

## Monthly Highlights

### G20

The 11th G20 Summit was held on 5-6 of September this year, hosted for the first time by the People's Republic of China. Despite calls to revive economic growth amidst a global slowdown and widespread negative sentiments towards globalization, the leaders delivered a statement that contained few concrete proposals regarding the economy, over production of steel and the refugee crisis.

### The 11th East Asia Summit, Vientiane, Lao PDR

In this year's East Asia Summit, the Leaders reaffirmed the importance of non-militarisation and resolving disputes by peaceful means. Besides that, the Leaders also reaffirmed their efforts to enhance regional economic integration through the promotion of regional integration initiative such as Regional Comprehensive Economic Partnership (RCEP) Agreement. The negotiations for RCEP are still ongoing and are expected to conclude in 2017.

### Challenges to TPP Ratification

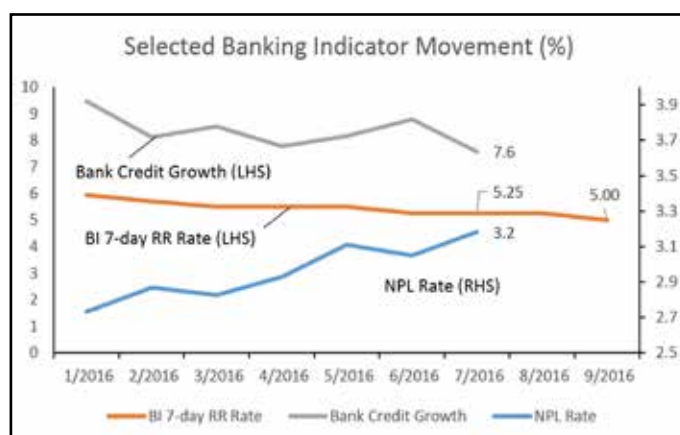
The Trans-Pacific Partnership (TPP) is less likely to be ratified this year as it is increasingly doubtful that the US congress will approve the deal before President Barack Obama's term ends on 20 January 2017. Further, opposition towards the TPP in Japan also brings negative sentiment towards the prospect of TPP. It is imperative for both countries to ratify the TPP. Since without Japan's and the US' support the TPP agreement will not be possible.

### Federal Reserve Maintains Interest Rate

During the meeting on 21 September 2016, the Federal Reserve maintained the short-term interest rate, known as the federal funds rate (FFR), steady at 0.25-0.5 percent. The decision was made against the backdrop of solid job growth in recent months and healthy household spending growth, yet 'soft' business investments. Moreover, this decision reinforced market expectations for the Federal Reserve to raise the FFR in December 2016 meeting.

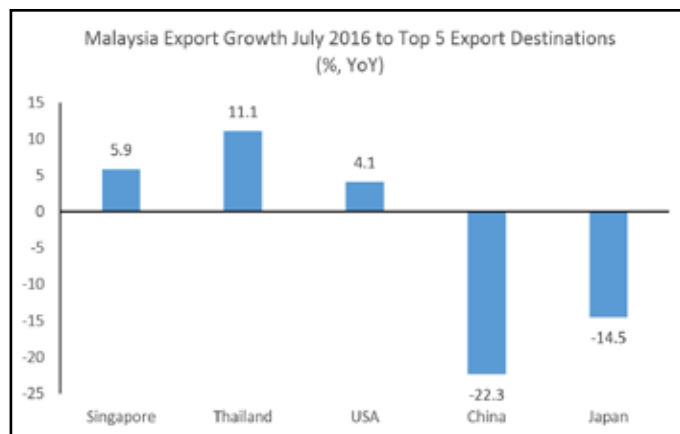
## Indonesia

- Tax Amnesty revenue reached Rp89.2 trillion as of 30 September 2016, marking 54 percent of the targeted Rp165 trillion revenue to be met by March 2017.
- In an attempt to boost domestic demand, the Bank Indonesia (BI) Board of Governors lowered the BI 7-day Reverse Repo Rate (BI 7-day RR Rate) to 5 percent from 5.25 percent, while also lowering the Deposit and Lending Facility rates 25 basis points to 4.25 and 5.75 percent. BI believes that the low inflation, controlled current account deficit, and relatively stable exchange rate support the chance of further easing of monetary policy against the sluggish global economic backdrop. However, it is still debatable that this move will bring significant effect to the economy, as several challenges persist including the increase of gross Non Performing Loans (NPL) to 3.2 percent and limited credit growth of only 7.6 percent year-on-year (YoY) in July 2016. The NPL and credit growth also indicate how businesses are struggling to meet their obligations and the private sector's pessimistic outlook towards business prospects.



