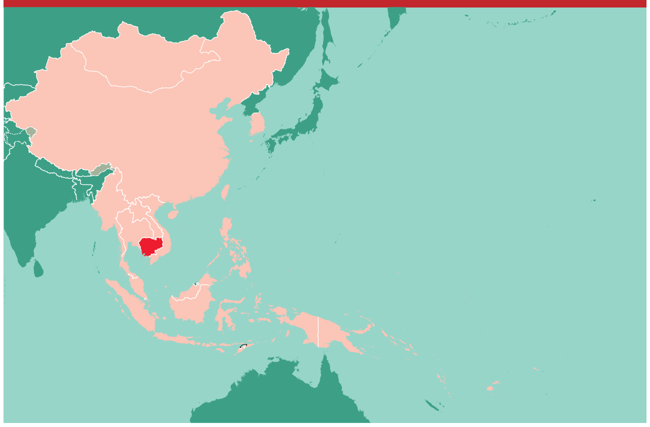
Country Pages and Key Indicators

CAMBODIA



Population	14.3 million
Population growth	1.2 percent
GDP (PPP, int'l US$ billions)	33.9
GDP per capita (PPP, int'l US$)	2,372
Surface area	181,040 sq. km.
Capital	Phnom Penh

Source: World Development Indicators.

Recent Economic Developments

Cambodia recorded very strong economic growth last year (2011), reaching a four-year high of 7.1 percent, which resulted from a strong recovery of the agricultural sector and expansion of an increasingly diversified export portfolio, private and public investment, and consumption. The growth for 2012 is projected to continue its strong trajectory but at a slower pace with an estimated rate of 6.6 percent (the same projection World Bank did in April 2012). However, the country's future prospect is seen to remain healthy with forecasted medium-term growth averaging about 7.0 percent per annum over the next five years.

An expected slower merchandise export mainly to the U.S. and EU markets mainly explain the slower growth pace of 2012. Country merchandise exports are estimated to expand by about 11 percent this year (against 34 percent in 2011). The projected slower merchandise export is based on the slowdown of export growth to the U.S. and EU markets over the first six months being expected to continue over the rest of the year. Garment exports to the United States actually grew by 2.0 percent only during the first half of 2012 (compared to 18 percent of the same period last year), while apparel exports to the EU expanded by only 29 percent (compared to 61 percent of the same period last year). The overall impact on the industry sector is somewhat mitigated by the strong performance of the construction sector in the first half of 2012, witnessing a three-fold growth (in dollar terms) of new projects approved in Phnom Penh and 36 percent growth of projects approved nationwide. The industry sector growth (which includes construction) is, therefore, estimated to slow down to 9.7 percent for 2012 (against 14.5 percent last year). In the meantime, a stronger than expected service sector cushions the economy and is projected to expand by 6.8 percent this year (against 5.0 percent in 2011). The strength of the service sector is led by booming tourism and financial sector. The arrival of international tourists jumped up by 27 percent in the first half of 2012 (against 14 percent of the same period last year). The country is expected to welcome 3.4 million visitors this year, representing an increase of 18 percent. At the same time, the financial sector became very vibrant with deposits estimated to increase by 24 percent to $6.4 billion[50] and lending projected to go up by 34 percent to $5.7 billion by the year-end 2012.

Despite experiencing some sporadic drought and seasonal floods, the agricultural sector is anticipated to remain unfaltering with a forecasted growth of 3.0 percent in 2012. The dollar value of milled rice exports increased by 15 percent compared to the first half of 2011, even though lower quantity of milled rice exports was recorded in the first half of 2012 (76 thousand tons in first half of 2012 against 85 thousand tons during the same period of 2011). Being able to penetrate such new markets as China (Cambodia exported nearly 1,300 tons during the first six months of 2012) and Africa provides potential opportunities for Cambodia's rice market to develop. France, by far, remains the single most important destination market, absorbing nearly a third of the

50 All dollar amounts are U.S. dollars unless otherwise indicated.

country total milled rice exports in the first half of 2012.

An important part of Cambodia's growth, private consumption continued to expand, representing 87 percent of gross domestic product (GDP) by 2011 (up from 84 percent of GDP in 2010). Cambodia's real private per capita expenditure rose by 9 percent over these two years and nearly doubled, if compared to the past decade, reflecting strong private activities.

The external sector is expected to slightly deteriorate for 2012 owing to weakening exports. Current account balance deficit is projected to increase to 10 percent of GDP (up from 8.7 percent of GDP last year). Foreign direct investment inflow is expected to account for 9.3 percent of GDP for 2012. Seventy-two new projects were approved in the first half of 2012, led by Chinese and Korean investors (compared to 57 projects approved over the same period last year). In the meantime, the number of new firms registered at the Ministry of Commerce also increased by 10 percent to 1,712 new firms approved during the first half of 2012 (compared to 1,563 of the same time last year). Gross foreign reserves continue rising, reaching $3.2 billion mark by June 2012 and are projected to amount to $3.5 billion by year-end 2012,representing 4.5 months of imports.

The impact of the recent international food price increases on Cambodia's consumer price inflation has been relatively muted. Global food prices rose in the recent months, with the World Bank food price index—which measures international prices of a basket of commodities, such as grains, vegetable oil, and meat—reaching the 2008 food crisis levels in July 2012. However, the main price increases so far have been on wheat, corn and soya, which do not represent a significant share of the food consumption basket in Cambodia. Consumer price stability in Cambodia was maintained during the first half of this year with the price of rice—the main food staple—increasing only slightly (averaging 3 percent over this period while average rice prices in the international market rose by 12 percent). Consumer price inflation, which cooled down during the first half of 2012, is estimated to shrink slightly to around 4 percent by year-end 2012 (from 4.9 percent last year), on the back of relatively stable foods—which account for nearly half of Cambodia's consumer price inflation basket—and energy prices.

The nominal exchange rate in the meantime has remained stable, appreciating by 1.3 percent against the U.S. dollar in June 2012 (end-of-period rate). Similarly, Cambodia's real effective exchange rate also appreciated by 3 percent against a basket of nine other garment exporters, posing risks of weakening competitiveness in its exports. The National Bank of Cambodia's intervention policy has continued: it injected $117 million worth of local currency into the market during the first half of 2012. The sale or purchase of foreign exchange is believed to be efficient in maintaining the riel stability in Cambodia given the relatively small amount of riels in the economy.

The financial sector has continued to expand in an environment of high dollarization. The euro crisis appears to have minimally impacted Cambodia's banking system or portfolio investment as the country has limited global financial integration. The newly run Credit Bureau Cambodia (launched in March 19, 2012) will play an increasingly important role in helping safeguard and reduce credit risk and support the growth of the banking system. By June 2012, there were 39 commercial banks operating in the country (four new banks entered the market over the past 12 months) with bank lending continuing its impressive growth. Bank lending growth averaged 34 percent per month over the past six months (nearly half of this lending focusing on wholesale/retail trade, tourism-related activities, and manufacturing), reflecting continued strong growth of private sector, but also pointing to potential financial risks and supervisory capacity challenges. The National Bank of Cambodia (Central Bank) recently has increased the rate of reserve requirement from 12 percent to 12.5 percent, a move to tighten the monetary policy and to precautionarily address the credit boom in recent months. July 2008, the Central Bank raised the reserve requirement rate from 8 percent to 16 percent to prevent spillover impacts of global financial crisis. Later in January 2009, it dropped the rate from 16 percent to 12 percent, to stimulate economic activities.

On the fiscal front, the government continues its efforts to strengthen revenue administration and enhance public financial management reform. The government's recent introduction of using the banking system for tax collections, implementing more forcefully the property tax, and expanding the customs automation system to cover more customs sites will help revenue collection prospect in the medium term. The National Assembly on January 3, 2012 enacted the Public Procurement Law to boost the fiduciary administration. The Revenue Mobilization Strategy has been drafted and expected to be submitted for the government's endorsement next year. However, as revenue collection did not increase much in 2011 (at 13.2 percent of GDP in 2011, similar to that of 2010) and general government outlays were unchanged at 20.6 percent of GDP in 2011, the fiscal deficit remained relatively at a similar level of year 2010, recording at 7.4 percent of GDP in 2011(compared to 7.5 percent of GDP in 2010 when the government exercised an aggressive cut of non-essential current expenditures). Fiscal deficit remained higher than the last five-year average but on balance it is expected to improve in the medium term as public financial management reform is strengthened and the revenue mobilization strategy is in place. Government has not yet been able to achieve its precrisis saving levels, which would be needed to build a precautionary buffer to address potential shocks. Government reserves stood at 4.2 percent of GDP in June 2012 (compared to 6.4 percent of GDP in June 2008).

Strong current and capital spending (mainly led by government development investment projects) continue to lead the fiscal outlay in 2011. Capital expenditure of public investment projects in 2011 is estimated at 8.7 percent of GDP, higher than 7.2 percent of the past five year average, largely attributable to the increase of concessional borrowing, including Chinese credit disbursements. The trend of strong capital investment expenditure is expected to continue for 2012 and 2013. In the meantime, domestically financed spending for the social sector, namely for the health and education sectors, continues to receive high priority, as well as timelier disbursements.

Prospects for fiscal balance are anticipated to improve this year and the next year, too, as revenue collection has improved. Revenue collection increased by 29 percent in the first half of 2012, compared to the same periond last year, which is attributed to growth of direct and indirect taxes (35 percent and 28 percent, respectively, over that of the first half of 2011). While the fiscal management remains under control, it is increasingly vulnerable to unpredictable external financing and increased pressure of operation and maintenance budget.

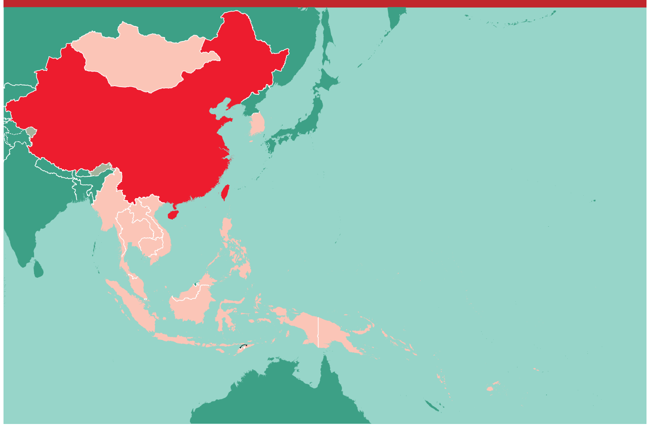
The Executive in October 2012 prepared and endorsed the draft 2013 Budget Law, which has now been transmitted to the Legislature (the National Assembly) for final approval. The Draft 2013 Budget seeks to raise domestic revenues by 0.5 percentage point of GDP with spending limits at a similar level of last year (around 20 percent of GDP). Capital expenditures for development investment projects remain a priority of the government with targeted outlays at a similar level as last year's Budget (around 8 percent of GDP). To finance this, the Executive (in the 2013 Budget Law) proposes to borrow up to SDR 600 million for the development investment projects for year 2013. The government, in the meantime, plans to increase civil servants salary by 20 percent for 2013. This is the eighth consecutive year of civil service wage bill increase since 2005.

Cambodia: Key Indicators

	2010 Year	2011e Year	2012f Year	2013f Year	2014f Year
Output, Employment and Prices					
Real GDP (% change y-y)	6.0	7.1	6.6	6.7	7.0
Domestic demand (% change y-y)	10.7	11.8	13.0	13.4	13.8
Industrial production index (2000=100)	263	301	316	341	370
(% change y-y)	13.6	14.5	5.0	8.0	8.5
Consumer price index (% change y-y)	3.1	4.9	4.0	5.0	5.0
Public Sector					
Government revenues (% GDP)	13.1	13.2	13.8	14.2	14.5
Government expenditures (% GDP)	20.6	20.6	20.0	20.0	20.0
Government balance (% GDP)	-7.5	-7.4	-6.2	-5.8	-5.5
Foreign Trade, BOP and External Debt					
Trade balance (millions US$)	-1,582	-1,490	-1,680	-1,807	-1,941
Exports of goods (millions US$)	3,884	5,220	5,768	6,460	7,235
(% change y-y)	29.7	34.4	10.5	12.0	12.0
Key export (% change y-y) 1/	24.4	31.7	15.0	15	15
Imports of goods (millions US$)	5,466	6,710	7,448	8,267	9,176
(% change y-y)	21.7	22.7	11.0	11.0	11.0
Current account balance (millions US$)	-1,171	-1,122	-1,400	-1,350	-1,200
(% GDP)	-10.4	-8.7	-10.0	-8.7	-7.0
Foreign direct investment (millions US$) 2/	762	1,332	1,300	1,352	1,406
External debt (millions US$)	3,206	3,611	3,992	4,336	4,337
(% GDP)	29	28	29	28	25
Short-term debt (millions US$)	262	264	268	270	275
Debt service ratio (% exports of g&s)	1.4	1.2	1.2	1.4	1.6
Foreign exchange reserves, gross (millions US$)	2,653	3,032	3,456	3,871	4,335
(months of imports of g&s)	4.5	4.5	4.5	4.5	4.5
Financial Markets					
Domestic credit (% change y-y)	35.3	37.7	33.0	25.0	25.0
Short-term interest rate (% p.a.)	15.0	15.0	15.0	15.0	15.0
Exchange rate (Riel/US$, eop)	4,053	4,039	4,100	4,100	4,100
Real effective exchange rate (2000=100)	122.5	124.8	126.2	,,	,,
(% change y-y)	-0.4	1.9	1.1	,,	,,
Memo: Nominal GDP (millions US$)	11,242	12,828	13,944	15,473	17,053

Sources: National data sources, IMF, and World Bank staff estimates.
e = estimate
f = forecast
1/ Garments
2/ From 2011, includes FDI related to public-private power sector projects

CHINA



Population	1.344 billion
Population growth	0.5 percent
GDP (PPP, int'l US$ billions)	11,379.2
GDP per capita (PPP, int'l US$)	8,466
Surface area	9,598,088 sq. km.
Capital	Beijing

Source: World Development Indicators.

Recent Economic Developments

The growth rate of China's economy in the third quarter was 7.4 percent (year on year), below the historic trend and the lowest in the past 14 quarters. However, the data on industrial production and fixed asset investments suggested that China's economy was bottoming out. Quarter on quarter growth (seasonally adjusted annualized rate) picked up from 8.2 percent in second quarter to 9.1 percent in third quarter. The negative contribution of net exports to gross domestic product (GDP) growth also narrowed from -0.7 percentage points in the first half to -0.4 percentage points in the first three quarters.

On the domestic front, fixed asset investment (FAI) growth increased, mainly in government-influenced sector. In September, FAI grew by 21.1 percent (year on year) in real terms, 3.6 percentage points higher than in August. FAI-financed by state budget, bank loans, and SOEs picked up, as the impact of easing credit conditions and public investment in infrastructure is beginning to show. The impact is expected to continue to be felt into 2013, as the authorities have accelerated the approval of large projects: some 25 urban rail projects, three highway construction projects, 10 city infrastructure projects, and seven ports and waterways projects totaling more than 1 trillion yuan were announced in September. One area where FAI growth rate slowed was the real estate sector as the central government sought to cool down the housing market, which has been showing signs of overheating. However, some policy fine-tuning was seen recently, for example, on housing provident fund and mortgage subsidies.

Consumption growth was robust, accounting for 55 percent of the first three quarter GDP growth, supported by continued household income growth. Labor market conditions were favorable, with employment growing robustly, and demand for labor still outnumbering supply. Wage growth was 7.7 percent in the third quarter. Inflationary pressure remains at bay. Consumer price index (CPI) grew by 1.7 percent (year on year) in October, marginally lower than 1.9 percent (year on year) in September. With the slowing domestic economy and weak global demands, producer price index. (PPI) growth has declined for the eight consecutive month, reaching -2.8 percent (year on year) in October, driven by falling commodity (raw materials) prices.

On the external front, real exports grew by 11.1 percent, and imports, by 4 percent (year on year) in September, a rebound from 1.4 percent, and 1.7 percent, respectively, in August. Light manufactured goods were the biggest contributor to export growth. While exports growth to the three major trade partners (United States, EU, and Japan) slowed, those to the rest of the world remained robust, and the export to Asia, excluding Japan, grew fastest. China's external terms of trade continue to improve as import prices of commodities decelerate more rapidly than export prices of manufactured goods. Foreign direct investment remained weak, growing only by 3.8 percent (year on year) in the first three quarters. These developments dampened foreign exchange accumulation.

The monetary stance has been accommodating in the third quarter, leading to an increase of total social financing. People's Bank of China decreased the benchmark interest rate by 0.25 percent in June and then again in July, which was the first cut since 2008. In the third quarter of 2012, the traditional bank loans grew 16.1 percent (year on year) on average. Meanwhile, corporate bond financing expanded sharply, growing 78 percent (year on year) in the first three quarters, albeit from a low base.

Outlook and Emerging Challenges

Our projections for GDP growth in 2012 and 2013 are 7.9 percent and 8.4 percent, respectively, reflecting weak external environment, property market corrections, and impact of supportive policy measures. CPI inflation is likely to stay on its declining trend and average 2.8 percent for 2012 as growth stays moderate, commodity prices weaken, and asset price increase decelerate. It is expected to rise slightly to 3.3 percent in 2013 from a growth pickup and the lagged effects of the loose monetary stance in the second half of 2012. With uncertainties in the global economy, rising labor costs, and a recovery in domestic demand, China's current account surplus is estimated to narrow from 2.8 percent of GDP in 2011, to 2.3 percent in 2012, and 2.2 percent in 2013. However, downside risks remain in the uncertainty of the euro area, China's biggest trade partner.

In the longer run, GDP growth is projected to moderate somewhat because of the structural shift of the economy, which is anticipated to move away from investment- and export-driven growth. The anticipated slow recovery of the global economy, ebbing effects of this round of domestic stimulus, and the aging population contribute to this forecast. Consumption is projected to remain strong and inflation to remain moderate at around 3 percent, but investment growth will likely slow. World Bank forecasts are consistent with the government's target annual growth rate in the new five-year plan of 7.5 percent.

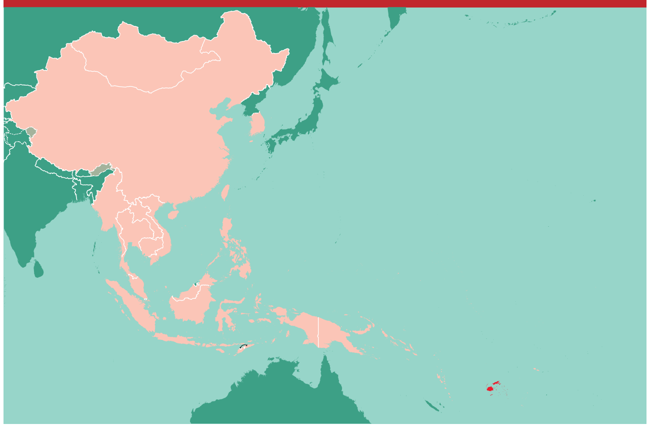
China's near-term policy challenge is about balancing the trade-off between supporting growth and reforming. There are concerns about the inertia for a structural reform to shift away from investments. Given China's still significant fiscal space and the already accommodative monetary stance, the burden of any countercyclical response should fall on fiscal policy. Currently, most of the stimulus policy is still through the government-influenced infrastructure investment. However, the policy response would need to be crafted with longer-term effects and objectives in mind. Relative to previous episodes, fiscal stimulus would ideally be less credit-fueled, less local government-funded, and less infrastructure-oriented. Fiscal measures, such as targeted tax cuts, social welfare spending, and other social expenditures to support consumption, should attract first priority.

China: Key Indicators

	2010	2011	2012f	2013f	2014f	2011	2012			2012			
	Year	Year	Year	Year	Year	Q4	Q1	Q2	Q3	Jul	Aug	Sep	Oct
Output, Employment and Prices													
Real GDP (% change y-y)	10.4	9.3	7.9	8.4	8.0	8.9	8.1	7.6	7.4	..	..	..	..
Domestic demand (% change y-y)	8.9	8.6	..	..	..	..	..	..	..	..	..	..	..
Industrial production index /1	..	..	..	..	..	..	..	..	..	..	..	..	..
(% change y-y)	12.1	10.7	..	..	..	12.8	11.6	9.5	9.1	9.2	8.9	9.2	..
Unemployment (%) 2/	4.1	4.1	..	..	..	4.1	4.1	4.1	..	..	..	..	..
Real wages (% change y-y)	9.7	8.5	..	..	..	..	..	..	..	..	..	..	..
Consumer price index (% change y-y)	3.3	5.4	2.8	3.3	3.0	4.6	3.8	2.9	1.9	1.8	2.0	1.9	..
Public Sector													
Government revenues (% GDP)	20.7	22.0	22.1	21.9	21.6	..	..	..	..	..	..	..	..
Government expenditures (% GDP)	22.4	23.1	24.6	24.8	24.5	..	..	..	..	..	..	..	..
Government balance (% GDP)	-2.5	-1.8	-2.5	-2.9	-2.9	..	..	..	..	..	..	..	..
Domestic public sector debt (% GDP) /3	16.8	20.0	..	..	..	..	..	..	..	..	..	..	..
Foreign Trade, BOP and External Debt													
Trade balance (billions US$)	184.5	157.9	163.0	182.0	180.0	48.1	1.1	68.8	79.5	25.1	26.7	27.7	..
Exports of goods (billions US$)	1,578.4	1,899.3	2,032.0	2,183.0	2,342.0	506.7	430.1	524.6	541.3	176.9	178.0	186.3	..
(% change y-y) 4/	31.3	20.3	7.0	7.4	7.3	14.3	7.6	10.5	4.5	1.0	2.7	9.8	..
Key export (% change y-y) 5/	31.4	20.2	..	..	..	14.2	7.8	11.3	4.9	1.6	3.1	10.3	..
Imports of goods (billions US$)	1,393.9	1,741.4	1,869.0	2,001.0	2,162.0	458.6	428.9	455.7	461.8	151.8	151.3	158.7	..
(% change y-y) 4/	38.9	24.9	7.3	7.1	8.0	20.6	7.1	6.5	1.6	5.7	-2.7	2.3	..
Current account balance (billions US$)	237.8	201.7	195	207	203	60.5	23.5	53.7	70.6	..	..	..	..
(% GDP)	3.9	2.7	2.3	2.2	1.9	..	..	..	..	..	..	..	..
Foreign direct investment (billions US$) /6	105.7	116.0	..	..	..	29.3	29.5	29.6	24.3	7.6	8.3	8.4	..
External debt (billions US$)	558.3	685.4	645.0	618.0	..	..	..	..	..	..	..	..	..
(% GDP)	9.1	9.3	7.8	6.6	..	..	..	..	..	..	..	..	..
Short-term debt (billions US$)	348.0	477.0	..	..	..	..	..	..	..	..	..	..	..
Debt service ratio (% exports of g&s)	1.6	1.7	..	..	..	..	..	..	..	..	..	..	..
Foreign exchange reserves, gross (billions US$)	2,853.8	3,187.6	3,490.0	3,881.0	4,180.0	3,187.7	3,311.6	3,246.6	3,291.7	3,246.6	3,279.5	3,291.7	..
(months of imports of g&s)	24.6	22.0	21.5	22.2	22.0	20.9	23.2	21.4	21.4	21.4	21.7	20.7	..
Financial Markets													
Domestic credit (% change y-y)	19.9	14.3	..	..	..	15.8	15.7	16.0	16.3	16.0	16.1	16.3	..
Short-term interest rate (% p.a.) 7/	3.3	3.3	..	..	..	3.3	3.3	3.3	3.3	3.3	3.3	3.3	..
Exchange rate (RMB/US$, eop)	6.62	6.30	6.30	6.24	6.24	6.33	6.31	6.32	6.34	6.33	6.34	6.34	..
Real effective exchange rate (2000=100)	109.2	115.8	..	..	..	115.8	116.5	116.8	115.6	116.8	116.4	115.6	..
(% change y-y)	4.3	6.1	..	..	..	6.1	8.8	9.3	1.5	8.9	6.1	1.5	..
Stock market index (Dec. 19, 1990=100)/8	2,808	2,199	..	..	..	2,199	2,263	2,225	2,086	2,104	2,048	2,086	..
Memo: Nominal GDP (billions US$)	6,062.7	7,505.0	8,303.0	9,386.0	10,425.0	..	..	..	..	..	..	..	..

