WORLD BANK GROUP

Reducing Vulnerabilities

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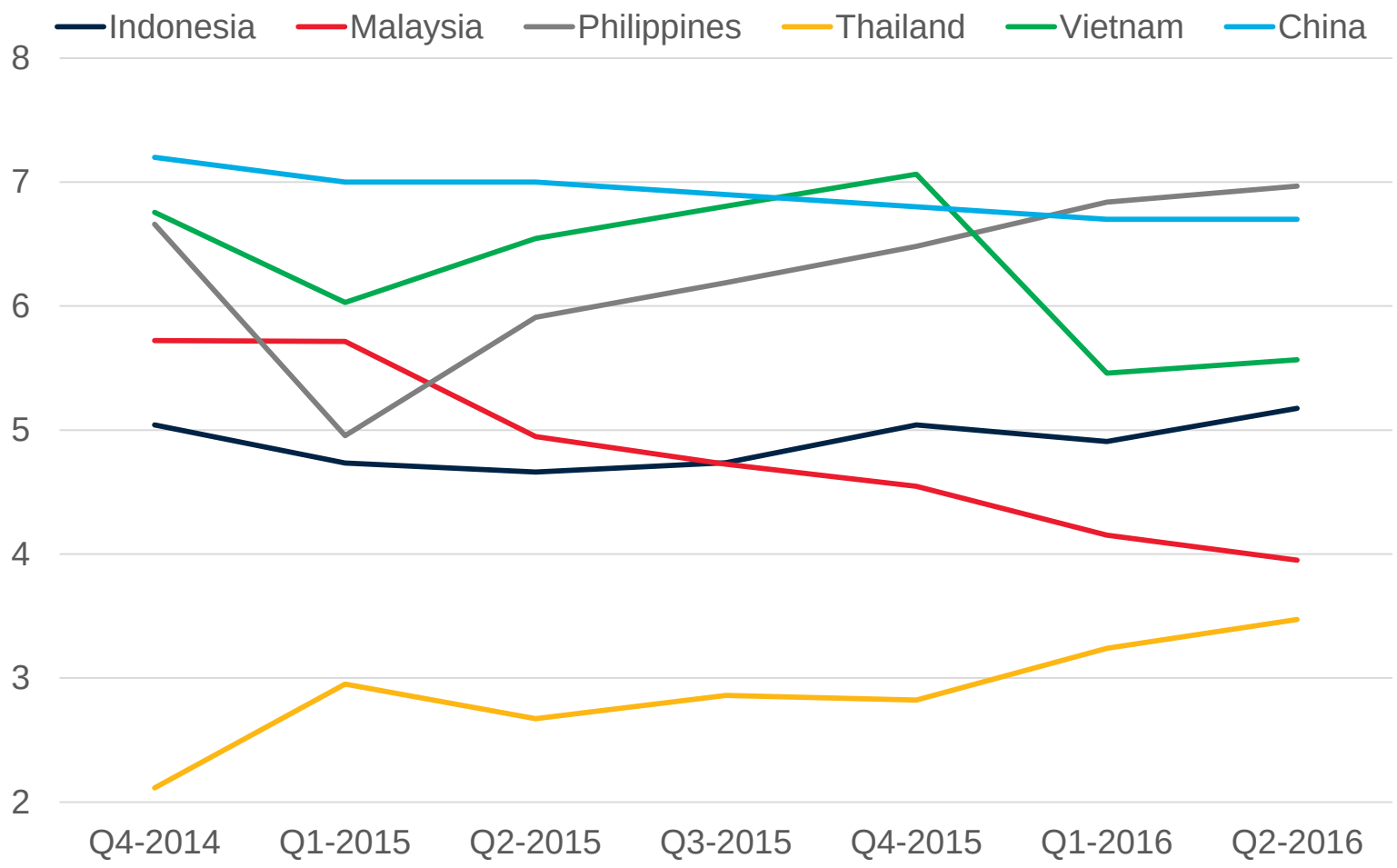
RECENT TRENDS

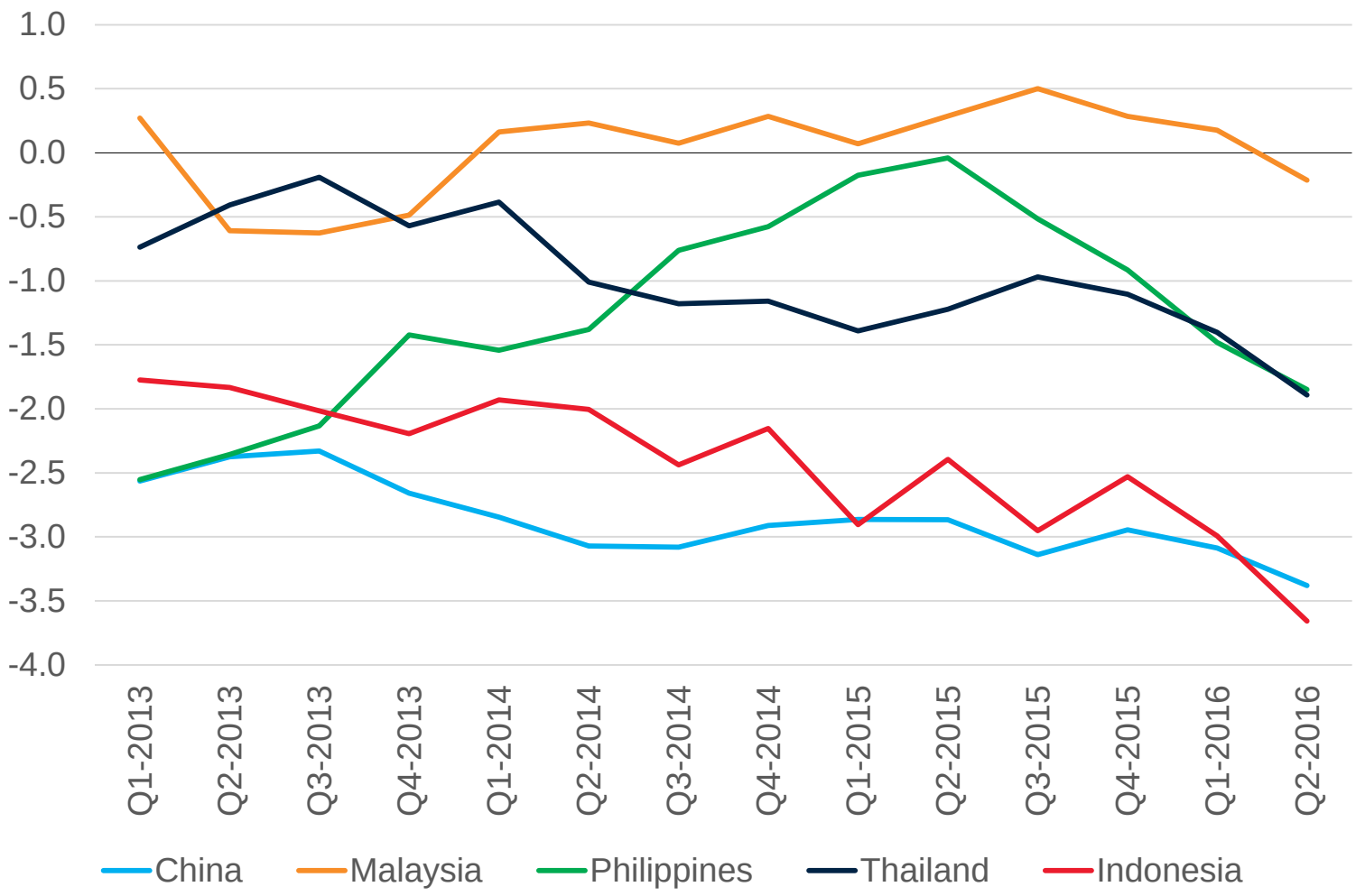
Growth Continues To Be Resilient …

(GDP growth, year-on-year percent change)



