INTERNATIONAL ECONOMIC PERFORMANCE AND COOPERATION 2

Overview

Modest global growth

Global growth is anticipated to remain moderate in 2015 with a modest pickup in advanced economies and slower growth in emerging market and developing economies. Global economic activity will be supported by continued expansion in the US and the UK, as well as a gradual recovery in the euro area and Japan. Growth in advanced economies is backed by accommodative monetary and fiscal policies in the euro area and Japan, decline in oil prices, improving consumer confidence and labour market conditions in the US and euro area. In contrast, low oil and other strategic commodity prices are expected to affect emerging market and developing economies, particularly commodity exporters. Growth in China is expected to slow down amid rebalancing efforts away from rapid credit and investment expansion. Meanwhile, steady growth in India and ASEAN economies augurs well for the global economy.

In the first half of 2015, the expansion in advanced economies continued at a modest pace, led by the US and the UK. Despite downward pressure from severe winter in the first quarter and a stronger dollar, the US economy registered favourable growth, mainly driven by an increase in private consumption and residential investment. Growth in the UK continued to be supported by the services sector, particularly business and financial services as well as household consumption. In the euro area, growth improved as a result of expansionary monetary policy by the European Central Bank (ECB), lower oil prices, increased household spending and a weaker euro that increased exports. The economic and political crisis in Greece did not adversely affect real economic activity in the euro area, but contributed towards renewed volatility in global financial markets. Japan's economy contracted due to weak private consumption and investment as well as slower exports following sluggish demand, especially from the US and China.

Among the emerging economies, growth was slower due to persistently low commodity prices, structural bottlenecks, and the impact of rebalancing in China. China's economy was supported by robust growth in financial services, amid an expansionary monetary policy, while investment moderated. India recorded a strong growth as investment liberalisation measures improved business and investors' confidence as well as attracted new capital inflows. Russia's economy contracted due to lower oil prices as well as continued geopolitical tensions and economic sanctions. Meanwhile, GDP growth in Brazil was sluggish owing to a slump in investment amid lower business confidence. Major ASEAN economies, including Malaysia, Singapore, Indonesia and the Philippines recorded a moderate growth.

During the second half of 2015, global growth is expected to continue at a modest pace, contributed by improvements in advanced economies and slow growth in emerging market and developing economies. Growth in the US is anticipated to improve, largely owing to lower energy prices, easy financial conditions and better corporate performance as well as a strengthening housing market. The UK's economic growth is envisaged to remain steady, backed by lower oil prices and increase in consumption as a result of rising wages. Recovery in the euro area is expected to strengthen, sustained by lower oil prices, a weaker euro, easing credit conditions and rising confidence. Japan's GDP is projected to increase gradually, supported by monetary easing as well as lower oil and commodity prices.

China is expected to register a slower growth as it shifts towards a consumption and services-led sustainable growth model. In contrast, the expansion in India is projected to gain strength, driven by higher investment and lower commodity prices. The ASEAN region is expected to register a moderate growth, supported by higher government spending and improvements to the investment climate.

Although global growth is expected to continue at a moderate pace in 2015, several downside risks persist. The near-term risks include capital market volatility, currency depreciation in emerging market and developing economies, capital outflows, possibility of an increase in US interest rate and economic distress from geopolitical factors. Medium-term risks comprise continued low inflation in advanced economies, high unemployment, especially in the euro area and a sharper-than-expected slowdown in China. Additionally, lower commodity prices are expected to undermine growth in commodity-exporting developing economies.

TABLE 2.1

Real GDP for Selected Economies 2014 – 2016

	% Change		
	2014	**2015[1]**	**2016[2]**
World	***3.4***	***3.1***	***3.6***
Advanced economies	***1.8***	***2.0***	***2.2***
United States	*2.4*	*2.6*	*2.8*
Euro area	*0.9*	*1.5*	*1.6*
Japan	*-0.1*	*0.6*	*1.0*
Emerging market and developing economies	***4.6***	***4.0***	***4.5***
China	*7.3*	*6.8*	*6.3*
Republic of Korea	*3.3*	*2.7*	*3.2*
India	*7.3*	*7.3*	*7.5*
ASEAN			
Singapore	*2.9*	*2.0 – 2.5*	*2.9*
Thailand	*0.9*	*2.7 – 3.2*	*3.2*
Indonesia	*5.0*	*4.7 – 5.1*	*5.1*
Philippines	*6.1*	*6.0*	*6.3*
Viet Nam	*6.0*	*6.5*	*6.4*
Malaysia	***6.0***	***4.7***	***4.5***

[1] Estimate.
[2] Forecast.
Source: International Monetary Fund and national authorities.

Overall, global growth is projected to remain moderate at 3.1% in 2015 (2014: 3.4%), supported by a gradual pickup in advanced economies at 2% (2014: 1.8%), despite a slowdown in emerging market and developing economies at 4% (2014: 4.6%). World trade is expected to grow by 2.8% in 2015 (2014: 2.5%) supported by lower oil and commodity prices as well as a pickup in global output, despite slowing import demand in China, Brazil and other emerging market and developing economies. Meanwhile, global foreign direct investment flows are expected to grow by 17% to USD1.4 trillion in 2015 (2014: -17%; USD1.2 trillion), driven by advanced economies as well as a rise in investment by multinational enterprises of developing economies.

Global Economic Performance

Moderate expansion in emerging market and developing economies

During the first half of 2015, the **US** economy grew by 2.8% (January – June 2014: 2.2%), mainly contributed by higher private consumption and a firmer housing market in the second quarter, despite the effects of harsh winter conditions and port congestion in the first quarter. Private consumption grew at 3.2% (January – June 2014: 2.3%), supported by lower oil prices as well as better job market conditions. Meanwhile, residential investment grew sharply by 8.1% (January – June 2014: 0.8%), offsetting the softening of energy-sector investment. The housing industry strengthened further as reflected by higher housing starts at 9% (January – June 2014: 5.6%) and building permits at 13.4% (January – June 2014: 4.2%). Export growth moderated to 2.1% (January – June 2014: 4.2%), while imports increased by 5.7% (January – June 2014: 2.7%) following appreciation of the US dollar. Growth in imports was due to increases in travel and transport services, as well as consumer and capital goods.

On the supply side, industrial production growth weakened to 2.5% (January – June 2014: 3.6%), mainly due to lower production of consumer goods and business equipment with the capacity utilisation rate remaining at 78.6% (January – June 2014: 78.8%). The slowdown was also reflected in the lower manufacturing index of the Institute for Supply Management (ISM) at 52.6 points (January – June 2014: 54 points). The ISM non-manufacturing index increased to 56.6 points (January – June 2014: 54 points) mainly due to growth in the wholesale, retail trade and healthcare industries. Meanwhile, declining gasoline prices led to a deflation of 0.03% (January – June 2014: 1.7%).

The US Federal Reserve (Fed) has maintained the federal fund rate between 0% and 0.25% since 2008. However, the Fed is expected to raise the rate by the end of 2015, depending on improvements in the labour market and a shift in inflation towards its 2% target over the medium-term. The unemployment rate was lower at 5.4% (January – September 2014: 6.3%) following additional job opportunities in healthcare, professional and business services. For 2015, GDP is expected to grow at 2.6% (2014: 2.4%) driven by stronger business investment, better employment market, growth in real wages, as well as rising consumer confidence.

