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GLOBAL ECONOMIC PERFORMANCE AND OUTLOOK

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Overview

Global growth remains moderate

Global growth is projected to remain moderate at 3.1% in 2016 (2015: 3.2%) with low growth in advanced economies and improvements in emerging market and developing economies. The advanced economies are envisaged to register a marginally slower growth at 1.6% (2015: 2.1%), while the emerging market and developing economies are expected to improve slightly by 4.2% (2015: 4%).

Among the advanced economies, the United States' (US) economy is expected to register slower growth due to lower private investment, subdued global demand and stronger dollar. Economic recovery in the euro area is envisaged to continue at a moderate pace supported by steady domestic demand and expansionary monetary policy. However, the uncertainty caused by the Brexit that continues to impact consumer and business confidence remains a concern, particularly in advanced economies in the euro area as well as in the United Kingdom (UK). Meanwhile, Japan is anticipated to record a marginal growth due to sluggish private consumption and the appreciation of the yen, despite the implementation of various monetary and fiscal policy measures.

The emerging market and developing economies are anticipated to partially offset the slower growth in the advanced economies. China's accommodative fiscal and monetary policies are expected to support its rebalancing efforts towards a more sustainable growth, with the services sector and consumption becoming the main economic drivers. Meanwhile, India's growth is envisaged to remain robust, supported by an increase in private consumption as well as stronger services and agriculture sectors. In addition, most Association of Southeast Asian Nations (ASEAN) economies namely Indonesia, Thailand, Malaysia, the Philippines and Viet Nam are expected to record steady expansion owing to higher infrastructure investment and stronger consumption.

Inflation in the advanced economies is projected to increase to 0.8% (2015: 0.3%) due to increase in private consumption. However, inflation in the emerging market and developing economies is anticipated to reduce to 4.5% (2015: 4.7%) owing to lower global commodity prices. World trade is expected to grow 2.3% in 2016 (2015: 2.6%), supported by an increase in demand for imported goods, largely from the emerging market and developing economies. Meanwhile, global foreign direct investment (FDI) flows are expected to decline 15% to USD1.5 trillion (2015: 38%; USD1.8 trillion) both in developed and developing economies. This reflects a persistent weakness of aggregate demand and a slump in profits of multinational enterprises due to the sluggish economic growth.

Amid moderate global growth, downside risks persist. Among the major concerns are the uncertainties of the post-Brexit referendum, capital market volatility, continued weak inflation and sluggish productivity in most advanced economies. Other risks include geopolitical tensions, domestic armed strife and refugee problems.

Global Economic Performance

Uneven growth across economies and regions

The **US** economy grew 1.5% (January – June 2015: 3.2%), weaker-than-expected, during the first half of 2016, mainly due to lower private investment and government spending, amid subdued global demand. Private investment declined 1.8% (January – June 2015: 6.8%), following a contraction in both residential and non-residential investments by 8.7% and 0.5%, respectively (January – June 2015: 10.3%; 3.1%). The housing industry slowed down due to higher property prices and tighter credit standards, which led to a deceleration in housing sales of 9.7% (January – June 2015: 18.4%). This was also reflected in the issuance of building permits, which declined 2.1% (January – June 2015: 17.6%). Trade in the US continued to worsen

TABLE 2.1

Real GDP for Selected Economies 2015 – 2017

	% Change		
	2015	2016 ¹	2017 ²
World	3.2	3.1	3.4
Advanced economies	2.1	1.6	1.8
United States	2.6	1.6	2.2
Euro area	2.0	1.7	1.5
Japan	0.5	0.5	0.6
Republic of Korea	2.6	2.7	3.0
Emerging market and developing economies	4.0	4.2	4.6
China	6.9	6.6	6.2
India	7.6	7.6	7.6
ASEAN			
Singapore	2.0	1.0 – 2.0	2.2
Thailand	2.8	3.0 – 3.5	3.3
Indonesia	4.8	4.9 – 5.3	5.3
Philippines	5.9	6.4	6.7
Viet Nam	6.7	6.1	6.2
Malaysia	5.0	4.0 – 4.5	4.0 – 5.0

¹ Estimate.

² Forecast.

Source: International Monetary Fund (IMF) and national authorities.

as exports contracted further by 4.9% (January – June 2015: -2%), largely due to the strengthening of the dollar and a decline in the exports of travel services. Similarly, imports fell 4.5% (January – June 2015: 0.1%), mainly due to lower demand for capital goods, especially drilling and oilfield equipment as well as computer accessories.

On the supply side, industrial production contracted 2.6% (January – August 2015: 3.6%), mainly due to a steep decline in the production of consumer goods and construction supplies. This was also reflected by the lower manufacturing index of the Institute for Supply Management (ISM) at 50.9 points (January – August 2015: 52.4 points) and the capacity utilisation rate at 75.4% (January – August 2015: 78.3%). The ISM non-manufacturing index also softened to 54.2 points (January – August 2015: 57.4 points) due to a deceleration in the educational service and mining industries. Retail sales increased sharply by 4.2% (January – August 2015: 0.6%), on account of rising sales of non-store retailers, as online shopping increased. Meanwhile, the unemployment rate was lower at 4.9% (January – August 2015: 5.4%), following additional job opportunities in the healthcare and retail trade sectors. The strengthening of the labour market and increased consumption led to a higher inflation of 1% (January – August 2015: 0%). The US Federal Reserve (Fed) has maintained the target range for the federal fund rate at 0.25% to 0.50% since December 2015.

The US is expected to register a slower growth of 1.6% in 2016 (2015: 2.6%). This will be on account of weaker external demand, a stronger US dollar and slower investment, especially in the energy sector.