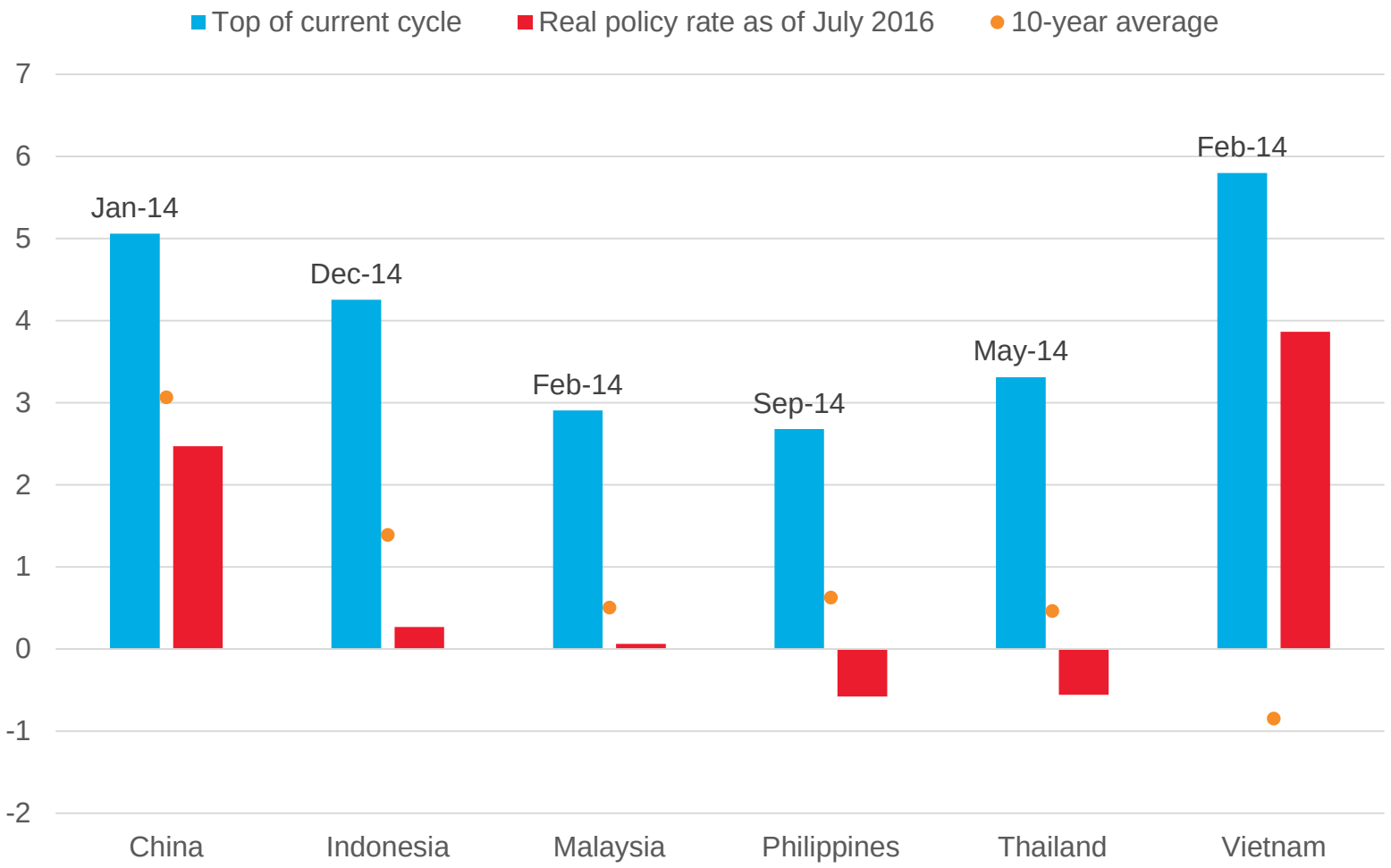
… Supported by Fiscal Stimulus

(General government fiscal balance, four quarter moving average, percent of GDP)



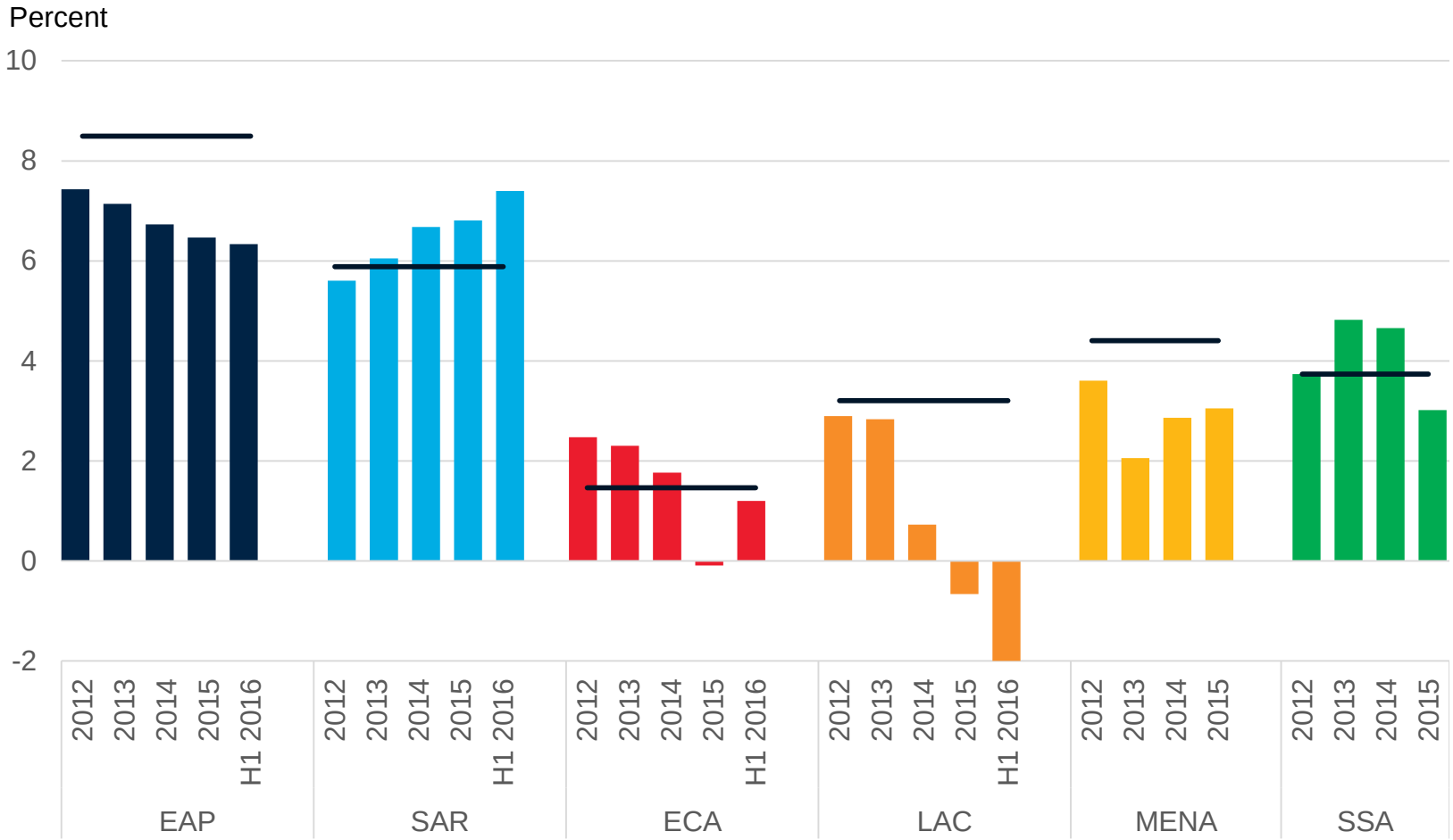
And Monetary Accommodation …

(Real policy rate, percentage points)



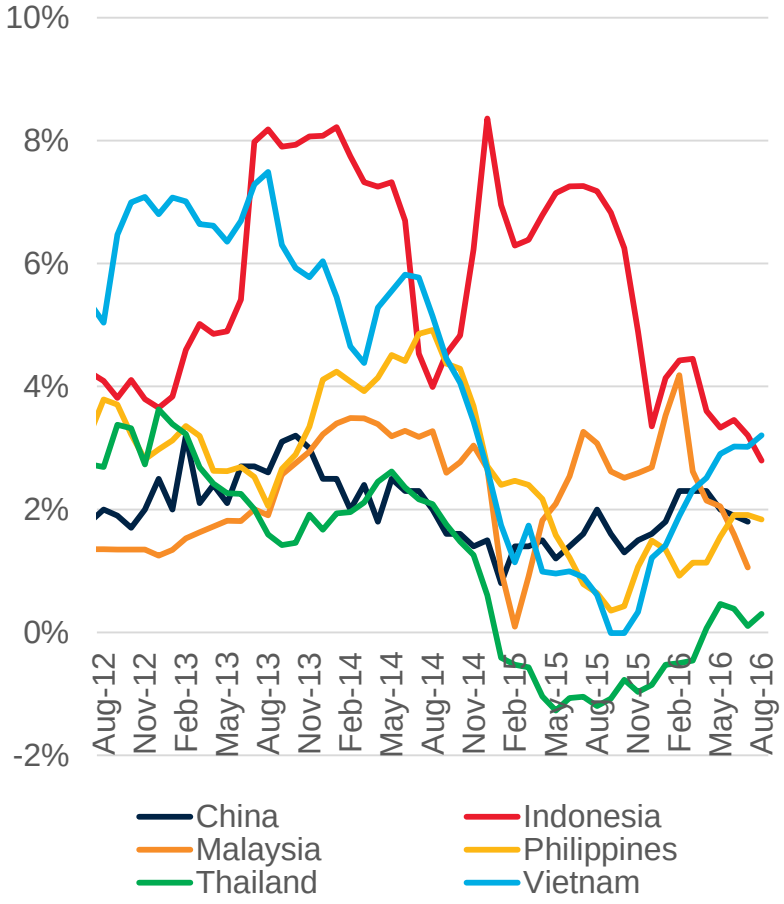
… And EAP Has Outpaced Other Developing Regions

(Regional GDP growth, percent)

