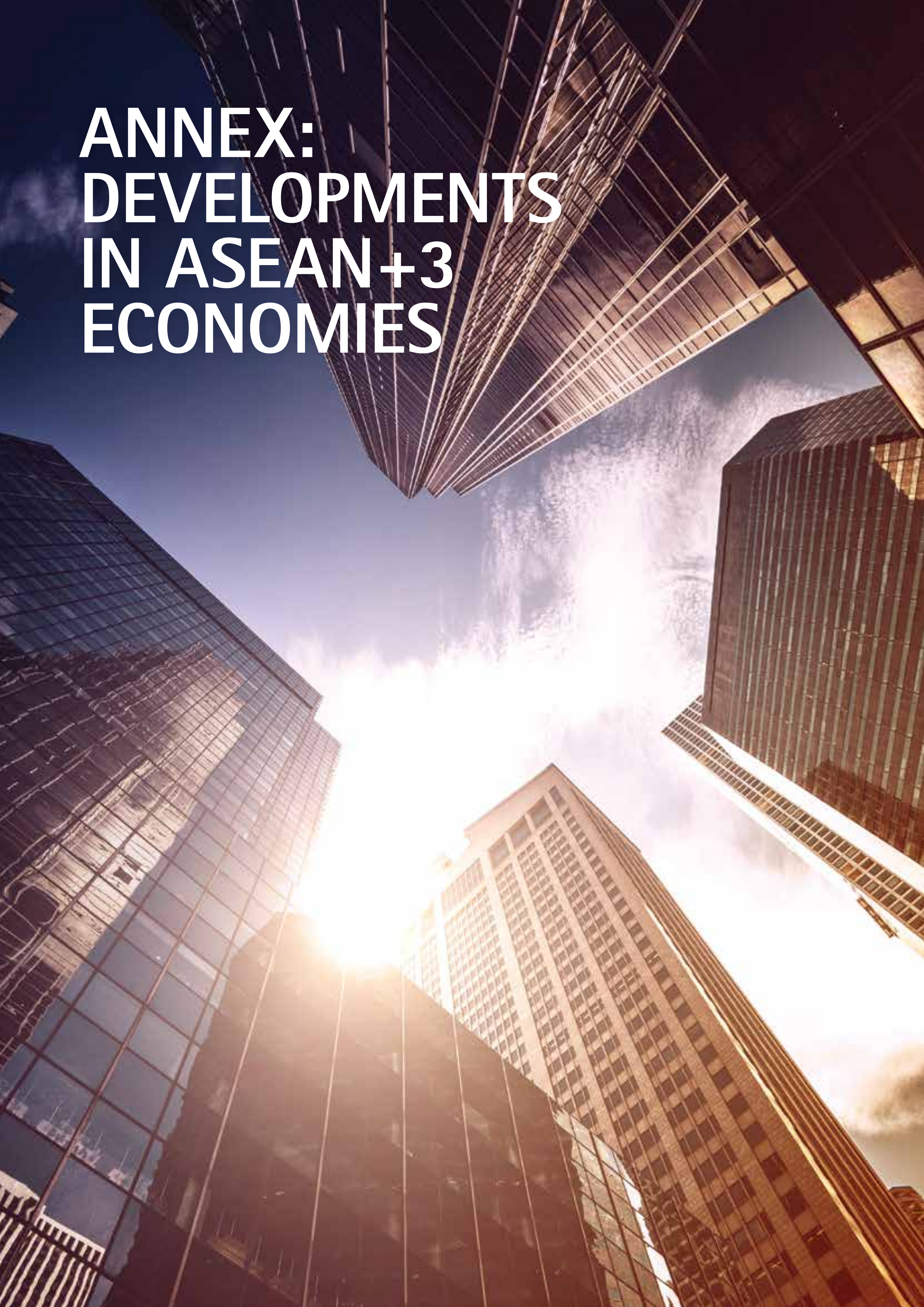
ANNEX: DEVELOPMENTS IN ASEAN+3 ECONOMIES



Brunei Darussalam

After four years of contraction, the economy showed signs of improvement, driven by a recovery in the oil and gas sector, and an expansion in investment. Between 2013 and 2016, the economy contracted as oil prices plummeted to their lowest level in a decade and oil production suffered from unexpected disruptions. Since Q2 of 2017, growth has improved on the back of higher oil and gas production and expanding private investment. A moderate recovery in oil and gas prices and further progress of major infrastructure and FDI construction projects are expected to contribute to positive GDP growth of 0.6 and 1.6 percent in 2017 and 2018, respectively.

Inflation was still negative but improved in 2017. Inflation trended up to -0.2 percent in 2017, improving from -0.7 percent in 2016. This was mainly driven by a higher cost of air transportation and an increase in excise tax and import duty on some foods and beverages. For 2018, inflation is expected to turn positive in line with strengthening domestic demand.

On the external side, the trade balance remained in surplus but it is expected to continue to shrink due to a sharp import recovery on the back of the progress in major infrastructure and FDI construction projects. Exports during January to November 2017 grew by 11.5 percent, compared to -22.4 percent last year in line with a modest recovery in oil prices. However, during the same period, imports grew by 14.4 percent, rising from -18 percent last year due to the implementation of the two large scale construction projects (Temburong Bridge Project and Hengyi Oil Refinery and Petrochemical Plant Project). Given that the services and secondary income accounts remained in deficit, the current account surplus is projected to continue to decline. Nevertheless, it is expected to improve from 2019 onwards as the downstream industries begin their commercial production and exports.

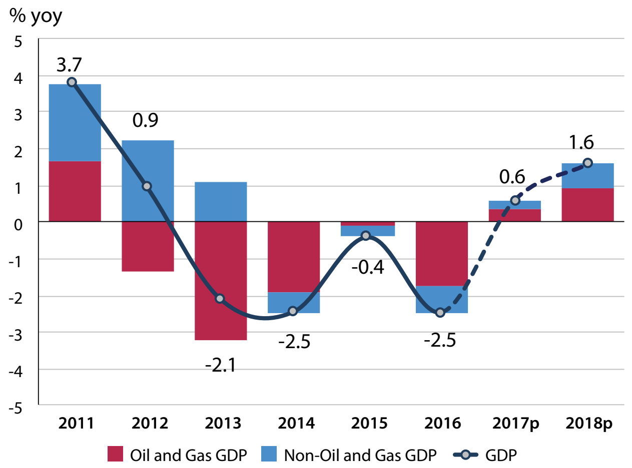
Banks continued to be sound but some challenges remained. The banking sector continued to be well-buffered. The capital adequacy ratio and the liquidity ratio stood well above the minimum requirements. However, bank intermediation remained limited as reflected by the low and declining loans-to-deposit ratio (LDR) against the backdrop of decelerating loans growth to the private sector. To address this issue, the AMBD has implemented some initiatives to spur credit growth through the increase of personal financing cap from 40 to 60 percent and increasing the total debt service ratio (TDSR) from 60 to maximum 70 percent since 2016. As for asset quality, the gross non-performing loans and financing (NPLF) ratio, which trended upwards since 2015 started to moderate and stood at 5.3 percent with net NPLF at 2.4 percent in Q3 2017.

Fiscal pressures remained high, although the budget deficit is expected to improve. Over the past three years, the budget deficit widened sharply to 16.6 percent of GDP in FY2016/17. With a modest recovery in oil prices and continued restraint in current spending, the FY2017/2018 budget deficit is projected to narrow but it will still be sizable at around 10.6 percent of GDP. In addition, the spending restraint was more significant for capital spending.

Looking ahead, high reliance on oil and gas-related factors will continue to pose risks to the economy and the fiscal sector. There are two main risks related to the oil and gas sector: unexpected disruption in production due to ageing oil fields and unfavorable global oil and gas prices in the medium term. Brunei's economic growth as well as the fiscal sector are highly dependent on oil and gas production and global energy prices. As the government sector has a very significant role in the economy with government consumption and investment accounting for more than 30 percent of GDP. A further decline in oil and gas-related revenue may significantly limit the government's capacity to support growth.

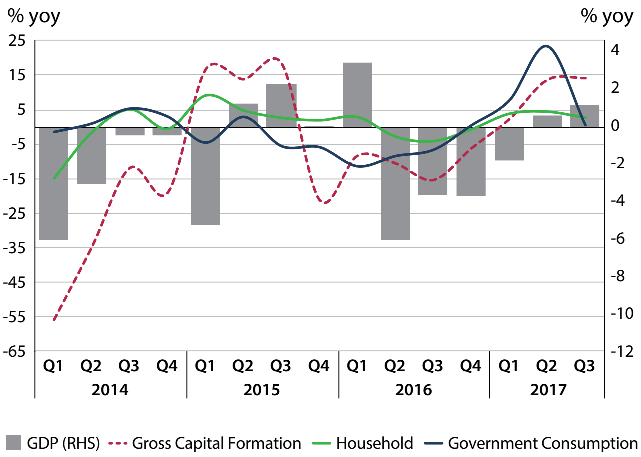
Brunei Darussalam: Selected Charts

After four years of contraction, the economy showed signs of improvement in 2017 and is expected accelerate in 2018.



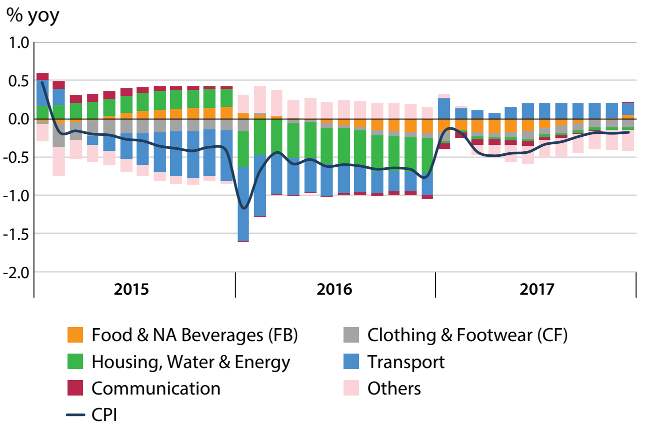
Source: CEIC, AMRO staff calculations

The improvement in growth since Q2 2017 was supported by higher oil and gas production and private investment.



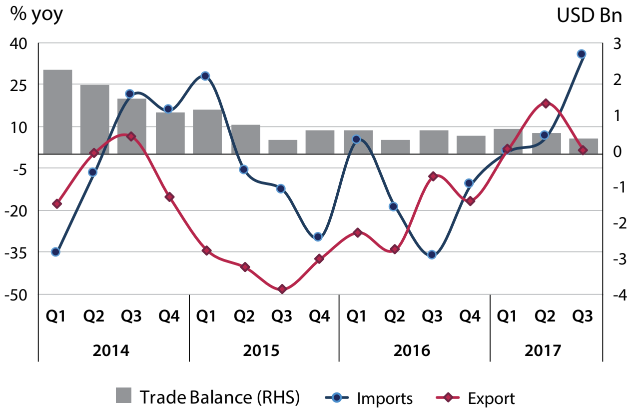
Source: CEIC, AMRO staff calculations

Inflation was still negative but improved toward the end of 2017, driven by the increase in transportation and food prices.



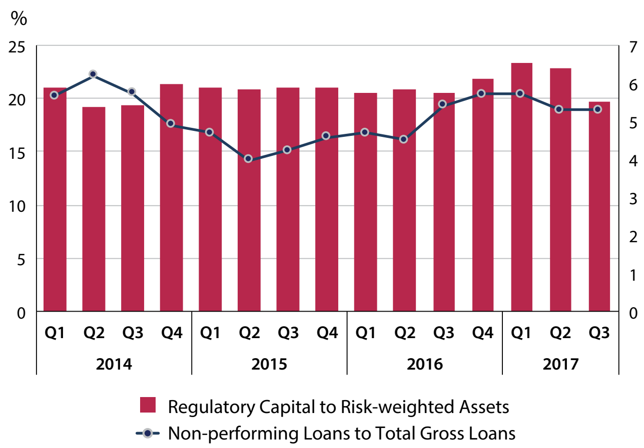
Source: CEIC, AMRO staff calculations

The trade surplus continued to shrink as imports recovered faster than exports.



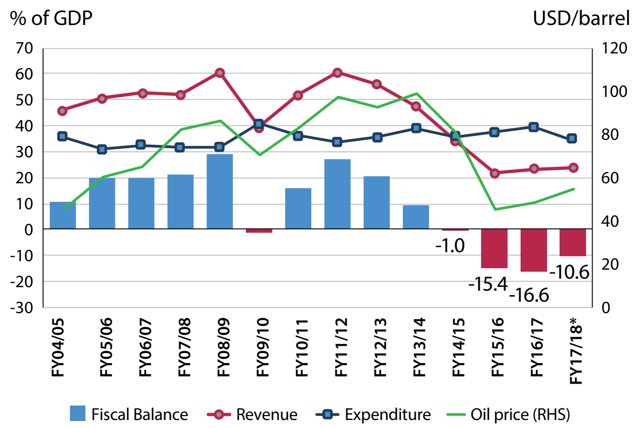
Source: CEIC, AMRO staff calculations

Banks remained well-buffered with a high capital adequacy ratio, while the NPLs tended to moderate.



Source: CEIC, AMRO staff calculations

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



Notes: * Based on government budget. Fiscal year: April to March
Source: Ministry of Finance Brunei Darussalam, AMRO staff calculations

Brunei Darussalam: Selected Economic Indicators

	2014	2015	2016	2017 1)
Real Sector and Prices				
Real GDP	-2.5	-0.4	-2.5	0.6
Consumer price inflation (average)	-0.2	-0.4	-0.7	-0.2
External Factor	(in millions of USD)			
Trade balance	7,433	2,893	2,380	2,303
Current account balance	5,244	2,141	1,338	1,226
In percent of GDP	30.7	16.6	11.7	10.1
Gross international reserves	3,648	3,367	3,489	3,339
In months of imports of goods & services	7.5	8.3	9.8	7.4
	(in annual percentage change)			
Export value	-7.3	-40.2	-17.6	12.4
Oil and gas	-11.1	-39.9	-26.5	13.9
Crude oil	-13.3	-46.6	-19.6	21.2
LNG	-9.2	-34.4	-31.2	8.1
Others	98.4	-44.3	102.2	4.2
Export volume	-3.8	-3.0	13.2	-1.6
Import value	-0.5	-10.0	-17.4	26.3
Import volume	0.1	-4.7	-16.0	24.4
Terms of trade	-3.0	-34.7	-25.9	11.6
Fiscal Sector 1)	(in percent of GDP)			
Revenue and grants	34.4	21.7	22.6	23.4
Oil and gas revenue	29.9	16.2	16.3	16.7
Non-oil and gas revenue	4.5	5.6	6.5	6.7
Expenditure	35.4	37.1	39.4	34.0
Current spending	26.6	29.2	31.3	28.0
Capital spending	8.8	8.0	8.1	6.0
Budget balance	-1.0	-15.4	-16.6	-10.6
Monetary and Financial Sector	(in annual percentage change)			
Domestic credit	32.9	28.5	-21.3	-2.7
of which: private sector	1.1	4.9	-8.4	-3.3
Broad money	3.2	-1.8	1.5	-1.8
Memorandum Items				
Exchange rate (BND per USD, period average)	1.27	1.37	1.38	1.38
Exchange rate (BND per USD, end of period)	1.33	1.42	1.45	1.34
GDP (in millions of USD)	17,098	12,930	11,400	12,115
GDP (in millions of BND)	21,664	17,778	15,748	16,729

Notes:
1) AMRO staff projection except for Inflation
2) Fiscal Year April/March
Source: National Authorities, CEIC and AMRO staff projection

Cambodia

The Cambodian economy is expected to maintain a stable growth rate. Cambodia's GDP growth is estimated to grow by 6.9 percent in 2017. Tourism-related services has been growing fast amidst strong tourism arrivals. Although slightly slower than the previous year, the construction and real estate sector continued to grow solidly. The garment sector maintained a robust growth while other new industries such as luggage and electronic parts continued their expansion. We project the economic growth to remain stable at 6.8 percent in 2018 with support from higher public investment, strong tourism activities, as well as emerging non-garment industries.

Headline inflation remained stable amid recently rising energy prices. Headline inflation stood at 3 percent in 2017, despite upward pressures from rising energy prices while food prices has generally moderated since Q2 2017 following the recovery in food production. Inflation rate is expected to inch up slightly in 2018 and 2019 with modest increases in oil prices. The exchange rate remained relatively stable over the past two years. The month-on-month changes in the KHR/USD exchange rate remained modest, fluctuating within a small +/- 1 percent band throughout 2016 and 2017.

The overall external position remained strong with improving current account deficit and sustained FDI inflows. Trade deficit is expected to show a slight improvement in 2017, while surplus in the services account seems to strengthen with robust increase in tourism activities. As a result, current account deficit is expected to continue to narrow to 6.9 percent of GDP in 2017, down from 8.9 percent in 2016. The capital and financial account is likely to remain relatively strong supported by an uptick in FDI inflows, especially to the financial and construction and real estate sectors. Looking ahead, the capital and financial account surplus may decline with slower FDI inflows and lower net external borrowing among commercial banks.

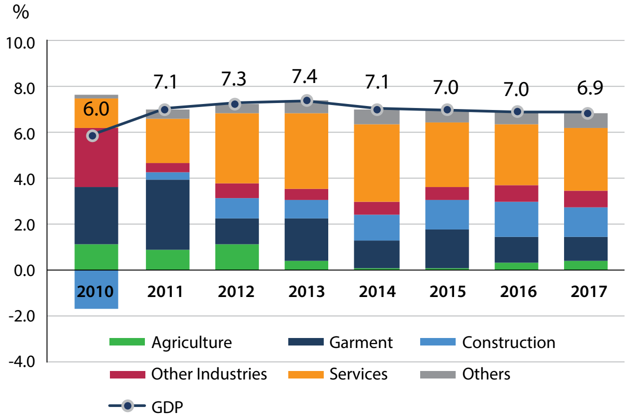
Credit growth has moderated in 2017. While the growth rate remained solid, credit growth has slowed down to 18.5 percent in 2017, lower than 22.5 percent in 2016. The interest rate cap policy introduced in 2017 has slowed down the MFIs credit growth for the small-size loan borrowers, increasing average loan size. The credit growth is likely to stabilize in the next few years with the continuing policy measures. Overall, banking indicators remain sound, including the NPL ratio which has stabilized since the beginning of the second half of 2017.

The overall fiscal position has improved with continued robust revenue collection. Tax revenue grew strongly by 17.4 percent in 2017, or 6 percent above its target. With current expenditure increase by 10.7 percent, the overall fiscal deficit (excluding grants) stood at 0.7 percent of GDP, much lower than its initial budgeted figure. While tax revenue is expected to increase further, fiscal deficit is budgeted to widen in 2018 as the government plans to increase capital spending substantially to support growth.

In order to sustain high growth in the medium to long term, Cambodia needs to maintain its external competitiveness and resilience. Improving infrastructure and human resources should be critical to enhance competitiveness, productivity and economic diversification. In this regard, reprioritizing budget allocation to address these issues more effectively is essential.

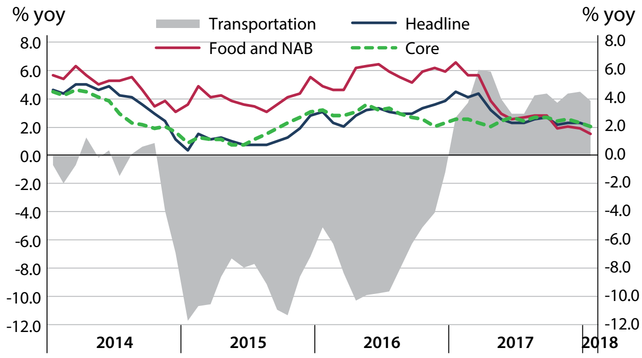
Cambodia: Selected Charts

The growth contribution of the garment sector has moderated, partially offset by faster growth in other emerging industries.



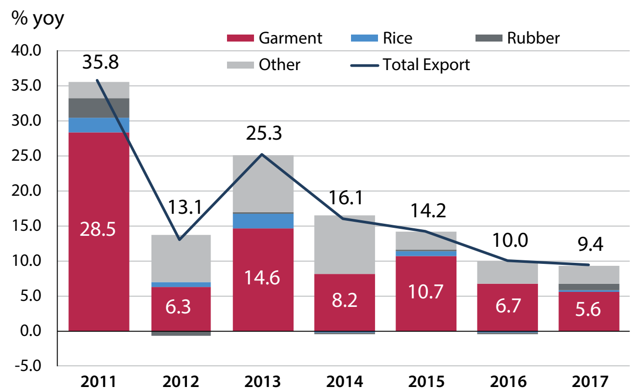
Note: Garments and Construction are sub-categories in the Industry category.
Source: NIS

Despite upward pressures on energy prices, headline inflation stabilized in 2017, weighed down by better agricultural production.



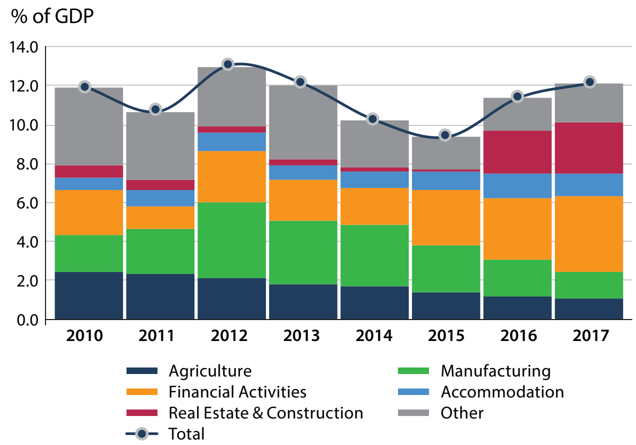
Source: NBC

Export growth continued to decelerate with the slowdown of garment exports.



