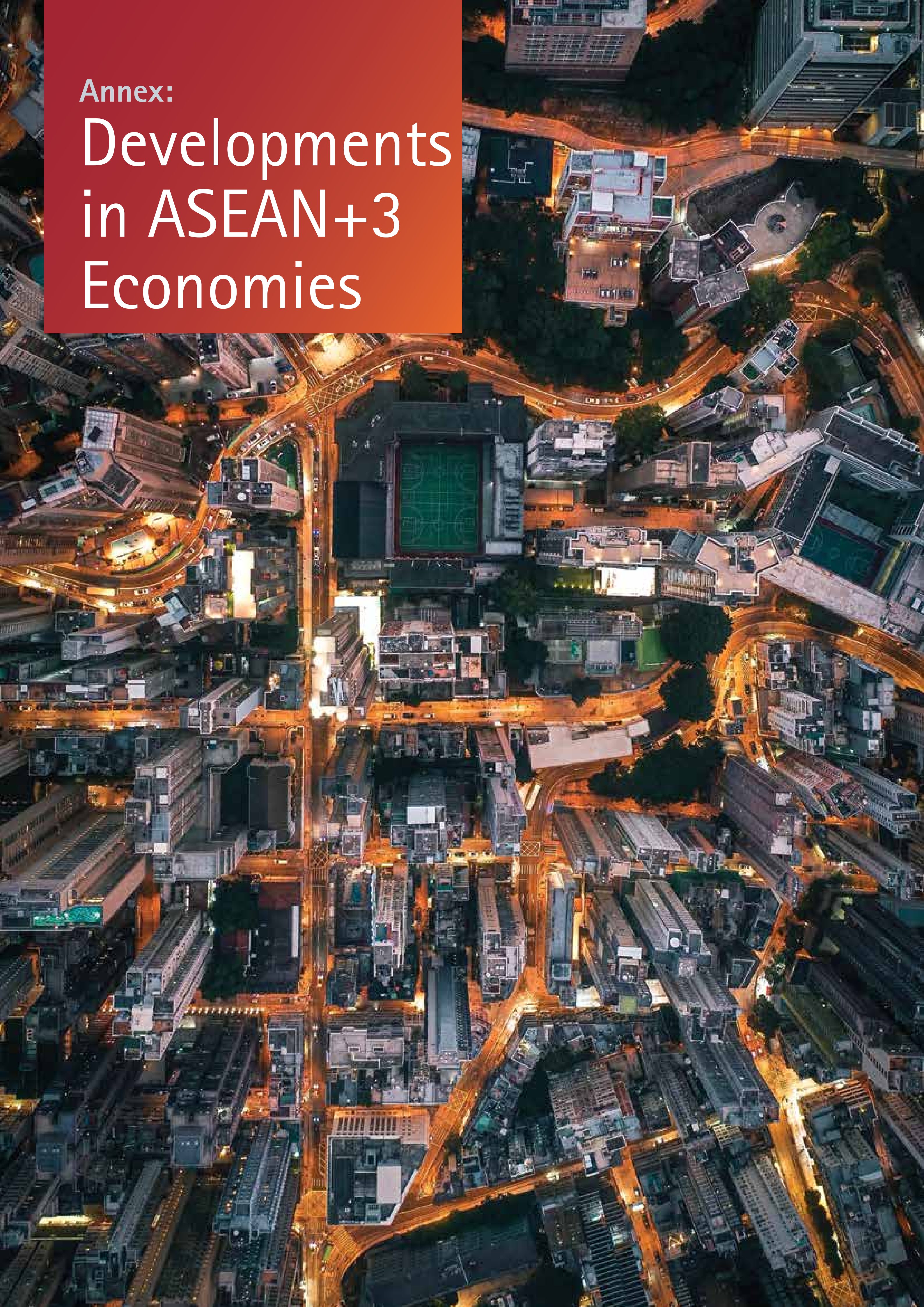
Annex:

Developments in ASEAN+3 Economies



Brunei Darussalam

The Bruneian economy recovered in 2019. After returning to positive growth in 2017, the economy experienced several quarters of low or negative growth in oil and gas production as a result of ongoing maintenance and rejuvenation work. Despite the contraction in Q1 2019, the economy grew significantly in the last three quarters and recorded growth of 3.9 percent for the whole of 2019. The rebound was mainly attributable to enhanced oil and gas production, which was boosted by the commencement of Hengyi's refinery production in November 2019. The economic recovery was also supported by strong growth in the services sector, especially the finance and the wholesale and retail sub-sectors.

Consumer price inflation has remained low and fallen into the negative territory since the beginning of 2019. After recording slightly positive inflation of 1.0 percent in 2018, period-on-period CPI inflation in 2019 fell by 0.5 percent until November, mostly attributable to lower non-food prices. For the entire year of 2019, inflation is expected to remain negative.

The external sector remained strong, despite the decline in the current account surplus in recent years. Export growth increased sharply in 2018 on the back of higher-than-average commodity prices. Amid a decline in oil and gas prices, exports were still growing quite strongly in 2019, underpinned by the increase in oil and gas production, especially in the last quarter when Hengyi came online. Import growth, which saw a boost in recent years from infrastructure and large FDI projects, has slowed with the near-completion of these projects. Meanwhile, the commencement of downstream operations has significantly increased imports of crude oil especially toward the end of 2019. Along with the widening services deficit since 2018, the current account surplus is estimated to narrow further in 2019. Overall, the external position remains strong with ample foreign assets.

The financial sector has remained sound, with low risks, and credit growth is recovering. The sector continues to be dominated by banks, which are well capitalized and have ample liquidity. Banks have remained profitable and have increased their returns in recent quarters, amid relatively low loan-to-deposit ratios, which have been increasing in recent quarters because of a recovery in credit demand. On the other hand, the gross non-performing loan ratio decreased in 2019. Credit growth recovered in 2018 and is expected to continue in 2019, in line with the economic recovery.

The fiscal position has improved in recent years, but the budget is anticipated to remain in deficit. Overall, the fiscal situation has improved considerably from a deficit of 12.9 percent of GDP in FY2017/18 to a surplus of 0.2 percent of GDP in FY2018/19, on the back of higher oil and gas revenues and continued restraint in fiscal spending. Consolidation efforts have reduced total government expenditure by 6.9 percentage points of GDP since FY2016/17. In 2019, oil and gas prices were considerably lower than those in 2018, and are expected to decline throughout 2020, which is expected to result in a budget deficit in FY2019/20.

The major risks facing the Bruneian economy in the near to medium term stem mainly from oil and gas-related factors. Given the large dependence on the oil and gas sector for GDP growth, fiscal revenue and exports, risks can arise from domestic and external factors to affect the economy through several channels. Domestically, the risks are mostly related to (1) unforeseen disruptions to oil and gas production from some mature fields; and (2) potentially lower production in downstream activities. Externally, expectations of a sharp slowdown in the major economies from the COVID-19 pandemic—potentially amplified by any resumption in trade tensions—could lead to sustained, significantly lower oil and gas prices.

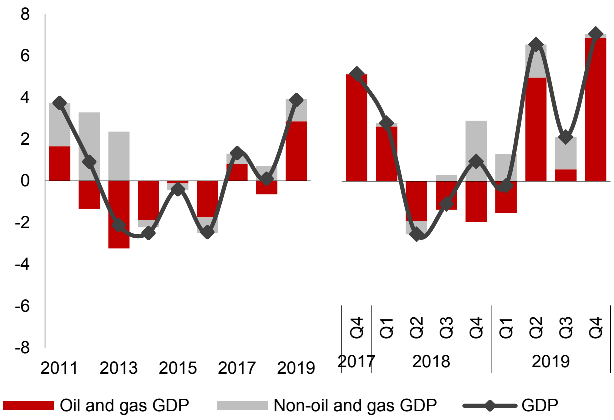
Slower momentum in economic diversification could dampen medium- to long-term prospects, while a delay in large FDI projects could negatively impact the near-term outlook. Considerable progress has been made to diversify the economy but challenges remain, in particular, the heavy reliance on the oil and gas sector. Further structural reforms and diversification momentum would enhance the growth potential of the economy, even with declining oil and gas production in the future.

The author of this country note is Muhammad Firdauz Muttaqin.

Brunei Darussalam: Selected Figures

The Bruneian economy grew strongly, especially in in Q2 and Q4 2019.

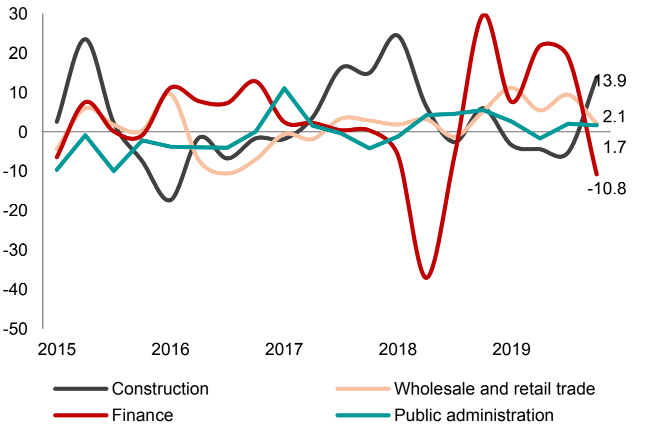
Contributions to Real GDP Growth
(Percentage points)



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

The economic recovery was also driven by the non-oil and gas sector, especially the financial sub-sector, while the construction sub-sector continued to slow.

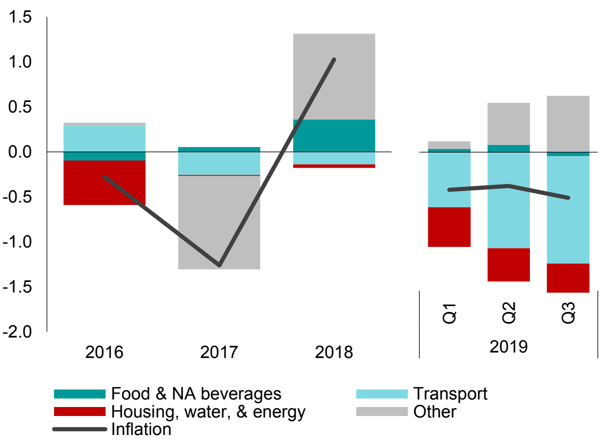
Growth in the Major Non-Oil and Gas Sector
(Percent year-over-year)



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

Consumer price inflation returned to negative territory, mainly driven by falling durable goods prices.

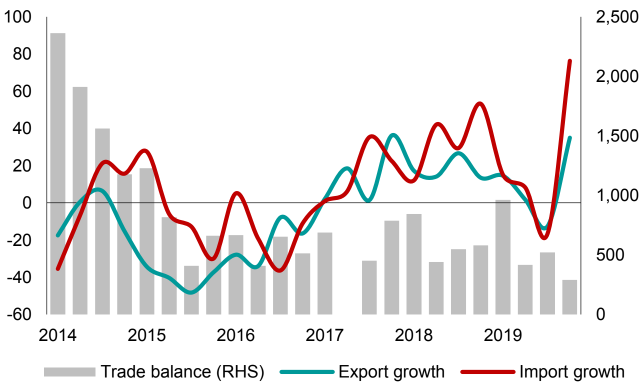
Inflation
(Percent year-over-year)



Sources: Department of Economic Planning and Development; and AMRO staff calculations. NA beverages = non-alcoholic beverages.

The trade balance surplus narrowed in 2019 on the back of low commodity prices.

Trade Balance
(Percent year-over-year; Millions of US dollars)



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

The banking sector remains sound with high levels of capital, liquidity, and profitability and contained credit risk.

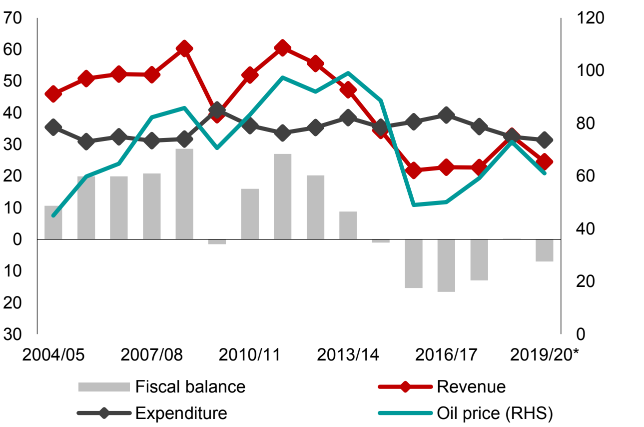
Financial Soundness Indicators
(Percent)

Indicator	2013	2014	2015	2016	2017	2018	2019 Q3
Capital adequacy							
CAR	19.4	21.4	21.5	21.5	18.3	18.4	20.1
CAR tier 1	20.4	21.4	22.8	23.2	18.1	19.2	19.7
Asset quality							
NPL gross	5.7	5.0	4.9	5.9	4.4	4.8	4.8
NPL net	1.6	2.3	2.2	3.3	1.4	2.4	2.6
Profitability							
ROA	1.4	1.4	1.3	1.0	1.4	1.5	1.8
ROE	10.2	10.1	8.7	6.4	9.5	11.4	12.6
Liquidity							
Liquid assets to total assets	56.2	53.9	45.5	50.4	51.0	51.6	47.5
Loan to deposit ratio	33.6	35.7	42.9	40.7	40.2	40.9	46.3

Sources: Autoriti Monetari Brunei Darussalam; and AMRO staff calculations. CAR = Capital adequacy ratio; NPL = non-performing loan; ROA = return on assets; ROE = return on equity.

Although the government has succeeded in restraining its expenditure in recent year, fiscal performance is strongly influenced by oil and gas prices.

Fiscal Position and Oil Price
(Percent of GDP; US dollar per barrel)



Sources: Ministry of Finance and Economy; and AMRO staff calculations.
Note: FY2019/20 refers to budget data.

Brunei Darussalam: Selected Economic Indicators

	2016	2017	2018	2019 e/
Real sector	(in annual percentage change)			
Real GDP	-2.5	1.3	0.1	3.9
Private consumption	-1.3	4.7	2.2	5.9
Government consumption	-6.5	7.4	1.6	1.8
Gross fixed capital formation	-11.1	8.0	28.1	-4.4
Exports of goods and services	-1.9	-5.3	5.7	14.9
Imports of goods and services	-10.8	1.3	28.1	13.8
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	12.9	16.4	7.8	5.9
Trade balance	18.9	19.8	17.4	–
Capital and financial account balance	-56.0	-11.8	-1.6	–
Errors and omissions	44.4	-6.8	-6.3	–
Overall balance	1.3	-2.3	-0.1	–
International reserves				
(in USD million, end of period)	3,489.0	3,488.0	3,407.0	–
Fiscal sector[1]	(in percent of GDP)			
Revenue and grants	22.7	22.7	32.6	24.4
Expenditure	39.3	35.7	32.4	31.5
Fiscal balance	-16.6	-12.9	0.2	-7.0
Monetary and financial sectors	(in annual percentage change)			
Broad money	1.5	-0.4	2.8	4.3
Domestic credit[2]	-21.2	-14.2	6.0	6.8
Private sector credit	-5.2	-5.3	-3.0	2.3
Memorandum items:				
Nominal GDP (in BND million)	15,748	16,748	18,301	18,375
Nominal GDP (in USD million)	11,412	12,136	13,556	13,511
Headline inflation (in percent yoy, period average)	-0.3	-1.3	1.0	-0.4
Exchange rate (in BND/USD, period average)	1.38	1.38	1.35	1.36

Sources: National authorities; and AMRO staff estimates.
Note: Red number denotes AMRO staff estimate. yoy = year-over-year.

e/ Refers to AMRO staff estimates, except for GDP and exchange rate.
[1] Figures are for fiscal year that run from April to March.
[2] Domestic credit is based on Domestic claims on Financial Corporation Survey data.

Cambodia

Cambodia's economy has continued to grow strongly. Real GDP growth hit an 8-year high of 7.5 percent in 2018. The garment manufacturing sector rebounded strongly on the back of surging exports after slowing down for two consecutive years. The construction sector also continued its rapid growth, supported by the robust property market and infrastructure development. Buoyant domestic demand contributed to the high growth in 2018, with higher wages, in both the public and private sectors, and strong inflows of foreign direct investment. In 2019, the global growth momentum weakened, dragged down by a broad-based slowdown in major economies amid increasing uncertainties in trade and geopolitical tensions. With weaker external demand, Cambodia's economic growth is estimated to moderate to 7.1 percent in 2019 and projected to slow down sharply in 2020 with negative spillovers from the COVID-19 outbreak in China.

Headline inflation has remained relatively subdued. It averaged at 2.5 percent in 2018, down from 2.9 percent in 2017, supported by broadly stable food and beverage prices. In 2019, headline inflation moderated further, averaging 1.9 percent year-over-year as energy prices continued to fall while food prices remained relatively stable.

The overall balance of payments has remained in surplus, as the widening current account deficit was offset by strong foreign direct investment (FDI) inflows. As import growth continued to outpace exports, the already sizable current account deficit is estimated to widen further in 2019. However, the surplus in the capital and financial account, underpinned by strong FDI inflows, fully covered the increasing current account deficit. FDI flowed largely to the financial sector and construction and real estate related activities, which accounted for about 53.6 percent of total FDI inflows as of Q2 2019. As a result, the overall balance of payments has remained in surplus, leading to a further build-up in foreign reserves. Gross international reserves went up to USD 18.8 billion as of December 2019, sufficient to cover about 9.4 months of goods and services imports.

Financial sector indicators are broadly sound. Capital adequacy ratios for both commercial banks and microfinance institutions have been improving with the implementation of new minimum capital requirements. In addition, the liquidity coverage ratio and solvency ratio of banks have been trending up well above regulatory minimum levels. As of Q3 2019, the non-performing loan ratio of banks edged up slightly to 2.5 percent, attributable in part to a stricter loan classification regime and the adoption of International Financial Reporting Standards 9. Credit growth in the private sector rebounded strongly and accelerated further to 26.2 percent in Q3 2019, driven mainly by construction and real estate related activities, which increased the concentration of credit in the construction and real estate related sector to about 28.4 percent of total credit as of September 2019.

The fiscal position has strengthened further on the back of persistently strong revenue collection. With the successful implementation of the Revenue Mobilization Strategy 2014-2018 (RMS I), domestic revenue reached a record high of 21.4 percent of GDP in 2018. As the rapid increase in public-sector wages abated, the overall fiscal deficit narrowed to 2.2 percent of GDP in 2018. The current budget surplus continued in 2018, helping the government to build up its fiscal deposit, which reached 16.3 percent of GDP as of September 2019. As the strong revenue collection continued and government spending remained contained, fiscal balance in 2019 is projected to narrow further to 2.0 percent of GDP.

High dependence on only a few markets has raised concerns over Cambodia's vulnerability to concentration risks. Given the country's high reliance on the EU market, the suspension of its Everything But Arms ("EBA") status will impact its exports. In addition, China's dominant share of FDI and tourist arrivals has increased Cambodia's vulnerability to any negative developments in China, such as a sharp growth slowdown or sudden policy changes.

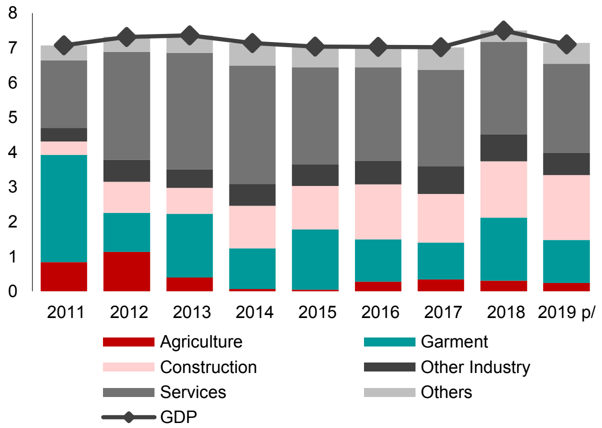
In order to maintain its high growth potential, Cambodia needs to continue its efforts to enhance competitiveness and economic diversification. The country must address its structural challenges, such as the relatively poor infrastructure, limited supply of skilled labor and rapidly rising minimum wages. It is essential to prioritize fiscal resources to support structural reforms and to continue efforts to enhance public-sector efficiency amid rising spending needs.

The author of this country note is Tanyasorn Ekapirak.

Cambodia: Selected Figures

The Cambodian economy continued to post high growth.

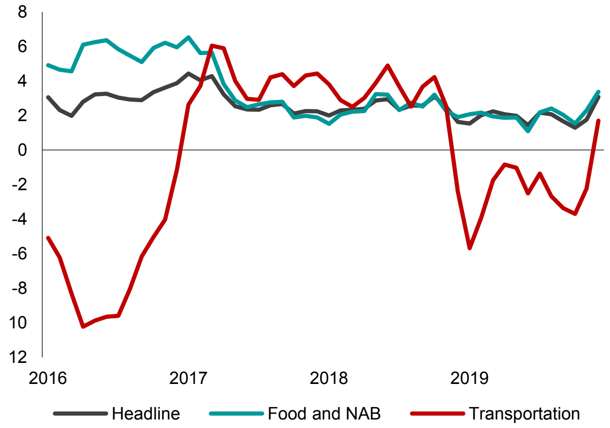
Contributions to Real GDP Growth
(Percentage points)



Sources: National Institute of Statistics of Cambodia; and AMRO staff calculations.

Headline inflation remained relatively subdued.

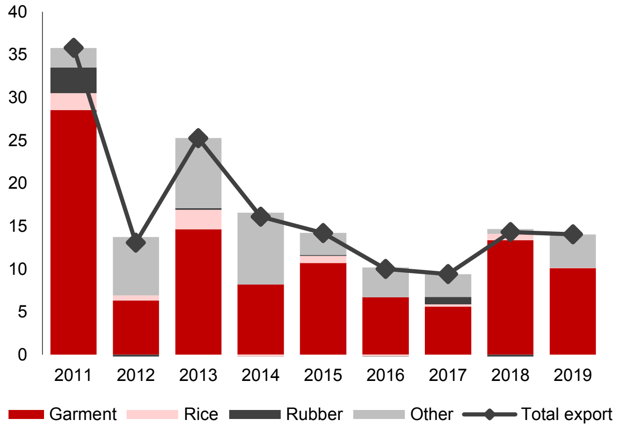
Inflation
(Percent year-over-year)



Source: National Bank of Cambodia. NAB = non-alcoholic beverages.

