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**The Dollarization of Asia**

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**Controversy-**

2005 saw Asian central banks continue accumulating dollar reserves, despite several central banks publicly acknowledging the need for diversification. Can we expect more bang from the buck in the coming years?

**Contention-**

Asian central bank buying has provided key support to the dollar. However, with a USD correction inevitable, the days of diversification of exchange reserves are here to stay.

**Market impact-**

While most Asian central banks hedge themselves for the eventual fallout, China and Japan will be forced to continue funding the US current account deficit. In the event of a dollar crash, they stand to be the biggest losers.

**Risk-**

Cryptic China may have more up its sleeve than meets the eye. However, rest assured that a round trip to Beijing shall not fill you in on the details- that is, if there are any.


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World financial markets paid close attention when the central bank of South Korea signaled intentions of diversifying their holdings of foreign reserves. After all, the greenback had been continuously losing ground to the euro since 2001 and if central banks now felt the need to diversify, surely dollar bears had come home to roost. True to script, the dollar plummeted on this central bank announcement. However, once this statement was retracted, for the rest of 2005, the opposite happened. The USD defied the huge twin deficits in the United States and staged a bull run. Central banks were no contrarians in this regard; they too increased dollar-denominated holdings across the board.


### **Orient Express...in no mood to slow down**

Buying dollars (or dollar denominated assets) holds trade logic for export-oriented East Asia and China. It prevents their exchange rate from appreciating, and thus promotes external competitiveness. China in particular runs a massive trade surplus with America. In the month of November 05 alone, the US trade deficit with China was USD 20.5 billion. Running such a large deficit would normally result in a sizeable appreciation of the CNY/USD parity. However, apart from the 2% appreciation that accompanied the floating of the Yuan in July, no sizeable appreciation has occurred. The reluctance of the Chinese government in allowing its currency to strengthen against the dollar has been well documented. China is the fastest growing economy on the back of its external competitiveness, and Beijing is in no mood to lose momentum by allowing its terms of trade to worsen. Therefore, China channels the bulk of its trade surplus with the US back into US treasuries. In essence, China creates the US current account deficit by running a trade surplus, and finances it by investing the same export dollars back into the US.

### **Taku san shines again**

Japan, meanwhile, is just starting to find its feet again after more than a decade of economic impotence. Although most of its problems have domestic roots, the role of exports in kick-starting and subsequently sustaining the growth momentum is still vitally important. Japan has the highest foreign reserve holdings amongst all central banks, and it added to those in 2005. The return to economic stability has been long and arduous, and is not yet complete. In the interim period, a depreciating or stable Yen/USD parity would be welcomed by the Bank of Japan as a catalyst for future growth, rather than an indicator of continued economic decadence.

For both China and Japan, reserve accumulation has been accompanied by unprecedented monetary loosening at home. The Bank of Japan still keeps interest rates at virtually zero. Inflation is not a problem in any of the two countries (in fact Japan has had deflation problem). Thus their central banks keep stumping up the domestic currency and stashing up the greenback- with China seeking to perpetuate its growth story and Japan hoping to reignite its own.



While inflation is not a short to medium term risk in either Japan or China, this extent of monetary loosening cannot continue indefinitely. China's economy has been growing over 9% for the last three years and the risk of overheating is ever-present. Meanwhile, in November 05, Japan's core CPI index rose (by .1%) for the first time in two years, sending the strongest signal yet that the world's second largest economy has emerged from seven years of deflation. Correspondingly, this has also reinforced expectations that the Bank of Japan is set to change its ultra-loose monetary policy. Elementary macroeconomics teaches that a central bank can either control exchange rates or monetary policy. It cannot control both. Until now, these Asian central banks (in particularly the Public Bank of China), happily gave up much of their control over monetary policy to protect their exchange rate parity. However, if inflation rears its ugly head, this choice shall become much less linear.


Meanwhile, reserve accumulation in the form of dollar assets has resulted in an unexpectedly strong dollar. Recent USD strength has defied conventional economic wisdom. At the beginning of 2005, dollar bears held complete sway. However, by financing its borrowing needs from abroad, the US has not had to make the necessary real adjustments. For the US, it has allowed the perpetuation of a spendthrift culture, providing impetus to the real-estate bubble and increasing domestic consumption. In the eyes of many, the dollar and the underlying US economy have assumed an aura of invincibility- being able to accommodate external imbalances larger than the GDP of most other countries and still able to put its best foot forward.