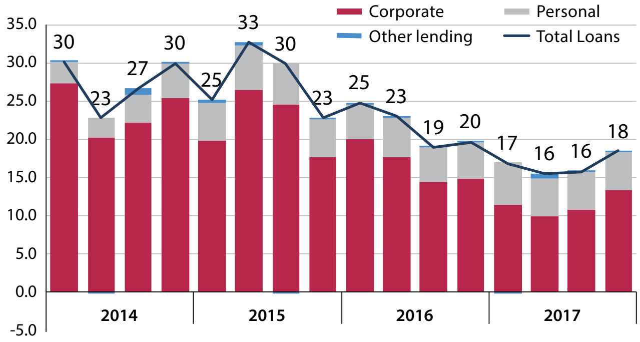
Source: NBC

FDI inflows remain strong, especially in the financial sector and real estate-related activities while manufacturing has been on a declining trend.



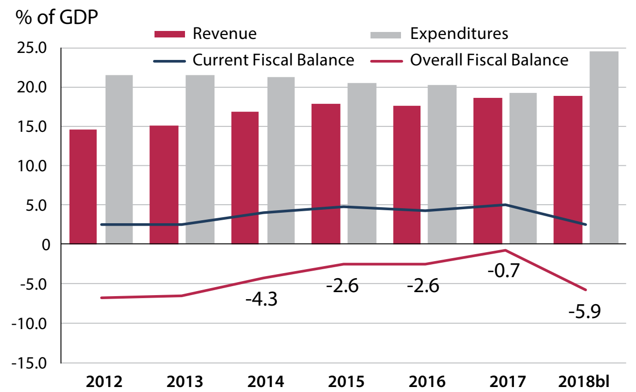
Source: NBC

Domestic credit growth from commercial banks to the private sector softened with a slight pickup in Q4 2017, particularly credit to corporate sector.



Source: NBC, AMRO staff projections

The fiscal position continued to strengthen in 2017, but is likely to see a larger deficit in 2018 due to an increase in wages and capital spending.



Source: MEF

Cambodia: Selected Economic Indicators

	2014	2015	2016	2017 Est.
Real Sector and Prices	(in annual percentage change, unless specified)			
Real GDP	7.1	7.0	7.0	6.9
Consumption (in percent of GDP)	83.0	82.2	82.1	82.0
Investment (in percent of GDP)	22.1	22.5	23.3	19.2
GDP deflator	2.6	1.7	3.2	3.0
Consumer price inflation (average)	3.9	1.2	3.0	2.9
Consumer price inflation (end of period)	1.1	2.8	4.2	2.0
External Sector	(in millions of USD, unless specified)			
Trade balance	-3,206	-3,467	-3,416	-2,541
Current account balance	-1,640	-1,693	-1,782	-1,635
In percent of GDP	-9.8	-9.4	-8.9	-7.4
Overall balance	754	775	846	967
Gross international reserves[1/]	4,391	5,093	6,731	8,758
In months of imports of goods & services	4.2	4.4	5.5	6.0
Fiscal Sector (General Government)	(in percent of GDP)			
Revenue and grants	20.1	18.5	18.4	19.2
Revenue	16.9	17.8	17.7	18.6
of which: tax revenue	14.4	15.4	15.0	16.0
Expenditure	21.2	20.4	20.3	19.3
Expense	12.8	13.0	13.4	13.5
Net acquisition of non-financial assets	8.4	7.4	6.9	5.8
Overall budget balance, excl. grants	-4.3	-2.6	-2.6	-0.7
Net lending/borrowing balance	-1.1	-1.9	-1.9	-0.1
Primary net lending/borrowing balance	-0.8	-1.6	-1.5	0.2
Monetary and Financial Sector	(annual percentage change, unless specified)			
Domestic credit	28.5	24.3	21.9	19.4
Private sector	31.3	27.1	22.5	18.5
Broad money	29.9	14.7	17.9	18.7
Reserve money	24.6	21.7	25.0	26.3
Memorandum Items				
Nominal GDP (in billions of Riels)	67,437	73,423	81,242	89,453
Nominal GDP (in millions of USD)	16,701	18,078	20,035	22,114
GDP per capita (USD)	1,095	1,159	1,266	1,376
Exchange rate (Riels per USD, average)	4,038	4,060	4,055	4,045
Exchange rate (Riels per USD, end of period)	4,075	4,050	4,037	4,037

Notes:
1) Investment includes change of inventories.
2) Gross international reserves exclude unrestricted foreign currency deposits held as reserves at the NBC; reflected RMB inclusion in the SDR basket on Oct 1, 2017;

Source: National Authorities, AMRO staff calculations; 2017 figures are based on AMRO staff estimates and projections.

China

China's growth was robust in 2017. On the supply side, service activities expanded further, reflected by higher PMI indicators. Manufacturing activities also continued to expand, especially in the IT-related sectors, although they have moderated somewhat recently. On the demand side, growth was mainly driven by steady consumption and further infrastructure investment.

Growth in 2018 is expected to moderate slightly as compared to 2017. The authorities' policy priority has shifted from high-speed to high-quality growth. Although this will lead to growth moderation with declining contribution from investment, it is a welcome adjustment that will potentially lead to more sustainable growth. For growth in 2018, the authorities set the growth target at around 6.5 percent. We project that it will be at around 6.6 percent, with momentum being sustained by further expansion in private consumption and services (including the internet economy). Downside risks include moderating investment and smaller net exports, the impacts of financial deleveraging and macroprudential measures on the property markets.

Capital outflow pressure has eased further mainly due to macroeconomic improvement as well as counter-cyclical management on cross-border capital flows via macroprudential policies. The capital and financial account registered a surplus of USD148.5 billion in 2017 as compared to a deficit of USD416.4 billion in 2016. Meanwhile, overseas investors have recently increased their portfolio investment in China's bond and equity markets since November 2017. As a result, foreign reserves trended up to USD3.13 trillion as of end-February 2018 and the RMB strengthened against most currencies during late December 2017 to early February 2018.

CPI inflation rose in February while PPI inflation continued to moderate. CPI inflation rose to 2.9 percent in February as compared to 1.5 percent in January and 1.6 percent in all of 2017, reflecting rising food prices due to the Chinese New Year and low base effect. After peaking at 7.8 percent in February 2017, PPI inflation moderated to 3.7 percent as of end February 2018 and is expected to trend down further in 2018, partly due to the high base effect.

Short-term risks to growth and macroeconomic stability have diminished. A hard landing risk is assessed to be low against steady consumption, continuing urbanization, and the strengthened efforts to mitigate financial risks by strengthening financial deleverage and regulation and imposing macroprudential measures on the property markets. The imminent risks in the financial and the property markets have moderated and growth of debt in the corporate and government sectors has also slowed. Overcapacity reduction has proceeded according to schedule and targets.

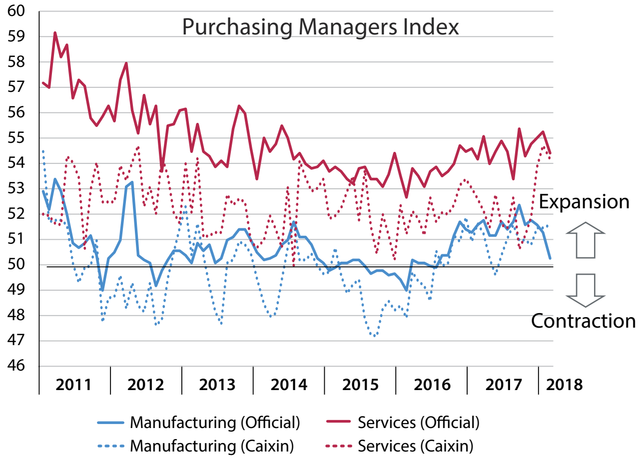
External risks have moderated but trade tension continues to warrant attention. Near-term risks from capital outflows have receded. That said, these risks could heighten if U.S. monetary policy normalization proceeds at a faster-than-expected pace, or growth in China were to falter. Geopolitical risk is a tail-risk, which is likely to remain. The U.S. registered a higher goods deficit with China in 2017 compared to 2016. Hence, the trade tension may still pose risks to Chinese exports. However, the impact on the overall economy is assessed to be limited.

In the medium-term, risks to growth could heighten should the push for structural reform slacken, leading to increased corporate vulnerabilities. Corporate leverage and associated vulnerabilities remain high in some sectors such as mining, steel, and real estate although profits have rebounded recently in the mining and steel industries due to higher prices. These problems are not likely to lead to a systemic crisis in the short term. However, if problems in these sectors are not addressed, debt distress could deteriorate in some industries, which could undermine confidence in the economy and the financial sector and become a drag on growth.

Due to continually increasing trade and financial integration, spillover effects from China to the regional economies can be sizable. China's economic transition toward consumption-driven growth has created increasing demand for consumer products and outbound tourism. It is expected that the Belt and Road Initiative will significantly increase ODI to ASEAN economies, which will contribute to much-needed infrastructure development. RMB funding has played an increasing role in regional trade and investment settlements. Besides, financial channels are likely to have an increasing impact on regional financial markets along with the further opening-up of China's financial markets and outward investment.

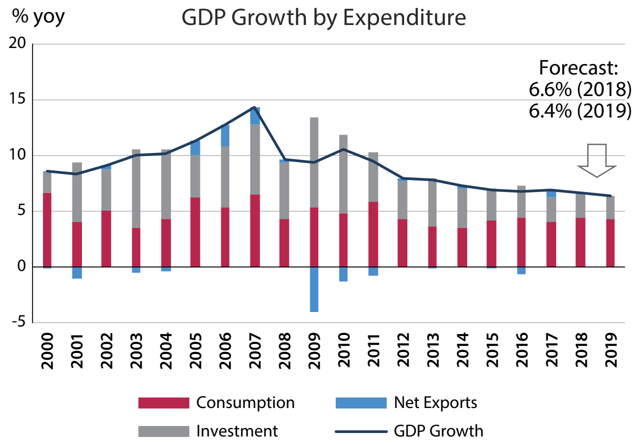
China: Selected Charts

Service activity expanded further, reflected by higher PMI data. Manufacturing activities also continued to expand but they have moderated somewhat recently.



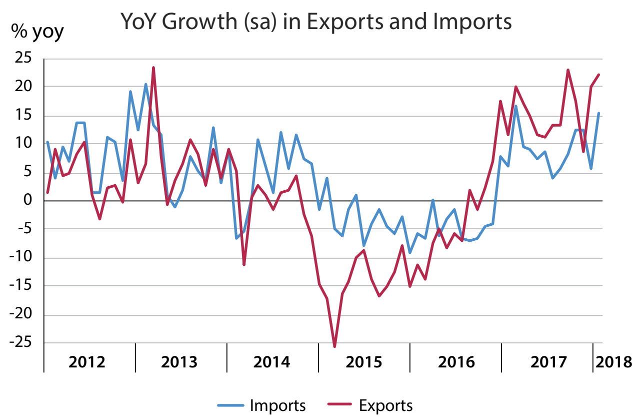
Sources: NBS, Markit

On the demand side, growth was mainly driven by steady consumption while investment expansion slowed.



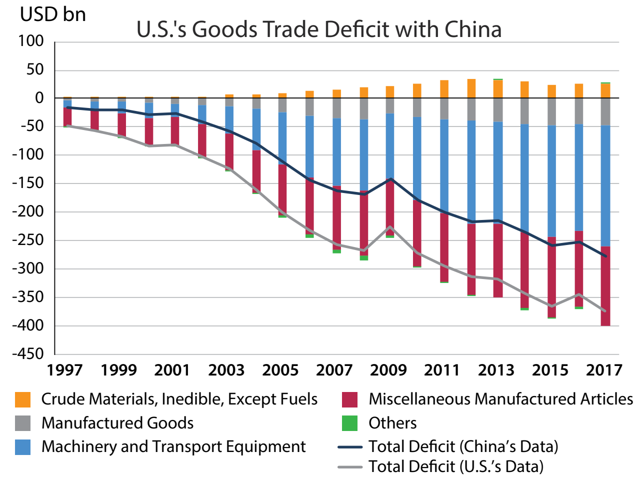
Sources: NBS, AMRO Estimates

While exports have continued to expand in the backdrop of a global trade recovery, imports have risen in tandem with growing domestic consumption.



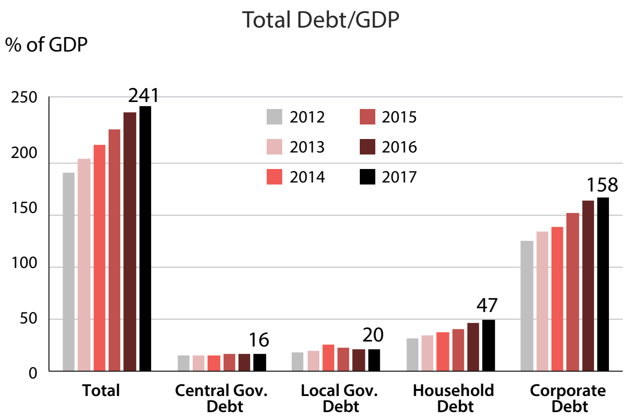
Source: General Administration of Customs

China's trade surplus with the U.S. widened further in 2017.



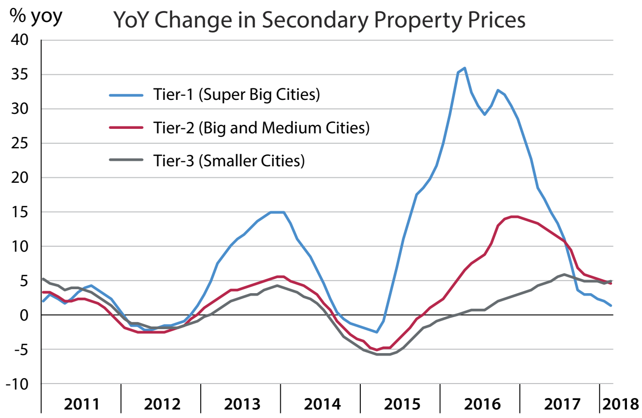
Sources: U.S. Census Bureau, China's General Administration of Customs

Growth in government debt decelerated compared to household and corporate debt.



Source: NBS, PBC, CMOF, AMRO

Growth of property prices in the first and second tier cities has further moderated due to the measures imposed by the authorities.



Source: Wind

China: Selected Economic Indicators

	2014	2015	2016	2017
Real Sector and Prices	(in annual percentage change, unless specified)			
Real GDP	7.3	6.9	6.7	6.9
Consumption	6.7	7.8	8.3	7.5
Gross capital formation	7.1	6.0	6.0	4.7
PMI (manufacturing, period end)	50.1	49.7	51.4	51.6
PMI (non-manufacturing, period end)	54.1	54.4	54.5	55.0
Consumer price inflation (period average, % yoy)	2.0	1.4	2.0	1.6
Core consumer price inflation (period average, % yoy)	1.6	1.5	1.6	2.2
Producer Price Index (period average, % yoy)	-1.9	-5.2	-1.4	6.3
Newly-hired urban workers (in millions)	13.2	13.1	13.1	13.5
Average registered unemployment rate: urban, %)	4.1	4.0	4.0	3.9
Average wages (RMB)	56,360	62,029	67,569	…
Growth in average wages	9.5	10.1	8.9	…
External Sector	(in billions of USD, unless specified)			
Exports (% yoy, USD)	6.0	-2.9	-7.7	7.9
Imports (% yoy, USD)	0.5	-14.3	-5.5	15.9
Trade balance	383.1	593.9	509.7	422.5
Trade balance (% of GDP)	3.7	5.4	4.6	3.4
Current account balance	236.0	304.2	202.2	164.9
Current account (% of GDP)	2.3	2.7	1.8	1.3
Financial and capital balance (excl. reserves)	-51.4	-434.1	416.4	148.4
Financial and capital balance (% of GDP)	-0.5	-3.9	-3.7	1.2
FDI	119.6	126.3	126.0	131.0
ODI	102.9	118.0	170.1	120.6
External debt (gross)	1,779.9	1,383.0	1,415.8	1,710.6
Foreign reserves	3,843.0	3,330.4	3,010.5	3,139.9
Exchange rate (RMB/USD, period average)	6.16	6.28	6.64	6.75
Fiscal Sector	(in percent of GDP, unless specified)			
Revenue (% yoy)	8.6	8.4	4.5	7.4
Expenditure (% yoy)	8.2	15.8	6.4	7.7
Revenue	21.8	22.1	21.5	20.9
Expenditure	23.6	25.5	25.2	24.6
Overall balance	-2.1	-2.4	-2.9	-2.9
Central Government debt	14.9	15.5	16.1	16.3

	2014	2015	2016	2017
Monetary and Financial Sector	(in annual percentage change, unless specified)			
M2 (% yoy)	12.2	13.3	11.3	8.1
Aggregate financing (% yoy)	14.3	12.5	12.8	12.0
Total loans (% yoy)	13.6	14.3	13.5	12.7
Lending rate (1y, period end, %)	5.6	4.4	4.4	4.4
10 year Treasury bond yield (%)	4.17	3.37	2.86	3.58
Banking CAR (%)	13.2	13.5	13.3	13.7
NPL ratio (%)	1.25	1.67	1.74	1.74
Memorandum Items				
Nominal GDP (in billions of RMB)	64,397	68,905	74,359	82,712
Nominal GDP (in billions of USD)	10,483	11,063	11,195	12,250

Note:
(i) RMB external debt has been included since 2015
Source: National Bureau of Statistics, Ministry of Finance, People's Bank of China, Ministry of Commerce, Ministry of Human Resources and Social Security, China Customs, China Banking Regulatory Commission, State Administration of Foreign Exchange, AMRO

Hong Kong, China

GDP growth in Hong Kong has continued to recover strongly backed by private consumption and external demand. The GDP growth rate in 2017 was 3.8 percent, up from 2.1 percent in 2016, with a positive output gap. Goods exports have registered a brisk expansion amid improved global trade volumes. Services exports have also increased due to rising trade and cargo flows as well as recovering tourism demand. Meanwhile, private consumption has continued to strengthen, backed by rising income amid a tight labor market and favorable consumer sentiment. Moving forward, the growth momentum is likely to remain solid, mainly supported by resilient domestic private consumption. However, the GDP growth rates in 2018 and in 2019 are projected to moderate to 3.4 percent and to 3.0 percent respectively, reflecting tighter global and domestic financial market conditions as well as a slight moderation in China's growth.

Inflationary pressures remain contained. Headline inflation was 1.5 percent in 2017 amid a disinflationary environment in major import partners. It is projected to increase slightly to 2.1 percent in 2018 and to 2.3 percent in 2019, due to steady wage growth, higher housing rents, and depreciation of the nominal effective HKD.

Domestic financial conditions remain accommodative. Short-term HKD interest rates have been lower than USD counterparts due to the ample liquidity in Hong Kong. Since late 2017, the widening spreads between USD Libor and Hibor have again led to exchange rate depreciation with the HKD moving closer toward the weak-side Convertibility Undertaking rate of 7.85 HKD/USD. Meanwhile, 1-year and longer HKD interest rates have gradually picked up, reflecting expectations for higher HKD interest rates in the coming years. The U.S. stock market sell-off in early February triggered the Hang Seng Index to drop by more than 10 percent from the all-time high record in late January 2018 and led to increased volatility. However, the latest data suggests that the market sentiment has improved somewhat.

The banking system remains sound and well-capitalized. Credit growth has recovered strongly with a declining classified loan ratio due to improved economic activities. The capital adequacy ratio remained high at 19.1 percent as of end-December 2017.

Fiscal conditions remain sound. According to the Budget Speech by the Financial Secretary in February 2018, the fiscal surplus is estimated at 5.2 percent of GDP in FY2017/18, while the fiscal reserve will reach a level equivalent to 28 months of expenditure as of end-March 2018. In the FY2018/19, the government plans to boost the public expenditure amounting to 21 percent of GDP, higher than 19 percent last year, while maintaining fiscal surplus and adequate reserves. Budget measures includes further efforts on increasing land housing supply, reducing salaries tax and profits tax, providing additional expenditures on Innovation and Technology development, and raising education spending.

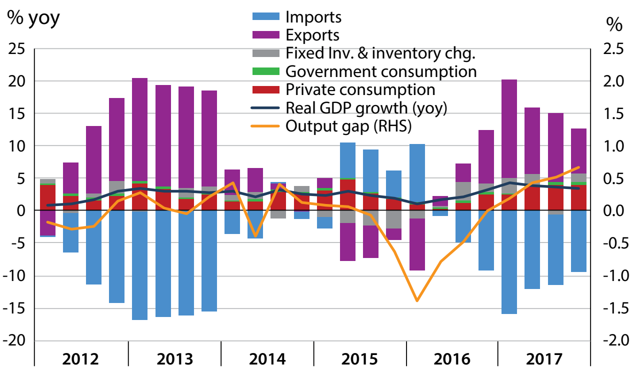
Near-term risks to growth come largely from the U.S. policies and their impacts on the global economy. Risks related to China that lingered in H1 2017, including a hard landing and large capital outflows, have receded. Risks to our baseline projection in the near term for Hong Kong are now significantly related to the U.S. policies. The tax reform, together with the infrastructure investment, can boost the U.S. economy and bolster global trade volumes, which will benefit Hong Kong as well. However, such expansionary fiscal policy under the full-employment situation may have limited impacts on growth. Concerns are rather on higher inflation and larger fiscal deficits, which have led to higher U.S. sovereign yields. This can trigger capital outflows from the region, leading to higher HKD interest rates. A rise in protectionist sentiment can adversely affect trade activities.

Major central banks' monetary policy normalization will result in higher domestic financing costs. Policy normalization by major central banks is likely to proceed in the period ahead, leading to tighter global financial condition. This can reduce the ample liquidity in Hong Kong and increase HKD interest rates. Meanwhile, the pace of interest hikes by the U.S. Federal Reserve, which directly affects interest rates in Hong Kong under the currency board system, has become uncertain due to the aforementioned U.S. fiscal policy.

Domestic risks stem mainly from the buoyant residential property market. Despite some signs of stabilization after the introduction of macroprudential measures in May 2017, property prices and transaction volumes have accelerated moderately since Q4 2017. There could be a risk of significant correction in housing prices should the HKD interest rates increase sharply. The elevated household debt and the dominance of floating interest rates of mortgages would amplify debt-servicing burdens of household. In the mid-to-long run, an increase in housing supply will help improve affordability, although the outlook is uncertain. Meanwhile, the sequence of macroprudential and demand-side management measures introduced since 2009 have supported to safeguard financial stability.

