

## OVERVIEW

The Institute of Developing Economies (IDE-JETRO) has developed and maintains macro-econometric models for a total of ten economies – China, four East Asian NIEs (South Korea, Taiwan, Hong Kong Special Administrative Region [abbreviated hereafter as Hong Kong], and Singapore), and five ASEAN countries (Indonesia, Thailand, Malaysia, the Philippines, and Vietnam, hereafter abbreviated as the ASEAN 5).<sup>1</sup> The Institute is also undertaking joint studies with research institutions in all these countries and regions, with the purpose of improving these macro-econometric models and forecasting based on these models. The present economic outlook outlines the estimated performance of the ten East Asian economies in 2006 and the forecasts for their performance in 2007, which were obtained using these macro-econometric models.

### I. The East Asian Economies in 2006

#### *The Advanced Economies in 2006*

The U.S. economy, which posted a growth rate of 3.2% in 2005, is expected to post a rate between 3.0% and 3.5% in 2006, a rate virtually the same as in 2005, even though private consumption has slowed slightly consequent upon an adjustment in the housing market. The Japanese economy, which grew by 1.9% in 2005, has also seen its private consumption slow slightly during 2006, but is also expected to grow at a rate around 2% in 2006, a rate comparable to that in 2005, sustained by solid investment activities. The European Union (EU) is expected to register a growth rate of between 2.5% and 3.0%, accelerating slightly from the 2005 rate of 1.7%.

#### *Expected Performance of IT-related Industries*

After bottoming out in early 2005, the world market for semiconductors and related products has registered continuous growth. Although the market underwent a moderation phase in the first half of 2006, it is expected to head toward a recovery starting in the second half of the year.

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<sup>1</sup> The macro-econometric models of the ten countries and regions can be broken down into three different types: a) demand oriented models (China, South Korea, Taiwan, Hong Kong, Indonesia, Thailand, Malaysia, and the Philippines); b) a supply oriented model (Vietnam); and a monetarist model (Singapore). For the estimated and forecast values of the countries and areas described by econometric models of the demand oriented type, rates of changes for different demand components are summarized in the Appendix tables.

### *Assumption about the Price of Crude Oil*

The price of crude oil measured in terms of the average of the prices of three varieties of crude oil (West Texas Intermediate [WTI], U.K. Brent, and Dubai) rose by 41% in 2005, averaging 53 dollars per barrel for the year as a whole. The crude oil price shot up to more than 70 dollars per barrel for a short time in mid-year, but subsequently fell to below 60 dollars in 2006. The average crude oil price for 2006 as a whole is expected to be around 65 dollars per barrel, 22% above the 2005 price level.

It should be noted, however, that the sharp rise in the crude oil price for a third consecutive year has not triggered any inflationary fever in the advanced countries, with the result that general prices (as measured by GDP deflator) in the United States, the EU, and Japan are all expected to remain stable in 2006.

### *With the U.S. Dollar Remaining Relatively Strong, the Yen's Exchange Rate Is Expected to Stay within the Lower 116 Yen Range*

In January 2006, the yen's exchange rate against the U.S. dollar stood at a monthly average of 115.5. Subsequently, the U.S. dollar has remained on an appreciating trend, primarily reflecting a series of raises in the U.S. policy rate. Consequently, the yen's exchange rate against the U.S. dollar for 2006 as a whole is expected to stay in the lower 116 yen range, depreciating by approximately 5% from the 2005 rate.

### *The United States' Imports from East Asia*

Table 2 and Figure 2 summarize U.S. imports from East Asia in the January-September period of 2006, when total U.S. imports from all over the world increased by 13.4% over the same period one year earlier.

Imports from China in the nine-month period increased by 17.2% over the same period one year earlier, a rate 6.6 percentage points lower than the rate of increase in 2005 as a whole.