During the first six months of 2015, growth in the 19-nation **euro area** registered a modest expansion of 1.4% (January – June 2014: 1%) with the recovery strengthening in most countries. Growth in the region was underpinned by increased domestic demand coupled with low oil prices, a weaker euro and the ECB's expansionary monetary policy. Household consumption increased by 1.8% (January – June 2014: 0.7%), supported by improved consumer sentiment and better labour market conditions, while investment growth was sustained at 1.9% (January – June 2014: 1.8%). On the supply side, most sectors recorded positive growth except for the construction sector, which was affected by slower civil engineering and building construction activities.

The labour market continued to improve, albeit at an uneven pace across countries. The overall unemployment rate in the region trended downwards to 11.1% during the first eight months of the year (January – August 2014: 11.7%). Meanwhile, the region fell into deflation at 0.2% (January – August 2014: 0.6%), largely due to lower oil prices. In an effort to enhance economic activity and increase inflation in the region, the ECB has kept the interest rates on the main financing operations, marginal lending facility and deposit facility at 0.05%, 0.30% and -0.20%, respectively, since September 2014, with a commitment to maintain the quantitative easing programme until late 2016.

In 2015, growth in the euro area is expected to increase further to 1.5% (2014: 0.9%), contributed by lower oil prices, a weaker euro, easing credit conditions and rising confidence. However, lingering low inflation; high unemployment; uncertainty and contagion risks from the Greece financial and debt crisis; a slowdown in emerging markets; as well as geopolitical tensions may weigh on growth prospects.

Economic activity in **Germany**, the largest economy in the euro area expanded, albeit a moderate pace of 1.4% during the first six months of 2015 (January – June 2014: 1.9%). Growth was led by higher consumption expenditure supported by continued real wage growth, as well as better employment opportunities and lower interest rates. Private and public consumption rose by 2.1%, respectively (January – June 2014: 1%; 0.8%). However, investment growth slowed to 1.4% (January – June 2014: 5.6%) due to lower investment in construction as well as machinery and equipment following weaker business confidence. On the external front, trading activity remained robust with exports expanding by 5.6% (January – June 2014: 3.2%) attributed to a weaker euro, while imports increased by 5.6% (January – June 2014: 3.8%) due to higher consumption.

TABLE 2.2

Inflation Rate for Selected Economies 2014 – 2015

	% Change	
	2014	**2015**[1]
World	***3.5***	***3.3***
Advanced economies	***1.4***	***0.3***
United States	*1.6*	*0.1*
Euro area	*0.4*	*0.2*
Japan	*2.7*	*0.7*
Emerging market and developing economies	***5.1***	***5.6***
China	*2.0*	*1.5*
Republic of Korea	*1.3*	*0.7*
India	*5.9*	*5.4*
ASEAN		
Singapore	*1.0*	*0.0*
Thailand	*1.9*	*-0.9*
Indonesia	*6.4*	*6.8*
Philippines	*4.2*	*1.9*
Viet Nam	*4.1*	*2.2*
Malaysia	***3.1***	***2.4***

[1] Estimates.

Source: International Monetary Fund and national authorities.

On the supply side, performance was uneven across sectors. The services sector continued to drive the expansion, albeit at a slower pace, with most subsectors registering positive growth, except for finance and insurance. Growth in industrial production turned around to positive territory at 1.2% (January – June 2014: -0.1%), largely due to increased energy production and moderate expansion in the manufacturing sector. However, output of the construction sector contracted by 1% (January – June 2014: 7%) due to a slowdown in construction of buildings as well as civil and underground engineering works. Meanwhile, inflation was lower at 0.1% during the first eight months of the year (January – August 2014: 0.9%), largely due to the slump in oil prices. The labour market strengthened further with the unemployment rate trending downwards to 4.7% (January – August 2014: 5%), the lowest in the region. In 2015, growth in Germany is expected to be sustained at 1.5% (2014: 1.6%) underpinned by lower oil prices, favourable financing conditions, a weaker euro as well as a robust labour market.

During the first half of 2015, **France**'s GDP increased by 1% (January – June 2014: 0.3%), largely on account of improved domestic demand. Household consumption turned around to register a positive growth of 2.2% (January – June 2014: -0.2%), supported by sustained wage growth, reduced energy prices as well as low inflation. However, investment activity continued to be subdued as businesses remained cautious over the economic environment and global competitiveness of its exporters declined.

On the supply side, industrial production rebounded to 1% (January – June 2014: -1.1%), mainly contributed by higher manufacturing output, as well as increased production in the mining and quarrying subsectors. In contrast, growth of the construction sector declined significantly by 5.7% (January – June 2014: 1.4%) due to the postponement of large-scale fixed capital investments. Meanwhile, retail sales increased by 2.8% (January – June 2014: 1.6%) following the relaxation of restriction beginning February 2015, which enabled retailers to operate on Sundays until midnight, especially in tourist areas.

Inflation remained flat at 0% (January – August 2014: 0.7%) on account of lower prices of petroleum products. The labour market remained weak with the unemployment rate persistently high at 10.5% in the first eight months of the year (January – August 2014: 10.2%) amid uncertain job prospects. In an effort to create jobs, especially among the small and medium enterprises, the government announced several measures to relax regulatory requirements and reduce the tax burden. This was aimed at addressing structural inflexibility that discouraged businesses from expanding. In 2015, GDP growth is expected to be higher at 1.2% (2014: 0.2%), largely supported by a pickup in consumption expenditure.

The **UK**'s economy grew at a sustained pace of 2.8% during the first half of 2015 (January – June 2014: 2.9%), primarily driven by a strong performance in the services sector and higher private consumption. The services sector expanded at a stronger pace of 3% (January – June 2014: 2.8%), mainly contributed by the business services and finance, as well as distribution, hotel and restaurant subsectors. Meanwhile, growth of the construction sector moderated to 3.5% (January – June 2014: 10%), following slower housebuilding and civil engineering activities. This was also reflected in the Purchasing Managers' Index (PMI) for construction which fell to 57.6 points (January – June 2014: 62.2 points). Furthermore, industrial production growth moderated to 1.2% (January – June 2014: 2.1%), underpinned by subdued manufacturing activity following lower demand from European countries and higher export prices due to the appreciation of the pound sterling. Consistent with this, the PMI for manufacturing fell to 52.7 points (January – June 2014: 56.4 points).

On the demand side, improved consumer confidence, rise in wages, and low inflation resulted in the robust increase in household consumption of 3.4% (January – June 2014: 2.2%). Labour market conditions improved with the unemployment rate trending down to 5.6% (January – July 2014: 6.5%), largely due to the government's initiatives to reduce long-term unemployment. Meanwhile, inflation was lower at 0.1% (January – August 2014: 1.7%) due to lower prices of energy, clothing and food. The Bank of England has maintained its policy rate at 0.50% since March 2009 to support economic growth. The UK's economic growth is expected to moderate to 2.5% in 2015 (2014: 3%) due to weak trade performance and a slowing services sector.

