CHAPTER 1

MONITORING BUSINESS CYCLES AND MACROECONOMIC POLICY CHALLENGES IN ASEAN AND EAST ASIA

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Abstract

The Asian countries have been able to recover remarkably well from the shock created by the global financial crisis. Their recoveries have gained considerable momentum over the past year and have become increasingly driven by domestic rather than external demand.

The key near-term challenge is to exit from the counter-cyclical policies, beginning with monetary policy while inflationary and financial pressures are increasing. Greater flexibility in exchange rates is required to deal with rising capital inflows into the region. The success of regional exit policies would be further enhanced by greater regional consultation and co-operation on macroeconomic and financial policies.

The crisis has also underscored the need for rebalancing growth in the region toward less dependence on exports and greater dependence on domestic demand. Sustaining rapid but more balanced real growth poses major challenges for fiscal policies in the region. Improvements in the fiscal frameworks used by governments in the region will be important to achieving these goals while sustaining fiscal soundness. Credible medium-term fiscal targets and specification of the means to achieve them are fundamental to such frameworks.

Introduction

ASEAN economies are recovering strongly from their most severe contraction since the 1997 Asian crisis. The recent downturns in real GDP have been both less severe and less prolonged than the previous one, and were precipitated by external shocks rather than by imbalances in its own economies.

The recovery was initially spurred by exports and reinforced by fiscal stimulus but is now becoming dependent on private domestic demand, whose momentum has been steadily increasing. Timely and effective counter-cyclical macroeconomic and financial policies were major factors underlying the recovery. The next challenge in the near term is to exit from the stimulus measures while continuing to support real growth, beginning with monetary policy and followed by the phasing out of fiscal stimulus in the coming years.

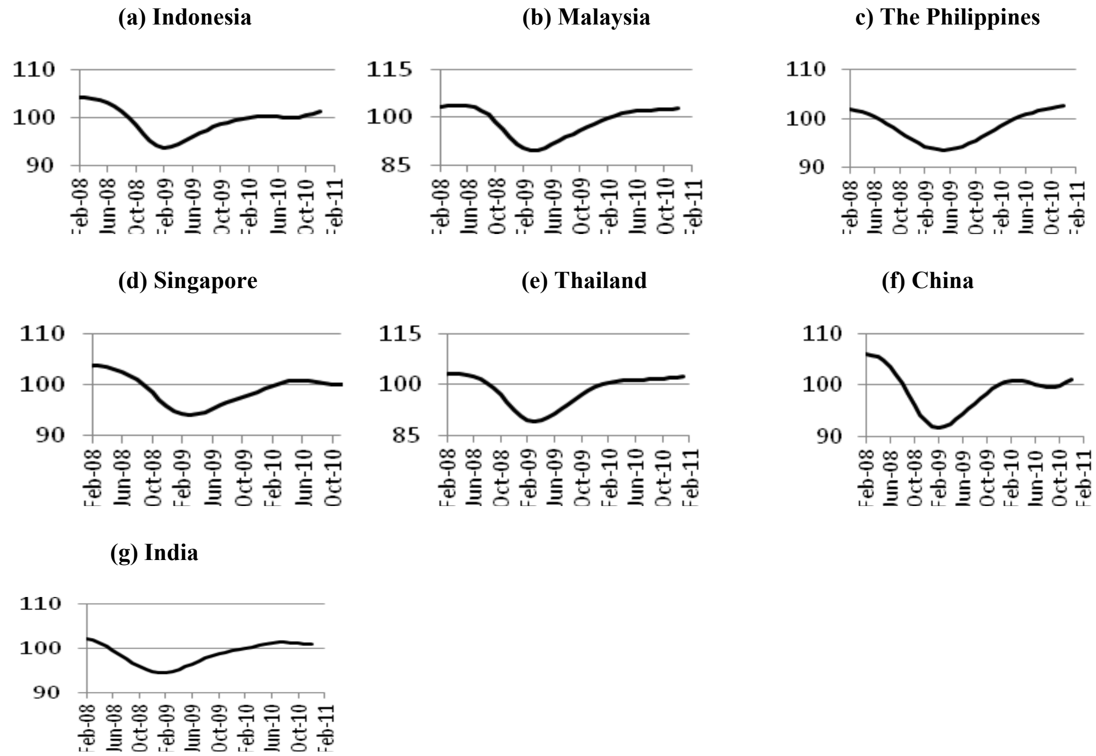
After a short review of recent macroeconomic developments and prospects, the remainder of this chapter discusses near-term monetary and exchange rate policies adopted during the present cycle as well as fiscal challenges.

1. Recent Macroeconomic Developments

Growth began to revive in the spring of 2009 and is gaining momentum during the first half of 2010

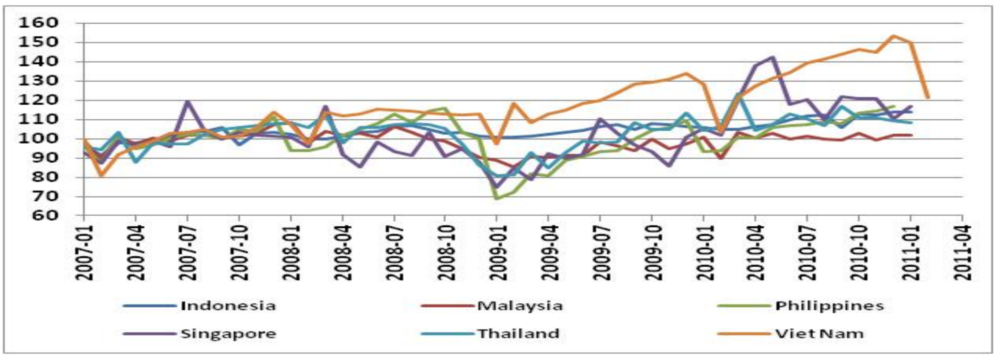
The ASEAN economies shared in the comparatively early and strong recovery in the Asian region as a whole. The OECD Development Centre's recently developed Asian Business Cycles Indicators (ABCIs) indicate that the downturn in Indonesia, Malaysia, the Philippines, Singapore and Thailand bottomed out in early 2009 and that an expansion began in early 2010 (OECD, 2011; Figure 1; Box 1). As with the downturn, the recoveries have been strong in those ASEAN economies - Singapore, Malaysia and Thailand - that are specialised in exports of electronic products. The recoveries began in the second half of 2009. The Asian business cycle indicators together with industrial production and other data highlight that the recoveries gained momentum during the first half of 2010 (Figures 2). The revival in China's domestic demand, spurred by that country's early and large fiscal stimulus, also contributed to the growth in the region. Recoveries of Southeast Asian countries slightly lagged behind that of China. Owing to a relatively quick rebound and the robust growth afterwards, negative output gaps of most Asian countries are closing.

Figure 1. Business cycles of ASEAN and China: Composite coincident indicators



Source: Asian Business Cycle Indicators from This Quarter in Asia, OECD Development Centre (2011)

Figure 2. Industrial Production Index (2007=100): Six countries of ASEAN



Source: CEIC

Box 1: How do the ABCIs measure business cycles in the region?

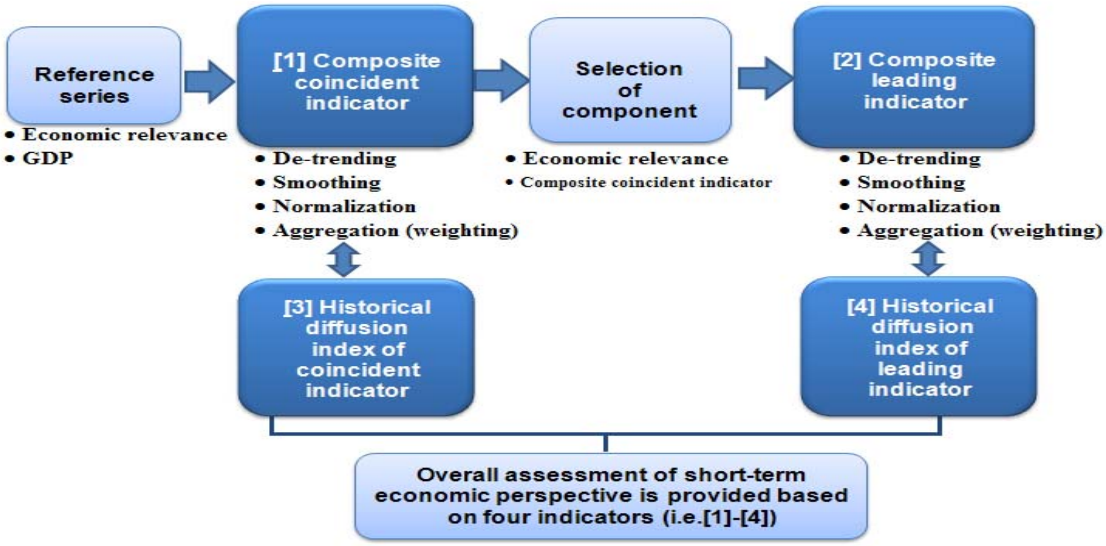
The OECD Development Centre Asian Business Cycle Indicators (ABCIs) provide:

- comparable information on the near-term economic situation in the next 5-6 months in ASEAN countries as well as China and India;
- early warning of potential macroeconomic risks in the region; and

- a tool for regional monitoring and for tracing business cycle synchronisation in Asia.

The OECD Development Centre's ABCIs are constructed in co-operation with the OECD Statistics Directorate. The ABCIs are based on the "growth cycle" approach consistent with the OECD Composite Leading Indicators (OECD CLIs), in which cycles are measured as deviations of economic activity from their long-term trend.

The methodology of the construction ABCIs is tailored to country- specific circumstances. The ABCIs identify cycles by using both i) composite indicators (i.e. leading and coincident) and ii) diffusion indices (i.e. leading and coincident). Each provide different information and, as such, are complementary: the composite index reveals "change" in economic fluctuations and the diffusion index provides a broader picture of "the overall economic activity of the country." The ABCIs coincident indicators are selected mainly by economic relevance and statistical fitness to quarterly GDP. Leading indicators are created based on the coincident indicators and the lead time is in general 5-6 months.



Source: OECD Development Centre (ABCIs)

In the ABCIs, evaluation of the phase of business cycle is done comprehensively by using four sets of information: i) leading indicators of both composite and diffusion and ii) coincident indicators of both composite and diffusion. More precisely, four cyclical phases are identified by composite indicators: *expansion*, when the composite indicator curve is above 100 points and increasing; *downturn*, when the composite indicator curve is above 100 but decreasing, *slowdown*, when the curve is below 100 and decreasing and *recovery*, when the curve is below 100 but increasing. On the other hand, the diffusion index identifies two phases; *upwards* when the diffusion index crosses the 50% threshold from below and *downwards* when the diffusion index passes the threshold from above.

The results of ABCIs are released on a quarterly basis on the web (See *This Quarter in Asia*, www.oecd.org/dev/asiapacific/abcis).

China's ties with Southeast Asia are strengthening: Macroeconomic implications

The recent results of Asian Business Cycle Indicators also suggest that business cycles in Asia have become increasingly synchronised in the last several years (Figure1). This increased synchronisation is partly stemming from strengthened economic links through trade and investment flows, similar institutional arrangements and to a certain extent also from common shocks. ASEAN's economic integration with the rest of Asia has greatly increased over the past decade as a result of the emergence of China as the focal point of regional production chains.

As documented in detail in Chapter 2 and 3, China has become the platform for manufacturing final products using parts and components produced in ASEAN countries. This new division of labour within Asia reflects the relocation of assembly facilities from ASEAN and other less developed Asian countries to China, mediated by multinational corporations seeking to take advantage of China's lower labour costs. As a result, while ASEAN intra-regional trade has increased modestly since 1997, its trade with China has increased substantially. This trade is dominated by parts and components, and is concentrated in consumer and business electronic products and automobiles, whose share of ASEAN exports has increased while that of textiles has declined. This trade is most important, in terms of its share of total exports and in relation to GDP for many ASEAN countries.

Greater trade integration with China has not appreciably reduced ASEAN's countries dependence on export demand from OECD countries, especially the United States and Europe. The bulk of ASEAN exports still ultimately go to countries outside the region, although a larger portion go first to China rather than directly to their ultimate destination than was the case a decade ago. ASEAN countries have become increasing open over the past decade in terms of their ratios of trade to GDP and the contribution of exports to total demand (Pula and Peltonen, 2009).

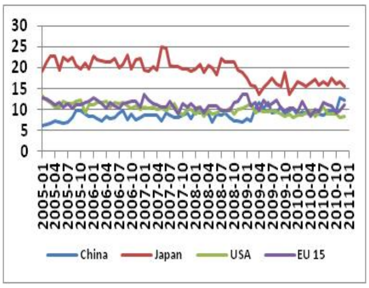
As a result, ASEAN economies remain very exposed to cyclical fluctuations in demand from OECD countries, especially the United States and Europe (ADB, 2007; Park and Shin, 2009b). ASEAN's sensitivity to OECD business cycles is further increased by its concentration on electronics and automobile exports, which are highly sensitive to demand fluctuations. There is some evidence that China is increasing its importance as a final source of demand for ASEAN but it is still less than that of OECD as a whole (Park and Shin, 2009a). Integration into regional production chains also tends to increase the synchronisation of business cycles among ASEAN countries' and with China (Brooks *et al*, 2009). This tendency is illustrated by the OECD Development Centre Asian Business Cycle Indicators (ABCIs)**.** These indicators show that China's recovery has been consistently leading that of the Southeast Asian region (Tanaka, 2010).

The relatively slow recovery of OECD countries will retard export growth of the Southeast Asian economies, but this will to some extent be compensated for by the emergence of China as new export market for the region. Asia is expected to become an increasingly important destination for ASEAN exports, particularly for the most export-dependent countries. For instance, the response of many firms in Southeast Asia (, in particular Indonesia, Malaysia, Singapore and Thailand) to the sharp downturn in major industrialised economies was to switch their export destinations to large markets that were less affected by the global recession such as China (Figure 3). This switch of export destination to China illustrates China's important role in leading the recovery of the region. This helped support export industries across Southeast Asia and to limit the economic downturn.