U.S. imports from the four East Asian NIEs decreased by 2.6% in 2005 as a whole. This decline took place partly because of the fact that, as China gained importance as a base for the assembly of finished manufactured products and as an increasingly large number of firms based in the East Asian NIEs set up manufacturing operations inside China, exports of final products from the NIEs to the United States began to decrease. It is also worth noting that U.S. imports from Hong Kong decreased by a large margin of 18.7% in the third quarter of 2006 compared with the same quarter one year earlier, and those in the January-September period also decreased by 4.5% over

the same period one year earlier. It seems plausible to reason in this case, too, that an increase in Mainland China's direct exports to the United States, bypassing Hong Kong, has brought about a decrease in Hong Kong's re-exports to the United States. Total U.S. imports from all the NIEs around the world in the same nine-month period increased by 8.5%.

Among U.S. imports in the January-September period of 2006 from the ASEAN 5, it is notable that those from Vietnam, where industrialization is proceeding apace, increased by a significant margin of 31.5%. Total U.S. imports from the ASEAN 5 in the same nine-month period increased by 13.1% over the same period one year earlier, a rate 1.7 percentage points lower than the 14.8% growth rate for 2005 as a whole.

#### *Japan's Imports from East Asia*

Table 3 and Figure 3 trace changes in Japan's U.S. dollar-denominated imports from East Asia.

Japan's imports from China in the January-October period of 2006 increased by 8.4%, slowing by a significant margin from the 14.9% annual growth rate posted in 2005.

Japan's imports from the East Asian NIEs increased by 11.9% in the same ten-month period, a rate approximately 3 percentage points higher than the 8.8% annual increase for 2005 as a whole. This increase took place as the markets for IT and other high-tech products, after remaining depressed until mid-2005, began to rebound. As for Japan's imports from the ASEAN 5 in the same ten-month period, those from Vietnam and Indonesia increased by double-digit rates, those from Malaysia increased slightly, and those from the Philippines, which decreased in 2005, bounced back to a positive rate. Imports from Thailand increased at a slowing rate. Japan's imports from the ASEAN 5 as a whole in the same ten-month period grew by 9.4%, a rate 2 percentage points higher than the 7.4% registered for 2005 as a whole. Summing up the foregoing developments, whereas Japan's imports from China, which registered double-digit growth in 2005, slowed to a rate of a little more than 8% in the first ten-month period of 2006, those from the Asian NIEs, which grew by a little more than 8% in 2005, posted a double-digit growth rate in the same ten-month period. Thus, the growth rates of Japan's imports from China and the Asian NIEs changed in completely opposite directions between 2005 and 2006. Japan's total imports from East Asia as a whole increased by 9.5% in the same period, decreasing by 1.8 percentage points from the 2005 annual rate.

### *Developments in East Asia's U.S. Dollar-Denominated Exports*

Table 4 shows the growth rates of U.S. dollar-denominated exports of goods of the East Asian countries and regions in the January-October period of 2006 (figures for Hong Kong and the Philippines are for the January-September period).

Among the East Asian economies, China, Hong Kong and Indonesia saw their U.S. dollar-denominated exports grow by lower rates in the above-mentioned period than their respective rates for 2005 as a whole.

China's U.S. dollar-denominated exports grew at a brisk 26.9%, though slowing by 1.5 percentage points from the annual growth rate in 2005 as a whole.

U.S. dollar-denominated exports of the Asian NIEs, with the exception of Hong Kong, increased in the above-mentioned period by rates higher than their respective growth rates in 2005 as a whole. Exports of South Korea and Taiwan seem to have expanded in response to the upturn in the market for IT-related products.

U.S. dollar-denominated exports of the ASEAN 5, other than those of Indonesia and Malaysia, all increased in the above-mentioned period of 2006 at accelerated rates. In particular, the growth rate of exports of the Philippines rose sharply to 16.4%, compared with the 4.0% rate registered for 2005 as a whole. U.S. dollar-denominated exports of the ASEAN 5 all registered double-digit growth rates in the above-mentioned period, with Malaysia's exports growing by the smallest margin, at 10.0%.