Source: National data sources.
f = forecast
1/ Annual data are not comparable with the quarterly and monthly data. Annual data cover all industrial enterprises while the quarterly and monthly ones only refer to those enterprises with sales value above RMB 5.0 million.
2/ Official urban unemployment only, not including laid-off workers
3/ Includes treasury bonds, policy financial bonds and other financial bonds (end-period outstanding)
4/ Nominal growth rate
5/ Manufactured exports
6/ Gross FDI utilized
7/ Central Bank loans to financial institutions, less than 20 days
8/ Shanghai Stock Exchange A-Share Price Composite

FIJI



Population	868,000
Population growth	0.9 percent
GDP (PPP, int'l US$ billions)	4.2
GDP per capita (PPP, int'l US$)	4,787
Surface area	18,270 sq. km.
Capital	Suva

Source: World Development Indicators.

Recent Economic Developments

As a consequence of the Global Economic Crisis in 2008, Fiji's economy contracted by 1.3 percent in 2009, and was followed by marginal growth in 2010. The economy picked up in 2011, with growth reaching 1.9 percent. Growth was largely driven by a recovery in tourism and related sectors, as well as in agriculture, which recovered well from the 2010 cyclones. Growth is expected to continue in 2012, led by continued strength in tourism and a pick-up in the industrial sector. However, the Fijian economy remains vulnerable and policy space to respond to future external shocks, such as a global economic downturn or a commodity price shock, is limited.

Fiji's economy is projected to grow by more than 2 percent in 2012, led by continued strength in the tourism sector and improvements in manufacturing, construction, and mining. Travel-related cash receipts rose by 7 percent year-on-year in the first seven months of 2012, with Australia and New Zealand continuing to be the main source countries. Growth is expected to continue as the supply of rooms and facilities increases in line with the completion of new tourism projects in 2013/14. Construction sector value of work put in place and new building permits increased by 7.5 and 14.7 percent year-on-year, respectively in the first quarter of 2012. Reconstruction activities related to the two floods earlier in 2012 drove the uptick in the construction sector, but government infrastructure spending, as well as tourism and mining investments, also provided a boost. Mining investments include bauxite and iron-sand projects. The Reserve Bank of Fiji expects total investment to reach 18 percent of gross domestic product (GDP) in 2012 from 16 percent in 2011.

Inflation moderated in 2012 to 3.7 percent in September as the effects of one-off factors—such as the 2011 increase in VAT rate—abated. Food prices have also declined steadily, despite the swings in commodity prices. The large number of items under price control could explain this decline. Inflation is projected to moderate further, to 3.5 percent by year-end.

Foreign reserves remain adequate, at $891[51] million at the end of October 2012, equivalent to five months of imports of Goods and Non-Factor Services. Slower growth in Australia, one of the major trading partners, could have a negative impact on the external accounts.

The monetary stance remains accommodative in 2012 to encourage growth. The policy rate was reduced to 0.5 percent earlier in 2012 and has remained at that level. Other policy measures, such as increasing bank lending requirements to agriculture and renewable energy sectors, were also employed to encourage credit growth. The accommodative monetary policy has resulted in ample liquidity (F$577 million at the end of September 2012) and a pick-up in credit growth, with private sector credit rising by 6.3 percent in June, after a growth of 3.5 percent in the previous quarter. Bank lending rates have fallen from around 7.5 percent a year ago, to under 7 percent as at September 2012.

51 All dollar amounts are U.S. dollars unless otherwise indicated.

Consumption has shown some signs of recovery in 2012, as indicated by a 14.2 percent increase in domestic VAT collections, for the period to August 2012. Labour market conditions have also shown positive signs, with the job advertisement survey showing a 14 percent rise in vacant positions for the year to August. Inward remittances on the other hand declined by 8.2 percent in the first half of 2012, compared to the same period in 2011, possibly reflecting weak labour markets abroad. The effects of the income tax measures introduced as part of the 2012 budget is not yet clear. The impact of any increase in consumption on the domestic economy may be tempered by the fact that a large portion of current consumption spending is on imported items.

The budget deficit for 2012 is forecast to be less than 2.0 percent of GDP compared to the budgeted 2.5 percent deficit. The improved budget performance is largely based on higher revenue expectations. Revenues (estimated at 28.7 percent of GDP) rose significantly compared to 2011, possibly due to implementation of revenue measures announced in the 2012 budget, including higher collection targets for VAT and departure tax and a modified personal income tax structure. Current expenditure (estimated at 22.3 percent of GDP) rose compared to 2011, largely because of a 3 percent general pay rise for civil servants. Net capital expenditure, including capital transfers (estimated 8.1 percent of GDP), fell compared to 2011 because of a smaller allocation for the restructuring of Fiji Sugar Corporation (FSC). The recently announced 2013 budget projects a widening of the deficit (2.8 percent of GDP) which is largely explained by a 30 percent increase in infrastructure spending.

Fiji's public sector debt stood at 52 percent of GDP as at the end of 2011. Public sector debt consists of mainly domestic debt (40 percent of GDP), with external debt at 12 percent of GDP. The government is expected to fund a portion of the capital projects identified in the 2012 budget with debt financing. The government has signed a F$220 million loan (3.3 percent of GDP) with China Export-Import Bank, for the sealing of the Dreketi to Nabouwalu highway, which is expected to be completed over the next two and half years. The government is also expected to complete the issuance of new Fiji Infrastructure Bonds in the domestic market, totalling F$196 million (2.9 percent of GDP) by the end of 2012. State guarantees are expected to increase with the provision of a guarantee for the F$120 million (1.8 percent of GDP) structured trade finance facility for FSC.

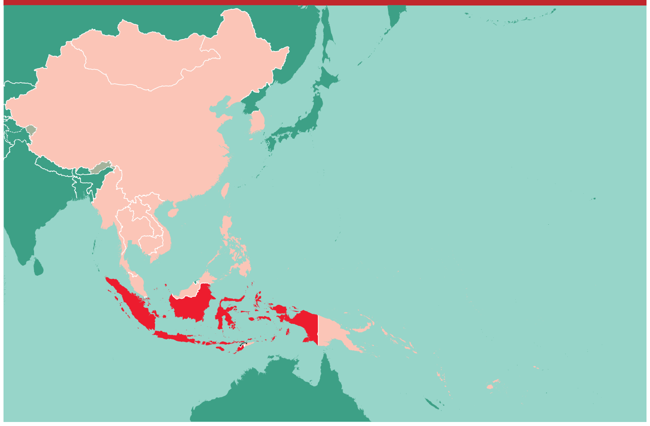
In the October monetary policy statement, the Reserve Bank noted that downside risks have worsened for Fiji, pointing to subdued demand in major trading partner economies. The tourism sector, which underpinned the economic recovery, particularly depends on tourists from Australasia and is vulnerable to a further deterioration in the global economy. Remittances are also contingent on global economic conditions. In addition, Fiji is vulnerable to international commodity price shocks, which may result in a slowdown to mining-related earnings and investments, or a rise in cost of food and fuel imports. Although reserve levels remain adequate, fiscal and monetary policy space to respond to exogenous events is limited. Rising government debt would tend to constrain the government's ability to provide fiscal stimulus and the space for further monetary easing is constrained given the low existing policy rate.

Fiji: Key Indicators

	2010 Year	2011 Year	2012f Year	2013f Year	2014f Year
Output, Employment and Prices					
Real GDP (% change y-y)	0.1	1.9	2.1	2.2	2.3
Tourist arrivals (thousands)	632	678	703	..	..
(% change y-y)	16.5	7.3	3.7	..	..
Unemployment rate (%)	..	..	..	..	..
Consumer price index (% change y-y)	5.0	7.7	3.5	..	..
Public Sector					
Government revenues (% GDP)	24.9	25.6	28.7	..	..
Government expenditures (% GDP)	27.0	29.1	30.5	..	..
Government balance (% GDP)	-2.1	-3.5	-1.7	..	..
Domestic public sector debt (% GDP)	45.8	40.6	39.7	..	..
Foreign Trade, BOP and External Debt					
Trade balance (millions US$)	-753	-867	..	..	..
Exports of goods (millions US$)	520	502	..	..	..
(% change y-y)	32.2	-3.4	..	..	..
Key export (% change y-y) 1/	-61.8	147.3	..	..	..
Imports of goods (millions US$)	1,556	1,728	..	..	..
(% change y-y)	25.3	11.1	..	..	..
Current account balance millions US$)	-248	-379	..	..	..
(% GDP)	-7.7	-9.9	..	..	..
Foreign direct investment (millions US$)	189	211	..	..	..
Total external debt (millions US$)	431	589	..	..	..
(% GDP)	12.7	15.9	..	..	..
Short-term debt (millions US$)	..	..	..	..	..
Debt service ratio (% exports of g&s)	2.5	11.1	..	..	..
Foreign exchange reserves, gross (millions US$) 2/	716	831	..	..	..
(months of imports g&s)	4.1	4.6	..	..	..
Financial Markets					
Domestic credit (% change y-y) 3/	3.1	7.6	..	..	..
Short-term interest rate % p.a.)	3.6	2.2	..	..	..
Exchange rate (FJ$/US$, eop)	1.82	1.82	..	..	..
Real effective exchange rate (2000=100)	87.9	91.9	..	..	..
(% change y-y)	-2.7	4.6	..	..	..
Memo: Nominal GDP (millions US$)	3,226	3,754	3,746	..	..

Source: National data sources.
e = estimate
f = forecast
1/ Sugar.
2/ Rise in debt service ratio in 2011 reflects the maturity of the US$150 million global bond, which may be refinanced.
3/ Includes foreign assets of non-bank financial institutions.
4/ Domestic credit to the private sector.

INDONESIA



Population	242.3 million
Population growth	1 percent
GDP (PPP, int'l US$ billions)	1,131
GDP per capita (PPP, int'l US$)	4,668
Surface area	1,904,570 sq. km.
Capital	Jakarta

Source: World Development Indicators.

The Indonesian economy is set to record strong growth for 2012 as a whole, powered by robust domestic demand. In the baseline scenario, this should continue into 2013. However, there are some signs of moderation in investment spending, while the commodity-intensive export sector remains under pressure. So much depends on developments in the external environment. Slower growth in China presents the key external risk. On the domestic front, it will be important to maintain policy clarity and continuity ahead of the 2014 elections, while continuing to improve the quality of public spending.

Recent Economic Developments

Indonesia's economy has grown robustly so far in 2012. Since the World Bank's May 2012 regional update, GDP expanded by 6.4 percent in the second quarter and by 6.2 percent in the third quarter. On a seasonally adjusted quarterly basis, the pace of growth moderated from 1.6 percent in the second quarter to 1.3 percent in the third quarter, slightly below its post-global financial average (from 2009 to present) of 1.5 percent per quarter. Private consumption demand continues to be a reliable engine of growth, and was up 5.7 percent year-on-year in the third quarter. Strong investment spending has also been a notable feature of growth so far in 2012, with investment rising 12.3 percent year-on-year in the second quarter and 10 percent year-on-year in the third quarter. However, while capital spending remains at high levels, investment growth has decelerated recently, dropping 0.4 percent on a seasonally adjusted quarter-on-quarter basis in the third quarter.

Although the large share of private domestic demand in the economy has helped shield Indonesia from the worst effects of a weaker global economy, the impact has clearly been felt in the external accounts. Net exports were a significant drag on growth in the last quarter of 2011 and the first half of 2012, subtracting 3.7 percent from cumulative growth of 4.8 percent over this period. In dollar terms, exports fell 1.7 percent in the first half of 2012 compared with the same period in 2011, while imports were up 15.4 percent. In the third quarter, exports remained under pressure, dropping 2.4 percent on a seasonally adjusted quarterly basis, but imports fell even more sharply, contracting 8.7 percent on a seasonally adjusted quarterly basis (the decline in imports in part reflects weaker demand for export-related inputs). Consequently, net exports added to quarterly GDP growth for the first time in 2012, boosting seasonally adjusted quarterly growth by a substantial 2.3 percent.

From a supply side perspective, economic growth remains broad-based. The manufacturing sector performed particularly strongly in the third quarter, with growth picking up to 6.4 percent year on year, up from 5.5 percent in the second quarter. Service sector growth also remains robust, though the pace moderated in the third quarter to 7.3 per cent year on year (compared with 8.1 percent year on year in the second quarter). However, tepid global commodity demand has been felt in mining and quarrying, with this sector recording the weakest growth performance in the third quarter of all major sectors, contracting 0.1 per cent year-on-year.

The sharp drop in imports seen in the third quarter helped narrow the current account deficit to 2.4 percent of GDP, compared with 3.5 percent of GDP in the second quarter. Meanwhile, Indonesia has continued to attract sizable net foreign direct investment, totaling $13.2[52] billion in 2012 through the third quarter, compared with $19.2 billion for the whole of 2011. Along with sizable inward portfolio investment (totaling close to $4 billion in both the second and third quarters), this situation has resulted in large financial and capital accounts surpluses. In the third quarter, the more modest current account deficit coupled with strong capital inflows resulted in the overall balance of payments moving into a modest surplus of $800 million, reversing four consecutive quarters of net balance of payment outflows. Foreign exchange reserves stood at $110.2 billion in September, having dipped to $106.5 billion in the second quarter. An orderly depreciation of the rupiah facilitated the adjustment of Indonesia's external balances to weaker global conditions. For the year to the end of October, the rupiah was 6 percent weaker against the U.S. dollar.

Inflation has thus far held at moderate levels, despite the robust pace of domestic demand and the weaker currency. Both headline and core consumer price index (CPI) inflation stood at 4.6 percent year-on-year in October. This is close to the midpoint of Bank Indonesia's 2012 inflation target range of 4.5 +/- 1 percent. The stability of headline inflation suggests that inflation expectations have, to date, been contained in the absence of large administered price shocks and subdued commodity price shocks, offsetting any pass-through from the nominal currency depreciation over the year. However, it will be important to watch for signs of future inflationary pressures in the general economy and in particular sectors, for example, certain property markets that have seen strong recent increases. Nominal credit growth also remains high at 22.9 percent year-on-year in September, although this has slowed from a high of 26 percent in May.

52 All dollar amounts are U.S. dollars unless otherwise indicated.

While Bank Indonesia has maintained its policy rate at a record low of 5.75 percent since February, it tightened monetary policy in August by raising the lower bound of the interbank rate corridor (its deposit facility [FASBI] rate) by 25 basis points to 4 percent. With global economic conditions set to remain soft, Bank Indonesia will need to balance the need to support growth while remaining watchful for any incipient inflation pressures, including managing the risks of these being triggered by future administered price increases.

Following the missed opportunity to raise subsidized fuel prices in 2012, the approved government budget for 2013 allows for a possible increase should economic developments deviate substantially from the official assumptions. The 2013 Budget also allows for a phased 15 percent increase in electricity tariffs. Meanwhile, subsidy spending, particularly on fuel, remains high. The government has projected that energy subsidy spending will reach IDR 306 trillion in 2012, exceeding the allocation in the revised budget by IDR 94 trillion (or 44 percent). The overspending on this subsidy, coupled with moderating income tax revenues and lower receipts from commodity-related activities, lead the World Bank to project a 2012 Budget deficit of 2.5 percent of GDP, somewhat higher than the government's revised estimate of 2.2 percent of GDP. Overall, however, the fiscal stance remains conservative, with the planned 2013 Budget deficit narrowing to 1.7 percent of GDP, and the Medium-Term Budget Framework targeting a gradual move to a surplus of 0.3 percent of GDP by 2016.

Outlook and Emerging Challenges

The baseline scenario sees Indonesia's economy maintaining its solid performance. GDP growth is projected at 6.1 percent for 2012, accelerating to 6.3 in 2013 as global economic conditions improve. The risks to this forecast remain to the downside, largely because of ongoing external uncertainties, notably over sovereign debt and banking sector developments in the euro area, the U.S. fiscal outlook in 2013, and the slowdown in China's economic growth compared to previous years. Another key uncertainty is the impact on international portfolio capital flows and commodity prices of renewed monetary easing by major central banks. A repeat of the large inflows to emerging market assets, including to Indonesia, that were seen in 2010 is possible and would raise significant monetary and fiscal policy challenges. However, such a repeat is by no means guaranteed given the current policy uncertainties weighing on investor sentiment and developments in the international economy since the more immediate post-global financial crisis period.

Of particular interest, given its role as a major engine of Indonesia's domestic demand growth, is how any spillovers from developments in China affect domestic investment in Indonesia, which is still strong, but is showing some signs of moderating. Investment has tended to be closely positively correlated with global commodity prices and the pace of investment growth may yet prove susceptible to external headwinds. Even if economic growth as a whole proves relatively robust to softening commodity prices, households and businesses in regions highly dependent on commodities for livelihoods and income could feel significant localized impacts.

The ongoing uncertainties of the international environment raise the importance of Indonesia continuing to build on the progress it has already had in making its economy more resilient. This will equip the country to benefit fully from the gradual improvement in global growth expected in the baseline outlook, as well as to weather any further deterioration in external conditions, should this occur. Therefore, the policy challenge for Indonesia, as well as across developing economies, is to maintain a twin focus on short-term crisis preparedness and on longer-term structural measures (such as support for the development of infrastructure, skills, and education) aimed at boosting the sustainable growth rate.

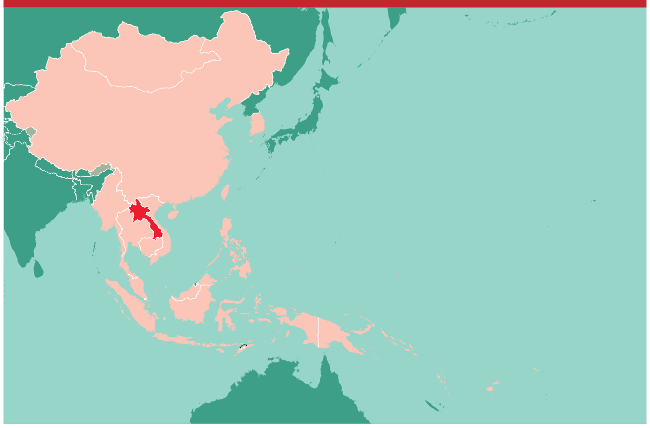
Maintaining policy consistency and clarity, particularly in the area of business and investment regulation, furthers both of these objectives. It will be important to avoid policy missteps, such as policies that aim to address a near-term issue, yet may carry longer-term risks and costs. In addition, maintaining a clear and consistently reform-oriented policy framework will be particularly important given the likely rise in political uncertainty in the lead-up to national elections in 2014 and the continued fragility of investor confidence around the globe. More measures are needed to increase the flexibility to respond to any downturn in growth, which remains limited by disbursement challenges in infrastructure and the continued burden of energy subsidies (accounting for one quarter of central government spending, excluding regional transfers, in the 2013 budget). Therefore, there is a need to improve further the quality of both the allocation and the efficiency of spending. Failure to make such improvements in the medium-term could lower the growth outlook going forward and the government's ability to meet its development objectives.

