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2 GLOBAL ECONOMIC PERFORMANCE AND OUTLOOK

Overview

Global growth strengthens

Global economy is expected to expand 3.6% in 2017 (2016: 3.2%). This is attributed to improved growth in most advanced economies as well as the emerging market and developing economies (EMDEs). The advanced economies are forecast to record a higher growth of 2.2% (2016: 1.7%), while the EMDEs are projected to grow 4.6% (2016: 4.3%).

Gross domestic product (GDP) in the United States (US) is projected to grow at a faster pace driven by higher investment and strong consumption activities. Similarly, a favourable growth momentum is estimated for the euro area, supported by steady expansion in private consumption and investment as well as an accommodative monetary policy by the European Central Bank (ECB). Japan is anticipated to record a stronger-than-expected growth contributed by higher investment and robust exports. Meanwhile, the United Kingdom's (UK) economy is forecast to sustain growth amid slower consumer spending following economic uncertainties from the outcome of the Brexit negotiations.

Growth in the EMDEs is expected to expand supported by strong global demand and higher investment. China is projected to record a stable growth, contributed by a supportive macro-policy mix, strengthening external demand and progress in domestic reforms. In addition, India's growth is expected to remain robust driven by strong private consumption and a robust services sector. Likewise, most major Association of Southeast Asian Nations (ASEAN) economies, namely Indonesia, Malaysia, the Philippines, Thailand and Viet Nam, are expected to register steady growth contributed by strong domestic demand and higher external demand.

Inflation in the advanced economies is projected to increase significantly to 1.7% (2016: 0.8%), mainly attributed to higher energy and food prices. Similarly, inflation in the EMDEs is expected to record 4.2% (2016: 4.3%) following weakening food prices. Meanwhile, world trade is estimated to increase 4.2% in 2017 (2016: 2.4%), reflecting a pickup in global demand and stronger trade flows. Likewise, global foreign direct investment (FDI) flows are projected to rebound 5% to USD1.8 trillion in 2017 (2016: -15%, USD1.5 trillion), on account of favourable economic growth in major economies and improved business confidence.

Notwithstanding improvements to the global economy, downside risks persist. Vulnerabilities that may take a toll on global growth include the timing and pace of monetary policy tightening, sluggish productivity in major economies, rising concerns over the inward-looking policy, high public sector and household debts, and financial market volatility. In addition, heightening geopolitical tensions, including terrorism and domestic strife, and weather-related risks may dampen global growth.

Global Economic Performance

Economic recovery supports growth

Growth in the **US** expanded 2.1% during the first half of 2017 (January – June 2016: 1.3%), driven by higher domestic demand and stronger exports. Growth was mainly contributed by private investment, which rebounded 2.5% (January – June 2016: -2.4%) attributed to buoyant capital spending, particularly in non-residential investment. Non-residential investment turned around 3.9% (January – June 2016: -1.2%), mainly contributed by robust investment in structures, which bounced back 7.5% (January – June 2016: -8.6%). However, despite lower mortgage rates and ease of access to financial assistance programmes, residential investment decelerated 1.7% (January – June 2016: 8.6%). Meanwhile, personal consumption expenditure grew marginally by 2.8% (January – June 2016: 2.7%) due to moderate spending on housing. The economy also gained from stronger exports, which surged 3.2% (January – June 2016: -1.5%), particularly to Brazil and Hong Kong at 25.9% and 24.5%, respectively (January – June 2016: -4.8%; -6.2%), mainly in machinery and electrical machinery. Likewise, imports increased 4% (January – June 2016: 0.9%) following higher demand for industrial supplies and materials as well as automotive goods.

On the supply side, industrial production turned around 0.2% (January – June 2016: -2.6%) attributed to gains in mining and manufacturing. This was reflected by the higher manufacturing index of the Institute for Supply Management (ISM) at 56.4 points (January – June 2016: 50.8 points) as well as the capacity utilisation rate at 76.1% (January – June 2016: 75.3%). The ISM non-manufacturing index also increased to 56.9 points (January – June 2016: 54.4 points), indicating that economic activities, particularly new orders and employment have picked up. However, retail sales moderated 4.7% (January – June 2016: 5.6%) due to lower sales of motor vehicles.

Table 2.1. Real GDP for Selected Economies
2016 – 2018

	2016	Change (%) 2017[1]	2018[2]
World	3.2	3.6	3.7
Advanced economies	1.7	2.2	2.0
United States	1.5	2.2	2.3
Euro area	1.8	2.1	1.9
Japan	1.0	1.5	0.7
Republic of Korea	2.8	3.0	3.0
Emerging market and developing economies	4.3	4.6	4.9
China	6.7	6.8	6.5
India	7.1	6.7	7.4
ASEAN			
Singapore	2.0	2.0 – 3.0	2.6
Thailand	3.2	3.5 – 4.0	3.1
Indonesia	5.0	5.0 – 5.4	5.5
Philippines	6.9	6.5 – 7.5	6.8
Viet Nam	6.2	6.5	6.2
Malaysia	4.2	5.2 – 5.7	5.0 – 5.5

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

The unemployment rate was lower at 4.4% (January – September 2016: 4.9%) following additional job opportunities in the healthcare, professional and business services. Meanwhile, higher cost for shelter and gasoline led to a higher inflation of 2.1% (January – September 2016: 1.1%). The US Federal Reserve (Fed) increased the federal fund rate twice in March and June this year to a range of 1.00% and 1.25% to achieve its 2% inflation target and full employment over the medium-term. For 2017, GDP in the US is expected to increase 2.2% (2016: 1.5%), driven by higher domestic demand.

The **UK**'s economy registered a growth of 1.9% (January – June 2016: 1.7%), supported by the services and industrial production sectors. The services sector, which accounted for 78.6% of the economy, grew 2.3% (January – June 2016: 2.7%), contributed by the business services and finance as well as transport, storage and communication subsectors. Industrial production rose 1% (January – June 2016: 0.8%), backed by higher manufacturing activity following increased exports, particularly commercial vehicles. This was reflected in the manufacturing Purchasing Managers' Index (PMI), which improved to 55.5 points (January – June 2016: 51 points). Meanwhile, the construction sector grew at a slower pace of 1.8% (January – June 2016: 2%) due to a deceleration in the repair and maintenance as well as new work subsectors.

On the demand side, household consumption registered a lower growth of 0.2% (January – June 2016: 0.5%) as Brexit-driven inflation outpaced wage growth. Meanwhile, public investment surged 19.8% (January – June 2016: -13.4%) following a rebound in the public housing subsector of 10.8% (January – June 2016: -19.4%). Labour market conditions improved with lower unemployment rate at 4.5% (January – July 2016: 5%), supported by higher job creation in the industrial production sector, particularly manufacturing. Meanwhile, inflation increased sharply at 2.5% (January – August 2016: 0.4%), as a result of rising motor fuel, alcoholic beverages and tobacco prices as well as the depreciation of the pound sterling. The Bank of England has maintained its policy rate at 0.25% since August 2016 to support economic growth. The UK's economy is expected to sustain at 1.7% in 2017 (2016: 1.8%), supported by favourable business investment and external demand amid post-Brexit uncertainties.

The **euro area**'s GDP grew 2.2% in the first six months of 2017 (January – June 2016: 1.7%), supported by strong industrial production and the ongoing accommodative monetary policy by the ECB. The industrial sector grew 2.3% (January – June 2016: 1.5%), contributed by higher global demand for manufactured goods. The construction sector rose 3.1% (January – June 2016: 1.5%) following increase in civil engineering and building construction activities.

Table 2.2. Inflation Rate for Selected Economies
2016 – 2017

	Change (%) 2016	2017[1]
World	2.8	3.1
Advanced economies	0.8	1.7
United States	1.3	2.1
Euro area	0.2	1.5
Japan	-0.1	0.4
Republic of Korea	1.0	1.9
Emerging market and developing economies	4.3	4.2
China	2.0	1.8
India	4.5	3.8
ASEAN		
Singapore	-0.5	1.1
Thailand	0.2	1.6
Indonesia	3.5	4.2
Philippines	1.8	3.4
Viet Nam	2.7	3.7
Malaysia	2.1	3.0 – 4.0

[1] Estimates.
Source: International Monetary Fund (IMF) and national authorities.

