

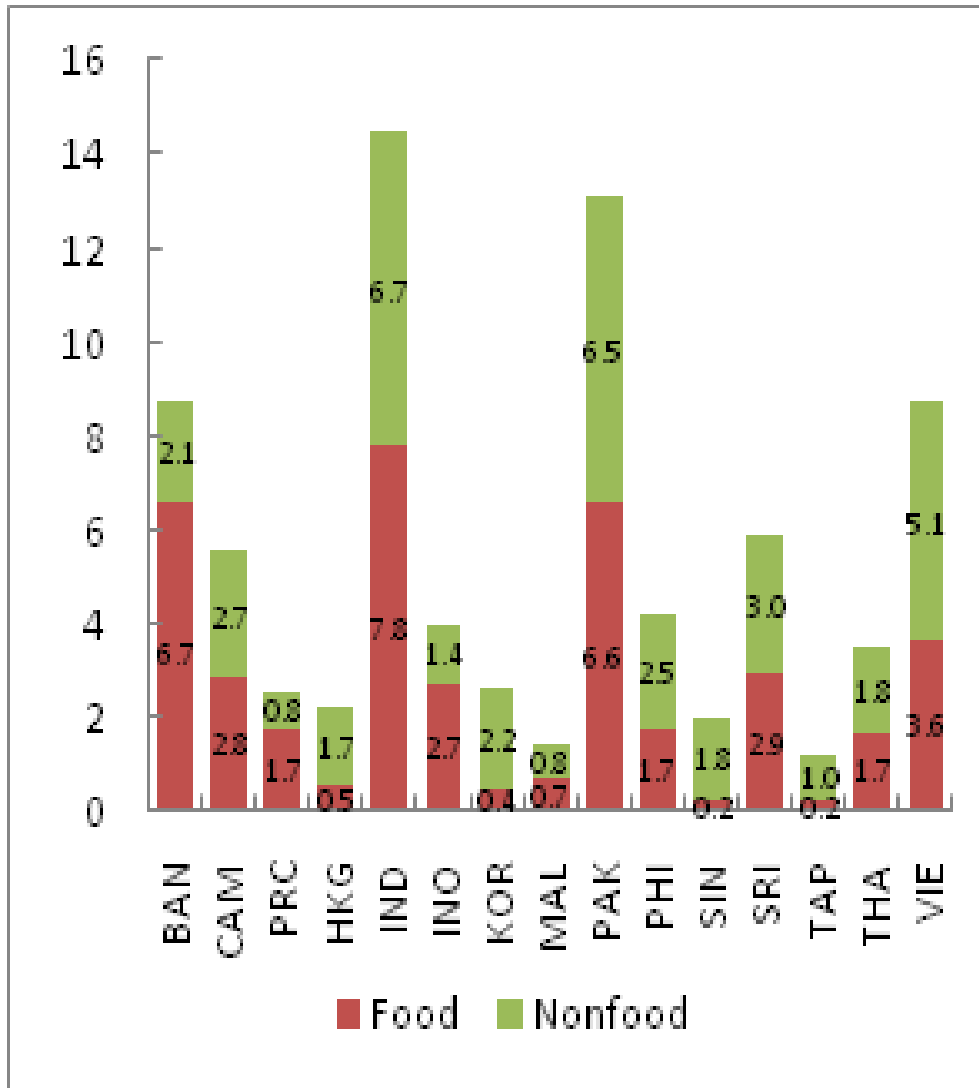
Asia's Perspectives on Rebalancing & OREI Research