Indonesia: Key Indicators

	2010	2011	2012f	2013f	2014f	2011	2012			2012			
	Year	Year	Year	Year	Year	Q4	Q1	Q2	Q3	Jul	Aug	Sep	Oct
Output, Employment and Prices													
Real GDP (% change y-y) 1/	6.2	6.5	6.1	6.3	6.6	6.5	6.3	6.4	6.2	..	..	..	..
Domestic demand (% change y-y)	5.3	5.7	7.5	5.9	7.0	6.4	6.4	7.4	6.1	..	..	..	..
Industrial production index (2000=100)	134.6	140.0	..	..	..	139.7	139.4	143.9	..	..	..	..	..
(% change y-y)	4.6	4.1	..	..	..	22.9	23.3	21.2	..	..	..	..	..
Unemployment (%)	7.1	6.6	6.3	..	..	..	..	..	..	..	..	..	..
Real wages (% change y-y)	0.4	4.7	..	..	..	..	..	..	..	..	..	..	..
Consumer price index (% change y-y) 2/	7.0	3.8	4.4	5.1	5.0	3.8	4.0	4.5	4.3	4.6	4.6	4.3	4.6
Public Sector 3/													
Government revenues (% GDP)	15.5	16.3	15.9	16.3	16.6	..	..		..	..	..	..	..
Government expenditures (% GDP)	16.2	17.4	18.2	17.9	18.0	..	..	..	..	..	..	..	..
Government balance (% GDP)	-0.7	-1.1	-2.2	-1.7	-1.4	..	..	..	..	..	..	..	..
Government debt (% GDP)	26.1	24.3	24.1	22.9	21.5	24.3	23.4	23.4	23.7	..	..	..	..
Foreign Trade, BOP and External Debt													
Trade balance (billions US$) 4/	21.3	24.2	-18.9	-23.5	-25.9	3.5	1.7	-2.1	0.6	-0.3	0.0	0.8	..
Exports of goods (billions US$) 5/	158.1	200.8	236.8	245.8	275.9	50.7	48.4	47.5	45.6	15.7	13.7	16.1	..
(% change y-y)	32.1	27.0	17.9	3.8	12.2	10.6	5.3	-8.2	-13.0	-6.9	-26.0	-4.8	..
Key export (% change y-y) 6/	39.0	32.8	..	..	..	19.6	11.0	-4.2	-20.7	..	..	..	..
Imports of goods (billions US$) 5/	127.4	166.0	227.4	238.4	268.5	44.1	44.5	46.7	42.5	16.0	13.7	15.3	..
(% change y-y)	43.7	30.3	37.0	4.9	12.6	20.5	21.6	9.7	-0.3	1.1	-6.7	2.8	..
Current account balance (billions US$)	5.1	1.7	-21.2	-16.4	-20.1	-2.3	-3.1	-7.7	-5.3	..	..	..	..
(% GDP)	0.7	0.2	-2.3	-1.6	-1.7	-1.1	-1.4	-3.5	-2.4	..	..	..	..
Foreign direct investment (billions US$)	13.8	19.2	..	..	..	5.4	4.5	3.2	5.5	..	..	..	..
External debt (billions US$)	202.4	224.8	240.1	236.9	234.7	224.8	228.8	235.4	237.6	241.8	241.3	244	..
(% GDP)	28.6	26.5	26.8	23.1	19.8	26.4	26.4	27.0	27.3	..	..	..	..
Debt service	54.3	92.8	..	..	..	..	..	..	..	..	..	..	..
(% exports of g&s)	34.4	46.2	..	..	..	..	..	..	..	..	..	..	..
Foreign exchange reserves, gross (billions US$)	96.2	110.1	110.2	123.4	143.6	110.12	110.49	106.50	110.17	106.6	109.0	110.2	110.3
(months of imports of g&s)	7.5	6.7	4.7	5.0	5.2	6.7	6.4	6.0	6.2	..	..	..	..
Financial Markets													
Domestic credit (% change y-y)	17.5	24.4	..	..	..	25.4	24.7	25.9	23.9	25.2	23.6	22.9	..
Short-term interest rate (% p.a.) 7/	6.5	6.6	..	..	..	6.2	5.8	5.8	5.8	5.8	5.8	5.8	5.8
Exchange rate (Rupiah/US$, ave)	9,090	8,770	9,350	9,400	9,400	9,024	9,088	9,412	9,544	9,485	9,560	9,588	9,615
Real effective exchange rate (2000=100)	160.4	160.1	..	..	..	159.6	159.8	159.4	157.3	158.9	157.8	155.3	154.6
(% change y-y)	12.7	-0.1	..	..	..	0.5	0.7	-0.9	-2.4	-1.6	-2.3	-3.4	-3.3
Stock market index (Aug. 1982=100) 8/	3,095	3,746	..	..	..	3,776	4,016	3,990	3,977	4,142	4,060	4,263	4,350
Memo: Nominal GDP (billions US$)	708.1	846.8	897.6	1,024.0	1,186.6	212.9	217.6	218.0	222.4	..	..	..	..

Source: National data sources and World Bank staff estimates
f = forecast
1/ Based on GDP 2000 base
2/ End of period.
3/ Government projections
4/ Goods and services trade balance
5/ Goods trade on BOP basis from Bank Indonesia with exception of monthly figures from BPS
6/ Crude oil and gas exports
7/ Policy rate
8/ Jakarta Composite Index, end of period

LAO PEOPLE'S DEMOCRATIC REPUBLIC



Population	6.3 million
Population growth	1.4 percent
GDP (PPP, int'l US$ billions)	17.7
GDP per capita (PPP, int'l US$)	2,809
Surface area	236,800 sq. km.
Capital	Vientiane

Source: World Development Indicators.

Summary

Lao People's Democratic Republic (PDR) continues to maintain robust growth this year, but faces a challenge to manage domestic demand. The Lao economy is expected to benefit from both resource and nonresource sectors growth this year. Even with robust growth, inflation has been declining, mainly because of lower food and fuel price inflation. Fiscal performance in FY2011–12 is expected to improve due to revenue growth while further expansionary fiscal stance will take place in FY12–13 because of a substantial wage increase. Home-grown and external risks associated with low reserves coverage, increased exposure to mining revenues, fast banking expansion with limited supervision, and a large number of newly announced large projects warrant close monitoring to preserve macroeconomic stability and sustainability.

Recent Economic Developments

The Lao economy is expected to grow at 8.2 percent in 2012, benefiting from construction, manufacturing, mining, and services. This is slightly lower than the projection of 8.3 percent in May because of a projected fall in garment export this year. Nevertheless, growth will remain strong at above 8 percent for the third consecutive year. One key driver on the demand side is the surge in investment this year in infrastructure and housing, along with the preparation for the 9th Asia-Europe Meeting (ASEM) in Vientiane Capital. On the supply side, this development has a positive spillover to manufacturing sectors through demand for cement and construction materials. In addition, food and beverages benefit from boosted domestic demand. Upgraded and new mining projects offers a higher contribution to growth compared to last year as shown in the positive performance in the past three quarters. Additionally, the service sector will benefit from higher trading, tourism, transport, and telecommunication, while agriculture will recover from the impact of last year's floods.

Inflation has trended downward, driven by lower food and energy inflation. The headline inflation fell notably from 5.3 percent (year on year) in March 2012 to 3.5 percent in October. Food inflation significantly declined from 8.2 percent in March to 3.6 percent in October, driven by the continuous drops in rice prices, which resulted from the government control of rice exports. The rice price reduction has offset the increase in meat and vegetable prices, which is associated with higher demand from local residents as well as inflow foreign workers. However, fuel inflation has significantly declined from 7.9 percent year on year in March to 3.8 percent in October. Core inflation has picked up moderately from 3 percent year on year in March to 3.5 in October, mainly because of higher prices of construction materials, cooked food, and electricity tariffs.

The overall fiscal deficit for FY11–12 is lower than initially projected because of higher revenue performance and grants. The overall fiscal deficit is estimated to decline to 2.3 percent of gross domestic product (GDP) from 2.7 percent. Higher-than-expected grants to support the ninth ASEM preparation and outperformance in domestic revenue are likely to drive total revenue from

18.6 percent of GDP to 19.7 percent in FY11–12. Domestic revenue is estimated to outperform the plan by about 5 percent resulting from a combination of i) higher gold and copper output, ii) higher hydro revenue, and iii) nonresource revenues, especially turnover, value added tax, and income tax. On the expenditures side, recurrent spending and public investment, some of which related to ASEM, drive total public spending. Despite improvement in overall fiscal deficit, the nonmining and nonresource fiscal deficits are expected to worsen from 7.7 and 8.3 percent in FY10–11 to 8.2 and 9.2 percent in FY11–12, respectively, indicating the increased exposure to mining revenue.

The planned wage increase will add to the fiscal deficit in FY12–13 estimated at 2.7 percent. Wage expenditure is expected to increase significantly by 35 percent (0.5 percent of GDP). As a result, total spending as a ratio to GDP is expected to climb to 22.5 percent in FY12–13. On the other hand, the total revenue as share of GDP will stabilize at previous year's level at 19.7 percent due to a decline of grants as percent of GDP because of mostly once-off ASEM-related spending in FY11–12. Domestic revenue as a ratio to GDP is likely to climb to 17.6 percent, attributable to higher mining extraction and increased income tax following the wage increase.

Lao PDR's risk of debt distress is reclassified from high to moderate following the country's improved policy performance.[53] According to the 2012 Debt Sustainability Analysis, the Public and Publically Guaranteed (PPG) debt stock as ratio to GDP declined from 50.3 percent to 44.4 percent in 2011 because of strong economic growth and the Kip appreciation against the U.S. dollar. Multilateral creditors still hold majority of the public external debt. However, bilateral creditors have an increasing share in external PPG debt. The recently announced megaprojects[54] call for enhanced scrutiny over debt management and sustainability. The government has now deployed a Debt Management and Financial Analysis System (DMFAS) and has developed a Presidential Decree on Public Debt management. All these efforts are steps in the right direction and should be sustained together with the development of a debt management strategy.

Credit growth remains high and puts a pressure on falling reserves. Credit growth has picked up from 33 percent (year on year) in June 2011 to 47 percent (year on year) in June 2012 driven by credit to private sector and state-owned enterprises (SOEs). Buoyant growth in construction, manufacturing, and service sectors is driving private sector credit. Central Bank disbursements to local infrastructure projects have moderated compared to the peak in 2009 while continuing only on the basis of previous commitments.

Continued strong domestic demand puts pressure on external reserves, which are reaching a critical low, raising concerns over the country's capacity to absorb any adverse external shock. The overall balance of payment is expected to remain in a deficit of 0.7 percent of GDP at the end of 2012 as a result of continued demand for imports. The expected gains from investments in both resource[55] and nonresource sectors[56] are to be offset by the deterioration of the current account deficit to 16.3 percent of GDP due to growing imports and higher net income payment from the resource sector. As a result, foreign reserves are expected to fall by about 9 percent year on year, reaching a critical low level of $620[57] million in December, or 2.5 months of nonresource imports. Slowing down internal demand through fiscal and credit tightening would be essential.

53 The average rating of Country's Policy and Institutional Assessment for Lao PDR has been above 3.25 thresholds for two consecutive years, bringing Lao PDR's policy performance from weak to medium. This is based on the Joint IMF-WB Debt Sustainability Framework for Low Income Countries.

54 These projects include the satellite, radio, and television project, fiber optic project, Lao-China railway project, and others (KPL Newspaper November 2012, page 7)

55 Hydro projects under construction and mining upgrade and new projects.

56 These include hotels and constructions most of which are related to the preparation for the ASEM.

57 All dollar amounts are U.S. dollars unless otherwise indicated.

The Bank of Lao PDR has consistently pursued a managed floating exchange rate regime as the main instrument to maintain exchange rate stability. The Lao Kip has appreciated marginally by 0.3 percent against the U.S. dollar during January to October 2012 while depreciated against Thai baht by 2.8 percent in the same period because of the appreciation of baht against the U.S. dollar. The exchange rate interventions, including the recent removal of the foreign currency exchange cap, also contribute to the pressure on reserves. The real effective exchange rate has continued to appreciate both in nominal term and, to a greater extent, in real term.

Outlook and Emerging Challenges

Taking into account uncertainties in the global economy and continued implications to regional economic developments, Lao PDR's medium-term growth outlook is projected at 7.6 percent on an annual average. This outlook assumes successful operations of key large power projects under constructions and pipeline.[58] The nonresource sector is expected to maintain dynamic growth in the context of continued strong domestic consumption and sustained demand from key trading partners.

Nevertheless, risks and challenges on both external and domestic fronts are foreseen in the near to medium term. Recent commitments to finance large-scale infrastructure projects with possible public or publically guaranteed borrowing raise concerns over public debt sustainability and over the country's absorptive capacity. Strong domestic demand expansion pushed by large inward investments and high credit growth translates into high import and falling foreign reserves. Tightening domestic demand through credit and fiscal policies would be important to building up reserves and promote more resilience.

Finally, since the Lao economy is exposed to developments in the region, particularly neighboring countries, a downside deviation from their current projected growth may negatively affect Lao PDR.

Lao PDR's accession to the World Trade Organization (WTO) is one important step but this action would require continued reform efforts in order to fully reap the benefits. After 15 years of preparation, Lao PDR has been accepted as the 158th member in 2012 after Russia and Vanuatu. This means signing up for the WTO core principles of nondiscrimination, transparency, and predictability and ensuring that these principles are incorporated into Lao law. In addition, the accession calls for a series of more substantial reforms to bring Lao legislation into line with the WTO agreements on issues, such as subsidies, price controls, restrictions, and state enterprises. While this achievement is an important externally verified signal of reforms and sustained commitment to reforms, the implementation of identified commitments and avoidance of backsliding after accession will be a challenge to realizing potential benefits from this WTO membership.

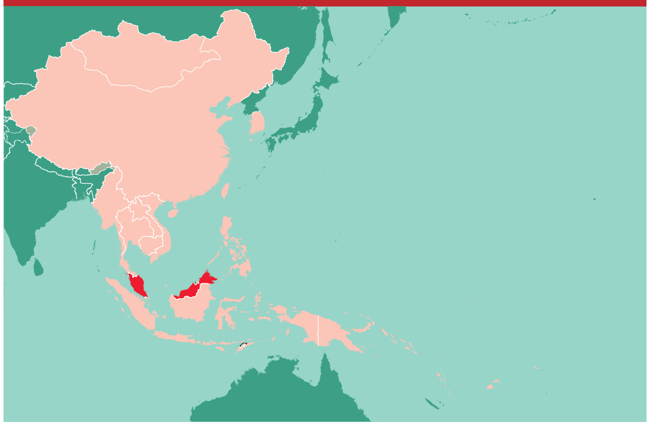
58 Hongsa Lignite power plant, Xepian-Xenamnoi, Nam Khan 2, and other potential projects.

Lao PDR: Key Indicators

	2010 Year	2011e Year	2012f Year	2013f Year	2014f Year
Output, Employment and Prices					
Real GDP (% change y-y)	8.5	8.0	8.2	7.5	7.5
Consumer price index (% change y-y)	6.0	7.6	5.5	6.0	6.0
Public Sector 1/					
Government balance (% GDP) 2/	-4.9	-2.7	-2.3	-2.7	-2.7
Foreign Trade, BOP and External Debt					
Trade balance (millions US$)	-424	-827	-1,317	-1,577	-1,818
Exports of goods (millions US$)	2,149	2,619	2,845	3,003	3,023
(% change y-y)	44.3	21.9	8.6	5.5	0.7
Key export (% change y-y)	43.4	16.2	11.7	4.2	-1.3
Imports of goods (millions US$)	2,573	3,446	4,162	4,580	4,842
(% change y-y)	16.2	33.9	20.8	10.1	5.7
Current account balance (millions US$)	-446	-937	-1,539	-1,884	-2,159
(% GDP)	-6.2	-11.4	-16.3	-18.1	-19.0
Foreign direct investment (millions US$)	770	1,128	1,621	1,857	1,894
External debt (millions US$)	6,719	7,623	8,887	10,419	12,181
(% GDP)	88	83	88	94	102
Debt service ratio (% exports of g&s)	80.9	63.2	60.5	78.5	76.0
Foreign exchange reserves, gross (millions US$) 3/	730	679	690	799	888
(months of imports of g&s)	3.2	2.3	1.9	2.0	2.1
Financial Markets					
Domestic credit (% change y-y) 4/	46.0	38.2	32.9	26.5	24.7
Short-term interest rate (% p.a.) 5/	7.0	7.0	..	..	..
Exchange rate (Kip/US$, ave)	8,259	8,052	7,932	7,900	7,939
Real effective exchange rate (2000=100)	122.3	127.2	..	..	..
(% change y-y)	3.6	4.0	..	..	..
Memo: Nominal GDP (millions US$)	7,156	8,194	9,430	10,411	11,371

Source: National data sources
e = estimate
f = forecast
1/ Fiscal year basis
2/ After grants
3/ Excluding gold
4/ Excludes government lending funds
5/ Treasury bill rate

MALAYSIA



Population	28.9 million
Population growth	1.6 percent
GDP (PPP, int'l US$ billions)	449.9
GDP per capita (PPP, int'l US$)	15,589
Surface area	329,740 sq. km.
Capital	Kuala Lumpur

Source: World Development Indicators.

Recent Economic Developments

The Malaysian economy maintained a vigorous pace in the first nine months of 2012, despite external headwinds. GDP expanded by 5.3 percent in the first three quarters of 2012 compared to the same period in 2011. The pace of GDP growth decelerated to 4.6 percent in the third quarter (quarter-on-quarter, SAAR) from 6.9 percent in the second quarter and 4.8 percent in the first quarter of 2012. Malaysia's performance in the first nine months of 2012 continues a trend of the past two years in which domestic demand absorbs rapid expansion of value-added (and, in parallel, production by domestically oriented industries), while external demand (and externally oriented industries) stagnates.

Exports slowed down further as commodity shipments moderated and noncommodity performance remained subdued. Exports of goods and services grew by 2.6 percent in nominal terms (0.6 percent in real terms) in the first nine months of 2012, slowing down from a 7.9 percent expansion in the same period of 2011. The effect of moderating demand from China and Japan (Malaysia's largest markets for agricultural commodities and a significant market for fuels and commodity-related manufacturing) spread weakness to commodity-related exports, which had been performing well until recently. Meanwhile, shipments of noncommodities remained subdued in line with the weak economy in the major importing countries (the United States and especially Europe).

Investment from both public and private sources was a key driver of growth. Gross fixed capital formation surged in the first three quarters of 2012, taking the share of investment in GDP to 27 percent, the highest level since 1997. Growth slowed in the third quarter to 7.3 percent (quarter-on-quarter, SAAR) following rapid growth of 29.1 and 31.7 percent in the previous two quarters, respectively. The private sector represented about 65 percent of the expansion in fixed investment, with the public sector (including government-linked companies) contributing the additional 35 percent. Inventories were a drag on growth as expected, following several quarters of restocking. Overall investment (fixed and inventory) expanded by 22 percent in the first three quarters of the year.

Domestic demand was broad-based, as both private and public consumption remained robust. Cash transfers, a tight job market and higher civil service wages helped prop up private consumption in the face of softer commodity prices, somewhat stricter credit conditions, and greater uncertainty on the external front. Consumption indicators demonstrated a mixed trend, with spending on big-ticket items (such as cars) perhaps circumscribed by the imposition of new rules for household loan applications, but otherwise keeping to the vigorous pace observed in 2011. Meanwhile, after a strong expansion in the second quarter (10.9 percent) because of higher spending on public wages and supplies and services, public consumption growth moderated to 2.3 percent in the third quarter, bringing growth in the first three quarters of the year to 7.2 percent from the same period in 2011. This pace represents a sharp reduction from the 16.1 percent growth registered by public consumption in 2011.

Robust domestic demand was linked to a strong performance of domestically oriented industries. On the supply-side, the strongest-performing sectors—construction and services—produce primarily for Malaysia's domestic market. In line with the surge of investments in structures, the construction sector expanded an average of 18.7 percent for the first nine months of 2012. The services sectors expanded by 6.7 percent in the first three quarters of the year. The performance of externally oriented industries reflected developments in export markets, with continued weakness in electrical and electronic equipment and a deceleration in commodity-related sectors. Primary commodity sectors slowed the most, while commodity-related manufacturing was up. Manufacturing of electrical and electronic products remained sluggish, gaining 1.6 percent in the first nine months of the year.

Inflation continued to decline into the third quarter of 2012 as food prices stabilized and fuel prices declined. Consumer price inflation has been on a downward trend in 2012, decelerating from 2.3 percent in the first quarter to 1.7 percent in the second quarter and 1.4 percent in the third quarter. Benign inflation dynamics were underpinned primarily by a decline in fuel prices following trends in global oil prices, and by a moderation in food inflation, which declined from 5.2 percent in the fourth quarter of 2011 to 2.6 percent in the third quarter of 2012. Although headline inflation declined uniformly across the country, food inflation was higher in Sarawak, where it averaged 3.9 percent in the third quarter compared to 2.4 percent for peninsular Malaysia and 2.8 percent in Sabah.

The government is likely to meet its deficit target for 2012, despite significant expenditure overruns. Revenue collections for 2012 are likely to exceed significantly their target on improvements on both tax and nontax receipts. Oil-related revenues are expected to comprise 33 percent of revenues in 2012. The nonoil primary deficit is likely to come in between 9.5 and 10 percent of GDP, below its level in 2011. However, additional government consumption is expected to absorb additional revenues. Operating expenditures (81 percent of estimated 2012 expenditures) were up 18 percent in the first half of 2012 and are expected to increase by 11 percent for the year as a whole, exceeding the original budget allocation by 11.5 percent. Capital expenditures are estimated to shrink for the year as a whole, but considering the increase in the amount of government guarantees, it appears that some capital expenditure has been moved off-budget. Overall expenditures for the first half of 2012 increased by 20 percent from the same period in 2011, suggesting that government spending supported the outperformance of GDP in the second quarter. Overall, the government is likely to meet its deficit targets and public debt is expected to close the year at about 52 percent of GDP, below the government's self-imposed 55 percent ceiling.

Heightened external risks and declining inflation have been offset by domestic strength, leading Bank Negara Malaysia to keep monetary policy in a holding pattern throughout the year. Monetary policy has been pulled in two directions in 2012. On the one hand, factors calling for a resumption of the normalization of interest rates initiated in 2010 include the strength in domestic demand, rising real estate prices, and a positive output gap. On the other hand, factors that suggest further monetary accommodation include declining inflation rates, heightened external risks, and further monetary easing by Group of 3 (United States, Japan, and the economies of the euro zone) and other ASEAN central banks. Given these opposing forces, Bank Negara Malaysia (BNM) has decided to keep its benchmark interest rate (the overnight policy rate [OPR]) unchanged at 3 percent throughout 2012. At 0.6 percent, the real policy rate remains below its 2007 level, and monetary policy remains supportive of economic growth but watchful of emerging risks.

The overall current account balance registered the smallest surplus in 10 years. This was attributed to the slower growth of exports of commodities, but primarily to the sharp deterioration of the noncommodity current account balance, which has been negative since the first quarter of 2011. The slowdown in the commodity balance reflected mainly lower production and prices of, respectively, crude palm oil and rubber during the period. Manufacturing exports expanded moderately as electrical and electronics exports remained weak owing to slower external demand. In contrast, imports of capital and consumption goods were strong, driven by the robust expansion in domestic demand, particularly investments in construction-related activities. Foreign direct investment inflows picked up in the first half of 2012, driven by direct investments in the mining, construction, and agriculture sectors. Portfolio flows turned negative in the second quarter because of heightened concerns regarding the euro-zone debt crisis. This was despite a solid performance of Malaysian stock markets and a major initial public offering, (Felda Global Ventures, an oil palm plantation). Increasing reserves in the third quarter suggest that capital flows have returned in the wake of aggressive measures by central banks in advanced economies.

Outlook and Emerging Challenges

Propelled by domestic demand, Malaysia's economy is likely to weather a weak global environment and grow by 5.0 percent in 2013. In 2012, Malaysia performed well in the context of weakening demand from advanced economies as well as China. This dichotomy can be sustained into 2013 because of three factors. First, there is momentum in investment growth. A number of projects that contributed to the surge in investment in the first half of 2012 will continue to contribute a larger amount of value-added to the economy in the near term. Second, there is a positive feedback loop among the implementation of investment projects, fiscal policy, and private consumption. This feedback loop operates primarily through the labor markets, which have been tight and will support continued growth in consumption. Finally, commodity prices are unlikely to decline significantly in 2013, providing support to fiscal policy, as well as investment growth, much of which is linked to commodities.

This fairly benign outlook comes with important caveats. First, although the global outlook for 2013 is weak, it is still expected to be an improvement over 2012. Should a new shock lead to a significant deviation from this baseline, exports would contract and commodity prices would decline, which would unravel the favorable dynamics described above. Second, domestic fiscal policy will have to walk a fine line toward needed consolidation without disrupting the growth momentum.