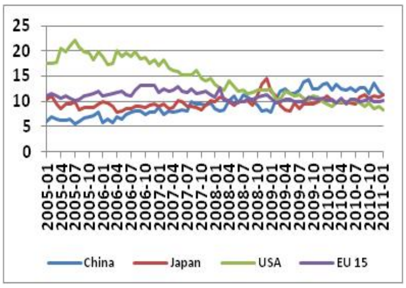
Redirecting exports to China could, to a certain extent, compensate for the relatively weak demand in OECD economies immediately after the crisis, but is unlikely to fully make up for it. Export market diversification has its limits though, especially when economies are so intertwined through global production chains. And there is a limit to the extent to which expansionary monetary and fiscal policy can fill the void created by the decline in external demand. Therefore, new sources of growth are needed for ASEAN countries to maintain past growth rates and are most likely to be found in domestic demand.

Figure 3. Export shares of major trading partners of six ASEAN countries (in %), 2005-2011

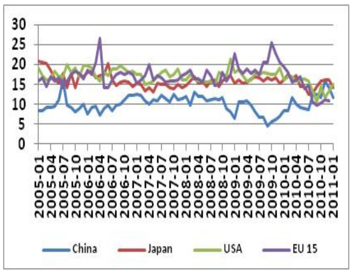
(a) Indonesia



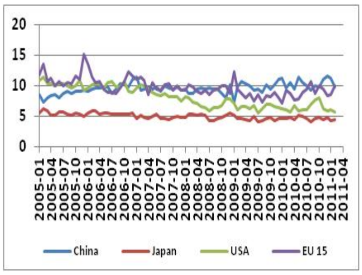
(b) Malaysia



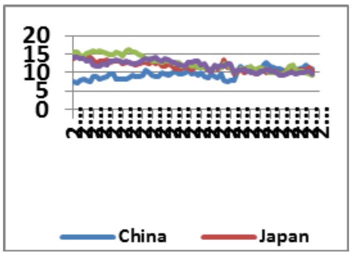
(c) The Philippines



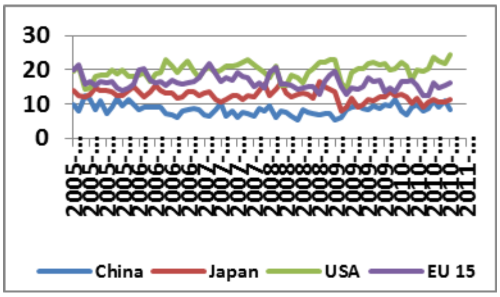
(d) Singapore



(e) Thailand



(f) Viet Nam



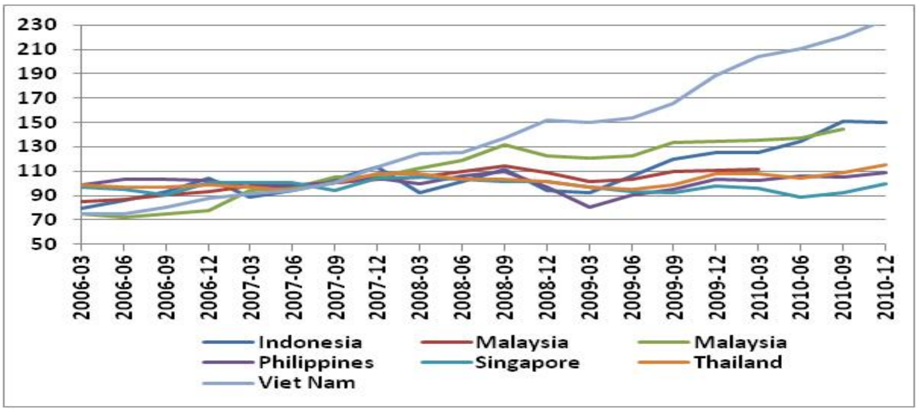
Source: CEIC

The recovery is broadening as consumption gains strength

The recovery in the ASEAN region has broadened over the past year, with domestic demand becoming the dominant source of real GDP growth. Consumption began to rebound in the second half of 2009 and gained further momentum during 2010. Retail sales were up by 20% or more over their year-previous value in the summer of 2010 in Indonesia and the Philippines and also in Viet Nam (although much of the increase was due to rising prices) (Figure 4). Retail sales growth has also been strong in Thailand and Malaysia although it has been weaker in Singapore due to fluctuations in automobile sales.

Business surveys in the region suggest continued strength in consumption in the near-term. Consumer sentiment indicators have recovered strongly in Indonesia, Malaysia and the Philippines.

Figure 4. Retail Sales Index (2007=100): Six countries of ASEAN



Source: CEIC

Exports and imports are overtaking pre-crisis levels and current account surpluses are rising again

Overall, export growth of the ASEAN countries continue to gain momentum during the first half of 2010, with six countries of ASEAN (Indonesia, Malaysia, the Philippines Singapore and Viet Nam) all recording year-over-year increases of 30% to more than 40% by the end of the second quarter. Although lower in 2009 as a whole than in 2008 (except for Myanmar), exports have now overtaken their pre-crisis levels in most ASEAN economies. China, and to a lesser extent other East Asian economies, accounted for a disproportionately large share of the ASEAN export growth during 2009 but growth is likely to come increasingly from outside Asia as the recoveries in other regions take hold.

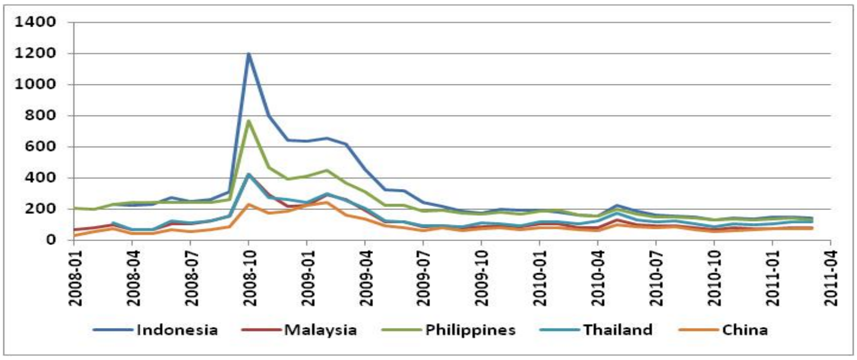
Falling domestic demand and declining need for imported parts and components in export production led to a sharp drop in ASEAN imports in 2008 and early 2009. Imports are now recovering briskly but their (year-on-year) growth has in most cases been somewhat less than that of exports. Six countries of ASEAN (except for Vietnam) recorded large current account surpluses in the several years prior to the crisis.

The contraction in exports led to a marked drop in current account surpluses for 2008 but the surplus rebounded in 2009 as import declines followed. Indonesia, Thailand, and the Philippines recorded substantial increases in their current account surpluses in 2009 and the deficits of CLMV countries fell. The surpluses fell in Singapore (due to an improved balance on services and other non-merchandise current items) and Malaysia but remained the highest in the region. The surpluses of Indonesia, Malaysia, the Philippines and Thailand have fallen back somewhat in 2010, to approximately 5% of GDP for the group as a whole. Despite the increases in 2009, the ASEAN current account surplus is still somewhat lower in relation to GDP than it was in the year before the crisis.

External financial stresses have eased considerably and capital inflows are recovering

External financial stress indicators have eased considerably since the first quarter of 2009 although they remain less favourable than before the crisis. Credit default swap (CDS) rates of most ASEAN countries have fallen to near pre-crisis levels (Figure 5). CDS rates and other ASEAN financial stress indicators have risen back from time to time when market tensions have recurred.

Figure 5. Indicators of sovereign risk spreads: Credit default swaps, 5 year foreign currency (basis points)



Source: DataStream

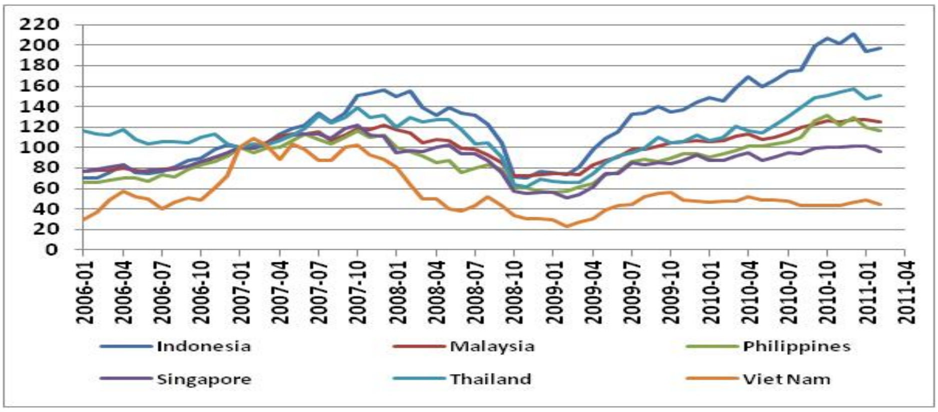
All Asian emerging market economies experienced a sharp decline in net inflows of foreign direct investment and portfolio and other capital flows during the downturn, but the withdrawal was most severe for Indonesia, Malaysia, the Philippines and Thailand. Capital surged back in 2009 into China and other Asian NIEs, including Singapore, reaching above their rate just before the crisis. Capital inflows into many ASEAN countries began to recover in the second half of 2009 and have continued to be strong during 2010. Portfolio investments have dominated the increased inflows, reflecting increased interest by international investors in the higher yields available in emerging markets. Indonesia recorded especially heavy portfolio inflows during 2010. Indonesia and the Philippines were able to sharply increase their issues of foreign currency-denominated bonds in the latter half of 2009 and 2010 at spreads near to pre-crisis levels.

There has been noticeably less recovery in foreign direct investment (FDI) inflows into the ASEAN region. Positive net FDI inflows into six countries of ASEAN did resume in the first quarter of 2010, following net outflows during the second half of 2009.

Domestic financial conditions have improved considerably

Compared to the aftermath of the 1997 crisis, the spill-over of external financial stresses to domestic financial markets has been much less severe. Regional stock market indices did fall sharply beginning in late 2007 through the first quarter of 2009 (Figure 6). However the declines were not noticeably more severe than those in the United States, Europe, or other emerging markets. ASEAN stock markets have since recovered considerably. Stresses in domestic interbank as well as offshore banking markets were moderate, at least compared to those observed in the markets of many OECD countries, due in part to decisive measures by authorities to inject liquidity and expand the range of instruments eligible for trading with the central bank.

Figure 6. Stock Price Indices: Six countries of ASEAN (Jan 2007=100)



Source: CEIC
Notes: Indonesia: Jakarta Composite, Jakarta Stock Exchange
Malaysia: FTSE Bursa Malaysia, Bursa Malaysia
Philippines: PSEi, Philippine Stock Exchange
Singapore: SGX Strait Times, Singapore Exchange

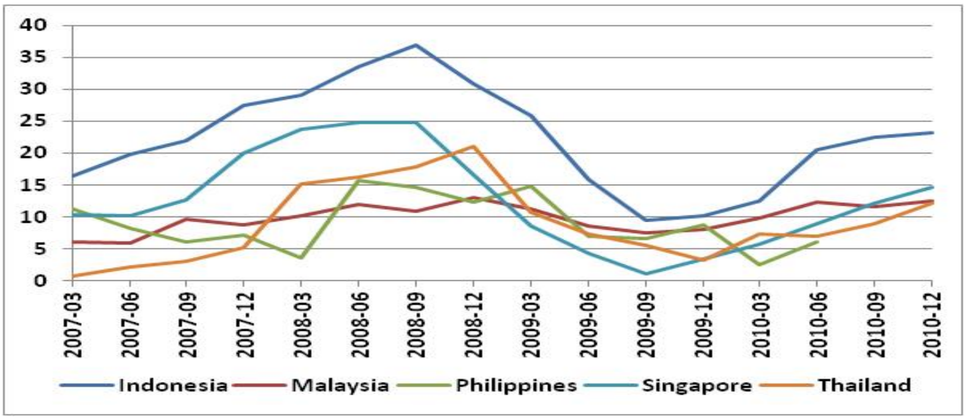
Thailand: SET, The Stock Exchange of Thailand
Viet Nam: HCMC, Ho Chi Minh City Securities Exchange Centre

Domestic credit growth also fell off markedly, although much less severely than during the 1997 crisis in many ASEAN countries, and the drop was more in line with the contraction in real GDP. Access to bank loans became more difficult, especially for smaller and medium-size enterprises (SMEs) and lending risk premia rose, but the changes again appear roughly in line with the severity of the downturn in real activity.

The strong financial positions of the banks and other major financial institutions before the crisis were instrumental in limiting the stresses on domestic financial system. Banking systems in most ASEAN countries entered the crisis with capital adequacy ratios that were not only well above the BIS minimum but among the highest in Asia. These capital ratios have been maintained with little or no erosion during the crisis. There has so far been little rise in non-performing loan rates, which remain at modest rates, although somewhat higher in some cases than the rates in the strongest banking systems of the region,

The easing of financial strains and pickup in real demand has only recently begun to be manifest in a recovery in domestic lending growth beginning in the last quarter of 2009 (Figure 7). Loan growth has been strongest in Indonesia, and Malaysia but, is still subdued compared to past trends in the Philippines. Private sector credit growth has also begun to pickup in Cambodia.

Figure 7. Bank loan growth: five countries ASEAN (percentage changes, year-on-year)



Source: CEIC; National sources
1) Indonesia: Commercial & Rural Banks Loans, Bank of Indonesia
2) Malaysia: Banking System Loan: Total excl Loans Sold to Danaharta, Bank Negara Malaysia
3) Philippines: Outstanding Loans (Gross): All Banks, Bangko Sentral ng Pilipinas
4) Singapore: Loans & Advances (Domestic Banking Units): Total, Including Bills Financing, Monetary Authority of Singapore
5) Thailand: Total Loans (Gross), Bank of Thailand

Monetary and financial regulatory authorities in the ASEAN countries reacted quickly to relieve domestic market stresses and reassure foreign investors as the global crisis intensified after the failure of Lehman Brothers. The measures included bank deposit guarantees of varying duration in the more financially open economies (Malaysia, Thailand, Singapore, and Indonesia); special injections of central bank funds into especially stressed short-term markets; and broadening of the range of instruments used in open market and central bank discount operations (BIS, 2009). Several countries (Indonesia, Malaysia, and the Philippines) employed regulatory forbearance (by relaxing enforcement of mark-to-market rules) to ease strains on financial institutions. To counter exchange- rate pressures, a number of countries also drew on swap lines with the People's Bank of China and the Bank of Japan. Further currency resources were available through the Chiang Mai arrangement, although they were not drawn upon.

