

and higher energy prices led to weakening domestic demand.

ASEAN-4

Indonesian economic growth accelerated in the second half of 2006, with growth for 2006 as a whole reaching 5.5 per cent, on the back of a pick-up in private consumption and investment as well as an increase in export growth. Whether recent natural disasters (floods in Jakarta) will have a negative effect on GDP growth in 2007, remains to be seen. The Malaysian economy expanded by a robust 5.9 per cent in 2006, up from 5.2 per cent in 2005. Strong growth in manufacturing (7 per cent), in agriculture (6.4 per cent) and in services (6.5 per cent) was the main driver of the economic expansion.⁹ Real GDP grew by 5.4 per cent in the Philippines, helped by strong growth in business process outsourcing, electronics exports, remittances inflows and consumption. This was only the third time since the 1970's in which growth of 5.0 per cent or more was recorded in three consecutive years. The Thailand's economy grew by 5.0 per cent in 2006, slightly higher than the 4.5 recorded in 2005, helped by strong export growth and sound macro-economic and fiscal policies.

Uncertainties and risks to the global economy

In spite of the solid growth in 2006 and a solid outlook for 2007, there are lingering uncertainties and important risks that could hamper the global economic growth in the near and medium term.

Various measures of performance in the housing sector in the United States point to a significant slowdown. For example, new home sales, which had been on a steady rise for several years, declined in 2006 by about 20 per cent from the level of 2005. Existing home sales have also dropped. Given this piling-up of the inventory of both unsold new and existing homes, it is surprising that the adjustment in the level of house prices has only been moderate.¹⁰

A number of factors might act as a moderating force to the full bursting of the housing bubble. Mortgage interest rates are still low by historical standards. Also, the banking system generally has sound balance sheets compared to the 1980's and early 1990's. Finally, the mortgage default rates have not been that high, thus far.

The slowing housing sector in the United States will also have a negative impact on wealth thereby affecting consumer confidence.

The housing sector will likely continue to act as a drag on U.S. growth as the correction in that market continues, but to a lesser extent than in previous years due to indications that the demand side seems to be stabilizing. Provided that growth in other sectors remain solid, fallout from the housing sector correction is not expected to spill over into the broader economy.

The decline in oil prices experienced in the latter portion of 2006, followed by a rebound in early 2007, provided a reminder of the volatility still present in the oil market. Substantial price decreases from current levels should be limited provided that the current global expansion continues, and the Organization of the Petroleum Exporting Countries (OPEC) continues with its commitment to initiate production cuts in response to weakening prices. The possibility of another price spike remains, however, given limited spare capacity and continuing geopolitical problems in the Middle East mean that further supply disruptions are possible.

From the perspective of the global economy recent movements towards containing the large global imbalances that exist are heartening. These include a decrease in the U.S. dollar, and more flexibility in some of the currencies of surplus countries in East Asia (e.g. China). But they have not significantly changed the outlook. The current set of real exchange rates and policies suggest that global imbalances will continue to be large. The challenge continues to be to ensure that any correction occurs

⁹ World Bank (2007). East Asia and Pacific Update, April 2007.

¹⁰ UNCTAD (2007). World Economic Situation and Prospects 2007.