### **The Testy Triumvirate**

A strong dollar is in the interest of both Asia and the United States and if both parties are happy with the current situation, there seems to be little risk in forecasting more of the same going forward. Except for one problem; this equilibrium is both unpredictable and unsustainable. Asia cannot continue funding the US current account deficit indefinitely. There would come a time when its domestic economic conditions would warrant a policy change. Add to that a tense political history between the three main protagonists- the US, China and Japan. Suffice to say, this is not a permanent solution.

To the extent that all parties are aware that a dollar correction is inevitable in the medium to long run, it makes sense then to examine why traditionally risk-averse central bankers are allowing the current situation to persist when they know that the end-game shall be negative sum. The reason, in my view, is not attributable to irrationality, but rather to policy helplessness.

We examine the reasons behind China and the United States allowing this temporary solution to persist. Let's look at China first. For the time being, China cannot allow the CNY/USD to appreciate significantly. Its dependence on export-driven growth is immense, and the US market accounts for one third of its export revenue. China has



been the world's fastest growing economy for some years; however, its domestic economy is still extremely fragile. These institutional weaknesses cannot be removed overnight, and until such time that they are, China would be unwilling to allow its currency to appreciate against the dollar.

### **The Dollar Conundrum**

The US, on the other hand, would want to tackle the asset price bubbles that are feeding its external imbalances. The debate continues in economic circles on whether monetary policy should respond to asset price bubbles. However, an asset price bubble that is funded significantly by Communist China would most surely be tackled. To expect the United States to voluntarily allow perpetuation of its dependency on Asia, and in particular, China, is underestimating the world's only superpower. The question then arises, how can the asset price bubble be burst? The conventional route is via hiking interest rates until its citizens finally feel the pinch, and are coerced into relative frugality. In this case, hiking of the funds rate by the Fed will not only account for domestic inflation, but would also respond to the asset price bubbles in the economy. The problem is, despite the Fed's efforts (they have hiked the Fed's fund rate 13 consecutive times), they seem unable to increase the yield on long-term paper. We had mentioned earlier that Asian central banks are placing a major percentage of their trade surplus into US bond markets- and the preferred habitat for risk-averse central banks has always been long-term paper. By investing in long-term US paper, Asian central banks have defined the "conundrum" of rising short term rates and falling long-term yields that besets US bond markets today. The real estate bubble continues unabated, and that, in turn, through the wealth effect, is feeding US consumers' seemingly insatiable demand for imports. The influence of monetary policy in bursting the asset price bubble has been blunted, and the Fed, despite its best intentions, is rendered impotent in this regard. The point to note is the self-reinforcing nature of this arrangement. China buys US bonds, keeping long-term yields artificially low, and allowing the US consumer to continue importing Chinese goods. And the cycle goes on.....

The bottom line - China (and Asian central banks in general) are unwilling to disturb the status quo and are not allowing the US to change it either. However, in the long-run, there is no question that the US balance of payments position is unsustainable. The inevitable global rebalancing is being thwarted by Asian central banks but at some point in the future, the impasse will be broken. Bubbles, by definition, are unsustainable and eventually burst; that much both history and common sense dictate. In our view, there are two potential sources that can destabilize this seemingly stable equilibrium.

One is political fallout between China and the United States. The fault lines of conflict between capitalist and communist ideologies are extremely pronounced, and despite their economic linkages, China and the US do not share a history of



Bismarkian diplomacy. Beijing have proved time and again to be unpredictable opponents, and it remains a distinct possibility that Beijing and Washington may yet trip over one other.

The other factor, and the more likely one in our view, is a recession in the US itself. This risk is all the more pronounced if Ben Bernanke decides to hike the Fed's fund rate past 5%, in an attempt to tackle the real estate bubble. Or an exogenous oil shock, like a conflict with Iran, could be the trigger. Many analysts predict a slowdown and a possible recession in 2007. However, 2007 is no bogey year. The economic fortunes of the United States shall be governed by the future path of the Fed's monetary policy and the timing of exogenous shocks, and both are notoriously hard to predict.

From a global point of view, the sooner the adjustment takes place, the better. The longer this "dependency inducing" arrangement continues, the more profound and far-reaching would be the eventual fallout. America's asset price bubble would have inflated even further (along with a rising debt burden) and Asian dependence on the US (as an export market) would be absolute. The prospect of a goldilocks 2006 is truly frightening.