The **UK's** gross domestic product (GDP) grew at a moderate pace of 2.1% during the first half of 2016 (January – June 2015: 2.6%), mainly supported by a steady performance in the services sector and higher private consumption. The services sector grew albeit at a slower pace of 2.6% (January – June 2015: 3%), mainly contributed by the distribution, hotels and restaurants as well as business services and finance subsectors. Meanwhile, growth of the construction sector decelerated 0.5% (January – June 2015: 6.2%) following sluggish infrastructure activity despite continued expansion in the housebuilding activity. This was also reflected in the construction Purchasing Managers' Index (PMI), which fell to 52.1 points (January – June 2015: 57.6 points). Furthermore, industrial production growth slowed at 1% (January – June 2015: 1.3%), following subdued activity in most subsectors, especially manufacturing. Despite a weaker pound sterling, manufacturing activity slowed 0.2% (January – June 2015: 0.5%) due to concerns over the Brexit referendum, which impacted socio-economic and political sentiments. Consistent with this, the manufacturing PMI fell to 51.1 points (January – June 2015: 52.7 points).

On the demand side, household consumption increased 2.9% (January – June 2015: 2.7%), supported by improved labour market, rise in wages and low inflation. Labour market conditions improved with the unemployment rate

trending down to 5% (January – July 2015: 5.6%), largely due to the government's initiatives to reduce unemployment. The initiatives include the enhancement of Jobcentre Plus and the introduction of incentives for the young and the disabled to be in the labour market. Meanwhile, inflation remained low at 0.4% (January – August 2015: 0.1%) due to lower energy, clothing and food prices.

The Bank of England (BOE) reduced its policy rate by 25 basis points to 0.25% in August 2016. Additionally, BOE launched a Term Funding Scheme to help transfer the reduction benefit to the real economy. BOE will also purchase GBP60 billion of government bonds and GBP10 billion of corporate bonds, in an effort to stimulate the economy in weathering the impact of the Brexit referendum. The UK's growth is expected to moderate to 1.8% in 2016 (2015: 2.2%), impacted by uncertainty caused by the Brexit.

During the first half of 2016, economic growth in the **euro area** progressed, albeit at a gradual pace with GDP recording a growth of 1.7% (January – June 2015: 1.5%). Steady domestic demand, especially private consumption; an improving labour market; and accommodative monetary policy measures were among the main factors supporting growth in the region.

On the demand side, household consumption expenditure rose 1.8% (January – June 2015: 1.7%), underpinned by higher disposable income, following lower oil prices and better labour market conditions. Investment increased 2.5%

TABLE 2.2

Inflation Rate for Selected Economies 2015 – 2016

	% Change	
	2015	2016 ¹
World	2.8	2.9
Advanced economies	0.3	0.8
United States	0.1	1.2
Euro area	0.0	0.3
Japan	0.8	-0.2
Republic of Korea	0.7	1.0
Emerging market and developing economies	4.7	4.5
China	1.4	2.1
India	4.9	5.5
ASEAN		
Singapore	-0.5	-0.3
Thailand	-0.9	0.3
Indonesia	6.4	3.7
Philippines	1.4	2.0
Viet Nam	0.6	2.0
Malaysia	2.1	2.3²

¹ Estimates.

² January – August 2016.

Source: International Monetary Fund (IMF) and national authorities.

(January – June 2015: 2.3%), on the back of favourable financing conditions and improvements in corporate profitability. However, trading activity weakened as exports slowed down 2.3% (January – June 2015: 5.7%) due to subdued external demand, while imports softened 3% (January – June 2015: 6%). On the supply side, most sectors performed well, especially the construction sector, which grew 1.6% (January – June 2015: 0.4%). Industrial production growth remained at 1.5% (January – June 2015: 1.5%), attributed to civil engineering and building construction activities.

The labour market continued to improve further with the unemployment rate trending downwards to 10.2% (January – August 2015: 11.1%). Nevertheless, unemployment remained uneven across countries in the region, with Germany posting the lowest rate of 4.2%, while Spain recorded a high of 19.5% in August 2016. Meanwhile, inflation remained flat at 0% (January – August 2015: 0%), largely on account of prolonged weak energy prices.

In an effort to achieve the targeted inflation of 2% and increase lending activity, the European Central Bank (ECB) announced major changes in its monetary policy in March 2016. The interest rates in the main refinancing operations, marginal lending facility and deposit facility were further lowered to 0%, 0.25% and -0.40%, respectively beginning 16 March 2016. The monthly asset purchase programme was further expanded from EUR60 billion to EUR80 billion with the inclusion of investment grade non-bank corporate debt in the list of assets eligible for regular purchases. In addition, a series of four new targeted longer-term refinancing operations (TLTROs), each with a maturity of four years, was launched in June 2016 to incentivise banks to increase lending to the market. As of September 2016, the ECB has maintained its monetary policy stance to continue providing favourable financing conditions and enhancing credit creation in an effort to stimulate economic activity and achieve inflation target in the region.

In 2016, the euro area is expected to register a moderate growth of 1.7% (2015: 2%), supported by steady domestic fundamentals. However, downside risks to growth have increased due to the Brexit referendum uncertainties amid fragile business and consumer confidence. Other factors that may weigh on growth include subdued growth prospects of its main trading partners, coupled with lingering legacy issues in the banking system as well as the sluggish pace of structural reforms in the region.

GDP growth in **Germany** increased 1.8% in the first six months of 2016 (January – June 2015: 1.4%), underpinned by domestic demand. Household consumption edged up 2.1% (January – June 2015: 2%) spurred by low energy costs and accommodative interest rates. Meanwhile, investment rose 3.7% (January – June 2015: 1.1%), particularly in the machinery and equipment subsectors as well as construction activities. Trading activity slowed down, with exports recording a lower growth of 1.4% (January – June 2015: 7.6%), while imports 0.4% (January – June 2015: 3.7%).

On the supply side, the manufacturing sector registered a higher growth of 2.9% (January – June 2015: 1.3%) due to strong demand for German products, especially from the US and China. This was reflected by the PMI, which increased to 52 points (January – June 2015: 51.7 points). Meanwhile, the construction sector turned around and registered a growth of 3.1% (January – June 2015: -1.4%), due to a mild winter. Growth in the services sector was higher, spearheaded by a rebound in the financial and insurance subsector, which rose 1.7% (January – June 2015: -0.6%).