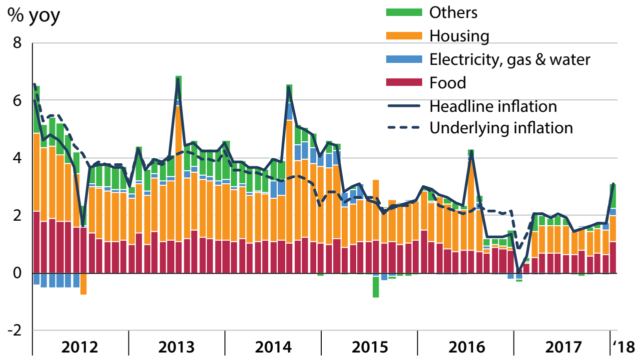
Hong Kong, China: Selected Charts

Real GDP growth has recovered strongly on the back of resilient private consumption and improved external demand.



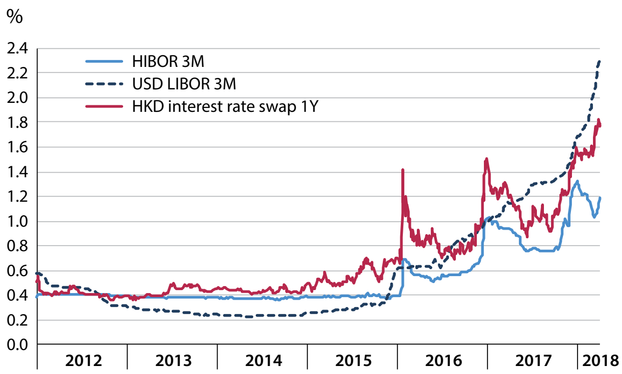
Source: CEIC, AMRO staff estimates

Inflationary pressure is contained, but the recent buoyancy in housing prices will likely put upward pressures on the CPI going forward.



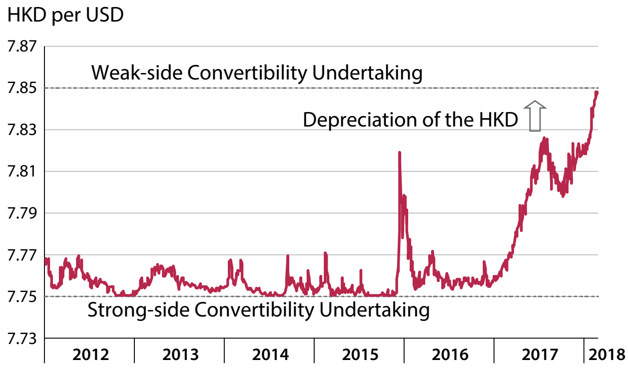
Note: Both headline and underlying inflation in February 2018 increased by 3.1 percent, jumped up from 1.7 percent in January, mainly because of the different timing of the Lunar New Year (mid-February in 2018 as opposed to late January in 2017).
Source: CEIC

Despite the recent increase in one-year and longer HKD swap rates, USD Libor premiums over Hibor in the short-ends have widened again since early this year.



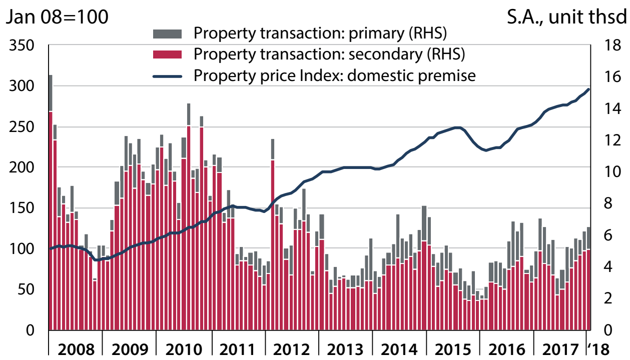
Source: Bloomberg

As a result, the HKD spot exchange rate has weakened towards the weak-side Convertibility Undertaking of the HKD/USD 7.85 in recent months.



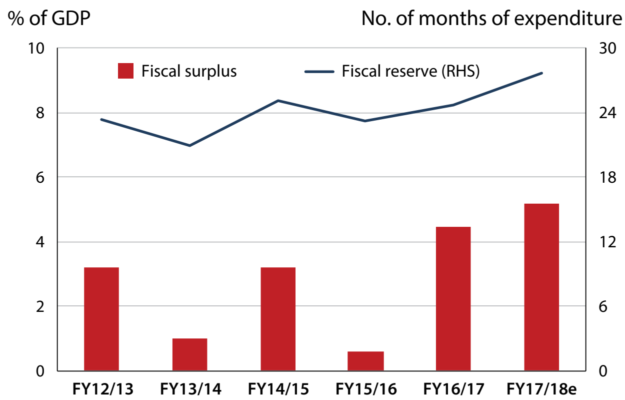
Source: CEIC, HKMA

The residential property market has regained an upward momentum in recent months, after some stabilization in Q3 2017 amid implementation of the latest round of macroprudential measures.



Source: CEIC, AMRO staff estimates

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



Source: CEIC, The 2018-19 Budget Speech

Hong Kong, China: Selected Economic Indicators

	2014	2015	2016	2017
Real Sector and Prices	(in annual percentage change, unless specified)			
Real GDP	2.8	2.4	2.1	3.8
Private consumption	3.3	4.8	1.9	5.4
Government consumption	3.1	3.4	3.3	3.4
Gross domestic fixed capital formation	-0.1	-3.2	-0.1	4.2
Building and construction	9.3	2.2	5.9	3.0
Machinery, equipment and intellectual property product	-8.7	-7.7	-6.3	1.9
Exports	1.0	-1.4	0.7	5.5
Goods	0.8	-1.7	1.6	5.9
Services	1.6	0.3	-3.4	3.5
Imports	1.0	-1.8	0.9	6.3
Goods	1.5	-2.7	0.7	6.9
Services	-2.2	5.0	2.1	1.8
GDP deflator	2.9	3.6	1.7	3.0
Headline inflation	4.4	3.0	2.4	1.5
Underlying inflation	3.5	2.5	2.3	1.7
Unemployment rate (%)	3.3	3.3	3.4	3.1
External Sector	(in percent of GDP)			
Overall BoP	6.2	11.8	0.4	9.4
Current account	1.4	3.3	4.0	4.2
Financial non-reserve assets	2.9	6.4	-3.7	3.6
Fiscal Sector (National Government)	(in percent of GDP, end-Mar of fiscal year)			
Revenue	21.2	18.8	23.0	23.0
Expenditure	17.5	18.2	18.6	17.8
Consolidated budget assets	3.6	0.6	4.5	5.2
Monetary and Financial Sector	(in annual percentage change, unless specified)			
M1	13.1	15.4	12.3	9.8
M2	9.5	5.5	7.7	10.0
M3	9.6	5.5	7.7	10.0
Total loans	12.7	3.5	6.5	16.1
Classified loan ratio (%)	0.5	0.7	0.7	0.5
Capital adequacy ratio (%)	16.8	18.3	19.2	19.1

	2014	2015	2016	2017
Memorandum Items				
Interest rates (%, end-period)				
Three-month Hibor	0.4	0.4	1.0	1.3
10Y Government bond yield	1.9	1.7	1.9	1.8
Asset prices				
Hang Seng Index (end of period, 1964=100)	23,605	21,914	22,001	29,919
(% yoy)	1.3	-7.2	0.4	36.0
Residential property prices (end of period, 1999=100)	278	285	307	353
(% yoy)	13.5	2.4	7.9	14.8
Spot exchange rate (HK$/US1$, period average)	7.754	7.752	7.762	7.794
Official reserve assets (USD bn, end-period)	328.5	358.8	386.3	431.4
Nominal GDP (in billions of HKD)	2,260.0	2,398.3	2,490.7	2,662.6
Nominal GDP (in billions of USD)	291.4	309.4	320.9	341.7

Source: Bloomberg, CEIC

Indonesia

Growth recovery continued on the back of domestic demand. Output growth increased further to 5.2 percent in Q4 from 5.1 percent in Q3. Household consumption growth climbed up to 5 percent from 4.9 percent in the previous quarter, thanks to controlled inflation, while government consumption expanded by 3.8 percent. In line with infrastructure development, investment growth remained robust at 7.3 percent, up from 7.1 percent in the previous quarter. Strong domestic demand growth resulted in double-digits import growth, at 11.8 percent, while exports rose by 8.5 percent on the back of firm commodity prices and improving global economic recovery.

Bank Indonesia (BI) has kept the policy rate unchanged against the backdrop of stable inflation and ongoing growth recovery. Headline inflation was 3.2 percent yoy in February, within the targeted range of 3.5±1 percent for 2018, while core inflation remained subdued at 2.6 percent. With well-tempered price pressure and economic recovery gathering steam, BI has left the policy rate unchanged at 4.25 percent since September last year.

The current account deficit widened in the second half of 2017, but remained below 2 percent of GDP in 2017. The current account deficit increased to 2.2 percent of GDP in Q4 from 1.7 percent in Q3. The widening of the deficit was largely due to rising imports, in line with investment growth. For the whole year of 2017, the current account deficit was contained at 1.7 percent of GDP. As the economy picks up, import demand will likely keep the deficit at around the current level.

Since the beginning of the year, the equity and government bond markets experienced some volatility due to capital outflows. The Jakarta Composite Index has declined by about 2.5 percent. Meanwhile, active participation by foreign investors in the government securities market kept the 10-year yield relatively low, at 6.9 percent as of end-March.

The 2017 fiscal outturn showed a better-than-expected budget deficit of 2.5 percent of GDP. While the revised 2017 budget forecast a deficit of 2.9 percent of GDP, the realization was more satisfactory than anticipated on the back of strong non-tax revenue collection and moderated expenditure. Going forward, the 2018 budget targets a deficit of 2.2 percent of GDP, on the basis of strong revenue mobilization and 5.4-percent GDP growth.

Amid economic rebound, credit growth picked up to 8.2 percent (year-on-year) in 2017, slightly higher than 7.9 percent in the previous year. Meanwhile, deposit growth performed better, registering 9.4 percent in 2017. The marginal increase in credit growth in 2017 was mainly due to ongoing corporate consolidation and selective bank lending. In light of the current economic conditions and progress in corporate and banking sector consolidation, credit growth is expected to rise moderately in 2018.

Key risk factors for growth are investment implementation and protectionism. As the authorities have shown unwavering commitment to infrastructure development, investment has emerged as a crucial driver of growth in the near term. However, the extent to which investment is realized is subject to a few challenges, such as the effectiveness of measures in the economic policy packages, land acquisition for infrastructure development, and the government's revenue pressure. Another major risk is the imposition of protectionist measures by some major trading partners, which can cause a relapse in global trade and a fall in demand for Indonesia's exports.

While the country's external position has improved, external risks remain in light of potential episodes of heightened global risk aversion. Foreign investors are still attracted to the positive narrative of Indonesia's growth prospect, which is underpinned by commendable reforms and potential for infrastructure development – in recognition of improved macroeconomic fundamentals, Fitch upgraded Indonesia's sovereign rating in December last year, following an upgrade from S&P in May 2017. Nevertheless, external factors such as Fed rate hikes or geopolitical events may lead to episodes of volatile capital flows, with adverse consequences on the exchange rate, equity prices, and sovereign bond yields. In addition, the trajectories of key commodity prices are instrumental in determining the current account's performance.

Financial stability risks are fairly limited at this juncture. The rise in NPLs seems to have reversed course, while the banking system has relatively ample capital cushions.

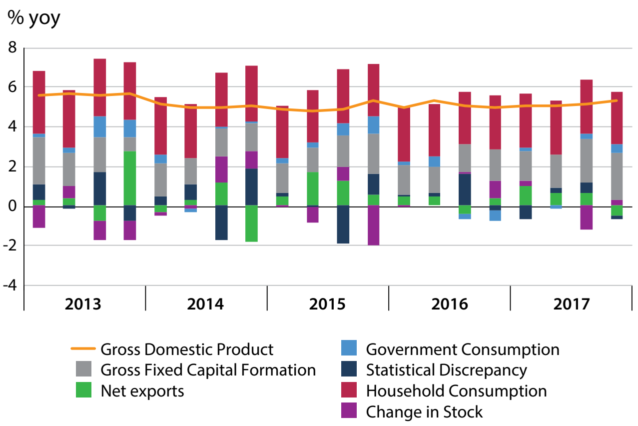
The current monetary policy stance is in line with maintaining external stability and aiding the growth momentum. Indonesia's strengthening economic fundamentals, which have diminished the risk of acute capital outflows, and the fact that growth recovery is still gaining traction amid well-anchored core inflation suggest that the current monetary policy stance remains appropriate.

Long-term revenue enhancement will steer the government towards a firmer fiscal footing. The authorities should continue to focus on long-term revenue enhancement measures, such as broadening the tax base, reducing exemptions, and improving tax compliance, in order to enhance fiscal soundness, as well as to raise the authorities' ability to respond to economic shocks

The authorities have made noteworthy strides in focusing their efforts on infrastructure investment and structural reforms. Nonetheless, a host of challenges remain, and the authorities are addressing them through regulatory changes, institutional adjustments, and fiscal incentives.

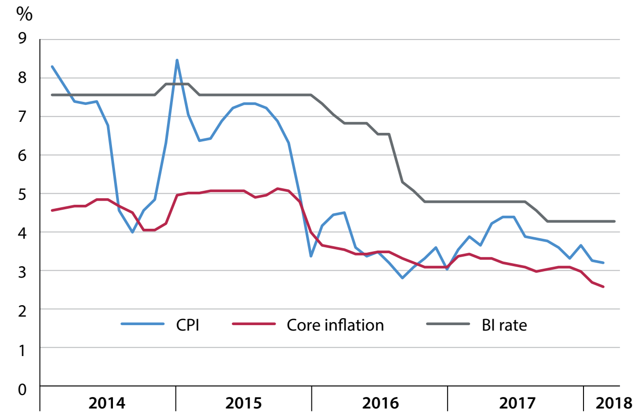
Indonesia: Selected Charts

GDP growth picked up last year.



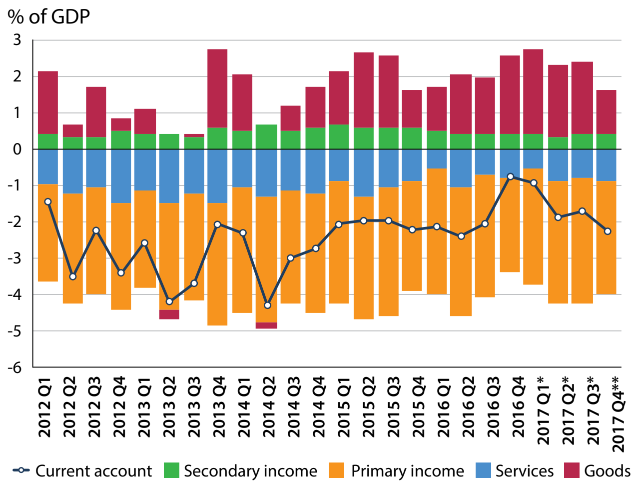
Source: Central Bureau of Statistics

With subdued inflation, BI lowered the policy rate to support economic growth.



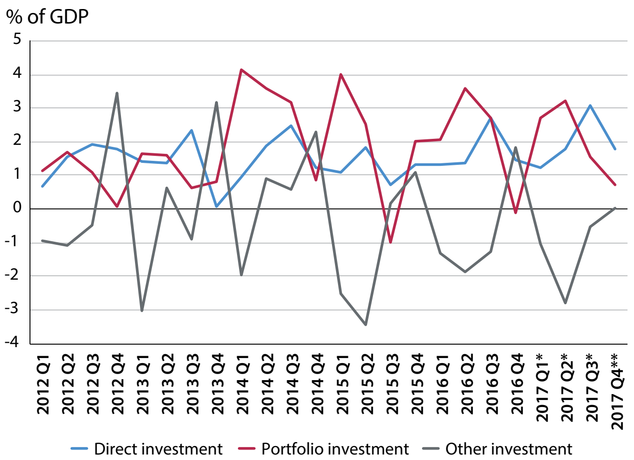
Sources: Bank Indonesia, Central Bureau of Statistics

The current account deficit widened in line with growth in import demand…



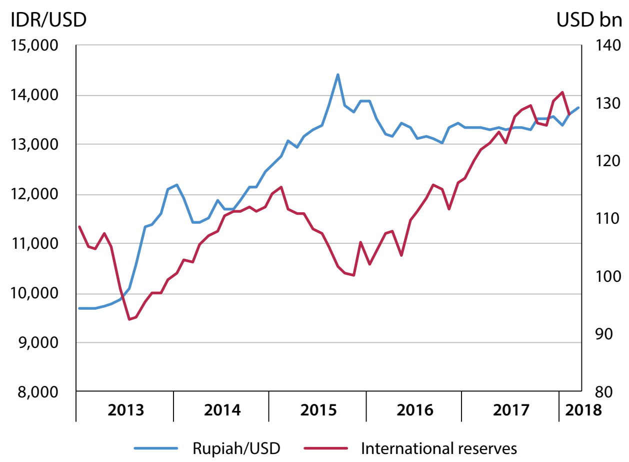
Note: */ Data for Q1-3 2017 are provisional; **/ Data for Q4 2017 are very provisional.
Sources: Bank Indonesia, AMRO staff calculations

…while net capital inflows continued to be positive…



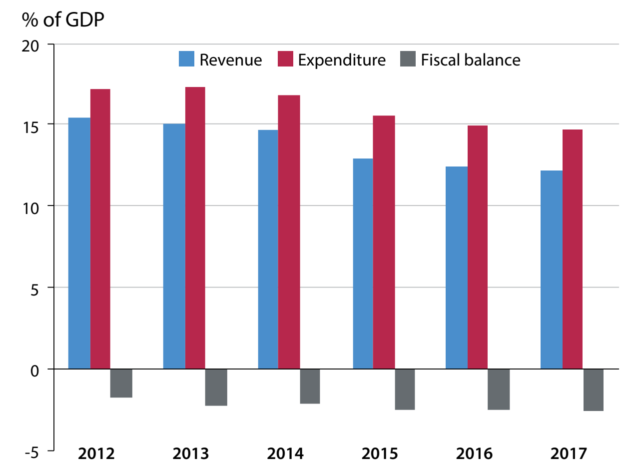
Note: */ Data for Q1-3 2017 are provisional; **/ Data for Q4 2017 are very provisional.
Sources: Bank Indonesia, AMRO staff calculations

…keeping the rupiah relatively stable.



Sources: Bank Indonesia, AMRO staff calculations

Fiscally, revenue collection remains a challenge.



Sources: MOF, AMRO staff calculations

Indonesia: Selected Economic Indicators

	2014	2015	2016	2017*
Real Sector and Price	(in annual percentage change)			
Real GDP	5.0	4.9	5.0	5.1
Household consumption	5.1	5.0	5.0	4.9
Government consumption	1.2	5.3	-0.1	2.1
Gross fixed capital formation	4.4	5.0	4.5	6.2
Change in stocks	31.4	-31.0	18.2	-13.5
Exports	1.1	-2.1	-1.6	9.1
Imports	2.1	-6.2	-2.4	8.1
External Sector	(in percent of GDP)			
Current account balance	-3.1	-2.0	-1.8	-1.7
Trade balance	0.8	1.6	1.6	1.9
Oil and gas	-1.3	-0.7	-0.5	-0.7
Non-oil and gas	2.1	2.3	2.2	2.6
Financial account balance	5.0	2.0	3.1	2.9
Foreign direct investment (net)	1.7	1.2	1.7	2.0
Portfolio investment (net)	2.9	1.9	2.0	2.0
Other investment (net)	0.5	-1.2	-0.6	-1.1
Overall balance	1.7	-0.1	1.3	1.1
Fiscal Sector (Central Government)	(in percent of GDP)			
Revenue and grant	14.7	13.1	12.5	12.3
Expenditure	16.8	15.7	15.0	14.9
Budget balance	-2.1	-2.6	-2.5	-2.5
Monetary and Financial Sector	(in annual percentage change)			
Broad money	11.9	9.0	10.0	10.0
Private sector credit	12.6	9.6	7.7	7.8
Memorandum Items				
Headline inflation (end of period)	8.4	3.4	3.0	3.6
BI Policy Rate**	7.8	7.5	4.75	4.25
Exchange rate (rupiah per USD), average	11,876	13,392	13,305	13,385
International reserves (USD bn)	111.9	105.9	116.4	130.2
External debt (percent of GDP)	32.9	36.1	34.3	34.7
Nominal GDP (in billions of USD)	890.8	860.9	932.7	1,015.5

Note: */ Provisional figures. **/ Starting August 19th 2016, Bank Indonesia reformulates its policy rate from the BI Rate into the 7-day (Reverse) Repo Rate (BI7DRR) to improve the effectiveness of the monetary policy transmission.
Sources: Central Bureau of Statistics, Bank Indonesia, Ministry of Finance, and AMRO Staff Calculations

Japan

Japan's economy has maintained a strong growth path, albeit with some moderation in Q4 2017 due to weaker public support and higher imports. Private consumption has gradually trended up with the steady increase in household income. Business investment remains on a moderate upward trend supported by record-high corporate profits and retained earnings. Exports have continued to pick up in tandem with global economic growth and imports increased with stronger domestic demand. Meanwhile, public investment, which were boosted by stimulus package for FY2016-17, contracted for two consecutive quarters in Q4 2017. The labor market has become very tight with the steady increase in employment although the overall wage growth remains low. The unemployment rate fell to 2.5 percent and the jobs-to-applicant ratio rose to a record high level of 1.58 in February 2018.

Consumer price inflation, however, has remained low, falling short of the 2 percent price stability target of the Bank of Japan (BOJ). Rising global commodity prices have gradually pushed CPI (less fresh food) inflation up to 1 percent in February 2018. However, when energy-related items are excluded, inflation has stayed below 0.6 percent since August 2016. Medium-term inflation expectations, which is widely viewed to be adaptive in behavior, have still hovered around 1 percent.

The external position remained strong with a sizable current account surplus of more than 3.5 percent of GDP in FY2017. Income inflows from large overseas investment assets have continued to be robust amid solid global economic growth. Goods exports (JPY terms) have picked up rapidly, which has led to trade surpluses for eight consecutive quarters. Capital outflows have continued, led by ODI. Japanese investors have continued to purchase foreign bonds and equities, although they repatriated their investment on U.S. bonds in 2017 amid concerns over the rise in U.S. interest rates.

