The Economist Corporate Network

Asia Country Briefing

3Q 2019: July to September

Contents

Global outlook

World economy

A manufacturing downturn is weighing on global growth

The world's goods-producing industries are under pressure. Global manufacturing activity stalled in the first half of 2019. In developed markets, and most noticeably in the euro zone, industrial production data and business surveys suggest that the output of the manufacturing sector has declined so far this year for the first time since 2015. This slowdown coincides with shrinking global trade volumes. In part, this is due to the bilateral tariffs imposed as part of the US-China trade war. To a larger extent, it also reflects a sharp slowdown in the global consumer electronics cycle, which is weighing on shipments from China, Taiwan, South Korea, Singapore and Japan.

Pockets of weakness are emerging in the world's major housing markets

Other parts of the global economy are still doing well. In many developed markets, unemployment rates are at or near historical lows, and a still-strong service sector is continuing to fuel employment growth. However, there are also early signs of a slowdown in the global housing and construction boom that built up over a decade of ultra-loose monetary policy. House prices have continued rising rapidly in many parts of Europe, but they appear to have peaked in the market hot spots of the UK, Canada, Australia, and the Nordic countries, as falling affordability, rising interest rates, measures aimed at foreign investors and economic uncertainty have taken their toll.

World economy: Forecast summary	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Real GDP growth (%)										
World (PPP* exchange rates)	3.5	3.4	3.3	3.7	3.5	3.1	3.3	3.5	3.6	3.5
World (market exchange rates)	2.8	2.8	2.5	3.1	2.9	2.4	2.5	2.8	2.9	2.8
US	2.5	2.9	1.6	2.2	2.9	2.2	1.7	1.8	2.0	1.7
Japan	0.4	1.2	0.6	1.9	0.8	1.0	0.4	1.0	1.2	1.1
Euro area	1.4	2.0	1.9	2.5	1.9	1.1	1.4	1.6	1.7	1.7
China	7.3	6.9	6.7	6.8	6.6	6.2	6.1	5.8	5.5	5.2
Asia & Australasia	4.4	4.5	4.5	4.9	4.5	4.3	4.1	4.3	4.3	4.2
Latin America	1.4	0.1	-0.3	1.7	1.6	0.1	2.1	2.6	2.8	2.8
Middle East & North Africa	2.8	2.3	4.7	1.4	1.2	1.2	2.2	2.9	3.3	3.2
Sub-Saharan Africa	4.6	2.7	0.8	2.3	2.4	2.3	2.5	3.8	4.2	4.4
World inflation (av; %)	3.4	3.0	3.1	3.2	3.5	3.9	3.3	3.2	3.2	3.1
World trade growth (%)	2.9	2.0	2.1	5.4	4.4	3.1	3.5	3.8	3.9	4.0
Commodities										
Oil (US$/barrel: Brent)	98.9	52.4	44.0	54.4	71.1	67.7	62.0	67.0	73.2	75.0
Industrial raw materials (US$; % change)	-5.1	-15.2	-2.2	20.2	2.2	-5.4	3.3	3.4	3.0	0.6
Food, feedstuffs & beverages (US$; % change)	-5.3	-18.4	-3.5	-1.0	1.6	-4.2	4.5	3.6	0.2	0.8
Exchange rates (av)										
US$: €	1.33	1.33	1.11	1.11	1.13	1.21	1.20	1.21	1.21	1.24
¥ : US$	97.6	105.9	121.0	108.8	112.1	108.2	107.2	104.1	100.0	98.3

*Purchasing power parity

Central banks are adopting an easing bias in response

Against this backdrop, a growing number of central banks have begun to prepare financial markets for policy easing (some, like the central banks of Australia and New Zealand, have already embarked on an easing cycle). In early June Jerome Powell, the chairman of the Federal Reserve (the Fed, the US central bank), stated that the Fed would respond "as appropriate" to trade developments, causing financial markets to price in a growing likelihood of rate cuts in 2019. The president of the European Central Bank (ECB), Mario Draghi, went further: in a speech at the ECB's annual forum in Sintra, Portugal, in June, he stated that additional stimulus would come "in the absence of improvement", a move away from the more reactive approach that the bank had previously adopted.

Central banks are responding to low inflation as well as slowing growth

An important factor behind this shift in stance by the Fed and the ECB is low inflation. Core inflation measures in both the US and the Euro zone have slowed and remain well below central bank targets, and measures of inflation expectations have also softened. With policy interest rates so low, central banks in developed markets can ill afford to let low inflation become entrenched before the next recession hits. This is a balancing act: central banks also do not want to waste their ammunition. The Economist Intelligence Unit expects the Fed to sit on its hands for a few months longer, before embarking on a policy easing cycle at its December meeting, cutting the federal funds rate by a total of 75 basis points by mid-2020. The ECB's next move will come sooner, but will be mostly symbolic: a cut of 10 basis points to the deposit rate (currently at -0.4%), is most likely in September.

US-China trade tensions have stabilised– for now

The degree of monetary policy easing that we expect will disappoint financial markets, which have priced in more aggressive rate cuts by the end of this year. Crucially, however, our forecasts assume that the trade truce agreed between the presidents of the US and China, Donald Trump and Xi Jinping, at the side-lines of the G20 summit in late June, will continue to hold. Recent developments have been modestly encouraging: at his meeting with Mr Xi, Mr Trump was forced to accept tepid promises from China in return for some significant concessions, including an offer to drop a sales ban against Huawei, a Chinese telecommunications giant.

New trade agreements are taking shape

Existing trade relationships are under threat, but new ties are also being formed. In another major development at the G20 summit, a free-trade agreement between the EU and the four countries of the Mercosur customs union (Argentina, Brazil, Paraguay and Uruguay) was announced, almost two decades after negotiations began. This is a milestone event, sending a positive message to investors and creating economic opportunities for both blocs. It brings together a combined population of 780m people in an agreement that will eliminate nearly 100% of EU tariffs and 90% of Mercosur tariffs, assuming that a signed deal is ratified by all Mercosur and EU member parliaments. The ratification process will be politically complicated, and the FTA will probably not come into effect until 2021 at the earliest. However, for Argentina and Brazil, Mercosur's traditionally closed large economies, this will provide time for much-needed economic reforms to boost the competitiveness of the manufacturing and services sectors, which will now take centre stage on the reform agenda.

Trade war escalation remains the biggest *global* risk

The US's trade and foreign policy will determine the global political and economic outlook in the next few years. All the US's trade negotiations remain open-ended and at risk of collapse. As we had expected, the US-China agreement at the G20 was a trade truce, not a trade deal. We do not expect a written agreement between the two countries, which would result in a reduction of existing tariffs, until 2021, after the US presidential election.

Global trade

Global trade will slow on the back of weaker export performance in Asia

Global trade growth will slow in 2019. Much of this will be due to a marked deceleration in merchandise export growth in East Asia, in part owing to a sharp slowdown in global demand for consumer electronics, which is placing pressure on shipments from China, Taiwan, South Korea, Singapore and Japan. The bilateral tariffs imposed as part of the US-China trade war have exacerbated this slowdown, and this will continue to weigh heavily on prospects for global trade growth in 2019-20. Both sides have placed tariffs ranging from 5-25% on roughly US$360bn-worth of bilateral merchandise trade. Despite a truce agreed at the G20 summit in late June, the US-China trade dispute will dampen global investor and consumer sentiment in 2019, which in turn will stifle any strong recovery in global trade demand that year.

Nevertheless, despite slower growth in China and the US as part of that conflict, we expect growth in global trade growth to recover slightly in 2020. Trade diversion (as a result of the trade war) will begin boosting export growth from third markets that year, particularly on the back of a low base of annual comparison from 2019. Expected cuts in US interest rates in 2020 should also lift exports from developed countries by stimulating economic activity, while also lending strength to export growth in emerging markets by reducing US-dollar-denominated trade financing costs. In addition, a cyclical rebound in global demand for electronics shipments—tied in part to the planned mass commercial deployment of non-standalone fifth generation (5G) mobile technology in early 2020—should also prop up this recovery. However, the export ban imposed by the US on Huawei, a Chinese telecommunications equipment manufacturer that lies at the forefront of 5G development, risks delays to that timeline.

We do not expect a US-China trade deal before 2021

The Economist Intelligence Unit does not expect the US and China to finalise a written trade agreement in 2019-20. As a result, we assume that the existing bilateral tariffs on US$360bn-worth of goods will remain in place over that period. This is because we expect the US president, Donald Trump, to frame the trade war as part of his presidential campaign, by positioning his re-election as necessary to conclude the dispute and force China to back down. Similarly, we do not expect China to concede, based on its refusal to concede to US demands that it has deemed infringe on its sovereign rights. The shift of the dispute into the technology arena will also prompt China to maintain its hardline approach.

The G20 confirmed our expectations that further tariff hikes are unlikely

Nevertheless, our core forecast remains that both sides will avoid further tariff escalation across this remaining tranche of merchandise goods, which would cover the entirety of US-China merchandise trade. This will not come from China: although its refusal to yield will inevitably generate further downwards pressure on its economy, the country does not face domestic political pressure to end the trade war. This will instead be driven primarily by the political calculations of Mr Trump in regards to the potential impact of the trade dispute on his re-election chances in 2020. Further tariff application would hit finished consumer electronics (such as laptops and mobile phones) that have thus far been spared from US tariffs, which would more directly affect US households and make the trade war much more personal for the average US voter.

Such a trade truce materialised on the sidelines of the G20 summit in Japan in late June, at a presidential meeting between Mr Trump and his Chinese counterpart, Xi Jinping. This was directly in line with our forecast, and mirrored an earlier tariff suspension reached at the G20 in December 2018 in Argentina. The risk of a further breakdown in trade relations, however, remains high. Should a lack of progress on US-China trade issues prompt Mr Trump to follow through on his tariff threat, then we would expect the trade war to shave off 1-1.5 percentage points from China's real GDP growth figure in 2020, the year when most of this economic pain would materialise (on the assumption of no stimulus response). Our initial projections similarly indicate a 0.2-0.3 percentage point drop in US real GDP over the same period.

Tariffs are unlikely to be withdrawn until after the US presidential election

As part of tariff de-escalation, we assume that both sides will ultimately reach an agreement that will include commitments by China to purchase US commodities, as well as nominal pledges to address the structural issues in the economic relationship through domestic reforms.

At any rate, we do not expect tariff withdrawal until 2021, following the inauguration of a new US administration. This will have severe consequences for the economies of both nations in that interim period, but will also have prompted a significant restructuring of Asian supply chains.

The trade war will move away from tariffs and into technology

Regardless of what happens on the trade tariffs front, we expect the US further to enhance its scrutiny over Chinese technology firms over the next 12 months. This will increasingly push the dispute into the technology, investment and national security realms, where bilateral friction will remain even after tariff withdrawal begins in 2021.

The most aggressive of these moves will centre on US treatment of Huawei. In May the US placed the company on its "entity list", which prohibits the sale or export of US technology to Huawei without a special US licence (although the US Department of Commerce issued a 90-day exemption to minimise disruptions to US firms). This was based on allegations that the company had knowingly violated US sanctions on Iran, charges that Huawei denies. These moves have emerged in parallel to a US campaign to ban Huawei equipment from global 5G development, which will continue (and intensify) even as the US refrains from further tariff actions.

Mr Trump suggested at the G20 that he would back down on Huawei—indicating that US companies would be allowed to restart commercial sales to that company. However, there is a strong likelihood that this will not result in a full reversal of the US position. Such a move would significantly raise political risks for Mr Trump in the US, owing to the bipartisan consensus in the US Congress on treating Huawei as a US national security risk. Regardless of how US treatment of Huawei develops, however, we expect the US to strengthen its campaign against Chinese technology firms more generally, including through the introduction of further export bans that more broadly restrict sales of US technology to Chinese firms. This has begun to materialise, with the US adding a number of leading Chinese tech companies to its entity list in late June.

The importance of Huawei to China's leaders, both as a symbol of Chinese innovation as well its leading role in that country's 5G ambitions, has prompted a strong nationalistic backlash in China. China has already responded by increasing regulatory scrutiny of US firms in its own market, including through issuing plans to establish an "unreliable entities list" that would sanction foreign firms that allegedly disrupt, block the supplies of, or otherwise harm the "legitimate interests" of Chinese companies for non-commercial reasons. This could include sanctioning companies (including non-US firms) that have abandoned their commercial relationship with Huawei to remain compliant with the US export ban.

Some Asian exporters will benefit from US China trade war

Despite the negative effect of trade tensions on global trade, some exporters in Asia are set to benefit as supply chains adjust to the new environment. The US-China trade war has already prompted a restructuring of regional supply chains. This is unlikely to result in a mass corporate exodus from China, but it will result in a reshaping of trade links as firms redeploy their investment elsewhere. Technology and electronics manufacturing exporters in Malaysia and Vietnam, auto parts manufacturing exporters in Thailand and garment exporters in Bangladesh are likely to see benefits in the long term as a result of these shifts. Nevertheless, it may be difficult for these adjacent markets to fully absorb the impact of these shifts.

The passage of the USMCA will be delayed

This was despite the lifting of tariffs on US imports of steel and aluminium from those two markets, which we had long seen as a precursor for ratification. Instead, this will be primarily owing to the lack of bipartisan support for the deal in the US: although the Mexican government passed a number of labour reforms in April to address concerns raised by Congressional Democrats, that party remain suspicious of Mexico's implementation of these labour reforms. Meanwhile, members of the Congressional Progressive Caucus have demanded renegotiation around the deal's language on pharmaceuticals and environmental protection. Despite this, Canada and Mexico have already publicly announced their refusal to reopen negotiations, and this scenario remains outside our core forecast. The risk of the deal falling apart once the US enters its election season in 2020 has risen.

Potential US auto tariffs raise the risks around further global trade disruptions

The signing of the USMCA has not neutered the Trump administration's protectionist tendencies. Most pressingly, the US is still considering introducing tariffs on automotive imports (including on both finished vehicles and auto parts), based on national security concerns. The US Department of Commerce submitted the results of its investigation into tariffs on automotive imports, conducted under Section 232 of the US Trade Expansion Act of 1962, to the White House in mid-February. Tariff imposition would severely disrupt trade relations between the US and the EU, as well as Japan, both of which are major car exporters to the US market. Canada and Mexico, which are also large car exporters, have obtained temporary exemptions from these potential tariff actions under side letters tied to the USMCA, although there is a risk that the US would not honour these exemptions if the agreement were to fail to clear Congress, or if tariffs were introduced before USMCA ratification.

The submitted report gave Mr Trump until May 18th to decide whether to agree or disagree with its findings, although shortly before that date he announced that he would suspend his ultimate decision for six months. As part of this process, the US has demanded further negotiations with both Japan, the EU and any other trade partner "deemed legitimate" to limit or restrict further automotive imports into the US.

This was in line with our forecast that Mr Trump would ultimately not move on the 232 auto tariffs. We maintain our forecast that he will not introduce these duties in November, following the 180-day suspension period, owing to strong domestic opposition and the likelihood that these measures would derail US-EU and US-Japan trade negotiations. Introducing these tariffs in November—right before the US presidential election year, and amid existing tariff pressure from the US-China trade war—would be politically disastrous for Mr Trump. The EU has also already made clear that it would retaliate with reciprocal tariffs on US imports into its own market, and that new US tariffs would immediately push the EU to suspend any trade negotiations (the EU ratified draft mandates to begin trade talks with the US in April, although in early June formal discussions had not yet been launched).

US-EU trade friction will increasingly emerge as a major story for 2019

US-EU trade tensions have also emerged in other areas. In April the US announced that it had prepared tariffs worth US$21bn on EU imports in retaliation for a 14-year dispute over European subsidies to Airbus. The US later raised this amount to US$21bn, and in early July announced plans to add another US$4bn to this initial list. The World Trade Organisation (WTO) had ruled in May 2018 that the EU subsidies were illegal, although the organisation fell short of issuing a retaliatory prescription. US trade officials have instead calculated these retaliatory amounts based on the same national security justifications used to target China.

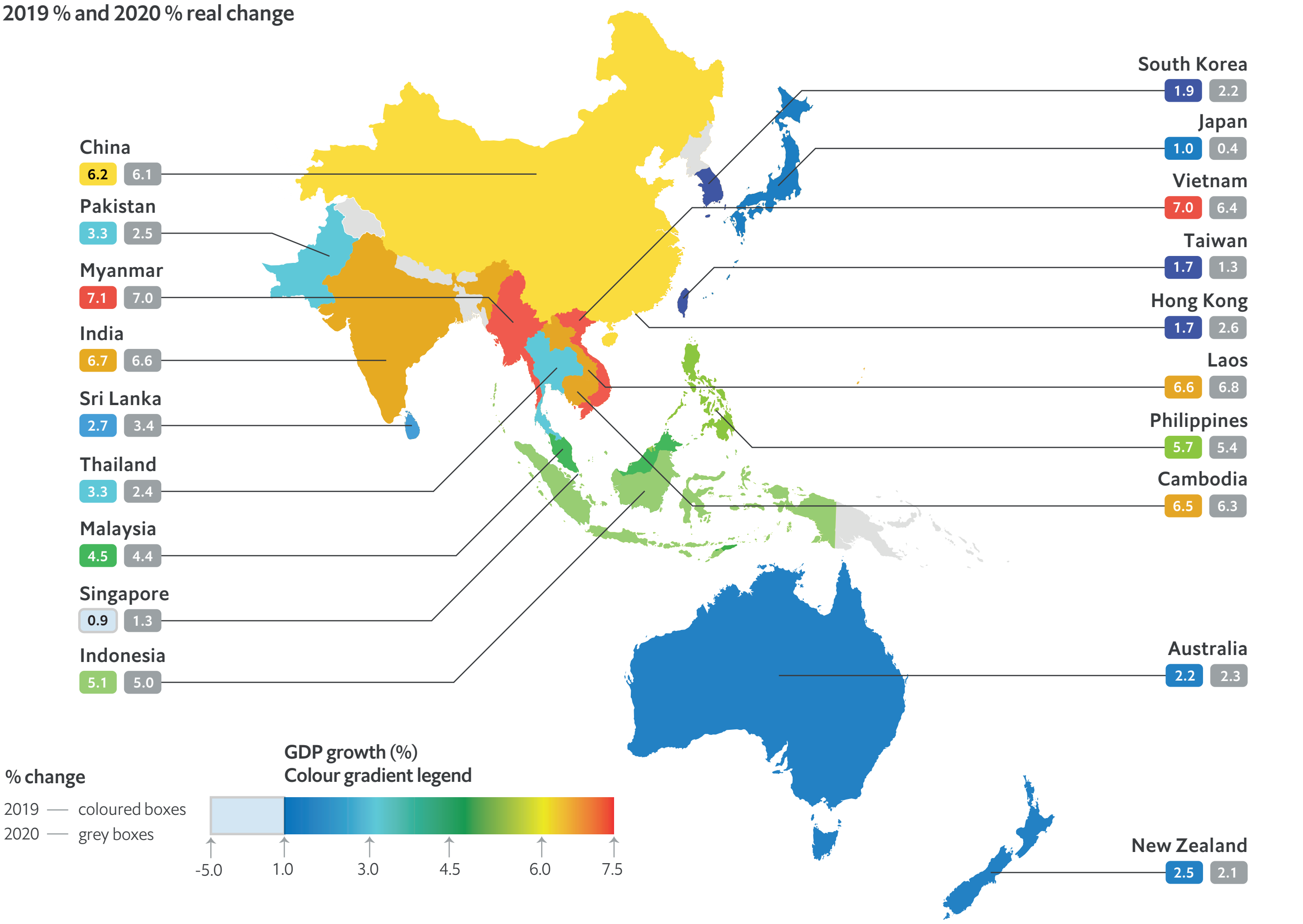
In response , the EU has targeted US$22.6bn in reciprocal tariffs (with the goal to reduce the final list to cover US$11.6bn after internal negotiations), built on a separate WTO ruling that the US had similarly failed to eliminate its own illegal subsidies for Boeing. We do not expect these tariffs to be implemented, as their adoption would sabotage US-EU trade talks. Instead, we believe that this tariff threat is designed both to put pressure on the EU to engage in meaningful trade talks—particularly following the conclusion of the EU-Mercosur trade deal at the G20, which will allow greater EU market access to Argentina, Brazil, Paraguay and Uruguay—and to be used by Mr Trump to burnish his protectionist credentials in a less economically disruptive way. Even if he decides against these tariff impositions, as we expect, Mr Trump will seek to pressure the EU on trade in other ways (such as targeting EU companies trading with Iran despite US sanctions).

