Economic Outlook

China/Asia

Third Quarter 2013
Economic Analysis

- **The global outlook is being influenced by slowing growth in emerging markets and tighter financial conditions.** Growth continues in the US, and in Europe we expect positive growth to resume in the second quarter. Our global outlook is for growth of 3.1% in 2013 and 3.8% in 2014.

- **Asian growth performance is mixed.** A pickup continues in Japan, but elsewhere momentum has lost steam, led by the slowdown in China and sluggish external demand. In addition, capital outflows are beginning to weigh on investment and domestic demand.

- **In China, we are lowering our projections to 7.6% in both 2013 and 2014.** While growth has been slowing, there are signs of stabilization. The outlook for next year, however, is uncertain given the authorities' tolerance for lower growth and keener interest in reigning in financial fragilities.

- **Risks to the broader outlook stem from slowing demand from China and financial volatility from QE tapering.** Meanwhile, in Japan sentiment could weaken if implementation of structural reforms misses expectations.

Index

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Summary

Asian growth performance over the past quarter has been mixed. A mild pickup continues in a number of Asian economies, especially in Japan, and to a lesser extent in Korea and parts of the ASEAN region. But elsewhere momentum has lost steam led by the slowdown in China (see below) and continued sluggish external demand.

Beyond the continued slowdown in China, the most significant development has been a reversal of capital flows triggered by improving growth trends in the US and prospects of QE tapering by the Fed. The shift in capital flows is helping to slow excessive credit growth and reduce risks of asset bubbles. Nevertheless, it has caused increased market volatility, has limited the scope for additional monetary easing, and is putting downward pressure on domestic demand. Economies with current account deficits and which are dependent on portfolio inflows, such as India, and to a lesser extent Indonesia, have borne the brunt of this adjustment, as seen in downward pressures on their currencies.

In Japan, economic developments have been broadly positive. The Bank of Japan has sustained the expansionary policy stance announced last April, the government is implementing its fiscal stimulus package, and the ruling coalition's victory in Upper House elections in July has added much-needed political stability. Industrial production, exports, and business confidence are all trending up. However, scepticism remains on the structural reform agenda, which is crucial for the ultimate success of the strategy.

Our outlook continues to build in a gradual improving trend in growth on supportive domestic policies and an expected improvement in the external environment. However, we are making modest downgrades to some of our projections to reflect weaker demand from China and the impact of the reversal in capital flows on the cost of funding. Besides China, the most notable downgrades in our projections are to Australia, Indonesia, and Taiwan. For the Asia-Pacific region, we expect growth of 5.3% in 2013, unchanged from the outturn in 2012, and 5.6% in 2014.

In China, Q2 GDP growth slowed as expected to 7.5% y/y from 7.7% y/y in Q1 on weak private investment. Combined with rising financial fragilities and policy uncertainty, the slowdown is adding new risks to China's growth prospects.

We are lowering our 2013 and 2014 projections for China only modestly at this stage, to 7.6% in each year, from 8.0% in our previous quarterly outlook. While uncertainties have increased, especially for 2014 and beyond, our projections are underpinned by the authorities' supportive policy stance to achieve their 7.5% growth target for 2013, and expected improvements in external demand. Signs are emerging that growth in Q3 is now stabilizing. With inflation well-contained (2.7% y/y in July), we are revising down our 2013 average inflation projection to 2.8% from 3.0% previously with end-year inflation of 3.5%.

While China's policies will remain growth supportive, larger stimulus measures are constrained by a buildup in domestic financial fragilities. Fiscal policy will underpin growth through continued infrastructure spending, public housing construction, and selected tax cuts. On the monetary front, we expect interest rates to remain on hold during the rest of 2013, although the PBoC may be more accommodating by freeing liquidity into the banking system when needed through open market operations and adjustments in the RRR. Given the fragile performance of the external sector and the considerable currency appreciation to date, we expect very limited further gains in the RMB during the rest of the year, to 6.10 per USD.

Risks to the Asian outlook stem from the possibility of slower growth in China and renewed market volatility as investors evaluate the timing and degree of Fed tapering. Meanwhile, in Japan market sentiment could worsen if the structural reform program fails to meet expectations or if there are slippages in the government's medium-term fiscal consolidation. India, and to a lesser extent Indonesia, may continue to face external pressures from capital outflows, exacerbated by worries about the "twin" current account and fiscal deficits in the former, and inflation in the latter.

1. Global growth: no improvements until 2014, diversified risks

Before turning to Asia and China, we review the *Global Outlook*. Readers may go directly to the sections on Asia, if they wish, by turning to page 6.

The global economy is showing cyclical weakness, above all in emerging markets, and is facing tighter financial conditions

The global economic situation is less favorable than it was three months ago, when we issued our previous growth forecasts. We have therefore revised down our global GDP growth outlook to 3.1% in 2013, 0.2 percentage points below the forecasts three months ago. For 2014, we maintain our expectations of continued expansion at 3.8%, 0.2 pp below the forecast of last quarter. At least two reasons lie behind the revisions. First, the emerging markets are experiencing a sharper slowdown than expected. Second, there has been an unexpected tightening of global financial conditions.

Uncertainties in advanced economies; a deterioration in emerging markets

In recent quarters, macroeconomic data have been less than fully positive. Growth in the U.S. has been in line with expectations, but far from stellar (the economy has not grown above 2% since 3Q12). In Europe, after a disappointing start to the year, with a sixth consecutive quarter of contraction, recent data are more favorable, and we are expecting positive growth in the second quarter for the euro zone. Meanwhile, in the first quarter Japan experienced an upturn in GDP and recent data suggest that the improvement is being sustained, supported by the stimulus measures of the new government.

In contrast, the macroeconomic situation in emerging markets has weakened. In Latin America, there is particular concern about Brazil, which appears unlikely to escape from its slump in 2011-2012, and is under additional uncertainties due to social tensions. Mexico lost momentum in the first half of 2013 due to weaker foreign demand along with a decline in public expenditure with the change in government. Meanwhile in Asia, growth has weakened in China and India. In the former, a steady slowdown has continued, putting downward pressure on growth in other emerging markets, especially those dependent on demand for commodities.

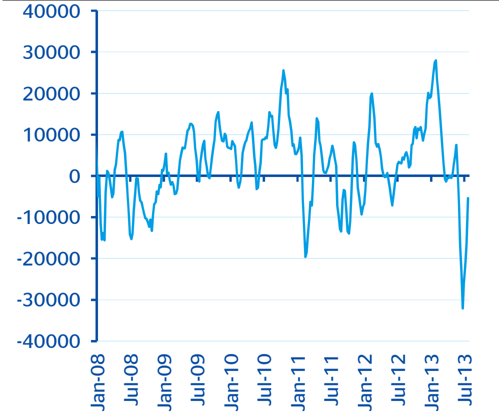
Adjusting to tighter liquidity

Another factor limiting the global outlook is tighter financial conditions that have developed since mid-May when the Fed announced its plans to limit and eventually end its monetary expansion. The Fed had already signalled its intention to begin a process of exiting from the extraordinary liquidity measures adopted in recent years. These plans have recently taken shape, and the market has come to expect that the Fed will begin to reduce the rate of its asset purchases as early as September, and end the program altogether when the unemployment rate falls to 7%, around the second quarter of 2014. However, we do not anticipate interest rate rises until the second half of 2015.

There are still doubts about the real strength of the recovery underway in the U.S. Fiscal consolidation is restricting growth, and sectors such as manufacturing are still showing signs of weakness. The residential construction sector is showing strength, but in part this has been supported very favorable financial conditions that are beginning to reverse. And finally, while trends are in the right direction, employment is not showing particularly robust growth.

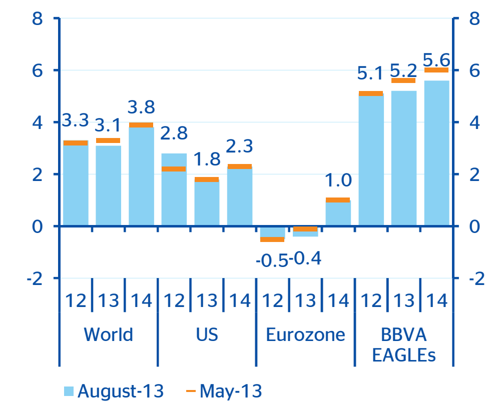
Emerging markets have been most affected by the recent tightening of financial conditions. The expansionary monetary policies implemented by central banks in advanced economies had generated flows to higher risk assets in emerging markets. Currently the situation has reversed, with capital outflows from emerging markets, in the form of equities and bonds of close to 85 billion dollars between mid-May and mid-July1. As well as falls in the stock markets and bond prices, there has also been a general depreciation in currencies. Capital outflows and depreciation in some countries have been so intense that their central banks have had to raise interest rates (Indonesia and Turkey), or eliminate barriers to capital inflows.

Chart 1
Net flows to EM bond and equity funds



Source: Bloomberg and BBVA Research

Chart 2
GDP growth by region



Source: Haver and BBVA Research

Overall, however, although the rate of capital outflow from emerging markets is very high, there are reasons for optimism. First, recent data show that capital outflows are moderating. Second, the profile of investors who have generated the outflows is of a shorter-term investment horizon, compared with institutional investors with longer-term horizons. Thirdly, the underlying reason for the withdrawal of central-bank liquidity is because the global economic cycle is improving. And finally, emerging market fundamentals are still strong.

Prospects of European recovery intact

In Europe, while activity indicators have improved, financial tensions have increased again in recent months, undoing improvements earlier in the year. The reasons for the rise in financial tensions are due to portfolio adjustments following the Fed's announcement as described above, political instability in southern European countries (especially Portugal), doubts about the capacity of the ECB's OMT program to contain financial tensions, and finally, slow progress in forming an EU-wide banking union.

Overall, prospects for the economy in the euro zone remain basically unaltered. Reforms to improve governance in the zone will likely be boosted after elections in Germany. Also, economic policies have taken a more flexible turn, with relaxation of some of the EU's fiscal targets in 2013 and 2014. The ECB has taken additional supportive measures, including a lowering of interest rates in May and a commitment to maintaining benchmark interest rates at current levels or below for a prolonged period.