Inflation remained at 0.1% (January – August 2015: 0.1%), mainly due to lower energy and food prices. Meanwhile, the labour market continued to improve with the unemployment rate trending downwards to 4.3% (January – August 2015: 4.7%). In 2016, growth is expected to increase 1.7% (2015: 1.5%), mainly due to improvements in business sentiment, which will result in higher investment and consumption activities. However, the increased external risks and uncertainties caused by the Brexit may weigh on Germany's growth prospects.

In **France**, GDP growth increased 1.4% (January – June 2015: 1%), supported by improved manufacturing activity. Manufacturing output expanded marginally by 0.6% (January – June 2015: 0.4%), largely due to an increase in the production of transport equipment, which rose 5.8% (January – June 2015: 2.1%). However, the overall industrial production growth was lower at 0.5% (January – June 2015: 1%) due to the prolonged decline in construction activities. On the demand side, household consumption expenditure on goods was lower at 1.7% (January – June 2015: 2.2%), largely due to the continued high unemployment.

The unemployment rate continued to remain high at 10.1% (January – August 2015: 10.4%), due to weak job creation and persistent structural issues in the labour market. These issues include France's labour reforms, aimed at simplifying and relaxing the country's labour laws, which are yet to be accepted by the labour unions. Meanwhile, inflation remained low at 0.2% (January – August 2015: 0%) as a result of prolonged low oil prices and high unemployment. In 2016, France is expected to sustain its growth momentum at 1.3% (2015: 1.3%).

Japan's GDP grew marginally by 0.5% (January – June 2015: -0.2%), despite the government's effort to stimulate growth. Private consumption remained low at 0.1% (January – June 2015: -2%) due to stagnant wages and volatile equity market that eroded consumer sentiment and business confidence. Meanwhile, capital expenditure remained low at 0.4% (January – June 2015: 1.6%), following persistently sluggish corporate investment. Exports continued to contract 2.9% (January – June 2015: -7.7%), albeit at a slower pace, largely due to the strengthening of the yen. Likewise, imports declined 12.3% (January – June 2015: -20.7%), on account of subdued investment and weak consumption.

Manufacturing activity slowed down as reflected by the lower PMI at 49.3 points (January – June 2015: 50.8 points), as a result of contractions in new export orders as well as disruption in the production of electronics and car parts caused by the April 2016 earthquakes. The unemployment rate improved to 3.2% (January – August 2015: 3.5%), attributed to continued job creation in wholesale and retail trade as well as medical, health and welfare amid labour shortages. Japan recorded a deflation of 0.2% (January – August 2015: 1.1%) due to persistently low household expenditure and falling import cost.

The Bank of Japan (BOJ) adopted a negative benchmark rate of 0.10% starting February 2016, while the government postponed the consumption tax hike from 8% to 10% scheduled for April 2017 to October 2019. These measures were aimed at encouraging consumer spending and investment by firms towards achieving an inflation target of 2%. In August 2016, the government also announced a new stimulus package amounting to 28 trillion yen as part of efforts to boost the economy. Japan's GDP is projected to remain at 0.5% in 2016 (2015: 0.5%), on the back of subdued consumption and exports as well as lower capital investment despite the ongoing government efforts to revive the economy.

Australia's economy grew 3.2% in the first half of 2016 (January – June 2015: 2.2%), supported by an increase in both household consumption expenditure and exports. Household consumption expenditure grew 3% (January – June 2015: 2.8%), driven by sustained wage growth and better employment opportunities. Meanwhile, exports rose 7.3% (January – June 2015: 5.9%) due to an increase in demand for iron ore and coal, while imports declined 1.7% (January – June 2015: 2%).

On the supply side, industrial production increased 4.2% (January – June 2015: 1.4%), which was reflected in the manufacturing PMI of 53.2 points (January – June 2015: 47.5 points), due to stronger domestic demand for petroleum and chemical products. However, the construction sector declined further by 8.7% (January – June 2015: -6.1%), affected by slower growth in residential, commercial and engineering activities following lower investor demand.

The unemployment rate was lower at 5.8% (January – August 2015: 6.2%), mainly contributed by continued job creation in the mining and services sectors. Meanwhile, inflation eased to 1.3% (January – June 2015: 1.5%) due to low oil prices and the appreciation of the Australian dollar, which further dampened the prices of imported goods. The Reserve Bank of Australia has gradually lowered its policy rate by a total of 100 basis points from 2.50% in February 2015 to a historic low of 1.50% in August 2016, to further boost economic growth. In 2016, Australia is projected to register a higher growth of 2.9% (2015: 2.4%), supported by an expansion in the services sector and a stable labour market.

The **Republic of Korea's** GDP grew at a faster pace of 3% (January – June 2015: 2.3%), driven by stronger private consumption and higher exports. Private consumption rose 2.7% (January – June 2015: 1.6%), largely attributed to the tax benefit scheme targeted for local car purchasers as well as new car models and mobile phone releases. Exports increased 1.2% (January – June 2015: 0.1%), contributed by higher overseas demand for ships and computer-related products. Likewise, imports registered a stronger growth of 2.5% (January – June 2015: 1.9%), following higher demand especially for crude oil, iron ore and coal. Capital investment contracted 3.6% (January – June 2015: 5.5%) due to lower investment in the machinery and transportation equipment industries amid global uncertainties.

On the supply side, the manufacturing sector increased 2.1% (January – June 2015: 0.6%), mainly supported by higher production of automobiles and chemical goods. Meanwhile, the services sector moderated to 2.7% (January – June 2015: 3%) as a result of slower growth in the transportation and storage as well as real estate and leasing subsectors.

The unemployment rate remained low at 3.7% (January – August 2015: 3.6%) due to higher employment opportunities in the wholesale and retail trade as well as accommodation and food subsectors. Inflation was persistently low at 0.8% (January – September 2015: 0.7%) due to lower global commodity prices. The Bank of Korea cut its policy rate by 25 basis points to the lowest level of 1.25% in June 2016 to support economic growth. Meanwhile, the government announced a supplementary budget amounting to USD23 billion in June, aimed at creating new jobs following retrenchment in the shipping and building industries. Overall, growth in the Republic of Korea is estimated to be higher at 2.7% (2015: 2.6%), supported by the expansionary fiscal measures.

