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Highlights

Growth and Recovery in 2002

- Reflecting the deteriorating global economic environment, the growth momentum of East Asia's exports softened in the second half of last year. Nevertheless, the region weathered the economic difficulties fairly well and posted a modest economic rebound.

- The 12 countries of the region taken together grew by 6.1% last year, representing an improvement on the 5.2% and 5.8% forecast in the April and July 2002 issues of Asia Economic Monitor (AEM), respectively, but closer to the 6% forecast in the October 2002 AEM.

- With the exceptions of Indonesia and Thailand, regional stock markets ended 2002 down on their levels at the beginning of the year. However, they still managed to outperform many stock markets elsewhere.

- Despite the appreciation of most regional currencies against the US dollar, East Asian countries maintained their overall export competitiveness. This was because the yen and the euro also appreciated against the US dollar and the region maintained low inflation.

- Last year, most East Asian countries maintained an expansionary monetary and fiscal stance and progress was also made in financial and corporate restructuring and reforms.

- For the first time since the Asian financial crisis, last year saw the stock of real bank credit to the private sector increase in Indonesia and Thailand, suggesting that reforms are starting to bear fruit. Also, for the first time since 1997, net lending by foreign commercial banks to the five crisis-affected countries turned positive.

Prospects for East Asia's Growth and Recovery

- Since the October 2002 AEM, the external economic environment facing East Asia has turned less favorable for two reasons. First, baseline growth forecasts for industrial countries have been marked down. Second, downside risks to the baseline forecasts have increased, especially in light of mounting tensions over Iraq.

- The deteriorating external environment together with tighter policies to contain consumer credit in a few countries
has led to downward revisions in East Asia’s growth forecasts for 2003.

- The London-based Consensus Economics Inc.\(^1\) now projects GDP growth for East Asia of 5.6% in 2003, a downgrade compared to its 5.9% forecast in October 2002 and 6.3% forecast in July 2002. Next year, growth should pick up to about 6%.

- Going forward, the possibility of a war in Iraq remains a key risk. A short military operation against Iraq is unlikely to upset the baseline forecasts, but a more drawn-out war could.

\(^1\)A private institution that collates forecasts from about 200 economic and financial forecasters from more than 70 countries around the world.