Exports growth remained strong in 2019.

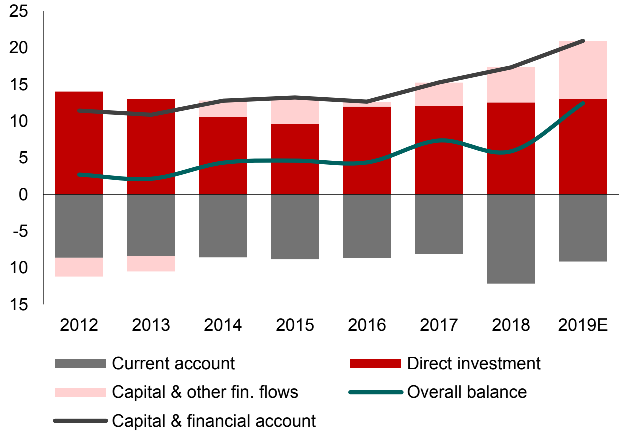
Exports
(Percentage point contribution)



Source: National Bank of Cambodia.

The large capital and financial account surpluses contributed to the overall balance of payments surplus.

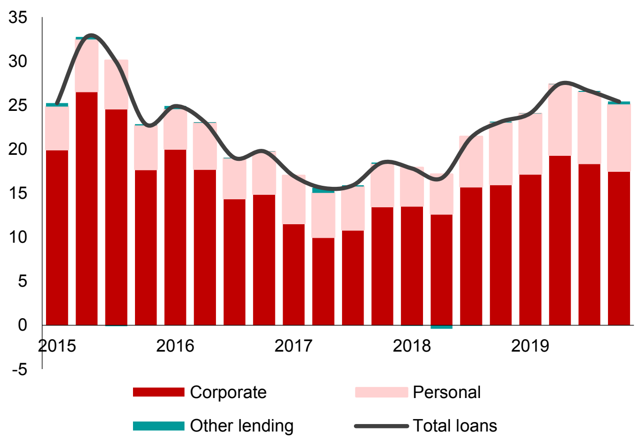
Balance of Payments
(Percent of GDP)



Sources: National Bank of Cambodia; and AMRO staff calculations.

Credit growth has accelerated since H2 2018.

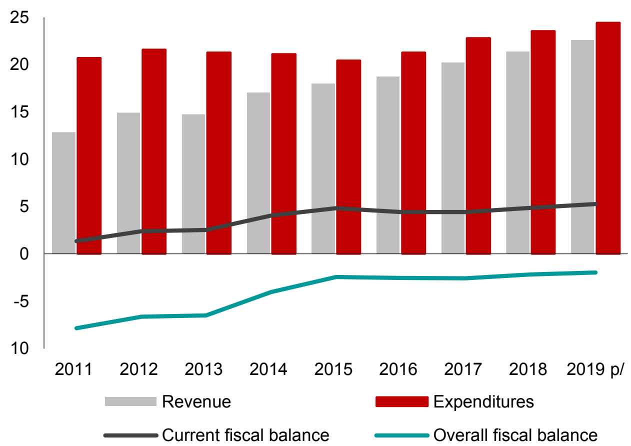
Domestic Credit Growth
(Percent year-over-year; percentage point contribution)



Sources: National Bank of Cambodia; and AMRO staff calculations.

Continued strong revenues further strengthened the fiscal position.

Fiscal Position
(Percent of GDP)



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

Cambodia: Selected Economic Indicators

	2016	2017	2018	2019
Real sector	(in annual percentage change)			
Real GDP	7.0	7.1	7.5	7.1
Private consumption	6.7	4.6	5.8	5.2
Government consumption	5.7	6.5	7.9	7.8
Gross fixed capital formation	10.1	6.1	13.2	14.8
Imports of goods and services	14.7	14.7	14.7	14.7
Exports of goods and services	11.8	11.8	11.8	11.8
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	-8.7	-8.1	-12.2	-9.1
Trade balance	-19.2	-19.3	-23.8	-22.2
Capital and financial account balance	12.6	15.3	17.3	20.9
Direct investment	12.0	12.1	12.6	13.0
Portfolio investment	0.0	0.0	-0.2	0.0
Other investment	-0.7	2.0	3.7	6.9
Errors and omissions	0.4	0.5	0.7	0.7
Overall balance	4.4	7.4	5.9	12.4
External debt	50.3	51.8	53.8	49.9
International reserves (in USD billion, end of period)	9.1	12.2	14.6	18.8
Fiscal sector	(in percent of GDP)			
Revenue and grants	21.0	21.9	23.1	23.4
Expenditure	21.8	23.4	24.3	24.4
Fiscal balance	-2.5	-2.6	-2.2	-2.0
Government debt	29.2	30.0	28.9	29.4
Monetary and financial sectors	(in annual percentage change)			
Broad money	17.9	23.8	24.0	18.0
Domestic credit	21.9	15.6	21.1	21.2
Private sector credit	22.5	18.5	23.2	26.3
Memorandum items:				
Nominal GDP (in billions of KHR)	81,241.9	89,830.5	99,629.6	109,477.6
Nominal GDP (in millions USD)	20,016.7	22,177.2	24,592.8	27,000.0
GDP per capita (USD)	1,269.9	1,385.6	1,495.0	1,617.7
Headline inflation (in percent yoy, period average)	3.0	2.9	2.5	1.9
Exchange rate (in KHR/USD, period average)	4,053.7	4,045.1	4,044.8	4,052.0

Sources: National authorities; and AMRO staff estimates.
Note: Red number denotes AMRO staff estimate. yoy = year-over-year.

China

The Chinese economy grew by 6.1 percent in 2019, slowing from 6.6 percent in 2018. Growth was weighed down by the trade tensions with the United States and the deleveraging process. However, the authorities' policy responses in cutting taxes and fees and deploying measures to keep credit expansion at a steady pace helped forestall a sharp economic slowdown.

Growth is expected to undergo a short-lived deceleration in Q1 2020, due to the recent epidemic of novel COVID-19. The contagion itself and attempts to curtail its spread could lead to disruptions in economic activity and closure of some businesses. We expect a strong rebound in the second half of 2020, given the strong policy measures by the government to control the spread of the epidemic and mitigate the impact on the economy, as well as some emerging signs that the epidemic is being brought under control.

The unemployment rate is showing an uptick. Employment has continued to grow, predominantly in the services sector. Nonetheless, the unemployment rate has edged up slightly because of the slowing economy, reaching 5.2 percent in December 2019. It is likely to rise further in H1 2020 as a result of the epidemic.

Consumer price index (CPI) inflation has picked up, but it is expected to remain contained amid tepid demand. CPI inflation rose to 5.4 percent in January 2020, reflecting mainly a sharp rise in pork prices. However, pork prices are expected to decline in 2020 with the increase in production and imports. Moreover, core CPI inflation has been low and stable as a result of subdued demand, and will likely continue.

Trade negotiations with the United States have been positive. The two countries have reached a Phase One deal, signaling a de-escalation in the trade tensions. The deal put into immediate effect tariff rollbacks, expansion of trade, commitments on intellectual property rights, changes to currency practices, and the opening up of China's financial markets. Chinese and US officials are also ready to begin the second stage of talks, which could lead to further tariff reductions. The progress has reduced uncertainty, enhanced confidence and is expected to propel China's trade in 2020, boosting growth and dampening inflation.

Nonetheless, overall risks are still elevated in the near term and could persist into the medium term:

- The infection rate and duration of the epidemic are still uncertain. In addition, the virus has spread to other economies.
- Given the high levels of corporate debt, a further slowdown in the economy could lead to higher defaults and difficulties for some corporates in refinancing, particularly small- and medium-sized enterprises.
- Weaker growth could have a sizable impact on employment.
- Defaults by local government financing vehicles' debt may increase.

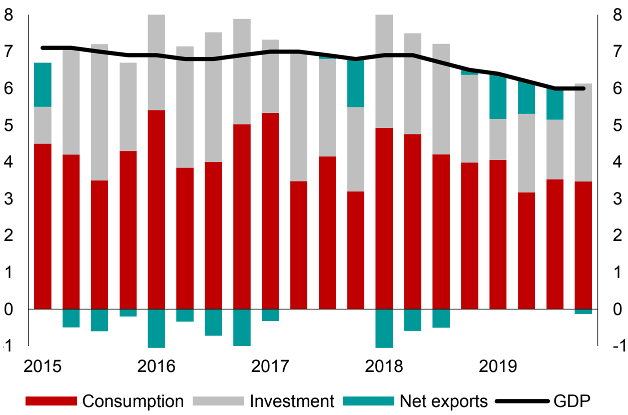
To mitigate the impact of the epidemic, Chinese authorities are taking measures to support the vulnerable groups, provide liquidity to the financial system, and ensure that production can recover when the epidemic recedes. Policy priorities in the near term will continue to focus on coping with the economic slowdown while also prioritizing the quality of economic growth and guarding against macroeconomic and financial stability risks.

The author of this country note is Simon Liu.

China: Selected Figures

Policy measures to mitigate the impact from the trade tensions with the United States has prevented a sharp economic slowdown.

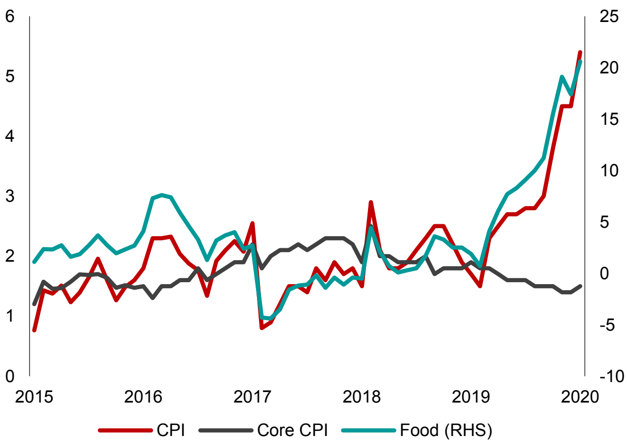
Contributions to Real GDP Growth
(Percentage points)



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

CPI inflation has risen sharply as a result of the swine flu epidemic, while core inflation has remained subdued.

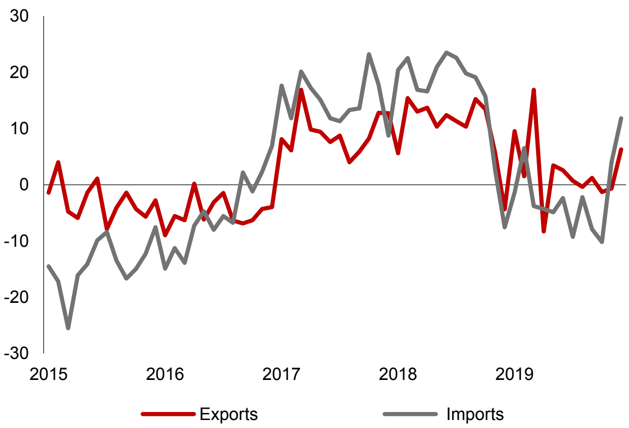
Consumer Price Index Inflation
(Percent year-over-year)



Sources: National Bureau of Statistics of China; Wind; and AMRO staff calculations.
CPI = consumer price index.

Trade rebounded strongly in December 2019, as the trade tensions eased and the global outlook improved.

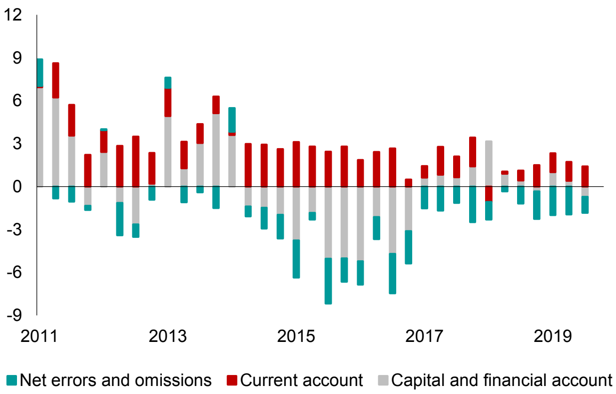
Exports and Imports
(Percent, year-over-year, seasonally adjusted)



Sources: CEIC Data; and AMRO staff calculations.

The balance of payments was largely in balance in 2019.

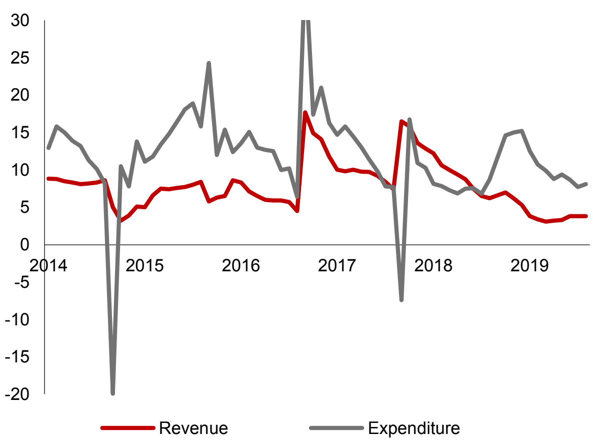
Balance of Payments
(Percent of quarterly GDP)



Sources: CEIC Data; and AMRO staff calculations.

To support the economy, the authorities have cut taxes and fees, while keeping expenditure at a high level.

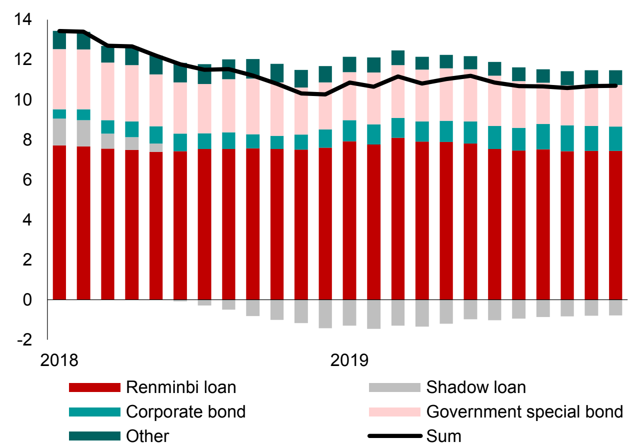
General Government Revenue and Expenditures
(Percent, year-over-year, year-to-date)



Sources: National Bureau of Statistics of China; and AMRO staff calculations.

Credit expansion has picked up slightly, supporting growth.

Total Social Financing
(Percentage point contribution, year-over-year)



Sources: People's Bank of China; and AMRO staff calculations.

China: Selected Economic Indicators

	2016	2017	2018	2019
Real sector	(in annual percentage change)			
Real GDP	6.8	6.9	6.6	6.1
Private consumption	10.3	8.4	9.5	…
Government consumption	10.6	11.9	10.9	…
Gross fixed capital formation	6.5	5.1	4.9	…
Imports of goods and services	…	15.2	12.3	…
Exports of goods and services	…	11.8	7.1	…
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	1.8	1.6	0.4	1.2
Trade balance	2.3	1.8	0.7	…
Capital and financial account balance	0.2	0.1	0.8	…
Direct investment	-0.4	0.2	0.8	…
Portfolio investment	-0.5	0.2	0.8	…
Other investment	-2.8	0.4	-0.6	…
Errors and omissions	-2.0	-1.7	-1.2	…
Overall balance	-1.9	2.5	1.3	…
Gross external debt	12.7	14.5	14.4	…
International reserves (in USD billion, end of period)	3,010.5	3,139.9	3,072.7	3,107.9
Fiscal sector[1]	(in percent of GDP)			
Revenue	22.4	22.0	21.6	21.0
Expenditure	25.3	24.8	24.1	23.8
Fiscal balance	-2.9	-2.9	-2.6	-2.8
Monetary and financial sectors	(in annual percentage change)			
Broad money (M2)	11.3	8.1	8.1	8.7
Total social financing	12.8	14.1	10.3	10.7
Bank loans in CNY	13.4	13.2	13.2	12.5
Memorandum items:				
Nominal GDP (in CNY trillion)	74.6	83.2	91.9	99.1
Headline inflation (in percent yoy, period average)	2.0	1.6	2.1	2.9
Shanghai Interbank Offered Rate, overnight (in percent)	2.2	2.8	2.6	1.7
Exchange rate (in USD/CNY, period average)	6.6	6.8	6.6	6.9

Sources: National authorities; and AMRO staff estimates.
Note: Red number denotes AMRO staff estimate. yoy = year-over-year.
[1] Refers to general government account and AMRO staff estimates.

Hong Kong, China

Hong Kong has entered a recession, reflecting a pullback of cross-border trade with Mainland China, and a sharp drop in business sentiment owing to the sociopolitical unrest and the US-China trade conflict. The deceleration in growth became sharper through 2019, culminating in a full-year contraction of 1.2 percent, and weakening external demand having spilled over to domestic activity. On an import-adjusted basis, consumption growth is shown to have been on a pronounced decelerating trend, and insufficient to offset the dip in investment.

The 2020 growth outlook is clouded, due to external headwinds, domestic sociopolitical tensions, and the potential impact of the COVID-19 outbreak. The ratification of the Phase One deal between China and the United States is expected to help lessen external headwinds, but uncertainty surrounding further agreements remains. Domestic unrest is still weighing on economic sentiment, and the COVID-19 outbreak has added yet more uncertainty. Accordingly, AMRO has revised its 2020 baseline growth forecast for Hong Kong to –0.5 percent for 2020.

Employment growth has weakened. The jobless rate has risen to 3.4 percent, while employment growth has turned more negative as a few key sectors have been shedding jobs.

Inflation pressures have increased moderately due to supply-side factors, but remain contained. Headline CPI inflation was 2.9 percent for 2019, with pork prices pushing it up from Q2 onward. Inflation pressures should stay contained into 2020, as underlying demand in the economy will be subdued.

The financial system remains resilient. Overall domestic financial conditions are accommodative. The moderation of bank credit expansion is in line with the economic slowdown. Banks have maintained strong capital and liquidity buffers and healthy asset quality. The non-performing loan ratio has been stable at a very low at 0.5 percent; the overall capital adequacy ratio is a strong at 20.6 percent; and key banks' liquidity coverage ratio are well above a high threshold of 150 percent.

The property market recovered in the first 5 months of 2019, and then came under downward pressure. Sentiment remains guarded. If the domestic unrest and the spread of COVID-19 were to be contained, residential property prices could hold up on the back of strong demand and short supply.

Hong Kong's strong fiscal position has allowed the government to ramp up measures to support growth and address socioeconomic challenges. After a pronounced 15.0 percent year-over-year increase in government expenditure in financial year (FY) 2019/20 to support growth and economic diversification and to boost social welfare, the government plans to ramp up spending further in FY2020/21, by an even larger 19.6 percent, to cushion the economy against recessionary forces. Nevertheless, the fiscal position remains strong, as fiscal reserves are about 39.5 percent of GDP, equivalent to about 22 months of government spending, and there will still be an ample balance of 26.5 percent of GDP, equivalent to about 22 months of government spending, by the end of FY2024/25.

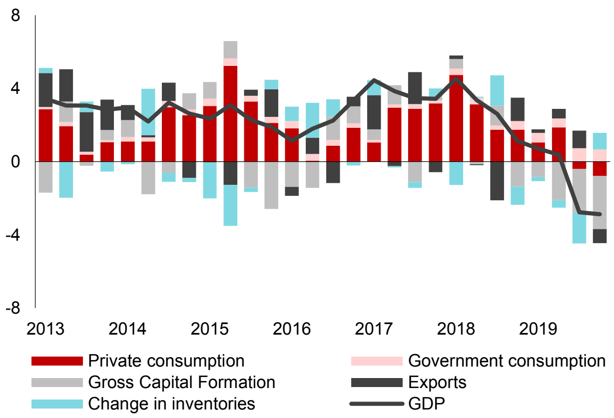
Risks to growth and confidence have heightened markedly over a short period of time. The risk of sociopolitical tensions heightening remains, while a new risk has emerged in the form of the COVID-19 outbreak, raising the prospect of a sharper decline in business sentiment and a bigger drag across trade-related services, tourism, construction activity, and real estate as well as overall economic growth. In addition, if Mainland China's growth momentum falters because of the prolonged COVID-19 epidemic and/or the US-China trade deal is rolled back, Hong Kong's growth could decelerate more sharply moving forward.

The author of this country note is Suan Yong Foo.

Hong Kong, China: Selected Figures

Hong Kong has entered a recession, with 2019 growth coming in at –1.2 percent.

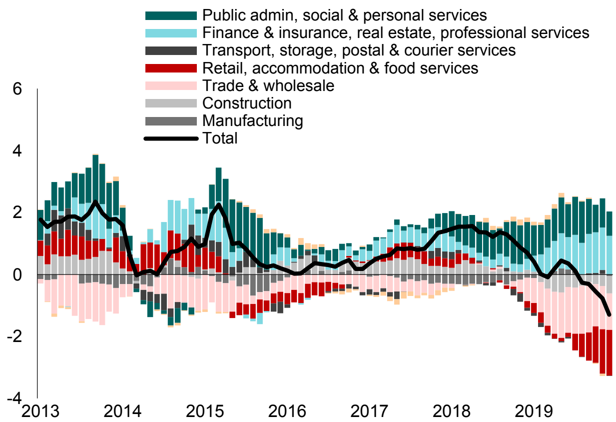
Contributions to Real GDP Growth: Import-Adjusted Approach
(Percentage points)



Sources: CEIC Data; OECD; and AMRO staff calculations

Overall employment growth has turned more negative, with a few key sectors losing significant numbers of jobs.

