The monthly Regional Cooperation and Integration (RCI) Information Pack monitors RCI news and events under the Asian Development Bank’s (ADB) four RCI pillars: (i) cross-border infrastructure, (ii) trade and investment, (iii) money and finance, and (iv) regional public goods. It also presents high-frequency monetary, financial, and trade indicators, which—taken together—can help monitor economic links between the economies of Asia and the Pacific and major partners outside the region. The RCI Information Pack is published by ADB, produced by the Office of Regional Economic Integration (OREI).

Download the RCI Information Pack at http://aric.adb.org/rci_infopack.php
RCI NEWS AND EVENTS

RCI News and Events keeps track of activities and events related to regional cooperation and integration (RCI) covering ADB’s 48 regional members. It follows initiatives under ADB’s four RCI pillars: (i) cross-border infrastructure, (ii) trade and investment, (iii) money and finance, and (iv) regional public goods.

MONETARY, FINANCIAL, AND TRADE INDICATORS

Monetary, Financial, and Trade Indicators offers a picture of the economic links between economies of Asia and the Pacific and major partners outside the region. Leading indicators are tracked monthly and include recent historical trends to help assess individual economies’ growth prospects and potential vulnerabilities. The economies covered include the 10 members of the Association of Southeast Asian Nations (ASEAN)—Brunei Darussalam, Cambodia, Indonesia, the Lao People’s Democratic Republic (Lao PDR), Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Viet Nam; Azerbaijan; Bangladesh; the People’s Republic of China; the Republic of Korea; Hong Kong, China; India; Kazakhstan; Pakistan; Sri Lanka; Taipei, China; Tajikistan; and Uzbekistan. The advanced economies of the eurozone, Japan, and the US are also included.

SPECIAL FEATURE

The Special Feature explores a relevant economic or RCI issue affecting the region.

The views expressed in this publication are those of the authors and do not necessarily reflect the views and policies of the Asian Development Bank (ADB) or its Board of Governors or the governments they represent.

Note:
In this publication, “$” refers to US dollars.
RCI NEWS AND EVENTS

- The APEC Business Advisory Council urged governments to adjust policies to better promote regional economic integration.
- The Pacific Islands Forum Trade Ministers Meeting discussed ways members could benefit from trade and investment opportunities.
- APEC, G20, and ASEAN chart way forward on connectivity.
- Asian FTA talks continue to proliferate; Japan joins TPP negotiations.
- ASEAN ministers adopt a joint haze monitoring system.
- Renewable energy efforts and solar energy infrastructure initiatives in Asia strengthen.

MONETARY, FINANCIAL, AND TRADE INDICATORS

- Economic data showed global and regional economies stabilizing but volatility persists.
- Financial markets remained weak with global stock markets mildly recovering in July and Asian equities stabilizing. Growth in remittances to South Asia was weak but improved slightly in Southeast Asia.
- Inflation in Asia remained stable reflecting lower energy and food prices, with the exception of Indonesia; most Asian currencies continued to depreciate.
- Most central banks maintained policy rates, with the exception of Indonesia which is beset with the challenge of controlling inflation while containing rupiah depreciation.
- Second quarter GDP growth showed greater stability if not mild improvement, with Taipei, China and the Republic of Korea posting better-than-expected growth.
- Growth in bank lending also steadied across developing Asia.
- However, some downside risks still persist. For instance, industrial production growth in the region remained mixed, as export and import growth declined in June.

SPECIAL FEATURE: Risk of Credit Boom in Asia

- Interest rate and growth differentials, along with global monetary easing has spurred credit growth.
- This growth is often accompanied by increased speculation, relaxation of credit controls and a deterioration in asset quality.
- The lending boom is partly funded by growth in non-core liabilities, which tend to expose banks to higher risks.
- The credit boom has also seen an increase in risky assets, which is an indication of increased leverage by banks over the economic cycle.

1 Covers July news and data.
RCI News and Events follows regional initiatives under ADB’s four RCI pillars: (i) cross-border infrastructure, (ii) trade and investment, (iii) money and finance, and (iv) regional public goods.

IN THE NEWS

A UNESCAP organized meeting on East Asia examines regional integration indicators. Academic experts and specialists from multilateral and international organizations met in Incheon, Republic of Korea 18-19 July to discuss monitoring regional cooperation and integration in East Asia. Organized by the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), the meeting examined regional integration indicators to create an integration index. Participants also discussed intraregional trade, energy, foreign direct investment, and marine and air transportation networks, among other topics.

Asia must adjust integration policies to the changed business environment and in combating money laundering. At the 11 July 3rd meeting of the Asia-Pacific Economic Cooperation (APEC) Business Advisory Council—held in Kyoto, Japan—business leaders urged APEC governments to adjust policies to the changing business environment in promoting regional economic integration. At the 16th Annual Meeting of the Asia Pacific Group on Money Laundering held in Shanghai, People’s Republic of China (PRC) 15-19 July, participants acknowledged new emerging challenges confronting anti-money laundering and anti-terrorist financing.

Pacific ministers meet to boost regional trade. Trade ministers across the Pacific met 19 July in Apia, Samoa for the 2013 Pacific Islands Forum Trade Ministers Meeting. The meeting discussed ways members can benefit from trade and investment opportunities. The ministers welcomed progress on rules of origin, trade facilitation, and development assistance in negotiating a Pacific Agreement on Closer Economic Relations Plus.

APEC, G20, and ASEAN chart way forward on connectivity. Senior officials of APEC, the Group of 20 (G20), and the Association of Southeast Asian Nations (ASEAN) met for the first time at a 4 July roundtable in Medan, Indonesia, to identify ways to better connectivity and infrastructure development across regions.