During the first half of 2015, **Japan**'s growth stagnated at 0% (January – June 2014: 1%), following weak private sector activity. Private consumption shrank by 1.9% (January – June 2014: 0.3%), largely due to lower sales of automobiles and weak household spending. Private investment slowed down sharply to 0.1% (January – June 2014: 6.6%), amid marginal growth in machinery and construction expenditure. Exports grew at a slower pace of 4.4% (January – June 2014: 7.4%) due to lower demand from the US and China, despite a weaker yen. Import growth slowed down significantly to 0.3% (January – June 2014: 10.4%) underpinned by sluggish demand for consumer goods, notably textiles and IT-related products.

Manufacturing activity moderated as reflected by the lower PMI, which averaged 50.8 points (January – June 2014: 52.8 points), partly caused by the decline in production of transport equipment as well as iron and steel. Inflation was lower at 1.1% (January – August 2014: 2.7%), mainly due to consumers' reluctance to increase spending coupled with a decline in fuel as well as transport and communication costs. The unemployment rate was lower at 3.4% (January – June 2014: 3.6%) mainly contributed by continued job creation with firms hiring more temporary workers. The Bank of Japan maintained its policy rate at 0% to stimulate consumption and investment activity. Japan's GDP is projected to rebound to 0.6% in 2015 (2014: -0.1%) mainly supported by recovery in business investment and household consumption.

China's GDP expanded by 7% during the first half of 2015 (January – June 2014: 7.4%), contributed by the strong performance in the services sector which cushioned the impact of slower manufacturing and investment activities. The services sector expanded by 8.4% (January – June 2014: 8%), driven by growth in the financial services subsector, particularly a surge in brokerage activity. The manufacturing sector remained weak with the PMI registering 50.1 points (January – June 2014: 50.4 points), as a result of excess capacity in the steel and cement industries following a slowdown in car sales and residential construction.

On the demand side, investment in fixed assets grew at a slightly slower pace of 12.5% (January – June 2014: 16.3%), mainly supported by government spending on public facilities, particularly road and rail transport systems. Investment in real estate development was subdued at 5.7% (January – June 2014: 13.1%), amid an overhang of unsold flats as well as delayed factory expansion and construction. Meanwhile, exports continued to grow at a marginal pace of 1% (January – June 2014: 0.9%), owing to weak demand from major trading partners, particularly the euro area and Japan. Imports contracted significantly by 15.5% (January – June 2014: 1.5%), largely due to declining commodity prices and lower demand for iron ore and coal. Private consumption softened on account of rising uncertainties in the housing market and volatility in the stock market.

Inflation eased to 1.4% (January – August 2014: 2.2%), following lower energy prices and milder increases in food prices. In August 2015, the People's Bank of China (PBOC) devalued the renminbi by about 3% against the US dollar to adjust the exchange rate to be more market-oriented. Additionally, the PBOC reduced its policy rate for the fourth time in 2015, from 5.60% in February to 4.80% in August, aimed at spurring domestic demand and lowering borrowing costs. Similarly, the reserve ratio was reduced from 20% to 18% to increase liquidity in the market. Overall, growth in 2015 is expected to be lower at 6.8% (2014: 7.3%), as China gradually moves towards a more sustainable economic model, shifting from manufacturing, investment and exports to services and consumption.

Economic growth in the **Republic of Korea** (ROK) moderated to 2.3% during the first half of 2015 (January – June 2014: 3.7%), mainly due to weak private consumption and sluggish exports. Private consumption was lower at 1.5% (January – June 2014: 2%), affected by the Middle East Respiratory Syndrome (MERS). Consumer confidence dropped as reflected by the composite consumer sentiment index, which was lower at 102.3 points (January – June 2014: 107.5 points). Meanwhile, exports contracted sharply by 10.6% (January – June 2014: 4.1%), mainly due to the strengthening won and a slowdown in China's economy.

On the supply side, the manufacturing sector posted a marginal growth of 0.6% (January – June 2014: 5.1%), significantly affected by slower growth in cellular phone and automobile production. Meanwhile, growth in the services sector was sustained at 3.1% (January – June 2014: 3.1%), led by the increase in finance and insurance as well as real estate and leasing subsectors. The unemployment rate was marginally higher at 3.7% (January – July 2014: 3.6%), following job losses in the agriculture sector despite job creation in the services sector. Inflation eased to 0.8% (January – July 2014: 1.3%), as a result of sluggish consumer demand and the decline in the prices of energy and agricultural products. The Bank of Korea cut its policy rate twice by a total of 50 basis points to 1.50% during the first half of 2015. Additionally, in June 2015, the government announced stimulus measures of USD20 billion, which included a supplementary budget, expanded investments by state companies and additional credits for exporters, to boost economic growth. Overall, ROK is forecast to register a slower growth of 2.7% in 2015 (2014: 3.3%), mainly due to the effect of the MERS crisis.

India registered a stronger growth of 7.3% in the first half of 2015 (January – June 2014: 5.2%), largely supported by robust private consumption which grew by 7.7% (January – June 2014: 6.9%). This was due to increased urban consumer demand gaining from the decline in prices of diesel and petrol, offsetting the weaker demand in rural areas. Investment grew at 4.5% (January – June 2014: 3.1%), benefiting from the investment liberalisation measures to attract FDI. The manufacturing sector recorded a significant growth of 7.8% (January – June 2014: 1.1%), due to higher production of hot-rolled sheets as well as aluminium conductors. Similarly, the construction sector grew by 4.2% (January – June 2014: 3.9%), driven by higher production of cement and consumption of finished steel. Meanwhile, mining activity registered a growth of 3.2% (January – June 2014: 1.7%), due to higher production of coal. The economy also benefited from a strong growth in the services sector at 9.3% (January – June 2014: 6.6%), mainly contributed by the trade, hotels, transport, communication and broadcasting services subsector, which expanded by 13.5% (January – June 2014: 11%). However, the agriculture sector growth slowed to 0.3% (January – June 2014: 3.5%), as a result of uneven rainfall, which adversely affected crop output. Exports contracted significantly by 16.3% (January – June 2014: 4.7%), mainly due to a slump in earnings from petroleum products, given the lower oil prices. Imports also declined by 13% (January – June 2014: 9.4%), as a result of the depreciation of the rupee, which led to a contraction in imports of oil, coal, chemicals as well as pearls and precious stones.

The wholesale price index recorded a deflation of 2.1% (January – June 2014: 5.5%) as prices of petrol and food, particularly vegetables, declined. The Reserve Bank of India has reduced its key policy repo rate four times since January 2015 by a total of 125 basis points to 6.75% amid receding inflationary pressures, and to stimulate investment and consumption activities. India's GDP growth in 2015 is projected to remain at 7.3% (2014: 7.3%) as lower oil prices and the government's FDI liberalisation measures are expected to lead to a firmer pickup in investment.

Australia's economy registered a modest growth of 2.2% in the first half of 2015 (January – June 2014: 3.3%), mainly due to a decline in construction activity and business investment as well as weak consumption. The contraction in the construction sector at 6.1% (January – June 2014: 1%) was mainly due to a decline in engineering activities at 14.6% (January – June 2014: -2.7%). The unemployment rate increased marginally to 6.2% (January – July 2014: 6%), as a result of layoffs in the mining and manufacturing sectors. Inflation trended downwards to 1.4% (January – June 2014: 3%) due to lower prices of holiday travel and accommodation, clothing and footwear, transport as well as communication. The Reserve Bank of Australia has reduced its main policy interest rate twice since February 2015 by a total of 50 basis points to 2.00% to support private consumption and investment. In 2015, Australia's GDP growth is expected to slow down to 2.4% (2014: 2.7%), which reflects the impact of lower commodity prices and reduced resource-related investment despite the accommodative monetary policy.

