	3.6	2.2	3.1	4.0
Singapore	8.9	1.7	-1.0	14.8	4.9	1.3	2.0	4.0
Taiwan, China	6.0	0.7	-1.8	10.7	4.0	1.2	4.0	4.0

Source: World Bank data and staff estimates.

Appendix Table 5. Regional Aggregates for Poverty Measures in East Asia

	Mean Consumption (2005 PPP$/month)	$1.25 –a-day		$2-a-day		Population (million)
		Headcount Index (%)	Number of Poor (million)	Headcount Index (%)	Number of Poor (million)	
EAP						
1990	47.79	54.96	881.76	80.97	1,299.12	1,604.41
1993	54.69	50.72	848.46	75.76	1,267.24	1,672.77
1996	67.19	35.90	623.43	63.97	1,110.79	1,736.37
1999	70.74	35.58	639.04	61.74	1,108.86	1,795.97
2002	85.64	27.61	509.97	51.93	959.23	1,847.03
2005	107.07	17.11	323.78	39.57	748.88	1,892.72
2008	127.40	14.34	277.49	32.94	637.17	1,934.41
EAP excluding China						
1990	67.32	40.38	189.48	70.73	331.89	469.23
1993	74.04	42.57	210.42	67.94	335.87	494.33
1996	86.16	34.65	179.75	61.03	316.65	518.82
1999	82.71	35.46	192.61	62.54	339.74	543.23
2002	89.65	25.67	145.44	53.96	305.78	566.63
2005	104.96	19.28	113.53	46.21	272.20	589.00
2008	114.30	17.53	106.89	40.74	248.44	609.76
South East Asia (Indonesia, Malaysia, Philippines, Thailand)						
1990	75.07	32.72	105.12	66.26	212.85	321.26
1993	81.96	37.97	128.37	63.92	216.09	338.07
1996	95.84	30.05	106.57	56.32	199.69	354.59
1999	90.47	32.29	119.99	59.08	219.51	371.56
2002	97.70	21.50	83.60	49.81	193.68	388.82
2005	113.56	16.90	68.54	43.60	176.85	405.65
2008	122.78	16.85	70.94	39.05	164.34	420.89
Lower-Income East Asia (Cambodia, Laos, PNG, Vietnam)						
1990	37.82	69.13	58.00	87.83	73.69	83.90
1993	44.29	59.84	53.39	83.14	74.18	89.22
1996	50.14	51.74	48.82	78.67	74.24	94.36
1999	53.90	47.16	46.83	75.46	74.92	99.28
2002	59.73	41.07	42.53	69.41	71.87	103.54
2005	72.93	28.04	30.17	55.90	60.15	107.60
2008	82.59	20.01	22.31	47.01	52.43	111.52

Source: World Bank PovcalNet 2012, World Development Indicators, and staff calculations.