On the demand side, investment grew at a slower pace of 2.9% (January – June 2016: 3.1%), as a result of weak investment activity in the second quarter of 2017, despite a strong performance in the first quarter. Household consumption expenditure eased 1.7% (January – June 2016: 2%) due to lower disposable income following higher energy prices. Trade improved as exports surged 4.5% (January – June 2016: 2.6%)

Feature Article 2.1

Global Growth Gaining Momentum

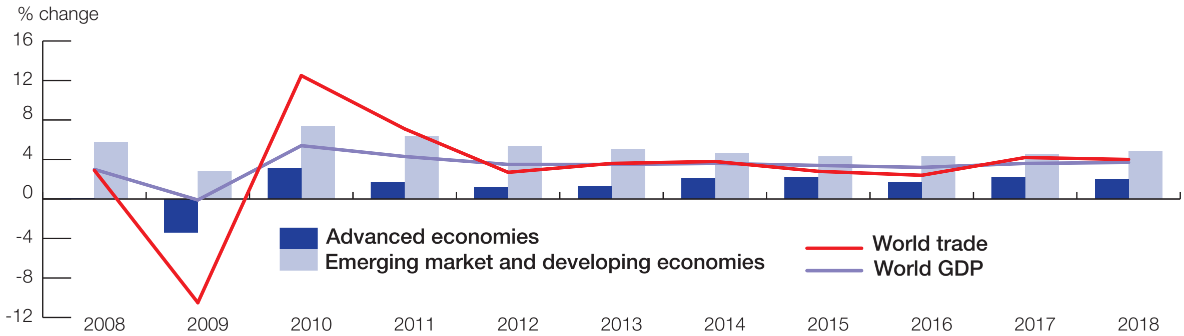
Introduction

The outlook for global economic performance is expected to remain favourable in 2017 and 2018 with growth emanating from advanced; and emerging market and developing economies (EMDEs). Growth in advanced economies is supported by an upturn in the US, euro area and Japan, following improving investment and exports. Meanwhile, growth in EMDEs has strengthened further attributed to firming commodity prices, recovering industrial activity, stabilising investment and improving confidence. Global trade has firmed up since mid-2016 and is expected to outpace world GDP growth after two years of marked slowdown. International financial conditions remain benign and headline inflation has been picking up due to higher commodity prices.

Firming Global Economic Activity

Signs of enhanced momentum in the global economy have recently emerged. World output is forecast to increase from 3.6% in 2017 to 3.7% in 2018 (2016: 3.2%), respectively. Meanwhile, global trade is expected to increase significantly by 4.2% in 2017 and 4% in 2018 (2016: 2.4%) attributed to higher investment and industrial activities.

Figure 2.1.1. Global Growth and Trade



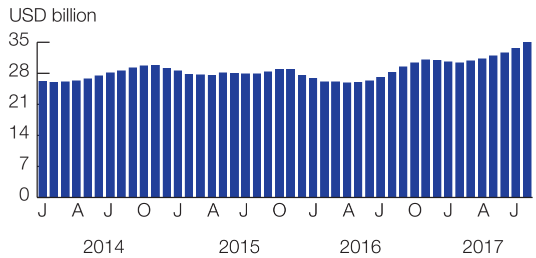
Source: World Economic Outlook, International Monetary Fund, October 2017.

The global manufacturing sector continued to forge ahead with a solid improvement as reflected by the growth in Purchasing Managers' Index (PMI).[1] The increase in global production is mainly supported by demand for semiconductors. Higher industrial output is evidenced in China, Germany and the US. Since the second half of 2016, investment has been showing strong momentum in line with marked improvement in the manufacturing sector, especially in the US and Japan. Meanwhile, in China, investment is expected to record a higher growth supported by capital spending in infrastructure and real estate.

Figure 2.1.2. Purchasing Managers' Index

Source: Bloomberg.

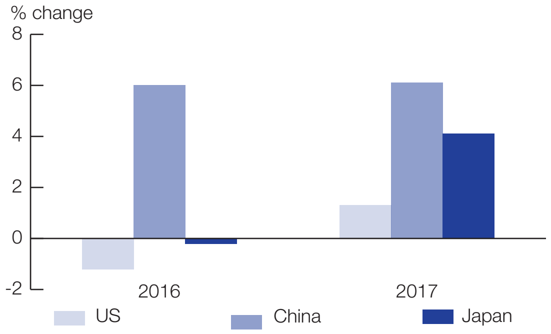
Figure 2.1.3. Global Semiconductor Sales



Source: World Semiconductor Trade Statistic.

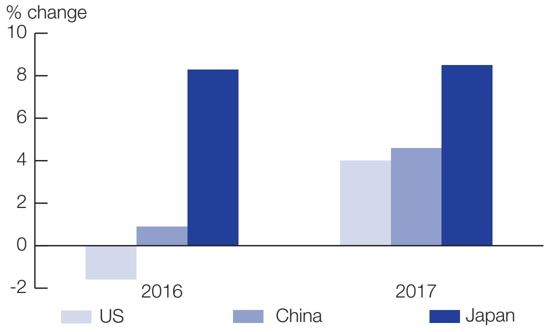
[1] Weighted according to national contributions to global manufacturing gross value added. (JP Morgan, 2017).

Figure 2.1.4. Industrial Production



Source: Economist Intelligence Unit.

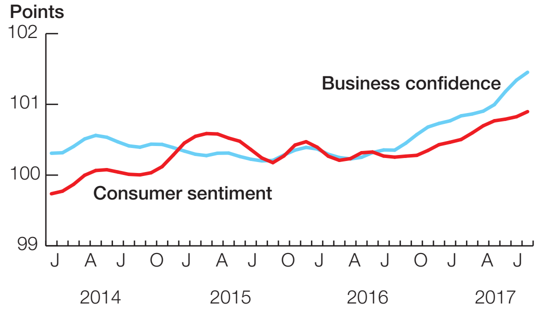
Figure 2.1.5. Total Investment



Source: Bloomberg.

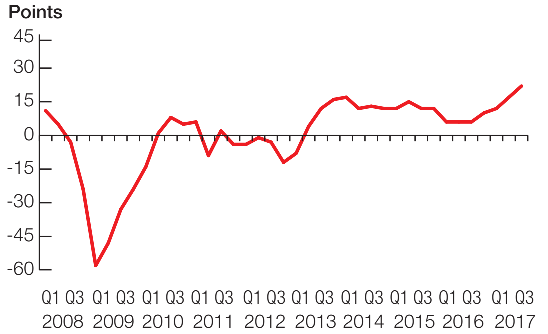
Consumer confidence among Organisation for Economic Co-Operation and Development (OECD) member countries lends credence to strong global growth. In the US, consumer sentiment is signaling an upbeat due to firming labour market and rising household wealth. Meanwhile, recovery in investment, an upturn in the energy sector and expectation of tax cuts are boosting business confidence. Similarly, in Japan, *tankan* index[2] is at a three-year high, reflecting confidence among large manufacturing companies. In addition, the Business Climate Indicator for the euro area rose to 1.34 points in September 2017 (September 2016: 0.43 points), the highest level since April 2011, reflecting improving business conditions.

Figure 2.1.6. Consumer Sentiment and Business Confidence Index for OECD Countries



Source: Organisation for Economic Co-Operation and Development.

Figure 2.1.7. *Tankan* Index



Source: Bloomberg.

Global trade is expected to grow at a higher pace in 2017 supported by rising import demand from major advanced economies and increasing trade activities in China. Global trade is partly supported by the pickup in capital spending in advanced economies as investment is relatively import-intensive.[3] Meanwhile, in China, higher exports and infrastructure spending is boosting demand for intermediate inputs, which in turn benefit countries exporting raw materials and industrial commodities. The Baltic Dry Index[4] which measures changes in transport cost of various raw materials rebounded to 1,503 points in September 2017 after collapsing to a low of 290 points in February last year. Meanwhile, the Morgan Stanley Global Trade Leading Indicator has been rising since end-2016, signalling increasing trade activities following an uptick in the US manufacturing output.