UNESCAP proposes Master Plan to strengthen connectivity in South and South-West Asia. Poor transport connectivity is holding back development and regional economic integration in South and South-West Asia, according to participants at the Policy Dialogue on Strengthening Transport Connectivity, held in Dhaka, Bangladesh on 26–27 June. The UNESCAP dialogue was held in collaboration with the Bangladesh Institute of International and Strategic Studies, and attended by government representatives and business organizations of eight South and South-West Asian countries.

PRC inaugurates new road transport routes to Central Asia and Europe. On 26 June, the PRC opened new cargo routes linking the PRC to Central Asia and Europe. The new routes should pave the way for safer, more efficient, lower-cost, and less time-consuming cargo transit. It is expected that by the end of the year, 50 trucks a day will carry goods from the PRC through Central Asia and the Russian Federation to Europe.

CAREC holds logistics training, while Afghanistan works on gas sector master plan. The Central Asia Regional Cooperation (CAREC) Federation of Carrier and Forwarder Associations Logistics Training met 25–27 June in Bishkek, Kyrgyz Republic, to raise professionalism, efficiency, and management skills of its members across Central Asia. Meanwhile, Afghanistan will receive technical assistance from ADB to develop a 20-year (2015-2035) master plan for gas, examining the outlook for demand and supply, review current policies and plans, and evaluate pricing options for domestic and export sales.

Myanmar-PRC gas pipeline opens. The Myanmar section of the Myanmar-PRC natural gas pipeline began delivering gas to the PRC 28 July. Six investors from four countries (PRC, Myanmar, Republic of Korea, and India) contributed to the pipeline, part of the Myanmar-PRC Oil and Gas Pipeline project that will construct a crude oil pipeline as well.
TRADE AND INVESTMENT

East Asia leads in FTA talks. A second round of free trade agreement (FTA) negotiations were held between PRC, Republic of Korea, and Japan 30 July–2 August in Shanghai, PRC. The three countries discussed trade in goods and services, customs procedures, and competition policies. Japan and Canada held their third round of negotiations for an economic partnership agreement 8–12 July in Tokyo, Japan, while Japan and Mongolia held their fourth round of negotiations 2–5 July, moving forward on trade in goods, rules of origin, sanitary and phytosanitary measures, and government procurement. The Republic of Korea and Colombia met 8 July in Seoul, Republic of Korea, to push ratification of their FTA signed in February.

PRC signs FTA with Switzerland; Singapore strengthens trade and investment ties with Colombia, Costa Rica. The PRC and Switzerland signed an FTA 6 July, enhancing bilateral economic and trade relations between the two economies. The FTA will reduce tariffs to zero on 99.7% of imports from the PRC and 84.2% of imports from Switzerland. Meanwhile, the Singapore-Costa Rica Free Trade Agreement took effect 1 July and an Investment Guarantee Agreement was signed 16 July.

Japan joins TPP negotiations. The 18th round of Trans-Pacific Partnership (TPP) negotiations was held 15–25 July in Kota Kinabalu, Malaysia, with Japan participating for the first time. The free trade negotiations received support from several Malaysian chambers of commerce, citing trade efficiency and expanding international best practices. Meanwhile, Japan’s participation will likely focus on tariffs and import duties. Participants hope to forge a deal by end-2013.

Fourth WTO Global Review of Aid for Trade meeting promotes connecting to value chains. The Fourth Global Review of Aid for Trade—held 8–10 July in Geneva, Switzerland—examined how development assistance can help connect developing and least-developing country firms to value chains. With many developing countries on the margins of global trade, the World Trade Organization (WTO) wants Aid for Trade to be part of the post-2015 development agenda.

MONEY AND FINANCE

Japan and Singapore create cross-border collateral arrangement. On 26 July, the Bank of Japan and Monetary Authority of Singapore (MAS) established a facility for eligible Singaporean financial institutions to obtain Singapore dollar liquidity by pledging Japanese government securities as collateral. The arrangement enhances Singapore’s financial stability by expanding the range of acceptable collateral for MAS’ liquidity facility. It also allows greater flexibility in liquidity management of eligible financial institutions, including Japanese banks. MAS also welcomed the opening of the Swiss National Bank’s local branch on 11 July, opening new areas of cooperation between Singapore and Switzerland.

Thailand and Hong Kong, China launch foreign exchange payment link. On 15 July, the Bank of Thailand and Hong Kong Monetary Authority announced the establishment of a cross-border Payment versus Payment (PvP) link between the Thai baht real time gross settlement system (BAHTNET) in Thailand and the US Dollar Real Time Gross Settlement (USD RTGS) system in Hong Kong, China. The PvP link will be launched in the second half of 2014 and is expected to increase the efficiency and safety of foreign exchange settlements between the two currencies.

Indonesia and Viet Nam promote financial cooperation. On 28 June, finance officials from Indonesia and Viet Nam signed a Memorandum of Understanding (MOU) on financial cooperation, specifically in macroeconomic management, fiscal policy, public debt, and trade finance. The MOU is for 3 years and may be extended upon written consent of both parties.