1. Asia's Issues & Challenges
2. OREI's Research Agenda

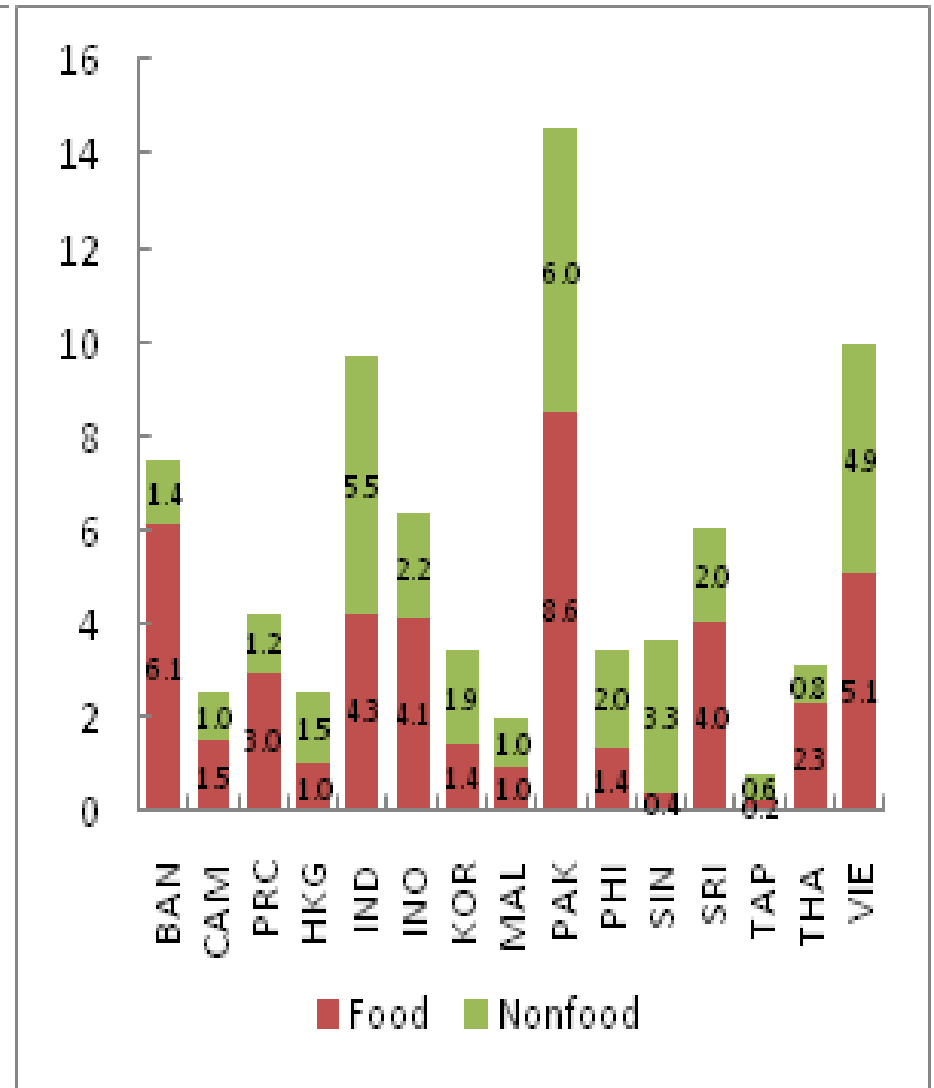
Iwan J. Azis

Head, Office of Regional Economic Integration
Asian Development Bank, for
ADB-PIIE Book launching
Washington DC, 25 April 2011