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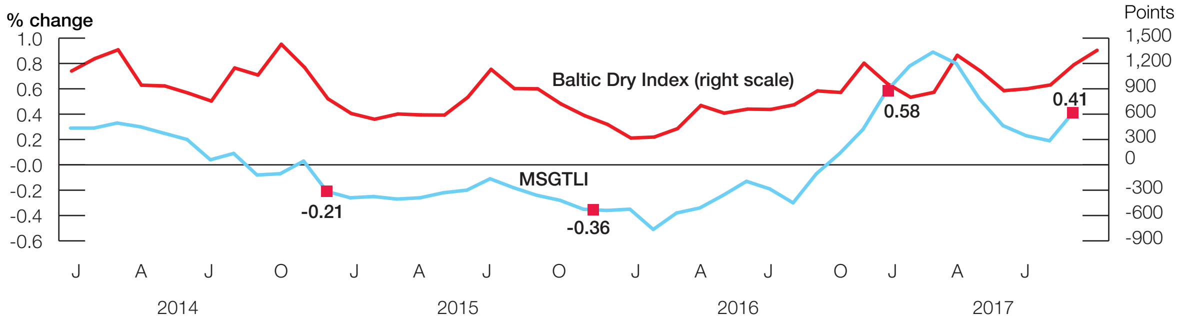
[2] A quarterly poll of business confidence reported by the Bank of Japan.
[3] Hong et al. (2016). China and Asia in Global Trade Slowdown, IMF Working Paper 16/105, International Monetary Fund.
[4] Shipping and trade index created by the London-based Baltic Exchange.

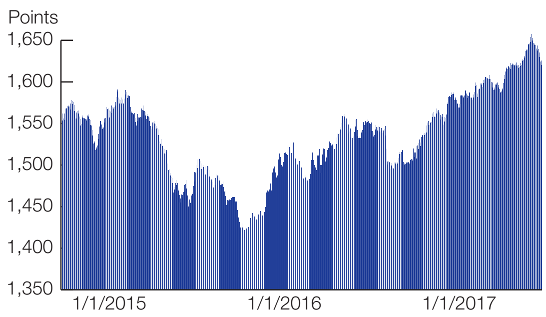
Figure 2.1.8. Baltic Dry Index and Morgan Stanley Global Trade Leading Indicator (MSGTLI)



Source: Bloomberg.

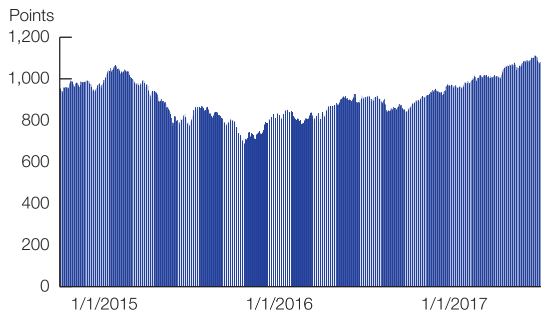
Global financing conditions have been benign and benefited from improving market expectations about growth prospects. Financial market volatility has been low despite elevated policy uncertainties, reflecting renewed investor risk appetite. This was in line with forex and equity markets which outperformed in the last couple of months.

Figure 2.1.9. MSCI Emerging Market Forex Index



Source: Bloomberg.

Figure 2.1.10. MSCI Emerging Market Equity Index



Source: Bloomberg.

Oil prices are firming up supported by strong activity and expectations of more robust global demand, coupled with agreed restrictions on oil supply. During the first nine months of 2017, oil prices recorded USD52.02 per barrel (pb) compared with USD42.04 pb during the same period last year. According to the World Bank, for 2017, oil prices are expected to increase by 23.8% to reach an average of USD53 pb and to improve further by 5.7% to USD56 pb in 2018.[5]

Figure 2.1.11. Brent Oil Prices

Source: Bloomberg.

[5] Global Economic Prospects (June 2017). The World Bank.

Conclusion

Though a synchronised global economic recovery is underway reflected by various multi-year high in selected economic data, risks to growth remain tilted to the downside. These include rising protectionism; heightening policy uncertainties in major advanced economies and some EMDEs; slowing productivity growth; and geopolitical tension. Nevertheless, expansionary fiscal policy in major economies is expected to provide impetus for global growth. Furthermore, structural reforms to enhance productivity coupled with greater trade and investment activities are expected to enhance resilience and improve global growth prospects. Given these developments, world output and trade are expected to continue its strong growth momentum in 2018.

owing to strong global demand, while imports increased 4.3% (January – June 2016: 3.8%).

Labour market conditions improved with lower unemployment rate at 9.3% (January – August 2016: 10.2%), as a result of structural reforms and government policies in certain countries that encouraged robust job creation. In August 2017, unemployment rate was uneven across countries in the region, with Germany posting the lowest rate of 3.6%, while Spain recorded a high of 17.1%. Meanwhile, inflation increased to 1.6% (January – September 2016: 0.1%) owing to higher energy prices.

The ECB kept its interest rates on main refinancing operations, marginal lending facility and deposit facility at 0%, 0.25% and -0.40%, respectively since March 2016, in an effort to increase financing facilities, promote investment and achieve targeted inflation of 2%. Meanwhile, the ECB's quantitative easing (QE) programme of EUR60 billion a month, will continue until the end of December 2017. The euro area is projected to grow 2.1% in 2017 (2016: 1.8%), supported by domestic demand and robust trading activity on the back of stronger global demand. However, there are possible downside risks that may affect growth in the region, including the health of the banking sector in Europe and the outcome of the Brexit negotiations with the UK.

Germany, the largest economy in the euro area, grew 2% (January – June 2016: 1.8%), supported by favourable industrial production and increased external demand. Industrial production improved 2.1% (January – June 2016: 1%) with a pickup in manufacturing output and new orders of cars. This improvement was also reflected by the increased manufacturing PMI to 58.1 points (January – June 2016: 52 points). The construction sector grew 3.9% (January – June 2016: 3.6%) as the mild weather favoured construction activities.

On the demand side, trade increased significantly with exports recorded 6.3% (January – June 2016: 1.3%), mainly on motor vehicles, machinery as well as chemical products, while imports surged 9.3% (January – June 2016: 0.3%). However, household consumption grew at a slower pace of 1.7% (January – June 2016: 2.5%) and government consumption moderated 1.6% (January – June 2016: 4.8%). Investment was slower at 3.2% (January – June 2016: 4%), particularly in machinery and equipment at 1.3% (January – June 2016: 4.2%), while investment in the construction sector remained at 4.3% (January – June 2016: 4.3%).

Inflation was higher at 1.7% (January – September 2016: 0.2%), mainly due to increased energy and food prices. The labour market continued to strengthen with unemployment rate at 3.8% (January – August 2016: 4.3%). In 2017, Germany is expected to grow 2.1% (2016: 1.9%), supported by higher government spending and improvements in household demand.

France registered a growth of 1.4% (January – June 2016: 1.2%), underpinned by higher industrial output. Industrial production rose 1.2% (January – June 2016: 0.5%) attributed to improved manufacturing and construction activities. Manufacturing output expanded 1.5% (January – June 2016: 0.6%), largely due to a surge in the production of coke and refined petroleum products, which turned around 6.5% (January – June 2016: -10.9%). Likewise, construction activity rebounded 4% (January – June 2016: -2.3%), driven by new residential construction.

On the demand side, household spending on goods eased 1.7% (January – June 2016: 2.2%) due to lower purchasing power. Similarly, investment was slower at 2.4% (January – June 2016: 3.9%) as capital spending in manufactured goods, particularly transport equipment declined. Meanwhile, trading activity improved as exports turned around 3.3% (January – June 2016: -1.9%), while imports rebounded 7.8% (January – June 2016: -1.4%).