### *Real-term Exports of East Asia*

Taking into account the trends in U.S. dollar-denominated exports of the East Asian countries and regions (Table 4), changes in their currencies' exchange rates against the U.S. dollar (Table 5), the trends in their exports of services and other factors, the growth rates of real-term exports of these countries and regions in 2006 (namely, exports of goods and services, denominated in the respective local currencies, with Singapore's exports representing only domestic exports of goods) can be expected to be as shown in Table 6.

Real-term exports of China and Vietnam are expected to post high growth rates close to 20% in 2006, and those of all the countries and regions of East Asia, with the exception of Hong Kong and Malaysia, to increase by margins larger than their respective growth rates in 2005.

### *Led by Thriving Investment, China's Economy Is Predicted to Grow by 10.5%, Registering Double-Digit Growth for the Fourth Consecutive Year*

While investment and exports have been growing so fast in China that there is

concern over economic overheating, investment sentiment still remains very strong, with the result that during 2006, investment is predicted to grow by 19.6%, a rate higher than in 2005. Reflecting China's growing importance as a base for the assembly of finished manufactured products, its exports will grow at a brisk 19.3%, even though this figure is 3.3 percentage points lower than the 2005 growth rate. Given, however, the fact that imports are also predicted to grow by a rate approximately 3 percentage points higher than in 2005, net external demand (exports minus imports) will expand by a slower rate than in 2005. Consequently, the Chinese economy has been led primarily by domestic investment, making up for a slowing expansion of external demand, and is estimated to register a growth rate of 10.5%. Based on the recently revised statistics of national accounts, this means that the Chinese economy will attain a double-digit growth rate for the fourth consecutive year since 2003. Reflecting the accelerating economic growth, rising prices of raw materials and crude oil, and other factors, the inflation rate of domestic prices is predicted to be 4.0%, a rate slightly higher than in 2005.

*Under the Effect of an Upturn in Consumption and Expanding Investment in Machinery and Equipment, the South Korean Economy Is Predicted to Grow by 4.8%*

In South Korea, construction investment is predicted to decrease compared to 2005, under the effect of heavier taxes on real estate and other measures implemented to quell the overheating housing market. On the other hand, however, investment in machinery and equipment is picking up, especially in the IT and related industries, by a large enough margin to offset the slowdown in construction investment. As a result, total investment is predicted to increase by a rate higher than in 2005. Private consumption, which achieved an upturn in 2005 after having been in the doldrums since 2003 under the effect of increased cases of personal bankruptcies, has picked up further in 2006.

Exports are expected to increase by a double-digit growth rate of 13.1%, outpacing the 2005 rate.

Boosted by the expansions of investment and exports and the recovery of private consumption, imports are also predicted to expand, registering a double-digit growth rate of 13.1%, a rate nearly twice as high as in 2005. This development, combined with the export performance, means that net external demand is increasing by a smaller rate than in 2005. Stimulated primarily by the improving performances of both investment in machinery and equipment and private consumption, which jointly make up for the slowing expansion of net external demand, the South Korean economy is

predicted to grow by 4.8%, a rate 0.8 percentage point higher than in 2005. The inflation rate of general prices is predicted to rise slightly to 2.5%.

*Despite Stagnant Domestic Demand, Taiwan's Economy Is Predicted to Grow by a Faster Rate than in 2005, Sustained by Thriving Exports*

Taiwan's exports remain steady, growing by 13.8% in the January-October period of 2006. In addition to exports to China, which remained solid despite growing by a lower rate than in 2005, exports to the United States increased by 14% in the same period. Broken down by product, exports of electronic products increased by 26% in the same ten-month period, leading total exports.

Reflecting reluctance by financial institutions to provide loans to consumers consequent upon the increased cases of credit card default, private consumption is predicted to increase by just a small margin. With investment, both by the government and by private enterprises remaining sluggish, total domestic demand in 2006 has been stagnant.