China registered a growth of 6.7% during the first half of 2016 (January – June 2015: 7%), mainly due to robust investment in public infrastructure and favourable housing market. Investment in fixed assets grew 11% (January – June 2015: 12.5%), largely attributed to capital spending by state-owned enterprises. Investment in real estate development expanded 8% (January – June 2015: 5.7%), contributed by a surge in residential property sales, following the easing of purchase restrictions and lower borrowing costs at the provincial level. Exports contracted significantly by 7.7% (January – June 2015: 1%), particularly weighed down by falling orders from the US and euro area. Imports continued to decline 10.2% (January – June 2015: -15.5%), mainly due to lower demand for fuel oil in the industry sector.

On the supply side, the services sector grew 7.5% (January – June 2015: 8.4%), attributed to higher consumer spending on leisure, healthcare as well as information and communications technology (ICT) services. The non-manufacturing PMI remained high at 53.4 points (January

– June 2015: 53.6 points), backed by continued expansion in the services sector, following further liberalisation efforts by the government. The manufacturing subsector continued to decline as reflected by the manufacturing PMI at 49.8 points (January – June 2015: 49.7 points), weighed down by overcapacity in the heavy industry activities and subdued global demand.

Inflation was higher at 2% (January – August 2015: 1.4%), mainly driven by rising pork prices as the government enforced the new Environmental Protection Law to shut down or relocate pig farms. The People's Bank of China (PBOC) maintained its lending rate at 4.35% since October 2015. However, PBOC lowered the reserve requirement ratios by 50 basis points to 17% on February 2016 to further support the economy. In 2016, China's growth is expected to remain steady at 6.6% (2015: 6.9%), supported by the implementation of structural reforms amid continued rebalancing efforts towards a consumption driven and services-based economy.

During the first half of 2016, **India** registered a strong growth of 7.5% (January – June 2015: 7.3%), mainly contributed by robust private consumption as well as strong services and agriculture sectors. Private consumption grew 7.5% (January – June 2015: 7.7%) supported by higher household income. Meanwhile, investment contracted 2.5% (January – June 2015: 4.5%) due to sluggish private sector investment and a slowdown in the government's capital expenditure. Exports also contracted 5.2% albeit at a slower pace (January – June 2015: -16.2%), mainly due to a decline in the exports of petroleum products, garments and engineering goods. Similarly, imports continued to contract 13.5% (January – June 2015: -13%) due to the decline in imports of petroleum and gold.

On the supply side, the manufacturing sector continued to register a stronger growth of 9.2% (January – June 2015: 7.8%), largely supported by higher production of office, accounting and computing machinery as well as radio, television and communication equipment. Likewise, mining activity registered a higher growth of 4.1% (January – June 2015: 3.2%), largely attributed to higher production of coal. Meanwhile, the construction sector grew 3% (January – June 2015: 4.2%), following infrastructure development of roads and highways. The economy also benefitted from a strong growth in the services sector by 9.2% (January – June 2015: 9.3%), mainly attributed to the expansion of 9.4% (January – June 2015: 5%) in the public administration, defence and other services subsector. Meanwhile, the agriculture sector improved significantly by 2.1% (January – June 2015: 0.3%), on the back of increased harvest following higher rainfall.

Inflation, as indicated by the wholesale price index turned around to 0.9% (January – August 2015: -2.7%) as prices of petrol decreased further, offsetting the rise in food prices. The Reserve Bank of India has reduced its key policy repo rate twice since April 2016 by a total of 50 basis points to 6.25%, to stimulate consumption

and investment activities. Overall, growth in 2016 is projected at 7.6% (2015: 7.6%), supported by strong consumer spending, increased farm output and a robust services sector.

During the first half of 2016, the ASEAN economies registered a steady growth amid lower global commodity prices, slower-than-expected recovery of the advanced economies and continued moderation in China. Indonesia, Thailand and the Philippines recorded higher growth while other major economies moderated.

Indonesia's GDP grew higher by 5% (January – June 2015: 4.7%), supported by higher investment and consumption. Investment increased 5.3% (January – June 2015: 4.3%), supported by government measures, including reduction in corporate income tax and lower energy tariffs for specific industries. Government spending also expanded 4.6% (January – June 2015: 2.8%), mainly for infrastructure, while household consumption was sustained at 5% (January – June 2015: 5%). Meanwhile, exports contracted further by 3.1% (January – June 2015: -0.3%) due to lower global demand. Likewise, imports continued to decline 4% (January – June 2015: -4.6%), partly due to increased import substitution.

On the supply side, growth was driven by the services sector, mainly in financial and insurance, information and communication as well as other services activities, which grew 11.4%, 8.4% and 7.9%, respectively (January – June 2015: 5%; 9.8%; 8%). Inflation eased to 3.6% (January – September 2015: 6.9%) due to lower energy cost. Bank Indonesia lowered its policy rate by a total of 100 basis points from 7.50% to 6.50% during the first half of 2016 to further stimulate economic growth. Overall, Indonesia is projected to grow between 4.9% and 5.3% in 2016 (2015: 4.8%), buoyed by increased government spending on infrastructure as well as private investment and consumption.

Thailand's economy expanded 3.4% (January – June 2015: 2.8%), supported by improved consumption and services sector. Consumption grew favourably by 8.2% (January – June 2015: 3%), mainly attributed to public consumption. Exports increased 2.8% (January – June 2015: 1.4%) due to improved global demand. Meanwhile, imports declined 3.5% (January – June 2015: 1.3%) due to lower imports of capital goods.

On the supply side, growth was supported by the hotel and restaurants as well as construction activities, which grew 14.3% and 9.3%, respectively (January – June 2015: 20%; 15.8%). Meanwhile, the agriculture sector contracted 0.8% (January – June 2015: -4.4%) as crop yields were affected by the drought.

