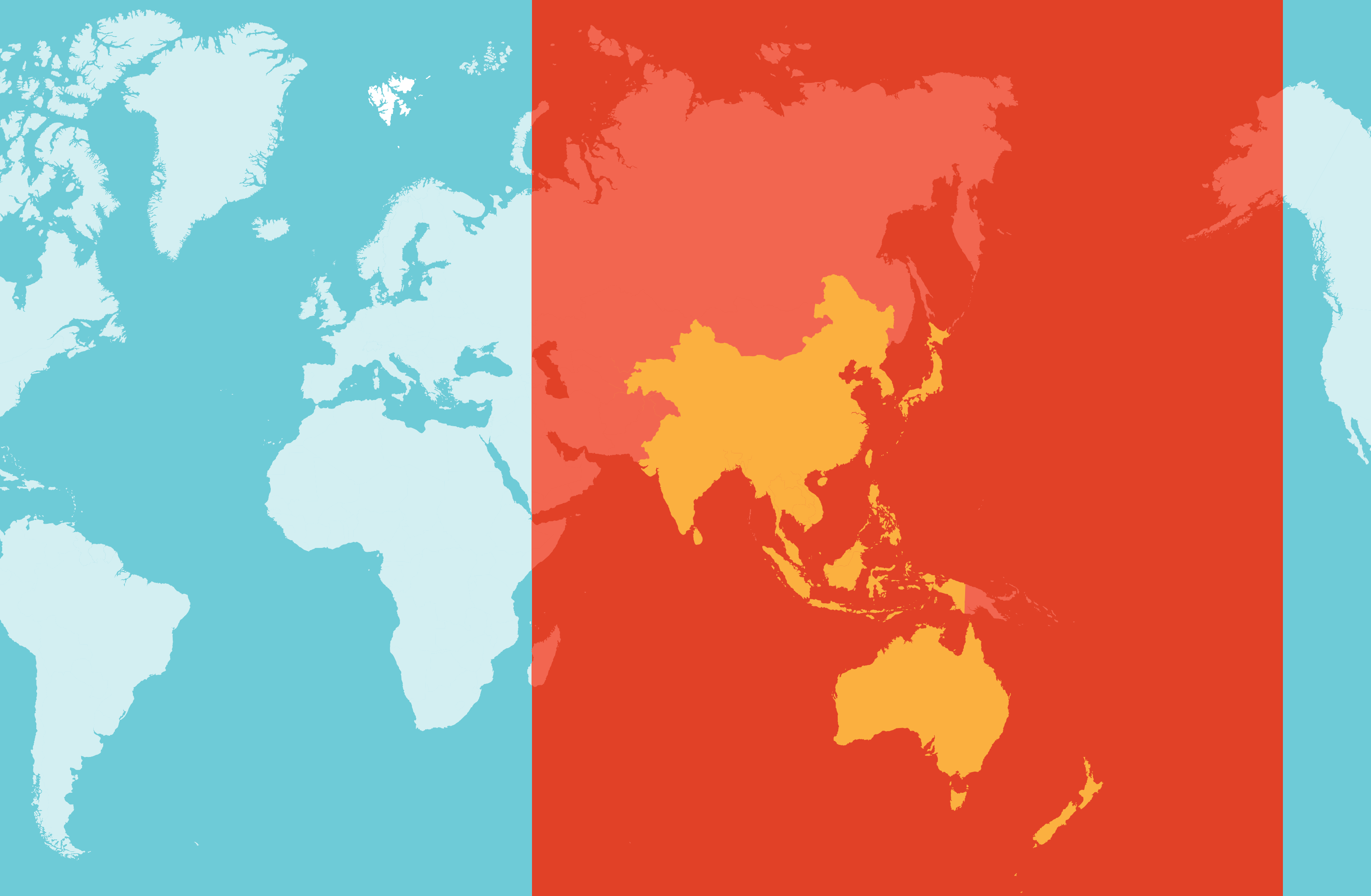
The Economist Corporate Network

Asia Country Briefing

May-June 2017



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Global outlook

World economy

A cyclical improvement is under way, but risks abound

Several months into 2017, the global economy looks healthier than it has been for some time. Two interest-rate rises in three months by the Federal Reserve (Fed, the US central bank), faster inflation in major economies, higher manufacturing purchasing managers' indices, stronger activity in the Chinese property market and falling unemployment rates in the developed world are all indicators of a likely acceleration in economic growth this year. The big concerns about the global economy in recent years—deflation, negative government bond yields and overly restrictive fiscal policies—have all become less apparent in the past year. Consequently, The Economist Intelligence Unit expects the world economy to expand by 2.6% in 2017, compared with a lacklustre 2.2% in 2016.

There are, nevertheless, a number of important caveats to this generally upbeat story. We have revised down our forecast for US growth in 2017 from 2.3% to 2.2% this month, as leading indicators suggest that buoyant consumer and business confidence have not translated into rapid growth in the first quarter. Aggregate growth in the EU is likely to be fractionally slower in 2017 than in 2016, owing to weaker performances in Germany, Spain and the UK, while China's expansion continues to be fuelled by ever-increasing levels of debt. Meanwhile, OPEC's failure to drive up the oil price by restricting supply means that conditions have been more difficult than expected for the cartel's members in recent months.

Among the consequences of the strengthening economic outlook are rising bond

World economy: Forecast summary	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Real GDP growth (%)										
World (PPP* exchange rates)	3.4	3.4	3.5	3.3	3.0	3.4	3.2	3.0	3.5	3.6
World (market exchange rates)	2.3	2.4	2.6	2.7	2.2	2.6	2.4	2.1	2.6	2.7
US	2.2	1.7	2.4	2.6	1.6	2.2	2.1	1.0	2.0	2.0
Japan	1.5	2.0	0.2	1.2	1.0	1.1	0.6	0.8	0.2	0.8
Euro area	-0.8	-0.2	1.2	2.0	1.7	1.6	1.5	1.4	1.5	1.5
China	7.9	7.8	7.3	6.9	6.7	6.6	4.5	4.6	5.2	4.9
Asia & Australasia	4.4	4.6	4.1	4.2	4.1	4.2	3.3	3.4	3.7	3.9
Latin America	3.0	2.8	1.3	0.2	-0.8	1.2	2.1	1.8	2.6	2.9
Middle East & North Africa	3.9	2.1	2.6	2.6	2.6	2.5	3.6	3.0	3.7	3.8
Sub-Saharan Africa	4.1	4.7	4.5	2.9	1.0	2.5	3.4	2.9	3.1	3.6
World inflation (av; %)	4.0	3.8	3.6	3.2	3.8	4.5	3.9	3.3	3.1	3.0
World trade growth (%)	3.6	4.0	4.2	2.8	1.9	2.9	2.7	2.2	3.0	3.3
Commodities										
Oil (US$/barrel: Brent)	112.0	108.9	98.9	52.4	44.0	56.0	60.0	59.0	61.5	64.0
Industrial raw materials (US$; % change)	-19.4	-6.8	-5.1	-15.2	-2.2	16.5	-4.5	-4.8	-1.7	2.9
Food, feedstuffs & beverages (US$; % change)	-3.5	-7.4	-5.2	-18.7	-3.5	1.4	1.3	2.6	-1.4	1.5
Exchange rates (av)										
US$: €	1.29	1.33	1.33	1.11	1.11	1.06	1.07	1.11	1.13	1.15
¥ : US$	79.8	97.6	105.9	121.0	108.8	114.4	105.9	100.5	100.2	99.9

*Purchasing power parity

yields and inflation. Bond yields in the US and other developed markets bottomed out in mid-2016 and have been on a generally upward trend since, possibly signalling the end of a three-decade-long bull market in government bonds. The rise in bond yields has coincided with an increase in inflation in the developed world, in part but not wholly related to the recovery in oil prices from the lows plumbed in early 2016. We forecast global inflation of 4.5% in 2017, the highest rate since 2011.

Global inflation and market interest rates will rise modestly in 2017

A rise in market interest rates will cause some casualties among overleveraged borrowers, but on the whole this is a welcome development, marking another milestone in the slow recovery from the global financial crisis of 2008-09. It will provide relief to financial institutions whose profitability has been undermined by very low, and in some cases negative, interest rates. This process has progressed furthest in the US, where a tight labour market has been exerting upward pressure on wages for some time. Europe was the region that appeared to benefit most from low oil prices, but the recovery now appears to be sufficiently well established to withstand the current rising trend in energy prices, inflation and market interest rates. To the extent that inflation becomes entrenched and lifts nominal GDP, it should alleviate concerns about the sustainability of the heavy debt burdens faced by several countries in the euro zone periphery as a legacy of the crisis.

Nonetheless, we expect both bond yields and policy interest rates to remain low by historic standards. The Fed is likely to lift its funds rate by another 100 basis points over the next two years (which would take it no higher than 2%), but policy rates will remain at zero in both the euro zone and Japan in 2017-21. These forecasts suggest a reasonably benign interest-rate environment for emerging-market borrowers (notably corporates) with hard-currency debts to refinance. But payment stresses could arise from other sources, for example a renewed surge in the dollar.

A more sober assessment of prospects under a Trump administration

In the US the initial positive market reaction to Donald Trump's election as president has been tempered by concerns over the new administration's ability to achieve its aims. Mr Trump's first moves have misfired. Financial markets are delivering their own verdict: US bond yields were no higher in mid-April than they were in late November, and the broad trade-weighted value of the US dollar has fallen by around 3% so far in 2017. Aside from the growing likelihood that pro-growth infrastructure and tax policies will be delayed or prove disappointing, investors have started to pay more heed to downside risks under a Trump administration, notably those stemming from protectionist trade policies and further aggressive and erratic actions in foreign and defence policy.

We remain highly sceptical of the administration's ability to drive sustained faster US growth for both supply- and demand-side reasons. The economy is now running close to capacity. Fiscal stimulus could push up inflation, but, in that case, the Fed would raise the policy interest rate more quickly, curbing any gains in output. Moreover, small-government Republicans would oppose a big public-spending programme on infrastructure unless it were fiscally neutral. The balance of risk to our forecast of growth of 2.2% in 2017 is to the downside, given the likelihood that signs of a faster expansion would cause a more aggressive tightening of interest rates, but the uncertainty surrounding the administration's policy agenda poses myriad threats to the economy.

Emerging markets

Chinese growth will slow in 2018 as the government reins in credit

The health of the Chinese economy remains the biggest risk to the global economy. In 2016 it grew by 6.7%, in line with the official target, despite persistent inefficiencies in the state sector and recessionary conditions in the industrial north-east. However, this was achieved at the cost of a further increase in indebtedness. The build-up in debt, particularly in the corporate sector, is unsustainable, and we think that once the president, Xi Jinping, has consolidated his power at a party conference in late 2017, he will sanction policies to rein in credit growth. Firms in the construction and real-estate sectors will be hit hardest. As a result of these policies, we forecast that growth will slow sharply in 2018, to 4.5%, from 6.6% in 2017. This kind of shift is unprecendented in modern China and will come at a time when the global economy is still weak and central banks have very limited scope to react.

Given China's importance as an engine of global growth and demand, the ripple effects will be felt around the world. Worst-hit will be those countries that depend on exporting hard commodities to China, such as Australia, Chile and Mongolia. Next will be countries that have deep and broad trading relationships with China, such as South Korea and Taiwan. The rest of the world will feel a chill through turbulence in financial markets and declines in consumer and business confidence. Our forecast represents a relatively benign outcome, given China's extreme level of indebtedness. Other economies whose paths China is tracking, such as Japan in the 1980s and Spain in the 2000s, were brought to their knees by systemic crises. We do not foresee this for China, partly because state involvement in the banking sector will ensure that no major lenders go under. Moreover, the slowdown will be policy induced, so the credit bubble will deflate rather than burst. However, the balance of risk is still tilted to the downside, and it is possible that the government may not be able to exert the level of control over the economy that it would like. With the economy entering uncharted waters, a range of responses is plausible.

The outlook for emerging markets is brighter, but only in the short term

On the assumption that Mr Trump makes only modest adjustments to US trade policy, the outlook for emerging markets in 2017 is moderately positive, with growth quickening to 4.7% from 4.1% in 2016. The aggregates will be boosted by Brazil and Russia, the third- and fourth-largest emerging economies, coming out of lengthy recessions, while emerging markets as a whole will benefit from rising commodity prices.

Conditions will become more difficult across the global economy in 2018, when China slows sharply, and in 2019, when we expect the US to experience a mild business-cycle recession. Our forecasts assume that emerging markets will withstand these shocks relatively well, but there are clear downside risks to our growth forecasts in both of those years. We forecast stronger growth for both emerging markets and the developed world in 2020-21. The US will rebound from recession, and growth in China will strengthen, although, at an average of 5% in 2020-21 it will be some way below current rates, reflecting the economy's transition to one in which consumption rather than investment is the main driver of growth.

Exchange rates

Foreign-exchange markets have become more sceptical about the US outlook

The US dollar surged across most currencies in the weeks following the presidential election, reaching a 14-year high on a trade-weighted basis, on the premise that fiscal loosening under the administration of Donald Trump would reflate the economy. This led investors to price in the possibility that the Federal Reserve (Fed, the US central bank) would tighten monetary policy more aggressively than previously thought, pushing up US bond yields. The Economist Intelligence Unit has taken a more sceptical view, given the lingering uncertainty about the direction of policy in many areas under the new administration. For example, we have not factored a large increase in infrastructure investment in to our forecasts on the grounds that it would be opposed by Republican fiscal hawks in Congress. A retracement of part of the dollar's gains against the euro and, notably, the yen in the first three months of the year suggests that these doubts have been increasingly shared by financial markets.

On balance, we expect the dollar to hold fairly steady against both the euro and the yen in 2017. The Fed raised its policy rate by 25 basis points in March, and we expect it to increase by another 100 basis points over the remainder of 2017 and

2018. However, although Fed tightening will increase yield differentials in favour of the dollar in 2017-18, much of this is already priced in to the foreign-exchange market, which leaves the dollar vulnerable to any disappointment on growth, not to mention possible shocks emanating from erratic policymaking under the Trump administration in areas such as trade and migration. There are also risks to the upside: changes to the tax system may encourage US companies to repatriate part of the large cash pile that has accumulated offshore. However, most of the cash is already denominated in dollars, so this should not have much impact on the exchange rate. A Republican proposal for a border adjustment tax that would tax imports but not exports has greater potential to push the dollar higher, at least in the short term. But the proposal is complex and will attract opposition from large importers. We do not factor it in to our forecasts but see it as one of the main global risks.

Over the medium term we maintain the view that the dollar will weaken moderately against the euro and the yen, as we expect a US business cycle downturn in 2019 to lead to a renewed easing cycle by the Fed.

Emerging-market currencies bounce back

Two years of decline gave way to a period of broad emerging-market currency recovery against the majors in the first half of 2016, reflecting investors' search for yield amid highly accommodative monetary policy in the G3 and record low bond yields. The rally faltered in the middle of the year as bond yields in developed countries edged up, and went into reverse in November following Mr Trump's election win as US bond yields rose smartly (accompanied by less marked rises in Europe and Japan). But the sell-off proved short-lived: capital inflows have recovered since December and—with some exceptions—emerging-market currencies have recouped most of the losses that they had sustained against the dollar in November. Even the Mexican peso, the currency worst hit by Trump risk, has rebounded in 2017.

In the event of further increases in US bond yields in 2017, emerging-market currencies would again be vulnerable. But on our assumption that the Fed tightens by only 75 basis points and that US bond yields are unlikely to rise much from current levels, emerging-market currencies should hold up near current levels, at least in the first half of 2017. Yields on emerging-market local- and hard-currency debt are still relatively attractive, and most emerging-market currencies remain cheap. Some emerging-market currencies are likely to come under renewed downward pressure in 2018, and possibly as early as the second half of 2017, as Chinese growth slows sharply and some commodity prices falter. However, in 2019 the forces affecting emerging-market currencies will once again become more mixed as the Fed cuts US interest rates to support the economy.

Commodities outlook

Oil

A lack of clarity on US policy has raised risks to our oil price outlook

On November 30th OPEC agreed to reduce its current level of oil production after months of negotiations. It marked a major reversal of the "free-for-all" market-share strategy that Saudi Arabia and other Gulf Arab states had adopted in 2014 as they sought to combat the rise in US shale production. From January 2017 OPEC began the process of trimming its crude oil output by about 1.2m barrels/day (b/d) from October levels to 32.5m b/d, for six months, extendable by another six months. The pain is designed to be shared around equally: most OPEC members are to reduce output by around 4.6%. However, Nigeria and Libya are exempt, and Iran was granted a 90,000-b/d increase in its quota from October production levels. Boosting the deal's impact, a group of 11 non-OPEC producers agreed to join the effort, reducing output further by a combined 558,000 b/d.

The immediate, sentiment-driven boost to prices stemming from OPEC's commitment has been sustained thus far. However, OPEC's actions are unlikely to trigger a return to the sky-high prices seen at the start of the decade. Indeed, assuming only partial implementation and given historically high levels of oil stocks, the cartel's effort will create only a small dent in the market. In particular, we are sceptical that non-OPEC producers will respect their lower production quotas fully. Russia's offer was vague and came with caveats, and senior figures in the industry are known to be opposed to cutting production. If the initial price response to an OPEC cut is strong enough, this may also prompt a quicker revival in US shale output. The gradual increase in the US oil rig count in July-October 2016 suggests that an increase in shale production could come sooner rather than later.

Nonetheless, we expect prices to rise in 2017, as the global crude oil market moves into a small deficit, helped by some OPEC restraint. We forecast that Brent will climb to an annual average of US$57/b in 2017, from US$44/b in 2016. However, the rally will lose steam in 2018 as the OPEC deal unravels and Chinese consumption softens in line with an abrupt slowdown in industrial production and investment growth. We forecast that Brent will average US$61/b in that year. Yet, continued uncertainty over what US energy policy will look like under the new president, Donald Trump, has introduced a degree of volatility. Energy policies in the US that favour domestic oil producers may, by boosting supply, exacerbate downward pressure on prices. However, if Mr Trump chooses to take the US out of the 2015 Paris Agreement on climate change, stronger demand for fossil fuels would be supportive of oil demand and therefore prices.

Industrial raw materials

Raw materials prices will be on an upward trend in 2017, but fall back in 2018

After a few dismal few years, commodity prices began to reverse course in 2016, with the price of most industrial raw materials (IRM) tracked by The Economist Intelligence Unit now on an upward trend, albeit a wobbly one. The price of several commodities, notably copper, received a boost from Mr Trump’s election in late 2016. Markets expect the Trump administration to usher in a major infrastructure investment splurge, which would boost US demand for raw materials. We agree that Mr Trump's promises on infrastructure could, if approved by the Republican Party's fiscal hawks in Congress and implemented swiftly, generate stronger demand for some industrial raw materials. But such a deal is not a foregone conclusion and his desire to raise tariffs on a range of imports from China may also exacerbate the oversupply in global markets as Chinese producers look for new destinations for their output. We will incorporate these factors into our forecast only once the president has provided more clarity on his policy plans.

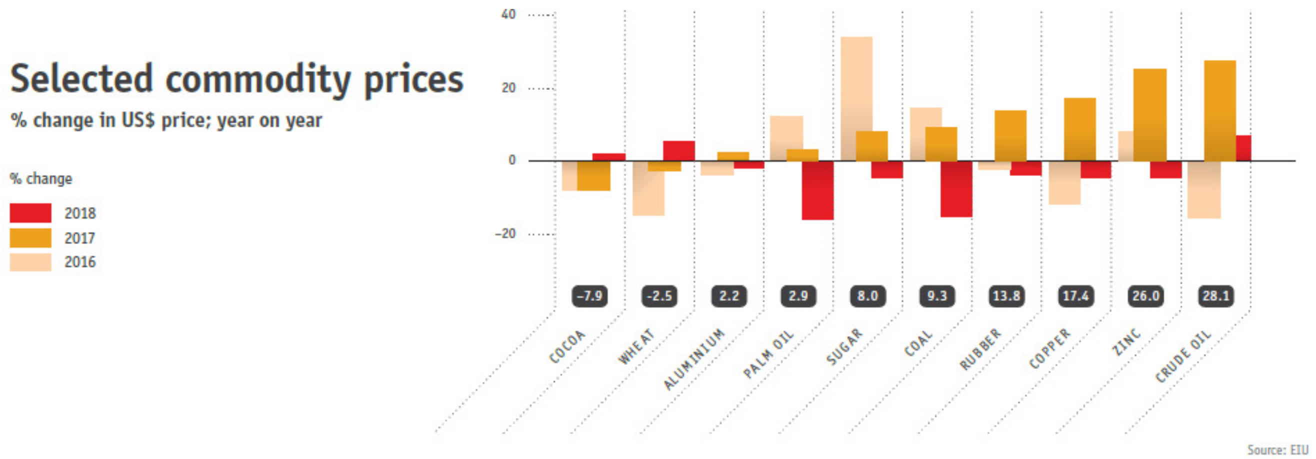
For now, we remain of the view that IRM prices will be on a modest upward trend in 2017. Global GDP growth will quicken, from an estimated 2.2% in 2016 to 2.5%, boosted by the return to growth of Russia and Brazil and a faster expansion in North America. This stronger performance will boost demand for IRM. There is plenty of downside risk: heightened uncertainty about global monetary policy—at a time when traditional easing measures (such as interest-rate cuts) and more avant-garde ones (notably quantitative easing) are reaching the limits of their capabilities—points to increased volatility across financial markets, including commodities. Demand in Europe could also disappoint as business sentiment in the region declines following the UK's vote to leave the EU in mid-2016.