Authorities were initially cautious in easing monetary policy to counter the contractionary effects of the global financial crisis. Pressures on their currencies led several ASEAN countries to either raise policy interest rates (Thailand, Indonesia, the Philippines and Vietnam) or to maintain them during the third quarter of 2008, even though the prospective impact of the global downturn on the region was becoming evident.

However as the effects of the crisis on regional output began to take hold and financial pressures reached a crescendo in the wake of the Lehman Brothers failure, policy sharply reversed course. Policy interest rates were cut several times to their lowest levels since the middle of the decade; and Singapore modified its exchange rate target in October 2008 to zero appreciation from the 'modest appreciation' target maintained during the prior three years. Laos and Viet Nam cut their policy rates by a cumulative total of 600 basis points from their peak in 2008 to their trough in the summer of 2009, while policy rates in Indonesia, Thailand, the Philippines and Malaysia were cut by 300, 250, 200, and 150 basis points respectively over the same period.

The cuts in policy rates, reinforced by declining aggregate demand, led to a marked drop in market nominal and real short-term interest rates in most ASEAN countries that helped to support domestic spending. The support to spending was probably more limited in Singapore, however, given that short term interest rates were already low before the crisis and could fall only modestly and still remain above zero (Takagi, 2009). Longer-term interest rates have come down only modestly, with the result that yield curves have steepened markedly.

Overall, both the run-up to the crisis and the downturn have demonstrated the considerable improvement in ASEAN monetary policy frameworks since the 1997 crisis. Improved frameworks and the generally good record of inflation control before the crisis were important factors behind the more extensive and rapid use of counter-cyclical monetary policy actions during the present downturn compared to prior contractions. Thailand, Indonesia, and the Philippines were able to reduce policy rates while maintaining inflation within bounds that were broadly consistent with their stated inflation targets. The less formal approach followed by Malaysia seems also to have allowed adequate flexibility to counter the downturn.[1]

However the experience during this cycle has highlighted areas in some countries where monetary policy capabilities could be strengthened. As discussed further below, consideration may need to be given to modifying, or at least clarifying, the response of monetary policy instruments to exchange rate movements. Limited financial development in the lower income countries has made monetary policy reliant on credit limits and other direct controls that can distort credit allocation and which make it difficult to limit credit expansion when fiscal deficits emerge. Development of financial

[1] Thailand Indonesia, and the Philippines officially base policy on an inflation targeting framework in which monetary policy instruments are varied to maintain (core) inflation within a preannounced range. Other countries base policy on less formal and explicit frameworks to achieve similar goals of sustaining non-inflationary growth in line with potential. Exchange rate developments have played, to varying degrees, an important role in determining near-term policy adjustments, especially in the most open economies. Only Singapore, however, uses the exchange rate explicitly as an intermediate target: until the crisis, authorities pursued ‘moderate appreciation’ of the currency against a basket of currencies with unannounced weights.

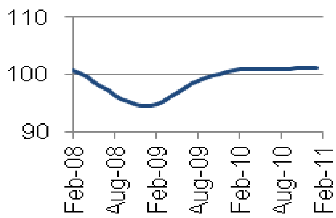
markets and institutions, while a gradual process, is critical to improving the flexibility and overall effectiveness of monetary policy in these countries.

Overall, the near-term outlook is favourable but there remain risks

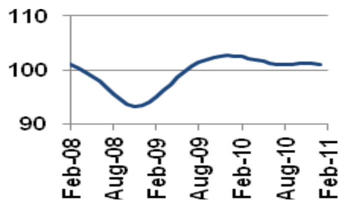
Overall, ASEAN economies are likely to maintain the growth momentum in the first quarter of 2011 according to the latest Asian Business Cycle Indicators (Figure 8 and 9). Real growth should remain robust, although growth in 2011 as a whole is likely to be somewhat less than in 2010. In particular, relatively positive developments in Indonesia, the Philippines and Thailand are associated not only with strong export demand but also sound domestic demand and improved business sentiment. The recovery of China's economy is driven by robust investment. Activity is showing some signs of slowing in India.

Figure 8. Business Cycles in ASEAN and emerging Asia: Composite leading indicators

(a) ASEAN average



(b) Emerging Asia average



Source: OECD Development Centre

* ASEAN average includes Indonesia, Malaysia ,the Philippines, Singapore and Thailand. ** Emerging Asia average includes ASEAN average plus China and India.

Figure 9. Composite leading indicators and diffusion leading index in Asia

Source: This Quarter in Asia, OECD Development Centre

Nevertheless, the recovery remains vulnerable to adverse developments. The greatest risks probably come from outside the region, inflation or budget deficit and public debt levels could pose risks to some ASEAN recoveries if they are not carefully managed.

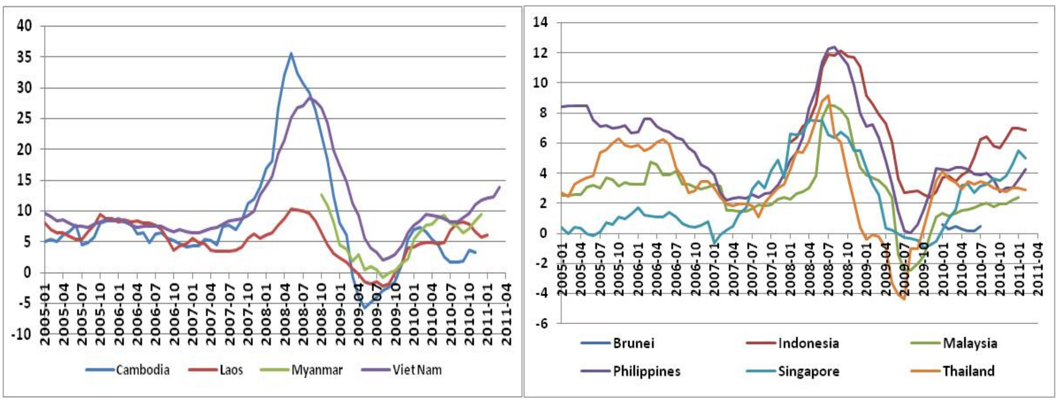
Another risk is the possibility of an interruption of recovery in OECD economies, particularly the United States and Europe. In the United States, continued weakness in the housing sector and uncertainty over the strength of the jobs recovery raise questions about the sustainability of consumer spending. The recovery in Europe is likewise weak, further clouded by the commitment to undertake large-scale consolidation by most countries in the medium term, an intervention that could constrain demand in the region (OCED, 2010)

Probably the greatest risk is that growing confidence in the ASEAN economies, coupled with economic uncertainties still lingering in most OECD countries, has boosted capital inflows in the region. The increase in market uncertainty if they were to occur could spill over to ASEAN economies by raising global investor risk aversion, leading to declines in regional stock markets and possibly to further weakness in capital inflows and setbacks in the recovery of ASEAN bond markets. Provided it did not lead to renewed recessions in OECD countries, such stress would probably not interrupt the recoveries in the real economies now underway in the region. Policy makers in Southeast Asia are concerned about such inflows and potential reversals which might jeopardize the region's macroeconomic stability. Countries are reacting differently; for instance, Indonesia introduced a minimum holding period of central bank notes, while Thailand adopted a withholding tax on foreign investment in Thai bonds.

Inflationary pressures are posing another important challenge to policy makers in the region (Figure 10). Geo-political tensions in the Middle East and North Africa have pushed up oil prices once again. In addition, droughts in China might add to the already significant pressures on food prices. Countries in the region are considering a broad range of options, including subsidies and price caps and likely to tighten their monetary stance as inflationary pressures feed into core inflation expectations.

Figure 10. CPI inflation of ASEAN countries (percentage changes, year- on- year)

(a) Six countries of ASEAN (2005-2011) **(b) CLMV countries (2008-2011)**



Source: CEIC

ASEAN economies in the first half of 2011 (and beyond) are facing the double policy challenges of tightening interest rate policy to quell inflationary pressures, while avoiding additional capital inflows and maintaining competitiveness.

Finally, a tightening of monetary policy in China to restrain the very rapid growth in domestic credit that has emerged and to contain excessive increases in asset prices would likely slow Chinese real economic growth. Those ASEAN economies with the strongest trade linkages to China would likely experience some headwinds from such a slowdown.

2. Near-Term Monetary and Exchange Rate Policy Challenges

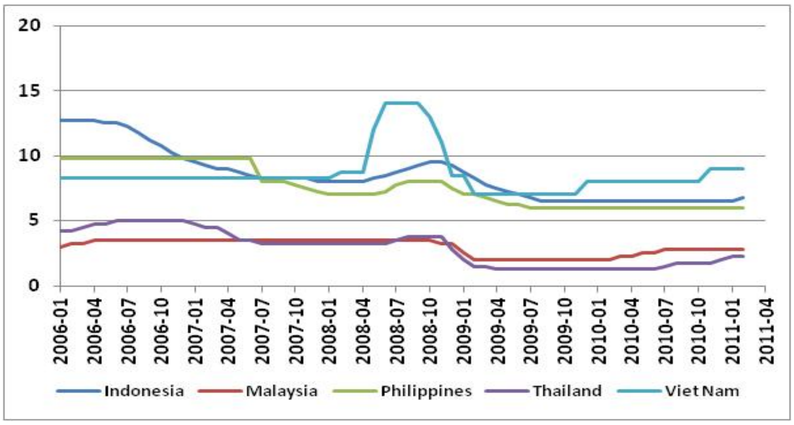
With recoveries now well underway, ASEAN macroeconomic policies will need to shift in their near-term policies toward more normal stances that can sustain growth in line with potential while restraining inflation and maintaining sound fiscal and external finances. As discussed below, there are three key challenges that need to be addressed.

- **Monetary policy stimulus and financial support measures need to be phased out, while allowing for temporary changes in course to respond to further external shocks should they arise.**
- **Greater flexibility of exchange rates is needed to support the exit measures.**
- **Strengthening regional co-operation, in particular surveillance and exchange rates, is important.**

Monetary policy has been tightened in Asia

Policy interest rate cuts came to an end in July 2009 as the economic recovery became evident and in most cases have been held flat since then. The rates are now at their lowest levels in nominal terms in nearly 5 years. Short-term market interest rates are also quite low in nominal as well as real terms, and bank liquidity is generally high. The key challenge now is to manage an exit from this exceptional monetary ease while accommodating the recovery and maintaining room to counter major negative disturbances to growth in particular, recent inflationary pressure should they occur.

Figure 11. Policy interest rates for ASEAN countries (%)



Source: CEIC

This process has already begun in a number of countries. Vietnam raised the policy rate slightly in December 2009, in part to counter pressures on its currency. Malaysia raised its policy rate three times since March 2010, by a total of 75 basis points while Thailand increased its policy rate by 25 basis points in July 2010 and again in August. Monetary tightening is also being pursued through other instruments. Singapore authorities have restored the exchange rate objective back to the 'mild appreciation' stance maintained before the crisis; and Indonesian authorities raised commercial bank reserve requirements by three percentage points in September 2010. Recently, the Philippines also hiked interest rates for the first time since 2008 and China increased the required reserve ratio.

Policy interest rates will need to rise at least enough to offset any increases in core inflation, so that real interest rates do not move in a counter-cyclical direction. However, several considerations argue for caution in monetary tightening. At least for the next several quarters, monetary policy needs to give high priority to increasing the momentum of recovery in domestic demand as a hedge against the still significant uncertainties surrounding the recoveries in ASEAN's main export markets. The fact that OECD countries have not yet begun to reverse their prior monetary easing further suggests that ASEAN countries should tighten fairly gradually, at least until real GDP returns to near its long-term trend.

As the recoveries gain momentum and investor confidence increases, the probability that asset markets will overreact causing unsustainable booms in prices (‘bubbles’) will increase. The risks of such booms in ASEAN and other emerging market economies relative to those of more advanced economies are probably accentuated by the limited development and diversity in their financial markets and their openness to sometimes very large inflows of capital into those markets. Moreover, past history suggests that boom and bust asset price cycles, if they occur, can cause serious harm to the real economies of ASEAN and other emerging Asian countries (Gouchoco-Bautista, 2009).

Monetary authorities in the People’s Republic of China are already facing this issue as the rapid growth in bank lending has threatened to restart the potentially unsustainable booms in property and stock prices that were developing before the downturn. The risks of such booms in most ASEAN economies are probably limited in the near term, given that property price increases have in most cases been moderate over the past several years and the fact that capital inflows are still subdued. However Singapore, where real estate prices have been rising briskly in some sectors and Indonesia, which has been experiencing comparatively large portfolio capital inflows, may face somewhat greater risks. Risks of financial bubbles may also rise in other ASEAN countries as their recoveries proceed, and foreign investors’ risk appetite grows. This possibility underscores the need for financial authorities to review prudential regulations and measures to sustain market transparency as the first line of defence against asset market bubbles.

Whether or not, and how, monetary policy frameworks should explicitly incorporate domestic asset prices as indicators or intermediate objectives is controversial even in theory (Box 2). Such incorporation would present considerable practical problems. It is quite difficult to determine in practice to determine whether a boom in asset prices represents a sustainable response to their fundamental determinants or an unsustainable ‘bubble’. Detecting unsustainable booms may be particularly difficult in rapidly growing economies where the relation between asset prices and observable economic conditions may be changing. Introducing additional complexity into monetary policy frameworks by incorporating asset prices as targets could make it more difficult for policy makers to clearly and credibly explain the rationale for their decisions to the markets and the public, particularly where the frameworks are relatively new, as they are in most ASEAN countries.

Given the considerable challenges monetary authorities in ASEAN and other emerging economies are likely to face, a policy of varying monetary policy instruments in response to the likely effects of the asset price increases on monetary policy objectives - consistent with the present frameworks - may prove most effective and reliable. Such a policy need not rule out policy responses on those (infrequent) occasions when asset prices become so substantially and obviously misaligned as to present a clear risk to policy objectives for inflation and real growth.

Finally, improving the capacity of policy to prevent asset market bubbles and deal with them if they occur also calls for strong co-operation between monetary policy authorities and financial regulators. Information from financial regulators can help monetary policy authorities in detecting asset bubbles and in improving their ability to interpret asset price movements. As the global financial crisis has graphically underscored, financial and monetary authorities need to jointly monitor and assess systemic risks to the economy.