The unemployment rate trended down to 9.6% (January – August 2016: 10.1%), supported by an improved labour market following more job creations in the private sector. Meanwhile, an increase in oil prices led to a higher inflation of 1.2% (January – August 2016: 0.2%). France's GDP is projected to grow 1.6% in 2017 (2016: 1.2%), supported by its secondary sector, particularly in manufacturing and construction activities.

Japan's GDP grew at a faster pace of 1.5% (January – June 2016: 0.7%), largely supported by robust private consumption and higher capital expenditure. Private consumption expanded 1.4% (January – June 2016: 0.1%), spurred by higher demand for automobiles following improved consumer confidence. The expansion was also attributed to an increase in the purchase of air-conditioners due to unusual hot weather during summer. Capital expenditure rose 2.8% (January – June 2016: 0.3%), driven by investment in technology to manage labour shortages. Meanwhile, private residential investment was higher at 6.4% (January – June 2016: 4.2%) as property investors took advantage of the rising land prices and negative interest rate policy. Private non-residential investment surged 3.2% (January – June 2016: 0.6%), boosted by preparations for the Tokyo 2020 Olympics.

Exports turned around 9.6% (January – June 2016: -2.9%), mainly contributed by higher shipments of semiconductors and semiconductor machinery. Imports rebounded 12.5% (January – June 2016: -12.3%) owing to an increase in capital investment, particularly chemicals, electronic parts and raw materials following improved business confidence. On the supply side, industrial production turned around 4.9% (January – June 2016: -1.6%), propelled by rising global demand for IT-related products and industrial robots. The unemployment rate was lower at 2.9% (January – August 2016: 3.2%) following a decline in working population, coupled with a rise in job creation. Inflation edged up to 0.4% (January – August 2016: -0.2%), on account of higher energy and food prices.

The Bank of Japan (BOJ) has maintained its benchmark rate at -0.10% since January 2016. In addition, the BOJ continued to implement the Quantitative and Qualitative Monetary Easing with the Yield Curve Control policy to achieve its inflation target of 2%. Overall, Japan is projected to register a higher growth of 1.5% (2016: 1%) on the back of improved exports and higher investment related to the Tokyo 2020 Olympics.

Australia's economy registered a slower growth of 1.8% in the first half of 2017 (January – June 2016: 3.2%) due to weak household spending and slower export growth. Household spending moderated 2.7% (January – June 2016: 3%), weighed down by higher household debt. Likewise, exports slowed 4.3% (January – June 2016: 7.3%) due to a disruption in mining activity caused by Cyclone Debbie, while imports turned around 6.5% (January – June 2016: -1.7%). Meanwhile, investment rebounded 0.7% (January – June 2016: -5.1%), contributed by higher capital spending in infrastructure.

On the supply side, industrial production decreased 0.1% (January – June 2016: 4.2%) due to a decline in the manufacturing sector by 1.8% (January – June 2016: -2.8%). The construction sector decreased 0.2% (January – June 2016: -7.9%) resulting from a slowdown in dwelling investment. The unemployment rate edged down 5.6% (January – August 2016: 5.7%) following the labour market shift towards part time employment. Meanwhile, inflation increased to 2% (January – June 2016: 1.3%) due to higher prices of retail gas and electricity as well as shortage of fresh produce caused by Cyclone Debbie. The Reserve Bank of Australia kept the policy rate at 1.50% since August 2016 to support economic growth. In 2017, Australia is projected to register a growth of 2.2% (2016: 2.5%), supported by investment, particularly in mining, production of liquefied natural gas (LNG) and continued investment in the non-mining sectors.

The **Republic of Korea**'s GDP grew at a slower pace of 2.8% during the first half of 2017 (January – June 2016: 3.2%), mainly due to weak private consumption and exports. Private consumption softened 2.2% (January – June 2016: 2.9%), as a result of tepid wage growth and high household debt. Similarly, exports were marginally lower at 1.9% (January – June 2016: 2%), largely due to sluggish demand for vehicles and wireless devices. Imports rose 8% (January – June 2016: 0.4%), contributed by higher demand for machinery. Capital investment rebounded significantly by 15.8% (January – June 2016: -3.8%), particularly in IT, petrochemicals, oil refining and car production as companies focused on maintenance, repairs and boosting the efficiency of existing facilities.

On the supply side, the manufacturing sector increased 3.9% (January – June 2016: 2.6%), mainly contributed by new work orders. Meanwhile, growth in the services sector decelerated 1.8% (January – June 2016: 2.7%), largely due to a decline in the wholesale and retail trade as well as restaurants and hotels subsectors. The unemployment rate was sustained at 3.8% (January – August 2016: 3.8%) with more job openings in the public sector, despite a decline in job opportunities in the manufacturing sector. Inflation was higher at 2.6% (January – August 2016: 0.6%), partly due to increased prices of food and non-alcoholic beverages as well as housing and utilities. The Bank of Korea has maintained its policy rate at 1.25% since June 2016 to support economic activity. In July 2017, the government approved a supplementary budget of approximately USD10 billion, aimed at creating more jobs in the public sector as well as improving working conditions and well-being of the people.

The Republic of Korea is expected to post a growth of 3% in 2017 (2016: 2.8%), on account of higher exports.

China's economy registered a higher growth of 6.9% (January – June 2016: 6.7%), mainly attributed to the robust services and industry sectors. The services sector, which accounted for 54.1% of the economy, expanded 7.7% (January – June 2016: 7.5%) amid rebalancing efforts towards a consumption, services and innovation-based economy. Growth in the services sector was backed by transport, storage and post as well as information transmission, software and IT services subsectors. Industrial production rose 6.9% (January – June 2016: 6%), led by growth in the manufacturing subsector, particularly in the equipment manufacturing and high-tech industries in line with the Made in China 2025 plan.

On the demand side, investment in real estate continued to register a growth of 8.5% (January – June 2016: 6.1%), supported by property sales and investment in lower-tier cities. Investment in fixed assets grew at a slower pace of 8.6% (January – June 2016: 9%) as public investment decelerated significantly by 12% (January – June 2016: 23.5%), despite a surge in private investment. The sharp increase in private investment at 7.2% (January – June 2016: 2.8%) was attributed to the state-owned enterprises mixed-ownership reform. Exports rebounded significantly by 8.5% (January – June 2016: -7.7%), driven by higher shipments of mechanical and electrical products. Imports turned around 18.9% (January – June 2016: -10.2%), on account of increased demand for coking coal following higher production of steel.

Inflation was lower at 1.5% (January – August 2016: 2%), largely owing to a decline in the prices of egg and pork. The People's Bank of China (PBC) has maintained its lending rate at 4.35% since October 2015. In line with its prudent and neutral monetary policy, the PBC in January 2017 started to implement open market operations by using a combination of monetary policy instruments in a flexible way to stabilise liquidity and growth. For the year, China's economy is projected to grow 6.8% (2016: 6.7%) amid the supply-side structural reform and economic rebalancing efforts as well as improved global demand.

During the first half of 2017, **India** registered a slower growth of 5.9% (January – June 2016: 7.5%) due to a slowdown in the manufacturing and mining sectors as well as a decline in the construction sector. The manufacturing sector grew at a slower pace of 3.2% (January – June 2016: 9.2%), as a result of businesses clearing inventories ahead of the implementation of the Goods and Services Tax (GST) in July 2017. Likewise, mining activity moderated 3% (January – June 2016: 4.1%) resulting from a decline in the production of magnesite, bauxite, copper and limestone. The construction sector, which is cash-intensive and labour-intensive contracted 0.8% (January – June 2016: 3%) due to the real estate regulatory changes as well as cash shortages resulting from the impact of the demonetisation of high-value notes. In contrast, the services sector grew 8% (January – June 2016: 9.2%) owing to an expansion of 13.3% (January – June 2016: 9.4%) in the public administration, defence and other services subsector. The agriculture sector improved 3.8% (January – June 2016: 2.1%) on the back of increased harvest following a good monsoon season.