We expect 2018 to be a much more challenging year for IRM producers, as Chinese economic growth will lurch down by 2 percentage points in that year owing to tighter monetary policy. This will affect metals for which China's relative weight in global consumption is greatest, such as copper and aluminium. Prices for other metals, such as nickel and zinc, will be sheltered by a tighter supply outlook, and those with a lack of exposure to heavy industry and construction, like tin, will also fare better. On balance, we expect industrial commodity prices to rise by 10.9% in 2017 as markets tighten and stocks are gradually worked through. Prices will slip back in 2018, by 3.3%, amid falling demand from China.

Food, feedstuffs and beverages

Food prices will rise only slowly in 2017-18

The five-year downward trend in agricultural commodity prices seems to have ended. Recovering sentiment, gradually rising oil prices and a further tightening of many agricultural commodity markets will underpin increases in our Food, feedstuffs and beverages (FFB) price index in 2017-18. Even so, the road ahead will be bumpy. One reason is that the global economy remains weak, with persistent concerns about the path of China's slowdown and uncertainty about global monetary policy. Heightened political risk, as highlighted by the UK's vote to leave the EU in June and the shock US election outcome. Exchange-rate trends may also help to keep a lid on prices. Following Mr Trump's election, markets are anticipating a renewed strengthening of the US dollar, in which most raw materials are traded. This could lower commodity import demand in many emerging markets, while boosting exporters' incentives to increase output. Most significantly, agricultural markets have been well supplied for several consecutive seasons, boosted again by several huge grain outturns this season. As such, we expect the FFB index to increase marginally in 2017, by 0.8%, before picking up slightly to 1.6% in 2018 despite the economic problems in China, underpinned by rising populations and incomes, rapid urbanisation and changing diets. Indeed, we expect the FFB index to rise steadily through to 2021. Annual increases will be marginal, however, owing to ample stock availability in recent years.



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World GDP growth

2017 % and 2018 % real change

Global economic growth is expected to pick up in 2.6% in 2017, from 2.2% in 2016.

% change

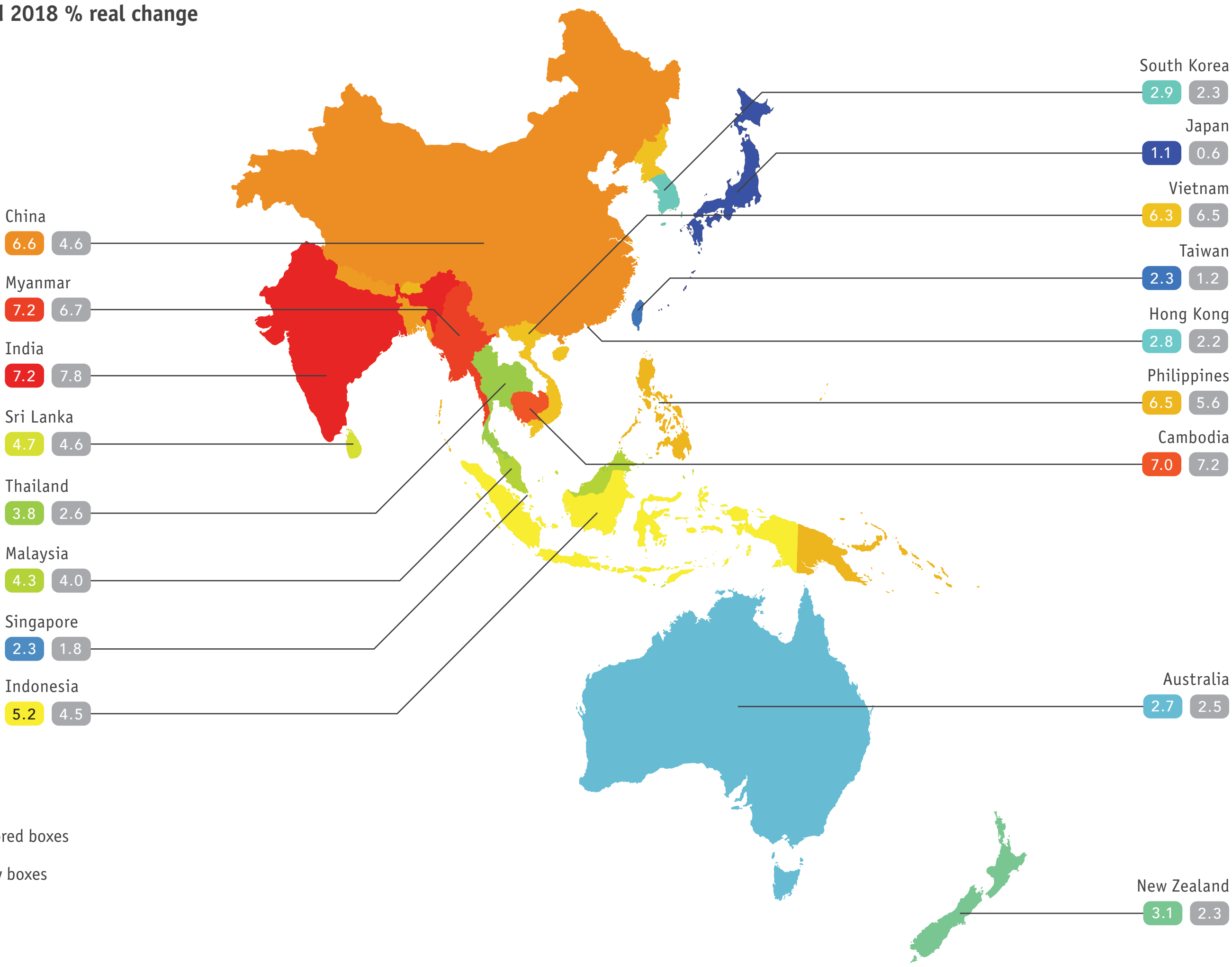
2017 — colored boxes

2018 — grey boxes

Compiled by ECN

Asia GDP growth

2017 % and 2018 % real change



% change

2017 — colored boxes

2018 — grey boxes

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Strong US$

Currency forecast: local vs US$

The US dollar has surged across the board since the presidential election, on the premise that fiscal loosening under the administration of Donald Trump will reflate the economy. Markets have also once again raised their expectations for rate increases by the US Fed, pushing up longer-term interest rates and causing a widespread weakening of Asian currencies against the US dollar.

We expect to see repeated bouts of capital market volatility in Asia in 2017, given the uncertainties around US monetary policy, European integration and Chinese economic growth.

Weak €

Currency forecast: local vs €

The euro's depreciation against the US dollar since Mr Trump's election has revived talk of it breaching parity against the dollar. At present, however, we maintain our forecast that the euro will not reach parity with the dollar and will continue to trade in the US$1.15:€1 to US$1.05:€1 range that has held for the past year. Over the medium term we expect the euro to strengthen against the dollar, but we do not expect it to reach its estimated fair value of US$1.20:€1 by the end of the forecast period in 2021.

% change

2017

2016

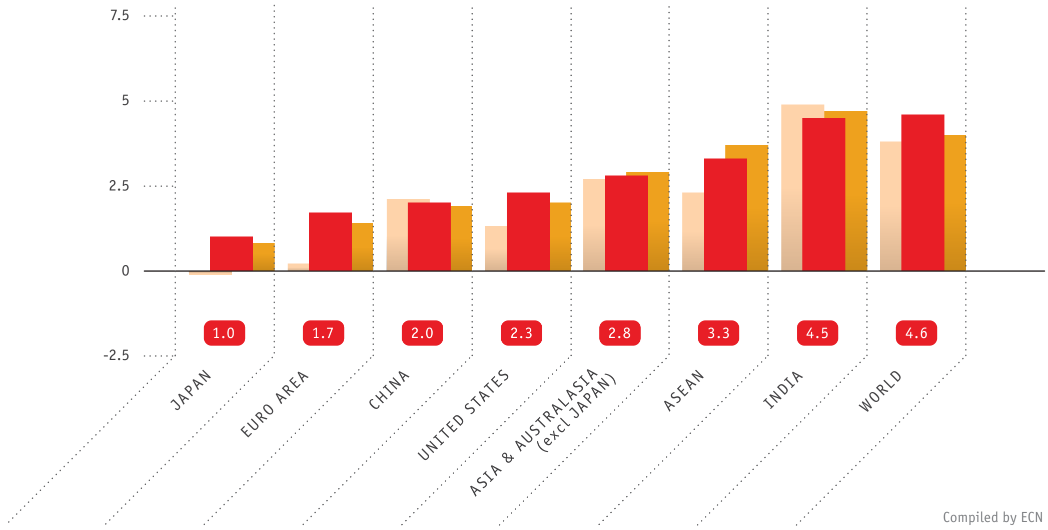
Compiled by ECN

Reflation

Consumer price inflation (%)

After two years of unusually low price pressures, inflation across the world and in Asia is set to revive this year. Much of this is because of the oil price, which fell below US$30 a barrel in the early months of 2016 but has recently risen above US$50.

Underlying inflation, too, seems poised to drift up. However, this is not a case of inflation running too hot but rather of a welcome easing of fears of deflation.



% change

2018

2017

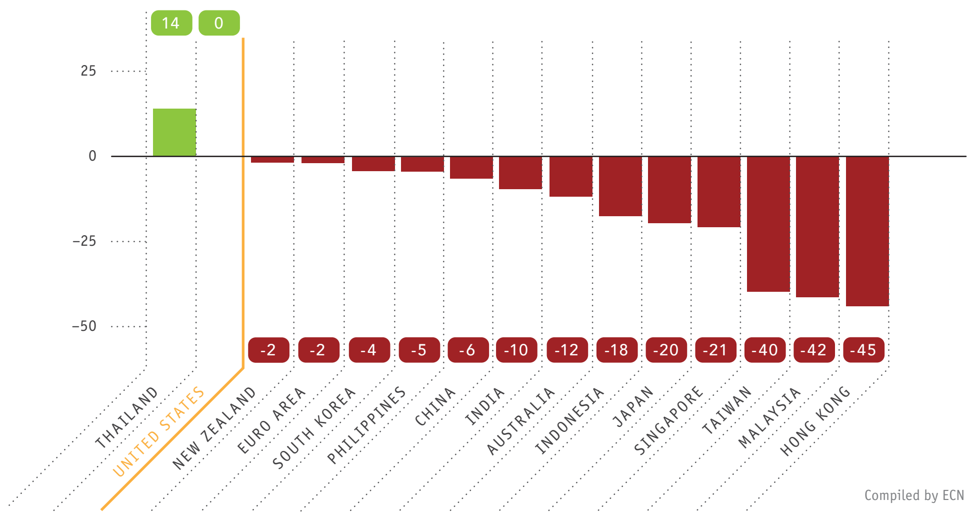
2016

Compiled by ECN

Big Mac Index

Adjusted for GDP per person, USD as base currency

The Big Mac index is based on the theory of purchasing-power parity (PPP), which suggests that exchange rates should adjust so that identical goods (in this case, a burger) cost the same in any two countries. By this measure, most currencies in Asia are undervalued relative to the US dollar.



%

overvalued

undervalued

base currency

Compiled by ECN

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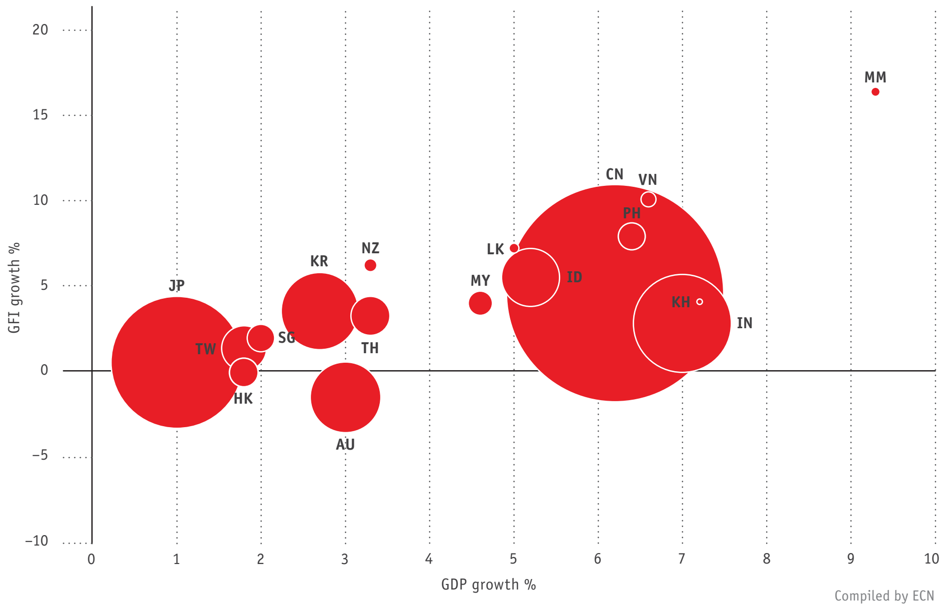
Growth, investment (almost) across the board

GDP growth (%) and GFI growth (%) in 2017

Most of emerging Asia will continue to see gross fixed asset investment (GFI) rates track economic expansion.

GDP Size

China —— US$11.3trn
India —— US$2.3trn
Indonesia —— US$1064bn
Vietnam —— US$214bn



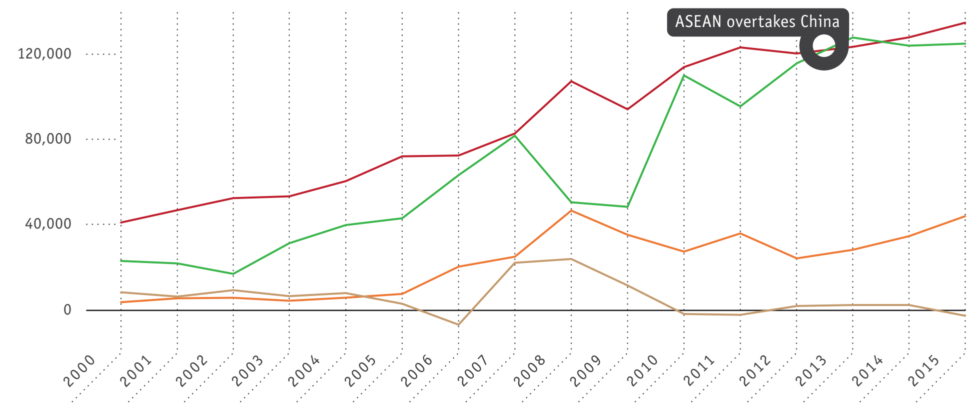
Compiled by ECN

ASEAN and China competing for FDI

Value of foreign direct investment inflows (US$ millions)

Inflows of foreign direct investment (FDI) to ASEAN have been rising to record levels, and in 2013 they overtook China. However, ASEAN's lead turned out to be only temporary, as China regained its place as the most attractive destination for FDI in Asia in 2014 and 2015.

China
India
ASEAN
Japan



Compiled by ECN

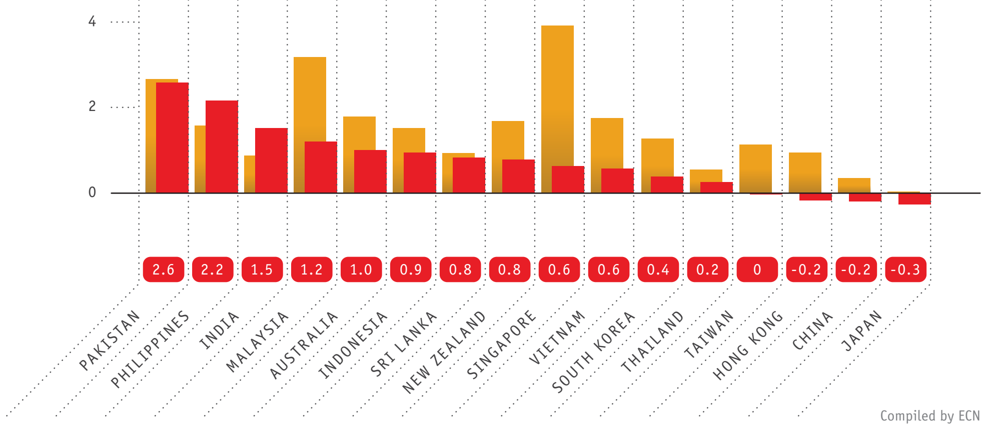
Demographic challenges in Asia

Annual labour force growth rate (%)

With the exception of India, the labour force in Asia will expand at a slower rate in the next decade, as compared to the previous decade. This will act as a constraint on faster economic growth.

% change

2017-2025
2007-2016



Compiled by ECN

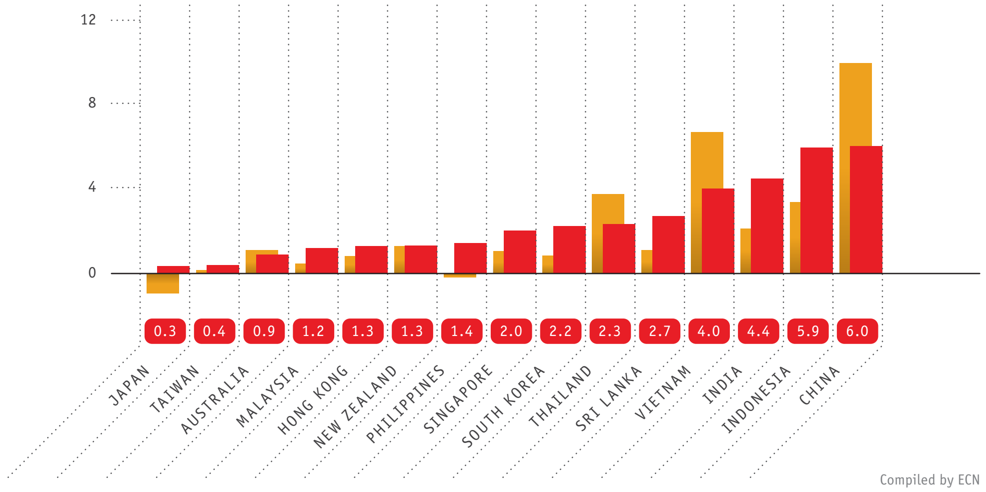
Wages rising in Asia

Growth in annual average real wages (%)

Competition for workers—especially skilled labour—is rising across Asia, putting pressure on wages to rise.

% change

2016-2021
2006-2015

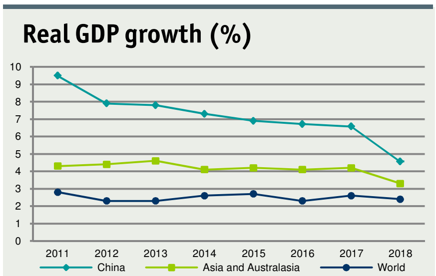


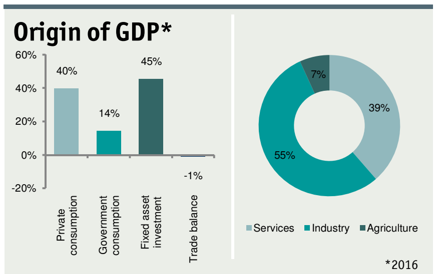
Compiled by ECN

China

Economic outlook

- We expect economic growth to slow in the remainder of 2017 after a strong first quarter, when real GDP expanded by 6.9%—the fastest since July-September 2015. A rebound in producer prices has lifted sentiment in the industrial sector, but we expect easing supply constraints and softening demand to curtail the price rally. Infrastructure spending plans for 2017 appear to be significant, but administrative curbs in the overheated property market will slow activity in the sector. Economic growth is forecast to reach 6.6% in 2017 as a whole.
- We forecast that the rate of economic expansion will slow to 4.6% a year on average in 2018-19 as the authorities move to bring debt levels under control. Many will perceive this as a "hard landing", although unemployment and social instability are unlikely to rise dramatically. This, in fact, represents a relatively benign scenario. The bursting of credit bubbles elsewhere has usually been associated with sharper decelerations in growth. However, the state's deep integration with China's banks should enable it to resolve the strains in the financial system relatively smoothly.
- The economy is expected to recover in 2020-21, growing by 5% a year on average, as business confidence recovers and industrial overcapacity is reduced. Nevertheless, poor productivity (associated with a lack of reform), a shrinking workforce and the effects of the credit bubble bursting will serve as a drag on growth prospects.