More diversified global risk events, but with lower impact

Risks are more diversified than in recent quarters, although their potential impact on the global economy is lower. First, there is the possibility that the Fed's exit process could be disorderly. Second, the outlook for growth in China remains uncertain. And finally, there remains the risk of a worsening of the crisis in the euro area, where the situation is improving but is still vulnerable.

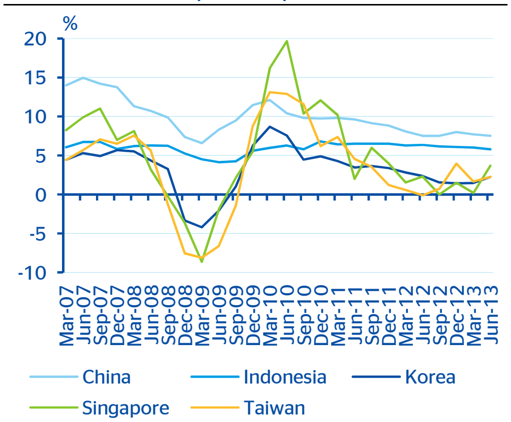
[1] For more details, see BBVA Research's Economic Watch, "Behind the Emerging Market sell-off: some stylized facts", available from: www.bbvaresearch.com

2. Asian growth loses some steam

While a pickup in growth continues in a number of Asian economies, especially Japan, and to a lesser extent Korea, Taiwan, and parts of the ASEAN region, elsewhere momentum has lost steam in recent quarters led by the slowdown in China and continued sluggish external demand (Charts 3 and 4). More recently, improving growth trends in the US and prospects of QE tapering by the Fed have generated capital outflows, causing increased market volatility, limiting the scope for additional monetary easing, and adding new pressures on domestic demand.

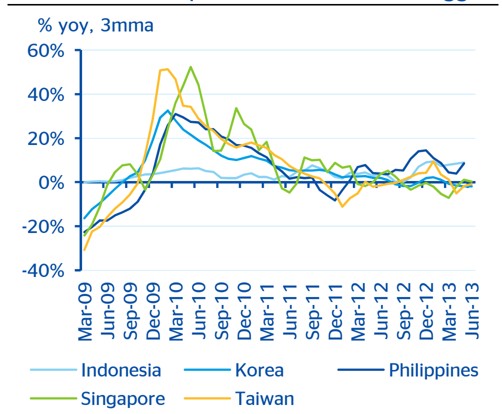
Economies with current account deficits and which are dependent on portfolio inflows, such as India, and to a lesser extent Indonesia, have borne the brunt of this adjustment, as seen in downward pressures on their currencies. Nevertheless, underlying fundamentals across the region remain healthy, and the shift in capital flows is helping to slow excessive credit growth and reduce risks of asset bubbles.

Chart 3
Q2 momentum has slowed in China and Indonesia, but has picked up elsewhere …



Source: Haver and BBVA Research

Chart 4
… while industrial production trends are sluggish

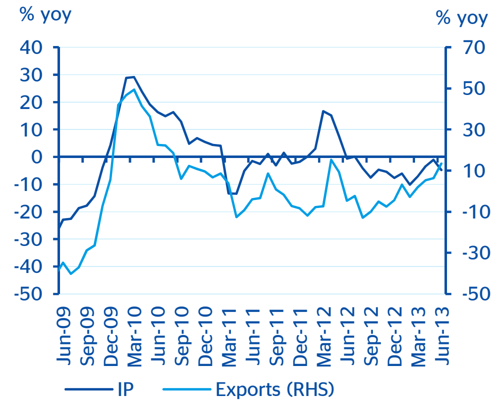


Source: Haver and BBVA Research

Japan remains a bright spot, but challenges remain

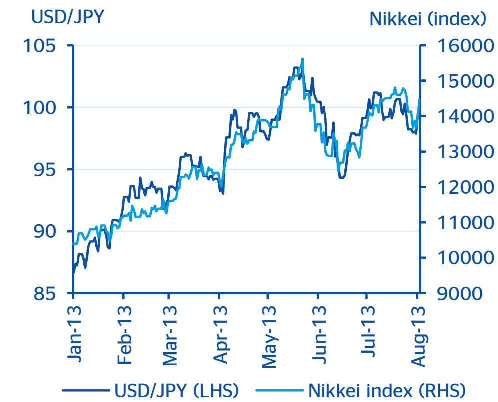
Though headwinds to growth in Asia have increased over the past quarter, economic developments in Japan remain broadly positive. The Bank of Japan has sustained its expansionary monetary easing stance as announced last April (doubling the monetary base over the coming two years), and the government is implementing its ¥10.3 tn (2.2% of GDP) fiscal stimulus package. These two "arrows" of the government's strategy have worked so far, with industrial production, exports, and business confidence all trending up (Chart 5). First quarter GDP growth rose to 4.1% saar, and headline inflation in June turned positive for the first time since May 2012, although there is still a way to go to the 2% target by end-2014.

Chart 5
Japan's IP and exports are turning up...



Source: Haver and BBVA Research

Chart 6
... but financial markets are taking a breather



Source: Haver and BBVA Research

Despite the positive results so far, there remain important challenges and risks. The missing component so far is implementation of the structural reform agenda, the so-called "third arrow" of the growth strategy. The ruling coalition's victory in Upper House elections on July 21 has given the ruling government control of both houses of Parliament for the first time in six years, which bodes well for political stability. Such a victory should, in theory, increase the likelihood of passing structural reforms needed to boost long-term growth prospects, including an opening up the agricultural sector, enhancing labor market flexibility, and a credible plan for medium-term fiscal consolidation.

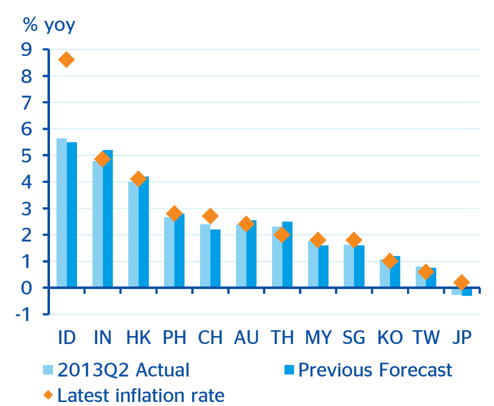
Nevertheless, the market response so far has been disappointing, with the stock market falling by around 8% since the elections, and the yen appreciating back below the 100 level against the USD (Chart 6). Adding to doubts about the adequacy of the reform agenda, implementation of a much-anticipated consumption tax hike in 2014-15 remains uncertain as the government evaluates the drag on growth and whether the recovery is sufficiently strong to proceed. On the positive side, bond yields have stabilized after a selloff in May.

Regional growth is buffeted by China's slowdown and capital outflows, amidst mixed activity indicators

After a disappointing first quarter, growth momentum across much of Asia has been improving at a mild pace under the influence of supportive policies and a modest improvement in the external environment. However, activity indicators have been mixed, reflecting still-strong, but weakening domestic demand, headwinds from China's slowdown, and new pressures from capital outflows. China's GDP growth slowed to 7.5% y/y in Q2, in line with expectations and continuing a gradual slowdown over the past 4-6 quarters, bringing growth for the first half of the year to 7.6% y/y, just above the official full-year target of 7.5%.

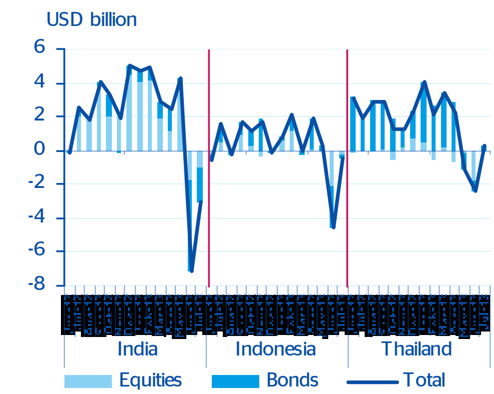
The regional impact of the slowdown in China has been modest so far, but given the importance of the Chinese market for exports, the effects may be seen in forthcoming data releases (see Box 1). Elsewhere, trends in industrial production and exports have been uneven, although Q2 GDP outturns in Singapore, Taiwan, and Korea all improved relative to the first quarter. In India, however, growth continues to face headwinds from easing domestic demand, supply side bottlenecks, including raw material shortages and frequent power cuts, and external financing concerns that have dampened business sentiment. With the exception of Indonesia, where a large administered fuel price increase was implemented in June, inflation remains contained (chart 7).

Chart 7
Inflation has generally been lower than expected



Source: Bloomberg and BBVA Research

Chart 8
Portfolio outflows from EM Asia in anticipation of US QE tapering...

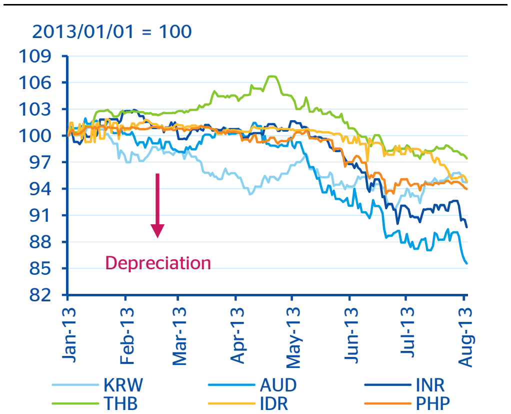


Source: Bloomberg and BBVA Research

The risk of additional capital flows is constraining further cuts in policy rates...