In the first half of 2015, the ASEAN economies registered a mixed performance amid the challenging external environment due to slower growth in China as well as lower oil and commodity prices. Thailand and Viet Nam, in particular, recorded higher growth while other major economies moderated.

Indonesia's GDP grew at a slower pace of 4.7% (January – June 2014: 5.1%), due to slightly weaker domestic demand, coupled with a contraction in exports. Household consumption growth moderated to 5% (January – June 2014: 5.6%) following uncertainty in the labour market and concerns about personal finance. Exports contracted further by 0.5% (January – June 2014: -0.7%) due to weak global demand and persistently low commodity prices. However, the economy was supported by expansion in the services sector particularly education as well as information and communication services. Education services increased by 9.1% (January – June 2014: 5.3%), while the information and communication services grew by 9.8% (January – June 2014: 10.1%). Inflation was recorded at 6.9% (January – September 2014: 6.4%), due to declining oil and commodity prices. Bank Indonesia lowered its policy rate from 7.75% to 7.50% in February 2015 to mitigate inflationary pressures as well as to manage the current account deficit. Overall, growth for 2015 is estimated between 4.7% and 5.1% (2014: 5%) supported by government structural reforms implemented through various economic policy packages and infrastructure projects.

In the **Philippines**, economic growth moderated to 5.3% (January – June 2014: 6.2%), following a slowdown in the agriculture, industry and services sectors. The agriculture sector grew by 0.3% (January – June 2014: 1.9%), largely due to the effect of El Nino which affected the fishing and forestry subsectors. Meanwhile, the industry and services sectors moderated to 5.8%, respectively (January – June 2014: 7.3%; 6.3%). On the demand side, investment rose significantly by 14.3% (January – June 2014: 10.6%) as a result of increased government spending particularly in machinery and equipment as well as construction. Inflation eased to 1.8% (January – September 2014: 3.2%), due to lower prices of oil and gas. The Bangko Sentral ng Pilipinas has kept its policy rate unchanged at 4.00% since September 2014 to support economic growth. The Philippines' economy is envisaged to register a growth of 6% in 2015 (2014: 6.1%) contributed by expansion in private consumption.

During the first half of 2015, **Thailand**'s GDP expanded by 2.9% (January – June 2014: 0.2%), underpinned by robust growth in public investment, tourism as well as public and private consumption. Public investment rose sharply by 31.3% (January – June 2014: -10.2%) particularly in civil engineering projects. Export of services rebounded to a double-digit growth of 19.2% (January – June 2014: -5.4%), mainly contributed by the tourism subsector. In addition, public and private consumption grew by 4% and 2%, respectively (January – June 2014: 2.5%; -1%). On the production side, the construction sector as well as the hotel and restaurant subsector recorded robust growth. Growth in the construction sector rebounded strongly by 20.1% (January – June 2014: -7.6%), mainly due to public works. Similarly, the hotel and restaurant subsector recovered strongly, expanding at 16% (January – June 2014: -4.6%), as a result of increased tourist arrivals of 14.9 million (January – June 2014: 11.7 million). However, the agricultural sector contracted by 5.3% (January – June 2014: 3%), affected by prolonged drought since November 2014. The decline in energy and food prices led to a deflation of 0.9% (January – September 2014: 2.2%). In April 2015, the Bank of Thailand lowered its policy rate by 25 basis points to 1.50% to further support economic recovery. Thailand's GDP is forecast to expand between 2.7% and 3.2% in 2015 (2014: 0.9%), contributed by increased government expenditure and strong growth in the tourism subsector.

Singapore's economy grew at a moderate pace of 2.3% (January – June 2014: 3.5%) due to a contraction in the manufacturing sector by 3.7% (January – June 2014: 5.5%), particularly in the transport engineering and biomedical manufacturing clusters. However, the 3.8% (January – June 2014: 3.2%) expansion in the services sector, particularly in the finance and insurance as well as wholesale and retail trade subsectors, supported growth. Deflation was recorded at 0.4% (January – August 2014: 1.5%), largely due to lower cost of oil, cars and rentals as well as the effects of budgetary measures such as increased medical subsidies and waiver of national examination fees. The growth forecast for 2015 is between 2% and 2.5% (2014: 2.9%), supported by a pickup in export-oriented sectors, particularly finance and insurance as well as wholesale trade.

GDP of **Viet Nam** grew by 6.3% (January – June 2014: 5.2%), primarily supported by the industry and construction sector which rose by 9.1% (January – June 2014: 5.3%). The sector was driven by strong growth in manufacturing as well as mining and quarrying subsectors at 10% and 8.2%, respectively. Growth was also supported by the services sector, which grew by 5.9% (January – June 2014: 6%), particularly retail trade. Meanwhile, exports grew by 9.3% (January – June 2014: 14.9%), mainly contributed by demand from the US and the EU. Inflation was lower at 0.7% (January – September 2014: 4.6%) due to continued softening of food prices. The State Bank of Vietnam has kept its policy rate unchanged at 6.50% since March 2014 to lend continued support to economic activity. Overall, Viet Nam is anticipated to register a stronger growth of 6.5% in 2015 (2014: 6%).

Myanmar's economy is projected to remain high at 8.5% in 2015 (2014: 8.5%), underpinned by increasing inflows of FDI, notably in hydrocarbon and power industries. The robust expansion in telecommunications is also expected to boost growth. Meanwhile, **Cambodia**'s GDP is expected to sustain at 7% in 2015 (2014: 7%), primarily driven by stronger exports and FDI amid improved political stability. Growth is also envisaged to be supported by tourism and construction activities.

In 2015, **Lao PDR** is anticipated to register a sustained growth of 7.5% (2014: 7.4%) on account of strong private consumption and the implementation of mining and hydropower development projects. In addition, the easing of fiscal consolidation and higher credit formation as well as stronger regional demand are expected to further support growth. In **Brunei**, GDP is forecast to decline by 1.2% in 2015 (2014: -2.3%) due to lower production of oil and gas as a result of aging oil fields, prolonged closure for maintenance and enforcement of the depletion policy. Overall in 2015, the ASEAN region is expected to register a higher growth at 5.4% (2014: 4.7%).

Economic growth in **Russia** contracted by 3.4% in the first half of 2015 (January – June 2014: 0.7%) due to the drop in oil prices, geopolitical tensions and economic sanctions. These factors have affected investment, exports, household and business spending as well as industrial production. Investment shrank by 8.1% (January – June 2014: -3.2%), mainly due to the delay in implementation of large-scale infrastructure projects and cutbacks by private investors. Exports plummeted by 30.5% (January – July 2014: 1.7%) due to the prolonged economic sanctions imposed by the US and the EU. On the supply side, industrial production decreased to 3.1% (January – August 2014: 1.3%) due to lower output in the manufacturing, mining and utilities sectors. Despite the sharp decline in economic activity, the unemployment rate increased marginally to 5.6% (January – August 2014: 5.2%), as the private sector reduced working hours and salaries, instead of retrenching workers. Retail sales shrank by 3% (January – August 2014: 5.2%) as consumers reduced spending due to the drop in real wages. Inflation surged to 16% (January – September 2014: 7.2%) owing to the increase in food prices. The Central Bank of the Russian Federation cut its interest rate five times by a total of four percentage points from 15.00% in January to 11.00% in July 2015 to reinvigorate economic activities. Russia's growth is projected to contract by 3.8% in 2015 (2014: 0.6%) due to the impact of low commodity prices, extension of sanctions by the US and the EU as well as import bans.