### Reserve Accumulation- Indecent Exposure

Part and parcel of this whole process has been frenzied reserve accumulation by Asian central banks; roughly USD 1.2 trillion has been added to global exchange reserves in the last two years alone. The bulk of this accumulation has been by Asia, with China and Japan accounting for 40% of total global reserves. However, if anyone is not convinced that Asian foreign reserve accumulation has been excessive, a look at the table below should make you believers. Official reserves for all eight Asian countries in the sample have gone up not only in absolute terms, but as a % of GDP, in per capita terms, and also in months of imports.

**The official reserves of the Asian central banks**

	In \$ blns		In months of imports		In months of avg portfolio inflows		In months of debt service		In percent of external debt		In \$ per capita terms		In % GDP	
	1997	2004	1997	2004*	1997	2004*	1997	2004*	1997	2004*	1997	2004*	1997	2004*
Total	671.0	2256.1												
Average	83.9	282.0	6.4	12.1	-445.2	761.2	17.3	26.9	127.6	223.5	5056.8	8734.7	26.8	54.7
China	139.9	614.5	11.8	13.8	217.9	873.3	9.1	31.7	92.1	268.8	113.2	472.7	15.6	37.3
Hong Kong	92.8	123.5	5.3	5.5	n/a	138.2	34.7	26.1	193.0	183.5	14303.5	17943.8	53.5	75.4
Korea	20.4	202.1	1.7	11.1	19.9	144.5	1.6	16.3	11.7	113.8	444.1	4203.2	4.0	30.1
Malaysia	15.2	69.4	2.5	8.4	-912.5	694.0	2.6	9.9	34.6	133.7	701.9	2713.0	15.2	59.9
Singapore	71.4	111.5	6.8	8.2	-1713.4	3345.0	36.1	34.3	432.7	472.5	18818.0	26295.3	74.9	106.7
Taiwan	83.5	246.6	9.3	18.9	-832.2	173.3	34.6	66.0	104.4	296.8	3875.5	10926.3	28.9	80.7
Thailand	27.0	48.5	5.3	6.3	69.9	669.7	2.7	3.9	24.7	95.9	446.2	744.2	17.7	29.9
Japan	220.8	840.0	8.6	24.8	33.7	51.1	n/a	n/a	n/a	n/a	1752.1	6578.9	5.1	18.0



This massive reserve accumulation cannot be justified as a response to the Asian Contagion<sup>1</sup>- reserves of most Asian central banks far exceed the requirements for intervention and financial stability. Infact, much of this reserve accumulation has been involuntary; a necessary evil to keep the dollar strong. And as long as Asia funds the US current account deficit, this accumulation shall continue.

Excessive reserves warrant both a liquidity and investment tranche in reserve management. Traditionally, reserves were meant exclusively for intervention purposes and central banks are known to be price insensitive about reserve placement. For that purpose, the US bond market, being the most liquid in the world, was ideal. However, with an unprecedented magnitude of reserve accumulation, only a certain percentage of reserves are now needed for financial security. For the rest of the reserves, central banks find themselves in the unfamiliar position of worrying about returns and potential capital losses. And given that the adjustment of the USD is only a matter of time, it is becoming increasingly irrational for Asian central banks to hold all their reserves in US assets.

The question then arises- what represents a viable investment strategy for new-found Asian wealth. In the early 1980's, petro-dollars were used to provide huge amounts of debt to Latin America. That resulted in the well documented debt crisis, leaving many Latin American countries on the verge of bankruptcy. Japan was also not particularly adept in its high-flying days at the end of the 1980's, making some dubious real estate investments. Acutely aware of the pit-falls of bad investing, Asia has decided to go the conventional route by trusting the US bond market. However, unless a suitable divestment strategy is adopted soon, this could be another chapter in myopic Asian investing.


### **Bretton Wood's revisited...**

For those skeptics who are not yet convinced about the uneasiness of Asian central banks in holding vast amounts of USD's, a little bit of history is in order. Under the post-world war II Bretton Wood's system, the USD was pegged to the gold standard while all other currencies were linked to the USD. The central banks of Europe and Japan allowed the United States to run a balance of payments deficit while they financed it by accumulated dollar reserves. This helped to keep their exchange rates relative to the USD undervalued and promoted external competitiveness. In today's world, the central banks of Asia have assumed a similar role. They too are financing the US current account deficit to keep their exchange rates undervalued. However, there is a crucial difference between the Bretton Wood's arrangement of yesteryear and the current nature of international markets. Bretton Woods was a quasi-gold

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<sup>1</sup> The Asian Contagion refers to the Asian currency crisis of 1997, when Asian central banks held very low levels of exchange reserves. When the Thai baht fell in 1997, a domino effect was created, leading to a full blown currency crisis in many Asian economies.





