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The Outlook for Asian Economies

Economic Research Office
The Bank of Tokyo-Mitsubishi UFJ, Ltd.

～Economies Picking Up, but Growth Pace to Remain Modest～

1. Overview of the Asian Economies

(1) Current economic conditions

China and South Korea picking up

Asian economies have been showing signs of picking up, primarily China and the NIEs. Q3 GDP growth in China and South Korea accelerated somewhat, driven by investment and consumption. On the other hand, ASEAN countries had maintained solid growth until recently, but started to slow in Indonesia and Thailand. Malaysia and the Philippines sustained solid growth supported by consumption (Table 1). Thailand's economy is losing momentum, weighed down by falling consumption due to the high base effect from a first-time car buyer scheme that ended in end-2012, coupled with lackluster equipment investment.

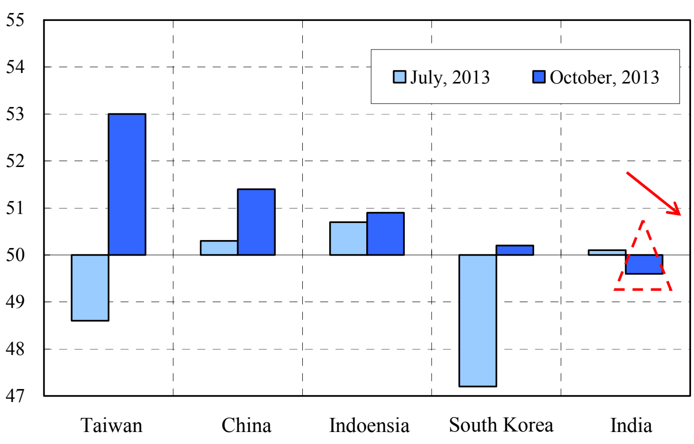
Table 1: Real GDP Growth Rates and Exports in Major Asian Economies

(YoY,%)

	Real GDP growth Rates			Exports		
	2013/Q1	Q2	Q3	2013/Q1	Q2	Q3
China	7.7	7.5	7.8	7.4	1.9	3.6
South Korea	1.5	2.3	3.3	0.4	0.7	2.8
Taiwan	1.4	2.7	1.7	2.4	2.4	-0.8
Hong Kong	2.9	3.2	2.9	4.0	2.4	3.3
Singapore	0.3	4.4	5.8	-6.9	1.0	4.3
NIEs	**1.5**	**2.8**	**3.2**	**-0.2**	**1.5**	**2.6**
Indonesia	6.1	5.8	5.6	-6.4	-5.8	-6.6
Malaysia	4.1	4.4	5.0	-3.2	-3.8	3.3
Thailand	5.4	2.9	2.7	4.3	-2.2	-1.7
Philippines	7.7	7.6	7.0	-6.2	-2.7	8.7
Vietnam	4.8	5.0	5.5	19.2	14.6	15.8
ASEAN5	**5.1**	**4.8**	**5.0**	**0.7**	**-1.2**	**1.8**
India	4.8	4.4	4.8	3.2	-1.3	11.6
Asia 11 economies	**6.1**	**6.1**	**6.3**	**18.4**	**3.8**	**3.9**

Source: Compiled by BTMU Economic Research Office from respective country statistics.

Figure 1: Manufacturing PMI in Major Asian Economies



Source: Compiled by BTMU Economic Research Office from Markit

India's economy remains sluggish

India's economy remains sluggish. GDP growth soften to +4.8% YoY in Q3, matching the weak level in the immediate aftermath of the Lehman Brothers collapse. The October Manufacturing PMI remained below the key level of 50, suggesting contraction (Figure 1), and October auto sales marked an eleventh consecutive month of year-on-year decline. Meanwhile, Vietnam, which like India has been experiencing a slowing economy, is on a consumption-led recovery track as inflationary pressures ease.

(2) Outlook

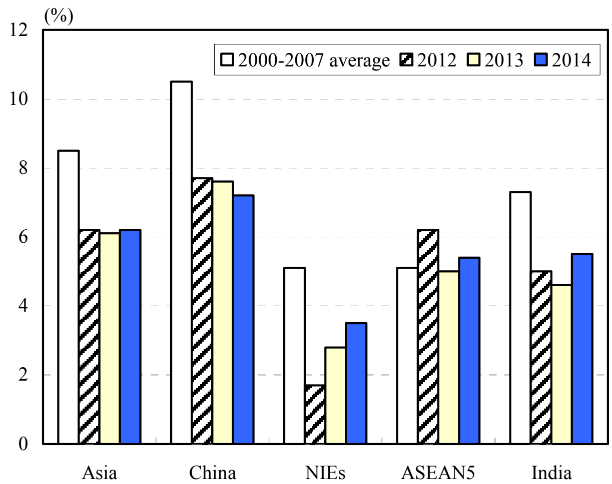
Pace of economic growth to accelerate modestly in 2014

While the pace of economic growth in Asian economies is expected to accelerate modestly in 2014 as external demand picks up, real GDP is projected to expand by +6.2% YoY, the same level as the 2013 estimate of 6.1% YoY (Figure 2).

Chinese Government intends to maintain 7% growth

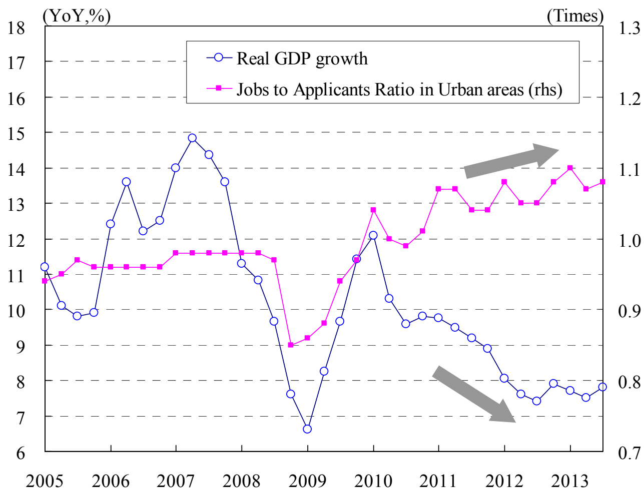
China aims to shift from high growth to steady growth, and has showed a clear resolve to implement full-scale structural reforms, including controlling over-investment. The Chinese Government has reiterated its position to maintain approximately 7% growth for the near term. Chinese Premier Li Keqiang noted in mid-July that the bottom line for growth is 7.5% with a lower limit of 7.0% and in November that the country needs 7.2% growth in order for the job markets to be stable. Given that the Q3 jobs-to-applicants ratio in urban areas stood at 1.08x, remaining above 1.0x, a sharp deterioration in employment conditions can be avoided if the economy sustains 7% growth (Figure 3). In other words, a tight labor market amidst 7%-level economic growth suggests that the country’s potential growth rate is declining. The Government is seeking a sustainable pace of growth, and the downward trend is expected to continue in the medium to long term.

Figure 2: Growth Forecasts for Asian Economies



Source: Compiled by BTMU Economic Research Office from respective countries statistics

Figure 3: China’s Growth Rate and Jobs-to-Applicants Ratio (urban areas)



Source: Compiled by BTMU Economic Research Office from National Bureau of Statistics of China and Social Security Department

China's growth to continue to slow in the medium to long term

In the Third Plenary Session of the 18th Communist Party of China Central Committee in November, authorities expressed a clear resolve for comprehensive structural reforms. The 60-point plan included financial reforms such as accelerating RMB convertibility and interest rate liberalization, as well as social reforms such as easing the one-child policy and revamping rural land rights. Through these reforms, the Government appears to intend to contain the risk of a sharp growth rate decline in the medium to long term and to increase the feasibility of sustaining steady growth.

ASEAN countries to maintain firm growth, but consumption to expand at a slower pace

Outside China, ASEAN countries are expected to maintain firm growth. Consumption is projected to remain robust, supported by solid wage growth on the back of continued tight labor market. Environments surrounding wages vary among countries. Higher wage growth is expected in Malaysia due to the introduction of minimum wages for small businesses in July. However, Indonesia and Thailand have already seen sharp rises in minimum wages, and minimum wage increases in 2014 have been curtailed in Indonesia and frozen in Thailand in order to maintain international competitiveness and contain inflation. Consumption in the two countries is expected to be weak over the first half of 2014, due to a projected acceleration of inflation due to fuel price hikes and currency depreciation in Indonesia, and because of a slowdown in consumer loans in Thailand.

Vietnam, which has been lagging behind in its economic recovery, is projected to grow at a slightly faster pace as consumption picks up due to subdued inflationary pressures and an increase in exports (led by mobile phones). The Vietnam Asset Management Company (VAMC) started to buy bad debts from October in order to address the non-performing loan issue. However, given that fully resolving the issue will take time, NPLs will continue to weigh on Vietnam's economy over the medium to long term.

Indian economy to remain sluggish for some time

India's economy is expected to remain sluggish for some time. The Reserve Bank of India (RBI) raised interest rates for the second time in a row to curtail the further depreciation of the rupee and contain inflation. The move was made despite a weak economy, leading to subdued consumption and investment. Hence, the pace of economic growth is likely to remain far below the potential rate.