Most importantly, the sustainability of Malaysia's favorable near-term outlook into the medium-term hinges on the implementation of structural reforms. Malaysia's near-term outlook owes much to commodity sectors. A significant portion of investments has been directly in the oil and gas sector; the expansion in public consumption and capital formation has been financed to a significant degree by commodity revenues (present and future); and investments in real estate are, to some extent, also linked to the recycling of commodity revenues. These investments are part of a sound strategy to ensure that the resource sector continues to provide revenues in years to come, but by themselves they bring risks related to possible shocks to commodity prices and, conversely, higher commodity prices may lead to "Dutch disease" and a loss of competitiveness in tradable manufacturing and services sectors. To mitigate these risks, Malaysia needs to accelerate the implementation of productivity-enhancing reforms to boost capabilities and competition, and thus raise productivity of noncommodity sectors.

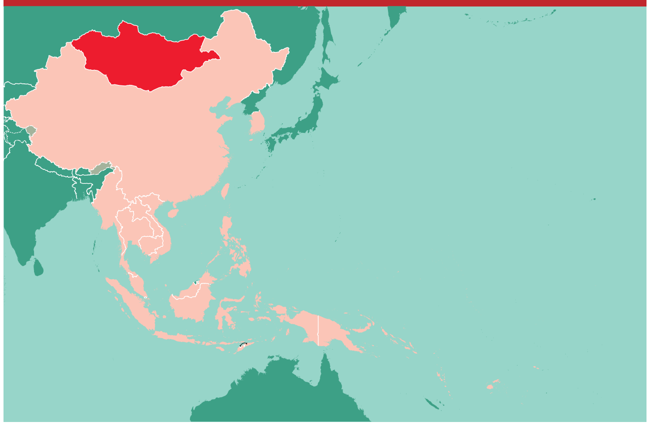
Malaysia: Key Indicators

	2010	2011	2012f	2013f	2014f	2011	2012			2012			
	Year	Year	Year	Year	Year	Q4	Q1	Q2	Q3	Jul	Aug	Sep	Oct
Output, Employment and Prices													
Real GDP (% change y-y)	7.2	5.1	5.1	5.0	5.1	5.2	5.1	5.6	5.2	..	..	..	..
Domestic demand (% change y-y)	10.4	7.3	10.9	6.5	7.4	7.5	9.5	12.2	13.9	..	..	..	..
Industrial production index (2000=100)	107.1	108.4	..	..	..	110.6	111.4	111.2	112.1	110.7	110.9	114.7	..
(% change y-y)	7.2	1.2	..	..	..	2.3	3.5	4.9	2.4	2.5	-0.2	4.8	..
Unemployment (%)	3.2	3.1	..	..	..	3.1	3.0	3.0	3.0	3.1	2.7	..	..
Real wages (% change y-y) 1/	6.4	0.6	..	..	..	4.0	5.9	4.6	3.0	1.8	3.5	3.7	..
Consumer price index (% change y-y)	1.7	3.2	2.0	3.0	3.0	3.2	2.3	1.7	1.4	1.4	1.4	1.3	1.3
Public Sector													
Government revenues (% GDP) 2/	20.1	21.0	21.7	21.1	21.2	..	..	..	..	..	..	..	..
Government expenditures (% GDP) 2/	25.5	25.9	26.1	25.4	25.1	..	..	..	..	..	..	..	..
Government balance (% GDP) 2/	-5.4	-4.8	-4.4	-4.3	-3.9	..	..	..	..	..	..	..	..
Domestic public sector debt (% GDP) 2/	51.2	51.8	52.1	52.1	51.1	51.8	52.5	52.3	..	..	..	..	..
Foreign Trade, BOP and External Debt													
Trade balance (billions US$) 3/	42.5	45.8	38.3	35.6	30.8	10.5	10.5	8.3	7.1	..	..	..	..
Exports of goods (billions US$)	199.2	227.8	..	..	..	57.6	56.9	57.1	55.9	18.5	17.9	19.6	..
(% change y-y)	26.6	14.3	..	..	..	9.7	4.4	3.1	-1.2	-2.6	-4.5	2.6	..
Key export (% change y-y) 4/	5.3	9.4	..	..	..	4.5	-7.9	-5.7	-3.6	-8.5	-5.2	3.1	..
Imports of goods (billions US$)	157.3	179.4	..	..	..	45.9	45.2	47.6	47.8	17.3	15.6	17.5	..
(% change y-y)	34.0	14.0	..	..	..	8.7	7.1	8.5	7.0	9.5	2.8	9.6	..
Current account balance (billions US$)	27.4	31.8	..	..	..	7.1	5.9	3.1	3.0	..	..	..	..
(% GDP)	11.1	11.0	7.7	5.8	3.7	9.7	8.0	4.1	4.0	..	..	..	..
Foreign direct investment (billions US$) 5/	9.1	12.0	..	..	..	2.1	2.4	2.0	3.1	..	..	..	..
External debt (billions US$)	73.6	81.0	..	..	..	81.0	81.3	84.5	..	..	..	..	..
(% GDP)	29.8	28.1	..	..	..	28.1	27.8	28.6	..	..	..	..	..
Short-term debt (billions US$)	25.8	32.7	..	..	..	32.7	33.0	34.6	..	..	..	..	..
Debt service ratio (% exports of g&s)	7.7	10.3	..	..	..	10.3	8.3	12.6	..	..	..	..	..
Foreign exchange reserves, gross (billions US$)	106.5	133.6	..	..	..	133.6	135.7	134.2	137.5	134.4	134.9	137.5	138.3
(months of imports of g&s) 3/	5.5	6.1	..	..	..	7.1	7.3	6.9	7.1	..	..	..	..
Financial Markets													
Domestic credit (% change y-y) 6/	11.3	13.2	..	..	..	13.1	12.1	12.3	12.4	13.0	12.4	11.9	..
Short-term interest rate (% p.a.) 7/	2.50	2.92	..	..	..	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Exchange rate (Ringgit/US$, eop)	3.08	3.18	..	..	..	3.18	3.07	3.19	3.07	3.14	3.13	3.07	3.06
Real effective exchange rate (2000=100) 8/	100.0	99.9	..	..	..	97.9	100.4	99.3	99.0	98.5	99.3	99.3	99.8
(% change y-y)	5.2	-0.1	..	..	..	-2.2	-1.2	-0.9	-0.7	-1.9	-0.8	0.6	2.0
Stock market index (Jan. 1, 1997=100) 9/	1,379	1,509	..	..	..	1,531	1,596	1,599	1,637	1,632	1,646	1,637	1,673
Memo: Nominal GDP (billions US$)	247.5	288.1	..	..	..	72.9	73.9	74.6	76.0	..	..	..	..

Source: National data sources, World Bank staff estimates.

f = forecast
1/ Manufacturing wages only
2/ Federal government only
3/ Balance of goods and services
4/ Thermionic valves & tubes, photocells, etc.
5/ Inward FDI
6/ Total loans in the banking system
7/ Overnight Policy Rate (OPR)
8/ Source: BIS
9/ FTSE Bursa Malaysia Composite, end-period

MONGOLIA



Population	2.8 million
Population growth	1.6 percent
GDP (PPP, int'l US$ billions)	13.3
GDP per capita (PPP, int'l US$)	4,764
Surface area	1,566,500 sq. km.
Capital	Ulaanbaatar

Source: World Development Indicators.

Recent Economic Developments

The Mongolian economy is at the start of a huge expansion as it begins to develop its mineral wealth. The construction of the Oyu Tolgoi (OT) copper-gold mine—among the five largest in the world—lifted gross domestic product (GDP) growth at 17.5 percent in 2011, making the country the fastest growing economy in the world. However, the pace of economic growth has been experiencing constant slowdown in 2012 .The economic growth rate decelerated to 5.6 percent year on year in real terms in the third quarter, down from 16.5 percent and 11 percent in the first and second quarters of the year. As a result, the growth of the economy slowed to 10.2 percent (year on year) during the three quarters of 2012 from 16.5 percent during the same period of the previous year. The significant economic slowdown in 2012 was mainly because of shrinking commodity demand in China, which challenged volume and price of Mongolian mineral exports, the major drivers for the highest growth. Construction and transportation industries led the significant slowdown of growth during the first nine months, showing only 15.3 percent and 3.1 percent growth, respectively, from staggering 81.3 percent and 14.8 percent growths during the same period last year, driven by declining commodity exports, transport sector bottlenecks, and limited absorptive capacity in the economy.

Mongolia made a successful debut in the international financial market by issuing a US$ 1.5 billion sovereign bond on November 28. The oversubscription (of ten times the issue amount) demonstrated the rising interest of the international financial community in the fast growing Mongolian economy. The external borrowing is equivalent to around 15 percent of GDP. Given the massive size of the bond issue and signs of overheating of the economy, it will be an important task for Mongolia going forward to use the proceeds in a way that meets urgent infrastructure and development demands in an economically and fiscally sustainable manner.

Despite the recent slowing trend of economic expansion, Mongolia's medium-term prospects look promising. As the OT and Tavan Tolgoi (TT) mines go into production, economic growth is projected to be in the double digits, with sustained increases in exports and fiscal receipts. The World Bank has recently revised Mongolia's growth for 2012 down to 11.8 percent from original forecast of 17.2 percent, given the short term risks and barring any severe negative shock.[59]

However, the economy faces significant risks in the near term, as reflected in the steep drop in exports since April of this year. These risks reflect an uncertain global economic outlook, slowing growth in China, and procyclical fiscal policy over the past three years with large increases in government spending contributing to high inflation and pressures on the balance of payments. Any delay in commercial production at the OT mine could also impact the near term growth trend. Mongolia set up a stabilization fund in 2011 as required by the Fiscal Stability Law (FSL) and so far it has saved only a small amount (about 2.2 percent of GDP), which is likely to be

59 The World Bank. October 2012. Mongolia Quarterly Economic Update.

insufficient in case of substantial shock. The 2013 budget, which Parliament has just passed, should present an opportunity to mitigate these risks by reining in spending and anchoring fiscal policy to the FSL that goes into effect on January 1, 2013.

The external balance remains under heavy pressure. Exports fell by 39 percent and 21 percent year on year in July and August, which were considered as the largest fall since mid-2009, followed by further pressures in an already overheating economy. The nationwide headline rate was 14.8 percent in September, driven mostly by the food (meat) prices. Core inflation (excluding all food and energy prices) also remains over 10 percent since the start of the year, reaching 10.7 percent in September.

The fiscal deficit for 2012 is projected to increase from the original target of 1 percent to 4.2 percent as per the September amended budget, on account of weak revenue growth because of the slowdown in exports, lower commodity prices, and sustained expenditure increases. The actual outturn may turn out to be worse as budgeted expenditures have not been reduced significantly and growth forecasts remain overly optimistic. These numbers also do not reflect the significant off-budget financing of capital expenditures by the DBM and by construction companies on the condition of repayment by the budget ("build-transfer" schemes), which will also likely impact the budget next year and beyond. Including the DBM spending, the deficit could reach 9 percent of GDP in 2012. Although the OT mine is expected to start producing early next year, net revenues from the mine are only expected to enter the budget with a lag (around 2015–16).

The financial market also remains vulnerable. Monetary tightening over the past year has helped to slow the pace of credit growth from 73 percent at the end of 2011 to 35 percent in September; however, it is still high. Mongolia's banking system remains highly dollarized, with one third of deposits (32.7 percent as of September) denominated in dollars and easy convertibility out of the Togrog. A sharp economic slowdown or escalated macroeconomic instability could pose risks to individual banks and to the overall financial system going forward.

Outlook and Emerging Challenges

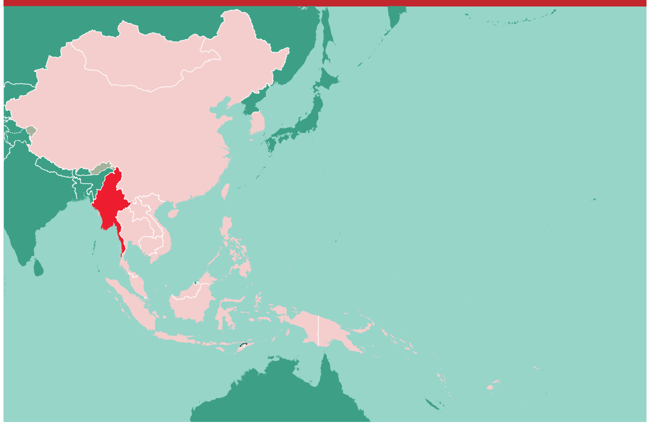
Mongolia's policy makers need to be cautious given the macroeconomic risks and the prospect of continued slow growth of the global economy. The immediate requirement is a more conservative and macroeconomically sustainable fiscal policy stance, calling for the government spending not to increase faster than the GDP. The government spending needs to be prioritized in a way that unlocks infrastructure bottlenecks and promotes long-term growth through investments in social sectors. The recently approved 2013 budget should provide an opportunity to rein in government spending (both on and off-budget via the DBM) and to abide by the rules of the FSL that goes fully into effect in January 2013. Safeguarding the FSL will also require correcting some of the weaknesses in the Law of the Development Bank. The BoM should maintain the floating exchange rate regime with interventions in the foreign exchange market limited to market smoothing operations that do not attempt to reverse the underlying market forces, while remaining vigilant with respect to banking sector risks.

Mongolia: Key Economic Indicators

	2010e Year	2011 Year	2012f Year	2013f Year	2014f Year
Output, Employment and Prices					
Real GDP (% change y-y)	6.4	17.5	11.8	16.2	12.2
Industrial production index	..	..	..		
(% change y-y)	10.0	9.7	8.0	51.0	35.0
Consumer price index (% change y-y)	14.3	11.1	13.0	12.0	12.0
Public Sector					
Government revenues (% GDP)	36.6	44.2	36.5	31.4	29.9
Government expenditures (% GDP)	36.6	40.6	41.5	32.4	31.2
Government balance (% GDP)	0.0	-3.6	-6.0	-1.0	-1.3
Non-mineral government balance (% GDP)	-10.5	-16.0	-28.7	-13.1	-8.0
Total public sector debt (% GDP)	42.2	47.1	47.6	39.8	33.0
Foreign Trade, BOP and External Debt					
Trade balance (millions US$)	-379	-1,049	-1,312	181	850
Exports of goods (millions US$)	2,899	3,825	3,978	5,529	6,525
(% change y-y)	52.0	31.9	4.0	39.0	18.0
Imports of goods (millions US$)	3,278	4,874	5,290	5,348	5,674
(% change y-y)	53.8	53.4	8.0	1.1	6.1
Current account balance (millions US$)	-887	-2,587	-2,664	-269	435
(% GDP)	-14.3	-15.1	-18.0	-1.5	3.0
Foreign direct investment (millions US$)	1,630	5,310	1,500	1,996	842
External debt (millions US$)	2,022	1,902	1,743	2,017	1,814
(% GDP)	30.2	21.7	17.0	13.9	12.5
Foreign exchange reserves, gross (millions US$)	2,288	2,984	3,302	3,679	3,976
(month of imports of g&s)	4.2	4.9	5.8	6.2	6.7
Financial Markets					
Domestic credit (% change y-y)	26.7	72.8	40.0	..	..
Short-term interest rate (% p.a.) 1/	11.0	12.3	13.3	..	..
Exchange rate (Tugrik/US$, eop)	1,257	1,265	1,360	..	..
Real effective exchange rate (2000=100)	..	..	..	..	..
(% change y-y)	26.9	-4.6	..	..	..
Stock market index (Dec. 2000=100) 1/	2,931	4,059	..	..	..
Memo: Nominal GDP (millions US$)	6,694	8,767	10,255	14,508	14,509

Sources: Bank of Mongolia, National Statistical Office, Ministry of Finance, IMF and World Bank staff estimates.
e = estimate
f = forecast
1/ Yield on 14-day bills until 2006 and on 7-day bills for 2007 onward
2/ Top-20 index

MYANMAR



Population	48.3 million
Population growth	0.8 percent
GDP (PPP, int'l US$ billions)	..
GDP per capita (PPP, int'l US$)	..
Surface area	653,520 sq. km.
Capital	Nay Pyi Taw

Source: World Development Indicators.

Summary

The Myanmar economy continued to accelerate in 2011-12 with GDP growth at 5.5 percent and expected to end the 2012-13 fiscal year at 6.3 percent. Inflation remains low (in single digit), but has been on the rise in recent months and is projected to end higher (6.1 percent) in 2012-13 compared to last fiscal year (4 percent). The consolidated fiscal deficit was at 6.0 percent of GDP in 2011/12 and is projected to improve to 5.3 percent in 2012-13. The current account deficit has also been increasing due to higher growth of imports compared to exports while the international reserve position is improving and expected to close the 2012-13 fiscal year with 4 months of import cover. With portfolio capital flows still limited, the capital account is dominated by foreign direct investment. A deficit of -1.0 percent on the overall external balance registered in 2011-12 is projected to turn into a surplus of 2.1 percent in 2012-13 due to a significant projected increase in foreign direct investment. After a heavily overvalued exchange rate for decades, considerable progress has been made since April towards unifying the exchange rate. With good prospects for clearing its arrears to Japan and multilateral lenders in early-2013, Myanmar will likely be at low risk of debt distress following clearance of these arrears. The main risks to Myanmar's economic prospects come from limited capacity to design and implement reforms, opposition to specific reforms, and an escalation of internal conflict.

Recent Economic Developments

The Myanmar economy continued to accelerate in 2011-12. Real GDP growth has increased steadily from 3.6 percent in 2008-09 to 5.5 percent in 2011-12 and is expected to increase to 6.3 percent in 2012-13.[60] On the supply side, the manufacturing and services sectors drove this acceleration: real growth in agricultural value-added (43 percent of total GDP) fell from 4.7 percent in 2009-10 to 4.4 percent per annum in 2010-11 and 2011-12. Heavy flooding in some parts of the country in August 2012 may further negatively affect real agricultural growth. Demand-side drivers included higher fiscal spending before the 2012 by-elections held in April, growth in commodity exports, and strong investment.

Inflation

Inflation remains low (in single digit) but has been on the rise in recent months and is projected to end higher than last fiscal year. After declining from 8.9 percent in 2010-11 to 4 percent in 2011-12, inflation (year-on-year) continued to decline at the start of 2012-13 mainly due to falling food prices and reduced levels of deficit monetization. However, it has recently been increasing, driven by higher international food prices as well as increasing prices of non-food commodities such as housing. In the month of August, headline inflation had reached 2.2 percent, year-on-year. It is projected to end the 2012-13 fiscal year higher than last year, at 6.1 percent.

60 IMF staff estimates. Official estimates are twice as high and flat through 2010-11. Official estimates for 2011-12 are not available yet.

Monetary and Exchange Rate Developments

The conduct of monetary policy has been consistent with macroeconomic stability although the framework is still rudimentary, relying mostly on direct monetary policy instruments such as reserve requirements and interest rate controls. Growth in broad money supply (M2) has slowed in 2011-12 to 26.3 percent from 36.3 percent in 2010-11. It is expected to increase to 28.6 percent in 2012-13. Growth in private sector credit exceeded that of net credit to the government for the first time in many years, increasing by 65.4 percent in 2010-11 and 60.1 percent in 2011-12. By contrast, net credit to the government grew by 28.5 percent and 16.6 percent, respectively, in the same years. The administratively controlled central bank policy rate was reduced to 10 percent at the start of 2012-13 from 12 percent previously. In addition, since September 2011, the deposit and lending rates were cut by a cumulative 4 percentage points to 8 and 13 percent, respectively. The September adjustment also placed the Treasury bond rates above the minimum deposit rate, which provides an incentive for banks to hold Treasury bonds, and helped reduce deficit monetization.

On April 1, 2012, a land mark reform on exchange rate policy was introduced. In particular, a managed float system of exchange rate determination was adopted so that the local currency (the Kyat) could trade at exchange rates that reflect more closely market realities. This marked a significant first step toward a unified exchange rate regime. Before this reform, there were a number of official exchange rates that were administratively fixed and applied for different purposes and players in the economy. For example, Foreign Exchange Certificates (FECs) were a separate currency introduced to prevent foreigners from using the local currency. As part of the broad economic reforms currently underway, the authorities have committed to remove the remaining foreign exchange distortions and to phase out FECs in order to have a unified exchange rate regime by the end of 2013. Meanwhile, in the first few months following the introduction of a managed float exchange rate regime, the exchange rate has been relatively stable. It initially showed an appreciating trend that worried policy makers and exporters alike as it risked eroding Myanmar's export competitiveness. More recently, with the continued surge in imports following the removal of various restrictions, the Kyat has been depreciating but in a steady manner. Overall, the nominal exchange rate has depreciated by about 4 percent since it was floated. In November 30, 2012, it was trading at 852 Kyats per one US dollar compared to 819 Kyats on the first day of trading when it was floated in April.

Fiscal Developments

The fiscal deficit of the consolidated government worsened from -5.5 percent of GDP in 2010-11 to -6.0 percent in 2011-12. While total revenues remained unchanged at 13.0 percentage of GDP, expenditures increased from 18.4 percent to 19.0 percent of GDP. As a consequence, the stock of domestic public debt grew from 22.9 percent of GDP in 2010-11 to 25.1 percent of GDP in 2011-12. It is projected that the fiscal deficit will close at -5.3 percent of GDP in 2012–13, lower than in 2011-12. This is due to a number of factors. First, the 2012-13 budget received a significant boost from higher fiscal revenues in the export sector, particularly from natural gas, due to the application of a higher exchange rate for valuation after the introduction of a managed float exchange rate regime. Second, the Government has introduced a limit on the subsidy for financing the raw materials of State Economic Enterprises (SEEs). In particular, the subsidy in 2012-13 budget is capped at 22 percent of raw material costs down from 100 percent previously. Finally, although the 2012-13 budget has increased allocations to education and health, these will partly be funded by reductions in expenditures on other areas.

External Position

Myanmar's current account deficit has been increasing recently while the international reserve position is improving. In 2011-12, the current account deficit was at -2.5 percent of GDP, up from -1.2 percent in 2010-11. This was because of a worsening trade balance as imports grew at a much higher rate (24.4 percent) than exports (13.3 percent). The Government has been easing restrictions on imports as well as exports, and this development shows that the response has been stronger on the imports side. The current account deficit is projected to increase further to -3.9 percent of GDP in 2012-13. Although the current account deficit has increased, gross international reserves have been accumulating. They are projected to end the 2012-13 fiscal year at US$5.1 billion which is equivalent to 4 months of imports, up from US$3.8 billion in 2011-12 which was equivalent to 3.3 months of import cover.

