

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

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Highlights

Growth and Restructuring in 2003

- In the second half of 2003, East Asia emerged from the lackluster performance of the first half into a synchronized upswing in growth.
- Helped by the quick control of SARS and the improved external economic environment, growth strengthened across the region in the third and fourth quarters.
- Although there has been some increase in prices, inflation remains low except in a few countries.
- Most regional stock markets, after remaining subdued in the first quarter, have turned up since.
- Among the five crisis-affected countries, nonperforming loan ratios of banks continued to fall or remained steady, bank profitability generally improved, and asset management companies made further progress in debt restructuring.
- Prudential indicators also remain strong: most major countries are running current account surpluses, foreign exchange reserves are sizable, external debt-service ratios have declined from their peaks, and external debt indicators have improved.

Economic Outlook

- Compared with the cautiously optimistic note of the July 2003 AEM, the outlook for East Asia is now more upbeat with the continuation of synchronized growth.
 - The tentative US economic recovery that was evident a few months ago has strengthened and become more balanced.
 - Japan's economic recovery is becoming more broad-based.
 - Although the economic situation in Europe is less encouraging, the worst appears to be over and a turn around is underway.
 - The continued strength of domestic demand in most of East Asia is supporting the regional rebound.
 - The rapid growth of the PRC economy and increase in its imports, together with the growth of intra-regional trade, is also providing an impetus for East Asia's growth.
- The November survey by Consensus Economics Inc.¹ projects East Asia's average GDP growth for 2003 at 6.1%, higher than the July forecast of 5.6%.

Continued overleaf

Acronyms, Abbreviations, and Notes

ADB	Asian Development Bank
AEM	Asia Economic Monitor
AMC	asset management company
ARIC	Asia Recovery Information Center
ASEAN	Association of Southeast Asian Nations
BNM	Bank Negara Malaysia
BSP	Bangko Sentral ng Pilipinas
CDRAC	Corporate Debt Restructuring Advisory Committee
CPI	consumer price index
FSC	Financial Supervisory Commission
FSS	Financial Supervisory Service
GDP	gross domestic product
IBRA	Indonesian Bank Restructuring Agency
IIF	Institute of International Finance
IMF	International Monetary Fund
ISM	Institute of Supply Management
JCI	Jakarta Composite Index
JITF	Jakarta Initiative Task Force
KAMCO	Korea Asset Management Corporation
KLIC	Kuala Lumpur Composite Index
KOSPI	Korean Stock Price Index
Lao PDR	Lao People's Democratic Republic
LRC	Legal Reform Committee for Development of Thailand
NASDAQ	National Association of Securities Dealers Automated Quotation
NPL	nonperforming loan
OECD	Organization for Economic Co-operation and Development
PCOMP	Philippine Composite Index
PHIBOR	Philippine Interbank Offer Rate
PRC	People's Republic of China
REMU	Regional Economic Monitoring Unit (ADB)
ROA	return on assets
SARS	Severe Acute Respiratory Syndrome
SET	Stock Exchange of Thailand
SIBOR	Singapore Interbank Offer Rate
SPV	Special Purpose Vehicle
STI	Straits Times Index (Singapore)
TAMC	Thai Asset Management Corporation
WHO	World Health Organization
q-o-q	quarter-on-quarter
y-o-y	year-on-year
B	baht
CNY	yuan
P	peso
RM	ringgit
Rp	rupiah
S\$	Singapore dollar
W	won
¥	yen

Note: In this publication, "\$" denotes US dollars, unless otherwise specified.

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- GDP growth in 2004 is expected to strengthen to 6.6%, with forecasts for most East Asian countries revised up in recent months.

Risks

- Since the July AEM, risks to East Asia's growth prospects have receded, but some remain:
 - SARS could possibly recur.
 - Political uncertainties ahead of the elections in several countries might affect spending and investment.
 - Terrorism or geopolitical tensions could escalate.
 - The stalemate at the WTO trade negotiations and increased protectionism could harm the global trading environment.
 - Large global current account imbalances could induce disorderly exchange rate adjustments.

Policy Issues

- The improved outlook for the region provides a window of opportunity for action in several areas:
 - Fiscal policies may have to shift from expansionary to a more neutral stance, while the current low interest rates could continue for some time.
 - Changes in reserve management and foreign exchange policies, including exchange rate policy, could be considered by some countries.
 - The remaining agenda of financial and corporate sector reforms and restructuring needs to be addressed expeditiously.