Appendix Table 6. East Asia: Exchange Rates

local currency per U.S. dollar, end-of-period

	China	Indonesia	Malaysia	Philippines	Thailand	Vietnam	Hong Kong SAR, China	Korea, Rep.	Singapore	Taiwan, China	Japan
Jan-2007	7.78	9,090	3.50	49.03	35.76	16,036	7.81	940.9	1.54	32.95	121.68
Feb-2007	7.74	9,160	3.51	48.29	35.39	15,990	7.81	938.3	1.53	32.95	118.48
Mar-2007	7.73	9,118	3.46	48.26	34.97	16,023	7.81	940.3	1.52	33.09	117.65
Apr-2007	7.71	9,083	3.42	47.51	34.74	16,046	7.82	929.4	1.52	33.28	119.60
May-2007	7.65	8,828	3.40	46.27	34.60	16,079	7.81	929.9	1.53	33.02	121.62
Jun-2007	7.62	9,054	3.45	46.33	34.50	16,113	7.81	926.8	1.53	32.74	123.23
Jul-2007	7.57	9,186	3.45	45.61	33.76	16,127	7.83	923.2	1.51	32.81	118.95
Aug-2007	7.56	9,410	3.50	46.70	34.29	16,226	7.80	939.9	1.52	33.00	116.20
Sep-2007	7.51	9,137	3.42	45.06	34.21	16,092	7.77	920.7	1.49	32.58	115.05
Oct-2007	7.47	9,103	3.34	43.95	33.96	16,083	7.75	907.4	1.45	32.41	114.75
Nov-2007	7.40	9,376	3.36	42.80	33.81	16,044	7.79	929.6	1.45	32.27	110.30
Dec-2007	7.30	9,419	3.31	41.40	33.72	16,010	7.80	938.2	1.44	32.44	114.00
Jan-2008	7.19	9,291	3.24	40.65	32.98	15,971	7.80	943.9	1.42	32.20	106.36
Feb-2008	7.11	9,051	3.19	40.36	31.85	15,931	7.78	937.3	1.39	30.95	104.73
Mar-2008	7.02	9,217	3.19	41.87	31.46	16,105	7.79	991.7	1.38	30.41	100.10
Apr-2008	7.00	9,234	3.16	42.19	31.70	16,116	7.80	999.7	1.36	30.45	104.08
May-2008	6.95	9,318	3.24	43.88	32.40	16,246	7.80	1,031.4	1.37	30.41	105.66
Jun-2008	6.86	9,225	3.27	44.76	33.48	16,842	7.80	1,043.4	1.36	30.35	106.40
Jul-2008	6.84	9,118	3.26	44.14	33.48	16,755	7.80	1,008.5	1.37	30.59	107.99
Aug-2008	6.83	9,157	3.39	45.69	34.12	16,525	7.80	1,081.8	1.42	31.52	109.10
Sep-2008	6.82	9,378	3.46	46.92	34.00	16,575	7.77	1,187.7	1.43	32.13	104.30
Oct-2008	6.83	10,995	3.56	48.75	34.93	16,813	7.75	1,291.4	1.48	33.00	98.30
Nov-2008	6.83	12,151	3.62	48.88	35.38	16,974	7.75	1,482.7	1.51	33.30	95.25
Dec-2008	6.83	10,950	3.46	47.49	34.90	17,433	7.75	1,257.5	1.44	32.86	90.75
Jan-2009	6.84	11,355	3.61	47.08	34.88	17,475	7.75	1,368.5	1.51	33.80	89.60
Feb-2009	6.84	11,980	3.69	48.24	36.00	17,475	7.75	1,516.4	1.54	34.95	97.55
Mar-2009	6.84	11,575	3.65	48.42	35.48	17,756	7.75	1,377.1	1.52	33.92	98.10
Apr-2009	6.83	10,713	3.56	48.70	35.27	17,784	7.75	1,348.0	1.48	33.23	97.60
May-2009	6.83	10,340	3.51	47.55	34.33	17,784	7.75	1,272.9	1.45	32.65	96.50
Jun-2009	6.83	10,225	3.52	48.31	33.98	17,801	7.75	1,284.7	1.45	32.82	95.95
Jul-2009	6.83	9,920	3.52	48.12	33.99	17,815	7.75	1,240.5	1.44	32.82	95.33
Aug-2009	6.83	10,060	3.53	48.91	33.97	17,823	7.75	1,244.9	1.44	32.92	92.70
Sep-2009	6.83	9,681	3.47	47.59	33.51	17,841	7.75	1,188.7	1.41	32.20	89.77
Oct-2009	6.83	9,545	3.41	47.73	33.39	17,862	7.75	1,200.6	1.40	32.54	91.38
Nov-2009	6.83	9,480	3.39	46.75	33.16	18,485	7.75	1,167.4	1.38	32.19	86.75
Dec-2009	6.83	9,400	3.42	46.36	33.32	18,472	7.76	1,167.6	1.40	32.03	92.06
Jan-2010	6.83	9,365	3.41	46.74	33.10	18,472	7.76	1,156.5	1.40	31.99	89.85
Feb-2010	6.83	9,335	3.41	46.26	33.03	18,925	7.76	1,158.4	1.41	32.09	89.25
Mar-2010	6.83	9,115	3.27	45.22	32.32	19,080	7.77	1,130.8	1.40	31.82	93.25
Apr-2010	6.83	9,012	3.19	44.64	32.25	18,960	7.77	1,115.5	1.37	31.42	94.06
May-2010	6.83	9,180	3.25	46.21	32.49	18,980	7.79	1,200.2	1.40	32.23	91.30
Jun-2010	6.79	9,083	3.26	46.31	32.40	19,065	7.79	1,210.3	1.40	32.28	88.60
Jul-2010	6.78	8,952	3.19	45.81	32.22	19,095	7.77	1,187.2	1.36	32.05	86.50
Aug-2010	6.81	9,041	3.14	45.18	31.25	19,485	7.78	1,189.1	1.36	32.10	84.25
Sep-2010	6.70	8,924	3.09	43.90	30.37	19,485	7.76	1,142.0	1.32	31.33	83.40
Oct-2010	6.69	8,928	3.11	43.18	29.97	19,495	7.75	1,126.6	1.30	30.78	80.58
Nov-2010	6.68	9,013	3.16	44.26	30.22	19,498	7.77	1,157.3	1.32	30.85	84.15
Dec-2010	6.62	8,991	3.08	43.89	30.15	19,498	7.78	1,138.9	1.29	30.37	81.45
Jan-2011	6.59	9,057	3.06	44.09	31.14	19,498	7.80	1,114.3	1.29	29.30	82.05