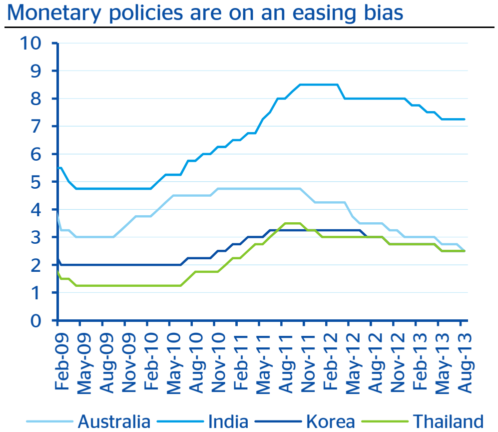
Perhaps the most significant development over the past quarter is the shift in capital flows. Until late May, the region, along with other emerging markets, had been coping with large capital inflows. Improving sentiment from upbeat data in the US and talk of QE tapering by the Fed have generated capital outflows and market volatility (Chart 8). The region has been able to cope so far with the sudden shift in flows, thanks to high reserve levels and strong underlying fundamentals. Indeed, to some extent the outflows have been welcome in reducing currency appreciation and overheating pressures (e.g., rapid credit growth) and risks of asset price bubbles, especially in the property markets of Hong Kong and Singapore. On the other hand, countries with current account deficits and their associated dependence on portfolio inflows, such as India and Indonesia, have seen the most severe downward pressures on their currencies (Chart 9).

Chart 9
... have caused Asian currencies to weaken



Source: Bloomberg and BBVA Research

Chart 10
Monetary policies are on an easing bias



Source: CEIC and BBVA Research

Capital outflows have put downward pressure on currencies, and have caused some central banks to pause on further rate cuts. For example, after a rate cut in May, the Bank of Korea has since paused despite low inflation and sluggish, albeit improving, growth; in mid-July the Reserve Bank of India tightened liquidity to counter severe downward pressures on the rupee, after three consecutive rate cuts (75bps in total) from January through May; and Bank Indonesia became the first regional central bank to hike rates in June (25bps) and July (50bps) to counter inflationary pressures from the fuel price increase and downward currency pressures from capital outflows. The Bank of Thailand also delivered a 25bp rate cut in May, but has since paused after currency appreciation pressures eased. In contrast, the Reserve Bank of Australia has signalled that it welcomes the recent fall in the value of the Australia dollar (around 13 percent against the USD since early April), and cut rates again in August.

Monetary policies to stay on hold given limited room for further rate cuts

Monetary policies in much of the region remain on an easing bias given sluggish growth and low inflation (Chart 10). However, in the new environment of capital outflows and downward pressures on currencies, we expect most central banks to remain on hold for the remainder of the year. After its latest rate cut in early August, we expect the RBA to stay on hold, while one more rate cut in Korea and India are possible if and when stability in the currency markets returns. In contrast, monetary policies are on a tightening bias in Indonesia and the Philippines given high inflation in the former and still strong growth in the latter.

Modest downward revisions to the growth outlook

Consistent with our recent quarterly Outlooks, our baseline continues to build in a gradual improving trend in growth given an expected improvement in the external environment. However, we are making modest downgrades to some of our projections to reflect lower growth in China (7.6% in each of 2013 and 2014 versus 8.0% previously), and the impact on domestic demand of the reversal in capital flows. Other than China, the most notable downgrades are to Australia (2.6% in 2013 and 3.2% in 2014), Indonesia (5.9% in 2013 and 6.5% in 2014), and Taiwan (2.7% in 2013 and 3.9% in 2014).

Risks to the outlook stem from the possibility of even slower growth in China given the domestic challenges and uncertain policy response of the authorities, especially in 2014 and beyond. There is also a risk that market volatility could return as investors evaluate the timing and degree of Fed tapering, which could put further downward pressure on investment and domestic demand.

In Japan, market sentiment could turn if there is disappointment in the structural reform program, or slippages in the government's medium-term fiscal consolidation, which could cause bond yields to rise and choke off the ongoing economic pickup. Indonesia, which has seen a sharp rise in domestic bond yields, might continue to face external pressures from capital outflows, and investor concerns about inflation. And India may continue to face external pressures of its own, given weak investor confidence in the government keeping the reform agenda on track, and its efforts to address the "twin" current account and fiscal deficits. Against a backdrop of tighter monetary policy, protracted investment slack and inadequate policy push, risks to our India growth outlook are biased to the downside.

Box 1: What is the impact on Asian economies from China's slowdown?

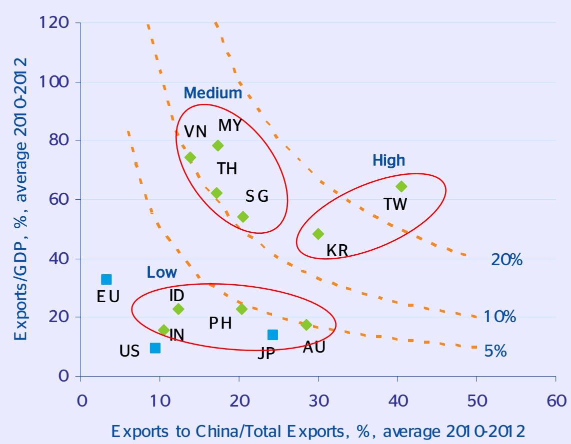
Over the past two decades, China has become an increasingly important trading partner of other Asian economies (Chart 11), constituting the first or second largest export market. Financial linkages, however, have not kept pace given the underdevelopment of China's domestic financial markets and closed capital account. The largest impact of a further slowdown in China would come from the trade channel, as examined below. China has also become an important source of FDI flows to region (13.4% of the total), although the effects of the slowdown on these flows is ambiguous.

Chart 11
Exports to China/HK as % of total (2000 and 2012)

Source: IMF, CEIC and BBVA Research

While much of China's imports from the rest of Asia are for processing and re-export, China is becoming an increasingly important market for final demand. (For example, for ASEAN we estimate that China's final demand accounts for one-fifth of total exports after excluding intra-regional trade.)

Chart 12
Exports to China/GDP



Note: indifference curve represents the same ratio of exports to China to country GDP, reflecting direct impact of exports to China on country growth. China includes mainland China and Hong Kong.
Source: IMF, Haver and BBVA Research

Asia's dependence on Chinese demand

In chart 12, we evaluate the importance of China's import demand via three components: 1) export dependence on China, measured by exports to China as a percentage of total exports (x-axis); 2) trade openness, measured by total exports as a percentage of GDP (y-axis); and 3) growth dependence on China's exports, measured by exports to China as a percentage of GDP, represented by the indifference curves. We observe that Asian economies' dependence on China is led by *Taiwan, Australia and South Korea*[2]. Meanwhile, most Asian countries possess relatively high growth dependence on China's exports, led by *Taiwan, Singapore, Korea, and Malaysia*. Asian countries with a relatively low export dependence on China and low trade openness include *India, Indonesia and the Philippines*.

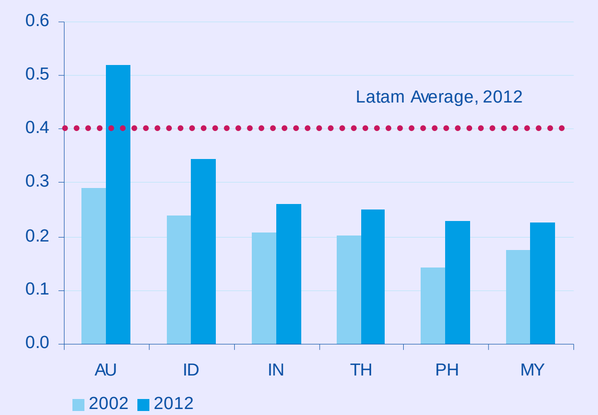
Asia's commodity export dependence on China

In addition to the traditional trade channel, Asia-Pacific commodity exporters are reliant on Chinese demand[3]. To assess this dependence, we calculate a "commodity export dependence index" from the geometric mean of the commodity share to total exports, commodity exports to China's share to total commodity exports, and China's strength as a buyer or pricing power (see Garcia-Herrero, Nigrinis, and Liu, 2013)[4].

2: Hong Kong is excluded because it functions as a trade hub for China, and most of its exports to China are imported directly from other countries
3: Using UN Comtrade SITC Rev.1 classification, we define commodities as the aggregation of 2*, 3*, 67 and 68 under 2-digit categories, including inedible crude materials, mineral fuels, as well as manufactured iron, steel and non ferrous metals. (http://comtrade.un.org/db/mr/rfCommoditiesList.aspx?px=S1&cc=)
4: "How dependent is Latin America's economy on China?" , BBVA Economic Watch, Feb 25, 2013.

The index (Chart 13) shows that the dependence on China's demand has increased from 2002 to 2012 in all the economies considered in the sample. In comparison to the average of the well-known Latin American commodity exporters, Australia is relatively high, while Southeast Asia is less vulnerable (note that Malaysia's data is probably distorted by transhipments through Singapore, and should be on par or even above Indonesia).

Chart 13
Commodity Export Dependence Index



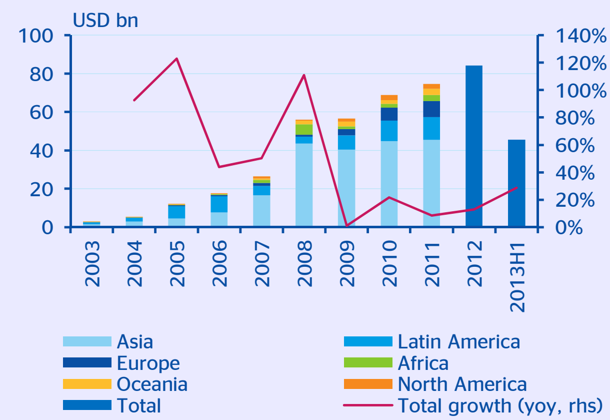
Source: UN Comtrade and BBVA Research; Note: Latam includes Argentina, Brazil and Chile.

China's Outward FDI in Asia

Chinese outward foreign direct investment (OFDI) has surged since 2003 (Chart 14), and emerged as the third largest outward FDI host country. The biggest recipients are Asian countries, accounting for more than 60% of China's OFDI or 45.5 billion USD as of 2011, dwarfing Latam's share of 16.0% (or 11.9 billion USD) and Europe's share of 11.1% (or 8.3 billion USD). However, HK may be biasing this share upward, as some of China's OFDI may be booked in HK, with final destination elsewhere, outside the region.

Chart 14 shows that since the 2008/09 financial crisis, China's OFDI growth has fallen sharply, from a pre-crisis average of 84% to 11% post-crisis. Going forward, the impact of a slowdown in China's domestic economy on OFDI is ambiguous: a hard-landing might curtail outflows, while a modest slowdown (as we are currently experiencing) could actually result in an increase as local companies look abroad for business opportunities.