REGIONAL PUBLIC GOODS

Renewable energy initiatives around Asia strengthened. The Philippine Investment Alliance for Infrastructure—a fund partly financed by ADB—will invest up to $85 million for a wind farm project in the northern part of the country. An ADB green energy project—that brings more electricity to rural households in Bhutan and boosts access to green power in neighbouring India—received the US Treasury Department’s Development Impact Honors.
Asia promotes more solar energy infrastructure initiatives. In India, the Ministry of New and Renewable Energy released financial assistance for solar projects in West Bengal. With the assistance of the PRC, a 5,000-acre 1050 megawatt solar energy farm will be constructed in Cholistan, Pakistan by the end of 2014. ADB and Australia are helping Tonga fund the $6.8 million construction and installation of solar power systems on Tonga’s nine outer islands to provide a clean, affordable electricity and to help reduce the need for costly imported fuel.

ASEAN reaches a compromise on transboundary haze. Ministers agreed to recommend adopting the ASEAN Sub-Regional Haze Monitoring System (HMS) during the 15th Meeting of the Sub-Regional Ministerial Steering Committee on Transboundary Haze Pollution in Kuala Lumpur, Malaysia 17 July. The HMS will be used as a joint haze monitoring system to assist in monitoring and enforcement to parties contributing to fires.

SPC strengthens climate change adaptation process. During the Joint Meeting of the Pacific Platform for Disaster Risk Management and the Pacific Climate Change Roundtable 8–11 July, speakers highlighted the need for national governments to initiate climate change adaptation processes as well as its integration with disaster risk management. The roundtable also provided a medium for information-sharing among countries in the region and relevant development partners.

AUGUST 2013 EVENTS

- 2 August: High Level Forum on the 10th Anniversary of ASEAN-PRC Strategic Partnership (Bangkok, Thailand)
- 8 August: ASEAN Day Celebration (Jakarta, Indonesia)
- 13–14 August: ASEAN Foreign Ministers Meeting Retreat (Hua Hin, Thailand)
- 13–15 August: Asia and the Pacific Regional Workshop on NAMAs (Singapore)
- 19–20 August: Second Meeting of Experts on Long-term Finance (Bonn, Germany)
- 19–22 August: 60th Meeting of the Clean Development Mechanism Methodology Panel (Bonn, Germany)
- 20–24 August: LDC Expert Group regional training workshop on adaptation for Asian Least Developed Countries (Siem Reap, Cambodia)
- 20–24 August: ASEAN-PRC Youth Forum (Brunei Darussalam)
- 20–24 August: 45th ASEAN Economic Ministers’ Meeting + External Partners (Brunei Darussalam)
- 20–24 August: ASEAN Business Investment Summit, ASEAN-US Business Summit, AEM Consultation with Private Sector Bodies (Brunei Darussalam)
- 22–30 August: 19th Round of Trans-Pacific Partnership Negotiations (Bandar Seri Begawan, Brunei Darussalam)
- 26 August: Symposium on ASEAN Connectivity (Brunei Darussalam)
- 26–30 August: Workshop on Developing Farming Systems for Climate Change Mitigation (Colombo, Sri Lanka)
- 27–29 August: SAARC Training Workshop on Energy Audit and Efficiency in Power Sector (Lahore, Pakistan)
- 28–29 August: APEC Finance Ministers’ Process Workshop on Infrastructure (Palembang, Indonesia)
# MONETARY, FINANCIAL, AND TRADE INDICATORS

## GLOBAL MARKETS
- Equity Indexes—eurozone, Japan, and the United States
- Equity Indexes—Emerging Markets
- Commodity Price Indexes
- Exchange Rate Indexes—euro and yen

## FINANCIAL INDICATORS
- **Equity Indexes**
  - ASEAN-4 plus Viet Nam
  - Kazakhstan
  - NIEs and People’s Republic of China
  - South Asia
- **Remittances**
  - Inward Remittances—Southeast Asia
  - Inward Remittances—South Asia
  - Inward Remittances from the Middle East—Bangladesh, Pakistan, and the Philippines
  - Outward Remittances—Kazakhstan

## MONETARY INDICATORS
- **Exchange Rate Indexes**
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  - Central Asia
  - NIEs and People’s Republic of China
  - South Asia
- **Headline Inflation**
  - ASEAN-4 plus Viet Nam
  - Central Asia
  - NIEs and People’s Republic of China
  - South Asia
- **Policy Rates**
  - ASEAN-4 plus Viet Nam
  - Central Asia
  - NIEs and People’s Republic of China
  - South Asia

## OUTPUT INDICATORS
- **Industrial Production**
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  - Central Asia
  - NIEs and People’s Republic of China
  - South Asia
- **Trade Growth**
  - Total Exports
  - ASEAN-4
  - India
  - People’s Republic of China

## VULNERABILITY INDICATORS
- **Assessment of Financial Vulnerabilities**
- **Assessment of External Vulnerabilities**

## KEY INDICATORS
GLOBAL MARKETS

Global stocks slightly recovered in July despite persistent volatility. US and eurozone stock indexes posted weak gains on positive US unemployment and US and eurozone PMI data. Japan’s stock index rose in July as the Bank of Japan’s quantitative and qualitative easing affected financial and real sectors. European markets and Asia’s emerging markets have not recovered due to persistent fears of tapering quantitative easing (QE) in the US. Commodity prices continued to drop, with the exception of crude oil, which rose slightly as recent US economic data fuelled demand expectations.

Equity Indexes — G3
(Jan 2011 = 100)

Equity Indexes — Emerging Markets
(Jan 2011 = 100)

Commodity Price Indexes
(Jan 2011 = 100)

Exchange Rate Indexes— euro and yen
(USD per unit of local currency, Jan 2011 = 100)

Note: Data up to 31 July 2013
Source: ADB calculations using data from Bloomberg.


