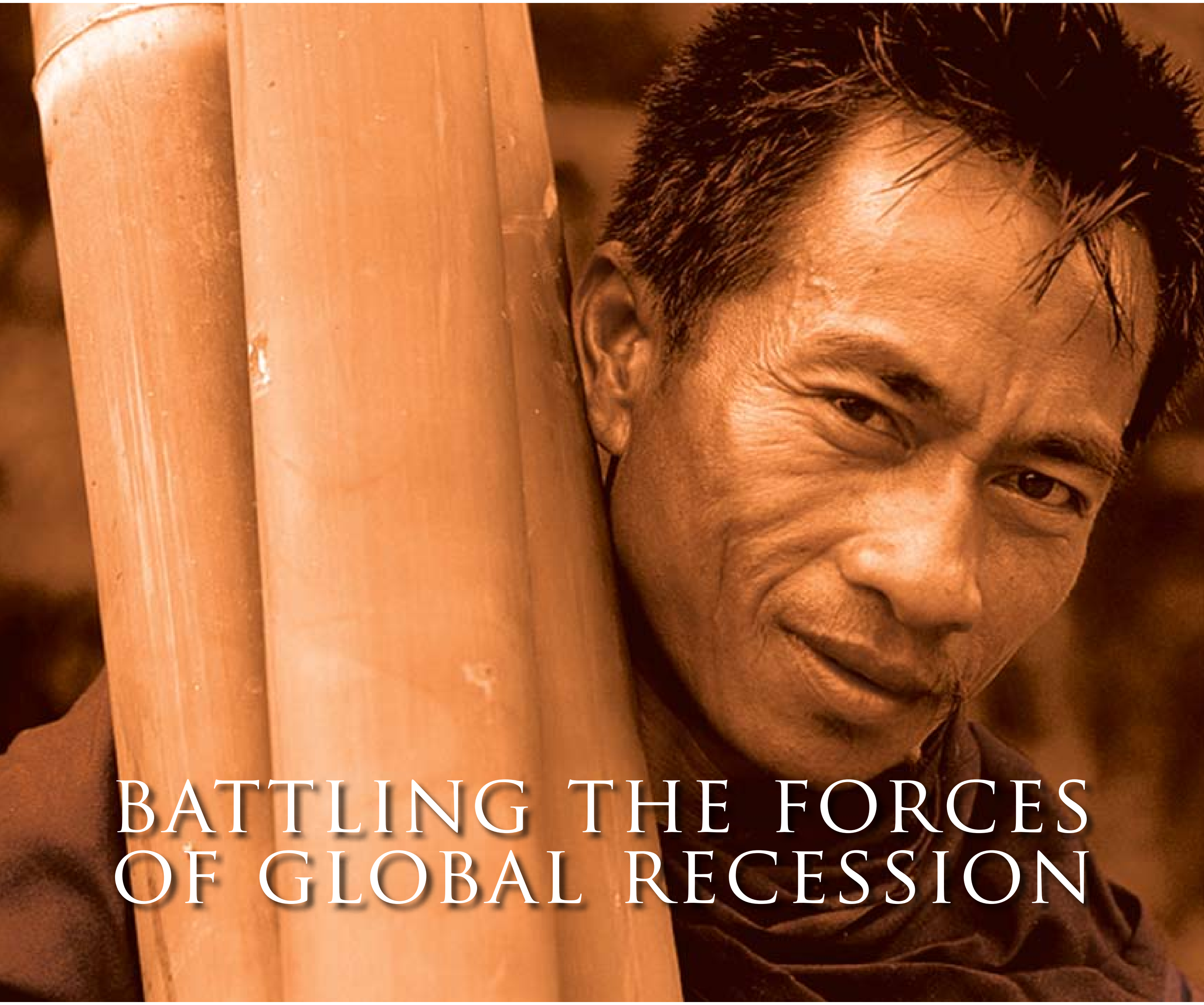
EAST ASIA AND PACIFIC UPDATE **APRIL 2009**



BATTLING THE FORCES OF GLOBAL RECESSION

A WORLD BANK ECONOMIC UPDATE FOR THE EAST ASIA AND PACIFIC REGION

THE WORLD BANK

The East Asia and Pacific Update was written by Ivailo Izvorski, with input from country economists and from Antonio Ollero, Sung-Soo Eun, Xiaoqing Yu, Andrew Mason, under the guidance of Vikram Nehru (Director, Department for Poverty Reduction, Economic Management, Private and Financial Sector Development, and Acting Chief Economist). Xubei Luo contributed a box for the report. Antonio Ollero also provided able research assistance.

Emerging East Asia as used in this report includes Developing East Asia (China, Indonesia, Malaysia, Philippines, Thailand, Cambodia, Lao PDR, Mongolia, Papua New Guinea, Timor-Leste, Vietnam and the island economies in the Pacific) and the Newly Industrialized Economies (NIEs). The NIEs include Hong Kong (SAR, China), Korea, Singapore and Taiwan (China). SAR means Special Administrative Region. Middle-income countries, as used in this report, refer to China, Indonesia, Malaysia and Thailand (although Mongolia is considered a middle-income country according to the World Bank classification). Low-income countries as used in this report include Cambodia, Lao PDR and Vietnam. The ASEAN member countries are Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam. ASEAN+3 refers to all members of ASEAN plus China, Korea and Japan, and ASEAN+6 also includes Australia, India and New Zealand.

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East Asia and Pacific Update

April 2009

TABLE OF ABBREVIATIONS

ADB	Asian Development Bank
ASEAN	Association of Southeast Asian Nations (Brunei Darusalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam)
CMI	Chiang Mai Initiative
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
EIB	European Investment Bank
EU	European Union
FDI	Foreign Direct Investment
FDIC	Federal Deposit Insurance Corporation
G20	Group of Twenty
GDP	Gross Domestic Product
IMF	International Monetary Fund
NIEs	Newly Industrialized Economies (Hong Kong (SAR, China), Korea, Singapore and Taiwan (China)
NPLs	Nonperforming Loans
OECD	Organization for Economic Cooperation and Development
OPEC	Organization of Petroleum Exporting Countries
PNG	Papua New Guinea
SAR	Special Administrative Region
SMEs	Small- and Medium-Enterprises
TARP	Troubled Assets Relief Program

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EXECUTIVE SUMMARY

Developing East Asia is battling the forces of global recession. The impact of the crisis in the advanced countries was transmitted to the economies of the region with unusual speed. In the region, the initial global financial turbulence was marked by sudden reversals of capital flows in the middle-income economies, rapidly declining equity market prices, a sharp increase in the price of external private capital, a shortage of dollar liquidity, and in some cases, a depreciating currency. Now with aggregate global demand falling precipitously, region-wide declines in exports and industrial production are triggering widespread factory closures, rising unemployment, and lower real wages, with disproportionate effects on the poor and near-poor. Authorities in many countries are implementing social programs and cash transfers to assist those most in need. Where possible, policymakers have responded quickly with expansionary monetary and fiscal policies, including fiscal stimulus packages, although in most cases these measures will only mitigate, not overcome, the contractionary forces operating on their economies.

There are signs that the strongest economy in the region, China, is beginning to turn the corner. If it does so, what would be the implications for the rest of East Asia and the Pacific? A return to stronger economic expansion in China next year should help support growth among the countries of the East Asia and Pacific region, but a sustainable recovery will ultimately depend on developments in the advanced economies. Among developing regions, East Asia is best positioned to benefit from resumption in global growth, given its relatively open trade regimes, its infrastructure, and its strong and competitive production networks. Even so, the region's outward oriented economies are unlikely to enjoy the same success in the medium term as they did in the previous decade, in large part because the pressure to increase savings in East Asia's key export markets is likely to constrain their growth over the medium term. In addition, the risks to the outlook are weighted heavily on the downside. Continued banking problems or even new waves of tension in financial markets could lead to stagnation in global GDP or another year of declining GDP. The implications for East Asia would be increased pressure on labor markets and the fiscal accounts, and further deterioration in the portfolios of banks.

The countries of the East Asia and Pacific region have been deeply affected by the worst global economic and financial crisis in generations. In early 2008, these economies were tackling rising inflation from the surge in food and fuel prices, and some low-income countries were battling overheating pressures; but after the collapse of Lehman Brothers in the United States on September 15, 2008, they were all confronted by an acceleration in the financial turbulence that had begun in mid-2007. The region's middle-income countries — that are more integrated into global financial markets — were hit hardest, as nonresident sales of equity and debt securities and a sharp weakening in other capital flows caused market interest rates to rise, equity prices to plummet, and exchange rates to come under pressure.

The East Asian middle-income countries — Thailand, Malaysia, Indonesia, and the Philippines — withstood this financial turbulence well because they were better prepared for this shock after the 1997-98 Asian financial crisis. Over the last decade, these countries strengthened their external balances, increased foreign exchange reserves, reduced government debt and improved banking supervision. The direct impact of last year's financial turmoil on the low-income countries in the region was modest because their underdeveloped financial markets and limited integration with global financial markets provided some protection.

The financial crisis evolved into a global economic slowdown that is affecting all East Asian economies. A steep decline in wealth, confidence, and credit availability in the advanced economies has led to lower consumption, production, and investment. Economic expansion in developing East Asia decelerated sharply given the region's dependence on exports, with the slowdown spreading from the newly industrialized economies (NIEs) — Korea, Taiwan (China), Hong Kong (SAR, China) — to the rest of the region, including to the low-income countries in the Pacific. Indeed, among the developing economies in East Asia, the low-income countries are likely to be the worst affected by the crisis, given their small domestic markets, over-reliance on commodity exports, and virtual lack of fiscal space.

Throughout the region, the sharp decline in exports quickly led to production and investment cuts by the private sector followed by layoffs. Officially registered unemployment is reported to have increased by about 1 million from a year earlier in January to about 24 million for the region as a whole. Employment always tends to lag slowdowns in activity, thus recent numbers are likely to be only the beginning of a painful surge in unemployment throughout the region. Moreover, officially registered numbers present only a small part of the deteriorating employment situation, as evidenced by reports that in China alone an additional 25 million migrant workers have been laid off and returned to rural areas. As unemployment in the region and around the world begins to climb, migrant workers, wherever they are, are likely to be among the first to lose their jobs. This will mean lower remittance flows to the poorest countries in the region and, if the migrants return home, a worsening unemployment in those countries as well as further downward pressure on real wages, especially in the informal sector that would directly affect the poor.

To counteract the crisis, country authorities in the region have implemented expansionary monetary and fiscal policies. Monetary authorities in most countries have cut policy rates and implemented other measures to ensure adequate liquidity. Some central banks have also supported dollar liquidity, including through bilateral swaps with China, Korea and Japan in addition to those already in place under the Chiang Mai Initiative. Led by China, countries in the region have announced fiscal stimulus packages equivalent to 3.6 percent of regional GDP, with measures to be implemented in 2009 amounting to 1.7 percent. China's stimulus package is the largest in the region at about 12 percent of 2009 GDP to be implemented through the end of 2010, but Malaysia and Korea have also announced packages for 2009 projected to deliver as large a stimulus as China.

Governments are also acting with increasing urgency to cushion the impact of the crisis on the most vulnerable citizens, as unemployment is projected to rise further, remittances to fall and the pace of poverty reduction to slow substantially. The middle-income countries are expanding existing social safety net programs. In China, the government provided a one-time cash transfer, including to rural residents, and is emphasizing active labor market policies to limit the increase in unemployment. In Indonesia, the government's targeted cash transfer program (originally introduced in 2005), was reconstituted in 2008. Through the first quarter of 2009, 19.2 million families, or a third of the population will receive cash transfers. In addition, 2009 sees the completion of the rollout of a nationwide community development program (begun in 2007) and is continuing the piloting of a conditional cash transfer program. The Philippines authorities are scaling up the existing conditional cash transfer system and implementing a program to help returning overseas workers who lost their jobs. The low-income countries are facing greater challenges in helping the poor due to limited fiscal space and the absence of institutions to deliver assistance to their citizens. In Cambodia, the government has increased food-for-work assistance and is implementing a school-feeding program, thanks in large measure to support from foreign donors.

Economic activity in China is likely to bottom out by midyear, supported by the large fiscal and monetary stimulus now implemented. Decisive policy measures should help partly offset a projected decline in exports – the first in decades – and weak market-based investment to limit the slowdown in growth to 6.5 percent in 2009 from 9 percent last year. China's contribution to both incremental global GDP and imports has been the largest in the world since 2007 and will likely remain so for the medium term. China, however, is in the process of rebalancing growth toward consumption and services, away from investment, exports, and export-oriented manufacturing. Boosting the share of services and stimulating domestic consumption, especially of rural households, should help achieve higher and sustainable growth with substantial improvements in living standards and a further reduction in poverty. In the process, China's imports are also likely to rise at a faster pace than before, but most of the increase will probably be accounted for by raw materials, capital goods, services and increasingly sophisticated consumer products. Exporters of such goods are likely to benefit substantially. On the other hand, exports of electronic and other components to China for assembly and shipment to the rest of the world will probably remain depressed until growth in the developed world resumes and even then a return to the pace seen earlier this decade will seem unlikely.

Prospects for recovery among the developed countries are uncertain. This year, developed countries' output is projected to fall 3.1 percent with risks largely concentrated on the downside — in large part because of the possibility of further bad news emerging from the financial systems in these countries. Increased risk aversion, reduced household wealth, rising unemployment, weaker corporate profits and ongoing deleveraging will all constrain growth for a few more quarters. While most recessions in advanced economies over the last several decades have lasted slightly more than a year on average, recessions accompanied by banking crises, and housing and equity busts have tended to take at least twice as long, making it likely that a recovery among developed countries will be delayed until 2010. A recovery is likely to be characterized by subdued growth in output and demand for imports by these countries, amid sizable excess capacity, higher unemployment and efforts by households and governments to reduce high debt levels. Continued problems in banking sectors or renewed financial turmoil could lead to stagnation in global GDP or even another year of declining GDP.

Prospects for developing East Asia may be better than those in other developing regions, but concerns remain that a return to higher growth will be slow in materializing, with implications for employment generation, increases in living standards, and poverty reduction. All in all, despite determined policy easing, real GDP growth in developing East Asia is projected to slow to 5.3 percent this year from 8 percent in 2008. Some low-income countries will experience the largest declines in growth. In Cambodia, an expansion of 10.2 percent in 2007 stands in stark contrast to a contraction of 1.0 percent projected for 2009. The difference (11.7 percent) over two years is the largest in the region, and arises from a sudden drop in garment exports and tourist arrivals. The drop has been compounded by a sharp downward adjustment in credit growth that had earlier fueled overheating in the economy, reflected in a rapid increase in real estate prices. Mongolia, Lao, PNG and Timor-Leste, on the other hand, depend heavily on commodity exports and have been hit hard by the sharp decline in commodity prices. While PNG and Timor-Leste are relatively well positioned thanks to fiscal rules governing public savings, Mongolia and Lao will need to make tough adjustments in their fiscal and monetary stance to maintain macroeconomic stability.

Weaker growth will slow the pace of poverty reduction in the East Asia and Pacific region, with 10 million more people projected to remain in poverty compared with 2008 forecasts (30 million compared to 2007 forecasts). While the poverty rate for the region as a whole will still decline, Cambodia, Malaysia, Thailand and Timor-Leste are projected to experience absolute increases in poverty as a result of contractions in per capita income. Even for countries with positive growth in per capita income, there will be significant hardships as people shift in and out of poverty amid large increase in unemployment.

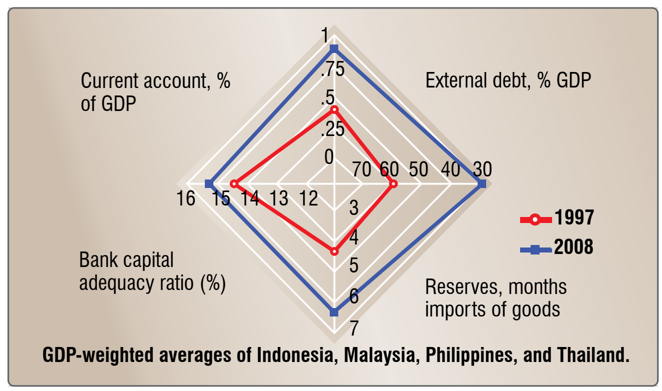
Over the medium term, the countries of developing East Asia can achieve high rates of economic expansion in a slowly growing world economy to the extent they are able to extract more growth from domestic demand, boost competitiveness, penetrate new markets, and further improve the attractiveness of the region as a key destination for foreign investment. Convergence to developed countries will depend to an ever greater degree on the ability of firms to move closer to the technological frontier and be driven more by innovation than imitation. Innovative firms need different public institutions and policies, including more openness, less government intervention, enhanced flexibility, a more educated labor force, and better developed and properly regulated private finance. Delivering on these institutions and policies will be an important component of the region's remarkable transformation into an ever more confident source of global growth and development.

CHAPTER 1: THE IMPACT OF THE CRISIS ON THE COUNTRIES IN THE EAST ASIA AND PACIFIC

While dealing with the financial turmoil in late 2008, the countries of East Asia and the Pacific were hit hard by the contraction in global demand. The region's middle-income countries withstood the financial turbulence well, because they had learnt the lessons of the 1997-98 Asian financial crisis and were better prepared this time around: external balances had been strengthened, foreign exchange reserves increased, government debt burdens reduced (*Figure 1* and *Box 1*). In addition, banking supervision has been substantially improved, and the countries' levels of prosperity – and their capacity to manage shocks – vastly increased as a result of globalization. The region's low-income countries in the region were little affected by the financial turmoil because of their underdeveloped financial markets and low level of integration with global finance.

Figure 1. The region's middle-income countries withstood the financial turmoil well because they were better prepared than in 1997-98 */

(farther from the center is better on all indicators)



Source: Datastream and World Bank staff calculations.

The deep integration into global product markets of all countries in the region, however, is leading to substantial declines in exports and the related investment in physical and human capital. After years of substantial increases, growth slowed in 2008 and is projected to weaken further in 2009. The slowdown notwithstanding, developing East Asia will continue to grow at a faster pace than other regions and continue to contribute more to global output. China's contribution to both incremental global GDP and imports has been the largest in the world since 2007 and will likely remain so for the medium term. Nonetheless, the slowdown in economic activity is straining company profits, adding in turn to bank stress that needs to be managed to avoid a protracted negative feedback to growth. With unemployment and partial employment on the rise, and real wages set to decline, living standards will come under severe pressure in coming months and perhaps years, especially in the low-income countries in the region. Most countries will still see a reduction in poverty, but at a slower pace than earlier expected. Ensuring that the economic crisis does not turn into a human crisis will require increased social support to protect the poor and vulnerable, including by revising fiscal stimulus packages, reprioritizing spending plans and through stepped-up foreign assistance.

GROWTH HAS SLOWED SHARPLY

Amid a sharp slowdown in global demand, growth in the region has fallen despite policy easing and other measures taken by the authorities in most countries of developing East Asia to support activity. The NIEs are already in recession, with output down about one-fourth in the fourth quarter in annualized seasonally adjusted terms. Measured the same way, output also contracted in the fourth quarter in Malaysia and Thailand, and rose at a greatly reduced pace in China, Indonesia and the Philippines. From a year earlier, growth in developing East Asia fell to 5.7 percent in the fourth quarter of 2008 and 8 percent for 2008 as a whole from 11.5 percent in 2007 (*Figure 2*). Countries more dependent on exports, especially on single products or single markets have seen their growth fall faster and, in general, harder (*Figure 3*).

China remains a bright spot in the region and the global economy amid signs that economic activity may be bottoming out. Surveys of purchasing managers suggest optimism among companies has rebounded, thanks to the large investment program announced by the government last year. The headline purchaser managers index (PMI) has risen for four consecutive months in

Box 1. Then and now: comparing the 1997-98 Asian financial crisis and the current crisis

	1997-98 Asian financial crisis	Current global financial and economic crisis
World output	… rose robustly.	… is contracting sharply.
Global trade volumes	… slowed only modestly in 1998.	… set to contract in 2009 by the largest amount since 1982.
The crisis	… started in the region.	… started in the U.S. and developed economies.
	… affected some countries in developing East Asia severely, while others were affected more modestly.	… has affected virtually all countries in the world.
GDP growth in the region	… bounced quickly, thanks to robust world markets and export growth.	… is projected to recover slowly as global recovery takes time.
Contraction reflects	… drop in domestic demand despite large positive contribution from net exports.	… contraction in exports, weaker investment, despite government stimulus.
Export volumes	… expanded strongly in most EAP countries.	… are set to contract with almost no exception.
Commodity exporters	… benefitted because of robust global demand.	… are suffering because of a drop in prices and global demand.
Current accounts	… adjusted sharply during the crisis.	… except in China and Malaysia, worsened modestly in 2008 due to oil prices and the contraction in exports.
Capital flows	… fell sharply in Indonesia, Korea, and Thailand.	… have weakened sharply in all countries.
Currencies	… weakened in several countries, led by a depreciation of 111 percent from the end of 1996 to the weakest point in Korea, 86 percent in Indonesia and 56 percent in Thailand.	… have weakened by 10 percent since the end of 2007 in Thailand, 23 percent in Indonesia, and 48 percent in Korea.
Foreign exchange reserves	… were depleted in many countries.	… remain strong, very modest reductions thus far in some countries.

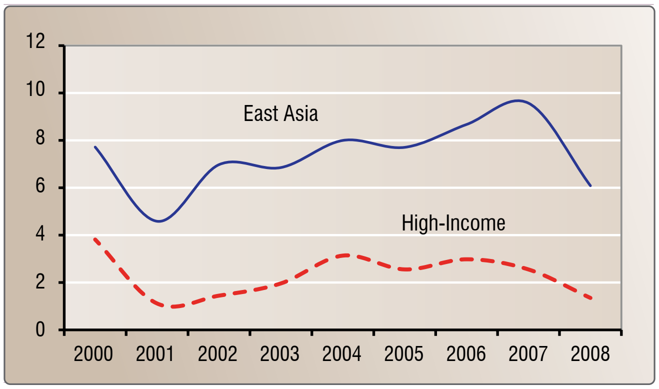
China, exceeding 50 in March, thus signaling an expansion (*Figure 4*). Unless there is a further intensification of the contraction in global demand, or global financial tensions flare up again, growth in China will pick up in the second half of the year, partly offsetting the weak first half.

INDUSTRIAL PRODUCTION HAS LED THE DECLINE

The collapse in global demand, combined with weakening domestic sales, has caused industrial production to fall sharply in most countries since the middle of last year. For the region as a whole, production fell about 6.5 percent from a year earlier in January, with declines the largest among the NIEs and the middle-income countries that depended to a greater extent on export-

Figure 2. Real GDP growth has slowed fast

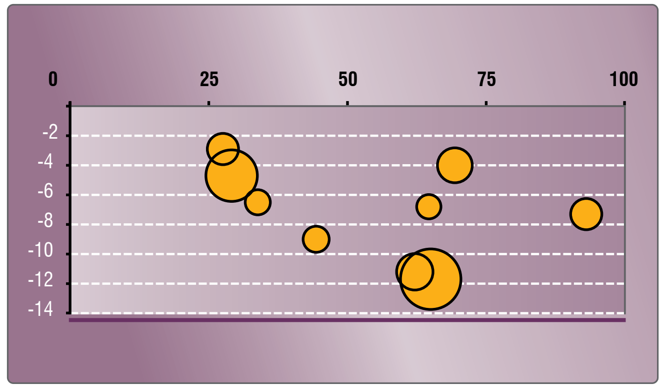
(in percent, year-on-year)



Source: Datastream and World Bank staff calculations.

Figure 3. Openness to trade and export concentration explain a sizable part of the impact of the crisis on growth */

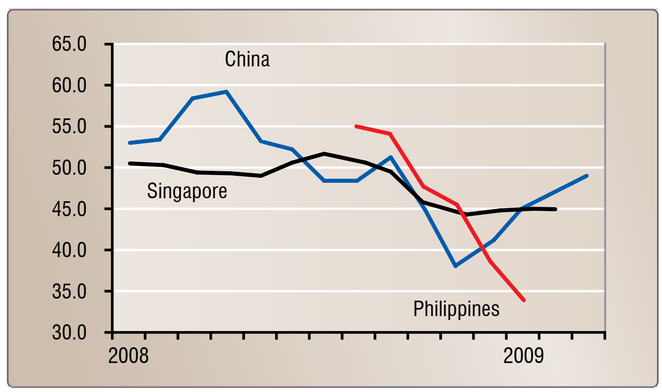
(percent of GDP, percentage points and percent)



Source: Datastream and World Bank staff calculations. */ Horizontal: exports to GDP; vertical: change in growth from 2007 to 2009; size of bubbles: share in exports of the leading product group measured by a 2-digit SITC.

Figure 4. Purchaser managers have become more optimistic in China and more pessimistic in Philippines

(PMI, value below 50 indicates contraction)



Source: Datastream and World Bank staff calculations.

driven manufacturing or that are tightly integrated into global production chains (*Figure 5*). Producers and exporters of electronics, garments and textiles have been hit the hardest.

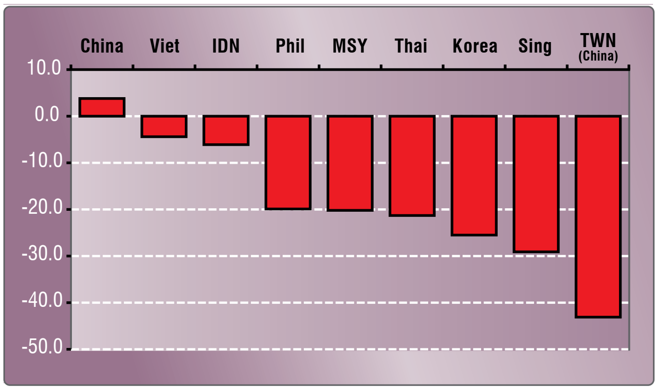
The declines in industrial production were led by the collapse in export orders and exports. Some companies (to a large extent those that are not integrated into global production chains and responded more slowly to market signals) were caught off guard by the decline in shipments, which led to an involuntary and rather moderate increase in inventories of manufactured products after the middle of 2008 (*Figure 6* and *Figure 7*). Inventories of manufactured products, including steel, that piled up after midyear contrasted to a buildup of inventories of raw materials in early 2008, as companies sought to limit costs amid the surge of commodity prices. In the Philippines, for example, inventories have risen for six consecutive quarters, with the increase equivalent to 0.6 percent of GDP in 2008. The increase was 1.2 percent of GDP in Thailand, or half the annual real GDP growth rate. In China, by contrast, companies appear to have begun cutting inventories more aggressively since November. All in all, across the region, companies have responded to the slowdown in exports and domestic shipments by reducing production and capacity utilization, in many cases closing facilities and shedding labor. In Thailand, the utilization rate declined to 57 percent in January and compares with an all-time low of 54.6 percent reached during the 1997-98 Asian financial crisis - when the share of industry in GDP was substantially smaller than today (*Figure 8*).

PROSPERING BY EXPORTS, CONTRACTING BY EXPORTS

Exports have collapsed in line with weaker global demand and amid the integration of the countries of East Asia into global product markets and production networks. Negative developments were capped by oversized declines in January ranging from 40 percent year-on-year in Taiwan (China) and the Philippines to 30 percent in Cambodia and 20 percent in China, contractions larger than in many other countries in the world (*Figure 9-Figure 11*). Demand outside the region appears to have fallen most sharply in Japan

Figure 5. Industrial production has fallen sharply

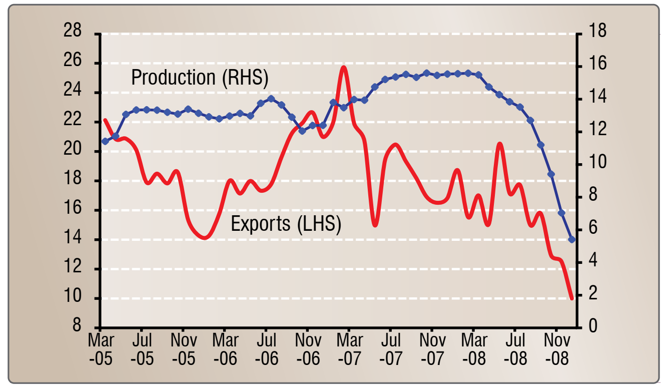
(percent change y-y, January 2009)



Source: Datastream and World Bank staff calculations.

Figure 6. The decline in exports led the slowdown in industrial production

(percent change, 3 month moving average)



Source: Datastream and World Bank staff calculations.

and the U.S., although the recent steep slowdown in the EU – the region's largest export market - does not bode well for exports as well (*Figure 12*). Intra-regional trade has also fallen sharply, as the collapse in shipments from China to countries outside Asia has triggered a decline in exports from the NIEs and some ASEAN countries plugged into global production sharing networks.

The contraction in the region's exports has been broad-based across countries and product categories. Countries that are heavily dependent on electronics have been the worst affected (notably the NIEs, Philippines, and Malaysia, but also China), followed by commodity exporters (notably Indonesia, Lao, Malaysia, Mongolia, PNG and Vietnam), exporters of capital equipment (all NIEs) and the garment manufacturers. Among the latter group, Cambodia is the worst affected, given that garments with very low domestic value added account for 80 percent of the country's exports and most are shipped to a single market, the U.S. Exposure to a single market is very pronounced for the electronics manufacturers as well, with most of them heavily dependent on shipments to the U.S. or for assembly in China ultimately destined for the U.S. or Europe.

Three broad product groups account for about half of East Asia's exports: electronics, oil and garments.[1] China accounts for the largest share of the region's exports in each of the three sub-categories of electronics and garments, although the share of these products in China's exports is smaller than in several other countries. This diversification of China's exports by product groups has helped limit the pace of decline in the country's exports.

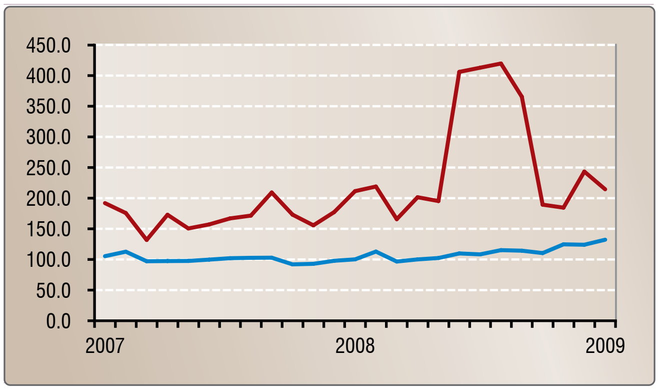
Electronics, which account for a fourth to two-thirds of the exports of each of the largest countries in developing East Asia except Indonesia, have been declining at double digits since October. The largest declines have been among the countries with semiconductor exports, notably Taiwan (China), Korea, Singapore and the Philippines, all with declines of 43 percent or more year-on-year in December and January (see Appendix Tables 15-19). The government of Taiwan (China), the country with the largest exports of memory chips in the world, is using the crisis to forge a consolidation of the six company industry.

The region's commodity exporters have been affected by a slump in foreign demand and a sharp reduction in prices during the second half of 2008. (Commodity prices have firmed of late, but the support they provide has been offset by the continued weakness in export volumes.) The region's low-income countries and Mongolia have the largest share of commodities in their exports and suffered disproportionately from the decline in volumes and prices (*Figure 13*). For PNG (main shipments: gold,

1 The three broad product groups are agglomerated in this report to include five groups at the two-digit SITC level (the U.N.'s standard international trade classification system; see http://unstats.un.org/unsd/cr/registry/regcst.asp?Cl=14). The Philippines, Thailand and Singapore do not use SITC in trade reporting, thus their data was mapped for the purposes of this report. Note that electronics (or information and communications technology, ICT) is typically used as a shortcut for electrical machinery, apparatus and appliances (SITC 77), telecommunications equipment and sound recording apparatus (SITC 76) and office machines and data processing equipment (SITC 75). Oil (SITC 33) includes crude and refined petroleum products. Garments are coded under SITC 84.

Figure 7. Inventories have risen as a share of shipments

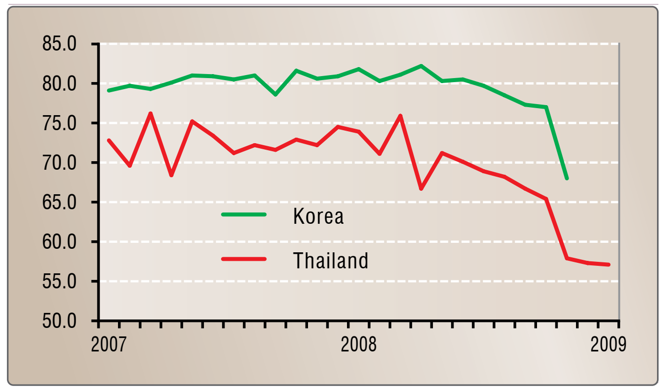
(in percent, Thailand top line, Korea bottom line)



Source: Datastream, CEIC and World Bank staff calculations.

Figure 8. Capacity utilization has slumped

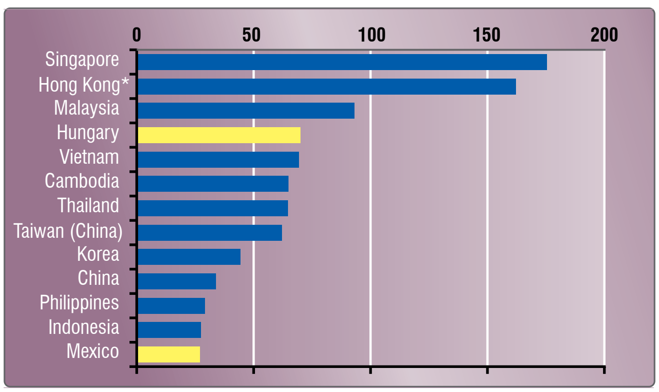
(in percent)



Source: Datastream, CEIC and World Bank staff calculations.

Figure 9. The region's exports relative to GDP are among the highest among emerging markets, 2008

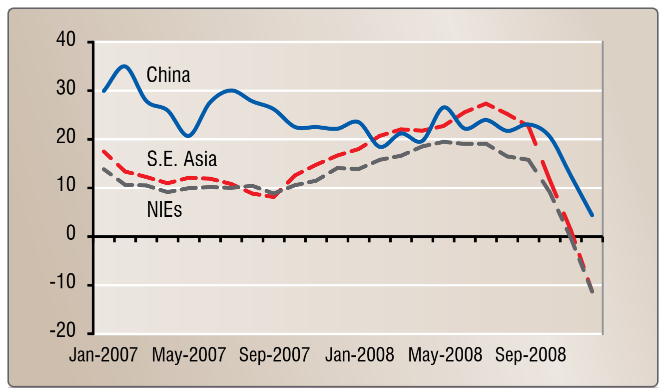
(in percent of GDP)



Source: DECPG, World Bank. **Note:* Hong Kong (SAR, China)

Figure 10. Exports have fallen sharply in a synchronized fashion, 2007-2009

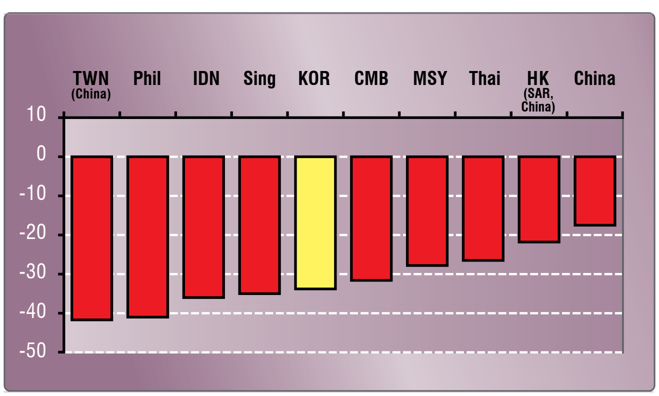
(percent change year-on-year)



Source: Datastream and World Bank staff calculations.

Figure 11. The annual contractions in exports are oversized, January 2009

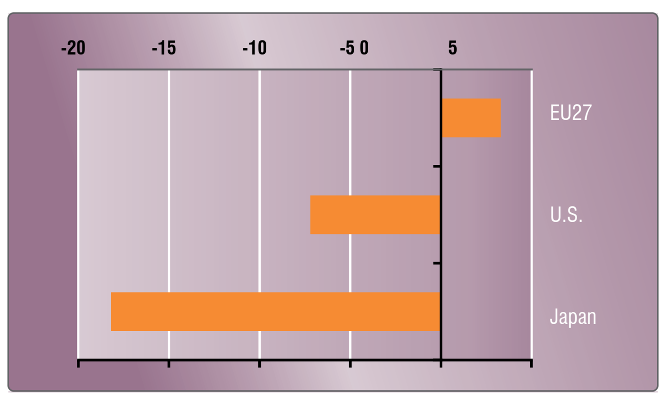
(percent change year-on-year)



Source: DECPG, World Bank.

Figure 12. The region's exports have fallen most sharply to Japan, average November'08-January'09

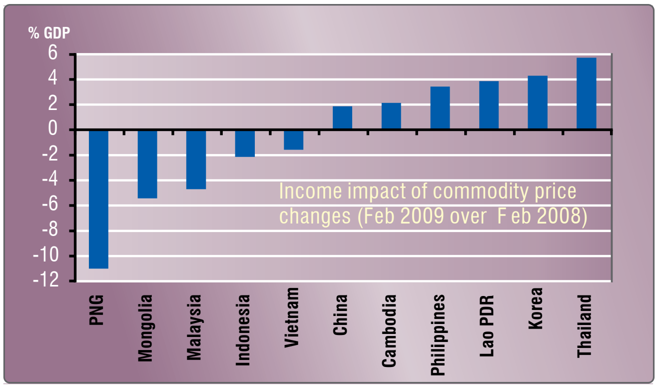
(percent change year-on-year, U.S. dollars)



Source: Datastream and World Bank staff calculations.

Figure 13. And the income impact from the decline in commodity prices is the largest for the poorer countries

(in percent of GDP)



Source: World Bank staff calculations.

copper and oil) and Mongolia (gold, copper, zinc and oil), commodity exports accounted for about 90 percent of total exports last year, although the surge in prices inflated these figures. Malaysia, Vietnam, Indonesia and PNG are the principal crude oil exporters in developing East Asia, although Indonesia imports substantial amounts of oil. Oil shipments fell 58 percent year-on-year in January in Malaysia in dollar terms and nearly 50 percent in Vietnam and PNG, for example, while oil prices are down about 52 percent year-on-year.

China and Hong Kong (SAR, China) account for almost three-fourths of the region's garment exports, and China appears to be gaining market share – within a decreasing envelope of U.S. and European imports - at the expense of the smaller producers. Garment manufacturers in some of the smaller countries in the region have reportedly been constrained by expensive electricity and inadequate infrastructure and, in some, by lack of domestic fabrics producers that leaves them dependent on imports. Chinese producers appear to have been taking advantage of these factors with greater success during the current downturn. While China is the largest producer and exporter, Cambodia is the country most dependent on garment exports, with Vietnam a distant second. Cambodia's garment exports fell sharply in January by 31 percent year-on-year and producers report a 20-40 percent drop in orders. The decline in shipments was half as much in Vietnam, while China and Hong Kong (SAR, China) continue to report increasing shipments.