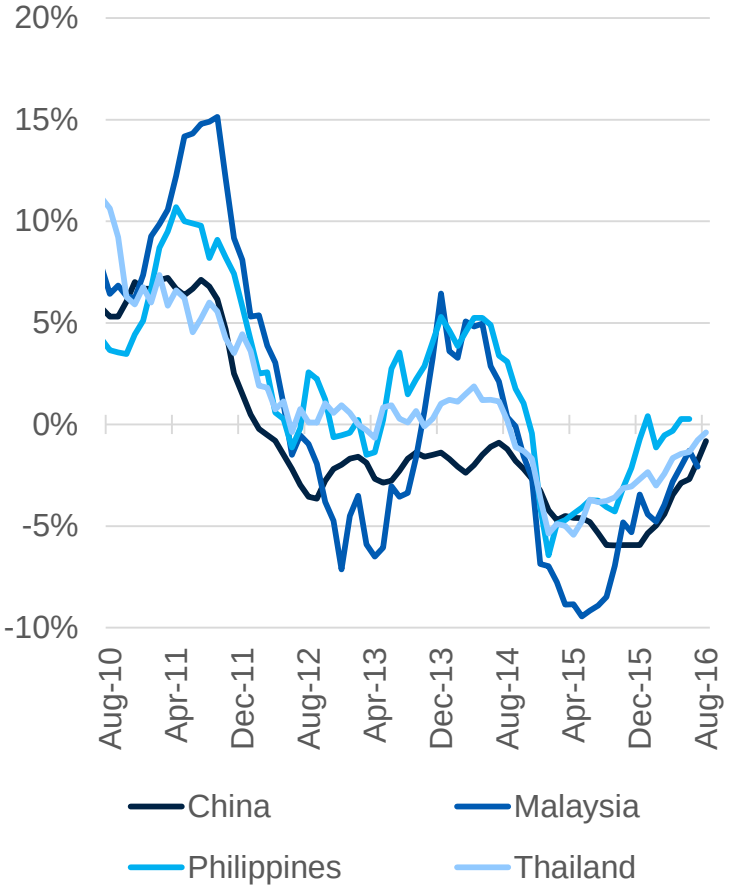


Inflation Remains Subdued While Deflation Risks Are Receding

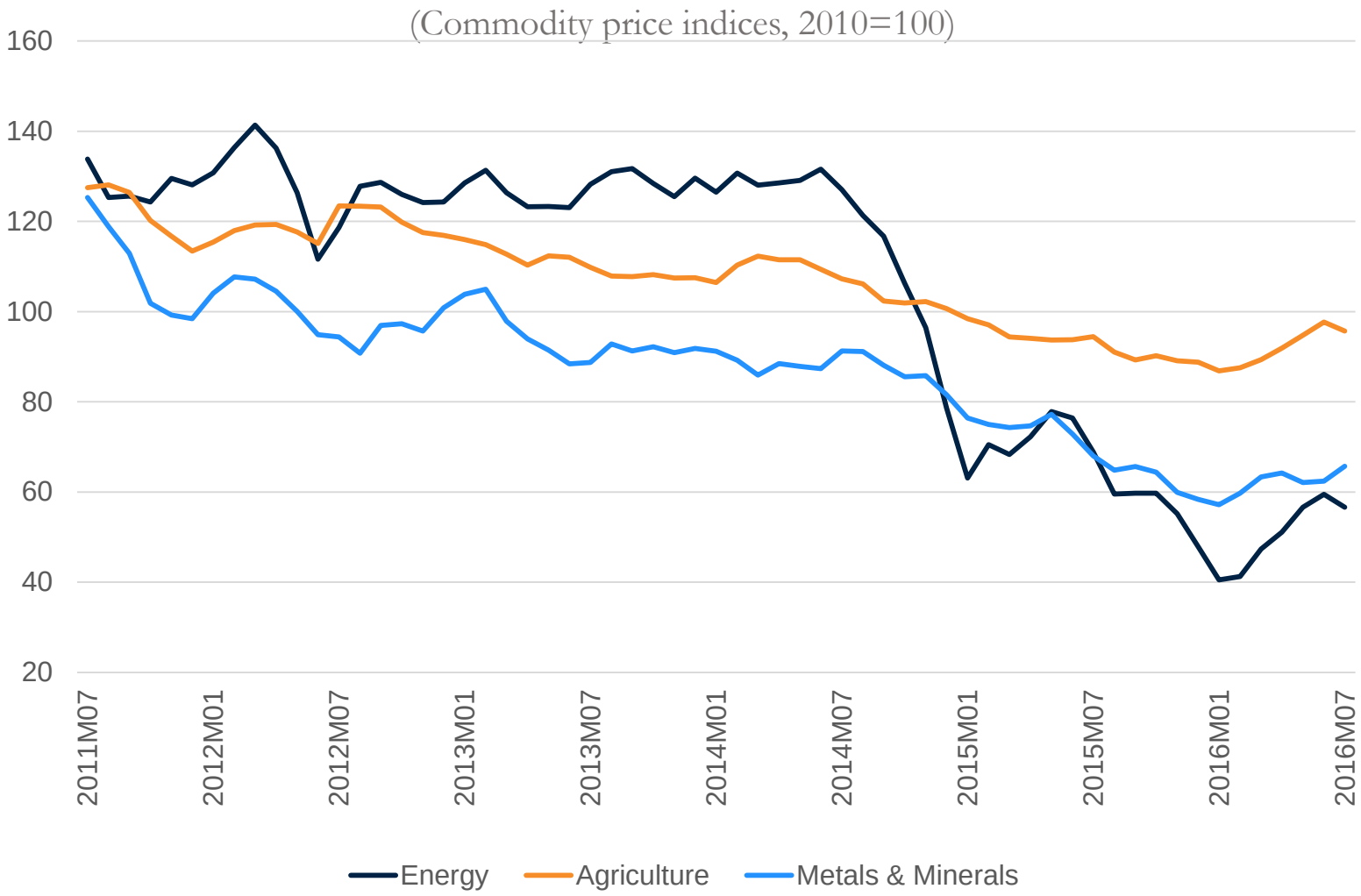
(Headline inflation, end of period year-on-year, percent)



(Producer price inflation, end of period year-on-year, percent)

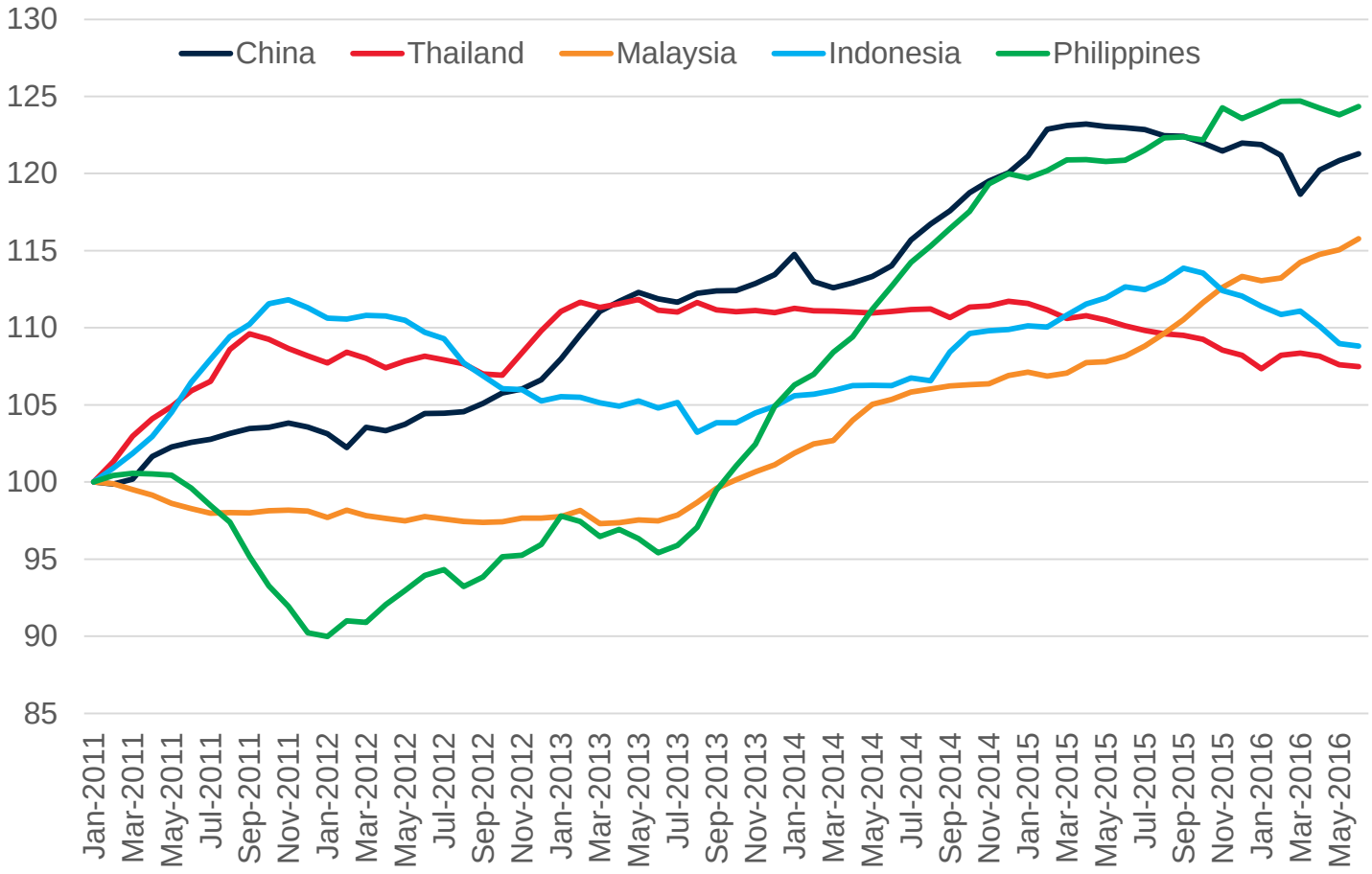


Commodity Prices Remain Low …

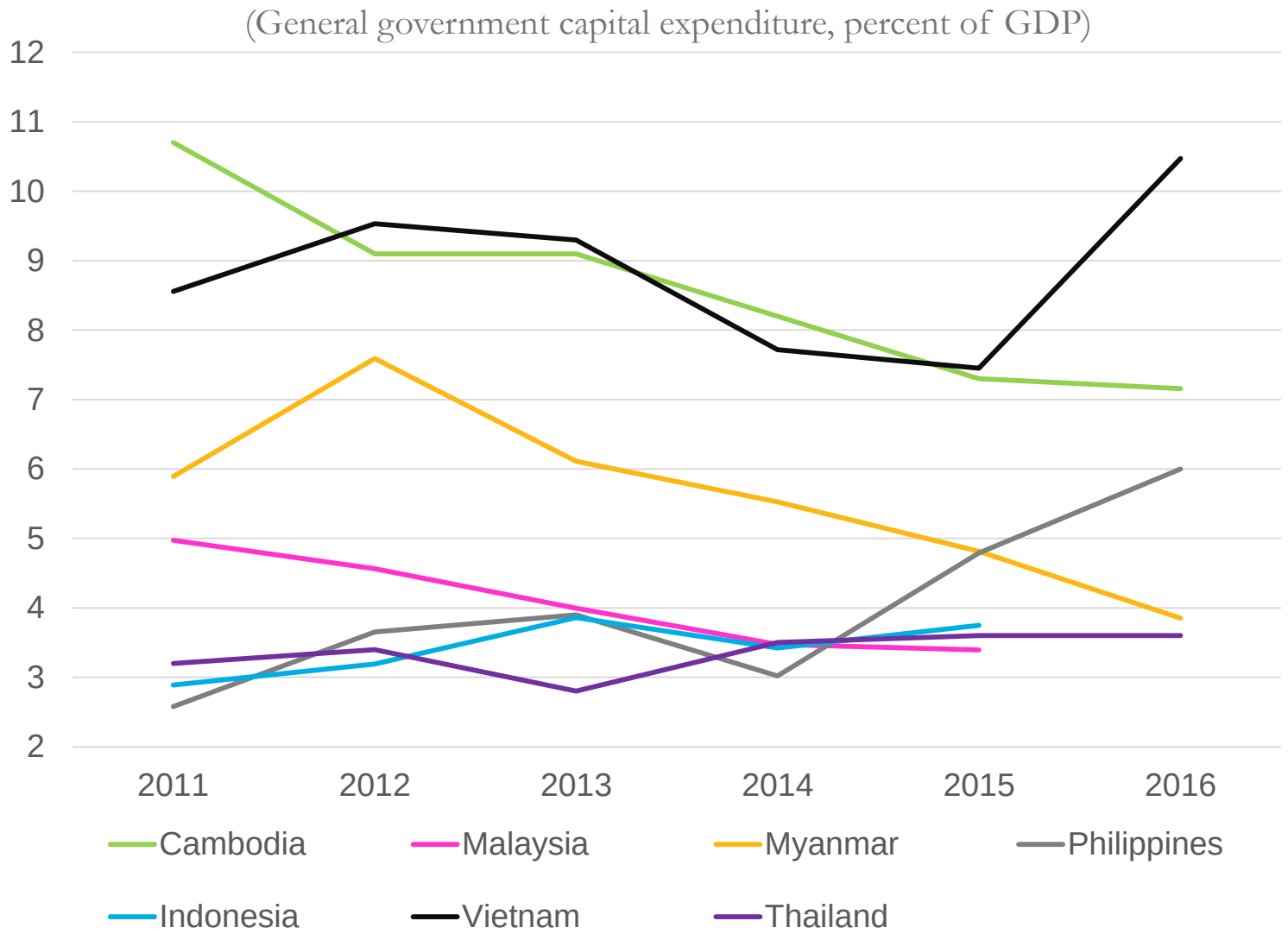


Trade Balances Have Weakened

(Export volumes, index of 12-month moving sum, Jan 2011 = 100)