Export-dependent NIEs are expected to recover on the back of a pickup in external demand. However, the pace of recovery is projected to remain modest, amidst the slower pace of recovery by the global economy.

Further interest rate cuts in Thailand, but hikes in Indonesia and India

On the monetary policy side, while the Bank of Thailand implemented an additional interest rate cut because of the economic slowdown, India and Indonesia raised interest rates by a total of 50bp in September and October, and 175bp since June, respectively (Table 2).

Current monetary easing stances to be maintained except in India and Indonesia

Going forward, monetary easing stances are expected to be maintained as economies pick up only at a modest pace. Further interest rate cuts are possible in Thailand, as the economy is losing momentum. On the other hand, India and Indonesia are expected to maintain their tightening policies until the second half of 2014 when inflation is expected to recede.

Table 2: Monetary Policy in Major Asian Economies

									Policy interest rate (%)	
	Apr 2013	May	June	July	August	September	October	November	Nominal basis	Real basis
Indonesia			+25	+50	+50	+25		+25	7.5	-0.8
Thailand		-25						-25	2.25	0.8
China	Unchanged								6.0	2.8
Philippines	Unchanged								3.5	0.6
India		-25				+25	+25		7.75	0.8
Vietnam		-100							7.0	1.2
South Korea		-25							2.5	2.8
Singapore	SGD appreciation					SGD appreciation			-	-
Taiwan									1.88	1.3
Malaysia									3.0	0.2

Note: 1. Singapore monetary policy addresses exchange rates. SGD appreciation means tight monetary policy. Vietnam policy rate indicates Reference rate.
2. Real policy interest rate= nominal policy interest rate-inflation rate based on CPI (WPI for India).
Source: Compiled by BTMU Economic Research Office from central bank materials and media reports

(3) Points to Watch

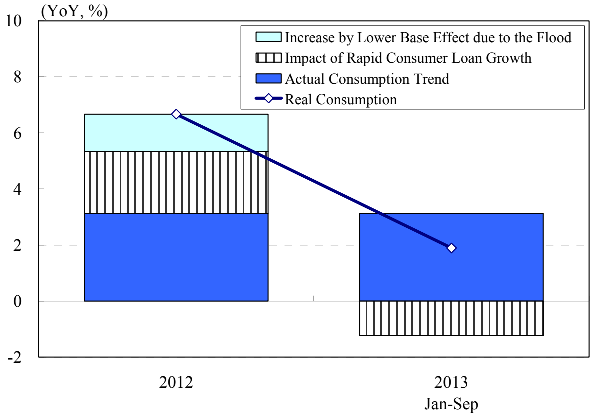
① Consumer loan trends in ASEAN countries

Both income as well as consumer loan growth appear to have supported consumption in ASEAN countries, primarily of durable goods such as cars. Especially in Thailand, on the back of a first-time car buyer scheme between September 2011 and end-2012, consumer loans, led by auto loans, grew sharply. The sharp rise in consumer loans contributed 2.2%pts to the real consumption growth of 6.7% in 2012 (Figure 4).

Consumer loan growth in Thailand slowed to +16.7% YoY in Q3 after peaking at +28.9% YoY in Q4 2012 (Table 3). This likely reflects the end of the first-time car buyer scheme at end-2012 and cautious lending stances by financial institutions, as outstanding household debt reached nearly 80% of nominal GDP.

In other ASEAN countries, consumer loan growth remained firm in Malaysia and the Philippines, while growth has been slowing in Indonesia as a result of rate hikes. The pace of consumer loan growth is likely to slow in Malaysia, as Bank Negara Malaysia has showed a clear stance to contain rising household debt by shortening maximum loan tenures in July.

Figure 4: Real Consumption in Thailand



Note: "Rapid Consumer Loan Growth" is between Q4 2011 and Q4 2012.
Source: Compiled by BTMU Economic Research Office from Statistics of the Office of the Natio[n]
Economic and Social Development Board, Thailand, etc.

Table 3: Outstanding Consumer Loans in ASEAN Countries

(YoY, %)

		Outstanding Household Debt (vs nominal GDP, %)	Share as of end-2012	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3
Thailand	Consumer Loans	77.5	44.8	28.3	28.9	25.1	22.4	16.7
	Credit Card Loans		6.4	9.6	14.3	11.6	14.0	13.5
	Other Consumer Loans		38.4	31.9	31.7	27.4	23.8	17.2
	Housing Loans		55.2	9.2	11.3	10.1	10.2	10.0
Malaysia	Consumer Loans	80.5	37.7	7.0	6.4	6.8	6.4	7.0
	Credit Card Loans		4.8	3.1	1.8	1.2	1.7	4.7
	Other Consumer Loans		32.9	7.6	7.1	7.7	7.0	7.3
	Housing Loans		62.3	15.2	14.8	14.1	14.1	14.5
Indonesia	Consumer Loans	16.9	73.0	18.3	19.2	19.4	18.4	12.4
	Housing Loans		27.0	23.4	21.7	17.8	17.8	31.8
Philippines	Consumer Loans	6.2	58.0	13.3	12.2	11.0	12.7	-
	Credit Card Loans		23.6	10.3	12.4	9.0	10.1	-
	Other Consumer Loans		34.3	15.5	12.1	12.4	14.4	-
	Housing Loans		42.0	20.3	19.8	20.1	20.4	-

Note: Household debt figures are based on end-2012 for Thailand and Malaysia, on end-Sep 2013 for Indonesia and end-June 2013 for the Philippines.
Other consumer loans include auto loans and student loans. No credit card data is available for Indonesia.

Source: Compiled by BTMU Economic Research Office from central bank data of respective countries

②Financial market trends amidst speculation of Fed tapering

When US Federal Reserve Chairman Ben Bernanke mentioned the possibility of tapering quantitative easing on May 22, financial markets in emerging countries, primarily in Asia, were hit by a triple sell-off in currencies, shares and bonds. The impact was particularly large in India, Indonesia, and Thailand. On the other hand, the impact of capital outflows on South Korea and Singapore, which also experienced a triple weakness, was relatively small. Thus, the degree of capital outflows varies among countries, mainly due to their respective current account balances. India, Indonesia, and Thailand have deficits in their current account balances and direct investment— stable long-term capital inflows—combined (Table 4). On the other hand, ratios of outstanding external debt to nominal GDP have not shown a sharp rise except in Vietnam. The levels have declined against 2007 levels in Indonesia and the Philippines, suggesting that outstanding debt is not a direct factor in capital outflows.

Even if the US Fed starts tapering quantitative easing, interest rates would be kept at historically-low levels worldwide. However, Asia is more vulnerable to capital outflows, as the region had a high level of capital inflows due to high growth expectations. Net inflows for portfolio investment since the beginning of quantitative easing in 2009 (between Q2 2009 and Q1 2013) stood at USD691.3 billion in the 11 Asian economies, equivalent to 5.7% of nominal GDP, and at USD184.9 billion in ASEAN countries, or 10.8% of nominal GDP. These are relatively large sums compared to economic size (Table 5).

In the financial markets, many Asian share prices and currencies have been falling again after a pickup as a result of the Federal Open Market

Committee's decision to delay tapering in September.

Although the effects of financial market turmoil on the real economy have been limited so far, the impacts of interest rate hikes and import inflation caused by currency depreciation is expected to appear increasingly in India and Indonesia, where currencies have declined sharply. If India's currency stays at its current level, prices are expected to rise 3%pts, weighing on GDP growth by 0.3%-0.4%pts. Given the projected interest rate hike after Fed tapering ends, Asian capital flows are expected to remain unstable amidst speculation over US monetary policy.

Table 4: Capital Structure-Related Indicators in Major Asian Economies

	Current Account Balance + Direct Investment (vs nominal GDP, %)		Outstanding External Debt (vs GNI, %)		Foreign Reserves (months of imports)	
	2007	2012	2007	2011	2007	2012
Indonesia	2.9	-1.2	35.7	26.0	8.9	6.8
India	-1.3	-4.1	16.5	18.3	14.0	6.6
Malaysia	14.0	3.8	34.5	34.8	8.3	8.4
Thailand	9.7	-0.9	19.1	24.0	8.2	9.5
Philippines	4.3	3.0	44.6	33.6	6.5	14.2
Vietnam	-0.6	10.4	33.8	49.1	4.5	2.7
China	14.1	4.7	10.7	9.4	19.2	22.0
South Korea	0.4	2.2	32.0	37.1	8.8	7.5

Note: Shadowed portion indicates significant changes in numbers from 2007 (turning negative in current account balance and direct investment combined, increasing by more than 10%-pts in outstanding external debt and declining in foreign reserves).

Source: Compiled by BTMU Economic Research Office from IMF, World Bank and statistics of respective countries.

