The Asia Economic Monitor (AEM) is a semiannual review of East Asia's growth, financial and corporate sector restructuring, and emerging policy issues. It covers the 10 Association of Southeast Asian Nations member countries plus the People's Republic of China and the Republic of Korea.

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Highlights
Growth and Restructuring in the First Half of 2005
• Higher oil prices, softness in the IT cycle, and the loss of economic momentum in major industrial markets have led to a gradual deceleration in East Asia's GDP growth.
• Exports grew at a slower rate in the first half of this year, continuing the trend since the middle of 2004 in all East Asia's larger economies except the PRC.
• The growth of domestic demand was also lower in the first quarter of this year than in the previous two quarters in most of the larger economies of East Asia due to weaker export growth, higher oil prices, and a bias toward tighter macroeconomic policies.
• The region's stock markets have held up well in most countries, while East Asia's currencies have generally remained stable or depreciated against the US dollar.
• In general, progress in financial and corporate reforms continues to improve the health and robustness of financial sectors in the region. Various prudential indicators also continue to improve.

Economic Outlook for 2005 and 2006
• The external economic environment facing East Asia is expected to be somewhat less favorable this year, with the softening of growth in major industrial countries and the weakening of global demand for IT products.
• Less favorable external economic environment and record oil prices are expected to lead to a moderate slowdown in East Asia's GDP growth this year.
• The July survey by Consensus Economics Inc. projects East Asia's 2005 average GDP growth to be lower than last year's actual figure of 7.6%, but still a robust 6.8%. Excluding the PRC, the region's average GDP growth this year is forecast to be much lower at 4.4%, compared with 5.5% last year.
• In 2006, East Asia is forecast to grow by 6.6%.

Risks and Policy Issues
• The above forecasts are subject to risks from further increases in oil prices and a disorderly adjustment of the global payments imbalance.

Continued overleaf

1A private institution that collates forecasts from about 200 economic and financial forecasters from more than 70 countries.
• In terms of policy response, there is a case for:
  – fiscal consolidation in many countries, with the notable exceptions of Korea, Singapore, and to a lesser extent Thailand,
  – tightening of monetary policy in PRC, Indonesia, Lao PDR, Myanmar, Philippines, Thailand, Viet Nam, and to a lesser extent Malaysia,
  – greater exchange rate flexibility, building on the 21 July exchange rate regime shift by PRC and Malaysia, and
  – structural reforms in the financial and corporate sectors.

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