Thailand's inflation was flat at 0% (January – September 2015: -0.9%) due to low energy prices coupled with high household debt. Bank of Thailand has kept its policy rate unchanged at 1.50% since April 2015, as an appropriate level to support economic growth. Overall

in 2016, Thailand's economy is projected to expand between 3% and 3.5% (2015: 2.8%) supported by an increase in government spending, an improvement in the tourism sector and a potential recovery in the agricultural sector.

In the **Philippines**, growth expanded 6.9% during the first half of 2016 (January – June 2015: 5.5%), driven by improved domestic demand and a robust services sector. Public consumption grew significantly by 12.7% (January – June 2015: 1.4%) due to the 2016 National and Local Elections, while private consumption rose 7.2% (January – June 2015: 6.3%). Investment grew 27.1% (January – June 2015: 16.7%), mainly in construction, computer software and database products as well as machineries. Meanwhile, exports moderated to 7% (January – June 2015: 7.7%) partly due to lower demand for electronic and mineral products as well as machinery and transport equipment. Imports grew 19.9% (January – June 2015: 12.4%), mainly due to an expansion in the imports of semiconductors, transport equipment and electrical machinery.

On the supply side, the services sector registered a strong growth of 8% (January – June 2015: 6.2%), spearheaded by the real estate, trade and financial intermediation services, which grew 9.2%, 8.3% and 8.1%, respectively (January – June 2015: 6.7%; 6.3%; 5.1%). The industry sector posted a 7.9% growth (January – June 2015: 5.7%), supported by the construction, manufacturing as well as electricity, gas and water supply subsectors.

Inflation eased to 1.5% (January – September 2015: 1.6%) in response to lower food prices and non-alcoholic beverages. The Bangko Sentral ng Pilipinas reduced its policy rate by 100 basis points to 3.00% to mitigate market volatility. The Philippines is projected to register an overall growth of 6.4% in 2016 (2015: 5.9%), supported by higher investment and consumption activities.

Singapore's GDP growth remained stable at 2.2% (January – June 2015: 2.2%), largely contributed by the services sector that grew 1.6% (January – June 2015: 3.8%). The services sector was supported by wholesale and retail trade, finance and insurance as well as transportation and storage subsectors. Growth was also supported by a rebound in the manufacturing sector of 0.3% (January – June 2015: -4.1%), owing to an increase in the output of the biomedical manufacturing and electronics clusters. In addition, the construction sector grew 3.7% (January – June 2015: 1%) following an increased spending on infrastructure. However, exports further declined 8.2% (January – June 2015: -7.3%), while imports fell 6.2% (January – June 2015: -14.5%). Deflation continued, registering 0.8% (January – August 2015: -0.4%), largely due to lower oil prices as well as lower house prices, utilities and transport costs. Singapore's growth is expected to moderate between 1% and 2% in 2016 (2015: 2%),

supported by the services sector, especially the tourism-related as well as information and communications subsectors.

GDP of **Viet Nam** grew 5.5% (January – June 2015: 6.3%), supported by increased investment and a steady growth in the services as well as industry and construction sectors. Investment grew 11.7% (January – June 2015: 9.4%) as reflected in the increase in FDI and domestic investment. Exports moderated to 5.9% (January – June 2015: 9.3%) due to falling global demand. Meanwhile, imports trended downwards by 0.5% (January – June 2015: 17.7%) mainly owing to lower automotive imports.

On the supply side, the services sector grew 6.4% (January – June 2015: 5.9%), underpinned by the wholesale and retail; information and communication; and finance, banking and insurance subsectors that grew at 8.1%, 8.8% and 6.1%, respectively (January – June 2015: 8.4%; 8.8%; 5.9%). Meanwhile, the industry and construction sector rose 7.1% (January – June 2015: 9.1%), largely contributed by the manufacturing as well as power subsectors at 10.1% and 11.7%, respectively (January – June 2015: 10%; 11.2%). However, the agriculture, forestry and fishery sector declined 0.2% (January – June 2015: 2.4%) due to lower agricultural yield, which was affected by the severe weather. The State Bank of Viet Nam maintained its policy rate at 6.50% since March 2014 to support economic growth. Viet Nam is expected to register a robust growth of 6.1% in 2016 (2015: 6.7%), supported by the government's efforts to boost consumption and investment.

Myanmar's economy is projected to expand further by 8.1% in 2016 (2015: 7%), buoyed by strong growth in investment and consumption. On the supply side, growth is expected to be supported by the agriculture sector. Investment will be mainly driven by infrastructure, petroleum and telecommunications projects. Consumption is expected to increase contributed by the growing middle-class households. Meanwhile, the agriculture sector is expected to be driven by government measures including irrigation and rehabilitation schemes, farm mechanisation, land consolidation and increased access to credit. Inflation is expected to ease due to recovery in the agriculture supply and projected low global commodity prices.

Cambodia's GDP is projected at 7% in 2016 (2015: 7%), spurred by increased consumption, investment and exports. The manufacturing, construction and services sectors are also expected to boost growth. The manufacturing sector is mainly driven by the production of garments and footwear.

In 2016, **Lao PDR** is forecast to grow 7.5% (2015: 7.6%), primarily driven by the development of hydropower projects and higher mining output. Growth will also be supported by rising exports of copper and electricity as well as an expansion in the tourism industry.

Brunei Darussalam's growth is estimated to expand 0.4% (2015: -0.6%), mainly due to improved performance of the oil and gas sector. In addition, household consumption is expected to support the economic activity for the year.

Overall, the ASEAN GDP is projected to grow 4.5% in 2016 (2015: 4.4%), supported by private and public consumption as well as increased investment in infrastructure. Growth will be mainly driven by Indonesia, Thailand, Malaysia, the Philippines and Viet Nam.

International Economic Cooperation

Enhanced concerted efforts at the multilateral and regional front

International financial institutions such as the World Bank Group (WBG), the International Monetary Fund (IMF) and the Asian Development Bank (ADB) play an essential role in ensuring economic and financial stability as well as promoting inclusive growth, more so in the current challenging global economic environment. At the regional front, ASEAN, ASEAN+3 and the Asia-Pacific Economic Cooperation (APEC) forums continue to intensify efforts towards further strengthening economic and financial cooperation. These forums provide a platform for member countries to deliberate on the risks and challenges as well as formulate policies towards sustainable growth and a more integrated region.