	China	Indonesia	Malaysia	Philippines	Thailand	Vietnam	Hong Kong SAR, China	Korea, Rep.	Singapore	Taiwan, China	Japan
Feb-2011	6.58	8,823	3.05	43.84	30.62	20,875	7.79	1,127.9	1.27	29.75	81.70
Mar-2011	6.56	8,709	3.03	43.43	30.30	20,908	7.78	1,107.2	1.26	29.42	83.13
Apr-2011	6.50	8,574	2.97	43.02	29.94	20,625	7.77	1,072.3	1.23	28.76	82.06
May-2011	6.48	8,537	3.01	43.29	30.31	20,535	7.78	1,080.6	1.23	28.77	80.85
Jun-2011	6.47	8,597	3.02	43.49	30.75	20,565	7.78	1,078.1	1.23	28.80	80.72
Jul-2011	6.44	8,508	2.96	42.23	29.75	20,555	7.79	1,052.6	1.20	28.89	77.55
Aug-2011	6.39	8,578	2.98	42.51	30.03	20,822	7.80	1,071.7	1.20	29.02	76.59
Sep-2011	6.35	8,823	3.19	43.64	31.17	20,822	7.79	1,179.5	1.30	30.51	76.63
Oct-2011	6.32	8,835	3.07	43.03	30.67	20,999	7.77	1,104.5	1.25	29.93	79.20
Nov-2011	6.35	9,170	3.17	43.81	31.22	20,999	7.79	1,150.3	1.30	30.35	78.05
Dec-2011	6.30	9,068	3.18	43.93	31.69	21,024	7.77	1,153.3	1.30	32.29	77.72
Jan-2012	6.31	9,000	3.05	42.95	31.04	20,981	7.76	1,125.0	1.25	29.62	76.36
Feb-2012	6.29	9,085	3.00	42.86	30.25	20,830	7.76	1,126.5	1.25	29.42	80.65
Mar-2012	6.29	9,180	3.07	43.00	30.84	20,810	7.77	1,137.8	1.26	29.53	82.15
Apr-2012	6.28	9,190	3.03	42.44	30.73	20,860	7.76	1,134.2	1.24	29.23	81.15
May-2012	6.34	9,565	3.18	43.45	31.90	20,855	7.76	1,177.8	1.29	29.86	78.80
Jun-2012	6.32	9,480	3.19	42.28	31.83	20,873	7.76	1,153.8	1.27	29.90	79.30
Jul-2012	6.33	9,485	3.14	41.91	31.58	20,850	7.75	1,136.2	1.25	30.01	78.15
Aug-2012	6.34	9,560	3.13	42.32	31.37	20,840	7.76	1,134.6	1.25	29.97	78.45
Sep-2012	6.34	9,588	3.07	41.88	30.83	20,863	7.75	1,118.6	1.23	29.34	77.57
Oct-2012	6.30	9,615	3.06	41.26	30.70	20,833	7.75	1,094.1	1.22	29.26	79.58

Sources: Haver Analytics, Datastream.