standard, with the dollar pegged at USD 35/oz of gold. Thus, the central banks of Europe and Japan felt secure in the knowledge that they did not face the risk of a fall in the value of their USD reserve. Because the USD was pegged to gold, even if it depreciated vis-à-vis other currencies, it would still buy the same amount of gold. However, when the market price of gold increased vastly above the pegged rate of USD 35/oz, central banks of Europe started to worry; the dollar was clearly overvalued. France was the first to start swapping its USD reserves for gold, but Germany and Britain soon followed- no country wanted to be left with dollars if the peg was broken. Eventually, gold accumulation acted as a catalyst in ending the Bretton Wood's system, and Nixon officially closed the "gold window" in 1971.

It is difficult to believe that central bankers of Asia are sleeping peacefully today as they keep on accumulating USD reserves without even the contractual safeguard of gold conversion. For example, if the USD were to depreciate by 10%, China and Japan stand to lose USD 140 billion in capital losses alone. Not diversifying is a luxury that Asia can ill-afford.

However, the reality is not so linear and clear-cut. When the central bank of South Korea announced earlier this year that it was looking to diversify its foreign reserves, the dollar went into freefall. The statement was retracted to save the greenback from falling further. The lesson learnt was that overt diversification is self-defeating in nature. It precipitated the very capital loss that it was meant to protect against. Thus, while it would be naïve of us to expect Asian central banks to not diversify their reserve holdings, it would be naïve of them to let it be known when they actually are.

Infact, we argue that a strong dollar presents the perfect window for central banks to diversify- they can hedge themselves without creating a negative sentiment in the international currency markets. We think that the recent bull-run of the buck has allowed just that- diversification by some central bank reserves has taken place relatively unnoticed, while irrational exuberance has maintained the strength of the dollar.

But one might argue, Asian central banks do not seem to be reducing their existing USD holdings. Where, then, is diversification taking place? The trick to successful diversification lies in not disinvesting from existing dollar reserves, but hedging oneself using additional monies. Crucially, this does not create a negative sentiment, and there is no run on the dollar. The break-up of foreign exchange reserves provided by the IMF for the first three quarters of 2005 supports this hypothesis. Dollar reserves have increased, but by less then last year, and by much less then the trade surpluses that Asia is currently running. Some degree of diversification is taking place, but where is the money being invested?




## **Gold, by default**

A natural hedge against a depreciating dollar would be the euro and the yen. However, both come with political and economic baggage. The euro zone suffers from both stagnating growth and political gyrations- such as the rejection of the EU constitution by France and the Netherlands. Japan, meanwhile, seems to have finally turned the corner but the recovery is still premature and it would take a brave investor to take a punt on the yen so soon. For lack of a suitable alternative, gold, the world's fourth currency, is glittering again. Portfolio managers cannot understand gold as an investment vehicle because it gives zero return. But what they fail to understand is that it has historically been a very good currency hedge. Asian central banks are the most vulnerable to a dollar crash as not only do they hold the most USD reserves (Asia hold over 70% of global reserves) but, as Table 1 shows, they also have the least gold as a % of reserves. Thus, while it may seem Neanderthal to European central banks (who are sitting on vast amounts of gold) to buy the "barbaric metal" in today's day and age, for Asian central banks it makes perfect sense. We are reasonably sure that Asian central bank buying has been a major factor in the recent rise in gold prices. Once again, gold has rallied by default, not by merit.

## **When the US catches a chill.....**

There is, however, one further qualification in this issue of diversification. The world financial markets are structured in such a way that amongst Asian central banks, Japan and China have more at stake than the other ones. China is extremely dependant on the US as an export market and Japan is not far behind). Looking at it in a game theoretic framework, it would be in the interest of China and Japan to support the present arrangement even if other Asian central banks do not. To the extent that other Asian central banks know this, a free-rider problem occurs. If China and Japan are willing to support the system unilaterally, the smaller Asian central banks can diversify their reserves in the meantime. In this way, they can enjoy the trade benefits of an undervalued exchange rate without having to bear the associated cost of accumulating unprotected dollar reserves. To some extent, that is happening. Central banks in Russia and South Korea have explicitly expressed a desire to diversify their reserves, both within and across asset classes, and while China (with a degree of Japanese help) keeps the dollar from crashing by accumulating reserves, other Asian central banks are parking their funds in new avenues. There is one thing of capital importance though, and that is not to create a negative sentiment about the dollar. If that happens, even China and Japan do not have the financial muscle to prevent the buck from crashing. It is a very delicate balance (one that South Korea almost disrupted), but smaller Asian banks have a get out of jail card, and its judicious use could ensure damage limitation. However, Japan, and in particularly China do not enjoy the same luxury. Any diversification by them would trigger an immediate collapse in the dollar. For now, these Asian giants have to be content in financing the



US current account deficit. However, when the US does catch a chill, Beijing and Tokyo certainly risk catching pneumonia.