Box 2: How should monetary policy react if asset bubbles arise?

While the risk of unsustainable bubbles in property, equity, or other asset markets seems limited for the ASEAN region in the near term, they are far from unprecedented and conceivably arise once global financial risk appetites recover and capital inflows into the region return.

Policies that minimise the likelihood of their occurrence are the first, and best, line of defence against unsustainable asset price bubbles. Prudent financial standards and effective regulation are crucial in this respect. This further suggests that temporary relaxations in prudential standards to encourage lending or support markets, where they were instituted, need to be phased out as soon as possible. Sound monetary policy that avoids excessive credit expansion is equally important.

There is more controversy as to how monetary policy should react to indications of unsustainable asset price increases and if so how. Theoretical arguments have been made that incorporating asset prices as intermediate targets for monetary policy can improve outcomes for inflation and real growth by preventing or limiting boom-bust cycles in financial markets (e.g. Cechetti et al 2000). However explicit targeting of asset prices presents considerable practical challenges. It is very difficult to distinguish unsustainable asset price changes from those that are justified by fundamentals. Given the large volatility in asset prices, varying monetary policy settings in response to their movements can lead to excessive and unwarranted fluctuations in monetary policy instruments (ADB, 2010). Partly for this reason, theoretical analyses suggest that any variations in policy instruments in response to asset prices need to be small and probably not continuous.

Effective asset price targeting also requires a high degree of central bank credibility (ADB, 2010). To sustain credibility, it is essential that central bank monetary policy operations be transparent and their rationale well understood by markets.

Greater exchange rate flexibility will be needed

ASEAN exchange-rate regimes are now more flexible than they were before the 1997 crisis, when fixed or near-fixed pegs to the United States dollar predominated. In practice, though, ASEAN authorities have allowed less flexibility in their exchange rates than their *de jure* frameworks would imply. Although the variability of the exchange rate of the largest five economies has been higher in recent years than in the five years prior to the 1997 crisis, it has in most cases remained lower compared to exchange rates for major industrial countries in both bilateral and nominal trade-weighted terms. Indonesia's currency has varied most and evidence suggests it has been the most flexibly managed among the major ASEAN currencies (Frankel and Wei, 2008; ADB, 2010). The currencies of the Philippines, Thailand, Malaysia, and Singapore appear to have been allowed less flexibility.

All the countries of the region have at times engaged in heavy foreign-exchange market intervention to limit fluctuations in their currencies. This intervention and the exchange-rate pressures prompting it have had an upward bias since mid-2008, resulting in substantial increases in foreign exchange reserves.[2] ASEAN authorities have also, less frequently, varied policy on interest rates in response to exchange-rate pressures, most recently in the early stages of the downturn in 2008. These interventions have been most focused on the bilateral exchange rate against the dollar, particularly in the case of Malaysia and the Philippines.

At least to some degree, such interventions might be viewed as appropriate responses to 'disorderly' foreign exchange market conditions or as a normal reaction of monetary policy to the likely impact of a substantial movement in the exchange rate on

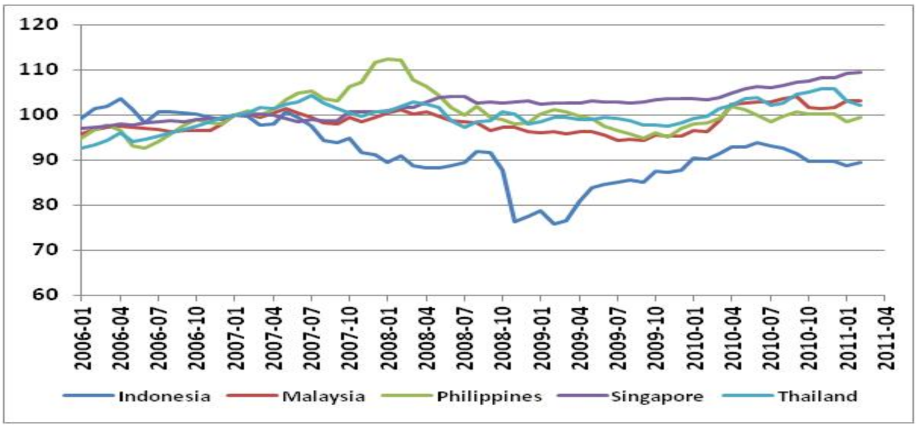
[2] Estimated 'reaction functions' determining central bank foreign currency intervention developed by ADB analysis (ADB, 2010) implies that Thailand and Singapore tend to intervene most strongly against appreciations against the United States dollar while interventions by the Philippines and Indonesia tend to be more symmetric.

domestic real growth and inflation, particularly in the most open economies. However the limited flexibility in the exchange rate that has resulted *de facto* suggests that policy has gone beyond this point.

At present, most ASEAN currencies are moderately higher, roughly 5 to 10%, on a (nominal) effective basis compared to their levels at the beginning of 2007 and are also up *vis a vis* the United States dollar (Figure 14). ASEAN currencies have fallen against the renminbi (RMB), although the decline in most cases has been modest.

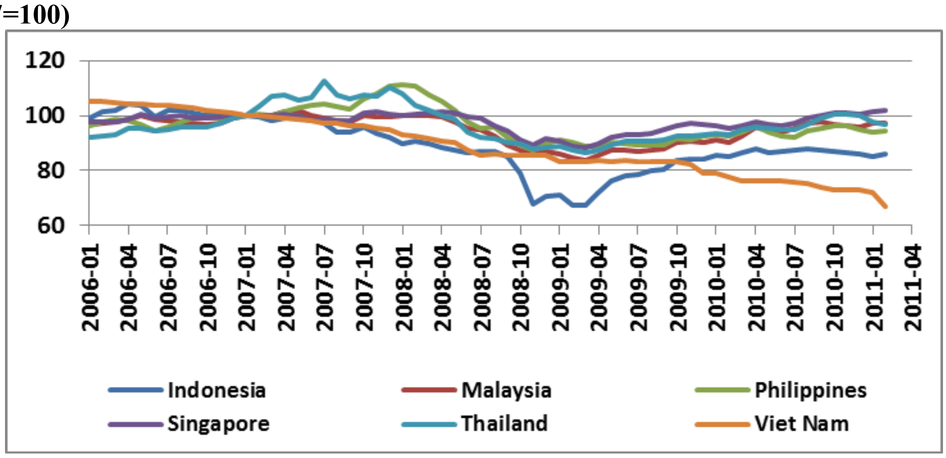
Figure 12. Exchange rates of selected ASEAN countries and China (2006- 2011)

(a) Nominal effective exchange rate (index, 2006-10, January 2007=100)



Source: BIS
Note: A decline indicates a depreciation of the currency.

(b) Exchange rates for the renminbi and Southeast Asian currencies (index, 2006-10, January 2007=100)



Source: BIS
Note: A decline indicates a depreciation of the currency.

Notwithstanding the upward pressure on exchange rates of most currencies of the region stemming from ever increasing surpluses on their balance of payments, most authorities seem to be reluctant to allow their currency to appreciate out of fear of losing competitiveness. However, the recent return to the fluctuation band of the Chinese currency regime and the subsequent appreciation of the RMB should help to reduce this risk.

To allow greater scope for appreciation of ASEAN currencies, it would be appropriate to focus foreign exchange market intervention on relieving disorderly market conditions. In principle, such intervention should be symmetric, reacting similarly and according to the same criteria to currency movements in either direction. Prolonged intervention in one direction should be confined to situations when the currency is clearly becoming seriously misaligned (e.g. in response to speculative capital inflows).

There is also a case for basing interest rate policy responses to exchange-rate movements on their impact on domestic monetary policy objectives in economies where growth is export-driven. This would imply that the policy interest rate should be reduced only if a sustained currency appreciation were deemed likely to lower real growth or inflation below central bank objectives. Allowing ASEAN currencies to rise at a moderate rate, particularly if the RMB and other Asian currencies were also appreciating, could help to contain domestic inflation pressures.

The global crisis highlights the need for review of financial regulatory and supervisory policies

The resilience of ASEAN financial institutions to the global financial crisis is mainly attributable to their very limited exposure to the complex instruments that originated the crisis and to the prompt responses of ASEAN financial authorities. Financial supervision and regulation have been greatly strengthened and principles and practices have become more closely aligned with international norms (Adams, 2008; Lee and Park, 2009). This has facilitated a considerable strengthening of bank financial soundness. Non-performing loans, while still somewhat high by best international standards in Indonesia, the Philippines and Thailand, are backed by high levels of loan provisions. The development of bond markets, although still limited, and the diversification of activities of banks and other financial institutions into household lending and more sophisticated business services, have also helped to improve the robustness of the systems (Adams, 2008).

Despite these improvements, ASEAN financial regulatory and supervisory systems remain limited compared to counterparts in the most advanced economies. Regional financial authorities are pursuing longer-term plans to further improve financial supervision and develop financial markets, in part to reduce the still relatively high dependence on banks as funding sources. The global financial crisis has increased the need for these efforts and has revealed some new lessons that need to inform policies beginning in the near-term. Three areas in particular merit review.

First, further efforts need to be made to bring regional financial regulatory and supervisory standards into better alignment with international norms, including accounting and disclosure standards and consolidated and cross-border supervision, areas where ASEAN countries compliance has been found to be somewhat below the international average (Lee and Park, 2009). Prudential rules, such as those governing leverage, the definition of capital and other areas will also need to be periodically reviewed and revised as necessary in response to the tightening of standards formulated by the BIS and the other major international financial bodies.

Second, the global financial crisis has underscored the need to review standards for liquidity management, which were found to be woefully inadequate. Such a review is particularly important for ASEAN countries given their exposure to capital flow volatility. Probably the most immediate priority is to review existing prudential standards and financial institution practices concerning foreign currency exposures to determine where and how these standards need to be strengthened. Such a review should be based as far as possible on effective stress tests incorporating realistic ‘worst-case’ scenarios including interruption of access to key markets.

Third, ASEAN authorities, as with their counterparts in the rest of Asia and in other regions, need to develop stronger capabilities for macro-prudential surveillance (MPS) of systemic risks to the financial system as a whole. The publication of regular reports assessing financial stability in a number of ASEAN countries is an important element of MPS. However more is likely to be needed, including formal designation of responsibilities for assessing systemic risks and the institution of measures to address them; and the development of indicators for assessing these risks. In strengthening their capabilities in this area, ASEAN authorities will be able to draw on efforts now underway by the Financial Stability Board and IMF to develop a framework and standards for MPS. As discussed below, these efforts could also benefit from strengthened co-operation among ASEAN countries.

Greater regional co-operation could improve policies in various areas

Enhancing ASEAN regional macroeconomic co-operation would help to reduce the vulnerability of the region to economic shocks and to ensure a sustained recovery. The recent crisis has underscored the need to strengthen macroeconomic co-operation within ASEAN, which is lagging other forms of regional co-operation.

ASEAN already has an example of macroeconomic co-operation - the Chiang Mai Initiative. This initiative was originally established in 2003 in the framework of ASEAN+3 as a series of bilateral currency swap arrangements. As originally formulated, the initiative was subject to constraints (such as the requirement that a country must approve each drawing of its currency) that limited its use. The agreement by ASEAN Finance Ministers in May 2009 to recast the facility into a single multilateral facility is intended to remedy the constraints in order to make the facility more functional.

Co-operation in some other areas deserves further attention. There have also been discussions of co-ordinated exit strategies in the context of the G20 and in Asia as well. Singapore, Malaysia and Hong Kong, China agreed in November 2009 to jointly exit from full guarantees offered on bank deposits. This plan to co-ordinate government guarantees should help in limiting risks of disruptive capital flows among the region's banks, especially in a risk-sensitive environment. Co-operation, at least through consultation, on fiscal policies could also be beneficial to the ASEAN region. Highly open economies receive only part of the overall benefit of their own fiscal stimulus actions, much of which spills over to partner countries through trade and interest rate channels. As a result of this externality, open economies, acting independently, may be more reluctant to apply fiscal stimulus to counter a regional downturn than they would be if they were acting in concert.

As their recoveries become increasingly firm, ASEAN countries, particularly those that exit from monetary stimulus earlier than OECD countries, face an increasing risk of surges in capital inflows and their potentially disruptive impacts on exchange rates and domestic financial markets. Such surges are already an issue of concern for Indonesia and China. Evidence on the effectiveness of controls and other measures to limit capital inflows is mixed. There is some agreement, though, that controls are likely to be most effective for relatively short periods of time rather than as permanent measures.

The management of capital flows is closely related to exchange rate issues. Asian economies entered the onset of the crisis with considerable diversity in exchange rate regimes: some countries have a floating exchange rate regime with considerable flexibility, while other exchange rate systems remain tightly managed. Greater co-operation on exchange rate policies, financial market surveillance and financial integration can be useful tools in managing capital flows (Kawai and Lamberte, 2008). Such co-operation can help to reduce risks of disruptive fluctuations in capital inflows and allow for orderly exchange rate appreciation while limiting adverse effects on competitiveness.

Peer review could provide an effective means of regional co-operation

The effectiveness of regional co-operation largely hinges upon the form of co-operation. Co-operation can take a legally binding rigid framework or a non-binding, flexible scheme. Peer review is an example of the latter and its "soft law" nature makes it suitable as a tool for policy dialogue and capacity building in Southeast Asia. Regional surveillance and monitoring based on peer reviews could potentially work in the region (OECD, 2008). Peer reviews could be applied to different areas of economic activity, not only to macroeconomic surveillance.

Different institutions such as APEC, ASEAN+3 and ASEAN conduct peer reviews in different ways. For instance, APEC has been using peer reviews to achieve the common goals of creating free and open trade and investment in the Asia-Pacific region (Woodhead, 2008). These goals, known as the Bogor Goals, were laid down in the Bogor Declaration in 1994. In the framework of the ASEAN+3, the Economic Review and Policy Dialogue (ERPD) process linked with the Chiang Mai Initiative is evolving. Within the ASEAN Secretariat, the ASEAN Surveillance Process (ASP) was institutionalised in 1998 after the Asian Crisis, with the aim of strengthening the capacity of policy making at the regional level. Two mechanisms facilitate this: one is a monitoring mechanism that allows early detection of problems that might affect the ASEAN economy in general and the financial sector in particular; and the other is a peer review mechanism that identifies policy issues arising from the monitoring exercises that need to be addressed. More recently, the ASEAN Surveillance Coordinating Unit (ASCU) was established within the ASEAN Secretariat to coordinate the surveillance process. This surveillance mechanism, however, is still in its infancy.