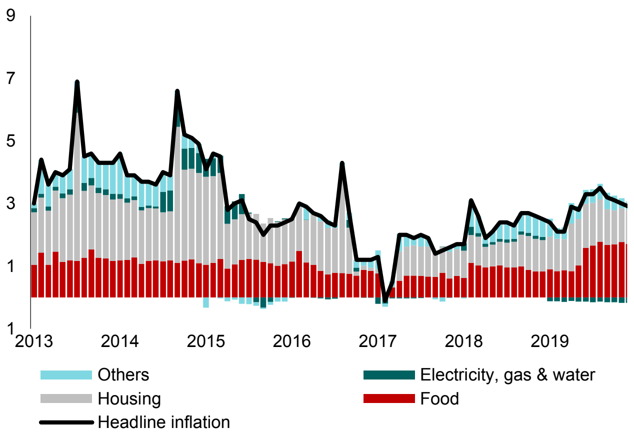
Employment Growth: Contributions by Sector
(Percentage points, year-over-year)



Sources: CEIC Data; and AMRO staff calculations.

Inflation pressures have risen moderately due to supply-side factors, but are contained.

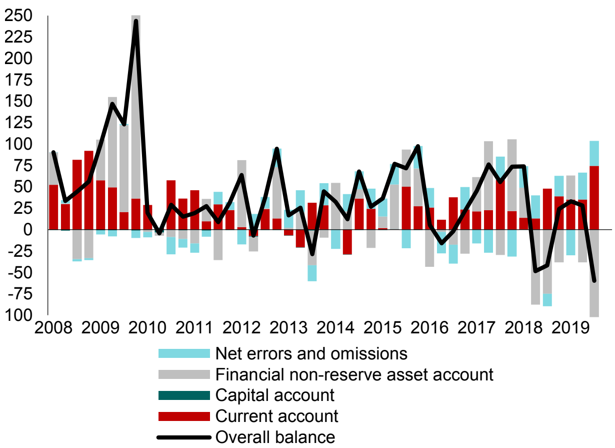
Inflation
(Percent year-over-year)



Sources: CEIC Data; Hong Kong authorities; and AMRO staff calculations.

Hong Kong's overall balance of payments has been mostly in surplus.

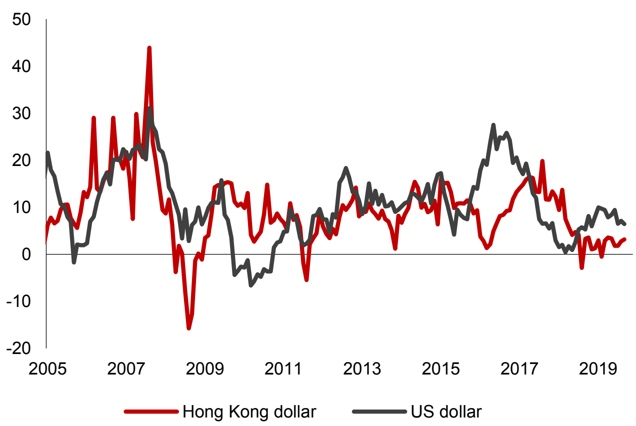
Balance of Payments
(Billions of Hong Kong dollars)



Sources: Hong Kong authorities; and AMRO staff calculations.

Capital outflows have been limited.

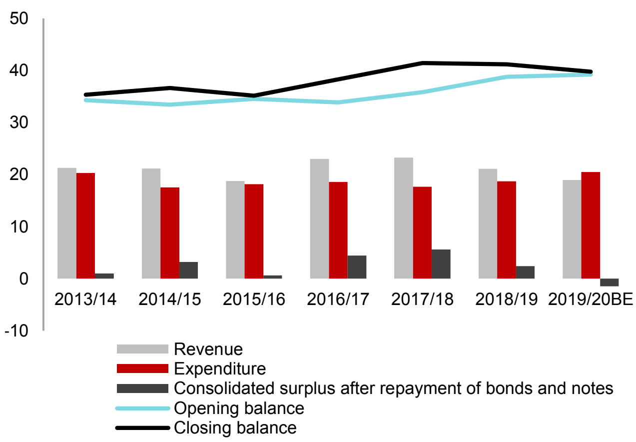
Deposits with Authorized Institutions (AIs)
(Percent year-over-year)



Sources: Hong Kong authorities; and AMRO staff calculations.

Revised estimates suggest that the government ran a small budget deficit for FY2019/2020.

Revenue, Expenditure, Closing Balance, and Consolidated Surplus
(Percent of GDP)



Sources: Hong Kong authorities; and AMRO staff calculations.

Hong Kong, China: Selected Economic Indicators

	2016	2017	2018	2019 e/
Real sector	(in annual percentage change)			
Real GDP	2.2	3.8	2.9	-1.2
Private consumption	2.0	5.6	5.3	-1.1
Government consumption	3.4	2.8	4.3	5.1
Gross domestic fixed capital formation	-0.1	2.9	1.7	-12.3
Imports of goods and services	0.9	6.6	4.6	-6.8
Exports of goods and services	0.7	5.9	3.8	-4.6
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	4.0	4.7	4.3	5.2
Trade balance	2.3	1.1	0.1	3.8
Overall balance	0.4	9.4	0.3	-
Total external debt (in billions of USD)	1,356.0	1,575.0	1,692.0	-
Gross official reserves excluding net forward position				
(in billions of USD)	386.2	432.0	424.0	433.2
Fiscal sector[1]	(in percent of GDP)			
Revenue	22.6	22.8	20.9	19.7
Expenditure	18.2	17.3	18.5	21.2
Consolidated budget balance	4.4	5.5	2.4	-1.5
Public debt	0.1	0.1	0.1	0.1
Monetary and financial sectors	(in annual percentage change, unless otherwise specified)			
Total loans (in annual percentage change)	6.5	16.1	4.4	3.5
Loan to deposit ratio	68.4	73.0	72.6	75.4
Classified loan ratio	0.7	0.6	0.5	0.5
Capital adequacy ratio	19.2	19.1	20.6	20.6
Memorandum items:				
Nominal GDP (in HKD billion)	2,490.6	2,662.8	2,842.9	2,868.1
Headline inflation (in percent yoy, period average)	2.4	1.5	2.4	2.9
Unemployment rate (in percent, period average)	3.4	3.1	2.8	3.0
Three-month HIBOR (in percent per annum)	1.0	1.3	2.3	2.3
Exchange rate (in HKD/USD, period average)	7.8	7.8	7.8	7.8

Sources: Hong Kong authorities; and AMRO staff estimates.
Note: Red number denotes AMRO staff estimate. yoy = year-over-year.
e/ Refers to AMRO staff estimates.
1 Refers to Fiscal Year.

Indonesia

In the face of strong external headwinds, Indonesia's growth dipped but was still solid in 2019, and is expected to remain resilient in 2020. Real GDP growth moderated to 5.02 percent in 2019 from 5.17 percent a year earlier. Stable domestic consumption and resilient investment, albeit slowing, were key growth drivers in 2019 as exports contracted on the back of a weaker global economy and increased trade protectionism. Meanwhile, declining imports, induced in part by an investment slowdown, offset some moderation in overall growth. Steadfast domestic demand is expected to continue to support growth in 2020, with exports and tourism likely to be weighed down by the COVID-19 epidemic.

Inflation has been benign. Subdued commodity prices, including fuel prices, has kept inflation under control. Headline and core inflation averaged 3.0 percent and 3.1 percent (year-over-year), respectively, in 2019.[1] This is well-anchored within Bank Indonesia's (BI's) target band of 3.5 percent ±1 percent.

The current account balance has improved. The oil and gas trade deficit narrowed from 1.1 percent of GDP in 2018 to 0.8 percent in 2019, benefiting from lower oil prices and a compression in oil import volumes, partly attributable to accelerated implementation of the 20 percent biodiesel blend (B-20) policy. Although lower commodity prices and weaker external demand weighed on exports, the non-oil and gas trade surplus increased, as imports contracted even more than exports. In light of the improved trade balance, the current account deficit narrowed to 2.7 percent of GDP in 2019 from 2.9 percent a year earlier.

Net capital inflows have returned on the back of generally easier global financial conditions. Indonesian financial markets came under pressure in 2018, reflecting foreign investors' pullback from emerging markets, driven by a stronger US dollar, aggressive US Federal Reserve rate hikes and heightened US-China trade tensions. Foreign investors have since returned to net-purchasing rupiah-denominated assets, following a decline in US Treasury yields and a dovish pivot by the US Federal Reserve and other major central banks. Net FDI inflows also rebounded from a dip in 2018. Against this backdrop, the rupiah stabilized in 2019 and gross foreign reserves strengthened from USD 120.7 billion as of end-2018 to USD 129.2 billion as of end-2019.

Monetary policy has been eased in support of the economy. The overnight interbank interest rate has closely tracked BI's policy rate, which was lowered by a total of 100 basis points to 5.0 percent as of end-2019. BI's move to lower the reserve requirement ratio for rupiah deposits in 2019 by a total of 100 basis points has also provided banks with additional liquidity. Domestic credit, meanwhile, slowed from 11.75 percent at end-2018 to 6.08 percent in December 2019. In pre-empting the potential impact of the COVID-19 outbreak on domestic economic growth, BI lowered its policy rate further by 25 basis points to 4.75 percent in February 2020. The banking sector, meanwhile, remains sound with strong capital buffers and non-performing loans, albeit on the rise, contained below 3 percent of total loans outstanding.

The authorities have adopted a prudent fiscal stance. Steps have been taken to broaden the tax base and enhance tax compliance, and to improve spending quality. Notwithstanding continued efforts to enhance tax compliance, lower commodity prices and softened economic activity weighed on revenue collection in 2019. The overall fiscal deficit is therefore estimated to widen from 1.8 percent of GDP in 2018 to about 2.1 percent in 2019, which has been, however, contained below the fiscal threshold of 3.0 percent. A fiscal package has been announced in early 2020 to support industries and sectors adversely affected by the COVID-19 outbreak.

Downside risks remain mostly external. In addition to continued uncertainty emanating from global trade conflicts, risks to the downside include ongoing geopolitical tensions that may lead to a sharp rise in oil prices and the current health (COVID-19) epidemic spreading out of control. With foreign investors holding a significant share of rupiah-denominated assets against the backdrop of a shallow financial market and modest domestic investor base, Indonesia continues to face risks related to capital flow volatility. In particular, the intensified COVID-19 outbreak triggered a shift in investors' sentiment and net capital outflows from Indonesia in February and early March 2020, prompting BI to implement a package of policy measures[2] to stabilize the financial markets. Meanwhile, accelerated reforms in the areas of financial deepening, labor regulations, FDI promotion and economic diversification are expected to strengthen growth potential in the long term.

The author of this country note is Thi Kim Cuc Nguyen.

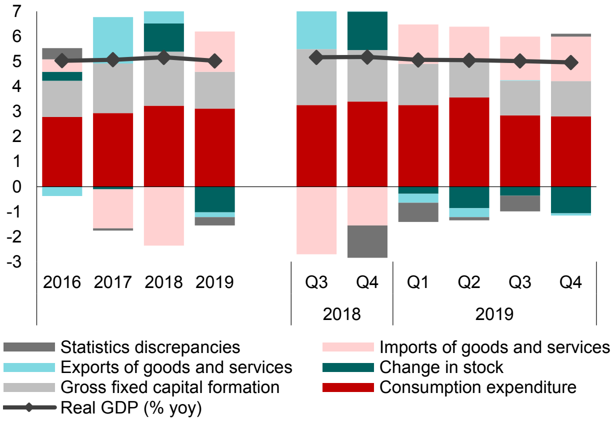
1 Headline and core inflation stood at 2.7 percent and 3.02 percent (year-over-year), respectively, as of December 2019. Data are calculated by AMRO staff using the consumer price index (CPI) data (2012 = 100) released by Statistics Indonesia. Statistics Indonesia recently rebased the CPI data using 2018 as the base year and revised the CPI basket weights accordingly. According to the new CPI data using 2018 as the base year, headline inflation averaged 2.8 percent in 2019, and stood at 2.6 percent as of December 2019.

2 Among those measures, the reserve requirement ratio (RRR) for US dollar deposits will be lowered from the current 8 percent to 4 percent, effective March 16, 2020. The rupiah RRR will also be reduced, by 50 basis points, but only for banks working with exporters and importers, effective April 1, 2020.

Indonesia: Selected Figures

Growth dipped but remained solid in 2019, supported by resilient consumption…

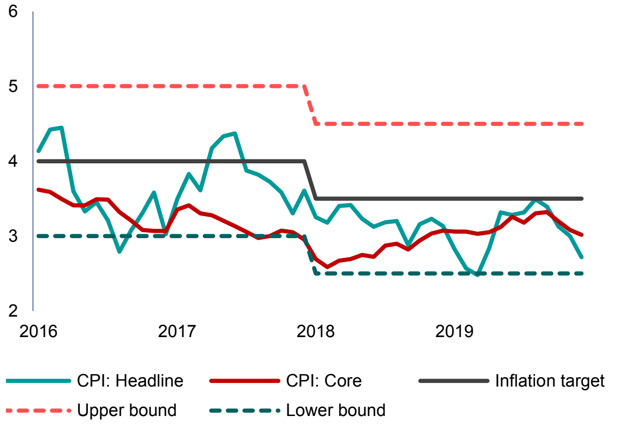
Contributions to Real GDP Growth
(Percentage points)



Sources: Statistics Indonesia; and AMRO staff calculations.

…while subdued commodity prices, including fuel prices, kept inflation well-anchored.

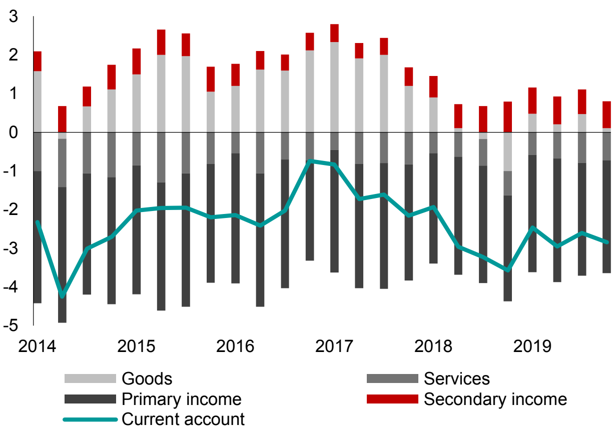
Headline and Core Inflation
(Percent year-over-year)



Sources: Statistics Indonesia; and AMRO staff calculations.
Note: CPI = consumer price index.

The improved trade balance supported a narrower current account deficit...

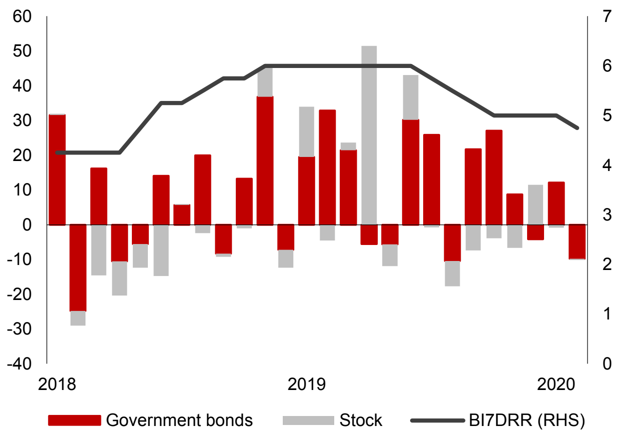
Current Account Balance
(Percent of GDP)



Sources: Bank Indonesia; and AMRO staff calculations.

…and net capital inflows resumed on the back of generally easier global financial conditions…

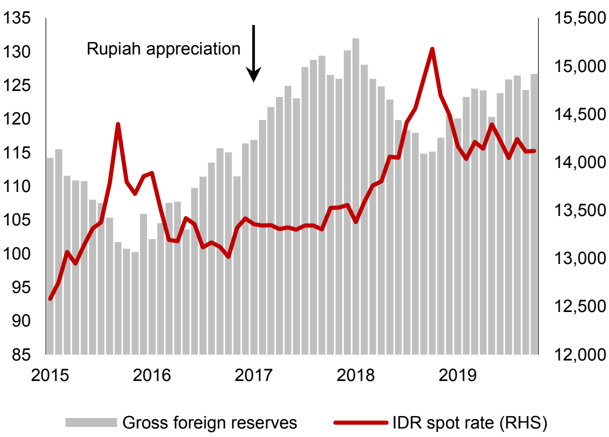
Net Capital Flows to Government Bond and Equity Market and BI Policy Rate
(Trillions of Indonesian rupiah; percent per annum)



Sources: Bank Indonesia; Ministry of Finance of Indonesia; and AMRO staff calculations. BI7DRR = Bank Indonesia 7-day repo rate.

…which underpinned reserves accumulation and a broadly stable rupiah.

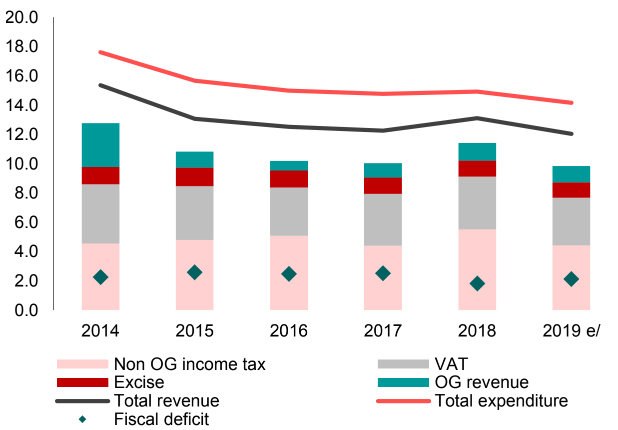
Gross Foreign Reserves and Rupiah Spot Rate
Billions of US dollars; Indonesian rupiah per US dollar)



Source: Bank Indonesia.
Note: IDR=Indonesian rupiah spot rate

The budget deficit widened in 2019, but was contained below the fiscal rule of 3 percent of GDP.

Budget Revenue, Expenditure, and Overall Balance
(Percent of GDP)



Sources: Ministry of Finance of Indonesia; and AMRO staff estimates.
Note: Data for 2019 are AMRO staff estimates. OG = oil and gas; VAT = value-added tax.

Indonesia: Selected Economic Indicators

	2016	2017	2018	2019
Real sector	(in annual percentage change)			
Real GDP	5.0	5.1	5.2	5.0
Household consumption	5.0	4.9	5.0	5.0
Government consumption	-0.1	2.1	4.8	3.2
Gross fixed capital formation	4.5	6.2	6.6	4.4
Imports of goods and services	-1.7	8.9	6.5	-0.9
Exports of goods and services	-2.4	8.1	12.0	-7.7
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	-1.8	-1.7	-2.9	-2.7
Trade balance	1.6	1.9	0.0	0.3
Capital and financial account balance	3.1	2.8	2.4	3.2
Direct investment	1.7	1.8	1.3	1.8
Portfolio investment	2.0	2.1	0.9	1.9
Other investment	-0.6	-1.1	0.2	-0.5
Errors and omissions	0.0	-0.1	-0.2	-0.1
Overall balance	1.3	1.1	-0.7	0.4
Net external debt	34.3	34.7	36.2	35.4
International reserves (in USD billion, end of period)	116.4	130.2	120.7	129.2
Fiscal sector	(in percent of GDP)			
Revenue and grants	12.5	12.3	13.1	12.2
Expenditure	15.0	14.8	14.9	14.3
Fiscal balance	-2.5	-2.5	-1.8	-2.1
Government debt	28.0	29.4	30.4	30.7
Monetary and financial sectors	(in annual percentage change)			
Broad money	10.0	8.3	6.3	6.5
Domestic credit	8.9	6.3	11.8	6.1
Private sector credit	9.1	8.0	12.5	5.5
Memorandum items:				
Nominal GDP (in IDR billion)	12,402.0	13,590.0	14,838.0	15,834.0
Headline inflation (in percent yoy, period average)	3.5	3.8	3.2	3.0
Policy rate (in percent per annum)	4.8	4.3	6.0	5.0
Exchange rate (in IDR/USD, period average)	13,305.0	13,385.0	14,246.0	14,148.0

Sources: National authorities; and AMRO staff estimates.
Note: Red number denotes AMRO staff estimate. Data for 2019, except for national income, gross foreign reserves, and memorandum items are AMRO staff estimates. Inflation data refer to the CPI series reported by Statistics Indonesia using 2012 as the base year. yoy = year-over-year.

Japan

The Japanese economy has remained resilient, underpinned by sustained domestic demand. During the first three quarters of 2019, strong GDP growth was maintained despite continued weakness in exports. Private consumption continued to show steady growth. Meanwhile, business investment stayed strong, led mainly by solid investment in the non-manufacturing sector, and notwithstanding the modest capex investment by manufacturing companies. Government consumption and public investment also provided solid support to growth. However, in the fourth quarter, the economy contracted at a sharp rate, led mainly by a marked drop in private consumption on account of the consumption tax hike and disruptions to economic activity by a series of typhoons, as well as a decline in private investment.

Looking ahead, GDP growth is forecast to be modest in 2020. Private consumption is projected to soften somewhat with the expiry of some of the government's temporary offsetting measures against the tax hike. Business investment is expected to slow amid weaker corporate profits. However, public spending should provide a boost to growth, driven by the new fiscal stimulus package. Net exports are likely to remain weak in view of the expected slowdown in the major trading partners, exacerbated by the outbreak of the COVID-19 epidemic in China.

Inflation has remained positive but at a relatively low level. CPI (less fresh food) inflation increased to 0.7 percent in December 2019 after the consumption tax was raised. The Bank of Japan's (BOJ's) preferred measure of core inflation that excludes fresh food and energy exhibited a modest upward trend amid tight labor market conditions and a positive output gap, but stayed at about 0.5 percent when the effects of consumption tax hike and policies concerning the provision of free education were excluded. Medium-term inflation expectations have been stable at about 1 percent. Going forward, consumer price inflation is likely to remain weak, well below the BOJ's 2 percent target.