Table 5: Net Inflows for Portfolio Investment since the Beginning of Quantitative Easing in Major Asian Economies

	QE1 (Q2 2009- Q3 2010)	QE2 (Q4 2010- Q2 2012)	QE3 (Q3 2012- Q1 2013)	Total (Q2 2009- Q1 2013)	
	USD bn			USD bn	(vn nominal GDP, %)
South Korea	82.2	45.3	21.4	148.9	(14.1)
China	50.5	45.0	39.6	135.1	(2.0)
India	51.3	22.2	29.3	102.9	(6.5)
Hong Kong	16.0	53.6	23.6	93.2	(38.5)
Malaysia	27.9	28.7	15.6	72.2	(26.9)
Indonesia	22.6	13.9	11.2	47.7	(6.2)
Thailand	8.6	15.2	12.1	35.9	(10.8)
Philippines	5.4	13.0	4.7	23.1	(10.6)
Taiwan	25.1	-6.1	3.5	22.5	(5.1)
Vietnam	2.6	2.6	0.8	6.0	(5.0)
Singapore	4.2	-4.6	4.3	3.8	(1.5)
NIEs	127.5	88.1	52.8	268.5	(13.5)
ASEAN5	67.1	73.4	44.4	184.9	(10.8)
Asian 11 economies	296.4	228.8	166.1	691.3	(5.7)

Note: 1. Q1 2013 data unavailable for China, Malaysia and Vietnam.
2. Nominal GDP is based on annualized average of each period.

Source: Compiled by BTMU Economic Research Office from IMF and statistics of respective countries

Table 6: Forecast for Asian Economies

	Nominal GDP (2012) (USD bn)	Share of nominal GDP (%)	Real GDP annual changes (in percent)			Consumer prices annual changes (in percent)			Current account (USD bn)		
			2012	2013	2014	2012	2013	2014	2012	2013	2014
China	8,221	58.1	7.7	7.6	7.2	2.6	2.7	3.3	193.1	189.0	168.9
South Korea	1,130	8.0	2.0	2.9	3.4	2.2	1.1	2.0	43.1	59.0	55.6
Taiwan	474	3.3	1.3	2.1	3.5	1.9	1.1	1.6	49.9	50.3	52.2
Hong Kong	263	1.9	1.5	2.9	3.3	4.1	4.3	4.2	3.5	5.9	7.7
Singapore	277	2.0	1.3	3.7	3.9	4.6	2.5	2.9	51.4	54.0	61.0
NIEs	2,143	15.1	1.7	2.8	3.5	2.7	1.7	2.3	147.9	169.3	176.5
Indonesia	879	6.2	6.2	5.5	5.6	4.3	7.1	6.1	-24.4	-28.6	-20.6
Malaysia	305	2.2	5.6	4.6	5.4	1.7	2.4	3.1	18.6	18.1	20.6
Thailand	366	2.6	6.5	2.5	4.0	3.0	2.2	2.5	-1.5	1.2	4.5
Philippines	250	1.8	6.8	6.9	6.6	3.2	2.8	3.3	7.1	8.5	8.0
Vietnam	156	1.1	5.3	5.2	5.4	9.1	6.7	6.9	9.1	7.7	0.9
ASEAN5	1,955	13.8	6.2	5.0	5.4	3.9	4.9	4.7	8.9	6.9	13.4
India*	1,842	13.0	5.0	4.6	5.5	10.2	10.0	6.4	-87.8	-64.5	-55.5
Asisa 11 economies	14,161	100	6.2	6.1	6.2	3.8	3.8	3.7	262.1	300.7	303.4
			Actual	Forecast		Actual	Forecast		Actual	Forecast	

* Fiscal year (from April to March)

2. China

(1) Current Conditions

Economy recently picking up, after a period of slower growth

The Chinese economy has been showing signs of a modest pickup after a period of slower growth. The Q3 growth rate accelerated to +7.8% YoY from +7.5% YoY the previous quarter. Recent monthly indicators such as production (Sept: +10.2% YoY→ Oct: +10.3% YoY) and exports (Sept: -0.3% YoY→ Oct: +5.6% YoY) have also been firm. The modest rebounds reflect (1) a cyclical pickup in manufacturing in the EU and US; (2) economic measures unveiled in July, including VAT exemptions for small enterprises and accelerated railway construction; and (3) a fading negative impact from the strict discipline for consumption by the new administration.

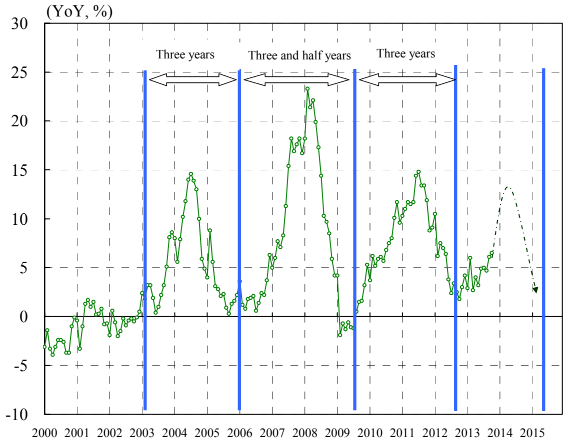
Rising inflation rate

On the inflation front, the October CPI rose +3.2% YoY, compared to +3.1% YoY in September, suggesting increasing inflationary pressures. The main factor for the accelerating inflation is rising food prices. October food prices rose +6.5% YoY, the fastest pace since April 2012. Given their cyclical nature, food prices are likely to continue to rise over the next year (Figure 5).

Housing prices rising faster

Housing prices have also been rising faster since the beginning of the year, increasing +8.8% YoY (average prices of 70 cities) in October. Overall, the housing market seems to be heating up, including in terms of total floor space sold and outstanding housing loans (Table 7). Against this backdrop, the Government has enhanced measures to contain housing prices. The Beijing Government announced plans to boost the supply of affordable housing in October, followed by an increased down payment requirement for second home purchases in Shenzhen, Shanghai, and Guangzhou in November.

Figure 5: Consumer Prices (Food) in China



Source: Compiled by BTMU Economic Research Office from National Bureau of Statistics of China

Table 7: Housing-Related Indicators in China

	Indicators	2011	2012	2013 (Oct)	Current Assessment
①	National Housing Prices (70-city average, YoY)	1.6%	−0.1%	8.8%	Growing at a relatively faster pace
②	Standard Deviation of Housing Price Movement in 70 cities	1.7	2.2	3.7	Variation widening
③	Housing Prices in Beijing (YoY)	1.0%	1.6%	16.4%	Growing at a fast pace
④	Housing Prices in Shanghai (YoY)	1.8%	0.0%	17.8%	Growing at a fast pace
⑤	No. of Cities with Rising Housing Prices	62	40	69	The number increasing
⑥	Value of Housing Investment (YTD, YoY)	30.2%	11.4%	18.9% (Sep)	Increasing at a relatively faster pace
⑦	Total Floor Area Newly Constructed (YTD, YoY)	12.8%	−10.5%	5.2% (Sep)	Increasing at a moderate pace
⑧	Total Floor Area Sold (YTD, YoY)	4.3%	1.5%	22.3% (Sep)	Increasing at a fast pace
⑨	Outstanding Housing Loans (YoY)	15.6%	13.7%	21.8% (Sep)	Increasing at a relatively faster pace

Source: Compiled by BTMU Economic Research Office from National Bureau of Statistics of China, etc

On the monetary policy side, amidst a lower growth and higher CPI and housing prices, authorities kept interest rates and the reserve requirement ratio (RRR) unchanged, conducting more flexible open market operations (OMO) instead.

(2) Outlook

Growth expected to continue modest downward trend

Credit growth must be controlled early

Going forward, China's economic growth rate is expected to continue its modest downward trend. Through 2014, while an export recovery and a fading negative impact from strict official discipline for consumption will have positive impacts on the economy, slowing infrastructure development and property investment as a result of limits on credit expansion and full-scale implementation of structural reforms will weigh on growth (Figure 6). Therefore, real GDP growth rate is expected to decline from +7.6% YoY in 2013 to +7.2% in 2014. In terms of the 2014 growth target, recent statements by senior government officials signal that the target rate is likely to be lowered to +7.0% YoY from +7.5% for 2013.

The issue of limits on credit expansion will be the top priority among many challenges the Chinese economy is facing. Controversial transaction methods such as trust loans and entrusted loans remain unresolved, and outstanding total social financing (TSF)[1] had expanded by twice the pace of nominal GDP as of end-September (Figure 7).

1: Overall liquidity from the financial system (financial institutions including banks, securities firms and insurance companies, as well as the securities market) to the real economy.