The role of the WTO is now under threat

Aside from its country-specific disputes, US trade protectionism in general has threatened to unravel a larger international trade framework. This has been particularly evident in its ongoing efforts to block the appointment of judges to the appellate body of the WTO. The body is an integral part of the WTO's dispute settlement system. The terms of two of the remaining three judges will end in December 2019; without their replacement, the WTO's dispute settlement mechanism will cease to function.

Asia GDP growth

2019 % and 2020 % real change

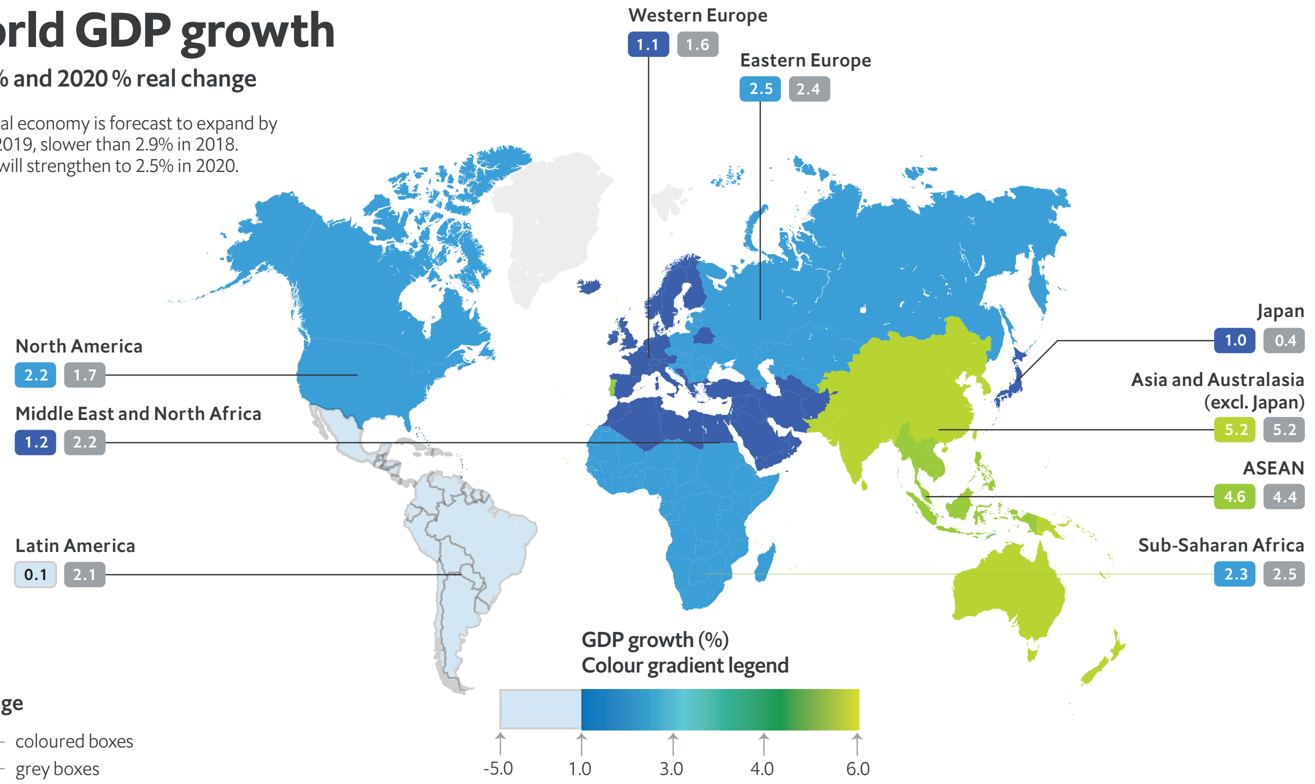


Compiled by ECN

World GDP growth

2019 % and 2020 % real change

The global economy is forecast to expand by 2.4% in 2019, slower than 2.9% in 2018. Growth will strengthen to 2.5% in 2020.



Compiled by ECN

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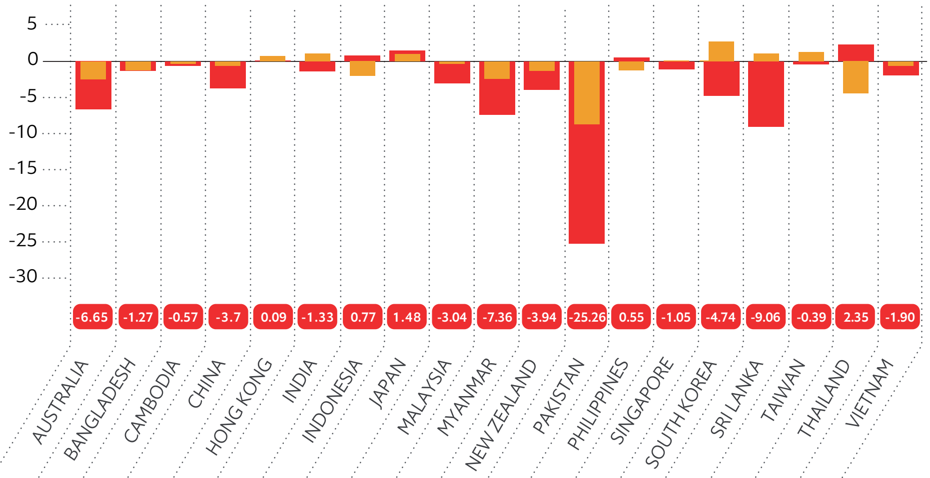
Depreciating US$

Local currency vs US$ (average annual rate)

The US dollar has depreciated against most currencies since early June.

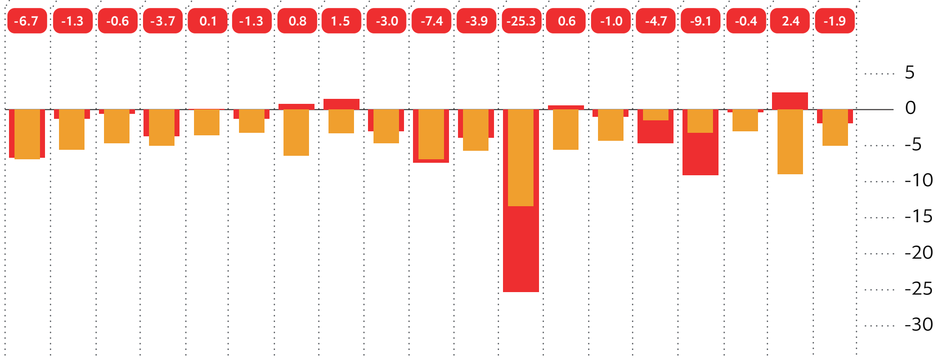
With financial markets having priced in rate cuts at the Fed's July and September meetings, this suggests that the US dollar could strengthen in the coming months.



Euro under pressure €

Local currency vs € (average annual rate)

With the Brexit saga unresolved, and given the continued theat of higher US trade tariffs on automotive exports and the potential for more political volatility in Italy, the euro is likely to remain under pressure against the US dollar in the coming months.



% change

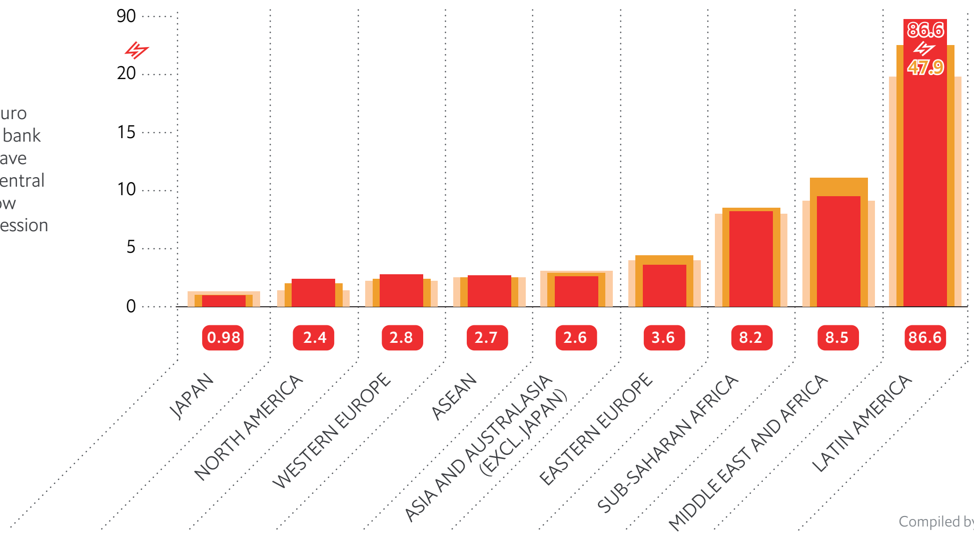
2018 2019

Compiled by ECN

Deflation

Consumer price inflation (%)

Core inflation measures in both the US and the Euro zone have slowed and remain well below central bank targets, and measures of inflation expectations have also softened. With policy interest rates so low, central banks in developed markets can ill afford to let low inflation become entrenched before the next recession hits.



% change

2018
2019
2020

Compiled by ECN

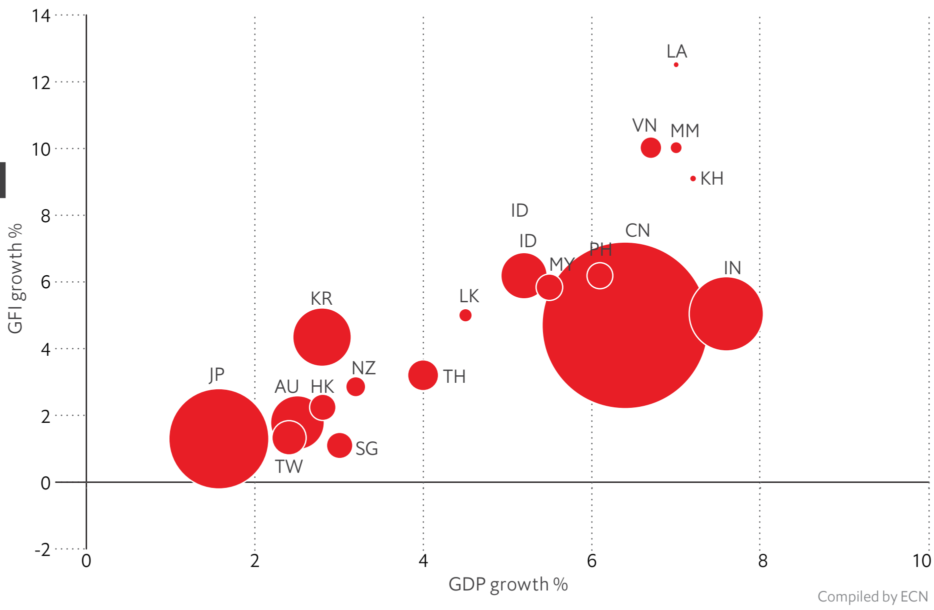
Growth, investment (almost) across the board

GDP growth (%) and GFI growth (%) in 2019

Most of emerging Asia will continue to see gross fixed asset investment (GFI) rates track economic expansion.

GDP Size

China US$13,332bn
India US$2,607bn
Indonesia US$1.060bn
Vietnam US$233.6bn

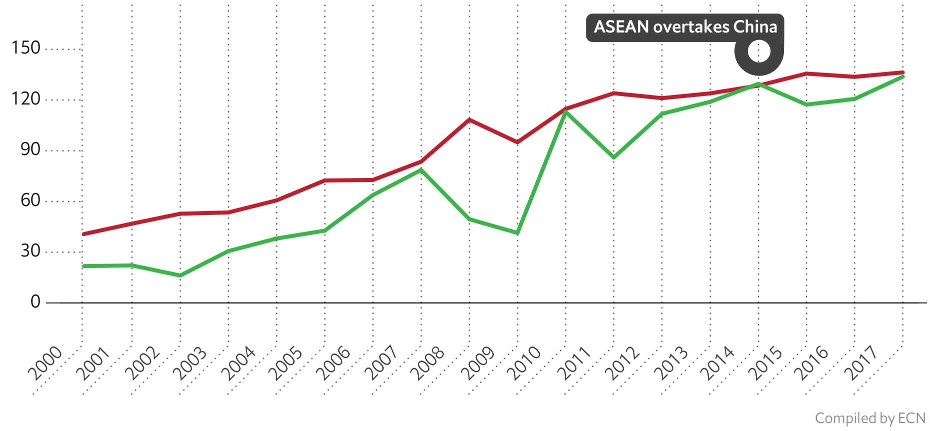


ASEAN and China competing for FDI

Value of foreign direct investment inflows (US$bn)

Inflows of foreign direct investment (FDI) to ASEAN have been rising to record levels, and in 2014 they overtook China. However, ASEAN's lead turned out to be only temporary, as China regained its place as the most attractive destination for FDI in Asia in 2015. Could 2019 be the year ASEAN wins back its FDI edge over China?

China
ASEAN



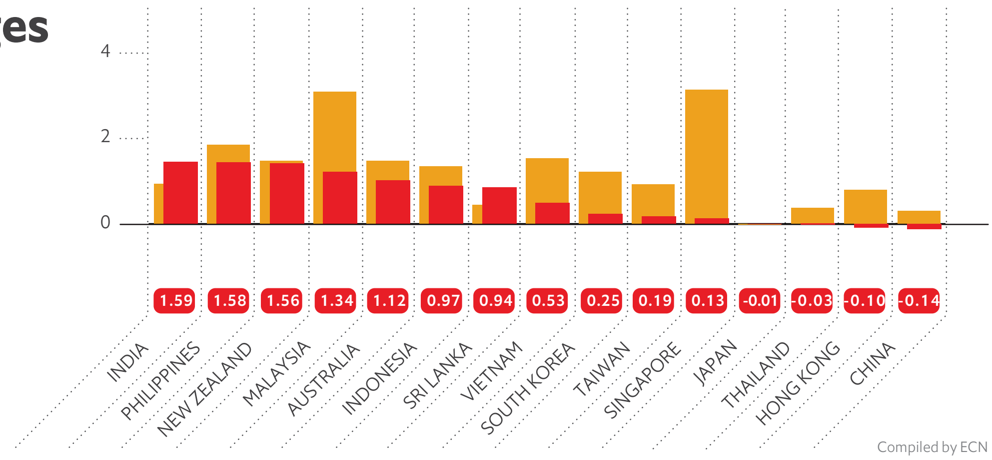
Demographic challenges in Asia

Annual labour force growth rate (%)

With the exception of India, the labour force in Asia will expand at a slower rate in the next decade, as compared to the previous decade. This will act as a constraint on faster economic growth.

% change

2017-2025
2008-2016



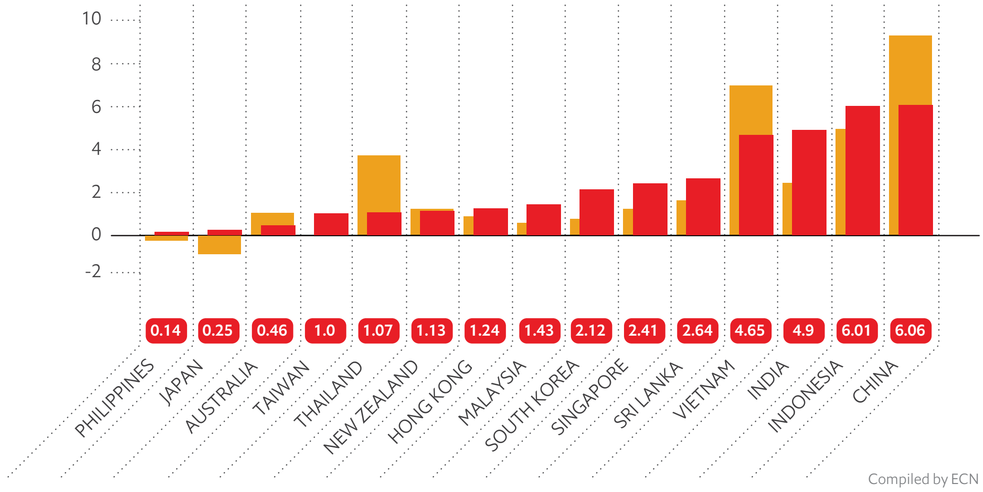
Wages rising in Asia

Growth in annual average real wages (%)

Competition for workers—especially skilled labour—is rising across Asia, putting pressure on wages to rise.

% change

2017-2025
2007-2016



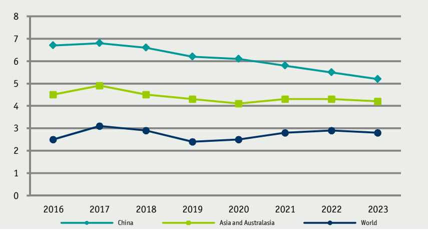
China

★Beijing

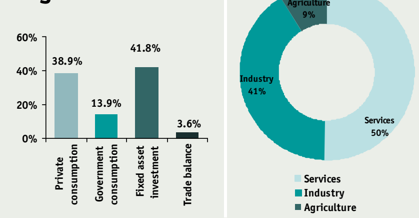
Economic outlook

- The Economist Intelligence Unit forecasts that real GDP will grow by 6.2% in 2019, before slowing to 6.1% in 2020. This will enable the government to meet its political goal of doubling real GDP by 2020 over the level in 2010. These figures are based on official data, and may not reflect business conditions on the ground, which will be more volatile.
- The US-China trade war will constrain external sector performance in 2019-20, while also dampening business and consumer sentiment. This will weigh on private consumption and corporate investment. However, we believe that the government is committed to putting a floor under economic growth, even at the expense of aggravating the debt problems that have left it fiscally and financially vulnerable.
- To do this, the government will have to loosen fiscal and monetary policy more than it would like to in 2019, as policy transmission mechanisms are not functioning very effectively. Economic activity in early 2020 will thus be relatively strong, but will cool again as policy is recalibrated.
- After 2020, we believe that policymakers will move to a less supportive stance, with real GDP expansion averaging 5.5% per year in 2021-23 as structural reforms constrain growth. The fastest growth in terms of real GDP components in 2019-23 will be recorded by government consumption, as fiscal policy is used to cushion the economic slowdown.