Chart 14
China Outward FDI is concentrated in Asia



Source: MOFCOM, Haver, CEIC and BBVA Research;

3. A new round of pessimism on China: is it warranted?

Suddenly, everyone has been marking down their growth projections for China. Concerns of a hard landing have remerged, and it is not uncommon to hear commentators declaring the end to China's growth model as we know it. While risks and uncertainties are increasing, and the challenges facing the authorities to sustain growth without exacerbating financial fragilities have become more acute, we believe the new wave of pessimism about China's growth prospects is overdone. But first, what accounts for the sudden turn in sentiment?

To begin with, the economy is slowing. Rather than continuing to rise after the pickup in Q42012 to 7.9% y/y, GDP growth has unexpectedly moderated for two consecutive quarters, to 7.7% y/y in Q1 and 7.5% y/y in Q2. Secondly, until very recently there has been confusion about the new government's "bottom line" for growth, and the extent of any forthcoming policy stimulus, if needed, to sustain growth in 2013. And finally, all of this has come against slowing potential growth, and an increasing awareness that reforms are needed to rebalance the economy, address social concerns, and improve the overall quality of growth.

In view of the slowdown in growth, we are lowering our projections for 2013 and 2014 to 7.6% in each year, from 8.0% in our previous quarterly outlook. The downgrade reflects both a weaker-than-expected H1 outturn as well as modestly lower growth projected ahead. Still, the downward revision is mild in comparison to many in the market, as we expect growth to stabilize in Q3 2013 and pick up gradually in Q4 on improving external demand and supportive policies. While we have confidence that policies this year will be geared toward achieving the government's 7.5% growth target, we conceded that the outlook for 2014 is more uncertain, pending the evolution of risk factors and clarification of the government's policy stance and reform agenda at the Annual Party Conference in October 2013.

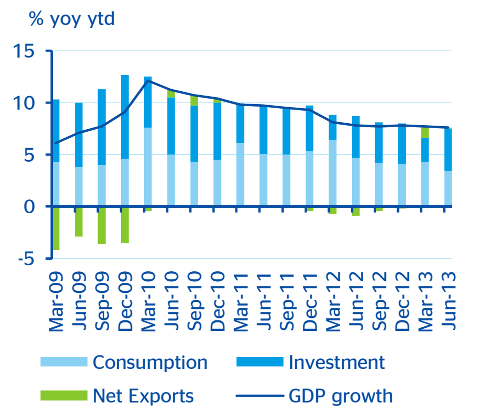
A further slowdown in growth momentum

Second quarter GDP growth moderated to 7.5% y/y, down from 7.7% in Q1 and 7.9% in Q42012 (Chart 15), bringing first half growth to 7.6% y/y. On a sequential basis (seasonally-adjusted), officially reported quarterly growth actually improved slightly to 1.7% (7.0% annualized) from 1.6% (6.6% annualized) in the previous quarter (however, we regard the sequential figures as less reliable given data quality problems and issues with seasonal adjustment factors).

On balance, it appears that the slowdown is due to sluggish external demand and weak private investment. Data from the National Bureau of Statistics (NBS) for the first half of the year point to weakening consumption, offset by strong investment: investment contributed 4.1 ppts to growth, followed by total consumption (3.4 ppts) and net exports (0.1 ppts). Detailed analysis for Q2 is difficult because of the lack of demand side data. Using this data, we estimate a contribution of investment in Q2 of 5.7ppts, which likely reflects public spending on infrastructure and social housing, despite signs of weakening private investment. Regarding the latter, higher frequency monthly indicators point to weakening private investment, with sustained public investment (see below for details).

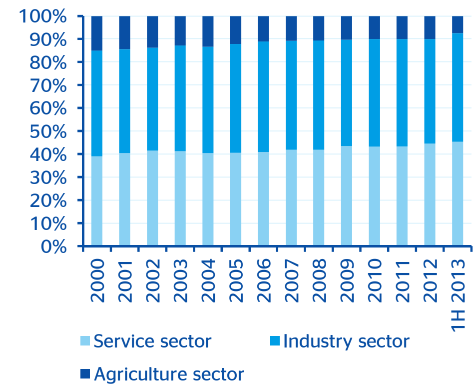
Notwithstanding the overall slowdown, there are some encouraging signs in the data. First, the share of the service sector in the economy, which has historically lagged, is continued to expand (Chart 16). Second, the labour market remains relatively strong, despite the economic slowdown. And third, there are signs that growth has begun to stabilize in Q3.

Chart 15
Growth decelerated further in Q2…



Source: NBS, CEIC and BBVA Research

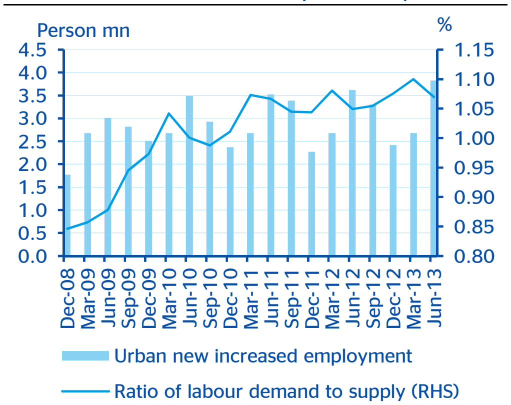
Chart 16
The share of the service sector is rising



Source: NBS, Wind and BBVA Research

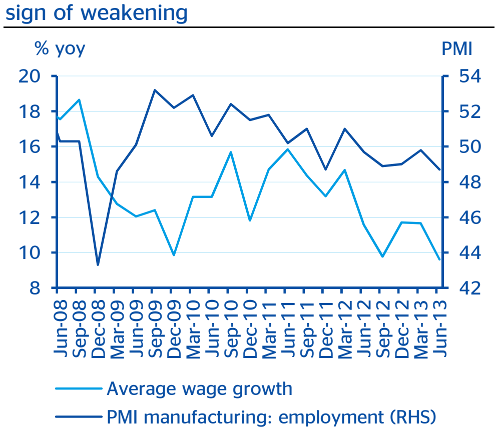
Urban unemployment has remained unchanged at just 4.1% through H1 2013 as the economy created 7.25 million new jobs in H1 (3.42 million in Q1 and 3.83 million in Q2). Meanwhile, data from the Ministry of Human Resources and Social Security, generally believed to be more reliable than NBS employment data) also suggest a strong labor market, with the labor demand-supply ratio remaining high at 1.07 in June (Chart 17). However, some caution is in order as labor market trends tend to lag changes in GDP growth. Indeed, while overall labor market conditions remain strong, the labor demand-supply ratio weakened slightly in Q2, recent labor market PMI subcomponents have softened, and wage growth has decelerated (Chart 18).

Chart 17
The labour market has held up relatively well



Source: CEIC and BBVA Research

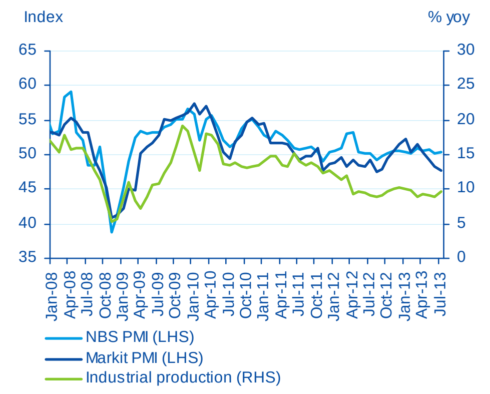
Chart 18
But recent wage growth deceleration could be a sign of weakening



Source: CEIC and BBVA Research

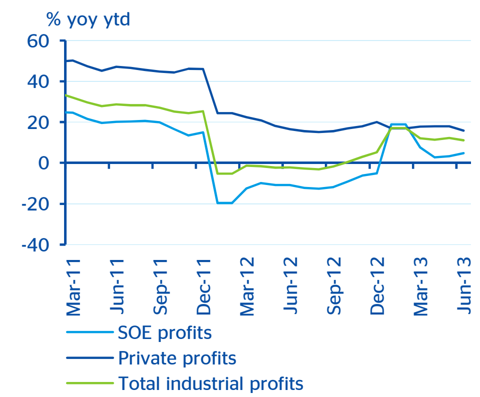
Despite the weakening trend in GDP, recent monthly activity indictors have begun to stabilize. On the supply side, industrial profit growth has declined, but in July the official PMI outturn held up (in contrast to the private HSBC Markit PMI which covers a smaller and more export-oriented sample of firms) (Chart 19), and industrial production beat expectations..

Chart 19
China's IP has been trending down...



Source: CEIC and BBVA Research

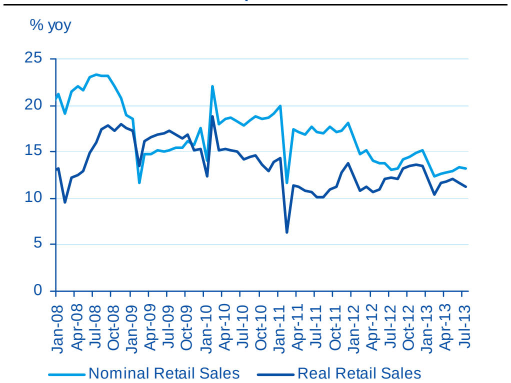
Chart 20
...and industrial profits growth remains subdued



Source: CEIC and BBVA Research

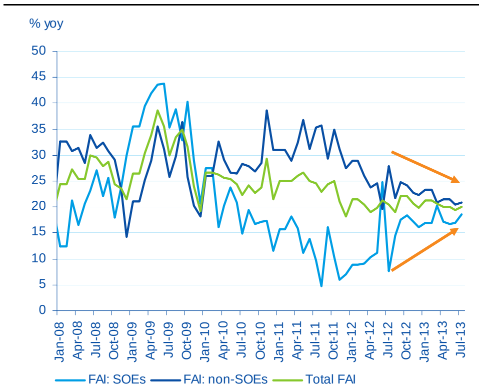
On the demand side, the year-on-year growth of retail sales has weakened (Chart 21), and urban fixed asset investment growth has slowed, primarily due to weakness in private investment (Chart 22). Investment in real estate and public spending on infrastructure and social housing, nonetheless, held up relatively well (Charts 22 & 23).