Figure 6: Breakdown of Impacts on 2014 Real Growth

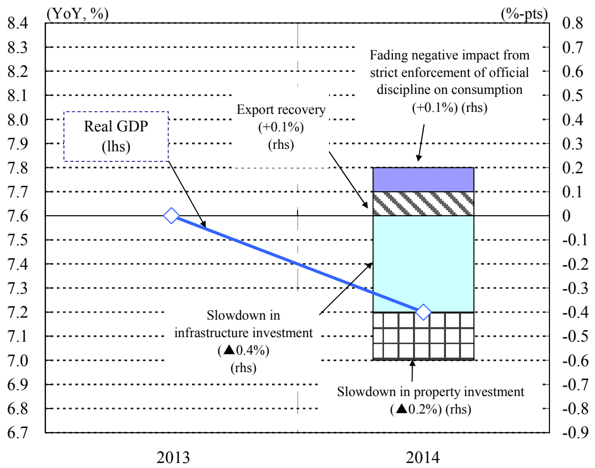
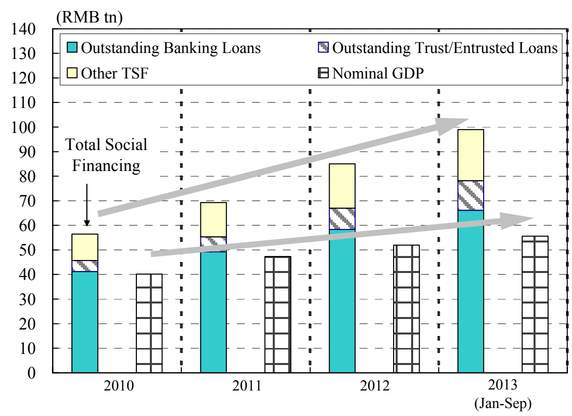


Figure 7: Total Social Financing and Nominal GDP



Note: "Outstanding amount of TSF" was calculated based on the sum of new loans in the TSF statistics.
Source: Compiled by BTMU Economic Research Office from National Bureau of Statistics of China and the People's Bank of China

Downward risks include sharp correction in property prices

Downside risks for the economy include: (1) a sharp correction in residential and commercial property prices triggered by enhanced regulations; (2) a deteriorating financial environment due to a sharp rise in non-performing loans among state-owned enterprises and local government financing platforms; and (3) restrained economic activity because of worsening environmental problems. While these risks are likely to be avoided through government controls, downside risk will remain high amid great uncertainty.

Downward trend to continue in the medium to long term

In addition, China's economy is likely to continue the downward trend in 2015 and beyond. In the medium to long term, a number of negative factors loom, such as a correction in excess production capacity, a demographic shift, a decline in exports as a driving force for growth, and environmental and resource constraints. There are few positive factors.

(3) Points to Watch: Reform Progress

Towards full-scale implementation of reforms after the Third Plenary Session

Given China's numerous economic structural issues, various reforms must be implemented in order to contain the risk of a sharp decline in the growth rate over the medium to long term and to maintain steady growth.

In this regard, a 60-point reform plan covering 15 areas was adopted in the Third Plenary Session of the 18th Communist Party of China Central Committee held between November 9 -12. The reform plan includes easing regulation on RMB transactions, accelerating interest rate liberalization, easing the one-child policy, revamping rural land rights, and allowing local governments to issue bonds. Necessary—and feasible under the current communist regime—reforms are included in the plan (Table 8). The focal point will be the feasibility of the plan; some progress is expected, given the establishment of an organization for implementing reforms in order to achieve critical progress in key areas by 2020.

Financial markets already reacting to reform plan

The financial markets are already moving in anticipation of full-scale reforms ahead. The RMB has been on an upward trend with expectations of future regulatory easing of RMB transactions, and long-term interest rates have been rising partly due to predicted further interest rate liberalization[2]. RMB appreciation is considered a positive development for China in terms of encouraging a domestic demand-led economy. Higher interest rates are also favorable for promoting credit controls and balancing resource allocations. Progress with reforms should be watched, especially the more challenging reforms.

2: China resumed interest rate liberalization in 2012 after an eight-year hiatus, removing minimum lending rates in July 2013. Gradual liberalization of deposit interest rates is expected going forward. Deposit rate liberalization is likely to push up overall interest rates through a higher deposit rate.

Table 8: Major Economic-Related Reform Measures Adopted in the Third Plenary Session and Projected Impacts

Reform		Difficulty Level	Projected Impact
Land reform	Revamp rural land rights (allow farmers to sell, lease and mortgage collectively-owned land in rural areas)	High	Corrected gap between urban and rural areas ⇒ boosted consumption
	Establish a scheme for sharing income through land sales	High	
Household registration system	Eliminate (in small cities) and gradually ease (in medium cities) restrictions on household registration and control populations in large cities	High	Increase in registered population in small and medium cities ⇒ boosted consumption
Fiscal and taxation system	Allow local governments to issue bonds; create transparent and standardized financing schemes in urban construction	Medium	Reduced financing through local government platforms
	Streamline revenue divisions between central and local governments; improve local taxation systems (increase the proportion of direct taxes)	High	Contained debt growth of local governments
	Promote property taxes	High	Contained overheating in residential markets
State-owned enterprises	Increase state-owned enterprises' dividend payments to Government to 30% by 2020; to be used for protecting and improving people's livelihood	High	Improved competition conditions for state-owned enterprises, reduced gaps and boosted consumption
	Encourage private sector participation in state-owned enterprise reforms	Medium	Improved profitability and financial conditions of state-owned enterprises
Finance	Ease regulations on RMB transactions Improve market formation mechanism	Medium	Further appreciation of RMB ⇒ contained inflation, lowered export competitiveness
	Accelerate interest rate liberalization	Low	Lower financial institution profitability controlled credit growth, optimized resource allocation
	Allow establishment of private financial institutions	Low	Improved financing environment for SMEs
Others	Ease price controls for water, oil, natural gas, electricity, transportation and telecommunications	Medium	Increased prices under controls ⇒ improved allocation efficiency of production factor
	Loosen the one-child policy (allow second child if either parent has no siblings)	Low	Birth rate slightly boosted ⇒ mitigated negative demographic impact on potential growth

Source: Compiled by BTMU Economic Research Office from various sources.

3. NIEs

(1) South Korea

Q3 growth accelerates

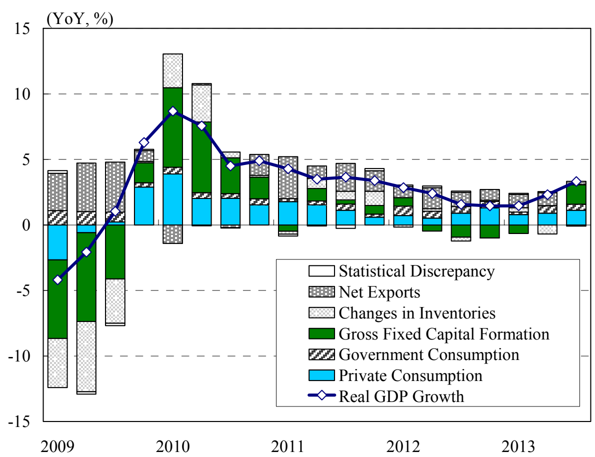
South Korea's economic growth accelerated to +3.3% YoY in Q3 from +2.3% YoY in Q2 (Figure 8), driven by a pickup in domestic demand amidst an export slowdown (+2.9% YoY). In addition to private consumption (+2.2% YoY), gross fixed capital formation (+5.6% YoY) including construction investment and business equipment investment also rebounded as corporate profits recovered.

Growth pace to remain below the potential rate through 2014

Real GDP is expected to expand +3.4% YoY in 2014, higher than the +2.9% YoY growth estimate for 2013, but still slightly below the potential rate of 3.5% - 4.0%. Private consumption will continue to recover, given improving consumer sentiment due to stable prices and recovering employment and income conditions. However, household balance sheet adjustments will continue to weigh on consumption growth. The ratio of outstanding household debt to disposable income is on a rising trend, with ratios of interest payments to income also remaining high (Figure 9). This issue should be kept in mind, as interest payment burdens could increase even more should long-term interest rates rise further over speculation of Fed tapering.

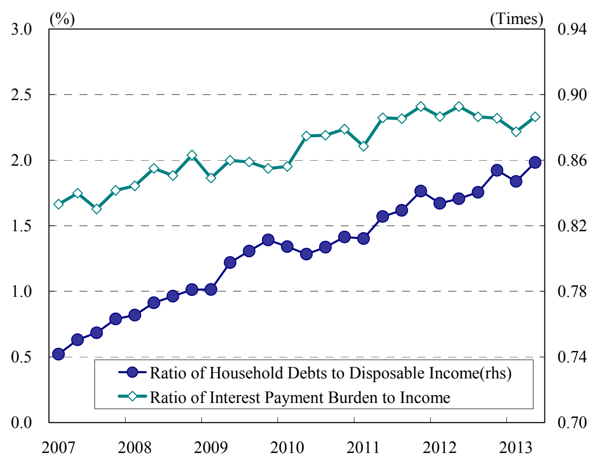
Meanwhile, South Korean shipments to the EU are expected to recover and exports to China to accelerate modestly, primarily for IT and chemical products. Furthermore, Government stimulus measures will underpin the economy through increased investment.

Figure 8: Real GDP Growth in South Korea



Source: Compiled by BTMU Economic Research Office from statistics of the Bank of Korea's statistics

Figure 9: Household Debt and Interest Payment Burden in South Korea



Source: Compiled by BTMU Economic Research Office from statistics of the Bank of Korea's statistics

Financial market volatility from speculation of tapering a risk

There is a risk of possible volatility in the financial markets over speculation of tapering. Although South Korea faced a triple selloff in shares, bonds and the currency at end-May at the hint of tapering, the impact was relatively small compared to other Asian countries. However, the issue bears watching as net inflows for portfolio investment during the US quantitative easing period (2009-2012) stood at 14.1% of nominal GDP, relatively high among major Asian economies.