Service exports – especially of tourism – have declined substantially. Thailand is among the countries worst affected, with the impact of the global slump compounded by political tensions in late 2008 that resulted in the closure of Bangkok airports. After years of continuous increase, tourism arrivals have been falling since September, with the decline accelerating to nearly 30 percent year-on-year in December, causing hotel occupancy to fall to 43 percent from 63 percent a year earlier. The closure of the airports also affected neighboring countries, with hotel operators in Cambodia reporting a similar-sized decline in hotel occupancy. Tourism – the main source of foreign exchange - has already taken a hit in Fiji, with visitor arrivals falling by a third in January 2009 from a year earlier, but the January floods which devastated Fiji's main tourism centre have also had an impact.

Amid the surge and decline in commodity prices and the sharp contraction in trade in late 2008, current account balances improved only in China and Malaysia – two surplus countries, and in Lao, a country with a large deficit. In China, the surplus rose further in 2008 in dollar terms, with monthly outcomes climbing to record highs late in the year as the sharp decline in trade was taking firmer hold, but weakened relative to GDP to about 10 percent. In Lao, commodity exports rose briskly in 2008 and despite the decline in prices outstripped the increase in exports in value terms. While the full-year external shortfall worsened modestly in Vietnam to about 10 percent of GDP, determined policy measures to combat overheating have succeeded in cooling the economy and have contributed to the trade deficit shifting to a surplus in recent months. In contrast to these developments, current account balances worsened in the rest of the region. The largest deteriorations were recorded in Mongolia, where a sharp drop in exports without a similar-sized decline in imports appears to have shifted an external surplus of about 7 percent of GDP in 2007 to a deficit of nearly 13 percent last year. Fiji's current account deficit also worsened substantially, widening from about 17 percent of GDP in 2007 to 26 percent last year, underscoring the country's vulnerability to commodity shocks. Fiji was badly affected by the surge in oil prices in the first half of 2008, but could not take full advantage of their subsequent decline due to its remote location and limited alternative energy sources to provide more robust competition.

Table 1. Capital has flown out since mid-2008 */

(In billions of U.S. dollars)

	2007			2008		
	H1	H2	Total	H1	H2	Total
Current account balance	235.6	253.9	489.4	253.0	242.2	495.2
Merchandise balance	205.9	224.7	430.6	184.3	265.2	449.5
Invisibles balance	29.6	29.1	58.8	68.7	-23.1	45.6
Capital and financial account	63.6	37.4	101.0	85.7	-171.9	-86.2
of which:						
FDI net	56.7	36.7	93.3	39.2	7.0	46.1
Portfolio	-30.1	-21.6	-51.7	-31.2	-10.6	-41.9
Equity	-29.4	-86.4	-115.8	-45.5	-4.7	-50.2
Debt	-0.7	64.8	64.1	14.2	-5.9	8.3
Other Investment	115.7	208.0	323.7	153.1	-6.7	146.4
Resident lending abroad	-102.8	-174.5	-277.3	-73.6	-42.3	-115.9
Errors and omissions	16.7	22.0	38.7	12.0	26.6	38.6
Reserves (-=increase)	-315.8	-313.3	-629.2	-350.7	-96.9	-447.6
Memo: Net capital flows	80.3	59.4	139.7	97.7	-145.3	-47.6

Sources: National authorities and World Bank staff calculations.
*/ Includes China, Indonesia, Malaysia, the Philippines, Thailand and the NIEs.

CAPITAL FLOWS ARE WEAKENING

Decreased global demand for developing country assets amid increased risk aversion, ongoing deleveraging and weaker growth prospects, has caused capital flows to countries in the region to weaken substantially. After peaking in 2007, net capital flows to East Asia and the Pacific began slowing in early 2008 before shifting to outflows in the second quarter in Malaysia and the NIEs and in the later part of the year in Indonesia and, very likely, China.[2] For the region as a whole, robust net capital flows of about $140 billion in 2006 and 2007 appear to have shifted to net outflows of a similar magnitude in the second half of 2008 year and smaller outflows for the full-year 2008. Excluding resident lending abroad and errors and omissions items, capital flows to the region fell from about $360 billion in 2007 to about $150 billion in 2008.

All categories of capital flows have been negatively affected. Nonresidents continued to sell equities and shifted in the second half of 2008 to selling debt securities and selectively withdrawing bank deposits held with domestic banks. Inflows of foreign direct investment slowed sharply in the second half of 2008, as companies completed earlier started projects but delayed new commitments and new construction. In some countries, earlier agreed projects were cancelled, notably in real estate development, mining and manufacturing. Lending by foreign banks also slowed sharply during the year. Repayments to foreign banks began during the second and third quarters, limiting full-year inflows to less than $20 billion compared with inflows of $250 billion in 2007 as a whole. The countries with the largest bank repayments in 2008 were Korea ($17 billion), Malaysia and Taiwan (China) with about $13 billion, and China ($9 billion).

2 China has yet to report second-half balance of payments data, but data are available on merchandise trade, foreign exchange reserves and selected capital account items. These form the basis of the estimates.

Table 2. Registered unemployment has risen

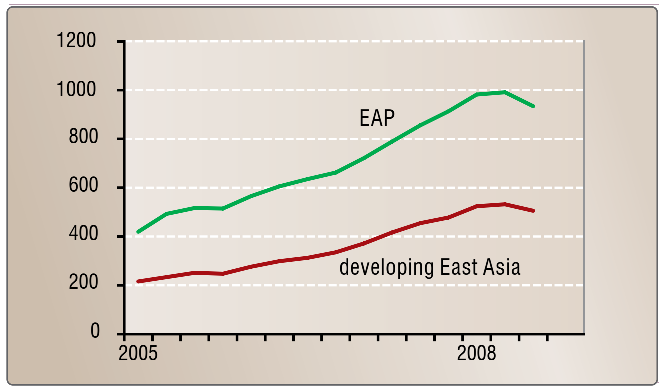
(in millions)

	End 2007	Oct-08	End 2008	Latest
East Asia	23.0		23.6	
China, urban	8.3	..	8.9	..
Indonesia	10.1	..	9.4	..
Malaysia	0.3	..	0.3	..
Philippines	2.3	2.5	2.5	2.9
Thailand	0.3	0.5	0.5	0.9
Hong Kong (SAR, China)	0.1	0.1	0.1	0.2
Korea	0.7	0.7	0.8	0.9
Singapore	0.1	..	0.1	..
Taiwan (China)	0.3	0.4	0.5	0.5
Cambodia	0.01	..	..	0.1
Lao	0.1	..	0.1	..
Mongolia	0.03	0.03	0.03	0.03
Vietnam	0.3	..	0.4	…

Note: Latest is January 2009 except Korea (February), Malaysia (September); Philippines (October); Hong Kong China (unemployed for three months); Singapore (only residents).

Figure 14. Foreign bank claims have been reduced */

(in billions of U.S. dollars)



Source: BIS (consolidated foreign claims on countries in East Asia).

LAY-OFFS ARE RISING

Employment in the formal sector is falling across the region, led by labor shedding in manufacturing and construction. Available data on registered unemployment indicate that there were at least 23.6 million unemployed workers in the region at the end of 2008, or about 0.6 million more than a year earlier. An additional 0.2 million unemployed were registered in January in the four entities reporting data.[3] The registered unemployment captures only a small part of the story. Many countries do not have unemployment benefits or registries, while in developing East Asia informal employment accounts for about half of total employment.[4] Different surveys of companies, academic research, anecdotal evidence and press reports suggest that difficulties are substantially larger than revealed by registered unemployment numbers:

- In Cambodia, about 50,000 garment workers, or 17 percent of the total, are reported to have lost their jobs since September as a result of the slump in garment production and exports, but these are not reflected in the official numbers.

- Similarly, the garments association in Vietnam reports that about 100,000 workers were shed in January and February after 10 large firms stopped production.

- In China, the Academy of Social Sciences reports that 670,000 small and medium enterprises (SMEs) have closed in the cities of Guangzhou, Dungun and Shenzhen, with total job losses of up to 2.7 million.[5] Media reports, meanwhile, indicate that about 25 million migrant workers in China have lost their jobs, and official statistics do not include them. A recent survey of foreign-owned companies concluded that 27 percent of companies have laid off staff while 67 percent have delayed recruitment.[6]

3 The four reporting entities are: Hong Kong (SAR, China), Korea, Taiwan (China), and Mongolia.

4 Moreover, judgments about unemployment are complicated by the lack of frequent labor force surveys.

5 Estimates by the Dongguan City Association of Enterprises with Foreign Investment.

6 China Daily, "Foreign firms hit by global gloom", 23 February 2009, http://www.chinadaily.net/bizchina/2009-02/23/content_7504045.htm.

- A recent survey in Thailand among 141 companies in 19 sectors found that 26 percent of companies have already conducted lay-offs in the last months while another 30 percent anticipated lay-offs in the next six months.

Data on changes in employment tend to lag changes in output, and are yet to fully reflect the severity of the downturn in output and exports.[7] Some reports suggest that several employers in the region have delayed reducing employment, and government fiscal stimulus plans in many countries contain measures that have helped delay layoffs, especially among SMEs. In Korea, leading industrial employers, trade unions and the government agreed in January to "a grand plan for social unity" that aims to preserve jobs. Under the plan – which is not legally binding – workers will accept wage cuts, employers will commit not to shed labor, and the government will help companies with tax cuts as part of the stimulus plan.

Nonetheless, with economic activity set to slow further this year, unemployment in the region is likely to rise. In Thailand, the central bank projects that about 1.1 million more people will be unemployed in 2009 if output remains little changed; with output likely to decline as projected in this report, however, job losses will probably be larger. As a reference point, unemployment in the U.S. (as measured according to ILO methodology) rose from 4.7 percent in December 2007 to 4.9 percent in March 2008 even with contracting economic activity, before surging to 8.1 percent by January 2009. While the slowdown in growth is smaller in East Asia than in the U.S., the delayed response of unemployment is also manifest in the region.

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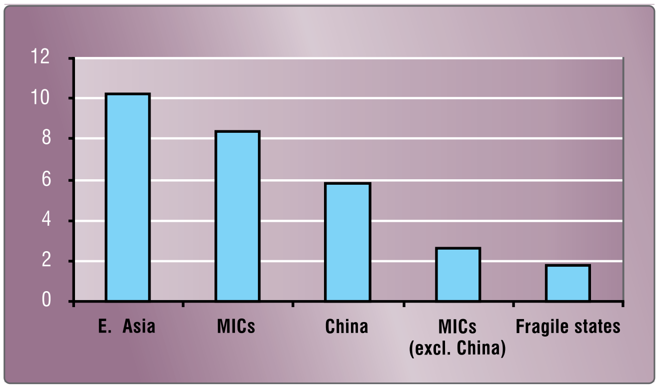
In addition to rising unemployment, it is likely that the region's economies will also experience shifts in employment across sectors along with declining real wages. During the 1997-98 Asian financial crisis, about 30-40 percent of displaced urban workers returned to rural areas to work in agriculture. (Scope for such movement seems more limited now, as a larger share of workers that migrated to cities either sold their rural property or are more reluctant to relocate.) Moreover, the economies with the largest currency depreciations during the Asian crisis suffered the largest reductions in real wages, and larger cuts in real wages relative to GDP were associated with smaller reductions in employment. Changes in wages rather than employment accounted for the bulk of the labor adjustment during the 1997-98 Asian financial crisis. Average real wages fell by 6.3 percent in Thailand, 9.8 percent in Korea and 44 percent in Indonesia, although in all these countries earnings rebounded strongly with activity in the

7 Changes in employment tend to lag changes in output because: (i) employers usually hoard skilled labor to save on training costs in the event that the downturn is temporary; (ii) fiscal incentives may encourage employers to keep labor even when they are not needed; (iii) laid-off workers tend to take time to register themselves as unemployed; (iv) laid-off workers, especially women, sometimes withdraw from the formal labor force altogether when real wages decline.

Figure 15. More people will remain in poverty as a result of the crisis

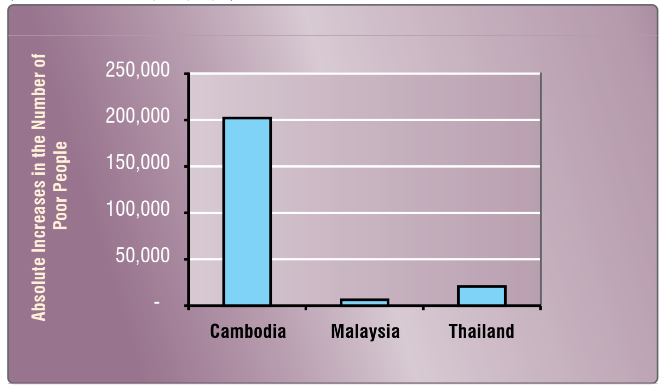
(in millions)



Note: Compares poverty estimates for 2009 using projected growth in this report against projected growth estimates in end-2008.
Source: World Bank staff calculations.

Figure 16. The number of poor is projected to increase in Cambodia, Malaysia, and Thailand in 2009

(number of additional poor people)



Source: World Bank staff calculations.

aftermath of the crisis.[8] The primacy of wage adjustment likely reflected the short duration of the crisis: growth fell sharply in only 1998 in most crisis-affected countries before rebounding swiftly in the following year. While employers are likely to be delaying layoffs now until more clarity about the length of the crisis becomes available, they will be under increasing pressure to shed labor if activity remains depressed for longer, as is now likely.

PROGRESS IN POVERTY REDUCTION WILL SLOW

Weaker economic expansion will slow the pace of poverty reduction in the region as a whole. It is now projected that 10.2 million more people will remain in poverty in 2009 than was expected only a year ago (30 million more against the 2007 estimate).[9] Given that the region's population is concentrated in larger middle-income countries, the poverty reduction foregone measured in numbers of people will be much higher in the middle-income countries. Around 8.4 million more people will remain in poverty in the middle-income countries (including 5.8 million in China), compared with 1.8 million in the low-income countries (*Figure 15*).

Cambodia, Malaysia, and Thailand are projected to experience absolute increases in poverty as a result of a contraction in per capita income in 2009.[10] Cambodia is the country with the largest projected increase in the number of poor people (*Figure 16*). Even in countries with positive per capita income growth, there will be significant shifts of people in and out of poverty, as workers in export-oriented manufacturing, construction, tourism, and the mining sector are being significantly affected by the crisis.

The slowdown in poverty reduction in all countries and the increase in the number of poor in some could have important, perhaps even irreversible effects if malnutrition increases, parents take children out of school or forego healthcare, or if households dispose of assets at depressed prices. Such effects have been observed in previous global crises and in the aftermath of the 1997-98 Asian

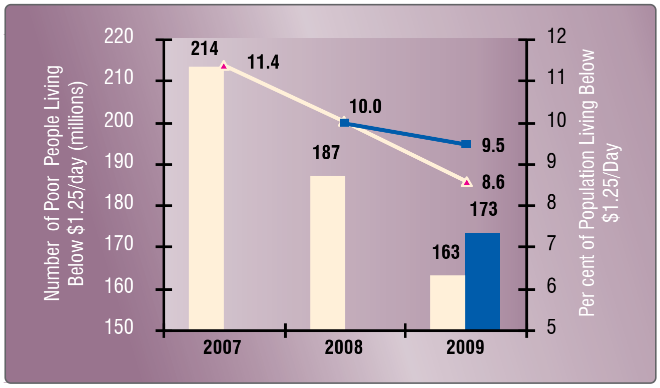
8 Fallon, Peter R. and Robet E. B. Lucas. 2002, "The Impact of Financial Crises on Labor Markets, Household Income, and Poverty: A Review of Evidence," The World Bank Research Observer, vol. 17, no. 1, pp. 21-45.

9 The estimate of 10 million uses as the baseline the poverty estimate for 2009 made last year in April 2008, and compares it with the estimate based on the projections contained in this paper. Equivalent World Bank estimates suggest that as a result of the crisis, 53 million fewer people (as measured by the $1.25/day poverty line) will be lifted out of poverty in 2009 than expected a year ago. The countries of East Asia and the Pacific account for nearly a fifth of the total. The estimate of 30 million uses as its baseline the poverty estimate which assumes that 2007 growth rates were maintained in 2008 and 2009, and compares it with the estimate based on the actual growth outcomes in 2008 and the projections for 2009 contained in this paper.

10 Output in the NIEs is also projected to contract, leading to an increase in the number of poor people.

Figure 17. The crisis will slow the pace of poverty reduction in the region

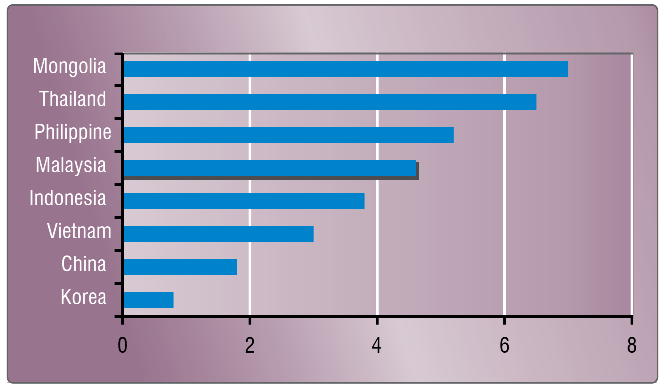
(in millions, LHS and in percent, RHS)



Source: World Bank staff calculations.
Note: The number of people living in poverty is projected to fall from 187 million in 2008 to 173 million in 2009 (compared with 163 million forecast a year ago).

Figure 18. Nonperforming loans are relatively low for most countries, but concerns are emerging

(in percent of total loans)



Source: National authorities, IMF, World Bank staff calculations.
*/ Moody's and Fitch estimates using IFRS, as in IMF (2009).

financial crisis. In Indonesia, for example, school enrollment fell after 1997 among the poorest, with children ages 7-12 years in rural areas not enrolled in school doubling to 12 percent in a few years. Evidence also highlights a deleterious impact of the last crisis on family health outcomes in Indonesia, where infant mortality was found to have increased by over 3 percentage points. Global evidence suggests that such losses in human capital investments could become irreversible if appropriate policy actions are not taken.

The crisis will have serious impacts on the welfare of millions of people in the region, but it is unlikely to reverse the progress in reducing poverty in recent years. Since 1990, the share of the region's population living in absolute poverty (less than $1.25/day) has declined from 55 percent to less than 10 percent of the population (*Figure 17*). The number of poor people has declined from about 873 million to fewer than 200 million. And although there was a small increase in the number of poor people in the region following the 1997-98 Asian financial crisis (from 622 million in 1996 to 635 million in 1999), the subsequent pace of poverty reduction has been substantial.[11]

There are important caveats to these conclusions. Firstly, some of the recent pace in poverty reduction has reflected a pickup in growth in response to global imbalances and unsustainable developments in the U.S. and other countries that are now reversed. Secondly, projections for the global economy and for the region are subject to substantial uncertainty. Thirdly, an important safety net for unemployed workers during the 1997-98 crisis was the ability to migrate back to families and job networks in rural areas. The rapid increase in urbanization in developing East Asia since then has reduced to an extent the opportunity to find employment or protection in rural areas. Reverse migration, as a result, may not serve as important role as a safety net during this crisis, increasing hardship for urban workers.

BANKS ARE COMING UNDER INCREASING STRESS

The economic slowdown across the region, combined with housing price declines and currency weakness in many countries, has substantially increased portfolio risks for commercial banks. Current pressures follow on the heels of last year's financial turmoil, which most East Asian banks handled well, thanks in part to their sizable liquidity and equity cushions built over years when

11 The World Bank's study "Ten Years after the Crisis" (2007) found that the pace of poverty reduction in the region between 2002 and 2006 was as high, on average, as it was during the 6-year period before the crisis.

growth was strong, and also due to decisive policy interventions by central bank authorities to ensure adequate liquidity.[12] The substantial improvements in banking supervision since the 1997-98 Asian financial crisis also helped ensure that most banks kept a reasonable pace of lending, funding credit expansion primarily with domestic deposits (except in Korea, where domestic debt issuance by banks supplemented deposits to help fund credit) and limiting exposures to exotic foreign assets.

The quality of bank portfolios began worsening in most countries late last year and further deterioration appears likely in 2009. In Mongolia, Cambodia and Vietnam overheating pressures began impairing loan quality early last year. Large declines in housing prices in Mongolia, and soured loans to the livestock sector now that the price of cashmere has fallen, have combined with the failure of one bank to cause nonperforming loans (NPLs) to more than double during the fourth quarter to 7 percent of total loans (Figure 18). Decisive policy interventions in Vietnam earlier in the year helped cool growth in output and credit and are likely to have limited the pace of increase in bad loans. In two of the countries in the region, some commercial bankers estimate that NPLs are as much as four times larger relative to total loans as the officially reported number, the difference in one of the countries reflecting an unofficial forbearance that allowed banks to roll over nonperforming loans. In most of the middle-income countries, notably China and Philippines, NPLs fell during 2008, but the surge in lending in China in early 2009 has raised concerns about the quality of banks' loan portfolios.

The authorities in many countries have responded with multi-pronged efforts to limit the impact on banks from the financial and economic crisis. These efforts have included the provision of adequate liquidity and dollar funding in several countries, notably Indonesia and Korea (see below for more details). In several countries, regulators have given regulatory forbearance in line with the amendments in October of the International Accounting Standards in the part dealing with mark-to-market accounting. In the Philippines, for example, the authorities gave banks a window until November 14 to reclassify securities held in mark-to-market accounts (essentially, trading accounts) to hold-to-maturity accounts and unquoted debt securities classified as loans (UDSCLs). Commercial banks estimate that about $0.8 billion (1.3 percent of commercial bank assets) in losses and potential need for fresh capital have been averted as a result.

Banking supervisors have also stepped up monitoring activities and have begun to undertake a number of immediate policy actions to prepare for any potential emergence of bad debts. Such immediate steps include special evaluations of the financial conditions and long-term viability of systemically important banks with particular emphasis on exposures to companies in the real estate, construction, and export sectors. In Indonesia, supervisors are collecting data on the country's largest debtors to understand the potential ramifications of deterioration of loan quality. Similar surveys have been carried out in China, together with monitoring of concentration of exposures to single sectors. The supervisory authorities could also develop plans for crisis management and liquidity support mechanisms for banks in the event of further problems, and improve the coordination and communication among all financial regulators. In Korea, the authorities set up in February a $27 billion Structural Adjustment Fund to buy distressed assets from financial institutions. The authorities intend the fund to support economic activity by extending new credit lines or rolling over loans to SMEs, and to support companies restructuring their financial obligations to banks.

Several banks are also doing their part to limit the fallout on their balance sheets and profits and some have stepped up efforts to raise capital. In Malaysia, Malayan Banking, the largest bank, launched a $1.6 billion rights offer after its share price fell sharply. Others have intensified efforts to restructure credits. In Indonesia, Bank Mandiri, one of the four state-owned banks, is reported to be allowing companies that owe it a cumulative $225 million to restructure debts, including by delaying principal payments.

12 There were only two bank failures in the region: Bank Century (Indonesia) and Anod Bank (Mongolia).

Most of the companies benefiting from this restructuring are from the garment, textiles and footwear industries, some of the worst hit in the country since late 2008.

FINANCING FOR INTERNATIONAL TRADE CONTINUES TO TIGHTEN

The availability of trade finance has tightened and its cost has surged similarly to other types of credit, amplifying the downturn in global commerce. Worldwide, trade finance appears to have contracted 40 percent in the last quarter of 2008, according to Dealogic, and the decline appears to be at least as large in the East Asia and Pacific region. Although data is scarce, banks report that short-term trade finance extended to companies in China and Thailand combined fell in 2008 to one-third the level in 2007, even as the value of exports of these two countries rose 19.5 percent in dollar terms in 2008. In most middle-income countries in the region, four-fifths of all trade was financed on open account in recent years and the rest largely through letters of credit.[13] The share accounted for by letters of credit has increased during the crisis, while the overall amount of trade financing has declined, underlying the difficulties of local exporters. Particularly affected are SMEs and companies unaffiliated with regional or global supply chains. In some countries in the region, smaller banks and, in places branches of foreign banks, have been more likely to suffer from tighter liquidity and, as a result, are less likely to take on new clients or extend new credits, including for trade finance. In addition to the impact of declining trade volumes and values that may serve as collateral (notably commodities), trade financing has become more scarce due to shortage of dollar liquidity in several countries, increased risk aversion among banks in providing credit, including pre-trade (working capital) financing, worries about counterparty risk (in particular about banks in developed countries), and the lack of coverage of trade to OECD countries offered by facilities operated by multilateral organizations.[14]

The authorities in most countries in the region have moved to alleviate the shortage of trade financing. In Korea, the government-owned Export-Import Bank created in October a $5 billion facility for commercial banks to buy export bills from SMEs. In December 2008, the Bank of Korea earmarked $10 billion for Korean companies to finance their exports. In Indonesia, both the central bank and PT Bank Ekspor Indonesia, the government bank for trade finance, have increased their facilities to help companies finance trade.[15] Thailand has also set up a fund to help provide credit to exporters. The IFC has doubled the Global Trade Finance Program (GTFP) to $3 billion. Under the GTFP, IFC guarantees a percentage of international banks' exposure related to confirming letters of credit, booking acceptances, or purchasing trade-related notes issued or guaranteed by local banks. Further, export credit agencies in developed countries can facilitate trade financing for trade with emerging markets.

CONCERNS HAVE INCREASED ABOUT RISING PROTECTIONISM

Although implementations of protectionist and other trade-distorting measures have been rather subdued in the region, risks have increased that slowing economic activity and unemployment may prompt more forceful government efforts. Developed countries have not helped, with trade-distorting measures proliferating, starting with the "buy American" provision in the U.S. stimulus plan to the surge in subsidies for automobile manufacturers in the U.S. and other developed countries. Resorting to protectionism, however, will only serve to make the downturn worse, detract policymakers' attention from tackling more urgent issues, and limit the potential for growth once recovery sets in. Since September, countries in the world have implemented 47

13 With trade on an open account, shipment precedes payment.

14 During the Asian crisis, bank-financed trade credits fell by about 50 percent in Korea and by 80 percent in Indonesia even as global trade was growing rapidly.

15 The cost and availability of trade financing has worsened substantially for Indonesian companies, also reflecting memories that several Indonesian banks defaulted on trade credits in 1997-1998. These were later settled by the central bank's payment of arrears of about $1.2 billion.

trade-related measures and an additional 33 have been proposed. Two-thirds of the measures are non-tariff in nature. In addition, anti-dumping claims and actions increased 20 percent last year across the world, with the increase concentrated in the second half of the year.[16]

Countries in the region have affirmed their commitment to free trade, but some have implemented non-tariff barriers. For example, in late 2008, Indonesia began limiting imports of five categories of goods (food and beverages, textiles and garments, footwear, children's toys and electronics) to only five ports and airports on the grounds that this was necessary to protect smuggling. The country is also requiring steel importers to obtain special certification and prior to importing to file a report with an appointed supervisor on their steel commodity needs. Malaysia has banned the hiring of foreign workers in factories, stores and restaurant. The government also advised companies laying off workers to dismiss foreign employees first.

16 Newfarmer Richard and Elisa Gamberoni, 2009, Trade protection: incipient but worrisome trends, Trade Note #37, March, the World Bank.

CHAPTER 2: FORCES SHAPING STABILIZATION AND RECOVERY IN DEVELOPING EAST ASIA

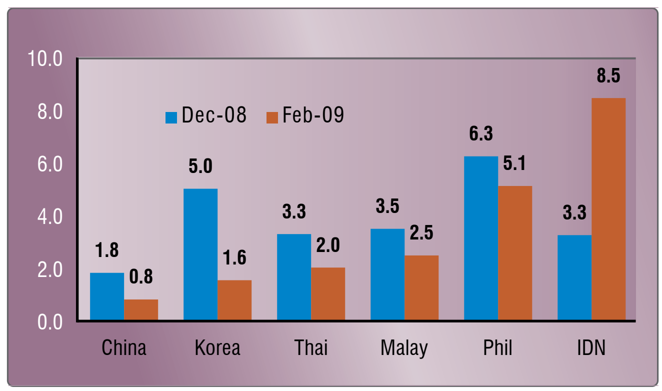
The region's recovery this year and over the medium term will be determined by the quality of policies implemented to combat the crisis, developments in China and the role of the industrialized countries. Most countries in East Asia and the Pacific have reacted decisively thus far to the combination of external shocks, helping cushion their impact and leaving the region in a robust position to resume strong growth. A recovery in China, likely to begin this year and take full hold in 2010, should contribute strongly to the region's recovery. China's ability to pull the region forward will grow further over time as its economy increases from the equivalent of one-third of that of the U.S. at present, and as the authorities rebalance growth more toward domestic demand away from reliance on exports. In the medium term, however, a sustainable recovery in developing East Asia ultimately depends on positive developments in the advanced economies.

MONETARY AND EXCHANGE RATE POLICIES

Facilitated by the decline in inflation, and in response to weakening economic activity and concerns about the impact from the international financial crisis, the monetary authorities in most countries in the region have cut key policy rates and employed other measures to help sustain domestic liquidity and availability of credit. Against a background of sound banking systems in most countries, these measures have ensured that liquidity in local currency has remained broadly adequate and interbank rates have declined or remained stable in most countries except Indonesia (*Figure 19*). Policy actions included reductions in key central bank policy rates in all middle-income countries, Vietnam and the NIEs (except Singapore where the monetary authority does not set rates), cuts in rates of minimum required reserves (China, Indonesia for dollar deposits, Malaysia, Philippines, Taiwan (China)

Figure 19. Monetary easing has helped reduce interbank rates except in Indonesia

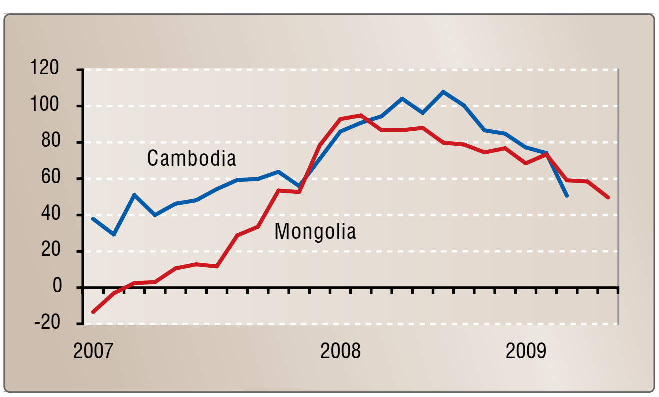
(Overnight rates, percent)



Source: Datastream and World Bank staff calculations.

Figure 20. Credit growth in Cambodia and Mongolia has slowed after reaching nearly 100 percent earlier

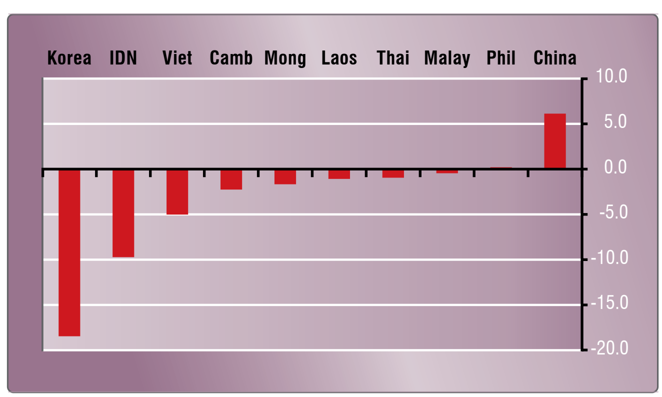
(percent change year-on-year)



Source: Datastream and World Bank staff calculations.

Figure 21. Currencies have weakened in most countries except China and the Philippines

(NEER, percent change, average 2008)



Source: Datastream and World Bank staff calculations.

Table 3. Credit growth has picked in all middle-income countries, Korea and Lao

(Percent change, y-o-y)

	Dec-07	Latest …	… month
Increasing growth			
Lao	21	84.6	Dec
China	17.6	21.6	Jan
Malaysia	7.8	17.7	Dec
Indonesia	15.3	16.8	Oct
Korea	9.4	14.9	Sep
Philippines	3.6	8.2	Feb
Thailand	3.9	7.5	Jan
Decreasing growth			
Vietnam	49.8	29.4	Nov
Mongolia	78.4	49.7	Feb
Cambodia	70.9	41.8	Dec

Source: Datastream and World Bank staff calculations.

and Vietnam), increases in rates paid on required reserves (Indonesia and Vietnam) and extensions of the coverage and maturity of central bank operations. The central bank in China also added to liquidity by redeeming its bills earlier. Deposit guarantee schemes were also extended to cover most or all deposits in several countries.

The monetary easing has helped boost growth in credit in all middle-income countries since the start of 2008 despite the slowdown in economic activity. In China, for example, the pickup in credit is in direct response to the government's stimulus program, with new loans amounting to 4 percent of the full year GDP in January-February of 2009, boosting the 12-month pace of credit increase to a five-year high of about 22 percent (*Table 3*). Credit growth has slowed in most of the low-income countries, by contrast. The authorities in Vietnam tightened policies earlier last year to tackle overheating, and Cambodia followed in June. The authorities were successful in cooling the economy in Vietnam, with the pace of credit expansion slowing to 13 percent year-on-year in January 2009 after peaking at 63 percent in early 2008, and 12-month inflation falling roughly in half over the same period to 14.8 percent in February 2009. The pace of credit expansion slowed much less in Cambodia (*Figure 20*). In Mongolia, credit growth has slowed as liquidity dried up amid the collapse of one bank, and a sharp downward adjustment in an overheating economy.

Currencies in the region have weakened in nominal trade-weighted terms except in China and, until late 2008, the Philippines. The Chinese RMB rose by about 6 percent in 2008 in trade-weighted terms, while the peso remained unchanged until December before weakening in early 2009 (*Figure 21*). The largest declines were in Korea and Indonesia, the most financially integrated economies, where foreign investors withdrew large amounts from equity and debt markets and where concerns about external vulnerabilities were more pronounced. Currency depreciation in these countries reflected the lessons monetary authorities learned during the 1997-98 Asian financial crisis — namely, conserving foreign exchange reserves rather than trying to offset overwhelming market forces, especially when these are in reaction to developments abroad.

MIDDLE-INCOME COUNTRIES HAVE EASED FISCAL POLICY, INCLUDING THROUGH FISCAL STIMULUS

The middle-income countries of East Asia are actively using fiscal policy to boost domestic demand. The regional stimulus packages are equivalent to 3.6 percent of regional GDP, with the measures to be implemented in 2009 amounting to 1.7 percent of regional GDP and most of the remainder to be delivered in 2010. The 2009 stimulus packages, as a result, are larger than the stimulus in the U.S., Germany (and the eurozone in total), and Japan, although most countries in developing East Asia have more limited fiscal space. The role of automatic stabilizers is smaller in East Asia, however, leaving the general deterioration of fiscal balances broadly in line with that of the more developed countries. Nonetheless, the countries of East Asia have been more forceful than most other countries in delivering a boost to economic activity.

All middle-income countries have introduced discretionary fiscal stimulus packages. The low-income countries – typically with limited or no fiscal space and weak or limited absorptive and administrative capacity - have been working to get a boost in

Table 4. Fiscal deficits on the rise due to stimulus packages and the automatic impact of weaker growth on revenues, 2006-2009

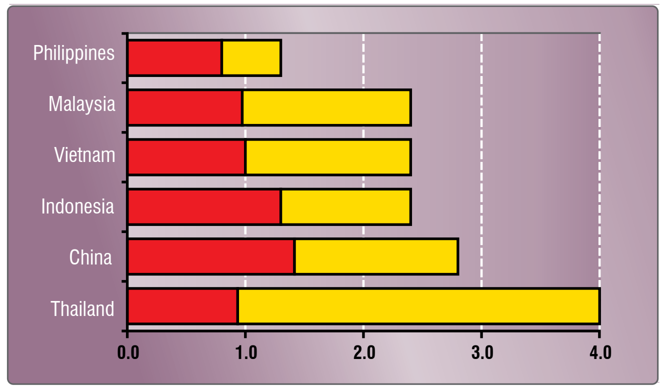
(Percent of GDP)

	2000	…	2006	2007	2008	2009f
China	-3.3		-0.7	0.6	-0.4	-3.2
Indonesia**	-1.8		-0.9	-1.3	-0.1	-2.5
Malaysia	-5.5		-3.3	-3.2	-5.2	-7.6
Philippines***	…		-1.4	-1.7	-1.5	-2.7
Thailand	-2.2		1.1	-1.7	-1.1	-5.1
Korea	1.1		-1.3	3.8	1.2	-2.4
Vietnam	-2.8		2.1	-2.2	-1.6	-4.0

Source: Country authorities, Bank staff estimates. */ Stimulus: red, automatic adjustment: yellow **/Government target for 2009. ***/GFS numbers based on the 2008 outcome and 2009 budget. f=forecast

Figure 22. The contribution of stimulus and automatic stabilizers in 2009 varies */

(in percent of GDP)



external aid to create room for additional outlays.[17] The discretionary cuts in tax rates and increases in spending have combined with lower revenues in line with weaker growth and declining commodity prices to increase fiscal deficits throughout the region (*Table 4*). The largest increases have been in Thailand and China, countries considered to have the largest available fiscal space. There are substantial variations across the packages, notably on the size, the share of tax cuts vs. expenditure increases or other measures, and on whether the proposals target just 2009 or 2009-2010 (*Figure 22*, *Figure 23*, and *Appendix Table 13-14*). The packages in China and the Philippines incorporate measures to be financed by both the public and private sectors. The package in Malaysia includes sizable credit guarantees and equity investments which do not add to the fiscal deficit.

China's stimulus package (equivalent to $586 billion from the fourth quarter of 2008 through 2010, or 12 percent of 2009 GDP) is the largest of all. About half of the package is for building of transport networks and post-earthquake reconstruction, projects that were already envisaged in the government's longer-term plans. Only around a third of the package is financed by the government budget, with the rest financed by other sources, notably bank lending (*Box 2*). As part of the broader package, the government is also focusing on sector-specific measures, related, inter alia, to the automobile, steel and non-ferrous metals industries, textiles, electronics and petrochemical industry. Recent policy efforts, including the part related to sector measures, suggest growing recognition that the extent to which the package is likely to be successful depends in large part on the government's ability to align short-term measures with longer-term challenges, foster a stronger expansion of services, boost consumption (especially in rural areas), and reduce excess capacity, either through increased demand or through orderly corporate restructuring. These efforts have been guided by the government's success in unblocking bottlenecks to growth in the aftermath of the 1997-98 Asian financial crisis (*Box 2*).

Most stimulus packages are biased in favor of expenditure measures, with only a sixth of the overall regional stimulus accounted for by tax cuts. Indonesia and Philippines are the two countries where tax cuts dominate, reflecting in large part the lack of infrastructure projects in the pipeline and below-budget execution of spending in recent years (*Figure 24*). Cuts in corporate income taxes account for the bulk of tax cuts in the region, supplemented by reductions in personal income tax rates (Indonesia, Thailand), cuts in property tax rates (Indonesia, Thailand), cuts in payroll contributions (Singapore), and accelerated VAT refund in several countries.

17 "Fiscal space" is a term used throughout this paper to denote the amount of incremental borrowing governments can undertake to finance public expenditures without experiencing debt sustainability problems.

Box 2. Details on China's RMB 4 trillion investment program

	Total—overall financing	First 2 batches—central government financing	
		First	Second
	4000	100	130
Public housing	400	10	28
Rural infrastructure (electricity, water, and roads	370	34	31.5
Transport (rail, airports, and roads)	1500	25	27.5
Health and education (incl. building schools and hospitals)	150	13	17
Energy and the environment (incl. water and sanitation, sewage, and restoration)	210	12	11
Technical innovation	370	6	15
Post earth quake reconstruction	1000	...	...