Brazil's GDP growth contracted by 2.1% in the first half of 2015 (January – June 2014: 0.8%), as a result of the government's efforts to reduce the fiscal deficit and boost revenue. Lower public expenditure, tax hikes as well as higher interest rates impacted consumer confidence and led to lower private consumption. Growth in the industrial sector contracted further by 4.1% (January – June 2014: -0.3%) following slower activity in the oil and gas, and construction industries. Exports contracted by 0.2% (January – June 2014: -0.03%) following a decline in demand from China and low commodity prices. Similarly, imports shrank by 0.2% (January – June 2014: -0.04%) due to a weaker Brazilian real against the US dollar. Inflation rose to 8.6% (January – September 2014: 6.3%), following higher electricity tariffs and increased cost of public transportation. The unemployment rate rose to 6.6% (January – September 2014: 4.9%), as a result of job losses, particularly in the manufacturing industry and services sector. The economic downturn coupled with domestic political issues has resulted in a credit rating downgrade, losing its investment-grade status. The Banco Central Do Brasil raised the benchmark policy rate six times since January 2015 by a total of two percentage points to 14.25%, in an effort to contain inflation. In 2015, Brazil's GDP is anticipated to contract by 3% (2014: 0.1%), as a result of the austerity measures to reduce public spending as well as increasing taxes and interest rates.

International Economic Cooperation

Further strengthening international cooperation

Close collaboration among economies as well as with regional and international organisations is imperative to improve market efficiency, mitigate negative spillovers, manage major risks and achieve sustainable and balanced growth. In this regard, Malaysia's collaboration with regional economies, such as ASEAN, ASEAN+3 and APEC forums have enabled better policy coordination and subsequently broaden and deepen economic integration. Similarly, engagement with international organisations, such as the International Monetary Fund (IMF), World Bank Group (WBG), Asian Development Bank and Islamic Development Bank has also enabled the nation to benefit from the advisory services and capacity building initiatives. Meanwhile, Malaysia is also involved in the establishment of the Asian Infrastructure Investment Bank as part of efforts to support infrastructure development in Asia. In addition, efforts to forge bilateral ties, such as free trade agreements are aimed to streamline rules and regulations as well as pave the way to increase trade and investment. Ultimately, these initiatives will contribute in accelerating economic growth towards achieving high-income status.

In this regard, amid the rapidly changing economic environment, the **IMF** has been constantly promoting economic and financial stability globally. The Fund carries out its mandate through three ways, namely surveillance, financial assistance and technical support. In Malaysia, the Fund is involved in undertaking annual economic and financial surveillance that is mandated through the Article IV of the IMF's Articles of Agreement. The Fund also collaborates with Malaysia to provide technical assistance (TA) and training for capacity building of public sector officials in several areas. Among the TAs concluded in 2014 were on the Implementation of the Goods and Services Tax in Malaysia, Outcome-Based Budgeting, as well as Capacity Building for Fiscal Policy Office on Fiscal Analysis and Forecasting. In addition, Malaysia and the IMF completed the Tax Administration Diagnostic Assessment Tool (TADAT) mission in August 2015. TADAT aims to provide an objective assessment of the relative strengths and weaknesses of a country's tax administration system which covers core taxes that include corporate income tax, personal income tax and value-added taxes or its equivalent. Apart from that, Malaysia and the Fund are also scheduled to organise a conference in November 2015 in Putrajaya, focusing on regional integration, financial deepening and institution building in the ASEAN region. The conference will involve participants, including officials, think tanks and academicians from ASEAN countries as well as renowned speakers and is held in conjunction with Malaysia's role as the Chair of ASEAN 2015.

The **WBG** remains committed in supporting member countries, especially the developing economies in alleviating extreme poverty and promoting shared prosperity with greater equity. Also, the WBG actively focuses on critical development issues, including trade, infrastructure, health, risk management, environmental disasters as well as issues related to sourcing of funds to promote sustainable economic development. The WBG, together with World Health Organisation, non-governmental organisations and other relevant partners, has been involved in containing and eradicating the Ebola epidemic that hit Africa in 2014. In this regard, the WBG has established an Ebola Recovery and Reconstruction Trust Fund and has mobilised a total of USD1.6 billion as of July 2015. In ensuring better preparedness and response to future disease outbreaks, the WBG is developing a new Pandemic Emergency Facility that would enable swift channelling of funds when the outbreaks occur. In supporting its initiatives, the WBG's total funding for the financial year (FY) 2015 reached an all-time high of USD63 billion (FY2014: USD59 billion).

In Malaysia, the WBG has been actively involved in various engagements with the Government, particularly in capacity building and knowledge sharing activities. Malaysia and the WBG have been collaborating in a number of advisory services on various areas critical for further development through the Reimbursable Advisory Services Agreement since 2009. As of August 2015, a total of 18 advisory projects in areas including economic and financial management, human capital development and competitiveness were completed. Meanwhile, six projects on areas such as transport and social protection are still ongoing. Apart from this, the WBG also publishes the Malaysia Economic Monitor bi-annually, which covers recent economic developments and issues with a special theme for every report. As of June 2015, a total of 12 reports have been published. In addition, the establishment of a WBG Office in Kuala Lumpur in September 2015 is expected to further widen and deepen the vibrant relationship established between both parties.

Info Box 1

World Bank Group Office in Malaysia

Introduction

The Government of Malaysia, represented by the Ministry of Finance (MOF) and Bank Negara Malaysia (BNM) in collaboration with the World Bank Group (WBG) has established a WBG Office in Sasana Kijang, Kuala Lumpur. The office, which commenced operations in September 2015, marks an important milestone that will further broaden and deepen the existing relationship between Malaysia and the WBG. It also reflects Malaysia's success as an upper middle-income country as well as its role as a partner in advancing global development.

Objective and Purpose

The WBG Office in Kuala Lumpur will serve as a knowledge and research hub that will bring together local and WBG experts to conduct development policy research. It will provide a platform for Malaysia to share its experiences with other developing countries, particularly in the Asian region. Malaysia is recognised for its progress and achievements in economic planning and development, poverty reduction, provision of modern financial services, as well as public sector performance. These will be the key areas for knowledge sharing. In addition, the office will conduct enterprise data analysis as well as provide analytical and operational support for producing the widely-followed annual World Bank Doing Business Report.

Apart from enhancing the existing cooperation between both parties, the office is expected to strengthen the country's commitment towards South-South cooperation initiatives. Concurrently, the office is also well placed to serve the WBG goals of promoting shared prosperity and eliminating extreme poverty globally.

Functions and Operations

The office in Kuala Lumpur will be funded on a cost-sharing basis between MOF, BNM and the WBG. The activities of the office will be carried out through various approaches, including policy notes and reports, studies, conferences, regional seminars and technical assistance. In carrying out its activities during the initial five years, the office is expected to be staffed with at least 30 officials. This includes WBG officials recruited domestically and internationally, Malaysian government officers placed on a secondment programme and supporting staff to assist in daily administration and operations.