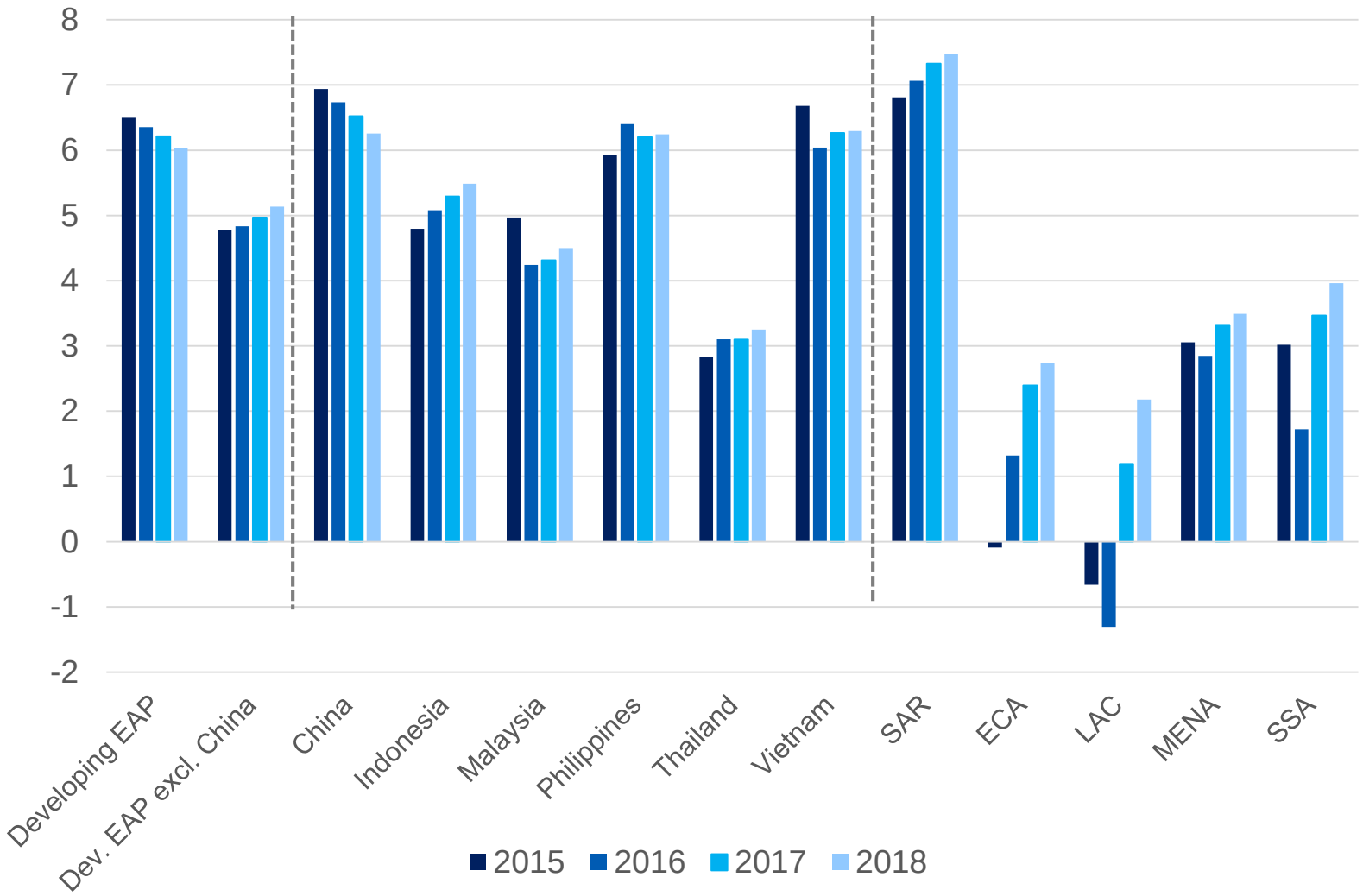
Public Investment Remains Low In Many Countries



OUTLOOK AND RISKS

Growth in Developing EAP Will Likely Be Stable

(Annual percentage change in GDP)



And Poverty Is Expected To Continue Falling

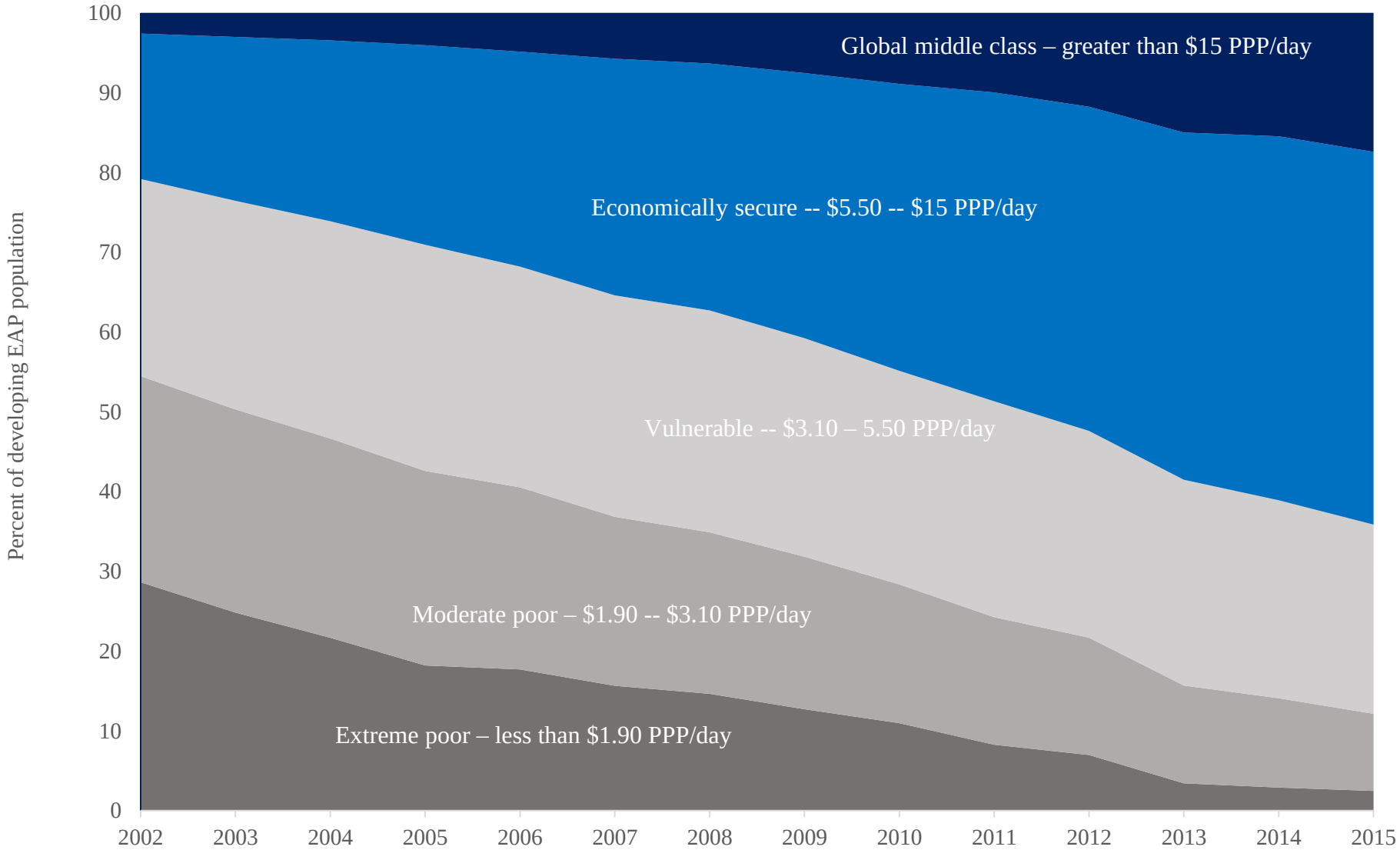
(Percentage of population in poverty, U.S.$3.10-a-day PPP poverty line)

DEVELOPING EAP				
	2015	2016	2017	2018
Poverty rate (percent)	12.1	10.6	9.3	8.3
Number of poor (millions)	251	223	197	175

DEVELOPING EAP EX-CHINA				
	2015	2016	2017	2018
Poverty rate (percent)	20.3	19.0	17.7	16.4
Number of poor (millions)	145	137	129	121

The Rising Middle Class in East Asia

(Distribution of consumption – 2002-15)