Source: China Quarterly update March 2009, as reported by NDRC (www.worldbank.org/china)

Figure 23. The size of stimulus packages varies substantially */

(overall, in percent of GDP)

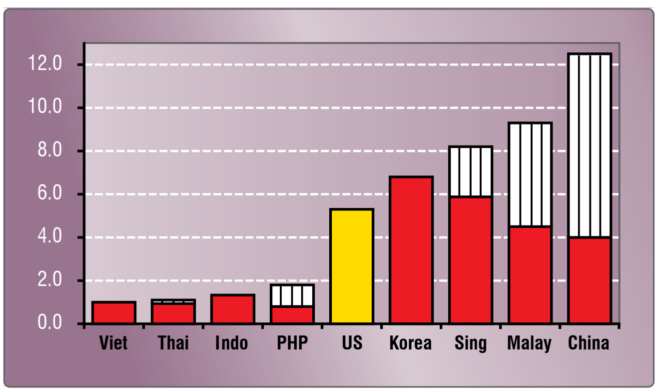
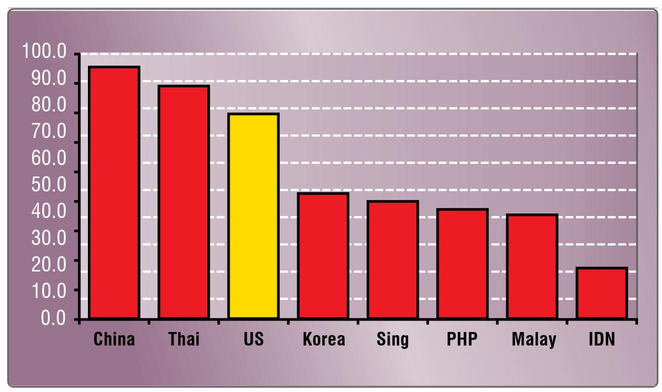


Figure 24. Most packages biased toward spending measures

(share in package, in percent)



Source: Country authorities, Factiva, Bloomberg, staff estimates */ Shaded area: non-government and government influenced investment for China and Philippines; credit guarantees and equity purchases in Malaysia; credit guarantees in Singapore, Thailand and Vietnam. Malay= Malaysia; Thai=Thailand; Sing=Singapore; PHP=Philippines.

The bulk of the expenditure measures, meanwhile, focus on infrastructure spending, with social transfers accounting for a much smaller share. The focus on infrastructure – largely on transportation networks - reflects the widely shared assessment that these efforts will ultimately have the highest impact on growth and are largely cost effective. Nonetheless, there will be considerable lags – a consideration that will ultimately keep the amount spent below the announced level, limiting the increase in the fiscal deficit in most countries (notably, Indonesia, Thailand and Philippines). The focus on infrastructure also runs the risk of providing a pro-cyclical boost, rather than a counter-cyclical stimulus (see more below). Governance issues related to infrastructure spending, especially under speedier delivery, are also important to recognize and address.

Support for the poor and vulnerable is stepped up and in some countries is geared also toward meeting longer-term challenges. Measures include targeted and untargeted social transfers (China, Indonesia, Korea, the Philippines), temporary consumption subsidies, including vouchers to low-income or rural households (China, Indonesia), school feeding and other such schemes, continued reliance on price controls and food/fuel subsidies in many countries, and support for housing (in addition to the construction of low-income housing in China, Indonesia and Thailand). China is beginning to tackle the longer-term challenge

Box 3. China's fiscal stimulus of 1998-2002

China's economic stimulus of 1998-2002 is an example of successful counter-cyclical fiscal intervention that targeted binding constraints on productivity growth. The government's focus on tackling infrastructure bottlenecks led to an immediate and sustainable increase in demand, helped deal with deflation pressures and contributed to boosting productivity in the long run.

Excess capacity prior to deflation: China's economy entered a five-year period of deflation starting in late 1997 that reflected the sharp increase in capacity as a result of the overinvestment during the eighth five-year plan period (Lin, 2004). Investment in fixed assets was double the pace of growth in final consumption from 1990 until 1998. Productive capacity in 1995 was at least 2.7 times larger than in 1990, and by 1995 the capacity utilization rate was only about 50 percent in many manufacturing industries.

Fiscal stimulus with a bottleneck-releasing focus: The government implemented a fiscal stimulus focused on tackling infrastructure bottlenecks (largely highways, ports and telecommunications) and boosting outlays on education, coupled with substantial monetary easing. Efforts also included measures to ameliorate income distribution policy, including salary increases and improvement of social safety nets. During 1998-2002, the government spent about RMB 660 billion on finance infrastructure (7.8 percent of 1998 GDP), which probably induced four times in other (government-influenced) investment. As a result of the decisive government efforts in increasing public investment, investment remained high relative to GDP at about 33 percent in 1998-2002, and real GDP growth averaged 8 percent. After deflation was no longer a threat in 2003, real GDP growth rose to an average of 10.8 percent in 2003-2008.

Lessons from the past: Traditional policies are inadequate to address constraints in conditions of excess capacity and deflationary pressures. Under such conditions, a determined and speedy fiscal stimulus helps generate an immediate increase in demand and productivity. For the increase in demand to be sustainable, however, the stimulus must help tackle bottlenecks. While the release of these constraints may not necessarily absorb all spare capacity, as the structure of demand at home and abroad may have changed, it will likely increase growth potential and help the economy move to higher-level equilibrium.

References: Lin, Justin Yifu (2004), "Is China's growth real and sustainable?", Asian Perspective Vol. 28, No. 3
Prepared by Xubei Luo.

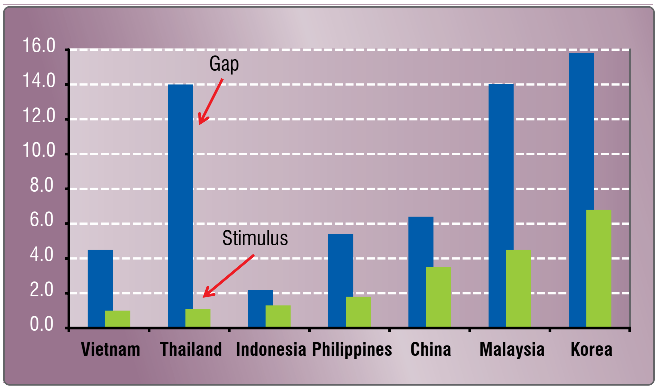
of health and education, the former through an additional package of health reform (see the section on Social policy responses to the crisis below).

Support for SMEs, banks and trade credit is also an important component of the packages. Support to SMEs is included in packages in Thailand, Korea and Singapore, support to banks in China, Thailand and Singapore, and efforts to boost trade credit are most decisive in Singapore. Other measures include transfers to local governments (China, Indonesia) and increased public employment in health and education (Singapore).

Countries with limited or no fiscal space have also moved to introduce measures to help boost domestic demand and economic activity to the extent to which scaled up foreign aid can allow it. In Lao, the government cut the corporate income tax rate for domestically-owned enterprises in the garment sector to the level paid by foreign-owned firms, a measure that should also provide longer-term benefits. In Cambodia, the government has extended a tax holiday on corporate income tax payments for foreign direct investors from 2010 until 2012. Although the direct budgetary impact will not be felt this year and next, the measure is likely to help retain any companies that could have closed given the slump in garment exports, with negative repercussions for growth and employment. In both countries, efforts are underway to support agricultural producers and provide trade financing to exporters.

Figure 25. The size of stimulus packages falls short of output gaps */

(overall, in percent of GDP)



Source: World Bank staff estimates. */ Government parts of packages only; for Malaysia, only the tax and spending measures.

Table 5. Stimulus Impact on GDP

(In percent of GDP)

	Range of impact		
China	0.8	-	4.3
o/w: government	0.3	-	1.6
Indonesia	0.2	-	0.8
Korea	1.5	-	4.3
Malaysia	0.3	-	1.3
Thailand	0.5	-	1.7
Singapore	0.8	-	3.2

FISCAL STIMULUS CAN ONLY PARTIALLY OFFSET THE IMPACT OF THE CRISIS

In most countries, fiscal stimulus packages can only partially offset the negative impact of the crisis on growth. Using projections for growth as articulated later in this report and estimates for potential growth calculated over 2000-2005, the cumulative output gap for 2009-2010 for the middle-income countries, Vietnam and Korea averages 8.2 percent of GDP, with the largest gaps in Korea, Malaysia and Thailand (*Figure 25*). In China and Indonesia, the size of the stimulus packages – only the central government portion in China - is about half of the gap, with the ratio falling sharply to about a tenth in Thailand. These calculations suggest that countries with available fiscal space, notably China, Korea and Thailand, could boost fiscal stimulus packages provided they could be well-targeted, timely, efficiently spent and temporary.

Another illustration of the relative limitation of stimulus packages is presented by their estimated impact on growth. The estimates in this section are calculated with multipliers derived from studies on developed countries and some of the countries in the region: 0.3-0.8 for tax cuts, 0.3-1.6 for government purchases and 0.3-1.0 for government transfers to households. Using these multipliers, the impact of packages on GDP is relatively modest except in China and Korea (*Table 5*).

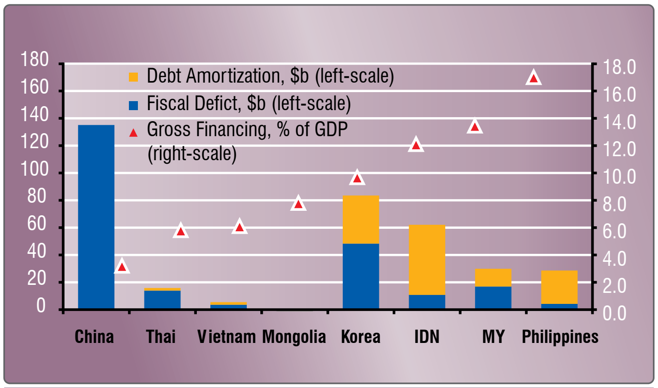
SHORT-TERM MEASURES AND LONG-TERM PRIORITIES

The countries that are able to tackle short-term challenges while staying focused on longer-term priorities will likely emerge better-placed after the crisis to resume stronger growth. Some of the measures that would help both in the short and longer term include outlays to remove infrastructure or social bottlenecks, investments in environmental sustainability and in human capital development, and efforts to modernize social protection programs. The challenge in some countries is the absence of projects in the pipeline. In such cases, the government could well shift attention to boosting infrastructure maintenance: it is labor intensive and yields high economic returns, and the maintenance backlog is large.

For China, a bigger challenge and opportunity is the need to rebalance growth and allow for robust expansion in private consumption. Reforms have been two-pronged but are yet to bear fruit. First, shifting away from capital-intensive export-oriented manufacturing toward labor-intensive services would allow a larger share of national income to accrue to households. Reducing the underpricing of inputs (raw materials, credit and labor) is a key component in these efforts, as is proper land titling for farmers so that land can be pledged as collateral. Further, modernizing social protection programs and education would also ease citizens' worries and bear fruit in the longer-term.

Figure 26. Financing requirements are burdensome for some governments */

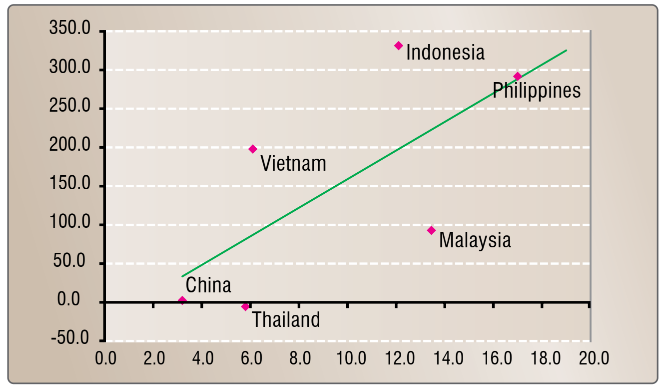
(in U.S. dollars, LHS; and in percent of GDP, RHS)



Source: National authorities and World Bank staff calculations.

Figure 27. Domestic bond yields have risen

(vertical axis: increase in 10-year gov't bond spreads in bps; horizontal: gross financing requirements in percent of GDP



Source: Bloomberg and World Bank staff calculations.

MEETING GROSS FINANCING NEEDS WILL POSE A CHALLENGE FOR SOME COUNTRIES IN DEVELOPING EAST ASIA

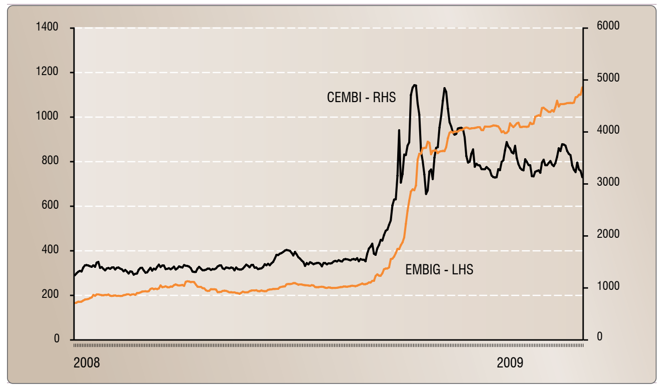
The increased fiscal deficits and sizable principal repayments due will be a burden for some governments in the East Asia and Pacific region. Gross financing requirements are the largest in some of the middle-income countries, but are likely to prove most burdensome for Mongolia since its fiscal space is limited to the availability of donor aid (*Figure 26*). Such aid is set to rise, thanks to a recently approved 18-month standby arrangements with the IMF in the amount of $224 million. Foreign donors (including the World Bank, the ADB and the government of Japan) also pledged $204 million in budget support over two years. In the Philippines, the country with the highest burden, the government projects that domestic banks – for which government bonds already account for 40 percent of assets – will continue to help finance the fiscal shortfall, together with international investors that purchased a part of $1.5 billion in 10-year international bonds issued this year. In Indonesia, the government has issued international bonds amounting to twice as much, and multilateral and bilateral donors led by the World Bank are providing contingent financing equivalent to $5.5 billion. Gross financing requirements are the lowest for China and Thailand, supporting the judgment that these countries have ample fiscal space.

Given increased gross financing requirements in the region's middle-income countries and increased risk aversion in international and domestic capital markets, yields on local currency denominated bonds have climbed despite lower inflation and efforts by the monetary authorities to ensure adequate liquidity. The size of gross financing requirements is the most powerful predictor of the increase in spreads on ten-year local currency denominated bonds since the start of 2007 (*Figure 27*). Other factors include the size of nonresident holdings of such securities (about 15-20 percent in Indonesia, Vietnam and Malaysia at the start of 2007), prospects for inflation (with the highest increase in consumer prices among the same three countries) and investors' assessments of payment profiles. In Indonesia, spreads on 10-year government local currency bonds surged to 1260 bps over U.S. Treasuries in November before easing to about 940 basis points in late March, 330 basis points more than at the start of 2007. The increase in bond spreads from the start of 2007 is only slightly larger in Indonesia than in the Philippines and the differences in levels appear to reflect mainly the much higher inflation in Indonesia. In China and Thailand, by contrast, spreads have risen in early 2009, but are still little changed compared to the start of 2007 due to ample liquidity, the lowest inflation in the region, ample fiscal space and relatively low government borrowing requirements, and despite concerns about political uncertainty in Thailand.

Spreads on foreign currency denominated bonds have eased after peaking in late October, but remain substantially above the historic lows marked in early 2007 amid higher global risk aversion and elevated concerns about investing in individual emerging

Figure 28. Corporate spreads in Indonesia have risen substantially more than government spreads */

(in basis points; EMBIG – LHS, CEMBI – RHS)



Note: JPMorgan and Bloomberg.
Source: EMBIG – sovereign spreads; CEMBI – corporate spreads.

markets. The largest increases in spreads are again for Indonesia (to 730 bps in March from 150 bps on average in the first half of 2007, or by 580 bps), Vietnam (by 420 basis points) and Malaysia and the Philippines (about 250 basis points).[18] The larger increase in Indonesia reflects heightened concern about payments due on external debt and higher inflation. The contrast in the pricing for this year's issuance of dollar-denominated bonds by Indonesia and the Philippines is particularly telling. The Philippines issued $1.5 billion global bonds in January 2009 at a spread of 600 bps, while Indonesia's $2 billion bonds yielded 880 bps in February 2009; spreads have fallen modestly since issuance. At the other end of the spectrum, spreads on China's foreign currency denominated government bonds have risen by just 100 bps from the first half of 2007 to March 2009, given the country's large foreign exchange reserves and small external debt relative to reserves.

Growing concerns about corporate profits have caused spreads on corporate debt denominated in foreign currency to rise by more than on sovereign debt. The larger increase in corporate spreads is similar to earlier crises, but the extent of the projected slowdown is amplifying the amount of change (*Figure 28*). Corporate spreads in the region rose somewhat less than in other regions. Compared with U.S. corporate bonds, however, spreads rose substantially more on emerging market corporate bonds (see Chapter 3).

SOCIAL POLICY RESPONSES TO THE CRISIS

National authorities are acting to cushion the impact of the crisis on the most vulnerable, as layoffs and unemployment are set to rise further and the pace of poverty reduction is projected to slow substantially. Policy responses are complicated by the lack of adequate safety nets in many countries. As a result, countries with safety nets in place, including China and Indonesia, have been able to provide assistance, while others are facing substantial challenges. As setting up such systems takes a long time, the binding constraint at present is institutional, although limited fiscal space will certainly be a problem for many of the low-income countries.

The region's middle-income countries are expanding existing social safety net programs, including in the context of their 2009 fiscal stimulus packages. In China, the government has relied on its relatively comprehensive social protection system. In late 2008, the government provided a one-time cash transfer (in total of $1.4 billion) to 74 million beneficiaries, including to rural residents. Active labor market policies, combined with tax cuts, are designed to promote business growth and employment. Government efforts also include the launch of a major health reform package that should improve access to healthcare for the poor and vulnerable. In the Philippines, the stimulus package increases social spending and frontloads some parts of it in 2009. The government has also increased sharply the number of participants under a conditional cash transfer program (CCT), from 20,000 in 2007 to 360,000 at the start of 2009, while working to improve targeting and scaling up the program further. The government has also introduced a program to help returning overseas workers (who have lost their jobs abroad and have been

18 As measured by JP Morgan's EMBIG.

the source of large remittance flows in recent years.) In Indonesia the targeted cash assistance program (BLT) started in 2005 to help poor households cope with the decrease in fuel subsidies was reintroduced in 2008, reaching some 19 million households. It has been complemented by two pilot CCT interventions, which are expected to become permanent and to be gradually expanded nationwide. Other poverty alleviation programs funded through the stimulus plan include agriculture and housing subsidies, and increased allocations for school grants in several communities.

These programs are still underdeveloped, with limited overall level of support and program coverage, especially when considering the significant rural population and migrant labor. The institutions required to implement and govern an effective safety net program are often not in place. This includes management of information, payment of benefit and sound financial management and internal control. Monitoring and evaluation are only starting to be introduced and understood. Continued focus on developing and improving the social protection institutions to meet both the short term needs of the crisis and longer term needs of a competitive and caring society remain a daunting task even in these middle-income countries.

Many of the region's low income countries lack the institutions to deliver assistance to their citizens even if fiscal space constraints could be relaxed by increased development assistance. In response to the crisis, governments in some of these countries were able to scale up existing programs. In Cambodia, for example, the government has provided assistance through larger aid for food supplies, supplemented by the authorities' existing rice distribution program. Since existing instruments are not always appropriate or sufficient to address all those in need, simple safety net interventions such as workfare programs are being implemented to address emerging needs in the urban areas.

Some governments have been affected by a sharp decline in revenues and narrowing fiscal space due to a drop in commodity prices. Mongolia is a case in point, as the government used the large increase in exports in earlier years, reflecting the surge in metal prices through mid-2008, to expand social benefits while relaxing targeting. Outlays on social assistance rose from 0.7 percent of GDP in 1997 to about 5.2 percent in 2007, before the sharp drop in exports prompted the government to cut outlays sharply and begin work on improving targeting and consolidating multiple, fragmented and overlapping interventions.

Countries in the region and international donors face several important challenges. For those countries with fiscal space, it will be important in the near term to properly fund social safety nets or other social interventions, including, if needed, through rationalization of existing spending and reprioritization of fiscal stimulus packages. At the same time, international donors should increase assistance to those countries without fiscal space to ensure that the financial and economic crisis does not turn into a human crisis.

In the medium term, governments are likely to act on the renewed urgency to develop a more coherent approach to social protection and expand the set of interventions to ameliorate the effects of adverse shocks. In this respect, the crisis has illustrated that developing East Asia was less prepared than Eastern Europe and Latin America from a social protection perspective. In the latter two regions, both governments and development partners were able to boost aid more rapidly and effectively and target it to those affected adversely. Implementing safety nets takes time, and governments should ensure that they are crafted to help deal with future adverse shocks. There will be urgent need to improve the design of the programs speedily introduced during the crisis, at times without adequate time for analysis. Monitoring and evaluation need to be put in place to assess results and inform the longer term institutional building. Finally, these social protection institutions need to be firmly grounded in the government program to gradually reduce reliance on donor financing.

POLICY COORDINATION AND COOPERATION ARE INCREASINGLY IMPORTANT

A global crisis requires global solutions. The recent G20 Summit in London underscored the need to undertake further decisive, coordinated and comprehensive actions to stem the decline in economic activity, restore confidence and tackle decisively the problems in the financial sector. The meeting agreed on the need to increase IMF resources substantially and boost the capital of the Asian Development Bank. It is important that the global initiatives backed by the G20 are supplemented by increased regional efforts at coordination and mutual support, especially given the increasing weight of East Asia in the global economy.

From a regional perspective, the ASEAN+3 countries have stepped up discussions of converting the bilateral swap arrangements set up under the Chiang Mai Initiative (CMI) into a multilateral swap arrangement to help countries in balance of payment needs. The countries have agreed to increase the $82 billion in bilateral swaps into a $120 billion pool accessible to all members, with China, Korea and Japan to provide 80 percent of the larger pool. Countries are also likely to discuss the possibility of increasing from 20 percent the share of resources that countries can draw on without an IMF program. With discussions on setting up a multilateral swap arrangement in progress, the current crisis has prompted countries in the region to set up bilateral swap arrangements outside the CMI – and outside the need to have an IMF program to draw on the swaps - to help deal with dollar shortages. China has established three-year bilateral swap arrangements with five countries since late 2008 for a total of RMB 480 billion ($70 billion), including with Indonesia, Korea, Malaysia and Hong Kong (SAR, China). Japan has also doubled its swap arrangements with Korea and Indonesia.

The countries of ASEAN have adopted a charter of the community, reaching an important milestone in regional integration. The charter was signed by the ASEAN leaders in November 2007 and entered into force in December 2008 following ratification by all ASEAN member states. As affirmed by the charter, the ASEAN countries aim to create a vibrant community that includes the creation of a single market in goods and services.

CHAPTER 3: DEVELOPMENTS IN THE ADVANCED ECONOMIES SHAPING EAST ASIA'S RECOVERY

ADVANCED ECONOMIES HAVE LED THE WORLD INTO A SEVERE FINANCIAL AND ECONOMIC CRISIS

The advanced economies are in the midst of a financial and economic crisis considered the worst since the Great Depression. Determined policy efforts in developed economies appear to have prevented a financial meltdown and there are tentative signals that the sharp contraction in the global economy may be slowing (*Box 4*). The extent of the financial and real sector dislocations created earlier in the decade, however, will take time to repair, and the process of reducing excessive levels of debt and consumption relative to income in the U.S. and some other developed countries, and undue reliance on external demand in China, will likely last longer than currently envisaged. The crisis and the subsequent recovery present an important opportunity for rebalancing global and national growth – raising savings in the advanced economies, boosting domestic demand in East Asia where dependence on exports was the driver of expansion, and strengthening the role of policies and institutions to handle more effectively future financial crises and limit their impact on the most vulnerable members of society.

The crisis started in the U.S. sub-prime mortgage market. The financial turmoil then spread to other developed countries in early 2008, especially after the government-sponsored sale of investment bank Bears Stearns in March 2008 to JPMorgan, and fully impacted developing countries after the failure of Lehman Brothers in September 2008. As the decline in housing and equity prices hit consumers, companies and banks, the price of risk surged, leading investors in developed markets to liquidate portfolio investments at home and in emerging markets. As governments implemented a series of policy measures to prevent a financial meltdown and a deep and protracted global recession, they must now also work forcefully to prevent the current financial and economic crisis from turning into a human crisis.

Box 4. The crisis in figures

$2.0 trillion: the deterioration in US-originated financial assets

42: the number of U.S. banks that have failed since September 2007

45 percent: share of distressed transactions in U.S. home sales

520: the number of financial institutions that have received capital injections under the TARP in the U.S.

32 percent: the increase in corporate bankruptcy filings in the U.S. since 2007

$1.1 trillion: size of fiscal stimulus packages in the U.S., UK, Germany and Japan

12.3 percent of GDP: the 2010 U.S. fiscal deficit

Sources: U.S. Treasury, Federal Reserve, FDIC, Realtytrac, IMF and World Bank staff estimates.

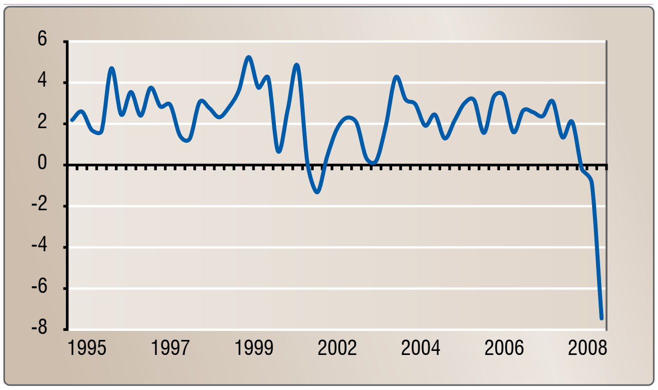
THE GLOBAL ECONOMY IS CONTRACTING SHARPLY

Frozen credit markets, large losses in financial wealth, and shaken investor and consumer confidence have reinforced each other to depress aggregate demand. The contraction in demand has been led by the developed countries, most of which are by now in recession. In the G-3 (U.S., the Eurozone and Japan), the decline in output accelerated to 7.5 percent in the fourth quarter, measured in seasonally adjusted annualized terms, faster than the 4.1 percent registered during the previous synchronized G-3 decline during the U.S. recession of 1981-82 and faster than in any period after World War II (*Figure 29*).

Countries far from the epicenter of the crisis have been hit as hard as the U.S., underlying the global reach of financial markets and putting to rest any claims of "decoupling". The decline in output has been the steepest in Japan. The output collapse in the eurozone has been smaller than in the U.S., but the decline is still the largest for the region in half a century. In the U.K., the contraction in output has been underpinned by vulnerabilities similar to those in the U.S., including larger increases in housing prices over the last cycle (210 percent to the peak, compared with 180 percent in the U.S.), the largest levels of household debt in the OECD at 185 percent of GDP, compared with 100 percent in the US, and the largest share in OECD of financial services in

Figure 29. Real GDP growth: U.S., Eurozone and Japan

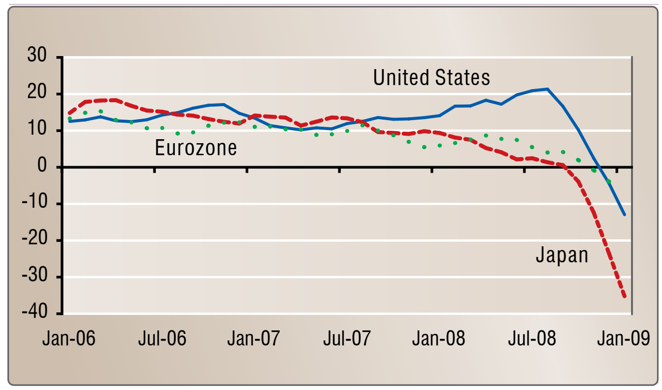
(percent change q-q, seasonally adjusted annualized)



Source: Datastream and World Bank staff calculations.

Figure 30. Export growth, U.S., Eurozone and Japan

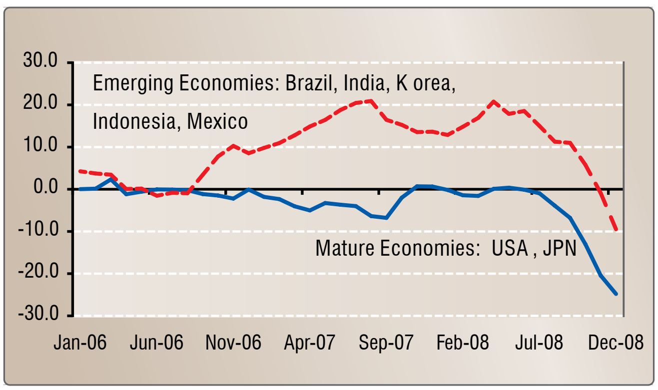
(percent change, 3m/3m, seasonally adjusted annualized)



Source: Datastream and World Bank staff calculations.

Figure 31. Automobile sales have fallen sharply

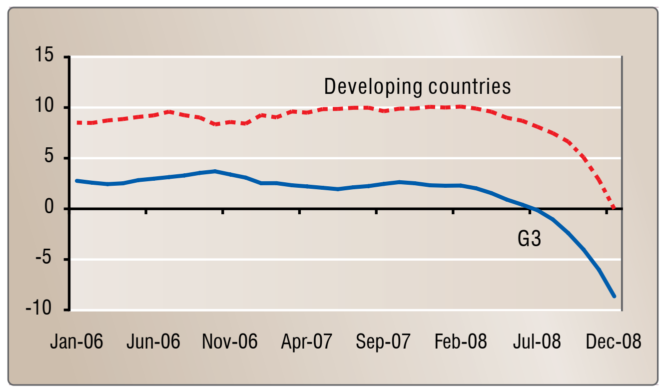
(percent change, 3m/3m, seasonally adjusted annualized)



Source: Datastream and World Bank staff calculations.

Figure 32. Industrial production is contracting

(3m/3m, seasonally adjusted annualized)



Source: Datastream and World Bank staff calculations.

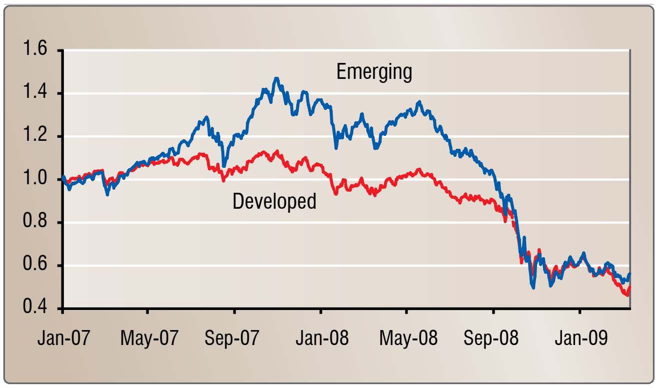
output and government revenues. Eastern Europe's troubles, meanwhile, stem from excessive reliance on foreign capital to boost growth in output, accumulating vulnerabilities that resembled those of many East Asian countries before the 1997-98 Asian financial crisis. Concerns that the region's negative developments will spill to the rest of the EU and other emerging economies prompted the EIB, the EBRD and the World Bank to pledge $25 billion to help eastern European banks. These measures build on recent large rescue packages for several countries organized by the IMF, the World Bank and, in the case of the new EU member states, dominated by assistance from the European Commission.

The "sudden stop of capital flows" that characterized the first wave of the crisis has been followed by the second wave of a "sudden stop of export demand" that is affecting severely both developing and developed economies. Companies are responding vigorously to the decline in exports and domestic sales by cutting production, in many cases by a larger margin, as suggested by the decline in orders (*Figure 30, Figure 31 and Figure 32*).

The economic slowdown has amplified investor worries about risk, sustaining tensions in equity, credit, and interbank markets worldwide. Equity prices fell further this year, with equity prices in the U.S. declining to 12-year lows and those in Japan to 25-year lows before some rebound in March (*Figure 33*). Interbank rates have declined from their peaks late last year but remain elevated, as investors continue to worry about liquidity and counterparty risk (*Figure 34*). International bond issuance by emerging

Figure 33. Equity prices have collapsed after peaking in late 2007

(Jan 2007=1)



Source: Datastream.

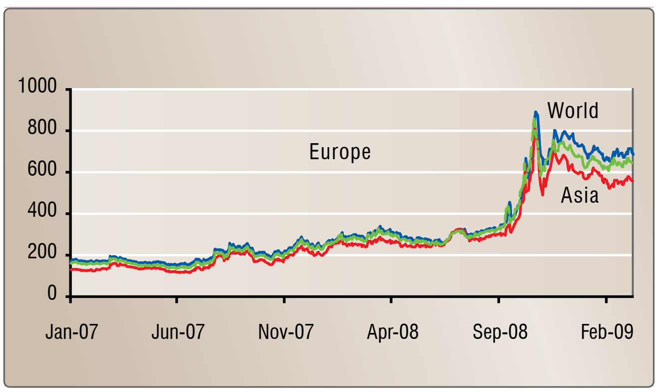
Figure 34. Interbank rates have eased, but worries about liquidity, counterparty risks, and the economy remain

(in bps, three-month U.S. dollar LIBOR less three-month T-bill)

Source: Datastream.

Figure 35. Spreads on emerging market sovereign bonds have eased but remain much higher than before the crisis, 2007-2009

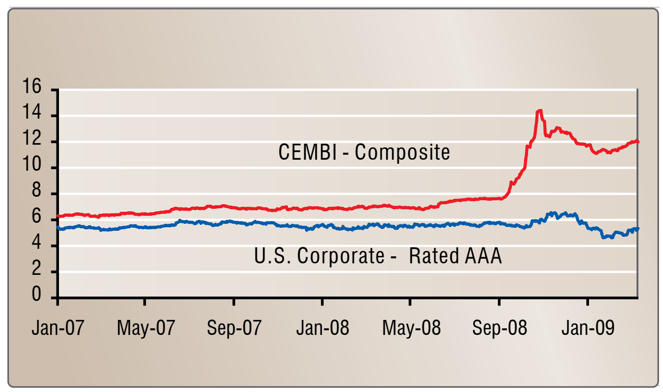
(in bps, EMBIG)



Source: JPMorgan.

Figure 36. Corporate borrowing spreads have also risen substantially, 2007-2009

(In bps, US corporate bonds and the CEMBI)



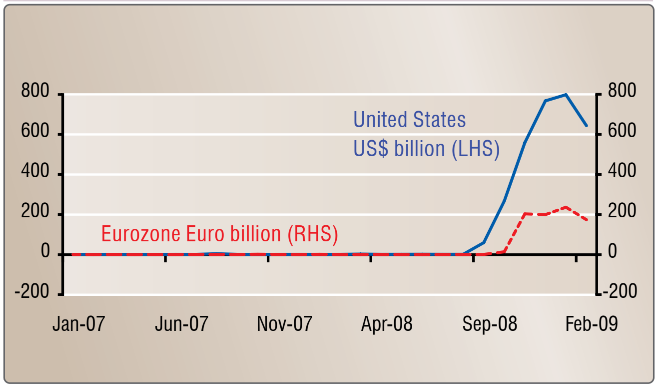
Source: Datastream and JPMorgan.

markets has resumed, starting with Mexico's $2 billion bond in December and has amounted to $12 billion over the last three months compared with nil during the earlier three months. Although emerging market bond spreads have fallen to an average of about 675 basis points (bps) in March after peaking at 740 bps in November, they still remain much higher than the 240 bps at the start of 2008 and the record low of 150 bps in June 2007 (*Figure 35*).[19] Spreads on corporate bonds issued in emerging markets also remain elevated, leading companies to delay international bond issuance or substitute with issuance in local currencies in some of the more stable emerging markets (*Figure 36*).

19 As measured by JPMorgan's EMBIG.

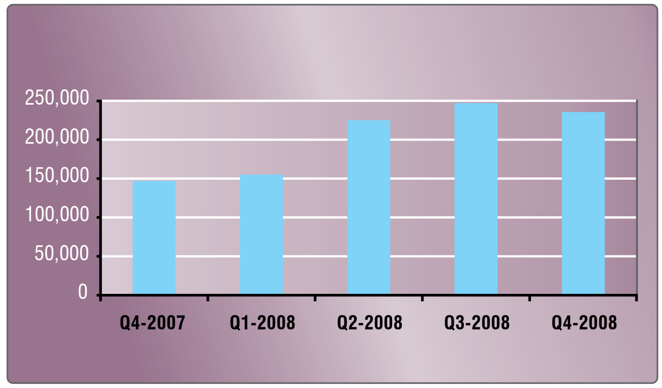
Figure 37. Excess reserves in the U.S. and the eurozone

(In billions of dollars, LHS; and in billions of euros, RHS)



Source: Monetary authorities.

Figure 38. Foreclosures in the U.S. have surged



Source: Realtytrac.

Table 6. Fiscal stimulus packages in developed countries are moderate compared with earlier efforts in Japan

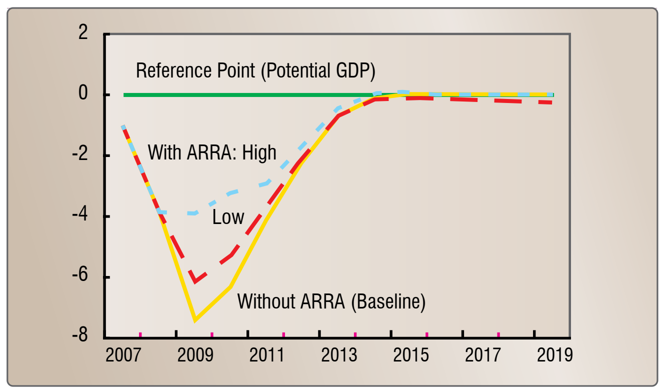
(In percent of GDP)

	Total	2009	2010
China	12.0	4.8	6.0
US	5.5	1.1	2.0
Germany	2.7	1.7	0.8
Japan	2.3	1.4	0.4
Eurozone	1.7	0.9	0.8
UK	1.1	1.1	--
Memoranda:			
Japan 1991-95	13.0		
Japan 1998	8.0		

Source: National authorities, Bloomberg, IMF; and Bank staff calculations.

Figure 39. And the CBO projects the impact on GDP in the U.S. to offset only partly the impact of the crisis */

(difference between potential and actual GDP, in percentage points in the last quarter of the year)



Source: Congressional Budget Office, Analysis of the American Recovery and Reinvestment Act of 2009.

THE POLICY RESPONSE IN THE U.S. AND OTHER DEVELOPED COUNTRIES HAS BEEN FORCEFUL

Most developed countries have taken actions to ease liquidity, unclog credit markets, ensure financial stability and stimulate domestic demand. In most developed countries, central banks have cut key policy rates to the lowest levels in decades, including to almost zero in the U.S. and Japan, facilitated by the sharp decline in inflation. The Federal Reserve, the ECB, the Bank of England and the Bank of Japan have boosted lending to banks and introduced a variety of facilities to provide credit to other financial institutions and companies in an attempt to unfreeze credit markets. All of these monetary authorities, except the ECB, have moved toward "quantitative easing," a policy to buy government assets, following stepped-up purchases of corporate assets. Both the Fed and the ECB have doubled the size of their balance sheets since August, adding liquidity equivalent to about 8 percent of annual GDP in the U.S. and about 6.5 percent in the eurozone. The Fed's balance sheet is set to rise a further 50 percent or more, following the central bank's decisions in March to purchase $300 billion in U.S. government securities (10 percent of the total outstanding with maturities longer than two years and shorter than ten) and $750 billion in agency mortgage-backed securities (a fourth of the total outstanding), or a combined 7 percent of GDP. While these efforts are likely to have contributed to the thawing of credit markets, banks have so far preferred to hoard liquidity by keeping large excess reserves with both the Federal Reserve and the ECB (*Figure 37*).