(2) Taiwan

Economy to continue to recover modestly

Taiwan's economy continues to recover at a modest pace. GDP growth in Q3 decelerated to +1.7% YoY from +2.7% YoY in the previous quarter. An export slowdown (+1.7% YoY) and a decline in government consumption (-1.2% YoY) weighed on economic growth.

Meanwhile, recent monthly indicators suggest an acceleration led by exports. The October manufacturing PMI rose to 53.0 from 52.0 in September, and October export orders (+3.2% YoY) grew at the fastest pace since January.

Growth pace to accelerate, driven by exports

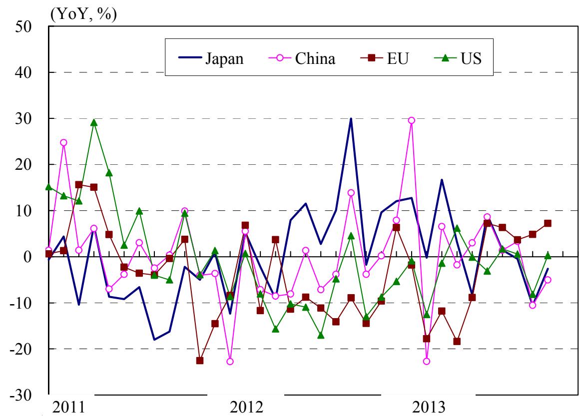
Going forward, Taiwan's economy is expected to grow at a faster pace. Real GDP is estimated to grow at +2.1% YoY in 2013 and +3.5% in 2014. Exports—which drive Taiwan's economy—to the EU are bottoming out, and shipments to the US are likely to pick up (Figure 10). The recently-enhanced FTA network, including the Taiwan-Singapore FTA signed in November, will boost exports. Taiwan is an export-dependent economy, and domestic demand will lag but eventually gather momentum (Figure 11).

Negative impact of Fed tapering to be limited

The negative impact of anticipated US tapering of quantitative easing on Taiwan's economy will be limited, at least compared to other emerging economies. Stock prices rose only to a small degree during the US quantitative easing period, and even the May speculation over early tapering caused only a marginal decline. Capital inflows into Taiwan are not excessive, with inward portfolio investment averaging USD5.3 billion per year during the QE period (2009-2012), compared to an annual average of USD13.3 billion between 2001 and 2008. Furthermore, Taiwan's economy is highly resistant to capital outflows, with the current account surplus remaining high at roughly 10% of nominal GDP in recent years and foreign reserves totaling more than 80% of nominal GDP.

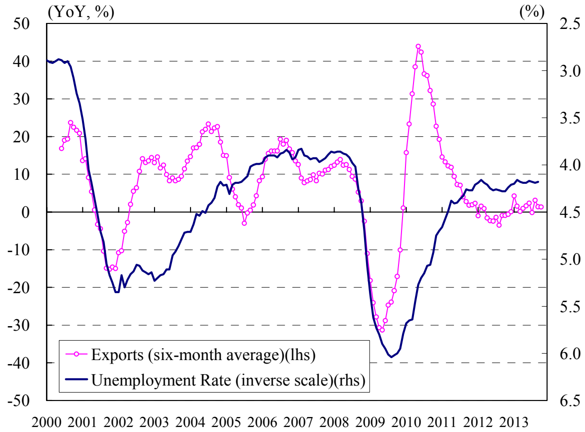
While the pace of Taiwan's economic recovery is expected to be weak compared to previous growth trends (an average of +3.9% during 2001-2010), downward risk appears to be limited.

Figure 10: Taiwan's Exports by Destination



Source: Compiled by BTMU Economic Research Office from Statistics of the Taiwan's Ministry of Finance

Figure 11: Exports and the Unemployment Rate in Taiwan



Source: Compiled by BTMU Economic Research Office from statistics of the Taiwan's Ministry of Finance and Taiwan Statistical Data

(3) Hong Kong

Economy continues to recover modestly

Hong Kong's economy continues to recover modestly. With GDP growth at +2.9% YoY in Q3, the economy expanded at nearly the same level as Q1 (+2.9% YoY) and Q2 (+3.2% YoY). The figure is relatively firm, compared with growth in 2012 (+1.5% YoY). By type of expenditure, while goods exports continued to grow at the same pace as in the previous quarter, private consumption and gross fixed capital formation slowed slightly. Weakening domestic demand reflects a slower increase in housing prices. Housing prices rose at a more gradual pace in September (+12.7% YoY) after peaking in February (+30.6% YoY).

Growth rate expected to accelerate slightly amidst pickup in external demand

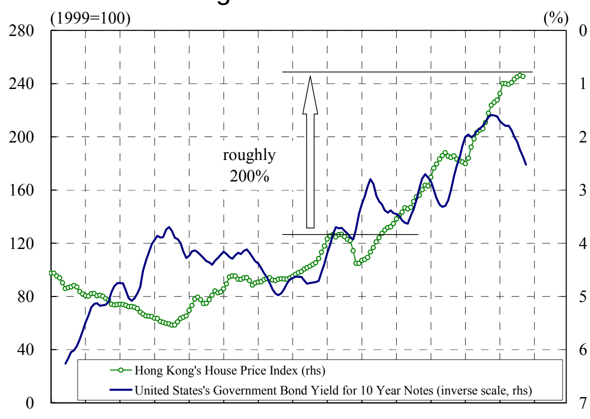
Looking forward, Hong Kong's economic growth is expected to accelerate modestly as external demand picks up. However, growth will likely accelerate modestly, weighed down by weak domestic demand due to a slower increase in property prices. Real GDP is projected to grow +2.9% YoY in 2013 and +3.3% YoY in 2014, respectively. External demand is expected to rebound in the US and EU. While the Chinese economy is expected to grow at a slower rate, Hong Kong exports to China are unlikely to decelerate given the destination country's great scale vis-a-vis Hong Kong's economy[3].

3: For example, Chinese nominal GDP grew by 10.6% YoY, or USD115.2 billion, in 2000. This is equivalent to 67% of Hong Kong's nominal GDP at that time. A 67% increase in nominal GDP for Hong Kong is commensurate to Chinese nominal GDP growth of +2.3% YoY.

Risk factor: A sharp correction to property prices triggered by tapering

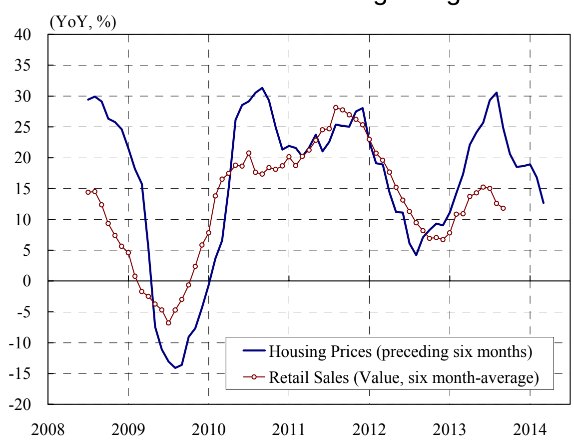
One downward risk factor for Hong Kong's economy would be a sharp correction in property prices. The Hong Kong dollar is pegged to the US dollar, and the financial environment appears to have been under excessive easing in line with US monetary policy operations in the wake of the Lehman Brothers collapse. In fact, housing prices have risen in tandem with the decline in US long-term interest rates (Figure 12). Housing prices are correlated to retail sales and are an important factor in determining Hong Kong domestic demand (Figure 13). While a sharp correction to property prices is likely to be averted as the pace of rising US long-term interest rates remains modest, there is still strong uncertainty.

Figure 12: Hong Kong Housing Prices and US Long-Term Interest Rates



Note: "US Government Bond Yield for 10 Year Notes" is six-month average of month-end.
Source: Compiled by BTMU Economic Research Office from Rating and Valuation Department's statistics and Bloomberg

Figure 13: Housing Prices and Retail Sales in Hong Kong



Source: Compiled by BTMU Economic Research Office from statistics of the Rating and Valuation Department and the Office for National Statistics

(4) Singapore

Economic recovery gaining momentum as exports pick up amid firm domestic demand

Singapore's economic recovery is gaining momentum as exports start to pick up and with domestic demand remaining firm. Singapore's Q3 GDP growth accelerated to +5.8% YoY from +4.4% YoY in Q2, the fastest growth in two-and-half years (Figure 14). By component, private consumption expanded faster, and gross fixed capital formation turned positive after two consecutive quarters of decline. Exports also accelerated, turning marginally positive the previous quarter for the first time in a year. By sector, services continued expanding robustly, while manufacturing growth surged to a seven-quarter high.