Among ASEAN countries, the peer consultation process has already started. The first example of peer review adapted to regional needs and conditions is the ASEAN Peer Consultation Framework (PCF) in the area of the forest sector. Two consultations have so far been conducted. The first consultation was conducted on the forest sector of Brunei in 2007. The ASEAN Secretariat participated in the assessment team. The second consultation was on the forest sector of the Philippines, with Indonesia and Malaysia acting as assessing countries in 2008. The implementation of peer consultation under the concept of PCF has paved a way forward for ASEAN regional co-operation.

Peer reviews are implemented in a number of ways within the OECD and are an important working method. There is no standardised peer review mechanism as such, but there are tested instruments that help member countries improve their policy making capacity. When considering the application of peer reviews to Southeast Asia, there are two major prerequisites for its success. The first is information sharing: providing high quality data in a timely and systematic manner is critical. Initial attempts by different institutions to produce high quality data in a comparable and timely manner could be useful in this respect. The other prerequisite for the success of peer reviews in the region is to ensure incentive compatibility to participate in the peer review mechanism. It is crucial to share the benefits of collective policy actions among participating countries. For instance, the reputation effect stemming from continuous macroeconomic cooperation and peer learning from other countries will enhance incentives to participate in collective actions. Strong commitment to co-operation is also critical for effective collective actions (Tanaka, 2009).

Finally, the importance of strengthening regional surveillance is now increasingly recognised. For instance, creation of a new surveillance unit in Singapore has been agreed under the framework of ASEAN + 3. Regional surveillance is being strengthened in the near term.

3. Fiscal Policy Challenges

3.1. Near-term Fiscal Policy Challenges: Stimulus should be phased out gradually

In addition to monetary policy, exit strategies for fiscal policies are also critical. The key near-term issue for regional fiscal policies is the pace at which the stimulus measures are withdrawn. Public sector deficits rose markedly in the ASEAN region during 2009 as a result of the stimulus packages and economic downturns. Most ASEAN countries' deficit rose by approximately 2-3 % of GDP.

The deficit increases were not exceptional in terms of their size - most ASEAN economies recorded somewhat higher deficit to GDP levels in at least one year over the prior decade. The increases were also moderate compared to OECD countries, where the deficit for the region as a whole increased by approximately 5 % of GDP in 2009. Although the ASEAN fiscal deficits have raised government debt levels in relation to GDP, they remain moderate if higher than in most of the rest of East Asia. Moreover, given their high potential growth rates, ASEAN public debt to GDP ratios can be brought down fairly quickly once sufficient deficit reduction has been achieved.

The pace of the implementation and freedom to slow fiscal consolidation to support growth varies across the region. Where deficit and debt levels are highest and straining the ability of available financing sources, as in the case of Malaysia and the Philippines, consolidation needs to begin fairly immediately and the scope for new stimulus measures is likely to be limited.

These considerations suggest a need for ASEAN countries to begin preparing for the 'exit' from fiscal stimulus. The 'exit', in most cases should be managed flexibly in the near term to allow for the possibility of renewed adverse shocks. Many ASEAN countries should retain some scope to reinstate carefully targeted fiscal stimulus measures (e.g. for income support or infrastructure) in the event that external demand weakens, although the lower income countries may be more constrained in their ability to take such actions.[3] Once the recoveries are more firmly established, it would be prudent to restore balance to primary fiscal deficits, in order to at least stabilise the public debt-to-GDP ratio-over the medium term. The consolidation process is likely to be most successful and robust to unexpected developments if it is embedded in an explicit medium-term fiscal strategy.

3.2. Medium- term Fiscal Policy Challenges: Rebalancing growth and credible fiscal framework

Looking at the medium-term, policy makers in the region are facing to how to move fiscal policy back towards levels consistent with a sustainable path in the medium-term while shifting a more balanced growth. Growth in Southeast Asian economies has traditionally been driven by external demand; these economies have been fast to integrate into global supply chains and flexible in meeting ever-evolving global demand. These characters are the main source of economic dynamism in the region and have helped to achieve remarkable growth rates in the past.

[3] According to IMF estimates, (IMF 2009b, October) the overall planned consolidation in these countries amounts to about 0.9 percent of GDP, higher than the contractions of ¾ and less than ½ percent of GDP now envisaged for industrial Asia and the G20 as a group. However the estimates do not take account of the recent shift in budget plans in Thailand, which now envisages less consolidation than earlier planned.

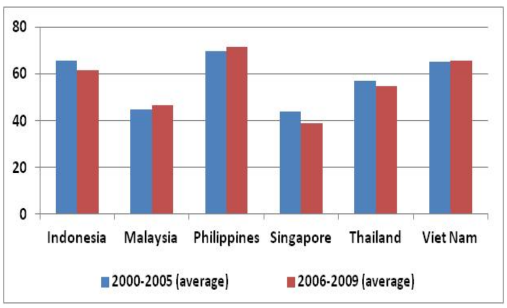
Although the global financial crisis did not have devastating effects on most Southeast Asian countries, it offers an opportunity to rethink past growth strategies. Having emerged strongly from the crisis, these economies need to exploit new sources of growth, given weaker-than-expected import demand in OECD countries (OECD, 2010). Rebalancing growth is therefore critical to achieving more stable and sustained growth in the medium-term.

Rebalancing could help sustain growth but the path of rebalancing will differ by country

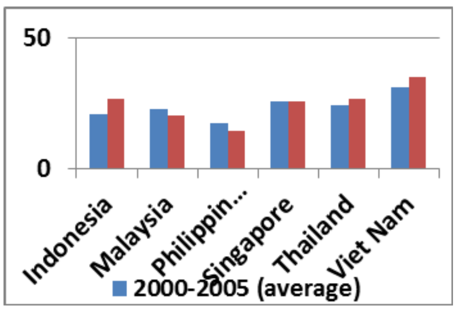
The relative importance of major growth drivers has differed considerably among Asian countries over the past couple of decades and suggests that the growth rebalancing over the medium term is likely to take different forms as well. For instance, consumption to GDP ratios vary substantially across Southeast Asia, from the Philippines at 70% to Singapore at 40%; similar diversity is also apparent in the investment to GDP ratios, which range from 30% for Viet Nam to around for the Philippines 15% (Figure 13). This suggests that rebalancing in some countries, the Philippines for example, is likely involve increasing investment while in other countries, such as Malaysia and Thailand, there may need to be greater emphasis on increasing consumption. The policies needed to achieve rebalancing are thus likely to differ among ASEAN countries.

Figure 13. Consumption and investment to GDP ratios of six ASEAN countries (in %)

(a) Private consumption, % of GDP



(b) Gross fixed capital formation, % of GDP



Source: CEIC

In general, in those economies that rely heavily excessively on exports for growth, rebalancing towards domestic demand could help maintain a high growth rate and at the same time help reduce vulnerability to external shocks. Rebalancing, however, would not mean a sudden switch to domestic-driven growth – a move that might prove disruptive - but rather a gradual boost to consumption and investment while exports remain a major driver of growth. In economies that were not as export-driven in the past, rebalancing may include a greater exploitation of opportunities for exports. In this sense, rebalancing may mean more reliance on domestic demand in some countries but greater dependence on exports in others.

Rebalancing growth is a broad concept - there is no definitive path of rebalancing. As the challenges for rebalancing countries face may differ, development strategies to achieve rebalancing are also likely to be different. Many ASEAN countries already recognize the need to change their growth strategies and have included (or plan to include) an element of rebalancing growth in their new medium- term development plans, in particular, Malaysia and Thailand (see Box 3).

In Thailand, where growth has been dependent on exports, has comparatively great room for boosting domestic demand in a rebalancing strategy. Social policies would be critical to rebalancing, particularly policies to address population ageing, income disparities, and a safety net for employment. For Malaysia, the development of the private sector, in particular small and medium-sized enterprises (SMEs) is critical for stimulating domestic demand, together with shifting to knowledge-based industries. Singapore is aiming to strengthen its human capital to be a hub of the global economy. Coping with its vulnerability to external shocks will be critical and will require improvement in the business environment. Considering the small size of the domestic market, rebalancing needs to be more focused on supply side productivity growth, based on fostering skilled labour.

Indonesia, boasting sound macroeconomic management, including recent fiscal improvements, is now trying to make full use of its large domestic market. Domestic purchasing power is increasing and gradually placing the economy on a domestic demand-driven growth path. Maintaining steady private consumption and investment growth is important for rebalancing. In addition, there is a potential to increase exports by reducing transport costs by overcoming infrastructure bottlenecks, easing behind-theborder regulations, removing remaining barriers to trade, and increasing the value added of exports. In Viet Nam, improvement of macroeconomic management is the priority. Reform of state-owned enterprises is also critical for rebalancing. In the Philippines, infrastructure development is urgently needed and could also attract foreign investment. The information and communications technology industry (ICT) has important potential for this country, but income disparities and poverty remain big problems for sustained growth.

Box 3. Summary of medium-term development plans in ASEAN countries

Malaysia and Thailand are addressing the challenges of rebalancing growth. The new Malaysian plan (10^{th} Malaysia Plan, 2011-2015) targets an average annual growth rate of 6%, which will be supported by RM 230 billion during the five years (equivalent to approximately 34% of GDP in 2009) of public outlays. In order to ensure this target, the focus is to shift to a high value-added and high-income economy and to transform the structure of the economy. The strategy to promote domestic demand to become a major driver of growth includes energising the private sector and creating an environment which encourages productivity growth. The government will also leverage more vigorous private sector expansion, particularly in taking the lead in the development of new growth areas. The new sources of growth will be healthcare, education and ICT and will depend on innovation and high quality of human capital.

Thailand faces major changes under the 10^{th} National Economic and Social Development Plan (2007-2011). Many of the reforms in the medium-term development plan are intended to achieve greater balance and sustainability in growth. In particular, following the global financial crisis, the Thai government is trying to change the direction of development by focusing on rebalancing growth. The new development plan starting from 2012 will focus on agriculture, infrastructure, education, healthcare, energy, and community-based development. In addition, co-operation with neighbouring countries, especially the development of the Mekong sub-region, will play an important role in boosting economic growth.

Viet Nam is also seeking socio-economic development together with macroeconomic stability. The objective of the forthcoming medium- term plan (2011-2015) is to retain a high economic growth rate based on continued structural adjustment, improvement in competitiveness, and global integration while fostering socio-economic development. The draft plan sets an average GDP growth target of between 7.5-8.5% per annum for the five years and mandates a number of specific tasks including stabilising the macro-economy and renewing the model of growth; improving the market economy institutions within the socialist system; creating a non-discriminatory, transparent, stable and open investment environment; and reforming the state-owned sector.

Indonesia and the Philippines plan to focus on boosting employment and reducing income inequality. Indonesia's National Development Policy in 2010-2014 stresses sustainability and a more equal income distribution. Social security must be developed in order to make workers more productive, educated and skilled. The Plan also sets some development targets such as achieving average annual economic growth of 6.3-6.8% p.a., average annual inflation of 4-6% p.a., an unemployment rate of 5-6% by end-2014, and a poverty rate of 8-10% by end-2014.

The basic task of the Philippines Medium-Term Development Plan (MTPDP) 2004-2010 is to fight poverty. The country aims to open up economic opportunities, maintain socio-political stability, and focus on strategic measures and activities that will spur economic growth and create jobs.

Singapore aims at enhancing human capital development. Singapore has set a target for productivity growth of 2 to 3% per year over the next 10 years, more than double the 1% rate achieved over the last decade. This involves a major transformation of the economy, including deepening human capital; raising business efficiency; expanding global markets; and capturing new growth opportunities in order to promote high value-added activities within Singapore. The government will also invest in education, advanced skills development, research capabilities, and the infrastructure and connectivity needed for a global city.

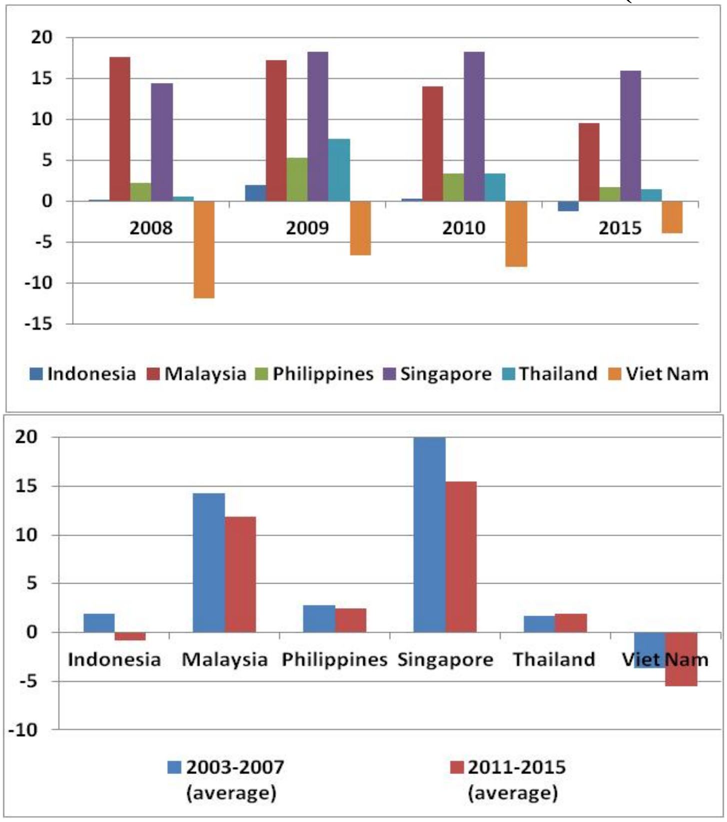
Current account balances are expected to shrink gradually as the growth of imports outpaces that of exports

A large and persistent current account surplus is a relatively new phenomenon in Asia. In fact, many countries in the region ran current account deficits before the Asian crisis in 1997-1998 owing to high investment and consumption rates. After the Asian crisis, savings remained relatively buoyant, while the ratio of investment to GDP fell, transforming Southeast Asia from a current account deficit to a current account surplus region.