The external position has been strong with its sizable current account surplus, which is in turn, supported by a large primary income surplus. The source of Japan's current account surplus has shifted from goods trade to interest and dividend incomes earned from its large overseas investments. The goods trade balance has weakened, adversely affected by the US-China trade tensions and the growth slowdown in China. The service account deficit has gradually improved in recent years, largely as a result of increasing receipts from intellectual property rights, tourism and other business services. The financial account has been driven by residents' outward investments in search of higher returns.

The financial system remains sound although financial institutions are struggling with low profitability. Credit growth continues to be relatively robust, reflecting easy monetary conditions. The banking sector has sufficient capital buffers, while non-performing loan ratios have stayed low. However, the ultra-low interest rate environment has squeezed banks' net interest margins, exerting downward pressure on profitability, especially that of regional banks which depend mostly on domestic lending. To offset declining net interest margins, major banks have been expanding their overseas lending and investing in foreign securities including structured credit products. Meanwhile, regional banks are continuing to extend loans to small firms, albeit at a slower pace.

Although the fiscal balance has been on a gradual consolidation trend, the deficit is expected to widen in fiscal year (FY) 2019 and 2020, due mainly to the new fiscal stimulus package. The fiscal deficit narrowed from 3.3 percent in FY2015 to 2.2 percent in FY2018, owing to higher growth in tax revenues, sustained expenditure discipline and low debt service burden attributable to low interest rates. Going forward, the overall fiscal deficit is projected to widen in FY2019 and FY2020, driven by the new fiscal stimulus package.

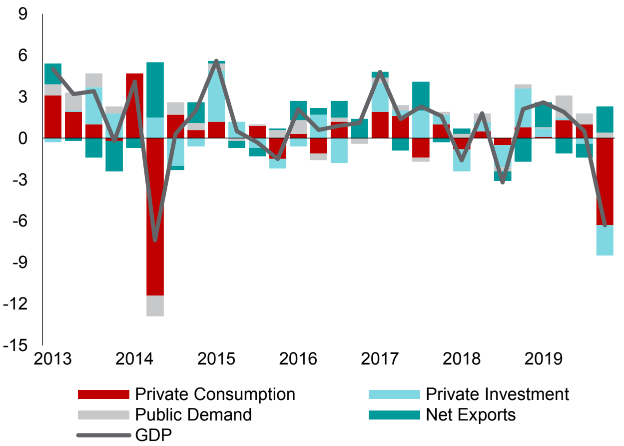
The Japanese economy is confronted with downside risks in the near term, mainly from external factors. These include a sharper-than-expected slowdown in China, re-escalation of trade protectionism including from the US-China trade tensions, and a bigger-than-expected slowdown in global growth. An extensive outbreak of the COVID-19 would reduce inbound tourists and dampen Japan's exports, in particular to China. Domestically, the effects of the consumption tax hike, implemented in October 2019, on private consumption are expected to be less severe than those of the 2014 tax hike, mainly as a result of the government's countermeasures. However, there is a risk of a prolonged weakness in private consumption amid weak consumer sentiment. Structural challenges include demographic drag from population aging and low fertility rates, prolonged easing of monetary policy, and a weakening in fiscal discipline.

The author of this country note is Jinho Choi.

Japan: Selected Figures

The Japanese economy has been resilient, underpinned by sustained domestic demand.

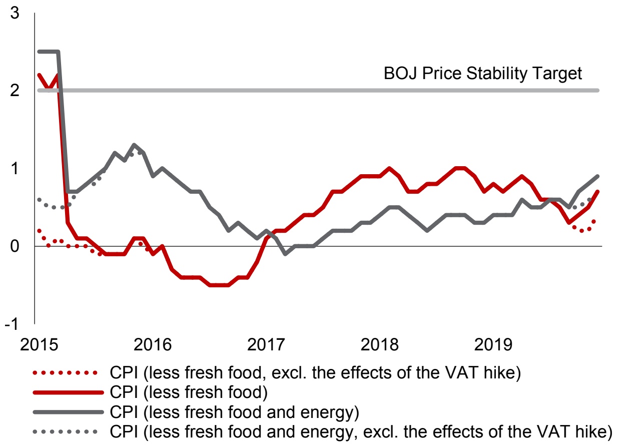
Contributions to Real GDP Growth
(Percentage points, quarter-over-quarter, seasonally-adjusted annualized rate)



Sources: Cabinet Office; and AMRO staff calculations.

Inflation has remained positive but at a low level.

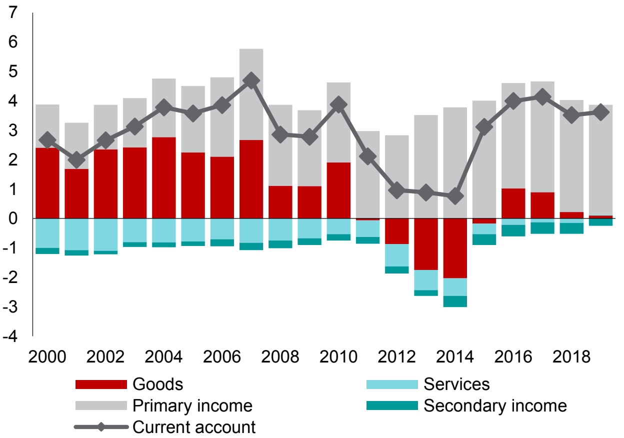
Consumer Price Inflation
(Percent year-over-year)



Sources: Haver Analytics; and Ministry of Internal Affairs and Communications.
Note: BOJ = Bank of Japan; CPI = consumer price index; VAT = consumption tax.

The current account surplus has been sizable, at about 3.6 percent of GDP in 2019.

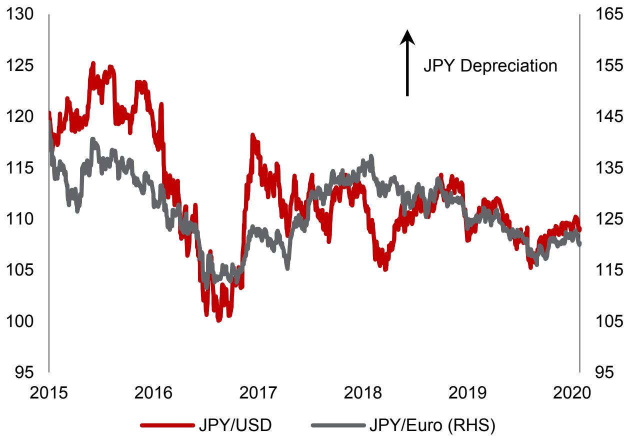
Current Account Balance
(Percent of GDP)



Source: Ministry of Finance

In 2019, the Japanese yen came under appreciation pressure before shifting to a gradual weakening trend.

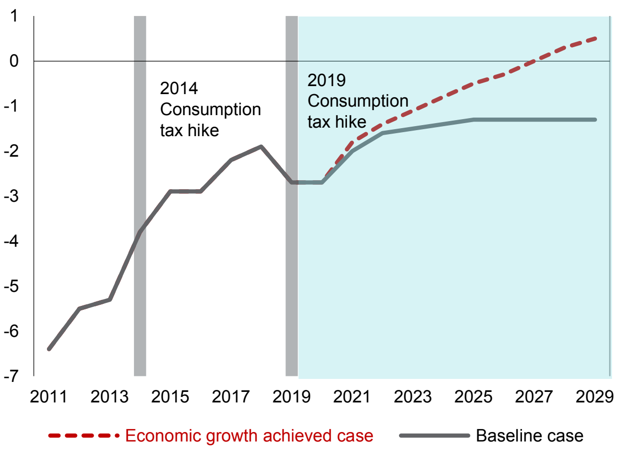
Exchange Rates
(Japanese yen per US dollar; Japanese yen per euro)



Source: Bank of Japan

The primary balance in terms of GDP is projected to stay in deficit until FY2027.

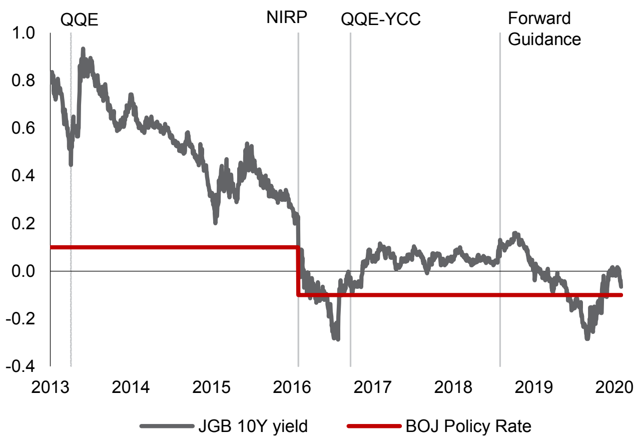
Primary Balance of Central and Local Governments
(Percent of GDP)



Source: Cabinet Office (January 2020)

The Japanese government bond yield curve flattened temporarily in Q3 2019 amid low global rates.

Government Bond Yields and Policy Rate
(Percent, annualized)



Source: Bank of Japan
Note: BOJ = Bank of Japan; JGB = Japanese Government Bond; NIRP = negative interest rate policy; QQE YCC = quantitative and qualitative easing with Yield Curve Control.

Japan: Selected Economic Indicators

	2016	2017	2018	2019
Real sector	(in annual percentage change)			
Real GDP	0.5	2.2	0.3	0.7
Private consumption	-0.3	1.3	0.0	0.1
Government consumption	1.4	0.2	0.9	1.9
Gross fixed capital formation	-0.3	3.0	0.6	1.5
Imports of goods and services	-1.6	3.4	3.4	-0.8
Exports of goods and services	1.7	6.8	3.4	-1.8
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	4.0	4.1	3.5	3.6
Trade balance	0.8	0.8	0.1	0.1
Capital account balance	-0.1	-0.1	0.0	-0.1
Financial account balance	5.3	3.4	3.7	4.5
Direct investment	2.8	3.2	2.7	4.1
Portfolio investment	5.5	-1.0	1.8	1.7
Financial derivatives	-0.3	0.6	0.0	0.1
Other investment	-2.6	0.2	-1.4	-1.9
Errors and omissions	1.5	-0.7	0.2	0.9
Overall balance	-0.1	0.5	0.5	0.5
Gross external debt	74.6	74.4	81.3	…
International reserves (in USD billion, end of period)	1,216.9	1,264.3	1,271.0	1,323.8
Fiscal sector[1, 2]	(in percent of GDP)			
Revenue and grants	35.3	35.6	36.2	36.5
Expenditure	38.7	38.2	38.4	39.4
Fiscal balance	-3.4	-2.7	-2.2	-2.9
Government debt	236.3	235.0	237.1	241.0
Monetary and financial sectors	(in annual percentage change)			
Broad money	2.1	3.0	2.1	1.9
Domestic credit	5.4	4.2	3.2	2.9
Private sector credit	4.0	5.9	4.2	3.6
Memorandum items:				
Nominal GDP (in JPY trillion)	535.5	545.9	547.1	554.5
Headline inflation (in percent yoy, period average)	-0.1	0.5	1.0	0.5
Policy rate (in percent per annum, end of period)	-0.1	-0.1	-0.1	-0.1
Exchange rate (in JPY/USD, period average)	108.8	112.2	110.4	109.0

Sources: Japanese authorities; AMRO staff estimates and projections.
Note: Red number denotes AMRO staff estimate. yoy = year-over-year.

1 Data refer to Fiscal Year.

2 FY2019 figures are based on AMRO staff projections.

Korea

Korea's economic growth was moderate at 2.0 percent in 2019, down from 2.9 percent in 2018. Growth was underpinned by expansionary fiscal spending and private consumption, while goods exports contracted as a result of a downturn in the global semiconductor industry, a moderation in China's growth and spillovers from the US-China trade conflict. Private investment remained subdued with a decline in facilities and construction investment. On the production side, the services sector grew robustly while manufacturing production, particularly that of small and medium-sized enterprises (SMEs), slowed down because of a slump in exports.

Employment conditions improved. The number of employed persons increased on average to 276,100 workers per month in January–October 2019, up from 97,300 workers per month in 2018. The improvement was led by the services sector, on the back of robust tourism and public sector hiring programs, while job retrenchments in manufacturing continued. By age group, increases in employment came from job creation for the elderly population and a rebound in youth employment, while the retrenchment of adults aged 30–49 continued for the third straight year.

Headline inflation stayed below the Bank of Korea (BOK)'s 2 percent target. It eased to 0.4 percent in 2019 from 1.5 percent in 2018, driven primarily by food and energy prices, and compounded by policy-induced reduction of healthcare charges and education fees. At the same time, a slowdown in the economy also dampened demand pressure, as evidenced by softening retail sales and weaker consumer sentiment.

The external position was strong with continued current account surpluses and ample international reserves. In 2019, the current account is expected to post a surplus of USD 62.4 billion, equivalent to 3.8 percent of GDP. Substantial current account surpluses have been invested overseas in search of higher returns and portfolio diversification, led by pension funds and insurance companies. Korea's net external asset position is positive and growing, reflecting its accumulated investments abroad.

The financial system is sound. Credit growth has been stable at about 6–7 percent amid low interest rates, mainly attributable to loans given to SMEs and small businesses. Meanwhile, loan demand by large corporates remained low—these firms are cash-rich and many of them have switched their financing source from bank loans to bond issuance because of lower funding costs. Household borrowing has been moderate, constrained by tighter macroprudential measures. In financial markets, Korea's equity and foreign exchange markets witnessed a temporary rise in volatility as heightened uncertainty over the global economic outlook and spillovers from the US-China trade conflict weighed on investor sentiment.

The fiscal stance is set to be more expansionary to stimulate the economy, while fiscal buffers remain ample. In 2019, central government's spending increased to 24.2 percent of GDP, rising from 22.9 percent in 2018. The supplementary budget, equivalent to 0.3 percent of GDP, was also implemented. Fiscal deficit (excluding the Social Security Fund) is expected to widen to 2.2 percent of GDP in 2019 from 0.6 percent of GDP in 2018. The government is maintaining its expansionary fiscal stance in 2020, with the fiscal deficit projected at 4.2 percent. The budget is focused on innovation-led growth and economic stimulus. It is also allocated to the sectors that support inclusive growth and job-creation. The supplementary budget is also set to support SMEs and small merchants, and provide medical facilities to the regions that are adversely affected by the spread of COVID-19.

Economic growth is most likely to stay flat in 2020, dampened by the rapid spread of COVID-19. The epidemic is estimated to soften growth in the first half of the year, but a strong recovery is expected in the second half, underpinned by a rebound in global demand for semiconductors. Upside risks to the growth outlook would come from the commercialization of the 5th generation (5G) mobile network in many countries and a rapid use of artificial intelligence. Meanwhile, the economy may face downside risks stemming from residual uncertainty over the US-China trade tensions, persistence of the COVID-19, as well as a sharper than anticipated economic slowdown in China, and advanced economies.

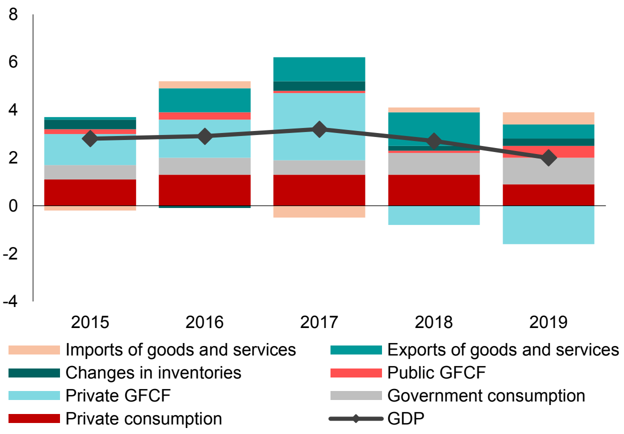
In the medium to longer term, the Korean economy will face a decline in its potential growth, stemming from structural challenges in the labor market and the corporate sector. The labor market is experiencing slower growth in the labor force and a reduction in working hours. In addition, the dualism between regular and non-regular workers continues to distort the labor market. Meanwhile, the economy is heavily dependent on the information and communications technology industry and large conglomerates. The disparity and unfair competition between large conglomerates and SMEs have discouraged the latter from investing in research and development, and technology to improve their productivity.

The author of this country note is Wanwisa (May) Vorranikulkij.

Korea: Selected Figures

Growth in 2019 was underpinned by government spending and investment.

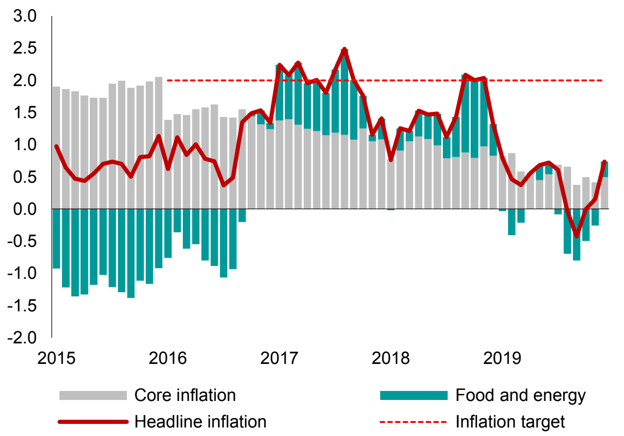
Contributions to GDP Growth
(Percentage points)



Sources: Bank of Korea; and AMRO staff estimates.
Note: GFCF = gross fixed capital formation.

Headline inflation stayed below the Bank of Korea's 2 percent target.

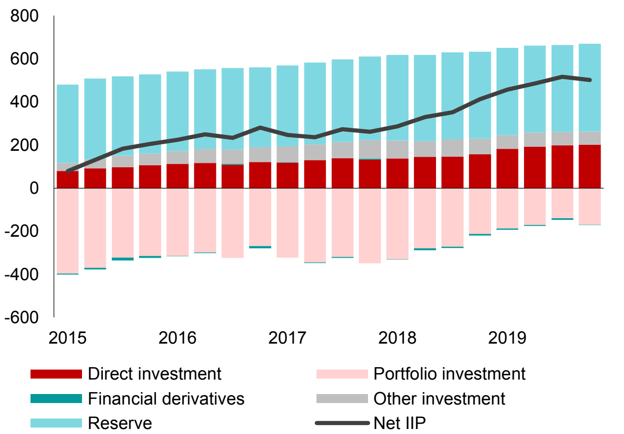
Inflation
(Percent year-over-year)



Sources: Statistics Korea; and Bank of Korea.

On the external front, Korea's net asset position expanded further on the back of accumulation of overseas direct investment.

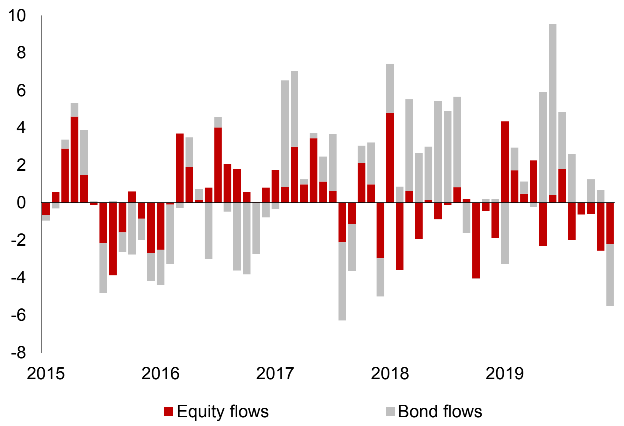
Net International Investment Position
(Billions of US dollars)



Sources: Bank of Korea; and AMRO staff calculations.
Note: IIP = international investment position.

A substantial amount of non-resident portfolio flows went into the bond market.

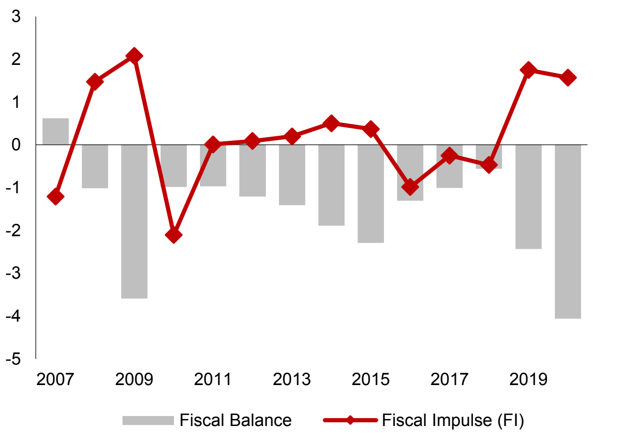
Portfolio Flows
(Percent; Billions of US dollars)



Source: Bank of Korea.

The fiscal deficit widened, reflecting more expansionary fiscal spending.

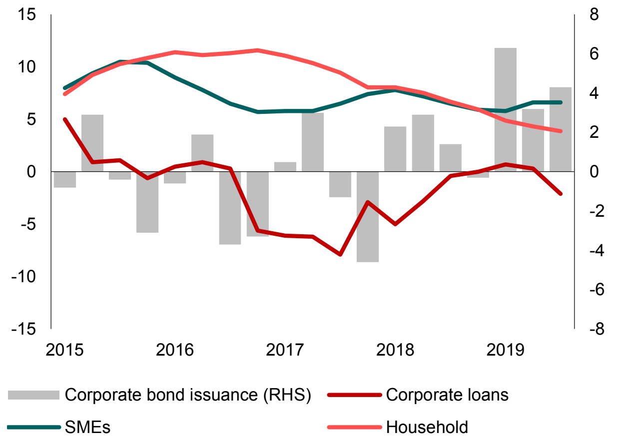
Fiscal Balance
(Percent of GDP)



Sources: Ministry of Economy and Finance; and AMRO staff estimates.
Note: FI is the difference between fiscal balance of the current and previous fiscal years. FI<0 indicates less expansionary (or more contractionary) while FI>0 indicates more expansionary (or less contractionary) policy.

Household debt grew moderately, while SME loan growth hovered at about 6 percent.