The **WBG** remains steadfast in its efforts to achieve the twin goals of promoting shared prosperity and alleviating extreme poverty by 2030, in line with the recently adopted Sustainable Development Goals (SDGs). The WBG is currently focusing on implementing the SDGs together with the Paris Agreement that aims to limit the effects of climate change. In its quest to remain relevant as a strong global development institution in an evolving development landscape, the WBG aims to become a more agile and effective development partner towards meeting the diverse needs of its clients. In this regard, the WBG has committed a sum of USD69 billion (2015: USD63 billion) in grants, loans, equity investments and guarantees to its members and private businesses for the financial year 2016.

In Malaysia, the WBG and the Government have been collaborating actively in various programmes, including through capacity building and knowledge sharing activities. The official opening of the WBG Knowledge and Research Hub in Kuala Lumpur in March 2016 marked an important milestone, indicating Malaysia's readiness in taking on a bigger role in the international arena through a strategic partnership with the WBG. The office is aimed at sharing Malaysia's development experiences abroad apart from conducting development policy research of regional and global importance. Among the major work undertaken include jointly organising the Economic Planning Unit and WBG Workshop on the Eleventh Malaysia Plan,

hosting the Global Financial Reform for Economic Development Forum Conference as well as launching the World Development Report 2016: Digital Dividends. Under the research hub, numerous forums, seminars and short courses were conducted, involving both local and international participants.

Apart from this, Malaysia and WBG have been collaborating on a number of technical assistance (TA) and advisory services through the Reimbursable Advisory Services since 2009. As of August 2016, 23 projects have been completed while six are still ongoing.

The WBG also publishes the Malaysia Economic Monitor, a bi-annual document, which covers current economic developments with independent analysis of near- and medium-term economic outlook. A total of 14 reports have been published as of June 2016, with varying themes, the latest being "Leveraging Trade Agreements".

The **IMF** continues to provide strong support to its members towards promoting economic and financial stability. The Fund provides assistance in the form of policy advice through surveillance activities, financing facilities as well as technical support. As for the surveillance activities, the Fund has been actively involved in Malaysia under the annual consultation mandated through Article IV of the Articles of Agreement. The consultation exercise involves the Fund's assessment of the country's economic and financial developments. The latest Article IV Report commended Malaysia on its strong fundamentals, ample buffers, robust financial system and timely policy responses, which have enabled the Malaysian economy to weather external shocks, including from lower commodity prices and spillovers from trading partners.

The Fund also provides TAs and training programmes for capacity building, especially for the public sector. The latest TA between the Fund and Malaysia was on international taxation, which included discussions on tax treaties and anti-abuse rules. This was done through a workshop aimed at assisting Malaysia to enhance capacity towards developing a more effective institutional, legal and policy framework to promote economic stability and inclusive growth.

This year, Malaysia is a member of the International Monetary and Financial Committee (IMFC) as well as the Development Committee (DC), representing the Southeast Asia Voting Group (SEAVG). As a member of the IMFC and DC, it is Malaysia's responsibility to deliver statements during these committee meetings. The discussions during the IMFC meetings focus on, among others, the IMF's role in supporting stronger policy response to member countries. These include the Fund's efforts to deepen analysis of the impact of structural reforms as well as to identify country-specific priorities for fiscal policy advises, consistent with maintaining debt sustainability. Meanwhile, the discussions during the DC meetings focus on issues related to development including poverty, infrastructure gap and climate change.

The **ADB** remains committed in promoting inclusive economic growth across Asia and the Pacific. In this regard, ADB is scaling up its capacity to meet new development challenges. The most significant move was enhancing ADB's equity base from USD17.5 billion to USD49 billion. This was achieved through combining the concessional lending facility of the Asian Development Fund (ADF) with the ordinary capital resources, effective 1 January 2017. ADB's lending capacity will be enhanced, particularly to poor countries as well as strengthen its readiness to respond to future economic crises and natural disasters.

The ADB had also successfully completed the ADF12 replenishment in May 2016. A total of 32 member countries have committed USD2.5 billion to the fund. Malaysia has committed USD5.05 million, which will be paid over a period of 10 years. In line with the SDGs, the ADF12 will provide financial assistance focusing on alleviating poverty as well as promoting inclusive and sustainable development in qualified recipient countries.

At the regional front, **ASEAN** continues to play a significant role with the establishment of the ASEAN Economic Community (AEC) on 31 December 2015. This was a major milestone in the regional economic integration agenda, offering opportunities in the form of a huge market of USD2.6 trillion with over 622 million people. Moving forward, the AEC Blueprint 2025 provides broad directions through strategic measures for the AEC from 2016 to 2025. This was adopted by the ASEAN Leaders at the 27th ASEAN Summit on 22 November 2015 in Kuala Lumpur.

The AEC Blueprint 2025 consists five interrelated and mutually reinforcing characteristics, namely: (i) a Highly Integrated and Cohesive Economy; (ii) a Competitive, Innovative and Dynamic ASEAN; (iii) Enhanced Connectivity and Sectoral

Cooperation; (iv) a Resilient, Inclusive, People-Oriented and People-Centred ASEAN; and (v) a Global ASEAN. ASEAN Member States (AMS) continue to strengthen their commitment and cooperation to effectively implement the AEC Blueprint 2025. The ongoing development of the AEC 2025 Consolidated Strategic Action Plan, envisioned in the AEC Blueprint 2025, will serve as a single reference for the realisation of the AEC 2025.

Under the finance sector, Strategic Action Plans for ASEAN Financial Integration 2025 is aimed at promoting financial integration, inclusion and stability in support of ASEAN macroeconomic stability and growth. The ASEAN Capital Markets Forum (ACMF) Action Plan 2016 – 2020, supports the ACMF Vision 2025 to achieve an inter-connected, inclusive and resilient ASEAN capital market. In efforts to improve the efficiency and competitiveness of ASEAN and recognising the growing importance of the services sector in the region, the ASEAN Framework Agreement on Services (AFAS) is expected to substantially eliminate restrictions to trade in services among AMS. To date, seven Packages of Commitments on Financial Services have been signed under the financial services liberalisation.