Note: Monthly average equity indexes refer to Morgan Stanley Capital International (MSCI), European Monetary Union (EMU) Index for eurozone, Nikkei 225 Index for Japan, and Dow Jones Industrial Average Index for the United States. Data up to 31 July 2013. Source: ADB calculations using data from Datastream.

EQUITY INDEXES

Most Asian indexes continued volatile trend; PRC markets continued to decline while Pakistan market witnessed a rapid rise. Indexes in ASEAN and NIEs remained volatile. PRC indexes continued to fall amid a decline in exports and imports in June, the liquidity squeeze from the crackdown on shadow banking, and overall economic uncertainty. Pakistan’s bullish equity index was led by banking and cement stocks.

Equity Indexes—ASEAN-4 plus Viet Nam
(Jan 2011 = 100)

Equity Index—Kazakhstan
(Jan 2011 = 100)

Equity Indexes—NIEs and People’s Republic of China
(Jan 2011 = 100)

Equity Indexes—South Asia
(Jan 2011 = 100)

PRC= People’s Republic of China, NIE = newly-industrialized economy.

1Monthly average, data up to 31 July 2013.
Source: ADB calculations using data from Bloomberg.

1Monthly average, data up to 31 July 2013.
Source: ADB calculations using data from Bloomberg.

PRC= People’s Republic of China, NIE = newly-industrialized economy.

1Monthly average, data up to 31 July 2013. For PRC, stock price indexes of combined Shanghai and Shenzhen composites weighted by their market capitalization in US dollars.
Source: ADB calculations using data from Bloomberg.
REMITTANCES

Growth in remittance flows from the Middle East to South Asia remained weak. Remittance inflows to Pakistan showed very weak growth, whereas growth of inflows to Bangladesh continued to slow down. Tapering remittances from the Middle East continued due to weaker economic conditions in the region.

Inward Remittances—Southeast Asia
(y-o-y, %)

Inward Remittances—South Asia
(y-o-y, %)

Inward Remittances from Middle East—Bangladesh, Pakistan, and Philippines (y-o-y, %)

Outward Remittances—Kazakhstan
(y-o-y, %)

Notes:
- Source: ADB calculations using data from CEIC and Haver Analytics.

Notes:
- Source: ADB calculations using data from CEIC and Haver Analytics.

Notes:
- Based on 3-month moving averages. Middle East includes Bahrain, Kuwait, Qatar, Saudi Arabia, and United Arab Emirates. Data for the Philippines until April 2013.
- Source: ADB calculations using data from CEIC.

Note:
- Based on quarterly data.
- Source: ADB calculations using data from CEIC.
EXCHANGE RATES

Except for the PRC renminbi, most Asian currencies continued to depreciate in July. ASEAN-4 plus Viet Nam currencies started to depreciate in May owing to capital outflows caused by expectations of an early US exit from QE. Weakness in India, Pakistan and Sri Lanka currencies reflected a weak economic outlook and deteriorating trade and fiscal deficits. The steady appreciation of the PRC’s renminbi continued following strong guidance from the central bank.

Note: An increase means appreciation. A decrease means depreciation. Data up to 31 July 2013.
Source: ADB calculations using data from Datastream.
INFLATION

Inflation remained stable in most Asian countries on (with the exception of Indonesia) lower energy and food prices. Indonesia’s inflation rose to 3-year high on the 44% rise in fuel prices—as subsidies were reduced. Singapore inflation, meanwhile, continued to fall amid sharp declines in automobile prices and a slower rise in housing costs.

**Headline Inflation**—ASEAN-4 plus Viet Nam

(y-o-y, %)

<table>
<thead>
<tr>
<th>Month</th>
<th>Indonesia</th>
<th>Malaysia</th>
<th>Philippines</th>
<th>Thailand</th>
<th>Viet Nam</th>
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</thead>
<tbody>
<tr>
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<td>7.6</td>
<td>4.3</td>
<td>3.3</td>
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<td>2.5</td>
</tr>
<tr>
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<td>4.0</td>
<td>3.2</td>
<td>2.7</td>
<td>2.4</td>
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<tr>
<td>Sep-11</td>
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<td>3.9</td>
<td>3.1</td>
<td>2.6</td>
<td>2.3</td>
</tr>
<tr>
<td>Jan-12</td>
<td>6.5</td>
<td>3.7</td>
<td>3.0</td>
<td>2.5</td>
<td>2.2</td>
</tr>
<tr>
<td>May-12</td>
<td>6.3</td>
<td>3.6</td>
<td>2.9</td>
<td>2.4</td>
<td>2.1</td>
</tr>
<tr>
<td>Sep-12</td>
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<td>3.5</td>
<td>2.8</td>
<td>2.3</td>
<td>2.0</td>
</tr>
<tr>
<td>Jan-13</td>
<td>6.1</td>
<td>3.4</td>
<td>2.7</td>
<td>2.2</td>
<td>1.9</td>
</tr>
<tr>
<td>May-13</td>
<td>6.0</td>
<td>3.3</td>
<td>2.6</td>
<td>2.1</td>
<td>1.8</td>
</tr>
</tbody>
</table>

**Headline Inflation**—Central Asia

(y-o-y, %)

<table>
<thead>
<tr>
<th>Month</th>
<th>Azerbaijan</th>
<th>Kazakhstan</th>
<th>Tajikistan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan-11</td>
<td>12.0</td>
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<td>12.0</td>
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<tr>
<td>May-11</td>
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<tr>
<td>Sep-11</td>
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<td>8.0</td>
<td>10.0</td>
</tr>
<tr>
<td>Jan-12</td>
<td>9.0</td>
<td>7.0</td>
<td>9.0</td>
</tr>
<tr>
<td>May-12</td>
<td>8.0</td>
<td>6.0</td>
<td>8.0</td>
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<tr>
<td>Sep-12</td>
<td>7.0</td>
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<td>7.0</td>
</tr>
<tr>
<td>Jan-13</td>
<td>6.0</td>
<td>4.0</td>
<td>6.0</td>
</tr>
</tbody>
</table>