Contribution to CPI Inflation



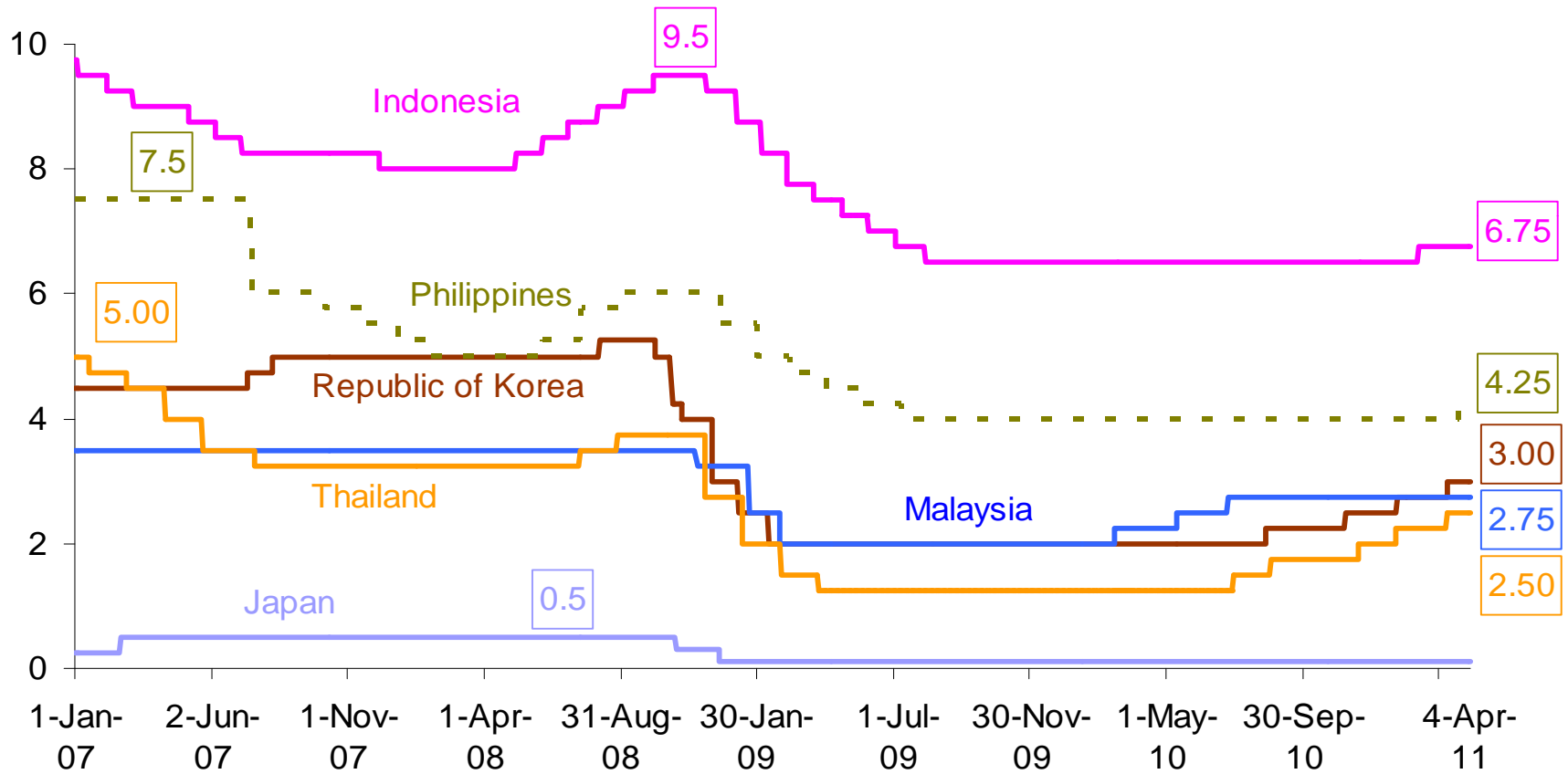
Jan-June 2010



July 2010-latest data

Authorities respond...

Policy Rates¹—Selected Economies (% per annum)



¹BI rate (Indonesia); unsecured overnight call rate (Japan); Korea base rate (Republic of Korea); overnight policy rate (Malaysia); reverse repurchase rate (Philippines); and 1-day repo rate (Thailand).
Source: Bloomberg and Datastream.

Currency appreciation helps

Change in Exchange Rate against US dollar¹ (%)



¹Year-to-date (YTD) figures based on 21 Mar 2011 closing. Negative values indicate depreciation.

²PRC = People's Republic of China.

Source: OREI staff calculations based on Reuters data.