The financial condition continues to be highly accommodative while financial institutions remain sound. Bank lending has picked up steadily at a slightly moderated pace of around 2.1 percent and the credit cycle is assessed to be expansionary. Financial markets have been broadly stable with low interest rates and yields although stock markets observed some volatility in February 2018. Banks remain sound in general with sufficient capital buffers and a low non-performing loan (NPL) ratio.

Macroeconomic policies continue to be supportive to growth. Fiscal stimulus package for FY2016-17 has implemented and the policy stance remained its emphasis on boosting growth. Monetary policy has continued to be accommodative under the 'QQE with yield curve control framework accompanied by inflation-overshooting commitment. The BOJ's open market operations and its communication with the market to implement the new framework have been broadly effective.

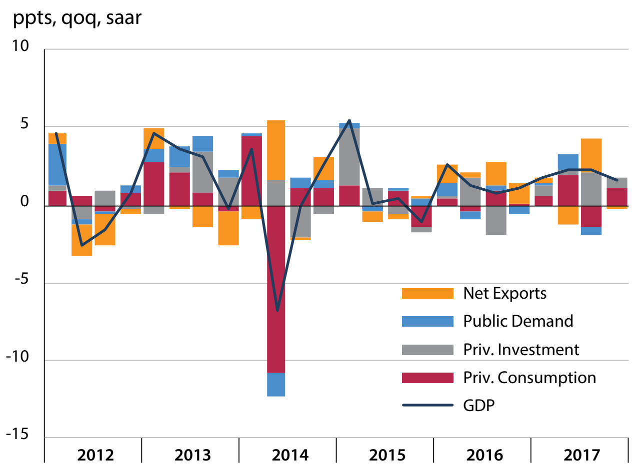
Looking forward, GDP growth is projected to be around 1.8 percent in FY2017, before moderating to 1.3 percent in FY2018. CPI (less fresh food) inflation is expected to be around 0.7-0.8 percent in FY2017-18 with modest increase in energy prices.

Japan's near-term economic prospects could be influenced by external shocks and/ or economic policies of other countries. These include trade protectionism and an economic slowdown among major trading partners as well as geopolitical shocks. Faster than expected monetary tightening or normalization by the Fed and the ECB could lead to higher volatility in financial markets and uncertainty in the growth outlook. Meanwhile, there exists an upside risk from U.S. tax reforms and fiscal stimulus.

Domestic challenges remain significant in fiscal, monetary, and financial sector as well as potential growth and inflation. The emphasis on growth in macroeconomic policies over a prolonged period of time could weaken the momentum for fiscal consolidation against the rapidly rising fiscal needs for old-age support. The BOJ's massive purchases of Japanese Government Bonds (JGBs) have affected the liquidity conditions in the JGB market in some aspects. Downward pressures on regional bank profitability due to tight interest margins and the consequent build-up of risky portfolios, combined with demographic factors, will put stress on their balance sheets. Efforts to lift potential growth and raise inflation are important to strengthen medium- to long-term expectations for economic growth and inflation of households and businesses.

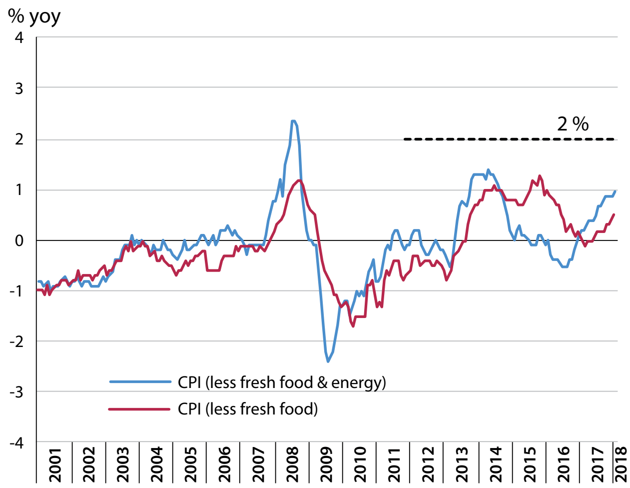
Japan: Selected Charts

Real GDP has continued to grow strongly as a trend, albeit with some moderation in Q4 2017.



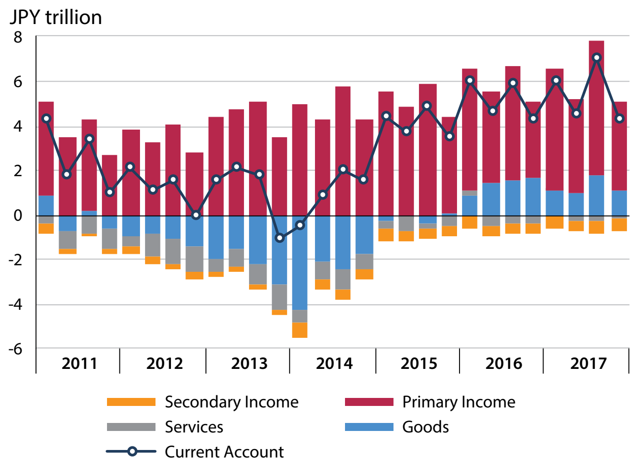
Source: Cabinet Office of Japan

Consumer price inflation remained low, falling short of the 2 percent price stability target of the BOJ.



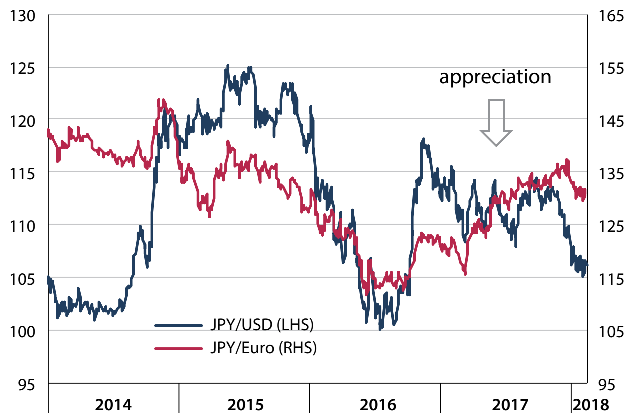
Source: Japan Ministry of Internal Affairs and Communications

External position remained strong with sizable current account surplus, supported by large income flows.



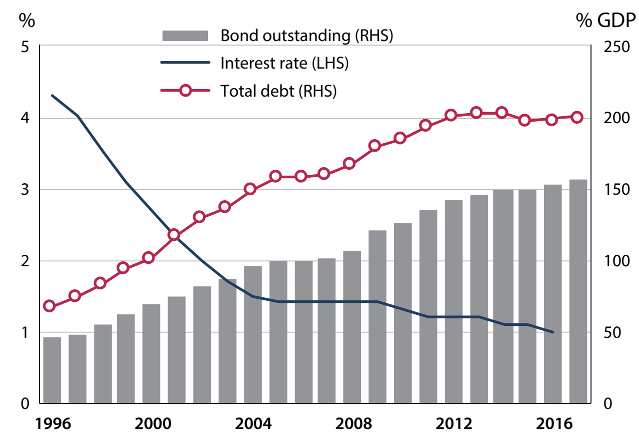
Source: Japan Ministry of Finance

JPY strengthened against USD and Euro in February 2018 amid heightened volatility in global markets.



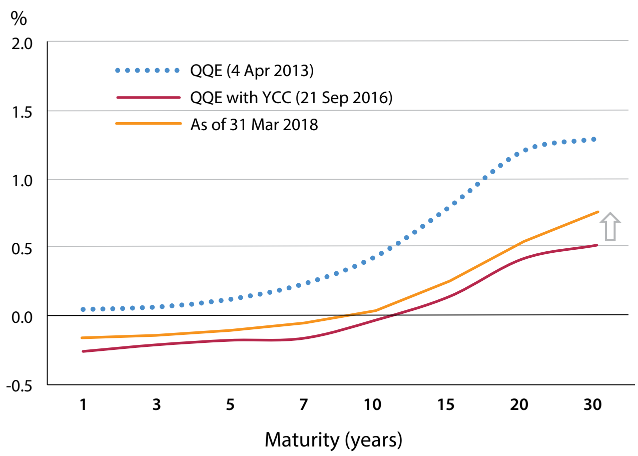
Source: Bloomberg

Government debt growth has stabilized in recent years, but the level remained high at around 200 percent of GDP.



Note: Fiscal year
Source: Japan Ministry of Finance, AMRO staff estimation (for FY17)

JGB yield curve was shifted upward slightly from the introduction of "QQE with Yield Curve Control".



Source: Bloomberg

Japan: Selected Economic Indicators

	2014	2015	2016	2017 Est.
Real Sector and Prices	(in annualized percentage change, unless specified)			
GDP growth	-0.3	1.4	1.2	1.8
Private consumption	-2.5	0.8	0.3	1.3
Private non-residential investment	3.3	2.3	1.2	3.1
Private residential investment	-9.9	3.7	6.2	3.0
Government consumption	0.4	1.9	0.5	0.6
Public investment	-2.0	-1.6	0.9	2.5
Net export (ppts)	0.6	0.1	0.8	0.3
Exports of goods and services	8.7	0.7	3.4	5.8
Imports of goods and services	4.2	0.3	-1.0	3.8
Labor market	(average of monthly data)			
Unemployment rate (%, sa)	3.5	3.3	3.0	2.7
Ratio of job offers per one applicant (sa)	1.1	1.2	1.4	1.5
Prices	(average of monthly data)			
Consumer price inflation (all items)	2.9	0.2	-0.1	0.7
Consumer price inflation (less fresh food)	2.8	0.0	-0.2	0.7
External Sector	(in JPY trillion, unless specified)			
Current account balance	8.7	17.9	20.4	21.0
Current account balance (% of GDP)	1.7	3.3	3.8	3.8
Trade balance	-9.1	-1.1	4.0	3.6
Exports of goods, FOB	74.7	74.1	71.5	78.2
Imports of goods, CIF	83.8	75.2	67.5	74.6
Current account: primary income	20.0	20.9	18.1	19.2
Financial account	14.2	23.8	24.9	16.8
International reserves (USD bn, period end)	1,245	1,262	1,230	...
Fiscal Sector (Central Government)	(in percent of GDP)			
Tax revenues	10.4	10.5	10.3	10.5
Expenditures	19.1	18.4	18.1	18.0
Primary balance	-2.7	-2.3	-2.9	-2.3
Outstanding gov. debt	203.2	196.5	198.7	200.7
Monetary Sector	(in annual percentage change, unless specified)			
Monetary base	39.7	32.3	23.4	...
Overnight uncollateralized call rate (%)	0.015	-0.002	-0.060	...
Memorandum Items				
Exchange rate (JPY per USD, period average)	109.9	120.1	108.4	110.8
Exchange rate (JPY per USD, end of period)	120.2	112.4	111.8	111.4
Nikkei 225 (JPY, end of period)	19,207	16,759	18,909	21,454
JGB 10 year yield (%, end of period)	0.398	-0.049	0.067	0.072
Non-performing loan ratio (%, end of period)	1.10	0.97	0.87	...
Nominal GDP (in billions of USD)	4,717	4,445	4,976	...
Nominal GDP (in trillions of JPY)	518.5	533.9	539.3	549.1

Note: Fiscal year unless otherwise mentioned.
Source: National Authorities, AMRO estimates (for FY2017 except financial market data)

Korea

The Korean economy gained traction in 2017, boosted by private consumption and investment. In Q4 2017, GDP growth declined by 0.2 percent qoq from a rapid expansion in Q3 (1.4 percent qoq), mainly due to long holidays in October. Over the whole year, the economy grew by 3.1 percent, which was above the potential growth rate. Private consumption continued to show a modest recovery, while government consumption expanded with higher fiscal spending. Facilities and construction investment remained strong albeit showing a slower pace in the second half. Exports continued to show a solid growth, mainly led by semiconductor sector. In 2018, the growth rate is projected to slow down to 2.9 percent, mainly due to weaker private investment, in particular construction investment, despite strong export momentum and a continuing improvement in private consumption.

In 2017, inflation picked up to above 2 percent, then showing a decline. In Q4 2017, CPI rose by 1.5 percent, mainly due to low agricultural product prices and a fall in public utility prices despite a rise in oil prices. Over the whole year, consumer prices rose by 1.9 percent on average, which is higher than the previous year (1 percent). However, demand-side inflation pressures remain subdued with stable core inflation and moderate wage growth. Moving forward, the headline inflation is projected to remain at 1.9 percent in 2018, but core inflation will rise to 2 percent from 1.5 percent in 2017. Inflationary pressures from the closing of output gap are likely to outweigh downward pressures from lower administrative prices led by the government.

External position remains strong. In 2017, the current account surplus remained sizable at USD78.5 billion on the back of a large trade surplus despite a deterioration in the services account deficits. Korea's substantial current account surplus has shown a strong tendency to be recycled as residents' overseas portfolio investment, mainly led by pension and insurance companies. On the non-residents' portfolio investment side, it showed net inflows over the whole year despite sustained geopolitical tensions. In 2018, the current account surplus is projected to further moderate below 5 percent of GDP but remains strong.

Credit to the private sector expanded at a slower pace, particularly to households. In Q4 2017, household debt level plateaued, reflecting a slowdown to a single-digit growth over a year ago. Financial institutions' buffers to cover expected and unexpected losses largely remain sufficient, with high capital adequacy ratios and low non-performing loan ratios in both banks and non-banks. In financial markets, bond yields showed a pick-up following the Bank of Korea's rate hike in November 2017 and stock prices continued to show an upward trend.

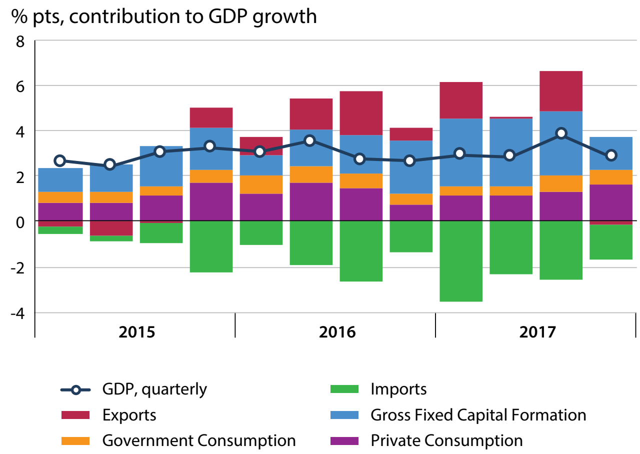
Fiscal buffers remain ample with strong revenue collection. In 2017, fiscal revenue continued to grow strongly supported by brisk tax collection while fiscal spending expanded with a higher policy priority on job creation. In the 2018 budget, the government aims to improve fiscal balance by restructuring expenditure amid a continued expansion in spending.

Korea's economic prospects could be influenced by high household debt, rising trade protectionism and geopolitical tensions. Headwinds to the growth outlook include adverse effects on private consumption of high household debt amid rising trade protectionism. U.S. trade protectionist measures may serve as a drag on Korea's strong exports if tariffs are imposed on key products. Heightened geopolitical tensions and tighter global financial conditions may pose significant tail risks to financial stability.

From a longer-term perspective, key challenges are centered around declining potential growth. In the corporate sector, the uneven growth between ICT and non-ICT companies, and the excessive concentration in the ICT sector may make the economy susceptible to shocks arising from global ICT downturns and fierce competition in the sector. The continued relocation of production lines abroad could adversely affect Korea's key manufacturing sectors and further weaken domestic employment.

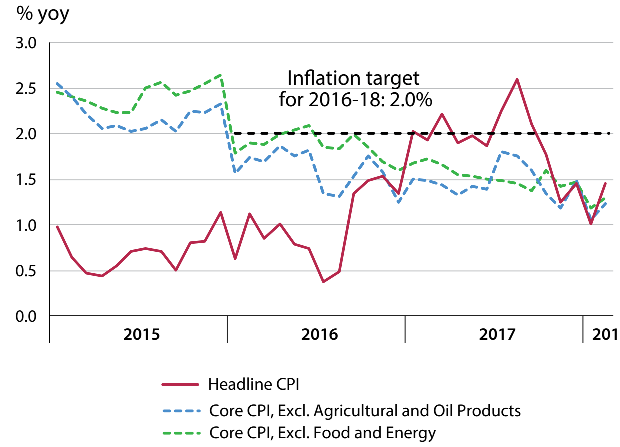
Korea: Selected Charts

In 2017, private investment led economic growth while private consumption showed a modest recovery.



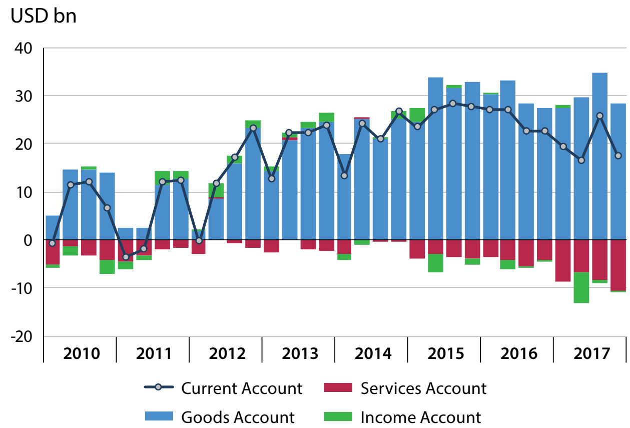
Source: Bank of Korea

Headline inflation picked up to above 2 percent, showing a decline in Q4.



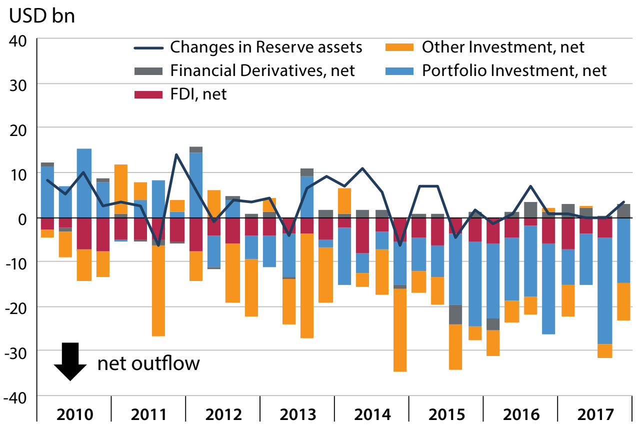
Source: Statistics Korea

In BOP, the current account continued to show a large surplus amid worsening service account balance.



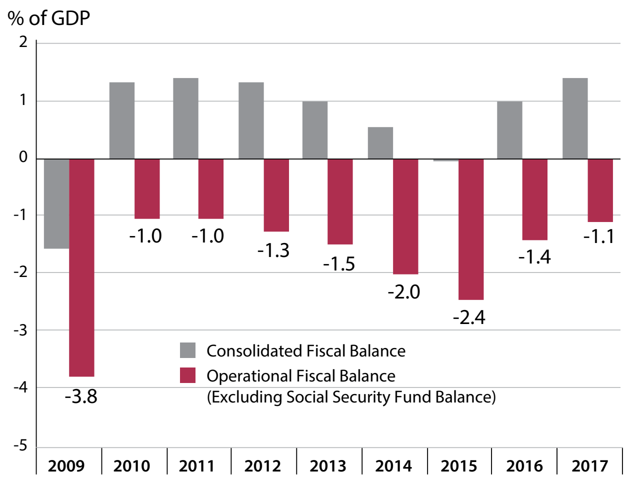
Source: Bank of Korea

The financial account has posted net outflows, mainly driven by continuing overseas portfolio investment by residents.



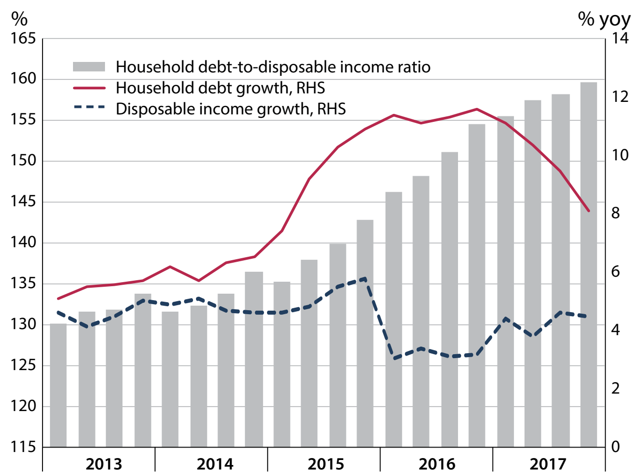
Source: Bank of Korea

Fiscal balance continued to improve in 2017.



Source: Ministry of Strategy and Finance

In Q4 2017, the household debt level plateaued, reflecting a slowdown to a single-digit growth over a year ago.