**Headline Inflation**—South Asia

(y-o-y, %)

<table>
<thead>
<tr>
<th>Month</th>
<th>Bangladesh</th>
<th>India</th>
<th>Pakistan</th>
<th>Sri Lanka</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan-11</td>
<td>8.0</td>
<td>9.0</td>
<td>7.0</td>
<td>8.0</td>
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<tr>
<td>May-11</td>
<td>7.0</td>
<td>8.0</td>
<td>6.0</td>
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<td>Sep-11</td>
<td>6.0</td>
<td>7.0</td>
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<tr>
<td>Jan-12</td>
<td>5.0</td>
<td>6.0</td>
<td>4.0</td>
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</tr>
<tr>
<td>May-12</td>
<td>4.0</td>
<td>5.0</td>
<td>3.0</td>
<td>4.0</td>
</tr>
<tr>
<td>Sep-12</td>
<td>3.0</td>
<td>4.0</td>
<td>2.0</td>
<td>3.0</td>
</tr>
<tr>
<td>Jan-13</td>
<td>2.0</td>
<td>3.0</td>
<td>1.0</td>
<td>2.0</td>
</tr>
</tbody>
</table>

RHS = right-hand side
3-month moving average. Data as of June 2013 for Malaysia and the Philippines.
Source: ADB calculations using data from CEIC.

NIE = newly-industrialized economy.
Note: Data as of June 2013 for PRC; Hong Kong, China; Singapore; and Taipei, China.
3-month moving average.
Source: ADB calculations using data from CEIC.
POLICY RATES

With the exception of Indonesia, Asia’s central banks maintained policy rates given the region’s relatively stable prices. Indonesia raised policy rates in July as a preemptive response to rising inflation expectations (due to reduced fuel subsidies) and to avert further capital flight.

Policy Rates\(^1\)—ASEAN-4 plus Viet Nam
(% per annum)

Policy Rates\(^1\)—Central Asia
(% per annum)

Policy Rates\(^1\)—NIEs and People's Republic of China
(% per annum)

Policy Rates\(^1\)—South Asia
(% per annum)

RHS = right-hand scale.

\(^1\)Bank Indonesia rate (Indonesia); overnight policy rate (Malaysia); reverse repurchase (repo) rate (Philippines); one-day repo rate (Thailand); and refinancing rate (Viet Nam). Data as of 31 July 2013. Source: Datastream.

\(^1\)Refinancing rate (Azerbaijan); repurchase (repo) rate (Kazakhstan). Data as of 31 July 2013. Source: Datastream.

\(^1\)One-year lending rate (PRC), Hong Kong base rate (Hong Kong, China); the Bank of Korea base rate (Republic of Korea); and discount rate (Taipei,China). Data as of 31 July 2013. Source: Datastream.

\(^1\)Repurchase (repo) rate (India); discount rate (Pakistan); and Sri Lanka Central Bank repurchase rate (Sri Lanka). Data as of 31 July 2013. Source: Datastream.
BANK LENDING

Growth in bank lending remained high but steadied across developing Asia except in Kazakhstan. Kazakhstan bank lending continued its rapid rise and should expand further as the economy grows; though weeding out bad loans (even 5-years after the global financial crisis) remains a challenge. Buoyant bank lending such as in Indonesia and PRC warrants monitoring given the continued rise in housing prices.

Bank Lending Growth\(^1\)—ASEAN-4 plus Viet Nam
(y-o-y, %)

Bank Lending Growth\(^1\)—South Asia and Kazakhstan
(y-o-y, %)

Bank Lending Growth\(^2\)—NIEs and People’s Republic of China
(y-o-y, %)

House Price Growth—East and Southeast Asia
(y-o-y, %)

Data refer to commercial bank loans (Indonesia and Thailand); commercial bank loans and advances (Malaysia); commercial and universal bank loans net of RRAs (Philippines); and claims on private sector of banking institutions (Viet Nam). Data for Indonesia until May 2013; Viet Nam until February 2013.

Data refer to credit of deposit money banks (Bangladesh), commercial bank loans (Sri Lanka), domestic credit (India and Pakistan), and loans of other depository corporations (Kazakhstan). Data for India and Sri Lanka until March 2013; data for Pakistan until April 2013.

Source: ADB calculations using data from CEIC.

Data refer to authorized institutions’ loans and advances (Hong Kong, China); commercial and specialized bank loans (Republic of Korea); domestic banking unit loans and advances (Singapore); and domestic bank loans and advances (Taipei, China). Data for Republic of Korea until May 2013.

Source: ADB calculations using data from CEIC and Bank of Korea.

House Price Growth—East and Southeast Asia
(y-o-y, %)

Source: ADB calculations using data from CEIC and Datastream.

1Data refer to credit of deposit money banks (Bangladesh), commercial bank loans (Sri Lanka), domestic credit (India and Pakistan), and loans of other depository corporations (Kazakhstan). Data for India and Sri Lanka until March 2013; data for Pakistan until April 2013.

Source: ADB calculations using data from CEIC for Bangladesh, Kazakhstan, and Sri Lanka; ADB calculations using data from Haver for India and Pakistan.