Domestic demand to remain firm on favorable employment situation

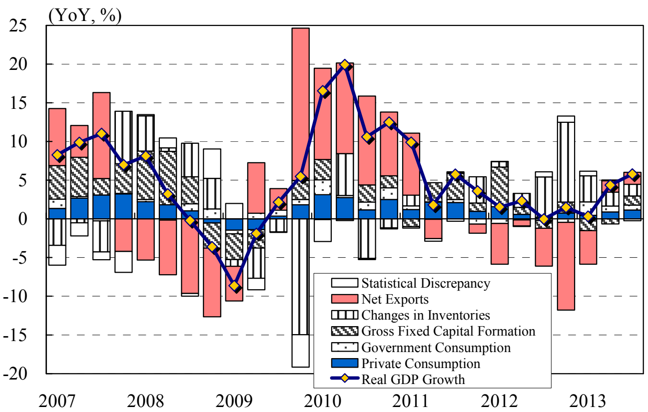
Looking forward, while the global economy is projected to be on a modest recovery track led by the US, the pace of Singapore's export recovery is expected to remain modest given the slow economic recovery in Europe and

China’s shift to steady growth. Domestically, the Q3 unemployment rate remained low at 1.8%, close to full employment. The labor market is expected to remain tight for the time being due to labor supply constraints as inflows of foreign workers are scheduled to be tightened further in August 2014. A survey of Singapore-based companies showed that wages are expected to increase +4.1% YoY in 2014, almost matching the 2013 level (+4.2% YoY). Supported by a favorable employment and income environment, domestic demand is expected to remain firm through 2014. GDP growth is expected to accelerate to +3.7% YoY in 2013 from +1.3% YoY in 2012 and to increase slightly to +3.9% YoY in 2014.

MAS to maintain tightening policy amid persisting inflationary pressures

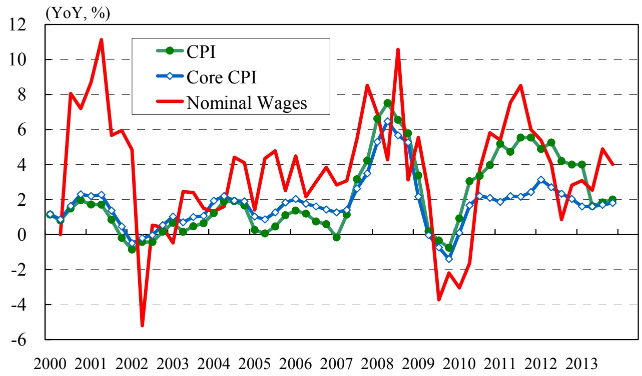
On the inflation front, the number of Certificates of Entitlement (COE) started to rise again. Furthermore, amidst a tight labor market, higher labor costs passed through to the prices of final goods will keep inflation high in coming years (Figure 15). The Monetary Authority of Singapore (MAS) decided to maintain its current policy of modest and gradual SGD appreciation (tight monetary policy) in October, maintaining its stance since April 2012. Amidst persistent inflationary pressures, MAS is expected to keep the current policy stance going forward.

Figure 14: Real GDP Growth in Singapore



Source: Compiled by BTMU Economic Research Office from CEIC database

Figure 15: Income Growth and Inflation Rate in Singapore



Note: “Nominal wages” are preceding two quarters. Coefficient of correlation (from Q1 2002) between nominal wages and core CPI is the highest in two-quarter lag.

Source: Compiled by BTMU Economic Research Office from CEIC database

4. ASEAN

(1) Indonesia

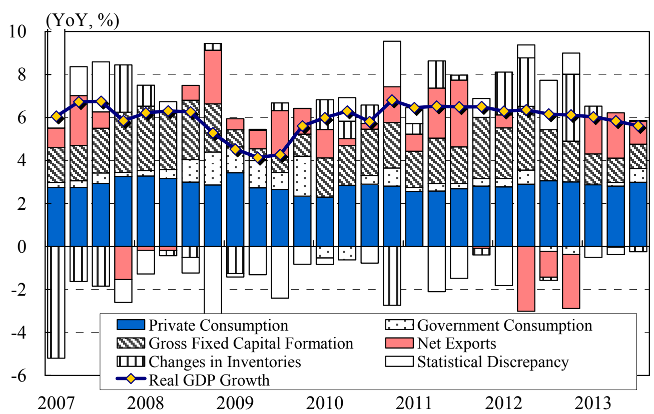
Economy slowing, but further negative impact of accelerated inflation and interest rate hike on domestic demand expected

Indonesia's economic growth has continued to slow. GDP growth slipped to +5.6% YoY in Q3, down from +5.8% YoY the previous quarter, to the slowest pace since Q4 2009 (Figure 16). While domestic demand remains solid, with consumption accelerating and gross fixed capital formation remaining the same level as in the previous quarter, the main factor for slow growth was a lower contribution from net exports as a result of increased imports. The Q3 current account deficit stood at -3.8% of nominal GDP, not a significant decline from -4.4% last quarter. Slowing domestic demand due to accelerated inflation and interest rate hikes is expected to narrow the current account deficit, but the effects will likely appear from Q4 onwards (Figure 17).

Economy to slow further on import inflation and high interest rates through H1 2014

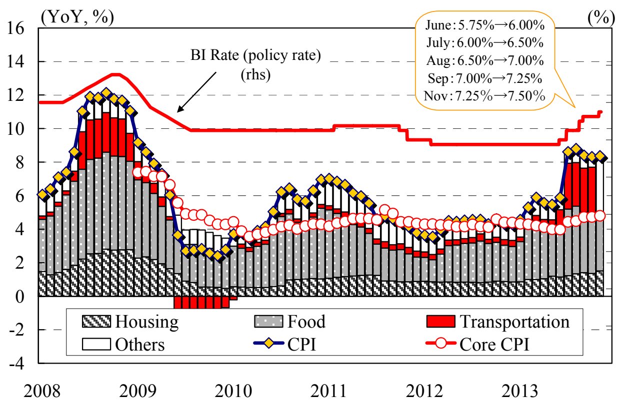
The economy is projected to be on a slowing trend through mid-2014. Due to the large impact of import inflation, economic growth is expected to be weighed down by 0.2-0.3%, primarily in consumption through the middle of next year. Interest rate hikes totaling 175bp will also weigh on durable goods consumption and investment through higher borrowing costs. In H2 2014, the economy is expected to start to pick up, amid slowing inflation as the impacts of currency depreciation and fuel price hikes fade out. However, given slow growth in the first half of the year, full-year growth for 2014 is projected to reach +5.6% YoY, matching the 2013 estimate of +5.5% YoY. Indonesia's pace of economic growth is expected to remain slow for some time, compared to levels in the 6% YoY range.

Figure 16: Real GDP Growth in Indonesia



Source: Compiled by BTMU Economic Research Office from CEIC database

Figure 17: Inflation Rates and Policy Interest Rates in Indonesia



Note: "Food" includes processed food, vegetables and tobacco.
Source: Compiled by BTMU Economic Research Office from CEIC database

Improving external balance to be the key to economic stability

On the fiscal side, although Indonesia has maintained an expansionist fiscal stance ahead of the 2104 general elections, the Government has showed its commitment to reducing its fiscal deficit to -1.7% of nominal GDP in 2014 from -2.2% in 2013 by cutting subsidies and other spending. Tight fiscal and monetary policies will weigh on the economy in the short term, but the policies are expected to eventually lead to an improved external balance. The key to the Indonesian economy will be whether the country can pave the way for an improved external balance before financial markets become volatile again over US quantitative easing.

(2) Malaysia

Growth accelerates as external demand picks up amidst firm domestic demand

The Malaysian economy has been picking up modestly. Economic growth accelerated to +5.0% YoY in Q3 from +4.4% YoY in the previous quarter (Figure 18). Domestic demand remained solid, as private consumption continued to grow robustly due to the implementation of minimum wages for small businesses in July, incremental salary increases for civil servants, and accelerated gross fixed capital formation after four consecutive quarters of slowing. Furthermore, the external sector, which has been dragging down growth, made a positive contribution for the first time in two years, driven by an export pickup to China, Hong Kong and the EU.

Modest economic recovery to continue, supported by domestic demand

Going forward, Malaysia's export-led boost will be limited, amidst the slow pace of global economic recovery as China shifts to steady growth and the EU remains sluggish. Meanwhile, on the domestic demand side, infrastructure investment for the Economic Transformation Program is expected to spur private investment, and stable employment and income environment to underpin consumption. Against this backdrop, Malaysia's GDP growth is expected to slow from +5.6% YoY in 2012 to +4.6% YoY in 2013, then to re-accelerate to +5.4% in 2014.