On the demand side, private consumption grew 7% (January – June 2016: 7.5%), supported by a favourable labour market, and increases in wages and pensions. Meanwhile, investment continued to contract 0.3% (January – June 2016: -2.5%), signalling no pickup in investment activity in the economy. Exports rebounded 5.8% (January – June 2016: -5.2%), on account of higher shipments of iron and steel, zinc, lead, and ores. Similarly, imports turned around 12.7% (January – June 2016: -13.5%) due to increased demand for cereals, cotton as well as sugar and sugar confectionery.

Inflation, as indicated by the wholesale price index, was higher at 4.1% (January – June 2016: -0.7%) as prices of diesel, petrol, sugar and fibres increased. The Reserve Bank of India reduced its key policy repo rate in August 2017 by 25 basis points to 6.00% to boost credit demand and increase household spending. Overall, growth is projected at 6.7% (2016: 7.1%), supported by strong private consumption, a robust services sector, and the implementation of structural reforms aimed at spurring economic activities.

ASEAN economies recorded a strong growth during the first half of 2017 contributed by improved domestic demand and increased exports following higher commodity prices. Growth was also supported by an expansion in advanced economies as well as other EMDEs. Most ASEAN economies registered higher growth compared to the same period last year. Overall, ASEAN's GDP is projected to grow 4.9% in 2017 (2016: 4.6%), supported by higher domestic demand and improved trade.

Indonesia's GDP grew 5% (January – June 2016: 5.1%), mainly supported by higher investment and household consumption. Investment increased 5.1% (January – June 2016: 4.4%), particularly in the mining as well as electricity, gas and water sectors. Household consumption registered a growth of 4.9% (January – June 2016: 5%) following better labour market condition. Meanwhile, government expenditure moderated 0.4% (January – June

2016: 4.8%) due to spending control. Exports rebounded 5.8% (January – June 2016: -2.7%), primarily contributed by higher demand for O&G and agriculture products. Likewise, imports turned around 2.8% (January – June 2016: -4.2%), supported by higher demand for fuel, wheat and raw cane sugar.

On the supply side, growth was driven by the information and communication, transportation and storage as well as construction sectors, which grew 10%, 8.2% and 6.5%, respectively (January – June 2016: 8.5%; 7.4%; 5.9%). The unemployment rate improved to 5.3% (February 2016: 5.5%) following more job creations contributed by increased FDI. Inflation rose to 3.9% (January – September 2016: 3.6%), largely due to higher electricity tariff. Bank Indonesia reduced its policy rate by 25 basis points to 4.25% in September 2017 to support growth. Overall, Indonesia is projected to grow between 5% and 5.4% (2016: 5%), on account of increased consumption and investment activities.

Thailand's economy grew 3.5% (January – June 2016: 3.4%), mainly supported by the manufacturing; wholesale and retail trade; and transport, storage and communication sectors, which grew 1.2%, 5.9% and 7%, respectively (January – June 2016: 1%; 4.7%; 5.3%). Likewise, the agriculture, hunting and forestry sector rebounded 11.1% (January – June 2016: -1.9%) following the end of drought caused by the El Nino. On the demand side, private consumption grew at a slower pace of 3.1% (January – June 2016: 3.4%) due to lower spending on food and non-alcoholic beverages, restaurants and hotels as well as transport. Exports of goods rebounded 3.8% (January – June 2016: -0.5%), supported by increased demand for crude oil, refined fuels, chemicals, rubber and sugar. Similarly, imports of goods turned around 8.3% (January – June 2016: -5.2%), contributed by higher demand for consumer goods, raw materials as well as capital and intermediate goods.

Inflation rose to 0.6% (January – September 2016: 0%), mainly due to higher transportation cost. Meanwhile, unemployment rate remained low at 1.2% (January – June 2016: 1%). The Bank of Thailand maintained its policy rate at 1.50% to support economic growth. Thailand is projected to grow between 3.5% and 4% in 2017 (2016: 3.2%), driven by the agriculture sector, and an expansion of the tourism industry and exports.

Singapore's GDP expanded 2.7% (January – June 2016: 1.9%), supported by the services and goods producing sectors. Growth in the services producing sector was mainly contributed by the transportation and storage; finance and insurance; and business services subsectors, which grew 4%, 2.3% and 1.4%, respectively (January – June 2016: 1.5%; 1%; 0.1%). Expansion in the goods producing sector was driven by the manufacturing subsector, which recorded a significant growth of 8.3% (January – June 2016: 0.6%) on the back of strong global demand for semiconductors and semiconductor-related equipment.

On the demand side, investment contracted further by 5.6% (January – June 2016: -0.4%) due to a decline in both private and public investments. Likewise, private consumption contracted 0.3% (January – June 2016: 2.2%), while government expenditure eased 5.1% (January – June 2016: 9.8%). Meanwhile, exports increased 4.2% (January – June 2016: 1.2%), backed by stronger global demand for semiconductors and semiconductor-related equipment. Similarly, imports surged 4.7% (January – June 2016: 0.6%), driven by higher demand for electrical machinery apparatus, petroleum and office machines.

Inflation was registered at 0.7% (January – August 2016: -0.8%), as a result of higher transport and education costs, while unemployment rate was at 2.5% (January – June 2016: 2.3%). The Monetary Authority of Singapore kept its exchange rate-based monetary policy band at 0% in October 2017. Singapore's economy is expected to grow between 2% and 3% in 2017 (2016: 2%), supported by the goods producing sector, particularly the manufacturing subsector and services producing sector, mainly the wholesale trade as well as finance and insurance subsectors.

In the **Philippines**, GDP grew 6.4% (January – June 2016: 7%), supported by the services and industry sectors. The services sector registered a growth of 6.4% (January – June 2016: 7.9%), backed by the trade and repair of motor vehicles, motorcycles, personal and household goods as well as real estate, renting and business activities subsectors. The industry sector grew 6.8% (January – June 2016: 8.4%), spearheaded by the manufacturing subsector, particularly in the production of radio, television and communication equipment and food.

On the demand side, household consumption moderated 5.8% (January – June 2016: 7.3%) due to lower spending on food and non-alcoholic beverages. Government expenditure was lower at 4% (January – June 2016: 12.7%) due to a decline in maintenance and other operating expenditures. Meanwhile, exports surged 20% (January – June 2016: 10.4%), largely contributed by higher demand for electronic components, ignition wiring sets and metal components. Imports moderated 18.6% (January – June 2016: 23.2%), mainly due to lower demand for electronics and transport equipment. The unemployment rate increased marginally to 5.6% (July 2016: 5.4%) following job losses in the agriculture and services sectors. Inflation rose to

3.1% (January – September 2016: 1.5%), on account of higher prices of food and non-alcoholic beverages as well as housing, water, electricity, gas and other fuels. The Bangko Sentral ng Pilipinas has maintained the policy rate at 3.00% since June 2016 as inflation remained within the target. In 2017, the Philippines is projected to register a growth between 6.5% and 7.5% (2016: 6.9%), supported by government expenditure on infrastructure, human capital and social protection.

GDP of **Viet Nam** expanded 5.7% (January – June 2016: 5.5%), supported by higher investment. Investment grew 10.5% (January – June 2016: 11.7%), primarily contributed by the non-state and state sectors, which rose 14.9% and 6.8%, respectively (January – June 2016: 14.7%; 6.5%). Exports of goods surged 18.9% (January – June 2016: 5.9%), particularly attributed to higher demand for crude oil, textile as well as telephone and spare parts. Imports of goods rebounded 24.1% (January – June 2016: -0.5%), contributed by higher demand for machinery, equipment, tools and spare parts as well as computers and electronic products.