Real GDP growth (%)



Origin of GDP*



*2015

Real expenditure on GDP (% change)	2018	2019	2020	2021	2022	2023
Real GDP growth	6.6	6.2	6.1	5.8	5.5	5.2
Private consumption	8.9	7.5	7.2	6.3	6.0	6.2
Government consumption	10.2	9.8	9.3	9.0	8.7	8.4
Gross fixed investment	4.5	4.4	4.2	3.7	3.4	3.0
Exports of goods & services	6.4	3.0	3.2	3.4	3.6	3.3
Imports of goods & services	7.9	2.7	3.0	3.3	3.1	3.2
Domestic demand	7.0	6.1	6.0	5.8	5.3	5.2

Population, income and market size	2018	2019	2020	2021	2022	2023
Population (m)	1,385	1,390	1,395	1,399	1,402	1,404
GDP (US$ bn at market exchange rates)	13,368	13,948	14,926	15,669	16,492	17,909
GDP per head (US$ at market exchange rates)	9,651	10,032	10,699	11,202	11,766	12,758
Private consumption per head (US$)	3,800	3,980	4,280	4,520	4,790	5,270
GDP (US$ bn at PPP)	25,099	27,192	29,411	31,620	33,693	35,810
GDP per head (US$ at PPP)	18,120	19,560	21,080	22,600	24,040	25,510

Political outlook

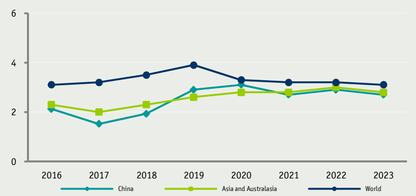
- Although the president, Xi Jinping, dominates the political scene, the coming five years will prove challenging for him to navigate. Escalating US-China competition and a slowing domestic economy will erode some of the authority he amassed during his first five years in power.
- As it adjusts to these pressures, Mr Xi's administration will be forced into policy shifts, such as easing its financial de-risking campaign. However, there are few political threats to his position. The Economist Intelligence Unit believes that the president will succeed in plans to postpone his own retirement until after 2022-23, when custom suggests that he should step down.
- Tensions between the US and China will persist in 2019-23. However, we expect both sides to prevent further tariffs from covering the remainder of bilateral merchandise trade not yet hit by the dispute. Bilateral friction will intensify in areas including technology and investment policy, but an outright military clash is not within our core scenario.

Policy, money and prices

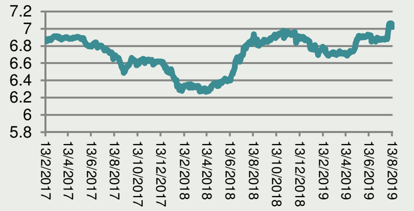
- Monetary and fiscal policy loosening will put a floor under economic growth in 2019-20. As structural challenges facing the economy again come into focus, policy will assume a tightening bias from 2021.
- Monetary policy settings will be relatively loose in 2019-20. We expect China's benchmark one-year deposit and lending rates—which stand at 1.5% and 4.35% respectively—to remain unchanged in 2019-20, with consumer price inflation nearing the 3% ceiling set by the People's Bank of China (PBC, the central bank).
- Consumer price inflation is forecast to average 2.8% a year in 2019-23, 1.0 percentage points above the level in 2014-18. A spike in pork prices will generate inflationary pressure in the early years of the forecast period, while higher global oil prices will keep prices relatively elevated in the later years.

Prices, money and current account	2018	2019	2020	2021	2022	2023
Consumer prices (av; %)	1.9	2.8	3.1	2.7	2.9	2.7
Money supply (M2) growth (%)	8.1	10.6	8.7	8.6	7.6	7.0
Lending interest rate (end-period; %)	4.4	4.4	4.4	4.6	4.9	4.9
Trade balance (US$ bn)	395.2	418.0	438.0	462.7	496.7	516.6
Current account balance (US$ bn)	49.1	22.9	-33.3	-41.6	-50.6	-63.8
Current account balance (% of GDP)	0.4	0.2	-0.2	-0.3	-0.3	-0.4
Exchange rate LCU:US$ (av)	6.6	6.9	6.9	7.1	7.2	7.0

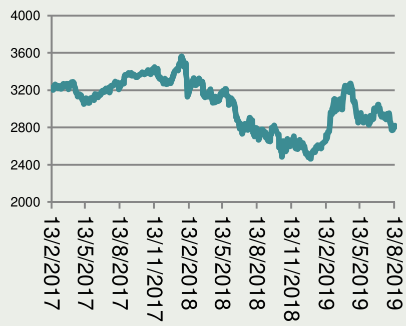
Consumer price inflation (%)



Renminbi to the US$



Shanghai Composite Index



Currency outlook

- We forecast the renminbi to weaken to an average exchange rate of Rmb6.86:US$1 in 2019. This will reflect renewed investor concerns about the health of the economy.
- Downward pressure on the renminbi will again build in 2021-22.

	2019	2020
Rmb : US$	6.86	6.90
Rmb : Euro	6.97	6.79

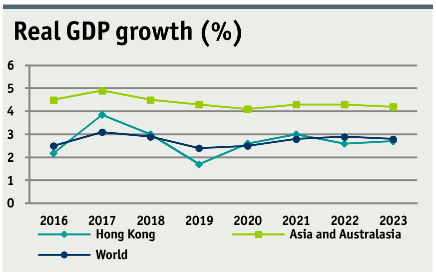
Average annual rates

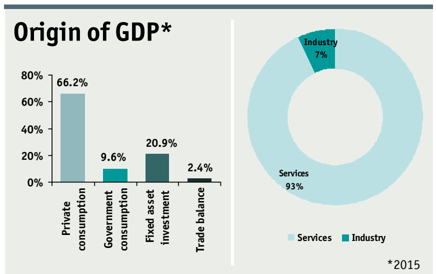
The Economist CORPORATE NETWORK

Hong Kong

Economic outlook

- The impact of protests in June and July on the economy and local business confidence will be limited, but we still expect economic growth to slow in 2019. Despite a recovery in house prices in February-May 2019, we expect residential property prices to fall again in the second half of 2019.
- This will reflect adverse sentiment linked to the renewed slowing of China's economy and the impact of tighter local credit conditions. The decline in property prices will have a modest adverse impact on private consumption, through negative wealth effects.
- Gross fixed investment will contract slightly in 2019, following the conclusion of work in 2018 on some major public infrastructure projects. Property investment will also slow in 2019. However, investment growth will recover in 2021-23 as work intensifies on major projects such as the third runway at the international airport, due for completion in 2024, and as real estate prospects improve.
- The Economist Intelligence Unit expects real growth in government consumption to average 3.6% a year in 2019-23, but risks to this forecast are skewed on the upside, as the administration uses higher public spending to dampen public discontent..
- The effects of the US-China spat will continue to hurt trade flows through Hong Kong over 2019-20.





Real expenditure on GDP (% change)	2018	2019	2020	2021	2022	2023
Real GDP growth	3.0	1.7	2.6	3.0	2.6	2.7
Private consumption	5.5	1.7	2.8	2.9	2.5	2.9
Government consumption	4.2	5.0	4.1	2.9	2.8	3.2
Gross fixed investment	2.0	-0.3	0.9	3.7	3.0	3.2
Exports of goods & services	3.8	-0.8	1.8	4.0	4.0	3.5
Imports of goods & services	4.6	-0.9	1.9	4.2	3.8	3.7
Domestic demand	4.4	1.3	2.9	3.4	2.3	3.1

Population, income and market size	2018	2019	2020	2021	2022	2023
Population (m)	7.4	7.4	7.5	7.6	7.6	7.7
GDP (US$ bn at market exchange rates)	363	381	400	422	440	454
GDP per head (US$ at market exchange rates)	49,204	51,285	53,370	55,819	57,888	59,255
Private consumption per head (US$)	33,620	34,890	36,850	38,750	40,270	41,610
GDP (US$ bn at PPP)	480	498	521	545	564	585
GDP per head (US$ at PPP)	65,130	66,940	69,450	72,090	74,120	76,410

Political outlook

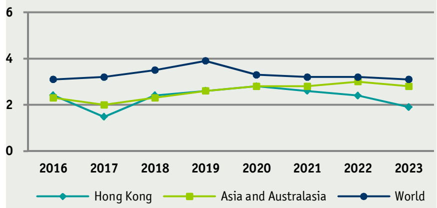
- In the wake of the public protests of June-July 2019, over proposed changes to the extradition law, we no longer expects the chief executive, Carrie Lam, to be re-elected in 2022. However, her successor will face the same structural strains in the political system, balancing the demands of the electorate against those of the central Chinese government.
- The authorities will move to bar so-called localists in the opposition camp, who seek more self-determination for the territory, from standing in the District Council and Legislative Council elections of 2019 and 2020 respectively. Our core forecast assumes that the opposition will remain divided over its response to this tactic, but the risk of a broad boycott of future elections is growing.
- The fallout from the recent protests will mean that Ms Lam faces added resistance to her plans to undertake a massive land-reclamation effort off Lantau Island. This forms the cornerstone of the government's long-term housing development plans. The need for more housing will remain acute; the administration is set to miss its targets for new housing development in 2019-23.

Policy, money and prices

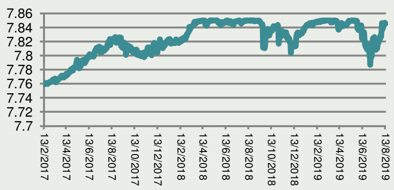
- The Hong Kong dollar is pegged to its US counterpart, meaning that local policy interest rates are determined by the actions of the Federal Reserve (Fed, the US central bank) rather than the Hong Kong Monetary Authority (HKMA), which performs many of the functions of a central bank.
- We now expect the Fed to keep US policy rates on hold until the first quarter of 2020, when a loosening cycle will begin. Local policy rates will follow this track, loosening by around 50 basis points in 2020 before resuming an upward track in 2021-23.

Prices, money and current account	2018	2019	2020	2021	2022	2023
Consumer prices (av; %)	2.4	2.6	2.8	2.6	2.4	1.9
Money supply (M2) growth (%)	4.3	2.6	9.6	4.9	2.3	2.0
Lending interest rate (end-period; %)	5.0	5.1	5.1	5.4	5.9	6.4
Trade balance (US$ bn)	-32.4	-26.5	-36.9	-42.7	-40.4	-45.3
Current account balance (US$ bn)	15.6	15.4	7.1	8.4	12.4	11.1
Current account balance (% of GDP)	4.3	4.0	1.8	2.0	2.8	2.4
Exchange rate LCU:US$ (av)	7.84	7.83	7.78	7.75	7.77	7.80

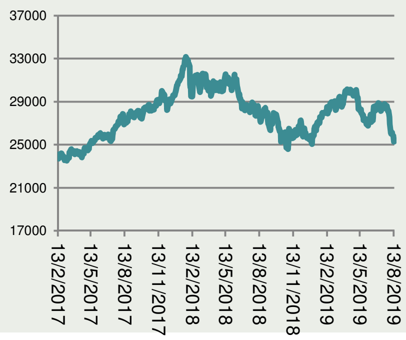
Consumer price inflation (%)



Hong Kong dollar to the US$



Hang Seng Index



Currency outlook

- The Hong Kong dollar will remain pegged to the US dollar throughout 2019-23. Market interest rates have lagged behind the upward trend in US and Hong Kong policy rates, putting downward pressure on the local currency's exchange rate.

	2019	2020
HK$: US$	7.83	7.78
HK$: Euro	7.80	7.76

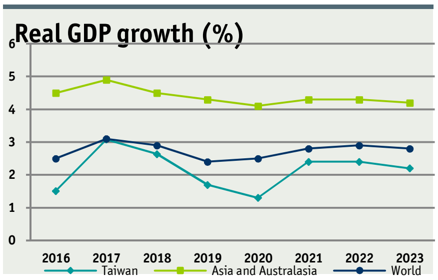
Rates at end of year

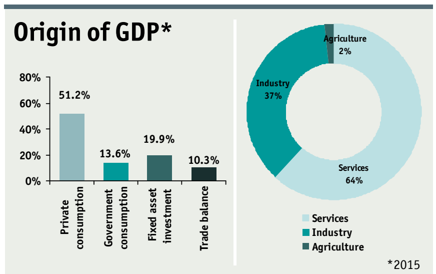
The Economist CORPORATE NETWORK

Taiwan

Economic outlook

- Export growth will slow in 2019, owing in part to more subdued global demand for consumer electronics: there will be fewer major electronic product launches and weaker global consumer sentiment. However, trade tensions between the US and China are likely to have a minor net positive effect on Taiwan's external sector in the near term.
- More generally, Taiwan's competitiveness and position in global supply chains will help to mitigate much of the potential impact on Taiwan of US tariffs against China. This will be by ensuring that Taiwanese inputs are not excluded in cases of import substitution away from Chinese goods.
- Nonetheless, at 2.5%, annual export growth will be slower in 2019 than in 2018, and it will drive an expansion of 1.7% in the island's economy in 2019. A mild economic downturn in the US in 2020 will further hurt Taiwan's exports and economic performance, but export growth will recover in 2021-23 as new consumer technology releases, including a wave of new 5G-enabled smartphone models, pick up.
- The ageing of the population, combined with lacklustre wage growth, will limit private consumption growth throughout 2019-23, in spite of low levels of unemployment.
- The latter has narrowed Taiwan's industrial base to the extent that only a few high-value-added industries now account for the majority of the value of domestic production. As a consequence, we expect gross fixed investment to rise by a comparatively moderate 2.5% a year on average in 2019-23.





Real expenditure on GDP (% change)	2018	2019	2020	2021	2022	2023
Real GDP growth	2.6	1.7	1.3	2.4	2.4	2.2
Private consumption	2.0	2.6	1.0	1.9	2.2	2.3
Government consumption	3.7	2.0	2.4	2.4	2.3	2.9
Gross fixed investment	2.5	2.8	1.3	3.5	2.8	1.9
Exports of goods & services	3.8	2.5	0.9	2.6	3.4	2.8
Imports of goods & services	5.0	2.3	1.4	2.8	2.8	3.4
Domestic demand	3.2	2.0	1.7	2.4	1.9	2.7

Population, income and market size	2018	2019	2020	2021	2022	2023
Population (m)	23.6	23.6	23.6	23.6	23.5	23.5
GDP (US$ bn at market exchange rates)	590	612	633	648	675	689
GDP per head (US$ at market exchange rates)	25,007	25,972	26,888	27,516	28,694	29,313
Private consumption per head (US$)	13,413	13,690	14,040	14,540	15,250	15,660
GDP (US$ bn at PPP)	1,249	1,295	1,337	1,390	1,438	1,485
GDP per head (US$ at PPP)	52,931	55,010	56,760	59,020	61,140	63,130

Political outlook

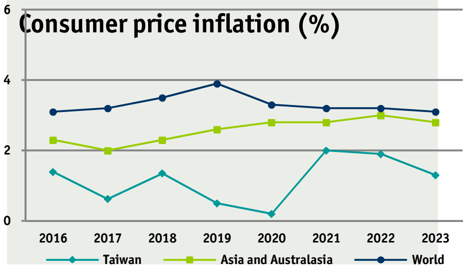
- We expect the Democratic Progressive Party (DPP) to retain the presidency at the next general election, scheduled for 2020. However, the main opposition party, the Kuomintang (KMT), is expected to win a narrow majority in the Legislative Yuan (the legislature) that year. This will complicate policymaking in 2020-23.
- The DPP will struggle to navigate popular dissatisfaction with established party politics. This will be driven in large part by its prioritisation of medium-term policy goals, the success of which will be incremental and difficult to promote publicly.
- China is proactively seeking to reduce Taiwan’s international diplomatic participation. Although the risk of military conflict remains low, the DPP will prioritise strengthening ties with the US and the security guarantee that it provides. However, relations across the Taiwan Strait will thaw slightly at local level, owing to the KMT's expanded control of key municipalities following local elections in late 2018; this will bring engagement such as city-city partnerships.

Policy, money and prices

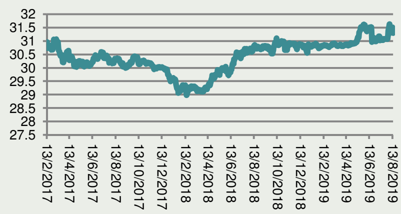
- The discount rate—the benchmark interest rate set by the Central Bank of the Republic of China (Taiwan), or CBC—has been near a historical low of 1.375% since June 2016. Although we forecast relatively healthy economic growth in 2019, growth in broad money supply (M2) will remain within the central bank's target range of 2.5-6.5%.
- Low inflation, concerns about the US-China trade war and the decision by the Federal Reserve (the US central bank) to maintain an accommodative monetary policy will result in the CBC keeping rates unchanged in 2019.

Prices, money and current account	2018	2019	2020	2021	2022	2023
Consumer prices (av; %)	1.4	0.5	0.2	2.0	1.9	1.3
Money supply (M2) growth (%)	2.7	4.7	4.3	4.3	3.1	2.4
Lending interest rate (end-period; %)	2.6	2.6	2.6	2.7	2.9	2.9
Trade balance (US$ bn)	67.4	77.8	78.7	65.4	66.7	66.3
Current account balance (US$ bn)	71.9	79.8	81.7	69.1	69.1	67.0
Current account balance (% of GDP)	12.2	13.0	12.9	10.7	10.2	9.7
Exchange rate LCU:US$ (av)	30.16	30.28	29.89	29.68	29.38	29.51

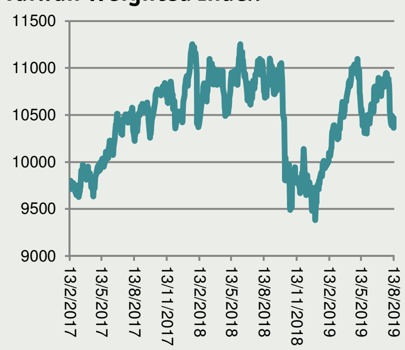
Consumer price inflation (%)



Taiwan dollar to the US$



Taiwan Weighted Index



Currency outlook

- A softening of demand for the US currency in 2020, as a result of slowing economic growth there, will outweigh the consequent negative impact on demand for Taiwan's exports and lift the value of the local currency against the US dollar again.

	2019	2020
NT$: US$	30.28	29.89
NT$: Euro	29.58	30.15

Average annual rates

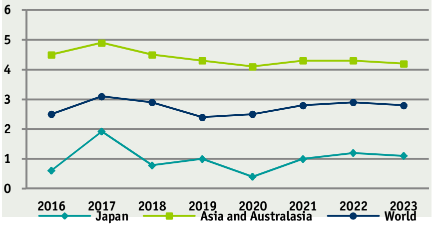
ASIA COUNTRY BRIEFING JULY-SEPTEMBER 2019

Japan

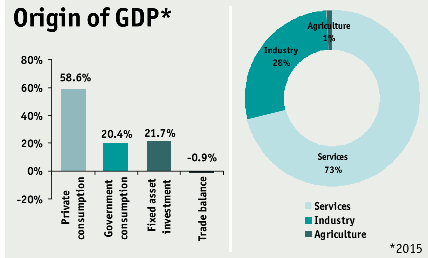
Economic outlook

- The government will maintain its "Abenomics" programme, which focuses on flexible fiscal and accommodative monetary policy and structural reform, and has contributed to a mild economic recovery that has spanned seven years to 2018. We expect real GDP to expand by an annual average of 0.9% in 2019-23.
- The downturn in the global consumer electronics cycle has hit Japan's export-orientated industries in 2019, but a recovery is due to begin in late 2020. The slowing of demand growth in China, together with, in 2020, a mild slowdown in the US, will also dampen external demand. However, export growth will recover in 2021-23 as spending on imports in the US accelerates again.
- This will result in relatively strong growth in household spending in the second and third quarters of 2019 as consumers ramp up their purchases ahead of the tax change.
- However, private consumption will contract in the final quarter of the year and will remain subdued in the first half of 2020 as consumers adjust their spending behaviour in response to the rise.
- The hosting of the Olympic and Paralympic Games in the capital, Tokyo, in 2020 will nonetheless provide some support. Investment will be weakened by rising tensions in global commerce, fuelled by disruptive US trade policy. However, investment growth in 2019-23 will be underpinned by continued support from a fairly accommodative fiscal policy stance.