Credit Growth
(Percent year-over-year; Trillions of Korean won)



Sources: Bank of Korea; and AMRO staff calculations.
Note: SME = small and medium enterprise

Korea: Selected Economic Indicators

	2016	2017	2018	2019 [1]
Real sector	(in annual percentage change)			
Real GDP	2.9	3.1	2.6	2.0
Private consumption	2.6	2.7	2.8	1.8
Government consumption	4.3	3.9	5.5	6.3
Gross fixed capital formation	6.4	9.3	-2.5	-3.5
Imports of goods and services	5.0	8.5	0.8	-0.6
Exports of goods and services	2.3	2.5	3.4	1.5
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	6.9	4.9	5.1	3.1
Trade balance	8.2	7.4	7.2	4.6
Capital and financial account balance	6.5	5.2	3.9	3.2
Direct investment	6.5	5.5	4.7	3.7
Portfolio investment	1.2	1.1	1.6	1.5
Other investment	4.4	3.8	2.9	2.4
Errors and omissions	-0.2	-0.5	-0.1	0.4
Overall balance	0.7	0.9	-0.8	-0.7
Gross external debt	28.0	25.0	26.9	26.7
International reserves (in USD billion, end of period)	371.1	389.3	403.7	408.8
Fiscal sector	(in percent of GDP)			
Revenue and grants	23.1	23.5	24.6	24.2
Expenditure	22.1	22.1	22.9	24.7
Fiscal balance	-1.3	-1.0	-0.6	-2.2
Government debt	36.0	36.0	35.9	37.2
Monetary and financial sectors	(in annual percentage change)			
Broad money [2]	7.1	5.1	6.7	7.9
Domestic credit [3]	7.2	5.5	7.2	9.1
Private sector credit	7.3	6.3	8.0	9.0
Memorandum items:				
Nominal GDP (in KRW trillion)	1,658.0	1,740.8	1,835.7	1,888.6
Headline inflation (in percent yoy, period average)	1.0	1.9	1.5	0.4
Policy rate (in percent per annum)	1.3	1.5	1.8	1.3
Exchange rate (in KRW/USD, period average)	1,163.3	1,122.3	1,100.6	1,165.2

Sources: National authorities; and AMRO staff estimates.
Note: Red number denotes AMRO staff estimate. yoy = year-over-year.

1 2019 numbers are as of January 31, 2020. National income indicators are based on the advance estimate of GDP, published by the Bank of Korea. Meanwhile, other indicators are estimated by AMRO.

2 Refers to M2.

3 Domestic credit refers to claims of other depository corporations on domestic agencies that comprise the central government, local governments, Social Security Office, and private sector. It does not include claims of the Bank of Korea.

Lao People's Democratic Republic

The Lao PDR economy slowed in 2019 after being hit by natural disasters. Growth is estimated to have moderated to 6.0 percent as drought reduced the ability of hydropower plants to generate electricity, and floods damaged the agriculture sector, particularly rice. The construction sector and the continued rise in tourism and manufacturing activities were bright spots for the economy. Despite the newly added capacity of the hydropower plants, growth is expected to remain moderate in 2020, mainly as a result of spillovers from the COVID-19 outbreak in China and neighboring countries, particularly to the tourism sector, but also construction and manufacturing.

Inflation increased in 2019, mainly due to rising food prices. Inflation spiked to 4.6 percent in the second half of the year from 2.0 percent in the first half, because of the rice shortage following the floods in July and August, and the pork price hike as a result of the spread of African swine fever toward the end of 2019. The depreciation of the Lao kip of around 8 percent against the Thai baht also contributed to inflation in the prices of imported items. This upward pressure on food prices drove inflation for the whole of 2019 to 3.3 percent, from 2.0 percent in 2018. Meanwhile, core inflation remained subdued, falling slightly to 2.1 percent in 2019 from 2.2 percent in 2018 as the prices of core items remained stable, with some uptick seen in the indices for restaurants and hotels, from the growth in tourist arrivals.

The current account deficit improved in 2019. Hydroelectricity exports were affected as river water levels dropped to a 60-year low. Meanwhile, import growth slowed sharply following the completion of several hydropower plants and a moratorium on new government projects. Although interest payments for external debt rose markedly, the current account deficit narrowed to 4.6 percent of GDP in 2019, from 7.9 percent of GDP in 2018, driven by the fall in the trade deficit. The current account deficit was mainly financed by new loans, as FDI inflows weakened and the government repaid maturing bonds. The overall balance of payments recorded a slight surplus and gross international reserves rose to USD 997 million at the end of 2019 from USD 873 million at the end of 2018. Meanwhile, heightened pressure on the exchange rate was seen in 2019, with tight US dollar liquidity in the foreign exchange market widening the gap between commercial and parallel exchange rates, to as much as 3.3 percent by end-January 2020.

Credit growth has not fully recovered amid the slowdown of the economy. After two years of sharp deceleration, credit to the economy began to recover slowly, growing by 7.4 percent in 2019, aided by the recognition of arrears of about 3.1 percent of GDP by the government. The removal of the interest rate cap has allowed more room for banks to price in credit risks but its effect on credit growth is limited. Initiatives by the authorities to enhance access to long-term finance by micro, small, and medium enterprises (MSMEs), by providing access to concessional funds and credit guarantees, are expected to support the recovery of credit. Meanwhile, the linking of bank accounts to modern payment systems has driven the increase in deposits in the banking system.

Amid high external debt and low international reserves, the economy remains vulnerable to external shocks. An adverse shock on the exchange rate would increase the debt burden of government and have repercussions for the private sector's cash flows and balance sheets, given the partially dollarized nature of the economy. In this regard, building international reserves is critical in strengthening the buffer against external shocks.

A credible fiscal consolidation plan and better debt management are crucial. The fiscal deficit is expected to improve to 2.3 percent of GDP in 2019, from 4.4 percent of GDP in 2018, mainly driven by efforts to control expenditure. Accelerating reforms in tax policy and tax administration should be the priority to help expand the tax base and improve tax administration. On the expenditure side, there is a need to boost expenditure efficiency to meet the development needs, despite the tight fiscal space. The relatively high level of public debt and contingent liabilities require enhanced capacity and framework to effectively manage them. A skillful medium-term debt management strategy is essential, where managing the rollover risk is a priority. Instituting a framework to manage guarantees and contingent liabilities in the budget is also recommended.

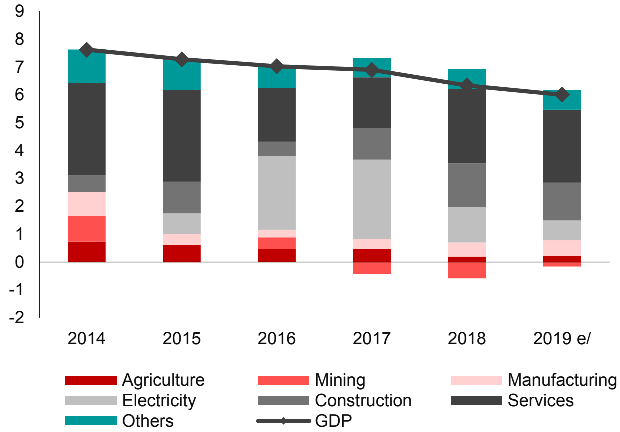
Structural reforms and economic diversification are needed to boost Lao PDR's growth potential and economic resilience. To derive greater benefits from existing and upcoming large infrastructure investments, such as the railway, expressway and hydropower plants, the government needs to clearly lay out its plans and objectives for the projects to ensure that sufficient jobs and opportunities are created for the Lao people.

The author of this country note is Paolo Hernando.

Lao People's Democratic Republic: Selected Figures

Growth in 2019 was pulled down by weak agriculture and electricity sectors.

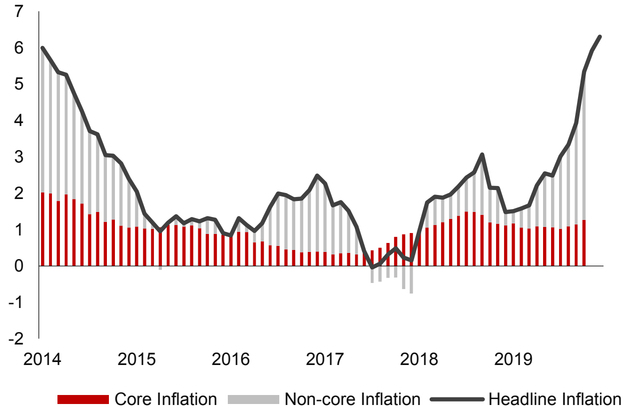
Contributions to Real GDP Growth
(Percentage points)



Sources: Lao Statistics Bureau; and AMRO staff estimates.

Inflation rose steeply in the second half of 2019 as a result of a spike in rice and pork prices.

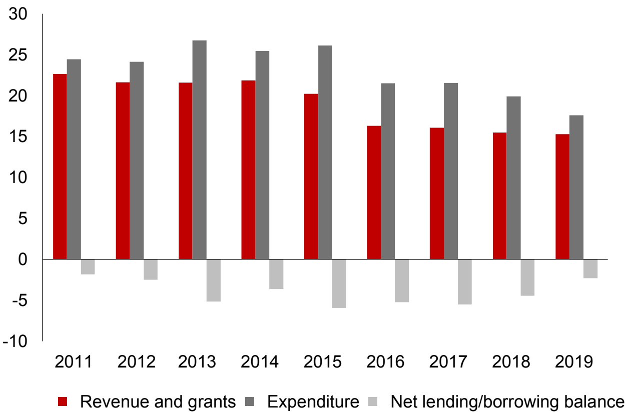
Inflation
(Percent year-over-year)



Source: Lao Statistics Bureau.

The narrowing of the fiscal deficit was mainly achieved through expenditure cuts.

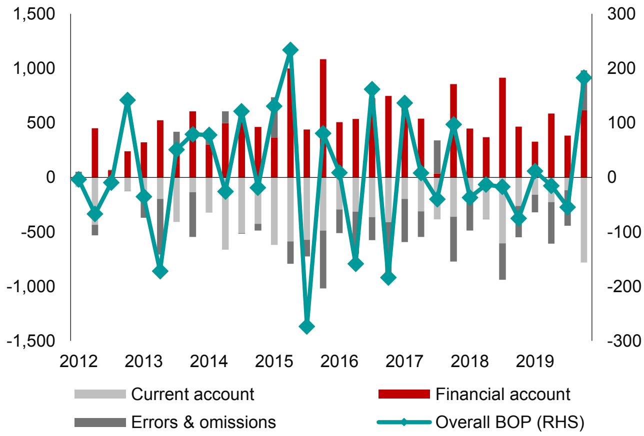
Fiscal Position
(Percent of GDP)



Source: Ministry of Finance.

The current account deficit narrowed in 2019, financed by bonds and loans as FDI fell, with slower investments from China.

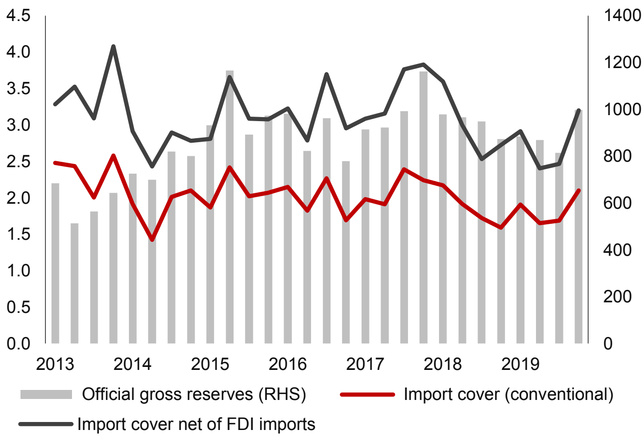
Balance of Payments
(Millions of US dollars)



Source: Bank of Lao PDR.

Foreign exchange reserves rose to USD 997 million at the end of 2019, which can cover 1.7 months of imports.

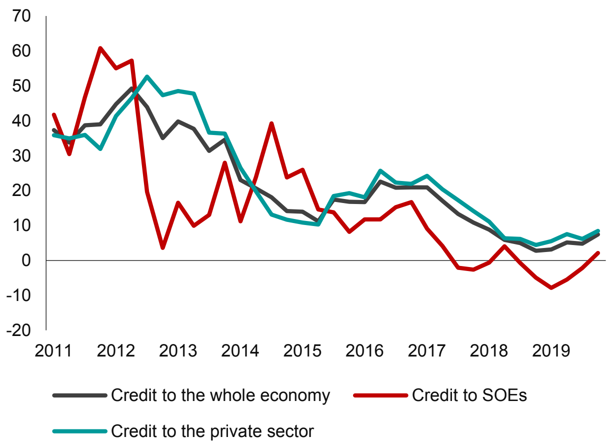
International Reserves
(Months; millions of US dollars)



Sources: Bank of Lao PDR; and AMRO staff estimates.
Note: FDI = foreign direct investment.

Credit growth remained weak owing to the slowdown in the economy and fiscal tightening.

Credit Growth
(Percent year-over-year)



Source: Bank of Lao PDR.
Note: SOE = state-owned enterprise.

Lao People's Democratic Republic: Selected Economic Indicators

	2016	2017	2018	2019
Real sector	(in annual percentage change)			
Real GDP	7.0	6.9	6.3	6.0
GDP deflator	3.0	1.8	1.9	2.7
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	-8.7	-7.5	-7.9	-4.6
Trade balance	-7.1	-4.8	-4.8	-2.7
Capital and financial account balance	16.1	12.9	12.2	10.0
Direct investment	5.8	9.8	7.3	2.4
Portfolio investment	3.2	1.9	2.8	-0.2
Other investment	6.9	1.0	2.1	7.7
Errors and omission	-8.4	-4.2	-5.1	-4.7
Overall balance	-1.1	1.2	-0.8	0.6
External debt	80.1	81.1	83.4	-
International reserves (in USD billion, end of period)	0.8	1.0	0.9	1.0
Fiscal sector	(in percent of GDP)			
Revenue and grants	16.3	16.1	15.5	15.3
Expenditure	21.5	21.6	19.9	17.6
Fiscal balance	-5.2	-5.5	-4.4	-2.3
Government debt	54.2	55.8	57.2	56.1
Monetary and financial sectors	(in annual percentage change)			
Broad money	10.9	12.2	8.2	19.0
Domestic credit	18.5	6.4	9.2	4.4
Private sector credit	22.0	14.2	4.4	7.4
Memorandum items:				
Nominal GDP (in LAK billion)	129,279.0	140,698.0	152,414.0	165,897.0
Nominal GDP (in USD billion)	15,913.0	17,063.0	18,120.0	19,122.0
Headline inflation	1.6	0.8	2.0	3.3
GDP per capita (USD)	2,409.9	2,585.1	2,777.7	2,797.0
Exchange rate (in LAK/USD, period average)	8,124.4	8,245.9	8,411.4	8,675.6

Sources: National authorities; and AMRO staff estimates.
Note: Red number denotes AMRO staff estimate. yoy = year-over-year.

Malaysia

Robust private consumption buoyed the economy amid the decline in global trade and domestic supply disruptions. The Malaysian economy expanded by 4.3 percent in 2019, the slowest pace in 10 years, as the downturn in the global electronics cycle, escalation of the US-China trade tensions, and supply disruptions in the commodities sector lowered exports and investment. Growth nonetheless held up on robust consumer spending, backed by low inflation and continued income growth. In Q4 2019, private investment also gained pace, as investment commitments in the preceding quarters were likely starting to be implemented. However, the COVID-19 outbreak has disrupted production—as reflected in lower manufacturing PMI readings in January and February 2020—and travel activity. Growth is thus expected to be subdued this year before improving in 2021.

While inflation has been low, it is expected to pick up gradually in 2020 and 2021. The shift to the sales and services tax (SST) from the previous goods and sales tax (GST) in mid-2018 depressed inflation in the first five months of 2019. Inflation subsequently picked up in succeeding months, albeit mildly, as lower fuel prices from the maintained price ceiling offset increases in food and some service items. Going forward, headline inflation is expected to rise from 0.7 percent in 2019 toward the long-term average of about 2 percent by 2021.

The external position was supported by positive sentiment among foreign bond investors for the most part of 2019 and in early 2020. The USD 3.4 billion foreign investor sell-off in the local bond market in April and May, which was triggered by news of Malaysia's potential exclusion from a key global bond index, proved short-lived. While the warning nonetheless continued to weigh on investment sentiment, net-buying among foreign investors subsequently resumed on the back of the US Federal Reserve's dovish stance and Bank Negara Malaysia's pre-emptive policy moves. Positive sentiment in the bond market contributed to the USD 2.2 billion increase in the BNM's foreign exchange reserves by end-2019, and to another USD 0.6 billion increase by mid-February 2020. However, reserves fell by USD 0.9 billion in the following weeks, amid heightened risk aversion, to USD 103.4 billion by end-February, sufficient to cover 6.0 months of goods imports and 1.1 times short term external debt. The MYRUSD exchange rate appreciated slightly in 2019, but has depreciated by nearly 5 percent since the start of 2020.

Fiscal policy strikes a balance between supporting the economy and containing the deficit. The deficit target will be maintained at 3.4 percent of GDP in 2020 to support a stimulus package to mitigate the economic impact of the COVID-19 epidemic. Prior to this development, 0.2 percent of GDP had already been set aside to accelerate the implementation of high-impact development projects as a pre-emptive measure against stronger external headwinds. In addition, the 2020 budget has a sizable allocation toward welfare assistance for low-income households, out-of-work graduates, and women re-entering the labor market, while providing incentives to accelerate the digital economy and encourage higher-value production.

Increased global uncertainty is a key risk to Malaysia's highly open economy. A prolonged COVID-19 epidemic or re-escalation of trade tensions could heighten uncertainty and pull down Malaysia's growth as consumer spending weakens—partly induced by a sharp decline in tourist arrivals—and private investment and exports shrink further. Domestically, continued disruptions to mining and palm oil production pose another downside risk to the outlook. But on the flip side, exports could likewise be supported by a stronger-than-expected upturn in the semiconductor cycle in H2 2020 and speedier commencement of operation of a large-scale refinery and petrochemical facility this year.

Heightened global economic uncertainty and greater risk aversion could result in greater market volatility, exposing Malaysia to the risk of sharp capital outflows and downward pressure on its currency and foreign exchange reserves. This risk could also be intensified by the re-weighting of major stock and bond indices to make room for China's securities at the expense of other emerging markets like Malaysia.

On the domestic front, the narrowing tax base limits fiscal space and constrains the progress of consolidation. The tax revenue-to-GDP ratio has declined steadily from 2015, and the replacement of the GST with the SST only adds to the deterioration in the tax ratio. The overall tax buoyancy has also fallen to a level below one since 2014, indicating the urgency to advance reforms in tax revenue mobilization.

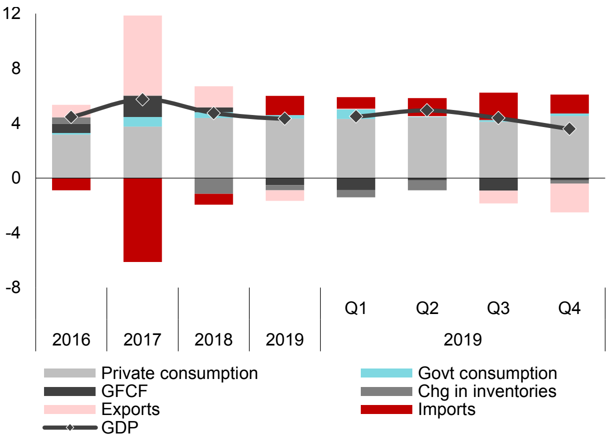
The author of this country note is Diana del Rosario.

Malaysia: Selected Figures

Robust private consumption buoyed the economy amid the decline in global trade and domestic supply disruptions.

Contributions to Real GDP Growth

(Percentage points)

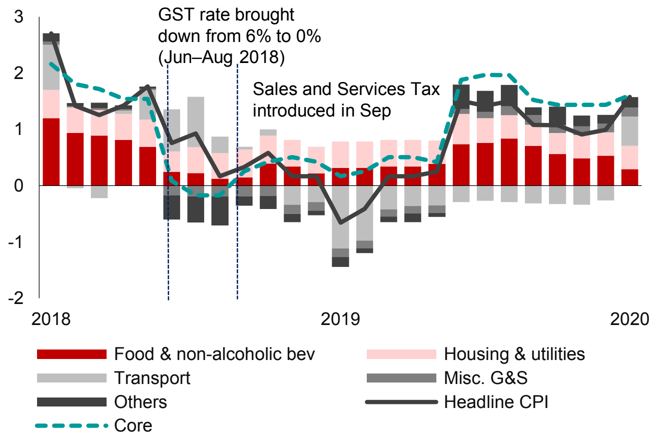


Source: Department of Statistics Malaysia.
Note: GFCF= Gross fixed capital formation

Lower fuel prices and the decline in food inflation contained the inflation pick-up in H2 2019.

Headline and Core Inflation

(Percentage points year-over-year)

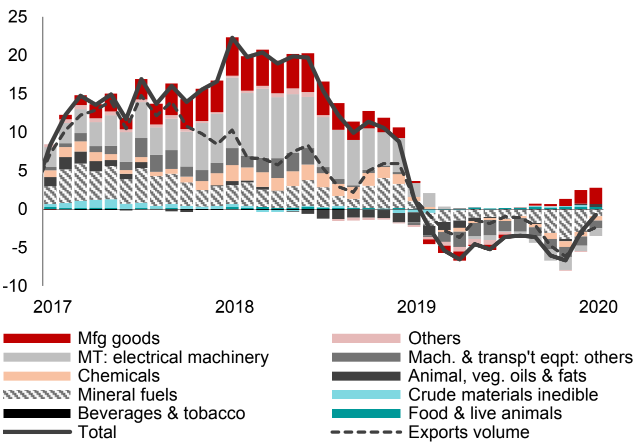


Source: Department of Statistics Malaysia.
Note: Misc. G&S = miscellaneous goods and services.

Exports took a sharp dive in 2019, led by electronics and mineral fuels.