Consequently, Taiwan's economy is predicted to register a growth rate of 4.4% in 2006, a rate higher than the 4.0% in 2005, led primarily by external demand which has made up for the stagnant domestic demand. Under the effect of the faltering domestic demand, the inflation rate of general prices is predicted to be -0.5%.

*Hong Kong's Economy Is Predicted to Slow in 2006, Though Strengthened by Expanding Domestic Demand*

In 2006, Hong Kong has seen its exports slow slightly. Even though its exports of services remain strong and are predicted to grow by virtually the same rate as in 2005, the growth rate of its exports of goods is decreasing, with the result that the growth rate of total exports in 2006 is predicted to be lower than in 2005. On the other hand, under the effect of thriving domestic demand, an increase in the number of people traveling abroad, and other factors, imports of goods and services have grown, with the result that total imports are predicted to grow by a faster rate than in 2005. Consequently, net external demand is predicted to expand by a smaller margin than in the previous year.

Among the components of domestic demand, private consumption is performing well, reflecting the improvement in the employment environment. Among the components of private investment, investment in machinery and equipment is predicted to increase significantly, registering a double-digit growth rate, even though construction investment remains in the doldrums.

Though suffering from a slowing growth of external demand, the Hong Kong

economy is predicted to grow by 6.8% in 2006, underpinned by expanding domestic demand.

*Singapore's Economy in 2006 Is Predicted to Bounce Back to an Above-8% Growth Rate, Boosted by Robust Expansions of Both Domestic and External Demand*

After posting an above-8% growth rate in 2004, Singapore's economy paused slightly in 2005, slowing down to a below-7% growth rate, but it is predicted to bounce back to an above-8% growth rate in 2006. Within domestic demand, private investment, which registered a negative growth rate in the previous year, will make a significant recovery to double-digit growth. Exports are also thriving and are expected to post a double-digit growth rate for the year. Boosted by expansions of both domestic and external demand, the economy is predicted to post above-8% growth for the first time in two years. The inflation rate of general prices is predicted to be a low 1.0%.

*The Asian NIEs as a Whole Are Predicted to Grow by 5.2% in 2006, a Rate 0.6 Percentage Point Higher Than in 2005*

Among the Asian NIEs, the economies of South Korea and Hong Kong, under the adverse impact of slowing expansions of net external demand, have been underpinned by domestic demand growth. By contrast, Taiwan's economy, which is suffering from sluggish domestic demand, has been boosted mainly by thriving exports. Singapore's economy, on the other hand, is blessed with strong growth in both domestic and external demand. Consequently, the Asian NIEs as a whole are predicted to register a stable growth rate of 5.2% in 2006, up 0.6 percentage point from 2005. In Taiwan and Hong Kong, where general prices decreased in 2005, general prices are predicted to continue their downward trends. The combined inflation rate of general prices in the Asian NIEs as a whole in 2006 is predicted to be 1.3%, a rate 0.9 percentage point higher than in 2005.

*Indonesia's Economy in 2006 Is Predicted to Slow under the Effect of Stagnant Investment*

In 2006, Indonesia's private consumption has slowed and investment has stagnated under the effect of a sizable cutback in government subsidies to fuel purchases implemented in October 2005, and the resulting surges in the consumer price index and interest rates. Although the economy has been underpinned by thriving external demand, its growth rate is predicted to be 5.2%, a rate 0.4 percentage point lower than in 2005. The inflation rate of general prices is predicted to accelerate from 13.7% to 14.1%.