Benefits to Malaysia

Malaysia has stopped borrowing from the World Bank since 1999 as part of efforts to develop the domestic capital market and reduce exposure to foreign exchange risks. However, the nation continues to benefit from the reimbursable advisory services provided by the Bank on a wide range of areas, including productivity, sustainable development, competitiveness, human capital development, poverty reduction and economic management. With the WBG's local presence, Malaysia is able to leverage directly from WBG's global knowledge and expertise to enhance capacity that is essential for its transformation towards a developed and high-income economy. In addition, Malaysia's willingness in sharing its experience, expertise and knowledge with other developing countries in areas it has achieved impressive performance would further elevate the country's position as a global development partner.

Furthermore, the partnership and collaboration activities that will be undertaken by the office will expand Malaysia's network with international institutions and agencies. This will in turn help local researchers to take a regional and global approach in their research. Also, the interaction of local experts from higher education institutions, think tanks and research institutions with global experts will enhance the capacity of local experts in the field of development as well as improve the quality of their research and development policy formulation in the country.

In addition, the establishment of the WBG office signals that Malaysia is a conducive location for the operations of international organisations. It is expected to enhance business and investor confidence in the economy and help attract higher inflow of foreign investments, while also creating employment opportunities.

Conclusion

The WBG Office in Kuala Lumpur is a joint effort that will strengthen Malaysia's relationship with the WBG. The nation is also set to benefit from the global knowledge and experience that WBG will bring to this initiative, especially in terms of capacity building and enhancing the quality of research as well as increasing the flow of knowledge and experts through Malaysia. Additionally, as the nation moves towards becoming a developed and high-income economy, it is important for Malaysia to enhance its role as an effective global development partner through various means. In this regard, the WBG Office provides an opportunity for Malaysia to share its rich development experience which will in turn, strengthen the cooperation with other WBG member countries, as well as benefit the Asian region as a whole.

Info Box 2

Asian Infrastructure Investment Bank

Introduction

The Asian Infrastructure Investment Bank (AIIB) is a multilateral financial institution which focuses on infrastructure development in Asia. AIIB's objective is to support sustainable economic development through infrastructure investment. AIIB will also promote regional cooperation to address development issues and challenges by complementing the role of other multilateral and regional development institutions. Its headquarters will be established in Beijing.

Membership

The initiative to establish the AIIB was spearheaded by China and membership is open to the members of either the International Bank for Reconstruction and Development or the Asian Development Bank. A total of 57 countries[1], including Malaysia, agreed to the Articles of Agreement (AoA) in May 2015, with 52 countries signing the AoA as at end-September. The deadline for signing the AoA is 31 December 2015, while members have until 31 December 2016 to complete their ratification process. The AoA will enter into force as soon as 10 members with a total shareholding of 50% complete the ratification. The AIIB is expected to commence operations by end-2015.

Capital Structure and Funding

The AIIB's initial authorised capital is USD100 billion, with one million shares and paid-up capital of USD20 billion. Regional countries will hold 75% of the capital stock with China as the largest shareholder accounting for 29.8% of shares, followed by India (8.4%), and Russia (6.5%). The AIIB will primarily source its funding from capital contribution of members and the capital market. It will use resources to provide loans, invest in equity, guarantee loans and co-finance for economic development as well as provide technical advice.

Governance

AIIB will be guided by sound banking principles on par with best practices of other multilateral financial institutions, while ensuring the operations comply with policies approved by the Board of Governors. The Governance structure of AIIB is similar to other international organisations, comprising a Board of Governors, Board of Directors, President and staff. Each member will be represented at the Board of Governors while the Board of Directors will comprise 12 members, nine representing regional members and three from non-regional members. Mr. Jin Liqun from China was elected as the President designate by the prospective founding members in August 2015.

(Detailed information of AIIB is available at www.aiib.org)

[1] **Regional**
Australia, Azerbaijan, Bangladesh, Brunei Darussalam, Cambodia, China, Georgia, India, Indonesia, Iran, Israel, Jordan, Kazakhstan, Republic of Korea, Kuwait, Kyrgyz Republic, Lao PDR, Malaysia, Maldives, Mongolia, Myanmar, Nepal, New Zealand, Oman, Pakistan, Philippines, Qatar, Russia, Saudi Arabia, Singapore, Sri Lanka, Tajikistan, Thailand, Turkey, United Arab Emirates, Uzbekistan, Viet Nam.

Non-Regional
Austria, Brazil, Denmark, Egypt, Finland, France, Germany, Iceland, Italy, Luxembourg, Malta, Netherlands, Norway, Poland, Portugal, South Africa, Spain, Sweden, Switzerland, United Kingdom.

At the regional level, Malaysia assumed the chairmanship of **ASEAN** in 2015 and continued to work closely with member states to realise the ASEAN Economic Community (AEC) by end-2015. Financial cooperation and integration under the Finance Ministers and Central Bank Governors forum is an important component of the AEC. Two major initiatives under this forum are the ASEAN Finance Cooperation as well as the Roadmap for Monetary and Financial Integration of ASEAN (RIA-Fin). ASEAN Finance Cooperation focuses on regional surveillance, infrastructure financing as well as cooperation in customs, taxation and insurance matters. Major initiatives under the RIA-Fin include financial services liberalisation, capital market development and capital account liberalisation as well as payment and settlement systems integration in the region. Significant progress has been made in developing regional capital markets, with the ASEAN bond market expanding to USD1.1 trillion. In addition, financial inclusion is acknowledged as a policy priority to improve incomes and reduce inequality.

Info Box 3

Asean 2015: Finance Cooperation and Integration

Introduction

In 2015, Malaysia assumed the chairmanship of ASEAN and adopted a people-centric theme, ***'Our People, Our Community, Our Vision'***. The ASEAN meetings cover three pillars, namely the ASEAN Political-Security Community, ASEAN Economic Community (AEC) and ASEAN Socio-Cultural Community. The finance sector under the economic community, evolved to include all the ASEAN Central Bank Governors. The inclusion of Central Bank Governors recognised the strong nexus between the role of finance ministries and central banks and led to the Inaugural ASEAN Finance Ministers' and Central Bank Governors' Joint Meeting (1st AFMGM) in March 2015.

The Joint Meeting focused on accelerating financial cooperation and integration efforts towards realising the AEC by end-2015 as well as to develop a post-2015 plan to further enhance Financial Integration. The ASEAN Financial Integration Post-2015 plan based on three focus areas, namely financial integration, stability and inclusion was endorsed during the meeting.

The two core areas under the ASEAN Finance Ministers' and Central Bank Governors' forum are Finance Cooperation as well as the Roadmap for Monetary and Financial Integration (RIA-Fin). Finance cooperation focuses on enhancing regional surveillance, infrastructure financing, as well as cooperation in customs, taxation and insurance matters. The RIA-Fin focuses on activities and issues related to financial services liberalisation, capital account liberalisation, capital market development, payment and settlement systems, and banking integration as well as financial inclusion. Several committees under the two core areas are working towards strengthening ASEAN's resilience against changing market conditions and potential external shocks.