Real expenditure on GDP (% change)	2016	2017	2018	2019	2020	2021
Real GDP growth	6.7	6.6	4.6	4.7	5.1	4.9
Private consumption	8.5	8.0	6.1	6.3	6.0	5.8
Government consumption	9.4	8.8	8.3	8.1	7.1	6.7
Gross fixed investment	5.8	5.1	1.5	2.1	4.0	3.5
Exports of goods & services	1.1	2.7	2.5	2.5	2.3	2.4
Imports of goods & services	2.5	3.2	1.7	2.7	3.4	2.6
Domestic demand	7.2	6.7	4.2	4.7	5.4	5.0

Population, income and market size	2016	2017	2018	2019	2020	2021
Population (m)	1,366	1,372	1,378	1,385	1,390	1,396
Unemployment (%)	4.0	4.3	4.9	4.7	4.5	4.4
GDP (US$ bn at market exchange rates)	11,372	11,660	11,968	12,490	13,800	15,059
GDP per head (US$ at market exchange rates)	8,323	8,497	8,682	9,022	9,925	10,786
Private consumption per head (US$)	3,220	3,297	3,446	3,643	4,062	4,479
GDP (US$ bn at PPP)	21,719	23,679	25,328	26,831	28,682	30,694
GDP per head (US$ at PPP)	15,896	17,255	18,374	19,379	20,627	21,984
Growth of real disposable income (%)	7.7	7.4	4.2	4.1	5.3	5.3

Political outlook

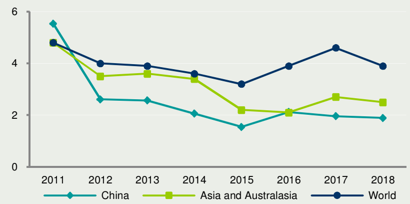
- The president, Xi Jinping, is the most powerful head of the ruling Chinese Communist Party (CCP) since Deng Xiaoping. Since becoming general secretary of the CCP and chairman of the Central Military Commission in 2012, Mr Xi has centralised power, ousted internal political enemies and backed authoritarian policies that tighten controls over civil society. Mr Xi's ambition is to preserve the CCP's political dominance by turning it into a more effective governing outfit, while ensuring that no organised opposition to it emerges. This approach is likely to ensure political stability in 2017-21, but will have a detrimental impact on the quality of policymaking and long-term social and economic development.
- The risk of factional tension within the CCP remains a threat to political stability. Mr Xi's power grabs, notably through boosting the role of CCP policy "leading groups" that are more directly under his control, have caused internal strains.

Policy, money and prices

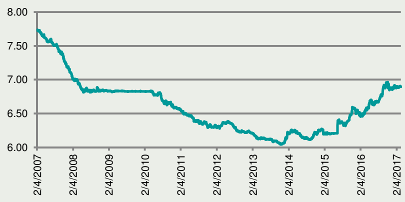
- We expect the People's Bank of China (PBC, the central bank) to tighten its monetary policy stance as it looks to cool the recently rapid pace of credit growth. The central bank increased a variety of its money market rates in the first quarter of 2017 in a foreshadowing of this approach, while financial-sector regulators have also been toughening rules. The PBC will probably wait until the third quarter of 2017 to raise its benchmark one-year deposit and lending rates, which stand at 1.5% and 4.35%, respectively. The tightening cycle is forecast to last until early 2019.
- Outstanding domestic credit, which stood at the equivalent of around 210% of GDP by end-2016, has caused mounting strains in the banking system. Tighter monetary policy will be accompanied by the recapitalisation of low- and mid-tier banks and the expansion of pilot corporate debt restructuring programmes. Provided that there has been progress on addressing bad debts by 2019, some modest policy loosening is expected in 2020-21. Levels of leverage will nonetheless remain worryingly high. We expect domestic credit to reach the equivalent of around 255% of GDP end-2021.

Prices, money and current account	2016	2017	2018	2019	2020	2021
Consumer prices (av; %)	2.1	2.0	1.9	2.0	2.7	2.5
Money supply (M2) growth (%)	11.3	11.3	8.2	9.7	11.3	9.7
Lending interest rate (end-period; %)	4.4	4.6	5.6	6.1	6.1	5.6
Trade balance (US$ bn)	494.1	513.8	592.0	628.6	628.7	650.0
Current account balance (US$ bn)	195.1	177.2	236.8	250.9	242.2	228.5
Current account balance (% of GDP)	1.7	1.5	2.0	2.0	1.8	1.5
Exchange rate LCU:US$ (av)	6.6	7.1	7.2	7.4	7.2	7.0

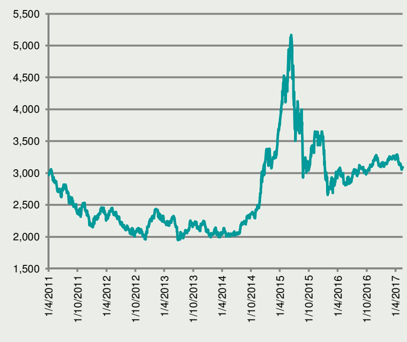
Consumer price inflation (%)



Renminbi to the US$



Shanghai Composite Index



Currency outlook

- We expect the renminbi's value to weaken to Rmb7.39:US$1 in 2019, before strengthening in 2020-21. The currency's depreciation will partly reflect the surge in renminbi liquidity associated with China's rapid credit growth. Policymakers will be content with this trend as they look to bolster exports.

	2017	2018
Rmb : US$	▼ 7.06	▼ 7.25
Rmb : Euro	▼ 7.48	▼ 7.76

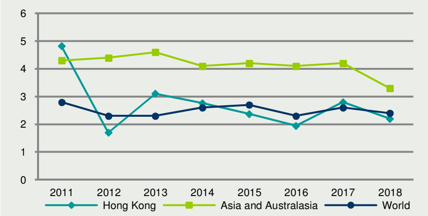
Average annual rates

Hong Kong

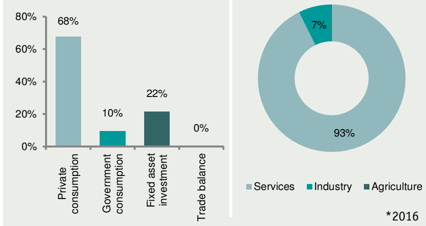
Economic outlook

- Recurrent spending has risen under the administration of the current chief executive, Leung Chun-ying, to satisfy growing public demand for state welfare services. This trend will continue in 2017-21. In February the government announced its budget for fiscal year 2017/18 (April-March), which detailed a 7.4% rise in recurrent spending compared with 2016/17 and additional expenditure on public housing. The government nonetheless continues to resist pressure for a substantial increase in state welfare spending. This is despite the robust health of the public finances: we estimate that the fiscal surplus rose to the equivalent of 3.7% of GDP in 2016/17. The overall approach to fiscal policy will remain conservative.
- We expect strong bidding by mainland-Chinese developers to continue to push up fiscal inflows from land premiums in the initial part of 2017/18. However, as house prices slide later in the fiscal year, earnings from land sales will begin to dip. Consequently, Hong Kong will record a lower budget surplus of 1.5% of GDP in 2017/18. As a result of these trends, we expect the budget surplus to shrink to 0.6% of GDP in 2018/19, before rising to a more robust average of 2% in 2019/20-2021/22. In addition, should the decline in this revenue prove to be far greater than we currently forecast, we would expect the government to curb its spending growth to preserve fiscal stability.

Real GDP growth (%)



Origin of GDP*



Real expenditure on GDP (% change)	2016	2017	2018	2019	2020	2021
Real GDP growth	1.9	2.8	2.2	2.1	3.6	2.5
Private consumption	1.6	2.7	1.6	2.4	2.6	3.0
Government consumption	3.3	3.2	2.9	3.0	3.1	2.9
Gross fixed investment	-0.5	2.4	0.3	2.2	4.8	3.3
Exports of goods & services	0.9	2.8	1.7	1.6	3.5	2.8
Imports of goods & services	1.2	3.0	0.7	2.2	3.3	3.4
Domestic demand	2.5	3.0	0.2	3.4	3.2	3.6

Population, income and market size	2016	2017	2018	2019	2020	2021
Population (m)	7.3	7.4	7.5	7.5	7.6	7.6
Unemployment (%)	3.4	3.5	3.7	3.6	3.3	3.3
GDP (US$ bn at market exchange rates)	321	340	356	359	373	386
GDP per head (US$ at market exchange rates)	43,649	45,911	47,746	47,797	49,348	50,674
Private consumption per head (US$)	28,860	29,870	30,750	31,870	33,310	35,020
GDP (US$ bn at PPP)	430	452	473	488	515	538
GDP per head (US$ at PPP)	58,540	61,080	63,380	65,060	68,100	70,700
Growth of real disposable income (%)	2.0	3.2	2.4	3.4	3.6	4.0

Political outlook

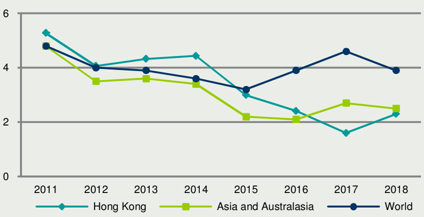
- Political stability will remain vulnerable in 2017-21. Carrie Lam, a former chief secretary for administration in the government, was chosen as the territory's next chief executive on March 26th. However, she will face multiple challenges. Of these, three stand out: addressing public discontent; managing relations with the opposition; and engaging with the central Chinese government. Successfully tackling all three of these issues at once may be impossible.
- Frustration with the government has been evident in the low support demonstrated in public opinion polls for the territory's leaders (including Ms Lam). This largely reflects their failure to tackle issues of concern to local residents. Sticking to a traditional pro-business policy line, the government has made little headway in reducing high levels of pollution or improving the availability of affordable housing.
- Meanwhile, Hong Kong's population has become increasingly mistrustful of the territory's wealthy elite and the perceived conflicts of interest that have arisen owing to the close ties between politicians and businessmen. The conviction in February 2017 of a previous chief executive, Donald Tsang, for misconduct in office highlighted a perceived decline in ethical standards among the territory's political elite.

Policy, money and prices

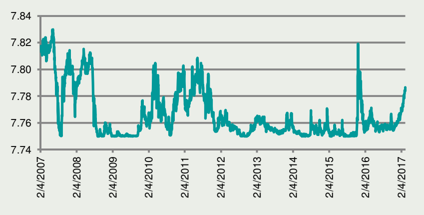
- Because of the fixed exchange rate between the Hong Kong dollar and the US dollar, local interest rates are determined largely by the actions of the Federal Reserve. The US will continue its tightening cycle in 2017-18, with policy rates in Hong Kong likely to follow suit. Although the increases will be modest—two 25 basis point increases in 2017 and two in 2018—the high level of leverage in the territory means that the impact will be significant. We forecast that a tightening of monetary policy on the mainland in 2018 is likely to constrain liquidity conditions in Hong Kong further. The stock of credit in the territory will fall in 2017-18, and asset prices (particularly for property) are expected to be affected.

Prices, money and current account	2016	2017	2018	2019	2020	2021
Consumer prices (av; %)	1.2	1.9	2.1	2.7	2.6	3.1
Money supply (M2) growth (%)	7.7	8.0	4.7	8.3	3.3	3.6
Lending interest rate (end-period; %)	5.0	5.2	5.8	5.4	5.0	5.2
Trade balance (US$ bn)	-17.5	-10.5	-4.9	-15.8	-19.5	-28.6
Current account balance (US$ bn)	14.5	22.0	25.4	16.2	14.2	5.5
Current account balance (% of GDP)	4.5	6.5	7.1	4.5	3.8	1.4
Exchange rate LCU:US$ (av)	7.76	7.77	7.78	7.80	7.78	7.75

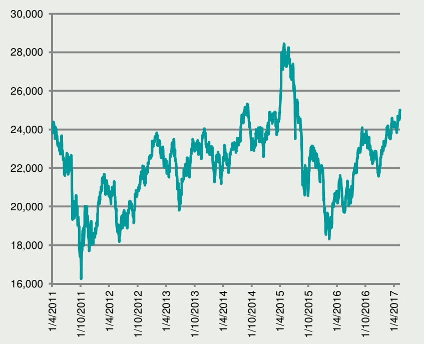
Consumer price inflation (%)



Hong Kong dollar to the US$



Hang Seng Index



Currency outlook

- The Hong Kong dollar's peg to the US dollar will be upheld in 2017-21. The authorities have sufficient policy freedom and financial resources to defend the peg. The link to the US dollar means that the HK$ is estimated to have appreciated significantly on a trade-weighted basis in 2016.

	2017	2018
HK$: US$	▼ 7.77	▼ 7.79
HK$: Euro	▼ 8.24	▼ 8.41

Rates at end of year

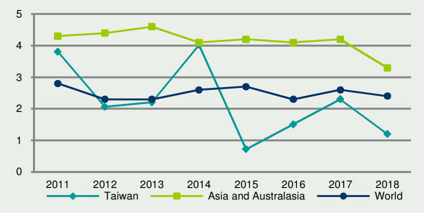
ASIA COUNTRY BRIEFING MAY-JUNE 2017

Taiwan

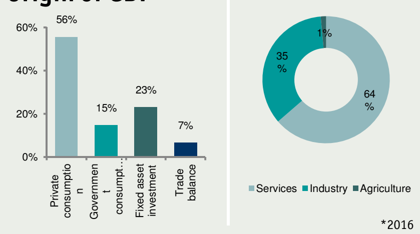
Economic outlook

- Real GDP growth will pick up modestly in 2017, continuing the recovery experienced in the second half of 2016. Electronics exports will grow more strongly in 2017 on the back of the launch of new products in global markets. However, growth in goods and services exports will be uneven over the remainder of the forecast period, largely reflecting the underlying trend of rising competition from firms in China, as well as the periodic weakness of external demand in key markets. A sharp deceleration in China's GDP growth in 2018 will reduce its demand for intermediate and capital goods, while a downturn in the US in 2019 will affect the export sector more broadly.
- Owing to demographic factors and economic uncertainty, private consumption growth will average just 1.9% a year in 2017-21. Consumption will weather the fluctuations in economic activity relatively well as labour shortages (reflecting the contraction in the working-age population) support wage growth. Meanwhile, gross fixed investment will be heavily supported by public spending for most of the forecast period, but it will average growth of just 1.5% a year in 2017-21, as ebbing external demand causes business sentiment to sink in 2018-19. The expansionary fiscal policy focused on housing construction and renewal, and additional stimulatory programmes that we expect the government to enact in response to slowing growth in key markets will provide much-needed support to the economy in 2018-19.

Real GDP growth (%)



Origin of GDP*



Real expenditure on GDP (% change)	2016	2017	2018	2019	2020	2021
Real GDP growth	1.5	2.3	1.2	0.5	2.0	2.7
Private consumption	2.1	2.2	1.2	0.8	2.2	3.3
Government consumption	3.0	1.7	2.0	2.1	2.2	2.3
Gross fixed investment	2.7	2.9	0.1	-0.1	1.8	2.8
Exports of goods & services	2.1	3.5	0.6	0.0	1.5	2.3
Imports of goods & services	3.4	3.2	0.1	0.6	2.1	2.7
Domestic demand	2.2	2.2	0.8	0.9	2.5	3.0

Population, income and market size	2016	2017	2018	2019	2020	2021
Population (m)	23.5	23.5	23.5	23.6	23.5	23.5
Unemployment (%)	3.9	3.9	4.1	4.2	3.9	3.8
GDP (US$ bn at market exchange rates)	529	574	556	566	598	631
GDP per head (US$ at market exchange rates)	22,487	24,392	23,599	24,049	25,409	26,815
Private consumption per head (US$)	11,855	12,770	12,570	12,730	13,520	14,440
GDP (US$ bn at PPP)	1,130	1,182	1,224	1,244	1,291	1,352
GDP per head (US$ at PPP)	48,010	50,220	51,990	52,830	54,830	57,470
Growth of real disposable income (%)	1.0	1.1	0.7	0.5	2.1	3.3

Political outlook

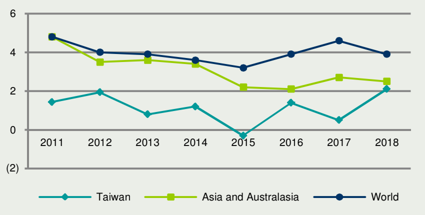
- The outlook for domestic political stability in 2017-21 is good. The Democratic Progressive Party (DPP), led by the president, Tsai Ing-wen, will retain control of both the presidency and the Legislative Yuan (parliament) until at least 2020 and is likely to win another term after that. Ms Tsai has few rivals for influence within the DPP and has demonstrated firm discipline over the party. Partly as a result, power appears to have swung back to the president from the legislature.
- Given Ms Tsai's personal authority, we anticipate an improvement in general government effectiveness in 2017-21. The government has in its first year of office struggled to maintain focus on some issues, and its communication skills have been lacking in some key areas. Its popularity has waned as a result. Nevertheless, it is still more effective than the preceding Kuomintang administration, and over time Ms Tsai's deliberative approach is likely to deliver more impressive results.
- Although internal threats may be limited, the DPP will face a tough challenge resisting pressure from mainland China in the next five years. Official bilateral communications have been suspended since the DPP took office and the mainland has in effect banned Chinese tour groups from travelling to the island.

Policy, money and prices

- The discount rate, the benchmark interest rate of the Central Bank of the Republic of China (Taiwan), or CBC, remains near an historical low of 1.375%. It was last cut in June 2016. In 2017 as the outlook for the global economy improves, external demand recovers and domestic inflation accelerates, the CBC is likely to raise rates by a small increment. This will be largely motivated by concerns about capital outflows as the Federal Reserve (Fed, the US central bank) continues its cycle of monetary policy tightening. However, the CBC will cut rates again as China's GDP growth slows in 2018, undermining expansion and inflationary pressures in Taiwan's economy. A subsequent cyclical downturn in the US in 2019 will ensure that the CBC does not raise interest rates until 2020, when the economy will be on a surer footing.

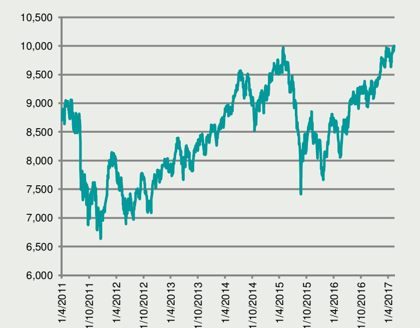
Prices, money and current account	2016	2017	2018	2019	2020	2021
Consumer prices (av; %)	0.9	2.1	1.5	1.0	1.3	1.4
Money supply (M2) growth (%)	3.6	6.8	2.7	5.1	4.2	5.5
Lending interest rate (end-period; %)	2.6	2.8	2.8	2.7	2.8	3.2
Trade balance (US$ bn)	69.4	69.9	66.2	62.9	63.1	64.4
Current account balance (US$ bn)	70.9	70.8	64.4	61.2	61.4	62.0
Current account balance (% of GDP)	13.4	12.3	11.6	10.8	10.3	9.8
Exchange rate LCU:US$ (av)	32.33	30.66	32.02	31.96	31.00	30.27

Consumer price inflation (%)



Taiwan dollar to the US$

Taiwan Weighted Index



Currency outlook

- We expect the New Taiwan dollar to appreciate significantly against the US dollar in 2017 as exports fare better and investor sentiment improves. The CBC will also be less inclined to intervene in the currency market to prevent appreciation, as it is aware that such action might prompt a punitive response from the US.

