



THE WORLD ECONOMY

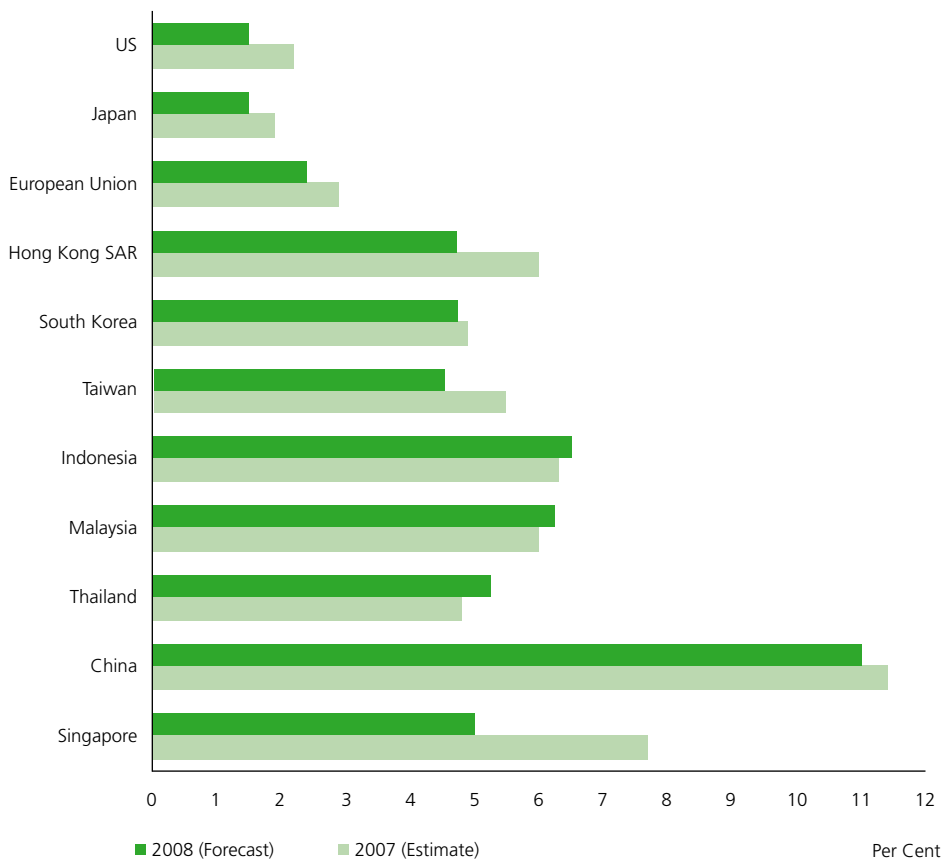
OVERVIEW

[Chart 1.1]

The world economy generally performed well in 2007. While there was some slowdown in the G3 economies compared with 2006, the Asian economies continued to see robust expansion, supported both by domestic demand and external trade. Inflation is expected to remain strong in many countries despite possible slowdown in the global economy, as supply conditions in food and commodities markets remain tight.

GDP GROWTH

[Chart 1.1]



Source: Various Official Sources and IMF

DEVELOPED ECONOMIES

Growth momentum slowed in the developed economies in 2007 and prospects for 2008 weaken...

Growth of the **US** economy decelerated sharply from 4.9 per cent to 0.6 per cent on an annualised quarter-on-quarter basis (non-annualised rate of 0.2 per cent) in the fourth quarter. The slower growth primarily reflected a slowdown in consumer and external demand and a fall in inventory investment. For the whole of 2007, the economy expanded by 2.2 per cent, lower than the 2.9 per cent growth in 2006. **EU** seasonally adjusted quarter-on-quarter GDP growth was at 0.8 per cent in third quarter, compared with the 0.5 per cent growth in the previous quarter. This was supported by increase in investments and strength in external demand. Economic growth in **Japan** was at 0.4 per cent in the third quarter, recovering from the contraction of 0.5 per cent a quarter earlier. This was primarily due to firm external demand while private consumption growth remained moderate [Table 1.1].

DEVELOPED ECONOMIES

[TABLE 1.1]

	2006		2007				2007
	4th Qtr	Annual	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Annual
Percentage Change Over Preceding Quarter							
Gross Domestic Product							
United States	0.5	2.9	0.2	0.9	1.2	0.2	2.2
EU	0.9	3.0	0.8	0.5	0.8	na	na
Japan	1.3	2.4	0.8	-0.5	0.4	na	na
Private Consumption Expenditure							
United States	1.0	3.1	0.9	0.3	0.7	0.5	2.9
EU	0.6	2.2	0.2	0.6	0.7	na	na
Japan	1.2	2.0	0.6	0.2	0.3	na	na
Private Investment							
United States	-3.7	2.7	-2.1	1.1	1.2	-2.7	-4.6
EU ¹	2.0	6.0	1.8	0.0	1.5	na	na
Japan	1.9	3.6	-0.6	-2.1	-0.4	na	na
External Demand							
United States	3.4	8.4	0.3	1.8	4.5	1.0	7.9
EU	2.7	8.8	0.9	0.7	2.2	na	na
Japan	1.0	9.5	3.2	1.0	2.6	na	na
Percentage Change Over Same Period Of Previous Year							
Inflation							
United States	1.9	3.2	2.4	2.7	2.4	4.0	2.8
EU	2.1	2.3	2.2	2.2	2.1	3.0	2.4
Japan	0.3	0.3	-0.1	-0.1	-0.2	0.5	0.0

¹ Figures refer to total gross fixed capital formation.