Appendix Table 7. East Asia: Foreign Reserves Minus Gold

in billions of U.S. dollars

	China	Indonesia	Malaysia	Philippines	Thailand	Hong Kong SAR, China	Korea, Rep.	Singapore	Taiwan, China	Total
Jan-2007	1,106.8	43.3	83.2	20.7	65.0	133.7	240.2	134.6	266.0	2,093.4
Feb-2007	1,159.4	45.7	86.6	21.6	66.4	136.2	242.7	137.1	268.0	2,163.6
Mar-2007	1,204.0	47.2	88.3	21.7	69.1	135.3	243.8	137.7	267.5	2,214.7
Apr-2007	1,248.6	49.3	91.3	22.0	69.3	136.8	247.2	140.0	266.5	2,271.0
May-2007	1,294.6	50.1	98.1	22.6	69.3	136.2	250.7	140.9	265.7	2,328.2
Jun-2007	1,334.6	50.9	98.1	23.5	71.3	136.3	250.6	144.1	266.1	2,375.3
Jul-2007	1,387.2	51.9	98.2	25.0	72.2	137.0	254.8	147.0	266.3	2,439.5
Aug-2007	1,410.6	51.4	96.5	27.4	72.6	138.3	255.2	147.6	261.4	2,461.0
Sep-2007	1,435.6	52.9	97.9	27.9	78.7	140.8	257.2	152.5	262.9	2,506.4
Oct-2007	1,456.9	54.2	99.3	29.1	80.3	142.2	260.1	158.2	265.9	2,546.2
Nov-2007	1,498.9	54.9	100.8	29.4	82.5	150.3	261.9	160.7	270.1	2,609.5
Dec-2007	1,530.3	56.9	101.1	30.2	85.2	152.6	262.1	163.0	270.3	2,651.7
Jan-2008	1,591.9	56.0	109.0	31.0	90.3	159.8	261.8	167.6	272.8	2,740.2
Feb-2008	1,649.2	57.1	116.0	32.2	97.9	160.2	262.3	171.7	277.8	2,824.5
Mar-2008	1,684.3	59.0	120.0	32.8	107.5	160.7	264.2	177.5	286.9	2,892.7
Apr-2008	1,758.7	58.8	123.8	32.8	107.4	159.8	260.4	175.8	289.4	2,966.9
May-2008	1,799.2	57.5	124.9	32.4	106.6	158.9	258.1	175.8	290.1	3,003.5
Jun-2008	1,811.1	59.5	125.5	32.7	103.2	157.5	258.0	176.7	291.4	3,015.5
Jul-2008	1,847.4	60.6	124.8	33.0	102.3	157.6	247.4	175.0	290.9	3,038.9
Aug-2008	1,886.3	58.4	122.3	33.2	99.0	158.0	243.1	170.1	282.1	3,052.5
Sep-2008	1,907.7	57.1	109.5	32.8	100.0	160.5	239.6	168.8	281.1	3,057.2
Oct-2008	1,881.7	50.6	99.9	32.4	101.2	154.8	212.2	162.2	278.2	2,973.2
Nov-2008	1,887.9	50.2	97.4	33.0	104.1	165.9	200.4	165.7	280.7	2,985.3
Dec-2008	1,949.3	51.6	91.2	33.2	108.7	182.5	201.1	174.2	291.7	3,083.4
Jan-2009	1,916.6	50.9	91.0	34.7	108.2	181.7	201.7	167.1	292.7	3,044.4
Feb-2009	1,915.1	50.6	90.7	34.2	110.7	177.0	201.5	163.5	294.2	3,037.6
Mar-2009	1,956.8	54.8	87.4	34.5	113.7	186.2	206.3	166.3	300.1	3,106.2
Apr-2009	2,012.0	56.6	87.8	34.9	114.4	193.4	212.4	170.1	304.7	3,186.2
May-2009	2,093.1	57.9	87.9	34.7	118.9	205.1	226.7	171.8	312.6	3,308.6
Jun-2009	2,135.2	57.6	91.3	34.8	118.3	206.9	231.7	173.2	317.6	3,366.5
Jul-2009	2,178.2	57.4	90.8	35.3	120.9	218.0	237.4	174.1	321.1	3,433.3
Aug-2009	2,223.9	57.9	93.3	36.7	124.8	223.2	245.4	176.3	325.4	3,506.8
Sep-2009	2,288.5	62.3	94.8	37.5	129.1	226.8	254.2	182.0	332.2	3,607.4
Oct-2009	2,344.3	64.5	94.9	37.9	132.5	240.0	264.1	184.3	341.2	3,703.7
Nov-2009	2,405.3	65.8	95.0	38.5	136.7	256.2	270.8	188.9	347.2	3,804.4
Dec-2009	2,416.0	66.1	96.4	38.8	135.5	255.8	269.9	187.8	348.2	3,814.5
Jan-2010	2,432.0	69.6	95.7	40.2	139.5	257.0	273.6	189.6	350.7	3,847.8
Feb-2010	2,441.2	69.7	95.6	40.2	138.8	258.2	270.6	187.6	352.7	3,854.6
Mar-2010	2,463.5	71.8	94.0	39.6	141.1	258.8	272.3	196.9	355.0	3,893.0
Apr-2010	2,506.9	78.6	94.7	40.6	144.4	259.2	278.8	203.2	357.6	3,963.9
May-2010	2,456.2	74.6	96.2	41.0	140.2	256.1	270.1	198.1	360.1	3,892.7
Jun-2010	2,471.2	76.3	93.3	41.8	143.4	256.7	274.1	199.7	362.4	3,919.1
Jul-2010	2,556.4	78.8	93.6	42.4	147.7	260.6	285.9	206.7	370.1	4,042.2
Aug-2010	2,565.3	81.3	93.8	42.8	151.2	261.3	285.3	206.2	372.1	4,059.2
Sep-2010	2,666.9	86.6	107.5	46.4	159.0	266.0	289.7	214.5	380.5	4,216.9
Oct-2010	2,779.8	91.8	114.1	50.3	166.7	267.0	293.3	221.2	383.8	4,368.0
Nov-2010	2,786.2	92.8	104.3	53.7	163.5	266.0	290.2	217.4	379.3	4,353.1
Dec-2010	2,866.1	96.2	104.9	55.4	167.5	268.6	291.5	225.5	382.0	4,457.7
Jan-2011	2,952.4	95.3	106.5	57.0	169.7	273.1	295.9	226.9	387.1	4,563.8