	2017	2018
NT$: US$	▲ 30.66	▼ 32.02
NT$: Euro	▲ 32.50	▼ 34.26

Average annual rates

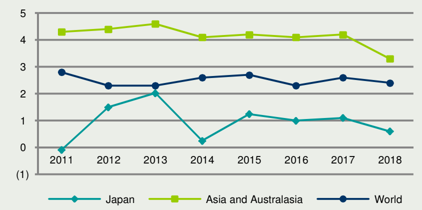
The Economist Corporate Network

Japan

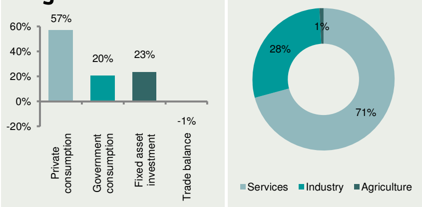
Economic outlook

- We expect real GDP to grow by 1.1% this year, almost unchanged from 2016. However, this pace of growth is only moderately faster than the long-term rate of 0.5% projected by the BOJ, and is not rapid enough to close the output gap, which is expected to persist throughout 2017-21. Although we forecast that the BOJ will maintain its ultra-loose monetary policy stance in the early part of the forecast period, this is unlikely to result in a long-lasting shift in domestic credit. We are also sceptical about the effectiveness of the disbursement of additional public spending for 2016/17 and 2017/18. Previous stimulus packages have done little to boost GDP growth or shore up consumer sentiment.
- There will be some volatility in growth in 2018-21. Concerns over global growth prospects, sparked by an anticipated hard landing in China in 2018, will cause gyrations in financial markets, pushing up the value of the yen against the US dollar in that year. The exchange-rate change will act as a depressant on Japan's growth. Assuming that the consumption tax increase goes ahead in October 2019, we expect it to depress growth in 2020, when real GDP will expand by just 0.2%—despite the fact that the Olympic Games will be held in the capital, Tokyo, that year.
- Demographic factors will continue to act as the main constraint on potential GDP growth. Both the overall population and the workforce will continue to contract steadily in 2017-21, acting to crimp consumption as well as investor sentiment.

Real GDP growth (%)



Origin of GDP*



*2016

Real expenditure on GDP (% change)	2016	2017	2018	2019	2020	2021
Real GDP growth	1.0	1.1	0.6	0.9	0.2	0.8
Private consumption	0.4	0.8	0.5	0.8	-0.4	0.5
Government consumption	1.5	1.1	0.8	1.0	0.9	0.8
Gross fixed investment	1.0	0.6	0.4	1.1	0.8	0.9
Exports of goods & services	1.2	4.9	3.0	2.6	3.2	4.0
Imports of goods & services	-1.7	2.8	1.6	2.7	3.3	3.4
Domestic demand	0.5	0.8	0.4	0.9	0.2	0.7

Population, income and market size	2016	2017	2018	2019	2020	2021
Population (m)	126.3	126.0	125.7	125.4	125.0	124.6
Unemployment (%)	3.1	2.9	2.9	2.8	2.7	2.6
GDP (US$ bn at market exchange rates)	4,941	4,853	5,035	5,474	5,734	5,844
GDP per head (US$ at market exchange rates)	39,110	38,501	40,042	43,652	45,860	46,880
Private consumption per head (US$)	21,842	21,330	22,420	24,300	25,630	26,130
GDP (US$ bn at PPP)	5,286	5,467	5,627	5,744	5,851	6,013
GDP per head (US$ at PPP)	41,850	43,370	44,750	45,810	46,790	48,240
Growth of real disposable income (%)	1.4	0.5	0.0	1.3	-0.4	0.4

Political outlook

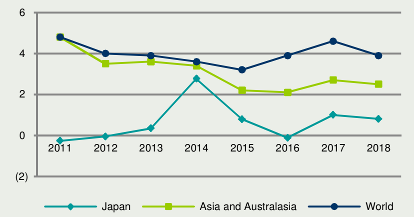
- The ruling Liberal Democratic Party (LDP) and its coalition partner, the Komeito party, will enjoy a dominant position in the Diet (parliament) in 2017-21. Both parties strengthened their position considerably in the House of Councillors (the upper house) following an election in July 2016. Assuming the support of like-minded parties in the upper house, the prime minister, Shinzo Abe, has met two of the three conditions needed for constitutional change: a two-thirds majority in both the House of Representatives (the lower house) and the upper chamber.
- The final hurdle is a referendum. The strength of the LDP in the Diet will continue to stoke popular concerns that the prime minister will focus on a long-held desire to revise Article 9 of the constitution (which renounces war as a means to settling international disputes), possibly to the detriment of economic policymaking.
- The main opposition Democratic Party (DP) will remain weak in the forecast period, thereby struggling to exert influence over the government's legislative programme. The election of Renho Murata as leader of the DP in September 2016 does not solve lingering questions about the DP's strategic plans for the future, including its co-operation with other opposition parties.

Policy, money and prices

- The BOJ will pursue an open-ended approach to meeting its 2% target for core consumer price inflation. We expect it to keep in place unorthodox policy tools in the early part of the forecast period, but do not expect its price stability target to be met in 2017-21. In September 2016 the BOJ shifted its focus to targeting the yield curve, partly to address concerns over profitability in the banking sector as long-term interest rates moved close to short-term rates. This is in addition to its existing negative interest-rate policy, whereby the BOJ charges commercial banks a fee of 0.1% for holding a portion of their reserves. We believe that the BOJ will manage to keep ten-year Japanese government bond (JGB) yields at zero in 2017 and prevent the yield curve from flattening excessively.

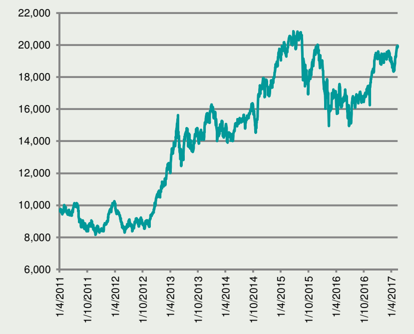
Prices, money and current account	2016	2017	2018	2019	2020	2021
Consumer prices (av; %)	0.3	1.2	0.9	1.0	0.9	0.7
Money supply (M2) growth (%)	3.5	4.6	2.9	4.0	4.3	4.7
Lending interest rate (end-period; %)	1.5	1.5	1.5	1.5	1.5	1.5
Trade balance (US$ bn)	52.7	65.1	73.6	68.9	70.0	94.3
Current account balance (US$ bn)	188.8	196.3	246.8	248.2	251.4	275.5
Current account balance (% of GDP)	3.8	4.0	4.9	4.5	4.4	4.7
Exchange rate LCU:US$ (av)	108.8	113.3	110.4	103.3	100.2	100.0

Consumer price inflation (%)



Yen to the US$

Nikkei 225 Index



Currency outlook

- We expect the yen to trade in a wide range. Although we have revised our forecast for 2017, we still expect the currency to weaken against the US dollar as monetary policy in the US is set to diverge considerably from that pursued by the BOJ. We now expect the yen to depreciate by an average of 4% in 2017.

	2017	2018
Yen : US$	▼ 113.3	▲ 110.4
Yen : Euro	▲ 120.7	▲ 118.1

Average annual rates

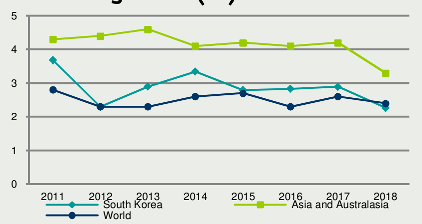
The Economist Corporate Network

South Korea

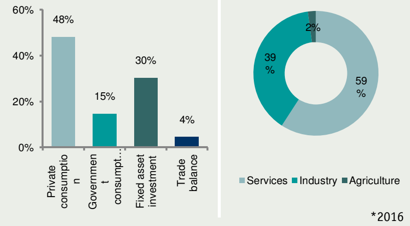
Economic outlook

- We expect real GDP to grow by an average of 2.4% a year in 2017-21. Despite the new government's best efforts, implementing a structural shift from South Korea's export-led growth model will take several years. This means that the fate of the economy will remain tied to global trade prospects, as well as the performance of the country's exports in established and new markets within our forecast period.
- China will remain a source of both opportunity and distress. We expect China's economy to slow sharply in 2018, which will have a major impact on South Korea's exports, a quarter of which are shipped to China. Yet, as a rebalancing towards more services- and consumer-driven growth takes place in China, opportunities for South Korea's exports of discretionary items—such as durable goods, entertainment and leisure services, apparel and motor vehicles—will rise.
- Sustained efforts will be made to develop the services sector, which will be crucial to boosting growth prospects. Although Park Geun-hye made little progress on her "creative economy", Moon Jae-in is likely to continue with this agenda. Service industries—encompassing areas such as research and development—are likely to benefit as China restructures and seeks to tap the expertise of South Korean firms.
- The burden of debt repayment on households will continue to limit private consumption growth to 2.1% a year on average in 2017-21. Rising youth unemployment and labour market distortions are also a cause for concern.

Real GDP growth (%)



Origin of GDP*



Real expenditure on GDP (% change)	2016	2017	2018	2019	2020	2021
Real GDP growth	2.8	2.9	2.3	1.9	2.5	2.7
Private consumption	2.5	2.4	2.0	1.9	2.0	2.2
Government consumption	4.3	4.5	4.5	4.0	3.7	3.4
Gross fixed investment	5.2	7.0	1.5	1.0	3.5	3.6
Exports of goods & services	2.1	2.5	0.8	0.8	1.7	2.0
Imports of goods & services	4.5	6.2	0.8	0.4	2.9	2.8
Domestic demand	2.0	5.2	2.4	2.1	3.2	3.2

Population, income and market size	2016	2017	2018	2019	2020	2021
Population (m)	50.5	50.7	50.9	51.1	51.3	51.4
Unemployment (%)	3.7	3.6	3.7	3.8	3.7	3.6
GDP (US$ bn at market exchange rates)	1,411	1,495	1,468	1,500	1,581	1,664
GDP per head (US$ at market exchange rates)	27,931	29,475	28,846	29,373	30,849	32,365
Private consumption per head (US$)	13,619	14,027	13,742	14,057	14,713	15,353
GDP (US$ bn at PPP)	1,829	1,925	2,014	2,077	2,165	2,267
GDP per head (US$ at PPP)	36,208	37,961	39,564	40,656	42,240	44,089
Growth of real disposable income (%)	2.6	1.3	2.1	2.2	2.2	2.2

Political outlook

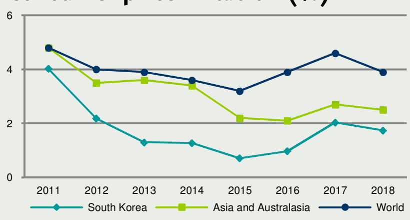
- On May 9th Moon Jae-in from the Minjoo Party of Korea (the largest liberal party), was elected president for a constitutionally mandated five year term. We expect Moon Jae-in to serve out his full term. Moon Jae-in's victory breaks a decade of conservative rule and comes in the wake of a corruption scandal followed by the impeachment of the previous conservative president, Park Geun-hye, on March 10th. The smooth transition period between the outgoing and incoming administrations under such special circumstances, has been testament to the maturity of the South Korean democracy. Throughout the corruption scandal and the impeachment procedure, the strong institutional framework supported political stability.
- Although Moon Jae-in's strong victory mandate will provide the new administration with policy momentum and fresh political capital, these will be expended fairly quickly by the continued difficult parliamentary dynamic. With 120 out of 300 seats in the National Assembly (NA, the parliament), the Minjoo Party still does not have the three-fifths majority required to pass legislations unilaterally. We expect government effectiveness to remain impaired by the fragmented legislature in much the same way it had been under Park Geun-hye.

Policy, money and prices

- We expect the Bank of Korea (BOK, South Korea's central bank) to maintain a fairly loose monetary policy stance over 2017-19, before initiating progressive tightening in 2020-21. Inflation is likely to reach the BOK's target of 2% in 2017, mostly driven by rising global oil prices and the low base of comparison in 2016. However, underlying inflationary pressure will remain low as domestic demand remains weak. In addition, the BOK will have to consider the impact of monetary policy divergence on the trajectory of the local currency, the won, as the Federal Reserve is set to raise its policy interest rate further in 2017-18. Nonetheless, we do not expect the BOK to raise its benchmark interest rate, the base rate, which is currently at a record low of 1.25%, as it will continue prioritising its support to domestic economic growth.

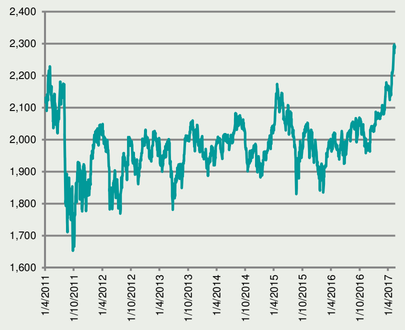
Prices, money and current account	2016	2017	2018	2019	2020	2021
Consumer prices (av; %)	1.0	2.0	1.7	1.5	1.6	1.7
Money supply (M2) growth (%)	7.1	8.8	8.0	7.4	7.0	6.8
Lending interest rate (end-period; %)	3.4	3.4	3.2	3.2	3.2	3.4
Trade balance (US$ bn)	120.4	120.7	108.4	107.0	104.2	103.7
Current account balance (US$ bn)	98.7	90.4	77.6	83.6	85.1	91.1
Current account balance (% of GDP)	7.0	6.0	5.3	5.6	5.4	5.5
Exchange rate LCU:US$ (av)	1,161	1,165	1,228	1,241	1,229	1,223

Consumer price inflation (%)



Won to the US$

Korea Composite Stock Price Index



Currency outlook

- Despite the strong performance of the won at the start of the year, we do not expect this trend to continue owing to weak external demand prospects. The gradually narrowing interest-rate differential between South Korea and the US will add to the forces favouring won depreciation.

	2017	2018
W : US$	▼ 1,165	▼ 1,228
W : Euro	▲ 1,235	▼ 1,314

Average annual rates

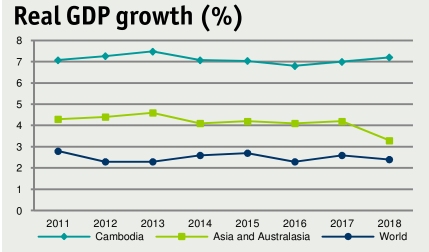
ASIA COUNTRY BRIEFING MAY-JUNE 2017

Cambodia

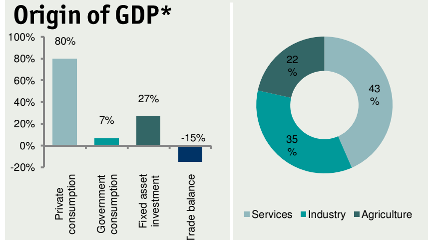
Economic outlook

- Real GDP growth will strengthen to some extent in 2017-18, averaging 7.1% a year, as global trade recovers somewhat from a lull in 2016 and fiscal policy is loosened during the elections. Overstretched banks, the importation of tighter US monetary policy and a volatile political climate will nonetheless weigh on private domestic demand in those years. Headline expansion will moderate marginally from 2019 as the US (Cambodia's largest export market) enters a business-cycle recession, the uncertainty of "Brexit" weighs on growth in the UK (the second largest) and domestic fiscal policy normalises after the polls.
- Cambodia's economy will remain based on private consumption. Incomes will continue to rise rapidly from a low base as productivity improves and the development of higher value-added sectors gains traction. The medium-term outlook for investment growth remains positive, despite the expected softness in 2017 18. Cambodia's improving relations with China put it in a good position to access the capital that the latter is making available for overseas infrastructure projects under its Belt and Road initiative and from the Chinese-led Asian Infrastructure Investment Bank. Large direct bilateral loans from China will continue despite the "hard landing" in Chinese growth expected in 2018. Such assistance will also continue to be matched, albeit not fully, by donor governments in the West and Japan.

Real GDP growth (%)



Origin of GDP*



*2016

Real expenditure on GDP (% change)	2016	2017	2018	2019	2020	2021
Real GDP growth	6.8	7.0	7.2	7.1	7.0	6.9
Private consumption	5.6	5.8	6.0	6.2	6.2	6.0
Government consumption	11.2	13.1	15.6	7.3	5.1	3.4
Gross fixed investment	8.4	3.2	7.1	6.2	6.5	7.3
Exports of goods & services	7.6	8.8	9.3	8.9	9.5	9.7
Imports of goods & services	7.1	7.4	8.6	7.9	8.5	8.7
Domestic demand	6.5	5.6	6.8	6.2	6.1	6.1

Population, income and market size	2016	2017	2018	2019	2020	2021
Population (m)	15.8	16.1	16.3	16.6	16.8	17.0
Unemployment (%)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
GDP (US$ bn at market exchange rates)	20.0	21.3	23.3	25.8	28.3	31.1
GDP per head (US$ at market exchange rates)	1,261	1,322	1,426	1,556	1,686	1,823
Private consumption per head (US$)	955	1,028	1,109	1,206	1,305	1,411
GDP (US$ bn at PPP)	58.8	64.4	70.6	76.5	83.3	90.8
GDP per head (US$ at PPP)	3,717	4,006	4,326	4,620	4,955	5,328
Real GDP growth per head (%)	5.1	5.3	5.6	5.5	5.5	5.4

Political outlook

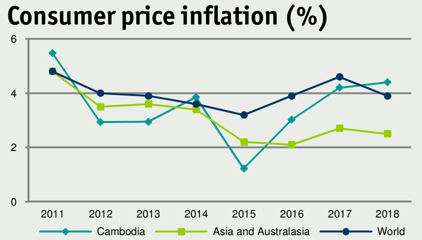
- Inter-party tensions and the risk of political instability will rise in the run-up to the local and national elections in 2017-18. The political situation will remain fragile in the aftermath of each ballot. The hardening of the government's approach shows that the authoritarian tendencies of the ruling Cambodian People's Party (CPP)—the same intolerance for political opposition that has underscored its near 40 years in power—are once again on full display. In February CPP lawmakers passed a series of controversial amendments to the 1998 Law on Political Parties, giving the government sweeping powers to suspend and dissolve parties over a range of vaguely worded offences such as "the destruction of national unity”.
- One key reason why the CPP has been able to take a more aggressive approach against its opponents is the growing support Cambodia receives from China. The latter has ended the government's heavy dependence on Western governments, giving the CPP an escape valve from donor pressure to enact good governance reforms. The changes made to the Law on Political Parties indicate that the CPP is ready and willing, at any length, to secure its hold on power beyond the 2018 vote.

Policy, money and prices

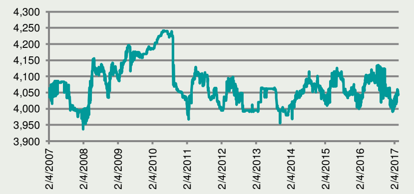
- The National Bank of Cambodia (NBC, the central bank) will continue to prioritise managing the speed of credit growth to mitigate the risk of problems associated with rapid credit growth. Macroprudential measures will remain the mainstay of policy as Cambodia's dollarised economy limits the effectiveness of traditional interest-rate-based levers. In effect, Cambodia will continue to import US monetary policy. Fortunately, the policy trajectories of the NBC and the Federal Reserve are aligned.
- The government's role in the NBC's move in March to institute a cap on the lending rates charged by microfinance institutions sent a concerning message about the central bank's institutional independence. Although the political optics of the cap will play favourably for the CPP with elections looming, the negative signal it is likely to send to investors about the credibility of monetary policy will last for much longer.

Prices, money and current account	2016	2017	2018	2019	2020	2021
Consumer prices (av; %)	3.0	4.2	4.4	3.7	3.6	3.8
Money supply (M2) growth (%)	19.4	15.9	14.8	11.9	10.8	10.6
Lending interest rate (end-period; %)	11.4	11.4	11.7	11.0	10.2	10.3
Trade balance (US$ bn)	-3.4	-3.7	-4.3	-4.5	-4.6	-4.8
Current account balance (US$ bn)	-1.7	-1.8	-2.3	-2.5	-2.7	-2.8
Current account balance (% of GDP)	-8.3	-8.6	-9.9	-9.7	-9.4	-9.1
Exchange rate LCU:US$ (av)	4,059	4,091	4,133	4,125	4,133	4,149

Consumer price inflation (%)



Riel to the US$



Dollarised economy

- The National Bank of Cambodia (CBC) has accumulated substantial foreign-exchange reserves in recent years as a result of large capital inflows, including foreign direct investment, and it will intervene periodically to support the local currency.
- However, given the continuing lack of confidence in the riel, the US dollar will remain the currency of choice in Cambodia for trade and investment. We expect the economy to remain highly dollarised for the foreseeable future.