Source: Bank of Korea

Korea: Selected Economic Indicators

	2014	2015	2016	2017
Real Sector and Prices	(in annual percentage change, unless specified)			
Real GDP	3.3	2.8	2.9	3.1
Private consumption	1.7	2.2	2.5	2.6
Government consumption	3.0	3.0	4.5	3.4
Construction investment	1.1	6.6	10.3	7.6
Facilities investment	6.0	4.7	-1.0	14.6
Exports of goods and services	2.0	-0.1	2.6	1.9
Imports of goods and services	1.5	2.1	4.7	7.0
Labor market				
Unemployment rate (%)	3.5	3.6	3.7	3.7
Prices				
Consumer price inflation	1.3	0.7	1.0	1.9
Core inflation, excluding food and energy	1.7	2.4	1.9	1.5
External Sector	(in billions of USD, unless specified)			
Current account balance	84.4	105.9	99.2	78.5
Current account balance (% of GDP)	6.0	7.7	7.0	5.1
Trade balance, customs cleared	47.2	90.3	89.2	95.2
Exports, customs cleared	572.7	526.8	495.4	573.7
Imports, customs cleared	525.5	436.5	406.2	478.5
Financial account balance, excl. int'l reserves	71.4	94.2	95.0	82.7
Direct investment, net	18.8	19.7	17.9	14.6
Portfolio investment, net	30.6	49.5	67.0	57.8
Financial derivatives, net	-3.8	1.8	-3.4	-8.3
Other investment, net	25.9	23.3	13.6	18.5
Gross international reserves (end-period)	363.6	368.0	371.1	389.3
Fiscal Sector (Central Government)	(in percent of GDP)			
Total revenue	24.0	23.8	24.5	24.9
Total expenditure	23.4	23.8	23.4	23.5
Fiscal balance	0.6	0.0	1.0	1.4
Fiscal balance, excluding social security funds	-2.0	-2.4	-1.4	-1.1
Monetary and Financial Sector	(in percent per annum, end-period, unless specified)			
Bank of Korea base rate	2.00	1.50	1.25	1.50
3-year Treasury bond yield	2.1	1.7	1.7	2.1
3-year, AA-Corporate bond yield	2.4	2.1	2.2	2.6
Broad money growth (% change)	8.7	9.0	7.9	6.6
Exchange rate (won per USD, average)	1,053.1	1,131.5	1,160.4	1,130.5
Exchange rate (won per USD, end-period)	1,099.3	1,172.5	1,207.7	1,070.5
Memorandum Items				
Nominal GDP (in trillions of won)	1,486.1	1,564.1	1,641.8	1,730.4
Nominal GDP (in billions of USD)	1,411.0	1,382.4	1,414.7	1,530.2

Source: The Korean authorities

Lao PDR

Growth moderated in 2017 due to the high base of growth for the power sector in 2016, and is forecast to remain stable in 2018. A recovery in agriculture and higher construction activity, together with slower but still double digit expansion in the power sector were the main growth drivers in 2017. Meanwhile, weaker tourism activity and moderating domestic demand had a dampening effect on the economy. Growth in 2018 is expected to remain stable with no significant increase in installed capacity in the power sector, while tourism could provide some upside with the government's campaign for "Visit Laos Year in 2018".

Inflation dropped significantly to 0.8 percent in 2017 due to lower food prices and is expected to rise from this low base. The increased production, resulting in well-stocked domestic food markets, helped pull down inflation in 2017. Going forward, inflation is expected to rise to 2.1 percent in 2018 from a low base of food prices, and also taking into account the recovery in fuel prices in line with global trends.

The current account position improved, while fiscal consolidation remained challenging in 2017. A broad-based increase in exports of electricity, SEZ-related manufacturing, garments and agriculture goods offset the impact of weaker tourist arrivals, resulting in a narrower current account deficit in 2017. Meanwhile, challenges in the fiscal sector continue, with the fiscal deficit widening to 5.7 percent of GDP in 2017 from 4.9 percent in 2016. The budgeted fiscal deficit for 2018 is 5.4 percent of GDP.

Increasing debt burden and possible mismatch in revenue streams and debt repayments on the hydro projects could put pressure on the fiscal position. Around 80 percent of Lao's public debt is denominated in foreign currencies, making the fiscal position vulnerable to exchange rate movements. Growing exposure to rollover and interest rate risks need to be closely monitored, as an increasing portion of public debt is being raised in the Thai bond market on commercial terms. There is also a liquidity risk arising from a possible mismatch between the revenue streams from the massive hydroelectric projects and the debt repayment schedule on the loans incurred.

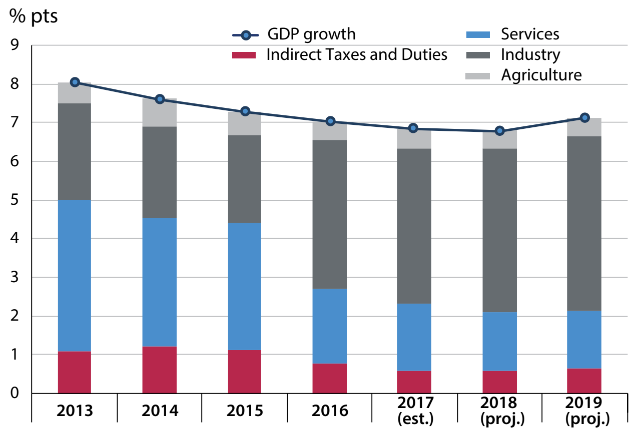
Credit growth moderated in 2017 mainly due to the slowdown in foreign currency lending. The central bank's main interest rates have remained unchanged since the reductions in July 2015. Amid the steady monetary conditions, credit growth decelerated to 10.8 percent in December 2017 from 20.9 percent last year, due to the strong enforcement of regulations on limiting foreign currency lending and contraction of credit to SOEs. In addition, BOL issued a directive reducing the margin between foreign currency lending and deposit rates from 4 percent to 3 percent in December 2017, which is expected to further moderate foreign currency lending. Meanwhile, kip-denominated credit growth increased to above 20 percent during the first three quarters of 2017, but has slowed down to 17.1 percent in December 2017.

The banking sector is still vulnerable to adverse shocks as legacy 'special mention' loans related to government projects remain unresolved. These past government projects have been a drag on bank balance sheets. Authorities are working towards measures to clearly and decisively settle these liabilities.

External risks could stem from tighter global conditions, shocks to major trading partners, and fall in commodity prices, as well as climate change. A depreciation of the Lao kip will increase the debt service burden, in light of Lao PDR's high and rising external debt. Thin international reserves make the kip vulnerable to volatility in international financial markets. Lao PDR also remains reliant on the commodity resource sectors, particularly copper mining and hydroelectric power. In this regard, shocks to major trading partners such as China and Thailand which affect their demand for such commodities, or a sharp fall in global commodity prices, would adversely affect the economy. Changing weather patterns related to climate change are also a risk, particularly severe droughts in the upper reaches of the Mekong river that could reduce the amount of electricity produced by the country's hydropower plants.

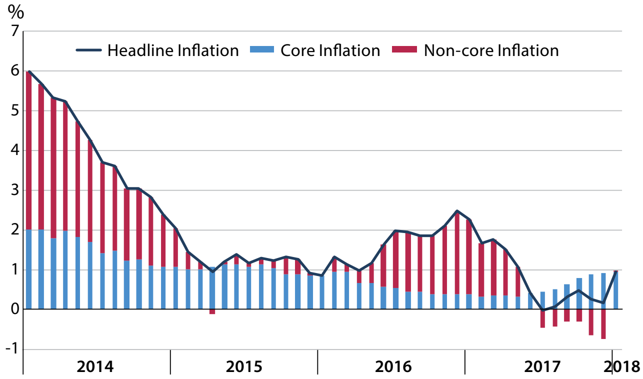
Lao PDR: Selected Charts

There has been a gradual shift towards industrial activity largely as a result of mining and hydropower.



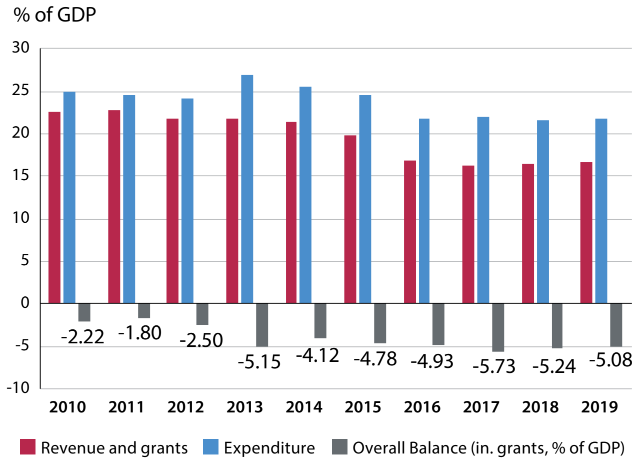
Source: Lao Statistics Bureau, AMRO staff estimates

Headline inflation remained low as non-core inflation fell, driven by lower food prices.



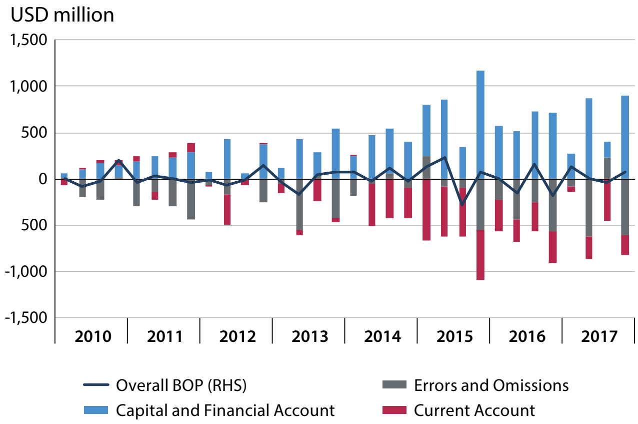
Source: Lao Statistics Bureau, AMRO staff estimates

The fiscal deficit widened further in 2017 requiring stronger efforts to raise revenue and strengthen expenditure management.



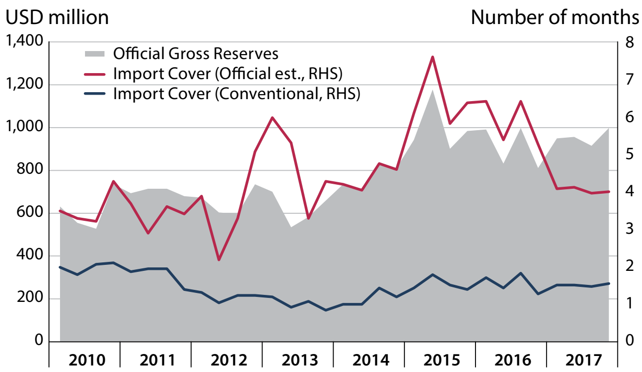
Source: Ministry of Finance, AMRO staff estimates

The narrower current account deficit together with larger FDI inflows supported the external accounts, enabling positive BOP in 2017.



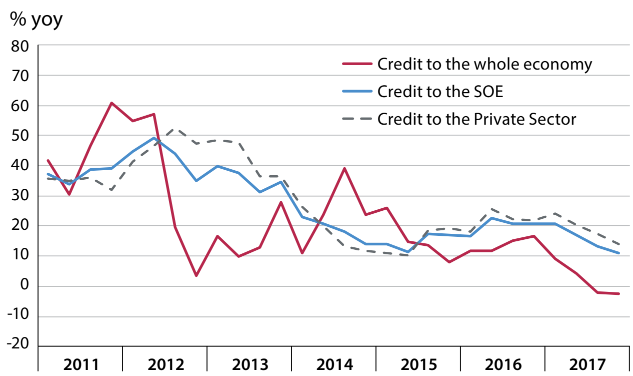
Source: Bank of Lao PDR

Official gross reserves increased to USD1.0 billion as of end 2017, covering 4 months of imports according to the authorities' definition and 1.5 months of imports according to the conventional definition.



Source: Bank of Lao PDR, AMRO staff estimates

Domestic credit has trended down due to slowing credit to the private sector and credit contraction to SOEs.



Source: Bank of Lao PDR

Lao PDR: Selected Economic Indicators

	2014	2015	2016	2017
Real Sector and Prices	(in annual percentage change, unless specified)			
Real GDP	7.6	7.3	7.0	6.8
GDP deflator	5.7	2.3	3.0	1.5
Consumer price inflation (average)	4.1	1.3	1.6	0.8
External Sector	(in millions of USD, unless specified)			
Export	4,380.0	3,813.0	4,450.0	5,293.0
Import	7,673.0	7,228.0	6,507.0	7,171.0
Trade balance	-3,293.0	-3,415.0	-2,056.0	-1,878.0
Current account balance	-2,862.0	-3,228.0	-1,902.0	-1,919.0
In % of GDP	-21.6	-22.4	-12.0	-11.3
Capital and financial account balance	1,609.0	2,918.0	2530.0	2,223.0
Overall balance	154.0	171.0	-172.0	185.0
Official gross reserves	816.0	987.0	815.0	1,000.0
In months of imports of goods & services	1.2	1.5	1.4	1.5
Export volume	23.8	-9.5	15.7	12.7
Import volume	6.0	-7.4	-10.6	7.8
Terms of trade	-3.6	-5.5	0.2	3.2
External debt, gross	5.6	6.7	7.3	8.1
In % of GDP	42.2	46.6	46.3	47.1
Fiscal Sector (General Government)	(in percent of GDP)			
Revenue and grants	21.3	19.7	16.8	16.2
Expenditure	25.4	24.5	21.7	21.9
Current expenditure	16.0	15.2	13.9	13.0
Capital expenditure	9.4	9.3	7.9	8.9
Net lending/borrowing balance (incl. grants)	-4.1	-4.8	-4.9	-5.7
Primary net lending/borrowing balance (in. grants)	-3.2	-3.8	-3.9	-4.6
Monetary and Financial Sector	(in annual percentage change)			
Domestic credit	17.7	17.9	18.5	17.1
Public sector	36.7	14.1	9.1	6.4
of which: general government	95.2	31.2	-8.8	14.4
Private sector	11.7	19.3	22.0	20.6
Broad money	25.2	14.7	10.9	10.7
Reserve money	30.3	18.3	-3.6	5.0
Memorandum Items				
Nominal GDP (in billions of LAK)	106,796.0	117,251.0	129,280.0	14,0152.0
Nominal GDP (in millions of USD)	13,279.0	14,430.0	15,913.0	17,008.0
Exchange rate (LAK per USD, average)	8,042.0	8,125.0	8,124.0	8,240.0

Notes:
1) GDP data and fiscal sector data are on a fiscal year basis, up to FY2016/17, starting from October to September. Starting from 2018 onward, the authorities will adopt the calendar year as the fiscal year.
2) Data for external sector in 2017 are AMRO staff estimates.
3) Data for 2017 are AMRO staff estimates.
Source: Lao Statistics Bureau, Bank of Lao PDR, Ministry of Finance, CEIC, ADB, IMF, World Bank, AMRO staff estimates and projections.

Malaysia

GDP growth expanded by 5.9 percent in Q4 2017, higher than consensus forecast of 5.8 percent. The strong Q4 growth came on the back of the still strong private consumption, and the acceleration of public consumption. Net exports also contributed to Q4 growth even though both exports and imports growth moderated. For 2017 as a whole, the GDP growth continue to surpass expectations with 5.9 percent growth in 2017, driven by robust domestic demand, especially private sector spending, and faster pace of expansion in external sector. Private consumption increased by 7 percent as private sector wages continue to expand further coupled with stronger employment growth. Gross fixed capital formation increased strongly as business sentiments remain optimistic. The latest data of coincident and leading indices (January 2018) and industrial production (January 2018) also showed better prospects in economic activities. Going forward, GDP is expected to grow by 5.3 percent in 2018 and 5 percent in 2019.

Despite robust import growth and widening services account deficit, the current account surplus widened to 3.0 percent of GDP in 2017 from 2.4 percent in 2016. The current account surplus totaled MYR40.3 billion in 2017, the highest since 2014 (MYR48.6 billion), underpinned by a strong exports performance, mainly manufactured exports. Exports accelerated across all major export items and across trading partners amid a strong recovery in global trade. Imports of intermediate and capital goods registered double-digit growth rates in 2017, in line with robust consumption and investment growth and export performance.

The government achieved its goal of reducing the fiscal deficit to 3 percent of GDP in 2017, and is targeting a deficit of 2.8 percent in 2018. In Q4 2017, government revenue increased by 8.3 percent, mainly on account of higher petroleum income tax and GST collections, while total expenditures increased 14.2 percent. Overall, in 2017, the deficit was 3 percent of GDP. In 2018, the government targets a revenue increase of 6.4 percent, and expects operating expenditure and development expenditure to increase by 6.5 percent and 0.2 percent, respectively.

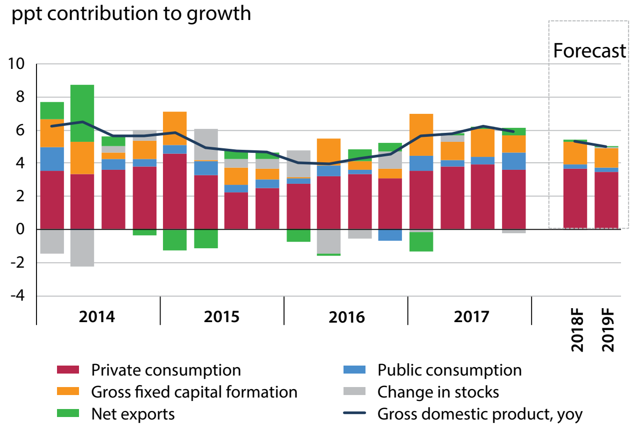
There have been net inflows in the bond market since November 2017. Meanwhile, in the equity market, there have also been net inflows from December 2017 to January 2018, although February 2018 saw net outflows triggered by selloff in the U.S. equity market. The prospect of outflows have generally diminished but the global policy environment remains uncertain and the possibility of renewed capital outflows arising from the US rate increase(s) and other external events remains. However, the risk remained manageable given the ability of entities such as the Employees Provident Fund to provide support in the event of a sell-off to support the sovereign's domestic funding needs. On a positive note, the short FX forward position has been reduced while official reserves have risen and the ringgit has strengthened recently.

Although key banking sector indicators remain generally sound, pockets of financial vulnerabilities remain. There remain pockets of vulnerabilities in the luxury and serviced apartment sectors, as well in the office, retail and commercial sectors, where vacancy rates are high. On a positive note, the household debt-to-GDP ratio has been declining recently, and the macroprudential measures adopted by Bank Negara Malaysia have helped contain the growth of household debt and house prices. Nonetheless, household debt remains high and requires continued monitoring.

Despite the continued momentum for further fiscal consolidation, and the decrease in the debt-to-GDP ratio, total government debt and contingent liabilities remains sizable. Although government debt decreased from 54.5 percent of GDP in Q4 2015 to 50.8 percent Q4 2017, government-guaranteed debt increased from 15.4 percent Q4 2015 to 16.8 percent in Q3 2017.

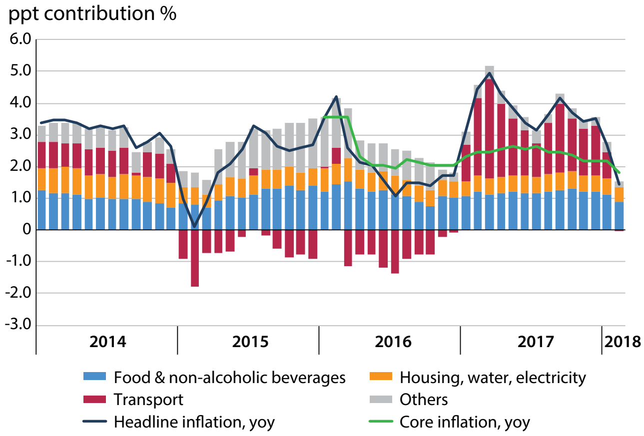
Malaysia: Selected Charts

Growth turned a corner in 2016 and strengthened further in 2017.



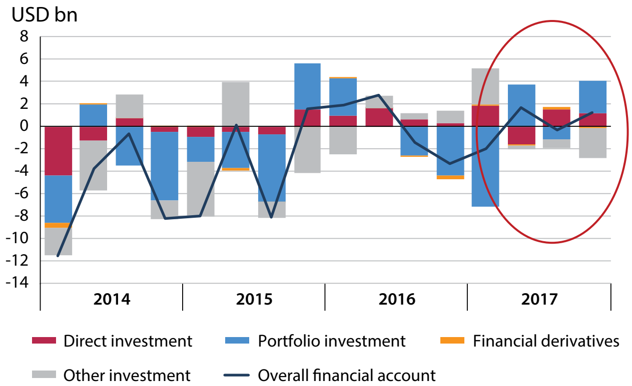
Source: CEIC, Department of Statistics - Malaysia, AMRO staff projections

Recently, both headline and core inflation have trended down.



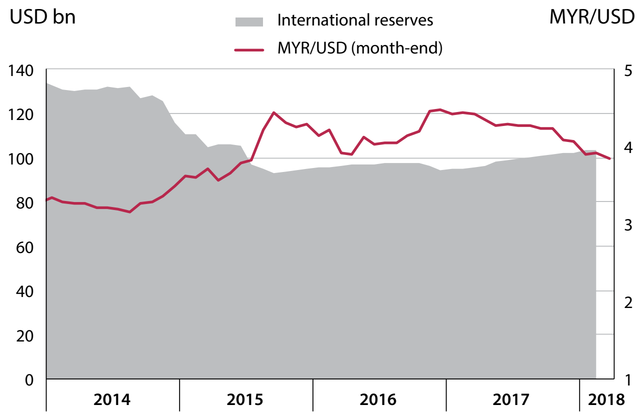
Source: CEIC, Department of Statistics - Malaysia

Following outflows from Q3 2016 to Q1 2017, capital outflows receded.



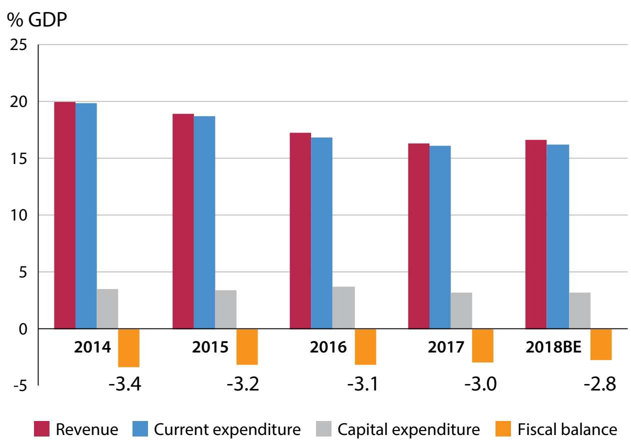
Source: CEIC, Department of Statistics - Malaysia

The ringgit appreciated and net international reserves increased.



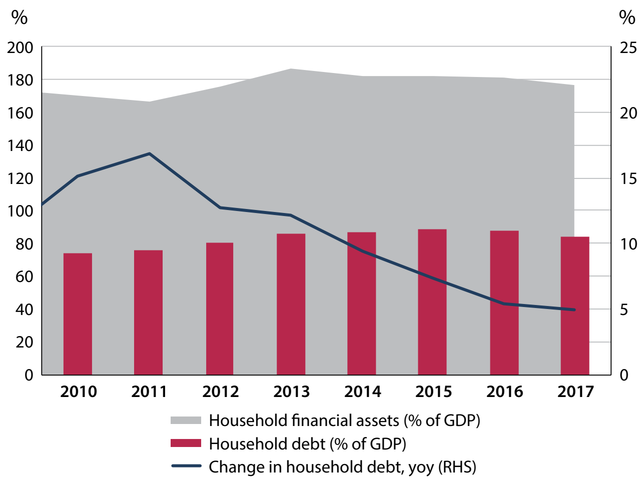
Source: CEIC, Bank Negara Malaysia

A continued decrease in the fiscal deficit is targeted, reflecting the government's fiscal consolidation efforts.