*The Thai Economy Is Predicted to Grow by a Higher Rate, Sustained by a Sound Export Expansion Making up for Slowing Domestic Demand Growth*

In Thailand, the components of domestic demand have slowed across the board in 2006, primarily because the political confusion since the beginning of the year has delayed the implementation of foreign direct investment, which in turn has led to a significant slowdown in domestic investment. In addition to the slowing expansions of consumption and investment, the rate of expansion of government expenditures has also decreased from the 2005 rate. However, as these adverse effects are compensated for by robust export growth, the Thai economy is predicted to grow by 4.8% in 2006, 0.3 percentage point higher than in 2005. Under the effect of rising prices of raw materials, general prices are predicted to increase by 5.0%, a rate 0.4 percentage point higher than in 2005.

*The Malaysian Economy Is Predicted to Grow by an Accelerating Rate, Boosted by a Recovery in Investment*

Malaysia's private consumption, after growing by large margins of 10.5% in 2004 and 9.2% in 2005, is estimated to grow by a more subdued rate of 7.2% in 2006. The growth rate of private investment, which remained low in 2005 under the effect of the decelerating growth of the IT industry, is predicted to pick up again. Under the effect of the launching of the Ninth Malaysia Plan (the 9th five-year plan abbreviated as 9MP), which boosted government expenditures, coupled with the recovery in private investment, the Malaysian economy is predicted to grow by 5.7% in 2006, a rate 0.5 percentage point higher than in 2005, despite the adverse effect of a decelerating growth of exports.

*The Philippine Economy Is Predicted to Grow at an Accelerating Rate, As the Adverse Effect of Stagnant Investment Is Offset by Expanding Consumption and External Demand*

In the Philippines, investment continues to decrease in 2006 in succession to 2005. On the other hand, exports, which stagnated in 2005, are thriving centered on electronic products, and are expected to post double-digit growth in 2006 on a real-term basis. Private consumption will register a higher rate than in 2005 boosted by increasing remittances from migrant workers overseas, and it is leading the economy. Consequent upon these developments, the Philippine economy is predicted to grow by 5.5% in 2006, a rate 0.5 percentage point higher than in 2005.

*The Vietnamese Economy Is Predicted to Continue Its High Growth, Led by Expansions in the Industrial and Service Sectors*

In addition to the effort made in recent years to build and improve infrastructure, Vietnam has continued to strive, in the wake of its accession to the WTO, to make its investment environment more receptive to foreign direct investment. Consequently, both domestic investment and foreign direct investment are thriving, and the amount of FDI approvals in 2006 has increased sharply. Total investment is predicted to register a double-digit growth rate in 2006 in succession to 2005. Boosted by thriving exports and buoyant investment activities, the industrial sector is predicted to continue registering a double-digit growth rate, while the service sector is also predicted to grow by a high 8.3%. By contrast, the agricultural sector, under the effect of unfavorable weather conditions and other factors, is predicted to grow by a rate lower than in 2005. Consequent upon these developments, the Vietnamese economy is predicted to continue posting a high growth rate of 8.2% in 2006, though slowing by 0.2 percentage point from the 2005 rate.

*In 2006, the ASEAN 5 Are Predicted to Grow by a Combined Growth Rate of 5.4%, the Same Rate as in 2005*

Among the ASEAN 5, the economies of Thailand, Malaysia and the Philippines are predicted to grow by accelerating rates in 2006, but the growth rates of other two economies are predicted to contract. The combined growth rate of the ASEAN 5 as a whole is predicted to be 5.4%, the same rate as in 2005. Given the fact that general prices are predicted to rise in the three countries of Indonesia, Thailand and Malaysia, which together account for approximately 80% of the total size of the ASEAN 5, general prices in the area as a whole are predicted to continue rising by an inflationary 8.7%, a rate 0.3 percentage point higher than in 2005.

*Boosted by the Increasing Growth in the Chinese Economy and the Asian NIEs, the East Asian Economy as a Whole Is Predicted Grow by 7.9%, a Rate Higher than in 2005*

Given that the Chinese economy and the Asian NIEs are growing at accelerating rates, even though the combined growth rate of the ASEAN 5 remains unchanged from the 2005 rate, the East Asian economy as a whole is predicted to grow by 7.9%, a rate 0.4 percentage point higher than in 2005. The combined inflation rate of general prices for the regional economy as a whole is predicted be 3.9%, a rate 0.5 percentage point higher than in 2005.