But Significant Risks Remain for Developing EAP …

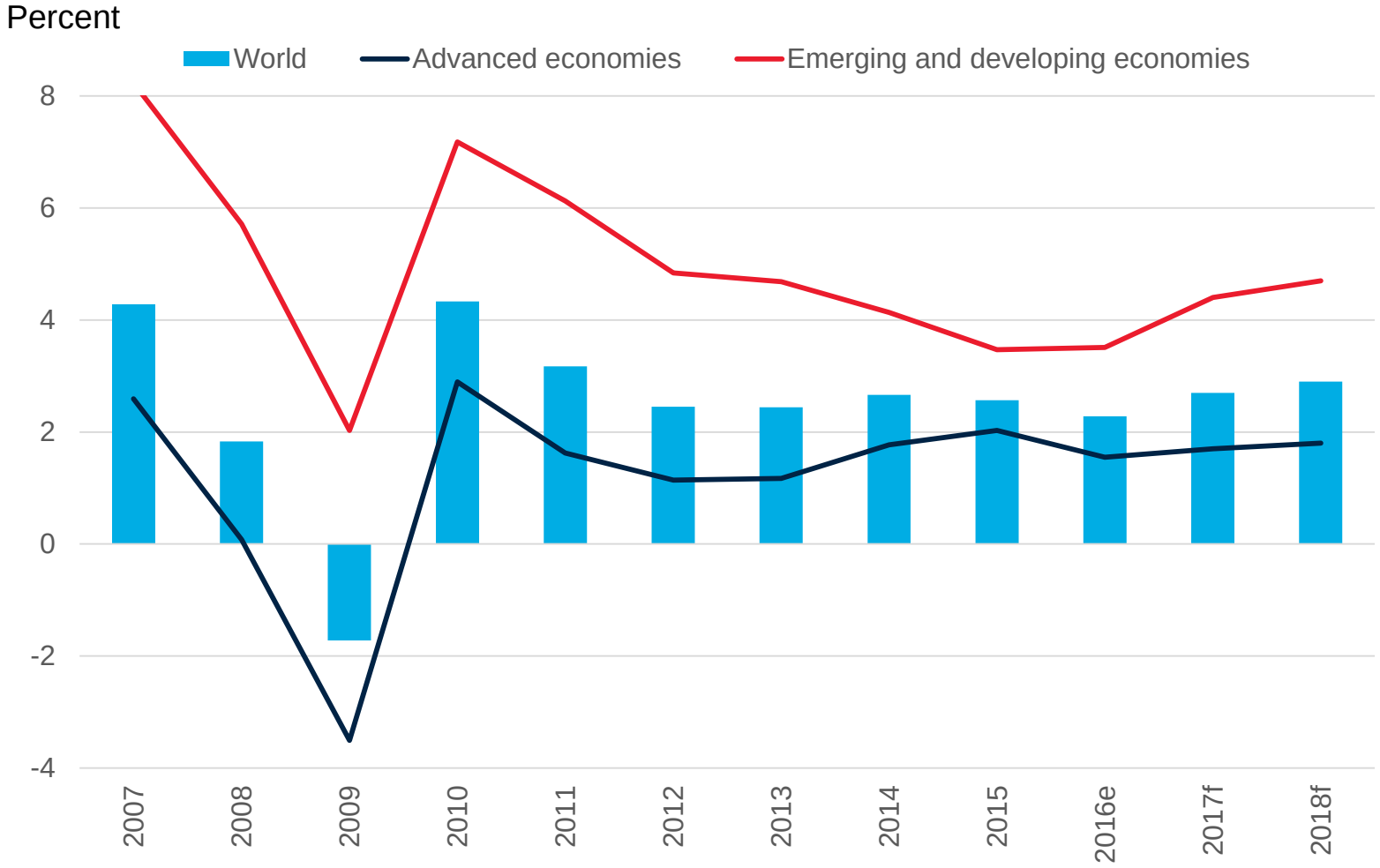
- **Sharper than expected slowdown in advanced economies or China**
  - *Continued slow growth in global trade*
  - *Weak commodity prices*

- **Financial market turbulence**
  - *Higher borrowing costs*
  - *Capital flows could slow or reverse*

- **High domestic leverage**
  - *Growing risk of financial stress among corporates and households*
  - *Impacts exacerbated by external shocks*

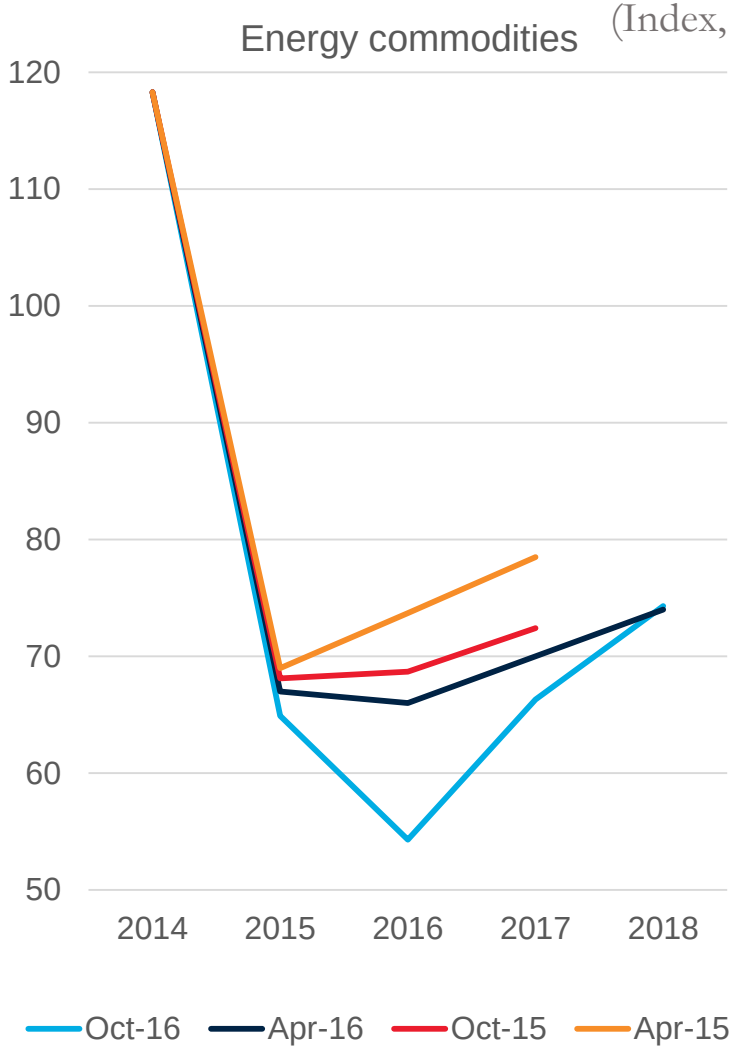
Growth in Advanced Economies Will Likely Be Slow

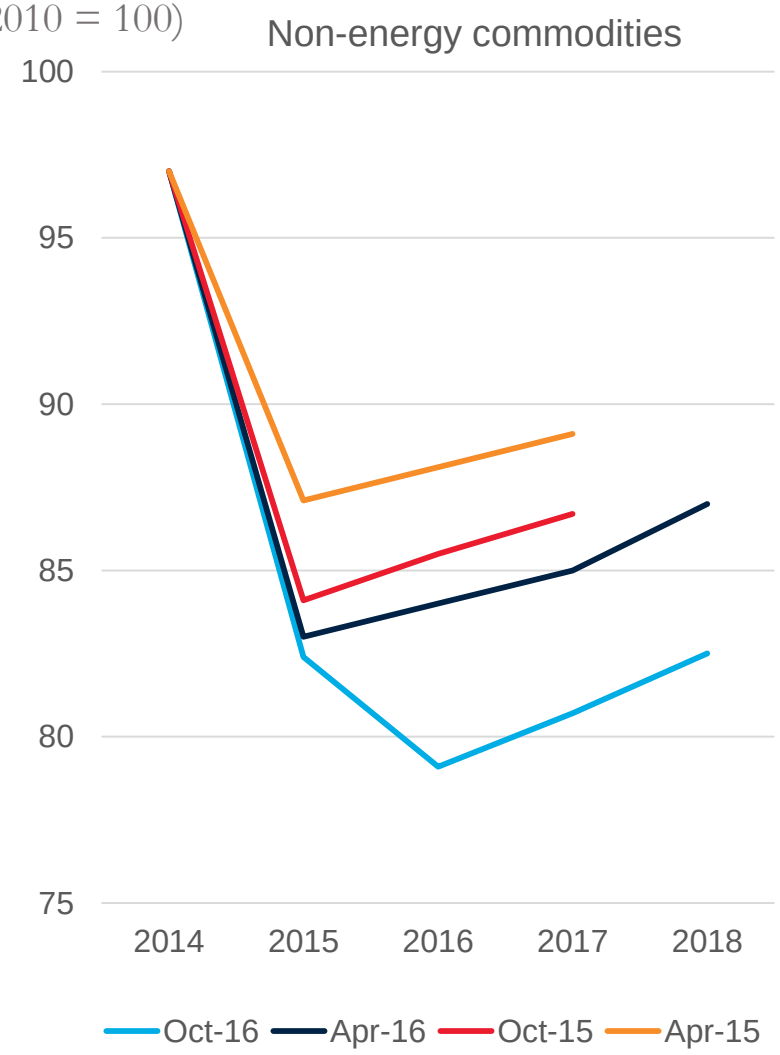
(Annual percentage change in GDP)