## Malaysia

- Malaysia's trade data shows worrying signs as exports in July slumped to their lowest levels in 15 months due to weakening trade with its key partner, China. Malaysia's exports to the world's second biggest economy fell by 22.3 percent (YoY) in July. In terms of products, there was a 6 percent slide in the exports of electrical and electronic products, which accounted for 36.3 percent of Malaysia's exports. In response, the slowdown of external sector activity increased the opportunity for Bank Negara Malaysia to decrease its benchmark rate to stimulate domestic investment to offset the declining external conditions.

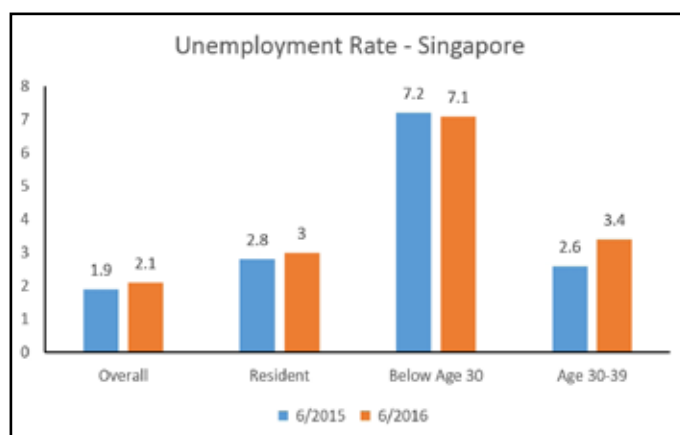


## Philippines

- In less than three months since taking office, President Rodrigo Duterte has been the source of a number of controversies including the war on drugs that resulted in extrajudicial killings by unknown assailants, straining the longstanding alliance with the United States of America (USA), and withdrawing support for joint patrols of the disputed South China Sea. The recent development comes with significant consequences, such as divided military members' opinion towards Philippines' alliance with the USA, damaged democratic and legal institutions, and the possible decline of economic growth if investors choose to stay away.
- On the macroeconomic level, the Philippines' balance of payments (BOP) position rebounded in Q2 2016, marking a surplus of US\$843 million after posting a deficit in the first quarter (Q1) of 2016. The BOP surplus was mainly driven by US\$1.2 billion net inflows into the financial account, reflecting an increase of net direct investment inflows and a decrease of net outflows of portfolio investments. From the current account breakdown, a surplus of US\$65 million was driven by increased net receipts in trade-in-services and primary and secondary income accounts while the substantial widening of goods trade deficit significantly lowered the current account balance.

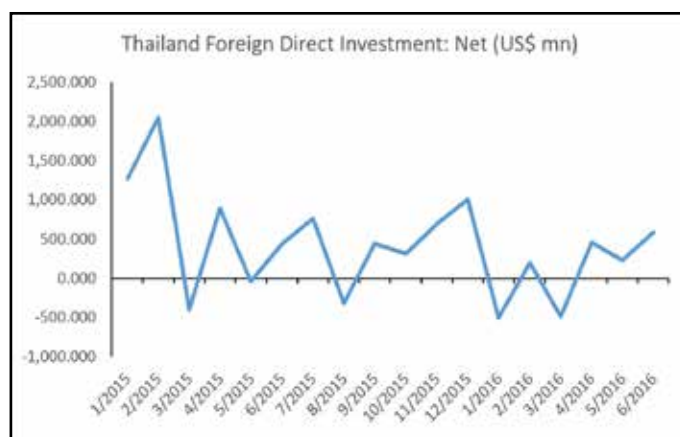
## Singapore

- The overall unemployment rate in Singapore grew to 2.1 percent in Q2 2016 from 1.9 percent in Q1 2016 showing a further slowdown in the Singaporean economy. Analysis of the resident unemployment rate (as opposed to overall unemployment rate), people age 30 and below experience the most unemployment at the rate of 7.2 percent compared to 3.4 percent for the age range of 30 to 39. Sectoral analysis shows that service sectors hired 5,100 new workers while the manufacturing sector laid off 3,400 workers during the period.
- Furthermore, Singapore's manufacturing output decreased 3.6 percent on a YoY basis in July 2016, mainly driven by the slow performance in biomedical manufacturing, general manufacturing, and transport engineering.