Currency outlook

- Cambodia's wide current-account deficit will exert constant downward pressure on the currency, although this effect will continue to be partly offset by inflows of foreign investment. We expect the riel to weaken gradually from an average of CR4,059:US$1 in 2016 to CR4,149:US$1 in 2021.

		2017		2018
CR : US$	▼	4,091	▼	4,133
CR : Euro	▲	4,337	▼	4,422

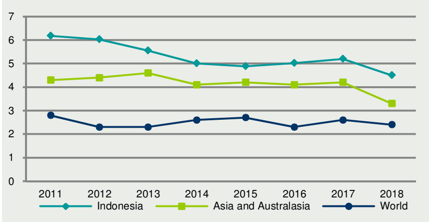
Average annual rates

Indonesia

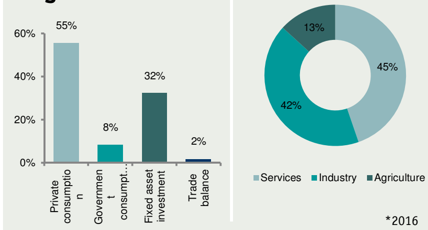
Economic outlook

- Our forecasts for 2017-21 assume that the government's efforts to encourage more private investment (foreign or otherwise) into infrastructure and manufacturing will take time to have a significant effect on the real economy. Furthermore, the government itself will remain constrained by revenue shortfalls to provide significant support through public expenditure. We are also sceptical about the administration’s ability to enact significant reforms in certain areas, such as making the labour market more flexible and removing protectionist rules governing trade and foreign investment.
- The economy will be supported by relatively buoyant private consumption over the forecast period, but dragged down by sluggish-ness in the external sector. A significant slowdown in China's economy in 2018 will exert renewed pressure on commodity exports. Overall, we expect real GDP growth to average 5% a year in 2017-21.
- The main contribution to GDP growth in 2017-21 will come from private consumption, which is forecast to expand by 5.3% a year on average. This will be underpinned by historically more stable price conditions, as well as lower credit costs, an increase in the number of formal-sector jobs and the expansion of social welfare. Meanwhile, we expect investment to increase by 4.9% a year on average as the construction of new roads, ports and power stations gradually gathers pace.

Real GDP growth (%)



Origin of GDP*



Real expenditure on GDP (% change)	2016	2017	2018	2019	2020	2021
Real GDP growth	5.0	5.2	4.5	4.8	5.1	5.2
Private consumption	5.0	5.5	5.3	5.0	5.3	5.4
Government consumption	0.6	4.0	2.0	3.0	5.2	5.2
Gross fixed investment	4.5	5.5	4.6	4.6	5.0	5.0
Exports of goods & services	-1.8	2.1	1.0	2.9	3.8	4.3
Imports of goods & services	-2.4	2.8	1.5	2.0	3.4	4.4
Domestic demand	4.7	5.3	4.7	4.6	5.1	5.2

Population, income and market size	2016	2017	2018	2019	2020	2021
Population (m)	258.2	260.6	262.9	265.3	267.5	269.8
Unemployment (%)	5.61	5.2	5.7	5.3	5.4	5.4
GDP (US$ bn at market exchange rates)	932	1,044	1,075	1,193	1,344	1,499
GDP per head (US$ at market exchange rates)	3,611	4,007	4,089	4,496	5,023	5,555
Private consumption per head (US$)	2,082	2,270	2,330	2,580	2,890	3,210
GDP (US$ bn at PPP)	3,027	3,257	3,483	3,695	3,950	4,239
GDP per head (US$ at PPP)	11,725	12,500	13,250	13,930	14,760	15,710
Growth of real disposable income (%)	5.0	5.5	5.3	5	5.3	5.4

Political outlook

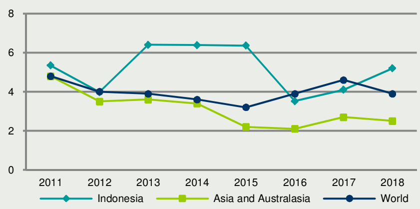
- The president, Joko Widodo (known as Jokowi), will comfortably serve out the last two years of his term, and The Economist Intelligence Unit believes that he is well placed to run for re-election in 2019. Jokowi has found success in pushing through some of his economic reform pledges, aided by the technocrats he has placed in key ministries. However, institutional reforms, particularly those aimed at reducing corruption and improving bureaucratic efficiency, have been difficult to tackle and are likely to remain hostage to vested interests in the House of People's Representatives (DPR, the legislature).
- To be sure, the actions taken so far by the Anti-Corruption Commission (KPK) against the DPR's speaker, Setya Novanto, suggest that Jokowi's anti-corruption push could yet be salvaged. A successful prosecution would embolden the KPK and raise its profile among the public. Nevertheless, we do not believe that any major corruption scandals involving a member of Jokowi's administration are likely to emerge during his tenure, and a broad-based purge of graft in public office is equally unlikely.

Policy, money and prices

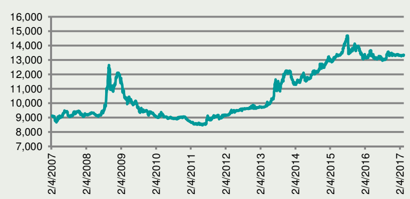
- The easing cycle implemented by Bank Indonesia (BI, the central bank) has come to an end. The prospect of higher interest rates in the US—we expect the Federal Reserve to increase its policy rate twice more in 2017—implies a more straitened monetary policy environment for BI. The monetary authority faced down public calls from senior politicians in late 2015 to cut interest rates to stimulate economic growth. Such discipline suggests that BI's board of governors will again err on the side of caution amid different economic stresses in 2017. BI is likely to favour tighter monetary policy from the second half of 2017 in order to ward off price pressures and avoid a sharp depreciation in the rupiah's value, which we expect to take place in 2018 amid a "hard landing" in China. However, any tightening of monetary policy is likely to be implemented gradually, as lending activity remains sluggish. Loan growth has slowed to its lowest levels since the 2008-09 global financial crisis.

Prices, money and current account	2016	2017	2018	2019	2020	2021
Consumer prices (av; %)	3.0	5.7	5.1	3.8	5.1	5.1
Money supply (M2) growth (%)	10.0	11.0	9.0	9.0	11.7	13.0
Lending interest rate (end-period; %)	11.9	12.0	12.1	12.2	12.5	12.6
Trade balance (US$ bn)	15.4	16.5	15.0	16.8	19.3	18.4
Current account balance (US$ bn)	-16.3	-16.4	-19.3	-18.0	-17.0	-20.8
Current account balance (% of GDP)	-1.8	-1.6	-1.8	-1.5	-1.3	-1.4
Exchange rate LCU:US$ (av)	13,308	13,518	14,468	14,400	14,225	14,163

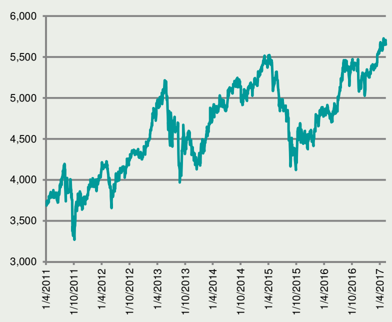
Consumer price inflation (%)



Rupiah to the US$



Jakarta Composite Index



Currency outlook

- Although Indonesia's fundamentals are relatively stable, twin deficits on the current and fiscal accounts make the rupiah vulnerable to negative turns in global capital markets. The rupiah has benefited from Jokowi's reform drive and the tax amnesty programme, but it remains exposed to external market sentiment.

	2017	2018
Rp : US$	▼ 13,518	▼ 14,468
Rp : Euro	▲ 14,330	▼ 15,481

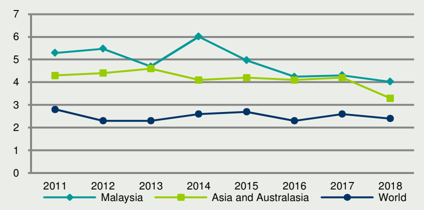
Average annual rates

Malaysia

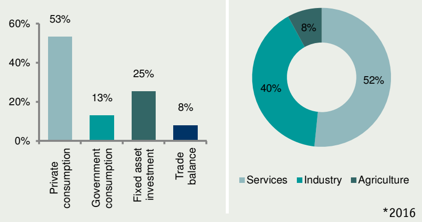
Economic outlook

- The economy will not gain much traction in 2017, when we forecast that real GDP will expand by a marginally stronger 4.3%, compared with 4.2% in 2016. Overall, we expect the export sector to stage a modest rebound in 2017-21 compared with 2012-16. But at a forecast average of 3.5% a year 2017-21, the pace of expansion will lack the vigour seen at the start of this decade. This relative weakness reflects the impact of relatively subdued demand for Malaysia's largest export category, electronic and electrical goods, the bulk of which goes to China and the US. We expect real GDP growth in China to slow markedly in 2018 as efforts are made to bring debt levels under control. This will be followed by a significant loss of growth momentum in the US; the rate of economic expansion there is forecast to slow to 1% in 2019, from 2.1% in 2018. Accommodative monetary and fiscal policies in 2017-21 will help to support private consumption, which will remain the key driver of Malaysia's GDP growth throughout the forecast period. This component will, on average, contribute some 3 percentage points to headline growth per year in 2017-21.
- Measured at factor cost, growth will be supported by steady expansion in the manufacturing and services sectors. Assuming normal weather patterns, we expect the agricultural sector to expand at an average annual rate of 2.2% in 2017-21, bolstered by relatively strong external demand for the country's rubber and palm oil.

Real GDP growth (%)



Origin of GDP*



*2016

Real expenditure on GDP (% change)	2016	2017	2018	2019	2020	2021
Real GDP growth	4.2	4.3	4.0	3.9	4.5	4.8
Private consumption	6.1	5.3	5.2	4.6	5.5	6.4
Government consumption	1.0	4.4	6.0	5.5	5.7	5.6
Gross fixed investment	2.7	3.7	3.8	3.9	4.2	4.4
Exports of goods & services	0.1	3.7	2.6	2.4	3.8	4.8
Imports of goods & services	0.4	4.1	3.6	3.2	5.0	6.4
Domestic demand	4.8	4.6	4.8	4.5	5.3	5.8

Population, income and market size	2016	2017	2018	2019	2020	2021
Population (m)	30.8	31.2	31.6	32.0	32.4	32.8
Unemployment (%)	3.5	3.4	3.5	3.5	3.4	3.3
GDP (US$ bn at market exchange rates)	296.4	292.8	304.5	341.4	380.9	417.0
GDP per head (US$ at market exchange rates)	9,637	9,395	9,646	10,678	11,765	12,724
Private consumption per head (US$)	5,296	5,208	5,445	6,128	6,861	7,582
GDP (US$ bn at PPP)	861	918	977	1,027	1,092	1,167
GDP per head (US$ at PPP)	27,983	29,464	30,951	32,135	33,730	35,607
Growth of real disposable income (%)	5.8	4.9	5.4	5.2	5.8	6.5

Political outlook

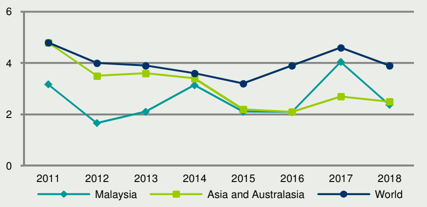
- The early part of the forecast period will be dominated by preparations for the next general election. Although the poll is not due until mid-2018, there are growing signs that it might be called in the second half of this year. Pressure on the prime minister, Najib Razak, to step down over his role in the mismanagement of a debt-ridden, state-owned investment firm, 1Malaysia Development Berhad (1MDB), is expected to ease. Before it was disbanded in April 2016, Mr Najib was the chair of the advisory board. He did this in his capacity as finance minister.
- Mr Najib is likely to call for the dissolution of parliament before 2018 in a bid to cement his position further and take advantage of a weak and still-fractured opposition. The fact that corruption allegations against Mr Najib for his involvement in 1MDB have yet to be substantiated by any of the international law agencies investigating this will be another reason to act speedily and move for an early election. These investigations are likely to wind down in the early part of the forecast period, as will the intense international media attention.

Policy, money and prices

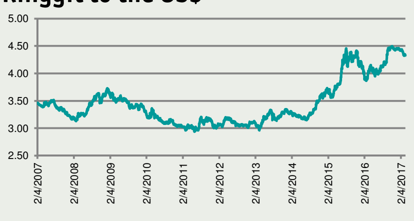
- We believe that Bank Negara Malaysia (BNM, the central bank) will maintain an accommodative monetary policy stance and leave its benchmark interest rate, the overnight policy rate (OPR), at 3% for much of 2017-21. A pick-up in consumer price pressures would suggest a tightening of monetary policy in 2017, but BNM will attribute the acceleration to cost-push factors rather than as a sign of diminishing capacity in the economy. This view was exemplified by BNM's announcement in March that it had increased its inflation forecast to 3-4%, from 2-3% previously, but had not made significant upward revisions to its GDP forecast for the same year.
- Looking further ahead, BNM is unlikely to be in a position to raise the OPR until 2021 at the earliest. By then it is likely to have lowered its consumer price forecast range to 2-3%.

Prices, money and current account	2016	2017	2018	2019	2020	2021
Consumer prices (av; %)	2.1	4.0	2.4	1.9	2.0	2.3
Money supply (M2) growth (%)	3.0	6.3	6.2	5.9	6.0	6.8
Lending interest rate (end-period; %)	4.5	4.5	4.5	4.5	4.5	4.6
Trade balance (US$ bn)	25.5	26.8	27.5	27.8	28.9	29.0
Current account balance (US$ bn)	6.2	8.8	8.0	7.7	8.6	8.6
Current account balance (% of GDP)	2.1	3.0	2.6	2.3	2.3	2.1
Exchange rate LCU:US$ (av)	4.15	4.49	4.56	4.28	4.06	3.93

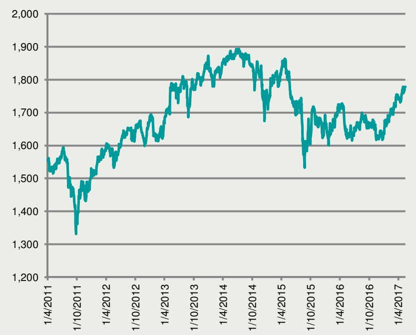
Consumer price inflation (%)



Ringgit to the US$



Bursa Malaysia KLCI Index



Currency outlook

- We expect the ringgit to loose further ground against the US dollar in 2017-18. Further rises in US interest rates, coupled with unchanged rates in Malaysia, will weigh on the ringgit's value. Malaysia is exposed to shifts in investor sentiment owing to its fairly high levels of foreign-currency-denominated debt.

	2017	2018
M$: US$	▼ 4.49	▼ 4.56
M$: Euro	▼ 4.76	▼ 4.87

Average annual rates

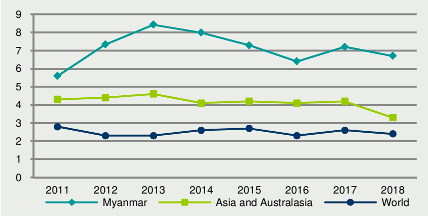
ASIA COUNTRY BRIEFING MAY-JUNE 2017

Myanmar

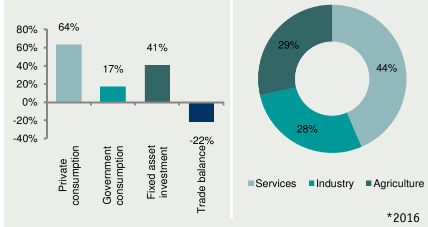
Economic outlook

- Although timely data on the economy's performance remain scarce, the figures that are available paint a weaker than expected picture of growth for fiscal year 2016/17 (April-March). Accordingly, and alongside a change in our source data for national accounts, we have revised our GDP growth estimates and forecasts downwards. Although Myanmar will remain an outperformer in Asia, we now expect real GDP growth to average a more moderate 7.3% a year in 2017/18- 2021/22.
- The still-brisk pace of economic growth will continue to be underpinned by large and primarily foreign-invested projects in a number of areas, notably critical infrastructure, manufacturing and energy. Oil and gas development continues apace, under scoring healthy upstream prospects. These activities should pick up further in 2017/18-2018/19, when we expect a recovery in global energy prices. A handful of special economic zones (SEZs)—particularly the Thilawa SEZ—will help to address the poor business environment in pockets of Myanmar. Fast catch-up growth in telecommunications will also boost investment, as it induces efficiency gains.
- More generally, foreign-investment inflows will remain large as regulatory and legal reforms are introduced, aided by the lifting of the US's remaining sanctions in October 2016. The ongoing liberalisation of Myanmar's financial sector will spur activity in many nascent but fast-growing industries—especially labour-intensive export manufacturing.

Real GDP growth (%)



Origin of GDP*



*2016

Real expenditure on GDP (% change)	2016	2017	2018	2019	2020	2021
Real GDP growth	6.4	7.2	6.7	7.2	7.5	7.8
Private consumption	3.5	4.0	5.0	5.5	6.0	6.0
Government consumption	4.0	4.5	6.0	7.0	8.0	8.5
Gross fixed investment	10.0	12.0	11.5	11.0	10.5	10.0
Exports of goods & services	5.0	13.0	7.0	9.0	11.0	13.0
Imports of goods & services	4.5	8.5	9.0	9.5	10.5	10.5
Domestic demand	5.6	6.7	7.4	7.7	7.9	7.9

Population, income and market size	2016	2017	2018	2019	2020	2021
Population (m)	54.4	54.8	55.3	55.8	56.2	56.7
Unemployment (%)	4.8	4.7	4.6	4.5	4.4	4.2
GDP (US$ bn at market exchange rates)	68	72	79	88	100	115
GDP per head (US$ at market exchange rates)	1,251	1,319	1,437	1,585	1,783	2,023
Private consumption per head (US$)	627	655	700	762	848	952
GDP (US$ bn at PPP)	305	334	365	396	433	476
GDP per head (US$ at PPP)	5,610	6,100	6,600	7,100	7,700	8,390
Real GDP growth per head (%)	5.5	6.3	5.8	6.3	6.6	6.9

Political outlook

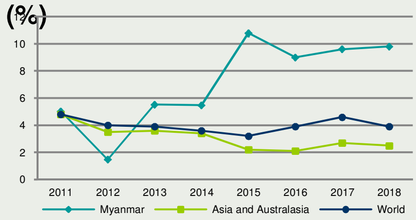
- Myanmar's democratic transformation will continue under the stewardship of the National League for Democracy (NLD), which came into power in April 2016. As the government's first year has proved, the president, Htin Kyaw, is deferring to Aung San Suu Kyi, who remains constitutionally barred from the post but holds key cabinet positions as head of the President's Office and the Ministry of Foreign Affairs. In April 2016 a new post entitled "state counsellor", stretching across the branches of government, was created specifically for Aung San Suu Kyi, putting her in a better place to steer policy from a position of more formal authority.
- Democratic reforms that chip away at the influence of the military risk hampering the prospects for more lasting change of the army-drafted constitution. Myanmar's democratisation will, in any case, experience bouts of stagnation, despite the NLD's strong electoral mandate. The military remains powerful owing to its capacity to steer constitutional reform; it has an effective veto via its guaranteed 25% share of parliamentary seats. The constitution also gives the military control over the defence, border and home affairs ministries. Altogether, the multiple centres of power mean that disagreements within the quasi-civilian government, on issues such as the peace process with ethnic armed groups (EAGs), will persist.

Policy, money and prices

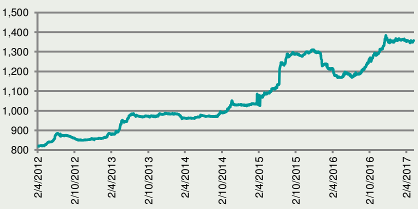
- The Central Bank of Myanmar (CBM) will have to contend with stubbornly high inflation. On the back of a law passed in 2013 and the NLD's commitment to granting it "genuine" independence, the CBM's institutional autonomy will mature, especially as greater assistance from donors and more competitive private bond auctions help the government to reduce its borrowing from the central bank. Such independence should give it the policy space to raise interest rates to help to tame price pressures. Over the medium term the CBM wants to see inflation fall to 7% on average. It will take time for the central bank to be able to act fully independently, however, as any tightening would increase the government's debt-servicing burden.