Chart 21
Retail sales have held up...



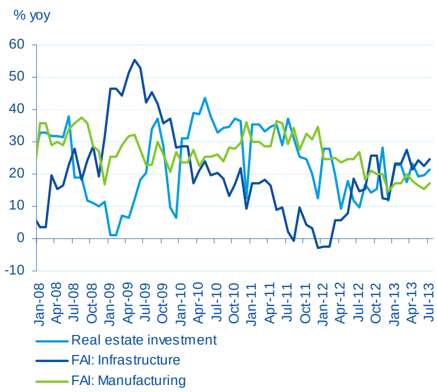
Source: CEIC and BBVA Research

Chart 22
Public investment has offset weakness in private investment



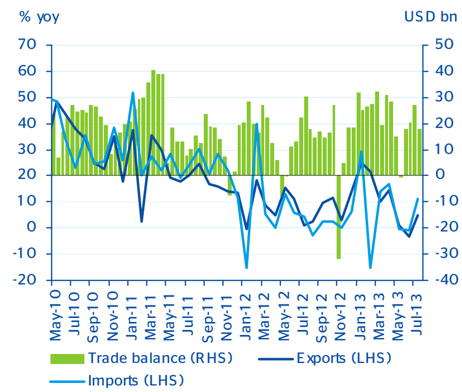
Source: CEIC and BBVA Research

Chart 23
Manufacturing investment has been weak



Source: CEIC and BBVA Research

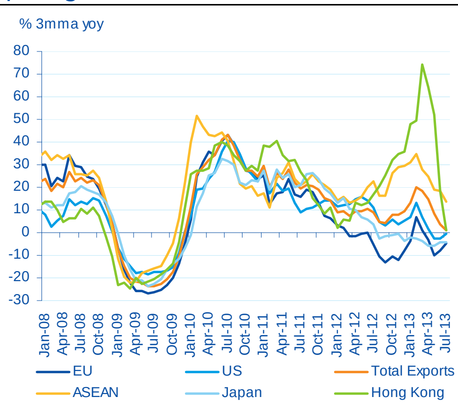
Chart 24
Exports have weakened, but the trade surplus remains



Source: CEIC and BBVA Research

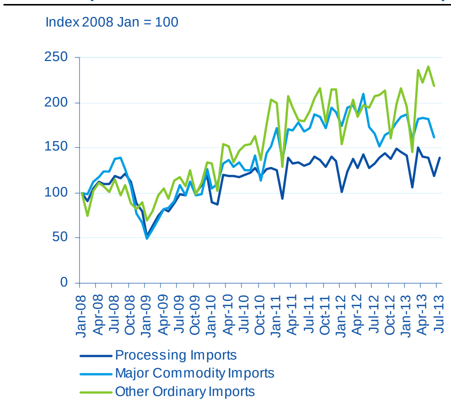
On the external front, export growth weakened in Q2 (Charts 24 & 25), which became especially evident in the data after the authorities took measures to stop over-invoicing (which had been done to disguise capital inflows). Over-invoicing had inflated actual export data in the first half of the year, especially to Hong Kong. Adjusting for the distortion (by taking the trend excluding exports to Hong Kong), we estimate that "true" export growth was about 5% y/y in H1, compared to the official statistics of 10.4%, and compared to 7.9% in 2012. However, July exports strengthened to 5.1% y/y on improvements across all major export markets.

Chart 25
Exports growth has fallen across the board



Source: CEIC and BBVA Research

Chart 26
Processing and commodity imports have fallen, while imports for domestic use have held up

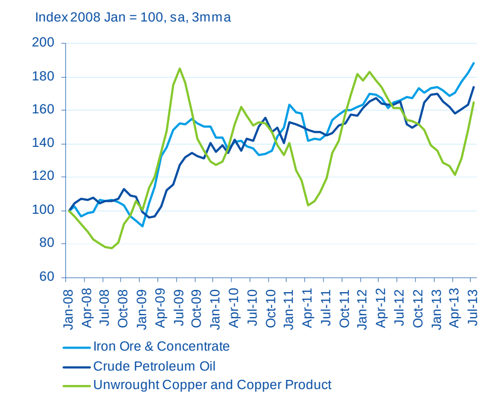


Source: CEIC and BBVA Research

Meanwhile, imports decelerated in Q2 (Chart 24), as processing and commodity components weakened, while ordinary imports, which mainly are induced by domestic final demand, rose (Chart 26). On the other hand, commodity imports in Q2 appear to have recovered, probably due to the speed-up of public infrastructure investment and also because Chinese manufacturers imported more to take advantage of low commodity prices (Chart 27). Also, July import growth rose sharply to 10.9% y/y, a sign of improving domestic demand. The overall trade surplus widened to USD 65.7 billion in Q2 from 42.2 billion in Q1, to a further small increase in the current account surplus (2.4% of GDP in 1H) (Chart 28). After peaking at

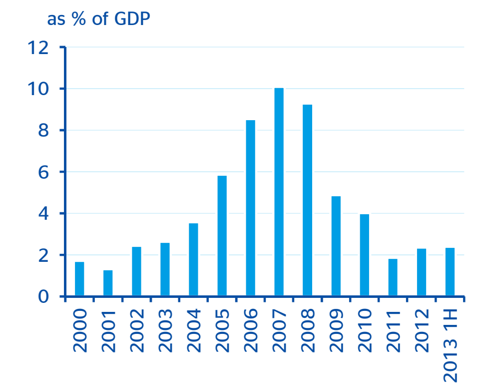
USD 3.53 trillion in April, reserves declined slightly in May and June reflecting capital outflows from weak confidence in the outlook and prospects of QE tapering by the US Fed (Chart 29).

Chart 27
Commodity imports in volume terms



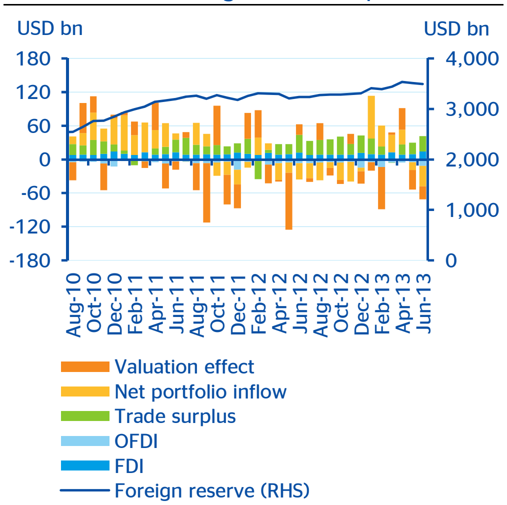
Source: CEIC and BBVA Research

Chart 28
The current account surplus is edging up



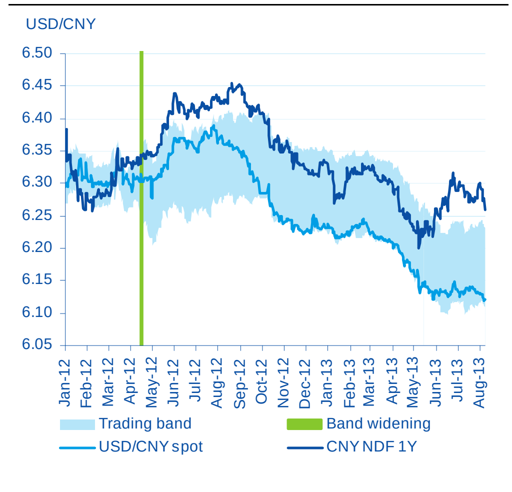
Source: CEIC and BBVA Research

Chart 29
FX reserves rise on higher trade surplus



Source: CEIC and BBVA Research

Chart 30
RMB flattens out in recent months

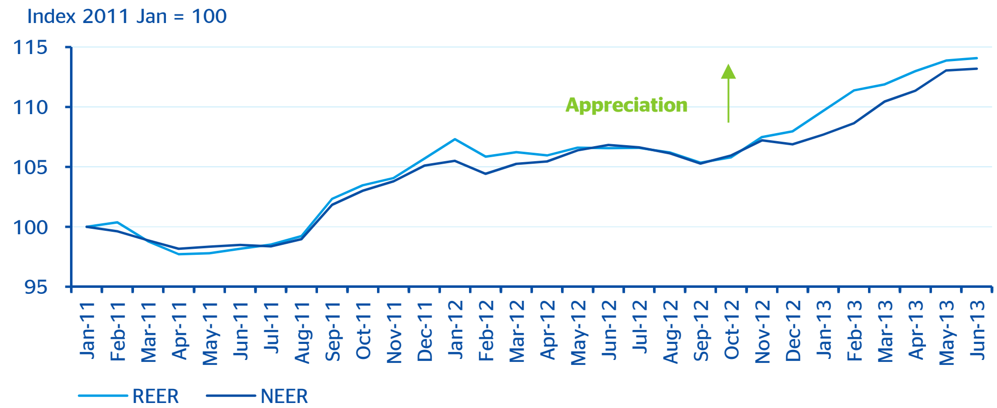


Source: Bloomberg and BBVA Research

RMB appreciation has slowed as growth and exports slump

After appreciating relatively rapidly in Q1 against the USD, the RMB has levelled off since June, although it still remains on the strong side of the daily trading band (Chart 30). Notably, one-year NDFs have depreciated since May, reflecting investor concerns about the growth outlook. In effective terms the pace of appreciation has been even faster given the rise in the value of the USD against other major currencies (especially the yen) (Chart 31).