We show this result formally using game theory. Two cases have been assumed, one of a weak dollar sentiment and the other of a strong/steady dollar sentiment. The diagrammatical representation is presented in the Appendix. Here, we wish to just present the major conclusions. We find that, in either case, diversification by China and Japan would result in a USD crash; and huge capital losses for both countries—exactly what diversification was intended to mitigate. So it is only rational for China and Japan not to diversify, regardless of strong or weak sentiment on the dollar. Other Asian central banks are aware of this situation. If the dollar sentiment is weak, however, there is no misalignment of incentives. The only way to prevent a dollar crash would be for both players not to diversify, and that is our Nash equilibrium.

However, if the sentiment on the dollar is strong or stable (as it has been for most of 2005), a free rider problem occurs. The Rest of Asia would be better off diversifying while Japan and China keep the dollar from crashing. Our contention is just this—the rest of Asia has diversified in 2005, taking advantage of the combination of a strong dollar and China and Japan’s policy helplessness.

### **Betting against America has been the stupidest thing since 1776**

If diversification is not an option for China and Japan, do they have no way out? The time seems right to revisit Warren Buffet’s famous quote,

“Betting against America has been the stupidest thing since 1776.”

We dare not disagree. China and Japan would do well to take a leaf from Warren Buffet’s book—bet on the US rather than the USD. China, in particular, needs to channel its sizeable trade surpluses with America to more constructive uses, rather than just accumulating reserves. Buying of Unilocal by CYNOC is a step in the right direction but much more of the same is needed. Acquiring American companies shall help strengthen China’s domestic economy and de-link China’s fate with the dollar. Of course, it is debatable how comfortable Washington would be in allowing Beijing to acquire strategic US assets, and as mentioned earlier, this could be a potential source of political tensions. The permanent solution is for China to develop its local infrastructure and reduce its dependency on export-driven growth. Without doubt, China must be having detailed development plans in mind. But they need to be implemented before the US economy slows down and they run the risk of doing too little too late. In my view, for China and to a lesser extent China-centric Asia, the writing seems to be on the wall!



**Dollar diversification**

**Rules of the game-**

Both players prefer a strong dollar without diversification to a \$ crash with diversification. However, a stable \$ with diversification is preferred to a strong \$ without diversification.

We examine two separate cases, one where the sentiment on the dollar is strong and the other where the sentiment on the dollar is weak.

**Case I – The sentiment on the dollar is weak.**

	<i>China and Japan</i>	
	<u>Not diversify</u>	<u>Diversify</u>
<u>Not diversify</u>	\$ weak	\$ crash
 <i>Rest of Asia</i>		
<u>Diversify</u>	\$ crash	\$ crash

Because a crash is the worst possible scenario, China and Japan will never play “diversify.” As long as the Rest of Asia knows that, it will also play “Not Diversify.” The Nash equilibrium would be (not diversify, not diversify), resulting in a weak \$.

**Case II – The Sentiment on the dollar is strong.**

	<i>China and Japan</i>	
	<u>Not diversify</u>	<u>Diversify</u>
<u>Not diversify</u>	\$ strong	\$ crash
 <i>Rest of Asia</i>		
<u>Diversify</u>	\$ stable	\$ crash

Again, China and Japan shall never play “diversify” because it will always lead to a crash. To the extent that the Rest of Asia knows this, it shall play “diversify.” The Nash equilibrium would be (diversify, not diversify), resulting in a stable.