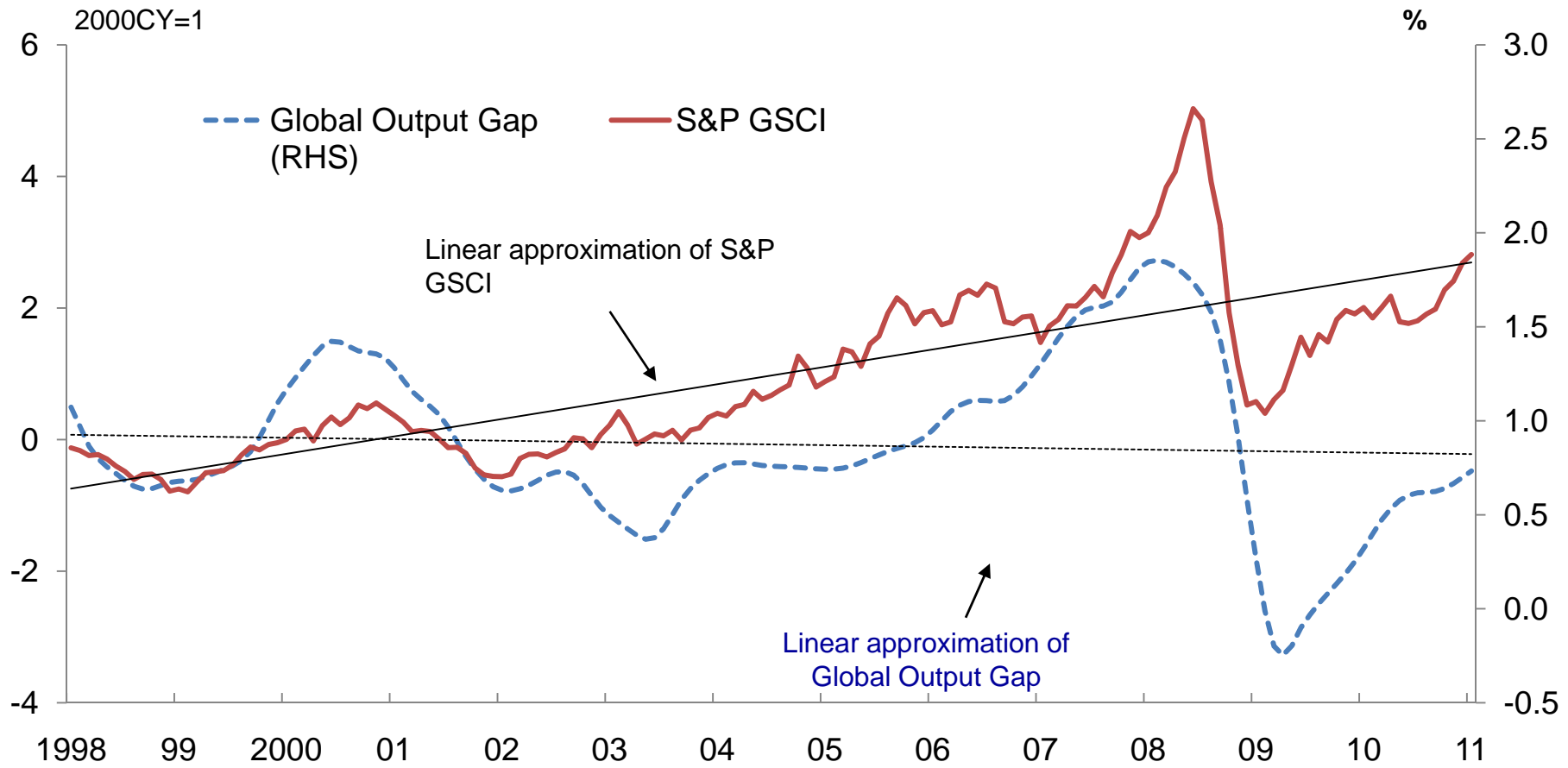
Keeping food costs down

Administrative Measures (as of 16 February 2011)

Economies	Reduce taxes	Increase supply	Restrict exports	Control prices / subsidize consumers	Cash transfers	Food for work	Food aid	Feeding programs	Stimulate production
China, People's Rep. of		✓	✓	✓	✓			✓	✓
Cambodia		✓							✓
Indonesia	✓						✓		✓
Lao PDR	✓	✓		✓					✓
Philippines				✓			✓		
Thailand		✓		✓					✓
Viet Nam				✓					✓