## **II. Economic Forecasts for East Asia in 2007**

### *Assumptions Regarding the Advanced Economies in 2007*

The advanced economies as a whole are expected to undergo a slight deceleration in 2007.

Thanks to raises in the policy rate implemented in several steps until 2006, the United States has succeeded in stabilizing its inflation rate of general prices, and in achieving an economic soft-landing. Consequently, the U.S. economy is expected to slow down slightly in 2007 from the 2006 rate, posting a growth rate of 2.0%-2.5%.

The Japanese economy is expected to continue to pace along its expansionary path in 2007, and is predicted to post a growth rate of around 1.5%, slowing by approximately 0.5 percentage point from the 2006 rate.

The EU economy, after posting a growth rate of 2.5%-3.0% in 2006, is expected to see a slightly slower growth rate of 2.0%-2.5% in 2007.

### *For 2007 as a Whole, the Yen's Exchange Rate Will Remain Comparable to That in the Latter Half of 2006*

Given that the rising trend of the policy rate in the United States was halted for the time being in 2006, it is assumed that the yen's exchange rate for 2007 as a whole will remain comparable to that in the latter half of 2006.

### *The Price of Crude Oil Will Decrease by 7 to 8% from the 2006 Level*

The price of crude oil, measured as the average of the prices of the three varieties of crude oil mentioned above, which averaged about 65 dollars per barrel for 2006 as a whole, decreased to below 60 dollars toward the end of the year. Given the prospects that the OPEC's resolution on production cutbacks will not have a strong effect on the market, the price of crude oil is expected to continue averaging around 60 dollars per barrel in 2007, decreasing by 7 to 8% from the 2006 level.

### *The Chinese Economy Will Grow by 9.6%, Slowing by 0.9 Percentage Point from the 2006 Rate*

The Chinese government is working to steer its economy away from the high-growth trajectory, led by investment and exports, to one of better-balanced growth led primarily by an expansion of private consumption. Consequently, the policy of holding down investment will be maintained. However, with preparations for the Beijing Olympic Games and the Shanghai Expo underway, enterprises are eager to

invest. Both exports and investment are forecast to continue to post double-digit growth rates in 2007, though slowing slightly from their respective growth rates in 2006. The Chinese economy is forecast to continue its high growth in 2007, posting a rate of 9.6%, despite the prospects that the growth rates of both domestic and external demand will be slightly lower than in 2006. General prices are forecast to increase by 3.9%, heading toward stabilization.

*The Economy of South Korea Will Grow by a Slightly Lower Rate Than in 2006, Affected by Slowing Growth in Machinery and Equipment Investment and External Demand*

In South Korea, construction investment, which registered a negative growth rate in 2006, is forecast to rebound to a positive growth rate in 2007. Given, on the other hand, the presidential election scheduled toward the end of 2007, and apprehension that slowing growth in the advanced economies and the appreciation of the won will put a brake on exports, the appetite of private enterprises for investment will wane, and investment in machinery and equipment is forecast to increase by a slower rate than in 2006. Consequent upon these factors, the South Korean economy is forecast to grow by 4.4% in 2007, a rate slightly lower than in the previous year. The inflation rate of general prices is forecast to be 2.6%, a rate virtually the same as in 2006.

*Taiwan Will Post a Subdued Growth Rate of 4.1%, Under the Effect of Sluggish Growth of External Demand, Which Will Partly Cancel out the Effect of a Recovery in Domestic Demand*

In 2007, Taiwan is forecast to see its domestic demand recover from stagnation in 2006, as banks ease their tight lending policies, helping to boost private consumption, and as domestic investment expands, centered mainly around investment in the IT industry. Given, however, the prospects that export growth will decelerate under the effect of sluggish external demand, the economy's growth rate in 2007 is forecast to be 4.1%, a rate lower than in 2006. Under the effect of a recovery in domestic demand, general prices, which decreased in 2006, are forecast to increase by 0.2%.