The authorities in developed countries, primarily the U.S. and the U.K., have injected large amounts of capital in banks and provided insurance for risky assets. The U.S. government has injected $306 billion from the $700 billion TARP to boost the capital of about 500 financial institutions, becoming, inter alia, the largest shareholder of Citibank after converting $45 billion in preferred shares into common stock. The authorities have also insured about $420 billion in assets held by Citibank and the Bank of America, in the latter case to facilitate the purchase of Merrill Lynch, the last independent U.S. investment bank. In the UK, the government has nationalized two of the country's largest banks and in a bid to avoid further nationalization is now implementing a scheme to insure banking assets equivalent to about $0.7 trillion. Despite the authorities' efforts, 45 banks have failed in the U.S. since the start of 2008, 20 of which in 2009.

After a prolonged period of hesitation on how to deal with the "toxic" assets on banks' balance sheets, the U.S. authorities announced a two-pronged approach in late March. Under the plan, $75-100 billion from the TARP will be leveraged up by loan guarantees by the FDIC and equity injections by the Treasury to allow private investors to purchase up to $1 trillion in toxic assets held by banks. The authorities are supplementing this plan with a proposal announced earlier to stress test the 19 systemically important banks (those with assets larger than $100 billion) to assess their capital adequacy following the write-offs that will accompany the sales of toxic assets and in the face of a further economic downturn.

The U.S. is also implementing a $275 billion rescue package for the housing sector, the epicenter of the financial turbulence in the U.S.[20] After months of hesitation, the authorities were compelled to act amid the now widespread recognition that unless the decline in housing prices and the accompanying quality of credit are arrested, nonperforming loans in U.S. banks could rise to levels last seen during the banking crisis in Sweden in 1991 (13 percent of assets) or Japan during the 1990s (35 percent of assets), with much larger fiscal deficits and government borrowing than anticipated at present. The program will share with lenders the cost of modifying mortgages for people facing hardship (either delinquent at their payments or at risk of falling behind schedule) by reducing the mortgage payment (to 38 percent of the borrower's income or less) and cut the annual interest rate to as low as 2 percent. The government efforts come against a grim background. U.S. housing prices have fallen 27 percent from their peak in July 2006, reducing home values and housing wealth by about $3.5 trillion. More than 8 million mortgages (or one in 10) have negative equity (mortgages are larger than the value of the homes they are written on) and 1 million houses in the U.S. are in foreclosure.[21] Housing sales in the U.S. are at record lows, with almost half of sales of existing homes involving distressed property transactions, including foreclosures. Although the oversupply of houses is down 40 percent from its peak a year ago, the sharply reduced pace of sales means it would take 13 months to dispose of current inventories. The decline in housing wealth has added to the drop in equity prices to reduce household wealth in the U.S. by $13.3 trillion (or 100 percent of GDP) from the middle of 2007 until the end of last year.[22] This decimation of wealth has underpinned the weakness of U.S. consumption and caused households to increase saving.

Discretionary fiscal stimulus packages have been enacted in all developed countries, but most observers agree that these are short of what is needed to stem a deeper slowdown in activity. The headlines have been preoccupied with the $787 billion (5.3 percent of GDP) package introduced in February in the U.S (*Table 6*). The package is spread over 10 years, however, with tax cuts accounting for 38 percent of the amount and spending including transfers to state governments for the rest. The stimulus will add about 2 percent of GDP to the fiscal deficit for 2009 and 2.9 percent in 2010. This discretionary package, however, is supplemented by a sharply expansionary budget proposal for the fiscal year 2010, with the U.S. fiscal deficit projected to rise to 12.3 percent of GDP.

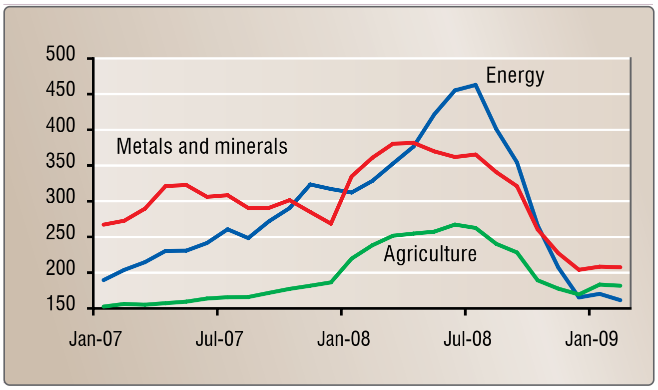
20 Of the total, $75 billion is provided under the TARP and the rest represents new funds.

21 First American CoreLogic for 2008, Bank staff calculations based on the Shiller-Case index for 2006 and 2007, and Realtor.com for the foreclosure data.

22 U.S. Federal Reserve, Wilshire Associates and Bank staff calculations.

Figure 40. Commodity prices have firmed of late

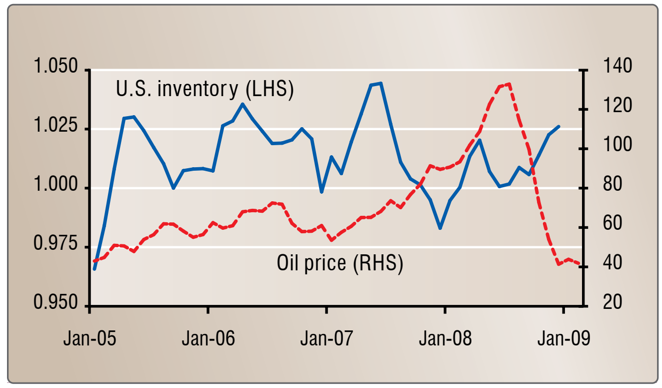
(Index, nominal U.S. dollars, 2000=100)



Source: World Bank, DECPG Commodity Review.

Figure 41. Oil prices have stabilized due to the OPEC cuts, but inventories have surged

(Dollars per barrel and billions in barrels)



Source: Datastream and World Bank staff calculations.

Stimulus packages proposed in the other developed countries are substantially more modest compared to the U.S. package and to the packages Japan introduced during the 1990s. Authorities from some of the larger eurozone states have argued that Europe's fiscal stimulus is smaller because automatic stabilizers play a much larger role in Europe than in the U.S.; for example, the extension of unemployment benefits under the U.S. stimulus plan, or the stepped-up transfers to states (prohibited from running deficits) are part of the automatic stabilizers in Europe. Nonetheless, including both the stimulus and automatic stabilizers, the fiscal easing is smaller in Europe than in the U.S. In Japan, by contrast, the size of the fiscal stimulus is limited by concerns about increasing further government debt, already the world's largest at 170 percent of GDP.

COMMODITY PRICES HAVE FIRMED

Announced and anticipated production cuts have helped commodity prices stabilize this year after a sharp decline in the second half of 2008 due to the slowdown in global growth. Recent increases for prices of cereals, for example, have reflected unfavorable weather in South America and China and increased demand in China, while rubber prices have firmed due to supply cuts in Indonesia and Malaysia (*Figure 40*). Oil prices have climbed 10 percent from the start of the year, as the two OPEC production cuts are being implemented, while copper prices have been supported by increased inventory buildup in China (*Figure 41*). The recent firming of commodity prices will have a modest positive impact on the balance of payments of commodity exporters, including Indonesia, Malaysia, Mongolia, Papua New Guinea, Thailand and Vietnam, but such improvements will pale compared with the decline in export volumes for most commodities. The increases, however, are reversing in a small measure the ameliorative impact on household budgets from the decline in commodity prices late last year.

CHAPTER 4: THE OUTLOOK FOR EAST ASIA AND THE PACIFIC

The deterioration in the advanced economies since the writing of the Bank's last Regional Economic Update ("Navigating the Perfect Storm" issued on December 10, 2008), has meant a further downgrading in our growth forecasts for East Asia and Pacific. Indeed, overall, our projections indicate a decline of 1.4 percentage points in growth for developing East Asia for 2009 compared to our December forecasts, reflecting the worse-than-expected unfolding of the global economic and financial crisis. Real GDP in the G-3 is set to contract by 3.1 percent in 2009 (compared with a 0.4 percent decline forecast in December), global trade volumes are projected to fall for the first time in a quarter of a century at a pace of 6 percent that represents the greatest contraction since World War II. Excess capacity – most of it geared for export-oriented production in many countries in the region, notably but not only China – will keep exerting downward pressure on manufacturing prices, increasing the short-term risks of deflation. Global capital flows are set to slow substantially further, with global private flows likely to fall to a fifth or less their levels a few years ago, reflecting weakened bank lending and subdued portfolio flows, and reduction in direct investments amid delays in new investment projects.

Despite this dire global environment, determined monetary easing across the region, facilitated by a sharp decline in inflation, has helped limit the impact of the financial crisis on domestic liquidity. There is scope for further interest rate cuts in several countries in the region, although the limits of what monetary policy alone can accomplish have probably been reached already, given heightened risk aversion and tight credit conditions globally. Some countries, moreover, have little room for further monetary easing because of investors' concerns that further global rate cuts may add to downward pressures on currencies and a sharp pickup in inflation. And countries that entered the crisis with overheated economies and rapid credit growth, such as Mongolia and Cambodia, have the dual challenge of tightening monetary conditions at a time when the economies are experiencing a sharp downturn.

The authorities in the region are likely to be more engaged to help handle the emergence of bad loans in the portfolios of banks that will result from the deterioration of economic activity. Efforts to ensure credit markets remain unclogged will be successful to the extent the authorities and banks succeed in ensuring that these losses can be absorbed or new capital raised quickly. Confidence that credit and financial markets will continue to function properly will be crucial for economic activity to recover, even though output has tended to strengthen before credit in previous global downturns, the Great Depression and the 1997-98 Asian financial crisis.

Recovery in the region will be supported by fiscal easing, including through implementation of fiscal stimulus packages in the region's middle-income countries and NIEs. The size of the fiscal stimulus may be increased in some countries with available fiscal space, notably China and Thailand, provided additional spending is well targeted, effective and easily reversible. However, there are limits to how much stimulus geared toward infrastructure can accomplish and the adverse consequences of the downturn on employment would be more efficiently addressed by targeted social safety spending. In all countries, moreover, there will be scope for the authorities to revise stimulus packages to improve their impact while aligning them better with longer-term priorities. This realignment will reflect efforts to ensure that the stimulus is channeled into areas that address critical bottlenecks (including in power generation, transportation, environment-related investment), and does not add to already abundant capacity (such as in export-oriented manufacturing). Fiscal stimulus is also likely to be more effective if it allows firms to adjust to the new patterns of domestic and global demand, rather than protect activities and jobs that need to be scaled back. Increased emphasis on maintenance – which is typically neglected in good times - could be a viable option for countries lacking investment projects ready to be implemented, as would be efforts to properly fund or set up social safety nets. In addition to helping cushion the impact of the crisis on the most vulnerable and providing an important element of countercyclical fiscal policy, social safety nets will give the authorities the confidence to allow more complete labor and business adjustments that will ultimately help economies gain competitive advantage over others with less advanced adjustment. Supporting SME financing is also likely to be a highly effective use of stimulus funds, given the importance of these enterprises in supporting employment and trade.

For the low-income countries, the key avenue for boosting fiscal room is by reallocating resources from low- to high-priority projects and programs, increasing donor aid, and by accelerating the disbursement of projects with the greatest impact on domestic demand. The recent G20 Summit recognized once again the urgent need to mobilize resources for multilateral institutions and put these to best use in helping the world's poorest. Efforts to rationalize existing spending would also help, including through a detailed review of budgets to identify possible cuts of unproductive expenditures.

Table 7. Growth is slowing in developing East Asia, but will be higher than in all other world regions

(Percent change y-y)

	2007	2008f	2009f
Developing East Asia	11.4	8.0	5.3
Dev. East Asia excl. China	6.2	4.8	1.2
Europe and Central Asia	6.9	4.2	-2.0
Latin America and Caribbean	5.8	4.3	-0.6
Middle East and N. Africa	6.0	5.5	3.0
South Asia	8.4	5.6	3.7
Sub-Saharan Africa	6.0	4.9	2.5
OECD countries	2.5	0.7	-3.0

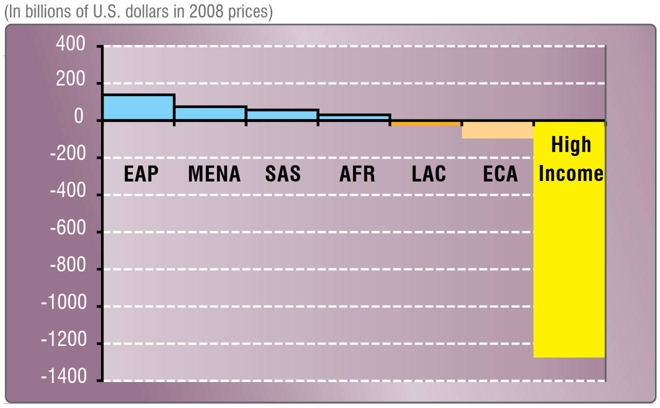
Source: DECPG (World Bank), and Bank staff projections.

Despite these determined efforts to boost activity in the region, we expect real GDP growth in developing East Asia to slow to 5.3 percent this year (1.4 percentage points lower than our forecast three months ago) from 8 percent in 2008. The slowdown in growth reflects both weaker exports and slower expansion in domestic demand in all countries. The latter is due to slower growth or declining investment spending by the private sector that is only partly offset by stronger government investment outlays in the middle-income countries, and more cautious private consumption amid rising unemployment, slower wage increases and stepped-up precautionary saving. A decline in remittances to developing East Asia, projected to fall 4.2-7.5 percent in 2009 (somewhat lower than the 5-8.2 percent forecast for developing countries as a whole), and return of migrants losing their jobs abroad, will also add to pressure to trim consumption.

Thanks to China, growth in developing East Asia and the Pacific will be the fastest among the world's regions (*Table 7*). The region's contribution to global GDP will remain the largest in the world, equal in dollar terms to the sum of the contributions from the other three regions with positive impact: South Asia, Middle East and North Africa, and Sub-Saharan Africa (*Figure 42*). Given that developing East Asia's nominal GDP is barely a tenth of global output, however, the region's contribution to incremental global GDP will offset only partially the collapse in output in developed countries. If China is excluded, however,

Figure 42. The contribution of developing East Asia to the change in global output in 2009 is the largest in the world

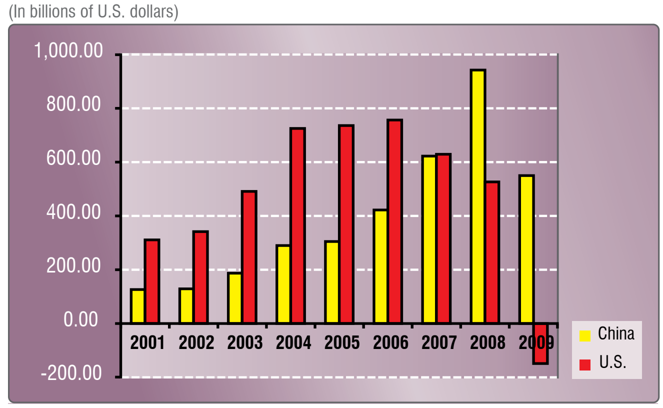
(In billions of U.S. dollars in 2008 prices)



Source: World Bank staff calculations.

Figure 43. China's increase in nominal GDP has surpassed that of the U.S. since 2007 and is the largest in the world

(In billions of U.S. dollars)



Source: Datastream and World Bank staff calculations.

developing East Asia's performance is expected to be lackluster and trails well behind the World Bank's projections for Latin America, the Middle East and North Africa, and Sub-Saharan Africa. The reason lies in the openness of the economies in the East Asia region and the tight production networks organized to serve the markets in the U.S. (and to a lesser extent Japan). But just as these structural characteristics have pulled down the growth performance of these countries during the global downturn, they will serve to support their performance once global growth resumes.

Table 8. Growth is projected to slow further

(Percent change y-y unless indicated otherwise)

	2007	2009f	Difference, 2009-2007
Developing East Asia	11.4	5.3	-6.1
Indonesia	6.3	3.4	-2.9
Malaysia	6.3	-1.0	-7.3
Philippines	7.2	1.9	-5.3
Thailand	4.9	-2.7	-7.6
China	13.0	6.5	-6.5
Vietnam	8.5	5.5	-3.0
Cambodia	10.2	-1.0	-11.2
Lao PDR	7.5	5.0	-2.5
Mongolia	9.9	2.7	-7.2
Papua New Guinea	6.2	4.7	-1.5
Memoranda:			
Europe and Central Asia	6.9	-2.0	-8.9
Latin America and Caribbean	5.8	-0.6	-6.4
Middle East and N. Africa	6.0	3.0	-3.0
South Asia	8.4	3.7	-4.7
Sub-Saharan Africa	6.0	2.5	-3.5
OECD countries	2.5	-3.0	-5.5

Source: The World Bank; f=forecast

Developments in the region in 2009 will be influenced by China. The slump in global demand will cause China's exports to fall this year, the first decline in decades. Nonetheless, a large monetary and fiscal stimulus should help partly offset the decline in exports and contain the slowdown in growth to 6.5 percent for 2009 as a whole from 9 percent in 2008. With growth below potential, excess capacity is likely to restrain market-based investment and result in downward pressure on prices, following several months of month-on-month declines in the consumer price index. Even so, China will still grow faster than most other countries in the world in 2009, including all countries in developing East Asia. China's contribution to global incremental output has surpassed that of the U.S. since 2007 and is now the largest in the world, underpinning the country's role as a key pole of global growth during the current financial and economic crisis (*Figure 43*). There remains substantial uncertainty about the projected pace of expansion, reflecting concerns that prolonged external weakness will have a sustained negative impact on the export-oriented portion of China's economy, notably manufacturing. There are also concerns that the stimulus package may still be focused on limiting the slowdown in manufacturing at the expense of stimulating development of services such as health and education and encouraging domestic spending on non-tradables (construction, transport, finance, telecommunications, and domestic tourism). Rural spending, in particular, is coming under pressure from a slower increase in rural than urban incomes due to the disinflation led by food prices and the increase in returning migrants to rural areas that are left without employment.

In Malaysia and Thailand, among the region's other middle-income countries, output is projected to contract in 2009 due to a drop in exports and investment. In Malaysia, high and undiversified dependence on exports of electronics, oil and crude palm oil, all of which are falling sharply, coupled with its relatively small domestic market, underpins the projection of real GDP falling by 1 percent in 2009 (*Table 8*). Domestic demand is likely to slow considerably, as a sharp contraction in private investment offsets most of the continued strength in consumption and government investment. In Thailand, a slump in exports, exacerbated by heightened political uncertainty, is set to cause output to contract by twice as much following the slowest expansion in developing East Asia in 2008.

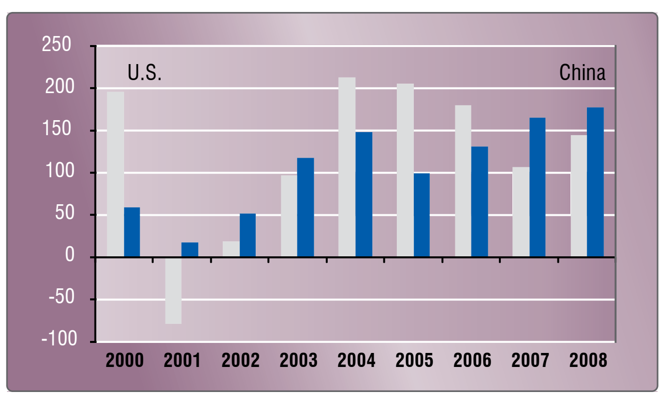
Some of the low-income countries are the hardest hit by the crisis. In Cambodia and Mongolia, the crisis has helped cool economic activity that was overheating in early 2008. The decline in growth in Cambodia from 2007 to 2009, in particular, is projected to be the steepest in developing East Asia. The economy is affected by simultaneous declines in export orders for garments (which account for almost four-fifths of exports, and most of the shipments are to the U.S.), a drop in construction, a collapse in private capital inflows, and a sharp slowdown in tourist arrivals. Credit growth that helped fuel the earlier expansion, including in real estate, has slowed sharply from increases of 100 percent on an annual basis in early 2008. With the government lacking access to international or domestic credit markets, additional fiscal room can only be found in faster utilization of donor commitments and spending rationalization. Nonetheless, the small size of the public sector will limit the impact of fiscal easing on growth. The deceleration in growth in Mongolia has also been swift, as the collapse in commodity export prices exposed an unsustainable fiscal situation with little saving from the commodity boom in 2007/2008 and oversized and untargeted social transfers. Whereas other major commodity exporters let their currencies depreciate as terms of trade deteriorated, the Mongolian authorities defended the currency peg to the U.S. dollar, leading to a substantial loss of foreign exchange reserves that ultimately forced a sharp adjustment. In Vietnam, by contrast, decisive government measures helped slow activity early in 2008, leaving the economy in better shape to face the full force of the financial crisis when it hit in September.

Papua New Guinea and Timor-Leste are among the countries worst affected by the sharp decline in commodity prices. Gold, copper and oil account for 95 percent of PNG exports, leaving the country at the mercy of commodity price volatility. Unlike Mongolia, a country with a similar level of dependence on commodity exports, PNG's authorities prudently saved part of the mineral wealth over the last several years after running sizable fiscal surpluses during 2005-08. However, the savings were placed in LCU-denominated trust accounts creating a potential currency mismatch which limits the scope for using saved funds as it will create pressure on balance of payments. Timor-Leste, on the other hand, has accumulated surplus oil revenues in a petroleum fund, which has provided a substantial buffer to the current downturn in oil prices, and which is being drawn on to finance a significant part of the public investment program.

Looking beyond 2009, scope for faster recovery in the region will be helped by China, but will ultimately depend on the pace of recovery in the advanced economies. Even under the assumption that a pickup in growth in developed countries begins in 2010, a sizable output gap will remain for several years, including high unemployment and weak consumption and imports, sustaining downward pressure on prices for manufactured products. A pickup in 2010, moreover, is likely to be relatively subdued, as consumers in developed countries adjust to lower wealth levels and banks complete the deleveraging process. Prospects for lower global growth compared to the last decade increase the importance of China rebalancing its growth pattern by moving away from reliance on export-led manufacturing, boosting the role of services, and stimulating domestic consumption and, inevitably, imports. The change in China's imports has exceeded that of the U.S. since 2007, proving an impetus to global demand in challenging times (*Figure 44*). Most of the increase in imports is likely to be for raw materials, capital goods and increasingly sophisticated consumer products. Commodity exporters in the region are likely to benefit, as will producers of capital goods (largely limited to companies in the NIEs and the G3 for now). The other countries in East Asia, meanwhile, may benefit only to the extent they shift exports toward more sophisticated consumer products, a tall order in the short term. Exports of electronic and other components to China for assembly and shipment to the G3 are likely to remain slow, even more so given the success of some companies in China of late in reducing reliance

Figure 44. And the change in China's nominal imports exceeded that in the U.S. since 2007, 2000-2008

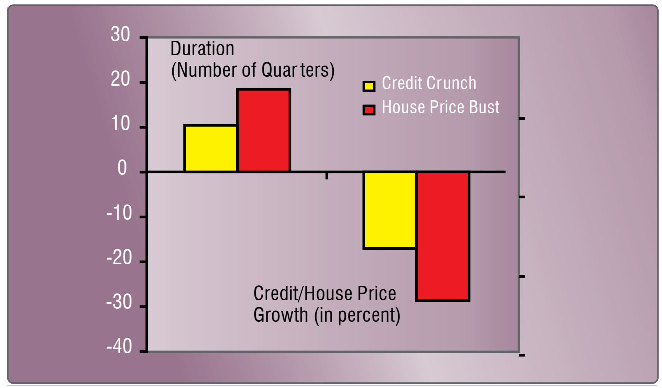
(In billions of U.S. dollars)



Source: Datastream and World Bank calculations.

on imported components for further processing. All in all, a sustained recovery in developing East Asia is likely only once growth in developed countries strengthens sufficiently for global demand to resume.

Figure 45. Recessions with crunches, housing and equity busts last longer



Source: Claessens, C., M.A. Kose, and M. E. Terrones (2008)

Over the medium term, the countries of East Asia and the Pacific can achieve high rates of economic expansion in a slowly growing world economy to the extent to which they are able to extract more growth from domestic demand, boost competitiveness, penetrate new markets, improve the environment for private investment, boost the performance of SMEs, and further improve the attractiveness of the region as a key destination for foreign investment. Convergence toward income levels in the developed countries will depend to an ever greater degree on the ability of firms to move closer to the technological frontier and be driven more by innovation than imitation. Innovative companies need different institutions and policies, including more openness to trade, fewer barriers to entry and exit, enhanced flexibility in labor and product markets, a better educated work force, and better developed private finance. Delivering on these institutions and policies will be an important component of the region's remarkable transformation into an ever more confident source of global growth and development.

In the near to medium term, slower growth and weaker remittances will reduce the pace of poverty reduction in the region. In some countries the absolute number of poor is expected to increase. Disparities across sub-national regions are also likely to worsen, at least in the short term in some countries, given the uneven distribution of economic activity and the sharp decline in manufacturing and mining, and the collapse in commodity prices. As the governments in the region focus on softening the impact of the crisis through mechanisms that often are only partially effective, it is important to heed the renewed urgency of introducing targeted and coherent social protection to ward off future adverse shocks. Strengthening social safety nets is also gaining importance as an instrument to allow households to ease high saving rates and enjoy a higher standard of living without jeopardizing the security of their families.

The projections outlined in this report are surrounded by extreme uncertainty. While recovery from most recessions has been relatively swift, an analysis of previous OECD recessions suggests that when accompanied by a credit crunch, housing crisis, and equity bust, they tend to last twice as long and are deeper than other "normal" recessions (*Figure 45*). Using these rough estimates and the fact that the average recession in the U.S. over the last three decades has lasted about a year, while the 1973 and 1981 recessions lasted a year and a half, there is a substantial risk that recovery in the U.S. – and in the world - may not materialize until late 2010. Further, while investment usually picked up strongly in past recoveries once inventories were exhausted, recovery from the current global recession may be more subdued due to the substantial destruction of wealth and ongoing deleveraging in financial systems around the world. Continued problems in commercial banks or even renewed financial market tensions could delay recovery further and lead to another year of stagnating or even contracting global growth. Finally, even when recovery begins, the pace of pickup is more likely to be subdued, as global imbalances are gradually resolved.

The April G20 Summit in London has reconfirmed the importance of speedy resolution of the financial crisis to break the negative feedback loop between financial tensions and economic activity, and stressed yet again the need for improved policy coordination and consultation across countries. Countries in East Asia are contributing substantially to the global solution of the crisis, while facing increasing challenges of sustaining critical expenditures on social safety nets, human developments and important infrastructure. Enhanced regional cooperation should help, including through reaffirming the importance of free trade and regular sharing of information and consultation on key policy changes. The G20 has also underlined the need to expand assistance to developing countries to prevent erosion of progress in reducing poverty. Protecting the poor and those vulnerable to falling into poverty will help ensure that unemployment and partial employment do not spill into social tensions that test social cohesion.

COUNTRY SECTIONS

LARGER ECONOMIES

CHINA

China's real economy has been hit hard by the global crisis, but has been holding up. Indeed, China has fared better than many other countries because it does not rely on external financing, its banks have been largely unscathed by the international financial turmoil and it has the fiscal and macroeconomic space to implement forceful stimulus measures. Indeed, the authorities have used the space and shifted to easing monetary policy in the fall of 2008 and introduced a RMB4 trillion stimulus package (equivalent to $587 billion) in early November. Government spending was increased starting in November, leveraged by increased bank lending, initially for infrastructure projects and of late for both companies and households.

As the global crisis has intensified, however, China's exports have declined sharply, and this is affecting market-based investment and sentiment. As the impact of the crisis deepened in the U.S., Europe and Japan and started to hit demand in many emerging markets, China's exports fell sharply in November with the decline accelerating to 21 percent year-on-year in dollar terms. Real estate investment continues to weaken in response to depressed housing sales, despite recent measures to boost the property market. Other market-based investment has also decelerated, notably in manufacturing, held back by subdued exports and profits and the emergence of spare capacity. In all, quarter on quarter GDP growth declined steadily throughout 2008, falling to 2.5 percent in seasonally adjusted annualized terms in the fourth quarter to a level 6.8 percent higher from a year earlier.

Slower growth has resulted in reduced employment. The official urban unemployment rate rose by 0.2 percentage points to 4.2 percent in the year to the fourth quarter of 2008. However, with large sections of the working population (including migrants) not eligible to register as unemployed, registered unemployment captures only a small part of the pressure. According to a survey held by the Ministry of Agriculture, 20 million workers (15 percent of the total) lost their job before the Chinese new year festival. The Ministry of Human Resources and Social Security estimates that of the 70 million rural migrant workers who returned home for the Spring Festival, about 80 percent (56 million) came back to urban areas. Of this group, about 11 million had not yet found a job in early March.[1]

Looking ahead, the continued global crisis is bound to contain China's growth in 2009 and 2010, especially via weaker exports and market-based investment. The forceful stimulus policies will help dampen the downturn. Indeed, government-influenced investment is accelerating. Moreover, banks are in a position to lend, after having deleveraged in recent years. And private consumption should continue to grow, although rural consumption is likely to lag. However, China cannot escape the external weakness. In light of the very weak external outlook, we expect China's exports to shrink in 2009. Although government influenced activity will support growth, it makes up a modest share of the total and will not (and probably should not) offset fully the downward pressures on market-based activity.

Overall, thanks to the substantial policy stimulus, China's economy should continue to grow significantly in a very challenging external environment. In all, we project GDP growth of 6.5 percent in 2009. In our scenario, government-influenced direct expenditures would contribute 4.9 percentage points to GDP growth, three-fourth of the total. Two-thirds of the government contribution will come from government-influenced investment and the rest from direct government consumption. There are both

1 China's labor market data is very weak, so it is difficult to have a good picture of overall trends. This led the government to initiate more additional, comprehensive labor market surveys this year.

downside and upside risks to this GDP growth projection. Projected real GDP growth is significantly below potential, and spare capacity is likely to lead to weaker market-based investment, lower job growth and migration, and downward pressure on prices. Indeed, inflation is likely to be very low in 2009. We also expect to see redirection of exports to the domestic market, and import substitution in the coming years.

China's economic fundamentals are strong enough to allow policymakers to consider policies that will affect the economy well beyond 2009. So far, the policy response to the downturn has emphasized stimulating investment to help achieve the economic growth targets. This was a sound response, since it provided rapid support for activity and sentiment at a very difficult moment for the global economy. Looking ahead, less focus on targeting short term GDP growth would allow for more emphasis on the rebalancing and reform agenda.

There are useful synergies between China's short- and medium-term policy objectives. The subdued prospects for the global economy—and thus for exports—increase the importance of boosting domestic demand and domestic consumption, which is also key for rebalancing. Thus, recent initiatives to stimulate consumption and improve people's livelihood by expanding the government's role and spending on health, education, and social safety are very welcome, and there is room to do more.

Subdued inflation prospects imply space for continued expansionary monetary policy. Deflation is a risk, but in China the government has some tools to fight it. Given the prospects of continued large current account surpluses, policymakers do not need to worry about a somewhat reduced pace of capital inflows or even some net outflows.

INDONESIA

Indonesia's slowdown has come relatively later and has so far been more moderate than for many countries. Real GDP growth in the fourth quarter slowed to 5.2 percent year-on-year from 6.4 percent in the third quarter. For 2008 as a whole the Indonesian economy expanded by 6.1 percent, only slightly below the 6.3 percent pace registered in 2007. Nevertheless, the slowdown late in the year was broad-based as weakness spread to private consumption, exports and investment, with only declining imports and expanding government spending providing some offset. A notable outlier was the increase in agricultural production to 4.8 percent, the highest growth since 1992. Agriculture now accounts for 14.4 percent of total output and provide most or all of the support for 42 percent of households.

Indonesian financial markets have followed the ups and downs of recent global trends. After being severely affected in October and early November, they strengthened with renewed global confidence from late November, before weakening again in mid-January as market participants' perceptions of the global situation deteriorated. More recently, Indonesian markets have strengthened again in response to policy shifts in the major economies, and Indonesian moves to shore up financing that included contingent financing for the budget from development partners and swap agreements with Japan and China. After settling at around Rp11,000 per dollar in December, the rupiah depreciated gradually to well over Rp12,000, before recovering again recently. By the end of the year Indonesian government bond yields had recovered much of their October and November losses (when, for example, yields on five-year government bonds denominated in rupiah rose to more than 20 percent), but then retreated again in line with renewed global risk aversion. They have been recovering again recently and five-year yields now stand at 11.3 percent. Front loading its financing needs, Indonesia issued $2 billion in ten-year bonds and $ billion in 5 year bonds in February.

Although Indonesia's direct exposure to troubled American- and European-domiciled banks is limited, Indonesian bankers are becoming more conservative in line with tightening in global financial conditions. Far fewer new loans are being approved, and anecdotal reports suggest that new customers are having difficulty accessing credit. While interbank lending has been improving since November and there is sufficient overall rupiah liquidity in the system, it is not well distributed with larger banks typically liquid and smaller banks facing problems. Nevertheless banking sector indicators continue to be relatively good.

After several years of strong and sustained growth lifted by rising commodity prices, the global downturn hit Indonesia's trade flows in late 2008. Indonesia's exports rose 20 percent in 2008 to $136 billion. But the fall in commodity prices and to a lesser extent the decline in global demand had the anticipated impact on exports in the last quarter of 2008. By January, export values had dropped by 36.1 percent (year-on-year), the largest monthly fall in a decade. The dramatic decline in oil prices and associated falls in other commodity prices drove much of this drop in value. According to the national accounts statistics, real exports were up only 1.8 percent from a year earlier in the fourth quarter. Imports are closely linked to exports and have been falling rapidly as well. Real imports were down 11.7 percent from a year before.

In response to weaker foreign demand and lower commodity prices, firms have begun reducing investment and laying off workers, although the pace of labor shedding has been slow so far. Employers in the formal sector have reported around 30,000 permanent redundancies out of a formal sector workforce of about 36 million by early 2009 (total labor force is 105 million), although newspaper reports suggest the number may be above 200,000, including contract workers.

Inflation has slowed sharply with the fall in commodity prices. Reductions in international prices are passing into domestic and regulated prices (as fuel prices have been adjusted downward). Consumer prices have stabilized, with an average monthly increase of just 0.1 percent from November to February, reducing 12-month inflation to 8.6 percent from its peak of more than 12 percent in September. Inflation has dropped more for poorer households whose consumption basket has a greater weight in food. Consumer inflation expectations are now at their lowest level since early 2005, when actual inflation was running close to 5 percent. Lower inflation and the deteriorating global economy have prompted the central bank to lower its policy rate by 125 basis points in the last three months.

Indonesia's external position remains sound, though weaker than 2007. Developments in global commodity and financial markets buffeted Indonesia's balance of payments throughout 2008. While the current account ended in a small surplus of $600 million portfolio outflows at the end of the year moved the overall into deficit at $1.9 billion, the first since 2001. After declining by close to $10 billion in September and October foreign reserves have subsequently been relatively stable rising slowly from $50 billion to $54 billion in mid-March, equivalent to about 4 months of imports and official debt repayments.

Indonesia's government is well-positioned to respond to the downturn. In 2008 the fiscal deficit was just 0.1 percent of GDP, compared with 2.1 percent projected under the 2008 budget earlier in the year when international oil prices and Indonesia's energy subsidies peaked. Revenues were 9.6 percent above budgeted levels, due to high commodity prices and improvements in tax office administration while underspending continued as in recent years. Despite the depreciation of the rupiah, government debt continued to decline relative to GDP, reaching 33 percent by year-end.

In anticipation of declining revenues and the need for fiscal stimulus, parliament approved a revised 2009 budget with a 2.5 percent deficit target including a stimulus equivalent to 1.5 percent of GDP. The revised budget seeks to stimulate demand, expanding government spending on infrastructure, and lowering taxes for specific sectors, in addition to the already-programmed reductions in taxes. This stimulus will add to the government's financing needs in 2009, which the government plans to meet by drawing government deposits and by raising $12.5 billion in external and domestic markets. By mid-March the government raised nearly half this amount.

The global downturn, lower global commodity prices, and tighter global financing will continue to slow Indonesian growth. The sharp downturn in the global economy combined with the fall in commodity prices imply lower external demand and reduced incomes in exposed sectors and regions. Tightening domestic credit conditions and greater uncertainty about the global outlook are reducing investment and purchases of consumer durables. Together these factors are expected to slow growth to 3.4 percent in 2009, before a gradually recovering global economy in 2010 pushes growth back into the 5 percent range. The crisis is expected to put pressure on poverty but some protection is provided by lower food prices, strong growth in agriculture and government programs including cash transfers and a program of community block grants that reaches national scale in 2009. Continued employment and income losses risk reversing these gains in 2010, although the Government is to be commended for its efforts to put in place a crisis monitoring and response system.

MALAYSIA

The economy started to lose steam late 2008. For the year as whole, growth slowed from 6.3 percent in 2007 to 4.6 percent in 2008. This slowdown is primarily attributed to growth grinding to a halt in the last quarter of 2008 (0.1 percent year-on-year) due primarily to a drop in external demand and private capital formation. Business sentiment has deteriorated sharply, and consumer confidence has started to weaken due to rising job insecurity, falling equity prices, and less supportive oil and rubber prices.

With the export-oriented manufacturing sector set for a rough ride, an economy-wide contraction seems inevitable. The manufacturing sector contracted 8.8 percent in the last quarter of 2008, and worse is likely to come as exports fell 7.5 percent during the last quarter of 2008 and a larger still 28 percent in January, the largest drop in decades. Malaysian exports are relatively undiversified in terms of products and markets. The key electronic and electrical goods industry is leading the contraction. The impact on external demand is mitigated by the fact that exports have high import content. Even so, with exports expected to fall more sharply than imports, the poor outlook for the world economy will drag the open Malaysian economy into contraction.

Real GDP is projected to decline 1 percent in 2009, with risks tilted to the downside. Growth in domestic demand is likely to suffer a pronounced slowdown, even if it may not enter negative territory (from an increase of 6.9 percent in 2008 to 0.5 percent in 2009). This is thanks to the relative resilience of private consumption and the government's stimulus packages. Private capital formation, however, is expected to take a hard hit. With global conditions unlikely to improve, external demand is expected to face an intensified contraction (from -3.8 percent in 2008 to -21.8 percent in 2009). The outlook beyond 2009 remains highly uncertain. A gradual recovery is expected for 2010, but this remains subject to a large degree of uncertainty.

Against this backdrop, labor market conditions may weaken considerably. So far, though, the impact has been relatively muted. Retrenchments have been on the increase, but not yet on a very large scale. Companies are also cutting labor costs in other ways, including by reducing working hours. Still, several factories, particularly in the electronics sector, have had to close or reduce operations substantially. Sizeable job losses are also observed in trade, hotels and restaurants, and in the financial services sectors. The unemployment rate was at 3.7 percent in 2008 but could well rise to over 5 percent in 2009. This increase in unemployment would be larger that the one observed during the Asian financial crisis.