## Thailand

- During Q2 the Bank of Thailand kept the benchmark rate steady as recovery gained momentum. The Bank's move to maintain the policy rate at 1.5 percent for 11 consecutive months can be perceived as a measure to preserve Bank of Thailand's policy space. Further, the five-month high consumer confidence index and increasing net inflow of FDI in Q2 2016 indicated consumers' and investors' optimism towards the military-led government in 2016.

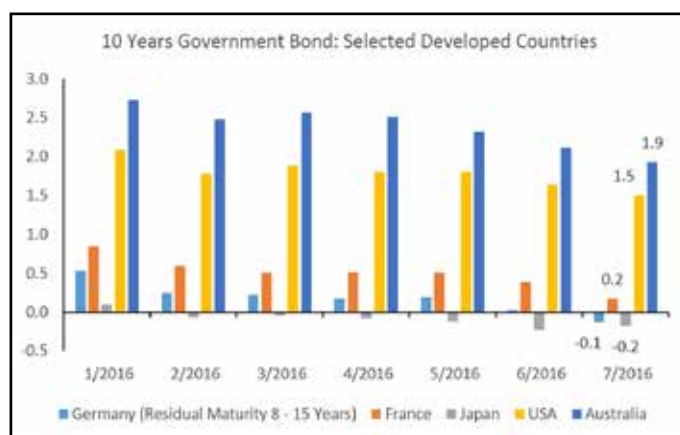


## Viet Nam

- On 1 September, Viet Nam implemented new import tariff rates as part of the ASEAN Trade in Goods Agreement (ATIGA) for 2016-2018 as stipulated in Decree No 129/2016/ND-CP. ASEAN member states use ATIGA to help ensure a free flow of goods within ASEAN through various means including tariff liberalisation, removal of non-tariff barriers, rules of origin, trade facilitation, customs, standards and conformance, and sanitary and phytosanitary measures. According to the Ministry of Finance, Viet Nam already eliminated about 90 percent of their tariff lines based on ASEAN Harmonised Tariff Nomenclature (AHTN) at the 8-digit level by 2015 and is planning to cut 97 percent by 2018.
- As a sign of its efforts to further liberalise and restructure its economy into a more market- and investor-driven economy, the Vietnamese government hopes to sell major stakes in two state-run beer companies. As trivial as this move might seem, it shows the government's implementation of economic restructuring at a more detailed level.

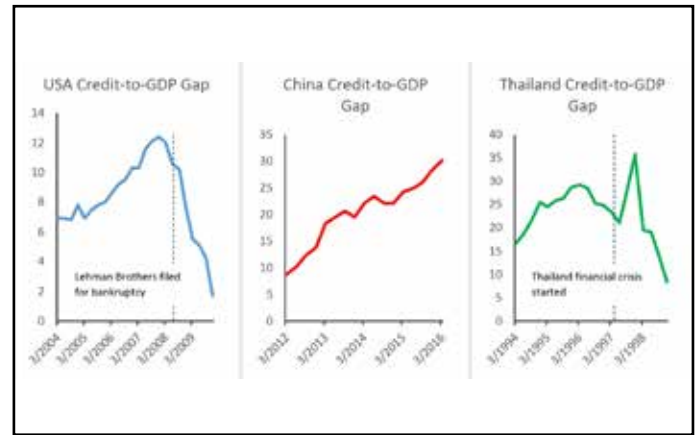
## Australia

- Rob Nicholl, the Chief Executive Officer of the Australian Office of Financial Management, revealed the plan to issue a 30-year bond in October. The government intends to take advantage of investors' appetite for developed countries' bonds, especially as yields of several Australian government bonds are higher than bonds issued by other developed countries such as European countries and Japan with their negative interest rates.



## China

- China's recent data shows several strong growth indicators, relieving the pressure on the government to further stimulate the economy. The industrial production index expanded by 6.3 percent, retail sales expanded by 10.6 percent, and automotive sales increased by 13.1 percent in August (YoY).
- The credit-to-gross domestic product (GDP) 'gap', an indicator showing the difference between the credit-to-GDP ratio over the long term, hit a record high of 30.1 percent in Q1 2016. According to the Bank of International Settlements – the source of the indicator – credit-to-GDP gaps that exceed just 10 percent (as opposed to China's 30.1 percent) over a three year period are usually followed by financial crisis. However, China has remained above 10 percent for most of the period since mid-2009 without experiencing any crisis.