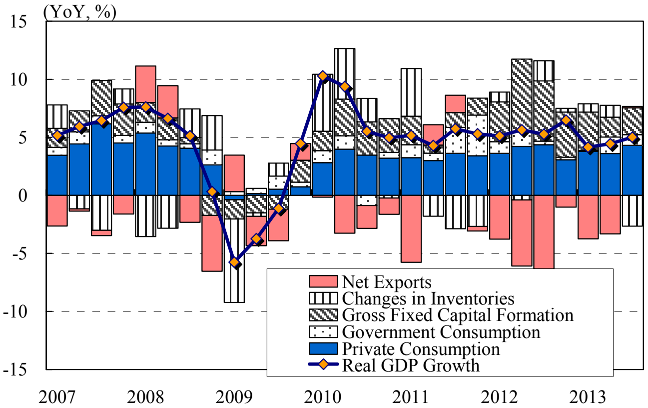
Government strengthens commitment to fiscal consolidation in the 2014 budget

Fiscal consolidation has been an urgent task for Malaysia. Fitch Ratings cut Malaysia's outlook to negative in July, a reflection of the largest fiscal deficit among major ASEAN countries. The fiscal deficit stood at -4.5% of nominal GDP in 2012, compared with Vietnam's -4.5%, Philippines and Thailand's -2.3% and Indonesia's -1.8% during the same period. Further, outstanding public debt is expected to exceed the 55% legislated debt ceiling next year. In the 2014 budget released on October 25, the Government pledged to reduce the fiscal deficit to -3.5% of nominal GDP in 2014 from the estimate of -4.0%

in 2013 by reducing expenditures, including subsidies (Figure 19). In addition, the plan included a 6% goods and services tax to be introduced in April 2015, an indication that the Government has strengthened its commitment to fiscal consolidation.

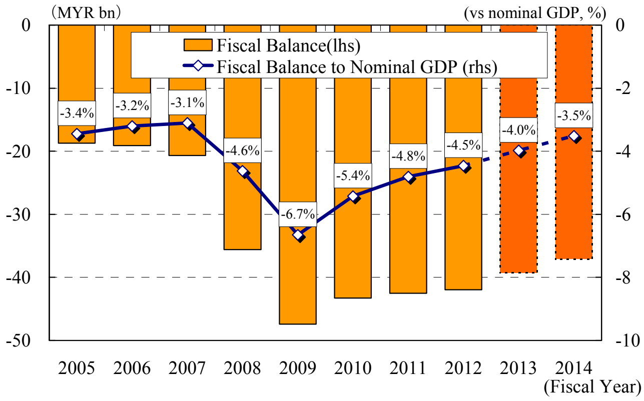
While inflation is projected to remain high for some time on the back of cuts to fuel subsidies implemented in September as a part of fiscal consolidation, core inflation is expected to remain stable. In this context, Malaysia's policy rate is expected to remain unchanged over 2013-2014.

Figure 18: Real GDP Growth in Malaysia



Source: Compiled by BTMU Economic Research Office from CEIC database

Figure 19: Fiscal Balance in Malaysia



Note: Figures are based on actual expenditure up to FY2012 and on budget plan for FY2013 and FY2014.
Source: Compiled by BTMU Economic Research Office from statistics of the Ministry of Finance, Malaysia

(3) Thailand

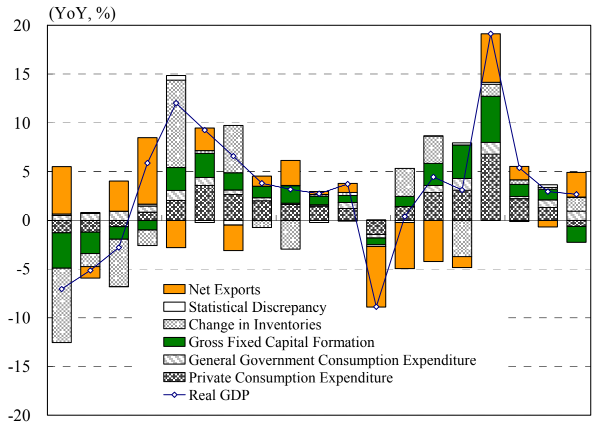
Economy losing momentum

The Thai economy has been losing momentum. Q3 GDP grew by +2.7% YoY, a third straight quarter of slowing. The economy was weighed down by a contraction in private consumption (-1.2% YoY) due to the high base effect after the first-time car buyer scheme ended in end-2012, coupled with lackluster private equipment investment (-5.7% YoY), primarily in transport machinery (Figure 20). The Bank of Thailand's Monetary Policy Committee (MPC) cut interest rates by 25bp on November 27 because of the slowdown (current rate: 2.25%).

Growth to recover to +4.0% in 2014

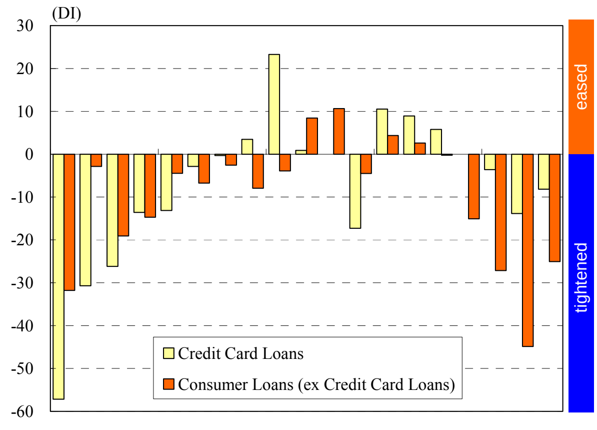
Thailand's economy is expected to recover, expanding by +4.0% YoY, up from our estimate of +2.5% YoY in 2013. Downward pressure from the high base effect from the first-car buyer program weighed on consumption in H2 2013, but the effect will fade this year. However, consumption growth supported by expanded credit as in the past is unlikely, as financial institutions are remaining cautious against lending due to the high level of outstanding household debt (Figure 21).

Figure 20: Real GDP Growth in Thailand



Source: Compiled by BTMU Economic Research Office from Thai NESDB

Figure 21: Expected Consumer Credit Standards in Thailand



Source: Compiled by BTMU Economic Research Office from Bank of Thailand

Risk factor: Deteriorating consumer sentiment due to political instability

Exports, especially electronics, have been showing signs of recovery. However, the pace of economic growth in advanced countries remains modest, and exports are expected to recover at only a moderate pace. Meanwhile, Thai domestic demand will be underpinned by (1) the Government's economic stimulus measures unveiled in August aimed at promoting private investment, including incentives to produce environmentally-friendly cars and an enhanced credit guarantee system for SMEs; and (2) large-scale infrastructure investment including flood prevention projects.

One risk factor is deteriorating consumer sentiment amidst increasing political instability. Tension between the pro- and anti-Thaksin forces has been intensifying over the amnesty bill forcefully passed by the Lower House in November, with large-scale demonstrations erupting in Bangkok. During previous periods of political instability, deteriorating consumer sentiment caused consumption to weaken. Amidst slowing consumption recently, the political situation should be watched carefully.

(4) Philippines

Economy maintains robust growth, led by domestic demand

The Philippines economy has maintained robust growth. Q3 GDP sustained strong growth of +7.0% YoY, after recording +7.6% YoY in Q2, due to solid domestic demand supported by private consumption (Figure 22). Domestic demand-led growth appears to be continuing, driven by improvements in household income due to strong overseas remittances and expanded business investment in equipment.

6%-level growth expected to continue through 2014

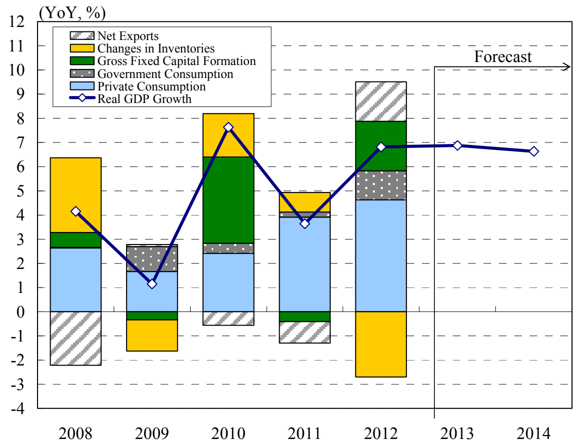
The economy is expected to maintain strong growth. Despite the impact of the typhoon in November, 2013 full-year growth is expected to reach +6.9% YoY, supported by expanded investment and firm private consumption. Growth is expected to expand by +6.6% YoY in 2014.

Typhoon Haiyan hit the central Philippines on November 8, and is expected to hurt production, primarily in agriculture, the region's main sector. Although the heavily-damaged Visaya region accounts for only 12.7% of the national economy, the impact will be large in the short term, with full-year 2013 GDP growth weighed down by 0.4%pts. The impact of the typhoon will persist over the next year, but the negative effects are expected to be partially mitigated by reconstruction demand.

Expanded FDI to underpin consumption through employment growth

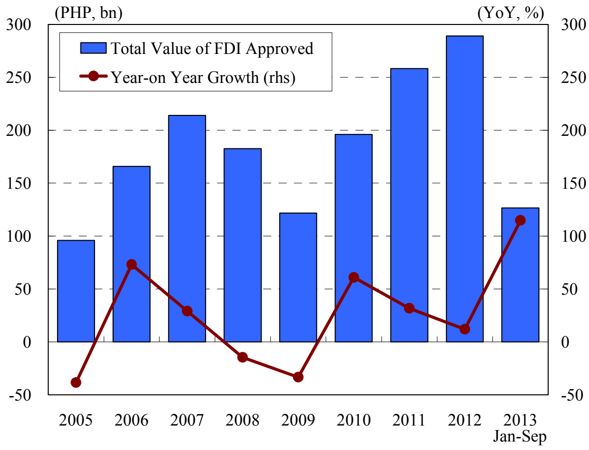
In addition, inward foreign direct investment (FDI) will support consumption through domestic investment and employment growth. Total FDI approved in Jan-Sep 2013 increased by +114.8% YoY (Figure 23), led by manufacturing and business process outsourcing (BPO). Consumption is expected to continue to be a key driver of growth, supported by favorable conditions such as a minimum wage hike in October (minimum daily wages increased by 10 pesos to 466 pesos in non-farm sectors) and a projected solid increase in overseas remittances amidst the global economic recovery.