Chart 31
The nominal and real effective exchange rates rise further despite at a slower pace

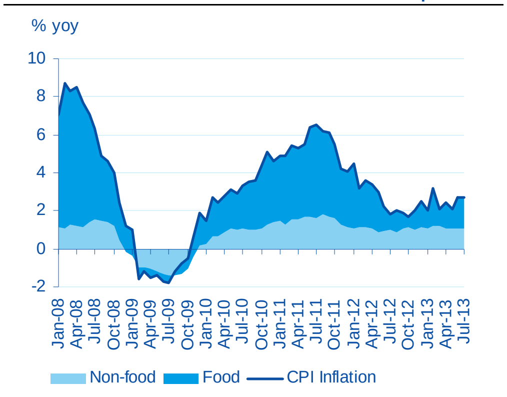


Source: BIS, CEIC and BBVA Research

Inflation is not a worry in the near term

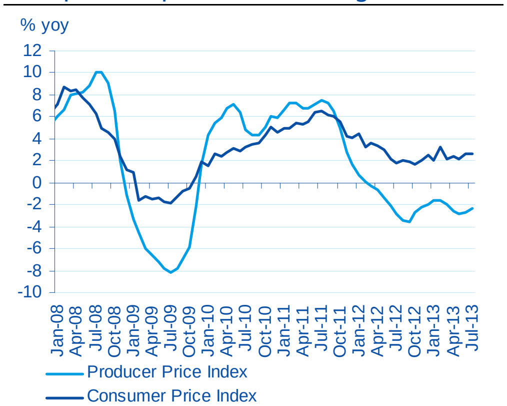
After bottoming out at 1.7% y/y in October, inflation has been rising gradually, to 2.7% y/y for a second consecutive month in July y/y (Chart 32), on slightly higher food prices (especially pork and vegetables). Nevertheless, non-food inflation remains low at 1.6% y/y and producer price inflation remains negative at -2.3% y/y as of July. As such, inflationary pressures remain at bay, and recent outturns are within the government's 3.5% comfort range (Chart 33).

Chart 32
Inflation remains subdued on lower food prices



Source: CEIC and BBVA Research

Chart 33
...and producer prices are still falling



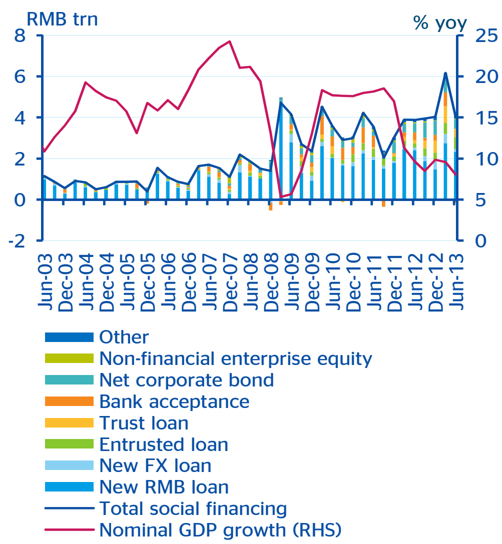
Source: CEIC and BBVA Research

Rapid credit growth has not yet helped to bolster growth

Robust M2 and credit growth earlier this year has not coincided with a pickup in economic activity. On the contrary, there has been somewhat of a decoupling over the past year between overall credit and GDP growth (Chart 34), giving rise to concerns about over-leveraging and low productivity of funding use.

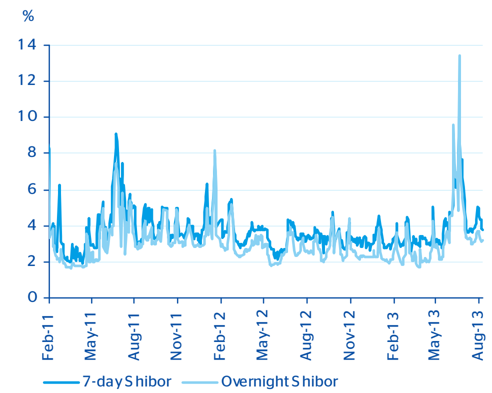
Reflecting these concerns, the authorities have taken measures to curtail the growth of the shadow banking system. One such step involved the PBoC's triggering of a temporary squeeze in the inter-bank market in June (Chart 35) as a way of signalling that the authorities' would no longer tolerate poor liquidity management and risky lending behaviour by a number of banks and financial institutions. For a time, the squeeze added to market pessimism about the growth outlook by creating uncertainty about the authorities' policy direction and the impact of the credit squeeze on real activity. Indeed, the squeeze was a step back from the PBoC's increasingly active liquidity management through open market operations as part of its plans to foster the development of a market-based monetary policy transition mechanism (Charts 36 and 37). To contain negative repercussions from the liquidity squeeze, the PBoC reversed course and sought to stabilize the market and by early July, interbank rates had returned to normal levels. Nevertheless, the squeeze has had some lingering effects, as seen in a slowdown of credit and M2 growth (Chart 37).

Chart 34
"Total social financing" declined after the liquid squeeze in June



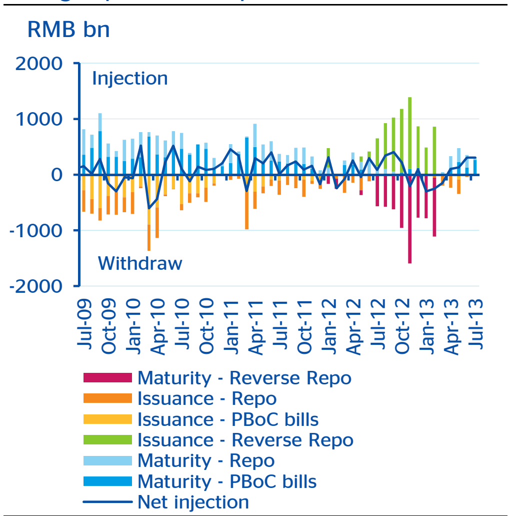
Source: CEIC and BBVA Research

Chart 35
Inter-bank rates eased after a surge in June when the PBoC declined to inject liquidity



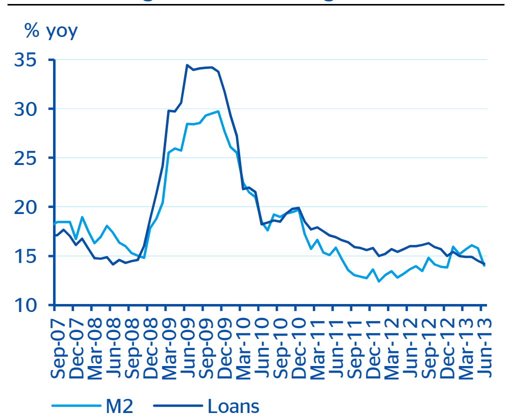
Source: Wind and BBVA Research

Chart 36
The PBoC is increasingly managing liquidity through open market operations...



Source: CEIC and BBVA Research

Chart 37
M2 and loan growth are slowing

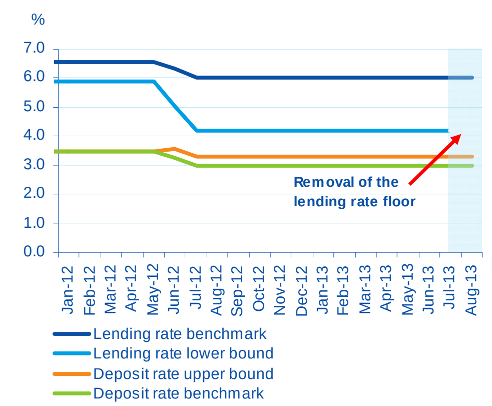


Source: Wind and BBVA Research

The PBoC advances interest rate liberalization by removing the lending rate floor

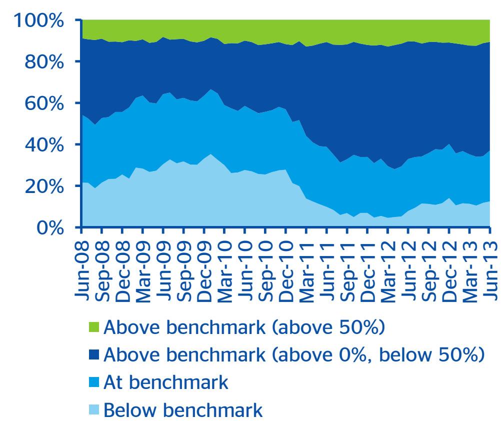
Despite the setback from the June liquidity squeeze, the PBoC has pressed ahead with small steps toward further financial liberalization. In its first significant move toward interest rate flexibility since June/July last year, on July 20 the PBoC removed the floor on lending rates (except for mortgage loans), which had been set at 70% of the benchmark lending rate. (It also removed controls on the price setting of banks' bill discounting as well as lending rate caps, previously set at 2.3x the benchmark lending rate, on rural credit unions.) To some extent, the move was only symbolic, and will have little near-term impact since the lending floor was not binding (banks were not making use of the 30% permissible discount provided last year, see Charts 38 and 39). Nevertheless, it is a step forward in the context of the broader financial liberalization. However, the key binding constraint, namely the deposit rate cap, remains in place.

Chart 38
Removal of the lending rate floor



Source: CEIC and BBVA Research

Chart 39
Most loans are above benchmark rates

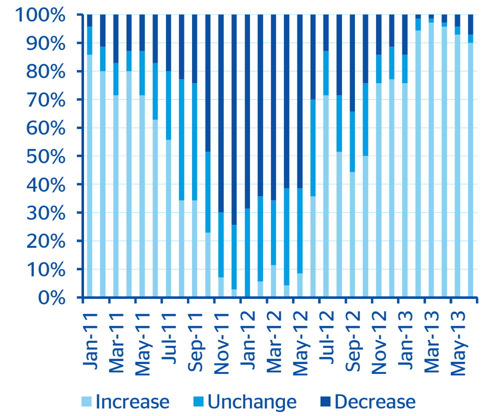


Source: CEIC and BBVA Research

The property sector continues to rise, helping investment, but constraining room for policy easing

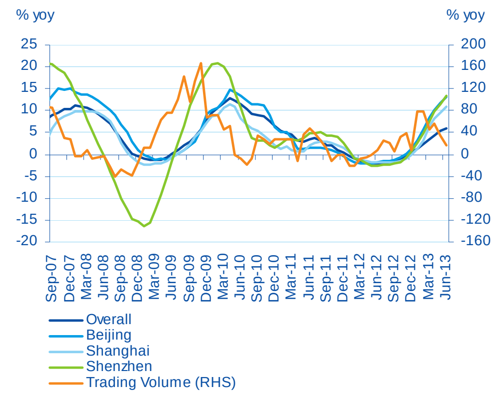
The property market has continued to heat up since bottoming out in mid-2012, despite ongoing restrictions to curb speculation and maintain housing affordability. Major tier 1 cities including Guangzhou, Shenzhen, Beijing, and Shanghai continue to lead price gains, of around 12-16% y/y through June (Charts 40 and 41). We estimate that nation-wide property prices increased by 5.2 y/y in Q2, from 2.4% in Q1 and -0.3% in Q42012. Rising prices have also been accompanied by high sales volumes. As discussed in our *2012 Real Estate Outlook*, we do not view the rise in housing prices as a bubble, given strong underlying demand fundamentals. That said, concern about the rapid rise in housing prices, along with other financial fragilities, is acting as a constraint to monetary easing.