Merchandise Exports and Components

(Percent year-over-year, 3-month moving average)

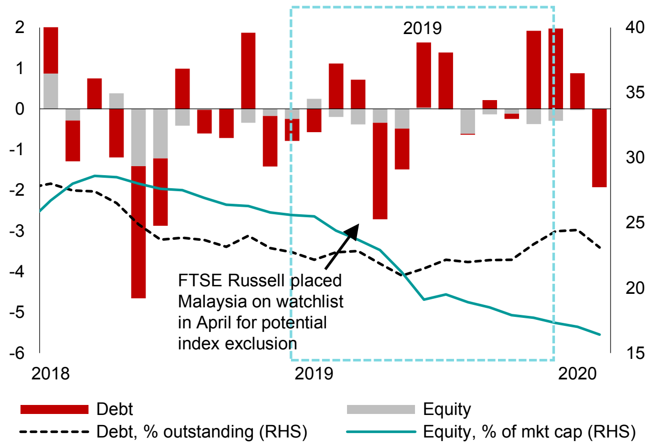


Source: Department of Statistics Malaysia.

2019 through early-2020 was mostly marked by net foreign purchases in the bond market.

Non-resident Net Purchases and Ownership in Debt and Equity Markets

(Billions of US dollars; percent outstanding or market capitalization)

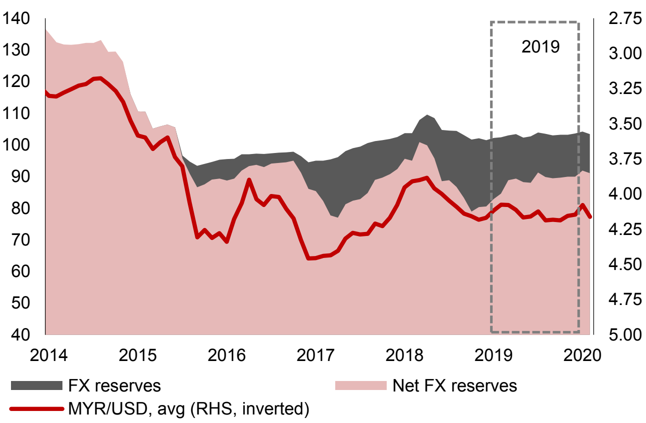


Sources: Bank Negara Malaysia; and Bursa Malaysia.

Positive foreign bond investor sentiment contributed to fairly stable reserves and MYR/USD rate in 2019.

Official Reserve Assets and MYRUSD Rate

(Billions of US dollars; inverted MYRUSD rate)

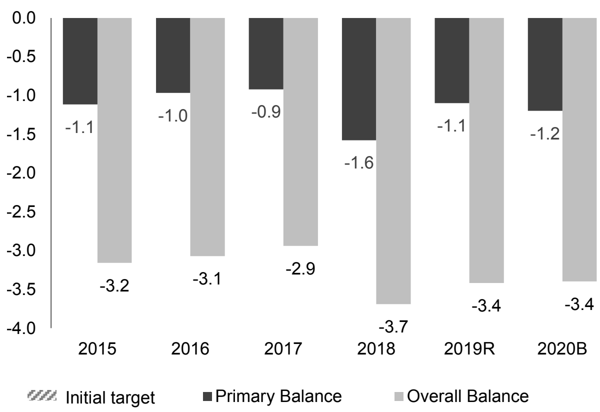


Source: Bank Negara Malaysia.
Note: Net FX Reserves refer to foreign exchange reserves less Bank Negara Malaysia's net forward positions.

The 2020 Budget aims at balancing between supporting the economy and containing the deficit.

Federal Government Budget Balance

(Percent of GDP)



Sources: Department of Statistics Malaysia; and Ministry of Finance.
Note: 2019R refers to the revised 2019 Budget; 2020B refers to 2020 Budget.

Malaysia: Selected Economic Indicators

	2016	2017	2018	2019
Real sector	(in annual percentage change)			
Real GDP	4.4	5.7	4.7	4.3
Private consumption	5.9	6.9	8.0	7.6
Government consumption	1.1	5.5	3.3	2.0
Gross fixed capital formation	2.6	6.1	1.4	-2.1
Imports of goods and services	1.3	8.7	2.2	-1.1
Exports of goods and services	1.4	10.2	1.3	-2.3
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	2.4	2.8	2.1	3.3
Trade balance	8.1	8.5	8.2	8.3
Capital and financial account balance	0.0	-0.3	1.3	-2.3
Direct investment	1.1	1.2	0.8	0.6
Portfolio investment	-1.1	-1.1	-3.1	-2.5
Other investment	0.1	-0.4	3.5	-0.4
Errors and omissions	-1.9	-1.2	-2.9	-0.5
Overall balance	0.5	1.2	0.5	0.6
Gross external debt	73.2	64.5	63.9	62.6
International reserves (in USD billion, end of period)	94.5	102.4	101.4	103.6
Fiscal sector	(in percent of GDP)			
Revenue and grants	17.0	16.1	16.1	17.1
Expenditure	20.1	19.0	19.8	20.5
Fiscal balance	-3.1	-2.9	-3.7	-3.4
Primary balance	-1.0	-0.9	-1.6	-1.1
Government debt	51.9	50.1	51.2	52.6
Monetary and financial sectors	(in annual percentage change)			
Broad money	3.2	4.9	9.1	3.5
Private sector credit	5.8	5.8	8.4	4.4
Loans	6.0	3.8	7.1	4.2
Securities	4.0	23.6	18.5	5.7
Memorandum items:				
Nominal GDP (in MYR billion)	1,249.7	1,371.6	1,446.9	1,510.8
Headline inflation (in percent yoy, period average)	2.1	3.7	1.0	0.7
Policy rate (in percent per annum)	3.00	3.00	3.25	3.00
Exchange rate (in MYR/USD, period average)	4.2	4.3	4.0	4.1

Sources: National authorities; and AMRO staff estimates.
Note: Red number denotes AMRO staff estimate. yoy = year-over-year.

Myanmar

Myanmar's economy has been on a slow recovery path. Growth rebounded at 6.8 percent in fiscal year (FY) 2018/19, mainly supported by strong growth in the garment and other manufacturing activities, expansion of tourism-related services, and a recovery in the agricultural sector.[1]

Foreign investment approvals rose in 2019, amid an improving business environment, after a sharp drop in 2018. As of January 2020, manufacturers' sentiment, as gauged by PMI, remained strong following continued expansion for the last 15 months.

While growth is expected to moderate in FY2019/20 as a result of disruptions from the COVID-19 outbreak, its momentum over the medium term is likely to prevail on the back of robust expansion of the manufacturing sector and stronger fiscal support, amid an improving business environment and renewed reform momentum. The Myanmar government has launched the Medium-term Sustainability Development Plan (2018–30), which provides a framework for coordination and cooperation among government agencies toward achieving stronger and more inclusive growth.

Inflation rose to 8.6 percent in FY2018/19 due to supply factors, including food inflation and electricity tariff hikes. The effect of the one-off electricity tariff hike will likely last for about a year and fade out afterward. On the other hand, exchange rate stability from the continuing improvements in the current account balance should help contain imported inflation. Overall, inflation in FY2019/20 is expected to be softer than FY2018/19 but still remain at a relatively high level.

The current account balance has improved significantly, driven by a rebound in agricultural and mining exports, continued strong manufacturing exports, and solid expansion of tourism sector. Tourist arrivals in 2019, expanded by 22 percent, compared to 3 percent in the previous year.

Overall monetary conditions remain tight, associated with less fiscal monetarization and a stricter banking regulatory regime. Broad money growth slowed to 12.0 percent in Q2 2019 from 18.0 percent a year ago, owing to modest deposit growth. The interest rate floor and ceiling are still in place, at 8 percent and 13 percent, respectively, and uncollateralized lending is allowed with a lifted cap of 16 percent. On the other hand, credit growth slowed to 17.3 percent as of Q2 2019, from 22.0 percent on average in 2018. Credit growth has moderated in tandem with the enforcement of the stricter banking regulatory regime.

Fiscal policy is expansionary in support of growth. While the initial budget for FY2018/19 was aimed at a deficit of about 6.0 percent of GDP, the actual deficit could be lower than budgeted, at about 3.7 percent, as a result of underspending. In FY2019/20, the budgeted deficit is set to increase to about 7 percent of GDP, with more resources directed at the electricity and energy sector to address supply shortages. However, tax revenues have remained subdued.

Risks to growth stem mainly from continued ethnic tensions in the Rakhine State and uncertainties in the global economy related to the new COVID-19 epidemic and geopolitical risks. The Rakhine crisis and recurring insurgent operations in some states may continue to dampen investor sentiment and tourist arrivals, in particular from the United States and Europe. A sharp slowdown in China, potentially caused by the COVID-19 epidemic and other structural factors, could have a significantly negative impact on Myanmar's economy. Myanmar's mining and gas exports—for which China is a key market—could be affected by a sharp slowdown in Chinese demand. On the other hand, potential manufacturing relocation from China—especially labor-intensive industries— driven by the US-China trade tensions, could support the expansion of manufacturing activities in Myanmar.

The weak banking system, still in transition to comply with a more stringent banking regulatory framework, may continue to be constrained in its financial intermediation role. The lack of basic infrastructure remains the key bottleneck to sustaining high economic growth over the medium to long term. While reform efforts have resumed with a series of new policy actions in 2019, maintaining the momentum with timely implementation would be essential.

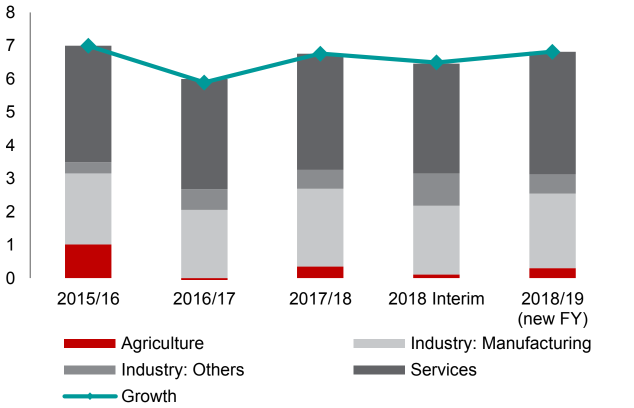
The author of this country note is Xianguo (Jerry) Huang.

[1] Myanmar started a new cycle of fiscal year from October 2018 (FY2018/19), after half-year interim FY18 during April and September 2018.

Myanmar: Selected Figures

Growth remains on a gradual recovery path in FY2018/19.

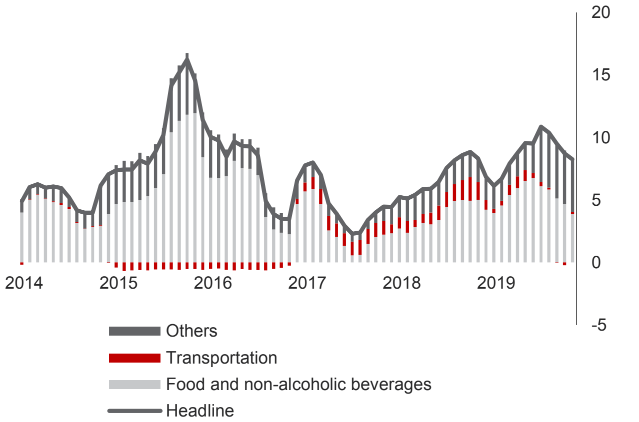
Contributions to Real GDP Growth
(Percentage points)



Sources: Ministry of Planning and Finance; and AMRO staff calculations.
Note: Myanmar started a new cycle of fiscal year from October 2018 (2018/19).The base year for GDP in 2018/19 changed to 2015/16 from 2010/11, which was the base year of GDP in the previous years.

Inflation was elevated in FY2018/19 due to food inflation and electricity tariff hikes.

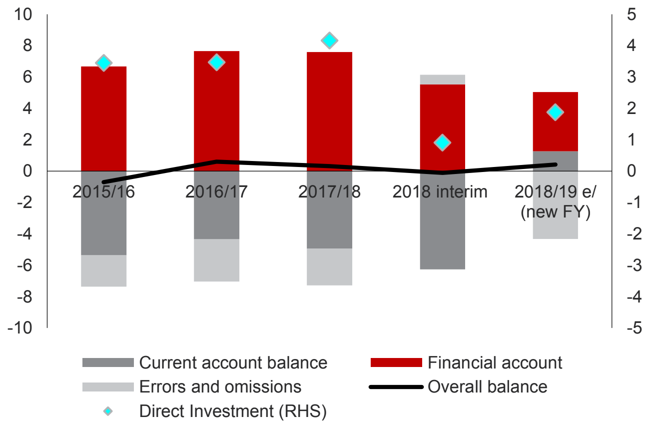
Inflation
(Percent year-over-year)



Source: Central Statistical Organization.

The current account could turn positive in FY2018/19, but with large errors and omissions.

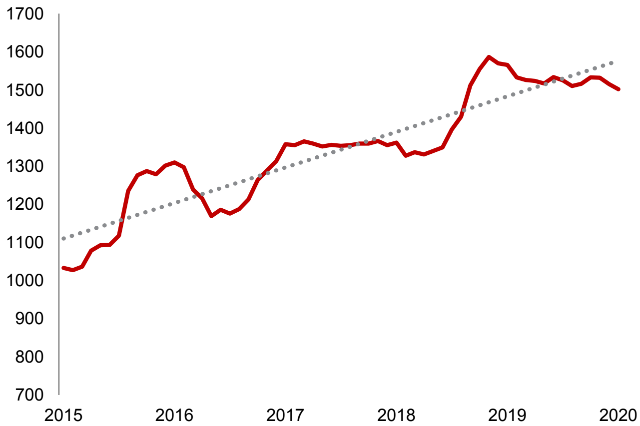
Balance of Payments
(Percent of GDP; Billions of US dollars)



Sources: Central Bank of Myanmar; and AMRO staff calculations
Notes: 2018/19 figures were estimated based on three quarters of available data.

MMK/USD was stable in 2019 as a result of the improved current account balance.

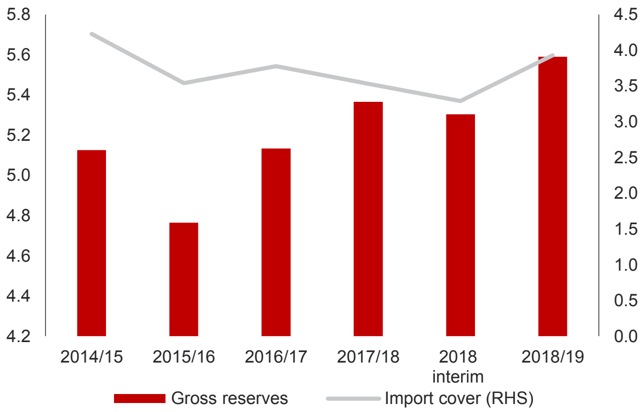
Exchange Rate
(Myanmar kyat per US dollar)



Source: Central Bank of Myanmar.

While still narrow, the foreign exchange buffer improved somewhat in FY18/19.

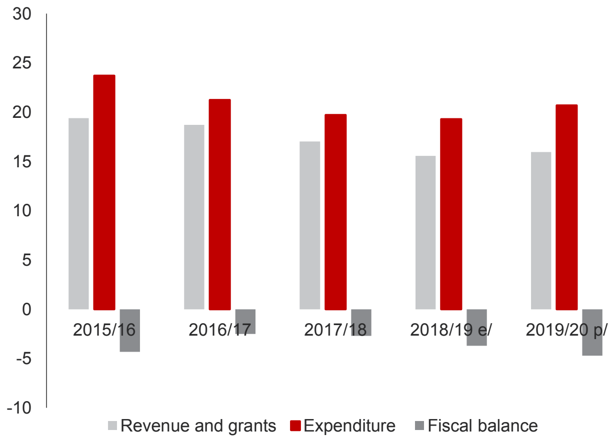
Gross International Reserves
(Billions of US dollars; months of imports)



Sources: Central Bank of Myanmar; and AMRO staff calculations.

Fiscal policy is expansionary in support of growth in FY2019/20.

Fiscal Balance
(Percent of GDP)



Source: Ministry of Planning, Finance and Industry.
Note: e/ refers to estimate. p/ refers to projection.

Myanmar: Selected Economic Indicators

	FY16/17	FY17/18	FY18	FY18/19 (new)
Real sector	(in annual percentage change)			
Real GDP	5.9	6.8	6.5	6.8
External sector	(in millions of US dollars, unless otherwise specified)			
Current account balance	-2,756.3	-3,301.1	-1,454.7	863.4
In percent of GDP	-4.4	-4.9	-6.3	1.3
Trade balance	-4,409.2	-4,696.3	-2,447.7	-2,350.3
Financial account balance	-4,835.7	-5,063.5	-1,285.9	-2,407.8
Direct investment (net)	3,469.9	4,159.1	902.5	1,870.5
Official development assistance (net)	-35.0	224.7	125.8	418.0
Overall balance	379.1	203.4	-26.7	286.2
Total external debt (in percent of GDP)	13.4	15.4	14.1	14.9
International reserves (in USD billion, end of period)	5,133.9	5,366.0	5,303.0	5,589.2
In months of imports	3.8	3.5	3.3	3.9
Fiscal sector	(in percent of GDP)			
Revenue and grants	18.7	17.0	24.1	15.6
Tax revenue	7.3	6.7	8.5	6.0
Expenditure	21.3	19.7	25.6	19.3
Capital expenditure	6.5	6.0	6.7	6.9
Fiscal balance	-2.5	-2.7	-1.5	-3.7
Primary balance	-1.2	-1.3	0.7	-2.3
Public debt	35.6	38.4	37.7	37.1
Monetary and financial sectors	(in annual percentage change)			
Broad money	19.4	18.0	18.6	11.7
Reserve money	8.8	6.0	4.6	5.0
Domestic credit	25.4	20.2	21.4	17.1
Private sector credit	33.4	23.4	21.2	18.0
Memorandum items:				
Nominal GDP (in MMK billion)	79,722.9	90,450.9	32,873.2	105,742.0
Nominal GDP (in USD billion)	63.2	66.7	23.2	69.0
Headline inflation (in percent yoy, period average)	6.8	4.0	7.1	8.6
Headline inflation (in percent yoy, end of period)	7.0	5.4	8.6	9.5
Exchange rate (in MMK/USD, period average)	1,260.6	1,355.8	1,414.0	1,532.0
Exchange rate (in MMK/USD, end of period)	1,362.0	1,335.0	1,560.0	1,535.0

Sources: National authorities; and AMRO staff estimates.
Note: Red number denotes AMRO staff estimate. FY18/19 onward are based on new fiscal year starting from October; FY18 refers to interim half-year FY;
The base year for GDP in 2018/19 changed to 2015/16 from 2010/11, which was the base year of GDP in the previous years. yoy = year-over-year.

The Philippines

The Philippine economy slowed in H1 2019 and has rebounded since Q3, reflecting the swing in government spending amid weakening external demand. Despite the turnaround, GDP growth declined from 6.2 percent in 2018 to 5.9 percent in 2019. Against weaker investment and export growth, a modest recovery in private consumption has become the main driver of growth. Going forward, growth is expected to continue to recover, led by an acceleration in government expenditure.

Inflation declined sharply, largely due to favorable supply side developments. Headline inflation fell from 5.2 percent in 2018 to 2.5 percent in 2019. The slowdown in inflation was largely attributable to base effects from the excise tax increase a year ago as well as lower oil prices on the back of excess supply in global oil markets and lower imported food prices. As global oil prices and domestic food prices seem likely to remain low and demand side pressures to remain subdued, inflation is expected to remain in the 2–4 percent target range in 2020.

The current account deficit shrank markedly, driven by the improvement in the balance of goods and services trade and primary income, while the financial account registered strong inflows. Unlike the resident driven outflows in 2018, the strong capital flows in 2019 were mainly from an increase in non-residents' holdings of domestic assets. This development has consequently led to a replenishment of the country's international reserves from the drawdown in 2018. Gross international reserves have recovered from USD 79.2 billion at the end of 2018 to USD 87.8 billion at end-2019.

Monetary conditions continued to tighten in early-2019 but has eased significantly since then. In view of the economic slowdown, continued easing of price pressures during the year, and well-anchored inflation expectations, the Bangko Sentral ng Pilipinas cut interest rates three times by a cumulative 75 basis points and lowered the Required Reserve Ratio by 400 basis points since May 2019. These policy adjustments have moved the interbank call loan rate back to the center of the interest rate corridor and eased the liquidity tightness in the banking system.

Fiscal spending was severely constrained by the delay in budget approval due to an unusually long political gridlock, compounded by the election ban in early 2019. Consequently, the fiscal deficit narrowed from 3.0 percent of GDP in the first three quarters of 2018 to 2.2 percent over the same period of 2019. However, the government has managed to catch up on its spending in Q4 2019. As a result, the fiscal deficit widened to 3.5 percent of GDP in 2019.

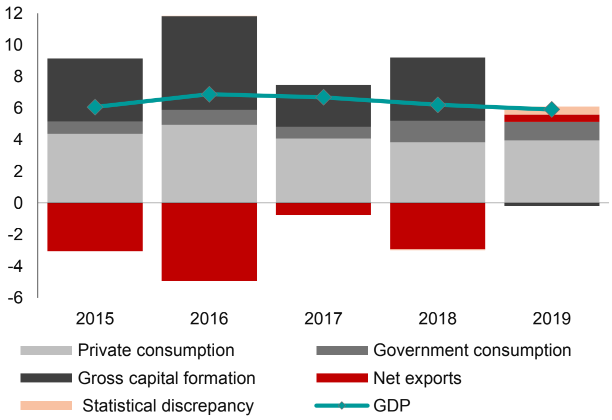
In the short term, the main risks facing the economy stem from external sources. Notwithstanding the recent easing in the US-China trade tensions, global policy uncertainties remain elevated while business sentiment remains depressed and continues to weigh on investment spending. These uncertainties could exacerbate the current slowdown in the world economy and increase global market volatilities. On the upside, global oil prices have moderated and global financial conditions have eased, following the dovish pivot by major central banks at the beginning of 2019, providing a respite for emerging market central banks. Domestically, policy restrictions on Philippine Offshore Gaming Operators (POGOs) and a ban on the establishment of new economic zones in the National Capital Region may lead to downward pressure on the property market. For the longer term, sustaining trend growth in productivity after the global financial crisis remains a challenge.