Finance Cooperation

ASEAN Infrastructure Fund

The ASEAN Infrastructure Fund (AIF) was established in 2012 to finance infrastructure projects, improve physical connectivity and reduce development gaps in the region. The Asian Development Bank (ADB) administers the Fund and co-finances projects. Malaysia is the current chair of AIF for a two-year period, beginning May 2015. ASEAN members and the ADB have completed equity contributions, amounting to USD485.3 million. AIF lending commenced operations at end-2013 with the financing of power transmission and water sanitation projects in Indonesia, as well as a power interconnection project in Viet Nam in 2014.

ASEAN Single Window

On customs cooperation, a more comprehensive and binding Protocol on the Legal Framework to Implement the ASEAN Single Window (PLF-ASW) was signed in March 2015. The ASEAN Single Window (ASW) constitutes a regional facility to enable a seamless, standardised, harmonised routing and communication of trade and customs-related information for clearance and release. The PLF-ASW would expedite the implementation of ASW measures in further facilitating trade in goods. In addition, the ASEAN Agreement on Customs came into force in November 2014 and would further support free flow of goods across the region.

Taxation

The ASEAN Forum on Taxation continued its efforts to complete a network of bilateral tax agreements. Meanwhile, some ASEAN Member States (AMS) have started implementing the exchange of information for tax purposes in accordance with international standards and enhancing capacities of members in tax administration. Moving forward, this forum would conduct several feasibility studies on Global Taxpayer Identification Number, Base Erosion and Profit Shifting as well as explore ways for further cooperation in tax matters.

Insurance

The ASEAN Insurance Regulators' Meeting (AIRM) is a platform for insurance commissioners to exchange views and discuss regional insurance and supervisory development as well as issues related to insurance penetration in the region. AIRM observes the core principles of the International Association of Insurance Supervisors in developing regulatory and supervisory frameworks in AMS. AIRM continues to build capacity for insurance regulators by providing training and conducting research. Progress has also been made in the area of ASEAN Disaster Risk Financing and Insurance to formulate policies and create an institutional environment for risk financing and insurance in AMS.

Roadmap for Monetary and Financial Integration of ASEAN (RIA-Fin)

Financial Services Liberalisation

The Working Committee on Financial Services Liberalisation (WC-FSL) aims to further liberalise financial services in ASEAN. The signing of the Protocol to Implement the Sixth Package of Financial Services Liberalisation under the ASEAN Framework Agreement on Services (AFAS) in March 2015 reflects the commitment by AMS to progressively liberalise financial services. The areas of liberalisation include banking, insurance and capital market subsectors, such as new licences, bank sub-branching, higher equity limit and movement of professional expatriates. The Sixth Package also contains the enabling provision for the implementation of the ASEAN Banking Integration Framework (ABIF). ABIF provides greater market access and operational flexibility on a bilateral basis for Qualified ASEAN Banks to facilitate intra-ASEAN trade and investment. The negotiations for the Protocol to Implement the Seventh Package are ongoing.

Capital Account Liberalisation

The Working Committee on Capital Account Liberalisation (WC-CAL) strives to achieve freer movement of capital to facilitate investment, trade and business activities in the region, as well as further integrate the ASEAN market with the global economy. The WC-CAL completed the assessment on the level of openness and regularly monitors and updates the progress of liberalisation in capital account regimes to facilitate the realisation of AEC. Regular policy dialogues are also conducted to ensure AMS's ability and readiness for liberalisation, as well as safeguard macroeconomic and financial stability in the region.

Capital Market Development

The Working Committee on Capital Market Development (WC-CMD) aims to achieve cross-border collaboration among the various capital markets in the region. The progress of capital market development of the AMS is monitored using the ASEAN Bond Market Development Scorecard which takes stock of issuers' and investors' market access and transparency. It continues to deepen and strengthen bond market initiatives through capacity building and laying the infrastructure for development of ASEAN capital markets.

The ASEAN Capital Markets Forum (ACMF) focuses on deepening regional capital market integration through significant initiatives such as the ASEAN Disclosure Standards for equity and plain debt securities, the Expedited Review Framework for Secondary Listings, the ASEAN Trading Link and the ASEAN Corporate Governance initiative. The operationalisation of the ASEAN Framework for Cross-border Offerings of Collective Investment Scheme (CIS) in August 2014, enabled cross-border offerings of CIS products across the signatory countries. Malaysia, Singapore and Thailand signed a Memorandum of Understanding in March 2015 to establish a Streamlined Review Framework for the ASEAN Common Prospectus which was implemented in September 2015 with the launch of a handbook.

Financial Inclusion

Recognising the importance of access to financial services for promoting inclusive growth, financial inclusion is acknowledged as a policy priority for ASEAN. Financial inclusion provides all segments of society with access to formal financial services, which enables vulnerable households to tap loans and deposits under special schemes, as well as facilitate small and medium enterprises (SMEs) to expand and generate higher income. It is estimated there are about 300 million adults who are unbanked and 45 million SMEs that have difficulty in accessing formal financial institutions. In this regard, a working committee would be established to deliberate and coordinate efforts to enhance financial inclusion in ASEAN.

Conclusion

The ASEAN Finance Ministers and Central Bank Governors are committed to cooperating and collaborating efforts to sustain economic growth and financial stability in the region, amid increased challenges in the external environment. Moving forward, the ASEAN Financial Integration Post-2015 will be incorporated in the framework of AEC Blueprint 2025 to be endorsed by the ASEAN Leaders in November 2015. The gains will be built upon and close cooperation will be continued under the chairmanship of Lao PDR in 2016.

The **ASEAN+3** process continued its efforts in strengthening financial cooperation in the region. In 2015, Malaysia and ROK co-chair the ASEAN+3 Finance Ministers and Central Bank Governors' Meeting (AFMGM+3) as well as related meetings. The AFMGM+3 was held in Baku, Azerbaijan in May. Apart from this, meetings at the task force and deputy levels were also held in Malaysia, ROK and China.

The meetings continue to focus on the Chiang Mai Initiative Multilateralisation (CMIM), ASEAN+3 Macroeconomic Research Office (AMRO) and Asian Bond Markets Initiative (ABMI). The enhanced CMIM Agreement entered into force in July 2014. Among the improvements include doubling of the reserve pool to USD240 billion and introduction of a crisis-prevention facility. Meanwhile, efforts are also ongoing in conducting CMIM Test Runs under various scenarios as well as enhancing the CMIM Operational Guidelines. Furthermore, the meetings continue to focus on developing additional indicators for the Economic Review and Policy Dialogue Matrix, comprising key economic and financial as well as country-specific indicators.

The AMRO Agreement to transform it from a limited company into an international organisation was signed in October 2014. This will further enhance AMRO and strengthen its function as the regional macroeconomic surveillance unit for CMIM. Currently, member countries are in the process of ratifying the agreement which will ultimately formalise AMRO's status as an international organisation. This will also accord AMRO with the legal status, privileges and immunities for it to function more effectively. Meanwhile, the ABMI continues to work on strengthening existing initiatives, including the Credit Guarantee and Investment Facility, the ASEAN+3 Multi-Currency Bond Issuance Framework and the Cross-Border Settlement Infrastructure Forum.