Note: 2018BE = Malaysia MOF budget estimates
Source: CEIC, Malaysia MOF, Economic Report 2017/2018

Although the household debt-to-GDP ratio remains elevated, it has been easing recently, and households have substantial financial assets.



Source: CEIC, Bank Negara Malaysia

Malaysia: Selected Economic Indicators

	2014	2015	2016	2017
Real Sector and Prices	(in annual percentage change, unless specified)			
Real GDP	6.0	5.0	4.2	5.9
Real consumption	6.4	5.7	4.9	6.7
Real private consumption	7.0	6.0	6.0	7.0
Real public consumption	4.4	4.4	0.9	5.4
Real gross fixed capital formation	4.8	3.6	2.7	6.2
Private	11.1	6.3	4.3	9.3
Public	-4.7	-1.1	-0.5	0.1
Exports of goods and service	5.0	0.3	1.1	9.6
Imports of goods and service	4.0	0.8	1.1	11.0
External Sector	(in billions of USD, unless specified)			
Gross exports (USD bn)	233.9	199.2	189.7	217.8
Gross imports (USD bn)	208.9	176.0	168.4	195.1
Trade balance	25.1	23.1	21.2	22.7
Current account	14.8	9.0	7.0	9.4
Current account (% of GDP)	4.4	3.0	2.4	3.0
Overall financial account	-24.4	-14.2	-0.3	0.5
Direct investment	-5.5	-0.5	3.4	2.9
Portfolio investment	-12.0	-6.7	-3.7	-2.1
Financial derivatives	-0.3	-0.2	-0.2	0.1
Other investment	-6.6	-6.9	0.2	-0.3
External debt (% of GDP)	67.6	72.3	74.5	65.3
International reserves	115.9	95.3	94.5	102.4
Fiscal Sector	(in percent of GDP)			
Revenue	19.9	18.9	17.3	16.3
Expenditure	23.3	22.1	20.4	19.3
Current expenditure	19.8	18.7	17.1	16.1
Capital expenditure	3.5	3.4	3.3	3.2
Fiscal balance	-3.4	-3.2	-3.1	-3.0
Federal government debt	52.7	54.5	52.7	50.8
Monetary Sector	(in percent)			
Headline consumer price inflation (%, average)	3.2	2.1	2.1	3.7
Core consumer price inflation (%, average)	n.a.	n.a.	2.4	2.3
Exchange rate (MYR/USD, average)	3.3	3.9	4.1	4.3
Treasury bill rate (%, average)	3.1	3.1	2.8	2.9
10-year government securities (%, average)	4.0	4.0	3.8	4.0
Memorandum Items				
Unemployment rate (% of labor force)	2.9	3.1	3.4	3.4
Nominal GDP (in billions of MYR)	1,106	1,158	1,230	1,352
Nominal GDP (in billions of USD)	338.3	297.3	297.1	315.1

Note: (a) As of 2014, external debt has been redefined in line with international standards to include non-resident holdings of local-currency denominated debt paper and other debt-related non-resident financial flows such as trade credits, currency and deposits, and other loans and liabilities. The numbers here follow the new definition. (b) Starting 2016, MYR21.9 billion of debt (estimated 1.8 percent of 2016 GDP) has been transferred from the federal government to the Public Sector Home Financing Board. The numbers here reflect such change.
Source: CEIC, Department of Statistics - Malaysia, Bank Negara Malaysia, Malaysia External Trade Development Corporation

Myanmar

Myanmar's economy is in a gradual recovery in FY2017/18. The favorable weather conditions helped the recovery in agricultural production in this fiscal year. The domestic oil and gas sector also benefited from rising global energy prices in the second half of 2017. The growing communication and expanding banking sectors supported service activities. With a strong recovery in 2H of FY17/18 suggested by manufacturing activities, GDP growth is estimated at 7 percent for FY17/18 and 7.2 percent in FY18 Interim.[1]

Inflation is likely to moderate further in FY17/18 mainly due to lower food inflation, compared to the previous fiscal year. Inflation fell to an average of 3.6 percent during the period April-Dec 2017, compared to 6.8 percent in FY2016/17. The estimated inflation rates for FY17/18 and FY18 Interim are 3.8 percent and 4.4 percent.

The external position remained weak with a large current account deficit, while a recovery in FDI inflows this year has provided a cushion for the BOP. Both exports and imports rebounded in the first three quarters of FY17/18. The current account deficit will likely widen further, partly due to statistical adjustments using a new data source on secondary income. FDI exhibited a strong recovery, as it registered USD3.0 billion in 1H of FY17/18, compared to USD3.7 billion for the whole year of FY16/17. As for the whole fiscal year, the BOP will likely be in surplus.

Fiscal deficit will widen in FY17/18. The revised estimates of the Ministry of Planning and Finance showed that revenue including grants will grow around 3 percent compared to FY16/17 and the expenditure around 18 percent. The primary deficit could widen from 1.5 percent in FY16/17 to around 4.2 percent of GDP. The interim budget for FY18 half-year budget from April to September 2018 will need a larger financing due to seasonal effects of a lower revenue collection compared to expenditure disbursement during the half year.

Downside risks to growth mainly emanate from ongoing ethnic tensions. The direct impact remains largely locally contained while the indirect impact could be more profound in terms of stability and investor confidence. A possible prolonged and elevated conflict scenario would have severe negative implications on the ability of the country to attract new foreign investments, weakening momentum in business and investment. Moreover, it may cause uncertainties or difficulties in preferential trade arrangements that Myanmar currently enjoys or tries to secure in the future.

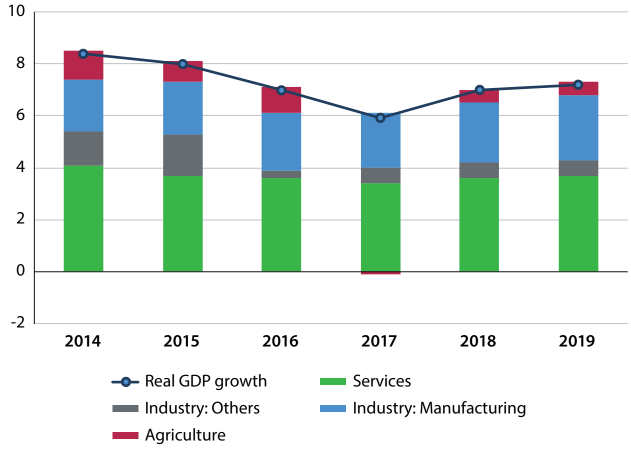
External stability risks remain significant. The overall trade deficit remains sizable with a sustained growth in imports partly driven by strong domestic consumption. The agricultural exports could continue to be subject to volatile weather conditions and bilateral relations with major trading partners, while energy exports are projected to decline in volume in the medium term. The recovery in FDI inflows in FY17/18 is a welcome sign. However, new FDI commitments under the new investment law have yet to pick up solidly.

Transitional risks in implementing the new banking regulations are substantial in the short term. The new regulatory Basel-II-standard framework has been in place since July 2017, requiring banks to maintain higher Capital Adequacy Ratios (CAR), limit exposure to single borrowers, reclassify loans and advances, and recover overdraft loans. Some domestic banks might not be able to fulfill the capital adequacy requirement by 31 March 2018 and the reduction of overdraft facilities by 6 July 2018 as required. The NPL ratio has been edging up, rising from 1.66 percent in June 2017 to 4 percent in June 2017, and likely increase further after the implementation of new asset classification.

[1] Previous Fiscal Year (FY) starts from April and ends by March. A special half-year interim fiscal year starting from April to September 2018 (denoted as FY18 Interim) will help migrate the FY to a cycle from October to September.

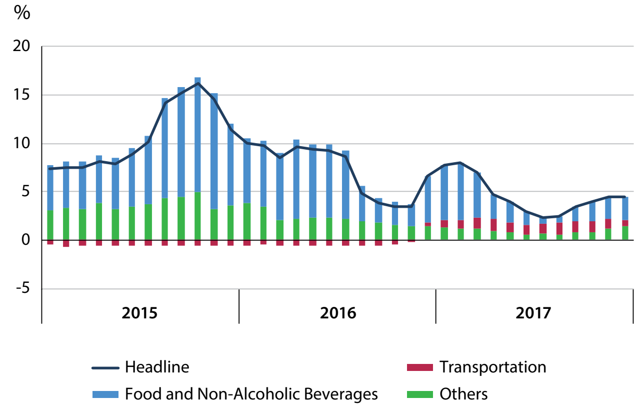
Myanmar: Selected Charts

The economy has been growing in FY17/18 with a recovery across sectors.



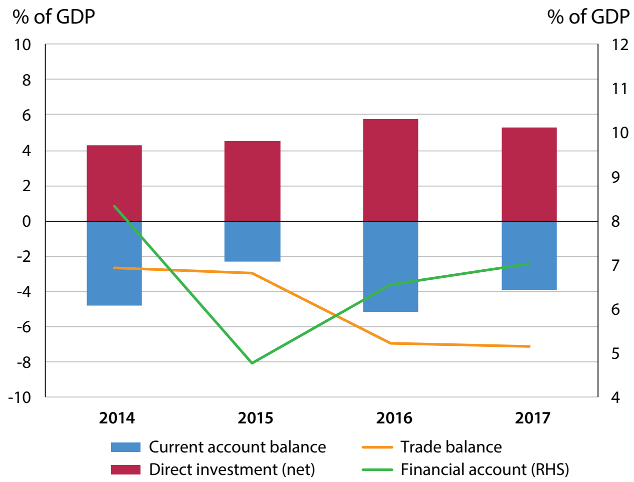
Note: Data refer to fiscal year where 2014 data refer to FY13/14.
Source: Planning Department, AMRO staff calculations

Despite a positive contribution from oil-related items, headline inflation softened in 2017 because of lower food price inflation.



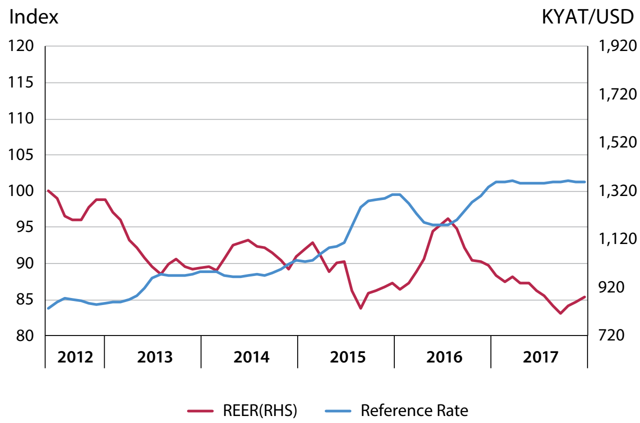
Source: Central Statistics Office

An increase in FDI inflows in the financial account could offset a widening current account deficit and contribute to an overall balance surplus.



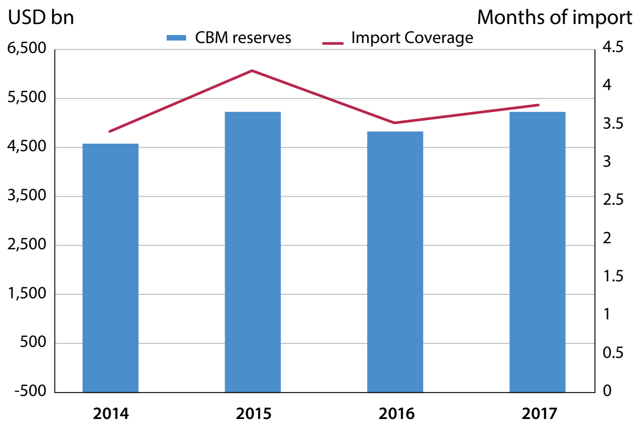
Note: Data refer to fiscal year.
Sources: Central Bank of Myanmar, AMRO staff calculations

The REER has depreciated as the Kyat vs USD has remained stable while other regional currencies have appreciated against the USD.



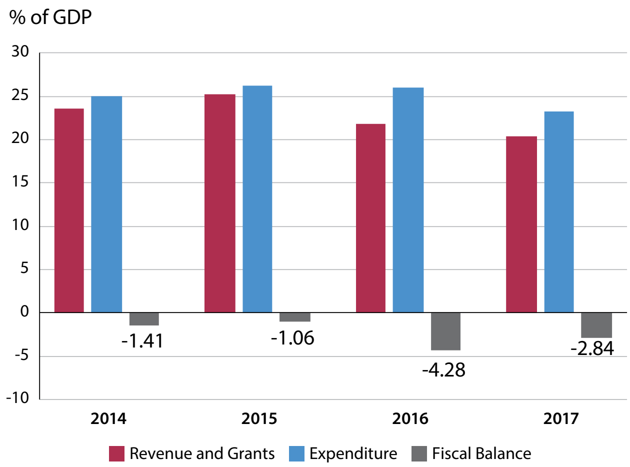
Sources: Central Bank of Myanmar, AMRO staff calculations

The CBM needs to strengthen its international reserves buffer to protect against external shocks.



Note: Data refer to fiscal year. Import cover is in months of imports of goods and services
Source: Central Bank of Myanmar, AMRO staff calculations

The fiscal deficit is expected to widen in 2017/18, as suggested by revised budget estimates.



Note: Data refer to fiscal year.
Source: Ministry of Planning and Finance, AMRO staff calculations

Myanmar: Selected Economic Indicators

	2015	2016	2017	2018
Real Sector and Prices	(in annual percentage change)			
Real GDP	8.0	7.0	5.9	7.0
Consumer price inflation (2012=100, period average)	5.1	10.0	6.8	3.9
Consumer price inflation (2012=100, end-period)	6.1	8.4	7.0	5.3
External Sector	(in percent of GDP, unless specified)			
Current account balance	-2.2	-5.1	-3.9	-4.7
Trade balance	-2.9	-6.9	-7.0	-5.8
Financial account	4.8	6.6	7.1	7.6
Direct investment (net)	4.6	5.8	5.4	6.6
Medium- and long-term disbursement	0.8	1.3	0.6	1.0
Gross International Reserves held by CBM (millions of USD)	5,124.6	4,764.0	5,133.9	6,188.0
In months of imports	4.2	3.5	3.8	4.1
Total external debt	13.8	16.3	14.6	14.1
Fiscal Sector	(in percent of GDP)			
Revenue and Grants	25.2	21.7	20.4	18.4
Tax Revenue	9.9	8.6	8.9	8.2
SEE receipts	12.6	10.2	9.1	7.7
Expenditure	26.2	26.0	23.2	24.1
Overall balance	-1.1	-4.3	-2.8	-5.7
Primary balance	0.3	-3.1	-1.5	-4.2
Monetary and Financial Sector	(in annual percentage change)			
Domestic credit	33.0	37.9	37.2	35.5
Private sector	33.5	33.2	32.7	30.4
Exchange rate (kyat per USD, average)	997.8	1,316.4	1,268.2	1,341.5
Exchange rate (kyat per USD, end of period)	1,027.0	1,216.0	1,362.0	1,321.0
Memorandum Items				
Nominal GDP (in billions of USD)	63.5	58.9	62.4	68.1
Nominal GDP (in billions of kyat)	65,261.9	72,714.0	79,720.9	91,320.2

Notes:
1) Data refers to fiscal year. Myanmar's fiscal year extends from April 1 to March 31. FY2018 starts from 1 April 2017 to 31 March 2018
2) Real GDP uses 2010/11 as the base year
3) Consolidated public sector includes union and state/region governments and state economic enterprises
Source: National Authorites, AMRO staff estimates

The Philippines

The Philippines' economic growth remains robust, although it eased slightly in 2017. From 6.9 percent in 2016, real GDP growth somewhat eased to 6.7 percent in 2017 as fixed investments decelerated. Private consumption also slowed but generally held up throughout the year, supported by gains in employment and sustained remittance inflows. After a weak first quarter, government disbursement improved in the succeeding three quarters to guide public spending higher. Net exports also improved in 2017 as exports outpaced imports. The Philippines economy is forecast to grow by 6.8 percent in 2018 as exports are expected to remain buoyant while hurdles to budget execution are gradually being overcome.

Headline inflation has increased and is expected to trend higher in 2018. Higher food and energy prices pushed inflation to return within the 3±1 percent target range in 2017 through February 2018 from 1.8 percent in 2016. Core inflation also inched higher on firm domestic demand. On the back of the excise tax increases in the recently approved tax reform, higher crude oil prices, and the modest pass-through from the sustained depreciation of the peso, headline inflation is projected rise slightly above the 4 percent upper-end of the band in 2018.

External buffers are ample despite continued BOP deficits. From a deficit of USD420.1 million in 2016, the BOP deficit widened to USD862.8 million in 2017 and USD960.7 million in the first two months of 2018. The widening of the BOP deficit, in turn, placed pressure on the peso, which depreciated by 10.7 percent against the USD from end-2015 to end-March 2018. However, at about USD80.4 billion as of February 2018, gross reserves are sufficient to cover over 3.5 times short term external debt by residual maturity plus the current account deficit.

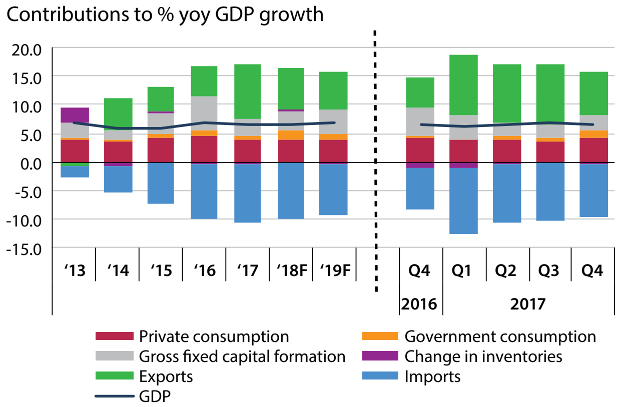
The BSP has made progress in improving the monetary policy transmission since the adoption of the interest rate corridor (IRC) framework. The BSP shifted its monetary operations to an IRC system in June 2016 in an effort to improve the transmission of monetary policy amid excess liquidity in the financial system. Since the IRC adoption, the transaction volumes of the term deposit auction facility (TDF) have increased with TDF rates moving towards the upper-end of the corridor. Short-term rates such as the 3-month Treasury bill yields have also crept up closer to the lower bound of the corridor. Reflecting its confidence in the progress of the IRC framework, the BSP in February started a phased reduction in the reserve requirement ratio (RRR) with a 1 percent cut to 19 percent. It hopes that the potential liquidity impact of the RRR reduction will be offset by auction-based monetary operations under the IRC.

The banking system continues to maintain good asset quality while capitalization remains adequate. However, rapid credit expansion continues to warrant close monitoring. Gross NPLs of the overall banking system have been on steady five year decline, down from 3.4 percent of the total loan portfolio in March 2013 to 1.8 percent by January 2018. The NPL provisioning coverage ratio at 120.7 percent as of end 2017 also indicates that the banking system has sufficient provisions for credit losses. Moreover, banks are well capitalized, with capital adequacy ratios above the BSP regulatory threshold of 10 percent. However, the rapid pace of credit expansion – at twice the pace of nominal GDP growth throughout 2017 – continues to warrant close monitoring, especially as lending could quicken further as financial inclusion advances and the banking system becomes more competitive. Already, pockets of risk are evident in the relatively elevated NPL ratios of the real estate and auto loan segments.

Fiscal reforms are being pursued to accelerate infrastructure development and raise the economy's growth potential. The government has committed to ramp up infrastructure spending from the target of 5.4 percent of GDP in 2017 to 7.3 percent in 2022. This has led to the budget deficit limit being widened from 2 to 3 percent of GDP for the 2017-2022 period. But the incremental boost in spending will also need to be financed by the additional revenues from the comprehensive tax reform program in order to maintain the downward trend in the debt-to-GDP ratio. The first package of the tax reform – involving a reduction in the personal income tax rates and an increase/introduction of some indirect taxes – has been implemented since January 2018. The second package – primarily comprising a reduction in the corporate income tax rate and the modernization of fiscal incentives – has been submitted by the Department of Finance to the lower house of the legislature.

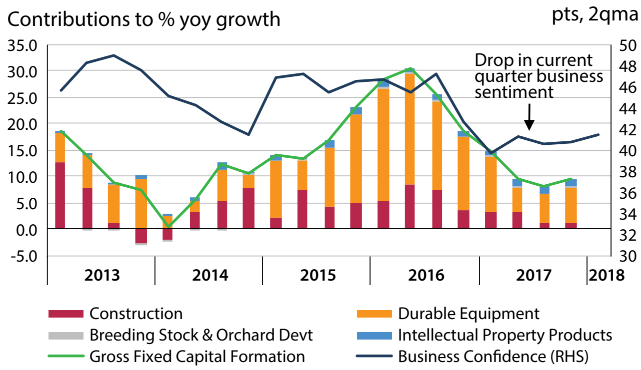
The Philippines: Selected Charts

Growth eased somewhat in 2017 as fixed investments decelerated, in part due to the high owing to the 2016 elections.



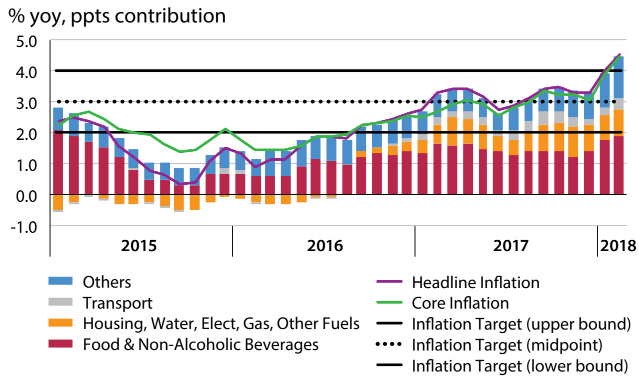
Source: Philippine Statistics Authority

The investment deceleration may also be due to the decline in business confidence.