	China	Indonesia	Malaysia	Philippines	Thailand	Hong Kong SAR, China	Korea, Rep.	Singapore	Taiwan, China	Total
Feb-2011	3,012.2	99.6	108.1	56.9	174.9	272.6	297.6	230.7	390.7	4,643.3
Mar-2011	3,067.2	105.7	112.2	58.9	176.5	272.5	298.5	234.0	392.6	4,718.2
Apr-2011	3,168.5	113.8	128.3	60.9	184.4	276.8	307.1	242.3	399.5	4,881.7
May-2011	3,188.3	118.1	131.1	61.3	180.1	275.8	305.0	239.7	398.7	4,898.0
Jun-2011	3,219.8	119.7	132.6	61.4	178.8	277.1	304.4	242.1	400.3	4,936.1
Jul-2011	3,267.4	122.7	133.7	64.2	181.0	278.7	309.7	248.9	400.8	5,007.0
Aug-2011	3,284.4	124.6	134.5	68.4	180.3	279.4	310.9	249.0	400.3	5,031.8
Sep-2011	3,223.0	114.5	129.1	67.7	172.1	277.5	302.1	233.4	389.2	4,908.6
Oct-2011	3,295.5	114.0	132.9	67.9	173.5	281.6	309.7	245.2	393.3	5,013.6
Nov-2011	3,242.2	111.3	132.9	68.1	169.6	282.4	306.5	240.8	388.0	4,941.8
Dec-2011	3,202.8	110.1	131.8	67.3	167.4	285.3	304.2	237.5	385.5	4,892.0
Jan-2012	3,275.8	112.0	132.2	68.5	170.0	292.7	309.2	245.3	390.3	4,995.9
Feb-2012	3,331.3	112.2	132.9	68.1	172.0	294.6	313.6	246.8	394.4	5,066.0
Mar-2012	3,326.6	110.5	133.7	65.7	171.0	294.5	313.8	243.4	393.9	5,053.0
Apr-2012	3,320.6	116.4	134.0	66.2	170.7	295.5	314.7	245.9	395.1	5,059.0
May-2012	3,226.6	111.5	134.0	66.4	164.0	291.8	308.7	237.5	389.3	4,929.8
Jun-2012	3,260.7	106.5	132.4	66.1	166.8	294.9	310.2	243.2	391.2	4,971.9
Jul-2012	3,260.2	106.6	132.6	69.7	167.4	296.2	311.4	243.9	391.1	4,979.0
Aug-2012	3,292.7	109.0	133.1	70.2	170.9	298.1	313.9	246.0	394.2	5,027.9
Sep-2012	3,305.3	110.2	135.4	71.0	174.9	301.1	319.0	251.9	398.0	5,066.7
Oct-2012	..	110.3	136.2	71.2	172.9	301.6	320.5	254.0	399.2	..

Sources: Haver Analytics, Thomson Datastream, and IMF International Financial Statistics.