1Data refer to authorized institutions’ loans and advances (Hong Kong, China); commercial and specialized bank loans (Republic of Korea); domestic banking unit loans and advances (Singapore); and domestic bank loans and advances (Taipei, China). Data for Republic of Korea until May 2013.

Source: ADB calculations using data from CEIC and Bank of Korea.

1Data refer to commercial bank loans (Indonesia and Thailand); commercial bank loans and advances (Malaysia); commercial and universal bank loans net of RRAs (Philippines); and claims on private sector of banking institutions (Viet Nam). Data for Indonesia until May 2013; Viet Nam until February 2013.

Source: ADB calculations using data from CEIC.
**INDUSTRIAL PRODUCTION**

**Industrial production growth remained mixed.** Within the ASEAN-4 plus Viet Nam subregion, output growth picked up in Malaysia, Philippines, and Viet Nam but eased in Indonesia and Thailand. Growth in the NIEs remained stable, while Central and South Asia continued to show weak output growth.

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**Industrial Production Growth**

- **ASEAN-4 plus Viet Nam**
  - Data for Malaysia and the Philippines until May 2013; data for Indonesia and Thailand until June 2013.
  - Source: ADB calculations using data from CEIC.

- **Central Asia**
  - Data for Azerbaijan until May 2013.
  - Source: ADB calculations using data from CEIC.

- **NIEs and People’s Republic of China**
  - Source: ADB calculations using data from CEIC.

- **South Asia**
  - Data for Sri Lanka until April 2013; and Bangladesh until March 2013.
  - Source: ADB calculations using data from CEIC.
**TRADE GROWTH**

*Export and import growth fell in most Asian economies in June.* Export growth in June eased further as weak global demand persists and the slowdown in the PRC. Import growth from ASEAN-4, India, and the PRC also declined in June. India’s huge trade deficit with the PRC continued as import prices rose and export demand eased. However, import growth from India in ASEAN-4 remained relatively high and is expected to increase with the signing of the India-ASEAN FTA. Newly released trade data for PRC also show an improvement in July.
GDP GROWTH—G3

GDP growth in the US eased in the second quarter. Beating expectations, advanced estimates show the US economy grew 1.7% (q-o-q, saar) in the second quarter driven by improved private domestic investment and government consumption. Computing for output gap (based on IMF’s Global Projection Model), the US economy remained below potential. Accounting for a sharp decline in the trade gap, final GDP growth will likely be revised upwards by about 0.8 percentage points, reaching a 2.5% second quarter growth.

GDP Growth—G3
(q-o-q, saar, %)

Contributions to GDP Growth²—United States
(percentage points¹, saar)

Output Gap based on IMF’s Global Projection Model—G3
(percent deviation from trend)

Note: Output gap is computed as the percentage deviation between actual and trend real gross domestic product (GDP). A positive value denotes that actual output is above trend. Real GDP series ending 2013Q1 are extended to 2014Q4 using forecasts (as of July 2013) from Consensus Economics.

1Output gap is calculated using using the Baxter-King band-pass filter with 6 lags.
2Output gap is calculated using the Hodrick-Prescott filter with a smoothing parameter of 1600.
3Output gap is calculated from log-linear trend regressions of the GDP levels over the period 2000–2013Q1. For the United States, four log-linear trend regressions were done for each of the four quarters (Q1, Q2, Q3 and Q4) over the period 2000–2013Q1.

Source: ADB calculations using data from CEIC and Consensus Economics.
GDP GROWTH—ASIA

Second quarter GDP growth remained mixed. Growth in Indonesia continued to ease as exports declined and inflation rose. Viet Nam’s 1st half economic growth averaged 4.9%, driven by services. Taipei, China posted a better-than-expected Q2 GDP on a surge in exports and mild recovery in private consumption. The Republic of Korea’s economy grew at its fastest pace in 2 years from government stimulus and consumer spending. The PRC economy grew 7.5%, matching the government’s target as it continues with planned structural reforms.

1Based on quarterly data.
Source: ADB calculations using data from CEIC.

1Based on quarterly data.
Source: ADB calculations using data from CEIC.
SPECIAL FEATURE: Risk of Credit Boom in Asia

Widening interest rate differentials, strong growth fundamentals, and loose global monetary conditions have spurred a domestic credit boom in Asia. Over the past 6 months, credit growth in several Asian economies have grown over 10% (see page 12). Generally, rapid domestic credit growth heightens economic risk as it is often accompanied by more speculative investment, relaxation of credit controls, and deterioration in asset quality.

A lending boom can also increase risk if credit growth is driven by non-core liabilities, such as bank borrowings beyond retail, or household, deposits. This can happen when money is cheap, or when excess credit demand forces banks to rely on other non-core funding sources, which may include commercial deposits and foreign liabilities. More often than not, the rise in credit is also accompanied by rapid growth in risky assets (e.g. assets other than cash holdings, claims due from the government/central bank, and other fixed assets).

A shift in the composition of assets and liabilities, particularly towards non-core components, indicate increased risk-taking by banks, which also encourages them to increase their leverage over the economic cycle. This trend is now evident in Asia, where individual country scatterplots of level changes of assets and liabilities show a greater slope for non-core liabilities and assets (between 0.52 and 1.02) versus core liabilities and assets (between 0 and 0.41). After the GFC, non-core liabilities appear to be growing faster than core liabilities in selected Asian economies, particularly in the emerging ones. The rapid growth can be explained by the fact that at present, the size/level of non-core liabilities in these economies continue to be small (e.g. low level-high growth), which places them at a less vulnerable position when compared to an economy exhibiting a high level-high growth pattern (such as in the case of the Republic of Korea.)