Real GDP growth (%)



Origin of GDP*



*2015

Real expenditure on GDP (% change)	2018	2019	2020	2021	2022	2023
Real GDP growth	0.8	1.0	0.4	1.0	1.2	1.1
Private consumption	0.4	0.9	-0.6	0.4	0.8	1.0
Government consumption	0.8	1.1	1.0	0.6	0.7	0.5
Gross fixed investment	1.1	1.4	1.2	1.6	1.8	1.6
Exports of goods & services	3.3	-0.8	1.1	4.5	4.8	5.2
Imports of goods & services	3.4	-0.4	1.0	3.4	4.7	5.3
Domestic demand	0.8	1.0	0.0	0.8	1.1	1.0

Population, income and market size	2018	2019	2020	2021	2022	2023
Population (m)	127.2	126.9	126.5	126.1	125.6	125.1
GDP (US$ bn at market exchange rates)	4,971	5,103	5,224	5,565	5,956	6,408
GDP per head (US$ at market exchange rates)	39,076	40,223	41,305	44,148	47,425	51,230
Private consumption per head (US$)	21,720	22,820	23,410	24,900	26,610	28,540
GDP (US$ bn at PPP)	5,485	5,650	5,778	5,932	6,064	6,191
GDP per head (US$ at PPP)	43,120	44,530	45,690	47,060	48,280	49,490

Political outlook

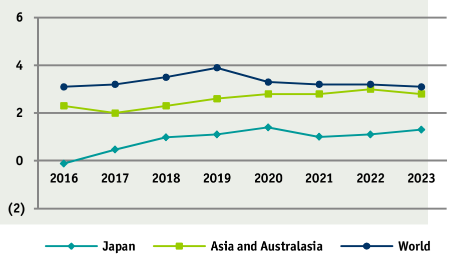
- The Economist Intelligence Unit expects the Liberal Democratic Party (LDP)-Komeito governing coalition to serve a full term, which will expire in 2021, and to remain dominant in that year and beyond. The prime minister, Shinzo Abe, is set to become Japan's longest-serving prime minister during his current term as leader of the LDP.
- Japan will step up its co-ordination efforts with the US as it seeks to resolve the abduction of its citizens by North Korea. It will also aim for improvement in its bilateral diplomatic ties with South Korea, but relations will remain frosty owing to unresolved historical issues.
- The government will continue to pursue the broad thrust of its economic revival agenda in the 2019-23 forecast period. This will enable Japan to extend its span of economic growth: by 2020 the country will have recorded its longest phase of sustained economic growth in annual terms since the 1980s.
- Structural reforms will prove increasingly vital in view of the limits of stimulatory fiscal and monetary policy. We expect the government to succeed in implementing reforms in some areas, such as the electricity sector and corporate governance, but these will do little to boost GDP growth over the medium term.

Policy, money and prices

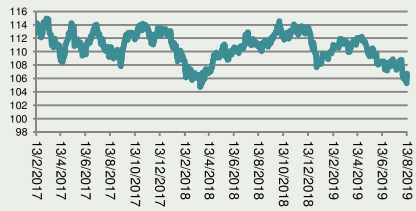
- The Bank of Japan will keep monetary policy accommodative and will maintain its quantitative easing (QE) programme and ultra-low interest rates until 2021. The negative policy interest rate, which has been in place since 2016. However, we believe that the BOJ will withstand calls from the banking sector to normalise policy before 2021, as it will accord a higher priority to supporting economic growth amid rising trade protectionism and the lingering effects of the forthcoming increase in the consumption tax.

Prices, money and current account	2018	2019	2020	2021	2022	2023
Consumer prices (av; %)	1.0	1.0	1.3	1.0	1.1	1.3
Money supply (M2) growth (%)	2.9	2.6	2.3	2.1	1.8	1.7
Lending interest rate (end-period; %)	1.5	1.5	1.5	1.5	1.5	1.5
Trade balance (US$ bn)	11.2	9.3	4.6	12.0	10.8	13.7
Current account balance (US$ bn)	174.7	192.2	194.0	201.5	218.9	246.4
Current account balance (% of GDP)	3.5	3.8	3.7	3.6	3.7	3.8
Exchange rate LCU:US$ (av)	110.4	109.5	109.3	104.9	100.5	96.1

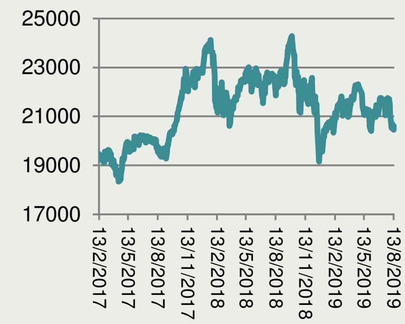
Consumer price inflation (%)



Yen to the US$



Nikkei 225 Index



Currency outlook

- We expect the yen to appreciate by 0.5% against the US dollar in 2019, to an average of ¥109.5:US$1. Fluctuations in financial market risk sentiment will see the yen's value rise against the US dollar on the back of periodic safe-haven flows.

	2019	2020
Yen : US$	109.50	109.30
Yen : Euro	110.40	107.00

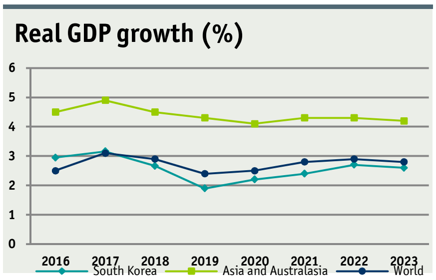
Average annual rates

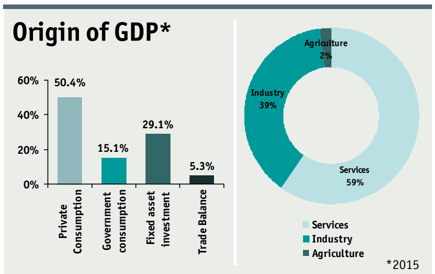
The Economist CORPORATE NETWORK

South Korea

Economic outlook

- A quarter-on-quarter contraction in the first three months of 2019 highlighted significant frailty in the economy. Broad-based weakness was evident, but a significant drop in capital formation was the main drag on activity. We have consequently revised down our forecast for real GDP growth in 2019 as a whole to 1.9%, from 2.1% previously, because we expect broad-based weakness in capital formation to persist. Over 2019-23 we expect growth to average 2.4% a year.
- We do not expect that South Korea will be able to diversify away from its export-led growth model within this period. The economy will thus remain heavily dependent on external demand, especially for semiconductor devices. The slowdown in the global consumer electronics cycle will have a negative impact on South Korea's external sector until at least 2020.
- Local exporters will look to expand into relatively untapped emerging markets, including India and the member states of the Association of South-East Asian Nations (ASEAN). However, we do not expect growth in trade with these countries to be sufficient to fully offset the weakness of other drivers of export demand during the forecast period. Overall, we expect exports of goods and services to grow by 1% a year in 2019-23.
- Private consumption will remain a key economic driver, rising by an average of 2.2% a year in 2019-23 on the back of robust income growth, as minimum wages rise. Growth in real government consumption, at 4.5% a year on average in 2019-23, will be marginally faster than in 2014-18 (4.4%).





Real expenditure on GDP (% change)	2018	2019	2020	2021	2022	2023
Real GDP growth	2.7	1.9	2.2	2.4	2.7	2.6
Private consumption	2.8	2.1	2.0	2.2	2.5	2.4
Government consumption	5.6	6.2	5.5	3.9	3.4	3.3
Gross fixed investment	-2.4	-4.0	0.2	0.8	2.3	3.0
Exports of goods & services	3.5	0.2	0.2	0.9	1.7	2.0
Imports of goods & services	0.8	-3.6	-2.0	2.1	2.9	2.7
Domestic demand	1.6	0.5	1.4	2.1	2.7	2.8

Population, income and market size	2018	2019	2020	2021	2022	2023
Population (m)	51.2	51.2	51.3	51.3	51.3	51.3
GDP (US$ bn at market exchange rates)	1,721	1,685	1,789	1,921	2,013	2,080
GDP per head (US$ at market exchange rates)	33,634	32,894	34,886	37,444	39,217	40,517
Private consumption per head (US$)	16,130	15,920	16,950	18,400	19,400	20,080
GDP (US$ bn at PPP)	2,221	2,307	2,403	2,501	2,593	2,687
GDP per head (US$ at PPP)	43,400	45,040	46,870	48,740	50,520	52,340

Political outlook

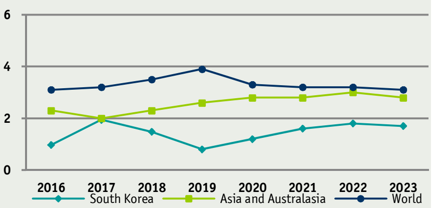
- We expect Moon Jae-in of the liberal Minjoo Party to serve out his full term until 2022. He is constitutionally limited to one term in office. An able bureaucracy will support efficient policy implementation.
- We believe that Minjoo will be able to increase its seat tally in the next parliamentary election in 2020, at the expense of the conservative opposition and centrist political parties. The president's popularity was initially buoyed by the country's engagement with North Korea, but has recently been damaged by concerns about the domestic economy. Despite ongoing engagement efforts, we maintain our view that the complete, verifiable and irreversible denuclearisation of North Korea is unlikely. Consequently, economic links with the North will be extremely limited in 2019-23. Security links between South Korea and the US will remain strong, not least because South Korea will not see China as a reliable security partner.
- The administration will pursue an ambitious demand-driven economic agenda through increased government spending and redistributive policies. Despite strong momentum to curb the role in the economy of the chaebol (large, family-run conglomerates), we expect the dominance of these enterprises to persist during the forecast period.

Policy, money and prices

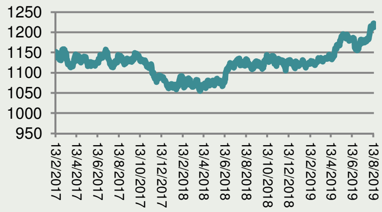
- The Bank of Korea (BOK, the central bank) will cut its policy rate in August 2019, in order to help shore up the domestic economy amid a troubled outlook for external demand. However, it will resume its tightening policy during the latter half of the forecast period.
- We expect the BOK to cut the policy rate by 25 basis points in August 2019. The BOK is keen to support economic expansion, as data from the first quarter of the year showed a quarter-on-quarter decline in real GDP growth. Benign inflationary pressures will also support such a move.

Prices, money and current account	2018	2019	2020	2021	2022	2023
Consumer prices (av; %)	1.5	0.7	1.1	1.6	1.8	1.7
Money supply (M2) growth (%)	6.7	5.0	7.0	5.8	5.6	5.4
Lending interest rate (end-period; %)	3.7	3.6	3.5	3.8	4.3	4.3
Trade balance (US$ bn)	111.9	102.9	99.8	102.7	102.7	105.0
Current account balance (US$ bn)	76.4	71.1	75.5	81.8	80.6	81.0
Current account balance (% of GDP)	4.4	4.2	4.2	4.3	4.0	3.9
Exchange rate LCU:US$ (av)	1,100	1,152	1,120	1,073	1,056	1,060

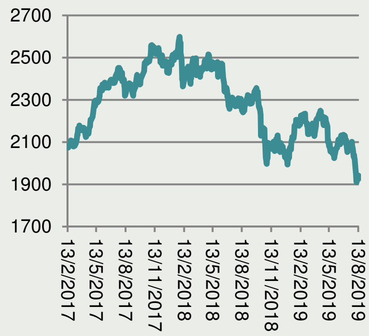
Consumer price inflation (%)



Won to the US$



Korea Composite Index



Currency outlook

- We forecast that the local currency will average W1,152:US$1 in 2019 as a whole, as the BOK's policy rate cut in the last quarter of 2019 will put additional downward pressure on the won.

	2019	2020
CR : US$	1,152	1,121
CR : Euro	1,114	1,103

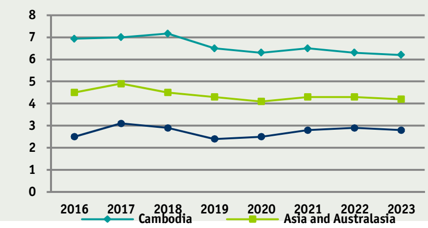
Average annual rates

Cambodia

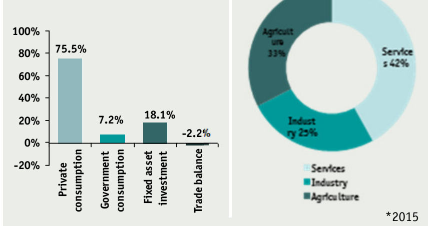
Economic outlook

- Numerous pressures on the garment industry, Cambodia's key growth driver, will dampen the overall economic outlook during the forecast period. Sharp above-inflation wage increases in the sector are weighing on industrial competitiveness.
- Margins in the garment industry are often thin, and garment-exporting countries in the region with lower wages (such as Bangladesh) or greater economies of scale (such as Vietnam) will continue to provide significant competition to Cambodia in 2019-23, as business investment is impeded by rapid wage increases and power shortages.
- Economic risks have been elevated by the EU's announcement in February that it had begun to roll back Cambodia's trade benefits under the EBA programme. A complete ejection from EBA would damage Cambodia's economy: the EU took over 30% of Cambodia's exports in 2018.
- We believe that the US will withdraw Cambodia's GSP benefits by mid-2020, and the negative effects on the economy will be felt from 2021 onwards. We expect export growth to drop to 6.4% in 2021 and to slowly recover to 8% in 2023. Overall, we expect exports to grow by an annual average of 7.9% in 2019-23.
- Investment will remain strong in 2019-23, supported by inflows from China under the BRI. Chinese investment will focus on infrastructure.

Real GDP growth (%)



Origin of GDP*



Real expenditure on GDP (% change)	2018	2019	2020	2021	2022	2023
Real GDP growth	7.2	6.5	6.3	6.5	6.3	6.2
Private consumption	5.6	6.6	6.9	6.6	6.4	6.2
Government consumption	13.6	8.9	7.2	5.2	7.4	8.0
Gross fixed investment	6.3	7.6	8.1	8.3	8.0	8.0
Exports of goods & services	10.6	8.7	8.5	6.4	8.0	8.0
Imports of goods & services	11.0	8.2	8.0	8.5	8.6	8.2
Domestic demand	6.7	6.2	5.9	8.4	7.1	6.5

Population, income and market size	2018	2019	2020	2021	2022	2023
Population (m)	16.3	16.5	16.7	16.9	17.2	17.4
GDP (US$ bn at market exchange rates)	24.4	26.0	28.2	31.7	33.1	35.6
GDP per head (US$ at market exchange rates)	1,503	1,575	1,684	1,869	1,929	2,048
Private consumption per head (US$)	1,180	1,270	1,360	1,450	1,540	1,660
GDP (US$ bn at PPP)	70.3	76.4	82.7	89.5	96.1	103.1
GDP per head (US$ at PPP)	4,330	4,630	4,950	5,280	5,600	5,930

The Economist CORPORATE NETWORK

Political outlook

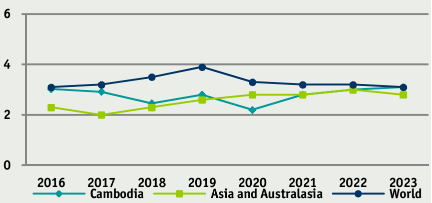
- The Cambodian People's Party will continue to dominate the political scene unimpeded in 2019-23. Attention will turn during the forecast period to the eventual succession to the prime minister, Hun Sen. No political reforms will be contemplated.
- Cambodia's ties with China will flourish during our forecast period; China will remain Cambodia's largest investor and most crucial global supporter. Ties with the West will worsen, owning to pressure from the US and the EU to address political repression.
- The quality of policymaking will remain poor throughout 2019-23, dominated by short-term populism as the CPP prioritises maintaining its grip on power. Socio-economic tensions will linger, despite efforts to crush dissent, and the government will continue to manage such tensions by spending on politically popular areas.

Policy, money and prices

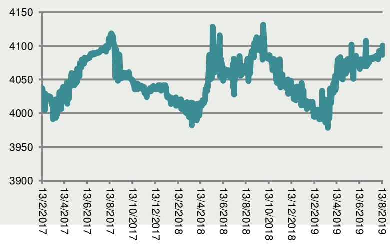
- The National Bank of Cambodia (NBC, the central bank) will continue to prioritise managing the pace of credit growth to mitigate the risk of problems associated with rapid loan disbursement. Although credit growth accelerated to 27.7% in 2018, despite the NBC's efforts, we expect the central bank to seek to cool this trend, ultimately leading credit growth to ease to 14% by 2023.
- The NBC has also made efforts to reduce risks to financial stability, through moves such as the gradual introduction of a capital conservation buffer. Macroprudential measures will remain the foundation of monetary policy in 2019-23 as Cambodia's dollarised economy limits the effectiveness of traditional levers.
- High levels of dollarisation inhibit dramatic price swings emanating from exchange-rate fluctuations in Cambodia. Mainly for this reason, significant price volatility is not expected in 2019-23.

Prices, money and current account	2018	2019	2020	2021	2022	2023
Consumer prices (av; %)	2.5	2.8	2.2	2.8	3.0	3.1
Money supply (M2) growth (%)	23.0	19.1	14.7	18.0	13.1	12.1
Lending interest rate (end-period; %)	10.7	10.4	10.0	10.2	10.6	10.8
Trade balance (US$ bn)	-5.8	-6.1	-6.4	-7.4	-8.1	-8.4
Current account balance (US$ bn)	-2.8	-2.5	-2.6	-3.4	-4.0	-4.1
Current account balance (% of GDP)	-11.4	-9.7	-9.4	-10.7	-12.1	-11.5
Exchange rate LCU:US$ (av)	4,051	4,074	4,087	4,156	4,228	4,232

Consumer price inflation (%)



Riel to the US$



Dollarised economy

- The National Bank of Cambodia (CBC) has accumulated substantial foreign-exchange reserves in recent years as a result of large capital inflows, including foreign direct investment, and it will intervene periodically to support the local currency.
- However, given the continuing lack of confidence in the riel, the US dollar will remain the currency of choice in Cambodia.

Currency outlook

- We forecast the currency to depreciate against the US dollar throughout 2019-23. We believe that the US will deny Cambodia preferential trade access in 2020, causing the latter's current-account deficit to widen as a proportion of GDP from 2021.