External balances have remained comfortable thus far. The current account balance rose from 15.6 percent of GDP in 2007 to 17.4 percent in 2008. The trade balance remained in surplus as imports dropped more heavily, particularly for intermediate goods which accounted for 70 percent of all imports. For 2009, a lower trade surplus is likely to materialize, causing the current account balance to decrease to 15.1 percent. Large net outflows of portfolio and direct investments occurred in 2008. Where FDI inflows were reasonably high in 2008, this is unlikely to be the case for 2009. Further portfolio outflows are also possible. International reserves are currently at about $91 billion (or about four times short-term external debt), which is nearly 30 percent lower than the peak in June 2008. The ringgit has depreciated continuously over the past 12 months. The current level (RM 3.64 per U.S. dollar) is 15 percent weaker than that in April 2008.

The aggregate picture for the financial sector remains one of strength. Banks are sound and have the capacity and liquidity to support private sector borrowing. The system's capitalization is adequate, with the risk-weighted capital ratio at 12.6 percent. Asset quality improved over 2008, with the non-performing loan ratio at 2.2 percent in January. NPLs did however rise over the last quarter of 2008, especially in the manufacturing and household sectors. This trend, if continued, could lead to isolated pockets of vulnerability. Key in this regard will be the evolution of export orders, farm incomes, and labor market conditions. Asset quality problems related to troubled financial institutions in mature markets are unlikely, as exposures have been limited.

The pace of poverty reduction is likely to slow. During the last crisis episode, poverty incidence rose from 6.1 percent in 1997 to 8.5 percent in 1999. National poverty has since declined to 3.6 percent in 2007 but is more severe in rural areas (7.1 percent). During the current episode, a combination of job losses, shorter working hours, and lower wages in the production and services sectors could raise urban poverty. For many rural, net-producer households who benefited from agricultural prices hike in 2008, such windfall will disappear if palm oil and rubber prices fall as expected. Rural households that rely on remittances from family members working in the urban areas will also be adversely affected. Meanwhile, month-on-month changes in the CPI food items indicate that food prices have continued to rise over the past several months, as opposed to the overall CPI. This disproportionately hurts low-income groups as food items account for a higher share of their expenditures. Inflation has also been higher in Sabah and Sarawak, where poverty incidence is greater.

Facilitated by a decline in inflation and against a background of weakening activity, monetary policy has been eased. The central bank cut its key policy rate from 3.5 percent in November in three steps to 2 percent and reduced required reserves from 4 percent of deposits to 1 percent. Twelve-month inflation fell to 3.7 percent in February 2009 from a peak of 8.5 percent in mid-2008. Easier policy is not fully reflected into easier financial conditions, however, with commercial banks limiting cuts in lending rates. Banks have also taken a more cautious approach towards extending credit. The scope for further cuts in the policy rate is limited as the central bank has indicated that a near-zero policy rate policy is undesirable.

Two fiscal stimulus packages have been announced. Since Malaysia cannot export its way out of the recession and the scope for monetary policy easing is limited, the main burden has been on fiscal policy. The authorities announced a first stimulus package in November 2008 (RM7 billion or 1 percent of GDP) and a second one in March 2009 (RM60 billion or 9 percent of GDP). The second package is spread over two years and includes spending measures (RM15 billion), guarantee funds (RM25 billion), equity investments (RM10 billion), private finance and off-budget initiatives (RM7 billion) and tax incentives (RM3 billion). The direct fiscal injection implied by the package is estimated at about 3.5 percent of GDP over two years, and consists of about 80 percent of spending measures (mostly investment expenditure) and 20 percent tax cuts.

The effectiveness of the fiscal stimulus depends on a number of factors. One factor is the extent to which the direct impact of the fiscal incentives is translated and multiplied into aggregate economic activity. Key here is the propensity of recipients to consume or invest in the case of households and nonfinancial corporations and to lend in the case of financial corporations. A second factor is the rate and speed of disbursement. The government estimates that 75 percent of the total amount of the first package will be disbursed by June 2009 or 7 months since its launch. Given that the second package is much larger and entails a wider range of initiatives, there is a risk that the rate and speed of disbursement could be lower.

Fiscal discipline and consolidation are crucial to medium-term growth. The government's stimulus packages, if implemented in full, will result in the fiscal deficit rising from 4.8 percent of GDP in 2008 to 7.6 percent in 2009, substantially higher than the deficits recorded in the last several years. The deficit could be higher still if revenues decline by more than projected.

PHILIPPINES

Economic growth slowed markedly in 2008 following years of sustained expansion. The boom years, however, were disturbed by a series of major external shocks, including the food and fuel price shocks, the global financial crisis and the global recession. The food and fuel price shocks caused inflation to rise to a decade-high, squeezing household income and bringing significant hardship to the poor. Then the global financial crisis led to a collapse in domestic asset prices and a disruption of credit markets, bringing corporate and financial sector earnings down and public investments on hold. Finally, the global recession is taking its toll on the real sector as exports and remittances fall relative to GDP, and unemployment and underemployment rise. As a result, growth in 2008 slowed to 4.6 percent from a record high of 7.2 percent in 2007. Despite these shocks, confidence in the country has remained strong with Moody's and Standard and Poor's both maintaining their positive outlook for the Philippines citing its strong macroeconomic position.

Inflation reached a decade high of 9.3 percent in 2008 largely due to the rapid increase in food prices and to a lesser extent fuel prices. Rice inflation accelerated and peaked at 50 percent in July 2008. Core inflation has fallen since November as inflationary pressures started to recede more sharply after the financial crisis entered a more tumultuous phase in September. However, month-on-month headline inflation once more increased in February. Notwithstanding the latest price developments, monetary policy has remained accommodative, allowing a total of 125 basis points cut in policy rates since December.

The country's external position sharply weakened in 2008 due to a sharp drop in exports, elevated import bill, slowing remittances, and retreating capital. In the first half of 2008, strong remittances, moderate growth in exports and imports, and net capital inflow enabled the country to accumulate a balance of payment surplus of US$1.9 billion. However, this was quickly eroded in the second half of 2008 by the rising import bill, moderating inflow of remittances, rising capital outflow, and in recent months, plummeting exports. By year end, the balance of payment position fell to US$89 million—the lowest in four years.

The domestic financial market has remained volatile since September 2008 with lingering risk aversion and weak investment appetite. Equity prices fell by another 2 percent this year following the 49 percent decline in 2008 with the massive sell-off of foreign equity holdings equivalent to about $1 billion. Borrowing spreads, which had fallen below 200 basis points in 2007, jumped to over 800 basis points in October before improving to 500 basis points by the end of 2008. After appreciating strongly in 2007, the peso weakened about 14 percent against the dollar in 2008 and a further 2 percent in 2009. The negative wealth effect of the collapse in asset prices should however be contained as less than 2 percent of the population is estimated to have investments in equities, fixed-income and other instruments.

Overall, quoted companies have also weathered the global economic and financial shocks well to date. In the first three quarters of 2008, total net earnings of companies listed on the Philippine Stock Exchange fell by 20 percent to P163 billion. Holding firms, financial institutions and services firms suffered the biggest drop in profits (42, 37, and 27 percent respectively). The drop in total earnings stems partly from foreign exchange transactions and hedging losses. Pre-payment of debt in the last three years, however, has served to limit the impact of currency volatility in some firms. Corporations have also deleveraged considerably—with average debt/equity ratios of around 0.5. For the banking sector, significant impairment provisions and mark-to-market losses have weighed earnings down by about 36 percent through September. The impact would have been bigger had the central bank not allowed a change in accounting rules to enable banks to avoid further mark-to-market losses on their significant amount of bond holdings. Moody's recently changed their Philippine banking sector outlook to negative, citing expectations of lower banking earnings and worsening balance sheets in the future. Nonetheless, the financial sector remains financially sound with a capital adequacy ratio higher than required.

A few sectors of the economy are however facing a particularly challenging environment. Export-oriented firms, especially semi-conductor manufacturers, have reported large losses in revenues due to the collapse in global demand. Semiconductors and other electronics manufacturers such as automotive parts which account for 60 percent of total exports have seen demand fall by as much as 60 percent in recent months. Other export industries reporting a sharp downturn in activity include the labor-intensive garments, furniture, footwear, and handicraft industries. The agribusiness and mining sectors have also been affected with the fall in commodity prices, while the property sector is exhibiting early signs of impending localized stress.

The economic slowdown is already taking its toll on the labor market, albeit the impact will be felt with a lag. The unemployment rate increased to 7.7 percent in January from 7.4 percent a year ago, with employment of less skilled workers being disproportionately affected. Along with the slump in exports, the manufacturing sector continued to shed jobs, posting about 120,000 job losses through January. Labor absorption in the transportation, communications and financial sector has also declined but to a lesser extent. The government reported that as of March 2009 there were about 45,000 job losses from Filipino overseas workers and electronic industry workers while more than 30,000 workers were affected by forced leave, reduced work-hours and other cost-cutting measures implemented by companies.

To stimulate the economy, the government has postponed its medium-term balanced budget goal to 2011 and announced an Economic Resiliency Plan (ERP). Despite the ambitious size of the ERP (4.1 percent of GDP), the actual impact of the plan in 2009 is estimated to be limited. A rapidly deteriorating tax effort is a key concern to undertaking a credible and controlled fiscal easing in 2009. While the draft 2009 budget envisages an overall deficit of 3 percent of GDP on a GFS basis, revenue shortfall could undermine the government's spending plans aimed at protecting its poor and vulnerable citizens and boosting medium-term growth prospects.

Growth in 2009 would likely slow to 1.9 percent. A key downside risk lies on how vulnerable remittance inflows are to the global recession. Domestic demand, boosted to a large extent by strong remittances since 2001, has been the most important growth driver for the economy.

THAILAND

Real GDP growth slowed to 2.6 percent in 2008 from 4.9 percent in 2007. In the first three quarters of 2008, output grew 5.1 percent year-on-year thanks to robust exports and investment. Starting in October, however, the sharp decline in global demand, amplified by the domestic political crisis took a toll on growth and real GDP contracted 4.3 percent year-on-year in the fourth quarter. While Thailand's financial sector was mostly insulated from the financial crisis, the real sector was impacted quickly, and export volumes contracted in October for the first time in six and a half years. Political unrest and the shutdown of the two airports in Bangkok in late November severely affected tourism and consumer confidence.

Real GDP is projected to contract by 2.7 percent in 2009, as the global outlook remains negative and external demand continues to contract. The fiscal stimulus and monetary expansion implemented by the authorities are likely to partially mitigate the impact of the slowdown, allowing growth to resume in the fourth quarter of 2009 assuming a better outlook for the global economy in 2010. However, significant downside risks remain should political instability resurface and the global decline proved more protracted or steeper than now expected

Inflation has been easing with the slowdown in economic activity and the decline in oil and food prices. After peaking at 9.3 percent in July 2008, 12-month inflation fell to only 0.4 percent in December, although the average for 2009 at 5.5 percent was roughly double the level in 2007. Core inflation averaged 2.3 percent in 2008, within the central bank's target of 0-3.5 percent. In January and February, prices declined 0.3 percent from the first two months of 2008, but this has been driven primarily by fuel prices, with other prices still increasing year-on-year. Given the increased excess capacity in the economy and the continuing decline in global oil and food prices this year, inflation in 2009 is expected to be negligible.

Export volumes are projected to contract 16 percent in 2009 after a 6 percent expansion in 2008. Exports of services, more than half of which were accounted for by tourism receipts (around 8 percent of GDP) will also be heavily impacted by the slowdown in arrivals from advanced countries (40 percent of total tourists). Accordingly, exports of services are projected to contract by 6.6 percent this year. Import volumes should contract more than exports due to businesses running down inventories and a contraction in overall investment and consumption of imports. Net foreign demand will nevertheless contribute negatively to growth since in real terms exports represent a much larger share of GDP than imports.

Private investment has been subdued in the past three years due to uncertainty about the political situation. In 2006-2008, investment grew by an average of 2.7 percent a year (compared with real GDP growth of 4.3 percent on average), down from 14.8 percent during 2003-2005. This earlier retrenchment of investment has dampened the impact of the financial crisis, most notably on foreign direct investment (FDI). While little new FDI is expected, there has been no rush to exit from foreign investors. Growth of private investment in 2008 came mainly from Thai investors, as gross FDI inflows declined from 2007 levels. Private investment is expected to contract 5 percent in 2009 as capacity utilization remains low (around 50 percent). However, growth could resume in the fourth quarter on the back of increased public investment.

Public investment has been sluggish since the 1998 crisis, but is expected to increase in 2009 given increased political stability and the political imperative to respond to the slowdown in the export sector. The share of public investment in real GDP averaged only 5.7 percent during 2004-2008 compared more than 10 percent before the 1998 crisis. In 2008, public investment contracted by nearly 5 percent as a result of political uncertainties, which delayed investment decisions. Public investment is projected to grow at 7 percent in 2009 as the implementation of large infrastructure projects step up.

Fiscal policy has become expansionary to mitigate the impacts of the crisis. The government is implementing two sets of stimulus measures, one of 1.5 percent of GDP targeted at FY09 (announced in January) and a recently-announced plan for FY10-12 (fiscal years run October-September) that anticipates deficits as high as 5 percent of GDP. As a consequence, government consumption is expected to increase by nearly 10 percent in 2009.

The current account registered a small deficit in 2008, and is expected to turn to a surplus starting in 2009 supported by a steep decline both the price and volume of imports – especially fuel. The small deficit registered in 2008 was mostly due to the increase in imports and reduced exports and service receipts in the second half of the year. The financial account is expected to register modest net outflows in 2009 as portfolio investments continue to show outflows, while FDI net inflows will continue to be positive, but at a lower level compared to the past few years. After falling from $117 billion in March, foreign exchange reserves have increased since September, reaching $111 billion at the end of 2008, equivalent to 8 months of imports and 4.7 times short-term external debt.

External debt is low at around US$65 billion or 25 percent of GDP. About 38 percent of the external debt is short-term, but trade credits – which increased with commodity prices – represent more than half of private short-term debt, while another 20 percent are intercompany loans. Public external debt (primarily owed by state-owned enterprises) comprises 20 percent of total external debt and less than one percent is short-term. External debt service ratios are manageable at 5.4 percent of exports overall. Total external debt was under 60 percent of international reserves at the end of 2008.

The Thai financial sector is basically sound and has been largely insulated from the immediate impact of the global financial crisis, but increasing pressure from the slowdown on companies will be passed to banks. The average capital adequacy ratio amounted to about 14 percent at end-2008. Net NPLs declined during 2008 to 2.9 percent of total assets. While this trend is set to reverse during 2009, banks appear to have enough room, at least in the short-term, to cope with higher NPLs. There is adequate liquidity in the domestic banking system, but banks have become more cautious given that credit quality is expected to deteriorate. Credit expanded by 9 percent in 2008, initially due to higher demand for working capital, then as a consequence of large domestic firms switching from foreign to domestic borrowing. Credit growth slowed in January, and the ratio of loan to deposit decreased to 86 from 90 percent, suggesting some room for future loan growth.

Expansionary monetary policy has been employed to help mitigate the impact of the global financial crisis and is starting to be reflected in the financial sector's lending rates. As inflation rose rapidly in the first half of the year, the central bank hiked its policy rate by 50 basis points to 3.75 percent. The decline in inflation facilitated cuts to 2.75 percent in December and 1.5 percent in late February.

Market indicators confirm Thailand's relatively strong financial position. Large foreign exchange reserves, smaller gross financing requirements on both the fiscal and external side, and ample domestic liquidity are among the key strengths in the current crisis. Despite the political turmoil late last year, CDS spreads have risen by about 100 bps less than some other East Asian countries since the onset of the global financial crisis in mid-September.

VIETNAM

Against the odds, Vietnam had a decent year in 2008. It suffered from two major shocks. The first was the overheating domestic economy starting in late 2007 due to massive capital inflows which led to inflation acceleration, asset price bubbles and a larger trade deficit. The second was the global slowdown starting in late 2008, including the tightening of credit markets, the plunge in commodity prices, and decline in world trade. The authorities were determined in their policy responses: by March 2008, government priorities shifted from growth to stabilization. In November 2008, they shifted again to supporting economic activity. For 2009 as a whole, growth is projected to slow to 5.5 percent.

The year 2008 witnessed some positive policy developments. The authorities were not experienced in managing the volatility stemming from the increased openness of the economy to the rest of the world. However, they climbed quickly the steep learning curve and did well in managing the economy. There was growing awareness of the importance of having a technically strong central bank. They showed their ability to prioritize, postpone or cancel public investment projects. There was also a clear recognition of the risks posed by large state-owned enterprises creating or controlling financial intermediaries, and new willingness to reconsider the governance, oversight and investments of economic groups and state corporations.

There is low risk of a financial sector crisis in Vietnam. The direct impact of the global financial crisis on Vietnam is minimal, as banks in Vietnam were not exposed to "toxic" products, nor owned to a large extent by exposed foreign banks. Concerns regarding domestic problems stemming from reckless lending for real estate in late 2007-early 2008 are receding. Most of the loans issued during the asset price bubble have come to maturity, without boosting unduly the NPL ratio. The larger joint-stock banks increased shareholder capital, retained earnings and improved provisioning. State-owned banks were restrained in their lending and made large profits by buying bonds sold by foreigners. Even the smaller and weaker joint stock banks managed to increase their capital to the new legal minimum.

The risk of a balance-of-payment crisis is also low. The trade deficit during the last six months was around $2.2 billion, while inflows of FDI, ODA and remittances in 2008 amounted to $16 billion. Remittances and FDI disbursements held well during 2008. There is speculation about a dramatic slowdown in FDI disbursements going into 2009, but there is no evidence yet to support them. Remittances are not so much associated with migrant workers sending money to support the consumption of their families as they are with aging overseas Vietnamese investing in Vietnam for their retirement. This gives them some structural stability. The Vietnamese overseas community may suffer from the slowdown in industrial countries.

The trade deficit declined and recently shifted to a small surplus. It is true that the exports are declining, with a sharp decline in the price of exported commodities since mid-2008 and a drop in orders for garments, footwear and other products in late 2008 suggests that the downward trend will continue. But Vietnam may suffer less than other countries because it remains competitive, as demonstrated in its growing market shares. In 2009, it may be granted the Generalized System of Preferences by the U.S. In addition, imports are declining even more rapidly than exports, partly because the import content of non-commodity related exports are high. Foreign-invested enterprises are large net importers, so the slowdown in FDI inflows will translate into smaller trade deficit.

The smaller trade deficit projected for 2009 and short-term capital flows could reduce volatility in the exchange rate. There was very substantial real appreciation of the dong in 2008 which at 25 percent exceeded real GDP growth fourfold. It does not necessarily follow that substantial real depreciation will take place in 2009, but the authorities are gradually moving towards a more flexible regime.

Inflation slowed dramatically during the second half of 2008. The trend was partly driven by lower food and fuel prices in international markets, but it started earlier as a result of the determined stabilization program. However, the last two months have seen inflation inching up again. This is in part due to seasonal factors but may also reflect the rapid loosening of monetary policy.

Monetary policy has been well-timed to offset the shocks stemming from fluctuations in world prices and exports demand, although it may be due more to luck, than by design. Increased exchange rate flexibility and slower capital inflows during 2008 have made monetary policy more effective. The authorities are willing to use this tool; they have cut policy rates since June 2008 by 700 basis points to 7 percent in March 2009.

In 2009, fiscal policy will take a more prominent role. On the surface, the fiscal stance did not change in 2008. However, real GDP growth was lower in 2008 than in 2007, and the underlying trend appears toward some fiscal tightening. The Vietnamese economy faces insufficient demand in global markets, which is bound to translate into insufficient demand in domestic markets through plant closures and job losses. Cheap bank credit and loan guarantees can offset the fall in demand due to drying up of trade finance. But cheap bank credit will not encourage firms to produce if they do not have demand for their products. It would be more effective to support demand directly through transfers to households and public investment projects. Construction is the sector with the highest potential to offset the decline in manufacturing. The state budget for 2009 foresees a large fiscal deficit, consistent with an overall deficit of 7 percent of GDP. (In the past, however, outcomes have been lower than budgeted, and this may be the case this year as well.) The authorities have also announced a fiscal stimulus package consisting of a one-time cash handout to poor households, increased infrastructure spending, tax cuts, interest subsidies for working capital credits, and a credit guarantee for loans to small- and medium-size enterprises.

SMALLER ECONOMIES

CAMBODIA

Reflecting its exposure to the global economic turmoil, Cambodia's economy is expected to contract by 1 percent in 2009 after slowing to 5.5 percent in 2008 following a period of sustained high growth. Net exports will slow with overall global trade volumes, as well as through market share losses in Cambodia's main export market (the US garment market). This would however be offset by lower prices of petroleum products, leading the trade balance to improve in 2009 from its deficit of 20 percent of GDP in 2008. Household consumption will slow as a result of lower real incomes and reduced wage employment. Private investment, which was very dependent on foreign direct investment (FDI), is slowing as well, with inflows of FDI down from 10 percent in 2007 to 7 percent in 2008 and a projected 3 percent in 2009. Business registration has already fallen 4 percent in 2008 after a good start early in the year. Tight credit conditions will add further strain to private investment. Only public consumption and investment, and segments of the informal economy, are expected to offset somewhat the impact of the global environment.

Agriculture has continued to sustain growth and should provide a well-needed safety net. Among the four key sectoral sources of growth, agriculture is the only sector sustaining growth, with further progress in rice yields in 2008. It largely provides food security and a degree of safety net to the country. However, the sector remains vulnerable to climatic uncertainties and lower prices of various commodities (e.g. cassava and rubber) constrain further growth. Growth in garment exports has shifted from double digit expansions in earlier years to a 6 percent decline in February 2009. The number of tourists arriving in Cambodia in the first two months of 2009 was 2 percent below that of 2008 (which was 18 percent above the first two months of 2007), with occupancy rates in major hotels well below 40 percent. Construction and real estate have also weakened considerably. For instance, imports of construction materials during the last quarter of 2008 fell 7 percent from a year earlier.

The current account deficit reached a peak in 2008. Driven by strong consumption and high prices of petroleum products, the current account deficit nearly doubled to 15 percent of GDP. Projections call for the deficit to decline to 8 percent in 2009, thanks to lower prices of imported oil and reduced import volumes. Official development assistance would remain high throughout 2009, as pledged at the December 2008 Cambodia Development Cooperation Forum. With lower levels of FDI, gross foreign reserves, which reached $2.2 billion at the end of 2008 (3.4 months of import cover), would decrease slightly though still covering 3 months of imports by the end of 2009. The central bank continues to keep the exchange rate stabled against the dollar, resulting in significant real appreciation that has not been helpful against other garment exporters.

Cambodia was hit by high consumer price inflation in 2008. Twelve-month inflation reached 26 percent in May 2008 pushed by higher prices for food and oil, before slowing to 13.5 percent in December. Consumer price inflation is projected to ease further to below 5 percent on average in 2009.

Monetary conditions were adjusted in recent months to reflect the economic environment. After doubling reserve requirements in July 2008 in response to very rapid growth in credit to the private sector, the central bank has eased monetary policy early 2009. Despite this adjustment, credit to the private sector has stopped growing since October 2008. Broad money rose 63 percent year-on-year in December 2007 at its peak, but increases have shifted to a 4 percent decline in February 2009.

The banking sector has so far been resilient, but will face the stress of a sharp slowdown in growth. Performance indicators are strong, with a very profitable banking sector and low non-performing loans ratios (around 3-4 percent at end of 2008). However, the banking sector has developed very rapidly, from a very low base in 2005, and liquidities have become more constrained toward the second half of 2008 (the loan-deposit ratio has increased from 63 percent at the end of 2008 to 94 percent at the end of 2008). In parallel, the capacity of the NBC for supervision is further stretched by the number of licensed banks increasing from 24 at the end of 2007 to 30 in December 2008.

The fiscal stance is being loosened in 2009 after tightening last year. Revenues rose to 12.1 percent of GDP in 2008, but are projected to slow to 11.1 percent in 2009, reflecting the sharp slowdown in economic growth. Already in January, revenues were 7 percent lower than a year earlier. Expenditures amounted to 14.2 percent of GDP in 2008 and are projected to rise to almost 16 percent in 2009. Hence, in response to the fluctuations in the economic situation, the fiscal deficit is set to rise to 4.8 percent in 2009 from 2.2 percent in 2008. As in the past, the deficit would be fully financed by external assistance.

Since the downturn is largely driven by the external environment, the recovery is highly conditional on a pickup in growth abroad. Forecasts for 2010 are therefore highly uncertain, but could be in the 0-4 percent range if external demand is supportive. A lengthy contraction will deepen concerns about the social and poverty impact. At the very least, 2009 – which comes on the heels of higher food prices in 2008 – will undo some of the progress Cambodia made towards its Millennium Development Goals, including in reducing poverty.

The government continues to make progress on structural reforms, although at slower pace in some areas. Progress strengthening the business environment continues, with the computerization of customs and the implementation of a risk management approach. Reforms in the financial sector were advanced with the introduction of new fit and proper tests as well as new governance requirements (including for loan provisioning). Progress in public finance management reform has slowed somewhat.

FIJI

Real GDP growth in 2008 is estimated at around 1 percent, a modest recovery from the contraction of 6.6 percent in 2007 in the aftermath of the December 2006 coup. Economic recovery in 2008 was aided by a rebound in tourist arrivals, higher gold production from the re-opening of the gold mine, and strong mineral water exports. However, performance in the sugar sector remained subdued, partly due to wet weather conditions and the poor quality of cane sugar.

The Fiji authorities project economic growth of around 2 percent in 2009, supported by the Interim Administration's fiscal expansion, but these projections will be challenging to achieve. The global economic slowdown is dampening Fiji's economic recovery through its impact on demand for Fiji's exports (sugar, fish), foreign investment into Fiji, tourism (20 percent of GDP) and remittance receipts (which declined from 6.5 percent of GDP in 2006 to 3 percent of GDP in 2008). In January 2009, the biggest flood in Fiji in forty years devastated the west coast of Fiji's main island—the flood disrupted power supply, damaged crop fields and infrastructure, and depressed tourist activity, adding further strain to Fiji's fragile economy. Preliminary estimates suggest that the direct costs of the floods on the economy are around $180 million (5¼ percent of GDP). Output in 2009 may thus be substantially lower than projected, reflecting the combined impact of the floods and global economic downturn.

In 2008, the Interim Administration (IA) managed to reduce the fiscal deficit slightly to 1.5 percent of GDP compared with a 2 percent target. This achievement was attributable to increased VAT receipts and lower than budgeted recurrent expenditure. An expansionary 2009 budget was announced, targeting a fiscal deficit of 3 percent of GDP to stimulate the economy. The new budget increases capital expenditures and projects stronger revenue receipts reflecting higher direct taxes, increased customs duties (27 percent import duty raised to 32 percent), and improved revenue compliance and collection. Post-floods, however, tax receipts are likely to be lower than assumed in the budget as growth slows, particularly in tourism. The IA also plans to reorient some of its capital spending to flood relief and reconstruction efforts. The overall fiscal deficit for this year may therefore be higher than projected in the 2009 budget.

Reflecting the sharp decline in global food and fuel prices, 12-month inflation fell from a 20-year peak of 9.8 percent in September 2008 to 6.6 percent by December and 1.9 percent in February 2009. The decline in inflation this year reflected a drop in transport and electricity prices that more than offset increasing food prices due to domestic supply shortage caused by the floods.

Fiji's current account deficit is estimated to have widened from 17 percent of GDP in 2007 to 26 percent in 2008, but is expected to narrow back to 17 percent in 2009. These large movements reflect Fiji's vulnerability to global commodity price shocks, particularly in oil prices. In part due to deteriorating external conditions, Fiji's foreign exchange reserves (excluding foreign assets of non-bank financial institutions) declined by $180 million during 2008 to $370 million by December, or two months import cover. Reserves fell by an additional $50 million further in the first quarter of 2009.

The international community is providing relief assistance for flood relief efforts, although Fiji relations with key external partners remain strained and restoration of full bilateral relations apparently remains dependent on Fiji's return to democracy. The interim Prime Minister has officially called off the planned March 2009 elections and confirmed that elections will not be held until Fiji adopts his regime's proposed "People's Charter" which includes changes in the Constitution, such as an end to communal voting which is considered ethnically biased. Leaders of the Pacific Forum (an organization that includes Pacific island countries, Australia, and New Zealand) have urged the interim PM to announce a new elections timetable by May 1 2009 and hold elections by the end of 2009 or risk suspension of Fiji's membership in the Pacific Forum.

LAO PDR

Real GDP growth is projected to slow to 5 percent in 2009 from 7 percent in 2008 because of the impact of the global financial and economic crisis. Growth will continue to be driven by the ongoing mining and hydropower projects as well as agro-processing industries and construction activities. The resource sector (mining and hydropower) will contribute about 1.1 percent and non-resource sectors the rest to this growth rate. Medium-term growth prospects are sensitive to changes in global commodity prices (mainly metals and agriculture), recovery of tourism, implementation of large hydropower projects in the pipeline and improvements in demand from the neighboring countries (especially Thailand, China and Vietnam) and the EU.

Inflation is low. Twelve-month inflation fell to 1.6 percent year-on-year in February after peaking at 10.3 percent in May 2008, due to the sharp decline in prices across the board. The overall inflation is projected at 3 percent in 2009 compared to 7.6 percent in 2008. The nominal exchange rate has been strong and fairly stable against the U.S. dollar and the Thai baht during the last six months. However, it started to depreciate slightly against the dollar this year.

Falling revenues and rising expenditures are expected to lead to an increase in the fiscal deficit to 5.4 percent in 2009 from 1.8 percent in 2008. Revenue collection is projected to decline to 13.2 percent of GDP in FY09 and to 10.1 percent in 2010 after outperforming the target for three years. Wage increases and investment spending approved in 2008 are projected to lead to increased spending in 2009. The Government's recurrent spending for key priority sectors, especially education and health, increased in 2008 but might be at risk in 2009 and 2010 due to the budget constraints. The NPV of external public and publicly guaranteed debt has remained high relative to GDP, but has declined from 46 percent in 2007 to about 38 percent by the end of 2008. It is projected to fall further to 35 percent by the end of 2009.

After growing 21 percent in dollar terms in 2008, exports are expected to drop by about 12 percent in 2009. Imports are projected to drop faster than exports. Consequently, the trade balance should narrow and along with it the current account deficit, decreasing to 6.1 percent in 2009 from about 10.8 percent in 2008. Foreign exchange reserves have risen and are robust at $636 million at the end of 2008, or equivalent to about 6 months of non-resource imports.

In February 2009, the government announced a list of measures to help cope with the economic crisis. The key measures are aimed at: (1) dealing with the revenue shortfalls in FY09 (strengthen revenue management and prioritize the public spending and focuses on the projects/programs that have impacts on growth and domestic demand); and (2) support growth, especially to promote agricultural production, tourism and local investment, increase the domestic lending, review and streamline approved FDI projects and improve the quality of the public sector services and coordination, and finally (3) to mitigate social impacts of the crisis, especially for the poor and the unemployed. While many of the announced measures are laudable, more prioritization of proposed actions - in line with implementation capacity – may help focus efforts where they are most needed.

MONGOLIA

The global downturn has hit Mongolia hard, predominantly due to the slump in metal prices. Prices for copper, the key export, fell 58 percent from a year earlier in February, returning prices to levels last seen in 2004. During the “boom” years, the budget became more dependent on mining revenues (which at their peak directly accounted for 39 percent of revenues), while the non-mining fiscal balance deteriorated strongly and the government did not save enough to cushion adverse shocks. Meanwhile, most of the additional revenues were used to make previously targeted social transfers universal, and to increase wages and salaries. The “bust” has put a serious strain on the country’s finances, forcing the government to drastically cut spending. The 2008 budget outturn amounted to a deficit of 5 percent of GDP, and in the absence of significant adjustments the fiscal gap will widen in 2009 and beyond. At the same time, driven by large social transfers and consumption, domestic demand outstripped GDP in the last three years, while exports as a share of GDP have been flat, resulting in a worsening current account deficit even before commodity prices started to fall.

Given weakness abroad, Mongolia’s exports will drop significantly. Growth is expected to slow down considerably to 2.7 percent in 2009 from 8.9 percent in 2008, with downward risks if FDI inflows slow down as expected. The mining sector will stagnate in real terms, continuing its downward trend from 2004. Poverty reduction will suffer a setback as a result of this slowdown and due to the eroding effect of inflation on social transfers and private remittances. The 2008 current account recorded a 12.9 percent of GDP deficit (this is a revision of the initial estimate of 9.6 percent of GDP, which is used in our projections) compared to a 4.4 percent of GDP surplus in 2007, due to falling commodity prices and strong domestic demand in the second half of 2008.

Having peaked at 34 percent year-on-year in August 2008, 12-month inflation fell to 17 percent in February. Twelve-month inflation is projected to slow to 9 percent by December 2009, due to the domestic slowdown and lower food and fuel prices. However, there are upside risks if the tugrug depreciation creates inflationary pressure on imported items down the road.

Whereas other major commodity exporters let their currencies depreciate as terms of trade deteriorated, the central bank tried to hold on to the currency peg to the US dollar, leading to loss of almost $500 million of international reserves between July 2008 and January 2009. The central bank ultimately let the currency weaken, resulting in a depreciation of 37 percent against the dollar since the end of October. The continuous pressure on the exchange rate and negative real interest rates on deposits due to high inflation, led to a shift of tugrug deposits into foreign exchange accounts. This compounded the stress already in the banking sector after a period of rapid credit expansion. The latest data shows that the loans-to-deposits ratio is still above 100 percent and loans with principal in arrears have increased further, pointing to more nonperforming loans in the future.

With both the fiscal accounts and the balance of payments under severe stress, the government has reached an agreement with the IMF on an 18-month $224 million standby arrangement. The arrangement will help the authorities deal with the extraordinary external shock stemming from the collapse of copper prices. The government subsequently organized an external partners conference co-chaired by the World Bank to request support to plug the fiscal financing gap, projected to be $204 million over two years: $140 million for 2009 and $64 million for 2010. The Asian Development Bank, the World Bank and Japan pledged a total of $160 million and other donors are looking for ways to support.

The standby supports the government in restoring health to government finances, allowing the exchange rate to adjust flexibly while safeguarding international reserves, bolstering confidence in the banking system, and protecting the poor during this period of adjustment. At the same time, the World Bank is preparing a Development Policy Credit (DPC) of $40 million, with the possibility for another DPC of $20 million. The DPCs dovetail with the IMF program areas and also includes reforms in the mining sector.

Debt sustainability analysis demonstrates that Mongolia is at low risk of external debt distress. Although the debt ratios will rise significantly over the next two years as the government receives loans from the IMF, IDA and ADB, the debt outlook is expected to stabilize and improve over the medium-term as the Oyu Tolgoi mine comes on stream. Key medium-term risks involve large debt service payments in 2012-15 associated with the repayments to the IMF under the standby.

Buoyed by the standby, the authorities have taken significant steps to stabilize the economy. Parliament recently approved an amended budget that projects a 5.4 percent of GDP fiscal deficit in 2009, less than the 6 percent deficit targeted under the standby. Although the originally approved budget for 2009 projected a 6 percent deficit, worsening revenue shortfalls meant that without policy action the budget deficit would have likely hit 12 percent of GDP. This is a clear signal that the government is willing to restore fiscal responsibility. The process of fiscal adjustment will continue in 2010 and beyond, requiring a further reduction of the fiscal deficit to 4 percent of GDP in 2010.

The central bank, meanwhile, has raised its policy rate to 14 percent from 9.75 percent. Although real interest rates are still negative, the margin has declined signaling its intention to make the currency more attractive to savers. The bank has also increased the required capital adequacy ratio to 12 percent from 10 percent, signaling its determination to strengthening the banks.

PAPUA NEW GUINEA

Prior to the global economic slowdown PNG was enjoying some of the strongest economic performance since independence. In 2007 economic growth was 6.5 percent rising to about 7 percent in 2008, the highest in over a decade. Both mineral and non-mineral GDP have been expanding. Through mid-2008, world prices for copper, gold, petroleum and tropical agricultural products, which account for over 95 percent of PNG's merchandise exports, rose substantially, triggering an increase in output and affecting positively the rest of the economy. Macroeconomic management had been prudent: the government was pursuing a restrained fiscal policy, saving a portion of windfall revenues in trust accounts or paying down debt. By August 2008, foreign exchange reserves reached an all time peak of $2.7 billion (5 month of imports of goods and services and more than 12 months non-mineral project imports), up by $0.6 billion from the start of the year. The economy was in fact starting to show signs of overheating, with capacity bottlenecks reached in some of the sectors and inflation accelerating to 13.5 percent year-on-year in the third quarter.

The global downturn and sharp declines in prices of PNG's key exports since mid 2008 have clouded PNG's economic outlook but several factors have softened the impact. The economy is beginning to slow, with the growth in 2009 projected to ease to 4 percent as businesses take a more cautious view on new investment and construction, and cash crop incomes in rural areas and exploration activity decline along with commodity prices. The factors that should cushion the impact of the financial and economic crisis include the lack of toxic assets held by the banking system and its reliance mostly on domestic deposits to finance lending. Pension funds did have investments overseas, but still managed to produce positive returns in 2008. Moreover, the consumer and business confidence in PNG has not been as badly hit as in many other countries as the prospect of the $17 billion Liquefied Natural Gas Project receiving a go ahead in late 2009 has supported domestic asset prices, particularly of real estate.

Windfall revenues prudently saved during the commodity boom years can provide support to the budget in the medium term but the government needs to guard against fiscal loosening. During the years of high commodity prices, the government prudently adopted a restrained fiscal policy, curtailing expenditure growth and saving part of budget surpluses in trust accounts (for investment projects to be implemented in the medium term) as well as through public debt prepayment. The key measure of a fiscal stance in a resource-rich economy, the non-mineral deficit, was relatively steady at around 5 percent of GDP. By end-2008 the balances in trust accounts reached around 14 percent of GDP and a substantial portion of non-concessional external public debt was prepaid. The sharp decline in commodity prices since mid-2008 has had a heavy impact at PNG's fiscal position, effectively wiping out windfall revenues. Thanks to prudent fiscal restraint during the boom years, however, government spending did not need to be immediately cut and windfall saving in trust accounts can allow for a smooth adjustment of government fiscal stance to the lower level of mineral revenue. The 2009 budget, however, envisions fiscal loosening, with an increase in the non-mineral fiscal balance of at least 3 percent of GDP (equivalent to a nominal increase in government spending of 15-20 percent), financed by net drawdowns of trust accounts. Drawing down on local currency trust accounts poses the risk of increasing pressure on foreign exchange reserves.

The monetary policy response to the global economic downturn has been mixed. Even before the financial crisis intensified, the monetary authorities had been focusing on combating inflation and during the second half of 2008 tightened the monetary policy by raising interest rates (by 2 percent) and stepping up sales of central bank notes and foreign exchange. The exchange rate had also been maintained largely steady relative to the U.S. dollar to limit the pass-through to inflation. However, the PNG kina appreciated sharply in real effective terms in the second half of 2008, reflecting the strengthening of the dollar against other major global currencies, especially against the Australian dollar. Buoyant domestic demand, helped in part by real appreciation, contributed to foreign exchange reserves declining by one-fourth, or $0.7 billion from their peak in August 2008. With prospects for further pressure on reserves from the projected shift of the current account surplus of 3 percent of GDP in 2008 into a deficit of 6-7 percent of GDP in 2009, the central bank allowed the exchange rate to weaken in November to arrest the decline in reserves. The kina fell by 13 percent against the U.S. dollar from November to March.