Prices, money and current account	2016	2017	2018	2019	2020	2021
Consumer prices (av; %)	8.2	10.6	9.1	7.6	8.1	8.1
Money supply (M2) growth (%)	17.4	21.5	19.8	18.8	20.7	21.0
Lending interest rate (end-period; %)	13.0	15.0	17.0	18.0	17.5	17.0
Trade balance (US$ bn)	-3.1	-4.5	-4.9	-5.9	-7.2	-8.8
Current account balance (US$ bn)	-3.5	-5.0	-5.6	-6.6	-8.1	-9.8
Current account balance (% of GDP)	-5.1	-6.9	-7.0	-7.5	-8.1	-8.5
Exchange rate LCU:US$ (av)	1,235	1,355	1,424	1,487	1,514	1,529

Consumer price inflation (%)



Kyat to the US$



Exchange rate depreciation

- The authorities' new exchange-rate committee, which was established in October 2016, is primarily designed to help to smooth the kyat's movement rather than set it at a specific level.
- The collapse in the level of foreign-exchange reserves in 2014 and the subsequent slow accumulation of reserves mean that the CBM does not have enough to mount a prolonged defence of the kyat.

Currency outlook

- The kyat will continue to face significant downward pressure stemming from a large and growing current-account deficit. A suboptimal mix of fiscal and monetary policy, and the resulting level of inflation, will also continue to work against the kyat. We expect the kyat to fall from an average of Kt1,235:US$1 in 2016 to Kt1,529:US$1 in 2021.

	2017	2018
Kt : US$	▼ 1,355	▼ 1,424

Average annual rates

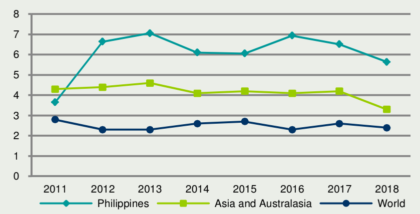
ASIA COUNTRY BRIEFING MAY-JUNE 2017

Philippines

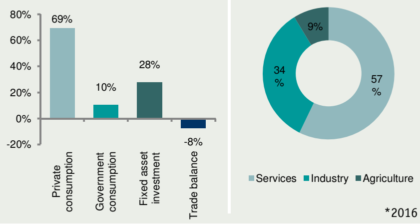
Economic outlook

- Moderating investment trends will cause headline growth to ease to 6.5% in 2017. One of the fundamental drivers of the Philippines' constructive growth story will remain in play, however. We expect private consumption to remain robust in 2017-21. Moderate inflation, steady increases in formal employment, positive wealth effects from rising property prices and healthy inflows of remittances will continue to underpin strong household spending. Meanwhile, the business process outsourcing (BPO) sector is expected to remain relatively resilient to the "hard landing" that we expect to occur in China in 2018 as the authorities belatedly tackle unsustainable credit growth. The Philippines' BPO sector is more geared towards the US economy, which we forecast will experience a relatively shallow cyclical downturn in 2019 and pick up swiftly in 2020-21. As a result, exports of goods and services will continue to grow at a fairly healthy rate of 6.4% a year on average in 2017-21.
- Downside risks to the forecast remain prominent. The president, Rodrigo Duterte, maintained a reputation as a relatively successful mayor; Davao was one of the star performers among the country's major cities under his leadership. However, should his presidency bring a prolonged period of political instability or policy stasis—signs of which have been evident in his administration's first year—economic growth could significantly underperform our forecasts.

Real GDP growth (%)



Origin of GDP*



*2016

Real expenditure on GDP (% change)	2016	2017	2018	2019	2020	2021
Real GDP growth	6.9	6.5	5.6	5.9	6.2	6.1
Private consumption	7.0	6.5	6.1	6.2	6.0	5.7
Government consumption	8.0	7.0	7.3	7.3	7.5	7.5
Gross fixed investment	25.4	10.0	5.0	6.0	6.5	7.0
Exports of goods & services	10.8	8.6	5.1	4.7	6.4	7.3
Imports of goods & services	18.6	10.3	6.0	4.9	6.7	7.6
Domestic demand	11.0	7.5	6.1	5.9	6.3	6.4

Population, income and market size	2016	2017	2018	2019	2020	2021
Population (m)	102.3	103.8	105.3	106.9	108.4	110.0
Unemployment (%)	5.5	5.1	5.1	5.4	5.1	5.0
GDP (US$ bn at market exchange rates)	304.5	312.3	333.2	372.4	415.1	454.6
GDP per head (US$ at market exchange rates)	2,978	3,009	3,163	3,484	3,828	4,133
Private consumption per head (US$)	2,192	2,241	2,346	2,565	2,787	2,994
GDP (US$ bn at PPP)	805	878	948	1,017	1,098	1,188
GDP per head (US$ at PPP)	7,878	8,456	9,004	9,513	10,125	10,801
Growth of real disposable income (%)	6.7	6.0	5.7	5.9	6.0	5.7

Political outlook

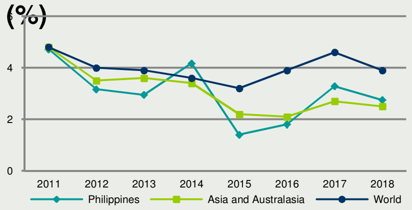
- While Mr Duterte came into national politics as a relative novice, he has managed to consolidate his position in the legislature by marginalising the opposition. This began with the ousting of the vice-president, Leni Robredo, from his cabinet in December 2016. Ms Robredo ran on a different presidential ticket and she has since been a detractor of many of Mr Duterte's policies. In February four Liberal Party senators were removed from key committee positions in the Senate (the upper house of the legislature) by the president's supporters.
- Mr Duterte is at risk of expending his political capital quickly, however. Some controversial decisions such as the reinterring of a former dictator, Ferdinand Marcos (1965-86) and seeking the re-instalment of the death penalty have negatively affected his popularity somewhat. His divisive rhetoric and controversial policies have also annoyed the country's powerful Catholic Church, which has played a part in the ousting of previous Philippine presidents. If he continues to alienate established political elites and large parts of civil society the risk of his impeachment will rise. (Several past heads of states have been forced from office mid-term or at least faced strong impeachment efforts.)

Policy, money and prices

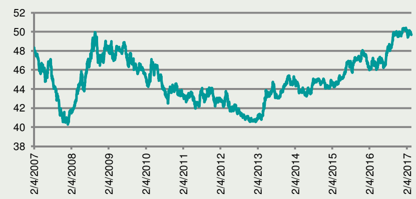
- The Bangko Sentral ng Pilipinas (BSP, the central bank) operates an inflation-targeting framework. Its target range for 2016 18 is 2 4%. In May 2016 the BSP made some alterations to the way that it sets monetary policy, moving to an interest-rate corridor system. The corridor, whereby the BSP has separate but strategically related interest rates for lending and deposits conducted by commercial banks, is a means to improve monetary policy transmission.
- Leaving aside these operational changes, the BSP has kept its monetary policy stance unchanged since 2014. We expect the central bank to raise interest rates, starting in late 2017, in response to emerging inflationary pressures caused by increasing capacity constraints and the weakening peso.

Prices, money and current account	2016	2017	2018	2019	2020	2021
Consumer prices (av; %)	1.8	3.3	2.7	2.2	2.4	2.7
Money supply (M2) growth (%)	13.3	10.4	10.7	11.2	12.0	11.9
Lending interest rate (end-period; %)	5.6	5.8	5.8	6.0	6.0	6.0
Trade balance (US$ bn)	-34.1	-37.9	-40.8	-44.7	-47.8	-52.2
Current account balance (US$ bn)	0.6	1.1	1.9	1.7	2.5	1.6
Current account balance (% of GDP)	0.2	0.4	0.6	0.5	0.6	0.4
Exchange rate LCU:US$ (av)	47.5	49.9	51.6	50.5	49.7	49.5

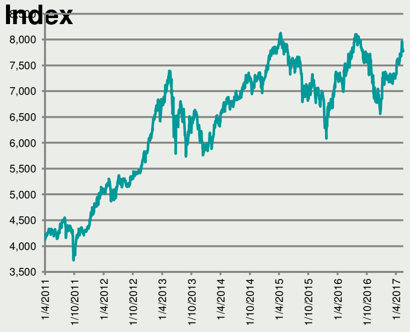
Consumer price inflation (%)



Peso to the US$



Philippines Stock Exchange Index



Currency outlook

- The peso has been one of the worst performing currency in the region over the first four months of 2017. It is becoming evident that despite the economy's strong fundamentals investors are getting nervous about Mr Duterte's volatile style of governance and the risk of economic policy drift.

	2017	2018
Peso : US$	▼ 49.87	▼ 51.63
Peso : Euro	▼ 52.87	▼ 55.24

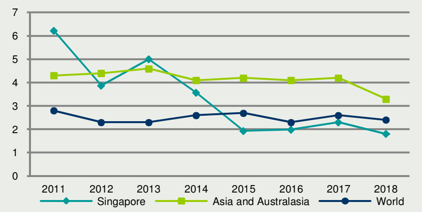
Average annual rates

Singapore

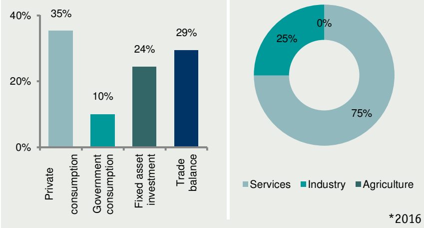
Economic outlook

- We expect real GDP growth to accelerate to 2.3% in 2017, from 2% in 2016, bolstered by strengthening global trade. However, there are downside risks to our forecasts. In the short term the new US administration has indicated protectionist tendencies, which would dampen global trade. Moreover, the local economy will face headwinds as China experiences a hard landing in economic growth in 2018 and the US records a technical recession in 2019. We expect the city state's economy to expand by an average of 2.1% a year in 2017-21.
- The administration will seek to counteract the effects of weak external demand, keeping government consumption at a relatively high level for Singapore, accounting for 12% of GDP throughout the forecast period (up from around 10% in 2012-16). The economy will also receive some support from private consumption, with income tax relief measures and wages holding up as the government continues to restrict immigration.
- On the supply side, the services sector will continue to dominate the city state's economy. Measured at factor cost, the sector will account for 72.5% of GDP and grow by an average of 1.5% a year in 2017-21. Within this sector, tourism will remain an important pillar of economic growth—the city state's myriad attractions and package-holiday deals directed at high-end consumers will continue to boost tourism.

Real GDP growth (%)



Origin of GDP*



Real expenditure on GDP (% change)	2016	2017	2018	2019	2020	2021
Real GDP growth	2.0	2.3	1.8	1.7	2.2	2.4
Private consumption	0.6	1.8	2.0	1.9	2.5	2.7
Government consumption	6.3	5.0	7.0	6.0	5.0	4.0
Gross fixed investment	-2.5	1.9	1.3	2.2	3.6	3.4
Exports of goods & services	1.6	2.8	1.3	1.1	2.8	3.1
Imports of goods & services	0.3	2.0	1.8	1.2	3.3	3.6
Domestic demand	-0.1	3.3	1.9	2.8	4.0	3.1

Population, income and market size	2016	2017	2018	2019	2020	2021
Population (m)	5.6	5.7	5.8	5.9	5.9	6.0
Unemployment (%)	2.1	2.0	2.1	2.2	2.1	2.0
GDP (US$ bn at market exchange rates)	297.0	303.1	307.8	317.7	332.5	347.2
GDP per head (US$ at market exchange rates)	52,961	53,318	53,372	54,312	56,014	57,749
Private consumption per head (US$)	19,341	18,980	19,150	19,590	20,250	20,940
GDP (US$ bn at PPP)	496.1	519.4	541.1	556.8	578.9	604.4
GDP per head (US$ at PPP)	88,468	91,370	93,820	95,180	97,510	100,520
Growth of real disposable income (%)	6.3	6.5	3.4	1.9	2.5	2.7

Political outlook

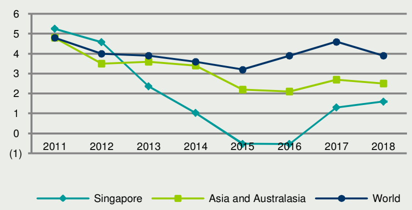
- Singapore will continue to enjoy a high level of political stability under the stewardship of the People's Action Party (PAP) in 2017-21. The PAP has been in power since 1959. It won a strong mandate in the 2015 parliamentary election, securing 69.9% of the total vote, up from 60.1% in 2011. This reflected the fact that most Singaporeans are content with the PAP's leadership. Opposition parties are unlikely to present a significant challenge to the PAP before the next parliamentary election, which must be held by January 2021.
- The prime minister, Lee Hsien Loong, has indicated a desire to step down from office before the next legislative election. His succession has become a more pressing issue given that he has faced a series of health problems in recent years, and the PAP appears to be expediting succession planning. Mr Lee is the son of the country's late founding prime minister, Lee Kuan Yew, and thereby enjoys an unrivalled stature in the party. The appointment of several new faces to the cabinet soon after the 2015 election represented a push to familiarise voters with the next generation of younger PAP leaders, a pool of candidates from which the next prime minister will be selected, as announced by Mr Lee. We expect factional politics within the PAP to remain discreet and have little impact on the government's effectiveness.

Policy, money and prices

- At its last meeting, in April 2017, the central bank said that it would continue to target zero appreciation of the NEER, an accommodative policy stance that it first adopted in April 2016. Owing to concerns about the economy's slow growth and weak inflationary pressure, we believe that the MAS will maintain an accommodative monetary policy stance until the end of 2019. Further relaxation is likely to be pursued by the central bank as it strives to deal with an anticipated "hard landing" in China in 2018 and a loss of momentum in the US economy in 2019. This would include widening the bands in which the NEER is allowed to trade or recentring the NEER, or a combination of both.

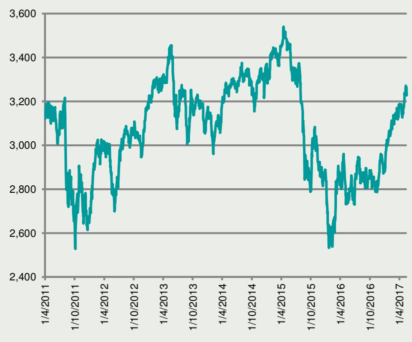
Prices, money and current account	2016	2017	2018	2019	2020	2021
Consumer prices (av; %)	-0.5	1.3	1.6	1.3	1.1	1.3
Money supply (M2) growth (%)	8.0	9.0	4.9	4.5	11.0	12.0
Lending interest rate (end-period; %)	5.4	5.4	5.4	5.4	5.4	5.4
Trade balance (US$ bn)	82.8	92.3	94.6	91.3	96.4	99.6
Current account balance (US$ bn)	56.5	60.1	60.6	55.7	59.3	60.2
Current account balance (% of GDP)	19.0	19.8	19.7	17.5	17.8	17.3
Exchange rate LCU:US$ (av)	1.38	1.39	1.41	1.41	1.40	1.39

Consumer price inflation (%)



Singapore dollar to the US$

Straits Times Index



Currency outlook

- In 2017, as interest rates continue to rise in the US and the MAS maintains an accommodative monetary policy stance, we expect the Singapore dollar to trend slightly lower against the US dollar. The MAS will allow the Singapore dollar to depreciate further against the US dollar in 2018-19.

	2017	2018
S$: US$	▼ 1.39	▼ 1.41
S$: Euro	▲ 1.48	▼ 1.51

Average annual rates

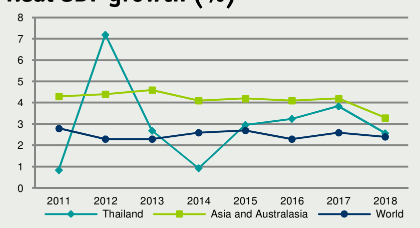
ASIA COUNTRY BRIEFING MAY-JUNE 2017

Thailand

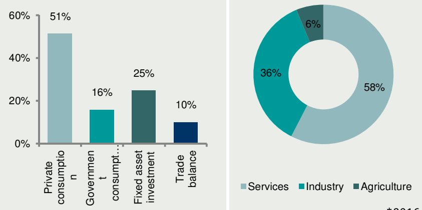
Economic outlook

- Real GDP growth will accelerate further in 2017 to 3.8%, from 3.2% in 2016, on the back of stronger external demand and the expansion of public investment drives. However, stronger headwinds facing the vital external sector in 2018-19 will temper headline GDP growth in those years. We expect real GDP growth to average 3% a year in 2017-21, down from 3.4% in 2012-16.
- Private consumption growth, which accounts for a significant proportion of GDP, accelerated from 2.2% in 2015 to 3.1% in 2016 owing not only to the junta's stimulatory efforts but also to robust inflows of tourists. It will remain supported by these factors in 2017 but is likely to experience a pronounced dip in the middle of the forecast period as weakening external demand in 2018-19 undermines domestic activity. It will pick up again after the economy experiences a recovery in 2020-21.
- Whereas services exports continue to grow strongly, reflecting Thailand's robust tourism industry, the downward trend in goods exports since early 2015 has only recently shown signs of easing. We expect a recovery in external demand in 2017, but growth in shipments will ease again in 2018-19 owing to a steep slowdown in growth in China in 2018 and a cyclical downturn in the US in 2019. However, this will be softened somewhat by the underlying trends of rising demand from ASEAN member states and expansion of the tourism sector. These will also aid the economic rebound expected in 2020-21.

Real GDP growth (%)



Origin of GDP*



*2016

Real expenditure on GDP (% change)	2016	2017	2018	2019	2020	2021
Real GDP growth	3.2	3.8	2.6	2.3	3.1	3.2
Private consumption	3.1	3.1	1.8	2.3	2.9	3.1
Government consumption	1.9	3.3	4.3	4.1	2.9	3.4
Gross fixed investment	2.9	3.1	3.7	1.9	3.9	3.8
Exports of goods & services	2.1	4.1	2.1	2.1	3.7	4.0
Imports of goods & services	-1.3	4.6	3.1	2.1	3.9	3.9
Domestic demand	-0.3	6.2	3.7	2.3	3.2	3.0

Population, income and market size	2016	2017	2018	2019	2020	2021
Population (m)	68.1	68.3	68.4	68.5	68.6	68.6
Unemployment (%)	1.0	1.1	1.2	1.3	1.1	1.0
GDP (US$ bn at market exchange rates)	407.0	434.8	449.8	458.8	488.1	515.3
GDP per head (US$ at market exchange rates)	5,973	6,366	6,574	6,697	7,117	7,507
Private consumption per head (US$)	3,026	3,163	3,213	3,242	3,414	3,601
GDP (US$ bn at PPP)	1,174	1,247	1,308	1,354	1,420	1,494
GDP per head (US$ at PPP)	17,221	18,252	19,120	19,761	20,702	21,772
Growth of real disposable income (%)	3.0	3.1	1.7	2.4	3.0	3.1

Political outlook

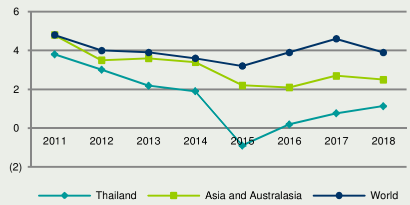
- The death of the previous monarch, King Bhumibol Adulyadej, and the subsequent accession of his son, who is now titled King Maha Vajiralongkorn Bodindradebayavarangkun, in late 2016 will have minimal impact on political stability. The National Council for Peace and Order (the junta) will continue to control the legislature until elections are held, which we expect to take place not before 2019. The new constitution, approved in a public referendum in August 2016, cements the military's continued influence over government even after the ballot.
- The military establishment depends on endorsement by the king for much of its political legitimacy. It has therefore ensured the continuance of the monarchy in line with the wishes of the late king, who even in death will remain a figure of paramount reverence among the Thai public. Although King Maha requested changes to the constitution relating to the power of the monarch in January, in what was a largely unprecedented move, he subsequently rubber-stamped the revised version in April, removing a potential source of friction with the junta government. The alterations dictated a slightly stronger foundational role in politics than in the previous charter, but, in practice, royal intrusion into everyday politics will remain rare. The junta's dependence on the continuation of the monarchy in its traditional form has led to the proactive suppression of any criticism of the new king via lese-majesty laws.