*Reflecting the Slowing Growth in China and the Advanced Economies, the Hong Kong Economy Will Grow by a Lower Rate than in 2006*

The growth rate of Hong Kong's exports in 2007 is expected to decrease in succession to 2006, under the effect of slowing growth in China and the advanced economies. Given also the prospects that domestic demand, which grew at an

accelerated rate in 2006, will increase at a slower rate, the Hong Kong economy in 2007 is forecast to continue pacing along a stable growth rate of 5.9%, while slowing by 0.9 percentage points from the 2006 rate.

*Singapore's Economy Will Grow by 6.1%, Slowing from the High Rate Registered in 2006*

Even though Singapore's exports will slow slightly in 2007, affected by slowing growth in the advanced economies and the world economy as a whole, exports will remain solid, centered on IT and other high-tech-related products. Domestic demand, which increased by a large margin in 2006, is forecast to slow gently. Consequently, Singapore's economy is forecast to post a growth rate of 6.1% in 2007, slowing by 2.0 percentage points from the 2006 rate.

*Growth in the Asian NIEs as a Whole Will Decelerate in 2007*

All the countries and regions of the Asian NIEs will grow at lower rates in 2007, with the economies of Taiwan, South Korea, Hong Kong and Singapore slowing by 0.3 percentage point, 0.4 percentage point, 0.9 percentage point, and 2.0 percentage points, respectively. In the face of slowing external demand expansion caused by slowing growth in the advanced economies and China, the economies of South Korea and Hong Kong will be underpinned by investment, and Taiwan by private consumption and investment.

The Asian NIEs as a whole in 2007 are forecast to grow by a combined growth rate of 4.7%, 0.5 percentage lower than the 5.2% posted in 2006. On the other hand, the combined inflation rate of general prices in the region is forecast to remain low at 1.6%, though rising by 0.3 percentage point from the 2006 rate under the effect of expanding domestic demand.

*The Indonesian Economy Will See Its Domestic Demand Rebound and Inflation Slow to a Single-Digit Rate*

Given the prospect that the Indonesian economy will see its high inflation begin to subside in 2007, and implement a cut in the interest rate in response, both consumption and investment will begin to recover. As both private consumption and total investment will expand at accelerating rates, the economy is forecast to grow by 5.8% in 2007, a rate 0.6 percentage point higher than in 2006. Given the prospects that further cutbacks in government subsidies of fuel prices are unlikely to take place, the inflation rate of general prices, which has stayed above the ten-percent level for two years, is forecast to decrease to a single-digit rate of 7.1%.

*The Thai Economy Will Grow at an Accelerating Rate, Led by Expanding Investment*

As the political situation is expected to head toward stabilization, the Thai economy will see domestic investment increase by an accelerating rate in 2007, even though the growth rate of external demand will decrease. Given the prospect that public works programs designed to succeed those of the Mega Project will be launched or resumed, public investment, which decreased in 2006, is expected to rebound. Consequent upon these factors, the Thai economy is forecast to grow by 4.9% in 2007, accelerating slightly from the 2006 rate of 4.8%. The inflation rate of general prices is forecast to decrease by 0.6 percentage point from the 2006 rate, reflecting the stabilization of import prices under the effect of decreasing prices of raw materials including crude oil.

*Malaysia's Economy Will Secure Stable Growth, in Spite of Slowing Growth of Both Domestic and External Demand*

In 2007, Malaysia's economy will see its exports grow at a decelerating rate in succession to 2006. The growth rate of total domestic demand will also fall. However, consumer confidence will remain high, supported by the stabilization of the labor market, and private consumption is forecast to slow, but to still grow by a higher rate than the income growth rate. The value of the ringgit, which was switched to a managed floating exchange rate regime in 2005, is expected to remain stable, and the investment climate will remain favorable during the year. The growth rate of private investment is forecast to decrease by just a small margin compared with the 2006 rate.