Increased domestic and external economic pressures in recent months underscore the need for careful macroeconomic management and continued structural reforms. Recent mutually offsetting macroeconomic policies – fiscal loosening while monetary policy is being tightened – indicate the need for better macroeconomic policy coordination. The government also needs to continue with the restrained fiscal policy of recent years and allow an adjustment in the exchange rate in order to limit a decline in reserves and maintain external sustainability. Management of the windfall revenues saved during the commodity boom also needs to be improved. Among the key structural challenges that remain, the key ones include ensuring the integrity of the public financial management, adequate expenditure mix for sectoral service provision, strict control over the size and performance of the civil service, and transparency and accountability in budget management. To stimulate private sector investment, particularly outside the mining sector, the critical priorities are maintaining law and order, establishing a level playing field and improving the business climate, especially through opening more markets to competition, commercializing parastatals, reducing the regulatory and licensing burden, clarifying property rights (especially for land. Developing infrastructure – electricity, telecommunications, road and other transport – through private sector involvement and greater efficiency of public investment is also a crucial pre-condition for accelerated private sector-led growth.

TIMOR-LESTE

The government of Timor-Leste has made major efforts to promote political and social stability after the events of 2006, and the failed assassination attempts on the country's two top leaders in February 2008. Government spending in 2008 rose to $550 million[2] from about $180 million in 2006/07.[3] A big part of the spending in 2008 was on public transfers, which has helped address issues around the internally displaced population (IDP), closure of large IDP camps in Dili, payment of pensions to veterans, and one-off cash payments to petitioners.

Recent figures show strong performance of the non-oil economy in 2008, with non-oil real GDP estimated to have increased by about 12 percent. This pickup was driven by the jump in government expenditures – financed, in turn, by oil revenues - to 86 percent of total non-oil GDP from one-half in 2006/2007. Twelve-month inflation rose rapidly, reaching 9.1 percent in September 2008, mainly due to higher food prices, but fell in to 6.1 percent in December 2008.

The Economic Stabilization Fund ($240 million) set up by the government in the rectified 2008 budget to deal with commodity price shocks was used for subsidizing rice purchases. The government purchased milled rice from Thailand and Vietnam totaling around 100,000 metric tons. About $50 million was spent on rice imports in 2008. Recent estimates show that 65,000 metric tons have been delivered, with the rest still awaiting delivery at Dili port, with the delays due to capacity constraints and limited storage facilities.

Macroeconomic performance in Timor-Leste has been bolstered by petroleum revenue, but the fall in oil prices will narrow fiscal and external surpluses during 2009. Although oil prices have been declining since July 2008, transfers to Timor-Leste's Petroleum Fund (PF) in the last quarter of 2008 ($585 million) only fell slightly compared to the previous quarter ($619 million). This is due to a lag between the price impact and the timing of transfers to the PF. Timor-Leste maintained a strong external balance in 2008, but the non-oil merchandise trade deficit has grown rapidly over the past months. It is estimated to have increased to over 50 percent of non-oil GDP by the end of 2008 mainly due to rising government imports.

Petroleum revenues are projected to fall sharply to 202 percent of non-oil GDP in 2009 from 484 percent. The latter is based on

2 This is indicative as final budget execution numbers are not yet published.

3 After the elections in 2007, the government changed the Fiscal Year from July-June to January-December. After this four Budgets had to be prepared in relatively quick succession: (i) Transitional Budget (July-Dec 2007); (ii) 2008 Budget (January-December); (iii) 2008 Mid-Year Review Budget (July-December); (iv) 2009 Budget (January-December).

2009 budget estimates, which assume a low case production scenario and a fixed nominal oil price for the period 2009-2013 of $60 per barrel. The Estimated Sustainable Income (ESI) from the PF under these assumptions is $408 million. But a fall in the price of oil to $50 per barrel could bring ESI down to around US$360 million. Vulnerability to the financial crisis from external economic links is otherwise at the moment relatively low. But impacts through oil prices and Petroleum Fund investments will require close monitoring.

The 2009 budget highlights three government priorities: rural development, employment and infrastructure. The objective is to transition from a period of stabilization to one of sustainable growth in the non-oil economy. Planned expenditure in 2009 ($681 million) is lower than in the 2008 budget (which increased to $788 million at Mid-Year Review from $348 million at the start of the Fiscal Year), but approximately 25 percent higher than estimated spending in 2008 (around $550 million). The lower budgeted expenditure is largely due to the end of the Economic Stabilization Fund. The 2009 budget also sees a relative shift towards infrastructure spending, which includes a major three-year power sector project.

There has been progress on reforms of the civil service and audit, and efforts on anti-corruption. The government continues its efforts to improve governance, including through the establishment of a Civil Service Commission, and strengthened administrative practices underpinned by external audit. From January 2009, the government is implementing a new public service career regime with a revised salary and grading structure.

Looking ahead, the government may want to focus on ensuring fiscal discipline, alignment of actual with budgeted outcomes and strengthening quality of spending. Discipline will be essential to ensure fiscal sustainability in light volatile oil prices. Planned government spending in 2008 was above the estimated sustainable income from Timor-Leste's PF. But actual withdrawals from PF were equal to ESI due to lower than expected spending and drawdown of other cash balances. Budgeted spending in 2009 is around $270 million above the ESI. Withdrawal above ESI will impact negatively on the real value of petroleum wealth. Prioritizing across and within sectors will be important to help sustain economic growth. Rapidly rising expenditure in a low capacity environment will also require continued efforts on strengthening public finance management to ensure that funds are used effectively and efficiently.

APPENDIX TABLES & CHARTS

Appendix Table 1. Quarterly Real GDP Growth

(percent change from a year earlier)

	China	Hong Kong (SAR, China)	Indonesia	Korea	Malaysia	Philippines	Singapore	Taiwan (China)	Thailand	East Asia
Q1-2002	8.8	-1.0	3.5	6.6	2.7	4.2	-0.8	1.3	4.5	5.9
Q2-2002	9.2	0.5	4.2	7.0	4.7	4.6	4.7	4.8	5.0	6.8
Q3-2002	9.3	2.8	5.6	6.8	7.1	3.3	6.5	6.7	5.8	7.4
Q4-2002	9.1	4.8	4.7	8.1	6.9	5.5	6.2	5.7	6.0	7.5
Q1-2003	10.8	4.1	4.9	3.5	6.3	4.8	3.7	3.6	6.9	7.3
Q2-2003	8.4	-0.9	5.0	1.8	5.9	4.3	-1.6	-0.2	6.6	5.0
Q3-2003	10.1	3.8	4.6	2.0	4.6	5.4	4.5	4.1	6.7	6.7
Q4-2003	10.4	4.7	4.6	3.9	6.5	5.1	8.5	6.3	8.3	7.6
Q1-2004	9.8	7.7	4.1	5.2	8.2	7.2	9.6	8.0	6.7	8.0
Q2-2004	9.6	12.0	4.4	5.9	7.9	7.1	13.0	9.2	6.6	8.5
Q3-2004	9.2	6.6	4.5	4.8	6.4	5.6	7.7	5.4	6.3	7.2
Q4-2004	9.5	7.9	7.2	2.7	4.9	5.8	7.2	2.5	5.9	6.8
Q1-2005	10.5	6.2	6.0	2.7	5.6	4.5	4.3	2.2	3.6	7.0
Q2-2005	10.5	7.1	5.9	3.4	4.3	5.1	6.7	3.1	4.7	7.3
Q3-2005	10.2	8.1	5.8	4.5	5.6	4.7	8.8	4.4	5.5	7.7
Q4-2005	10.4	6.9	5.1	5.1	5.9	5.4	9.3	6.9	4.7	8.0
Q1-2006	10.4	9.0	5.1	6.1	5.9	5.6	10.6	5.0	6.4	8.3
Q2-2006	11.5	6.1	4.9	5.1	6.0	5.5	8.3	4.9	5.3	8.4
Q3-2006	10.6	6.4	5.9	5.0	5.9	5.1	7.7	5.5	4.8	8.0
Q4-2006	10.4	6.7	6.1	4.6	5.3	5.5	7.0	3.9	4.5	7.7
Q1-2007	11.1	5.6	6.0	4.5	5.5	7.0	7.6	3.8	4.4	8.1
Q2-2007	11.9	6.1	6.6	5.3	5.7	8.3	8.6	5.5	4.4	8.9
Q3-2007	11.5	6.7	6.6	4.9	6.7	7.1	9.5	7.0	5.1	8.9
Q4-2007	11.2	6.9	5.8	5.7	7.3	6.4	5.5	6.4	5.7	8.7
Q1-2008	10.6	7.3	6.2	5.5	7.4	4.7	6.7	6.2	6.0	8.4
Q2-2008	10.1	4.3	6.4	4.3	6.7	4.4	2.5	4.6	5.3	7.5
Q3-2008	9.0	1.7	6.4	3.1	4.7	5.0	0.0	-1.0	3.9	6.0
Q4-2008	6.8	-2.5	5.2	-3.4	0.1	4.5	-4.2	-8.4	-4.3	2.4

Source: Haver Analytics and national sources.
Quarterly data for China is estimated using new annual production side GDP data.

Appendix Table 2. Growth in Real GDP and Components of Aggregate Demand

(percent change from a year earlier)

		Indonesia	Malaysia	Philippines	Thailand	Hong Kong (SAR, China)	Korea	Singapore*	Taiwan (China)	S.E. Asia	NIEs
GDP	2005	5.7	5.3	5.0	4.6	7.1	4.2	7.3	4.2	5.2	4.9
	2006	5.5	5.8	5.4	5.2	7.0	5.1	8.4	4.8	5.5	5.6
	2007	6.3	6.3	7.2	4.9	6.4	5.0	7.8	5.7	6.1	5.6
	2008	6.1	4.6	4.6	2.6	2.5	2.5	1.1	0.1	4.6	1.7
Consumption	2005	4.0	9.1	4.8	4.6	3.0	3.6	3.8	3.0	5.3	3.4
	2006	3.2	6.5	5.5	3.0	5.9	4.5	4.0	1.8	4.2	3.9
	2007	5.0	10.8	5.8	1.6	8.5	4.5	5.2	2.3	5.4	4.6
	2008	5.3	8.4	4.5	2.5	1.8	0.5	2.4	-0.3	5.1	0.7
Investment	2005	10.9	5.0	-6.6	10.5	4.1	2.4	-2.0	1.2	6.7	1.9
	2006	2.6	7.9	3.8	3.9	7.1	3.6	15.4	0.9	4.2	4.4
	2007	9.4	9.6	11.8	1.3	3.4	4.0	19.2	1.9	7.6	4.7
	2008	11.7	1.1	3.7	1.1	-0.3	-1.9	13.7	-10.8	5.2	-2.7
Exports	2005	16.6	8.3	4.8	4.2	10.6	8.5	21.3	7.6	9.6	9.7
	2006	9.4	7.0	13.4	9.1	9.4	11.8	10.5	10.3	9.5	10.9
	2007	8.5	4.2	5.6	7.1	8.3	12.1	11.9	8.8	6.8	10.6
	2008	9.5	1.5	0.0	6.5	2.7	6.2	-33.8	-0.2	5.2	0.3

Source: Haver Analytics, national data sources, and World Bank staff estimates. Regional averages are GDP weighted.
* Singapore exports are net exports.

Appendix Table 3. East Asia: Merchandise Export Growth

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

	2007	2008	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09
East Asia (9)	16.8	13.3	17.8	19.4	21.4	20.0	-4.8	17.4	8.3	-9.3	-13.5	-27.3	..
SE Asia	12.2	13.9	16.7	22.0	25.6	22.7	-11.3	18.7	-1.6	-12.4	-20.1	-33.3	..
Indonesia	13.2	20.0	14.1	31.9	29.9	27.9	-6.4	28.5	4.9	-2.4	-20.6	-36.1	-32.9
Malaysia	9.7	13.3	16.1	19.2	28.9	21.3	-12.6	15.9	-6.8	-10.9	-20.1	-34.0	..
Philippines	7.1	-2.9	9.9	2.8	5.3	4.0	-22.5	1.1	-14.8	-11.4	-40.3	-40.6	..
Thailand	16.5	15.7	21.7	24.8	25.2	26.7	-10.0	20.7	3.8	-21.0	-12.8	-28.3	-13.7
China	25.7	17.3	22.2	21.2	22.2	23.1	4.4	21.5	19.2	-2.2	-2.8	-17.5	-25.7
NIEs	10.9	9.3	14.1	16.6	19.1	15.8	-11.2	12.5	2.2	-15.4	-21.8	-34.2	-24.1
Hong Kong (SAR, China)	8.8	5.3	8.3	10.7	8.1	5.6	-1.8	3.5	9.4	-4.9	-10.8	-21.3	-22.6
Korea	14.1	13.8	18.2	17.4	23.1	27.1	-9.1	27.6	7.8	-19.5	-17.9	-34.2	-18.3
Singapore	10.1	12.9	14.8	21.2	26.4	21.0	-14.0	17.7	-5.1	-15.5	-21.9	-40.4	-29.1
Taiwan (China)	10.3	3.7	15.8	17.8	19.1	8.0	-24.9	-1.7	-8.1	-24.0	-42.2	-44.5	-29.2

Source: Haver Analytics and national data sources.

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

(percent change from a year earlier)

									Forecast
	2001	2002	2003	2004	2005	2006	2007	2008	2009
Developing East Asia	6.7	8.0	8.9	9.1	9.2	10.2	11.4	8.0	5.3
South East Asia	2.3	4.9	5.7	6.0	5.2	5.5	6.1	4.6	0.7
Indonesia	3.6	4.5	4.8	5.0	5.7	5.5	6.3	6.1	3.4
Malaysia	0.5	5.4	5.8	6.8	5.3	5.8	6.3	4.6	-1.0
Philippines	1.8	4.3	5.0	6.4	5.0	5.4	7.2	4.6	1.9
Thailand	2.2	5.3	7.1	6.3	4.6	5.2	4.9	2.6	-2.7
Transition									
China	8.3	9.1	10.0	10.1	10.4	11.6	13.0	9.0	6.5
Vietnam	6.9	7.1	7.3	7.8	8.4	8.2	8.5	6.2	5.5
Small Economies	4.0	3.6	5.1	6.7	7.7	7.2	6.7	5.9	1.6
Cambodia	8.0	6.5	8.5	10.3	13.3	10.8	10.2	5.5	-1.0
Timor-Leste	16.5	-6.7	-6.2	0.4	2.3	-3.4	16.5	4.0	1.0
Lao PDR	5.8	5.9	6.1	6.4	7.1	8.1	7.5	6.9	5.0
Mongolia	1.3	4.2	6.1	10.8	7.1	8.6	9.9	8.9	2.7
Fiji	2.0	3.2	1.0	5.5	0.6	3.4	-6.6	1.2	-2.0
Kiribati	1.4	5.2	0.1	-3.6	0.3	-5.5	1.7	1.0	1.1
Marshall Islands	2.7	3.8	3.4	6.7	2.0	0.9	1.3	1.5	0.5
Micronesia, Fed. Sts.	0.1	0.9	2.8	-3.3	-0.6	-2.3	-3.1	-1.0	0.0
Palau	1.3	-3.5	-1.3	4.9	5.5	3.0	2.1	-1.0	2.0
Papua New Guinea	-0.1	-0.2	2.2	2.7	3.4	2.6	6.2	5.8	4.7
Samoa	6.9	3.2	4.8	4.8	5.4	1.0	6.4	-3.4	-1.0
Solomon Islands	-8.0	-2.8	6.5	8.0	5.0	6.1	10.2	5.0	0.0
Tonga	3.1	1.7	3.1	1.1	-0.4	4.4	-0.3	1.2	-2.0
Vanuatu	-2.6	-7.4	3.2	5.5	6.5	7.2	6.6	6.3	3.0

Source: World Bank data and staff estimates.

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

		$1.25 -a-day		$2-a-day		
	Mean Consumption (2005 PPP$/ month)	Headcount Index (%)	Number of Poor (million)	Headcount Index (%)	Number of Poor (million)	Population (million)
EAP						
1990	49.16	54.7	873.3	79.8	1,273.7	1,595.9
1993	54.55	50.8	845.3	75.8	1,262.1	1,664.9
1996	67.01	36.0	622.3	64.1	1,108.1	1,728.7
1999	70.76	35.5	635.1	61.8	1,104.9	1,788.4
2002	85.65	27.6	506.8	51.9	954.1	1,837.0
2005	106.85	16.8	316.2	38.7	728.7	1,884.4
EAP excluding China						
1990	72.98	39.2	180.5	66.0	304.4	460.8
1993	73.84	42.6	207.3	68.0	330.9	486.4
1996	85.81	35.0	178.8	61.5	314.2	511.2
1999	82.96	35.2	188.1	62.7	335.2	534.7
2002	89.76	25.5	142.1	54.0	300.8	556.6
2005	100.98	19.0	110.2	44.8	259.5	579.9
South East Asia (Indonesia, Malaysia, Philippines, Thailand)						
1990	77.05	38.6	120.3	65.1	202.9	311.8
1993	82.24	37.8	124.2	63.8	209.8	328.7
1996	96.46	29.5	101.6	56.2	193.9	344.9
1999	91.12	31.8	114.8	59.2	213.6	361.1
2002	97.84	21.3	80.3	49.9	188.4	377.3
2005	107.30	17.0	66.8	42.2	166.0	393.8
Lower-Income East Asia (Cambodia, Laos, PNG, Vietnam)						
1990	58.57	41.2	34.6	69.5	58.4	84.1
1993	43.53	60.5	54.4	83.6	75.2	90.0
1996	47.82	55.1	52.7	80.6	77.1	95.7
1999	54.43	47.3	47.4	75.3	75.6	100.3
2002	60.87	41.0	42.6	69.1	71.9	104.1
2005	79.14	26.1	28.4	53.8	58.6	108.8

Source: World Bank staff estimates

Appendix Table 6. Primary Commodity Prices

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

	Actual										Projections		
Commodity	1980-90	1991-98	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Crude oil average	0.0	-5.7	56.2	-13.7	2.4	15.9	30.6	41.5	20.4	10.6	36.4	-51.3	11.6
Non-Energy Commodities	-0.8	0.4	-1.4	-9.1	5.3	10.2	17.5	12.0	29.0	17.1	21.0	-32.0	-2.5
Agriculture	-1.9	0.8	-5.7	-9.1	8.6	9.6	10.5	2.8	12.6	20.1	27.2	-23.4	-1.2
Cocoa	-7.3	4.0	-20.2	18.0	66.4	-1.5	-11.5	-0.8	3.5	22.6	32.0	-3.0	-24.0
Coffee, arabica	-3.6	12.6	-16.2	-28.5	-1.2	4.3	25.3	42.7	-0.4	8.0	13.1	-15.6	0.0
Coconut oil	-1.4	10.6	-38.9	-29.4	32.4	11.0	41.4	-6.6	-1.6	51.4	33.2	-42.8	7.1
Palm oil	-3.0	12.3	-28.8	-7.9	36.6	13.6	6.3	-10.4	13.3	63.1	21.6	-36.7	0.0
Rice, Thai, 5%	0.8	2.1	-18.5	-14.6	11.0	3.0	20.3	20.4	6.5	7.1	99.2	-23.1	-6.0
Sugar, world	16.4	-2.8	30.6	5.6	-20.3	3.0	1.1	37.9	49.5	-31.8	27.0	-0.8	3.6
Logs, Malaysia	1.9	3.4	1.5	-16.3	2.7	14.5	5.4	3.0	17.9	11.9	9.1	-4.2	-7.1
Sawn wood, Malaysia	4.1	-0.1	-1.0	-19.1	9.4	4.6	5.5	13.4	13.6	7.6	10.3	-10.6	-4.4
Rubber, RSS1, Singapore	-1.7	0.5	6.2	-13.8	33.0	41.5	20.4	15.2	40.3	8.7	12.9	-42.0	6.7
Metals and minerals	2.9	-2.6	12.6	-9.6	-3.1	12.7	37.1	28.9	56.9	12.0	3.7	-42.8	1.4
Tin	-6.7	-0.7	0.6	-17.5	-9.5	20.5	73.9	-13.3	19.0	65.6	27.3	-40.6	1.8
Copper	4.3	-4.1	15.3	-13.0	-1.2	14.1	61.1	28.4	82.7	5.9	-2.3	-49.7	8.6

Source: World Bank DEC Prospects Group. Projections as of 3/12/09.

Appendix Table 7. East Asia: Exchange Rates

(LCU/U.S. dollar, end-of-period)

	China	Indonesia	Korea	Malaysia	Philippines	Singapore	Taiwan (China)	Thailand	Vietnam	Japan
Jan-2007	7.78	9090	940.90	3.50	49.03	1.54	32.95	35.80	16035.5	121.68
Feb-2007	7.74	9160	938.30	3.51	48.29	1.53	32.95	35.45	15990.0	118.48
Mar-2007	7.73	9118	940.30	3.46	48.26	1.52	33.09	35.02	16022.5	117.65
Apr-2007	7.71	9083	929.40	3.42	47.51	1.52	33.28	34.77	16045.5	119.60
May-2007	7.65	8828	929.90	3.40	46.27	1.53	33.02	34.65	16079.0	121.62
Jun-2007	7.62	9054	926.80	3.45	46.33	1.53	32.74	34.54	16113.0	123.23
Jul-2007	7.57	9186	923.20	3.45	45.61	1.51	32.81	33.81	16126.5	118.95
Aug-2007	7.56	9410	939.90	3.50	46.70	1.52	33.00	34.33	16225.5	116.20
Sep-2007	7.51	9137	920.70	3.42	45.06	1.49	32.58	34.27	16091.5	115.05
Oct-2007	7.47	9103	907.40	3.34	43.95	1.45	32.41	34.00	16082.5	114.75
Nov-2007	7.40	9376	929.60	3.36	42.80	1.45	32.27	33.85	16044.0	110.30
Dec-2007	7.30	9419	938.20	3.31	41.40	1.44	32.44	33.75	16010.0	114.00
Jan-2008	7.19	9291	943.90	3.24	40.65	1.42	32.20	33.03	15971.0	106.36
Feb-2008	7.11	9051	937.30	3.19	40.36	1.39	30.95	31.87	15931.0	104.73
Mar-2008	7.02	9217	991.70	3.19	41.87	1.38	30.41	31.51	16105.0	100.10
Apr-2008	7.00	9234	999.70	3.16	42.19	1.36	30.45	31.74	16116.0	104.08
May-2008	6.95	9318	1031.40	3.24	43.88	1.37	30.41	32.46	16246.0	105.66
Jun-2008	6.86	9225	1043.40	3.27	44.76	1.36	30.35	33.52	16842.0	106.40
Jul-2008	6.86	9118	1008.50	3.26	44.14	1.37	30.59	33.54	16755.0	107.99
Aug-2008	6.85	9157	1081.80	3.39	45.69	1.42	31.52	34.17	16525.0	109.10
Sep-2008	6.85	9378	1187.70	3.46	46.92	1.43	32.13	34.02	16575.0	104.30
Oct-2008	6.86	10995	1291.40	3.56	48.75	1.48	33.00	34.99	16812.5	98.30
Nov-2008	6.87	12151	1482.70	3.62	48.88	1.51	33.30	35.47	16973.5	95.25
Dec-2008	6.86	10950	1257.50	3.46	47.49	1.44	32.86	34.93	17433.0	90.75
Jan-2009	6.86	11355	1368.50	3.61	47.08	1.51	33.80	34.93	17474.5	89.60
Feb-2009	6.84	11980	1516.40	3.69	48.24	1.54	34.95	36.05	17475.0	97.65
Mar-2009	6.84	11550	1375.38	3.65	48.42	1.52	33.92	35.49	17756.0	98.91

Sources: Haver Analytics, Datastream.

Appendix Table 8. East Asia: Foreign Reserves Minus Gold

(in billions of U.S. dollars)

	China	Indonesia	Malaysia	Philippines	Thailand	Hong Kong (SAR, China)	Korea	Singapore	Taiwan, China	Total
Dec-1996	107.0	19.3	27.0	10.1	37.8	63.8	34.0	76.8	88.0	463.9
Dec-1997	142.8	17.4	20.8	7.3	26.3	92.8	20.4	71.3	83.5	482.5
Dec-1998	149.2	23.5	25.6	9.3	28.8	89.7	52.0	75.1	90.3	543.4
Dec-1999	157.7	27.3	30.6	13.3	34.1	96.2	74.0	77.0	106.2	616.4
Dec-2000	168.3	29.4	29.5	13.1	32.0	107.5	96.1	80.2	106.7	662.9
Dec-2001	215.6	28.0	30.5	13.5	32.4	111.2	102.8	75.7	122.2	731.7
Dec-2002	291.1	32.0	34.2	13.3	38.1	111.9	121.3	82.2	161.7	885.9
Dec-2003	408.2	36.3	44.6	13.7	41.1	118.4	155.3	96.2	206.6	1,120.3
Dec-2004	614.5	36.3	66.4	13.1	48.7	123.5	199.0	112.6	241.7	1,455.9
Dec-2005	821.5	34.7	70.2	15.9	50.7	124.2	210.3	116.2	253.3	1,697.1
Dec-2006	1,068.5	42.6	82.2	20.0	65.3	133.2	238.9	136.3	266.1	2,053.0
Dec-2007	1,530.3	56.9	101.1	30.2	85.2	152.6	262.2	163.0	270.3	2,651.7
Jan-2008	1,591.9	56.0	109.0	31.0	90.3	159.8	261.8	167.6	272.8	2,740.2
Feb-2008	1,649.2	57.1	116.0	32.2	97.9	160.2	262.3	171.7	277.8	2,824.5
Mar-2008	1,684.3	59.0	120.0	32.8	107.5	160.7	264.2	177.5	286.9	2,892.7
Apr-2008	1,758.7	58.8	123.8	32.8	107.4	159.8	260.4	175.8	289.4	2,966.9
May-2008	1,799.2	57.5	124.9	32.4	106.6	158.9	258.1	175.8	290.1	3,003.5
Jun-2008	1,811.1	59.5	125.5	32.7	103.2	157.5	258.0	176.7	291.4	3,015.5
Jul-2008	1,847.4	60.6	124.8	33.0	102.3	157.6	247.4	175.0	290.9	3,038.9
Aug-2008	1,886.3	58.4	122.3	33.2	99.0	158.1	243.1	170.1	282.1	3,052.5
Sep-2008	1,907.7	57.1	109.5	32.8	100.0	160.6	239.6	172.0	281.1	3,060.5
Oct-2008	1,881.7	50.6	99.9	32.4	101.2	154.8	212.2	162.0	278.2	2,973.0
Nov-2008	1,887.9	50.2	97.4	33.0	104.1	165.9	200.4	165.5	280.7	2,985.1
Dec-2008	1,949.3	51.6	91.2	33.2	108.7	182.5	201.1	174.0	291.7	3,083.3
Jan-2009		50.9	91.0	34.7	108.2	181.7	201.7	166.9	292.7	
Feb-2009		50.6	90.7	34.2	110.7	177.1	201.5	163.3	292.6	

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

Table 9a. East Asia: Balance of Payments

(in percent of GDP)

	Overall Balance 1/					Current Account					Capital Account 2/				
	2004	2005	2006	2007	2008	2004	2005	2006	2007	2008	2004	2005	2006	2007	2008
East Asia	8.7	5.4	6.8	9.7	6.1	4.4	5.7	7.3	8.5	7.7	4.3	-0.3	-0.5	1.1	-1.7
China 3/	10.7	9.0	8.9	13.3	9.7	3.5	7.0	9.1	10.7	10.1	7.1	2.0	-0.2	2.6	-0.5
S.E. Asia	4.6	1.0	4.6	6.3	1.0	3.3	2.2	5.2	6.0	3.7	1.2	-1.2	-0.7	0.2	-2.8
Indonesia	0.0	-0.6	2.2	3.3	-1.0	0.6	0.1	3.0	2.4	0.2	-0.6	-0.6	-0.8	0.9	-1.2
Malaysia	17.5	2.7	7.6	10.1	-4.4	12.1	15.0	16.3	15.7	17.6	5.4	-12.3	-8.7	-5.6	-22.0
Philippines	-0.6	2.8	3.5	7.0	1.8	1.6	1.9	4.4	5.0	2.5	-2.3	0.9	-1.0	2.1	-0.7
Thailand	4.7	1.1	7.1	8.1	8.6	1.7	-4.3	1.1	5.7	-0.1	3.0	5.5	5.9	2.4	8.6
NIEs	7.8	1.9	4.4	4.3	0.2	6.2	5.3	5.5	5.7	4.4	1.6	-3.5	-1.0	-1.5	-4.2
Hong Kong (SAR, China)	3.1	0.4	4.7	9.4	14.9	9.5	11.4	12.1	12.3	14.2	-6.4	-11.0	-7.4	-2.9	0.7
Korea	6.4	1.4	3.2	2.4	-7.1	3.9	1.8	0.5	0.5	-0.4	2.5	-0.4	2.7	1.9	-6.6
Singapore	14.9	3.0	14.4	16.0	6.1	18.2	22.7	25.4	23.4	14.9	-3.3	-19.7	-11.0	-7.4	-8.8
Taiwan (China)	10.6	3.2	3.5	1.1	5.5	5.7	4.9	7.1	8.5	6.4	4.9	-1.7	-3.6	-7.4	-1.0
Median for 9	6.4	2.7	4.7	8.1	5.5	3.9	4.9	7.1	8.5	6.4	2.5	-0.6	-1.0	0.9	-1.0

Sources: Haver Analytics, national sources.
1/ Equals change in foreign reserves.
2/ Includes errors and omissions.
3/ Four-quarter total, 3Q 2007 - 2Q 2008

Table 9b. East Asia: Capital Account Components

(in percent of GDP)

	Net FDI					Net Portfolio					Net Other Capital				
	2004	2005	2006	2007	2008	2004	2005	2006	2007	2008	2004	2005	2006	2007	2008
East Asia	1.5	2.0	1.6	1.8	1.6	-0.3	-0.7	-2.4	-0.8	-1.1	1.5	-0.6	0.1	-1.2	-0.9
China 3/	2.7	2.9	2.2	3.5	3.0	1.0	-0.2	-2.4	0.5	1.0	2.0	-0.2	0.5	-2.0	-2.4
S.E. Asia	1.1	2.2	1.6	0.8	0.4	2.3	1.4	1.8	0.9	-2.9	-2.0	-3.1	-3.7	-2.4	0.1
Indonesia	-0.6	1.8	0.6	0.5	0.5	1.7	1.5	1.2	1.3	0.3	-0.4	-3.3	-1.0	-1.1	-1.2
Malaysia	2.1	0.7	0.0	-1.4	-2.8	7.0	-2.7	2.2	2.9	-12.5	-4.9	-5.1	-9.8	-7.3	-1.4
Philippines	0.1	1.7	2.4	-0.4	0.8	-2.0	3.5	2.6	3.2	-1.5	0.0	-3.0	-5.1	-0.3	-0.4
Thailand	3.6	4.3	4.1	3.8	2.7	1.9	3.1	2.1	-2.7	-2.1	-3.2	-1.1	-2.9	-2.2	4.0
NIEs	-0.2	0.5	0.6	-0.9	0.1	-3.5	-2.5	-4.5	-4.3	-5.1	2.5	0.0	1.4	1.0	2.3
Hong Kong (SAR, China)	-7.0	3.6	0.0	-3.3	1.4	-23.7	-17.7	-14.1	-1.3	-17.4	18.6	2.0	3.2	-5.0	17.9
Korea	0.6	0.2	-0.5	-1.3	-1.1	0.9	-0.4	-2.4	-2.5	-1.6	-0.5	0.8	5.1	4.2	-1.1
Singapore	8.4	2.6	10.3	4.2	7.6	-7.9	0.8	-3.7	-5.7	-12.7	-10.3	-18.0	-22.3	-11.8	-1.0
Taiwan (China)	-1.6	-1.2	0.0	-0.9	-1.2	-1.4	-0.8	-5.2	-10.4	-3.1	5.4	3.0	0.1	1.3	3.5
Median for 9	0.6	1.8	0.6	-0.4	0.8	0.9	-0.2	-2.4	-1.3	-2.1	-0.4	-1.1	-1.0	-2.0	-1.0

Sources: Haver Analytics, national sources.
3/ Four-quarter total, 3Q 2007 - 2Q 2008

Appendix Table 10. East Asia: Nonperforming Loans

(in percent of total loans)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007				2008			
	Dec	Dec	Dec	Dec	Dec	Dec	Dec	Dec	Dec	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec
China	..	..	..	..	..	23.1	17.9	13.2	8.6	7.1	6.6	6.5	6.2	6.2	5.8	5.6	5.5	2.5
Indonesia 1/	7.2	48.6	32.9	18.8	12.1	7.5	6.8	4.5	7.6	6.1	6.0	5.8	6.2	5.2	4.6	4.3	3.9	3.9
Korea 2/	6.0	7.3	13.6	8.8	3.3	2.4	2.2	2.0	1.3	0.9	0.9	0.8	0.8	0.7	0.8	0.7	0.8	1.1
Malaysia 3/	..	10.6	11.0	9.7	11.5	10.2	9.0	7.5	5.8	4.8	4.4	4.1	3.5	3.2	3.0	2.6	2.4	2.2
Philippines 4/	4.7	10.4	12.3	15.1	17.3	15.0	14.1	12.7	8.2	5.7	5.3	5.2	5.2	4.5	4.5	4.0	4.0	3.5
Thailand 5/	..	45.0	39.9	19.5	11.5	18.1	13.9	11.6	8.3	8.1	7.5	7.9	8.0	7.3	6.8	6.5	6.1	5.3

Source: National data sources
1/ Excludes IBRA's AMC.
2/ Excludes KAMCO/KDIC.
3/ Excludes Danaharta. This series, used by Bank Negara Malaysia, is net of provisions and excludes interest in suspense.
4/ From September 2002 onwards, the ratios are based on the new definition of nonperforming loans under BSP Circular 351 which allows banks to deduct bad loans with 100 percent provisioning from the NPL computations.
5/ Excludes transfers to AMCs. The jump in headline NPLs in December 2002 was a one-off increase, reflecting a change in definition and did not affect provisioning.

Appendix Table 11. East Asia: Financial Market Indicators

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

	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09
China	60.6	72.6	105.5	100.0	66.0	52.0	43.6	34.6	45.1
Indonesia	66.7	77.9	85.9	100.0	89.1	85.6	66.7	49.4	52.2
Malaysia	86.3	93.7	92.5	100.0	86.3	82.1	70.5	60.7	60.4
Philippines	88.5	101.1	98.7	100.0	82.4	67.9	71.0	51.7	54.8
Thailand	78.5	90.5	98.5	100.0	95.2	89.6	69.5	52.4	50.3
Vietnam	115.6	110.5	112.9	100.0	55.8	43.1	49.3	34.0	31.2
Hong Kong (SAR, China)	71.2	78.3	97.6	100.0	82.2	79.5	64.8	51.7	48.8
Korea	76.6	91.9	102.6	100.0	89.8	88.3	76.3	59.3	63.6
Singapore	91.2	100.3	105.2	100.0	86.8	85.1	68.1	50.8	49.1
Taiwan (China)	92.7	104.4	110.6	100.0	100.8	88.4	67.2	54.0	61.3

Source: Thomson Datastream

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

	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09
China	3.4	4.4	4.4	4.5	4.1	4.5	3.8	2.8	3.2
Indonesia	9.9	9.0	9.2	10.0	11.7	13.4	13.2	11.9	12.7
Malaysia	3.5	3.5	3.7	4.1	3.8	4.9	4.6	3.2	3.8
Philippines	7.2	7.4	7.2	6.6	7.3	9.4	8.1	7.4	8.2
Thailand	4.3	4.5	4.7	5.0	4.6	5.9	4.4	2.7	3.3
Vietnam	7.5	7.8	8.6	9.1	9.2	16.0	15.0	10.2	9.5
Hong Kong (SAR, China)	4.2	4.8	4.3	3.4	2.6	3.5	2.9	1.9	1.9
Korea	4.9	5.5	5.6	5.7	5.3	6.0	6.1	4.2	5.2
Singapore	2.9	2.9	2.7	2.7	2.3	3.6	3.2	2.1	2.0
Taiwan (China)	2.0	2.5	2.6	2.6	2.4	2.7	2.2	1.4	1.5

Source: Bloomberg

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

	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09
China	53	54	88	120	154	137	191	228	210
Indonesia	171	165	217	275	329	381	490	762	742
Malaysia	73	75	108	119	144	153	194	119	344
Philippines	167	155	184	172	207	303	324	546	432
Vietnam	108	122	156	203	283	368	404	747	574

Source: JP Morgan, Bloomberg

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

	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09
China	11	13	20	29	81	75	90	188	156
Indonesia	119	110	142	154	245	286	357	638	575
Malaysia	16	16	25	44	99	116	171	225	238
Philippines	120	111	145	153	243	266	284	384	360
Thailand	42	39	43	55	111	135	172	256	233
Hong Kong (SAR, China)	5	5	9	18	58	42	62	104	145
Korea	17	17	24	47	97	107	182	319	328

Source: Thomson Datastream

Appendix Table 12. Key Monetary Measures Implemented in East Asia Since September 2008

	Capital injections	Liquidity Measures	Key policy rates	Deposit and Liabilities Guarantees
China	$19 billion to the state-owned Agricultural Bank of China	Cut the minimum required ratio (MRR) for large banks by 2% and for small banks by 3.5%. Reduce interest on excess reserves by 27 bps. Reduce rediscount rate by 252 bps. Scrap bank lending quotas.	Cut one-year lending rate five times by a cumulative 216 bps.	
Hong Kong (SAR, China)	$2.6 billion to the Hong Kong Mortgage Corporation (for its revolving credit facility). Establish Contingent Bank Capital Facility (CBCF) to make available additional capital to locally-incorporated banks, until the end of 2010.	Temporarily expand discount window operations until March 2009 (wider range of collateral, tenor up to 3 months, higher threshold for the use of Exchange Fund paper). Extend market operations for direct liquidity assistance to banks (include foreign exchange swaps and term repos). Amend the lender of last resort (LOLR) framework (include securities in foreign currencies as eligible securities for repos and include foreign exchange swaps as an instrument for LOLR support). Swap line with People's Bank of China: $30 billion	Cut base rate thrice by a cumulative 300 bps.	Guarantee all deposits until the end of 2010.
Indonesia		Liquidity Injection: $485 million. Cut MRR for FX deposits by 2% and allow use of central bank bills and government bonds as required reserves. Cut repo rate by 100 basis points. Increase rates on reserve deposits by 100 basis points. Extend open market operations (OMO) (tenor of non-regular OMO from 14 days to 3 months, tenor of FX swaps from 7 days to 1 year). Swap line with People's Bank of China: $15 billion. Swap line with Bank of Japan: $12 billion.	Cut base rate four times by a cumulative 175 bps.	Guarantee deposits up to 2 billion rupiah ($205,000).
Korea	$1.1 billion to the Korea Development Bank; $767 million to state-owned Industrial Bank of Korea; and, $729 million to the Korea EXIM Bank. Establish a Financial Stability Fund (FSF) to facilitate capital injections into financial institutions and a Bank Capital Expansion Fund (BCEF) for capital injections into non-deposit institutions.	Extend OMO operations (wider range of collateral). Delay Basel II CAR rules by half year. Reduce rate on special SME loans by 75 basis points. Swap line with U.S. Fed: $30 billion. Swap line with Bank of Japan: $30 billion. Swap line with People's Bank of China: $30 billion.	Cut 7-day repo rate six times by a cumulative 325 bps.	Guarantee $100 billion of borrowings by banks for three years.
Malaysia		Cut the MRR by 3%. Swap line with People's Bank of China: $12 billion.	Cut the overnight policy rate three times by a cumulative 150 basis points.	Guarantee all deposits until December 2010.