The region-wide average current account balance is projected to fall from 6.4% of GDP in the pre-crisis period to 4.2% in the post-crisis period because of a more rapid rise in imports than in exports. This decline reflects the moderate progress in growth rebalancing projected for the medium term. While current account balances are expected to deteriorate, they will still be in surplus in most ASEAN economies. The exception is Viet Nam, which recorded current account deficits even before the crisis, reflecting robust import demand due to high GDP growth, large-scale infrastructure projects and tariff reductions.

The medium-term projection results of Southeast Asian Economic Outlook 2010 (see Box 4) suggest that the current account surplus as a share of GDP will slightly decrease in Thailand, the Philippines and Indonesia from 2010 to 2015 (Figure 14). In contrast, the fall in the current account surplus is projected to be relatively large in Malaysia and Singapore, where dependence on external demand is higher. Both countries need to compensate for weak external demand in order to maintain high growth rates. Malaysia has more room to boost consumption than Singapore owing to a larger internal market, Singapore’s comparatively high income provides potential for increasing domestic demand to reduce vulnerability to external demand shocks, but the scope for rebalancing towards consumption will be limited owing to the small size of the domestic market.

Figure 14. Current account balance of six ASEAN countries (in % of GDP)



Source: OECD Development Centre, MPF-SAEO 2010

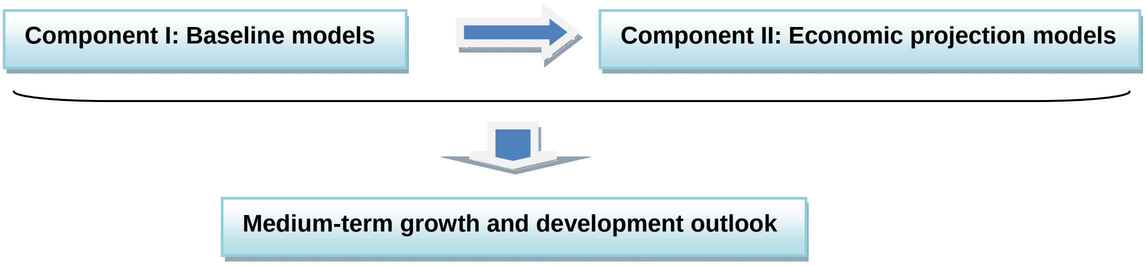
Box 4. The Medium- term Projection Framework for Growth and Development

Framework

The OECD Development Centre constructed the Medium-term Projection Framework for Growth and Development to provide medium-term growth and development scenarios for the Southeast Asian Economic Outlook 2010. The Framework has two components: i) baseline models for medium-term projections and ii) economic projection models, as illustrated below.

Baseline models determine potential output and the output gap, while the economic projection models provide the components of output and other variables; First, the baseline models derive the GDP series that are consistent with the output gap's closing by 2015. Then these reference series are used as input to economic projection models to obtain a set of variables from the models.

How is MPF-SAEO 2010 constructed?



Source: OECD Development Centre, MPF - SAEO 2010

i) Baseline Models: Estimation of the output gap and potential output

One of the key assumptions for the medium-term projections is related to potential output, which is estimated by baseline models.

In Southeast Asia, there is no comparable information on output gaps and potential output. Conventionally, potential output is measured either by applying a statistical filter to actual real output data, such as the Hodrick-Prescott filter, or by a production function approach in which potential output is related to labour and capital inputs. The filtering approach is relatively easy to produce results but there are drawbacks resulting from potential instability in the estimates and the need to specify a value for potential for one period ('end-point' problem); moreover the filtering approach lacks a theoretical base. The production function approach is widely used, but its application to Southeast Asian countries has its limits related to the lack of reliable data.

The estimates of potential output and output gaps used in the baseline models of MPF-SAEO 2010 are based on an alternative approach that has been recently developed, the dynamic stochastic general equilibrium (DSGE) method. The properties of potential output and output gap fluctuations derived from the DSGE approach can be different from those derived from the filtering or production function approaches. A clear advantage of this approach is that it can provide comparable information on potential output and potential output for Southeast Asian countries by using relatively easily available data (for instance, GDP, inflation, and interest rates). In addition, this approach has strong theoretical foundations which explicitly reflect economic optimisation problems and this approach can take account of different types of shocks from both the supply and the demand side.

The model for each country is based on a new Keynesian framework that consists of a dynamic Investment-Savings (IS) equation, a Phillips curve (aggregate supply equation), and a monetary policy reaction function. Equilibrium dynamics are driven by four exogenous shocks: technology, price mark-up, external demand, and monetary policy shocks. The baseline models' parameters are estimated using Bayesian methods. It is assumed that the shocks in the last sample period gradually converge to zero following the estimated stochastic processes. Under these assumptions, the output gap for each country converges to zero by 2015.

ii) Economic Projections Models

With reference to GDP projections conducted by baseline models, economic projection models are used to provide details of the projections for SAEO 2010. Economic projection models are medium-scale demand-driven economic forecasting models that comprise a set of equations describing the five sectors of the economy: real sector, monetary sector, fiscal sector, balance of payments sector and debt sector. The results of projections are derived through iterations to identify a set of economic variables in all sectors including the current account, fiscal balance, investment and private consumption. The Economic Projection Models take into account national development plans considering their feasibility given the budgetary and other circumstances.

Process

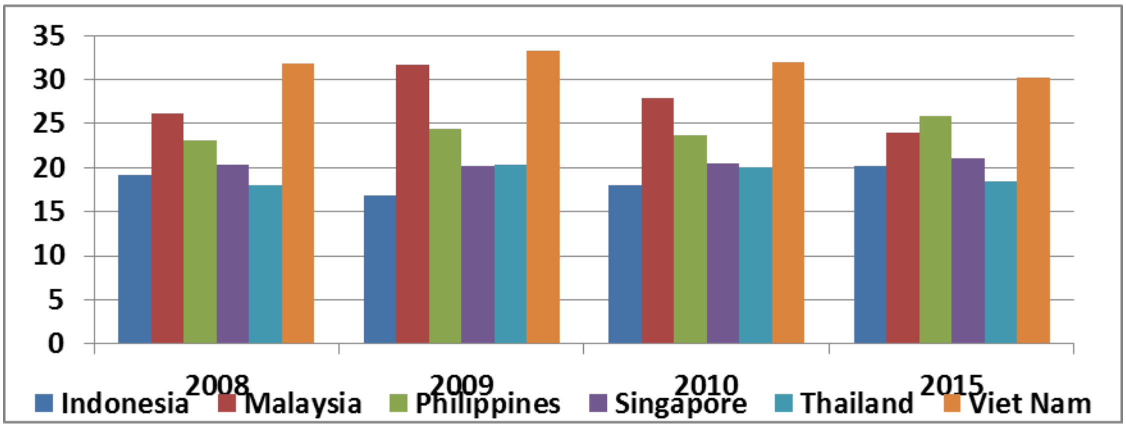
Supplementary data and insights into policy directions were provided during the OECD Development Centre's medium-term outlook missions in July and August 2010. The preliminary results were also discussed with governments and central banks in Southeast Asia during the missions.

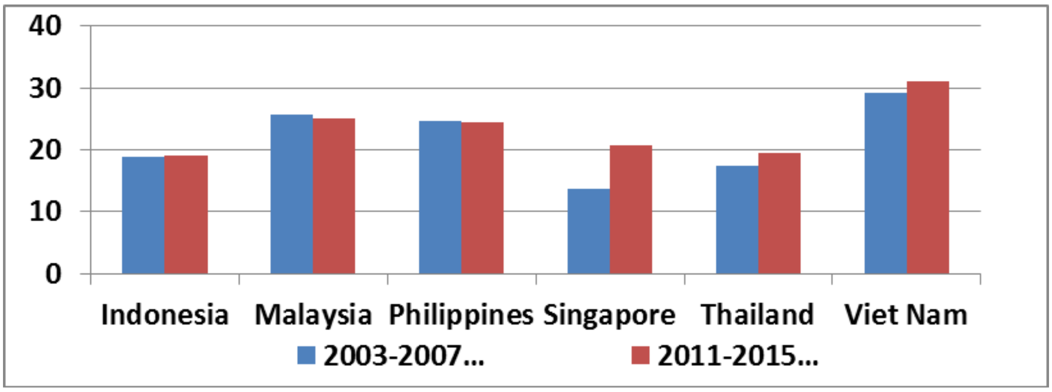
For more detailed information, please see the home page of www.oecd.org/dev/asiapacific/mpf.

Moving fiscal policy back towards levels consistent with a sustainable path in the medium term will be critical

The fiscal stimulus packages along with the fall in revenues during the downturn plunged all the Southeast Asian economies into fiscal deficits that are too large to be sustainable in the longer-term. The exception is Singapore, which had a strong balance sheet before the crisis. Looking forward, government spending is projected to be carefully and gradually cut back while assuring that the recovery is sustained, particularly for the first few years of the projection period. The extent of consolidation, however, will be relatively limited in most economies as they face large demand for public investment in infrastructure. Government spending is projected to grow at 20.3% on average over 2011-2015, slightly down from the pre-crisis figure of 21.5%. The growth of government spending will be slower in Malaysia and the Philippines than in other countries, reflecting their more constrained budgetary situation. Viet Nam's high budget deficit of approximately 9% in 2009 similarly leaves little room for further spending growth (Figure 15).

Figure 15. Central government expenditure of six ASEAN countries (in % of GDP)





Source: OECD Development Centre, MPF-SAEO 2010

While policy measures for increasing revenue (such as improving tax administration and expanding the tax base) may be constrained until the recovery is further advanced, there will be pressure for fiscal consolidation on the expenditure side in the medium term. However, care should be taken when cutting expenditure. Cutting development expenditure could erode the future productivity of the economy and inappropriate expenditure cuts in social welfare such as pension provision and fuel subsidies may also adversely affect the poor and vulnerable, worsening inequality and aggravating political instability, as well as decelerating private consumption. Some ASEAN economies, for instance Thailand and Indonesia, are ageing fast and are expected to see more increases in social expenditure in future. In these economies, cutting expenditure is expected to be hard to implement.

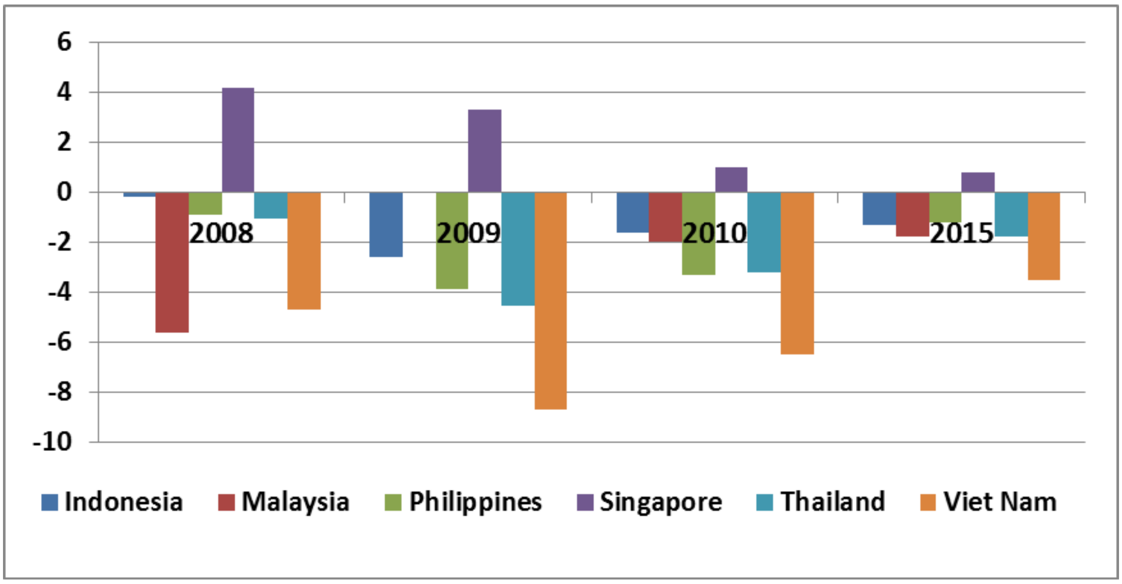
In the medium-term therefore, fiscal balances in most of the economies are projected to return to pre-crisis levels only slowly (Figures 16). The exception is Singapore, whose fiscal performance is still favourable and is likely to improve further thanks to profit transfers from the sovereign wealth funds such as the Government of Singapore Investment Corporation and Temasek Holdings. In Viet Nam, on the other hand, the many infrastructure projects in the pipeline will leave the government little possibility to curtail spending. In Malaysia, fuel subsidies are expected to increase as fuel consumption rises with economic growth, unless a drastic subsidy cut is implemented. At the same time, volatility of oil price movements and hence unpredictability of oil revenue, which accounted for more than 40% of total revenue in 2009, represents a downside risk for public finances. In addition, food price hikes will make it extremely hard for the government to implement fiscal consolidation by cutting subsidies. In Thailand, expenditure cuts have to be implemented very carefully, in part to avoid further political turmoil that could impair the growth momentum by damaging investors’ confidence.

Public debt ratios to GDP are expected to increase in the next few years because of the fiscal stimuli undertaken in 2009 and 2010 and gradually decline as fiscal consolidation advances. In the medium term, many Southeast Asian countries will face a trade-off between robust expenditure growth to meet public investment targets and cutting back spending to maintain fiscal sustainability. The reduction of public debt will be gradual in most Southeast Asian countries, except the Philippines, where it will be more rapid as this country is in a more urgent need of putting its public finances in order (Figure 17).

Although the levels of public debt relative to GDP in the ASEAN economies are not very high by international standards, ranging from 40% to 60% of GDP (except for Singapore), and the shares of public debt held externally are also relatively low, it has to be noted that how the governments manage public debt still affects investors’ confidence and capital inflows, which are a significant driving force in the region.

As primary balances will remain negative for most ASEAN economies over the projection period, they will need to strengthen fiscal management practices to ensure sustainable public finances (Figure 18) as further discussed in the next section.