Chart 40
A majority of cities report rising housing prices



Source: NBS and BBVA Research

Chart 41
Sales volumes are rising at a quick pace



Source: NBS, CEIC and BBVA Research

Box 2: Update on Financial Fragilities

Adding to concerns about the ongoing slowdown in growth are a number of financial fragilities, including an acceleration of non-bank financing (particularly shadow banking activities) and indebtedness of local governments and the corporate sector. Such fragilities threaten the stability of the financial sector. For example, the rapid expansion of shadow banking activities poses risks from credit concentration, liquidity shortages, maturity mismatches, and reputational and legal risk to the banking sector. (see our *Banking Watch*). Meanwhile, high debt levels of local governments and the corporate sector generate vulnerabilities and pose risks to banks' asset quality.

Recent development of financial fragilities

Shadow banking activities have continued to expand despite a strengthening of regulations to curb their growth (Chart 42). In April, the authorities issued a regulation requiring banks to bring certain types of Wealth Management Products (WMPs) into their loan books in a bid to curb further off-balance-sheet lending. Even so, the outstanding total amount of WMPs rose by 44.5% y/y, to RMB 34.2 trillion (around 60% of GDP).

Meanwhile, the indebtedness of local governments and, increasingly, the corporate sector are of concern. According to our estimates, local government and corporate sector debt amounted to 32% and 122% of GDP, respectively, at end-2012. A large portion of infrastructure projects financed by local governments (one-third by our estimates) will generate insufficient returns to pay for themselves. Related losses will need to be taken by the central government (in form of bailout funds) and banks (in the form of write-offs).

The aggregate level of corporate debt increased to 126.8% of GDP in 2012 from 99.3% in 2007. At this level, corporate debt in China is significantly higher compared to its peers (Chart 43). It is also placing a heavy financial burden on firms. For example, 25% of listed companies have an EBITDA/interest expense ratio of less than one, implying that their cash flow is insufficient to service their debt servicing (although some of these firms may have liquid assets that can be used for this purpose). At a macro level, the high debt burden can pose additional constraints on growth momentum as debt-ridden firms sell assets and postpone investment plans to make room to service their debts (for more on this topic, see our forthcoming *Watch).*

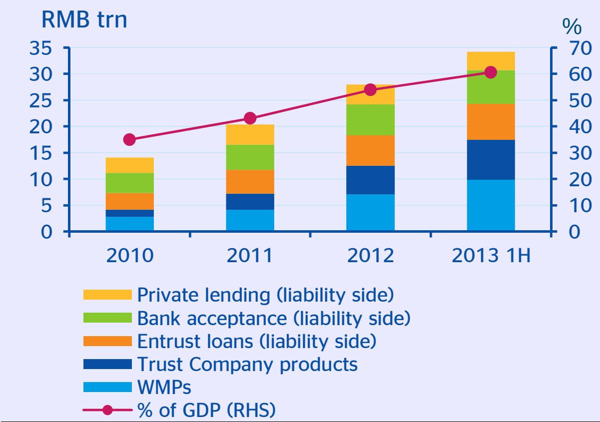
The indebtedness problem (with regard to both local government and the corporate sector) and shadow banking activities are, to some extent, woven together as local government financing vehicles (LGFVs) and real estate developers have increasingly resorted to the shadow banking sector as a funding source. These linkages have made it difficult for the authorities to clamp down on shadow banking activities without creating spillovers to the broader economy.

Potential impact on the banking sector

The financial fragilities discussed above can also have a significant impact on bank profitability. The indebtedness of LGFVs and firms has made them more vulnerable to economic shocks, thereby increasing the likelihood of a rise in banks' non-performance loans (NPLs). Moreover, the shadow banking activities, especially those involving banks, could also force banks to absorb losses in the event of defaults. Taken together, these factors might push banks' NPL ratio to around 7% in next five years from current level of less than 1%. (see our *Banking Watch*)

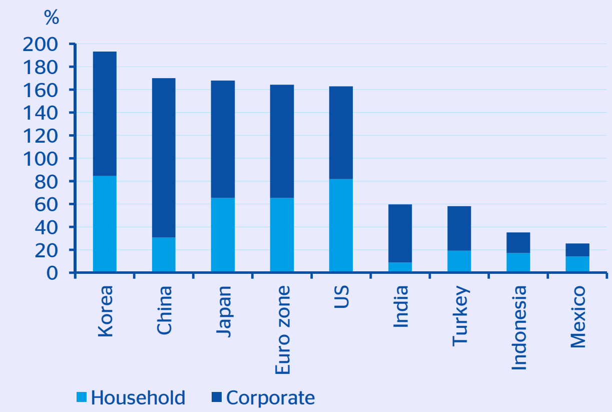
Overall, we view these fragilities as medium-term risks, and as manageable in the near term. The authorities have already beefed up efforts to contain the risks, including the tightening of regulations on shadow banking activities and local government borrowing. But further steps will be needed, including financial liberalization and economic rebalancing over the medium term.

Chart 42
Shadow banking activity on the rise in 1H 2013



Source: Wind and BBVA Research estimates;

Chart 43
China's corporate debt levels are high by international standards



Source: BIS, Haver and BBVA Research estimates;

4. Growth to continue in 2013, with rising uncertainties thereafter

Against the backdrop of rising uncertainty, the authorities have recently clarified that they will maintain the 7.5% growth target for 2013, and will fine-tune policies to counter the economic slowdown. On this basis, and given signs of stabilizing growth in Q3, we are lowering our 2013 growth projection only modestly, to 7.6% from 8.0% previously. We expect a gradual rebound towards the end of 2013 on an improving external environment and policy support.

We expect the same pace of growth momentum to continue in 2014, at 7.6%, although the outlook has become more uncertain given the slowdown that has taken place, the rise in financial fragilities, and the authorities' renewed focus on ensuring the sustainability of medium-term growth at the expense of implementing stimulus measures to prop up growth in the near-term. We expect the policy stance for 2014 and medium-term reform agenda to be clarified at the Annual Party Meeting in October 2013. Key reforms would include factor market reform, financial liberalization, fiscal reform, urbanization polices (especially the "Hukou" system reform), and income redistribution polices, which are expected to release "reform dividends" and boost medium-term potential growth.

Fine-tuning measures to support near-term growth, with ongoing efforts to address financial fragilities

Since taking office in March, the new leadership has signalled a tolerance for lower growth, in favour of curbing financial fragilities and ensuring the "quality of growth." The policy mix has officially been described as "prudent" monetary and "proactive" fiscal, with the latter taking the form of a package of small measures to reduce taxes on SMEs, facilitate exports, and encourage private investment in the railway infrastructure and public services. In the meantime, the authorities are placing renewed emphasis on curtailing financial fragilities. In practice this has entailed maintaining restrictions on housing purchases, increasing regulation of shadow banking activities, and preventing a further buildup of local government debt, even as the economy's growth momentum slows. It has also imposed a constraint on the extent of policy stimulus, with the authorities especially reluctant to unleash a new wave of fiscal spending or loosen monetary policy.

On the fiscal front, public investment on infrastructure (especially railway), public housing construction, and tax cuts (for SMEs) may cause a fiscal deficit of slightly higher than 2.0% of GDP on lower-than-expected fiscal revenue in economic slowdown. In comparison, fiscal deficit target in 2013 is set as 2.0% in the budget, while 2012 posted a fiscal deficit of 2.1% of GDP (after adjusting of 0.5% of GDP in revenues carried over from 2011).

On the monetary policy front, while there is room for easing, given the slowdown in growth and modest inflation, in view of the authorities' priority on containing the rise in housing prices and curbing shadow bank lending, we expect interest rates to stay on hold through 2014, while the PBoC will likely adjust liquidity through open market operations and, possibly, downward adjustments in the RRR depending on capital flows and domestic conditions.

To address various imbalances, the authorities have also announced measures to reduce over-capacity in 19 industries and further clarify the position of local governments with their debt obligations through and audit to be carried out before the end of the year. In the area of structural reforms, the authorities are expected to press ahead with their agenda of improvements in energy pricing, urbanization (especially the "Hukou" system reform in small and medium size cities), and income reforms (likely including the income reform in SOEs and policies to boost labor income). On the financial liberalization front, we expect further enhancement to exchange rate flexibility, likely to take place through a further widening of the daily trading band of the RMB to +/-1.5% from the current +/-1.0% before the end of the year; with regards to the open-up of capital account, we expect the government to facilitate more outward FDI and individual overseas investment by reducing regulations, while gradually loosening restrictions on cross-border capital flows denominated in RMB; with regards to interest rate liberalization, the PBoC in its Q2 Monetary Policy Report vows to "gradually widen the scope of marketized-pricing liability products", which may include removing interest rate regulations on Certificates of Deposit (CDs) and long-term deposits, and raising deposit rate ceilings (1.1 times of official deposit rates currently).