On the supply side, the services sector grew 6.9% (January – June 2016: 6.4%), underpinned by the accommodation and catering services; transportation and warehousing; and financial, banking and insurance operations subsectors, which grew 8.9%, 7.8% and 7.7%, respectively (January – June 2016: 5.7%; 5.1%; 6.1%). The agriculture, forestry and fishery sector rebounded 2.7% (January – June 2016: -0.2%), led by the fishery subsector, which grew 5.1% (January – June 2016: 1.3%). Inflation rose to 3.8% (January – September 2016: 2.1%) due to an increase in the healthcare services and education fees. The State Bank of Vietnam cut its policy rate by 25 basis points in July 2017 after maintaining the rate at 6.50% since March 2014. Viet Nam is expected to register a growth of 6.5% in 2017 (2016: 6.2%), backed by an expansion in the services sector and manufacturing subsector as well as a recovery in agriculture production.

Myanmar's economy is projected to strengthen 7.2% in 2017 (2016: 6.4%), driven by solid domestic and external demand. Investment is expected to increase with the implementation of the Myanmar Investment Law 2016. Investment in the infrastructure services coupled with significant foreign investment commitments are expected to boost growth amid continued structural reforms and macroeconomic stability. Exports are expected to register a double digit growth of 13% (2016: 5%) following the establishment of Special Economic Zones, while imports are projected to increase 8.5% (2016: 4.5%). Inflation is expected to record 7.1% (2016: 6.8%) due to continued pressure from money supply and credit growth.

Cambodia's growth is projected to remain strong at 7% in 2017 (2016: 6.8%), supported by the tourism and agriculture sectors. Tourist arrivals are expected to increase following the newly established regional direct flights and several other initiatives, including the China Ready Centres to boost tourism. A gradual expansion in the agriculture sector is anticipated following concerted efforts to revitalise the sector. On the demand side, higher government spending, particularly in the social sector is expected to support growth. Exports are expected to increase 8.8% (2016: 7.6%) as export diversification continues to drive medium-term growth. Inflation is projected to increase further to 4% (2016: 3%) due to higher oil and food prices.

Brunei Darussalam's economy is expected to recover in 2017 with a growth of 0.5% (2016: -2.5%), driven by investment. Refurbishments of O&G production facilities and FDI in some large projects are anticipated to support growth. Inflation is projected to increase marginally due to higher commodity prices and gradual improvements in domestic demand.

In 2017, **Lao PDR**'s GDP is forecast to grow 7% (2016: 6.9%), driven by investment in infrastructure. The constructions of new hydropower plants and the Lao – China railway line are expected to stimulate the economy. The tourism industry is anticipated to expand following improved air transport connectivity. The retail trade is also expected to improve with the expansion of regional franchises. Inflation is projected to record 3% (2016: 1.8%) following a rise in fuel and food prices.

International Economic Cooperation

Continuous cooperation at the multilateral and regional front

Cooperation at the global and regional level is essential as economies are becoming more integrated and interdependent. International financial institutions, such as the International Monetary Fund (IMF), World Bank Group (WBG), Asian Development Bank (ADB), Islamic Development Bank (IDB) and Asian Infrastructure Investment Bank (AIIB) play a vital role in providing guidance and support to member countries to reduce poverty, build prosperity and promote sustainable development. Regional cooperation forums, such as ASEAN, ASEAN+3 and the Asia-Pacific Economic Cooperation (APEC), provide the platform for member countries to promote free and open trade and investment, strengthen economic and technical cooperation, and enhance regional economic integration. These financial institutions and regional forums have complemented Malaysia's efforts in addressing development challenges and attaining sustainable economic progress.

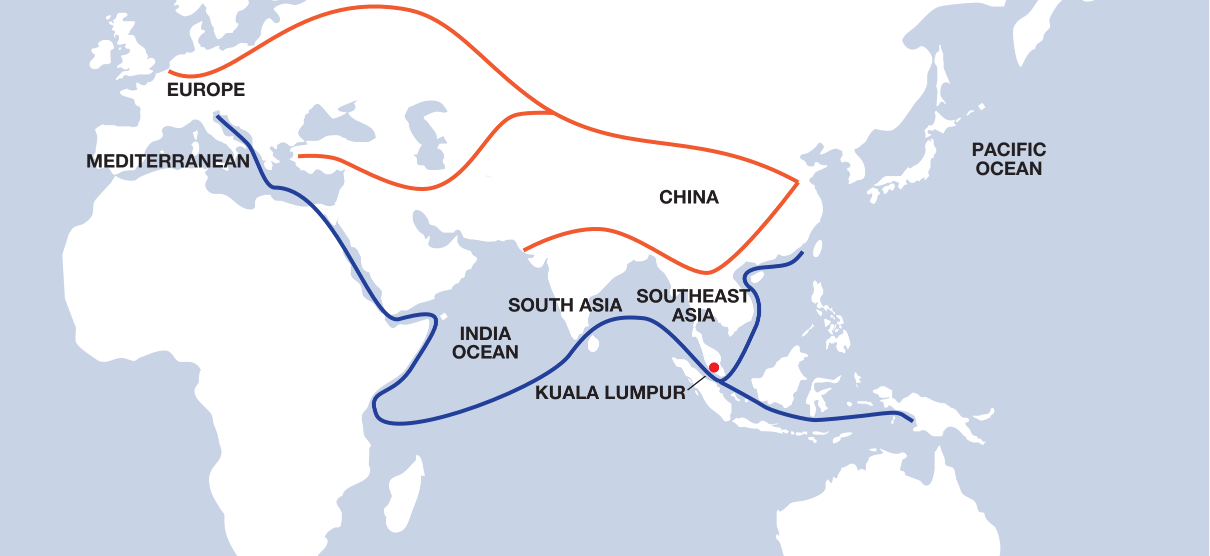
Information Box 2.1

Leveraging Opportunities in the Belt and Road Initiative

Introduction

The Belt and Road Initiative (BRI), which was first unveiled by China in 2013 refers to the land-based "Silk Road Economic Belt" and the sea-based "21st Century Maritime Silk Road". The route consists of six economic corridors covering 65 countries, connecting Asia, Africa, the Middle East and Europe. It represents more than 60% of world population, about 35% of global merchandise trade and around 30% of global GDP. The Belt and Road region is expected to contribute 80% to global growth and elevate more than three billion people into the middle-class by 2050.[1] The main objective of BRI is to create a path of mutual peace, openness, innovation and prosperity for participating countries with a focus on improving connectivity for economic integration and shared development. BRI emphasises on promoting connectivity in land, maritime, air and cyberspace.

Figure 2.1.1. Map of Belt and Road Initiative



Note: Actual routes may differ and may also extend to encompass other territories as the project develops.
Source: beltandroad.hktdc.com/en/belt-and-road-basics and various sources.

Opportunities in the Belt and Road Initiative

The BRI will be instrumental in integrating economic resources and aligning policies to promote shared development. This initiative is expected to provide tremendous opportunities for Malaysia to access new markets, diversify local products and services as well as attract foreign direct investment. Furthermore, it will enhance logistics services, participate in financing projects, create a variety of jobs across all sectors and encourage cultural exchanges.

As an open economy and being ranked among the top 25 exporting nations in the world,[2] Malaysia stands to reap the benefits of BRI. In 2016, Malaysia's annual trade with countries along the Belt and Road exceeded RM850 billion. With the BRI, this number is expected to increase further in the next decade. This initiative will also benefit the region as it will enhance ASEAN's own integration and connectivity strategies and simultaneously strengthen ASEAN – China bilateral ties further. Malaysia stands to reap benefits through the ASEAN – China Free Trade Agreement (ACFTA) to explore mutual business opportunities. In addition, the Regional Comprehensive Economic Partnership (RCEP) will provide exponential economic boost to Malaysia as it involves 10 ASEAN countries and six dialogue partners (ASEAN+6[3]). Collectively, the RCEP represents almost 50% world population, with a combined GDP of about USD23.5 trillion and accounting for about 28% of global merchandise trade.

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[1] McKinsey Global Institute (April 2015). *One Belt, One Road: From Dialogue to Action.*
[2] World Trade Organisation (2017). *Trade Profiles.*
[3] Australia, China, India, Japan, New Zealand and Republic of Korea.