Appendix Table 8a. East Asia: Balance of Payments

in percent of GDP

	Overall Balance					Current Account					Capital Account 1/				
	2007	2008	2009	2010	2011	2007	2008	2009	2010	2011	2007	2008	2009	2010	2011
East Asia (11)	8.7	6.7	8.3	7.0	4.4	8.4	7.2	5.5	4.5	3.5	0.3	-0.5	2.7	2.5	0.9
China	13.1	10.6	8.0	7.9	5.3	10.1	9.3	4.9	3.9	2.7	3.1	1.3	3.1	4.0	2.6
S.E. Asia	5.6	1.4	3.0	4.6	3.0	5.0	2.7	5.2	3.0	2.5	0.5	-1.3	-2.2	1.7	0.5
Indonesia	2.9	-0.4	2.3	4.3	1.4	2.4	0.0	2.0	0.7	0.2	0.5	-0.4	0.3	3.5	1.2
Malaysia	6.8	-2.4	1.9	-0.3	10.7	15.4	17.1	15.5	11.1	11.0	-8.6	-19.5	-13.6	-11.4	-0.3
Philippines	5.7	0.1	3.8	7.2	4.5	4.9	2.1	5.6	4.5	3.1	0.8	-2.0	-1.8	2.7	1.4
Thailand	6.4	8.9	9.1	9.8	0.4	6.3	0.8	8.3	3.1	1.7	0.1	8.2	0.8	6.7	-1.3
Vietnam	14.4	0.5	-9.1	-1.7	0.9	-9.8	-12.0	-6.6	-4.1	0.2	24.1	12.5	-2.5	2.4	0.7
NIEs	2.1	0.7	13.1	6.1	2.3	7.1	5.1	7.8	7.3	6.7	-5.0	-4.5	5.4	-1.2	-4.4
Hong Kong SAR, China	3.9	13.1	36.9	3.3	4.5	13.0	15.0	9.5	6.6	6.5	-9.1	-1.9	27.4	-3.2	-2.0
Korea, Rep.	1.4	-6.0	8.1	2.7	1.2	2.1	0.3	3.9	2.9	2.3	-0.6	-6.3	4.3	-0.2	-1.1
Singapore	10.9	6.9	6.1	18.5	6.6	25.8	13.9	16.2	24.4	21.9	-14.8	-7.0	-10.1	-5.9	-15.3
Taiwan, China	-1.0	6.6	14.3	9.3	1.3	8.9	6.9	11.3	9.3	8.9	-10.0	-0.3	3.0	0.1	-7.6
Median	5.7	6.6	8.0	7.2	4.5	8.9	6.9	8.3	4.5	3.1	-0.6	-1.7	0.8	1.5	-1.1

Sources: IMF, Haver Analytics, national sources.
1/ Capital Account + Financial Account + Errors and Omissions

Appendix Table 8b. East Asia: Financial Account Components

in percent of GDP

	Net FDI					Net Portfolio Investment					Net Other Capital 2/				
	2007	2008	2009	2010	2011	2007	2008	2009	2010	2011	2007	2008	2009	2010	2011
East Asia (11)	2.1	1.6	1.0	2.0	1.8	-1.3	-0.5	-0.1	0.1	-0.1	-0.5	-1.6	1.9	0.5	-0.8
China	4.0	2.5	1.7	3.1	2.3	0.5	0.8	0.5	0.4	0.3	-1.4	-2.0	0.9	0.5	0.0
S.E. Asia	1.2	0.8	0.4	1.2	0.8	1.4	-2.3	0.3	2.8	1.3	-2.1	0.2	-3.0	-2.4	-1.6
Indonesia	0.5	0.7	0.5	1.6	1.4	1.3	0.3	1.9	1.9	0.5	-1.3	-1.4	-2.0	0.1	-0.6
Malaysia	-1.4	-3.4	-3.1	-1.7	-1.1	2.8	-11.0	0.1	6.0	2.9	-10.0	-5.1	-10.5	-15.7	-2.1
Philippines	-0.4	0.7	1.0	0.3	0.6	3.1	-2.1	-0.4	2.2	2.5	-1.9	-0.7	-2.4	0.2	-1.6
Thailand	3.1	1.6	0.3	1.4	-0.1	-2.5	-0.8	-2.1	3.1	1.0	-0.5	7.3	2.7	2.2	-2.2
Vietnam	9.2	10.3	7.4	6.9	5.3	8.8	-0.6	-0.1	2.3	1.2	6.2	2.9	-9.8	-6.7	-5.7
NIEs	-0.9	-0.4	-0.9	-1.0	0.8	-6.3	-2.2	-2.5	-3.3	-2.4	2.2	-1.8	8.8	3.1	-2.8
Hong Kong SAR, China	-2.7	4.5	-1.7	-6.9	3.7	-0.7	-16.5	-18.7	-24.9	0.2	-5.7	10.1	47.8	28.5	-6.0
Korea, Rep.	-1.7	-1.8	-1.8	-2.2	-1.5	-2.5	-0.3	5.9	4.2	1.2	3.6	-4.3	0.1	-2.2	-0.8
Singapore	5.6	2.6	3.6	12.0	14.9	-26.7	6.1	-21.6	-11.8	-11.0	6.2	-15.7	7.9	-6.1	-19.2
Taiwan, China	-0.8	-1.2	-0.8	-2.1	-3.2	-10.2	-3.1	-2.7	-4.8	-7.7	1.1	4.0	6.5	7.0	3.2
Median	-0.4	0.7	0.3	0.3	0.6	-0.7	-0.8	-0.4	1.9	0.5	-1.1	-1.0	0.8	1.1	-0.8