And Commodity Prices Will Remain Low

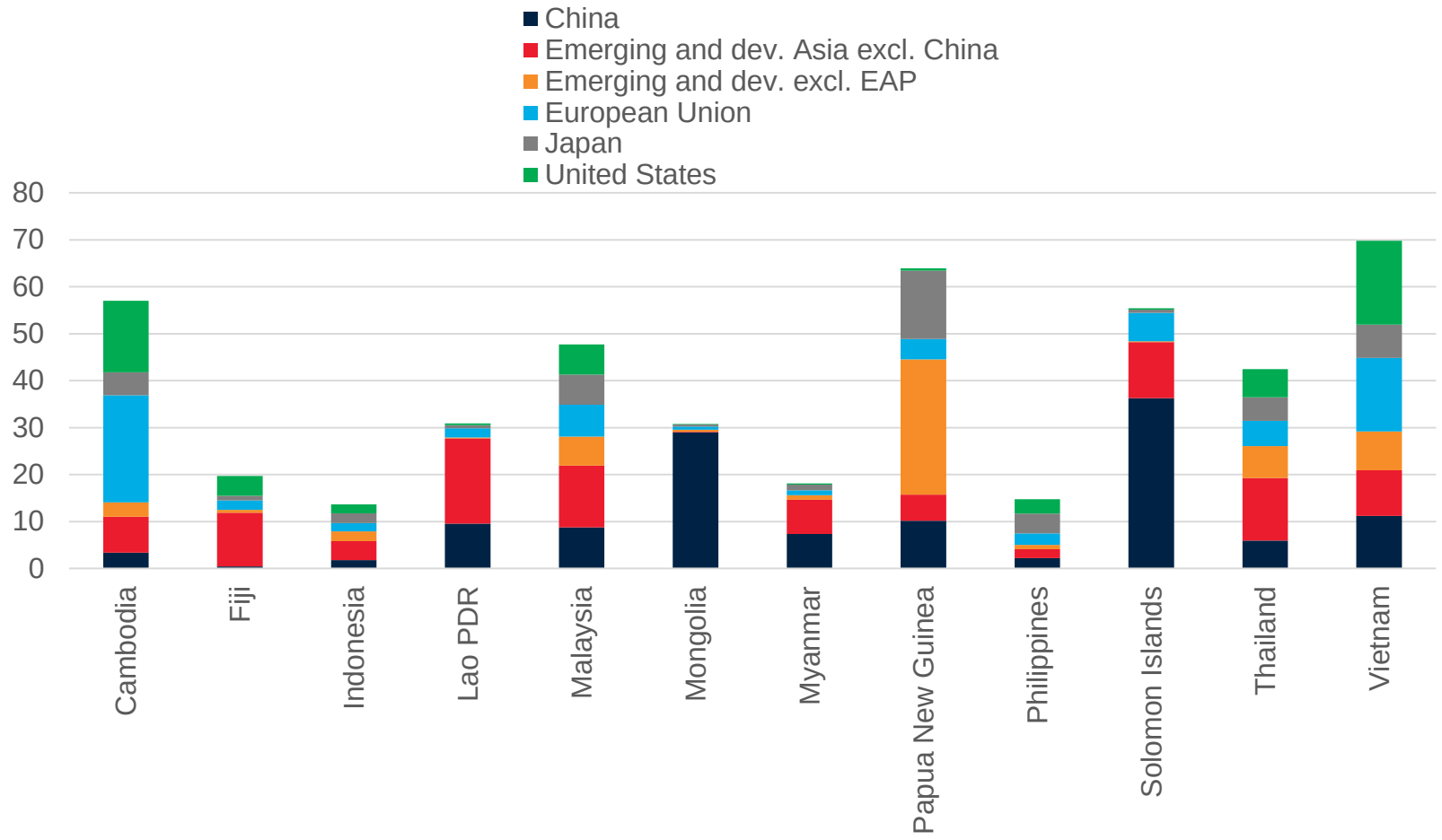
(Index, 2010 = 100)



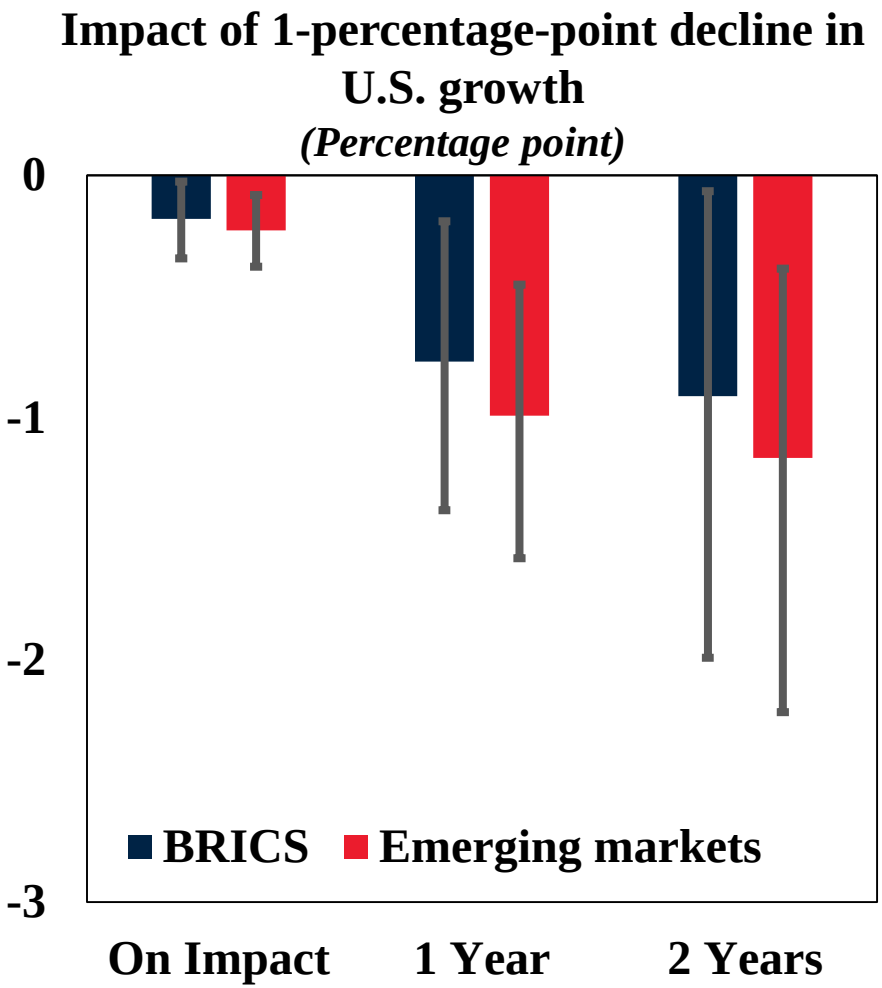


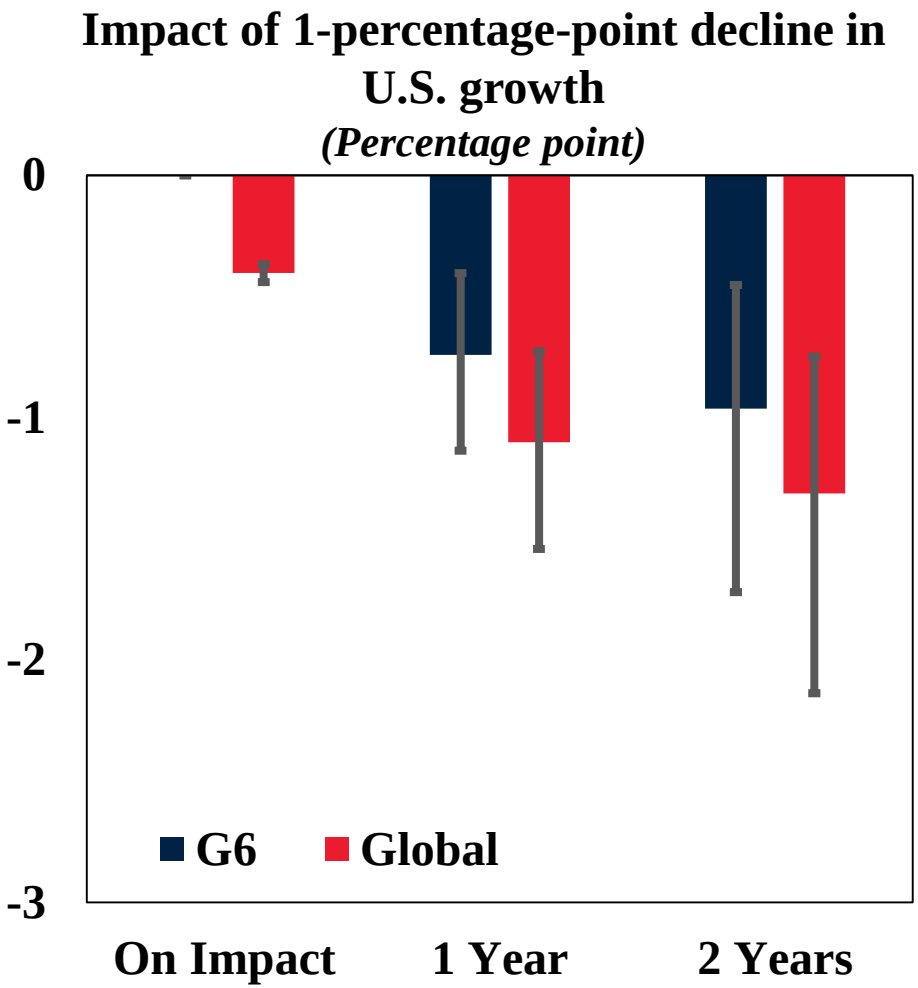
Regional Exports Depend On Global Growth Outlook

(Gross exports, percent of GDP, 2015)