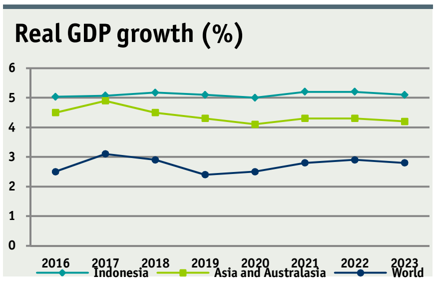
	2019	2020
CR : US$	4,074	4,087
CR : Euro	4,115	4,084

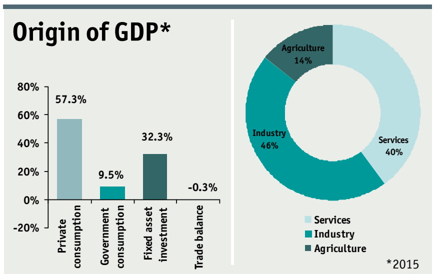
Average annual rates

Indonesia

Economic outlook

- We forecast that real GDP growth will average 5.1% a year in 2019-23. On the expenditure side, domestic demand (led by private consumption) remains the biggest contributor to GDP expansion. Populist election-related government measures will boost household consumption in 2019. More broadly, private consumption will remain underpinned by an increase in the number of formal-sector jobs and an expansion of social welfare.
- Our core forecast maintains that ongoing efforts to encourage more private investment (foreign and otherwise) in infrastructure and manufacturing will provide steady support to capital formation in 2019-23. As a result, we expect gross fixed investment to grow by 6.1% a year on average in the forecast period, up from 5.3% in 2014-18.
- The next government will be better positioned to support the economy towards the end of the forecast period, as oil-related revenue rises on the back of global oil price increases. Major structural reforms, such as increasing labour-market flexibility and the removal of long-standing protectionist rules governing trade and foreign investment, will continue to face obstacles.





Real expenditure on GDP (% change)	2018	2019	2020	2021	2022	2023
Real GDP growth	5.2	5.1	5.0	5.2	5.2	5.1
Private consumption	5.1	5.3	5.0	5.5	5.2	5.4
Government consumption	4.6	4.5	4.0	4.2	4.5	5.0
Gross fixed investment	6.7	5.5	6.0	6.5	6.2	6.3
Exports of goods & services	6.5	2.5	3.7	5.8	6.0	6.0
Imports of goods & services	12.1	3.9	4.3	6.5	6.9	8.0
Domestic demand	6.3	4.7	5.2	5.7	5.4	5.6

Population, income and market size	2018	2019	2020	2021	2022	2023
Population (m)	262.9	265.3	267.5	269.8	272.0	274.2
GDP (US$ bn at market exchange rates)	1,042	1,162	1,252	1,426	1,618	1,849
GDP per head (US$ at market exchange rates)	3,963	4,379	4,678	5,284	5,947	6,745
Private consumption per head (US$)	2,260	2,480	2,630	2,980	3,360	3,820
GDP (US$ bn at PPP)	3,494	3,747	4,009	4,286	4,555	4,836
GDP per head (US$ at PPP)	13,290	14,120	14,980	15,890	16,740	17,640

Political outlook

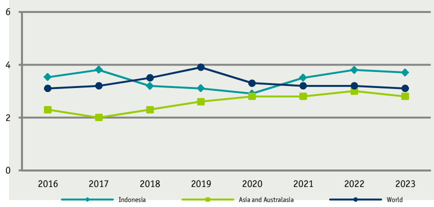
- The General Elections Commission has declared the incumbent, Joko Widodo (known as Jokowi), the winner in the presidential election held on April 17th. Jokowi will be inaugurated for a second five-year term in October. We expect him to remain in office until 2024, when his tenure ends.
- In 2019-20 fiscal policy will be focused on supporting the economy. This includes raising energy subsidies in order to cap domestic fuel and electricity prices, which will help to control inflation and thereby support private consumption. The government budget balance will remain in deficit throughout the forecast period (2019-23), but will narrow from the equivalent of 1.9% of GDP in 2019 to 1.2% of GDP in 2023.

Policy, money and prices

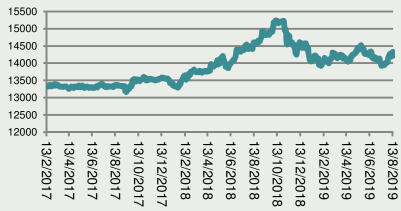
- Bank Indonesia (BI, the central bank) operates an inflation-targeting framework to set its policy interest rate, the seven-day reverse repurchase rate. It has set an inflation target of 2.5-4.5% for 2019. We expect the central bank to undertake two 25-basis-point rate cuts in the second half of 2019 and two more in 2020.
- The bank's moves will be justified by the low-inflation environment that Indonesia will experience in these two years; average inflation will remain at the low end of the central bank's target range in this period. Thereafter, the central bank will look to raise interest rates incrementally from 2021, to curb rising demand-side inflationary pressures.
- The rupiah will appreciate against the US dollar in 2019, due in part to a narrower interest-rate differential. However, depreciatory pressures may intensify slightly in 2020 owing to the slowing of China's economy, which will weigh on investor sentiment. The currency will return to a modestly appreciating trend in 2021-23 as global economic fundamentals improve.

Prices, money and current account	2018	2019	2020	2021	2022	2023
Consumer prices (av; %)	3.2	3.1	2.9	3.5	3.8	3.7
Money supply (M2) growth (%)	6.3	8.3	10.7	12.2	11.7	11.5
Lending interest rate (end-period; %)	10.5	10.3	10.2	11.1	11.5	11.6
Trade balance (US$ bn)	-0.4	1.0	-0.4	-0.2	3.4	3.7
Current account balance (US$ bn)	-31.1	-30.0	-32.7	-33.0	-32.9	-32.0
Current account balance (% of GDP)	-3.0	-2.6	-2.6	-2.3	-2.0	-1.7
Exchange rate LCU:US$ (av)	14,236.9	14,128.0	14,411.3	14,062.5	13,783.6	13,387.5

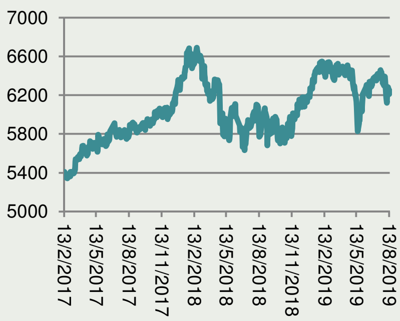
Consumer price inflation (%)



Rupiah to the US$



Jakarta Composite Index



Currency outlook

- We expect the rupiah to remain vulnerable to bouts of depreciation throughout Jokowi's second term. However, the exchange rate will reach an annual average of Rp13,388:US$1 in 2023, from Rp14,128:US$1 in 2019.

	2019	2020
Rp : US$	14,128	14,411
Rp : Euro	14,061	14,458

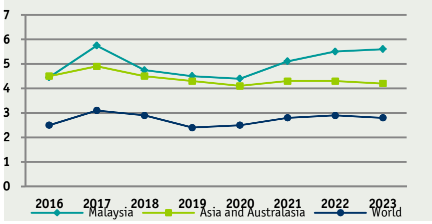
Average annual rates

Malaysia

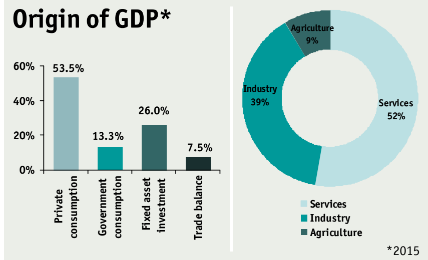
Economic outlook

- Malaysia's growth prospects in 2019 are weaker than in 2018. We forecast real GDP growth of 4.5% this year, down from 4.7% in 2018. This reflects the impact of subdued demand for Malaysia's largest export category, electronic and electrical goods, the bulk of which go to China and the US. Economic activity in both countries is forecast to slow in 2019, partly as the impact of the China-US trade war becomes more discernible.
- The export slowdown will be aggravated by a cyclical downturn in global demand for consumer electronics. Our forecast nevertheless assumes that monetary policy loosening will have the intended effect of supporting overall economic activity. Despite our expectation that the China-US trade war will persist into 2020, keeping external demand conditions under pressure, we also forecast international demand for consumer electronics to enjoy some recovery that year, providing offsetting support for exports.
- Private consumption will remain the key driver of Malaysia's growth in 2019-23. Households' purchasing power will stay relatively strong, supported by low consumption taxes, sustained rises in the minimum wage and (until 2022) a low interest-rate environment. Private consumption will, on average, contribute 3.6 percentage points per year to the headline rate of growth in 2019-23.

Real GDP growth (%)



Origin of GDP*



*2015

Real expenditure on GDP (% change)	2018	2019	2020	2021	2022	2023
Real GDP growth	4.7	4.5	4.4	5.1	5.5	5.6
Private consumption	8.0	6.0	5.5	5.8	6.8	7.0
Government consumption	3.3	2.0	4.0	4.2	5.3	5.3
Gross fixed investment	1.4	2.5	3.0	4.5	4.8	5.9
Exports of goods & services	2.2	1.8	1.3	3.0	4.4	5.4
Imports of goods & services	1.3	2.4	1.8	3.7	5.3	7.0
Domestic demand	4.3	5.1	5.0	5.7	6.1	6.5

Population, income and market size	2018	2019	2020	2021	2022	2023
Population (m)	31.5	32.0	32.4	32.8	33.2	33.6
GDP (US$ bn at market exchange rates)	358.6	365.9	383.9	423.4	462.6	488.5
GDP per head (US$ at market exchange rates)	11,373	11,452	11,862	12,918	13,942	14,547
Private consumption per head (US$)	6,531	6,650	6,970	7,670	8,420	8,970
GDP (US$ bn at PPP)	1,014	1,080	1,149	1,228	1,308	1,394
GDP per head (US$ at PPP)	32,150	33,820	35,510	37,450	39,410	41,520

Political outlook

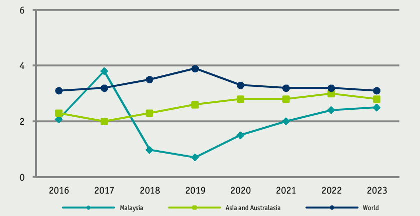
- We expect the ruling Pakatan Harapan (PH) coalition to serve a full term until 2023, when the next general election is due. We believe that the PH will retain a simple parliamentary majority throughout 2019-23, enabling it to pass legislation.
- Deepening rifts within the United Malays National Organisation (UMNO), the largest opposition party, will reduce its ability to stage a consistent and coherent challenge to the government.
- The main challenge facing the PH will be a leadership transition during the early part of its term. The current prime minister, Mahathir Mohamad, plans to hand over both leadership of the PH and the role of prime minister to the leader of the Parti Keadilan Rakyat (the coalition's largest party), Anwar Ibrahim. We expect the transition to proceed smoothly in the first half of 2020, but tensions between the component parties of the ruling coalition will build as various senior figures vie for coalition influence and places in the cabinet.
- The PH government will deepen ties with East Asian countries, particularly Japan, hoping that this will act as a counterweight to China’s rising influence in the region. Nevertheless, China will remain an important trading partner during the forecast period.

Policy, money and prices

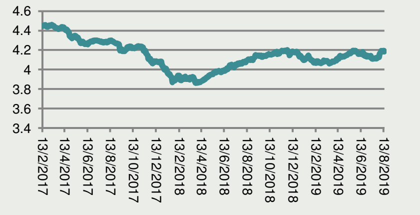
- We expect Bank Negara Malaysia (BNM, the central bank) to loosen monetary policy further in the second half of 2019 and into 2020, before leaving its policy interest rate unchanged at 2.5% throughout 2021.
- We expect producer prices to decline by an average of 1% in 2019, partly reflecting a dip in domestic prices in the agricultural sector. We have revised our forecasts for 2020-23 in light of our latest projections for oil and non-oil commodities.

Prices, money and current account	2018	2019	2020	2021	2022	2023
Consumer prices (av; %)	1.0	0.8	1.5	2.0	2.4	2.5
Money supply (M2) growth (%)	7.8	8.2	6.8	7.9	7.4	7.9
Lending interest rate (end-period; %)	5.0	4.7	4.5	4.5	4.7	5.0
Trade balance (US$ bn)	29.6	30.1	29.7	29.7	30.0	30.5
Current account balance (US$ bn)	7.6	9.6	10.0	8.7	8.7	8.7
Current account balance (% of GDP)	2.1	2.6	2.6	2.0	1.9	1.8
Exchange rate LCU:US$ (av)	4.04	4.16	4.17	4.03	3.90	3.90

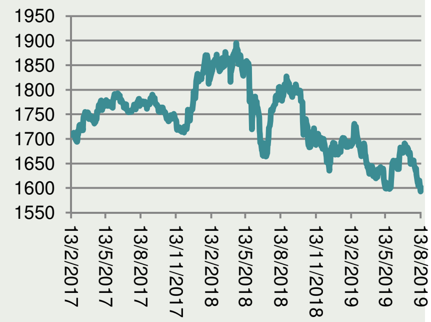
Consumer price inflation (%)



Ringgit to the US$



Bursa Malaysia KLCI Index



Currency outlook

- The ringgit’s value against the US dollar in 2019-23 will be largely driven by changes in the interest-rate differential between the two countries. A continued surplus on the current account and the prevalence of a heavily managed exchange-rate system.

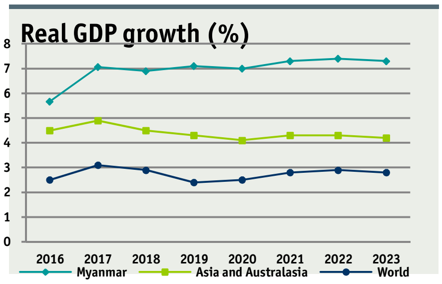
	2019	2020
M$: US$	4.16	4.17
M$: Euro	4.20	4.14

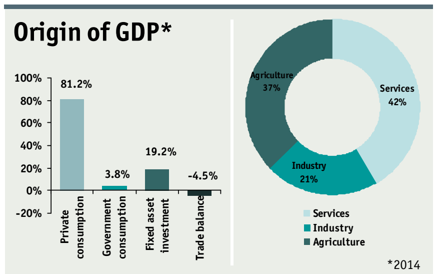
Average annual rates

Myanmar

Economic outlook

- We expect real GDP to grow by 7.2% per year on average in 2019-23--the fastest rates of growth within ASEAN. Led by heavy investment, domestic demand is set to be the biggest contributor to GDP expansion. Growth in exports of goods and services will be accompanied by a steady flow of imports, owing to strong investment activity and a lack of domestic industry to support infrastructure projects. The external balance will nonetheless have a negligible impact on the headline GDP growth rate.
- Private consumption growth will remain robust in 2019-2023, helping to support domestic demand. Improvements in consumers' access to finance will further boost household spending growth. Growth is also expected in the labour-intensive export manufacturing sector, which will benefit from global trade tensions as China reconfigures its supplier pool. Business confidence will therefore remain buoyant.
- The liberalisation of the financial sector will spur activity in nascent but rapidly growing industries such as retail. Forthcoming reforms to business legislation will also make it easier for foreigners to invest in Myanmar. A number of mega-projects, including power-generation schemes fuelled by liquefied natural gas (LNG) and critical infrastructure developments, will underpin robust investment spending during the forecast period.
- The first phase of the Thilawa special economic zone (SEZ) opened in 2015 and has been helping to address constraints on the business environment near Yangon.





Real expenditure on GDP (% change)	2018	2019	2020	2021	2022	2023
Real GDP growth	6.9	7.1	7.0	7.3	7.4	7.3
Private consumption	6.0	6.3	5.8	5.5	5.3	5.5
Government consumption	3.5	6.2	8.0	8.5	7.0	5.8
Gross fixed investment	6.0	9.3	8.7	8.6	9.0	9.2
Exports of goods & services	13.0	9.5	8.4	12.5	13.1	11.1
Imports of goods & services	6.6	10.0	8.4	10.7	10.5	9.0
Domestic demand	5.6	7.2	7.0	6.9	6.7	6.8

Population, income and market size	2018	2019	2020	2021	2022	2023
Population (m)	53.7	54.0	54.4	54.8	55.2	55.7
GDP (US$ bn at market exchange rates)	66.5	72.0	80.7	88.6	97.8	107.0
GDP per head (US$ at market exchange rates)	1,239	1,333	1,484	1,616	1,771	1,923
Private consumption per head (US$)	749	802	887	954	1,040	1,120
GDP (US$ bn at PPP)	363.6	397.3	433.1	472.2	512.1	555.1
GDP per head (US$ at PPP)	6,770	7,350	7,960	8,620	9,270	9,970

Political outlook

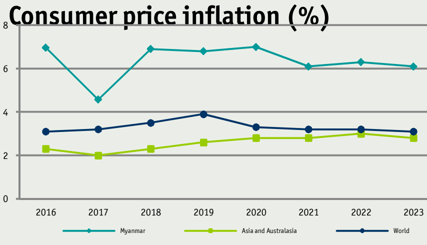
- We expect the ruling National League for Democracy (NLD) to win the 2020 parliamentary election. The NLD's attempts to introduce political reform before the polls will enjoy limited success as the military retains its strong influence.
- Myanmar will seek to rebalance ties towards China, as Western governments will remain critical of the government's mistreatment of the Rohingya (Muslim) ethnic group. Violent flare-ups in Rakhine state will limit progress on resolving the issue in 2019-23.
- Numerous conflicts with ethnic-minority armed groups will remain unresolved, but the main business centres (Yangon, Mandalay and the capital, Naypyidaw) will be safer, ensuring inflows of foreign direct investment (FDI) to parts of the country.

Policy, money and prices

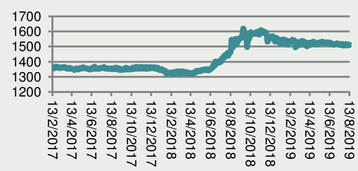
- Consumer price inflation will average 6.5% per year in 2019-23, due in part to the weakness of the kyat and the monetisation of the fiscal deficit. There will consequently be little scope for the Central Bank of Myanmar to loosen monetary policy significantly.
- The CBM is responsible for promoting price and financial sector stability. However, it is also under political pressure to do more to support the economy and is gradually taking measures to this effect, including reforms to expand lending to small businesses and individuals. In February the central bank raised the interest-rate cap on certain unsecured loans from 13% to 16% to encourage lending.
- The central bank has stated that it has no plans to reduce interest rates until 2020 at the earliest. We expect inflation to remain elevated in 2019-20, which will ensure that the CBM leaves the discount rate (the policy interest rate) unchanged at 10% during this period.

Prices, money and current account	2018	2019	2020	2021	2022	2023
Consumer prices (av; %)	6.9	6.8	7.0	6.1	6.3	6.1
Money supply (M2) growth (%)	14.6	20.5	19.6	20.2	20.3	20.4
Lending interest rate (end-period; %)	13.0	13.0	13.0	13.0	13.0	13.0
Trade balance (US$ bn)	-5.9	-6.8	-8.0	-8.8	-10.3	-11.8
Current account balance (US$ bn)	-4.7	-5.4	-6.4	-7.1	-8.5	-9.4
Current account balance (% of GDP)	-7.0	-7.5	-7.9	-8.0	-8.6	-8.8
Exchange rate LCU:US$ (av)	1,430	1,535	1,572	1,601	1,637	1,683

Consumer price inflation (%)



Kyat to the US$



Exchange rate depreciation

- In May the CBM took steps to stem demand for US dollars to fight the kyat's steep decline.
- Fundamentally, a depreciating kyat will be hard to stop in the long run given Myanmar's rapidly widening trade deficit. Nonetheless, while the CBM is likely to adopt a wait-and-see approach to assess the effectiveness of its recent measures, the potential for additional interventions in the near future is high with the kyat still falling rapidly.