There have been limited movements on the capital account in the past due to sanctions. However, in the wake of recent reforms, the capital account is now having a noticeable impact on the overall external balance. Portfolio capital flows remain limited and therefore recent developments have mostly been on account of inflows of foreign direct investments. In 2011-12, the overall external balance registered a deficit of -1.0 percent of GDP. However, due to the projected increase in foreign direct investment from 3.8 percent of GDP to 4.5 percent, it is expected that the overall external balance in 2012-13 will register a surplus of 2.1 percent.

Myanmar's total external debt including arrears in 2011-12 was estimated at US$15 billion, equivalent to 28 percent of GDP. Of this amount, 72 percent or US$11 billion was arrears to various creditors of which 60 percent (US$6.6 billion) are owed to Japan. A coordinated international effort is currently underway to help resolve these arrears. A recent debt sustainability analysis (DSA) conducted jointly by the World Bank and the IMF shows that due to its large arrears, Myanmar is assessed as being in debt distress. However, it would move to a low risk of debt distress once arrears are resolved. It is noted that significant progress has been made to clear arrears to Japan and multilateral institutions.

Outlook and Emerging Challenges

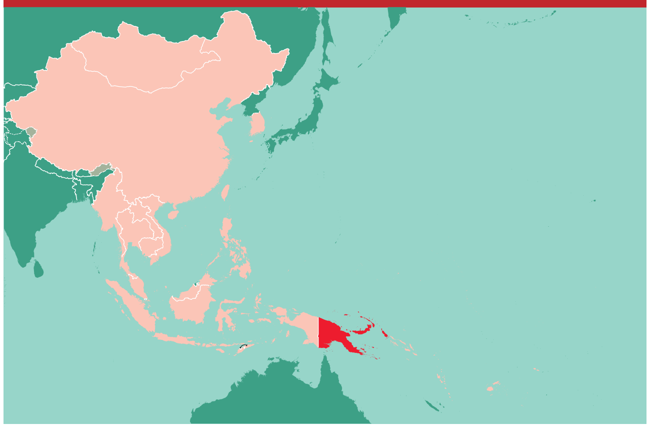
There is a risk that limited capacity could hinder implementation of reforms leading to deterioration in the macroeconomic framework. The IMF is providing support on macroeconomic issues, including through intensive monitoring. Second, there are risks to the macroeconomic program that could emanate from events on the political front. The key ones are the emergence of alliances of vested interests seeking to disrupt the reform process and the prospect of escalation in internal strife in some of the border areas and resumption of conflict where ceasefire agreements have been signed.

Myanmar: Key Indicators

	2010/11 Fiscal Year	2011/12 Fiscal Year	2012/13f Fiscal Year	2013/14f Fiscal Year	2014/15f Fiscal Year
Output, Employment and Prices					
Real GDP (% change y-y) 1/	5.3	5.5	6.3	6.5	6.6
Industrial production index 2/					
(% change y-y)	6.3	6.5	7.2	7.2	7.2
Consumer price index (% change y-y)	8.2	4.0	6.1	5.7	5.1
Public Sector					
Government revenues (% GDP) 3/	13.0	13.0	19.3	19.8	20.3
Government expenditures (% GDP) 3/	18.4	19.0	24.6	25.0	25.3
Government balance, official (% GDP) 3/	-5.5	-6.0	-5.3	-5.2	-5.0
Domestic public sector debt (% GDP)	22.9	25.1	25.3	25.6	26.0
Foreign Trade, BOP and External Debt					
Trade balance (millions US$)	796	-10	-1,313	-1,077	-776
Exports of goods (millions US$)	8,980	10,170	11,308	12,907	15,170
(% change y-y)	25.8	13.3	11.2	14.1	17.5
Imports of goods (millions US$)	8,184	10,180	12,621	13,984	15,946
(% change y-y)	15.8	24.4	24.0	10.8	14.0
Current account balance including grants (millions US$)	-526	-1,299	-2,010	-2,280	-2,844
(% GDP)	-1.2	-2.5	-3.9	-4.0	-4.6
Foreign direct investment (millions US$)	969	1,992	2,325	1,811	2,050
External debt arrears (millions US$) 4/	9,850	10,592	2,372	0	0
Total External debt including arrears (millions US$)	13,643	14,632	12,251	11,230	12,666
(% GDP)	30.1	27.8	23.6	19.8	20.6
Debt service ratio (% exports of g&s)	5.1	8.5	1.9	1.8	2.4
Foreign exchange reserves, gross (millions US$)	3,309	3,818	5,071	5,697	6,134
(months of imports of g&s)	3.5	3.3	4.0	3.9	3.8
Financial Markets					
Domestic credit (% change y-y)	34.4	25.1	28.0	23.7	..
Short-term interest rate (% p.a.)	..	..	..	..	..
Official exchange rate (Kyat/US$) 5/	5.4	5.2	864.0	..	..
Parallel effective exchange rate 5/	861.0	824.0	864.0	..	..
(% change y-y)	-14.3	-4.3	4.9	..	..
Memo: Nominal GDP (millions US$) 6/	45,380	52,663	51,849	56,661	61,468

Sources: Myanmar Central Statistics Office, Ministry of Finance and Revenue, Central Bank of Myanmar, IMF 12/104, and World Bank staff estimates.
1/ Staff working estimates
2/ Including manufacturing, power, construction, energy and mining.
3/ Consolidated public sector including Union Government and State Economic Enterprises.
4/ For 2012/13, incorporates the terms of bilateral arrears clearance agreement with Japan.
5/ Authorities adpopted a managed float on April 1, 2012.
6/ Before FY2012/13, GDP converted at a weighted exchange rate, where the official and FEC market rates are weighted with about 8 and 92 percent, based on the respective shares of the public and private sectors in GDP.

PAPUA NEW GUINEA



Population	7.0 million
Population growth	2.2 percent
GDP (PPP, int'l US$ billions)	18.9
GDP per capita (PPP, int'l US$)	2,695
Surface area	462,840 sq. km.
Capital	Port Moresby

Source: World Development Indicators.

Recent Economic Developments

Papua New Guinea's (PNG) economy continued to expand strongly through the first half of 2012, albeit less quickly than in 2010 and 2011. Over 2012, the economy appears to be on track to grow by around 8 percent, compared with growth of near 9 percent in 2011. Domestic demand remained the key driver, with pre-election spending of government funds augmenting the effects of ongoing construction of the PNG-LNG (liquefied natural gas) project and spin-off investments. The appreciation of the Kina (PGK) in 2011 and early 2012 and weakening international commodity prices into the second half of 2012 both reduced rural incomes and government receipts, while also slowing the growth in urban consumer prices. The 2012 national and provincial elections led to the re-election of Peter O'Neill as Prime Minister. His predecessor and main rival, Sir Michael Somare, supported Mr. O'Neill in the parliamentary vote.

Construction of PNG-LNG and of the various spin-off investments remained the key drivers of PNG's economic growth into the second half of 2012. The Treasury Department's midyear expectations were for construction activity to grow by over one-fifth in 2012. Wholesale and retail trade, transport, and communications activity are expected to expand only a little less rapidly than construction in 2012, following several years of 10 to 20 percent annual growth. All these sectors are benefiting from the one-off surge in demand associated with the PNG-LNG project, which will reverse as construction winds down in 2013 and 2014; however, there also appears to be a component of this growth that reflects a boost to domestic firms' physical and organizational capacity that can be sustained beyond the PNG-LNG project.

The first half of 2012 was also notable for the deteriorating fiscal position and stimulus to domestic consumption as government funds were spent in the lead-up to the elections midyear. Government spending was faster than usual, with 40 percent of the 2012 appropriation spent by the end of June, 25 percent more than was disbursed in the first six months of 2011. Meanwhile revenues were weaker than expected. Midyear forecasts were for tax collections in 2012 to be PGK 341 million (5 percent) below budget, with the deterioration entirely because of weaker mining and petroleum receipts. The ensuing deficit has been funded through issuance of 6 to 12 month Treasury bonds and by drawing down the government's cash reserves. At the same time, deposits in trust accounts, earmarked for future spending (held at both Bank of Papua New Guinea [BPNG] and commercial banks), fell by PGK 732 million in the first six months of the year. About one-third of this draw down was attributable to the first payments under the government's new tuition fee subsidy program.

External conditions have become less favorable for commodity exporters. Copra, cocoa, and coffee farmers all saw their incomes compressed by the falls in international prices through the first half of 2012, amplifying the appreciation of the PGK in 2011. Domestic factors, such as the shut-down of processing mills and supply chain issues, further reduced production. Minerals production was hampered by wetter-than-usual weather and infrastructure problems in the first half of the year. Although Treasury still expects output to rise by almost 9 percent in real terms in 2012, lower international prices will dampen the value of exports. The Ramu Nickel/Cobalt mine started operations in the second quarter of 2012 and is expected to reach full production by late 2013, several years later than expected following repeated court injunctions related to its deep-sea tailings outfall system, among other issues. The mine is expected to employ 700 PNG nationals by late 2013, but it will not contribute to tax revenues until a ten-year tax holiday has expired.

The PNG-LNG project manager reported in mid-November 2012 that 70 percent of construction had been completed and the project remained on schedule for first deliveries in 2014. However, the project would cost significantly more to develop than originally estimated: $19[61] billion, compared with an initial estimated cost of $15 billion. Project developers attributed the higher costs to currency movements, especially the stronger AUD, work stoppages and land access issues, and wetter-than-normal weather, which aggravated logistical challenges. These higher development costs are likely to require the government to contribute approximately $180 million to maintain its equity share. Offsetting the higher development costs will be upward revisions to expected production by 5 percent and expected prices by 30 percent.

Inflation slowed through the first three quarters of 2012. The expanded tuition fee subsidy, pass-through of the stronger Kina into the prices of imported items, and the ongoing effects of the government's tariff reduction program have all contributed to the slower rate of growth of consumer prices. Headline inflation fell to 1.4 percent in the year's second quarter, and was 2.0 percent in the third quarter, compared with rates near or above 6 percent since the economy accelerated out of the global downturn in 2009. The central bank has assessed underlying inflation to be at 3 to 3½ percent.

61 All dollar amounts are U.S. dollars unless otherwise indicated.

BPNG broadly held the stance of monetary policy between February and November 2012. On the one hand, it took advantage of the fall in inflation to lower the Kina Facility Rate (KFR) by 100 basis points to 6.75 percent in October. This is the first easing since 2009, and follows a total increase of 100 bps in 2011. But the KFR tends to have limited effect because of the high level of excess liquidity in the banking system. In June BPNG sought to reduce this liquidity while protecting its balance sheet, by raising banks' reserve requirements 100 bps to 8.0 percent. Perhaps the most effective influence on inflationary pressures, given the nature of recent shocks, has been the controlled appreciation of the PGK. BPNG allowed the exchange rate to appreciate by 27 percent against the U.S. dollar between June 2010 and April 2012, at the same time as it expanded its foreign exchange reserves by nearly $ 1.8 billion.

Outlook and Emerging Challenges

The government's 2013 budget represents a significant shift from recent years. It targets a one-quarter increase in spending, largely allocated to new and rehabilitated infrastructure, increased direct funding to district and local-level governments and constituency funds (PGK 1.5 billion compared with less than PGK 200 million in 2012), plus some additional allocations for subsidized health and education services. The government argues that the deeper decentralization of spending responds to limited implementation capacity in national institutions. The government expects improvements in the global economy and commodity prices and ongoing strength of the domestic economy to raise government revenues by over 6 percent in 2013. With these projections, the government projects a budget deficit of 7.2 percent of GDP in 2013, following a deficit a little over 1½ percent of GDP in 2012. Despite weakening in minerals revenues in 2014 and 2015, the government expects to be able to return the budget to surplus by 2017. The government expects that financing these deficits, largely through domestic borrowing, will raise the debt ratio to around 35 percent of GDP (not including contingent and off-balance sheet liabilities. This will require a revision of the Medium-Term Debt Strategy, to target maintaining debt-to-GDP below 35 percent in 2013 and 2014, before returning the target ceiling to 30 percent from 2015.

In 2013 and 2014 aggregate gross domestic product (GDP) growth is expected to slow, as construction of the PNG-LNG project and spin-off private sector investments conclude, partially offset by the commissioning of the Ramu Nickel/Cobalt mine. In 2014 and 2015 aggregate and nonmineral GDP are expected to diverge significantly. Production from PNG-LNG will raise the level of aggregate GDP by around 20 to 25 percent; however, growth of the nonmineral economy will slow further on the decline in construction and transport activity and loss of an important impulse for domestic demand. The stabilization in international commodity prices may abate the decline in cash crop production. The pipeline of new resource projects may create some additional impetus to the nonresource economy in 2014 or 2015, although the probability of major new constructions being approved has declined somewhat, alongside international commodity prices and investors' ease of access to finance.

The revenue and spending pressures surrounding the 2013 budget are likely to intensify mid-decade. Revenue growth is expected to slow further, while it may be difficult to reverse many of the new spending commitments in the 2013 budget. The pressure to respond to PNG's significant human development needs will continue to grow. The 2009-2010 PNG Household Income and Expenditure Survey data, released by the government in August, found large ongoing challenges, including high rates of malnutrition among children, limited physical assets for most households, and significant exposure to violent disputes, while also finding areas of change, such as improving literacy among younger Papua New Guineans, and the importance of mobile phones and income transfers for many households.

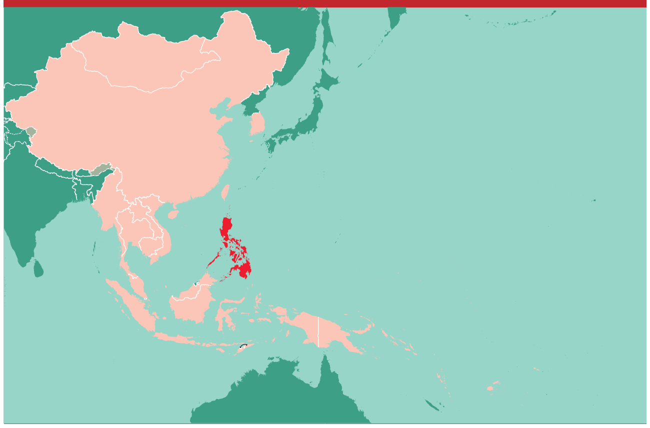
Stronger institutions of governance and accountability across the public sector, supported by aligning the incentives for public servants with the community's interests, can help achieve the government's public service delivery goals, even when resources are scarcer.

Papua New Guinea: Key Indicators

	2010 Year	2011e Year	2012f Year	2013f Year	2014f Year
Output, Employment and Prices					
Real GDP (% change y-y)	7.6	9.0	8.0	4.0	7.5
Real non-mineral GDP (% change y-y)	8.5	10.8	7.5	3.9	4.0
Formal employment (BPNG index, % change y-y)	1.1	6.5	6.0	2.0	-1.0
Consumer price index (% change y-y)	6.0	8.4	3.0	6.0	6.5
Public Sector					
Government revenues (% GDP)	31.3	30.0	30.1	29.3	28.1
Government expenditures (% GDP)	28.2	28.9	32.3	36.6	34.0
Government balance (% GDP)	3.1	1.1	-2.2	-7.3	-5.9
Nonmineral government balance (% GDP)	-3.6	-5.1	-5.7	-10.7	-9.6
Public and publically-guaranteed debt (% GDP) 1/	25.6	25.2	27.0	32.2	34.8
Foreign Trade, BOP and External Debt					
Trade balance (millions US$)	1,582	861	1,325	1,998	2,792
Exports of goods (millions US$)	5,843	7,047	7,788	7,944	8,738
(% change y-y)	29.5	20.6	10.5	2.0	10.0
Key export (% change y-y) 2/	29.1	17.3	14.0	2.0	10.0
Imports of goods (millions US$)	4,261	6,186	6,463	5,946	5,946
(% change y-y)	30.8	45.2	4.5	-8.0	0.0
Current account balance (millions US$)	-2,532	-4,605	-4,374	-3247	-2365
(% GDP)	-25.6	-35.0	-30.0	-20.0	-13.0
Foreign direct investment (millions US$)	858	1750	1200	1000	1800
External debt (millions US$)	6.7	11.7	14.6	17.9	16.7
(% GDP)	67.2	91.9	95.0	105.6	90.0
Debt service ratio (% exports of g&s)	14.7	15.7	16.5	15.3	31.0
Foreign exchange reserves, gross (millions US$)	2,895	4,126	4,099	4,487	4,619
(months of imports of g&s)	4.3	4.9	4.5	5.3	9.3
Financial Markets					
Domestic credit (% change y-y)	25.2	17.0	15.0	12.0	10.0
Short-term interest rate (% p.a.)	7.0	7.8	7.8	..	..
Exchange rate (Kina/US$, eop)	2.64	2.15	2.06	2.10	2.15
Real effective exchange rate (2005=100)	113.0	127.4	149.4	153.0	150.0
(% change y-y)	-2.8	12.7	17.3	2.4	-2.0
Memo: Nominal GDP (billions US$)	10.0	12.7	15.4	17.0	18.6

Source: National data sources, IMF, and World Bank staff estimates.
e = estimate
f = forecast
1/ Not including debts of state-owned enterprises, or assets of Bank of Papua New Guinea.
2/ Mineral exports

PHILIPPINES



Population	94.9 million
Population growth	1.7 percent
GDP (PPP, int'l US$ billions)	392.7
GDP per capita (PPP, int'l US$)	4,140
Surface area	300,000 sq. km.
Capital	Manila

Source: World Development Indicators.

Recent Economic Developments

The Philippines economy has emerged as one of the fastest growing economies in East Asia, with growth accelerating to 7.1 percent in the third quarter. Higher economic growth was driven by the strong performance of the construction sector and buoyed by robust private consumption and the recovery of government spending. The acceleration of domestic demand since the first quarter of 2012 reflects the country's strong macroeconomic fundamentals, stronger government finances, and high confidence in the Aquino government's commitment to reform. Stronger macroeconomic fundamentals, in particular, as seen in low inflation, and large current account surpluses and foreign exchange reserves, have continued to shield the economy from external headwinds while a more diversified export basket allowed overall exports to grow despite the decline in electronics exports. Overall, the economy is expected to expand by over 6 percent this year from 3.9 percent last year.

1. Higher economic growth in Q3 was driven by the strong performance of the construction sector and recovery of government spending. Construction grew by 24.3 percent, its fastest pace in nearly two years, and contributed 1.9 percentage points (ppt) to GDP growth. Private construction grew by over 25 percent as demand for office and residential buildings increased with the rapid growth of the business process outsourcing (BPO) industry and the low interest rate environment. Growth in public construction (i.e., infrastructure) was equally impressive although this reflects more the recovery of infrastructure spending from last year's slump (i.e., the base effect) rather than new infrastructure spending. Government consumption grew by 12 percent (from 6.8 percent in 2Q), contributing 1.2 ppt to growth following the release of the 4th tranche of the government-wide salary increase and an acceleration of government disbursements for program and project implementation, notably in social services. As in previous years, private consumption, supported by large inflows of overseas worker remittances, was the underlying source of growth. It grew by 6.2 percent y-o-y in 3Q and contributed 4.3 ppts to overall growth.

A more diversified export basket allowed overall exports to grow despite the decline in electronics exports. Exports have recovered from last year's slide mainly supported by growing demand for non-electronics and service exports. Despite weak off-shore demand for electronics, exports rebounded strongly this year, growing by 6.9 percent in 3Q reflecting rising shipments of non-electronics exports (mostly to Japan) and buoyant services exports growth. However, equally strong growth in imports of 8.6 percent, mostly fuel, consumer goods, industrial machinery and transport equipment resulted in a negative growth contribution of net exports (-0.7 ppt).

On the production side, the resilient services sector continues to be the key driver of growth. The 7 percent growth in the sector was led by the trade subsector and the real estate, renting, and business activity subsector, which includes the fast growing BPO industry. Manufacturing growth improved to around 6 percent in line with the revival in exports in the first nine months, in turn contributing to pull up growth in the industrial sector to a stronger 8.1 percent in the third quarter. Growth in agriculture increased at a faster pace to 4.1 percent (from 0.4 percent in the second quarter), notwithstanding the crop production disruptions from typhoons and monsoon rains in July and August.

Despite higher spending compared to last year, the government's budget deficit stood at Php115 billion (1.1 percent GDP) through September, significantly below government target of 2.7 percent of GDP for the year. Efforts to improve the pace and efficiency of public spending was reflected in the 14.4 percent growth in government expenditures for the first nine months of the year, following the transparency and accountability measures introduced in government's implementing agencies in 2011. The government continues to improve tax administration as the main vehicle for generating more tax revenues. Revenue collection grew by 10 percent from last year, on account of improved tax administration. On tax policy, the Lower and Upper House recently passed the excise tax reform bill estimated to yield 0.3 to 0.4 percent of GDP in additional revenues, which will be earmarked for the universal healthcare program and assistance to tobacco farmers who will shift to other crops.

The global environment had a limited impact on the economy and the country's external position remains healthy. The Philippines has become less dependent on exports compared to its regional peers with the share of exports to GDP falling from 70 to 30 percent in last decade. Merchandise exports grew modestly by 8 percent through September 2012 thanks to a diversified product mix (e.g., electronics, minerals, agriculture and furniture). Remittance growth has not been affected greatly by global trends, growing by 5.5 percent through September. The sustained inflows of foreign currencies led to record high levels of gross international reserves. They rose to $82 billion in October, about 30 percent higher than the country's external debt of $62.5 billion in June 2012,[62] and sufficient to cover one year's worth of imports, or 658 percent of the country's short-term external debt based on residual maturity.

Amid a benign inflation environment, the central bank has cut policy rates to further boost domestic demand and curb speculative foreign exchange inflows. Headline inflation which averaged 3.2 percent through October on the back of lower food price inflation, remains within central bank target of 3 to 5 percent. The Monetary Board has cut policy rates by a cumulative 100 bps to a low of 5.5 percent and 3.5 percent for the overnight lending and borrowing rates respectively, as of October. The interest rates for special deposit accounts were also cut. Bank lending grew on the back of the low interest rate environment. In particular, exposure to the real estate sector has increased to an all-time high of 15 percent of banks' total loan portfolio in June. The central bank asserts that these are well below the cap of 20 percent of total loan portfolio. Bank balance sheets remain healthy with non-performing real-estate loans below 5 percent, lower than last year.

Outlook and Emerging Challenges

Going forward, the country's high growth could be sustained and made more inclusive provided that (i) economic reforms are aggressively pursued to create more and better jobs and reduce poverty at a faster rate, (ii) more revenues are raised to finance higher spending in physical and human capital, and (iii) global growth is supportive and rebalancing in the region continues. Baseline growth projection for the Philippines is at 6.0 percent for 2012 and 6.2 percent for 2013. Consumption, which accounts for 75 percent of GDP, is expected to drive overall growth underpinned by continued growth in remittances and higher government spending with the national elections next year. The current account is projected to remain in surplus, driven

62 Latest available figure. Government definition.

by remittances and some recovery in electronics exports early in the year. Risks to the growth projection remain on the downside—the continued high levels of global economic uncertainty combined with weak economic activity in the G3, diminishing returns to quantitative easing in the United States (of which a third round has just been launched) and the looming United States fiscal cliff, and a slowing Chinese economy are weighing down on global growth prospects.