The author of this country note is by Zhiwen Jiao.

The Philippines: Selected Figures

Economic growth slowed in 2019 as a result of a budget delay and weaker external demand.

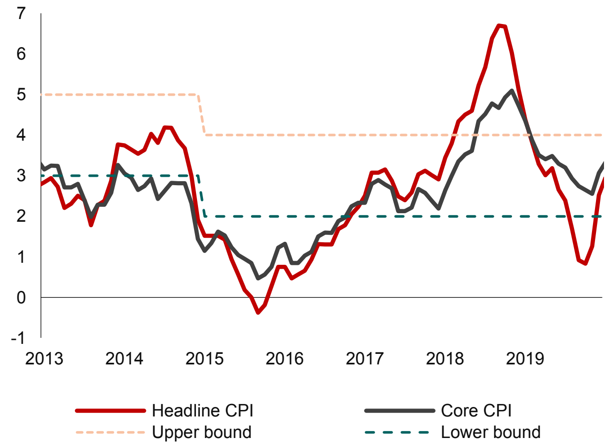
Contributions to Real GDP Growth
(Percentage points)



Source: Philippine Statistics Authority.

Inflation has decelerated sharply, dipping and staying below the target range for several months.

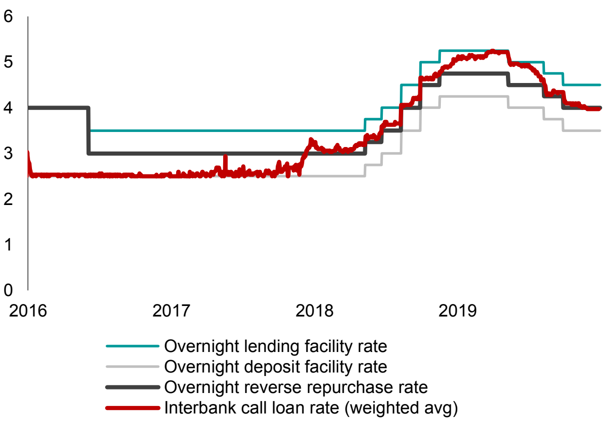
Headline CPI and Core CPI
(Percent year-over-year)



Sources: Philippine Statistics Authority; and AMRO staff calculations.
Note: CPI = consumer price index.

Monetary conditions continued to tighten in early 2019 but has eased significantly since May 2019.

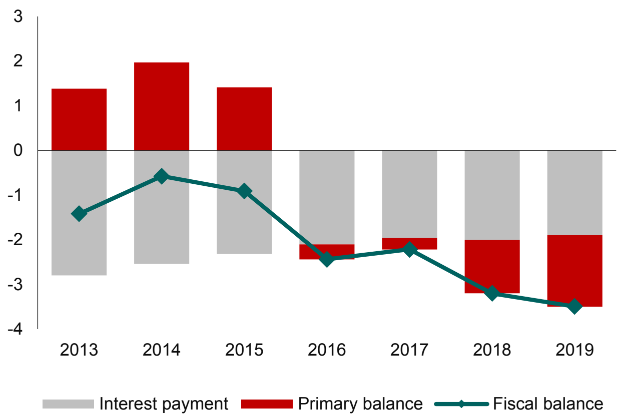
Monetary Policy and Market Rate
(Percent of GDP)



Source: Bangko Sentral ng Pilipinas.

Fiscal spending was severely constrained by the delay in budget approval due to an unusually long political gridlock in early 2019, but managed to catch up in H2 2019

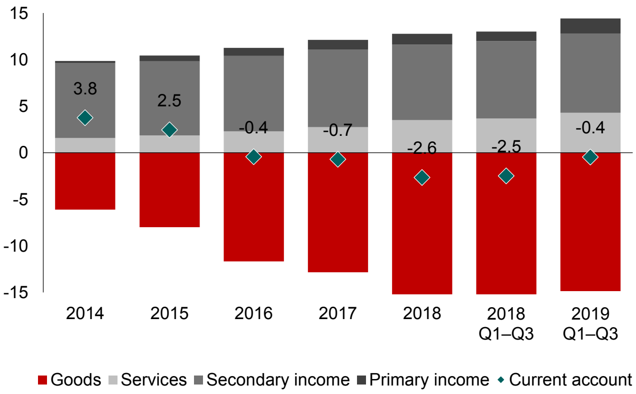
Fiscal Balance
(Percent of GDP)



Source: Bureau of Treasury.

The current account deficit shrank markedly driven by improvements in the balance of goods and services trade and primary income.

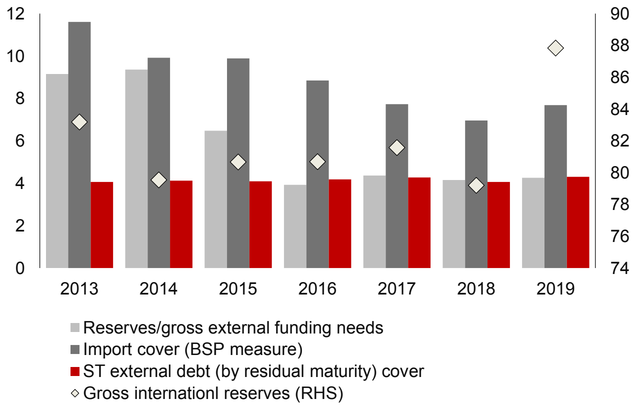
Current Account Balance
(Percent of GDP)



Source: Bangko Sentral ng Pilipinas.

International reserve adequacy has strengthened.

International Reserve Adequacy
(Times; Billions of US dollars)



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

The Philippines: Selected Economic Indicators

	2016	2017	2018	2019
Real sector	(in annual percentage change)			
Real GDP	6.9	6.7	6.2	5.9
Private consumption	7.1	5.9	5.6	5.8
Government consumption	9.0	6.2	13.0	10.5
Gross fixed capital formation	26.1	9.4	12.9	1.5
Imports of goods and services	20.2	18.1	16.0	2.1
Exports of goods and services	11.6	19.7	13.4	3.2
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	-0.4	-0.7	-2.6	-1.0
Trade balance	-9.3	-10.1	-11.9	-10.2
Capital and financial account balance	0.1	-0.9	-2.6	-2.6
Direct investment	-1.9	-2.2	-1.8	-1.0
Portfolio investment	0.5	0.8	0.4	-0.9
Other investment	1.5	0.6	-1.2	-0.7
Errors and omissions	0.1	-0.5	-0.7	0.8
Overall balance	-0.3	-0.3	-0.7	2.2
Net external debt	24.5	23.3	23.9	23.6
International reserves (in USD billion, end of period)	80.7	81.6	79.2	87.8
Fiscal sector	(in percent of GDP)			
Revenue and grants	15.2	15.6	16.4	16.9
Expenditure	17.6	17.9	19.6	20.4
Fiscal balance	-2.4	-2.2	-3.2	-3.5
Government debt	42.1	42.1	41.8	41.5
Monetary and financial sectors	(in annual percentage change)			
Broad money	13.4	11.3	9.0	9.8
Domestic credit	17.0	13.9	14.9	10.5
Private sector credit	16.6	16.4	15.1	7.5
Memorandum items:				
Nominal GDP (in PHP billion)	14,480.3	15,807.6	17,426.2	18,613.0
Headline inflation (in percent yoy, period average)	1.3	2.9	5.2	2.5
Policy rate (in percent per annum)	3.0	3.0	4.75	4.0
Exchange rate (in PHP/USD, period average)	47.5	50.4	52.7	51.8

Sources: National authorities; and AMRO staff estimates.
Note: Red number denotes AMRO staff estimate. yoy = year-over-year.

Singapore

Singapore's growth slowed sharply to 0.7 percent in 2019, from 3.4 percent in 2018. The sharp slowdown was partly due to contractions in the electronics and wholesale trade sectors. The decline in these sectors stemmed mainly from the ongoing U.S.-China trade conflict and the slump in demand for technology exports. However, activities in the financial services, information and communications technology, tourism-related services, and construction sectors continued to be robust.

The labor market was resilient, although signs of a softening have emerged. The strong momentum in job creation that started in H2 2018 was evident in 2019, led by services and a turnaround in the construction sector. However, resident wage growth has slowed alongside an uptick in the unemployment rate.

The Monetary Authority of Singapore Core Inflation declined in 2019 as a result of slow growth, liberalization of the retail electricity market and weaker global oil prices.

Non-oil domestic exports (NODX) have contracted, led by electronics on the back of the global electronics downcycle. Additionally, NODX to key markets, such as the EU, China and a few countries in the region, declined. However, there have been signs of a bottoming out in the semiconductor segment. Furthermore, the contraction in electronics production appear to be stabilizing, while growth in biomedical output stayed firm in 2019.

Domestic bank lending to businesses continued to grow, but that to households started to decline because of softer demand for housing loans, following the property cooling measures introduced in July 2018. The prices of and transactions in private residential properties rose gradually in 2019 compared to the sharp price increase between Q4 2017 and Q3 2018. During this period, transaction volumes for new property launches increased but resale volumes remained low. The prices of resale public housing have also stabilized.

A large stimulus package was introduced within the FY2020 Budget to mitigate the impact of the COVID-19 epidemic. Special transfers (excluding top-ups to endowments and trust funds) totaling SGD 4.7 billion were introduced to support households and businesses. Also, total expenditures are projected to grow by 7.0 percent, mainly in the areas of healthcare, public housing and transport. These policy efforts are expected to lead to an overall budget deficit of 2.1 percent of GDP and a significantly higher fiscal impulse in FY2020. Monetary policy has been eased slightly in view of the growth slowdown and subdued inflation outlook.

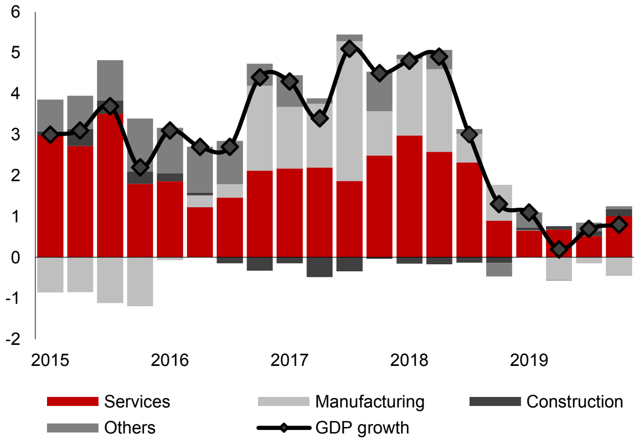
Risks to growth stem mainly from the COVID-19 epidemic, a sharp slowdown in China's growth, uncertainties surrounding the prospects of further trade negotiations between the United States and China. In addition, Singapore also faces challenges from slower productivity growth, aging, climate change, and rapidly growing socioeconomic spending needs.

The author of this country note is Justin Lim.

Singapore: Selected Figures

Singapore's growth slowed sharply to 0.7 percent in 2019 as a result of a contraction in manufacturing.

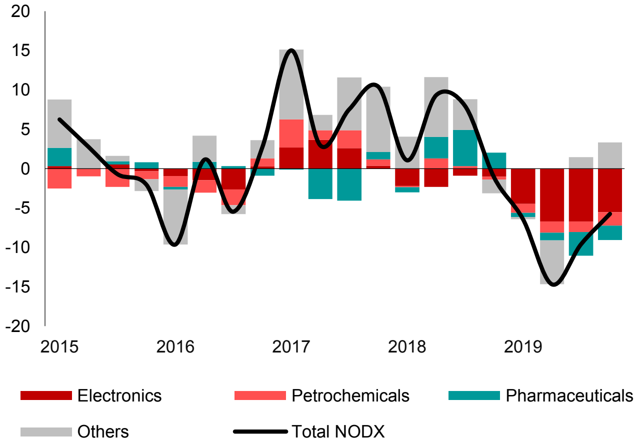
Contributions to Real GDP Growth
(Percentage points)



Source: Singapore Department of Statistics

Exports have also contracted, led by electronics.

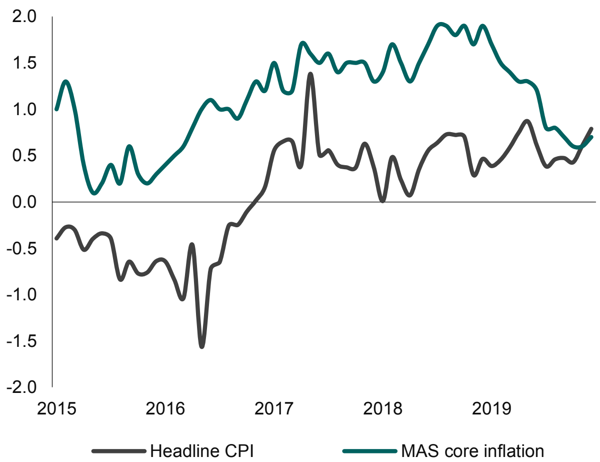
Non-oil Domestic Exports (NODX)
(Percent year-over-year contribution)



Source: Enterprise Singapore.

The Monetary Authority of Singapore Core Inflation declined in 2019.

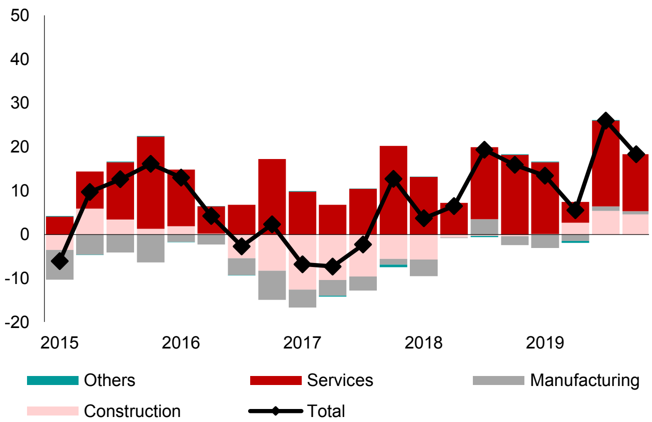
Headline and MAS Core Inflation
(Percent year-over-year)



Sources: Singapore Department of Statistics; and Monetary Authority of Singapore.
Note: CPI = consumer price index.

However, the labor market remained resilient.

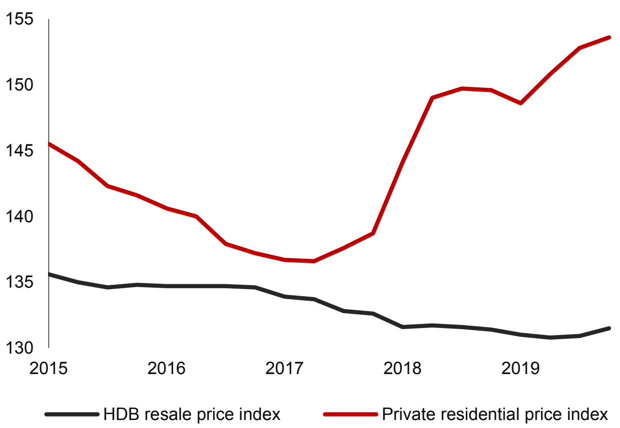
Net Change in Employment by Sector
(Change in Employment, Thousands Persons)



Sources: Manpower Research & Statistics Department; and Ministry of Manpower.

The prices of private residential properties rose gradually in the wake of the 2018 cooling measures.

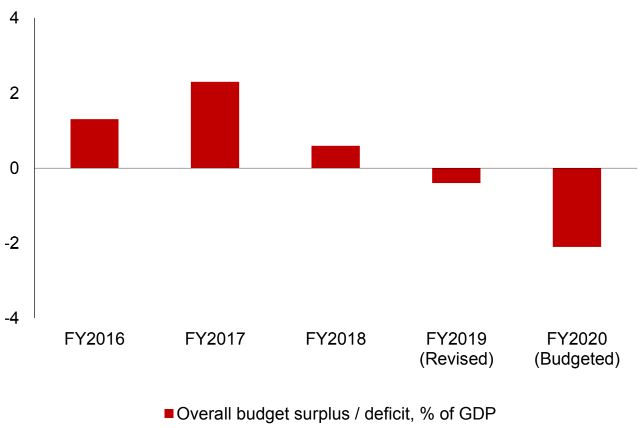
Private Residential and HDB Price Index
(Index 2009:Q1=100)



Sources: Housing and Development Board; and Urban Redevelopment Authority.

A large fiscal stimulus package was deployed to support the economy.

Overall Budget Position
(Percentage of GDP)



Source: Ministry of Finance Singapore.

Singapore: Selected Economic Indicators

	2016	2017	2018	2019
Real sector	(in annual percentage change)			
Real GDP	3.2	4.3	3.4	0.7
Private consumption	3.2	3.0	4.2	3.7
Government consumption	3.8	3.1	2.9	2.8
Gross fixed capital formation	1.5	4.2	-3.4	-0.2
Imports of goods and services	0.0	6.2	8.1	-1.6
Exports of goods and services	0.2	7.5	7.3	-1.7
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	17.6	16.3	17.2	17.0
Goods balance	28.5	28.5	27.9	26.3
Capital and financial account balance	17.6	9.1	13.2	18.7
Direct investment	-9.7	-14.3	-16.4	-19.4
Portfolio investment	4.9	9.1	9.6	27.1
Other investment	18.5	10.9	14.8	8.2
Errors and omission	-0.6	0.8	-0.7	-0.5
Overall balance	-0.6	8.0	3.4	-2.3
Net international investment position[1]	236.9	229.2	220.1	248.5
International reserves (in USD billion, end of period)	246.6	279.9	287.7	279.5
Fiscal sector[2]	(in percent of GDP)			
Revenue	15.3	15.9	14.5	14.7
Expenditure	15.8	15.4	15.3	15.4
Fiscal balance	1.4	2.3	0.7	-0.3
Government debt[3]	106.5	108.4	110.5	N/A
Monetary and financial sectors	(in annual percentage change)			
Broad money	8.4	4.2	5.1	4.4
Domestic credit	12.2	3.4	7.4	7.3
Memorandum items:				
Nominal GDP (in SGD billion)	440.2	472.1	503.4	507.6
Headline inflation (in percent yoy, period average)	-0.5	0.6	0.4	0.6
Exchange rate (in SGD/USD, period average)	1.3815	1.3807	1.3491	1.3642

Sources: National authorities; and AMRO staff estimates.
Note: yoy = year-over-year.

1 Net International Investment Position (IIP) as a percentage of GDP indicated under reference year 2019 is computed based on the Net IIP as of end 3Q 2019; 4Q 2019 estimates will be available by end March 2020.

2 Refers to Fiscal Year.

3 Presently, the Singapore Government issues domestic debt securities to: (1) develop the domestic debt market using the marketable Singapore Government Securities; (2) meet the investment needs of CPF (Singapore's national pension fund) using the Special Singapore Government Securities; and (3) provide individual investors with a long-term savings option that offers safe returns using the Singapore Savings Bonds. The borrowing proceeds from the issuance of these securities under the Government Securities Act cannot be spent and are invested. Singapore is in a net asset position, where its financial assets are well in excess of its liabilities.

Thailand

Thailand's economy slowed to 2.4 in 2019 from 4.2 percent in 2018 as a result of a decline in exports as well as a slowdown in investment. Exports of goods contracted sharply amid the escalating US-China trade conflict and a prolonged downturn in the electronics cycle. Domestic election uncertainty and a prolonged transition period in forming government also dampened investment. On the production side, there was broad moderation across most sectors.

Given the impact of COVID-19 outbreak and budget delay, the economy is expected to remain soft and projected to continue growing below potential in 2020. Overall, the contribution of the external sector to growth is expected to be moderate. While domestic demand should be the main driver of growth, it is also likely to be subdued.

Inflation remains low and subdued. Headline inflation eased to an average of 0.7 percent in 2019 from 1.1 percent in 2018, driven by the decline in oil prices as well as the softening of core inflation. Going forward, inflationary pressures are expected to be subdued, reflecting the weak economic conditions and low oil prices; headline inflation is projected to average 0.5 percent in 2020, below the lower bound of the new inflation targeting band.

The external position is strong, underpinned by the sizable current account surplus and substantial international reserves. The current account surplus widened in 2019, as imports contracted more than exports. The current account surplus has been partially recycled and invested overseas, in the form of foreign direct investment by domestic corporates and portfolio investment by residents.

Financial institutions remain sound overall, with strong capital buffers and high loan-loss reserves. Overall, the banking system's non-performing loan ratio has been broadly stable. Recent regulatory reforms, including the introduction of systemically important domestic banks' regulation[1] revised mortgage loan regulations,[2] and the enactment of the Cooperatives Act, should help strengthen financial stability.

While fiscal policy remains supportive of economic growth, the fiscal deficit is budgeted to narrow from 3.0 percent of GDP in FY2018 to 2.6 percent in FY2020.[3] Expenditure has fallen from 18.6 percent of GDP in FY2018 to 18.1 percent in FY2019, and is budgeted to decline further to 17.9 percent in FY2020. As a percentage of GDP, revenue has been decreasing since FY2016 as a result of changes in tax policy and low tax buoyancy. Budget disbursements continued to be low in FY2018 and FY2019, particularly for capital expenditure.

Downside risks stem mainly from the possibility of a COVID-19 pandemic, re-escalation in global trade tensions, and a severe drought. In an adverse scenario, the virus could have a bigger than anticipated impact on the tourism sector and supply chains, while feedback between China and the global economy could have second-round effects on Thailand's growth. A possible escalation in global trade tensions could also pose further risks to export recovery, while a protracted drought would significantly impact agriculture and household incomes.

With a very low fertility rate, Thailand is aging at a relatively fast pace and is faced with the challenge of "getting old before getting rich." The Thailand 4.0 scheme and the Eastern Economic Corridor flagship projects are key strategic initiatives, and their implementation should be ramped up. Efforts to enhance potential growth should be continued in order to achieve the goal of becoming a high-income developed country as is its aspiration under the 20-year National Strategy.

The author of this country note is Ruperto Majuca.