Appendix Table 12. Key Monetary Measures Implemented in East Asia Since September 2008 (continued)

	Capital injections	Liquidity Measures	Key policy rates	Deposit and Liabilities Guarantees
Philippines		Cut MRR by 2%. Increased budget for peso rediscounting facility. Extend repo operations (wider range of collateral). Open new dollar deposit and new dollar repo facilities. Relax bank MTM rules on government bonds.	Cut the overnight reverse repo rate twice by a cumulative 125 bps.	
Singapore		Open a Sukuk issuance facility and allow sukuk paper as eligible collateral for tapping central bank liquidity. Swap line with U.S. Fed: $30 billion.		Guarantee all deposits for three years.
Taiwan, China		Liquidity Injections: $3.6 billion. Cut the rate on accommodations with collateral and the rate on accommodations without collateral by 237.5 basis points each. Lowered the MRR. Allowed banks to use CDs, NCDs issued by the central bank, and redeposits with the central bank to borrow collateral loans. Extend repo operations (tenor of repos from 30 to 180 days, coverage of insurance companies). Raised the credit line for banks to extend funding to securities firms. Used $27.8 billion of foreign reserves as seed funds to participate in the foreign-currency call loan market.	Cut discount rate on 10-day loans seven times by a cumulative 237.5 bps.	Guarantee all deposits until the end of 2009. Guarantee interbank debt until the end of 2009. Raised the guarantee coverage on SME loans under the SME Credit Guarantee Fund.
Thailand			Cut the one-day repo rate three times by 225 basis points.	Guarantee all deposits until August 2011.
Vietnam		Cut the MRR by 8%. Reduce discount rate by 700 basis points. Reduce refinancing rate by 700 basis points. Increase rates on reserve deposits by 140 basis points. Extend repo operations.	Cut the base rate six times by a cumulative 700 bps.	
Memoranda				
Australia		Extend repo operations (tenor from 6 months to 1 year, wider range of collateral, easier rules on collateral substitution). Swap line with U.S. Fed: $30 billion.	Cut overnight cash rate five times by a cumulative 400 bps.	Guarantee all deposits for 3 years (deposits larger than $638,000 pay a guarantee fee). Temporary guarantee of interbank debt.
Japan		Reduce Lombard rate for banks by 25 basis points. Pay 0.1% on bank excess reserves. Extend repo operations (wider range of collateral, including lower-grade corporate bonds). Open various liquidity schemes for corporate financing, including special funds-supplying operations, outright purchases of corporate bonds, outright purchases of commercial paper, US$ funds-supplying operations. Resume purchases of stocks held by banks. Relax Basel II CAR rules. Relax bank MTM rules on government bonds. Unlimited swap line with the U.S. Fed.	Cut uncollateralized overnight call rate twice by a cumulative 40 bps.	
New Zealand		Swap line with the U.S. Fed: $15 billion.	Cut official cash rate five times by a cumulative 500 bps.	Guarantee all deposits for two years.

Sources: National authorities, Reuters and World Bank staff.

Appendix Table 13. Fiscal Stimulus Packages in EAP, Size, Profile, and Composition

	Size		Tax and spending measures over time (percent of GDP)						Composition (% total)		
	Billions US$	%2009 GDP	Q4-2008	2009	2010	2011	2012	2013	Tax cuts	Spending	Other *
China	586	12	1.2	4.8	6.0				5.0	95.0	
o/w: govt	173	3.5	0.4	1.4	1.8				5.0	95.0	
Indonesia	6.3	1.3		1.3					79.0	21.0	
Korea	53.1	6.8	1.1	4.0	1.3	0.4	0.0		51.2	48.8	
Malaysia	18.5	9.3							4.5	41.0	54.5
tax + spending	8.9	4.5		3.3	1.2						
Philippines 1/	3.6	1.8		1.8					23.5	76.5	
o/w: govt	1.5	0.8		0.8					57.1	42.9	
Thailand 2/	3.6	1.1		0.9					7.9	77.1	15.0
Singapore	13.6	8.0		5.2	2.6	0.1	0.1	0.1	25.9	45.9	28.3
Vietnam	1.0	1.0		1.0					33.1	65.0	1.9

Sources: National authorities, Bloomberg, Factiva and staff estimates.
1/ Of the 330 billion peso Resiliency Package, 160 billion were part of the automatic increase in the fiscal deficit, leaving a broadly defined stimulus package of 170 billion.
2/ For Thailand, funds for reserve withdrawals (0.2 percent of GDP is excluded from number of profile over time).

Appendix Table 14. Key Measures in Fiscal Stimulus Packages

<table>
<tr><th></th><th>Program Amount</th><th>Program Details</th></tr>
<tr><td>China</td><td>$586 billion
(12% of 2009 GDP)</td><td>• Transport, including rails, airports, and roads (RMB 1.5 trillion)
• Post-earthquake reconstruction (RMB 1 trillion)
• Public housing (RMB 400 billion)
• Rural infrastructure, including electricity, water, and roads (RMB 370 billion)
• Technological innovation (RMB 370 billion)
• Energy and environment, including water sanitation, sewage, and restoration (RMB 210 billion)</td></tr>
<tr><td>Indonesia</td><td>$6.3 billion
(1.3% of 2009 GDP)</td><td>• Infrastructureprojects and empowerment programs (IDR 12.2 trillion)
• Energy-saving investments (IDR 4.8 trillion)
• Roads in municipalities and villages and irrigation schemes in villages (IDR 2 trillion)</td></tr>
<tr><td rowspan="3">Korea</td><td>First Package:
$53.1 billion
(6.8% of 2009 GDP)</td><td>• Tax cuts (KRW 35.3 trillion)
• Corporate and income tax cut (KRW 25.5 trillion)
• Fuel and tariff tax cut (KRW 5.5 trillion)
• Temporary investment tax reduction (KRW 3.0 trillion)
• Tax benefit for long-term investment fund (KRW 1.3 trillion)
• Tax rebates and subsidy for wage earners, self-employed, bus drivers, truckers, farmers, and fishermen (KRW 4.6 trillion)
• Capital injection into state-owned banks (KRW 1.4 trillion)
• Expenditure increase (KRW 10.0 trillion)
of which:
• Infrastructure projects (KRW 4.0 trillion)
• Support for SMEs (KRW 3.4 trillion)
• Support for low-income families (KRW 1.0 trillion)</td></tr>
<tr><td>Second Package:
$12.6 billion
(3.4% of GDP)</td><td>Fiscal spending</td></tr>
<tr><td>of which:
$4.9 billion
(0.8% of GDP)</td><td>Emergency support program to support the poor:
• Temporary public expenditure projects ($1.8 billion)
• Temporary income support for the poor ($378 million)
• Financial support for small businesses ($350 million)
• Contribution to regional credit guarantee funds ($350 million)
• Expansion of basic livelihood security programs ($205 million)
• Financial support for the unemployed ($191 million)</td></tr>
</table>

	Program Amount	Program Details
	First Package: $2 billion (0.9% of GDP)	• Low- and medium-cost housing ($0.3 billion) • Micro-credit facilities ($57 million)
Malaysia	Second Package: $16.4 billion (9% of GDP)	• Tax cuts and incentives, including loss carryback for businesses, accelerated capital depreciation, and partial rebate of landing charges (MYR 3 billion) • Additional spending (MYR 15 billion), including for: school facilities (MYR 2 billion), investment promotion (MYR 1.6 billion), and infrastructure in Sabah and Sarawak (MYR 1.2 billion) • Guarantee funds (MYR 25 billion), including for: a working capital guarantee scheme (MYR 5 billion); a restructuring loan guarantee scheme (MYR 5 billion); and, for the establishment of a financial guarantee institution (MYR 15 billion). • Equity investments for the government-owned corporation Khazanah for investment in telecommunications, technology and tourism (MYR 10 billion) • Off-budget projects • “Private finance initiative” (MYR 2 billion)
Philippines	$3.6 billion (1.8% of 2009 GDP)	• Corporate and individual tax breaks (PHP 40 billion) • Increase in the government budget (PHP160 billion) • Participation of government-owned and controlled corporations (GOCCs), government financial institutions (GFIs) and private sector in infrastructure projects (PHP 100 billion) • Temporary additional benefits to members of social security institutions (GSIS, SSS and PHILHealth) (PHP 30 billion)
Thailand	$3.6 billion (1.1% of GDP)	• Tax cuts (THB 40 billion) • Cash transfers to civil servants and low-income social security fund beneficiaries (THB 19 billion); Bus and rail travel and utility vouchers for low-income people (THB 11.4 billion); and Commerce Ministry goods markets for low-income households (THB 1 billion) • Irrigation projects (THB 2 billion) and small reservoir construction projects for farmers (THB 0.8 billion) and basic facilities works for villages (THB 1.5 billion) • Food industry and SME promotion (THB 0.5 billion), tourism promotion (THB 1 billion), and national image rehabilitation THB 0.3 billion) • Free education (THB 19 billion) • Training for the unemployed (THB 6.9 billion) • Sufficiency Funds (community-driven development initiative) (THB 15.2 billion) • Pensions for seniors (THB 9 billion) • Recruitment of health volunteers (THB 3 billion) and improvement of health stations (THB1.1 billion) • Housing for junior police officers (THB 1.8 billion) • Budgetary reserve for emergencies (THB 4.1 billion) • Transfers to government accounts (THB 19.1 billion)
Singapore	$13.6 billion (8% of 2009 GDP)	• Jobs credit scheme, skills program, workfare income supplement, and recruitment across the public sector (SGD 5.1 billion) • Enhanced bank lending schemes, bridging loan program, and risk-sharing schemes for trade financing (SGD 5.8 billion) • Tax concessions and measures to support business cash flow and to sharpen competitiveness (SGD 2.6 billion) • Direct assistance to households, targeted help for vulnerable groups, and support for charitable giving (SGD 2.6 billion) • Rejuvenation of public housing estates, upgrading of education and health infrastructure, and enhancement of sustainable development programs (SGD 4.4 billion)

Appendix Table 14. Key Measures in Fiscal Stimulus Packages (continued)

	Program Amount	Program Details
Vietnam	$1 billion (1% of 2009 GDP)	• One-time cash handout (VND 200,000 per person, up to VND 1 million) to households classified as poor by MOLISA. • Interest rate subsidy of 400 basis points for banking credit for working capital for up to 8 months. • Thirty percent reduction in corporate income tax payments for SMEs between the fourth quarter of 2008 and end-2009. • Postponement of payments related to the new personal income tax for some groups until mid-2009. • Credit guarantee for loans to SMEs, including investment loans. • Scaled up investment in large-scale infrastructure (list of projects to be announced) • Small-scale infrastructure program for the 61 poorest districts in the country (10 percent of total).

Sources: National authorities, Reuters, and World Bank staff.

Appendix Table 15. Exports of Electrical Machinery, Apparatus, and Appliances nes (SITC 77) a/

	In billions US$, 2008	In % exports	Rank *	Percent Change, yoy						
				2007	2008	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09
China	152.8	10.7	3	26.0	19.1	17.3	-4.6	-9.9	-26.9	-24.6
Hong Kong (SAR, China)	89.0	36.9	1	17.1	6.6	22.1	-3.1	-9.6	-28.3	-15.3
Singapore b/	83.3	24.7	2	3.4	2.1	-11.8	-19.9	-26.9	-42.1	-34.6
Taiwan (China)	70.3	27.5	1	10.0	-1.7	-11.7	-29.7	-46.4	..	..
Korea	49.2	11.7	2	5.0	-3.5	-14.6	-33.1	-39.1	-43.1	..
Malaysia	36.0	16.5	1	8.7	-3.6	-16.6	-18.9	-29.8	-36.3	..
Philippines c/	23.8	48.8	1	7.8	-8.5	-21.0	-13.4	-47.1	-47.6	..
Thailand d/	23.6	13.5	1	18.2	0.9	-7.9	-20.2	-26.7	-37.1	-33.0
Indonesia	4.6	3.9	9	8.7	13.8	16.4	-20.4	-11.0	..	..
East Asia	528.1	16.4	1							

Source: UN COMTRADE, CEIC, and World Bank staff calculations.
* Rank among country's two-digit exports
a/ SITC 77 consists of: 771=Electric power machinery and parts thereof; 772=Electrical apparatus such as switches, relays, fuses, plugs etc; 773=Equipment for distributing electricity; 774=Electric apparatus for medical purposes; 775=Household type, electrical & non-electrical equipment; 776=Thermionic, cold & photo-cathode valves, tubes, parts; and, 778=Electrical machinery and apparatus nes.
b/ For SGP, consists of: Electronics valves; Electrical circuit apparatus; and, Electrical machinery.
d/ For PHL, consists of: Components Devices, Semiconductors; Consumer Electronics; Medical Industrial Instrumentation; Automotive Electronics; and Other Electronics.
c/ For THA, consists of: Electrical apparatus (excluding Telecommunications equipment) and Electrical appliances.

Appendix Table 16. Exports of Telecommunications and Sound Recording Apparatus (SITC 76) a/

	In billions US$, 2008	In % exports	Rank *	Percent Change, yoy						
				2007	2008	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09
China	179.0	12.5	1	33.4	8.5	5.7	-17.4	-21.2	-30.3	-19.2
Hong Kong (SAR, China)	60.2	16.6	2	21.0	7.6	8.2	-14.2	-21.3	-20.8	-22.1
Korea	49.2	11.6	1	25.0	5.5	-3.6	-34.7	-34.3	-32.1	..
Malaysia	14.2	7.1	4	-8.3	7.3	-14.1	-14.9	-20.7	-46.6	..
Singapore b/	13.5	0.3	4	0.9	-17.9	-32.7	-46.3	-39.3	-55.5	-40.2
Taiwan (China)	11.6	4.8	8	1.0	-2.8	-14.1	-21.7	-27.4	..	..
Thailand c/	3.9	2.2	4	-8.4	11.8	42.4	-20.0	-16.2	-41.2	-37.6
Indonesia	3.2	2.3	13	-6.5	28.3	52.6	24.6	52.1	..	..
Philippines d/	0.6	1.2	8	-0.1	37.7	54.2	24.2	-39.3	45.7	..
East Asia	331.6	10.3	2							

Source: UN COMTRADE, CEIC, and World Bank staff calculations.
* Rank among country's two-digit exports
a/ SITC 76 consists of : 761 - Television receivers; 762 - Radio broadcast receivers; 763 - Gramaphones, dictating sound recorders, etc.; 764 - Telecommunications equipment and parts
b/ For SGP, consists of: Communications equipment
c/ For THA, consists of: Telecommunications equipment; Television; and, Radio
d/ For PHL consists of: Telecommunications; Communications; and Radar, Control and Instrumentation.

Appendix Table 17. Exports of Office Machines and Automatic Data Processing Equipment (SITC 75) a/

	In billions US$, 2008	In % exports	Rank *	Percent Change, yoy						
				2007	2008	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09
China	159.7	11.2	2	9.4	8.6	11.7	-7.5	-15.6	-23.7	-22.2
Hong Kong (SAR, China)	36.0	9.9	3	-17.3	7.2	22.6	17.6	8.5	-20.5	-33.8
Singapore b/	29.4	0.3	3	-5.3	-2.9	-2.5	-39.5	-49.8	-61.7	-63.2
Malaysia	26.3	13.2	2	-3.0	-3.2	-29.7	-22.8	-35.2	-44.9	..
Thailand c/	22.1	12.6	2	22.3	9.2	-3.1	-31.8	-22.6	-31.4	-29.9
Taiwan (China)	10.8	4.4	5	-12.5	-14.9	-22.6	-20.7	-35.8	..	..
Korea	10.7	2.5	11	-25.5	-19.8	-22.7	-38.4	-36.4	-42.4	..
Philippines d/	5.5	11.3	2	0.1	-4.6	-10.0	-22.4	-40.9	-52.0	..
Indonesia	2.6	1.9	20	-2.6	19.7	29.5	20.2	-7.7	..	..
East Asia	295.0	9.3	3							

Source: UN COMTRADE, CEIC, and World Bank staff calculations.
* Rank among country's two-digit exports
a/ SITC 75 products consists of: 751 - Office machines; 752 - Automatic data processing machines and units thereof; and, 759 - Parts of and accessories suitable for 751 - 752
b/ For SGP, consists of: Data processing machines; and, Parts for office and data processing machines
c/ For THA, consists of: Computers; Computers - Parts; and Others.
d/ For PHL, consists of: Electronic data processing equipment; and, Office equipment.

Appendix Table 18. Exports of Petroleum, Petroleum Products and Related Materials (SITC 33) a/

	In billions US$, 2008	In % exports	Rank *	Percent Change, yoy						
				2007	2008	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09
Singapore	81.6	33.9	1	19.2	55.0	15.3	-12.1	-36.3	-49.5	-40.3
Korea	38.3	9.1	5	17.9	56.3	29.4	-26.1	-40.3	-36.6	..
Malaysia	22.2	10.1	3	10.3	40.9	-6.3	-19.2	-41.0	-58.3	..
Taiwan (China)	18.4	7.2	3	27.7	35.3	16.5	-11.1	-62.5	..	..
China	18.3	1.3	18	10.1	51.1	58.0	9.8	24.2	-27.5	-12.5
Indonesia	16.1	13.6	1	10.6	44.9	-30.4	-32.7	-48.7	..	..
Vietnam	10.4	30.3	1	2.1	22.0	-18.4	-52.6	-49.0	-48.6	..
Thailand b/	9.6	5.5	5	14.7	70.6	26.5	-36.3	-21.9	-47.2	-57.6
Philippines c/	1.2	2.5	6	20.7	11.9	-37.1	-67.4	-91.4	-86.9	
Hong Kong (SAR, China)	0.8	0.3	33	-7.3	37.4	-7.8	20.6	-42.0	-38.0	-39.5
East Asia	214.9	6.6	4							

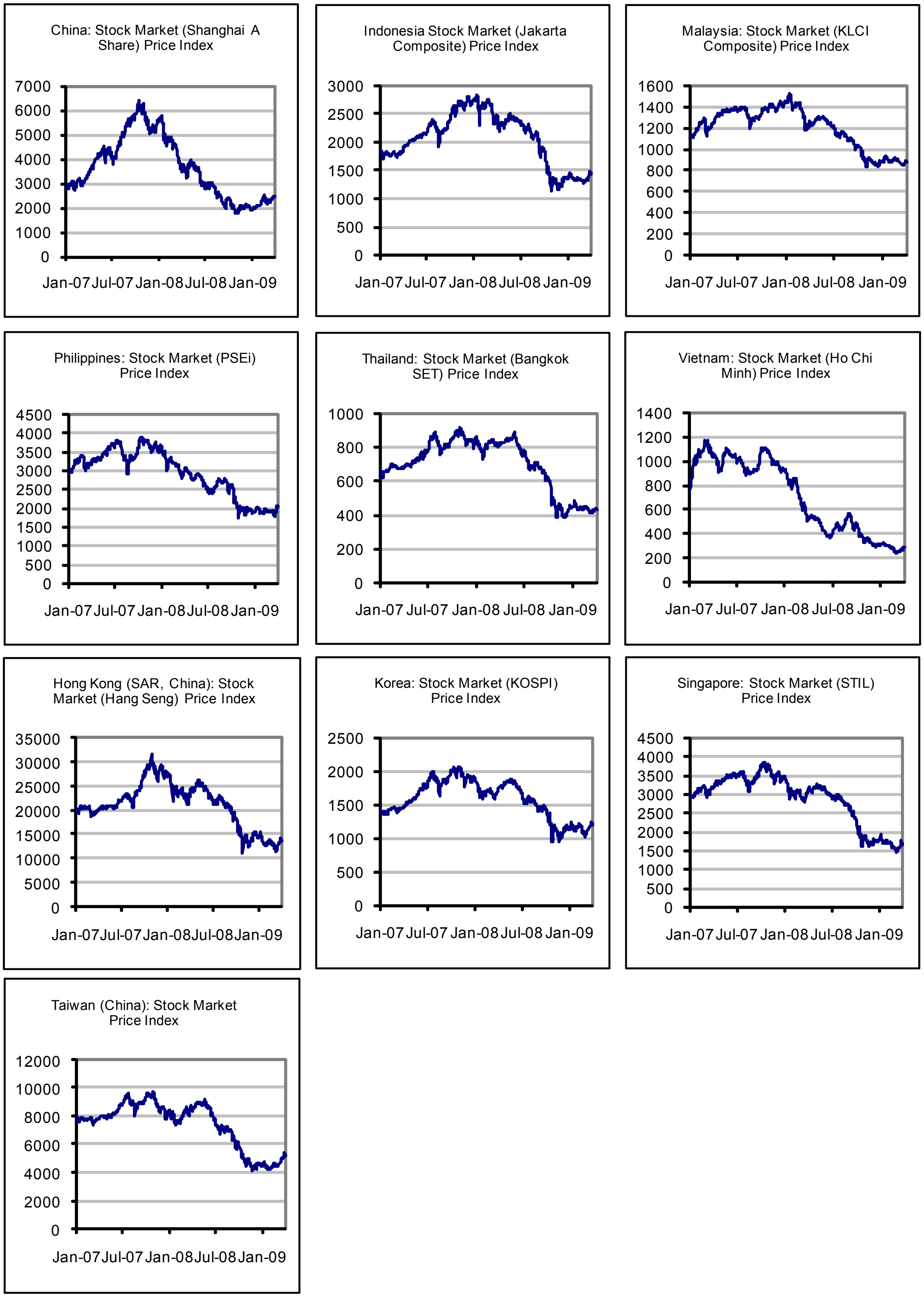
Source: UN COMTRADE, CEIC, and World Bank staff calculations.
* Rank among country's two-digit exports
a/ SITC 33 consists of: 333 - Petroleum oils, crude, & crude oil obtained from bituminous materials; 334 - Petroleum products, refined; and, 334 - Residual petroleum products, nes. & related materials
b/ For THA consists of: Petroleum products.
c/ For PHL, consists of: Petroleum products.

Appendix Table 19. Exports of Articles of Apparel and Clothing Accessories (SITC 84) a/

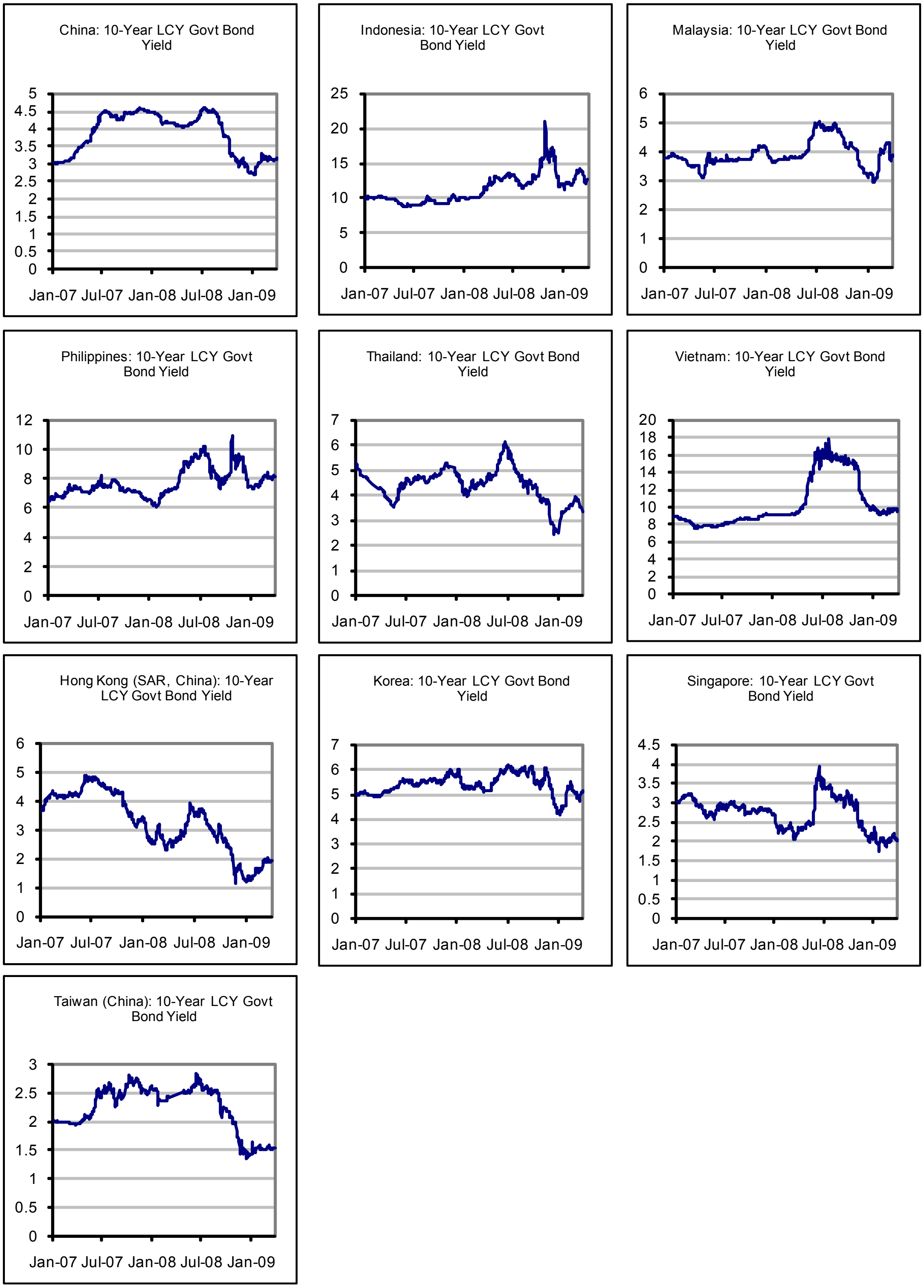
	In billions US$, 2008	In % exports	Rank *	Percent Change, yoy						
				2007	2008	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09
China	120.0	8.4	4	20.9	4.1	11.6	6.1	15.0	5.7	-36.7
Hong Kong (SAR, China)	20.1	5.5	5	1.4	-3.0	-5.2	-4.5	-11.0	14.2	-44.7
Vietnam b/	9.1	26.6	2	32.4	17.7	12.6	1.6	16.1	-12.3	..
Indonesia	6.3	4.6	6	1.9	17.2	3.6	-3.3	14.5	..	..
Thailand c/	4.3	2.4	11	-1.9	6.2	7.6	-7.2	4.5	-0.4	-14.3
Malaysia	3.6	1.8	9	11.1	14.3	8.4	8.1	6.6	-8.3	..
Cambodia	3.0	62.8	1	8.1	3.3	2.0	-1	-14.6	-30.8	..
Philippines d/	1.9	3.9	3	-13.1	-17.2	-25.4	-15.9	-11.4	-21.6	..
Korea	1.7	0.4	19	-12.3	-9.0	-8.3	-28.3	-15.0	-27.8	..
Singapore e/	1.2	0.3	20	6.4	-9.1	-28.2	-36.7	-19.5	-28.1	-32.1
Taiwan (China)	1.2	0.5	22	-9.5	-6.2	-11.8	-2.0	-11.9	..	..
Lao f/	0.2	23.9	5	19.5	21.6	..	..	11.1	..	..
East Asia	170.0	5.3								

Source: UN COMTRADE, CEIC, and World Bank staff calculations.
* Rank among country's two-digit exports
a/ SITC 84 consists: 842 - Outer garments, men's, of textile fabrics; 843 - Outer garments, women's, of textile fabrics; 844 - Under garments of textile fabrics; 845- Outer garments and other articles, knitted; 846 - Under garments, knitted or crocheted; 847 - Clothing accessories of textile fabrics; and, 848 - Articles of apparel & clothing accessories, no textile
b/ For VNM consists of: Articles of clothing and apparel accessories
c/ For THA consists of: Garments, stocks and stockings, brassieres, and other textile products
c/ For PHL consists of: Articles of Clothing and Apparel Accessories
e/ For SGP consists of: Textile manufactures
f/ For LAO consists of: Garments. Reported quarterly.

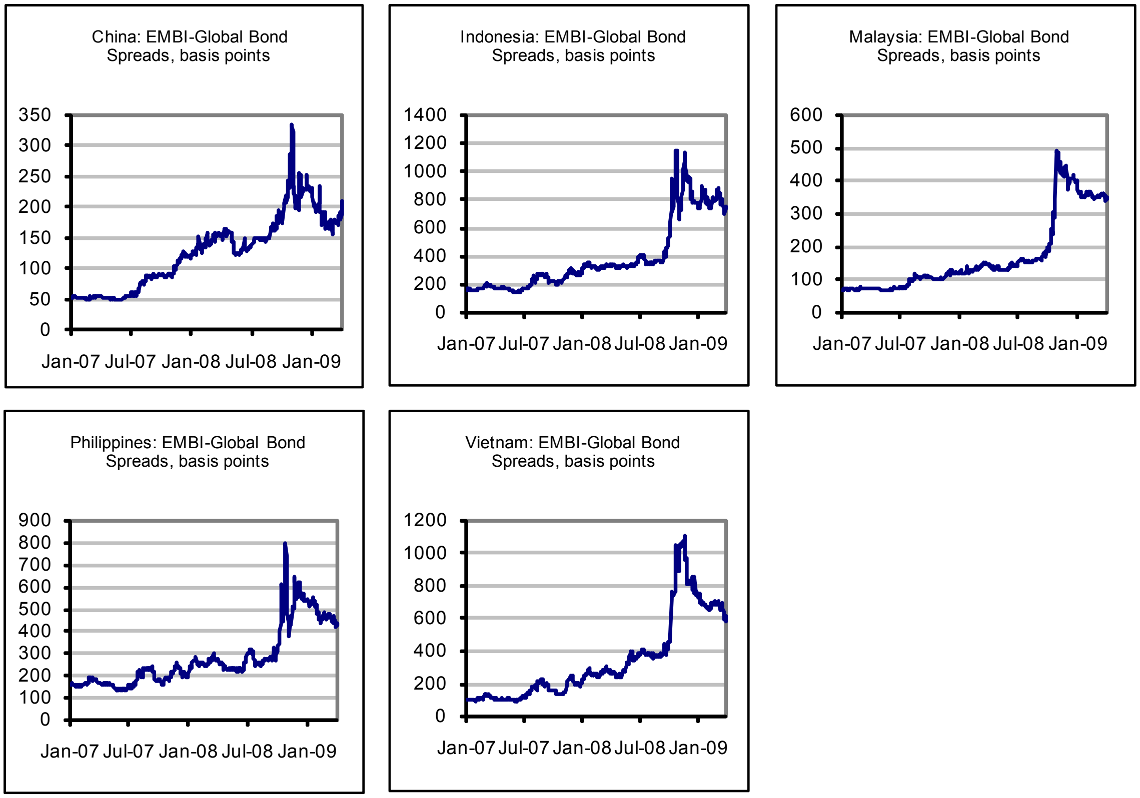
Appendix Chart 1. East Asia: Stock Market Price Indices



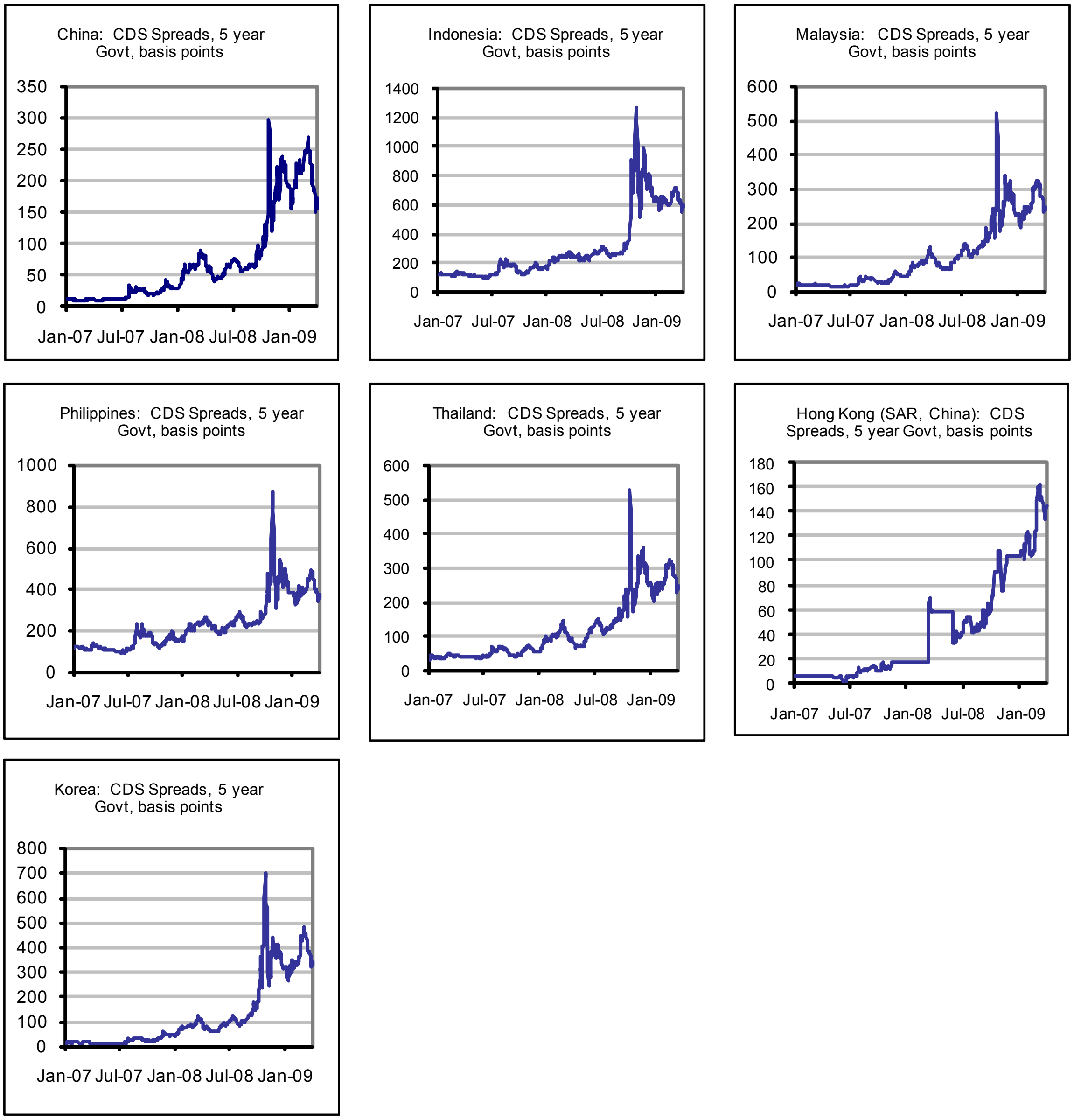
Appendix Chart 2. East Asia: Local-Currency 10-Year Government Bond Yields



Appendix Chart 3. East Asia: Foreign-Currency Government Bond Spreads



Appendix Chart 4. East Asia: Sovereign Credit Default Swap (CDS) Spreads



KEY INDICATORS

CAMBODIA: Key Indicators

	2003	2004	2005	2006	2007	2008e	2009f
	Year	Year	Year	Year	Year	Year	Year
Output, Employment and Prices							
Real GDP (% change y-y)	8.5	10.3	13.3	10.8	10.2	5.5	-1.0
Industrial production index (2000=100)	145.9	170.1	191.7	226.7	245.7	258.3	241.0
(% change y-y)	12.0	16.6	12.7	18.3	8.4	5.1	-6.7
Unemployment (%)	..	1.0	..	..	..	..	..
Consumer price index (% change y-y)	0.5	5.6	6.7	2.8	10.8	13.5	4.0
Public Sector							
Government balance (% GDP)	-6.0	-4.6	-2.5	-2.7	-2.9	-2.2	-4.8
Foreign Trade, BOP and External Debt							
Trade balance (millions US$)	-581	-681	-1,018	-1,034	-1,331	-2,150	-1,407
Exports of goods (millions US$)	2,087	2,589	2,910	3,693	4,089	4,450	4,005
(% change y-y)	18.9	24.1	12.4	26.9	10.7	8.8	-10.0
Key export (% change y-y) 1/	19.7	22.6	11.4	19.8	7.9	0.4	-7.0
Imports of goods (millions US$)	2,668	3,270	3,928	4,727	5,419	6,600	5,412
(% change y-y)	15.1	22.5	20.1	20.4	14.6	21.8	-18.0
Current account balance (millions US$) 2/	-493	-435	-606	-522	-695	-1700	-850
(% GDP)	-10.6	-8.2	-9.7	-7.1	-7.9	-15.3	-7.5
Foreign direct investment (millions US$)	74	121	375	475	867	790	390
External debt (millions US$)	2,868	3,080	3,155	3,318	3,537	2,148	2,276
(% GDP)	61.6	57.9	50.4	45.1	40.4	19.4	20.1
Short-term debt (millions US$)	221	262	279	209	218	218	218
Debt service ratio (% exports of g&s)	2.6	2.1	1.8	1.4	9.0	0.9	1.0
Foreign exchange reserves, gross (millions US$)	737	809	915	1,097	1,616	2,164	2,050
(months of imports of g&s)	2.9	2.6	2.4	2.4	3.1	3.4	3.1
Financial Markets							
Domestic credit (% change y-y)	28.3	33.0	22.6	35.7	70.7	51.1	5.0
Short-term interest rate (% p.a.) 3/	17.3	16.7	16.2	16.4	16.0	15.8	15.0
Exchange rate (Riel/US$, eop)	3980	4031	4116	4061	4003	4081	4100
Real effective exchange rate (2000=100)	95.3	92.9	93.2	93.8	95.1	107.0	..
(% change y-y)	-6.0	-2.6	0.3	0.7	1.3	12.5	..
Memo: Nominal GDP (millions US$)	4,657	5,318	6,257	7,350	8,753	11,101	11,319

Source: National data sources and World Bank staff estimates
e = estimate
f = forecast
1/ Garments
2/ Excludes official transfers
3/ One-year US$ loans

CHINA: Key Indicators

	2005	2006	2007	2008	2009f	2008				2008		2009	
	Year	Year	Year	Year	Year	Q1	Q2	Q3	Q4	Nov	Dec	Jan	Feb
Output, Employment and Prices													
Real GDP (% change y-y)	10.4	11.6	13.0	9.0	6.5	10.6	10.1	9.0	6.8	..	..	..	..
Industrial production index /1	..	..	..	..	..	..	..	..	..	..	..	..	..
(% change y-y)	11.6	12.9	13.5	9.3	6.8	16.2	15.9	13.0	6.4	5.4	5.7	3.8	3.8
Unemployment (%) 2/	4.2	4.1	4.0	4.2	5.0	4.0	4.0	4.0	4.2	..	..	..	..
Real wages (% change y-y)	12.6	12.7	13.3	..	..	..	..	..	..	..	..	..	..
Consumer price index (% change y-y)	1.8	1.5	4.8	5.9	0.5	6.9	8.4	9.7	2.5	2.4	1.2	1.0	-1.6
Public Sector													
Government balance (% GDP)	-1.2	-1.0	0.6	-0.4	-3.2	..	..	..	..	..	..	..	..
Domestic public sector debt (% GDP) /3	17.5	17.2	17.3	17.6	19.2	..	..	..	..	..	..	..	..
Foreign Trade, BOP and External Debt													
Trade balance (billions US$)	102.1	177.5	262.0	297.3	327.3	41.4	58.2	83.3	114.3	40.1	39.0	39.1	4.8
Exports of goods (billions US$)	762	969	1218	1429	1344	306	360	408	354	115	111	90	64
(% change y-y) 4/	28.4	27.2	25.7	17.3	-5.9	21.4	22.4	23.0	4.3	-2.2	-2.8	-17.5	-25.7
Key export (% change y-y) 5/	29.0	28.5	26.2	16.8	..	21.4	21.5	22.1	4.2	-2.3	-3.2	-17.4	..
Imports of goods (billions US$)	660	791	956	1131	1017	264	302	324	240	74	72	51	60
(% change y-y) 4/	17.7	19.9	20.8	18.4	-10.1	28.6	32.4	25.7	-8.9	-18.0	-21.3	-43.1	-23.8
Current account balance (billions US$)	160.8	253.3	371.8	416.0	425.0	..	..	..	..	..	..	..	..
(% GDP)	7.2	9.5	11.0	9.6	8.8	..	..	..	..	..	..	..	..
Foreign direct investment (billions US$) /6	72.4	72.7	83.5	108.3	70.0	27.4	25.0	22.0	33.9	5.3	21.9	7.5	..
External debt (billions US$)	281.0	323.0	373.6	..	..	..	..	..	..	..	..	..	..
(% GDP)	12.2	11.6	10.8	..	..	..	..	..	..	..	..	..	..
Short-term debt (billions US$)	156.1	183.6	220.1	..	..	..	..	..	..	..	..	..	..
Debt service ratio (% exports of g&s)	3.1	2.1	2.0	..	..	..	..	..	..	..	..	..	..
Foreign exchange reserves, gross (billions US$)	822	1074	1533	1950	2376	1688	1815	1912	1952	1891	1952	..	..
(months of imports of g&s)	14.9	16.3	19.2	19.6	25.8	19.2	18.0	17.7	24.4	25.3	27.1	..	..
Financial Markets													
Domestic credit (% change y-y)	9.3	15.7	16.1	15.9	..	14.8	14.1	14.5	18.8	16.0	18.8	21.3	24.2
Short-term interest rate (% p.a.) 7/	3.3	3.3	3.3	2.8	3.3	4.1	4.1	4.1	2.8	3.1	2.8	2.8	2.8
Exchange rate (RMB/US$, eop)	8.08	7.82	7.37	6.84	6.80	7.08	6.90	6.83	6.84	6.83	6.84	6.84	..
Real effective exchange rate (2000=100)	98.7	97.2	98.8	111.6	..	99.4	101.0	108.7	110.5	113.2	110.5	110.1	..
(% change y-y)	8.0	-1.5	1.7	12.9	..	4.8	5.5	9.4	11.9	17.3	12.9	12.9	..
Equity Prices (Dec'90=100)	1161	2675	5262	1821	..	3473	2736	2294	1821	1871	1821	1991	2083
Memo: Nominal GDP (billions US$)	2,303	2,780	3,461	4,327	4,803	..	..	..	..	..	..	..	..