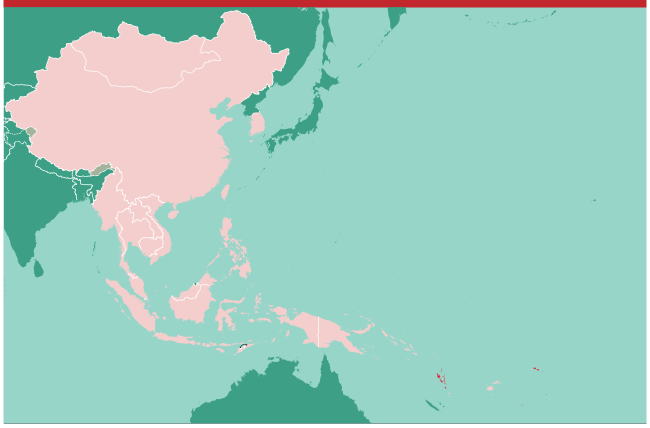
For the Philippines, a window of opportunity exists today to accelerate reforms that become a platform for more inclusive and higher growth. The country is currently benefiting from strong macroeconomic fundamentals, political stability, and a popular government that is seen by many as committed to improving the lives of the people. Several reforms have successfully started, notably in public financial and debt management, anti-corruption, and tax policy. With further structural reforms, especially in areas which will have more impact on the lives of the poor, along with investments in infrastructure, education, and health, the Philippines can take advantage of new opportunities arising from the global economic rebalancing and the strong growth prospects of the East Asia region. By building on its previous and current successes and by ensuring that it is prepared to take advantage of the opportunities that are coming its way, the government stands to make a significant difference in the lives of Filipinos.

Philippines: Key Indicators

	2010	2011	2012f	2013f	2014f	2011	2012			2012			
	Year	Year	Year	Year	Year	Q4	Q1	Q2	Q3	Jul	Aug	Sep	Oct
Output, Employment and Prices													
Real GDP (% change y-y) 1/	7.6	3.9	6.0	6.2	6.4	4.0	6.3	6.0	7.1	..	..	..	..
Industrial production index (1994 = 100)	92.0	93.0	..	..	..	93.1	97.1	96.2	..	101.8	..	..	..
(% change y-y)	23.2	1.1	..	..	..	-8.9	7.2	4.0	..	4.7	..	..	..
Unemployment (%) 2/	7.3	7.1	..	..	..	6.4	7.2	6.9	7.0	..	..	..	..
Nominal wages (% change y-y) 3/	3.8	4.6	..	..	..	5.4	5.4	7.1	4.7	4.7	4.7	4.7	4.7
Real wages (% change y-y) 3/	-0.1	0.6	..	..	..	1.6	2.5	4.7	1.0	1.6	0.2	1.1	1.8
Consumer price index (% change y-y)	3.9	4.7	3.5	4.0	4.0	4.7	3.1	2.9	3.5	3.2	3.8	3.6	3.1
Public Sector													
Government balance (% GDP) 4/	-3.6	-2.1	-2.4	-2.3	-2.1	-1.5	-0.3	0.0	-0.7	..	..	..	..
Domestic public sector debt (% GDP) 5/	41.4	49.0	..	..	..	49.0	..	..	..	..	..	..	..
Foreign Trade, BOP and External Debt													
Trade balance (billions US$) 6/	-11.0	-15.5	..	..	..	-4.7	-4.0	-2.4	..	..	..	..	..
Exports of goods (billions US$) 6/	50.7	47.2	..	..	..	10.6	12.7	13.8	..	..	..	..	..
(% change y-y)	34.9	-6.9	..	..	..	-17.7	5.8	11.7	..	..	..	..	..
Key export (% change y-y) 7/	38.9	-21.3	..	..	..	-31.4	6.1	-3.5	-7.1	-20.3	-10.9	9.8	..
Imports of goods (billions US$) 6/	61.7	62.7	..	..	..	15.3	16.7	16.2	..	..	..	..	..
(% change y-y)	32.9	1.6	..	..	..	-5.0	5.1	4.0	..	..	..	..	..
Current account balance (billions US$) 8/	8.9	7.1	8.1	8.5	8.9	1.8	0.9	2.8	..	..	..	..	..
(% GDP)	4.5	3.1	3.2	2.9	2.7	2.9	1.5	4.6	..	..	..	..	..
Foreign direct investment (billions US$)	0.7	1.3	1.5	2.0	2.5	0.5	0.7	-0.4		..	..	..	..
External debt (billions US$) 9/	60.0	61.7	..	..	..	61.7	62.9	62.5	..	..	..	..	..
(% GDP)	30.1	27.5	..	..	..	27.5	25.6	26.6	..	..	..	..	..
Short-term debt (billions US$) 9/	6.3	7.0	..	..	..	7.0	7.4	7.0	..	..	..	..	..
Debt service ratio (% exports of g&s)	8.7	8.9	..	..	..	8.9	7.1	7.1	..	..	..	..	..
Foreign exchange reserves, gross (billions US$) 9/	62.4	75.3	83.2	83.4	83.6	75.3	76.1	76.1	82.0	79.76	80.73	82.03	82.09
(months of imports of g&s) 10/	9.5	11.1	11.8	11.2	10.6	11.1	11.2	11.0	11.9	11.52	11.66	11.85	11.86
Financial Markets													
Domestic credit (% change y-y) 11/	8.7	5.2	..	..	..	5.2	12.5	13.5	12.4	14.6	10.5	12.0	..
Short-term interest rate (% p.a.) 12/	4.2	4.6	..	..	..	4.7	4.4	4.1	3.9	4.1	3.9	3.9	3.8
Exchange rate (Peso/US$, ave)	45.1	43.3	..	..	..	43.5	43.0	42.8	41.9	41.9	42.0	41.7	41.5
Real effective exchange rate (2000=100)	126.8	127.2	..	..	..	127.9	128.6	131.2	..	135.5	135.0	..	..
(% change y-y) 13/	4.6	0.4	..	..	..	..	..	..	..	..	..	..	..
Stock market index (Jan. 2, 1985=100) 14/	3,524	4,189	..	..	..	4,240	4,819	5,092	5,249	5,252	5,234	5,261	5,402
Memo: Nominal GDP (billions US$)	199.6	225.9	254.3	287.7	326.3	54.7	56.3	61.3	..	..	..	..	..

Source: National data sources
f = forecast
1/ The GDP series has a break in 2000.
2/ New methodology. Figures are based on the 2000 census.
3/ Non-agriculture minimum wage, National Capital Region
4/ IMF Government Financial Statistics (GFS) basis
5/ Total public sector domestic debt
6/ Central bank data, Balance-of-payments basis
7/ Electronics and other electronics
8/ Estimates
9/ Central bank data, % of annual GDP for quarterly figures
10/ Based on end-of-period gross international reserves
11/ Based on Depository Corporations Survey
12/ Interbank call rate
13/ World Bank staff estimates
14/ PSEi Composite, period average for annual figures

SMALL PACIFIC ISLAND COUNTRIES



Source: World Development Indicators.

Summary

The small Pacific Island economies (Samoa, Tonga, Kiribati, and Tuvalu) are facing common challenges to growth and fiscal sustainability in the context of continued global economic uncertainty and vulnerability to external shocks. Traditional drivers of growth—remittances, aid expenditure, and tourism—are impacting unevenly, as governments work to consolidate public expenditure and strengthen revenue to rebuild fiscal buffers.

Recent Economic Developments

The economy of **Samoa** grew by around 1.5 percent in FY2012, with growth of 1.9 percent expected in FY2013. Subdued growth reflects the winding down of stimulus from reconstruction spending following the 2009 tsunami. Continued remittance growth (10 percent year-on-year increase for the first eight months of FY2012) has partially offset the impact of declining agriculture and fisheries exports, and falling tourism receipts. Over the medium-term, growth is expected to return to around 2.5 percent, but this is subject to substantial downside risks, given the possibility of weakening global demand impacting the Samoan economy through declines in exports, tourism receipts, and remittances.

Inflation has fallen over the recent months with ongoing declines in global food and fuel prices and recent recovery of local fruit and vegetable production after weather-related disruption early in the year. It is expected to average 6 percent for the year. The Central Bank of Samoa (CBS) has maintained an accommodative monetary since the onset of the global economic crisis, with official interest rates at close to 0 percent. With monetary transmission mechanisms weak, as in many Pacific countries, monetary policy has had a limited impact on credit growth and inflation. CBS has also pursued on-lending programs through the Development Bank of Samoa and the Samoa Housing Corporation, providing private sector credit at rates below those offered by commercial banks to assist with post-tsunami reconstruction.

The fiscal deficit has been declining gradually from a peak of 7.5 percent of gross domestic product (GDP) immediately following the tsunami in FY2010. The fiscal deficit for FY2012 was 6 percent (0.5 percent higher than budgeted largely because of supplementary appropriations), unchanged from FY2011. Revenues remain slightly below the projected level (25 percent of GDP, down from 28 percent in FY2011), reflecting lower imports and a delay in implementing excise tax increases. The current account deficit has widened sharply over recent years, to around 11 percent of GDP in FY2012, driven by high imports for reconstruction and slow recovery in tourism and exports. Foreign reserves have declined, but remain at comfortable levels (about 4.3 months of next year's imports). According to the IMF, the currency may be overvalued by 11 to 25 percent. Steps to address the overvaluation to improve the external position would need to take account of impacts on external debt dynamics and inflation.

Samoa faces important challenges in reducing its fiscal deficit and public debt, while maintaining economic growth and living standards. To reduce current levels of debt (46 percent of GDP), the fiscal deficit will need to be reduced significantly over coming years. Given ongoing needs for infrastructure investment, difficult reductions in recurrent expenditure are likely to be required.

Tonga's economy grew by only 1.3 percent in FY2012, down from 4.7 percent in FY2011. Declines in growth reflect the winding down of major debt-financed development projects in the context of a difficult international environment. Remittances, which are equivalent to around 20 percent of GDP, continued a prolonged decline, falling a further 23 percent year-on-year, during the first ten months of FY2012, before ticking up slightly. While tourist visitor numbers increased slightly, tourism receipts fell by 7.9 percent for the year because of shorter stays and price discounting. Growth for FY2013 is projected to fall slightly to 1 percent as infrastructure projects are completed. Downside risks include further declines in remittances and tourism earnings.

Inflation peaked at 8.5 percent in FY2011, and has since been on a downwards path. Inflation declined to 4.6 percent in FY2012 due to moderating global food and fuel prices and exchange rate appreciation. Moderate inflation of 4.5 percent is expected in FY2013. Despite a continued accommodative monetary stance by the National Reserve Bank of Tonga, credit to the private sector continues to decline, with loans to firms falling a further 24.7 in the year to April 2012. Despite amble liquidity, commercial banks remain risk-averse following a lending surge during FY2009-10 which has left a large proportion of non-performing loans on commercial bank balance sheets (15.2 percent at end of FY2011).

Government revenues fell slightly in nominal terms during FY2012, with a total 17 percent fall in tax revenues since FY2009. Government has consolidated expenditure, and with the assistance of budget support grants is projecting a small deficit (0.3 percent of GDP) for FY2013 to be financed from cash reserves. It maintains its policy of avoiding any new debt, but debt remains at 39 percent of GDP. The current account deficit widened to 6.1 percent of GDP during FY12, reflecting increased imports for major capital projects. Foreign exchange reserves remain at comfortable levels—around 5.9 months of import cover—largely because of donor inflows. Improvements in the current account position and adequacy of reserves remain subject to recovery in tourism and remittances over the medium-term.

Government faces challenges in maintaining service delivery in the context of sluggish growth, weak revenue performance, possible permanent declines in remittances, and growing debt-repayment obligations. Debt servicing is expected to increase rapidly over coming years, to reach 16 percent of total revenue by FY2016. Medium-term priorities include administrative and policy reforms to improve revenue performance and continued reallocation of expenditure toward policy priorities, including social and economic sectors.

The economy of **Kiribati** grew by around 2 percent in 2011, following several years of weak and volatile growth. Growth of 2.5 percent is expected for 2012, driven by a vibrant retail sector and an influx of aid spending associated with major infrastructure projects. Over the medium-term, growth will depend heavily on the implementation of planned donor projects and the commencement and expansion of a new fish processing operation in Betio.

Inflation remains subdued, with consumer prices expected to increase by 2.5 percent during 2012. While world prices for most import products are continuing to decline, constraints on shipping capacity may lead to some price pressure in the context of donor project-driven demand. Inflation is expected to remain at similar levels in 2013.

Kiribati faces severe challenges to fiscal sustainability because of declining revenues and insufficient expenditure restraint. Compliance problems have led to steady revenue declines, while recurrent expenditure has exceeded budgeted levels. After fiscal deficits averaging 19 percent of GDP between 2009 and 2011, unexpectedly high fishing license fees during 2012 helped offset continued weak import, personal tax, and company tax revenue performance. A deficit of around 14 percent of

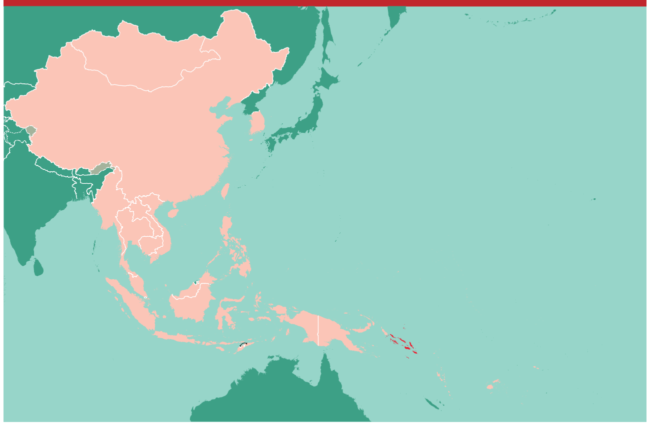
GDP is expected for 2012. Deficits have been primarily financed by drawdowns from the Revenue Equalization Reserve Fund (a trust fund that was initially capitalized from proceeds of phosphate mining) and nonconcessional borrowing from a commercial bank. The current account balance (including official transfers) reached 23.6 percent of GDP in 2012, up slightly from 22.7 percent in 2011, with the impact of increased imports for donor projects offset by historically high fishing license fee receipts.

Over the medium-term, fiscal imbalances need to be addressed. Drawdowns from the Revenue Equalization Reserve Fund have substantially exceeded sustainable limits, while the accumulation of commercial debt has imposed avoidable financing costs. Government is working to improve compliance and is introducing a VAT to broaden the tax base and reduce reliance on trade taxes. On the expenditure side, efforts to restrain expenditure remain priorities, including reducing subsidy payments to state-owned enterprises (SOEs) and avoiding further expansion in the number of temporary public service workers.

After two years of contraction, **Tuvalu's** economy grew by 1.1 percent in 2011. Growth of 1.2 percent is expected in 2012. Increased competition in the retail sector has driven recovery, while remittances from seafarers (Tuvalu's primary source of private-sector employment) continue to lag in the context of uncertain international economic conditions. Inflation is expected to remain moderate (2 to 3 percent) in 2012, although up from 0.5 percent in 2011. Increased retail competition and currency appreciation have helped to keep prices down in light of movements to global commodity prices. Fiscal consolidation continues, following a period of expansionary fiscal policy during the global economic crisis during which the fiscal deficit reached 30 percent of GDP. A fiscal surplus equal to 4.2 percent of GDP is expected in 2012, following a small surplus (1.1 percent of GDP) in 2011, mostly attributable to reduced expenditure. Despite consolidation, fiscal buffers remain inadequate, with trust fund resources available to government in addressing any further shocks equal to around 11 percent of GDP (versus a sustainable target level of around 45 percent of GDP). The current account deficit reached 8 percent of GDP in 2011, with a trade deficit of 58 percent of GDP financed largely by donor grants and income from foreign assets and fishing revenues. The current account deficit is expected to reduce to 3 percent of GDP in 2012, with foreign exchange reserves remaining at comfortable levels (currently 6.7 months of import cover, largely from aid grants).

Downside risks are significant given Tuvalu's exposure to external economic shocks and natural disasters (vulnerabilities include further declines in demand for seafarer labor and further declines in trust fund asset values). The only policy instrument for dealing with external shocks is fiscal policy, given Tuvalu's use of the Australian dollar, heavy reliance on imported goods, and minimal financial diversification. Accumulation of adequate fiscal buffers to manage future shocks is, therefore, crucial. Improving tax compliance, especially among SOEs, is a key priority along with implementing planned increases in value-added tax (VAT) rates. On the expenditure side, government is working toward continued consolidation and tighter prioritization of public investment toward basic healthcare and education. Progress with reform of public enterprises needs to continue in order to reduce the current drain on public resources.

SOLOMON ISLANDS



Population	552 thousand
Population growth	2.6 percent
GDP (PPP, int'l US$ billions)	1.6
GDP per capita (PPP, int'l US$)	2,943
Surface area	28,900 sq. km.
Capital	Honiara

Source: World Development Indicators.

Summary

The Solomon Islands economic growth slowed through the middle quarters of 2012. This was largely because of weaker prices of exports and stabilizing output from earlier drivers of growth, such as logging and the opening of the Gold Ridge mine. Meanwhile, fiscal policy took a more expansionary stance, raising concerns around the sustainability and the quality of spending. Inflationary pressures slowed, and external balances remained relatively strong.

Recent Economic Developments

The Solomon Islands economy is on course to expand by around 5 to 5½ percent in 2012, following growth near 10½ percent in 2011. Mining is estimated to again contribute around 2 percentage points to 2012 growth. The slowdown in aggregate growth is due to lower production across a range of major commodities. As global prices weaken and the incremental appreciation of the Solomon Islands dollar (SBD) relative to the U.S. dollar (in which most exports are denominated), producers are reducing output. The central bank's index of production of major commodities declined for three consecutive quarters leading to the second quarter, before rebounding in the third quarter, but was still 7.6 percent lower than a year earlier.

Farmers have been responding to lower prices. Copra production was one-quarter lower in the first half of 2012 than in the corresponding period in 2011, as domestic prices fell from a record high of over SBD 6 per kilogram in March 2011 to SBD 2.35 per kilogram in June 2012. Cocoa production, the other key source of rural cash incomes, followed a similar pattern, with output in second quarter 2012 one-quarter lower than a year earlier as prices weakened. In contrast, palm oil production rose slightly, while prices were only a little weaker (palm oil in Solomon Islands is mostly produced on larger plantations). Lower copra and cocoa prices and production are reducing revenue received by farmers, who are largely in rural areas where there are few alternative sources of cash income: for example, farmers received SBD 20 million from copra in second quarter 2012, 60 percent less than in the corresponding period in 2011, according to central bank estimates.

Other key drivers of Solomon Islands production and revenue growth stabilized through mid-2012. Log production was affected by rains in second quarter, but overall exports were comparable to the first half of 2011, at almost 1 million cubic meters (well above most estimates of sustainable logging rates). Receipts, however, weakened over the four quarters to mid-2012 because of lower international prices, attributed by the central bank to weaker demand from China. Gold production from the Gold Ridge mine, plus alluvial extraction, stabilized in the first half of 2012 at fewer than 36,000 ounces. Production, which was affected once again by unplanned operational issues, was 20 to 25 percent below pre-reopening estimates of the mine's capacity. With the weakening in external conditions, the number of new and scale of applications for foreign direct investment retreated in second quarter from recent record highs. Despite the weakness in the external sectors, domestic demand remained robust through mid-2012. Manufacturing (largely for domestic consumption) and urban building continued recent upward trends. A notable boost to private consumption and government spending came from the Festival of Pacific Arts (FoPA), which was held around Honiara in July.

The deterioration in export production and prices, in contrast to the robustness of domestic demand, brought the trade balance back to deficit in the June quarter, after a record four consecutive quarters of surpluses. Several of the factors behind this deterioration may be temporary or reflect timing (for example, the FoPA and delays in fish shipments), and preliminary data for third quarter show a rebound in export values, returning the trade balance to a small surplus. Overall, the current account was in surplus over the first half of 2012, largely because of donors' budget support grants offsetting private outflows. The exchange appreciated to 7.1 SBD per U.S. dollar in October 2012, 1.0 percent stronger than in January 2012, while foreign exchange reserves also increased (to $470[63] million in October 2012 compared with $435 million in January, near 10 months' import cover). The central bank announced that from September 2012, it would target a basket of currencies in its exchange rate policy, rather than the U.S. dollar alone.

Weaker revenues and overspending shifted fiscal policy to a much more expansionary stance up to August 2012 relative to the previous two years. The weakening in exports and production slowed growth in government revenues over the first half of 2012 compared with budget projections, although revenues were still 7 percent higher than the equivalent period in 2011, reflecting improved compliance and growth in domestic consumption. The cost of tax exemptions was about double the budgeted amount, while PAYE (pay as you earn) income tax receipts were quarter below budget forecasts, in part because of an underestimation of the impact of an increase in the tax-free threshold. The strength of imports supported trade tax receipts, despite the weakening in exports. Improved compliance is likely to have further supported trade tax receipts. Total government spending in the second quarter 2012 was 28 percent more than in corresponding period of 2011, largely because of strong spending on goods and services ahead of the FoPA. Development budget spending remained slow—less than a quarter of the development budget was disbursed in the first half of the year, compared with 20 percent in 2011. The government may also be delaying earlier plans to repay some debt ahead of schedule, given that only 29 percent of the amount budgeted to service debt was disbursed in the first half of 2012. Nonetheless, the stock of debt declined slightly and, for the second consecutive quarter, the government made significant advanced payments on outstanding restructured domestic bonds. Solomon Islands was again assessed to be at a "moderate" risk of debt distress under the IMF-World Bank Debt Sustainability Analysis.

Resurgent international prices for wheat, corn, and some other foods have not affected Solomon Islands. Indeed, inflation has slowed on improved local growing conditions and stable import prices for rice (the main imported food, which is especially important for poorer urban households lacking access to gardens), wheat, and fuel (which affects all prices through high transport and electricity generation costs). The food component of the CPI peaked in April 2012 and, combined with the fall in local fuel prices, overall CPI inflation has slowed to 4.4 percent. Monetary conditions remain stable and appear to be consistent with price stability. Excess liquidity remains high, but banks continue to struggle to find new opportunities to lend that comply with their prudential standards. Growth in the money supply has largely been due to the growth in foreign exchange reserves.