An enabling provision for the implementation of the ASEAN Banking Integration Framework (ABIF) was introduced in the Sixth Package of financial services commitments in 2015. This allowed for a more integrated banking market to be achieved through bilateral agreements. Pursuant to this, a bilateral agreement between Malaysia and Indonesia was signed on 1 August 2016 to implement the ABIF.

The ASEAN Infrastructure Fund (AIF) Limited, incorporated in April 2012, mobilises financial resources within the region to address the infrastructure investment needs. The AIF's lending operations started at the end of 2013, to provide financing for infrastructure projects to enhance

Info Box 1

Malaysia's Commitments in the Financial Services Sector under the ASEAN Framework Agreement on Services

Introduction

Among the ASEAN Member States (AMS), the services sector remains a key driver of the region's economic growth. The Association of Southeast Asian Nations (ASEAN) trade in services has increased significantly over time, with total import and export reaching USD314 billion and USD306 billion respectively, together accounting for approximately 12% of the region's gross domestic product (GDP) in 2014. Recognising the growing importance of the services sector in the region, the AMS have developed and implemented the ASEAN Framework Agreement on Services or AFAS¹.

AFAS, the ASEAN trade agreement in services, was signed by the ASEAN Economic Ministers on 15 December 1995 in Bangkok, Thailand to promote free flow of services through progressive liberalisation,

¹ AFAS covers Business Services; Communication Services; Construction and Related Engineering Services; Distribution Services; Education Services; Environmental Services; Financial Services; Health-Related and Social Services; Tourism and Travel-Related Services; Recreational, Cultural and Sporting Services; Transport Services as well as Other Services sectors or subsectors.

which is essential for the ASEAN Economic Community (AEC). In efforts to improve the efficiency and competitiveness of ASEAN, AFAS is expected to substantially eliminate restrictions to trade in services among AMS. AFAS closely follows the main principles, disciplines and approaches to the liberalisation of the General Agreement on Trade in Services (GATS) under the World Trade Organisation (WTO).

Since 1995, numerous packages of AFAS commitments have been concluded and signed by the AMS. These include nine packages of commitments in a wide range of services sector under the purview of the ASEAN Economic Ministers; seven packages of commitments in financial services under the purview of the Finance Ministers; and nine packages of commitments in air transport under the purview of the Transport Ministers.

Malaysia's Commitments in the Financial Services Sector: The Signing of the 1st to the 7th Package

ASEAN financial sector integration falls under the purview of the ASEAN Finance Ministers that includes the banking, insurance and capital market subsectors. The Protocol to Implement the Seventh Package of Financial Services Commitments was signed on 23 June 2016.

Malaysia has accorded preferential treatment to the benefit of ASEAN-owned institutions across the banking, insurance and capital market subsectors under the First (1998) to the Seventh Package (2016) of commitments on financial services under AFAS. The preferential treatment is extended in areas such as licenses and shareholding in insurance subsector, employment of expatriates as well as opportunities to obtain licenses in areas of international Islamic banking and international takaful. In addition, other areas are removal of equity restrictions in capital market in line with the capital market's current regime, expanded scope of business in the capital market and cross-border supply and placement abroad of specific insurance risks. Malaysia's liberalisation in the insurance subsector is in line with the pledged areas of liberalisation under the AEC Blueprint. Meanwhile, Malaysia's capital market commitments have exceeded its pledged areas of liberalisation, reaffirming commitment towards fostering greater regional capital markets integration. This liberalisation effort will attract further participation of ASEAN-owned intermediaries into Malaysia which will add depth and breadth to the industry.

An enabling provision for the implementation of the ASEAN Banking Integration Framework (ABIF) was introduced in the Sixth Package (2015) of financial services commitments. This allowed for a more integrated banking market to be achieved through bilateral agreements. The provision enables any two AMS to enter into reciprocal agreements to provide Qualified ASEAN Banks (QABs) with greater market access and operational flexibilities consistent with that of domestic banks in their respective host countries. Towards this end, Malaysia and Indonesia successfully concluded a bilateral agreement on 1 August 2016.

Benefits to Malaysia and the Region

The AMS have made significant progress in liberalising the banking, insurance and capital markets subsectors through the implementation of the seven packages of financial services liberalisation under AFAS. Some of the major areas of liberalisation include licensing; cross-border supply of financial services, particularly in the supply of insurance services related to maritime, commercial aviation and goods in international transit; improvements in the levels of ASEAN equity participation; and greater movement of expatriates.

ABIF paves the way for ASEAN banks to have an increasing role in intermediating regional trade and investment flows, in complementing AFAS packages of liberalisation. ABIF allows AMS to tailor their integration landscape to suit individual country needs in a manner that is mutually beneficial for both countries and ASEAN banks.

AFAS and ABIF are expected to facilitate Malaysian financial institutions investing abroad. The stronger presence of local financial institutions abroad will continue to support the increasing cross-border trade and investments by Malaysian corporations including small and medium enterprises (SMEs), across ASEAN. The presence of Malaysian banks in ASEAN markets will facilitate the availability of financing to businesses that are operating across borders. The financial institutions

will also play the role of advisors to businesses seeking to venture beyond the Malaysian border, especially on business opportunities and local operating conditions in a different AMS. This can significantly reduce the information asymmetry in doing business in other ASEAN countries.

With progressive liberalisation achieved in the banking, insurance and capital market subsectors, the Malaysian financial landscape will be further enhanced. More meaningful participation of ASEAN financial institutions in the domestic financial system and capital markets, coupled with greater operational flexibilities accorded to these institutions, will further promote a more competitive and dynamic domestic financial system that will support economic growth and development.