Currency outlook

- We expect the kyat to lose value against the US dollar in 2019-23. In August 2018 the CBM lifted trading-band restrictions on foreign currency at commercial banks.
- This move will help to align the CBM-managed reference rate more closely with the unofficial market rate.

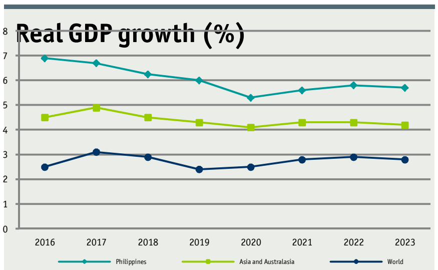
	2019	2020
Kt : US$	1,535	1,572

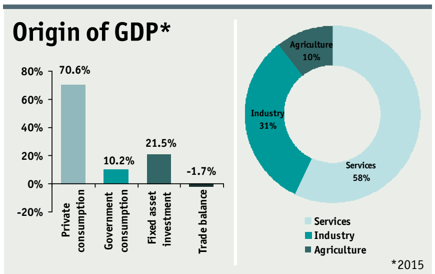
Average annual rates

Philippines

Economic outlook

- Real GDP growth will average 5.7% a year in 2019-23—slower than the average of 6.4% recorded in 2014-18. During the forecast period, investment spending will expand by 7.4% a year on average—again slower than the average growth of 14.8% recorded in 2014-18. This partly reflects investors' nervousness about the administration's policies, but the government's ambitious infrastructure drive (largely funded by public expenditure) will help put a floor under growth.
- Private consumption will remain the key driver of economic growth in 2019-23. In 2019 the impact of policy interest-rate cuts on private consumption will not be felt until the end of the year. A short-lived softening of inflation, owing to weaker global commodity prices, will boost private consumption in 2020. However, there is a risk that inflows of remittances, which underpin household spending, will also slow in 2020, as real GDP growth in the US economy (a key market for Filipino workers) slows.
- Sustained growth in domestic demand will underpin steady expansion in the imports component. We expect real imports of goods and services to increase by an annual average of 8.4% in 2019-23. This is slower than growth of 15.5% in 2014-18, however, reflecting lacklustre performance from business-process outsourcing (BPO), which is threatened by fourth-generation technology and changing patterns of demand in the US (the sector's main market).





Real expenditure on GDP (% change)	2018	2019	2020	2021	2022	2023
Real GDP growth	6.2	5.7	5.4	5.6	5.8	5.7
Private consumption	5.6	5.7	5.9	6.1	6.8	6.4
Government consumption	13.2	9.5	10.0	8.0	8.5	8.9
Gross fixed investment	13.1	9.0	7.0	7.5	7.0	6.5
Exports of goods & services	13.4	5.5	5.7	8.4	7.7	7.2
Imports of goods & services	15.8	8.6	7.2	8.8	9.2	8.2
Domestic demand	8.4	7.8	6.3	6.2	7.1	6.7

Population, income and market size	2018	2019	2020	2021	2022	2023
Population (m)	106.7	108.1	109.6	111.0	112.5	114.0
GDP (US$ bn at market exchange rates)	330.5	366.1	394.8	426.8	461.2	511.6
GDP per head (US$ at market exchange rates)	3,099	3,386	3,603	3,843	4,099	4,489
Private consumption per head (US$)	2,288	2,490	2,630	2,780	2,990	3,270
GDP (US$ bn at PPP)	952.5	1,029.0	1,105.0	1,186.0	1,267.0	1,353.0
GDP per head (US$ at PPP)	8,931	9,520	10,080	10,680	11,260	11,870

Political outlook

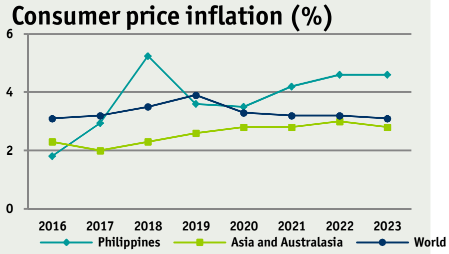
- We expect the president, Rodrigo Duterte, to complete his six-year term, which is due to end in 2022. Following the positive outcome from the mid-term elections, political support for Mr Duterte will remain strong for the rest of his term.
- The administration's main legislative priority for 2019-22 will be to push through revisions to the 1987 constitution in order to install a federal form of government. Charter change has long been a hot-button issue in the Philippines, and previous efforts by three other presidents were all unsuccessful.
- The generally capricious decision-making of the president and his administration will continue to raise risks for businesses throughout the rest of his term, especially given the populist nature of many of Mr Duterte's policies.
- Mr Duterte's efforts to deepen economic relations with China will bear fruit, despite the countries' unresolved territorial disputes in the South China Sea. However, domestic political considerations will limit the prospect of a full pro-China tilt.

Policy, money and prices

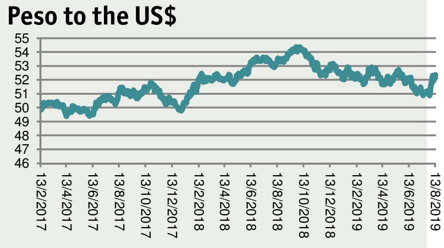
- We expect the Bangko Sentral ng Pilipinas (BSP, the central bank) to maintain a more dovish monetary policy stance in 2019-20. The shift in the direction of policy will be supported by a general easing in consumer price inflation in this period compared with 2018. In line with our view, the BSP cut its policy interest rate by 25 basis points in early May. Further cuts are expected in the second half of 2019.
- Inflationary pressures will start to build in 2021-23 as global commodity prices rise and domestic demand remains healthy. At this stage, the BSP will look to raise its benchmark interest rate incrementally.

Prices, money and current account	2018	2019	2020	2021	2022	2023
Consumer prices (av; %)	5.3	3.6	3.5	4.2	4.6	4.7
Money supply (M2) growth (%)	8.6	7.7	8.4	9.4	9.3	9.8
Lending interest rate (end-period; %)	6.1	6.0	5.7	5.8	6.1	6.2
Trade balance (US$ bn)	-49.0	-54.5	-56.9	-57.8	-60.3	-58.5
Current account balance (US$ bn)	-7.9	-7.8	-8.0	-7.5	-6.0	0.6
Current account balance (% of GDP)	-2.4	-2.1	-2.0	-1.8	-1.3	0.1
Exchange rate LCU:US$ (av)	52.7	52.4	53.0	53.9	54.5	54.2

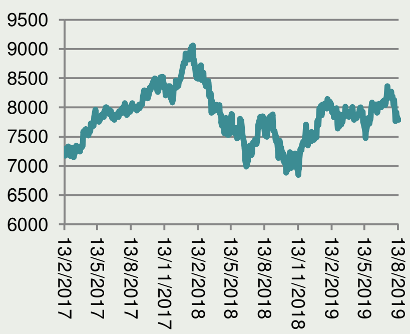
Consumer price inflation (%)



Peso to the US$



Philippines Stock Exchange Index

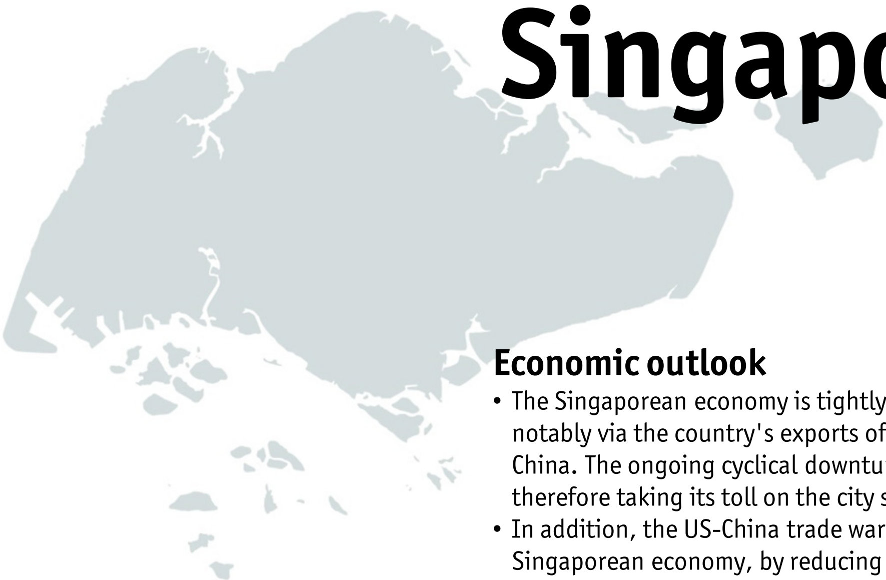


Currency outlook

- The peso will experience a correction in 2019 after its sharp depreciation against the US dollar in 2017-18, but will remain vulnerable owing to the wide current-account deficit.
- From 2020 the peso will depreciate against the US dollar.

	2019	2020
Peso : US$	52.37	53.02
Peso : Euro	52.69	53.44

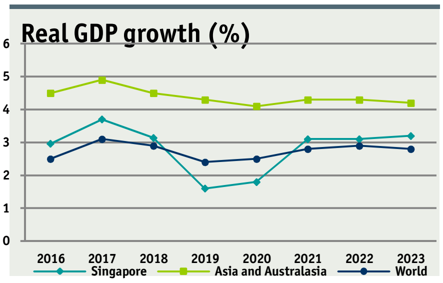
Average annual rates

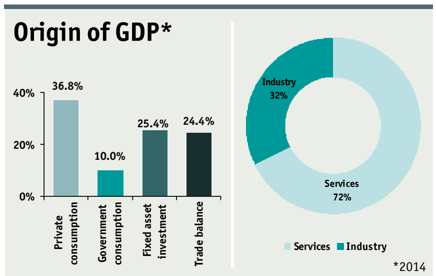


Singapore

Economic outlook

- The Singaporean economy is tightly integrated into the global economy, most notably via the country's exports of electronic components to countries such as China. The ongoing cyclical downturn in global demand for consumer electronics is therefore taking its toll on the city state's economic growth prospects. I
- In addition, the US-China trade war will also have an adverse effect on the Singaporean economy, by reducing external demand growth. Over the longer term, however, this could benefit Singapore by encouraging a shift in export-oriented manufacturing from China to South-east Asia.
- Overall, we expect real GDP to grow by 1.7% a year on average in 2019-20, before jumping to 3.1% on average in 2021-23.
- Weak external demand prospects and restrictions on residential property markets will weigh on investment activity in 2019-20. We expect gross fixed investment to contract in 2019 and to grow only tepidly in 2020, owing to a weak construction sector. Investment activity will recover in 2021-23, led by an uptick in manufacturing (as business sentiment revives) and by spending on transport infrastructure.





Real expenditure on GDP (% change)	2018	2019	2020	2021	2022	2023
Real GDP growth	3.1	0.9	1.3	2.7	3.0	3.2
Private consumption	2.7	1.0	1.2	2.8	2.9	2.9
Government consumption	4.1	3.9	4.2	4.1	3.8	3.9
Gross fixed investment	-4.0	-0.3	0.7	1.8	2.4	2.9
Exports of goods & services	5.1	-0.8	0.0	2.7	2.6	2.9
Imports of goods & services	4.7	-1.1	-0.9	2.3	2.9	3.0
Domestic demand	1.1	0.1	0.9	2.2	3.0	3.2

Population, income and market size	2018	2019	2020	2021	2022	2023
Population (m)	5.6	5.6	5.6	5.6	5.7	5.7
GDP (US$ bn at market exchange rates)	364.2	365.9	384.4	412.1	443.5	485.9
GDP per head (US$ at market exchange rates)	64,580	65,283	68,461	73,017	78,035	84,662
Private consumption per head (US$)	22,568	22,670	23,630	24,940	26,580	28,210
GDP (US$ bn at PPP)	582.2	603.5	625.8	655.7	683.1	711.9
GDP per head (US$ at PPP)	103,251	107,690	111,450	116,170	120,180	124,030

Political outlook

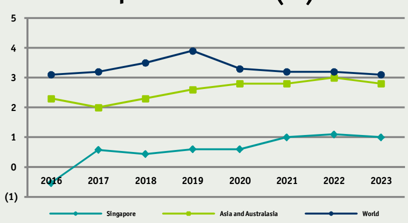
- We expect the ruling People's Action Party (PAP) to call an early election in late 2019, before the full effects of the current economic slowdown are felt. We expect the PAP to be re-elected with another large majority. The current finance minister and deputy prime minister, Heng Swee Keat, is set to succeed Lee Hsien Loong as prime minister in 2020 as part of a shift to a younger generation of PAP leaders.
- Economic and political links within the Association of South-East Asian Nations (ASEAN) will strengthen in 2019-23. Singapore's relations with China will be subject to occasional strain, but we do not expect this to weaken the deep bilateral economic linkages.
- The government budget will remain in deficit during the forecast period. Singapore's ageing population is increasing welfare demands on the public purse, and the government plans to raise the goods and services tax between 2021 and 2025 to help to offset rising fiscal spending.

Policy, money and prices

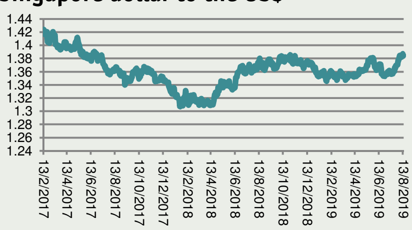
- We continue to expect the MAS to pursue the current gradual appreciation in the NEER throughout 2019. However, it will be at a more modest pace, as the bank downgraded its forecast range for core inflation to 1-2% (from 1.5-2.5%) at its April meeting.
- Our core forecast expects the central bank to pause appreciation from its April 2020 policy meeting. However, with the outlook for economic growth dimming, inflationary risks appear skewed to the downside, and there is a significant risk that the MAS could opt to reduce the pace of appreciation or target zero appreciation of the NEER at its October 2019 monetary policy meeting.
- The MAS will shift its policy to one that targets a modest appreciation of the NEER in 2021-23 when the global economy recovers.

Prices, money and current account	2018	2019	2020	2021	2022	2023
Consumer prices (av; %)	0.4	0.6	0.6	1.0	1.1	1.0
Money supply (M2) growth (%)	3.2	4.6	5.0	7.5	7.2	7.6
Lending interest rate (end-period; %)	5.3	5.3	5.3	5.3	5.4	5.5
Trade balance (US$ bn)	98.4	84.6	92.7	97.0	101.1	108.2
Current account balance (US$ bn)	65.1	56.0	59.9	64.5	72.4	77.8
Current account balance (% of GDP)	17.9	15.3	15.6	15.6	16.3	16.0
Exchange rate LCU:US$ (av)	1.35	1.36	1.34	1.32	1.28	1.25

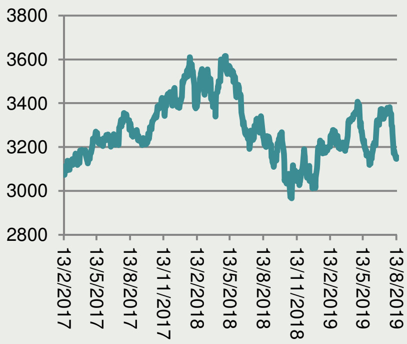
Consumer price inflation (%)



Singapore dollar to the US$



Straits Times Index



Currency outlook

- We expect the Singapore dollar to average S$1.36:US$1 in 2019; this is slightly weaker than in 2018, but will still represent a mild appreciation in NEER terms. Singapore operates a managed exchange-rate regime,.

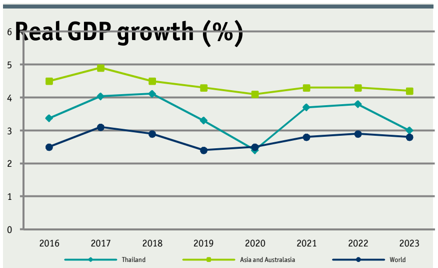
	2019	2020
S$: US$	1.36	1.34
S$: Euro	1.36	1.34

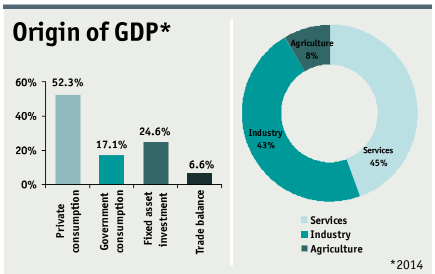
Average annual rates

Thailand

Economic outlook

- We expect real GDP to average annual growth of 3.2% in 2019-23. This underwhelming rate of economic expansion will be attributable mainly to muted private consumption growth, which will be weighed down by continued high levels of household debt and unremarkable real wage growth. Private consumption growth will be notably weak in 2020 owing to marginal real wage growth, amid subdued prospects for the global economy.
- We expect exports of goods and services to grow by 3.5% per year on average in 2019-23, compared with 3.1% in 2014-18. Growth in this component will be underpinned throughout 2019-23 by services exports, in the form of tourism. Volumes of goods shipments will be more uneven.
- We expect total fixed investment to grow at a significantly stronger pace in 2019-23 than in 2014-18. This is mostly owing to our baseline assumption that the military's influence over the elected government will ensure overarching stability, including in the business environment. Investment growth will be buoyed by major infrastructure projects, which will help to offset a downturn in private investment in 2020, amid weaker expectations for external demand.





Real expenditure on GDP (% change)	2018	2019	2020	2021	2022	2023
Real GDP growth	4.1	3.3	2.4	3.7	3.8	3.0
Private consumption	4.6	4.0	2.7	3.6	3.5	3.0
Government consumption	1.8	3.6	3.7	3.3	2.4	2.8
Gross fixed investment	3.8	3.6	3.5	3.9	4.3	3.5
Exports of goods & services	4.2	1.3	2.7	5.0	4.5	4.0
Imports of goods & services	8.7	0.8	2.4	5.5	3.8	3.2
Domestic demand	7.4	2.5	2.5	3.9	3.1	2.5

Population, income and market size	2018	2019	2020	2021	2022	2023
Population (m)	69.4	69.6	69.8	70.0	70.1	70.2
GDP (US$ bn at market exchange rates)	505.3	540.9	541.5	567.1	595.5	620.3
GDP per head (US$ at market exchange rates)	7,277	7,768	7,758	8,107	8,498	8,839
Private consumption per head (US$)	3,540	3,750	3,700	3,870	4,040	4,170
GDP (US$ bn at PPP)	1,317	1,387	1,447	1,524	1,599	1,663
GDP per head (US$ at PPP)	18,970	19,930	20,730	21,790	22,810	23,690

Political outlook

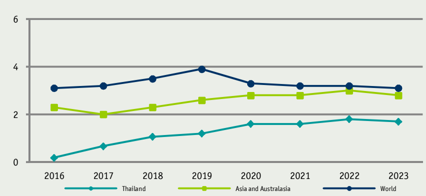
- Results of the national legislative elections favoured the military-aligned Phalang Pracharat party. Although it did not win a majority in the House of Representatives (the lower house), securing just 116 of the total 500 seats, it won the support of smaller parties and formed a slim majority coalition government. In combination with the support of the 250-seat junta-appointed Senate (the upper house), this led to the appointment of coup leader Prayuth Chan-ocha as prime minister in early June.
- Political stability will broadly be maintained under this regime. The constitution, approved in a referendum in 2016, will ensure that the military retains influence over the next government. This will result in broad continuity of policy related to infrastructure and foreign investment. Occasional legislative gridlock will nonetheless occur in 2019-23, owing to the sizeable opposition in the lower house, particularly on issues related to welfare and spending.
- The kingdom’s foreign policy will be partial towards China in 2019-23, as it attracts Chinese investment for infrastructure projects. However, the stock of investment from Japan will remain larger in 2019-23. Integration with neighbours in the Association of South-East Asian Nations (ASEAN) will also continue.