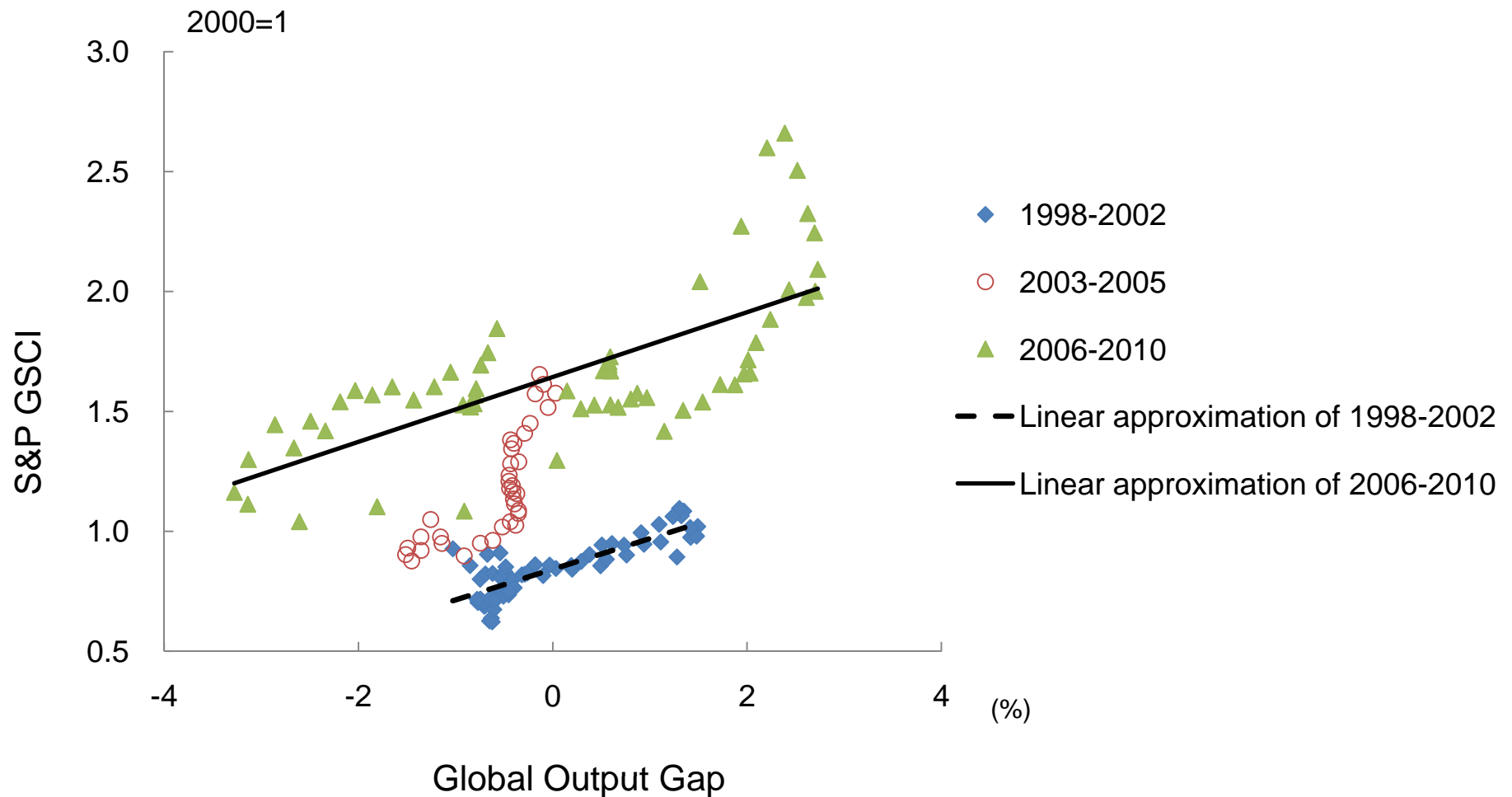
Source: Asian Development Bank 2011, April 2011.