When the U.S. Economy Slows… Other Economies Slow Too

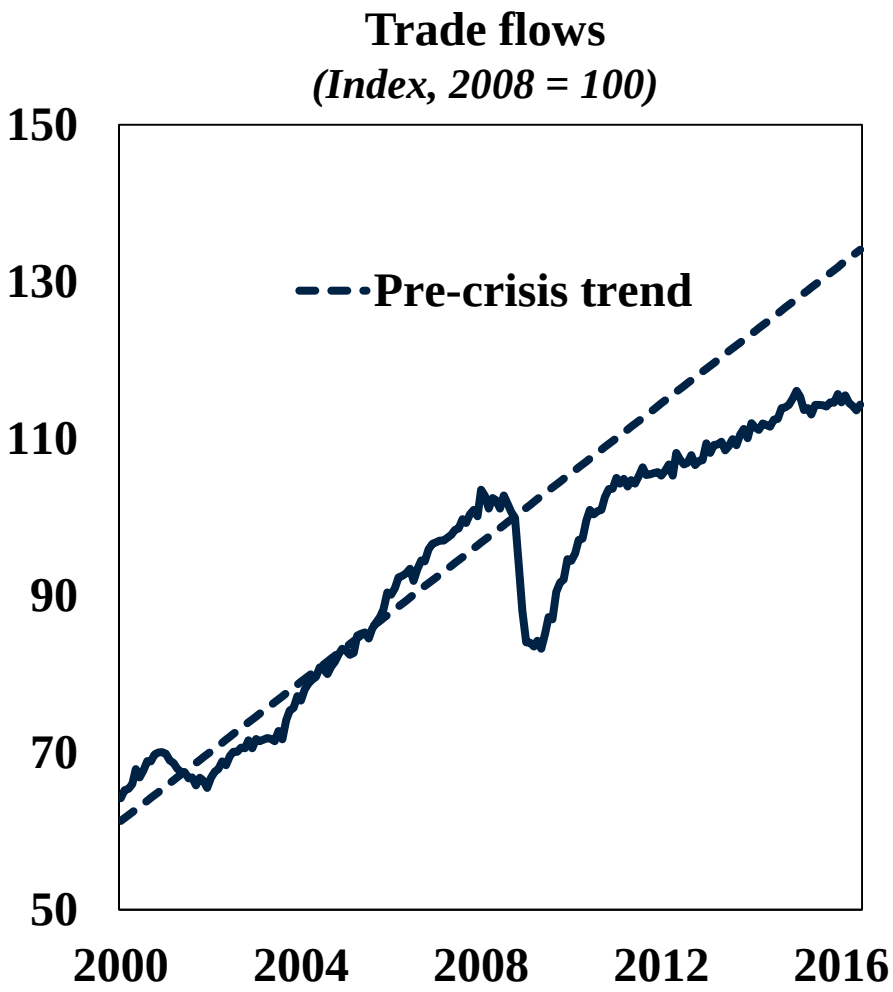


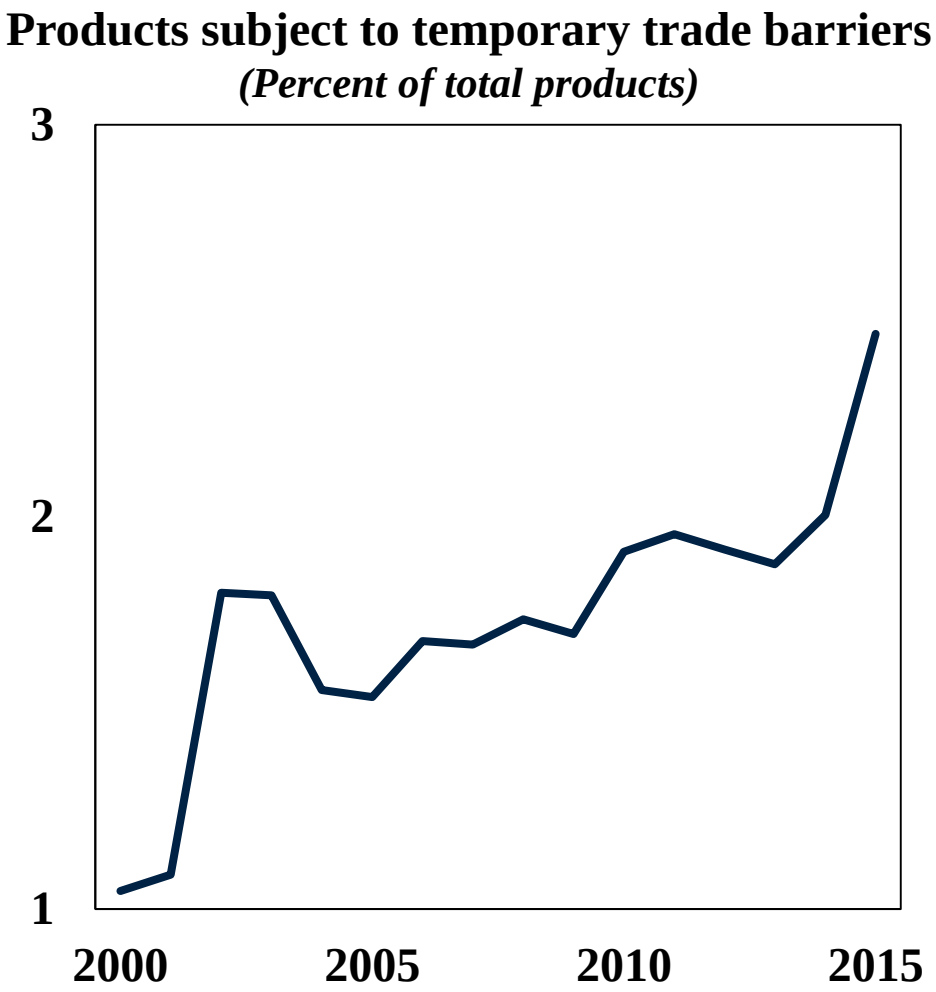


Source: World Bank.

Note: Cumulative impulse responses for different horizons due to a 1-percentage-point decline in US growth on impact. Bars represent medians, and error bars 16-84 percent confidence bands. Left Panel. Emerging markets (EM) impact is the GDP-weighted average of BRICS and EM (excluding BRICS) responses. Right Panel. Global impact is the GDP-weighted average of G6, US, BRICS, and EM (excluding BRICS) responses.

Retreat from Globalization?
Weaker Trade Growth; Growing Barriers

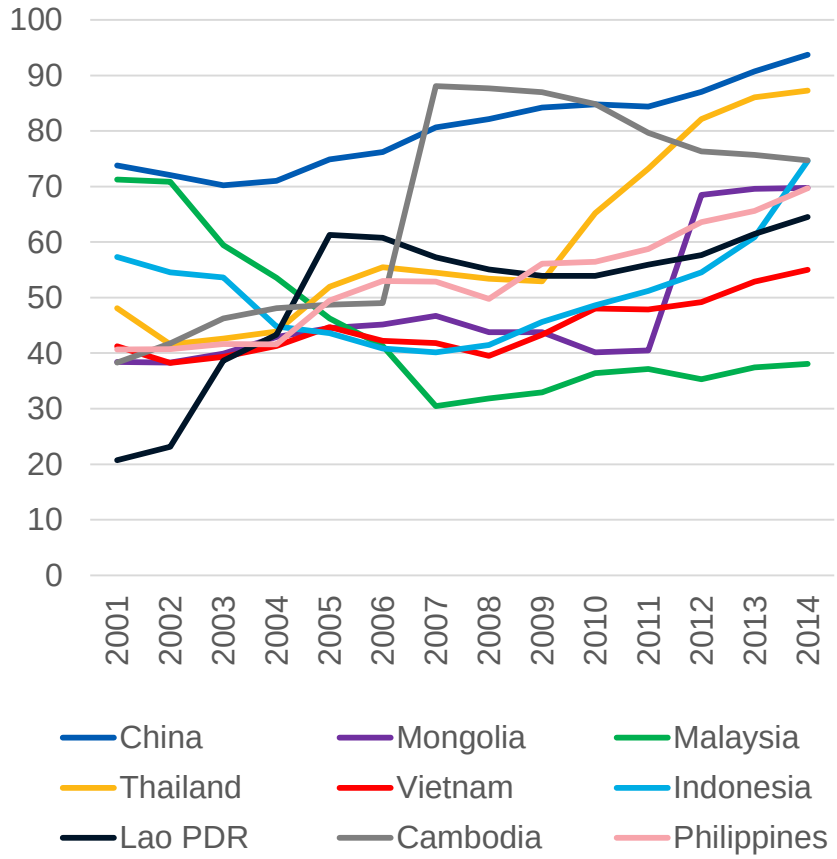




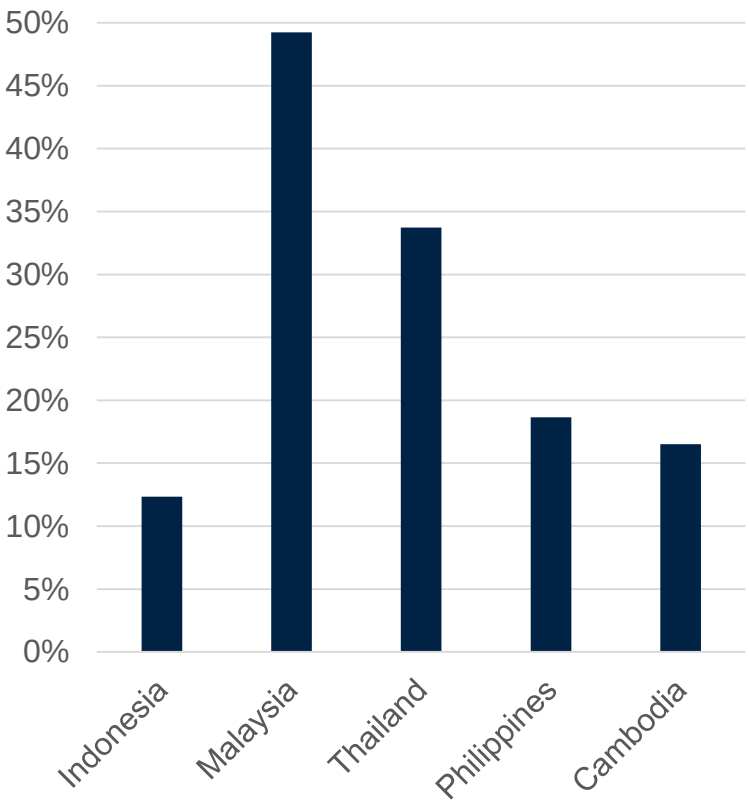
Sources: CPB Netherlands Bureau for Economic Policy Analysis, World Bank, IMF, Haver Analytics.
Left Panel. Pre-crisis trend is extrapolated from 2000-06 onwards. Trade flows refer to the average of exports and imports. Last observation is June 2016. Right Panel. Temporary trade barriers include antidumping, safeguards and countervailing duties. Based on the World Bank Temporary Trade Barriers database.