1 The largest commercial banks, which are deemed to be "too-big-to-fail," are required to maintain additional capital.

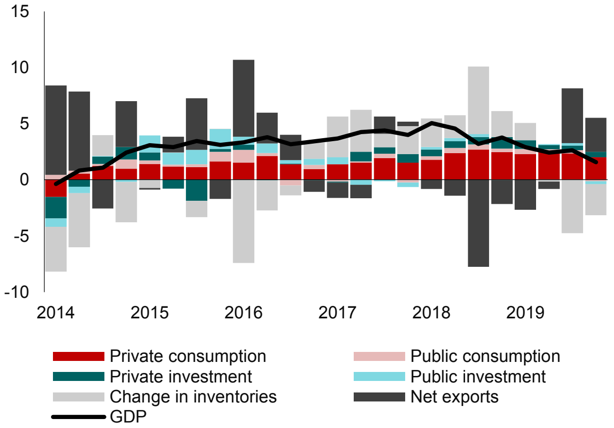
2 A stricter loan-to-value (LTV) ratio of 70 percent is required for third and subsequent mortgages and 80 to 90 percent for second mortgages.

3 Thailand's fiscal year is from 1 October to 30 September.

Thailand: Selected Figures

The economy slowed in 2019 and is expected to continue growing below potential in 2020.

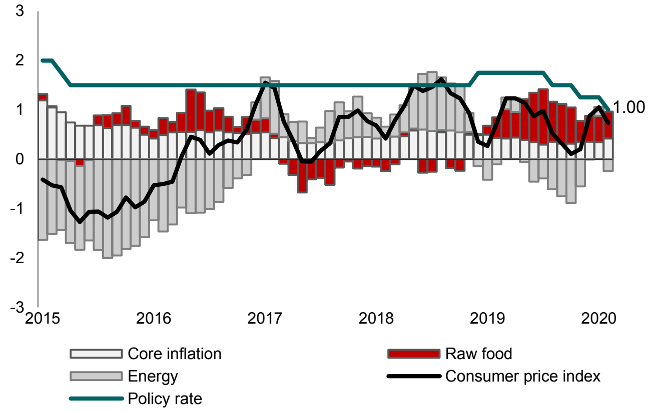
Contributions to Real GDP Growth
(Percentage points)



Sources: CEIC Data; and National Economic and Social Development Council.

Inflation has remained low and subdued.

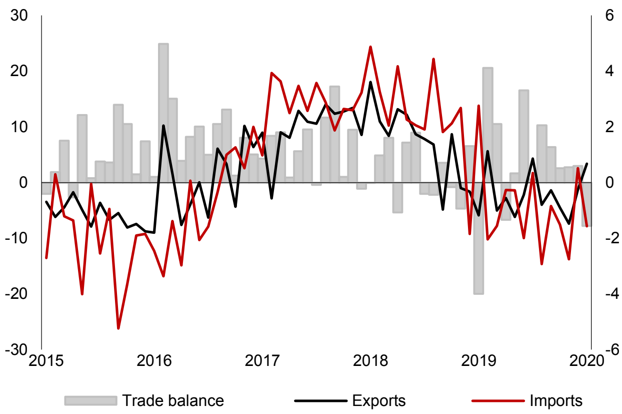
Inflation
(Percent year-over-year; Percent contribution)



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

The current account surplus widened in 2019 as imports contracted more than exports.

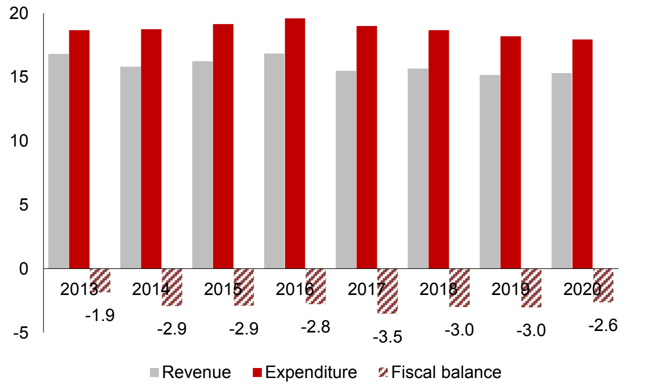
Trade Balance
(Percent year-over-year; Millions of US dollars)



Sources: CEIC Data; and Ministry of Commerce.

Fiscal policy remains supportive of growth.

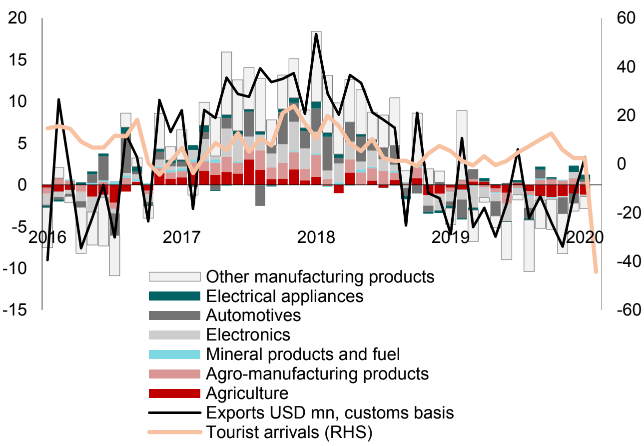
Government Fiscal Position
(Percent of GDP)



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

External risks stem mainly from impact of COVID-19 outbreak, China slowdown, and a possible re-escalation in global trade tensions.

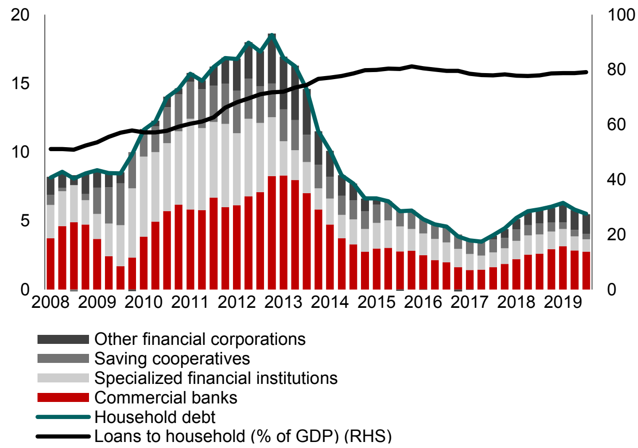
Exports and Tourist Arrivals
(Percent year-over-year; Percent contribution; Percent year-over-year)



Sources: Bank of Thailand; CEIC Data; Ministry of Commerce; and Ministry of Tourism and Sport.

The household debt-to-GDP ratio, which is high compared to regional peers, has increased somewhat recently.

Household Debt
(Percent year-over-year; Percent of GDP)



Source: Bank of Thailand.

Thailand: Selected Economic Indicators

	2016	2017	2018	2019
Real sector	(in annual percentage change)			
Real GDP	3.4	4.1	4.2	2.4
Private consumption	2.9	3.1	4.6	4.5
Government consumption	2.2	0.1	2.6	1.4
Gross fixed capital formation	2.9	1.8	3.8	2.2
Exports of goods and services	2.7	5.2	3.3	-2.6
Imports of goods and services	-1.0	6.2	8.3	-4.4
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	10.5	9.6	5.6	6.8
Trade balance	8.7	7.1	4.4	4.9
Capital and financial account balance	-5.0	-2.8	-3.1	-2.3
Direct investment	-2.5	-2.2	-1.6	-1.3
Portfolio investment	-0.7	-0.5	-1.1	-1.5
Other investment	-1.8	-0.1	-0.2	-0.5
Errors and omissions	-2.4	-1.2	-1.1	-2.0
Overall balance	3.1	5.7	1.4	2.5
Total external debt	32.5	36.7	35.5	34.0
Gross official reserves excl net forward position				
(in USD billion, end of period)	171.9	202.6	205.6	224.3
Fiscal sector[1]	(in percent of FY GDP)			
Revenue	16.8	15.4	15.6	15.1
Expenditure	19.6	19.0	18.6	18.1
Budget balance	-2.8	-3.5	-3.0	-3.0
Public debt	41.8	41.9	42.1	41.2
Monetary and financial sectors	(in annual percentage change)			
Policy rate (percent per annum, end of period)	1.50	1.50	1.75	1.25
10-year government bond yield (end of period)	2.7	2.5	2.5	1.5
Memorandum items:				
Nominal GDP (in THB billion)	14,592.6	15,486.6	16,365.6	16,879.0
Headline inflation (in percent yoy, period average)	0.2	0.7	1.1	0.7
Unemployment rate (in percent, period average)	1.0	1.2	1.1	1.0
Exchange rate (in THB/USD, period average)	35.3	33.9	32.3	31.0

Sources: National authorities.
Note: yoy = year-over-year.
[1] Refers to Fiscal Year.

Vietnam

The Vietnamese economy continued to be robust, with growth recorded at 7.0 percent in 2019. The strong expansion was supported by the manufacturing sector, as well as vibrant activity in the wholesale and retail sectors. GDP growth is expected to be about 6.6 percent in 2020. Inflationary pressures picked up toward the end of 2019 due to higher food prices. Headline inflation reached 5.2 percent year-over-year in December last year as pork prices spiked, although relatively soft inflation earlier in the year helped keep average annual inflation at 2.8 percent, below the target ceiling of 4.0 percent. Inflationary pressures are expected to be elevated in 2020 to the extent that food prices remain high and taking into account possible upward adjustments in healthcare and education costs.

Surpluses in both the current account and financial account helped bolster the foreign exchange reserve buffer. The current account surplus rebounded in the second half of last year, on the back of a pickup in electronic exports. Foreign direct investment inflows remained a key driver of the financial account surplus. The robust external position was reflected in the accumulation of foreign exchange reserves, which stood at USD 79 billion as of end-2019. The Vietnamese dong was relatively stable, having depreciated by less than 2 percent vis-à-vis the US dollar in 2019.[1]

Continued fiscal consolidation helped limit the budget deficit to 2.7 percent of GDP. While lower fees and land-based revenues brought down revenue compared to 2018, the decline was offset by a slowdown in both recurrent and capital expenditure. The 2020 budget projects a fiscal deficit of 2.8 percent of GDP. Public debt, at 46.1 percent of GDP as of end-2018, is estimated to have declined to about 43.0 percent by end-2019.

Credit growth has moderated, in line with the State Bank of Vietnam's (SBV's) lower credit growth target. Against the backdrop, of the 14 percent target for 2019, banking system credit expanded by 13.5 percent. Meanwhile, monetary conditions remained relatively accommodative, especially after the SBV's lowering of key policy rates by 25 basis points in September last year.

Key risks to the real and external sectors stem mainly from uncertainties surrounding trade tensions and the global tech cycle, as well as the new COVID-19 outbreak. Although Vietnam has benefited so far from the US-China trade conflict, through FDI inflows as a result of production relocation and co-location, the ramifications for the country's exports have been mixed, with surging exports to the United States offset by cooling global demand and slowing exports to China. Vietnam's expanding number of free trade agreements should help sustain exports as the economy's main growth engine. However, the outbreak of the COVID-19 will likely dent Vietnam's growth prospects this year, to the extent that the epidemic slows its own domestic demand and subdues China's import demand and tourists coming to Vietnam, as well as through disruptions to its import of intermediate goods.

Uncertainties and turbulence in global financial markets could lead to increased volatility in capital flows. Separately, banking sector risks stem from the relatively low capital buffers and still-sizeable legacy non-performing loans (NPLs). NPL resolution has sped up, but a considerable amount of legacy NPL remains. In addition, the relatively high credit-to-GDP ratio could render the economy vulnerable to potential financial market distress.

With uncertain global financial conditions and strong domestic growth momentum, policy focus should be on maintaining macroeconomic and financial stability. The maintenance of the credit growth target of 14 percent for 2020 is prudent, while the recent cut in key policy rates could help banks manage liquidity conditions. Greater exchange rate flexibility with judicious use of exchange rate intervention to curb excessive volatility is recommended.

The SBV's continuing supervision of lending to certain sectors of the economy is warranted to mitigate the risk of an asset bubble. Further efforts to speed up bank recapitalization are strongly encouraged. In addition, the recent rapid growth in corporate bond issuances necessitates a strong regulatory framework as credit risk shifts from the banking sector to the bond market.

AMRO supports continuing efforts and reform initiatives, in line with the medium-term fiscal plan. Continuing policy efforts to enhance revenue potential will be critical in the longer term, particularly to fund growing spending needs on development and social security.

Structural reforms should also be accelerated to ensure a sustainable development path. Enhancing the financial transparency of state-owned enterprises (SOE) would be beneficial in expediting the progress of SOE equitization. Concerted efforts from relevant state agencies are crucial in addressing fiscal challenges stemming from population aging.

The author of this country note is Jade Vichyanond.

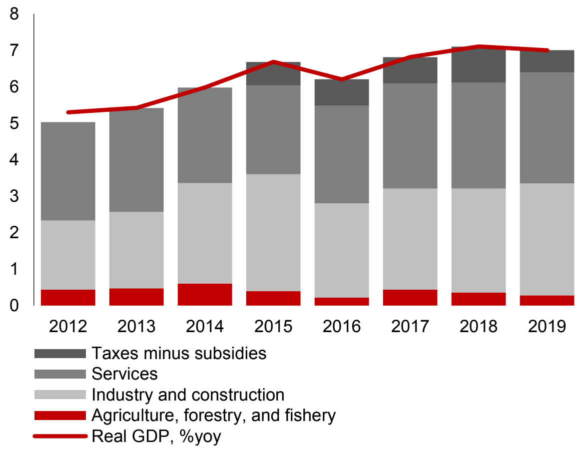
1 These fiscal figures were calculated based on AMRO's estimates/projection of nominal GDP for 2018–20, which in turn are based on the General Statistics Office of Vietnam's recent revision of GDP data for 2010–17. According to the Vietnamese authorities, using official (unrevised) nominal GDP for 2018-2020, the fiscal deficit in 2019 was 3.4 percent of GDP and the 2020 budget projects a fiscal deficit of 3.4 percent of GDP, while public debt as of end-2018 was 58.3 percent of GDP and is estimated to have declined to about 54.7 percent of GDP as of end-2019.

Vietnam: Selected Figures

Output growth continued to be robust…

Contributions to Real GDP Growth

(Percentage points)

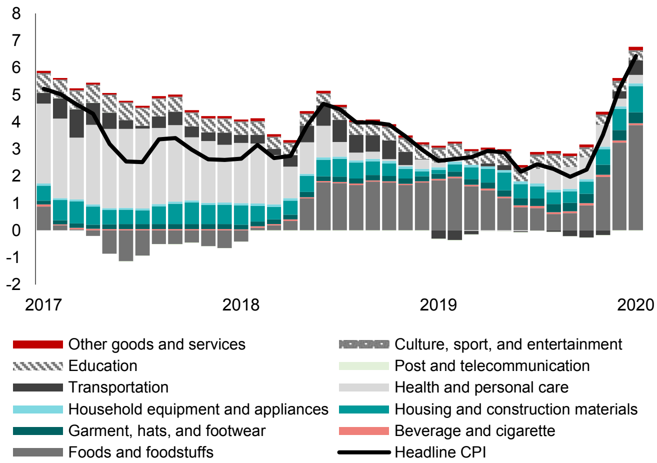


Sources: CEIC Data; General Statistics Office; and AMRO staff calculations.

…while inflationary pressures rose due to higher food prices.

Inflation

(Percent year-over-year)

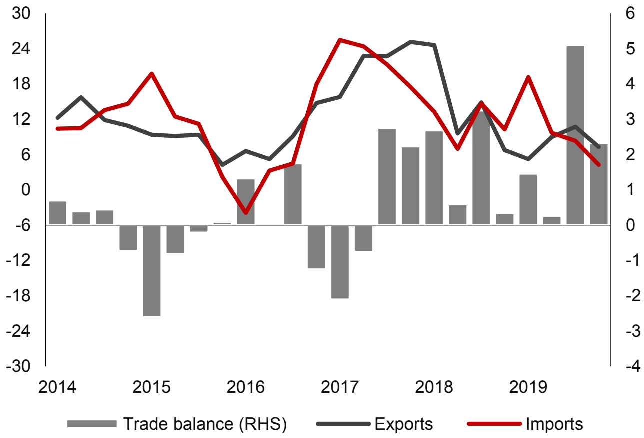


Sources: CEIC Data: General Statistics Office; and AMRO staff calculations.
Note: CPI = consumer price index.

Export growth has held up…

Trade Balance

(Percent year-over-year; Billions of US dollars)

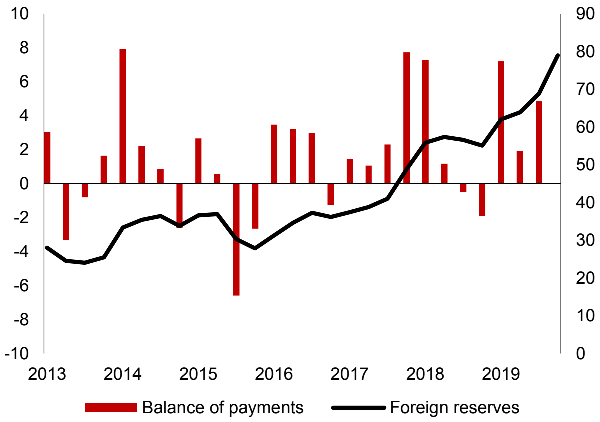


Sources: CEIC Data; State Bank of Vietnam; and AMRO staff estimates.

…which, along with continued capital inflows, led to reserves accumulation.

Balance of Payments and Foreign Reserves

(Billions of US dollars)

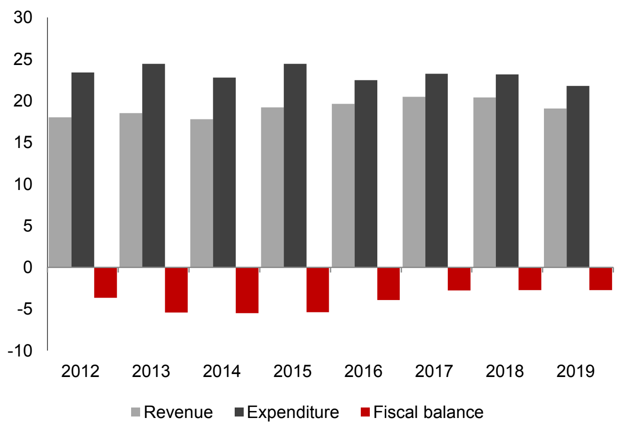


Sources: CEIC Data; State Bank of Vietnam; and AMRO staff estimates.

Ongoing fiscal consolidation kept the fiscal deficit in check.

Fiscal Revenue, Expenditure, and Balance

(Percent of GDP)

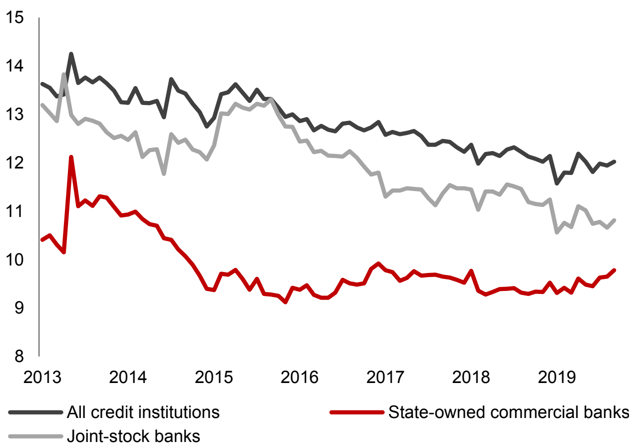


Sources: CEIC Data; Ministry of Finance; and AMRO staff calculations.
Note: The figure, which shows a 2019 deficit of 2.7 percent of GDP, are based on the new, recalculated GDP data. According to the old GDP data, which the government still uses for budget formulation, the 2019 deficit was 3.4 percent of GDP.

Capital adequacy ratios have broadly stabilized.

Capital Adequacy Ratios

(Percent)



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

Vietnam: Selected Economic Indicators

	2016	2017	2018	2019
Real sector	(in percentage point contribution to GDP growth)			
Real GDP (in annual percentage change)	6.2	6.8	7.1	7.0
Agriculture, forestry, and fishery	0.2	0.4	0.4	0.3
Industry and construction	2.6	2.8	2.9	3.1
Services	2.7	2.9	2.9	3.0
Taxes minus subsidies	0.7	0.7	1.0	0.6
External sector	(in USD billion, unless otherwise specified)			
Current account balance	0.6	-1.7	5.9	6.2
Trade balance	11.0	10.8	16.5	17.0
Capital and financial account balance	10.7	20.0	8.5	21.9
Direct investment	11.6	13.6	14.9	15.4
Portfolio investment	0.2	2.1	3.0	3.2
Other investment	-1.1	4.3	-9.5	3.3
Errors and omissions	-3.0	-5.8	-8.3	-4.0
Overall balance	8.4	12.5	6.0	24.1
Gross external debt (in percent of GDP)	35.8	38.9	38.9	39.1
International reserves (in USD billion, end of period)	36.5	49.1	54.9	79.0
Fiscal sector	(in percent of GDP)			
Revenue and grants	24.5	20.5	20.4	19.0
Expenditure	28.7	23.2	23.2	21.8
Fiscal balance	-4.3	-2.8	-2.7	-2.7
Public debt	50.9	48.8	46.1	43.0
Monetary and financial sectors	(in annual percentage change)			
Broad money	17.9	14.3	14.0	14.0
Private sector credit	18.8	17.4	13.8	13.5
Memorandum items:				
Nominal GDP (in VND trillion)	5,639	6,294	6,975	7,650
Headline inflation (in percent yoy, period average)	2.7	3.5	3.5	2.8
Exchange rate (in VND/USD, period average)	21,932	22,370	22,602	23,173

Sources: National authorities; and AMRO staff estimates and calculations.
Note: Red number denotes AMRO staff estimate. Calculations involving GDP are based on the recently revised GDP data for 2010–17 and our GDP estimates from 2018 onward.
yoy = year-over-year.