Consequent upon these factors, the Malaysian economy is forecast to secure a stable growth rate of 5.2% in 2007, slowing by 0.5 percentage point from 2006. The inflation rate of general prices is also forecast to decrease by 0.6 percentage points from 2006.

*The Philippine Economy Will Attain a Stable Growth Rate, Underpinned by an Upturn in Investment, Despite Slowing Export Growth*

In 2007, the Philippines will see its export growth rate fall by more than 6 percentage points under the effect of slowing growth in the advanced economies, including the U.S. By contrast, given the prospect that the investment climate will improve under the effect of the stabilizing exchange rate and declining interest rate, investment, which has been decreasing since 2005, is expected to rebound to a positive rate, supporting the economy. Private consumption in 2007 will decelerate slightly from the 2006 growth rate. Consequent upon these factors, the Philippines is forecast to attain

a stable growth rate of 5.3% in 2007, though slowing slightly. The inflation rate of general prices is forecast to be 5.3%, decreasing by 0.4 percentage point from the 2006 rate.

*The Vietnamese Economy's Growth Will Accelerate, Continuing to Register an Above-8% Growth Rate*

In 2007, Vietnam will continue attaining an above-8% high growth rate in succession to 2006. Broken down by sector, the industrial sector is forecast to maintain a double-digit growth rate in succession to 2006, while the service sector is forecast to grow by a rate slightly higher than in 2006. Against the backdrop of expectations for improvements in the country's investment climate and for the opening up of the market, that have been growing following Vietnam's accession to the WTO toward the end of 2006, an inflow of FDI will further accelerate, enabling total investment to post a double-digit rate in succession to 2006. Exports are also forecast to remain strong, posting a double-digit growth rate. Consequent upon these factors, the Vietnamese economy is forecast to continue growing by a high growth rate of 8.4% in 2007, a rate higher than in 2006.

*In 2007, the ASEAN 5 Will Grow by an Accelerated Rate of 5.6%, While Enjoying Slowed Inflation*

Among the ASEAN 5, the economies of Indonesia and Vietnam, whose growth rates slowed in 2006, are forecast to accelerate, whereas the economies of Malaysia and the Philippines, which grew by accelerating rates in 2006, are forecast to slow in 2007. Thailand's economic growth rate will continue to grow, although it will only register a small increase from the previous year.

Consequently, the combined growth rate of the ASEAN 5 as a whole is forecast to be 5.6%, a rate 0.2 percentage point higher than in 2006. Inflation rates in all the ASEAN 5 countries will decline. In particular, Indonesia's inflation rate will be reduced by half to a single-digit rate. The combined inflation rate of general prices for the ASEAN 5 as a whole in 2007 is forecast to decrease by 3 percentage points from the 2006 rate of 8.7% to 5.7%.

*Despite Slowing Growths of the Chinese Economy and the Asian NIEs, the East Asian Economy as a Whole Will Register a Robust 7.4% Growth Rate in 2007*

Given the foregoing growth rates forecast for various constituent members of the East Asian economy – with China forecast to post a solid rate of 9.6%, the Asian

NIEs forecast to secure a stable growth rate over 4% under a suppressed inflation rate, and the ASEAN 5 forecast to attain a solid growth rate with Indonesia extricating itself from its double-digit inflation – the East Asian economy as a whole is forecast to continue to experience robust growth in 2007, posting a rate of 7.4%, though slowing by 0.5 percentage point from the 2006 rate of 7.9%. The combined inflation rate of general prices for the East Asian economy as a whole is also forecast to decrease by 0.4 percentage point from the 2006 rate to 3.5%, thus heading toward stabilization.