The Philippines was the host for the 22nd **Asia-Pacific Economic Cooperation** (APEC) Finance Ministers' Meeting held in September 2015 with the theme "Building Inclusive Economies, the Road to Financial Resilience". The main agenda is a 10-year Roadmap called the Cebu Action Plan (CAP). The Plan was launched during the APEC Finance Ministers' Meeting, with the goal of building an APEC community that is more financially integrated, transparent, resilient and connected. The Roadmap also seeks to promote better coordination of policies, rules and practices across APEC economies to support strong, sustainable, inclusive, and balanced growth throughout the region.

CAP consists of four pillars and each pillar recommends initiatives and deliverables that are beneficial to APEC economies. The first pillar, promoting financial integration, aims to pave the way for greater intra-regional trade and investment. It will also catalyse other areas of the Roadmap such as expanded financial inclusion, deepened financial sector development and increased infrastructure financing. The second pillar, advancing fiscal reforms and transparency, among others, focuses on reforms that improve governance and transparency as well as strengthen public financial management. The third pillar, enhancing financial resilience, entails the creation of sufficient fiscal space and building deeper financial markets, to better absorb economic shocks. While accelerating infrastructure development and financing, the fourth pillar, aims to support quality infrastructure development through cost-effective financing.

Malaysia, as chair of ASEAN, was invited to participate in the **G20** Finance Ministers and Central Bank Governors' Meetings held in 2015. The G20 is a premier forum consisting of the world's largest advanced economies and emerging markets, representing 85% of global output, 80% of world trade and two-thirds of the world population. The forum seeks to discuss and cooperate in international economic and financial issues in order to contribute to a balanced and sustainable global economy. In addition, the G20 also receives technical advice and inputs from a wide range of international organisations, such as the IMF, WBG, Organisation for Economic Cooperation and Development (OECD), United Nations (UN), Bank for International Settlements (BIS) and Financial Services Board (FSB).

In 2015, under the chairmanship of Turkey, the G20 focused its efforts on ensuring inclusive and robust growth through collective action and prioritised three I's, namely, Inclusiveness, Implementation and Investment for Growth. In this regard, the G20 Finance Ministers and Governors exchanged views on global economic developments, reviewed strategies to foster strong and sustainable growth as well as evaluated investment strategies. The meeting also discussed international financial architecture issues, financial regulation, international tax agenda as well as climate finance. The outcomes and decisions will be elevated to the G20 Leaders' Summit in Antalya in November 2015, for endorsement.

Prospects for 2016

Growth outlook improves

Global GDP is anticipated to expand by 3.6% in 2016 (2015: 3.1%), contributed by better performance in most advanced economies as well as improving economic conditions in emerging market and developing economies. In advanced economies, GDP growth is expected to increase by 2.2% (2015: 2%), with the US leading at 2.8% (2015: 2.6%) and euro area 1.6% (2015: 1.5%). Expansion in the US will be supported by strong consumption and investment. Growth in the euro area is expected to expand further following the measures undertaken to support economic recovery, including the expansionary monetary policy, labour market reforms and improved fiscal stance. Meanwhile, the UK's economy is anticipated to grow by 2.2% (2015: 2.5%), underpinned by resilient private consumption and investment. Private consumption is expected to remain as the main driver of expansion, amid strong job creation, while business investment improves. Japan is estimated to grow modestly at 1% (2015: 0.6%), supported by a more accommodative monetary policy, which is expected to stimulate both private consumption and investment. The increase in consumption tax, which was originally planned for October 2015, has been postponed to April 2017 and this will help to stabilise consumer sentiment.

GDP in emerging market and developing economies is expected to increase by 4.5% (2015: 4%) on account of moderate growth in China, stable expansion in India as well as improvements in several ASEAN economies. China's GDP is anticipated to moderate to 6.3% (2015: 6.8%) mainly on account of subdued investment in the residential real estate sector. Growth in India is expected to improve marginally at 7.5% (2015: 7.3%), as a result of the investment liberalisation measures. Meanwhile, growth in Russia and Brazil are expected to improve further to -0.6% and -1% (2015: -3.8%; -3%), respectively, although still in recession. Growth in major ASEAN countries is expected to improve with Indonesia projected to grow by 5.1% (2015: 4.7%), as exports and investment recover, while Thailand records a better performance at 3.2% (2015: 2.5%), on account of the higher public investment.

The outlook in 2016 is contingent upon the downside risks emanating from monetary policy normalisation in the US; continued appreciation of the US dollar; further decline in oil and other commodity prices; concerns about lower-than-expected growth in China; and geopolitical tensions. The timing, magnitude and speed of normalising interest rates in the US could adversely affect the housing market, undermine exports as well as lead to further volatility in global financial markets. A stronger US dollar poses funding risks for emerging market and developing economies, particularly for US dollar-denominated debt. Lower oil and other commodity prices could further undermine growth in emerging market and developing economies that are reliant on commodity exports. In addition, the impact of slower growth in China could affect countries with strong trade and investment links. Moreover, possible spillovers from heightened geopolitical tensions in Ukraine, the Middle East and parts of Africa could hamper global economic expansion.

Global inflation is expected to increase at a modest pace. Inflation in advanced economies is expected to rise to 1.2% (2015: 0.3%), as economic stimulus measures take effect and private consumption expands. In emerging market and developing economies, inflation is expected to be lower at 5.1% (2015: 5.6%), contributed by low oil and commodity prices. World trade is anticipated to pick up to 4.1% (2015: 3.2%) on account of potential improvements in both advanced as well as emerging market and developing economies.

Info Box 4

Malaysia-European Free Trade Association Economic Partnership Agreement (MEEPA)

The Malaysia-European Free Trade Association (EFTA) Economic Partnership Agreement or MEEPA[1] focuses on strong elements of economic and technical cooperation (ECOTECH) as well as capacity building, besides liberalisation. The negotiations started in March 2014 in Geneva with the fifth round of negotiations completed in October 2015. Further negotiations are envisaged to take place next year. The areas of negotiations include trade in goods, trade in services, investment, intellectual property rights, competition as well as cooperation and capacity building.

EFTA countries are important trading partners and sources of high-impact and value-added investment for Malaysia. Bilateral trade between Malaysia and EFTA countries increased by 35.1% to USD2.6 billion, in 2014 (2013: USD1.9 billion), with Switzerland accounting for 80% of the trade. Approved foreign direct investment from EFTA countries, mainly from Switzerland and Norway, was recorded at USD1.7 billion in 2014 (2013: USD1.3 billion).

The EPA with EFTA countries will pave the way for improved market access of Malaysian goods and services. In addition, MEEPA will establish a more transparent and predictable environment for investors, thus enhancing Malaysia's attractiveness as an investment destination and production hub. Under the ECOTECH cooperation, Malaysia stands to gain from capacity building, technical assistance in the services sector and standard setting in high technology areas. Meanwhile, EFTA countries would benefit from MEEPA by gaining, among others, further market access to Malaysia and hence the ASEAN region. Malaysia also has a diversified economy, strong high-tech sectors, favourable investment climate and a large pool of skilled and semi-skilled workforce.

Challenges, however, are expected under MEEPA negotiations due to the different levels of development between Malaysia and EFTA countries. Both parties are working together to find solutions for mutual benefit of all. This agreement will further enhance trade and investment linkages between Malaysia and EFTA countries.

[1] A free trade agreement between Malaysia and the four EFTA countries, namely Iceland, Liechtenstein, Norway and Switzerland.