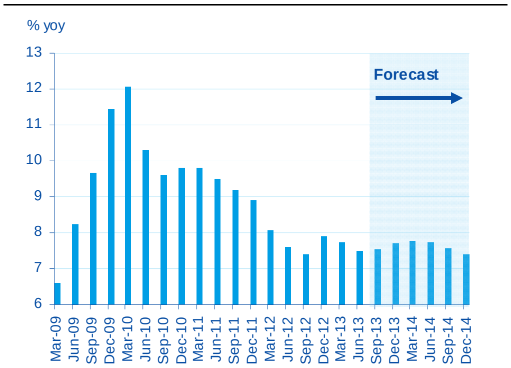
Growth to pick up gradually in H2 2013

Given the government's confirmation that it will fine-tune policies to achieve the 7.5% growth target for 2013, we expect growth to stabilize in Q3 and, as the external environment improves under our baseline, to pick up slightly in Q4. This would bring full-year growth to 7.6% y/y (the same outturn as in H1) (Chart 44). Our baseline for H2 envisages a pickup in private investment spending after the weak H1 outturn on improving growth outlook, broadly stable consumption, and improving export growth of around 8-10% for the full-year. In 2014, we expect full-year growth of the same magnitude, although uncertainty has increased.

Inflation pressure will remain low albeit rising

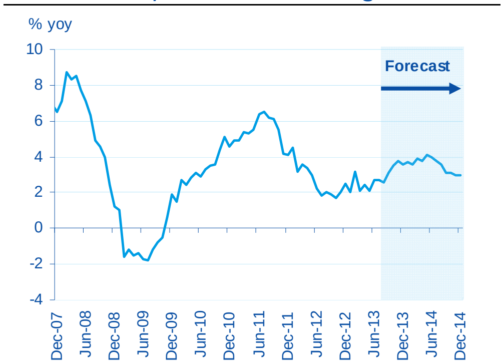
We are revising down our 2013 average inflation projection to 2.8% from 3.0% previously, due to lower than expected inflation outturns over the past months. That said, our projection continues to build in a gradual rise in inflation during the rest of the year on improving demand, rising food and commodity prices, and base effects, with end-year inflation of 3.5% (Chart 45); thereafter, inflation is to remain around 3.5% in 2014, with a peak in June at about 4.0%. In the long term, inflation is expected to be about 4.0% (higher than the previous-ten-year average of 3.0% from 2003-2012), in light of expected rapid wage growth.

Chart 44
Growth is to bottom out in Q3



Source: NBS, CEIC and BBVA Research estimates

Chart 45
Inflation to stay within the 3.5% target in 2013



Source: NBS, CEIC and BBVA Research estimates

RMB appreciation to slow and with greater two-way flexibility

With we expect RMB appreciation during the remainder of the year to slow, given the rapid pace earlier in the year, the slowdown in export growth, headwinds to growth momentum, and capital outflows. This would bring the RMB to around 6.10 RMB/USD by end-year. We also expect two-way currency flexibility to be enhanced through a possible further widening of the daily trading band to +/-1.5%. In addition, RMB internationalization is expected to continue as the authorities promote the use of the currency in trade settlements and, increasingly, investment flows. The latter would include the introduction of more RMB products in offshore markets as vehicles to channel RMB flows back to the Mainland.

Table 1

Baseline Scenario

	2010	2011	2012	2013 (F)	2014 (F)
GDP (%, y/y)	10.4	9.3	7.8	7.6	7.6
Inflation (average, %)	3.3	5.4	2.6	2.8	3.5
Fiscal bal (% of GDP)	-2.5	-1.1	-2.1*	-2.0	-1.8
Current acct (% of GDP)	4.0	1.9	2.3	2.8	3.5
Policy rate (%, eop)	5.81	6.56	6.00	6.00	6.00
Exch rate (CNY/USD, eop)	6.61	6.30	6.23	6.10	5.95

*preliminary outturn; includes adjust of 0.5% of GDP in revenues carried over from 2011.
Source: BBVA Research

5. Risks remains to the downside

Growth momentum in Asia remains uneven and tepid due to headwinds from sluggish external demand. As noted in the *Global Outlook*, financial tail risks to the global economy have receded, but the outlook for growth remains uncertain, especially in the EU. Moreover, slowing growth in China has added new risks to the regional and global outlook.

Within the region, geopolitical risks remain, but have receded as the tone of the dispute between China and Japan, and tensions on the Korean peninsula have subsided for the time being. (Domestic political stability remains fragile in Thailand.) In the macro area, risks of currency tensions have also receded as the weakening of the yen has slowed, and as appreciation pressures from capital inflows have reversed on talk of QE tapering by the Fed. The latter has greatly reduced risks of asset bubbles and overheating, but has raised new challenges in the form of disorderly capital outflows.

Pressures from capital outflows are highest in economies running current account deficits and which are reliant on portfolio inflows, especially Indonesia and India. Indonesia has seen a sharp rise in domestic bond yields, and may continue to face external pressures from capital outflows and investor concerns about inflation after the recent administered fuel price increase. Meanwhile, external pressures in India bear watch, all the more so given downside risks to domestic growth from weak business sentiment and sluggish implementation of the reform agenda. In Japan, macro developments have been favourable, but market sentiment could turn if there is disappointment in the structural reform program, or slippages in the government's medium-term fiscal consolidation, which could cause bond yields to rise and choke off the ongoing economic pickup.

In China, downside risks to the growth outlook have increased due to weakening activity indicators and policy uncertainty as the authorities seek to curb shadow banking, rein in housing prices, and limit the rise in local government debt. While it appears likely that growth will come in line with the authorities' 7.5% target for 2013, the outlook for 2014 is more uncertain given questions about the strength of external demand and the impact of economic rebalancing and financial fragilities on medium-term growth. In the meantime, policy risks have also risen from the authorities' increased tolerance for lower growth and a keener interest in reigning in domestic financial fragilities.

6. Tables

Table 2
Macroeconomic Forecasts: Gross Domestic Product

(YoY% growth rate)	2010	2011	2012	2013 (F)	2014 (F)
United States	2.5	1.8	2.8	1.8	2.3
Eurozone	1.9	1.5	-0.5	-0.4	1.0
Asia-Pacific	8.2	5.8	5.3	5.3	5.6
Australia	2.6	2.5	3.6	2.6	3.2
Japan	4.7	-0.6	2.1	1.7	1.5
China	10.4	9.3	7.8	7.6	7.6
Hong Kong	6.8	4.9	1.4	3.3	3.7
India	8.9	7.5	5.1	5.7	6.4
Indonesia	6.2	6.5	6.2	5.9	6.5
Korea	6.3	3.7	2.0	2.7	3.7
Malaysia	7.2	5.1	5.6	4.8	5.2
Philippines	7.6	3.9	6.6	6.1	5.6
Singapore	14.8	5.3	1.3	2.3	3.8
Taiwan	10.8	4.1	1.3	2.7	3.9
Thailand	7.8	0.1	6.4	4.7	5.2
Vietnam	6.8	5.9	5.0	5.5	6.3
Asia ex China	6.8	3.5	3.6	3.7	4.1
World	5.1	3.9	3.2	3.1	3.8

Source: BBVA Research

Table 3
Macroeconomic Forecasts: Inflation (Avg.)

(YoY% growth rate)	2010	2011	2012	2013 (F)	2014 (F)
United States	1.6	3.1	2.1	1.6	2.3
Eurozone	1.6	2.7	2.5	1.5	1.4
Asia-Pacific	3.6	4.7	3.0	2.8	3.3
Australia	2.8	3.3	1.8	2.2	2.5
Japan	-0.7	-0.3	0.0	-0.1	0.7
China	3.3	5.4	2.6	2.8	3.5
Hong Kong	2.3	5.3	4.1	4.2	3.6
India	9.6	9.2	7.7	5.5	5.3
Indonesia	5.1	5.4	4.3	7.0	5.4
Korea	3.0	4.0	2.2	2.3	3.1
Malaysia	1.7	3.2	1.7	2.5	2.7
Philippines	3.8	4.7	3.0	3.5	4.0
Singapore	2.8	5.2	4.6	2.9	3.5
Taiwan	1.0	1.4	1.9	1.4	1.8
Thailand	3.3	3.8	3.0	3.2	3.3
Vietnam	10.0	18.1	6.8	7.5	7.8
Asia ex China	3.7	4.3	3.3	2.8	3.1
World	3.7	5.1	4.1	3.7	3.9

Source: BBVA Research

Table 4
Macroeconomic Forecasts: Exchange Rates (End of period)

		2010	2011	2012	2013 (F)	2014 (F)
Eurozone	USD/EUR	1.34	1.30	1.32	1.30	1.30
Australia	USD/AUD	1.02	1.02	1.04	0.965	0.950
Japan	JPY/USD	81.1	76.9	86.8	110.0	118.0
China	CNY/USD	6.61	6.30	6.23	6.10	5.95
Hong Kong	HKD/USD	7.77	7.77	7.75	7.80	7.80
India	INR/USD	44.7	53.1	55.0	58.0	55.5
Indonesia	IDR/USD	8996	9069	9793	9817	9658
Korea	KRW/USD	1126	1152	1064	1090	1000
Malaysia	MYR/USD	3.06	3.17	3.06	3.09	3.05
Philippines	PHP/USD	43.8	43.8	41.0	42.0	41.5
Singapore	SGD/USD	1.28	1.30	1.22	1.26	1.23
Taiwan	NTD/USD	29.3	30.3	29.0	29.8	29.3
Thailand	THB/USD	30.1	31.6	30.6	30.5	29.5
Vietnam	VND/USD	19498	21034	20840	21250	21500

Source: BBVA Research

Table 5
Macroeconomic Forecasts: Policy Rates (End of period)

(%)	Current	2011	2012	2013 (F)	2014 (F)
United States	0.25	0.25	0.25	0.25	0.25
Eurozone	0.50	1.00	0.75	0.50	0.50
Australia	2.50	4.25	3.00	2.50	3.50
Japan	0.10	0.08	0.10	0.09	0.10
China	6.00	6.56	6.00	6.00	6.00
Hong Kong	0.50	0.50	0.50	0.50	0.50
India	7.25	8.50	8.00	7.00	6.00
Indonesia	6.50	6.00	5.75	6.50	6.00
Korea	2.50	3.25	2.75	2.25	2.75
Malaysia	3.00	3.00	3.00	3.00	3.50
Philippines	3.50	4.50	3.50	3.50	3.75
Singapore	0.40	0.45	0.40	0.40	0.40
Taiwan	1.88	1.88	1.88	1.88	2.13
Thailand	2.50	3.25	2.75	2.50	3.00
Vietnam	9.00	9.00	9.00	9.00	8.00

Source: BBVA Research

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