Policy, money and prices

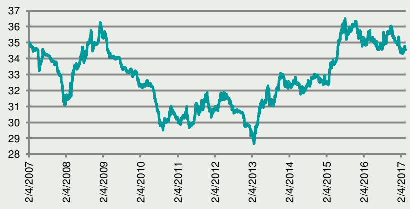
- We expect the Bank of Thailand (BOT, the central bank) to raise its main policy rate, the one-day repurchase rate, once in 2017. Firming consumer price inflation, continued monetary policy tightening in the US and stronger domestic economic growth will allow the BOT to step up from its current, low rate of 1.5%, in part to give itself greater room for future loosening of policy. The lessening of inflationary pressures and stalling external demand in 2018 will motivate it to revert to an accommodative stance in that year and it will remain so until 2020 when inflation will accelerate again amid stronger conditions for domestic and external demand.

Prices, money and current account	2016	2017	2018	2019	2020	2021
Consumer prices (av; %)	0.2	0.8	1.1	1.0	1.4	1.7
Money supply (M2) growth (%)	4.2	7.3	4.9	3.9	5.6	6.1
Lending interest rate (end-period; %)	6.3	6.3	6.5	6.3	6.7	7.1
Trade balance (US$ bn)	37.7	37.4	33.9	28.3	30.8	32.1
Current account balance (US$ bn)	47.1	47.9	45.7	42.3	45.9	47.7
Current account balance (% of GDP)	11.6	11.0	10.2	9.2	9.4	9.3
Exchange rate LCU:US$ (av)	35.3	35.0	35.4	35.9	35.2	34.9

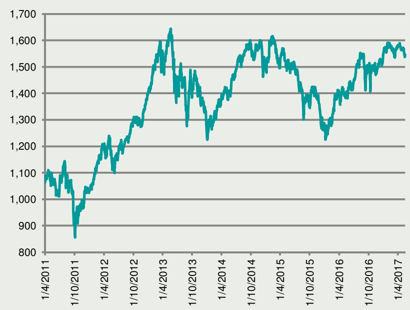
Consumer price inflation (%)



Baht to the US$



Stock Exchange of Thailand Index



Currency outlook

- The Thai baht has stayed steady against the US dollar between the start of January and end-April, in part reflecting investors' increasing confidence in Thailand. We have revised up the average value of the baht vis-à-vis the US dollar in 2017 to reflect this trend.

	2017	2018
Baht : US$	▲ 35.0	▼ 35.4
Baht : Euro	▲ 37.1	▼ 37.9

Rates at end of year

The Economist Corporate Network

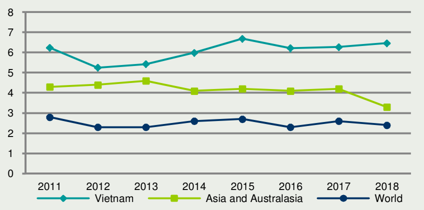
ASIA COUNTRY BRIEFING MAY-JUNE 2017

Vietnam

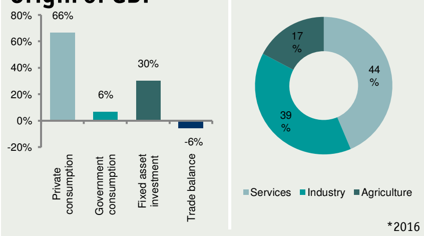
Economic outlook

- We have lowered our real GDP growth forecasts following weaker-than-expected outturn in the first quarter of 2017. Crucially, however, the recent weakness is on the back of the government's decision to refocus the economy away from the natural resources sector. This is a critical point, as a slowdown that is deliberate and policy-induced is not as concerning as one that is driven by market forces. Not surprisingly, policy has since turned to one that is explicitly growth positive. Nevertheless, we now see economic growth rebounding only modestly in 2017.
- With global trade growth expected to recover in the forecast period from the lull registered in 2016, Vietnam should be able to improve on its performance last year. Conditions in the agriculture sector have shown signs of improvement since mid-2016. Barring any natural disasters, the sector's recovery from adverse weather conditions in 2015-16 should continue, providing more support to headline growth. Vietnam's economy will be underpinned by healthy growth in private consumption, aided by rapid wage growth and structural gains in access to credit. Spending activity will also be supported by a rapid influx of tourists. Increases in government spending will slow as the authorities make progress on reforming SOEs and trimming the size of the government more generally. However, private-investment activity will be spurred by policies to liberalise regulations and deepen global economic integration.

Real GDP growth (%)



Origin of GDP*



*2016

Real expenditure on GDP (% change)	2016	2017	2018	2019	2020	2021
Real GDP growth	6.2	6.3	6.5	6.1	6.0	6.4
Private consumption	5.8	6.0	6.2	6.1	6.0	6.2
Government consumption	6.8	6.8	6.6	6.5	6.5	6.3
Gross fixed investment	9.8	10.0	9.6	9.2	9.0	9.4
Exports of goods & services	8.4	8.6	8.2	8.0	8.8	9.0
Imports of goods & services	9.3	9.3	8.8	8.7	9.4	9.6
Domestic demand	7.0	7.2	7.2	7.0	6.9	7.2

Population, income and market size	2016	2017	2018	2019	2020	2021
Population (m)	94.4	95.4	96.4	97.3	98.2	99.0
Unemployment (%)	3.4	3.3	3.2	3.4	3.4	3.3
GDP (US$ bn at market exchange rates)	201.4	218.4	229.8	244.3	260.0	278.1
GDP per head (US$ at market exchange rates)	2,133	2,289	2,385	2,511	2,649	2,809
Private consumption per head (US$)	1,461	1,551	1,633	1,720	1,813	1,919
GDP (US$ bn at PPP)	595.5	647.4	705.0	757.4	816.7	886.3
GDP per head (US$ at PPP)	6,305	6,785	7,317	7,786	8,321	8,951
Growth of real disposable income (%)	5.6	5.9	6.4	6.1	6.2	6.1

Political outlook

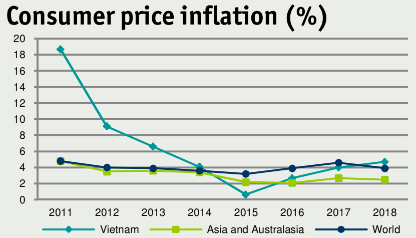
- Vietnam will remain a one-party socialist state in 2017-21. This was reaffirmed in January 2016 during the 12th congress of the Communist Party of Vietnam (CPV). The CPV's reappointment of Nguyen Phu Trong as its general secretary indicated as much, given his proclivity towards consensus-based decision-making. Differences of opinion over policy and conflicting vested interests will persist, however, owing to the challenges of handling competing international pressures and an increasingly vocal citizenry. We nonetheless believe that an outright breakdown of the one-party system remains unlikely, as the CPV faces no external challenges.
- Anti-corruption efforts will continue to pose an inherent risk to political stability, especially if top officials are implicated. This was recently underscored by the removal of Dinh La Thang from the CPV's politburo, the most powerful organ in Vietnam's political system where dismissals are rare.
- The government will continue to face public pressure over its handling of territorial disputes with China in the South China Sea. Many Vietnamese are critical of the reluctance of some within the CPV to respond more forcefully to perceived Chinese provocation. The government faces a difficult balancing act owing to heavy economic dependence on China.

Policy, money and prices

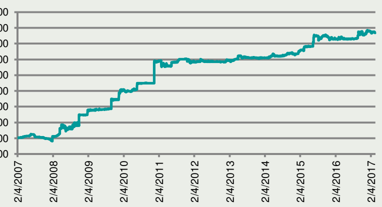
- As the average rate of inflation is likely to rise further in 2017-18, we expect the SBV to roll back slowly some of the policy easing it has undertaken since 2012. The central bank is not an independent institution in Vietnam, and therefore we expect the SBV to stick closely to the government's targets. The 4% limit on inflation for 2017 is encouraging, as it represents a desire on the part of the government to keep price pressures contained amid a likely rebound, however modest, in economic growth. The limit this year is lower than the 5% cap set for 2016. Overall, we expect a mild tightening cycle to commence from late 2017, with the SBV's benchmark refinancing rate projected to increase by 25 basis points before the end of the year, to 6.75%.

Prices, money and current account	2016	2017	2018	2019	2020	2021
Consumer prices (av; %)	2.7	4.0	4.7	4.4	4.4	4.6
Money supply (M2) growth (%)	20.1	17.4	15.0	14.1	14.0	15.6
Lending interest rate (end-period; %)	7.0	6.9	7.6	7.7	7.2	6.7
Trade balance (US$ bn)	14.0	4.4	3.5	3.7	2.9	2.5
Current account balance (US$ bn)	9.0	-1.4	-3.4	-4.2	-5.8	-6.8
Current account balance (% of GDP)	4.5	-0.6	-1.5	-1.7	-2.2	-2.5
Exchange rate LCU:US$ (av)	22,355	22,870	23,694	24,311	24,685	24,970

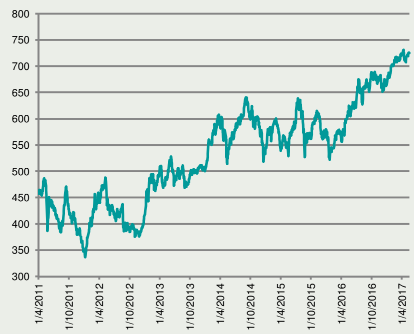
Consumer price inflation (%)



Dong to the US$



Ho Chi Minh Stock Index



Currency outlook

- We expect the dong to continue weakening against the US dollar, with the government seeking to maintain export competitiveness amid steeper currency declines across Asia. Depreciatory pressure on the dong will rise as Vietnam's current account returns to deficit and as interest rates rise further in the US.

	2017	2019
Dong : US$	▼ 22,870	▼ 23,694
Dong : Euro	▲ 24,242	▼ 25,352

Average annual rates

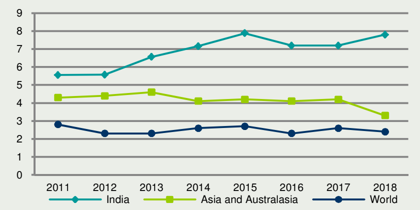
ASIA COUNTRY BRIEFING MAY-JUNE 2017

India

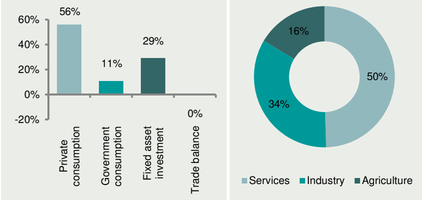
Economic outlook

- The economic outlook over the forecast period is broadly positive. We forecast that India's economy will grow by an average of 7.5% a year in 2017/18-2021/22, supported by an expanding formal economy and public infrastructure spending. We assume that the RBI and the finance ministry will reach a consensus on a resolution mechanism (such as a "bad bank") to tackle the challenges posed by distressed assets in the banking system in 2017 or early 2018. As banks' and corporate balance sheets improve, this will then provide the backdrop for stronger gross fixed investment growth and put economic expansion on a more sustainable footing.
- On the production side, services will continue to account for the bulk of growth, but the manufacturing sector will benefit from an improving business environment. The share of agricultural production in GDP will shrink, but the rural economy will remain a source of volatility, given its dependence on seasonal monsoon rainfalls. The government forecasts that monsoon rainfalls in 2017 will be broadly in line with the historic average.
- We caution that headline economic growth appears to be overstated by the official real GDP figures released by the Central Statistics Office, which have painted a more positive picture than a range of high-frequency indicators. Significant future revisions to national-accounts data cannot be ruled out.

Real GDP growth (%)



Origin of GDP*



*2016/17

Real expenditure on GDP (% change) Fiscal years beginning April 1st of year indicated.	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Real GDP growth	7.2	7.2	7.8	7.5	7.5	7.8
Private consumption	7.0	7.8	8.3	7.3	7.8	8.4
Government consumption	16.4	4.5	13.4	7.2	4.9	3.8
Gross fixed investment	-0.5	3.2	6.1	7.3	9.1	10.7
Exports of goods & services	3.5	2.6	3.1	1.2	2.7	3.5
Imports of goods & services	-0.8	3.0	2.3	2.1	4.1	5.3
Domestic demand	5.7	6.5	8.1	7.4	7.9	8.4

Population, income and market size [a] Fiscal years beginning April 1st of year indicated.	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Population (m)	1,327	1,343	1,358	1,374	1,389	1,404
Unemployment (%)	8.4	8.5	8.5	8.3	8.4	8.3
GDP (US$ bn at market exchange rates) [a]	2,186	2,379	2,466	2,731	3,086	3,360
GDP per head (US$ at market exchange rates) [a]	1,648	1,772	1,816	1,988	2,222	2,393
Private consumption per head (US$) [a]	988	1,080	1,110	1,220	1,360	1,470
GDP (US$ bn at PPP) [a]	8,747	9,590	10,574	11,500	12,569	13,817
GDP per head (US$ at PPP) [a]	6,590	7,140	7,790	8,370	9,050	9,840
Growth of real disposable income (%) [a]	8.8	7.5	8.8	10.5	7.6	9.8

Political outlook

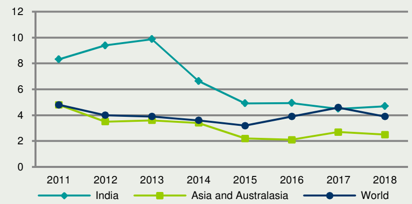
- The Economist Intelligence Unit believes that the National Democratic Alliance (NDA) coalition is well placed to win a second five-year term at the parliamentary elections due in mid-2019, providing political stability at national level. The NDA has been in office since 2014 and is led by the centre-right Bharatiya Janata Party (BJP), which also governs many large states in central and western India.
- The prime minister, Narendra Modi, is proving to be the country's most dominant political leader in decades and we expect him to remain in a strong position to set out the framework for the government's policy agenda throughout the forecast period. Besides the Prime Minister's Office, we anticipate that influence over major new policies will continue to be concentrated in the Ministry of Finance and some infrastructure-related ministries.
- Although the NDA has a clear majority in the Lok Sabha (the lower house of parliament), it is in the minority in the Rajya Sabha (the upper house), the consent of which is required to pass most legislation. Thanks to a strong performance at state elections in 2014-17, the NDA will be able to expand its presence in the upper house. This will be gradual, however, as the upper house only reflects changes with a delay.

Policy, money and prices

- The RBI underwent major leadership and institutional changes in 2016, which will help to ensure its independence. For example, the final say over the trajectory of the repurchase rate (the benchmark interest rate) was transferred from the governor to a six-member monetary policy committee, tasked with keeping consumer price inflation between 2% and 6%. We expect that the RBI will be successful in containing inflation within this band and will set monetary policy accordingly. Concerns about the relative stickiness of core inflation and rising interest rates in the US mean that the RBI will hold off from cutting its policy rates in 2017-18. We expect the central bank to begin raising interest rates from 2019 to ensure that inflation starts to moderate as economic growth strengthens and the external outlook brightens.

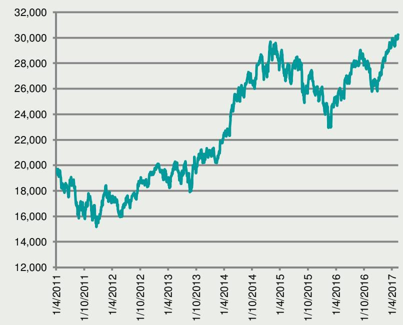
Prices, money and current account	2016	2017	2018	2019	2020	2021
Consumer prices (av; %)	3.5	4.6	4.5	4.7	4.7	4.6
Money supply (M2) growth (%)	6.6	11.5	9.6	10.6	11.2	13.1
Lending interest rate (end-period; %)	9.7	9.2	8.7	8.8	9.0	9.2
Trade balance (US$ bn)	-107.5	-131.5	-143.6	-142.7	-165.2	-194.6
Current account balance (US$ bn)	-11.9	-26.0	-35.7	-36.5	-46.9	-69.1
Current account balance (% of GDP)	-0.5	-1.1	-1.4	-1.3	-1.5	-2.1
Exchange rate LCU:US$ (av)	67.2	67.0	70.8	72.6	70.8	71.8

Consumer price inflation (%)



India rupee to the US$

Bombay Stock Exchange Index



Currency outlook

- Owing to a strong start to the year, the rupee will perform well this year. The strength of India's merchandise exports in early 2017 will also reduce the pressure from export-oriented companies on the monetary authorities to allow the currency to weaken in 2017. Rupee weakness will resume in 2018-19.

	2017	2018
Rs : US$	▲ 67.0	▼ 70.8
Rs : Euro	▲ 71.0	▼ 75.7

Average annual rates

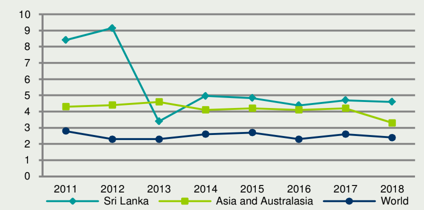
ASIA COUNTRY BRIEFING MAY-JUNE 2017

Sri Lanka

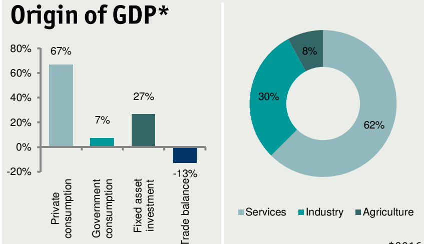
Economic outlook

- Real GDP growth will average 5% a year in 2017-21 as structural constraints weigh on economic activity. These include a shortage of skilled labour, poor infrastructure and a low female labour force participation rate. Weak global growth in 2018-19, owing to slowdowns in China and the US (Sri Lanka's main export market), will also dampen prospects for exports.
- Inflows of remittances will continue to provide important support for domestic demand throughout the forecast period. Meanwhile, agriculture will recover from the effect of drought in 2016 and early 2017, which will help to bolster consumption, as a large proportion of the labour force is still engaged in the primary sector. This, in conjunction with closer integration into global markets and value chains, will spur the private sector to invest in new capacity. Trade deals with China, India and Singapore will help Sri Lanka to boost its exports in the latter half of the forecast period. As the administration aims to contain the budget deficit, government consumption will provide only a minor lift to economic activity.
- The implementation of a 36-month economic programme under the IMF's extended fund facility (expected to run until 2019) will result in moves to liberalise the domestic business environment.

Real GDP growth (%)



Origin of GDP*



*2016

Real expenditure on GDP (% change)	2016	2017	2018	2019	2020	2021
Real GDP growth	4.4	4.7	4.6	4.6	5.4	5.7
Private consumption	0.7	5.2	5.4	5.3	5.9	5.8
Government consumption	2.3	3.9	3.2	3.7	5.6	4.9
Gross fixed investment	9.7	5.6	3.8	4.5	4.7	5.4
Exports of goods & services	-0.7	3.6	4.5	4.0	7.7	8.4
Imports of goods & services	7.9	4.1	3.7	4.4	6.8	7.2
Domestic demand	6.2	4.7	4.3	4.7	5.4	5.7

Population, income and market size	2016	2017	2018	2019	2020	2021
Population (m)	21.8	22.0	22.2	22.3	22.5	22.7
Unemployment (%)	4.5	4.5	4.4	4.5	4.4	4.3
GDP (US$ bn at market exchange rates)	81.3	85.1	89.4	94.7	101.7	110.9
GDP per head (US$ at market exchange rates)	3,730	3,871	4,033	4,237	4,517	4,882
Private consumption per head (US$)	2,522	2,630	2,760	2,920	3,130	3,390
GDP (US$ bn at PPP)	255.4	273.4	292.5	309.7	331.6	357.5
GDP per head (US$ at PPP)	11,714	12,440	13,200	13,860	14,720	15,740
Growth of real disposable income (%)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Political outlook

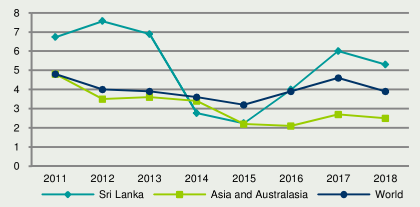
- The Economist Intelligence Unit expects the tenure of the coalition government to be marred by political instability, and we believe that the general election scheduled for 2020 will be brought forward. Our central forecast is that a new constitution will be adopted through a referendum, triggering early polls in 2018. This would strengthen democratic institutions, solidify the rule of law and reduce the powers vested in the presidency. However, there is also a possibility that the unwieldy coalition may fracture, or even last in office until 2020.
- Although the so-called national unity government holds a majority in parliament—comfortably above the two-thirds threshold required to amend the constitution—it will remain bogged down by major differences over policy and internal divisions. The coalition comprises the two largest parties in parliament, the United National Party (UNP) and the Sri Lanka Freedom Party (SLFP). These traditional rivals entered into this uneasy arrangement only after elections in 2015 left both sides without a majority in parliament or a viable path to form a coalition with a different partner. Irrespective of when elections are held, we expect that differences between the UNP and SLFP will continue to undermine policy co-ordination and impede reforms.