Figure 16. Fiscal balance of general government in six ASEAN countries (in % of GDP)



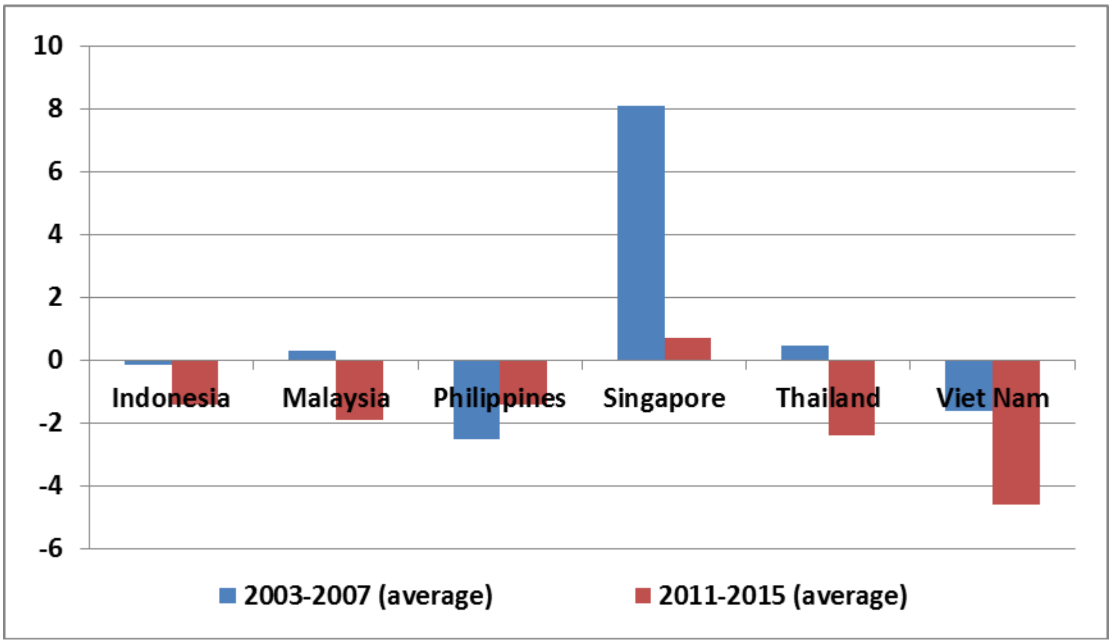
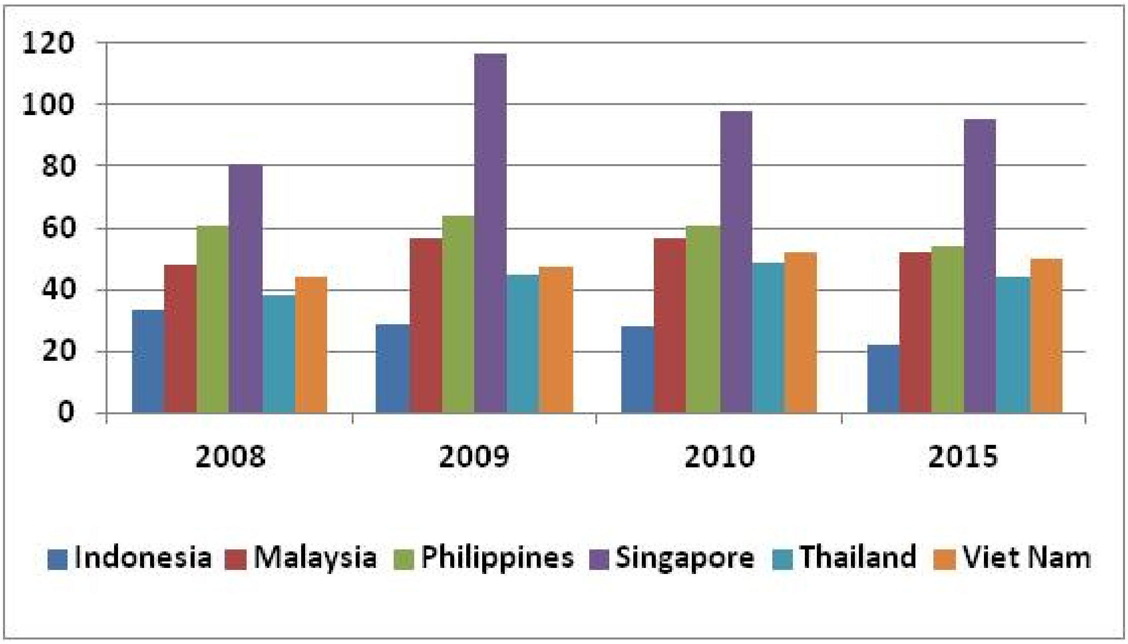


Figure 17. Public debt to GDP ratios of six ASEAN countries (in % of GDP)



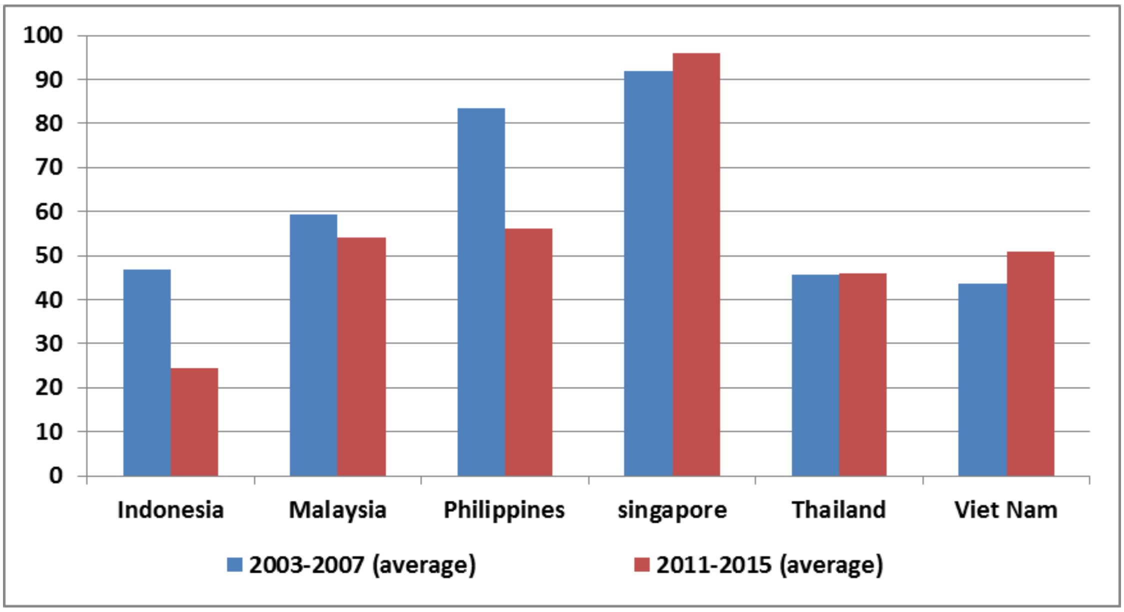
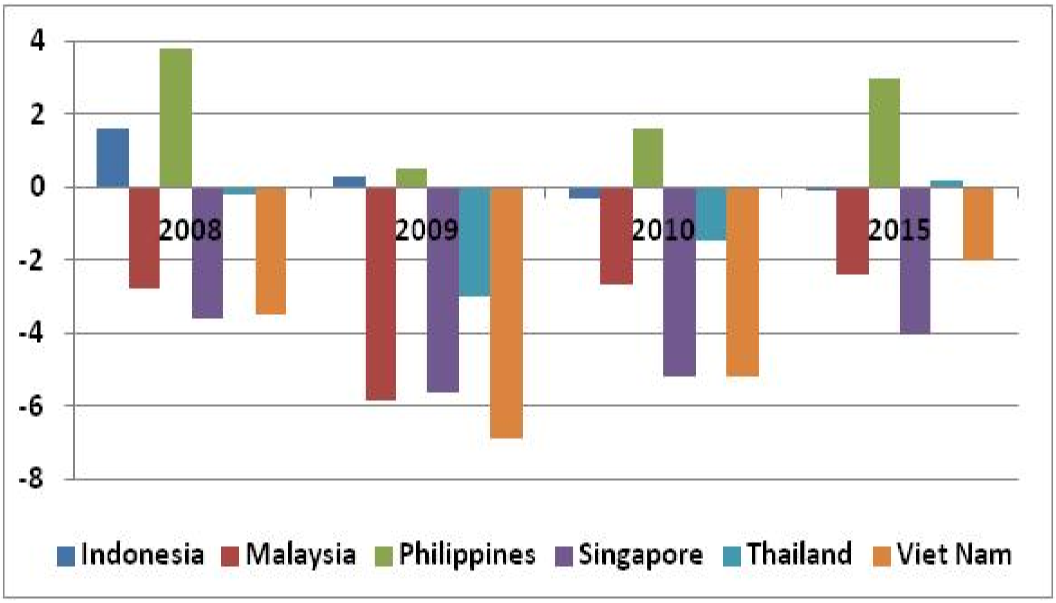
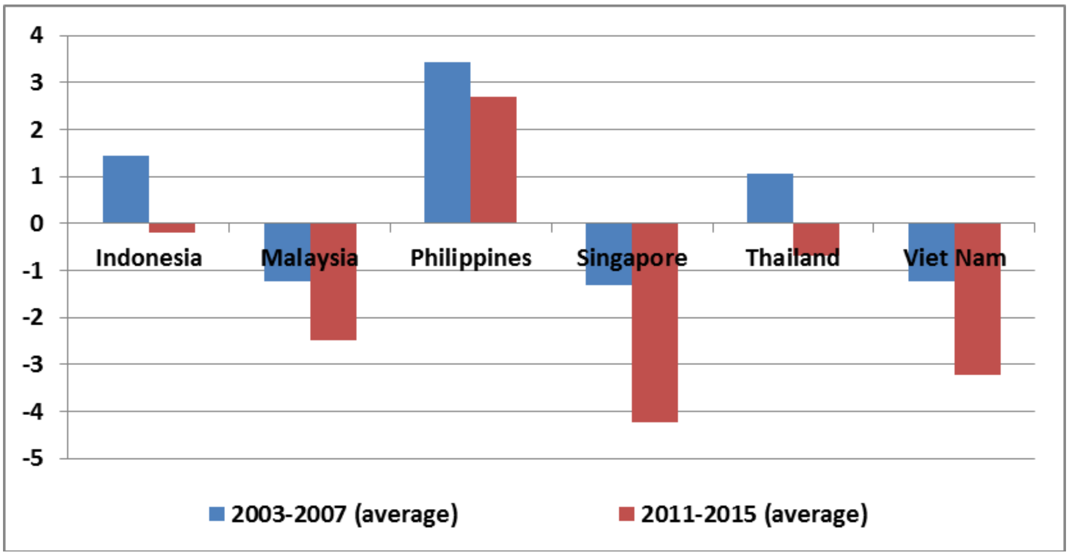


Figure 18. Primary fiscal balance of six ASEAN countries (in % of GDP)





Source: OECD Development Centre, MPF-SAEO 2010
Note: The primary balance is the general government budget balance without interest payments.

Credible medium-term fiscal framework is important to sustaining growth

Appropriate medium-term development plans and their implementation should be a first step in the rebalancing process. In fact, most Southeast Asian countries have already included policies for rebalancing in their new medium-term development plans. Myriads of infrastructure projects are planned for the coming years and it is difficult to argue against the necessity of such projects. The large need for infrastructure in the region implies large burdens on budgets. A major issue is how to accommodate these burdens while re-establishing sustainable fiscal positions. This is even more important given the reduced fiscal space owing to the large-scale stimulus packages to address the adverse impacts of the global financial crisis.

Credible medium-term fiscal frameworks would be useful tools to enhance the feasibility of medium-term plans, in particular large infrastructure projects. Such frameworks would be also helpful in achieving the fiscal consolidation that will be needed in the medium-term and allow for more efficient use of scarce public resources.

As discussed further in the remainder of this section, strengthening of medium-term fiscal frameworks should be guided by three key issues.

- **Appropriate fiscal rules need to be the core element of the fiscal framework.**
- **Independent fiscal institutions (or fiscal councils) can oversee fiscal rules and provide flexibility to the rules if needed.**
- **Medium-term budgetary frameworks consistent with medium-term development plans can strengthen fiscal rules by anchoring expectations.**

Well-designed fiscal rules are the core part of a credible fiscal framework

The major rationale for fiscal rules is the deficit bias that prevents governments from committing to prudent policies. In cases where they do commit, there is the time inconsistency issue, whereby there is a time lag between commitment and action leaves open the possibility that governments may renege. The time inconsistency issue has another dimension: governments may try to saddle their successors (who may be rivals) with large debt so that they have less fiscal space to carry out spending programmes that may not be approved by the present government. To address reneging issues, fiscal rules can be powerful tools. Rules can concern revenues, expenditures, the budget balance and debt (Table 1). Rules concerning expenditure and the budget balance are the most common, given that governments have more direct control over them.

Table 1. Fiscal rules

Budget balance rules	Can be specified as overall balance, structural or cyclically adjusted balance, and balance over the cycle; can help ensure that the debt-to-GDP ratio converges to a sustainable level.
Debt rules	Set an explicit limit or target for public debt in percent of GDP.
Expenditure rules	Usually set permanent limits on total, primary, or current spending in absolute terms, growth rates, or in percent of GDP.
Revenue rules	Set ceilings or floors on revenues and are aimed at boosting revenue collection and/or preventing an excessive tax burden.

Source: OECD Development Centre based on IMF (2009)

The reneging problem occurs owing to the deficit bias arising when certain interest groups succeed in getting larger marginal benefits than the cost they have to pay. These groups try to increase the types of spending they benefit from, resulting in expenditure slippages and deficit surges. No matter how well designed, expenditure or balanced budget rules alone cannot ensure debt sustainability. At present, very few countries have adopted debt rules that aim at reducing the debt stock. A possible rule to promote debt reduction is a requirement to use unexpected revenues for debt repayment.