Sources: IMF, Haver Analytics, national sources.
3/ Net Other Investment + Net Financial Derivatives

Appendix Table 9. East Asia: Nonperforming Loans

in percent of total loans

	2007				2008				2009				2010				2011				2012		
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep
China 1/	6.6	6.5	6.2	6.2	5.8	5.6	5.5	2.4	2.0	1.8	1.7	1.6	1.4	1.3	1.2	1.1	1.1	1.0	..	..	..	..	..
Indonesia 2/	6.0	5.8	6.2	4.1	4.6	4.3	3.9	3.2	3.7	4.0	3.9	3.3	3.4	3.0	3.0	2.6	2.9	2.8	2.8	2.3	2.3	2.2	2.0
Malaysia 3/	4.4	4.1	3.5	3.2	3.0	2.6	2.4	2.2	2.2	2.2	2.1	1.8	1.9	2.1	2.1	2.3	2.2	2.0	2.0	1.8	1.8	1.5	1.5
Philippines 4/	..	..	..	4.9	5.0	4.5	4.6	4.1	4.3	4.3	4.0	3.7	3.9	3.9	3.9	3.6	3.7	3.1	3.1	2.9	3.0	..	..
Thailand 5/	7.5	7.9	8.0	7.3	6.8	6.5	6.1	5.3	5.5	5.4	5.3	4.9	4.6	4.5	4.2	3.6	3.2	3.0	2.8	2.7	2.7	2.5	2.4
Korea, Rep. 6/	0.9	0.8	0.8	0.7	0.8	0.7	0.8	1.1	1.5	1.5	1.5	1.2	1.5	1.9	2.3	1.9	2.0	1.7	1.7	1.4	1.51	1.49	..

Source: National data sources.
1/ Covers only the major commercial banks for 2002–04, and all commercial banks for 2005–10.
2/ Excludes IBRA's AMC. Data for 1997 to 2002 excludes state banks; the data source is the Monetary Division of Bank Indonesia. Data from 2003 covers all commercial banks including state banks; the data source is the Banking Supervision Division of Bank Indonesia.
3/ Excludes Danaharta. This series, used by Bank Negara Malaysia, is net of provisions and excludes interest in suspense. Beginning financial year 2010, banking institutions are required to report impaired loans in accordance with the Guideline on the Classification and Impairment Provisions for Loans/Financing. The reporting of non-performing laons has since been discontinued.
4/ Includes interbank loans.
5/ Excludes transfers to AMCs. The jump in headline NPLs in December 2002 was a one-off increase, reflecting a change in definition and did not affect provisioning.
6/ Excludes KAMCO/KDIC.

Appendix Table 10. East Asia: Financial Market Indicators

Stock Market Index, end-of-period, Dec. 31, 2007 = 100

	Jun-07	Dec-07	Jun-08	Dec-08	Jun-09	Dec-09	Jun-10	Dec-10	Jun-11	Dec-11	Jun-12	Oct-12
China	72.6	100.0	52.0	34.6	56.3	62.3	45.5	53.3	52.4	41.7	42.2	39.2
Indonesia	77.9	100.0	85.6	49.4	73.8	92.3	106.1	134.9	141.6	139.2	144.1	158.4
Malaysia	93.7	100.0	82.1	60.7	74.4	88.1	90.9	105.1	109.3	105.9	110.7	115.8
Philippines	101.1	100.0	67.9	51.7	67.3	84.3	93.1	116.0	118.5	120.7	129.3	149.8
Thailand	90.5	100.0	89.6	52.4	69.6	85.6	92.9	120.4	121.4	119.5	136.6	151.4
Vietnam	110.5	100.0	43.1	34.0	48.4	53.4	54.7	52.3	46.7	37.9	45.6	41.9
Hong Kong SAR, China	78.3	100.0	79.5	51.7	66.1	78.6	72.4	82.8	80.5	66.3	69.9	77.8
Korea, Rep.	91.9	100.0	88.3	59.3	73.3	88.7	89.5	108.1	110.7	96.2	97.7	100.8
Singapore	100.3	100.0	85.1	50.8	67.3	83.6	81.8	92.0	90.0	76.4	83.1	87.7
Taiwan, China	104.4	100.0	88.4	54.0	75.6	96.3	86.2	105.5	101.7	83.1	85.8	84.2

Source: Thomson Datastream.