The government continues to make progress on an ambitious reform agenda, including some notable policy achievements but for the most part focused on strengthening technical and process issues. The

63 All dollar amounts are U.S. dollars unless otherwise indicated.

Honiara Club agreement that followed Solomon Islands sovereign debt defaults of the early 2000s was renegotiated following an improvement in the country's debt sustainability assessment. The government can now borrow on concessional terms within certain limits intended to maintain debt sustainability. Public financial management systems are being upgraded. The transparency around the use of public resources has improved and the first steps are being taken to develop greater social accountability for government spending. Significant liquidity and cross-debt issues between the two key utilities have been resolved and the utilities' tariffs placed on to a sustainable footing. A new Public Finance and Audit Act is being prepared. The scale of the reform program has added to pre-existing capacity constraints, with a focus for the remainder of 2012 and 2013 shifting to ensuring that recent reforms are secured and routinized and that a more sustainable, long-term agenda is developed, especially in light of the transition from the large RAMSI advisory support programs to support provided through bilateral aid programs. Political instability continued, including ongoing efforts by the parliamentary opposition to pass a no-confidence motion in the government. These have failed through lack of political support, although the opposition is developing a reputation for acting as a watchdog around issues of public resource use and spending management.

Outlook and Emerging Challenges

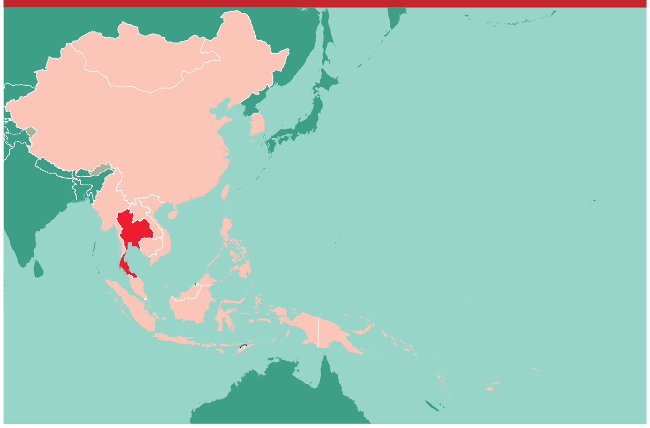
The outlook is for a further moderation in the rate of growth of the Solomon Islands economy. A modest further increase in production from the Gold Ridge mine is expected in 2013, but this is likely to be offset by some unwinding from recent, unsustainable logging rates associated with weaker global timber prices and improvements in revenue collection. Demand in the nonresource economy has benefited from both donor flows and government spending; both are likely to follow cash crop receipts to be weaker in coming years than in the recent past. This weaker outlook emphasizes the importance of returning fiscal policy to a sustainable footing after the slippages in 2012, with growing demands for better service delivery met through increasing the effectiveness of spending, rather than the amount.

Solomon Islands: Key Indicators

	2010e Year	2011 Year	2012f Year	2013f Year	2014f Year
Output, Employment and Prices					
Real GDP (% change y-y)	7.8	10.5	5.3	4.0	3.3
Real non-mineral, non-logging GDP (% change, y-y)	5.4	7.3	3.4	3.3	4.0
Consumer price index (% change y-y)	0.9	7.4	4.8	4.5	5.0
Public Sector					
Government revenues (% GDP)	62.6	60.2	58.8	57.8	57.0
Government expenditures (% GDP)	56.4	51.2	59.4	59.0	59.0
Government balance (% GDP)	6.2	9.0	-0.6	-1.2	-2.0
Public sabd publicly-guaranteed debt (% GDP)	28.5	22.7	18.3	15.0	14.0
Foreign Trade, BOP and External Debt					
Trade balance (millions US$)	-218	-47	-66	-159	-141
Exports of goods (millions US$)	330	557	601	601	601
(% change y-y)	40.6	68.5	8.1	0.0	0.0
Imports of goods (millions US$)	548	604	667	761	743
(% change y-y)	59.2	10.3	10.5	0.0	-2.4
Current account balance millions US$)	-210	-52	-58	-116	-102
(% GDP)	-30.8	-6.0	-5.8	-10.9	-9.0
Foreign direct investment, net (millions US$)	236	257	115	93	91
Total external debt (millions US$)	218	223	219	224	227
(% GDP)	31.9	25.7	21.6	20.9	20.0
Debt service ratio (% exports of g&s)	4.7	2.5	2.6	2.7	3.5
Foreign exchange reserves, gross (millions US$) 2/	266	412	465	465	450
(months of imports g&s)	5.8	8.2	8.4	7.3	7.3
Financial Markets					
Domestic credit (% change y-y) 3/	-6.8	3.9	4.9	6.0	8.0
Exchange rate (SBD$/US$, eop)	7.80	7.25	7.15	7.36	7.51
Real effective exchange rate (2005=100)	108.0	116.0	116.0	116.0	116.0
(% change y-y)	-4.4	7.4	0.0	0.0	0.0
Memo: Nominal GDP (millions US$)	682	869	1,012	1,071	1,134

Source: National data sources, IMF, and World Bank staff estimates
e = estimate
f = forecast
n.i. = no issues
1/
2/ Includes foreign assets of non-bank financial institutions.
3/ Domestic credit to the private sector.

THAILAND



Population	69.5 million
Population growth	0.6 percent
GDP (PPP, int'l US$ billions)	605
GDP per capita (PPP, int'l US$)	8,703
Surface area	513,120 sq. km.
Capital	Bangkok

Source: World Development Indicators.

Recent Economic Developments

The Thai economy this year has rebounded from the severe floods at the end of 2011 in the second half of this year but continued to be negatively affected by the slowdown in the global economy; the full recovery next year should help raise exports and hence GDP growth. Real GDP this year is projected to grow by 4.7 percent supported mainly by the rebound in household consumption and greater investments by both the private and public sectors as part of flood rehabilitation. Net exports, on the other hand, contributed negatively to GDP growth as exports were affected by production disruptions in the first half of the year and the sharp slowdown in demand from the EU, China, and ASEAN in the second half. Nevertheless, capital inflows especially foreign direct investment (FDI) remains strong. Inflation also remains low at around 3 percent and is expected to be so next year. The economy should be able to grow by 5 percent next year as manufacturing production fully recovers from the floods. Moreover, domestic demand, particularly investments, will continue its momentum from this year as FDI rises sharply and the Government steps up its investments in water management projects. Policies of which impacts are to be monitored next year include the paddy pledging scheme and the nation-wide rise in minimum wages.

The Thai economy in 2011 was severely affected by the earthquake in Japan, the Eurozone crisis and the severe flood during the last quarter of 2011. The Manufacturing Production Index (MPI) sharply dropped by 8.1 percent year on year in April last year after the Japan earthquake before contracting by 34 percent yoy in the last quarter when the industrial estates were flooded. As a result, exports, household consumption and investments fell yoy in the final quarter of 2011. Real GDP in the last quarter of 2011 contracted by 8.9 percent year-on-year, dragging growth of the entire 2011 down to only 0.1 percent.

The economy this year, while recovered from last year's floods, will be affected by the Eurozone crisis and will grow by 4.7 percent. Manufacturing production has begun to recover in April from the floods after contracting year-on-year since October last year[64]. However, it contracted year-on-year sharply again since June onwards as the impact of the Eurozone crisis was more severely felt. Sectors that contracted most are those whose final export destination is the Eurozone—hard disk drive, integrated circuits, and apparels. This is also reflected in the year-on-year contraction of exports to the European Union and of total exports since June this year.

Exports, the major engine of growth of the Thai economy, will mostly likely grow by less than 5 percent this year in US dollar terms. Affected by both the incomplete recovery of the manufacturing sector from the floods in the first half of the year and the intensifying impact of the Eurozone crisis in the second half, export growth this year is dampened. This is particularly true for manufactured exports which are affected both directly and indirectly by the Eurozone slowdown. Moreover, agricultural

64 Data from the Ministry of Industry shows that the manufacturing sector has almost fully recovered by the end of the second quarter.

products has also declined sharply mainly from the fall in rice exports by almost half that of last year's after the introduction of the aggressive paddy pledging program since last October. The program has raised Thai rice prices to around US$200 above international market prices. As a result, exporters have so far been unable to export rice, while the Government has so far not release the rice stocks on to the global markets.

Imports have also risen sharply in the first half of the year in part from the imports of machineries to replace those damaged by the floods, but will slowdown in the second half of the year. Imports grew by around 10 percent year-on-year in the first two quarters of this year before slowing down in the third quarter. Imports of raw materials and intermediate goods, which include fuels, have contracted in the third quarter year-on-year as manufacturing production contracted and fuel prices softened. As a result, Imports (in US dollar terms) will grow by less than 10 percent this year.

Domestic demand, on the other hand, has expanded continuously in all quarters of this year. Household consumption and private investments have contributed most to the expansion of domestic demand this year. Household consumption in the first half of the year has been expanding rapidly year-on-year as households rehabilitate from the severe floods in the last quarter of 2011. Household consumption continues to expand sharply in the second half of the year as the as the impact of the government policies to stimulate consumption is realized plus the effect of the low base in the final quarter of last year. Moreover, inflation has been low at less than 3.5 percent and real deposit rate has been hovering around zero. Private investments have also expanded as recovery from the floods had started in the first quarter of this year.

Private investment which had contracted during the floods had gained strength since the beginning of this year. Private investment has rebounded with a 9.2 percent and 11.8 percent year-on-year growth in real terms in the first and second quarters of the year. This is particularly true for real imports of capital goods, domestic machinery sales, and commercial car sales. For the second half of the year, private investment growth should continue to be at a similar pace as or slightly higher than in the first half. Although investments for flood rehabilitation may slow down, but investment approvals of the BOI and foreign direct investments which have been growing firmly over the past quarters indicate that future investments will continue to expand. In addition, given the low base in 2011Q4, year-on-year growth of private investment in the last quarter of this year should be in the double digits. Private investment should be able expand by around 11 percent in real terms this year, compared to 7.2 percent last year.

Flows of foreign direct investment (FDI) into Thailand were not deterred by the floods and continued to be strong into the first half of this year. FDI[65] into Thailand peaked in the last quarter of 2011 at almost US$3.5 billion as a result of the increase in Japanese investments into Thailand as part of the diversification plan after the Tohoku earthquake earlier last year. FDI continued into Thailand throughout the first eight months of this year with the amount of US$ 6.2 billion, surpassing that in the same period of 2012. Moreover, FDI from the European Union has been positive since the second quarter of last year, as European firms diversify to East Asia, including Thailand where markets and their prospects are stronger than that in the Eurozone.

Following the relaxation of Bank of Thailand's investment rules for Thai investment abroad, Thai direct investments abroad have increased since the last quarter of 2010. Major market for Thai investments remains in ASEAN. In 2011, major investment abroad by Thai firms included additional stakes of BANPU in Australia's coal market and PTT Exploration and Production purchase of a 40 percent equity stake in a major Norwegian oil firm. Going forward, Thai FDI overseas will likely rise as pressures from the minimum wage increase in Thailand plus the

65 FDI comprises of equity, debt, retained earnings.

prospects from the ASEAN Economic Community 2015 prompt firms to increasingly invest abroad in order to maintain their competitiveness.

Public investment, which had contracted last year, should see an expansion this year. Public investment in 2011 contracted by 8.7 percent from the delay in the implementation of the FY 2012 budget (October 2011-September 2012) after the change in Government in July 2011. Moreover the floods during the last quarter of 2011 have also delayed public investments. Public investment from the second quarter of 2012 onwards expanded as the FY2012 budget was implemented beginning in February. These should help raise public investments in 2012 by around 7 percent in real terms.

Budget deficit was 2.7 of GDP in FY2012 and will be at 2.54 percent of GDP for FY2013 with additional off budget spending for water resource management projects in FY2013, possibly raising public debt[66] close to 50 percent of GDP by end-2013. The budget for FY2013 is THB2.4 trillion, a 0.8 percent increase from that of last year. Budget deficit for FY2012 was THB400 billion while that of FY2013 is at THB300 billion. The government has earlier this year issued the off-budget Emergency Decree on Investment Loan for Water Resource Management and Future Development in an amount of THB 350 billion (USD 11 billion) to finance investments in water management projects over the next 3–4 years. Around THB10 billion has been disbursed this year, while another THB60 billion is expected to be disbursed next year. This would raise public investment growth in real terms to 15 percent in 2013 from around 6 percent in 2012. Should the government borrow THB350 billion by June 2013 as stipulated in the Emergency Decree, public debt could rise from 45 percent as of August this year to close to 50 percent next year.

66 Public debt includes central government debt and debts of state-owned enterprises which are guaranteed and non-guaranteed by the central government. It also includes FIDF debt since the East Asian Crisis (around 10 percent of total public debt).

Inflation will average around 3 percent for both 2012 and 2013. Inflation was low at less than 3 percent from April to August before accelerating slightly to 3.38 percent and 3.32 percent in September and October, respectively. Although a new excise tax rate has been imposed upon tobacco and liquor products in August and electricity (Ft) charge rates have been raised, theses will be outweighed by a slight drop in both crude oil and commodity prices resulting from a slowdown in global economy, thus, demand. Moreover, the Government continues to control the food, fuel and commodity prices, especially the diesel and NGV retail prices which will continue to be fixed in order to avoid the higher public transportation cost. Therefore, headline inflation next year should be no more than 3 percent and core inflation at around 2 percent.

Interest rates remain low and accommodative to growth. The Monetary Policy Committee (MPC) has cut the one-day repurchase rate by 25 basis points to 2.75 percent, which is the first rate cut since the cut from 3.25 to 3.00 percent in January. The main reason for the rate cut mainly was to keep the domestic demand growth momentum amidst negative impacts from the sluggish global economy.

With the large capital inflows into Thailand as well as other East Asian countries, there is pressure on baht to appreciate. Net capital inflows reached USD 9.9 billion in the first three quarters of this year compared to an outflow of USD5.2 billion last year. The large inflows so far and expected inflows in the foreseeable future will put pressure on the baht to appreciate. The Bank of Thailand continues to closely monitor and smooth exchange rate volatilities. The baht has appreciated from THB31.2 to the USD in December 2011 to THB30.7 in October this year, while the real effective exchange rate (REER) appreciated by 1.4 percent.

Outlook and Emerging Challenges

In 2013, the Thai economy should continue to grow by 5 percent as it fully recovers from the impact of the severe floods. Manufacturing production next year will be able to operate at full capacity for the entire year in 2013 compared to this year when production only fully recovered in the third quarter. Exports growth could accelerate but only slightly due to the sight improvement in the global economy and world trade. However, import growth will decelerate as imports of machineries as part of flood rehabilitation has been mostly completed this year. Hence, foreign demand will post a positive growth in 2013 compared to a negative on this year.

Domestic demand will continue to grow in 2013. Household consumption will continued to be supported by the Government's consumption/ income stimulating policies such as the paddy pledging program for rice farmers. Public investments will also see a pickup in 2013 as implementation of the water management projects which was initiated in 2012 begins. This includes an additional amount of THB350 billion (USD11.7 billion) which is off-budget. Private investment growth will remain respectable as greater foreign direct investments will enter Thailand as seen by the increased Board of Investment applications and approvals over the last 2 years and the historically high inflows of FDI funds this year. These growths will continue to be in a low inflation environment.

Over the next year or so, the impact of the paddy pledging scheme will need to be assessed. Thailand's paddy pledging scheme has been expanded to cover all rice production since October 2011. The pledged price is set at around 50 percent above market price or around USD200 above international rice prices per metric ton of white rice. This scheme has cost the government around THB376 billion (USD12 billion) for the 2011/2012 harvest season (October 2011-September 2012) or around 3.4 percent of GDP. The Government is expected to use almost THB440 billion (USD 14.7 billion) or around 3.7 percent of GDP for the 2012/2013 harvest season as the pledged amount is expected to rise from 21.8 million metric tons last year to 25 million this year. The Government has not sold its stock so far. The actual losses from the program and the impact on the fiscal stance will need to be monitored as it will be realized only when the Government sells it stocks.

Similarly, the impact of the increase in the minimum wages on employment and firms will need to be monitored as minimum wages rise to THB300 per day nation-wide next year. On April 1, 2012, minimum wages have been raised to THB300 per day in only Bangkok and 5 vicinity provinces of Bangkok plus Phuket province; it was raised by 40 percent in the rest of the country. On January, 2013, the THB300 per day will apply nation-wide. This represents an additional nation-wide, average increase of 22.4. The impact on firm's operation and employment so far has not been large as most firms were already paying a daily rate plus benefits which is similar to the minimum wages announced on April 1st. However, the impacts vary across sectors with firms in sectors that employ low-skill worker, such as construction, being affect most. Further impacts will need to be closely monitored when the new minimum wages take effect next year.

Thailand: Key Indicators

	2010	2011	2012f	2013f	2014f	2011	2012			2012			
	Year	Year	Year	Year	Year	Q4	Q1	Q2	Q3	Jul	Aug	Sep	Oct
Output, Employment and Prices													
Real GDP (% change y-y)	7.8	0.1	4.7	5.0	4.5	-9.0	0.4	4.2	4.5	..	..	..	..
Domestic demand (% change y-y)	10.3	1.0	7.9	5.1	4.7	-3.1	6.9	10.1	4.6	..	..	..	..
Industrial production index (2000=100) 1/	190.0	172.6	177.8	184.0	189.5	125.1	174.9	178.9	175.6	178.7	174.4	173.4	173.9
(% change y-y)	14.4	-9.3	3.0	3.5	3.0	-34.2	-6.8	-1.5	-10.2	-5.5	-11.2	-15.9	36.1
Unemployment (%)	1.0	0.7	0.8	0.8	0.8	0.6	0.7	0.9	0.6	0.6	0.6	0.6	..
Real wages (% change y-y) 2/	3.3	7.2	..	..	..	8.0	8.8	14.5	10.3	7.7	5.0	..	..
Consumer price index (% change y-y)	3.3	3.8	3.0	2.8	2.8	4.0	3.4	2.5	2.9	2.7	2.7	3.4	3.3
Public Sector													
Government revenues (% GDP) 3/	16.9	18.0	17.7	17.6	..	16.5	14.5	22.4	18.9	13.4	16.4	26.9	16.1
Government expenditures (% GDP)	17.7	20.7	20.5	20.1	..	20.0	27.9	16.4	19.0	18.9	16.8	23.9	33.4
Government balance (% GDP) 4/	-1.0	-1.0	-2.7	-2.5	..	-10.5	-10.1	7.5	0.8	-5.0	0.7	6.8	-1.5
Public sector debt (% GDP) 5/	41.9	42.2	44.8	47.5	..	40.8	39.9	42.8	44.1	43.8	45.0	44.1	44.1
Foreign Trade, BOP and External Debt													
Trade balance (billions US$) 6/	31.8	17.0	8.6	7.9	8.0	-0.7	1.2	1.5	5.0	0.5	1.5	3.0	-0.1
Exports of goods (billions US$) 7/	193.7	219.1	227.0	239.5	258.0	47.7	53.8	56.7	59.3	19.2	19.6	20.5	19.1
(% change y-y)	28.4	13.1	3.6	5.5	7.7	-5.2	-3.9	-1.1	-6.3	-3.9	-5.1	-0.1	14.4
Key export (% change y-y) 8/	20.9	-2.5	..	..	..	-29.0	-8.3	3.8	-14.7	-14.9	-14.5	-14.7	16.7
Imports of goods (billions US$) 9/	161.9	202.1	218.4	231.5	250.0	48.4	52.6	55.2	54.3	18.8	18.0	17.5	19.3
(% change y-y)	37.0	24.9	8.1	6.0	8.0	12.2	9.6	10.3	-2.4	13.3	-11.0	-7.2	21.2
Current account balance (billions US$) 6/	10.0	5.9	0.6	-1.1	-1.5	0.4	1.4	-2.4	2.7	0.1	0.9	1.8	-0.2
(% GDP)	3.1	1.7	0.2	-0.3	-0.4	0.6	1.6	-2.7	3.1	..	..	..	..
Foreign direct investment (billions US$) 10/	9.1	7.8	7.0	..	..	1.9	2.5	1.8	1.7	0.8	1.0	-0.1	1.9
External debt (billions US$) 11/	100.6	104.6	..	..	..	104.6	116.9	119.9	127.3	122.5	123.9	127.3	129.4
(% GDP)	31.6	30.3	..	..	..	30.3	32.4	33.2	35.3	34.0	34.3	35.3	35.9
Short-term debt (billions US$) 11/	50.7	47.3	..	..	..	47.3	57.5	58.9	59.2	59.4	59.5	59.2	59.9
Debt service ratio (% exports of g&s)	4.7	3.4	..	..	..	3.8	4.6	3.3	..	..	..	..	..
Foreign exchange reserves, gross (billions US$) 6/	172.1	175.1	183.3	..	..	175.1	179.2	174.7	183.6	175.4	179.2	183.6	181.4
(months of imports of g&s)	12.8	10.4	10.1	..	..	8.7	9.9	9.7	10.2	9.7	9.9	10.5	9.4
Financial Markets													
Domestic credit (% change y-y) 12/	13.4	16.2	..	..	..	16.2	15.5	16.1	15.7	16.5	16.0	15.7	15.2
Short-term interest rate (% p.a.) 13/	1.5	3.0	3.0	..	..	3.3	3.0	3.0	3.0	3.0	3.0	3.0	2.8
Exchange rate (Baht/US$, ave)	31.7	30.5	31.0	..	..	31.0	31.0	31.3	31.4	31.7	31.4	31.0	30.7
Real effective exchange rate (2000=100) 14/	105.3	100.9	..	..	..	100.9	102.5	102.0	102.4	101.9	102.0	102.4	103.1
(% change y-y)	7.8	-4.1	..	..	..	-4.1	0.4	0.6	0.5	0.0	-0.3	0.5	2.1
Stock market index (Dec. 1996=100) 15/	1,033	1,025	..	..	..	1,025	1,197	1,172	1,299	1,199	1,227	1,299	1,299
Memo: Nominal GDP (billions US$)	318.7	345.7	360.9	397.4	424.0	79.1	90.3	89.8	89.3	..	..	..	..

Source: National data sources, World Bank staff estimates.

f = forecast

1/ Manufacturing Production Index

2/ Average wage of employed person, using the National Statistical Office Labor Force Survey, deflated by CPI inflation

3/ Refers to central government only. Fiscal Policy Office data.

4/ Cash balance of central government before financing

5/ Includes domestic central government (CG) debt, domestic debt of non-financial state enterprises, and the Financial Institutions Development Fund (FIDF) debt. The 2013 forecast is based on the Public Debt Management Office's 2013 Plan.

6/ Revised from BPM5 to BPM6

7/ Export figures readjusted to comply with HS2012

8/ Electronics

9/ Import figures readjusted to comply with HS2012

10/ Net FDI of all sectors. Bank of Thailand data, using BPM6.