Conclusion

A regionally integrated banking system, insurance and capital market subsectors will create seamless economic and financial linkages that will serve as a catalyst for economic growth. This will create a conducive business environment to attract investments and encourage development of the financial sector through the establishment of a stable regulatory framework for investors across participating countries. Moreover, Malaysia's approach to financial services liberalisation complements the financial sector and capital market development plans in the Financial Sector Blueprint 2011 – 2020 and Capital Market Masterplan 2.

connectivity. As of December 2015, seven projects have been approved amounting to approximately USD320 million: four in Indonesia, one each in Viet Nam, Myanmar and Lao PDR. Moving forward, AIF is exploring options to further strengthen its financial capacity to better serve its members.

The **ASEAN+3** finance cooperation agenda progressed further with efforts to enhance regional safety net as well as manage economic and financial risks. The ASEAN+3 finance and central bank meetings in 2016 were co-chaired by Lao PDR and China. The meetings continued discussions on the ASEAN+3 Macroeconomic Research Office (AMRO), Chiang Mai Initiative Multilateralisation (CMIM) and Asian Bond Markets Initiative (ABMI). In addition, the meetings also exchanged views and experiences on the global and regional economic development as well as policy responses undertaken by member countries.

A notable achievement for the year was the successful transformation of AMRO into an international organisation, effective 9 February 2016. This accords AMRO with legal status as well as privileges and immunities that enable it to function more effectively as the region's independent surveillance body. The top management of AMRO was further strengthened with the appointment of two deputy directors and a chief economist towards enhancing its institutional capacity and operational functions.

Under the ABMI, a new medium-term roadmap was introduced, outlining activities to be carried out over the next three years. The roadmap will continue to foster the development of local currency bond markets towards promoting financial stability and meeting the long-term

investment needs of the region. Among the ABMI initiatives in the pipeline are promoting green bonds, covered bonds, prime collateral for repo markets and municipal finance in selected member countries to help meet the demand for infrastructure development with the local currency-denominated bonds.

The **APEC** Finance Ministers' process focused its discussion on the Cebu Action Plan (CAP) launched in 2015. This 10-year Plan seeks to promote better coordination of policies, rules and practices across APEC economies towards building a more financially integrated, transparent, connected and resilient APEC community. The four pillars of CAP are promoting financial integration; advancing fiscal reforms and transparency; enhancing financial resilience; and accelerating financial development and financing.

In 2016, Peru assumed the chairmanship of the APEC finance meetings, with the theme "Strengthening Public Policies for an Integrated and Resilient Asia-Pacific Region". These meetings focused on several initiatives under the CAP, which include financial inclusion policies, the Public Private Partnership (PPP) Knowledge Portal and infrastructure issues as well as disaster risk financing and insurance policies.

Under financial inclusion, the meetings deliberated on measures to promote effective policies that are essential to enhance the coverage for individuals and businesses, especially the small and medium enterprises (SMEs). Meanwhile, the development of the PPP Knowledge Portal is aimed at ensuring better understanding of PPPs, disseminating best practices and guiding investors. A comprehensive strategy combining national and regional financial solutions is also being discussed to ensure timely and efficient access to post-disaster funding.

The **Organisation for Economic Cooperation and Development** (OECD) is an international organisation comprising 35 developed and high-income nations. It aims to promote policies to improve the economic and social well-being of the global community. The OECD also provides a forum for its members to cooperate in various fields of economics and finance as well as to share experiences and find solutions to current issues.

Given Malaysia's continuous effort in undertaking structural reforms towards strong and sustainable growth, the OECD conducted an inaugural Economic Assessment in 2016. The report, which will be launched in November 2016, encompassed an overall current macroeconomic assessment with two thematic studies focusing on productivity and social inclusiveness. This report will be a good endorsement for Malaysia that economic policy measures undertaken have proven to be conducive to economic growth and the well-being of the rakyat.

Apart from the report on the Economic Assessment, Malaysia has an extensive working relationship with the OECD, among others, on public governance and territorial development relating to productivity, on tax matters as well as reviews on Malaysia's innovation policy. These studies further highlighted current policies and initiatives undertaken by Malaysia. It serves as a platform for Malaysia and the OECD to share experience and knowledge.

Prospects for 2017

Stronger global growth prospects

Global growth is expected to expand 3.4% in 2017 (2016: 3.1%), mainly attributed to improvements in the US as well as stronger performance in the emerging market and developing economies. The US is anticipated to post a higher growth of 2.2% (2016: 1.6%), supported by stronger business investment and strengthening housing market. Meanwhile, the euro area is expected to register a moderate growth of 1.5% (2016: 1.7%), mainly due to the Brexit uncertainties that may continue to affect

business and consumer confidence. Similarly, growth is also expected to be slower at 1.1% (2016: 1.8%) in the UK. Japan's economy is anticipated to grow 0.6% (2016: 0.5%) amid the delay in consumption tax hike from April 2017 to October 2019 coupled with the implementation of other fiscal and monetary measures.

In the emerging market and developing economies, growth is expected to increase 4.6% (2016: 4.2%), supported by strong performance in China and India as well as the ASEAN economies. China is anticipated to register a growth of 6.2% (2016: 6.6%), driven by sustained domestic consumption and continued growth in the services sector, following the government's rebalancing initiatives. Meanwhile, India is expected to sustain its growth momentum of 7.6% (2016: 7.6%), largely contributed by strong private consumption as well as growing services sector. ASEAN is expected to post a higher growth of 4.8% (2016: 4.5%), driven by consumption and infrastructure investment.

Notwithstanding improvement in global growth, downside risks remain. The possibility of a sharper slowdown in China may affect countries with closer financial, trade and investment links. The Brexit outcomes could be more severe than expected, especially in the euro area and the UK, as well as possible spillover effects on the global economy. In addition, other downside risks include volatility in the global financial markets and capital flows, continued low commodity prices, subdued global trade, currency pressures, prolonged low inflation as well as escalating geopolitical tensions.

Inflation in the advanced economies is expected to increase to 1.7% (2016: 0.8%) with higher private consumption. However, low commodity prices are anticipated to slightly reduce inflation to 4.4% (2016: 4.5%) in the emerging market and developing economies. World trade is expected to grow 3.8% (2016: 2.3%) in line with the improvement in global demand, especially in the US as well as several emerging market and developing economies such as China, India and ASEAN.