**Table 1****WORLD OFFICIAL GOLD HOLDINGS (September\* 2005)**

	Tonnes	Gold's % share of reserves**		Tonnes	Gold's % share of reserves**
1 United States	8,133.5	63.8%	41 Argentina	54.8	3.0%
2 Germany	3,427.8	50.5%	42 Finland	49.1	6.3%
3 IMF	3,217.3	(1)	43 Bulgaria	39.8	6.5%
4 France	2,892.6	56.4%	44 WAEMU <sup>3</sup>	36.5	7.2%
5 Italy	2,451.8	56.7%	45 Malaysia	36.4	0.7%
6 Switzerland	1,290.1	33.3%	46 Slovak Republic	35.1	3.1%
7 Japan	765.2	1.3%	47 Peru	34.7	3.5%
8 Netherlands	722.4	51.3%	48 Bolivia	28.3	28.6%
9 ECB	719.9	20.6%	49 Ecuador	26.3	20.3%
10 China, Mainland	600.0	1.1%	50 Morocco	22.0	2.0%
11 Spain	493.3	42.8%	51 Nigeria	21.4	1.2%
12 Taiwan	423.3	2.4%	52 Ukraine	15.9	1.6%
13 Portugal	407.5	54.0%	53 Cyprus	14.5	5.0%
14 Russia <sup>2</sup>	386.6	3.6%	54 Korea	14.2	0.1%
15 India	357.7	3.6%	55 Brazil	13.6	0.3%
16 Venezuela <sup>2</sup>	357.4	17.6%	56 Belarus <sup>4</sup>	13.6	13.0%
17 United Kingdom	311.3	9.4%	57 Czech Republic	13.6	0.6%
18 Austria	307.5	37.5%	58 Netherlands Antilles	13.1	24.9%
19 Lebanon	286.8	28.7%	59 Jordan	12.8	3.1%
20 Belgium	227.7	25.7%	60 Cambodia	12.4	15.5%
21 Philippines	187.9	14.7%	61 Colombia	10.2	1.0%
22 BIS	185.3	(1)	62 El Salvador	10.1	7.4%
23 Algeria	173.6	4.7%	63 Ghana	8.7	8.2%
24 Sweden	155.4	9.1%	64 Latvia	7.7	4.9%
25 Libya	143.8	6.1%	65 Slovenia	7.6	1.3%
26 Saudi Arabia	143.0	7.4%	66 Myanmar	7.2	12.9%
27 Singapore	127.4	1.5%	67 CEMAC <sup>5</sup>	7.1	2.7%
28 South Africa	123.9	9.1%	68 Guatemala	6.9	2.5%
29 Turkey	116.1	3.6%	69 Tunisia	6.8	2.2%
30 Greece	107.9	65.9%	70 Macedonia, FYR	6.1	8.5%
31 Romania	104.9	8.1%	71 Lithuania	5.8	2.3%
32 Poland	102.9	3.5%	72 Ireland	5.5	2.9%
33 Indonesia	96.5	4.1%	73 Sri Lanka	5.2	3.0%
34 Thailand	84.0	2.4%	74 Bahrain	4.7	3.5%
35 Australia	79.7	2.5%	75 Nepal	4.0	3.6%
36 Kuwait	79.0	11.6%	76 Mexico	3.6	0.1%
37 Egypt	75.6	5.7%	77 Bangladesh	3.5	1.7%
38 Denmark	66.5	2.5%	78 Mongolia	3.5	15.3%
39 Pakistan	65.3	7.9%	79 Canada	3.4	0.1%
40 Kazakhstan	58.6	10.4%	80 Aruba	3.1	12.6%

## Economic Snapshot

		Fiscal year 06							
		Units	July	Aug	Sep	Oct	Nov	Dec	July-Nov
<b><u>Inflation</u></b>									
Headline Inflation	%		8.99	8.41	8.53	8.27	7.89	n.a	8.4
Core inflation	%		7.62	7.55	7.58	7.81	7.59	n.a	7.6
Food inflation	%		9.73	7.82	7.52	6.41	5.84	n.a	7.5
Non-food inflation	%		8.47	8.83	8.25	9.61	9.38	n.a	8.9
<b><u>T-bill</u></b>									
3 month	%		7.69	7.99	8.10	8.10	bid rejected	8.09	n/a
6 month	%		7.97	8.12	8.14	8.14	bid rejected	8.25	n/a
12 month	%		8.69	8.78	8.79	8.77	8.79	8.77	n/a
<b><u>External Sector</u></b>									
Export	million US \$		1272	1408	1499	1329	1120	n.a	5508
Import	million US \$		1997	2235	2322	2328	2300	n.a	8882
Trade balance	million US \$		-725	-827	-823	-999	-1180	n.a	-3374
Remittances	million US \$		313	348	341	373	309	n.a	1375
Total Foreign Investment	million US \$		129.5	161.4	182.8	208.3	n.a	n.a	682
Forex reserves	million US \$		12613	12124	12000	11715	11321	11211	n/a
<b><u>Key</u></b>									
n.a	not available								
n/a	not applicable								



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