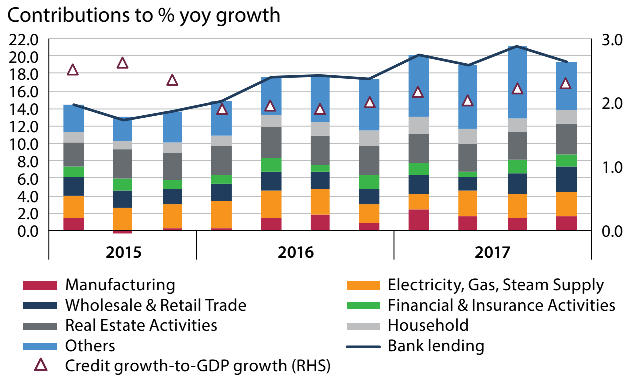
Source: Bangko Sentral ng Pilipinas, Philippine Statistics Authority

Higher food and energy prices have pushed inflation towards the upper-end of the government's target range in recent months.



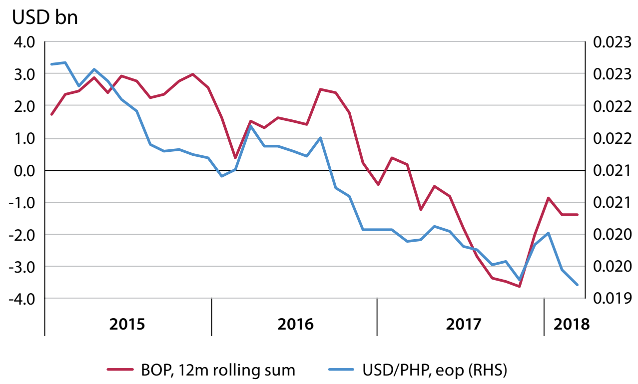
Note: Data is based on 2006 base year.
Source: Philippine Statistics Authority

Credit growth, while broad-based, is markedly faster than nominal GDP growth.



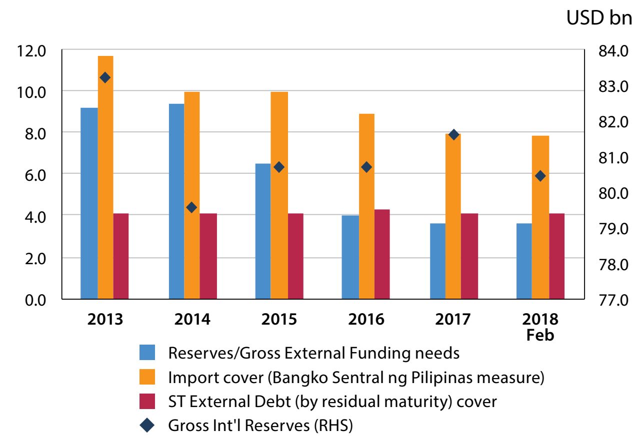
Source: Bangko Sentral ng Pilipinas, Philippine Statistics Authority

The BOP deficit has widened, putting depreciation pressure on the peso.



Source: Bangko Sentral ng Pilipinas

But FX reserves remain ample, providing sufficient buffer against external shocks.



Source: Bangko Sentral ng Pilipinas

The Philippines: Selected Economic Indicators

	2014	2015	2016	2017
Real Sector and Prices	(in annual percentage change, unless specified)			
Real GDP	6.1	6.1	6.9	6.7
Private consumption	5.6	6.3	7.0	5.8
Government consumption	3.3	7.6	8.4	7.3
Gross fixed capital formation	7.2	16.9	25.2	10.3
Exports of goods and services	12.6	8.5	10.7	19.2
Imports of goods and services	9.9	14.6	18.5	17.6
Prices				
Consumer price inflation (end of period)	2.7	1.5	2.6	3.3
Consumer price inflation (period average)	4.1	1.4	1.8	3.2
Core inflation (period average)	3.0	2.1	1.9	2.9
GDP deflator	3.2	-0.6	1.7	2.3
External Sector	(in billions of USD, unless specified)			
Current account balance	10.8	7.3	-1.2	-2.5
(in percent of GDP)	3.8	2.5	-0.4	-0.8
Trade balance	-17.3	-23.3	-35.5	-41.2
Exports, FOB	49.8	43.2	42.7	48.2
Imports, FOB	67.2	66.5	78.3	89.4
Services balance	4.6	5.5	7.0	9.5
Receipts	25.5	29.1	31.2	35.6
Payments	20.9	23.6	24.2	26.1
Primary income, net	0.7	1.9	2.6	3.1
Secondary income, net	22.8	23.3	24.7	26.1
Financial account balance	9.6	2.3	0.2	-2.2
Direct investment, net	1.0	-0.1	-5.9	-8.1
Overseas direct investment	6.8	5.5	2.4	1.9
Foreign direct investment	5.7	5.6	8.3	10.0
Portfolio investment, net	2.7	5.5	1.5	3.9
Net acquisition of financial assets	2.7	3.3	1.2	3.1
Net incurrence of liabilities	0.0	-2.1	-0.3	-0.8
Other investment, net	5.9	-3.1	4.6	2.1
Overall balance	-2.9	2.6	-0.4	-0.9
Gross international reserves (end-period)	79.5	80.7	80.7	81.6
(in months of goods & services imports)	10.8	10.7	9.4	8.5
Total external debt (percent of GDP)	27.3	26.5	24.5	23.3
Short-term external debt (percent of total)	20.9	19.5	19.4	19.5
Fiscal Sector (National Government)	(in percent of GDP)			
Government revenue	15.1	15.8	15.2	15.7
Government expenditure	15.7	16.7	17.6	17.9
Fiscal balance	-0.6	-0.9	-2.4	-2.2
Primary balance	2.0	1.4	-0.3	-0.3
Government debt	45.4	44.7	42.1	42.1
Government debt, including contingent liabilities	49.8	48.8	45.6	45.1

	2014	2015	2016	2017
Monetary and Financial Sector	(in percent change, end-period, unless specified)			
Domestic credit	17.8	11.5	17.0	13.7
Of which: Private sector	19.9	12.1	16.6	16.1
Broad money	12.4	9.3	13.4	11.4
Memorandum Items				
Exchange rate (peso per USD, average)	44.4	45.5	47.5	50.4
Exchange rate (peso per USD, end of period)	44.6	47.2	49.8	49.9
Gross domestic product at current price (in trillions of pesos)	12.6	13.3	14.5	15.8
Gross domestic product at current price (in billions of USD)	284.6	292.8	304.9	313.4
GDP per capita (in USD)	2,849.3	2,882.7	2,953.3	2,987.2

Source: Philippines authorities and AMRO staff estimates

Singapore

Growth is strong and broadening from both production and expenditure perspectives. From the production perspective, external-oriented sectors, such as manufacturing, continued to grow strongly albeit at a slower pace compared to the peak in Q3 2017. Domestic-oriented sectors, except construction, are catching up. From the expenditure perspective, private consumption has been improving since Q2 2017. Encouragingly, after declining during Q3 2016 to Q3 2017, investment also rebounded in Q4 2017.

The labor market is also improving on the back of economic recovery and restructuring. Employment grew in Q4 2017, after successive contractions in the preceding quarters. The number of retrenchments peaked in Q4 2016 and has been declining since. The resident and citizen unemployment rates also declined in December 2017. Job vacancies increased over the year for higher value-added sectors such as financial services and infocomm, reflecting the continuing shift towards higher value-added jobs.

Inflation remained subdued but it is expected to increase slightly. Core inflation was 1.6 percent in the first two months of 2018, similar to the average in 2017. In the near term, the previously accumulated slack in the labor market will temper wage growth. However, in the medium term, a sustained improvement in the labor market, rising imported prices and firm domestic demand will exert more upward pressure on inflation.

Monetary policy shall prepare for normalization with higher inflationary pressure in the medium term. While not imminent, inflation will rise in the medium term on the back of firm growth, further labor market recovery and a tight foreign labor policy. Hence, preparation for the eventual normalization of monetary policy stance is recommended.

Bank lending rebounded strongly and the stock market has been buoyant. Bank lending to business especially cross-border lending rebounded in 2017, while housing loan growth remained modest. Despite the recent global volatility, the benchmark Straits Times Index has gained by 6.5 percent in Q4 2017 and Q1 2018.

A strong fiscal surplus was witnessed in FY2017. The fiscal surplus was 2.1 percent of GDP in FY2017, largely due to favorable cyclical factors, such as an exceptional Statutory Board Contribution from Monetary Authority of Singapore (MAS) and an increase in stamp duty collections on property market transaction.

Fiscal impulse will be positive in FY2018, with a large expenditure increase, especially in infrastructure. Total expenditure is budgeted to increase by 8.3 percent in FY2018, as Singapore aims to invest massively in infrastructure to anchor itself as the center for regional economic activity. Singapore will continue to further enhance infrastructure to capture future opportunities and further improve living conditions.

The FY2018 Budget will support businesses and provides incentives to raise productivity. It will enhance and extend the corporate income tax rebate and Wage Credit Scheme. Among many other incentives, it has introduced the Productivity Solutions Grant scheme, to support business that adopt productivity-enhancing technology or solutions. These measures will help enhance economic vitality and encourage innovation.

The government has stayed on its course to steer the country towards a labor-lean, high productivity, and innovation-based economy. Guided by the strategies proposed by the Committee on the Future Economy, various government agencies have been developing and implementing sectoral initiatives to restructure the economy. All twenty three Industry Transformation Maps have been launched. The tripartite collaboration among the unions, employers and the government will be key to the successful implementation of these initiatives.

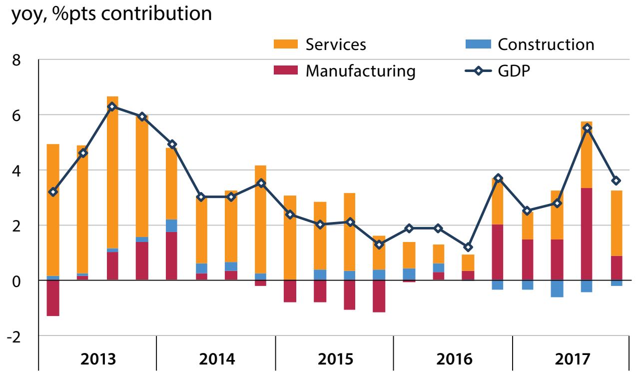
The macroprudential measures have been effective and should be maintained as the property market is recovering. In 2017, the volume of private residential transactions increased substantially. The value of collective sales also reached the highest level since 2007. High frequency SRX non-landed property index increased by 9.4 percent yoy in February 2018. Office rental also rebounded in Q4 2017.

A possible rise in trade protectionist sentiments is an important risk. Such sentiments could lead to imposition of protectionist measures in some advanced countries, causing a downturn in global trade and Singapore's growth.

Corporate and household debt remains high, and some segments are sensitive to an unexpected spike in interest rates. Under the low interest rate environment, both corporates and households have leveraged up since the GFC. Singapore interest rates tend to rise in tandem with the U.S., whose economy is facing late-cycle capacity constraints with a rising interest rate. This will push up debt repayment burdens of Singapore corporates and households, and may cause stress in some segments.

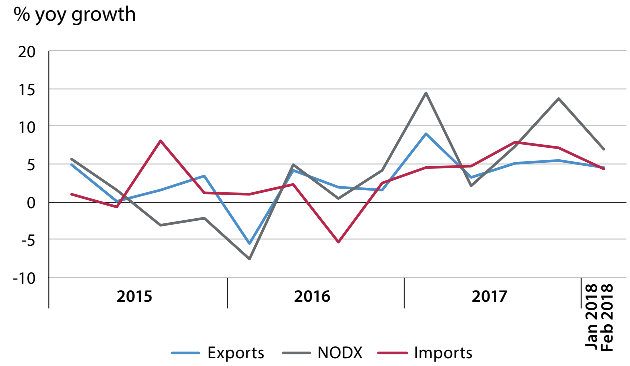
Singapore: Selected Charts

Growth has accelerated in recent quarters, led by manufacturing, and broadened to the services sector.



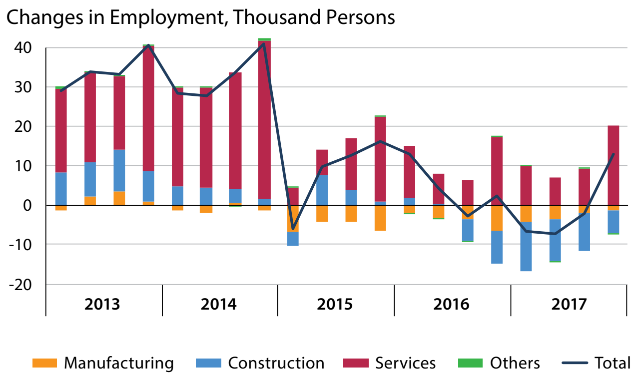
Source: Ministry of Trade and Industry (MTI), Department of Statistics (DOS)

Trade volume, especially NODX (non-oil domestic exports), has rebounded strongly.



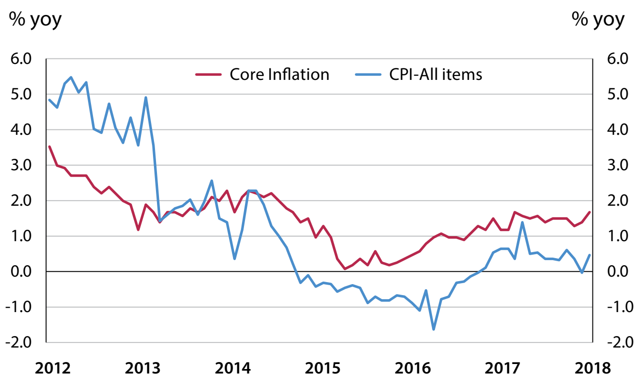
Source: Enterprise Singapore, CEIC, AMRO staff calculations

Labor market is also improving on the back of economic recovery and restructuring



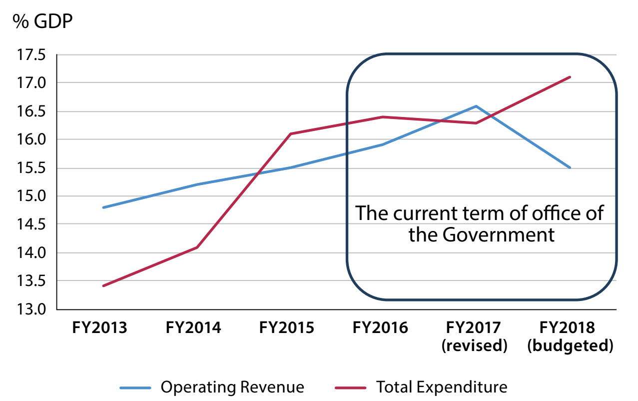
Source: Manpower Research & Statistics Department, Ministry of Manpower

Inflation has picked up recently but remains low. Near-term wage pressure will be contained, but will rise in the medium term.



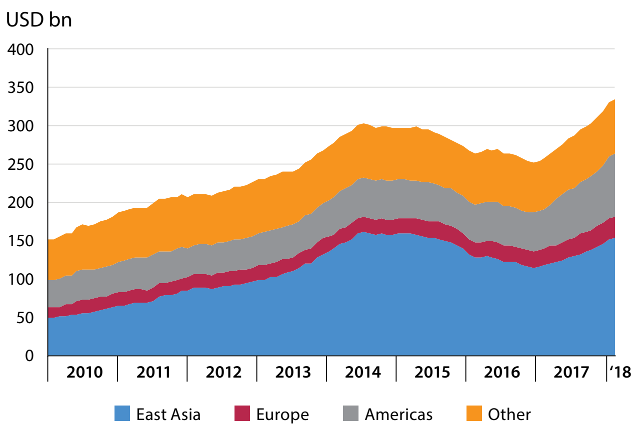
Source: DOS, CEIC

Fiscal policy continues to support economic recovery and restructuring, and the fiscal impulse will be positive in FY2018.



Source: Ministry of Finance

Cross-border bank lending to non-bank clients is growing most rapidly, in particular to East Asian clients.



Source: MAS

Singapore: Selected Economic Indicators

	2014	2015	2016	2017
Real Sector and Prices	(in annual percentage change, unless specified)			
Real GDP	3.9	2.2	2.4	3.6
Real private consumption	3.4	4.9	1.7	3.1
Real public consumption	0.2	7.8	3.5	4.1
Gross fixed capital formation	5.5	2.2	-0.6	-1.8
Exports of goods & services	3.4	4.7	1.1	4.1
Imports of goods & services	2.9	4.1	0.1	5.2
Manufacturing	2.7	-5.1	3.7	10.1
Construction	7.6	5.8	1.9	-8.4
Services	4.3	3.5	1.4	2.8
Wholesale & retail trade	3.0	3.6	1.0	2.3
Transportation & storage	3.1	1.9	1.3	4.8
Accommodation & food services	2.8	0.1	3.8	1.2
Information & communications	7.6	-1.2	3.6	3.3
Finance & insurance	9.3	5.3	1.6	4.8
Business services	2.0	5.4	-0.3	0.6
Other services industries	3.8	2.2	3.5	2.6
External Sector	(in billions of SGD, unless specified)			
Exports of goods (% yoy)	-0.5	-5.2	-5.0	9.2
Exports of services (% yoy)	10.2	8.0	2.2	4.2
Current account	73.7	77.7	81.3	84.2
Current account (% GDP)	18.7	18.6	19.0	18.8
Capital and financial account[1)]	-67.1	-74.0	-83.7	-46.5
Direct investment, net	21.7	54.3	64.0	53.8
Portfolio investment, net	-57.2	-81.5	-37.4	-47.4
Other investment, net	-33.3	-54.9	-91.2	-71.4
Overall balance	8.6	1.5	-2.5	37.8
Official reserve assets (USD bn, end-period)	256.9	247.7	246.6	279.9
Fiscal Sector	(in percent of FYGDP)			
Operating revenue (% GDP)	15.2	15.5	15.9	16.6
Total expenditure (% GDP)	14.1	16.1	16.4	16.3
Primary surplus / deficit (% GDP)	1.0	-0.6	-0.5	0.3
Overall budget surplus / deficit (% GDP)	0.1	-1.0	1.4	2.1
Monetary and Financial Sector	(in percent change, unless specified)			
MAS core inflation	1.9	0.5	0.9	1.5
Consumer price inflation	1.0	-0.5	-0.5	0.6
Unemployment rate (% annual average)	2.0	1.9	2.1	2.2
3-month SGD Sibor (% end period)	0.5	1.2	1.0	1.5
Straits Times Index (end period)	3,365	2,883	2,881	3,403
Property price index (Q1 2009=100)	147.0	141.6	137.2	138.7
Spot exchange rate (SGD per USD, period average)	1.27	1.37	1.38	1.38

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

Thailand

Thai economic growth has gained traction. In 2017, the Thai economy grew at 3.9 percent, attributed by a strong merchandise and service exports, together with sustained domestic private consumption. Robust exports were mainly underpinned by improving global demand and the IT upcycle. Domestically, while private investment remained soft throughout 2017, exhibited a brighter prospect going forward as signaled by an increase in capacity utilization, foreign direct investment commitments, and capital goods imports. On the production side, manufacturing production rose in line with export performance, while service sectors were benefited from buoyant tourism. Agricultural products were volatile due to floods in many areas.

Inflationary pressure remains soft, while monetary conditions are accommodative. Rising global energy prices put an upward pressure on Thailand's consumer prices; however, headline inflation was at 0.66 percent in 2017, below the Bank of Thailand's medium-term inflation target at 2.5 ± 1.5 percent. Core inflation has been lower than 1 percent for three consecutive years, while inflation expectations have risen somewhat. The policy rate has been kept at 1.5 percent since the last rate cut in April 2015.

The external position has continued to strengthen with a widening current account surplus and ample international reserves. Driven by buoyant tourism and an export upturn, the current account surplus continued to be strong and widened further in 2017. The surplus has been partially recycled and invested overseas in the form of direct investment by domestic corporate and portfolio outflows by residents. Residents' outward investments will expand, spurred by the Bank of Thailand's further liberalization of capital account, portfolio diversification by local investors and overseas business expansion by Thai companies. The overall BOP surplus widened in 2017 and led to a further appreciation of the Thai baht and increasing international reserves, which stood at 10 months of goods and services imports.

An expansionary fiscal stance will also support the economic recovery in 2018. The current administration has employed fiscal measures and quasi-fiscal measures to support economic growth. The supplementary budget was set up for FY 2018,[1] the third consecutive year, in order to stimulate the grassroots economy. The government also plans to expand and expedite public investment through its own investment projects and those of state enterprises. Infrastructure investment is expected to gain traction, as the Eastern Economic Corridor Act has come into effect in February 2018. Despite the supplementary budget and an expected significant rise in public investment, fiscal position remains strong. The fiscal deficit is projected to be at around 3.5 percent of GDP in FY2018, and public debt would be kept at slightly above 40 percent of GDP.

The financial system is sound amid a high level of household debt, stabilizing credit quality, and growing search-for-yield behaviors. Concerns over high household debt have been easing due to a moderation in household credit growth. However, pockets of risks remain among low-income households, agriculture and SME households. Meanwhile, deteriorating loan quality, stemming from the protracted economic recovery, has been stabilizing after the economy showed broader improvement in 2017. Commercial banks and state-owned specialized financial institutions have a strong capital position and high loan loss provisions to safeguard against a potential rise in credit risk. Separately, in a low interest rate environment, investors continue to display search-for-yield behavior, which warrants continued monitoring.