Source: National data sources
f = forecast
1/ Annual data are not comparable with the quarterly and monthly data. Annual data cover all industrial enterprises while the quarterly and monthly ones only refer to those enterprises with sales value above Rmb5 millions.
2/ Official urban unemployment only, not including laid-off workers
3/ Includes treasury bond, policy financial bond and other financial bond (end-period outstanding)
4/ Nominal growth rate
5/ Manufactured exports
6/ Gross FDI utilized
7/ Central Bank loans to financial institutions, less than 20 days
8/ Shanghai Stock Exchange A-Share Price Composite

FIJI: Key Indicators

	2003	2004	2005	2006	2007	2008e	2009p
	Year	Year	Year	Year	Year	Year	Year
Output, Employment and Prices							
GDP (% change y-y)	0.9	5.5	0.6	3.4	-6.6	1.2	-2.0
Tourist arrivals (thousands)	431	503	550	545	540	580	600
(% change y-y)	8.3	16.7	9.4	-0.9	-1.0	7.4	3.4
Unemployment rate (%)	8.1	..	..	..	..	..	..
Consumer price index (% change y-y)	4.2	2.8	2.4	2.5	4.3	7.8	6.0
Public Sector							
Government balance (% GDP)	-6.0	-3.1	-3.4	-2.8	-1.7	-1.5	-3.0
Domestic public sector debt (% GDP)	44.9	44.7	44.5	44.6	43.0	40.5	40.6
Foreign Trade, BOP and External Debt							
Trade balance (millions US$)	-424	-620	-764	-929	-875	-1,210	-848
Exports of goods (millions US$)	640	666	698	711	754	871	795
(% change y-y)	30.9	3.9	4.8	1.9	6.0	15.5	-8.7
Key export (% change y-y) 1/	11.1	1.4	9.6	-6.1	-7.2	-0.9	-30.0
Imports of goods (millions US$)	1,064	1,286	1,462	1,640	1,629	2,081	1,643
(% change y-y)	33.0	20.8	13.7	12.2	-0.7	27.7	-21.0
Current account balance millions US$)	-95	-370	-396	-715	-583	-938	-593
(% GDP)	-4.1	-13.6	-13.2	-22.8	-17.3	-26.1	-17.0
Foreign direct investment (millions US$)	29	103	-15	373	283	292	279
Total external debt (millions US$)	357	357	396	556	462	..	..
(% GDP)	15.5	13.1	13.2	17.7	13.1	..	..
Short-term debt (millions US$)	86	75	111	111	210	210	210
Debt service ratio (% exports of g&s)	1.7	1.5	1.3	1.7	1.7	1.6	1.7
Foreign exchange reserves, gross (millions US$) 2/	548	636	471	520	619	431	..
(months of imports g&s)	5.6	5.6	4.0	3.7	4.4	2.9	..
Financial Markets							
Domestic credit (% change y-y) 3/	16.8	18.0	24.5	23.7	6.9	6.4	..
Short-term interest rate % p.a.)	1.2	1.8	2.3	nix.	4.3	n.i..	..
Exchange rate (FJ$/US$, eop)	1.7	1.6	1.7	1.7	1.5	1.8	1.9
Real effective exchange rate (2000=100)	107.6	109.8	109.2	107.0	109.8	117.7	..
(% change y-y)	6.7	2.0	-0.5	-2.1	2.6	7.2	..
Memo: Nominal GDP (millions US$)	2,309	2,728	2,998	3,138	3,518	3,378	3,293

e = estimate
f = forecast
1/ Sugar.
2/ Includes foreign assets of non-bank financial institutions.
3/ Domestic credit to the private sector.

INDONESIA: Key Indicators

	2005	2006	2007	2008	2009f	2008				2008		2009	
	Year	Year	Year	Year	Year	Q1	Q2	Q3	Q4	Nov	Dec	Jan	Feb
Output, Employment and Prices													
Real GDP (% change y-y) 1/	5.7	5.5	6.3	6.1	3.4	6.2	6.4	6.4	5.2	..	..	..	..
Industrial production index (2000=100)	112	110	124	128	..	123	128	130	124	127	124	119	..
(% change y-y)	-7.6	-1.6	12.6	3.3	..	2.5	2.4	-0.8	-2.8	0.6	-3.2	-6.1	..
Unemployment (%)	10.3	10.3	9.1	9.4	..	..	..	..	..	..	..	..	..
Real wages (% change y-y)	-8.2	3.5	1.3	..	..	..	..	..	..	..	..	..	..
Consumer price index (% change y-y)	10.5	13.1	6.4	11.1	5.0	6.5	9.0	12.0	11.5	11.7	11.1	9.2	8.6
Public Sector													
Government balance (% GDP)	-0.5	-0.9	-1.3	-0.1	-2.1	..	..	..	..	..	..	..	..
Domestic public sector debt (% GDP)	48.1	39.2	35.4	33.1	..	32.6	29.5	27.9	33.1	..	..	..	..
Foreign Trade, BOP and External Debt													
Trade balance (billions US$)	12.0	23.8	25.9	14.0	..	5.4	2.9	3.2	4.6	0.9	1.0	0.8	1.3
Exports of goods (billions US$)	87.0	103.5	118.0	139.3	113.1	34.4	37.3	38.1	29.5	9.6	8.7	7.2	7.1
(% change y-y)	19.5	19.0	14.0	18.0	-19.0	28.4	27.9	26.9	-8.5	-2.4	-20.6	-36.1	-32.9
Key export (% change y-y) 2/	22.9	10.3	4.1	31	..	62.0	68.8	44.0	-30.8	..	..	..	..
Imports of goods (billions US$)	75.0	79.8	92.1	125.3	91.7	29.0	34.5	34.9	26.9	8.7	7.7	6.3	5.8
(% change y-y)	26.7	6.3	15.4	36.0	-21.0	41.7	51.2	43.5	9.5	15.1	12.6	-34.0	-40.9
Current account balance (billions US$)	0.3	10.9	10.5	0.6	-0.1	2.8	-1.0	-0.9	-0.2	..	..	..	..
(% GDP)	0.1	3.0	2.4	0.1	0.0	2.3	-0.8	-0.7	-0.2	..	..	..	..
Foreign direct investment (billions US$) 3/	8.3	4.9	6.9	8.3	..	1.5	2.0	1.9	2.9	..	..	..	..
External debt (billions US$)	127.6	123.7	139.3	144.1		..	..	..		..	..	..	..
(% GDP)	45.2	33.4	33.2	31.9	..	..	..	..		..	..	..	..
Foreign exchange reserves, gross (billions US$)	36.1	41.1	55.0	51.6	42.5	59.0	59.5	57.1	51.6	50.2	51.6	50.9	50.6
(months of imports of g&s)	5.2	5.6	6.5	4.5	..	5.5	4.7	4.5	5.2	..	..	..	..
Financial Markets													
Domestic credit (% change y-y)	11.1	8.5	15.3	13	..	13.1	15.8	16.8	13.5	..	..	..	..
Short-term interest rate (% p.a.) 4/	9.2	8.4	5.2	8.6	..	7.4	8.2	9.2	9.7	..	..	..	..
Exchange rate (Rupiah/US$, ave)	9704.0	9134.3	9162.4	9802.4	..	9189.0	9258.3	9252.3	11510.0	12360.0	11120.0	11375.0	12000.0
Real effective exchange rate (2000=100)	114.2	133.8	134.3	129.5	..	129.1	130.9	138.0	119.9	116.3	110.0	107.1	..
(% change y-y)	-1.3	17.1	0.4	-3.6	..	-4.6	-5.4	3.3	-6.9	..	..	..	..
Stock market index (Aug. 1988=100) 5/	1162	1806	2746	1355	..	2447	2349	1833	1355	1242	1355	1333	1285
Memo: Nominal GDP (billions US$)	285.9	364.6	431.9	463.0	450.5	120.8	132.7	144.5	115.2	..	..	..	..

Source: National data sources
f = forecast
1/ Based on GDP 2000 base
2/ Crude oil exports
3/ Uses new classification starting in 1994
4/ Policy rate: one-month Bank Indonesia Certificates
5/ Jakarta Composite

LAO PDR: Key Indicators

	2003	2004	2005	2006	2007	2008e	2009f
	Year	Year	Year	Year	Year	Year	Year
Output, Employment and Prices							
Real GDP (% change y-y)	6.1	6.4	7.1	8.4	7.5	7.0	5.0
Consumer price index (% change y-y)	15.5	10.5	7.2	6.8	4.5	7.6	3.0
Public Sector 1/							
Government balance (% GDP) 2/	-5.6	-3.3	-4.5	-3.8	-2.8	-1.8	-5.4
Foreign Trade, BOP and External Debt							
Trade balance (millions US$)	-244	-520	-496	-434	-757	-896	-761
Exports of goods (millions US$)	450	536	728	1,112	1,195	1,446	1,273
(% change y-y)	21.6	19.1	35.8	52.8	7.4	21.1	-12.0
Key export (% change y-y)	22.0	10.8	50.8	53.2	3.3	22.1	-14.1
Imports of goods (millions US$)	694	1,056	1,223	1,546	1,951	2,342	2,034
(% change y-y)	9.6	52.2	15.8	26.4	26.2	20.0	-13.2
Current account balance (millions US$)	-175	-413	-303	-338	-598	-602	-356
(% GDP)	-8.1	-17.1	-11.0	-9.4	-13.7	-10.8	-6.1
Foreign direct investment (millions US$)	42	315	356	484	750	792	631
External debt (millions US$)	2,413	2,648	3,028	3,398	4,293	5,079	6,195
(% GDP)	112.3	105.6	109.6	94.5	99.6	93.2	107.3
Short-term debt (millions US$)	72	95	109	..	..	97	98
Debt service ratio (% exports of g&s)	15.1	17.4	20.9	15.8	17.5	14.7	17.4
Foreign exchange reserves, gross (millions US$) 3/	214	226	238	335	539	636	536
(months of imports of g&s)	3.2	2.7	2.4	3.0	3.7	5.2	5.0
Financial Markets							
Domestic credit (% change y-y)	2.8	9.7	5.5	-6.0	16.0	67.2	49.4
Short-term interest rate (% p.a.) 4/	24.9	16.0	15.0	14.5	13.0	13.0	13.0
Exchange rate (Kip/US$, ave)	10516.3	10581.9	10635.8	10060.6	9562.9	8994.1	8815.0
Exchange rate (Kip/US$, eop)	10466.5	10357.0	10676.0	9655.0	9341.0	8466.0	8566.0
Real effective exchange rate (2000=100)	97.6	95.9	103.1	105.5	104.3	123.5	..
(% change y-y)	0.3	-1.7	7.5	2.3	-1.1	18.4	..
Memo: Nominal GDP (millions US$)	2,149	2,419	2,762	3,595	4,309	5,449	5,771

Source: National data sources
f = forecast
1/ Fiscal year basis
2/ After grants
3/ Excluding gold
4/ Treasury bill rate

MALAYSIA: Key Indicators

	2005	2006	2007	2008	2009f	2008				2008		2009	
	Year	Year	Year	Year	Year	Q1	Q2	Q3	Q4	Nov	Dec	Jan	Feb
Output, Employment and Prices													
Real GDP (% change y-y)	5.3	5.8	6.3	4.6	-1.0	7.4	6.7	4.7	0.1	..	..	..	..
Industrial production index (2000=100)	127.5	133.3	136.0	136.2	..	138.7	138.8	139.4	127.6	128.3	121.7	..	..
(% change y-y)	3.6	5.0	2.1	0.1	..	5.9	3.4	0.5	-9.0	-8.2	-15.6	..	..
Unemployment (%)	3.5	3.5	3.3	3.7	..	3.6	3.5	3.1	3.7	..	..	..	..
Real wages (% change y-y)	..	..	..	..	..	..	..	..	..	..	..	..	..
Consumer price index (% change y-y)	3.0	3.6	2.0	5.4	-0.5	2.6	4.9	8.4	5.9	5.7	4.4	3.9	3.7
Public Sector													
Government balance (% GDP) /1	-3.6	-3.3	-3.2	-5.2	-7.6	-4.4	-1.0	-3.9	..	..	..	..	..
Domestic public sector debt (% GDP) 1/	38.2	37.9	38.5	39.6	..	39.2	37.6	36.3	39.6	..	..	..	..
Foreign Trade, BOP and External Debt													
Trade balance (billions US$)	26.3	29.5	29.2	42.6	39.8	8.4	12.6	12.4	9.2	3.2	3.4	2.5	..
Exports of goods (billions US$)	140.9	160.6	176.0	199.1	162.9	47.4	54.3	55.0	42.6	14.3	13.3	10.7	..
(% change y-y)	11.3	13.9	9.6	13.1	-18.2	19.6	28.4	20.0	-13.0	-11.7	-18.8	-34.5	..
Key export (% change y-y) 2/	9.9	6.4	-4.2	-3.8	..	-9.2	9.2	2.9	-17.3	-12.3	-24.7	-40.1	..
Imports of goods (billions US$)	114.6	131.1	146.9	156.5	123.1	39.0	41.7	42.6	33.4	11.1	9.9	8.3	..
(% change y-y)	9.0	14.4	12.0	6.5	-21.3	16.1	16.9	13.1	-17.6	-15.1	-26.6	-38.3	..
Current account balance (billions US$)	20.0	25.5	29.2	38.7	30.2	7.4	11.5	11.6	..	..	..	..	..
(% GDP)	14.6	16.3	15.0	17.4	15.1	13.6	19.5	19.5	..	..	..	..	..
Foreign direct investment (billions US$)	0.0	0.0	0.0	0.0	..	..	..	..	..	..	..	..	..
External debt (billions US$)	52.2	50.3	54.5	70.7	62.4	67.2	73.4	76.0	66.3	..	..	..	..
(% GDP)	37.8	32.2	29.2	31.8	..	30.9	31.2	32.0	33.2	..	..	..	..
Short-term debt (billions US$)	12.4	11.7	15.8	24.0	..	25.3	28.9	30.7	22.5	..	..	..	..
Debt service ratio (% exports of g&s)	5.4	4.8	3.8	2.7	..	3.7	2.0	2.2	3.0	..	..	..	..
Foreign exchange reserves, gross (billions US$)	70.2	82.5	101.3	91.4	83.5	120.3	125.8	109.7	91.4	97.4	91.2	91.0	90.7
(months of imports of g&s) 3/	7.7	7.8	8.4	7.4	..	9.4	9.8	8.9	7.4	..	..	..	..
Financial Markets													
Domestic credit (% change y-y)	8.6	6.3	8.6	12.8	..	9.7	10.9	10.5	11.3	10.7	12.8	11.7	..
Short-term interest rate (% p.a.) 4/	2.8	3.5	3.5	3.5	..	3.6	3.6	3.6	3.5	3.5	3.3	3.0	..
Exchange rate (Ringgit/US$, eop)	3.79	3.67	3.44	3.33	3.59	3.23	3.21	3.34	3.56	3.59	3.55	3.57	3.64
Real effective exchange rate (2000=100) 5/	95.2	99.0	102.4	103.1	..	103.3	103.2	104.4	101.6	101.2	100.7	98.5	..
(% change y-y)	0.3	4.0	3.4	0.7	..	0.2	-0.4	3.2	-0.2	0.1	-1.6	-4.6	..
Stock market index (Apr. 4, 1986=100) 6/	900	1096	1445	..	..	1248	1187	1019	877	866	877	884	891
Memo: Nominal GDP (billions US$)	138.0	156.4	186.7	222.2	183.6	54.4	58.9	59.5	49.9	..	..	..	..

Source: National data sources, World Bank staff estimates
f = forecast
1/ Federal government only.
2/ Electronics
3/ Excludes services imports.
4/ One-month interbank rate.
5/ World Bank's staff estimate.
6/ KLSE Composite.

MONGOLIA: Key Economic Indicators

	2003	2004	2005	2006	2007	2008e	2009f
	Year	Year	Year	Year	Year	Year	Year
Output, Employment and Prices							
Real GDP (% change y-y)	7.0	10.6	7.3	8.6	10.2	8.9	2.7
Industrial production index	..	..	..	100.0	110.4	113.4	..
(% change y-y)	..	..	..	..	10.4	2.8	..
Unemployment (%)	3.4	3.6	3.3	3.2	2.8	2.8	..
Consumer price index (% change y-y)	4.6	10.9	9.6	5.9	14.1	23.2	9.0
Public Sector							
Government balance (% GDP)	-3.7	-1.8	2.6	8.1	2.8	-5.0	-6.0
Domestic public sector debt (% GDP)	3.1	1.4	0.1	1.0	0.5	0.0	0.0
Foreign Trade, BOP and External Debt							
Trade balance (millions US$)	-200	-99	-100	136	-52	-596	-331
Exports of goods (millions US$)	627	872	1,066	1,544	1,951	2,532	1,863
(% change y-y)	19.7	39.0	22.2	44.8	26.4	29.8	-26.4
Key export (% change y-y) 1/	..	..	14.7	94.8	27.7	3.0	..
Imports of goods (millions US$)	827	971	1,166	1,408	2,003	3,129	2,194
(% change y-y)	21.6	17.5	20.0	20.8	42.3	56.2	-29.9
Current account balance (millions US$)	-102	24	30	222	265	-503	-262
(% GDP)	-7.1	1.3	1.3	7.0	6.7	-9.6	-6.5
Foreign direct investment (millions US$)	132	129	258	290	360	682	317
External debt (millions US$)	1,240	1,312	1,360	1,414	1,529	1,601	1,796
(% GDP)	87.3	73.7	59.7	44.3	38.9	33.1	46.8
Short-term debt (millions US$) 2/	0.0	0.0	0.0	0.0	0.0	0.0	..
Debt service ratio (% exports of g&s) 3/	13.4	9.4	7.6	5.4	4.3	3.5	4.3
Foreign exchange reserves, gross (millions US$)	204	208	333	718	1,001	657	822
(month of imports of g&s)	2.3	1.8	2.5	4.6	5.0	2.1	3.7
Financial Markets							
Domestic credit (% change y-y)	157.3	25.8	18.8	-3.1	78.4	60.6	..
Short-term interest rate (% p.a.) 4/	..	15.8	3.7	5.1	8.4	9.8	..
Exchange rate (Tugrug/US$, eop)	1168.0	1209.0	1221.0	1165.0	1170.0	1267.5	1640.0
Real effective exchange rate (2000=100)	96.9	95.4	101.8	107.1	109.0	130.2	..
(% change y-y)	-4.8	-1.5	6.7	5.2	1.8	19.5	..
Stock market index (2000=100) 5/	151	121	204	382	2,048	1,182	..
Memo: Nominal GDP (millions US$)	1,448	1,814	2,307	3,156	3,930	5,258	4,035

Sources: National data sources
e = estimate
f = forecast
1/ Copper concentrate.
2/ Short-term PPG debt.
3/ On PPG debt.
4/ Yield of 14-day bills until 2006 and of 7-day bills for 2007.
5/ Top-20 index, eop, index=100 in Dec-2000.

PAPUA NEW GUINEA: Key Indicators

	2003	2004	2005	2006	2007	2008e	2009f
	Year	Year	Year	Year	Year	Year	Year
Output, Employment and Prices							
Real GDP (% change y-y)	2.2	2.7	3.6	2.6	6.5	7.0	3.9
Tourist arrivals (thousands)	56.3	59.0	69.3	77.7	104.1	115.0	123.0
(% change y-y)	4.7	4.9	17.3	12.2	34.0	10.4	7.0
Consumer price index (% change y-y)	14.7	2.1	1.7	2.3	0.9	10.7	8.2
Public Sector							
Government balance (% GDP)	-1.2	1.7	3.7	6.7	8.2	4.5	-2.0
Domestic public sector debt (% GDP)	24.5	25.2	22.4	18.0	17.0	14.5	14.8
Foreign Trade, BOP and External Debt							
Trade balance (millions US$)	718	760	816	1,401	1,419	1,603	676
Exports of goods (millions US$)	2,153	2,554	3,278	4,207	4,750	5,397	4,197
(% change y-y)	30.8	18.6	28.3	28.3	12.9	13.6	-22.2
Key export (% change y-y) 1/	32.1	10.5	6.0	9.3	25.6	26.3	15.3
Imports of goods (millions US$)	1,435	1,794	2,462	2,805	3,331	3,794	3,521
(% change y-y)	10.2	25.0	37.2	13.9	18.8	13.9	-7.2
Current account balance (millions US$)	159	88	207	128	112	228	-546
(% GDP)	4.5	2.2	4.2	2.3	1.8	2.8	-6.7
Foreign direct investment (millions US$)	96.7	25.8	67.9	193.1	462.0	277.1	263.2
External debt (millions US$)	2,164	2,078	2,021	2,175	1,995	2,004	2,225
(% GDP)	58.6	51.8	41.2	38.6	30.7	24.4	27.9
Short-term debt (millions US$)	111	109	232	167	100	125	110
Debt service ratio (% exports of g&s)	15.9	12.5	9.7	8.3	8.4	6.4	7.4
Foreign exchange reserves, gross (millions US$)	523	663	765	1,427	2,087	2,093	1,750
(months of imports of g&s)	2.7	2.8	2.4	3.8	4.8	4.3	3.6
Financial Markets							
Domestic credit (% change y-y)	-4.1	0.9	23.7	38.2	34.4	41.0	19.6
Short-term interest rate (% p.a.)	18.7	3.1	3.8	3.4	4.4	5.6	7.5
Exchange rate (Kina/US$, eop)	3.3	3.1	3.1	3.0	2.8	2.7	2.7
Real effective exchange rate (2000=100)	100.1	101.0	108.3	101.8	101.4	116.3	116.3
(% change y-y)	6.9	0.9	7.2	-6.0	-0.4	14.6	0.0
Memo: Nominal GDP (millions US$)	3,536	3,927	4,899	5,605	6,387	8,092	8,200

Source: National data sources
e = estimate
f = forecast
1/ Gold

PHILIPPINES: Key Indicators

	2005	2006	2007	2008	2009f	2008				2008		2009	
	Year	Year	Year	Year	Year	Q1	Q2	Q3	Q4	Nov	Dec	Jan	Feb
Output, Employment and Prices													
Real GDP (% change y-y) 1/	5.0	5.4	7.2	4.6	1.9	4.7	4.4	5.0	4.5	..	..	..	..
Industrial production index (1994 = 100)	95.0	86.9	84.6	84.8	..	79.9	86.1	88.3	84.7	82.7	81.1	..	..
(% change y-y)	1.0	-8.5	-2.7	0.2	..	-0.4	5.1	3.8	-7.0	-7.1	-15.4	..	..
Unemployment (%) 2/	7.7	8.0	7.3	7.4	..	7.4	8.0	7.4	6.8	..	..	..	..
Nominal wages (% change y-y) 3/	8.5	7.9	4.5	5.3	..	3.4	5.3	6.7	5.5	5.5	5.5	5.8	6.1
Real wages (% change y-y) 3/	51.5	0.9	1.9	-1.6	..	-1.0	-2.8	-1.7	-0.9	-1.2	1.0	1.4	1.4
Consumer price index (% change y-y)	7.7	6.3	2.8	9.3	4.5	5.6	9.7	12.2	9.7	9.9	8.0	7.1	7.3
Public Sector													
Government balance (% GDP) 4/	-2.7	-1.1	-0.2	-0.9	-2.3	-3.1	1.8	-1.9	-0.7	..	..	..	..
Domestic public sector debt (% GDP) 5/	33.5	28.7	26.2	..	..	25.2	25.2	25.2	..	..	..	..	..
Foreign Trade, BOP and External Debt													
Trade balance (billions US$) 6/	-7.8	-6.7	-8.2	-12.0	-12.0	-2.7	-3.6	-4.1	-1.5	31.0		..	..
Exports of goods (billions US$) 6/	40.3	46.5	49.5	48.5	42.1	12.3	12.9	13.1	10.2	3.5	2.7	2.5	..
(% change y-y)	3.8	15.6	6.4	-2.1	-13.1	3.0	5.7	4.2	-20.6	-11.4	-40.3	-41.0	..
Key export (% change y-y) 7/	2.5	4.2	4.7	-8.3	..	-4.6	0.3	-1.0	-30.4	-17.0	-47.6	-48.4	..
Imports of goods (billions US$) 6/	48.0	53.3	57.7	60.1	54.1	15.0	16.5	17.2	11.4	3.5	3.3	..	..
(% change y-y)	8.0	10.9	8.4	4.1	-10.0	15.4	15.5	14.3	-26.0	-31.5	-34.2	..	..
Current account balance (billions US$) 8/	2.0	5.3	6.3	4.1	3.2	0.9	.8	-.5	2.9	..	..	..	..
(% GDP)	2.0	4.5	4.4	2.4	2.0	2.2	2.0	-1.3	6.7	..	..	..	..
Foreign direct investment (billions US$)	1.7	2.8	-0.5	1.0	0.1	0.6	0.3	0.1	0.0	..	..	..	..
External debt (billions US$) 9/	55.5	53.4	54.9	..	..	54.6	54.8	53.5	..	..	..	..	..
(% GDP)	56.1	45.4	38.1	..	..	35.4	33.7	31.8	..	..	..	..	..
Short-term debt (billions US$) 9/	6.2	5.0	7.1	..	..	6.7	8.8	8.3	..	..	..	..	..
Debt service ratio (% exports of g&s)	13.5	12.0	9.8	..	..	..	10.6	..	..	..	..	..	..
Foreign exchange reserves, gross (billions US$) 9/	18.5	23.0	33.8	36.7	37.4	36.6	36.7	36.7	37.6	36.8	37.6	39.2	39.3
(months of imports of g&s) 10/	3.8	4.4	5.9	5.7	6.5	6.0	5.7	5.5	5.7	5.6	5.7	5.9	5.9
Financial Markets													
Domestic credit (% change y-y)	-4.1	23.8	5.2	16.8	..	8.2	8.3	13.5	16.8	12.9	16.8	13.1	..
Short-term interest rate (% p.a.) 11/	7.3	7.8	7.0	5.5	..	5.4	5.2	5.6	5.8	6.1	5.8	..	..
Exchange rate (Peso/US$, ave)	55.1	51.3	46.1	44.5	49.5	41.0	43.0	45.5	48.4	49.2	48.1	47.2	47.6
Real effective exchange rate (2000=100)	92.3	102.5	112.3	118.6	..	122.8	119.8	117.8	114.3	113.9	113.6	112.7	..
(% change y-y)	7.0	11.1	9.6	5.6	..	13.8	8.0	4.6	-3.0	-2.2	-6.8	-9.0	..
Stock market index (Jan. 2, 1985=100) 12/	1983	2412	3443	2587	..	3127	2679	2612	1932	1972	1873	1825	1872
Memo: Nominal GDP (billions US$)	98.8	117.6	144.1	168.6	161.3	40.7	42.7	41.0	43.9	..	..	..	..

Source: National data sources
f = forecast
1/ The GDP series has a break in 200.
2/ New methodology. The 2003-06 figures are based on 1995 census. The 2007 figure is based on 2000 census.
3/ Non-agriculture wages, National Capital Region.
4/ National government.
5/ Total public sector domestic debt.
6/ Balance-of-payments basis.
7/ Electronics, semiconductors.
8/ Estimate.
9/ Central bank figures.
9/ Includes income receipts
10/ Based on end-of-period gross international reserves. Import cover is average.
11/ Interbank call rate.
12/ PHISIX Composite, period average for annual figures.

THAILAND: Key Indicators

	2005	2006	2007	2008f	2009f	2008				2008		2009	
	Year	Year	Year	Year	Year	Q1	Q2	Q3	Q4	Nov	Dec	Jan	Feb
Output, Employment and Prices													
Real GDP (% change y-y)	4.6	5.2	4.9	2.6	-2.7	6.0	5.3	3.9	-4.3	..	..	..	..
Industrial production index (2000=100)	155.6	167.0	180.7	190.2	..	199.3	189.3	195.8	176.5	176.7	157.9	153.5	157.5
(% change y-y)	9.1	7.3	8.2	5.3	..	12.6	10.1	7.6	-8.0	-7.7	-18.5	-21.3	-19.8
Unemployment (%)	1.8	1.5	1.4	1.4	3.0	1.7	1.4	1.2	1.3	1.4	1.4	2.4	..
Real wages (% change y-y) 1/	2.3	1.6	0.8	4.8	..	13.1	1.1	1.7	3.6	..	..	..	..
Consumer price index (% change y-y)	4.5	4.7	2.3	5.5	0.0	5.0	7.5	7.2	2.2	2.2	0.4	-0.4	-0.1
Public Sector													
Government balance (% GDP) 2/	-0.6	1.1	-1.7	-1.1	-6.0	-4.7	5.2	1.7	-6.7	..	..	..	..
Domestic public sector debt (% GDP) 3/	38.1	34.3	33.0	33.6	39.2	32.6	32.8	33.2	33.6	33.1	33.6	..	..
Foreign Trade, BOP and External Debt													
Trade balance (billions US$)	-8.3	1.0	11.6	0.2	8.5	0.2	1.5	-0.2	-1.4	-0.9	0.5	1.7	3.9
Exports of goods (billions US$)	109.4	127.9	150.0	175.3	146.0	41.7	46.0	49.4	38.3	11.8	11.5	10.4	11.6
(% change y-y)	15.2	17.0	17.3	16.8	-16.7	23.8	28.8	28.4	-9.4	-17.7	-15.7	-25.3	-11.1
Key export (% change y-y) 4/	25.7	25.2	16.2	7.8	..	24.4	26.6	9.4	-19.9	-30.8	-24.5	-33.3	-30.6
Imports of goods (billions US$)	117.6	126.9	138.5	175.1	137.5	41.5	44.4	49.5	39.6	12.7	11.0	8.7	7.6
(% change y-y)	25.8	7.9	9.1	26.4	-21.4	35.0	28.7	39.1	5.3	0.2	-8.8	-36.5	-43.5
Current account balance (billions US$)	-7.6	2.3	14.0	-0.2	9.9	3.0	0.1	-1.3	-2.0	-0.9	0.1	2.3	4.4
(% GDP)	-4.3	1.1	5.7	-0.1	4.0	4.3	0.1	-2.0	-3.1	..	..	..	..
Foreign direct investment (billions US$) 5/	6.5	10.5	10.2	9.9	8.5	2.8	2.3	2.5	2.2	0.7	0.9	0.6	..
External debt (billions US$) 6/	52.0	59.6	61.7	..	..	66.9	66.2	65.2	64.8	..	..	..	..
(% GDP)	29.5	28.8	25.1	..	..	24.5	24.2	23.9	23.7	..	..	..	..
Short-term debt (billions US$) 6/	16.4	18.6	21.6	..	..	25.5	25.6	25.2	24.1	..	..	..	..
Debt service ratio (% exports of g&s)	10.8	11.3	11.8	..	..	8.7	6.1	5.6	7.0	..	..	..	..
Foreign exchange reserves, gross (billions US$)	52.1	67.0	87.5	111.0	112.0	110.0	105.7	102.4	111.0	106.3	111.0	110.7	113.3
(months of imports of g&s)	5.3	6.3	7.6	7.6	9.8	7.5	6.8	6.1	6.5	6.1	6.5	6.6	7.0
Financial Markets													
Domestic credit (% change y-y) 7/	6.6	4.8	4.9	9.3	..	6.1	8.6	11.2	9.3	10.2	9.3	8.7	..
Short-term interest rate (% p.a.) 8/	2.62	4.64	3.75	3.4	..	3.25	3.25	3.56	3.46	3.75	2.85	2.26	1.92
Exchange rate (Baht/US$, ave)	40.2	37.9	34.5	33.3	36.0	32.4	32.3	33.9	34.8	35.1	35.0	34.9	35.3
Real effective exchange rate (1994=100) 9/	96.6	105.2	112.1	112.8	..	114.7	115.5	111.3	109.6	110.6	106.7	105.4	..
(% change y-y)	1.9	8.9	6.6	0.6	..	3.2	2.4	-1.7	-1.6	-0.1	-4.9	-6.9	..
Stock market index (Dec. 1996=100) 10/	714	680	858	450.0	..	817	769	597	450	402	450	438	432
Memo: Nominal GDP (billions US$)	176.4	207.0	246.1	273.4	247.8	70.8	70.7	68.5	63.2	..	..	..	..

Source: National data sources, World Bank staff estimates
f = forecast
1/ Average wage of employed person, using the National Statistical Office Labor Force Survey, deflated by CPI inflation.
2/ Cash balance of central government.
3/ Includes domestic central government (CG) debt, domestic debt of non-financial state enterprises, and the Financial institutions Development Fund (FIDF) debt. Series was revised by adding the Village Fund (VF) and the Energy Fund Public Organization (EFPO).
4/ Machinery and mechanical appliances.
5/ Non-bank FDI.
6/ Bank of Thailand figures.
7/ Private credits from domestically registered commercial banks, branches of foreign banks, international banking facilities, finance companies, specialized banks, thrift and credit cooperatives, and money market mutual funds.
8/ One-day repurchase rate, average.
9/ World Bank staff estimates.
10/ Bangkok SET

VIETNAM: Key Economic Indicators

	2003	2004	2005	2006	2007e	2008f	2009f
	Year	Year	Year	Year	Year	Year	Year
Output, Employment and Prices							
Real GDP (% change y-y)	7.3	7.8	8.4	8.2	8.5	6.2	5.5
Industrial production index							
(% change y-y)	15.5	16.0	17.2	17.0	17.1	14.6	14.0
Unemployment (%) 1/	5.8	5.6	5.3	4.8	4.6	4.7	5.5
Consumer price index (% change y-y)	3.2	7.8	8.3	7.5	12.6	19.9	8.0
Public Sector							
Government balance (% GDP) 2/	-1.2	0.9	-0.1	1.1	-2.2	-1.6	-4.0
Domestic public sector debt (% GDP) 3/	41.0	42.4	44.5	44.1	46.3	44.4	45.8
Foreign Trade, BOP and External Debt							
Trade balance (millions US$)	-5,107	-5,451	-4,314	-5,065	-14,121	-18,452	-17,044
Exports of goods (millions US$)	20,176	26,485	32,447	39,826	48,561	62,685	65,813
(% change y-y)	20.8	31.3	22.5	22.7	21.9	29.1	5.0
Key export (% change y-y) 4/	16.8	48.3	30.3	12.1	2.7	23.1	-45.0
Imports of goods (millions US$)	25,256	31,954	36,761	44,891	62,682	80,416	78,405
(% change y-y)	28.0	26.5	15.7	22.1	39.6	28.3	-2.5
Current account balance (millions US$)	-1,930	-1,591	-561	-229	-6,901	-9,135	-5,210
(% GDP)	-4.9	-3.5	-1.1	-0.3	-9.9	-10.2	-5.6
Foreign direct investment (billions US$)	1.9	1.9	2.0	2.4	6.6	8.1	4.5
External debt (millions US$)	13,800	15,600	17,200	19,100	23,700	26,800	28,900
(% GDP)	33.7	33.5	32.5	31.4	33.3	29.8	30.9
Debt service ratio (% exports of g&s)	7.8	6.0	5.4	5.0	4.6	3.5	4.0
Foreign exchange reserves, gross (millions US$)	5,620	6,314	8,557	11,485	21,000	22,400	22,962
(months of imports of g&s)	2.2	2.1	2.2	2.1	3.0	4.0	3.5
Financial Markets							
Domestic credit (% change y-y)	28.4	41.6	31.7	25.4	53.9	21.0	20.0
Short-term interest rate (% p.a.) 5/	6.3	6.7	7.8	7.9	7.4	8.1	6.5
Exchange rate (Dong/US$, eop)	15,646	15,777	15,916	16,055	16,010	16,450	17,664
Real effective exchange rate (2000=100)	91.1	89.8	93.9	97.3	98.3	110.8	..
(% change y-y)	-7.7	-1.4	4.5	3.7	1.0	12.7	..
Stock market index (Jul. 2000=100) 6/	166.9	239.3	307.5	752.0	972.0	315.6	..
Memo: Nominal GDP (millions US$)	39,552	45,428	52,917	60,913	71,034	90,705	93,513

Sources: Vietnam Government Statistics Office, State Bank of Vietnam, IMF, and World Bank staff estimates
e = estimate
f = forecast
1/ Urban areas.
2/ Excludes off-budgetary items.
3/ Includes guaranteed and off-budgetary items.
4/ Crude oil.
5/ Three-month deposit, end-of-period.
6/ Ho Chi Minh Stock Index

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