Yields, 10-year local-currency government bonds, end-of-period, in percent

	Jun-07	Dec-07	Jun-08	Dec-08	Jun-09	Dec-09	Jun-10	Dec-10	Jun-11	Dec-11	Jun-12	Oct-12
China	4.4	4.5	4.5	2.8	3.2	3.6	3.3	3.9	3.9	3.4	3.3	3.6
Indonesia	9.0	10.0	13.4	11.9	11.1	10.1	8.4	7.6	7.5	6.0	6.2	5.7
Malaysia	5.0	4.1	4.9	3.2	4.4	4.3	4.0	4.0	3.9	3.7	3.5	3.5
Philippines	7.4	6.6	9.4	7.4	8.1	8.1	7.9	6.1	6.6	5.4	5.9	5.1
Thailand	4.5	5.0	5.9	2.7	3.7	4.2	3.1	3.7	3.9	3.3	3.5	3.3
Vietnam	7.8	9.1	16.0	10.2	9.7	11.5	11.5	11.8	12.5	12.5	10.0	10.4
Hong Kong SAR, China	4.8	3.4	3.5	1.9	2.6	2.6	2.3	2.9	2.3	1.5	1.0	1.0
Korea, Rep.	5.5	5.7	6.0	4.2	5.2	5.4	5.0	4.5	4.3	3.8	3.6	3.0
Singapore	2.9	2.7	3.6	2.1	2.6	2.7	2.4	2.7	2.3	1.6	1.6	1.3
Taiwan, China	2.5	2.6	2.7	1.4	1.6	1.5	1.4	1.6	1.6	1.3	1.2	1.1

Source: Bloomberg.

Foreign-Currency Government Bond Spreads (EMBIG), end-of-period, in basis points over U.S. Treasuries

	Jun-07	Dec-07	Jun-08	Dec-08	Jun-09	Dec-09	Jun-10	Dec-10	Jun-11	Dec-11	Jun-12	Oct-12
China	54	120	137	228	122	104	86	126	155	278	222	161
Indonesia	165	275	381	762	433	230	274	183	178	274	273	187
Malaysia	75	119	153	119	167	136	171	117	131	178	174	111
Philippines	155	172	303	546	324	206	266	163	160	242	206	129
Vietnam	122	203	368	747	379	314	338	323	329	510	425	306

Source: JP Morgan, Bloomberg.

Credit Default Swap (CDS) Spreads on Foreign-Currency Government Bonds, 5-year, end-of-period, in basis points

	Jun-07	Dec-07	Jun-08	Dec-08	Jun-09	Dec-09	Jun-10	Dec-10	Jun-11	Dec-11	Jun-12	Oct-12
China	13	29	75	188	75	73	91	68	85	144	121	68
Indonesia	110	154	286	638	317	188	186	133	141	202	192	129
Malaysia	16	44	116	225	105	90	102	74	93	144	125	75
Philippines	111	153	266	384	217	168	174	130	138	185	161	104
Thailand	39	55	135	256	110	96	134	99	136	179	153	93
Hong Kong SAR, China	5	18	42	104	68	48	57	46	54	91	75	47
Korea, Rep.	17	47	107	319	182	85	131	98	103	156	123	67
Singapore	..	..	..	45	45	35	45	45	90	83	..	..

Source: Thomson Datastream (data through December 2011), Bloomberg (data for 2012).

Appendix Table 11. Global hazard losses 2000–2011

in US $

	Drought	Earthquake (seismic activity)	Extreme temperature	Flood	Mass movement wet	Storm	Volcano	Total
Sub-Saharan Africa	ND	257m	ND	2.4b	ND	678m	9m	**3.3b**
Middle East and North Africa	4.2b	6.3b	0.8m	2.3b	ND	0.2m	ND	**12.8b**
Europe and Central Asia	3.7b	2.9b	2.8b	13.9b	43m	1.9b	ND	**25.4b**
South Asia	1.8b	12.1b	400m	36.8b	68m	4.9b	ND	**56.3b**
Latin America and Caribbean	2.5b	42.4b	510m	17.1b	586m	30.7b	160m	**93.9b**
East Asia and Pacific	11.8b	100.8b	21.4b	115.3b	1b	47.9b	4.7m	**298.5b**
Total	**24b**	**165b**	**25b**	**188b**	**1.7b**	**86b**	**174m**	**490b**

Source: EM-DAT.
Note: ND stands for no data available.

WORLD BANK **EAST ASIA AND PACIFIC ECONOMIC UPDATE** 2012, VOLUME 2

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