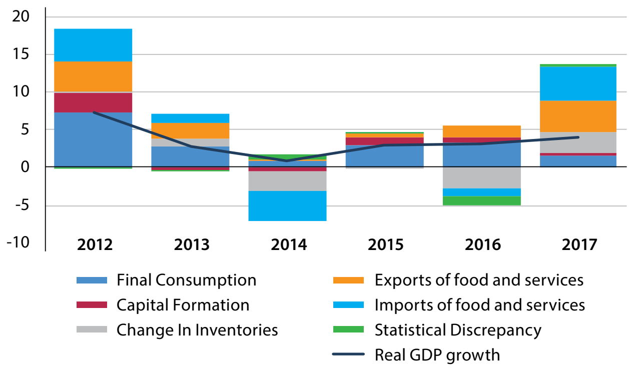
Going forward, the economy is projected to expand at 3.9 percent in 2018 and moderate slightly to 3.7 percent in 2019. The growth contribution would be more balanced between external and domestic drivers. The contribution by net exports would lessen due to a potential moderation of exports and rising imports of capital goods used in infrastructure construction and private investment. Domestically, private consumption is expected to continue growing at the same pace, while private investment is expected to be more robust. Headline inflation is expected to be at 1 percent in 2018 and at 1.6 percent in 2019, but remains relatively low among regional peers.

Trade protectionism, monetary policy in advance economies and domestic structural issues are potential challenges to Thailand's economic outlook. The intensification of trade protectionism, in particular between the U.S. and China, could have negative spillover effects on exports from Thailand and other regional economies. Meanwhile, faster-than-expected pace of the U.S. rate hike could add more risk of capital flow volatility. On the domestic front, more professionals in scientific and engineering fields are needed, as the country is striving to move up the GVC and is shifting toward more advanced technology. A fast-growing, aging society will also face labor constraints in the private sector in the next few decades.

[1] Thailand's fiscal year 2018 starts from 1 October 2017 to 30 September 2018.

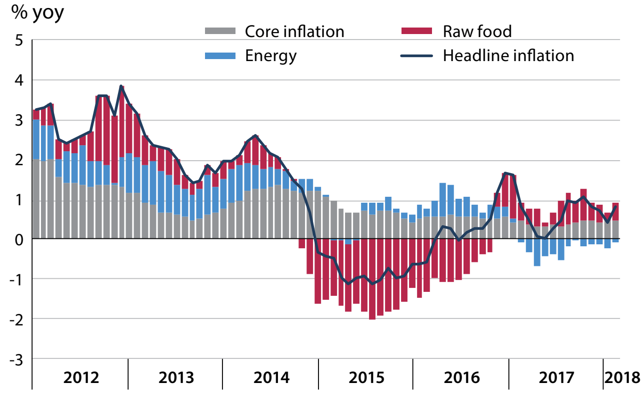
Thailand: Selected Charts

The Thai economy grew further in 2017, driven by merchandise and service exports and sustained domestic private consumption.



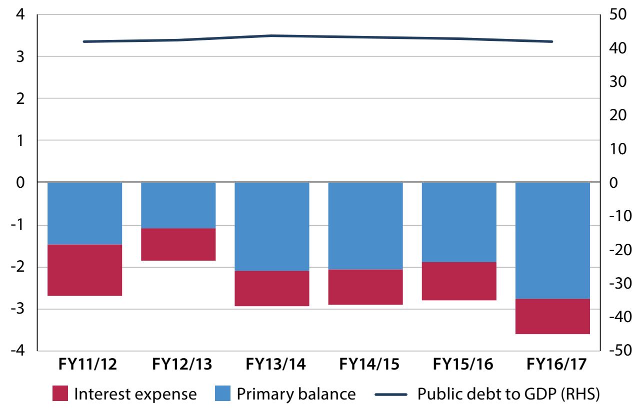
Source: Office of National Economic and Social Development Board, AMRO staff calculations

Headline inflation remains lower than Bank of Thailand's medium-term inflation target.



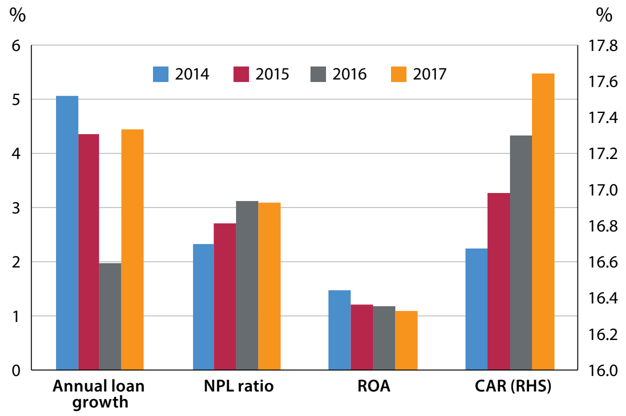
Note: Bank of Thailand's medium-term inflation target is 2.5±1.5 percent.
Source: Ministry of Commerce, AMRO staff calculations

Ample fiscal space will give the government room for more fiscal stimulus.



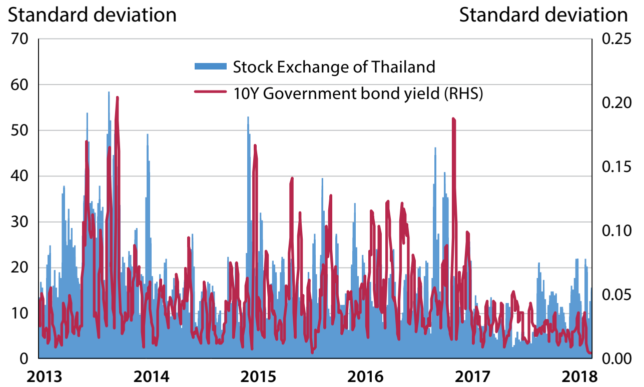
Source: Fiscal Policy Office, Public Debt Management Office

Despite an increase in NPLs, the banking system remains sound with strong capital buffer.



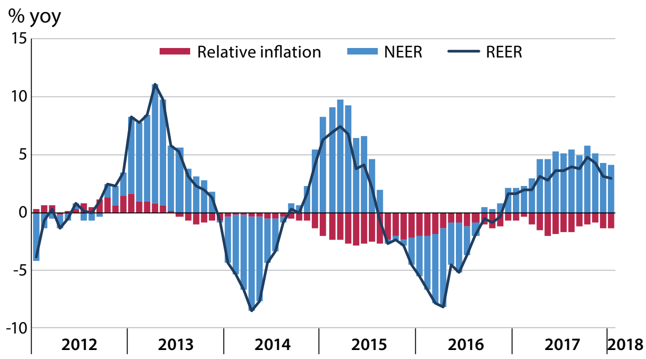
Note: Loan growth refers to total loans excluding interbank loans of commercial banks which includes Thai commercial banks and foreign bank branches. Non-performing loan ratio (NPL ratio), Return-on-asset ratio (ROA) and Capital Adequacy Ratio (CAR) composite of Thai commercial banks only.
Sources: Bank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

Financial market volatility heightened recently, but was less than during the U.S. taper tantrum and the U.S. Presidential Election.



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

Driven by a sizable BOP surplus, the Thai baht appreciated against major trading partners' currencies.



Source: Stock Exchange of Thailand, Thai Bond Market Association

Thailand: Selected Economic Indicators

	2014	2015	2016	2017
Real Sector and Prices	(in annual percentage change, unless specified)			
Real GDP	1.0	3.0	3.3	3.9
Final consumption	1.5	2.3	2.8	2.6
Private sector	0.8	2.3	3.0	3.2
General government	2.8	2.5	2.2	0.5
Capital formation	-2.2	4.3	2.8	0.9
Private sector	-0.9	-2.1	0.5	1.7
General government	-6.6	28.4	9.5	-1.2
Exports of goods and services	0.3	1.6	2.8	5.5
Imports of goods and services	-5.3	0.0	-1.0	6.8
Unemployment rate (in percent, period average)	0.8	0.9	1.0	1.3
Consumer price inflation (period average)	1.9	-0.9	0.2	0.7
Consumer price inflation (end of period)	0.6	-0.9	1.1	0.8
External Sector	(in billions of USD, unless specified)			
Current account balance	15.2	32.1	48.2	48.1
(In percent of GDP)	3.8	8.0	11.7	10.6
Trade balance	17.2	26.8	36.5	31.9
Exports, FOB	226.6	214.0	214.3	235.1
Imports, FOB	209.4	187.2	177.7	203.2
Services, net	10.3	19.2	24.2	29.8
Receipts	55.5	61.8	67.7	75.7
Payments	45.2	42.5	43.5	45.8
Primary income, net	-21.0	-20.6	-19.3	-21.0
Secondary income, net	8.7	6.7	6.8	7.4
Financial account balance	-16.0	-16.8	-21.0	-18.2
Direct investment, net	-0.8	3.9	-10.3	-11.6
Portfolio investment, net	-12.0	-16.5	-2.8	-2.5
Other investment, net	-3.2	-4.3	-7.9	-4.1
Overall balance	-1.2	5.9	12.8	26.0
Gross official reserves excluding net forward position	157.1	156.5	171.9	202.6
(In months of imports of goods & services)	7.4	8.2	9.3	9.5
Total external debt in percent of GDP[/2]	34.7	32.0	32.5	35.2
Debt services in percent of exports of goods and services	4.9	6.3	5.8	5.7
Fiscal Sector [/1]	(in percent of FYGDP)			
Revenue	15.8	16.2	16.8	15.5
Expenditure	18.7	19.1	19.6	19.0
Budget balance	-2.9	-2.9	-2.8	-3.5
Public Debt	43.6	43.1	42.8	42.4

Thailand: Selected Economic Indicators (continued)

	2014	2015	2016	2017
Monetary and Financial Sector	(in annual percentage change)			
Domestic credit (percent yoy)	4.2	5.6	3.5	4.1
Policy rate (percent per annum, end of period)	2.0	1.5	1.5	1.5
10-year government bond yield (percent per annum, end of period)	2.8	2.6	2.8	2.6
Memorandum Items	(in percent of FYGDP)			
Exchange rate (THB per USD, average)	32.5	34.3	35.3	33.9
GDP (in billions of THB)	13,230.3	13,747.0	14,533.5	15,450.1
GDP (in billions of USD)	407.2	401.9	411.8	455.8
GDP per capita (USD)	6,259.9	6,411.4	6,246.5	6,886.7

Note:
1/ Fiscal year extends from October 1 to September 30. For example, FY 2018 starts from 1 October 2017 to 30 September 2018.
2/ The denominator has been adjusted to be compliant with the World Bank method; i.e. calculated as a 3-year moving average GDP.
Source: Thai authorities, AMRO staff calculations

Vietnam

Vietnam's economic growth rebounded strongly in 2017, supported by strong manufacturing exports and strengthened domestic demand, as well as a recovery in agricultural output. Real GDP grew at 6.8 percent in 2017, up from 6.2 percent a year earlier. Growth momentum accelerated in the second half of the year, driven by robust domestic consumption and investment, and strong exports. Short-term growth outlook remains positive, with real GDP expanding robustly at 7.4 percent in the first quarter of 2018, the highest Q1 growth seen in the past seven years.

Despite a pick-up in headline inflation, underlying inflationary pressure remained subdued. Headline CPI averaged 3.5 percent in 2017, up from 2.7 percent a year earlier, driven by higher fuel prices and state-administered price hikes. Underlying inflationary pressure was, however, weaker, with core CPI averaging 1.4 percent in 2017, down from 1.8 percent in 2016. Going forward, inflation is expected to remain within the government target of about 4 percent in 2018.

The overall BOP reported a large surplus in 2017, benefiting from strong export performance and increased foreign investment. Export growth recovered, led by Information Technology and Communication (ITC) products, sustaining current account surplus in 2017. Foreign investment inflows surged, partly related to several large M&A transactions during the year. Against this backdrop, the Vietnamese dong remained relatively stable and gross international reserves increased significantly in 2017, sufficient to cover about 2.8 months of imports of goods and services.

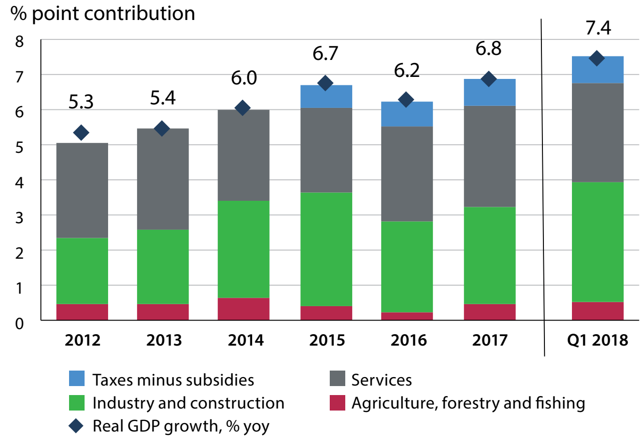
Monetary conditions continued to be supportive of economic activity. Credit grew at 19.1 percent, as at November 2017, compared to the target of 18 percent. While growth in mortgage loans and other personal consumption loans moderated, possibly in response to a tighter macroprudential measure introduced earlier; construction loans continued to increase robustly. The State Bank of Vietnam (SBV) lowered its refinancing and re-discounting rates by 25 basis points in July 2017, and cut its (reverse) repo rate, also known as the open market operation (OMO) rate in Vietnam, from 5 percent to 4.75 percent in January 2018, while setting a slightly lower credit growth target of 17 percent in 2018.

A number of institutional changes have been initiated to push the banking sector reform process, including the endorsement of a pilot NPL resolution scheme (Resolution 42) and a restructuring plan for credit institutions for 2016-2020. More banks reportedly bought back those NPLs which had been transferred earlier to the Vietnam Asset Management Corporation (VAMC) and wrote them down from their balance sheets in 2017. The VAMC has entered NPL resolution agreements with six commercial banks, using the enhanced framework of Resolution 42 to allow banks and VAMC to rapidly repossess collateral from default borrowers. Banks' capital adequacy ratios, however, have been relatively low and their asset quality is still constrained by legacy NPLs kept at the VAMC, which have come down recently but remained elevated at about 3 percent of total loans outstanding.

Fiscal consolidation continued in 2017. Fiscal position improved in 2016 on the back of an increase in land-based revenue and SOE equitization proceeds. Revenue collection in 2017 exceeded the budget plan, aided by buoyant tax revenue and continued strong land-based revenue. Budget expenditure moderated as current spending normalized from a high base in 2016, while capital spending increased in 2017. The overall fiscal deficit moderated from 5.6 percent of GDP in 2016 to about 3.5 percent in 2017, in line with the authorities' target. A number of structural measures to enhance tax revenue have been proposed by Vietnam's Ministry of Finance, as part of the implementation of the recently endorsed Five-year Fiscal Plan and Medium-Term Public Investment Plan for 2016-2020. On the back of improved fiscal position, public debt is estimated to have moderated to about 61.4 percent of GDP in 2017, after peaking at 63.6 percent in 2016.

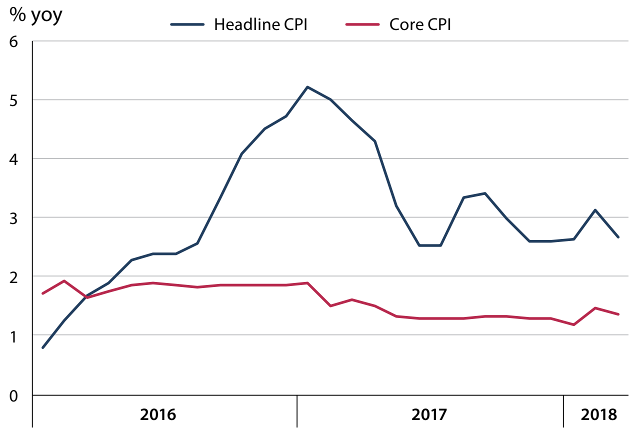
Vietnam: Selected Charts

Economic growth rebounded strongly in 2017 and gathered further momentum in early 2018.



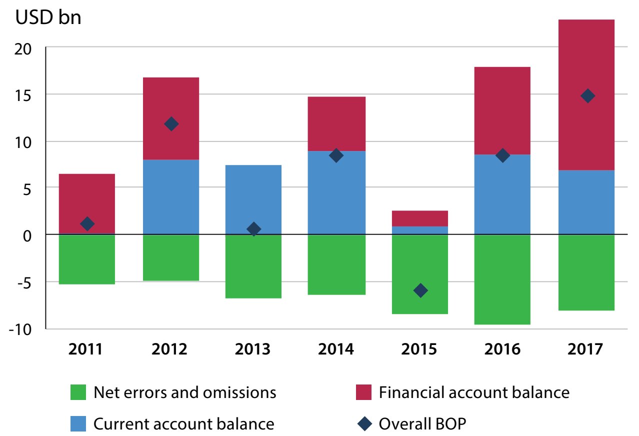
Source: General Statistics Office, CEIC, and AMRO Staff Calculations

Headline CPI inflation moderated in March 2018, after rising above 3 percent in February, and is expected to remain contained in 2018.



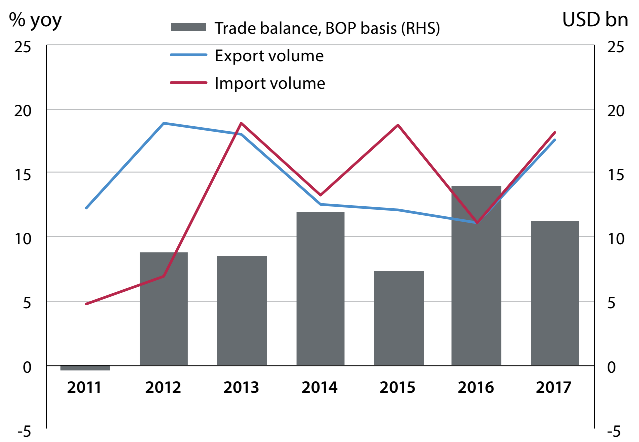
Source: General Statistics Office, CEIC, and AMRO Staff Calculations

The overall BOP saw a large surplus in 2017, benefiting from strong exports and increased foreign investment.



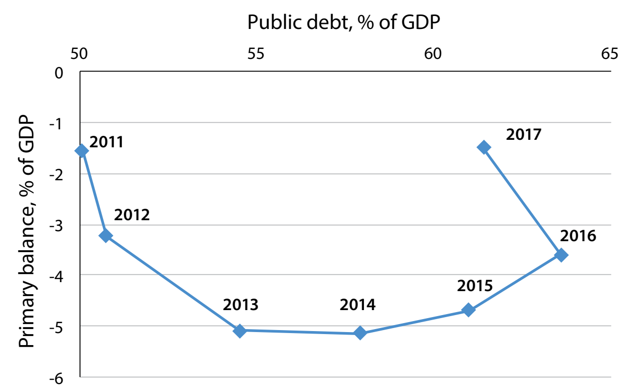
Note: Data for 2017 are AMRO staff estimates.
Source: State Bank of Vietnam (SBV), IMF, AMRO staff calculations

Export growth rebounded, led by rising Information technology and communication exports.



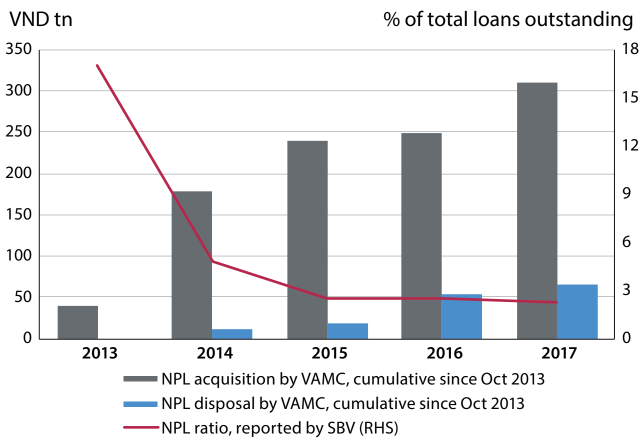
Source: General Statistics Office, SBV, IMF, AMRO staff calculations

Public debt moderated on the back of further fiscal consolidation in 2017.



Sources: Ministry of Finance, AMRO staff calculations

Several banks reportedly stepped up the resolution of legacy NPLs, but unresolved NPLs at the VAMC remain elevated.



Sources: SBV, VAMC, CEIC, AMRO staff calculations

Vietnam: Selected Economic Indicators

	2014	2015	2016	2017
Real Sector and Prices		(in annual percentage change)		
Real GDP	6.0	6.7	6.2	6.8
GDP deflator	3.7	-0.2	1.1	4.1
Consumer price inflation (average)	4.1	0.6	2.7	3.5
Consumer price inflation (end of period)	1.9	0.6	4.7	2.6
External Sector		(in billions of USD)		
Trade balance	11.9	7.4	14.0	11.3
Current account balance	8.9	0.9	8.5	6.8
In percent of GDP	4.8	0.5	4.2	3.1
Overall balance	8.4	-6.0	8.4	14.8
Gross international reserves				
In months of imports of goods & services	2.7	2.0	2.4	2.8
Coverage of short-term debt by remaining maturity	2.3	1.9	2.1	2.8
		(in annual percentage change)		
Export volume	12.5	12.1	11.1	17.6
Export unit value (in USD terms)	1.1	-3.8	-1.8	2.9
Import volume	13.3	18.8	11.1	18.2
Import unit value (in USD terms)	-1.1	-5.8	-5.3	2.6
Terms of trade	0.6	2.1	2.7	0.3
Fiscal Sector (General Government)		(in percent of GDP)		
Revenue and grants	22.3	23.8	24.5	24.8
Expenditure	28.6	30.3	30.1	28.2
Expense	20.1	20.8	22.8	20.3
Net acquisition of non-financial assets	8.5	9.5	7.3	7.8
Net lending/borrowing	-6.9	-6.7	-5.6	-3.5
Primary net lending/borrowing	-5.1	-4.7	-3.6	-1.5
Monetary and Financial Sector		(in annual percentage change)		
Domestic credit	15.4	20.2	17.2	17.1
General government	29.6	29.9	6.3	8.2
Other	13.8	18.8	18.8	18.2
Broad money	19.7	14.9	17.9	20.7
Memorandum Items				
Exchange rate (VND per USD, period average)	21,148	21,698	21,932	22,370
Exchange rate (VND per USD, end of period)	21,246	21,890	22,159	22,580
Nominal GDP (in billions of USD)	186.2	193.2	205.3	223.9
Nominal GDP (in trillions of VND)	3,938	4,193	4,503	5,008

Note: BOP and monetary sector data for 2017 are AMRO staff estimates. General government data are calculated by AMRO staff using Ministry of Finance of Vietnam's final account data for 2013-2015 and estimate data for 2016-2017.
Source: National Authorities, IMF, World Bank, CEIC, AMRO staff calculations