11/ Bank of Thailand data

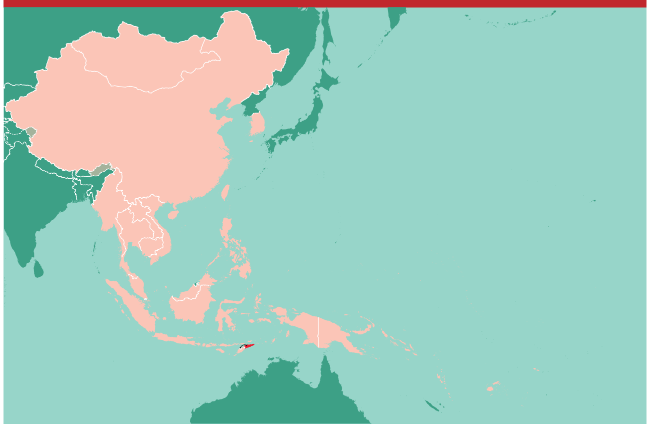
12/ Private credits from domestically registered commercial banks, branches of foreign banks, international banking facilities, finance companies, specialized banks, thrift and credit cooperatives, and money market mutual funds.

13/ One-day repurchase rate, average

14/ Bank of Thailand data

15/ Bangkok SET

TIMOR-LESTE



Population	1.2 million
Population growth	2.9 percent
GDP (PPP, int'l US$ billions)*	1.9
GDP per capita (PPP, int'l US$)**	1,588
Surface area	14,870 sq. km.
Capital	Dili

Source: World Development Indicators. *The equivalent in 2011 non-oil GDP at current market prices is US$ 1.054 billion. **The equivalent in 2011 non-oil GDP per capita at current market prices is US$ 893.

Recent Economic Developments

Parliamentary elections were held on July 7, 2012. Xanana Gusmao was re-elected as Prime Minister and formed the Fifth Constitutional Government of Timor-Leste with a majority coalition of incumbent parties CNRT and PD and newcomers F-Mudanca. The new government's five-year Policy Program provides continuity to the previous government's 2011–30 Strategic Development Plan, emphasizing public investment in agriculture, tourism, and a downstream petro-chemical industry. The United Nations (UN) is on track to complete the withdrawal of its integrated mission by the end of 2012.

Growth

Nonoil gross domestic product (GDP), the preferred measure of economic activity in Timor-Leste, is forecast to grow by 10 percent in 2012 relative to 10.6 percent in 2011. On the upside, there is evidence of a bumper maize and rice crop this year. On the downside, proxies for economic activity, such as total electricity consumption and motorcycle and car purchases, remain flat in 2012 relative to 2011. In addition, slower than expected government spending in the last two months of the financial year, as the new government finds its feet, may dampen growth. Estimates suggest that the UN mission's direct contribution to total 2011 GDP (oil and nonoil) was around 1 percent, which is equivalent to 4.4 percent of nonoil GDP. Four-fifths of this contribution is local payments to international staff. The UN drawdown is, therefore, estimated to have a limited overall economic impact. However, the government should remain alert to specific risks. For instance, not all East Timorese staff being released, in particular security guards may find alternative employment, and demand for accommodation and leisure services may decline.

The government recently published its National Accounts for 2004–10, the second release in the country's history, with plans for annual releases henceforth. The National Accounts confirm the dominance of the oil sector in Timor-Leste's economy. The sector represented $3.3[67] billion, or 79 percent, of total GDP in 2010. The National Accounts also show that government expenditure (final consumption and gross fixed capital formation) contributed 7 percentage points of the 9.5 percent nonoil growth in 2010, emphasizing the importance of maintaining a high quality of public spending for sustained growth.

Fiscal

The 2012 nonoil fiscal deficit is projected to be roughly 123 percent of nonoil GDP, although may improve if end-year government expenditures do not keep pace with previous years. At the end of October, just 52 percent of the $1.674 billion budget had been executed, compared with 59 percent in October 2011. This is largely because of a low execution rate for capital spending (34 percent at the end of October). Capital spending constitutes

67 All dollar amounts are U.S. dollars unless otherwise indicated.

half the total budget and is managed through the infrastructure fund.

The 2012 budget includes $136 million of domestic revenues, representing 9 percent of nonoil GDP, and 6.6 percent of the budget. By the end of October, 81 percent of this had been collected, compared with 78 percent at the same time last year. In addition, by August the government had drawn down $795 million in revenues from the Petroleum Fund, $130 million more than its full year estimated sustainable income (ESI, computed as 3 percent of the nation's estimated Petroleum Wealth) and nearly double the amount drawn down at the same time last year. Petroleum revenues flowing into the Petroleum Fund are on track to exceed the estimated $2.1 billion for the year, with just over $2.0 billion in receipts recorded by the end of August alone. This over-performance will lift the fiscal surplus (including petroleum revenues) above the 44 percent of nonoil GDP forecast for 2012.

The Parliament in October debated and approved a rectification budget to accommodate the restructured government, including new ministries, but without expanding the FY12 budget. A total of $54 million in unspent allocations ($50 million capital budget from the $168 million allocated to the Tasi Mane South Coast Development and $4 million from funds for installation of electricity meters) were used, among others, to make one-off corrections to veterans' pensions ($26.9 million added to $80.4 million) and old age pensions ($7.1 million added to $35.9 million). Early indications from the Ministry of Finance are that the FY13 budget will be very close to the FY11 budget of $1.3 billion. The approval of the FY13 budget is now likely to slip into early 2013.

Inflation and Financial Sector Issues

Inflation fell from a peak of 17.7 percent in January 2012 (headline inflation is consumer price index [CPI] in Dili) to 10 percent in March, before gradually climbing to 11.5 percent in October. The moderation in international food prices helped in the first half of the year (food constitutes 60 percent of the CPI basket and imported food represents just over half of household food consumption). The government is raising its full year 2012 inflation forecast from 8 percent. Further upside risks include recent rises in global food prices, high global oil prices, and further depreciation of the U.S. dollar (Timor-Leste's currency) against the Singapore and Australian dollar. However, this could be partially offset by continued appreciation of the U.S. dollar against the Indonesian Rupiah, and lower than anticipated second half 2012 public spending.

Credit growth to the private sector is accelerating, but access to finance remains a constraint to economic growth in Timor-Leste. Credit grew 18.6 percent in the first three quarters of 2012 to $155.8 million, compared with 18.5 percent growth for the full year 2011. But credit is growing from a low level of 12.5 percent of nonoil GDP in 2011, constrained by limited lending opportunities and a lack of collateral given uncertainty around land tenure, as well as anecdotal evidence of commercial bank risk aversion and comfortable profit margins. Deposit rates were 0.6 percent in September, the same as in in January, although spreads have widened with lending rates (6 month LIBOR plus Spread) passing 12.3 percent in September. The Construction and Transport and Communication sectors together absorb just under half of private sector credit, and individual borrowers account for nearly 40 percent. Nonperforming loans (NPLs), the majority of which are a legacy from the period around the 2006/2007 security crisis, continue to decline, reaching 31 percent in September, from 36 percent at the end of 2011. Loan loss provisions were $62.7 million, or 129 percent of the value of NPLs, effectively mitigating systemic risk to the banking system.

External Balance

Official trade data at the end of June 2012 suggests a first half trade deficit of $197 million based on imports of $209 million and exports of $11 million, and compared with a full year projected deficit of $795 million. Coffee, which dominates Timor-Leste's exports, is projected to reach $30 million of $33 million total merchandise exports in 2012. First half coffee exports were similar to 2011 volumes of 700 tons. However, in value terms exports receipts will be lower owing to the roughly 35 percent year on year decline in Arabica prices.

Petroleum revenues are recorded as income in the current account. This helps transform a 2012 projected trade deficit of 63 percent of non-oil GDP into a projected current account surplus of 142 percent of non-oil GDP. The anticipated over performance on petroleum revenues and lower than expected merchandise imports could lead to a higher than projected current account surplus in 2012.

The Petroleum Fund, Timor-Leste's sovereign wealth fund, was worth $10.8 billion at the end of August 2012, compared with an end 2011 value of $9.3 billion, or nearly nine times nonoil GDP. At the end of September, official reserves were $538 million, or 15 months of 2012 imports. Adding the Petroleum Fund increases this to roughly 325 months of cover.

Outlook and Emerging Challenges

There has been recent, and widely reported, jostling between the government and two major oil companies involved in developing Timor-Leste's present petroleum fields over allegedly unpaid production taxes. This has brought attention, and also some uncertainty, to the ongoing discussions about the development of the Greater Sunrise field in the Timor Sea. Prudently, Timor-Leste's current economic development plans, and estimated financing from the Petroleum Fund, are only based on fields currently under production. However, uncertainty of this nature and the sensitivity of finite petroleum revenues to global oil prices, reinforce the need to pay attention to fiscal sustainability and value for money in public spending.

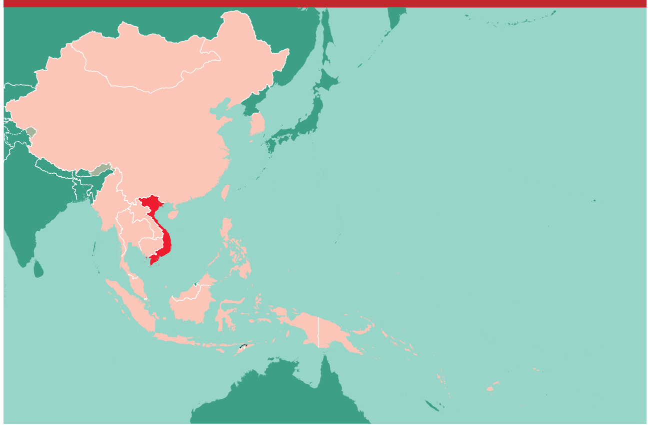
Rapid growth in aggregate demand, combined with limited local productive capacity, fluctuating global commodity prices, and occasional import supply bottlenecks have led to high and volatile inflation. Although two fuel shortages in the last six months were quickly resolved, together they raised fuel prices by roughly 15 percent. Despite ample generation capacity, power outages are again observed to be affecting the capital Dili. Electricity transmission infrastructure needs to be further strengthened to reduce outages, which tend to raise the cost of production and service delivery.

Timor-Leste: Key Indicators

	2010 Year	2011 Year	2012f Year	2013f Year	2014f Year
Output, Employment and Prices					
Real non-oil GDP (% change y-y)	9.5	10.6	10.0	10.0	10.0
Consumer price index (% change y-y, annual average)	6.8	13.1	8.0	8.0	8.0
Public Sector					
Government revenues (% GDP)	75.2	68.1	54.6	68.1	62.3
Government expenditures (% GDP)	24.8	30.3	43.3	37.0	39.3
Government balance (% GDP)	50.4	37.8	11.3	31.1	23
Non-oil government balance (% GDP)	-22.2	-25.4	-31.4	-33.2	-34.9
Non-oil government balance (% non-oil GDP)	-81.1	-113.6	-130.0	-92.8	-82.7
Public sector debt (% GDP) /1	0.0	0.0	1.1	3.0	4.9
Foreign Trade, BOP and External Debt					
Trade balance (millions US$)	-374	-667	-796	-861	-909
Exports of goods (millions US$)	18	22	33	29	43
(% change y-y)	100	22	50	-12	48
Imports of goods (millions US$)	392	689	829	890	952
(% change y-y)	1.8	75.8	20.3	7.4	7.0
Current account balance (millions US$)	1,538	2,375	1,773	1,506	1,158.0
(% GDP)	48.1	55.0	43.5	36.2	27.6
Foreign direct investment (millions US$)	5	46	55	64	75.0
External debt (millions US$)	0	0	43	123.0	204.0
(% GDP)	0.0	0.0	1.1	3.0	4.9
Debt service ratio (% exports of g&s)	0.0	0	0.0	0.0	0.1
Public foreign assets, gross (millions US$) 2/	7,310	9,743	11,487	13,013	14,202
Foreign exchange reserves, gross (millions US$)	406	405	565	716	862
(months of imports of g&s)	21.8	28.6	40.8	48.8	57.8
Financial Markets					
Domestic credit (% change y-y)	5.9	23.6	..	..	..
Short-term interest rate (% p.a.)	11.10	..	..	..	..
Real effective exchange rate (2000=100) (period average)	102.3	103.9	..	..	..
(% change y-y)	-2.7	1.6	..	..	..
Memorandum items:					
Memo: Nominal GDP (millions US$)	3,199	4,315	4,073	4,161	4,190

Source: National data sources, IMF, and World Bank staff estimates.
e = estimate
f = forecast
1/ External debt
2/ Central bank foreign exchange reserves + Petroleum Fund balance

VIETNAM



Population	87.8 million
Population growth	1.0 percent
GDP (PPP, int'l US$ billions)	301.7
GDP per capita (PPP, int'l US$)	3,435
Surface area	329,310 sq.km.
Capital	Hanoi

Source: World Development Indicators.

Summary

Tightened monetary and fiscal policies in 2011 have helped restore macroeconomic stability. Inflation has fallen significantly, but the economy has also slowed down. In response, the government has lowered key policy rates and introduced tax relief measures. But the supply side response has been muted because domestic firms are highly leveraged and credit growth has fallen sharply. Export-oriented foreign enterprises are performing well, but a prolonged global growth slowdown could adversely affect exports over the medium-term. Moreover, there is slow progress on structural challenges (state-owned enterprise [SOEs], banks, and public investment), which heightens Vietnam's vulnerability to shocks.

Recent Economic Developments

Stabilization measures and an unfavorable external environment have led to slower growth 2012. In response, the State Bank of Vietnam (SBV) cut interest rates by 500 basis points between March and July 2012. In addition, the government in May 2012 introduced a number of tax relief measures to help mainly domestic small and medium enterprises (SME; Resolution 13), after sluggish GDP growth of 4 percent in the first quarter. Growth subsequently picked up at 4.7 percent in the second quarter and 5.4 percent in the third, raising real GDP growth to 4.7 percent for the January to September 2012 period. The World Bank expects the economy to grow at 5.2 percent in 2012, which is the slowest growth rate Vietnam has experienced in a decade.

Current Inflation Cycle Reaches its Trough

The year-on-year headline inflation fell from 23 percent in August 2011 to 5 percent in August 2012. This was due to a fall in the price of food and foodstuff from 34 percent to 2 percent over the same period, and to tighter fiscal and monetary policies until earlier this year. Prices in September jumped 2.2 percent, primarily on account of higher prices of medicine, health-care services, and petroleum products. Another factor was the cost of educational services, which increased due to higher back-to school spending. Year-on-year inflation stood at 7 percent in October 2012, signaling that inflation had bottomed out at 5 percent in August 2012, and will be on an upward trajectory until the first quarter of 2013. Inflationary pressures may reemerge through the lagged effects of accommodative policies and heightened global food and oil prices.

Export Sector Continues to Perform Well

Vietnam's external balance position remains strong. Total export turnover between January and October 2012 is estimated at $93.5[68] billion, rising 18.4 percent from the same period last year. Export-oriented foreign enterprises have performed well relative to the sluggish domestic enterprise sector. This is partly because stabilization policies have affected domestic enterprises more, and partly because of recent coming on stream of production capacity

68 All dollar amounts are U.S. dollars unless otherwise indicated.

in a number of foreign enterprises predominantly in electronics—this situation causes domestic enterprises, particularly SOEs, to lose market share. Total imports are estimated at $93.8 billion, up 6.8 percent year on year. The trade balance has improved, which could contribute to a current account surplus this year. International reserves have built up from less than seven weeks of import cover (at the end of 2011) to about 10 weeks (June 2012), which amounts to roughly $20 billion.

Monetary Policy has Loosened and Exchange Remains Stable

The SBV has cut key policy rates by 500 basis points between March and July 2012. However, as of mid September, total credit has grown by only 2.35 percent since the beginning of the year, which is considerably lower than the 15 percent target for 2012. At the same time the loan to deposit ratio has gone from 100–120 percent between 2009 and 2011, to 90 percent in July 2012. The exchange rate has been stable since the beginning of 2012. The reference rate on the VND has remained the same at VND 20,828 per U.S. dollar for nearly a year. The demand for foreign currencies may rise in the last quarter to repay loans and pay import bills. But these pressures are likely to be limited in 2012 because of slower growth.

Slower Domestic Revenue Collection in the First Nine Months of 2012

A combination of economic slowdown and tax relief for enterprises has contributed to lower than expected domestic revenues in the first nine months of 2012. Revenues have declined 0.6 percent in nominal terms compared to the same period last year. Government expenditure in the first nine months of 2012 has remained on track. Discipline over capital expenditure has been maintained. The overall impact on the government's 2012 fiscal deficit target is still uncertain though may increase to around 5.2 percent of GDP. Oil revenue will be higher than what was budgeted, and tax collections may increase in the last quarter as the economy gathers pace. The preliminary estimates for the 2013 Budget show efforts to bring the fiscal deficit down to 3.8 percent of GDP, including a possible small reduction in on-budget capital expenditure.

Structural Challenges are a Drag on the Economy

Vietnam's slower growth in recent years (average 6.1 percent in 2008–11 compared to 8.3 percent in 2003–07) is due to falling productivity growth resulting from a slow pace of structural reforms. Inefficiencies in SOEs, banks, and public investments are a drag on Vietnam's long-term growth potential. The government has prioritized reforms in these areas, but progress needs to accelerate. There are concerns over the health of the financial sector. Nonperforming Loans (NPLs) are officially reported to be around 8.6 percent of total loans outstanding but in reality could be much higher. This is closely linked to the banking system's exposure to poorly performing SOEs. There is an urgent need to clean up banks' balance sheets to avoid further escalation of costs.

Banking Sector and SOE Reforms Could Unlock Growth Potential

The government in March adopted a decision to deal with weak banks, setting out targets to reduce NPLs and increase provisioning. Under this decision, the government is pursuing several options, including the following: acquisition of weak banks' equity by the SBV for eventual divestiture; allowing increased foreign ownership of domestic banks; incentives for State-Owned Commercial Banks (SOCBs) and joint stock commercial banks to purchase weak banks' assets; and selling off bad debts. In parallel to this, the government plans to significantly strengthen banking sector supervision by introducing new regulatory measures. This is the most concerted effort to date in trying to address banking sector challenges. But implementation will be a challenge, including absorption of fiscal costs from potential bank recapitalization.

In July 2012, the government adopted a decision to restructure Economic Groups (EGs) and General Corporations (GCs), which are the largest state enterprises in Vietnam. EGs and GCs are preparing restructuring plans to accelerate equitization (that is, diversifying ownership, attracting strategic investors, and promoting capital market development), strengthen corporate governance, and better monitor performance of and fiscal risks from state enterprises. The government is also introducing new measures to help strengthen regulation and oversight of state enterprises. There has been some progress. As of mid-October, around 53 EGs and GCs have prepared restructuring plans, 26 of which the government has approved. In October 2012, the Prime Minister ended the pilot of two out of twelve EGs: the Vietnam Industry Construction Group and the Housing Urban Development Group. These are welcome, although the restructuring plans are likely to require further work, and the slowdown in domestic and foreign investments will make it difficult to meet equitization targets.

Outlook and Emerging Challenges

The worsening global economy and limited policy space to maneuver domestically could jeopardize the macroeconomic stabilization gains achieved in 2012. There is an increasing degree of uncertainty in the financial markets about the state of the economy and policy directions. This uncertainty will require a delicate balancing of growth and stability objectives even during this economic downturn. Without credible restructuring of SOEs and banks, the upside growth potential will remain highly limited.

Vietnam: Key Indicators

	2010 Year	2011e Year	2012f Year	2013f Year	2014f Year
Output, Employment and Prices					
Real GDP (% change y-y)	6.8	5.9	5.2	5.5	5.7
Domestic demand (% change y-y)	10.3	-0.5	3.3	4.4	5.0
Industrial production index 1/					
(% change y-y)	9.3	6.8	5.5	6.0	6.5
Unemployment (%) 2/	4.3	3.6	4.0	4.0	4.0
Consumer price index (% change y-y)	9.2	18.6	9.0	8.5	7.3
Public Sector					
Government revenues (% GDP)	29.6	27.7	26.1	25.4	25.5
Government expenditures (% GDP)	32.7	30.9	31.3	29.2	29.1
Government balance, official (% GDP) 3/	-0.7	-1.5	-3.7	-2.3	-2.0
Government balance, general (% GDP) 4/	-3.1	-3.2	-5.2	-3.8	-3.5
Public sector debt (% GDP) 5/	54.0	55.4	53.7	53.3	53.1
Foreign Trade, BOP and External Debt					
Trade balance (billions US$)	-5.1	-0.5	6.4	5.8	5.7
Exports of goods (billions US$)	72.2	96.9	113.4	129.5	149.2
(% change y-y)	26.4	34.2	17.0	14.2	15.3
Key export (% change y-y) 6/	-23.0	45.9	15.0	5.0	5.0
Imports of goods (billions US$)	84.8	106.7	116.3	134.4	156.0
(% change y-y)	21.2	25.9	9.0	15.5	16.1
Current account balance (billions US$)	-4.3	0.2	3.7	1.9	1.4
(% GDP)	-4.1	0.2	2.7	1.3	0.9
Foreign direct investment (billions US$)	7.1	7.1	7.2	7.3	7.5
External debt (billions US$) 5/	45.4	50.1	54.7	59.8	63.5
(% GDP)	43.8	40.8	40.2	39.8	38.6
Debt service ratio (% exports of g&s)	3.3	2.8	3.4	3.7	3.1
Foreign exchange reserves, gross (billions US$)	12.4	13.6	..	..	..
(months of imports of g&s)	1.8	1.5	..	..	..
Financial Markets					
Domestic credit (% change y-y)	32.4	14.3	6.0	12.0	15.0
Short-term interest rate (% p.a.) 7/	11.6	14.9	9.0	..	
Exchange rate (Dong/US$, eop) 8/	19,498	20,828	20,828	..	..
Real effective exchange rate (2000=100)	117.4	122.7	..	..	..
(% change y-y)	1.0	4.5	..	..	..
Stock market index (Jul. 2000=100) 9/	484.7	351.6	382.1	..	..
Memo: Nominal GDP (billions US$)	103.6	122.7	135.9	150.0	164.6

Sources: Vietnam Government Statistics Office, State Bank of Vietnam, IMF, and World Bank staff estimates.
e = estimate
f = forecast
1/ The industrial production index (IPI) is a new series replacing previous "industrial production value in constant 1994 price".
2/ Urban areas
3/ Excludes off-budgetary items
4/ Includes off-budgetary items
5/Public and publicly-guaranteed debt. Forecast by Debt Sustainability Analysis 2012
6/ Crude oil (value)
7/ Three-month deposit, end-of-period. Data for 2012 is as of December 4.
8/ Central Bank's interbank exchange rate. Data for 2012 is as of December 4.
9/ Ho Chi Minh Stock Index. Data for 2012 is as of December 4.