Policy, money and prices

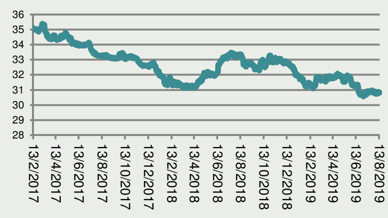
- After raising interest rates once in 2018, the Bank of Thailand (BOT) will stay put on monetary policy in 2019-20, as the risks associated with high household debt outweigh concerns about inflation and external sector weakness. It will resume policy tightening from 2021.
- Average consumer price inflation will be at the lower end of the BOT's 1-4% target range in 2019-23. It will grow to an annual average of 1.7% in 2021-23, as domestic and external demand strengthens.

Prices, money and current account	2018	2019	2020	2021	2022	2023
Consumer prices (av; %)	1.1	1.2	1.6	1.6	1.8	1.7
Money supply (M2) growth (%)	4.7	5.1	5.7	5.8	6.1	4.8
Lending interest rate (end-period; %)	4.1	4.3	4.3	4.5	4.7	4.7
Trade balance (US$ bn)	22.3	24.0	26.9	22.8	24.2	27.3
Current account balance (US$ bn)	35.2	42.1	40.8	37.0	39.5	44.9
Current account balance (% of GDP)	7.0	7.8	7.5	6.5	6.6	7.2
Exchange rate LCU:US$ (av)	32.3	31.7	32.9	32.8	32.8	32.8

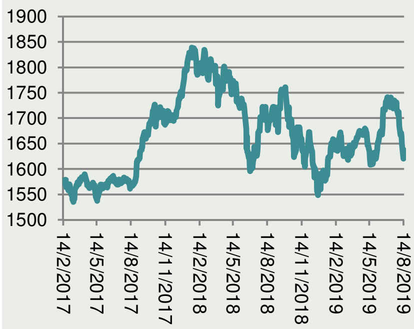
Consumer price inflation (%)



Baht to the US$



Stock Exchange of Thailand Index



Currency outlook

- The baht will depreciate slightly against the US dollar in 2019-20. The currency will be buffeted by waning investors’ confidence over the trade war between China and the US.

	2019	2020
Baht : US$	31.67	32.90
Baht : Euro	31.99	32.97

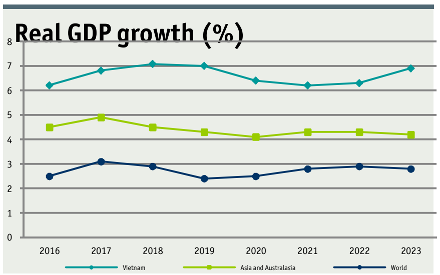
Rates at end of year

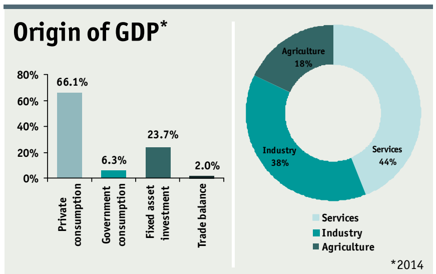
ASIA COUNTRY BRIEFING JULY-SEPTEMBER 2019

Vietnam

Economic outlook

- The export-focused manufacturing and processing sectors are the key drivers of Vietnam's economy. We forecast average annual real GDP growth of 6.7% in 2019-20, compared with 6.9% in 2017-18, as the country feels the impact of weaker global demand. Nonetheless, Vietnam will remain one of the fastest-growing ASEAN economies and a regional outperformer in terms of export performance.
- It has succeeded in positioning itself as the main low-cost regional alternative to China for export-orientated manufacturing (including among Chinese companies). The ongoing US-China trade war will accelerate the shift of export manufacturing from China to Vietnam.
- This will be a key driver for growth in both exports and investment by multinationals, particularly in the early part of the forecast period. This increase in export-oriented production capacity will offset the impact of weaker external demand conditions in 2019-20.
- We also expect gross fixed investment to be boosted by government-funded construction of the new infrastructure that will be needed to support the surge in exports. We forecast annual average real GDP growth of 6.6% in 2019-23, and risks to this forecast are largely skewed towards the upside.





Real expenditure on GDP (% change)	2018	2019	2020	2021	2022	2023
Real GDP growth	7.1	7.0	6.4	6.2	6.3	6.9
Private consumption	5.9	5.7	5.6	5.5	5.6	5.6
Government consumption	6.6	6.5	6.5	6.5	6.3	6.1
Gross fixed investment	7.8	9.4	9.0	9.3	9.2	9.2
Exports of goods & services	8.6	6.9	7.4	7.8	8.5	8.4
Imports of goods & services	7.2	6.8	7.6	8.1	8.8	8.1
Domestic demand	6.6	6.8	6.7	6.8	6.8	6.6

Population, income and market size	2018	2019	2020	2021	2022	2023
Population (m)	95.5	96.5	97.3	98.2	99.0	99.7
GDP (US$ bn at market exchange rates)	240.5	266.0	291.4	320.5	359.2	401.6
GDP per head (US$ at market exchange rates)	2,518	2,758	2,993	3,265	3,631	4,028
Private consumption per head (US$)	1,700	1,800	1,930	2,060	2,250	2,460
GDP (US$ bn at PPP)	710.6	775.2	840.6	907.4	974.4	1,052.0
GDP per head (US$ at PPP)	7,440	8,040	8,640	9,240	9,850	10,550

Political outlook

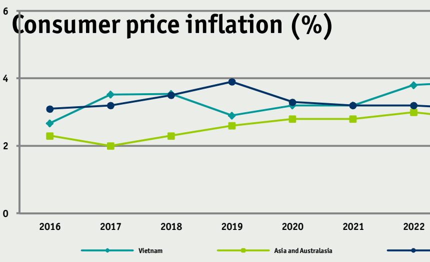
- The Communist Party of Vietnam (CPV) will maintain a firm grip on power, despite factional splits over economic and foreign policy. There will be no credible threat to the CPV's rule during the 2019-23 forecast period, and the party's opponents—both internal and external—will find it more difficult to voice dissenting opinions.
- Vietnam will maintain an omnidirectional foreign policy. Relations with China will remain strained, owing to territorial disputes in the South China Sea. The authorities will cultivate links with other regional powers, such as Japan and India, to counterbalance China's growing influence in Asia. Ties with the US will improve, despite frictions over Vietnam's growing bilateral trade surplus.
- The government will make structural improvements to the banking sector and state-owned enterprises in 2019-23. Economic liberalisation will centre on international trade, anchored by a handful of significant free-trade deals. "Equitisation" (part-privatisation) will remain an important policy throughout the forecast period. Progress will be slower than the CPV plans, however, owing to deep-rooted structural constraints.

Policy, money and prices

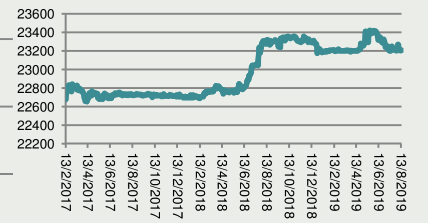
- In the early years of the forecast period, the State Bank of Vietnam (the central bank) will maintain an accommodative monetary policy. It will raise interest rates from 2021 as price pressures build and export growth picks up.
- By historical standards, consumer price inflation will be subdued in 2019-20, in spite of the inflationary impact of African swine fever. However, growing demand-side pressures and stronger producer price inflation will gradually exert greater upward pressure on consumer prices throughout the forecast period.

Prices, money and current account	2018	2019	2020	2021	2022	2023
Consumer prices (av; %)	3.5	2.9	3.2	3.2	3.8	3.9
Money supply (M2) growth (%)	12.7	15.6	16.9	18.3	14.4	14.1
Lending interest rate (end-period; %)	7.6	7.6	7.4	7.8	7.9	8.0
Trade balance (US$ bn)	13.8	9.9	11.4	12.6	17.3	21.0
Current account balance (US$ bn)	8.2	4.8	6.3	7.1	12.1	16.1
Current account balance (% of GDP)	3.4	1.8	2.2	2.2	3.4	4.0
Exchange rate LCU:US$ (av)	23,012	23,451	23,586	23,782	23,781	23,665

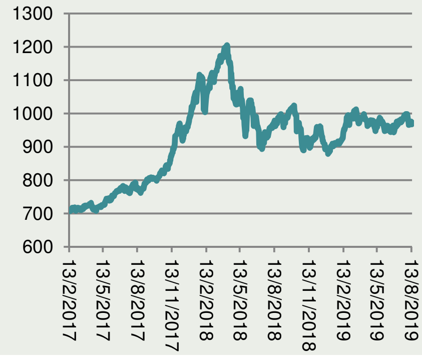
Consumer price inflation (%)



Dong to the US$



Ho Chi Minh Stock Index



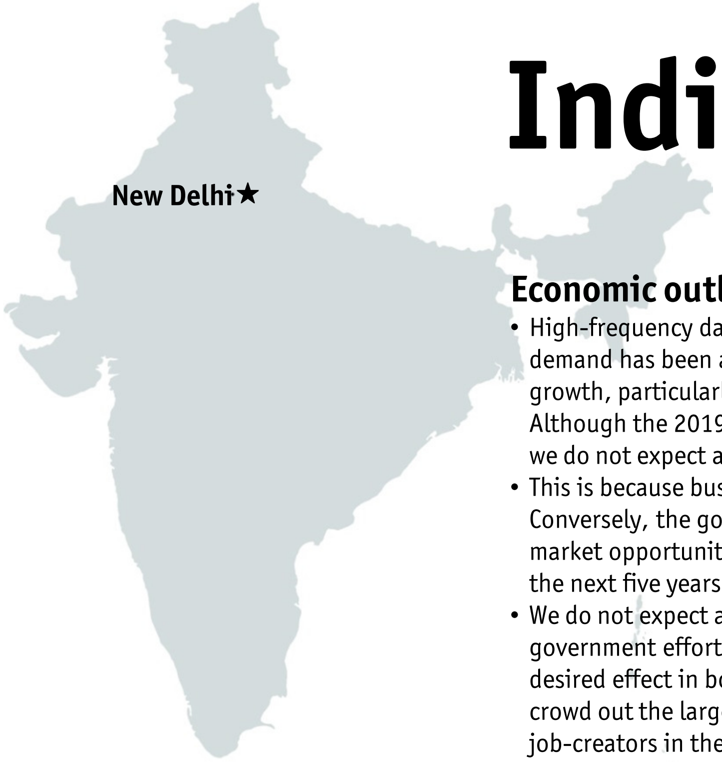
Currency outlook

- The dong will depreciate modestly against the US dollar in 2019-21, despite dollar weakness in the first two years of this period.

	2019	2020
Dong : US$	23450.50	23585.90
Dong : Euro	23518.20	23683.90

Average annual rates

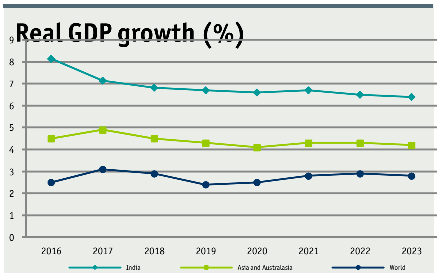
India



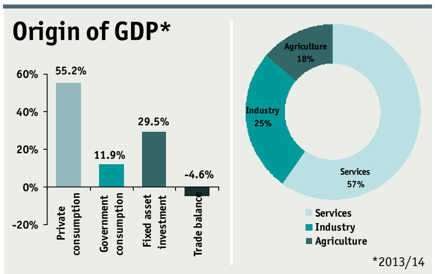
Economic outlook

- High-frequency data suggest that the economy is slowing. We believe that household demand has been adversely affected by rising unemployment and slowing wage growth, particularly in rural areas. Meanwhile, business sentiment remains subdued. Although the 2019 general election results ensure medium-term political stability, we do not expect a dramatic acceleration in private investment.
- This is because businesses remain sceptical about broader economic prospects. Conversely, the government's focus on infrastructure improvement and domestic market opportunities will provide some support to gross fixed capital formation over the next five years.
- We do not expect a significant improvement in job creation in the forecast period, as government efforts will focus on small-scale industries and are unlikely to have the desired effect in boosting employment. Meanwhile, the focus on smaller firms will crowd out the larger-scale enterprises that would be more productive and effective job-creators in the longer term.
- This effect will be aggravated by outdated labour laws that deter companies from scaling up. Economic growth will therefore remain below potential throughout the forecast period, despite stable inflation.
- Real GDP growth will average 6.6% a year in 2019/20-2023/24, keeping India among the fastest-growing major economies throughout the forecast period.

Real GDP growth (%)



Origin of GDP*



*2013/14

Real expenditure on GDP (% change)	2018	2019	2020	2021	2022	2023
Real GDP growth	6.8	6.7	6.6	6.7	6.5	6.4
Private consumption	8.1	7.0	6.7	7.0	7.3	6.4
Government consumption	10.3	9.8	5.8	5.1	4.2	6.3
Gross fixed investment	9.8	9.1	8.3	8.0	8.7	7.4
Exports of goods & services	17.0	9.8	6.9	8.5	7.8	7.2
Imports of goods & services	21.6	13.0	8.8	10.9	9.2	6.9
Domestic demand	8.8	8.3	8.5	8.3	7.4	6.4

Population, income and market size	2018	2019	2020	2021	2022	2023
Population (m)	1,353	1,366	1,380	1,393	1,407	1,420
GDP (US$ bn at market exchange rates)	2,718	3,107	3,415	3,593	3,852	4,258
GDP per head (US$ at market exchange rates)	2,010	2,274	2,475	2,579	2,738	3,000
Private consumption per head (US$)	1,193	1,330	1,430	1,510	1,620	1,780
GDP (US$ bn at PPP)	10,485	11,411	12,401	13,449	14,469	15,553
GDP per head (US$ at PPP)	7,752	8,350	8,990	9,650	10,290	10,960

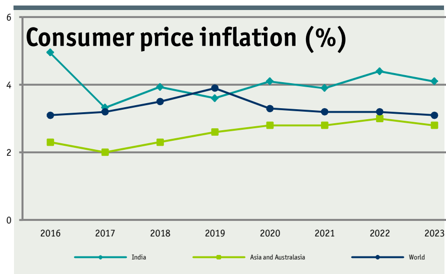
Political outlook

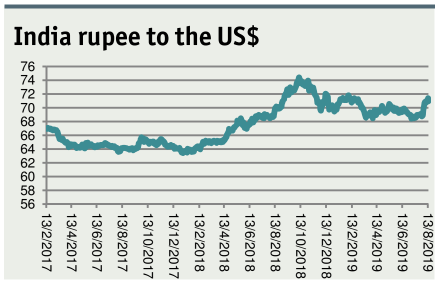
- The 2019 general elections resulted in the Bharatiya Janata Party (BJP) obtaining a majority in the lower house of parliament. The BJP's majority will underpin political stability in 2019-23. We expect the prime minister, Narendra Modi, to run a highly centralised administration.
- Relations with the US will remain warm in 2019-23, albeit punctuated by trade tensions. Despite efforts to normalise relations, ties with China will remain strained, owing to border disputes and concerns about that country's rising influence in South Asia. We expect India and Pakistan to engage in repeated low-level military clashes in 2019-23, but a full-scale conflict will be avoided.

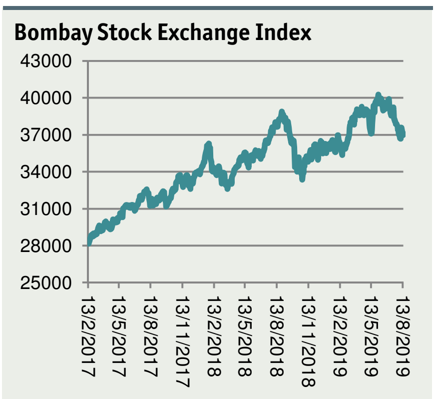
Policy, money and prices

- We expect consumer price inflation to average 4% a year in 2019-23. Lower crude oil costs will restrain inflation in the first two years of the forecast period, allowing the Reserve Bank of India (RBI, the central bank) to cut policy interest rates. The RBI will take a more hawkish stance from 2021 onwards as stronger domestic demand adds to price pressures.
- The RBI will keep inflation-targeting as the cornerstone of its monetary policy framework in the next five years. It will look to contain consumer price inflation within a 2-6% range and close to a target of 4% throughout 2019-23.
- In annual average terms the rupee will depreciate against the US dollar in 2019, and again in 2021-23, reflecting India's current-account deficit. However, the rupee will appreciate against the dollar in 2020 as the US loosens its monetary policy, widening the gap between US and Indian interest rates.

Prices, money and current account	2018	2019	2020	2021	2022	2023
Consumer prices (av; %)	3.9	3.6	4.2	3.9	4.4	4.1
Money supply (M2) growth (%)	10.2	13.4	9.8	11.0	10.4	10.9
Lending interest rate (end-period; %)	9.5	9.4	9.0	9.1	9.5	9.3
Trade balance (US$ bn)	-186.9	-180.8	-179.3	-192.7	-197.3	-202.2
Current account balance (US$ bn)	-64.9	-56.0	-55.2	-61.6	-65.2	-62.4
Current account balance (% of GDP)	-2.4	-1.8	-1.6	-1.7	-1.7	-1.5
Exchange rate LCU:US$ (av)	68.4	69.8	68.7	70.6	72.1	72.5







Currency outlook

- A narrowing current-account deficit and improved investor sentiment will ease some of the downward pressure on the rupee in 2019. Therefore, the Indian currency's exchange rate is likely to end the year stronger against the US dollar than it was at the end of 2018.