Given the economic diversity of the region, a one-size-fits-all approach will not be applicable to ASEAN countries (Adams *et al.*, 2010). Among the Southeast Asian countries, Indonesia has a set of fiscal rules similar to the Maastricht criteria of the European Union. It has a deficit limit of 3% of GDP and a debt ceiling of 60% of GDP. Given that these figures were set for European Union, countries that have lower potential growth rates, such a set of rules seems quite prudent for an emerging economy like Indonesia, which has a relatively low level of debt and high growth potential. Singapore has also adopted fiscal rules concerning the budget balance and net investment income. In any year, the government is obliged to balance the budget and can only draw upon accumulated surpluses in earlier years during their term; the government can spend no more than half of the annual net investment income from its accumulated funds. The Constitution also allows for diverging from the above rules by including an escape clause (Blondal, 2006). With the approval of the president, in exceptional circumstances, past reserves can be drawn upon. Malaysia's fiscal rules relate to the budget balance and the level of public debt. These laws stipulate that foreign debt can't exceed RM 35 billion (roughly 5% of 2009 GDP), that domestic debt can be no more than 55% of GDP, that outstanding treasury bills can't exceed RM 10 billion at any time, and that debt can only finance development expenditure.

Several other ASEAN countries have no explicit fiscal rules as yet, but their adoption could be helpful in establishing the fiscal discipline necessary for the implementation of medium-term plans and to ensure the sustainability of public finances. The budget balance rule is essentially a guideline aiming at an operating surplus, while the debt rule is enacted in a set of laws.

Appropriate fiscal rules can help avoid high debt levels

Fiscal rules are adopted with the purpose to keep governments to their commitments to sustainable public finances. High levels of debt would be also detrimental to growth. Reinhart & Rogoff (2010) argue that for industrialised countries, a public debt ratio above 90% of GDP ratio threshold lowers the median growth rate by one percentage point. They also show that the source of financing, i.e. external or internal, matters for the growth effect. Moreover, the growth effect is different for emerging economies, with growth adversely affected at a lower debt ratio and by a greater amount when debt rises above the critical ratio: once the external debt to GDP ratio surpasses 60%, growth declines by 2 percentage points. In addition, high levels of debt imply higher risk premia, as investors need to be compensated for higher default risk. This increases the debt service burden and makes it more difficult to issue new debt in case of an adverse shock. High debt levels can also bring about higher inflation. According to Reinhart and Rogoff (2010), in advanced countries there is no link between inflation and public debt levels, while in emerging economies there is a strong correlation. This contrast may reflect the much more limited development of financial markets in emerging economies compared to advanced economies, which makes it difficult to finance budget deficits by borrowing from the private sector rather than through central bank credit expansion.

Moreover, higher debt entails higher debt service and more government expenditures must be devoted to paying interest on outstanding debt. Historically, countries have found that higher debt service crowds out other forms of government expenditures, especially on growth-enhancing activities. Such crowding out effects of high debt are particularly detrimental to ASEAN countries, most of which have large needs for growth-enhancing and development-related expenditure. Higher debt may also imply reduced flexibi

lity for the economy to react to sudden shocks. This is another reason for Southeast Asian economies to adopt a fiscal framework that limits debt to sustainable levels, given that most of these countries are very open economies and some are commodity producers (see Box 4).

Although public finances in Southeast Asia are in a relatively healthier state than in many OECD countries, the large stimulus packages necessitate consolidation once recovery is under way. An important question when implementing consolidation plans is the pace at which the deficits should be brought down. Economic theory provides some guidance with regards to the speed of fiscal adjustment in relation to economic circumstances. In countries where debt is comparatively high and investors are relatively risk averse, a more speedy adjustment is needed (Bi, 2009). The empirical literature on fiscal consolidation suggests that although gradual adjustments appear to be more successful in bringing the budget balance back to normal following sharp rises of debt and deficits, a cold shower approach may be more effective (European Commission, 2007). Considering these circumstances, the speed of adjustment for Southeast Asian countries must be assessed in the country-specific context.

Box 4. How large can the public debt be and what should the debt be used for?

While it is accepted that governments must seek to maintain a sustainable debt to GDP level in the long-term, there is no consensus on the maximum debt level an economy can tolerate. Obviously, governments couldn't increase debt levels without limit: as a share of GDP, tax revenues have some maximum level and spending has some minimum level. At those levels, the natural fiscal limit is reached and the economy cannot support a value of debt higher than that limit (Bi, 2009). By pushing more debt into the future, economy is brought closer to the fiscal limit and fiscal flexibility will be more limited. This constitutes a greater risk as populations are aging worldwide, and fiscal flexibility will be needed in the future to address the issue of age-related spending needs.

Debt *per se* is not an undesirable burden as long as it is sustainable, given that it provides a tax-smoothing opportunity. Barro (1979) assert that under the cyclical economic situation, taxes could contribute to smooth over time and government debt could be the shock absorber because tax rates will not change flexibly. Kirsanova and Wren-Lewis (2007) also argue that debt is a better shock absorber than tax rates, therefore debt should be used to smooth fluctuations in government income. Given that in some Southeast Asian countries the volatility of government income is particularly high owing to a reliance on oil- and natural resource related revenue (in Indonesia and Malaysia, in particular), debt play an role in smoothing fluctuations in government revenue. In addition, a framework to bring down sharply increased deficits and control public debts resulting from commodity price changes is even more important.

Fiscal councils could complement fiscal rules

In contrast to monetary policy, which normally has narrowly defined targets (price stability and growth, at times supplemented by other objectives, such as reducing the risk of financial crisis), fiscal policy has more numerous objectives that can differ by country. Hence, meeting all the objectives for fiscal policy would require a complex set of rules that may be difficult to implement. Owing to design and implementation issues, an independent fiscal authority could be useful to provide flexibility to the formal rules, which are by nature more rigid.

ASEAN countries are in particular need of such flexibility, given the large volatility of the tax base in some of them, which implies a need for discretion in the implementation of fiscal rules. Such discretion could be provided by an independent institution given that the government is always susceptible to deficit bias. Independent fiscal institutions are relatively new even in OECD countries, some of which are using the post-crisis period to bring public finances back onto a sustainable path by establishing such institutions. Independent fiscal institutions are often entrusted with providing macroeconomic forecasts that in some countries have to be used for budget preparation. Another typical task includes the evaluation of government policy proposals and their economic impact. Fiscal councils can be a powerful force for transparency in cases where the government faces political pressures to misrepresent the effects of its policies in its budget proposals.

Southeast Asian countries have not established independent budgetary institutions yet, although the President of Singapore performs such a role. For any government to use past reserves for spending, the approval of the President is needed and in this sense the President enforces the constitutional fiscal rules (Blondal, 2006). The President, however, does not make the decisions on this crucial point by himself, but must consult the Council of Presidential Advisors. In other Southeast Asian countries, an independent view on fiscal policy and the government's adherence to rules would be useful as well.

An appropriate medium-term framework is critical to achieve targets

Given the important role expectations play in the behaviour of the public, an effective framework for establishing credibility with investors and the public is needed. The government could help to achieve such credibility by anchoring policy actions in a medium-term framework that ideally would include targets at least for revenues, expenditures, deficits and debts in the medium term. The framework should also incorporate responses and outcomes under different scenarios ('stress tests'). The design of such frameworks should be country specific. For example, when the public debt to GDP ratio is initially above the government's long-term target, the framework should specify a specific path for primary budget surpluses needed to bring the debt ratio back down.

In several countries some form of medium-term expenditure framework is in place. Malaysia, for instance, publishes budgetary targets for medium-term development plans by main revenue and spending categories. In the Philippines, medium-term frameworks have became operational in 2006 (Blondal, 2010). The framework has a three year horizon comprising the current budget year and the following two years. Indonesia is also introducing a medium-term framework. For such frameworks to be useful, it is important to update them regularly, to formulate them in a manner consistent with the way the budget is compiled and to place the responsibility of adhering to the framework with the institutions and officials that are responsible for formulating the budget.

Well-designed fiscal rules, a fiscal council that publishes objective reports on government policies and provides recommendations, and a medium-term budgetary framework with achievable objectives can considerably improve the prospects for long-term fiscal soundness. However formal rules and institutions alone are no absolute guarantee for fiscal discipline. It is government commitment that reinforces the power of this set of tools. If the government does not incur any social cost for breaching the fiscal rules, ignoring the reports of the fiscal council or not observing medium-term objectives, even the best set of institutions may prove ineffective.

Conclusions

The Asian countries have been able to recover remarkably well from the shock created by the global financial crisis. Their recoveries have gained considerable momentum over the past year and have become increasingly driven by domestic rather than external demand. Sound macroeconomic policies sustained in the run-up to the global financial crisis allowed Asian countries to use counter-cyclical monetary and fiscal policies to a much greater extent than in past regional cycles. The rapid and effective implementation of these policies was instrumental in limiting the economic downturns and initiating the rapid recoveries.

The key near-term challenge is to exit from the counter-cyclical policies, beginning with monetary policy while inflationary and financial pressures are increasing. Greater flexibility in exchange rates is required to deal with rising capital inflows into the region. The success of regional exit policies would be further enhanced by greater regional consultation and co-operation on macroeconomic and financial policies. While regional co-operation may take different forms, OECD's peer review mechanism presents a flexible instrument which may be suitable for policy dialogue and capacity building in Southeast Asia.

The crisis has also underscored the need for rebalancing growth in the region toward less dependence on exports and greater dependence on domestic demand. Sustaining rapid but more balanced real growth poses major challenges for fiscal policies in the region. Fiscal deficits need to be brought down at a pace that allows the recovery to continue but which is rapid enough to ensure that public debt levels in relation to GDP remain sustainable. The challenge is all the greater given the substantial need for infrastructure investment in coming years to foster the region's further economic integration, to meet internal development objectives, and to sustain the international competitiveness of ASEAN countries.

Improvements in the fiscal frameworks used by governments in the region will be important to achieving these goals while sustaining fiscal soundness. Credible medium-term fiscal targets and specification of the means to achieve them are fundamental to such frameworks. Well-designed fiscal rules and independent fiscal institutions can further enhance the effectiveness of the frameworks by reducing the risk that unanticipated developments will prevent fiscal targets from being achieved and by encouraging governments to adhere to their commitments and to provide accurate and transparent information on their policies. A number of Asian countries have taken steps to improve their fiscal frameworks in recent years but further efforts will be needed.

Appendix: List of variables of the ABCIs

The ABCIs use components listed below:

A. Composite Coincident indicators

ASEAN countries

<u>Indonesia</u>

1) Manufacturing production index (Volume)
2) Cargo unloaded at 4 main ports (Ton)
3) Exports (Total) (Value)
4) Retail sales index of household appliances (Value)
5) Electricity consumption (Total) (KWH)

<u>Malaysia</u>

1) Industrial production index (Volume)
2) Electricity consumption (Total) (Kwh)
3) Number of new registrants as unemployed
4) Exports (Total) (Value)
5) Price of standard Malaysia rubber

<u>The Philippines</u>

1) Gross value added: Industry (Philippine Peso)
2) Gross value added: Services (Philippine Peso)
3) Diffusion index: Average capacity utilization (%)
4) Exports (Total) (Value)
5) Manufacturing sales (Total)

<u>Singapore</u>

1) Industrial production index (Total, excluding Rubber processing) (Volume)
2) Retail sales (Total) (Value)
3) Construction contracts awarded: Private (Singapore dollar)
4) Singapore airlines: Cargo carried (Kg)
5) Number of air passenger departures
6) Number of petitions for bankruptcy

<u>Thailand</u>

1) Manufacturing production index (Volume)
2) Capacity utilization rate (%)
3) Newly registered capital investment of business registered at Ministry of Commerce (Thai Baht)
4) Manufacturing production index: Electronic products
5) Number of registered applicants as unemployed
6) Imports (Total) (Value)
7) Retail sales index

Other emerging Asia

China and India

China

1) Industrial production index (Total) (Volume)
2) 500 Industrial Enterprises: Diffusion index: Fixed asset investment (%)
3) Gross sales output (Value)
4) Number of Employee: Manufacturing
5) Imports (Total) (Value)
6) Production of electricity (Total) (KWH)
7) Government revenue: Taxes

India

1) Industrial production index (Total) (Volume)
2) Industrial production index: Food (Volume)
3) Industrial production index: Manufacturing: Production of cotton textiles (Volume)
4) Passenger traffic: Domestic (Person)
5) Cargo handled: Domestic (Ton)

B. Composite Leading Indicators

ASEAN countries

Indonesia

1) Consumer Survey Index: Consumer confidence Index
2) Bank of Indonesia Policy Rate (1 month) (%)
3) Jakarta Stock Exchange: Composite equity market index
4) Producer Price Index/Wholesale Price Index
5) Exchange rate of Indonesian Rupee against US dollar
6) Industrial Production Index: Manufacturing: Paper and Paper Products (Volume)
7) Visitors arrivals through eleven main gates

Malaysia

1) Consumer price index (% change)
2) Money supply (M1)
3) FTSE Bursa Malaysia: Composite equity market index
4) Cargo discharged (Metric Ton)
5) Industrial production index: Manufacturing: Electrical valves, tubes and other electronic components (Volume)

The Philippines

1) Business Expectation Survey: Business volume index for current quarter
2) Business Expectation Survey: Credit access index for current quarter
3) Consumer price index
4) Discount rate (%)
5) Philippine Stock Exchange: Composite equity market index
6) Exchange rate of Philippine Peso against US dollar
7) Production index of basic metals (Volume)
8) Motor vehicle sales (Total) (Unit)

Singapore

1) Non-oil domestic exports (Value)
2) Number of companies newly registered
3) Residential property transaction (Singapore dollar)
4) Singapore Exchange Strait Times: Composite equity market index
5) Consumer price index
6) Industrial Production Index: Electronic products and components (Volume)

Thailand

1) Prime Rate: Minimum Loan Rate (%)
2) Bangkok Port: Container
3) Stock Exchange of Thailand: Composite SET index
4) Motor vehicle sales: Commercial vehicles (unit)
5) Business expectation index (%)
6) Domestic cement sales (Ton)

China and India

China

1) 5000 Industrial Enterprises: Diffusion index: Overseas order level (%)
2) Monetary aggregate (M2)
3) Shanghai Stock Exchange: Turnover value
4) Industrial production of manufactured crude steel (Ton)
5) Industrial production of chemical fertilizer (Ton)

6) Production of motor vehicles (Unit)
7) Production of buildings: floor space of completed buildings (Square meter)

India

1) Motor vehicle sales: Passenger cars (Unit)
2) Call money rate: Major commercial Bank: Lending (%)
3) Monetary aggregate (M1)
4) Bombay Stock Exchange: Composite stock price index (Dollex-200)
5) Industrial Production Index: Manufacturing: Production of non-metallic mineral products (Volume)
6) Industrial production index: Production of consumer goods: Durables (Volume)

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