Figure 22: Real GDP Growth in the Philippines



Source: Compiled by BTMU Economic Research Office from the Philippine NSCB's statistics

Figure 23: Philippines' Inward Foreign Direct Investment Approval



Source: Compiled by BTMU Economic Research Office from the Philippine NSCB's statistics

5. Other Asian Countries

(1) India

Sluggish economy continues mainly due to slowing domestic demand

The Indian economy remains sluggish. Jul-Sept economic indicators showed that auto sales fell on-year for a third consecutive quarter, and capital goods production started to contract from August. The October WPI accelerated to +7.0% YoY (Figure 24). Rising inflation, coupled with the impact of interest rate hike, caused domestic demand to fall further. Meanwhile, the Jul-Sept trade deficit narrowed to USD29.82 billion, a 40% decline both on-quarter and on-year, as exports increased sharply as the rupee depreciated and as imports were limited.

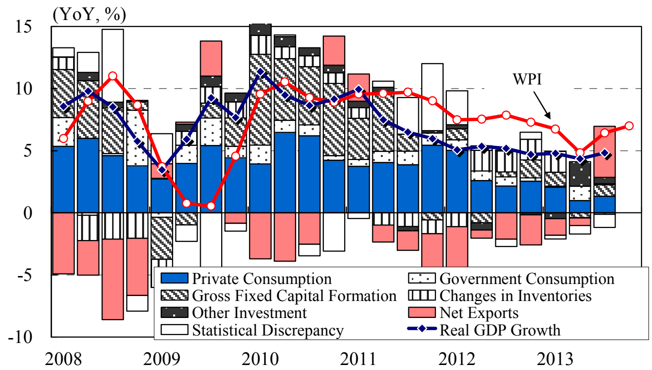
Growth to remain far below the potential rate through 2014

Going forward, India's economy is expected to remain sluggish. The country is dependent on imports and thus vulnerable to import inflation. Therefore, if the foreign exchange rate remains at the current level, prices will be pushed up by 3%pts and weigh on GDP growth by 0.3-0.4%pts through mid-2014. While the inflation rate is expected to slow somewhat in H2 2014 as the impact of the weak currency eases, inflationary pressures resulting from supply constraints will persist. Real GDP is expected to grow +4.6% YoY in FY13 and +5.5% YoY in FY14, respectively, both below the potential growth rate in the lower 6% range.

Under new Governor Raghuram Rajan, the Reserve Bank of India (RBI) has taken swift action, including raising interest rates twice and easing regulations on external commercial borrowings by foreign banks and foreign currency non-resident deposits for non-resident Indians. After the US Fed's decision to delay QE tapering in September, the rupee stopped falling. However, given that the Fed is likely to begin to taper quantitative easing soon, concerns remain over volatility returning to the currency market. India's current account deficit is largely due to domestic supply constraints, and investment through infrastructure development and regulatory easing must be encouraged. Income transfers to households to increase savings as a source of investment must also be reviewed (Figure 25). Strong political leadership and a long-term commitment are necessary in order to tackle these issues. Under these circumstances, policy management over the coming year—before and after the general elections to be held in May—will bear watching.

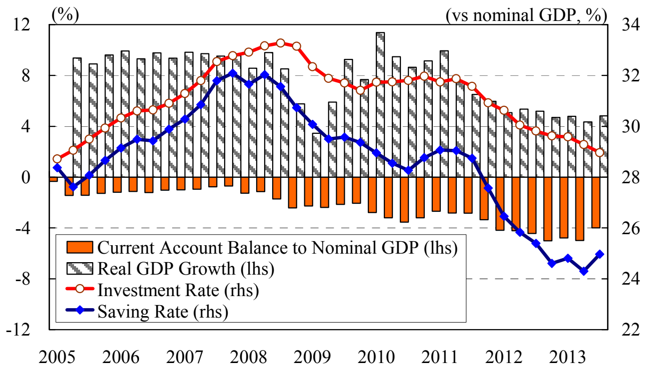
Investment promotion and saving expansion vital to tackle domestic supply constraints

Figure 24: Real GDP Growth and Prices in India



Note: 1. "Real GDP growth" is based on factor cost.
2. The latest WPI is based on October.
Source: Compiled by BTMU Economic Research Office from CEIC database

Figure 25: Growth Rates and Saving and Investment Rates in India



Note: 1. Investment and Saving Rates are based on BTMU's calculation.
2. All figures are based on four-quarter moving average, except real GDP growth.
Source: Compiled by BTMU Economic Research Office from CEIC

(2) Vietnam

Economy recovers modestly, backed by consumption and export rebound

Vietnam's economy is recovering modestly. Real GDP growth in Q3 accelerated to +5.5% YoY from +5.0% YoY in Q2 (Figure 26). Real retail sales accelerated for a second consecutive quarter to +6.4%, and exports rebounded to +15.8% YoY, led by mobile phones and electronics. The Jan-Sept growth rate of +5.1% YoY, however, remained below this year's Government target of +5.4% YoY.

Growth remains below potential rate through 2014

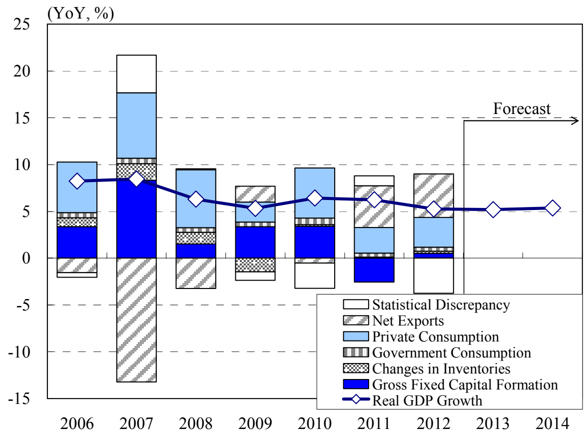
Real GDP growth in 2014 is expected to accelerate slightly to +5.4% YoY from the 2013 estimate of +5.2% YoY, remaining below its potential rate of approximately 6%.

Consumption is projected to continue to recover on the back of real income growth due to somewhat subdued inflationary pressures. Rapidly-expanding high tech products such as mobile phones and electronics will continue to be a driving force for exports. On the other hand, investment growth is expected to be weak as financial institutions with large non-performing loan burdens maintain caution on lending. Total outstanding loans grew +5.8% YoY as of end-September, far below the government's 12% YoY target for 2013 (Figure 27).

VAMC starts to buy bank NPLs

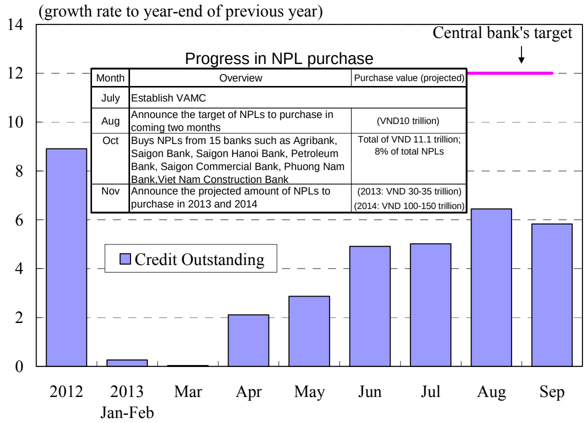
The Vietnam Asset Management Company (VAMC), established in July by the Vietnam Government to tackle the NPL problem, has begun to buy NPLs. As of November, VAMC had purchased 8% of all NPLs. While VAMC plans to buy more NPLs next year, resolving the issue will take considerable time. The NPL problem will continue to weigh on Vietnam's economy for some time.

Figure 26: Real GDP Growth in Vietnam



Note: 1994=100 between 2006 and 2009.
Source: Compiled by BTMU Economic Research Office from the General Statistics Office of Vietnam

Figure 27: Bank Credit Outstanding and NPL Purchases in Vietnam



Note: Number in brackets indicates projected purchase value.
Total NPL amount is based on central bank's calculation as of end-July.
Source: Compiled by BTMU Economic Research Office from media reports

For further details, please contact the Economic Research Office, Bank of Tokyo-Mitsubishi UFJ
Chief Manager, Nobuo Date nobuo_date@mufg.jp
Directed by Shingo Takeshima shingo_takeshima@mufg.jp
Written by Hiroshi Kurihara (China, Taiwan, Hong Kong) hiroshi_2_kurihara@mufg.jp
Hayato Nakamura (Singapore, Indonesia, Malaysia, India) hayato_nakamura@sg.mufg.jp
Yuka Maehara (South Korea, Thailand, Philippines, Vietnam) yuka_maehara@mufg.jp