BRI is expected to create opportunities for Malaysian businesses in various forms such as joint ventures, technology transfers and direct investment. Malaysia has huge potential to collaborate with companies from China in key segments of the manufacturing sector such as E&E, chemicals, iron and steel, medical devices, aerospace, automotive as well as halal products and tropical fruits. In terms of the services sector, some of the areas of cooperation include logistics, Islamic finance, tourism, health, education, environment as well as maintenance, repair and overhaul (MRO). In addition, China has made commitments to import USD2 trillion worth of products from countries participating in BRI in the next five years providing further opportunities to these countries.

Innovative Chinese companies are aggressively moving towards smart manufacturing in line with the rising technology transformation premised on the application of ICT, artificial intelligence and biomedicine. In this regard, Malaysia is well-positioned to leverage on the Industrial Revolution 4.0, which will prepare local businesses to automate and instill smart manufacturing in their production processes. This will further support technology transfer and collaboration, especially in the fields of robotics, Internet of Things (IoT), big data, cloud computing and eCommerce. In this regard, the launch of Digital Free Trade Zone (DFTZ) is expected to support Malaysia's eCommerce growth, which is targeted to reach 20.8% by 2020 from 10.8% in 2016.[4]

BRI is a multidimensional infrastructure network featuring land-sea-air transportation routes and supported by major railway, port and pipeline projects. Developing and connecting hard infrastructure with neighbouring countries will help reduce shipping time and cost. Malaysia's strategic location along the Maritime Silk Road will further enhance our strength as a preferred investment destination. As of June 2017, Malaysia and China signed Memorandum of Understanding (MoU) in various areas amounting to about RM170 billion. The MoU encompasses strategic projects such as Malaysia-China Kuantan Industrial Park; DFTZ; East Coast Railway Link (ECRL); Xiamen University Malaysia; Melaka Gateway as well as Forest City and various developments in Johor. The construction of logistics and transportation infrastructure not only has a multiplier effect but also indirectly benefits connecting towns and cities. Apart from that, BRI will promote the usage of local contents and services as well as facilitate cross-border trade. With this, Malaysia is well-positioned to become the logistic gateway to Asia.

In terms of financing mechanism, China plans to finance BRI projects through Asian Infrastructure Investment Bank (AIIB), including their development financial institutions (DFIs) such as New Development Bank, EXIM Bank of China and the Silk Road Fund. The AIIB with the initial capital of USD100 billion has thus far provided loans amounting to USD1.7 billion for nine infrastructure projects to BRI participating countries.[5] Participating countries are also encouraged to source their financing through public private partnerships (PPPs) and bond issuances.

Furthermore, China has offered 10,000 special Silk Road Scholarships each year for participating countries. This is to encourage international cultural and educational exchange. The Xiamen University Malaysia is the first campus established outside China, which serves as a platform for the exchange of culture and education between China and ASEAN countries. As of end-March 2017, there were 12,712 Chinese students enrolled in public and private higher education institutions in Malaysia. In terms of the tourism industry, Malaysia was ranked as the third most popular destination among ASEAN countries for Chinese travelers after Thailand and Singapore.[6]

Conclusion

Being a huge plurilateral arrangement covering 65 countries, BRI will bring about mutual benefits for all participating countries. However, the implementation which involves various political terrains with different laws and regulations might potentially result in cross border differences and institutional challenges. In this regard, all participating governments need to play their role in facilitating the situation when any divergence and variation arise. Being a small and highly integrated economy, BRI augurs well for Malaysia. The Government will play a facilitative role in ensuring effective participation of the private sector, particularly SMEs. In complementing this, industry players have to be proactive in partnering with other players to leverage the opportunities in the BRI to achieve win-win outcomes.

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[4] Malaysia Digital Economy Corporation (MDeC) (2016). *National eCommerce Strategic Roadmap.*

[5] Projects in Azerbaijan, Bangladesh, Georgia, India, Indonesia, Myanmar, Oman, Pakistan and Tajikistan.

[6] Travel China Guide (2017). Retrived October 9, 2017 from https://www.travelchinaguide.com/tourism/2017statistics/ on 2017 China Tourism Facts & Figures.

The **IMF** remains a source of support to its member countries as it works towards fostering global monetary cooperation, securing financial stability and promoting sustainable economic growth. The Fund's main mission of ensuring the stability of the international monetary system is achieved through lending, capacity building activities and surveillance. As part of capacity building initiatives for member countries, the IMF provides technical assistance (TA) and training programmes. In Malaysia, the IMF has provided TAs and policy advices in various areas, with the latest TA being a mission on spending reviews. The purpose of the mission was to share international experience on spending reviews with government agencies in Malaysia. The mission also proposed a spending review model for Malaysia, aligned with the Government's transformation agenda, the extent of the fiscal challenges facing the nation and the capacities of ministries to implement the proposed framework.

The IMF carries out the Annual Article IV Consultation as part of its surveillance practice. The 2016/2017 IMF Article IV report commended the Malaysian economy for the continued good performance and resilience, despite a challenging global economic environment. This is reflective of the country's sound macroeconomic policy responses as it faces significant headwinds and risks.

The **WBG** is a unique partnership of five global institutions working together towards achieving the mission of ending extreme poverty and promoting shared prosperity. The WBG is committed towards reducing the share of global population living in extreme poverty to 3% by 2030 and promoting shared prosperity by increasing the incomes of the B40 group in every member country. For the financial year 2017, the WBG has committed a total of USD61.8 billion (2016: USD64.2 billion) in loans, grants, equity investments and guarantees for its members and private businesses.

The WBG continues to maintain its close relationship with Malaysia through the WBG Knowledge and Research Hub in Kuala Lumpur. The Hub was also a strategic partner for the Global Transformation Forum 2017, which focused on creative and innovative ways to drive transformation. The Hub has strengthened its operational model for greater continuity and synergy between the inbound and outbound knowledge, global research and the Reimbursable Advisory Services Agreement.

As part of its capacity building programme, the Hub provides internship programmes for local postgraduate students in various research areas. The Hub is now part of a technical working group, together with Bank Negara Malaysia and the Securities Commission Malaysia, supporting the Malaysia Green Finance Programme, which includes the issuance of green sukuk. This sukuk will fund environmentally sustainable infrastructure programmes in the future.

The **ADB**, which aims to help developing member countries reduce poverty and improve the quality of life of their people has mobilised more than USD250 billion since 1966 in financing infrastructures, undertaking research and sharing knowledge. In 2017, the ADB celebrated 50 years of development work in the Asia and the Pacific regions. The ADB is formulating a new long-term strategy called Strategy 2030, centred on five priorities in line with the Sustainable Development Goals (SDGs). These priorities are: incorporating more advanced technologies in infrastructure development; enhancing social sectors, including healthcare and secondary education; promoting gender equality; mobilising private resources through public-private partnerships (PPP); and continuing internal reforms in the ADB. The ADB will continue to work together with member countries to build a more vibrant, inclusive and sustainable Asia and the Pacific.

The **IDB** is an international Islamic financial institution that promotes economic development and social progress of member countries and Muslim communities in accordance with the principles of Shariah. The Bank presently has 57 members, with the latest being the Cooperative Republic of Guyana, effective May 2016. The Kuala Lumpur Regional Office of IDB, which was established in September 1995, serves member countries and Muslim communities in Southeast Asia, among others through financing, building capacity and awarding scholarships.

In a move to strengthen strategic partnership, Malaysia and the IDB renewed the Memorandum of Understanding (MoU) Concerning Cooperation on Islamic Finance, Reverse Linkages, Resource Mobilisation and Halal Industry on 27 November 2016. This MoU is the continuation of the Member Country Partnership Strategy (MCPS), which expired in 2015. The renewed MoU for the period of 2016 until 2019 presents a framework of cooperation in four strategic areas, namely Islamic finance, reverse linkages, resource mobilisation and halal industry.