Source: Various Official Sources

Looking ahead, economic growth for the developed economies is expected to moderate. The IMF expects US growth to slow down to 1.5 per cent in 2008, while the European Commission expects the EU economy to moderate from 2.9 per cent in 2007 to 2.4 per cent in 2008. For the Japanese economy, the IMF expects a growth rate of 1.5 per cent in 2008, lower than 1.9 per cent for 2007.

NORTHEAST ASIA

Strong growth in the Northeast Asian economies last year...

Northeast Asian economies continued to show strong growth in 2007. **China** saw double digit expansion in the fourth quarter of 2007, bringing whole year growth to 11.4 per cent. Supported by stronger private consumption growth compared with the previous quarter, **Hong Kong** grew by 6.2 per cent in the third quarter of 2007. **South Korea's** economic growth rose to 5.5 per cent in the fourth quarter, bringing full year growth to 4.9 per cent. External demand saw particularly strong expansion at 12 per cent. In **Taiwan**, third quarter growth accelerated to 6.9 per cent as private consumption and external demand expanded faster [Table 1.2].

...healthy growth in Northeast Asian economies...

NORTHEAST ASIA

[TABLE 1.2]

	2006		2007				2007
	4th Qtr	Annual	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Annual
Percentage Change Over Same Period Of Previous Year							
Gross Domestic Product							
China	10.4	11.1	11.1	11.9	11.5	11.2	11.4
Hong Kong	6.9	6.8	5.6	6.6	6.2	na	na
South Korea	4.0	5.0	4.0	5.0	5.2	5.5	4.9
Taiwan	4.1	4.9	4.2	5.2	6.9	na	na
Private Consumption Expenditure							
Hong Kong	6.2	5.9	4.8	5.7	9.7	na	na
South Korea	3.7	4.2	4.1	4.2	4.7	4.7	4.4
Taiwan	2.4	1.8	2.1	2.6	3.5	na	na
Gross Fixed Capital Formation							
Hong Kong	6.4	6.3	2.8	10.0	2.0	na	na
South Korea	4.5	3.2	7.0	6.7	1.4	2.0	4.1
Taiwan	5.2	0.6	0.8	6.0	5.0	na	na
External Demand							
Hong Kong	10.3	9.2	7.0	10.3	7.4	na	na
South Korea	10.5	12.4	11.0	10.7	9.2	16.1	11.8
Taiwan	2.9	10.4	6.4	4.7	11.1	na	na
Inflation							
China	2.0	1.5	2.7	3.6	6.1	6.6	4.8
Hong Kong	1.8	1.7	0.3	0.7	0.9	3.1	1.3
South Korea	2.1	2.2	2.0	2.4	2.3	3.4	2.5
Taiwan	-0.1	0.6	1.0	0.3	1.5	4.5	1.8

Source: Various Official Sources

The Chinese National Development and Reform Commission expects growth to be around 11 per cent in 2008. For Hong Kong, the official growth rate is 6.0 per cent for 2007 while the IMF puts 2008 growth at 4.7 per cent. The Bank of Korea projects 4.7 per cent growth in 2008, citing strong construction investments. For Taiwan, the Taiwan Directorate General of Budget has forecasted 4.53 per cent growth for 2008 on the back of improving domestic demand.

SOUTHEAST ASIA

Domestic demand strengthened across Southeast Asian economies in the third quarter of 2007...

Stronger domestic demand and investment were the main drivers for Southeast Asian economies in the third quarter, propelling economic growth in **Malaysia** to a three-year high of 6.7 per cent. In **Indonesia**, an investment surge spurred by falling interest rates and favourable government policies helped to fuel economic growth of 6.5 per cent, despite weaker external demand. **Thailand** saw a 4.9 per cent expansion as investments rose on the back of strong public spending on equipment [Table 1.3].

Despite a slowdown in the US economy, most Southeast Asian economies remain fairly optimistic in their outlook for 2008, with growth expected to be sustained by healthy domestic demand. Bank Indonesia expects growth of 6.2–6.8 per cent, close to the 6.0–6.5 per cent projected by Malaysia's Bank Negara. The Bank of Thailand's 2008 growth forecast is 4.5–6.0 per cent.

SOUTHEAST ASIA

[TABLE 1.3]

	2006		2007				2007
	4th Qtr	Annual	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Annual
Percentage Change Over Same Period Of Previous Year							
Gross Domestic Product							
Indonesia	6.1	5.5	6.0	6.3	6.5	na	na
Malaysia	5.7	5.9	5.5	5.8	6.7	na	na
Thailand	4.3	5.1	4.2	4.3	4.9	na	na
Private Consumption Expenditure							
Indonesia	3.8	3.2	4.7	4.7	5.3	na	na
Malaysia	7.0	7.1	8.6	13.1	14.0	na	na
Thailand	2.7	3.2	1.3	0.8	1.9	na	na
Gross Fixed Capital Formation							
Indonesia	8.2	2.9	7.8	7.0	8.8	na	na
Malaysia	9.8	7.9	9.9	6.6	13.5	na	na
Thailand	1.9	3.8	-1.3	0.2	2.6	na	na
External Demand							
Indonesia	6.1	9.2	8.9	9.8	7.8	na	na
Malaysia	5.2	7.4	1.9	3.0	1.2	na	na
Thailand	7.2	8.5	8.2	7.6	3.5	na	na
Inflation							
Indonesia	6.1	13.1	6.4	6.0	6.5	6.7	6.4
Malaysia	3.0	3.6	2.6	1.5	1.8	2.2	2.0
Thailand	3.3	4.7	2.4	1.9	1.6	2.9	2.3

Source: Various Official Sources

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