Policy, money and prices

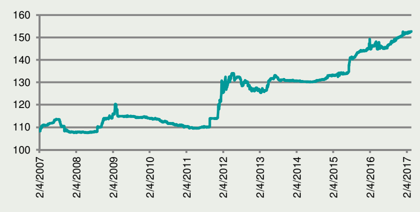
- The CBSL announced changes to its monetary policy and exchange-rate framework in early 2017. The CBSL will move towards a flexible inflation-targeting framework in 2017, under which it will seek to contain consumer price inflation in the range of 4-6%. The bank will focus more on exchange-rate developments in setting monetary policy, and less on private-sector credit growth, under this system.
- The CBSL raised its main interest rates, the standing deposit facility rate and the standing lending facility rate, by 25 basis points, to 7.25% and 8.75% respectively, in March to head off inflationary pressures stemming from a drought and increases in VAT. There is a risk that rates could rise again if prices continue to rise rapidly. Continuing high inflation will mean that there is little room to cut rates in 2018-21.

Prices, money and current account	2016	2017	2018	2019	2020	2021
Consumer prices (av; %)	4.0	6.0	5.3	4.9	4.7	4.7
Money supply (M2) growth (%)	18.9	14.9	13.6	14.8	16.3	17.3
Lending interest rate (end-period; %)	10.5	11.8	12.0	11.8	11.9	12.2
Trade balance (US$ bn)	-9.3	-9.4	-9.4	-10.6	-11.7	-12.0
Current account balance (US$ bn)	-2.2	-2.2	-1.5	-1.9	-2.5	-2.4
Current account balance (% of GDP)	-2.7	-2.6	-1.7	-2.0	-2.5	-2.2
Exchange rate LCU:US$ (av)	145.6	154.4	161.8	167.7	172.2	174.8

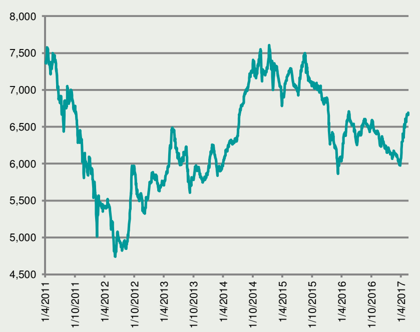
Consumer price inflation (%)



Sri Lanka rupee to the US$



Colombo Stock Exchange Index



Currency outlook

- The CBSL's decision in early 2017 to start adopting a new, relatively market-driven framework for exchange-rate management represents a fundamental shift away from past attempts to stem depreciation by intervening in foreign-exchange markets. We believe this regime shift to be credible.

	2017	2018
SLRs : US$	▼ 154.4	▼ 161.8
SLRs : Euro	▼ 163.7	▼ 173.1

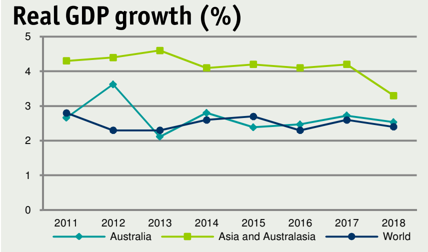
Average annual rates

Australia

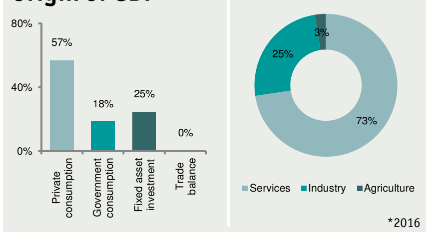
Economic outlook

- We expect growth to pick up to 2.7% in 2017, which is slightly weaker than our previous forecast of 2.8%, reflecting the disruption to economic activity caused by Cyclone Debbie, the category-four storm that struck the state of Queensland on March 28th-29th. The economy's transition from the investment phase of the mining boom to the production phase will continue to weigh on growth. Mining investment is not expected to bottom out until 2018. Weak global demand will also limit growth over the forecast period. Although prices for Australia's raw material exports, notably coal and iron ore, have increased since early 2016, they will lose momentum during 2017 and decline next year, when we forecast that China's economic growth will slow sharply. The impact on the economy will be widespread, as lower commodity export prices have a negative effect on government, businesses and households.
- More positively, the previous investment boom will continue to pay dividends in terms of rising iron ore and liquefied natural gas (LNG) output, which will boost export volumes and help to offset renewed weakness in export prices. In addition, we expect a sharp depreciation in the Australian dollar and further monetary easing by the RBA in 2018, which will cushion the non-mining parts of the economy.

Real GDP growth (%)



Origin of GDP*



*2016

Real expenditure on GDP (% change)	2016	2017	2018	2019	2020	2021
Real GDP growth	2.5	2.7	2.5	2.1	2.6	2.8
Private consumption	2.7	2.0	2.1	2.0	2.5	2.8
Government consumption	3.9	2.6	2.7	2.5	2.4	2.3
Gross fixed investment	-2.4	0.1	0.5	0.5	2.5	2.8
Exports of goods & services	7.6	6.5	4.2	2.9	3.0	3.1
Imports of goods & services	0.4	2.9	0.9	1.5	2.1	2.4
Domestic demand	1.7	1.5	1.8	1.7	2.5	2.7

Population, income and market size	2016	2017	2018	2019	2020	2021
Population (m)	24.3	24.6	25.0	25.3	25.6	25.9
Unemployment (%)	5.8	5.8	5.9	6.1	6.0	5.9
GDP (US$ bn at market exchange rates)	1,259	1,318	1,169	1,173	1,371	1,492
GDP per head (US$ at market exchange rates)	51,794	53,479	46,837	46,403	53,564	57,578
Private consumption per head (US$)	29,710	30,433	27,162	27,009	31,111	33,486
GDP (US$ bn at PPP)	1,169	1,229	1,289	1,332	1,390	1,458
GDP per head (US$ at PPP)	48,097	49,863	51,619	52,661	54,302	56,274
Growth of real disposable income (%)	2.3	2.1	2.5	2.3	2.5	2.8

Political outlook

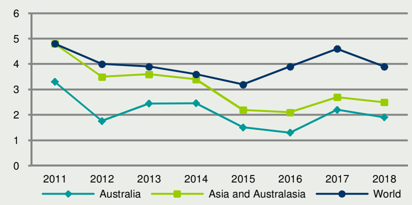
- The general election in July 2016 left the centre-right Liberal-National coalition with a weak hold on power. Internal divisions remain stark and its lack of a majority in the Senate (the upper house) raises the risk of periodic legislative gridlock. The political scene will be a source of uncertainty at least until the next general election (due in 2019), which we forecast will result in a change of government.
- The prime minister, Malcolm Turnbull, faces a number of concurrent political challenges. Mr Turnbull, a political centrist who came to power in a party leadership ballot in September 2015, will continue to face antipathy from some conservative members of his own Liberal Party. At the same time, the government's lack of a majority in the Senate (the upper house) will hamper his ability to shape the legislative agenda. Mr Turnbull's position was weakened by the "double-dissolution" election held in July 2016, in which all seats in parliament were contested.

Policy, money and prices

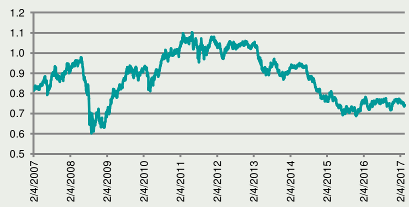
- Between May and August 2016 the Reserve Bank of Australia (RBA, the central bank) cut its policy interest rate, the cash rate, by 50 basis points to 1.5%. We believe that the central bank will keep the cash rate at this level throughout 2017. The RBA maintained a cautiously optimistic economic outlook at its latest monetary policy meeting on May 2nd, but warned that wage growth will remain weak for some time. Moreover, although the inflation rate returned to just within the RBA's 2-3% target in January-March, underlying inflation continued to undershoot the target band.
- The RBA is in no hurry to ease policy further, partly reflecting concern that this could put renewed upward pressure under house prices in Sydney and Melbourne and lead to further accumulation of housing debt, with negative implications for financial stability. Moreover, the new agreement on policy targets between the RBA and the government published in September 2016 indicated a greater emphasis on the flexibility of the target. In its latest forecasts (in May), the RBA appeared confident that underlying inflation would pick up gradually to around 2% by early 2018.

Prices, money and current account	2016	2017	2018	2019	2020	2021
Consumer prices (av; %)	1.3	2.2	1.9	2.0	2.4	2.4
Money supply (M2) growth (%)	6.7	7.6	7.0	7.0	7.3	7.3
Lending interest rate (end-period; %)	5.4	5.3	4.8	4.6	5.4	6.0
Trade balance (US$ bn)	-6.8	3.0	-17.3	-17.0	-11.7	-9.1
Current account balance (US$ bn)	-32.9	-30.9	-44.8	-42.8	-45.4	-47.3
Current account balance (% of GDP)	-2.6	-2.3	-3.8	-3.6	-3.3	-3.2
Exchange rate LCU:US$ (av)	1.34	1.35	1.56	1.61	1.46	1.41

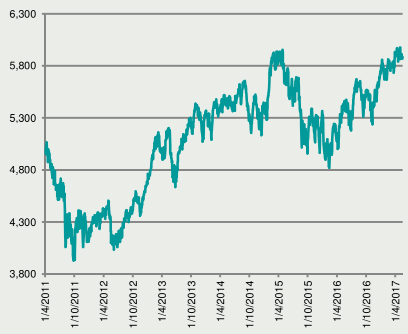
Consumer price inflation (%)



Australia dollar to the US$



All Ordinaries Index



Currency outlook

- By late 2017 we expect the currency to come under more sustained pressure. The Australian dollar is viewed by global markets as a proxy for the performance of China's economy, which we expect to slow sharply in 2018. From an average of A$1.35:US$1 in 2017, we expect the currency to weaken to A$1.61:US$1 in 2019.

		2017		2018
A$: US$	▼	1.35	▼	1.56
A$: Euro	▲	1.43	▼	1.67

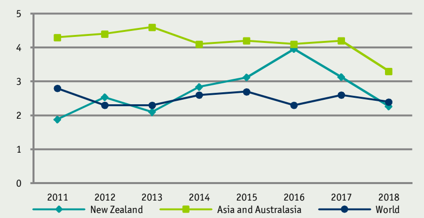
Average annual rates

New Zealand

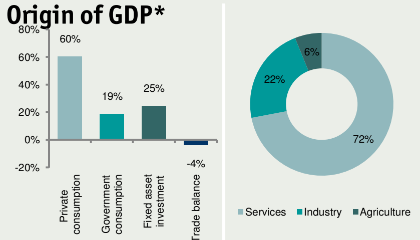
Economic outlook

- We expect growth to moderate in 2017, but it will remain fairly buoyant at 3.1%. The reconstruction of Christchurch following the earthquake in 2011 is well advanced, and the pace of house-price inflation appears to be slowing, which will weigh on private consumption. However, other regions—notably Auckland—will continue to see investment in housing and infrastructure to accommodate strong population growth, and loose monetary policy will provide support for real-estate prices. Meanwhile, sentiment in rural regions has been boosted by a rebound in global dairy prices since late 2015. Repairs after the earthquake that damaged parts of South Island and Wellington in November 2016 will also add modestly to growth in 2017.
- From 2018 conditions will become more challenging. By then we expect China's credit boom to have come to an end, precipitating a sharp slowdown in that country's industrial sector and a renewed downturn in global commodity prices. The impact on New Zealand will be milder than on industrial commodity exporters such as Australia, but the economy will not emerge unscathed. Later in the forecast period economic growth will be dampened by moderating migration and a maturing construction cycle. As a result, economic growth is expected to average just 2% a year in 2018-21.
- A major source of uncertainty is the housing market, which is at risk of a correction. If prices were to fall sharply, consumer confidence would suffer and growth would be weaker. However, this seems unlikely while the RBNZ keeps interest rates low.

Real GDP growth (%)



Origin of GDP*



*2016

Real expenditure on GDP (% change)	2016	2017	2018	2019	2020	2021
Real GDP growth	4.0	3.1	2.3	1.7	2.0	2.1
Private consumption	4.2	3.3	2.2	1.7	1.9	1.8
Government consumption	2.3	3.0	2.1	2.0	2.0	2.0
Gross fixed investment	5.7	5.5	3.1	1.0	1.6	1.8
Exports of goods & services	1.6	2.2	2.1	2.0	2.2	2.5
Imports of goods & services	4.0	4.4	2.5	1.5	1.6	1.7
Domestic demand	4.4	3.8	2.4	1.5	1.9	1.8

Population, income and market size	2016	2017	2018	2019	2020	2021
Population (m)	4.7	4.8	4.9	4.9	5.0	5.0
Unemployment (%)	5.1	4.8	5.2	5.6	5.4	5.1
GDP (US$ bn at market exchange rates)	182.1	190.9	178.2	178.1	194.6	202.6
GDP per head (US$ at market exchange rates)	38,818	39,931	36,662	36,111	38,974	40,147
Private consumption per head (US$)	22,267	22,735	21,093	20,785	22,361	22,927
GDP (US$ bn at PPP)	179.8	189.6	198.4	204.2	211.9	220.6
GDP per head (US$ at PPP)	38,324	39,667	40,824	41,402	42,449	43,714
Growth of real disposable income (%)	4.7	3.0	2.4	2.4	2.3	2.2

Political outlook

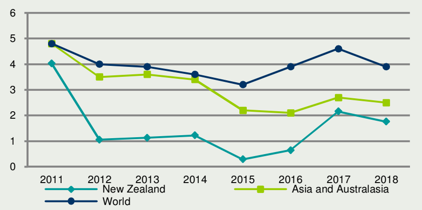
- We believe that political risk is set to rise over the early part of the forecast period. The next general election, which will be held on September 23rd, will determine whether the centre-right National Party, in power since 2008, secures a fourth term in office. Its success has become less assured since December 2016, when the prime minister, John Key, unexpectedly announced his decision to retire and the party elected Bill English—the then deputy prime minister and finance minister—to replace him. Although Mr English is widely respected, he lacks Mr Key's broad appeal and notoriously led National to its worst-ever electoral defeat in 2002.
- Nonetheless, National will contest from a position of strength. Although it holds just 59 out of 121 seats in parliament, it has managed to govern smoothly through confidence and supply agreements with the Maori Party, United Future and ACT New Zealand. Mr Key proved adept at nurturing the alliances required to maintain a viable multi-party government, and Mr English successfully negotiated the passage in April of amendments to the Resource Management Act—which sets out a framework for sustainable economic development—to streamline the consents process.

Policy, money and prices

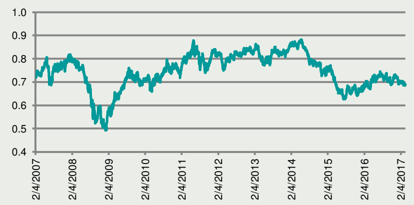
- The Reserve Bank of New Zealand (RBNZ, the central bank) kept its official cash rate (OCR) steady at a record low of 1.75% on May 11th. The annual inflation rate rose above the mid-point of the RBNZ's 1-3% medium-term target range in January-March, putting concerns about the persistent undershooting of the target band to rest. However, the pick up in inflation partly reflected temporary factors, and the RBNZ maintains that policy will remain accommodative for a considerable period.
- The RBNZ will be helped by the recent moderation in house-price inflation, owing to its implementation of increasingly stringent loan-to-value ratio restrictions on residential mortgage loans and rising mortgage interest rates. We still expect the RBNZ to cut the OCR further in 2018 in response to a sharp slowdown in China, which will create significant downside risks to the growth and inflation outlook.

Prices, money and current account	2016	2017	2018	2019	2020	2021
Consumer prices (av; %)	0.6	2.2	1.8	1.9	2.1	2.4
Money supply (M2) growth (%)	2.1	6.0	4.0	5.0	6.0	6.0
Lending interest rate (end-period; %)	5.0	4.9	4.8	4.9	5.5	5.7
Trade balance (US$ bn)	-1.9	-1.0	-3.1	-2.8	-2.0	-1.1
Current account balance (US$ bn)	-5.3	-5.9	-6.0	-5.9	-6.5	-6.8
Current account balance (% of GDP)	-2.9	-3.1	-3.4	-3.3	-3.4	-3.4
Exchange rate LCU:US$ (av)	1.43	1.45	1.60	1.66	1.59	1.60

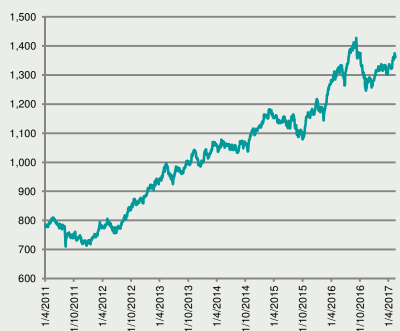
Consumer price inflation (%)



New Zealand dollar to the US$



New Zealand Stock Exchange Index



Currency outlook

- The value of the New Zealand dollar will continue to fluctuate with changing financial market sentiment around US economic policy, but will be supported in the near term by the firm economy and the partial recovery in dairy prices. From late 2017 we expect the currency to come under renewed pressure.

	2017	2018
NZ$: US$	▼ 1.45	▼ 1.60
NZ$: Euro	▲ 1.54	▼ 1.71

Average annual rates

Asia risk indicators

Risk type	Overall		Currency		Sovereign Debt		Banking Sector		Political		Economic Structure	
Country	2016*	2015^	2016*	2015^	2016*	2015^	2016*	2015^	2016*	2015^	2016*	2015^
Australia	21	21	23	23	19	19	21	20	14	15	30	33
Cambodia	55	53	52	50	53	51	59	58	79	69	75	75
China	44	40	41	38	39	34	53	49	54	54	30	28
Hong Kong	28	25	33	28	22	18	29	28	29	20	40	25
India	40	42	36	39	38	39	46	47	35	35	43	45
Indonesia	45	45	44	43	45	47	45	46	46	46	48	50
Japan	28	26	25	23	31	30	27	24	14	14	38	38
Malaysia	34	36	32	35	35	37	34	35	32	29	35	40
Myanmar	53	58	47	52	52	57	59	65	67	71	63	70
New Zealand	21	19	24	22	17	16	22	19	10	6	33	30
Philippines	40	39	36	35	41	40	43	43	49	55	50	48
Singapore	22	22	26	26	15	16	24	25	10	12	33	30
South Korea	32	31	30	30	34	33	33	31	36	38	35	33
Sri Lanka	51	49	50	48	53	50	51	50	43	54	55	60
Taiwan	30	29	29	28	31	31	31	28	24	33	35	33
Thailand	35	41	34	41	36	41	35	40	52	61	43	43
Vietnam	51	52	45	47	52	54	55	56	65	65	55	53

Unchanged. More risky. Less risky. Higher scores indicate a higher level of risk. * May 2017. ^ May 2016.

Sovereign risk measures the risk of a build-up in arrears of principal and/or interest on foreign- and/or local-currency debt that is the direct obligation of the sovereign or guaranteed by the sovereign.

Currency risk measures the risk of a devaluation against the reference currency (usually the US dollar, occasionally the euro) of 25% or more in nominal terms over the next 12-month period.

Banking sector risk gauges the risk of a systemic crisis whereby bank(s) holding 10% or more of total bank assets become insolvent and unable to discharge their obligations to depositors and/or creditors. A banking crisis is deemed to occur even if governments restore solvency through large bail-outs and/or nationalisation. A run on banks facing a temporary lack of liquidity rather than underlying solvency problems is not deemed to constitute a crisis, provided that public confidence in the banking system is quickly restored. Banking crises are typically associated with payment difficulties in the corporate or household sectors; bursting of asset price bubbles; currency and/or maturity mismatches. The rating can therefore serve as a proxy for the risk of a systemic crisis in the private sector.

Political risk evaluates a range of political factors relating to political stability and effectiveness that could affect a country's ability and/or commitment to service its debt obligations and/or cause turbulence in the foreign-exchange market. The political risk rating informs the ratings for sovereign risk, currency risk and banking sector risk.

Economic structure risk is derived from a series of macroeconomic variables of a structural rather than a cyclical nature. Consequently, the rating for economic structure risk will tend to be relatively stable, evolving in line with structural changes in the economy. The economic structure risk rating informs the ratings for sovereign risk, currency risk and banking sector risk.

Overall country risk is derived by taking a simple average of the scores for sovereign risk, currency risk and banking sector risk.