The **AIIB**, which commenced operations in January 2016, was established to support sustainable economic development through infrastructure investment. The AIIB's authorised capital was USD100 billion, with one million shares and a paid-up capital of USD20 billion. Currently, the AIIB has 56 members, grouped under 12 constituencies, and there are 24 prospective members awaiting ratification. Malaysia became a member of the

AIIB on 27 March 2017 under Constituency I together with Thailand, the Philippines, Bangladesh, Maldives and Nepal. The AIIB held its 2nd Board of Governors' Annual Meeting in Jeju, Republic of Korea in June 2017, with Malaysia participating as a full-fledged member for the first time. The outcomes of the meeting include approvals on the admission of new members, namely Tonga, Argentina and Madagascar. Since inception, the AIIB has approved 31 projects in 12 countries, with loans totalling USD3.4 billion.

ASEAN, which celebrated its 50th anniversary on 8 August 2017, has further progressed into a prominent regional community focusing on economic integration and growth. ASEAN continues to foster its solidarity under the ASEAN Community 2025 through three pillars, namely political security, socio-cultural and economy. ASEAN recognises that the way forward to achieve ASEAN's vision is through enhancing connectivity. In line with this, ASEAN adopted the Master Plan on ASEAN Connectivity (MPAC) 2025 in Vientiane, Lao PDR on 6 September 2016, succeeding the MPAC 2010. The MPAC 2025 focuses on five strategic areas, which are: sustainable infrastructure; digital innovation; seamless logistics; regulatory excellence; and people mobility. These strategic areas are anticipated to improve physical, institutional and people-to-people linkages to further promote greater competitiveness, prosperity, inclusiveness and a sense of community.

Under the economic pillar, seven packages of Commitments on the Financial Services Liberalisation have been ratified by most ASEAN Member States (AMS), including Malaysia. The Eighth Package of Commitments is currently being negotiated and the Package is expected to be signed in 2018. The ASEAN Banking Integration Framework (ABIF) introduced under the Sixth Package (2015) of financial services commitments allows for a more integrated banking market to be achieved through bilateral agreements among AMS. Following this, Malaysia has signed bilateral agreements with Indonesia and the Philippines under ABIF, affirming the critical role of Qualified ASEAN Banks in facilitating intra-ASEAN trade and investment.

The ASEAN Finance Ministers and Central Bank Governors have agreed that financial inclusion should be a policy priority for ASEAN. Following this, the Working Committee on Financial Inclusion was established in April 2016 to reduce the average financial exclusion level in ASEAN to 30% (currently at 44%) by 2025 and increase the level of infrastructure readiness in ASEAN to 85% (currently at 70%). The financial inclusion initiative is significant in delivering financial products and services to the underserved community. Initiatives are being undertaken to support national financial inclusion strategy, enhance capacity building of AMS to improve financial inclusion ecosystem, promote innovative digital platforms as well as increase financial education and consumer protection.

The **ASEAN+3** Finance Ministers and Central Bank Governors have reaffirmed their commitment to further strengthen cooperation, particularly under the ASEAN+3 Macroeconomic Research Office (AMRO), Chiang Mai Initiative Multilateralisation (CMIM) and Asian Bond Markets Initiative (ABMI). Since its transformation into an international organisation, AMRO has taken steps to further enhance its credibility and visibility at the regional and global front as well as strengthen its support role in the implementation of the CMIM. AMRO's Strategic Direction and Medium-Term Implementation Plan will serve as a guide for AMRO to deliver high quality surveillance to members. AMRO has also concluded an MoU with the ADB to further strengthen cooperation between the two organisations.

The ABMI forum remains committed in implementing its Medium-Term Road Map, which was introduced in 2015 covering a period of five years. The Credit Guarantee and Investment Facility (CGIF), one of the main initiatives under the ABMI, continues its efforts to promote local currency bond market and boost long-term investment in the ASEAN+3 region. As of July 2017, the CGIF has guaranteed 18 bonds issued by 13 companies from eight countries amounting to USD1.06 billion. In addition, a new study for ASEAN+3 bonds to be recognised globally as prime collateral commenced in April 2017. As part of new initiatives under the ABMI Medium-Term Road Map, a study to promote local currency denominated green bond for infrastructure is also underway.

The **APEC** is a regional economic forum established in 1989 to leverage the growing interdependence of the Asia-Pacific region. The 21 APEC member economies aim to create greater prosperity for the people of the region by promoting balanced, inclusive, sustainable, innovative and secure growth, and accelerating regional economic integration. The APEC Finance Ministers' Process continues to discuss the progress and implementation of 21 initiatives under the Cebu Action Plan. In 2017, Viet Nam hosted the 24th APEC finance meetings with the theme "Creating New Dynamism, Fostering Shared Future". Four priorities determined by the host economy were: Base Erosion and Profit Shifting (BEPS); Long-Term Investment in Infrastructure; Disaster Risk Financing and Insurance (DRFI); and Financial Inclusion.

Under BEPS, APEC economies are committed to deepening their efforts to tackle tax avoidance and evasion in line with the internationally agreed tax standard. Member economies also welcomed the establishment of the G20/OECD BEPS Action Plan, where commitments were made to implement BEPS measures. In this regard, Malaysia has joined the Inclusive Framework on BEPS as BEPS Associates. Meanwhile, under Long-Term Investment in Infrastructure, APEC economies agreed to remain committed in promoting investments in well-designed, sustainable and resilient infrastructures in the Asia-Pacific region. In line with this, Malaysia is emphasising on green technology and energy-efficient designs on infrastructure projects to maintain its competitiveness in attracting private investors.

Under the DRFI, APEC economies continue to deliberate on the importance of data collection on risk components and insurance to reduce the costs of disaster risks. Malaysia is developing a catastrophe insurance and takaful scheme for disaster victims besides developing a regulatory framework to facilitate the growth of the microinsurance and microtakaful market. In addition, APEC economies continue to deepen their efforts to expand financial inclusion and financial literacy. Member economies remain focused on promoting digital ecosystem for financial services, developing financing mechanisms for micro, small and medium enterprises (MSMEs), and designing and implementing financial literacy policies. In this regard, Malaysia is also widening access on digital financial services, and providing financial education for the underserved and newly banked.

Prospects for 2018

Global growth continues to expand

Global GDP is forecast to expand 3.7% in 2018 (2017: 3.6%), driven by sustained growth in the advanced economies and a better performance in the EMDEs. The advanced economies are projected to register a growth of 2% (2017: 2.2%), supported by strong domestic and external demand. Growth in the US is anticipated to continue to expand 2.3% (2017: 2.2%), contributed by resilient domestic demand following strong consumer spending, rising investment activities and improved external demand. In the euro area, growth is projected to moderate 1.9% (2017: 2.1%) due to slower investment, despite favourable financing conditions backed by the ECB's stimulus programme. Similarly, growth in the UK is expected to be at a slower pace of 1.5% (2017: 1.7%) owing to post-Brexit uncertainties that may continue to affect business and consumer confidence. Japan's economy is projected to grow at a slower pace of 0.7% (2017: 1.5%) due to the withdrawal of fiscal stimulus.

In the EMDEs, GDP is expected to improve 4.9% (2017: 4.6%), mainly supported by higher global demand and rising market confidence. China is anticipated to grow 6.5% (2017: 6.8%) amid continuous structural reforms and efforts to contain risks in its financial and property markets. India's growth is projected to strengthen 7.4% (2017: 6.7%), largely contributed by strong private consumption and increased investment through key structural reforms. Meanwhile, ASEAN is expected to record a steady growth of 5.1% (2017: 4.9%), underpinned by strong consumption and increased external demand.

Risks to the global economy remain tilted to the downside, despite better growth projection for 2018. Among the risks are policy uncertainties in the major economies, including protectionism, post-Brexit uncertainties, excessive credit growth and high household debt. Furthermore, heightening geopolitical tensions in the Middle East and East Asia, tepid oil and commodity prices as well as climate change effects may pose additional downside risks.

Inflation in the advanced economies is projected to remain at 1.7% (2017: 1.7%) due to moderate wage growth amid higher global energy prices. Meanwhile, inflation in the EMDEs is anticipated to record 4.4% (2017: 4.2%), contributed by steady increase in oil and commodity prices. World trade is expected to remain strong at 4% (2017: 4.2%) following higher global demand and increased trade flows for China and India.