	2019	2020
Rs : US$	69.83	68.68
Rs : Euro	68.30	69.35

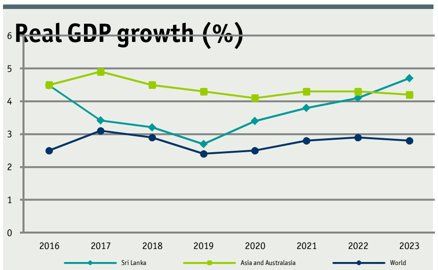
Average annual rates

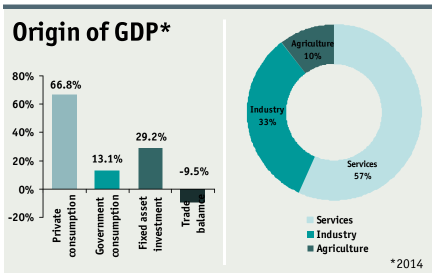
The Economist CORPORATE NETWORK

Sri Lanka

Economic outlook

- We expect the rate of economic growth to slow further to 2.7% in 2019. The unstable political environment will keep investor sentiment towards Sri Lanka negative in 2019, and tourist arrivals will be dampened owing to recent terrorist attacks. However, tighter import controls will help to contain import payments.
- The pace of fiscal consolidation will slow, but overall government consumption will remain in contractionary territory in 2019 (owing to a reduction in subsidy expenditure relating to fuel), before rebounding later in the forecast period. Looking ahead, we expect economic growth to pick up slightly in 2020, supported by a rebound in the tourism sector and improved government consumption.
- As political stability returns to the island nation after the appointment of a new government in 2020, investment activity will pick up pace from 2021 onwards. Work on a number of infrastructure projects around the Hambantota port and Colombo Port City will contribute investment growth. With stronger investment activity, imports of goods and services are also forecast to rise in the latter part of the forecast period.





Real expenditure on GDP (% change)	2018	2019	2020	2021	2022	2023
Real GDP growth	3.2	2.7	3.4	3.8	4.1	4.7
Private consumption	2.3	2.3	2.4	3.5	4.0	4.2
Government consumption	-5.5	-0.5	3.0	5.1	5.5	5.4
Gross fixed investment	-0.5	0.3	0.5	4.4	5.5	5.8
Exports of goods & services	0.5	-0.6	6.5	2.5	3.0	3.2
Imports of goods & services	1.8	-1.2	-1.1	3.6	6.0	4.8
Domestic demand	3.5	2.9	1.7	3.9	4.8	4.9

Population, income and market size	2018	2019	2020	2021	2022	2023
Population (m)	21.2	21.3	21.4	21.5	21.6	21.6
GDP (US$ bn at market exchange rates)	88.9	87.4	95.2	103.4	111.7	121.9
GDP per head (US$ at market exchange rates)	4,189	4,098	4,444	4,808	5,178	5,632
Private consumption per head (US$)	2,920	2,850	3,060	3,300	3,550	3,840
GDP (US$ bn at PPP)	291.5	305.4	321.8	339.3	356.7	377.1
GDP per head (US$ at PPP)	13,730	14,320	15,030	15,780	16,530	17,420

Political outlook

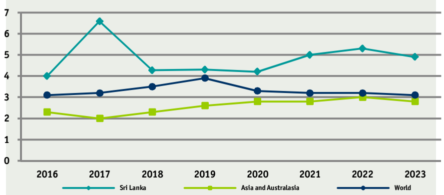
- We do not expect the current government, led by the United National Party, to serve out its full term, which expires in September 2020. It is likely to be voted out in early elections, which we expect to be called after February 2020.
- In the aftermath of the recent terrorist attacks in the country, risks to political stability have risen markedly. Social unrest, caused by religious and ethnic tensions, will continue to pose a threat to political stability during the 2019-23 forecast period.
- The budget deficit will narrow slightly, averaging the equivalent of 5.1% of GDP annually in 2019-20. The deficit is forecast to widen in 2021, as fiscal discipline loosens after the conclusion of an IMF programme in 2020.

Policy, money and prices

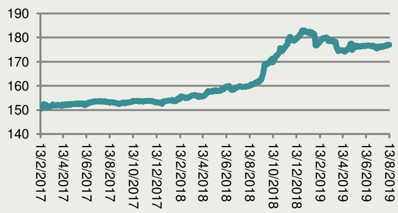
- In May the Central Bank of Sri Lanka (CBSL) cut its key policy rates, the standing deposit facility rate and the standing lending facility rate, by 50 basis points, to 7.5% and 8.5% respectively. We now expect the CBSL to cut rates once more during the remainder of 2019 to provide stimulus to the economy, especially in the wake of the April terrorist attacks, which will dampen prospects in the economically important tourism sector.
- Despite looser monetary policy, lending rates will still average higher in 2019, as they spiked early in the year due to a liquidity shortage in the banking system. The central bank's decision to cut rates will be supported by low inflation (which will remain well below the CBSL's upper limit of 6%) and a favourable global interest-rate environment.
- We expect the CBSL to maintain an accommodative stance in 2020; global trade growth will continue to moderate in that year as the US experiences a mild economic slowdown (the US is Sri Lanka’s largest export market).

Prices, money and current account	2018	2019	2020	2021	2022	2023
Consumer prices (av; %)	4.3	4.3	4.2	5.0	5.3	4.9
Money supply (M2) growth (%)	13.5	11.8	15.0	16.7	15.9	15.4
Lending interest rate (end-period; %)	11.6	11.7	10.8	11.0	11.8	11.7
Trade balance (US$ bn)	-10.3	-8.2	-9.0	-10.1	-11.3	-12.0
Current account balance (US$ bn)	-2.9	-3.0	-2.1	-2.7	-3.5	-3.7
Current account balance (% of GDP)	-3.2	-3.4	-2.2	-2.6	-3.1	-3.0
Exchange rate LCU:US$ (av)	162.5	177.2	175.3	175.8	178.3	179.4

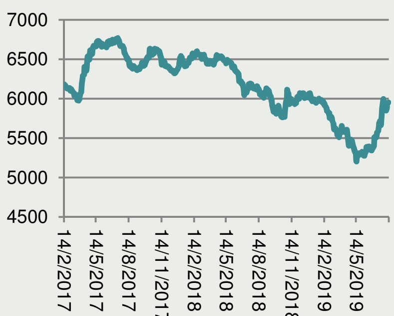
Consumer price inflation (%)



Sri Lanka rupee to the US$



Colombo Stock Exchange Index



Currency outlook

- We expect the rupee to depreciate steadily against the US dollar throughout. Facing pressure on the balance of payments and relatively low levels of foreign reserves, the CBSL will be broadly unable to counteract market forces and exchange-rate movements.

	2019	2020
SLRs : US$	177.20	175.30
SLRs : Euro	175.10	172.70

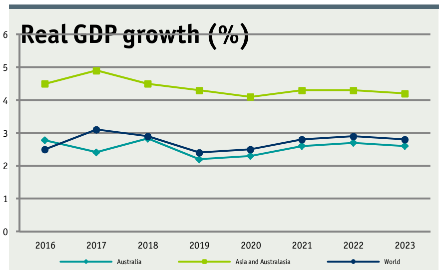
Average annual rates

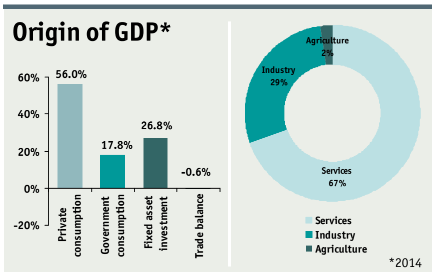
ASIA COUNTRY BRIEFING JULY-SEPTEMBER 2019

Australia

Economic outlook

- Real GDP growth will slow to 2.2% in 2019, from 2.8% in 2018, reflecting softer world trade growth and a moderation in private consumption growth, on account of high household debt levels and a diminishing wealth effect resulting from falling house prices.
- Targeted tax relief and lower interest rates will provide some offsetting support to households going into 2020, but private consumption growth will remain subdued as job creation slows. Economic slowdowns in the US and China will also weigh on real GDP growth in Australia next year, which we expect will average 2.3%. However, the ramping up of new exports of liquefied natural gas (LNG) will support continued growth in commodity export volumes.
- Government consumption will expand by a solid 3.5% per year, on average, in 2019-23, supported by a steady increase in spending at both state and federal levels. Infrastructure plans will underpin strong public investment growth, which will help to cushion the impact of weak residential investment.
- We forecast that real GDP growth will average 2.5% per year in 2019-23.





Real expenditure on GDP (% change)	2018	2019	2020	2021	2022	2023
Real GDP growth	2.8	2.2	2.3	2.6	2.7	2.6
Private consumption	2.6	2.3	2.1	2.4	2.6	2.6
Government consumption	4.7	4.0	3.6	3.2	3.5	3.0
Gross fixed investment	2.4	0.3	2.2	1.7	2.6	2.5
Exports of goods & services	5.0	2.9	2.8	3.5	3.4	3.5
Imports of goods & services	3.9	2.8	2.7	3.2	3.7	3.8
Domestic demand	3.1	2.0	2.4	2.5	2.7	2.7

Population, income and market size	2018	2019	2020	2021	2022	2023
Population (m)	24.9	25.2	25.5	25.8	26.1	26.3
GDP (US$ bn at market exchange rates)	1,419	1,367	1,371	1,481	1,614	1,725
GDP per head (US$ at market exchange rates)	56,982	54,231	53,771	57,428	61,900	65,480
Private consumption per head (US$)	31,970	30,460	30,210	32,270	34,800	36,780
GDP (US$ bn at PPP)	1,324	1,381	1,440	1,501	1,556	1,612
GDP per head (US$ at PPP)	53,180	54,770	56,450	58,200	59,690	61,200

Political outlook

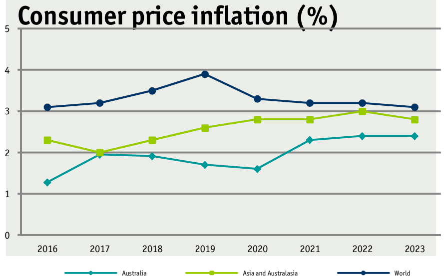
- The prime minister, Scott Morrison, will lead the Liberal-National coalition government for the next three years, after winning the May 2019 parliamentary election. It secured a narrow majority, which will help to underpin political stability until the next election.
- Australia will commit more development assistance to Pacific island countries, as it seeks to reassert its traditional status within the region to counter rising engagement by China.
- The government anticipates a return to budget surplus in fiscal year 2019/20 (July-June). We forecast that the budget will move into surplus in 2019, but that the government will fall short of its surplus targets over the forecast period.

Policy, money and prices

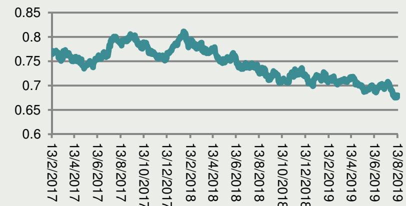
- On July 2nd the Reserve Bank of Australia (RBA, the central bank) followed up the cut it made in June to the cash rate with another 25-basis-point reduction, taking the rate to a new record low of 1%. This was the first back-to-back rate cut since 2012.
- We expect the central bank to pause for now, to see how the labour market develops in the coming months. However, additional stimulus will be required to reduce spare capacity and drive up wage growth and consumer price inflation, which remains below the RBA's 2-3% target range.
- As a result, we have amended our monetary policy outlook to include another reduction in the cash rate later this year, to be followed by a further rate cut in the first half of 2020 as global economic headwinds intensify.
- Monetary easing in 2019-20 is not without risk. Households are highly indebted and lower interest rates could lead to a further accumulation of debt. Moreover, it limits the RBA's scope to respond with fresh rate cuts in the event of a future economic shock.

Prices, money and current account	2018	2019	2020	2021	2022	2023
Consumer prices (av; %)	1.9	1.7	1.6	2.3	2.4	2.4
Money supply (M2) growth (%)	2.4	3.7	4.0	4.2	4.1	4.3
Lending interest rate (end-period; %)	5.3	4.8	4.1	4.1	4.6	5.1
Trade balance (US$ bn)	19.8	28.0	20.5	17.0	20.4	22.4
Current account balance (US$ bn)	-30.5	-19.0	-24.1	-27.9	-32.1	-35.8
Current account balance (% of GDP)	-2.2	-1.4	-1.8	-1.9	-2.0	-2.1
Exchange rate LCU:US$ (av)	1.34	1.44	1.49	1.44	1.38	1.35

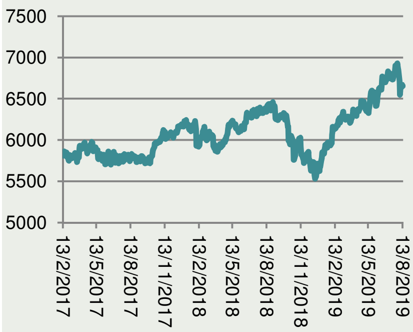
Consumer price inflation (%)



Australia dollar to the US$



All Ordinaries Index



Currency outlook

- An improving domestic economy and increases in global commodity prices will be the biggest influences on the Australian dollar's performance in 2016-20. The exchange rate is expected to appreciate to an average of A$1.25:US$1 in 2020

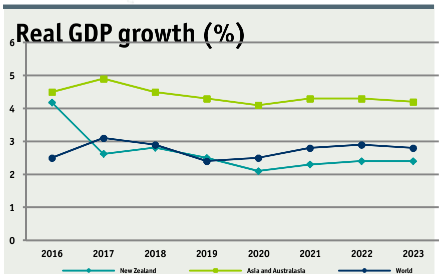
	2019	2020
A$: US$	1.44	1.49
A$: Euro	1.48	1.48

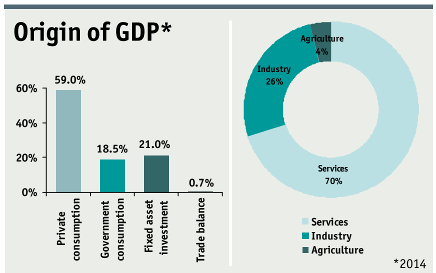
Average annual rates

New Zealand

Economic outlook

- In 2019 economic expansion will slow slightly to 2.5%, from 2.8% in 2018, owing to weaker domestic demand and slower world trade growth. However, the increase in the population, coupled with a loosening fiscal and monetary stance by the authorities, will help to shore up private consumption growth (the largest component of GDP).
- The government's investment in housing and infrastructure projects will also contribute to economic expansion. However, weak business confidence, stemming from concerns about populist government policy, is likely to weigh on private investment growth.
- In 2020 weaker external conditions (resulting from slower world trade growth, sub-par growth in the US economy and a continued slowdown in the Chinese economy) will cause New Zealand's real GDP growth to decelerate to 2.1%.
- Both China and the US are major destinations for New Zealand's exports, accounting for 24% and 10% of total exports respectively in 2018. There will be a modest pick-up in growth over the remainder of the forecast period, with an average annual rate of expansion of 2.3% in 2021-23.
- We believe that the economy's underlying fundamentals will remain strong throughout the forecast period. However, one major source of uncertainty is the housing market. The central bank's plans to force banks to hold more capital could push up interest rates, hitting mortgage borrowing.





Real expenditure on GDP (% change)	2018	2019	2020	2021	2022	2023
Real GDP growth	2.8	2.5	2.1	2.3	2.4	2.4
Private consumption	3.2	2.8	2.4	2.5	2.3	2.4
Government consumption	1.9	3.1	2.8	2.5	2.6	2.8
Gross fixed investment	3.7	3.0	2.2	2.4	2.2	2.6
Exports of goods & services	3.1	2.8	2.3	3.0	2.9	3.4
Imports of goods & services	5.8	3.7	2.5	3.2	2.6	3.1
Domestic demand	3.5	2.8	2.2	2.4	2.3	2.4

Population, income and market size	2018	2019	2020	2021	2022	2023
Population (m)	4.9	4.9	5.0	5.0	5.1	5.2
GDP (US$ bn at market exchange rates)	203.1	203.8	209.8	223.7	238.1	251.0
GDP per head (US$ at market exchange rates)	41,797	41,325	42,034	44,325	46,661	48,637
Private consumption per head (US$)	24,241	24,200	24,510	25,620	26,790	27,670
GDP (US$ bn at PPP)	201.5	210.7	219.3	227.8	235.6	243.6
GDP per head (US$ at PPP)	41,472	42,720	43,930	45,140	46,160	47,200

Political outlook

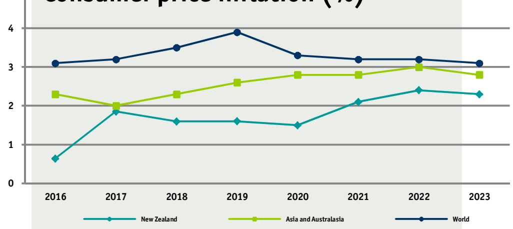
- We expect the governing Labour-New Zealand First coalition to serve a full term until the next election in 2020. Tensions arising between the coalition partners over policy differences pose a downside risk to our political stability forecast.
- Despite a terrorist attack on March 15th that left 51 people dead and many more injured, New Zealand remains one of the world's most peaceful societies. The risk of political violence becoming more widespread is low.
- The government will continue to post fiscal surpluses during the forecast period, and a return to deficit is unlikely in the absence of a significant economic shock. We expect the surplus to expand from the equivalent of 0.6% of GDP in 2019 to 1.3% of GDP in 2023.

Policy, money and prices

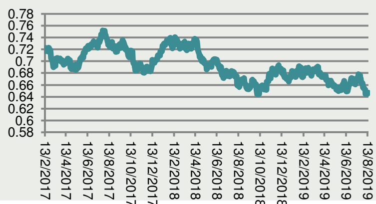
- We expect the Reserve Bank of New Zealand (RBNZ, the central bank) to cut its main policy interest rate, the official cash rate, from 1.5% to 1.25% in September 2019. (The last 25-basis-point cut was implemented on May 8th.) This will be facilitated by weak price pressures: The Economist Intelligence Unit forecasts that consumer price inflation will remain below the midpoint of the RBNZ's 1-3% target band throughout 2019-20.
- Nevertheless, there are arguments against another rate cut. Economic growth was strong in the first quarter of 2019, and the central bank will be mindful that lower interest rates could boost borrowing by the country's already highly indebted households, increasing risks to financial sector stability.
- In 2020, as external demand conditions deteriorate further, notably in China and the US, the RBNZ will sanction a further 25-basis-point cut in the second quarter. The central bank will start to tighten monetary policy gradually from 2021, in response to rising consumer price inflation.

Prices, money and current account	2018	2019	2020	2021	2022	2023
Consumer prices (av; %)	1.6	1.6	1.5	2.1	2.4	2.3
Money supply (M2) growth (%)	6.4	5.5	5.3	5.0	5.5	5.7
Lending interest rate (end-period; %)	9.4	9.1	8.8	8.9	9.3	9.7
Trade balance (US$ bn)	-3.4	-2.7	-2.6	-1.9	-0.9	-0.5
Current account balance (US$ bn)	-7.4	-7.1	-7.0	-6.3	-5.6	-5.9
Current account balance (% of GDP)	-3.6	-3.5	-3.3	-2.8	-2.4	-2.4
Exchange rate LCU:US$ (av)	1.44	1.50	1.52	1.49	1.47	1.46

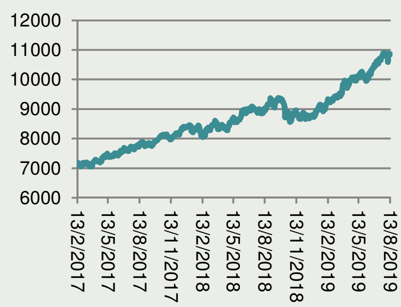
Consumer price inflation (%)



New Zealand dollar to the US$



New Zealand Stock Exchange Index



Currency outlook

- The New Zealand dollar's exchange rate against its US counterpart will depreciate in 2019, averaging NZ$1.5:US$1 over the year. We expect the Federal Reserve too maintain a dovish monetary policy stance this year, which will help to avert one potential source of downward pressure.

	2019	2020
NZ$: US$	1.50	1.52
NZ$: Euro	1.53	1.51

Average annual rates