

**Recent developments:** The **East Asia and the Pacific region** remained the fastest-growing developing region in the world in 2014, with growth coming in at 6.9 percent in 2014, which was only 0.3 percentage points slower than in 2013. In China, policy measures guided a gradual slowdown to 7.4 percent in 2014, from 7.7 percent in 2013. These have included measures to contain the buildup of financial sector vulnerabilities by slowing credit growth, efforts to curb activity in sectors with overcapacity or that are environmentally polluting, and a parallel set of growth-stimulating measures designed to cushion the slowdown.

Elsewhere in the region, domestic policy tightening and political uncertainty have continued to weigh on credit and investment growth. Partly to anchor inflation expectations following fuel subsidy cuts, central banks in Indonesia and Malaysia raised policy rates in 2014. Mongolia and the Philippines also raised policy rates to contain price pressures reflecting capacity constraints. China, Thailand, and Vietnam were the exceptions, with rate cuts aimed at supporting activity amidst a sharp decline in inflation that continued to indicate the risk of deflationary pressures. Fiscal balances weakened in several countries as growth slowed. While investment growth slowed from post-crisis highs, robust demand for labor, strong inflows of remittances and buoyant capital markets supported resilient consumption. Capital flows which rebounded strongly from first quarter weakness, especially into equities and bond issuances, came under renewed pressure in December as a result of the oil price decline and increased global uncertainty.

**Outlook:** Regional growth is expected to ease slightly to 6.7 percent in 2015 and remain stable over the medium term as output growth in the region excluding China firms and offsets a gradual slowdown in China. In China, structural reforms, a gradual withdrawal of stimulus, and continued measures to tighten credit will slow investment and gradually dampen growth to 6.9 percent by 2017. Activity in the rest of the region is expected to accelerate modestly, as exports firm, political tensions in Thailand recede, and investment growth accelerate, particularly in Indonesia and in the Philippines. Rising demand from high-income countries is expected to benefit the region, given its integration into global value chains. Improved terms of trade reflecting soft commodity prices and favorable growth prospects will encourage capital inflows (except for commodity-exporting Indonesia, Mongolia, and to some extent Malaysia). Excluding China, regional growth is expected to pick up to 5.2 percent in 2015, rising to 5.4 and 5.5 percent in 2016 and 2017, respectively.

**Risks:** Key risks stem from weaker-than-anticipated global growth and, although a low-probability scenario, a sharper-than-expected slowdown in China. In addition, the regional outlook is sensitive to the risk of a sharp tightening of global financial conditions.

Although unlikely, a failure to address vulnerabilities in the financial sector in China could increasingly weigh on activity. A slowdown in China would dampen activity in the entire region, because of the size of the Chinese market and the close trade and investment links. Since it would likely be associated with commodity price declines, commodity exporters (Indonesia and Mongolia) would suffer a double blow.

Financial market volatility, or abruptly tightening global financial conditions, could lead to sharp reductions or reversals in capital inflows, exposing some countries to considerable pressures. Tightening external financing conditions would feed into rising domestic interest rates. This would raise debt service burdens, and put pressure on the balance sheets of banks, businesses, and households. A rise in non-performing loans could impair banking system capital, and raise questions about financial stability. Countries with historically high private sector debt service ratios, resulting from rapid debt accumulation since the global financial crisis, are particularly at risk.

**East Asia and Pacific forecast summary**

(annual percent change unless indicated otherwise)

|                                  |                          | <b>Est.</b> |             | <b>Forecast</b> |             |             |             |             |
|----------------------------------|--------------------------|-------------|-------------|-----------------|-------------|-------------|-------------|-------------|
|                                  | <b>00-10<sup>a</sup></b> | <b>2011</b> | <b>2012</b> | <b>2013</b>     | <b>2014</b> | <b>2015</b> | <b>2016</b> | <b>2017</b> |
| GDP at market prices (2010 US\$) |                          |             |             |                 |             |             |             |             |
| <b>Cambodia</b>                  | 8.0                      | 7.1         | 7.3         | 7.4             | 7.2         | 7.5         | 7.2         | 7.0         |
| <b>China</b>                     | 10.5                     | 9.3         | 7.7         | 7.7             | 7.4         | 7.1         | 7.0         | 6.9         |
| <b>Fiji</b>                      | 1.6                      | 2.7         | 1.7         | 3.5             | 3.7         | 2.5         | 2.5         | 2.6         |
| <b>Indonesia</b>                 | 5.2                      | 6.5         | 6.3         | 5.8             | 5.1         | 5.2         | 5.5         | 5.5         |
| <b>Lao PDR</b>                   | 7.1                      | 8.0         | 8.0         | 8.5             | 7.5         | 6.4         | 7.0         | 6.9         |
| <b>Malaysia</b>                  | 4.6                      | 5.2         | 5.6         | 4.7             | 5.7         | 4.7         | 5.1         | 5.2         |
| <b>Mongolia</b>                  | 6.5                      | 17.5        | 12.4        | 11.7            | 6.3         | 6.0         | 6.1         | 6.3         |
| <b>Myanmar</b>                   | 10.3                     | 5.9         | 7.3         | 8.3             | 8.5         | 8.5         | 8.2         | 8.0         |
| <b>Papua New Guinea</b>          | 3.5                      | 10.7        | 8.1         | 5.5             | 7.5         | 16.0        | 5.1         | 5.4         |
| <b>Philippines</b>               | 4.8                      | 3.6         | 6.8         | 7.2             | 6.0         | 6.5         | 6.5         | 6.3         |
| <b>Solomon Islands</b>           | 2.9                      | 10.7        | 4.9         | 3.0             | 0.1         | 3.5         | 3.5         | 3.5         |
| <b>Thailand</b>                  | 4.3                      | 0.1         | 6.5         | 2.9             | 0.5         | 3.5         | 4.0         | 4.5         |
| <b>Timor-Leste</b>               | 4.3                      | 14.7        | 7.8         | 5.6             | 7.1         | 7.0         | 7.0         | 7.0         |
| <b>Vietnam</b>                   | 6.6                      | 6.2         | 5.2         | 5.4             | 5.6         | 5.6         | 5.8         | 6.0         |

Source : World Bank.

World Bank forecasts are frequently updated based on new information.

a. Growth rates over intervals are compound average.