Sources: Bank of International Settlements

## India

- The Indian trade deficit shrank as merchandise exports dipped 0.3 percent (YoY) and imports dipped 14.09 percent (YoY). However, improvement can be seen by three main indicators: (i) 16 out of 30 merchandise exports sectors show growth, (ii) export sector growth is seen amongst labour intensive industries, and (iii) gold imports, which are historically one of the key merchandise causing India's trade account deficit, fell 77 percent (YoY). However, concerns remain for the Indian economy as appreciation of the Indian rupee acted as a drag on exports and global trade remains weak.
- After passing the Constitution Amendment Bill for Goods and Services Tax (GST), the Indian Department of Economic Affairs recently approved a US\$ 1.04 billion project to construct and upgrade the roads leading to its immediate neighbours, namely Bangladesh, Bhutan, and Nepal to ease

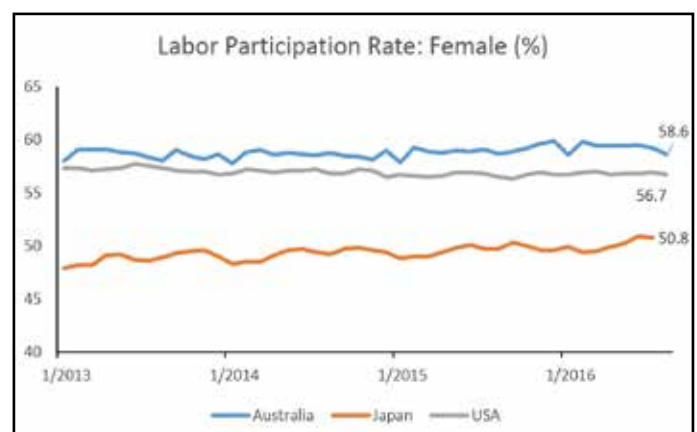
the movement of people and cargo. The approved project is 50 percent funded by the Asian Development Bank (ADB).



## Japan

- In an attempt to boost its economy, Japan's Liberal Democratic Party (LDP) plans to eliminate the existing spousal tax break to encourage more wives to seek full-time work as part of Prime Minister Shinzo Abe's 'womenomics'. Under the current tax break, ¥380,000 will be deducted from the taxable annual income of the breadwinner, unless the dependent spouse, usually the wife, earns more than JPY 1.03 million a year. This regulation indirectly encourage wives to limit their working hours to avoid their income exceeding the ¥1.03 threshold. Under the new regulation, it is expected that the threshold will be lifted so that wives will have more incentives to join the workforce as permanent workers, thereby contributing more to the Japanese economy.
- The Bank of Japan (BoJ) introduced a new framework to strengthen monetary easing by applying 'Quantitative and Qualitative Monetary Easing with Yield Curve Control'. The measures applied by the Bank of Japan consists of two major components: (i) yield curve control in which the bank will control short-term and long-term interest rates, (ii) inflation-overshooting commitment in which the Bank will expand the monetary base until the year-on-year inflation rate

exceeds 2 percent in a stable manner. To control the yield curve, the Bank stated its commitment to cut the short-term interest rate further if necessary while the Bank will purchase Japanese government bonds (JGB) to ensure that the 10-year JGB yields maintain the zero percent target. However, many financial market players are sceptical about the effect of these new measures



## New Zealand

- New Zealand GDP grew by 3.6 percent in Q2 2016 (YoY), in line with market expectations of a 3.5 to 3.7 percent gain. The growth rate is one of the most astounding rates amongst developed countries, most of which are experiencing slow economic expansion. Growth is mainly driven by improvements in retail sales fuelled by the booming tourism sector rather than any improvements in household spending. Further, the robust growth was also driven by the 5 percent expansion in construction activity, specifically through the increased spending on plant machinery and equipment. The growth in the construction sector signals another positive sentiment to the country's outlook.



## South Korea

- Tensions rose in the Korean Peninsula following a nuclear and ballistic missile test conducted by the Democratic People's Republic of Korea (henceforth, North Korea) on 8 September 2016, which was the strongest nuclear test in the last 10 years. South Korean President Park Geun-hye was quoted by the Taipei Times as saying that North Korea's nuclear weapons and missiles posed an 'imminent threat'.
- The outlook of Samsung, South Korea's biggest individual company by size and revenue, has worsened after one of its newest models Galaxy Note 7 suffered decreased sales as a result of fires ignited by faulty batteries. Samsung's stock price went down by 11 percent in two days, the biggest two-day decline since 2008, and scrapped US\$22 billion of its market value.



Sources: Yahoo Finance.

### Data sources:

Data are mostly taken from CEIC, which allowed permission to reproduce its data in this monthly update.

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