The Asia Economic Monitor (AEM) is a quarterly review of East Asia’s growth and recovery, 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. The July 2002 Update features a chapter on “Five Years After the Crisis,” which takes stock of what has been achieved in financial and corporate restructuring in East Asia since the 1997 crisis.

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Highlights

Growth and Recovery in 2002

- Developments in the region over the last few months broadly support the key message of the April 2002 Asia Economic Monitor (AEM)—that East Asia in 2002 will make a faster-than-expected but moderate rebound from last year's economic slowdown.

- Data released in recent months show that growth has picked up across East Asia. Growth is also becoming more balanced with a turnaround in exports being complemented by strengthening domestic demand.

- With the recent slide in the US stock market, the May decline in retail sales, and the softening of consumer sentiment in June, risks to the US recovery may have increased. Yet, so far, these risks appear to be manageable and are unlikely to derail the moderate recovery in the US forecast in the April AEM. The external environment facing East Asia, therefore, continues to be favorable.

- The London-based Consensus Economics Inc.¹ now projects East Asia’s average GDP growth to reach 5.8% in 2002, 0.6 percentage point higher than the forecast in the April AEM.

- With the maintenance of political stability and improvements in prudential indicators in most countries of the region, domestic risks to East Asia’s current economic rebound appear to be receding somewhat.

- The single most important risk to the current forecast of a moderate rebound in East Asia may arise from any continuation of the recent deterioration in the US financial markets during the balance of this year.

Five Years After the Crisis

- Overall, given the severity of the crisis, the region’s recovery has been reasonably good. In most countries, the pace of recovery has been faster than expected. However:
  - For four of the five crisis-affected countries (except Korea), the years since the crisis represent a lost half decade in terms of improvements in per capita incomes.

¹A private institution that collates forecasts from 200 economic and financial forecasters from more than 70 countries around the world.
– Although unemployment rates are trending down from their peak levels in Korea and Thailand, in all of the five-affected countries, they are still higher than the precrisis levels.

– The incidence of poverty today is higher than precrisis levels in Indonesia and Thailand.

- Encouraging progress has also been made in three broad areas: (i) strengthening macroeconomic management and building up foreign exchange reserves, (ii) restructuring the financial and corporate sectors, and (iii) enhancing regional self-help and support measures by promoting monetary and financial cooperation.

- Significant progress has been made in restructuring bank balance sheets. To varying degrees, nonperforming loan ratios have declined, capital adequacy ratios have increased, and bank profitability has improved. The performance of asset management companies in several countries in the region is also improving.

- There has been significant consolidation of the banking sector. Bank privatization and divestment are under way although much remains to be done. Prudential supervision and regulation of banks have also been strengthened.

- Restructuring of the corporate sector has been slower than that of the financial sector. However, even here, corporate debt-equity ratios have been reduced in several countries, most notably in Korea. Measures have also been introduced to strengthen corporate governance.

- These efforts are rapidly changing the economic and financial landscape of East Asia, making the region more responsive to market forces while at the same time enhancing resilience to external shocks. Overall, they are laying the foundation for sustained long-term growth.

- Building on these efforts, it is important that countries focus on expeditiously completing the remaining agenda of financial and corporate restructuring, which is substantive as well as challenging.