Global Financial Tightening Will Matter

(US$ denominated debt, percent of total public external debt)

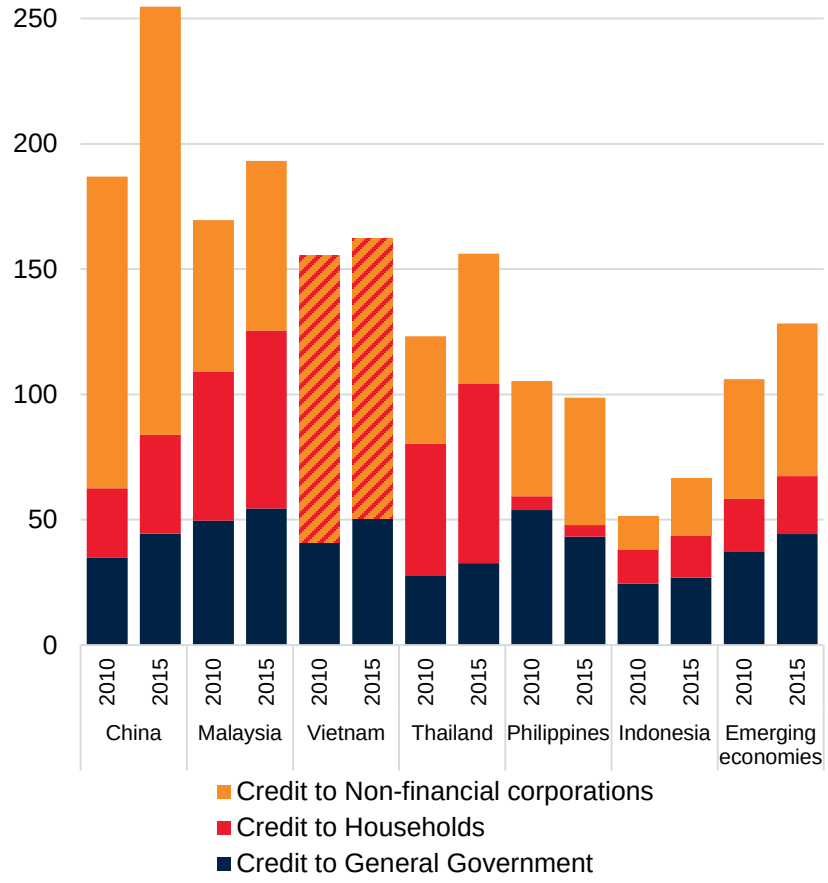


(Short-term debt, percent of gross external debt)

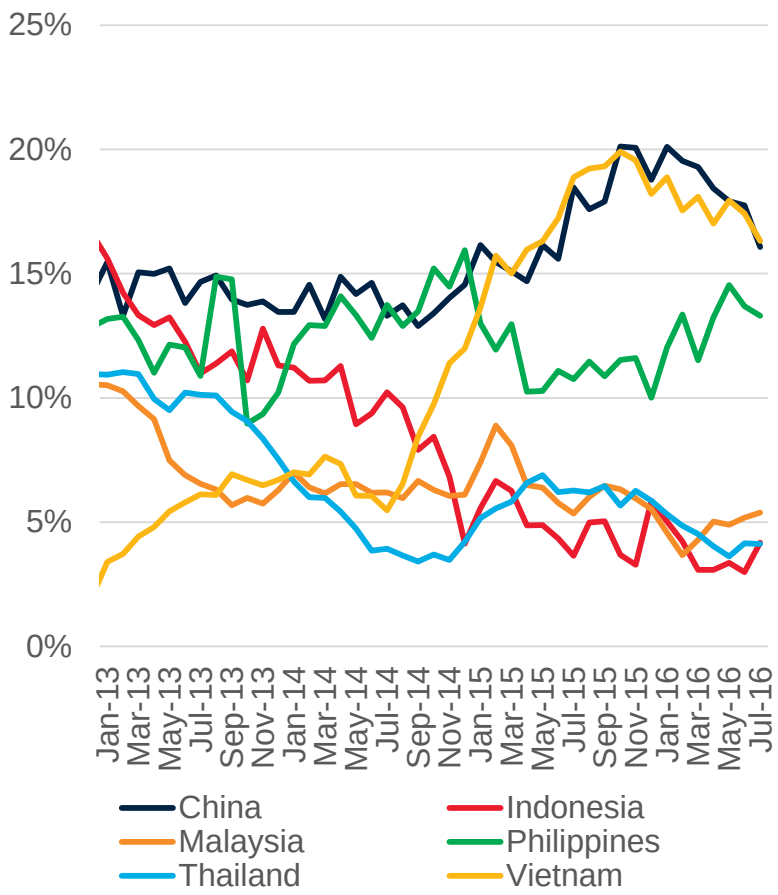


With High And Still Rising Private Sector Debt …

(Credit by sector, percent of GDP)

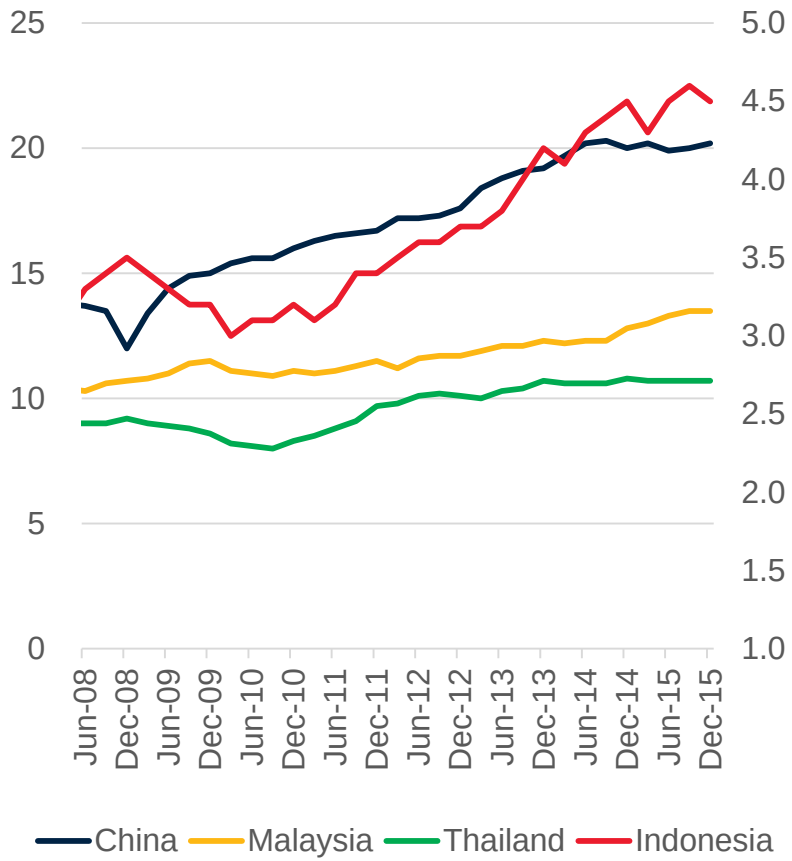


(Year-on-year real growth in private sector credit)

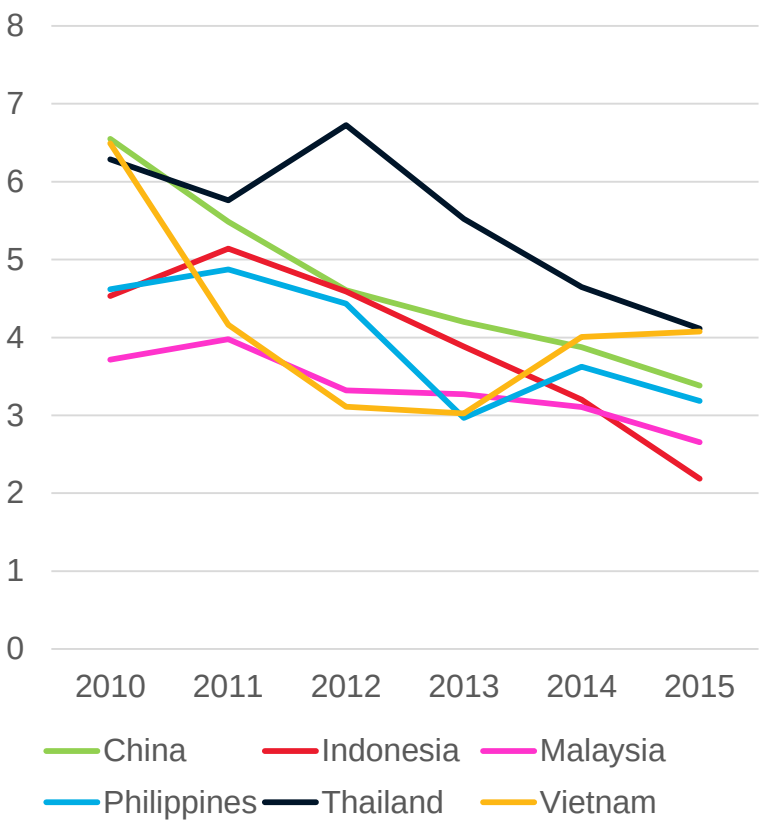


… A Key Source of Vulnerability In Many Countries

(Debt service as a percent of income)



(Return on assets, listed firms, percent)



POLICY IMPLICATIONS

Vulnerabilities Need To Be Reduced Across the Region

- Region's continued resilience hinges on preserving macrofinancial stability
  - By reducing financial risks
  - And maintaining or rebuilding fiscal buffers
- Global financial conditions are likely to tighten soon
  - Decisive action is needed now to maintain macro-financial stability

Policy Priorities For the Region

- In China:
  - Bring credit growth under control
  - Reform the corporate sector
  - Strengthen the inter-governmental fiscal system

- Elsewhere in Developing EAP:
  - Enhance financial regulation by strengthening regulatory oversight and implementing micro- and macro-prudential measures
  - Maintain fiscal space, including by increasing revenues
  - Some commodity exporters need to close fiscal deficits, e.g., Mongolia, Timor-Leste
  - Countercyclical stabilization not a priority, given stable growth prospects
  - Where there is fiscal space, focus new spending on addressing public infrastructure deficits
  - Improve the efficiency of public investment

Implications for Thailand

- Growth prospects for 2016-18 slightly more favorable than in the recent past
- Private consumption is the main driver of growth
- Stronger financial regulation, including of non-bank financial institutions
- Need to raise public investment, including to crowd in private investment
- Emphasize improved efficiency of public investment
- Streamline regulations to facilitate foreign direct investment flows

Prioritize Productivity-boosting Fiscal Spending

- Focus new spending on addressing priority infrastructure deficits, in partnership with private sector
- Increase the efficiency of public investment
  - Improve public investment management
  - Reduce bottlenecks to implementation

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