

petrochemicals, is now in its eighth month but was outweighed by weak exports of car parts, electronic components, and services, which lowered export growth overall. Net exports declined in real terms as import growth surged on double-digit rises for machinery and mineral fuels, outpacing export growth. Domestic demand strengthened as investment growth accelerated to 12.0%. Outlays for equipment to manufacture semiconductors were their highest since late 2010, cushioning drag from falling government investment. Private consumption grew by 2.1% as purchases of durable goods and services increased, boosted by higher incomes and receding political tensions that helped to buoy consumer sentiment to a 78-month high in July.

On the supply side, industry propelled expansion in the first half of 2017, growing by 4.3%—its fastest in 6 years—on both construction and manufacturing. The Nikkei manufacturing purchasing managers' index rose briefly to 50.1 in June, and even as it subsided to 49.9 in August optimism held as new orders continued to rise. Services were less robust, rising by 1.8%, and agriculture declined as it reeled under an ongoing drought.

In the first 8 months of the year, consumer price inflation averaged 2.1%, a tad higher than the target of 1.9% for the year set by the Bank of Korea, the central bank, because of increases for agricultural products. Core inflation, which excludes food and energy, fell slightly to 1.5%. In view of minimal inflationary pressure, the central bank sought to stimulate demand by keeping the policy rate at its historic low of 1.25%, unchanged since June 2016. The new administration enacted a \$10 billion supplementary budget allocated to job creation, support for local governments, and income subsidies for the elderly.

An upward revision to the growth forecast for 2017 hinges on an expected revival in consumer demand, the stimulus measures mentioned above, and an improved global outlook that promises continued bullish exports. The forecast for 2018 is unchanged. Growth will be further supported by more rapid expansion in the PRC, higher consumption as temporary public workers acquire a regularized status, and a 16% boost to the minimum wage next year. It will be tempered by financial instability in response to rising US interest rates and by domestic concerns over mounting household debt.

The inflation forecast is revised up for both 2017 and 2018 owing to improved demand and economic growth, an anticipated oil price recovery, drought, and impending wage hikes.

As the expected rise in exports will likely be countered by the ongoing recovery for merchandise imports as domestic demand strengthens, forecasts are lowered for the current account surplus this year and next. Other downside risks to the growth forecast stem from a renegotiation of the free trade agreement with the US, trade tensions with the PRC, and sharpening geopolitical risks.

Mongolia

The economy grew by 5.3% in the first half of 2017, recovering strongly from only 1.2% growth in 2016. Services lifted GDP by 4.3 percentage points, and agriculture by 1.0 point. Coal production soared, with coal exports increasing by more than fourfold. However, mining as a

3.2.3 Selected economic indicators, Republic of Korea (%)

	2017		2018	
	ADO 2017	Update	ADO 2017	Update
GDP growth	2.5	2.8	2.7	2.8
Inflation	1.7	1.8	1.8	1.9
Current acct. bal. (share of GDP)	5.8	5.0	5.3	5.0

Source: ADB estimates.

whole slumped as copper concentrate production languished, causing the larger industry sector to subtract marginally from growth. On the demand side, investment, mainly into mining, contributed 13.2 percentage points to growth, and consumption added 1.6 points. Net exports subtracted almost 9.6 points as imports rose by 37.4% in tandem with mining investment.

The fiscal deficit for the first half of the year plunged by 34.1%, to the equivalent of 5.8% of GDP, as a 41.1% surge in revenues stemming mainly from strong export performance dwarfed a 9.6% rise in expenditures. As coal exports surged in the first half, the trade surplus widened by 69.5% year on year, and the current account deficit narrowed by 42.8% to equal 5.6% of GDP. Gross reserves at the end of June remained unchanged from the end of 2016 at \$1.3 billion, or cover for 2.6 months of imports. Reflecting these developments, the Mongolian togrog appreciated by 5.6% against the US dollar in the year to June.

Inflation averaged 3.0% in the first half of the year as togrog depreciation last year began to affect prices. In June, the Bank of Mongolia, the central bank, lowered its policy rate by 2.0 percentage points to 12.0% as terms of trade improved and short-term external debt pressures eased. Broad money surged by 21.1% in the first 6 months, mainly on the improved balance of payments. The ratio of loans past due declined slightly to 6.2%, but the nonperforming loan ratio remained at 8.8%.

Growth forecasts are raised in light of the rapid expansion in coal production, continued strong demand for coal in the PRC, and spillover to mining-related services. The government's reform plans, supported by a 3-year stabilization program approved by the International Monetary Fund in May, are also helping restore business confidence. Together with commitments from other development partners, the extended fund facility provides Mongolia with \$5.5 billion. The recent review of its implementation showed that progress is being made under the program toward enabling sustainable inclusive growth without the boom–bust cycles of the past.

The inflation forecast is revised down as a higher excise tax on fuel did not push up fuel prices as expected. With strong imports set to continue in the second half, the current account deficit is now seen widening this year and next.

Downside risks to the growth forecasts are vulnerability to commodity price downswings, prevailing drought that may affect crop and livestock production, and political instability negatively affecting the implementation of the stabilization program. Important upside risks are stronger growth in the PRC, shocks affecting its domestic coal supply, and rising copper prices. The same factors could undermine forecasts for inflation and the current account balance.

Taipei, China

GDP growth accelerated in the first half of 2017 to 2.4% year on year, up from 0.5% in the first half of 2016, on both external and domestic demand. Net exports contributed 0.5 percentage points to growth as exports rose in real terms by 6.1%, against a 6.0% rise in imports.

3.2.4 Selected economic indicators, Mongolia (%)

	2017		2018	
	ADO 2017	Update	ADO 2017	Update
GDP growth	2.5	4.0	2.0	3.0
Inflation	3.5	3.0	3.9	3.4
Current acct. bal. (share of GDP)	-2.1	-6.4	-6.3	-8.5

Source: ADB estimates.