Nonetheless, this can eventually present new challenges to overall macro-prudential regulation in Asia. For example, any increasing reliance on non-core liabilities—if not carefully managed—can be a major source of vulnerability, particularly if the bulk of such liabilities come from foreign funding sources. Any sudden deleveraging can put Asian banks in precarious position, which can lead to a credit crunch. Likewise, increasing acquisition of risky assets by banks—driven partly by the abundance of cheap money—will also put a strain on their balance sheet positions.

**Banks' Non-Core Liabilities** (quarterly, y-o-y %)

**Banks' Core Liabilities** (quarterly, y-o-y %)


Note: Non-core liabilities refer to Total liabilities less retail/ household/ individual deposits.

Source: ADB calculations using data from CEIC.


Note: Core liabilities refer to retail/ household/ individual deposits.

Source: ADB calculations using data from CEIC.
### Assessment of Financial Vulnerabilities

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
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<td>10.2</td>
<td>79.7 (Apr13)</td>
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<td>-</td>
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<td>-</td>
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<td>9.1 (Jun13)</td>
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Note: The latest figure is compared to the indicator’s long-run average (2000-2012). Green font implies a decline in vulnerability; red means an increase in vulnerability.

GDP = gross domestic product, y-o-y = year-on-year, – = unavailable.

1Latest International Monetary Fund Article IV Consultation projections of overall primary balance (excludes interest and investment income) for Brunei Darussalam and of overall balance (including grants and off-budget investment expenditures) for Lao People’s Democratic Republic (Lao PDR). Data for Bangladesh; Hong Kong, China; India; Lao PDR; Pakistan; Singapore; Sri Lanka; Taiwan, China; and Thailand are fiscal year.

2Central government debt for Indonesia, Republic of Korea, and Taiwan, China; federal government debt for Malaysia; and national government debt for the Philippines.

3Data are projections for Indonesia and Lao PDR; estimates for Viet Nam; 2011 figures for Kazakhstan and Sri Lanka, 2010 for Pakistan.

4Loans to private sector and non-financial institutions; and deposits (demand, time, savings, foreign currency, bond, and money market instruments—where available) of banking institutions, deposit money banks, and other depository corporations of each economy.

5Data for Brunei Darussalam and Cambodia refer to claims on private sector and nonbank financial institutions of other depository corporations; for People’s Republic of China to financial institution loans; Hong Kong, China to domestic credit; Indonesia to commercial bank loans; Republic of Korea to loans of commercial and specialized banks; Lao People’s Democratic Republic to claims on private sector of deposit money banks; Malaysia to commercial bank loans and advances; Philippines to commercial and universal bank loans net of reverse repurchase arrangements; Singapore to loans and advances of domestic banking units; Taiwan, China to domestic banks’ loans and advances; Thailand to commercial bank loans; and Viet Nam to claims on private sector of banking institutions.

### Assessment of External Vulnerabilities

<table>
<thead>
<tr>
<th>Country</th>
<th>Current Account/ GDP</th>
<th>External Debt/GDP&lt;sup&gt;1&lt;/sup&gt; (latest available)</th>
<th>External Debt/Reserves (4Q2012)&lt;sup&gt;2&lt;/sup&gt;</th>
<th>Broad Money&lt;sup&gt;3&lt;/sup&gt;/ Foreign Reserves (latest available)</th>
<th>Import Cover&lt;sup&gt;4&lt;/sup&gt; Foreign Reserves (latest available)</th>
<th>Foreign Liabilities/ Foreign Assets (latest available)</th>
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<tbody>
<tr>
<td>Bangladesh</td>
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<td>21.5</td>
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<td>7.7 (Jun13)</td>
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<td>—</td>
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<td>3.1 (Feb13)</td>
<td>105.3 (Feb13)</td>
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</table>

Note: The latest figure is compared to the indicator’s long-run average (2000–2012). Green font implies a decline in vulnerability; red means an increase in vulnerability.

GDP = gross domestic product, y-o-y = year-on-year, – = unavailable.

<sup>1</sup>Data are estimates for Brunei Darussalam, Cambodia, Japan, Republic of Korea, Lao People’s Democratic Republic (Lao PDR), and Myanmar.

<sup>2</sup>Data for short-term external debt includes loans and credits due and debt securities due within a year as defined in the Joint External Debt Hub. 2Q2012 for Lao PDR, 3Q2012 for Kazakhstan and Viet Nam. Data start 2004 for all countries.

<sup>3</sup>Data for Brunei Darussalam; Philippines, Taiwan, China; and Thailand refer to broad money; for Bangladesh, Cambodia, People’s Republic of China; Hong Kong, China; Indonesia, Kazakhstan; Republic of Korea; Lao PDR; Malaysia; Pakistan; and Sri Lanka refer to M2; for Myanmar and Viet Nam to money plus quasi-money; for India M3.

<sup>4</sup>Refers to number of months of imports that can be covered by official reserves, computed as reserves (excluding gold) divided by the 12-month moving average of imports (cost of insurance, freight). Latest month when reserves data is available. Import data may be earlier, the same, or later than period indicated.

<sup>5</sup>Foreign liabilities and assets of banking institutions, deposit money banks, and other depository corporations.

### Key Indicators

| Period | US | JPN | EUZ | BAN | PRC | HKG | IND | INO | KAZ | KOR | MAL | PAK | PHI | SIN | SRI | TAP | THA | VIE |
|--------|----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| **GDP Growth (y-o-y, %)** | 2013Q1 | 1.6 | 0.4 | -1.7 | 6.0 | 7.5 | 2.8 | 4.8 | 5.8 | 4.5 | 2.3 | 4.1 | 4.2 | 7.8 | 0.2 | 6.0 | 2.3 | 5.3 | 5.0 |
| **IPI Growth (y-o-y, %)** | Jun | 2.0 | -4.8 | -1.6 | 6.6 | 8.9 | -0.1 | -1.6 | 3.4 | 0.9 | -2.6 | 3.4 | 3.7 | 20.4 | -5.9 | -1.0 | -0.4 | -3.5 | 7.0 |
| **Retail Sales Growth (y-o-y, %)** | Jun | 6.0 | 1.6 | 0.0 | — | 13.3 | 14.7 | — | 3.6 | 9.7 | 0.6 | 7.8 | — | 16.8 | 3.2 | — | 2.4 | 7.2 | 12.8 |
| **Headline Inflation Rate (y-o-y, %)** | Jun | 1.8 | 0.2 | 1.6 | 7.9 | 2.7 | 4.2 | 9.9 | 8.6 | 6.4 | 1.4 | 1.8 | 5.9 | 2.8 | 1.8 | 6.1 | 0.6 | 2.0 | 7.3 |
| **Policy Rate (% per annum)** | Jul | 0.3 | 0.1 | 0.5 | — | 6.0 | 0.5 | 7.3 | 6.5 | 5.5 | 2.5 | 3.0 | 9.0 | 3.5 | — | 7.0 | 1.875 | 2.5 | 7.011 |
| **Stock Price Index Growth (% YTD)** | 02Jan-31Jul | 15.6 | 31.5 | 9.8 | 4.9 | -12.2 | -6.1 | -6.0 | 6.1 | -6.2 | -5.8 | 5.8 | 41.4 | 13.3 | 0.6 | 6.2 | 4.2 | 1.1 | 17.6 |
| **Export Growth ($ value, y-o-y, %)** | Jun | 0.1 | -12.4 | -0.1 | 19.6 | -3.1 | -0.2 | -4.6 | -4.5 | -24.0 | 2.6 | -6.0 | 2.8 | -0.8 | -1.5 | -1.5 | 8.6 | -3.4 | 9.9 |
| **Import Growth ($ value, y-o-y, %)** | Jun | 0.1 | -8.9 | -5.7 | -9.0 | -0.7 | 1.3 | -0.4 | -6.8 | 13.4 | 2.7 | 2.2 | -1.0 | -2.4 | -8.2 | -1.7 | 6.8 | 3.0 | 14.5 |
| **Current Account (% of GDP)** | 2013Q1 | -2.7 | 1.3 | 1.4 | 0.9 | 2.5 | -1.9 | -3.6 | -2.4 | 9.0 | 3.5 | 3.7 | -2.2 | 5.3 | 15.6 | -7.2 | 9.3 | 1.3 | 4.6 |
| **Capital and Financial Account (% of GDP)** | 2013Q1 | -1.8 | 0.1 | 0.1 | 1.3 | 4.8 | -2.5 | 4.0 | -0.6 | 1.8 | -2.5 | 0.4 | -0.6 | -2.2 | -5.3 | 6.2 | -9.8 | 4.0 | 7.3 |
| **International Reserves ($ billion)** | Jun | 134.7 | 1209.4 | 324.9 | 14.8 | 3515.2 | 303.5 | 324.9 | 1209.4 | 7.3 | 321.6 | 143.7 | 73.6 | 259.6 | 5.3 | 406.6 | 164.7 | 28.6 |

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1. **GDP** = gross domestic product. Refers to 2013 Q2 for PRC, INO, KOR, TAP, and VIE; 2012Q4 for KAZ and SRI. Fiscal year 2012 (ended June 2012) for BAN and PAK. 2. **IPI** refers to Industrial/Manufacturing Production. EUZ and US data are seasonally adjusted. Refers to March 2013 for BAN; April 2013 for SRI; May 2013 for IND, MAL, PAK, PHI, and EUZ; July 2013 for VIE; 2012Q3 for HKG. 3. **Stock Price Index Growth** refers to 2012Q4 for SRI, VIE, and US; 2013Q1 for BAN; 2013Q2 for訁KOR, and VIE. 4. **Exchange Rate** refers to US Dow Jones Ind Avg; JPN Nikkei 225; EUZ United Kingdom FTSE 100; BAN Dhaka; PRC-Shanghai Composite; HKG Hang Seng; IND BSE 100; INO JCI; KOR KOSPI; MAL KLCI; PAK KSE100; PHI PSI; SIN STI; SRI Lanka CSEALL; TAP TWSE; THA SET; and VIE VNINDEX. 5. **Export Growth** ($ value) refers to 2012Q4 for SRI, VIE, and US; 2012Q2 for KAZ; fiscal year 2011 (ended June 2012) for BAN and PAK. 6. **Refinancing Rate** refers to May 2013 for BAN, PHI, SRI, KAZ, US and EUZ; July 2013 for KOR and VIE. 7. **Retirement Rate** refers to 2012Q4 for SRI, VIE, and US; 2012Q2 for KAZ; fiscal year 2011 (ended June 2012) for BAN and PAK. 8. **Refers to May 2013 for SRI; February 2013 for VIE**. 9. **Refers to May 2013 for SRI; February 2013 for VIE**. 10. **Refers to May 2013 for SRI; February 2013 for VIE**. 11. **Excludes gold. US, EUZ, and IND sourced from IFS.**

Source: ADB calculations using data from CEIC, Bloomberg, Datamonitor, European Central Bank, Eurostat, International Monetary Fund, Reuters, and national sources.