Declining Correlation of Output Gap and Commodity Prices



(Note) S&P GSCI is shown as relative price to the global headline CPI.
 (Source) IMF, Bloomberg

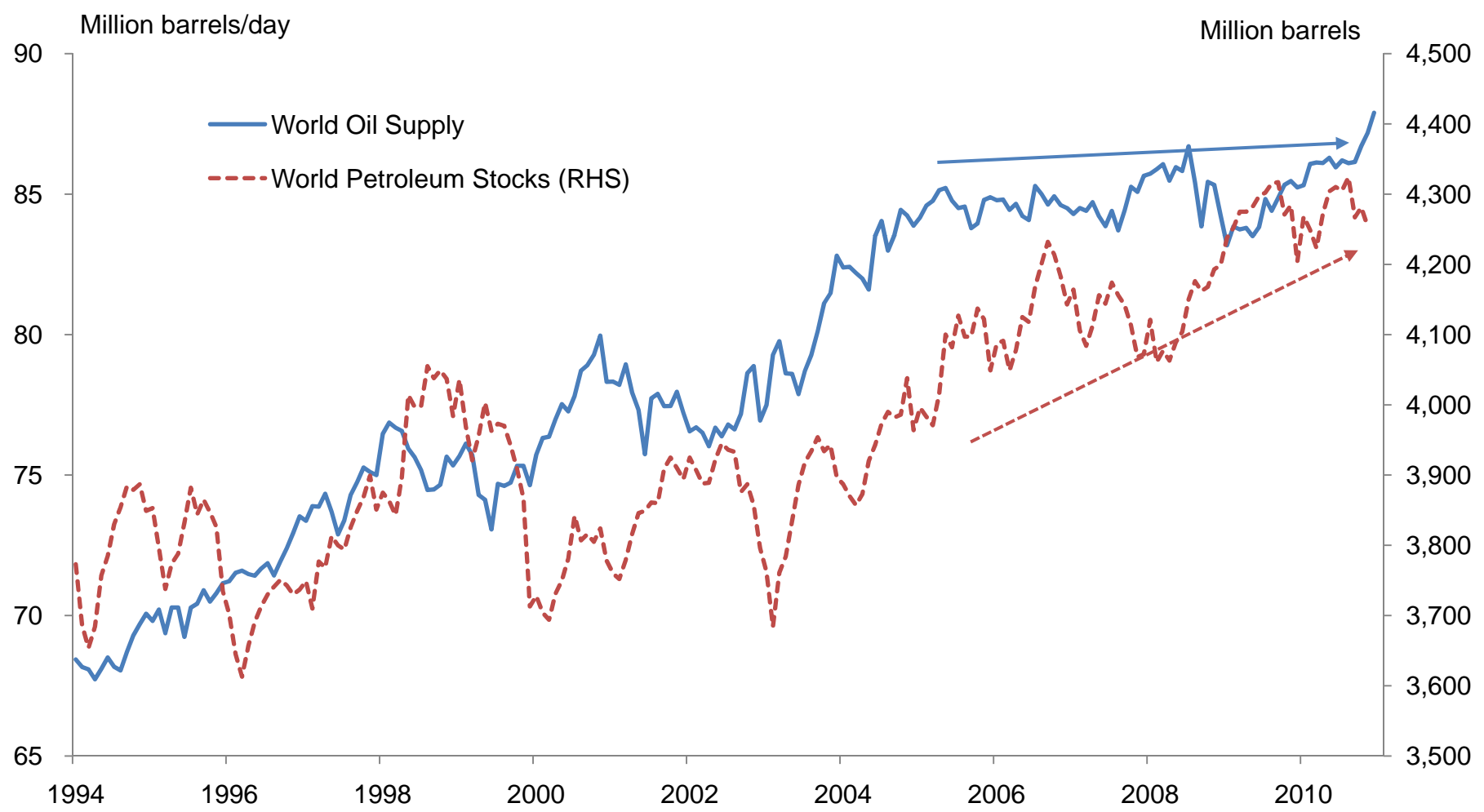
Upward Level Shift in Correlation: Structural Changes?



(Note) S&P GSCI is shown as relative price to the global headline CPI.

(Source) IMF, Bloomberg

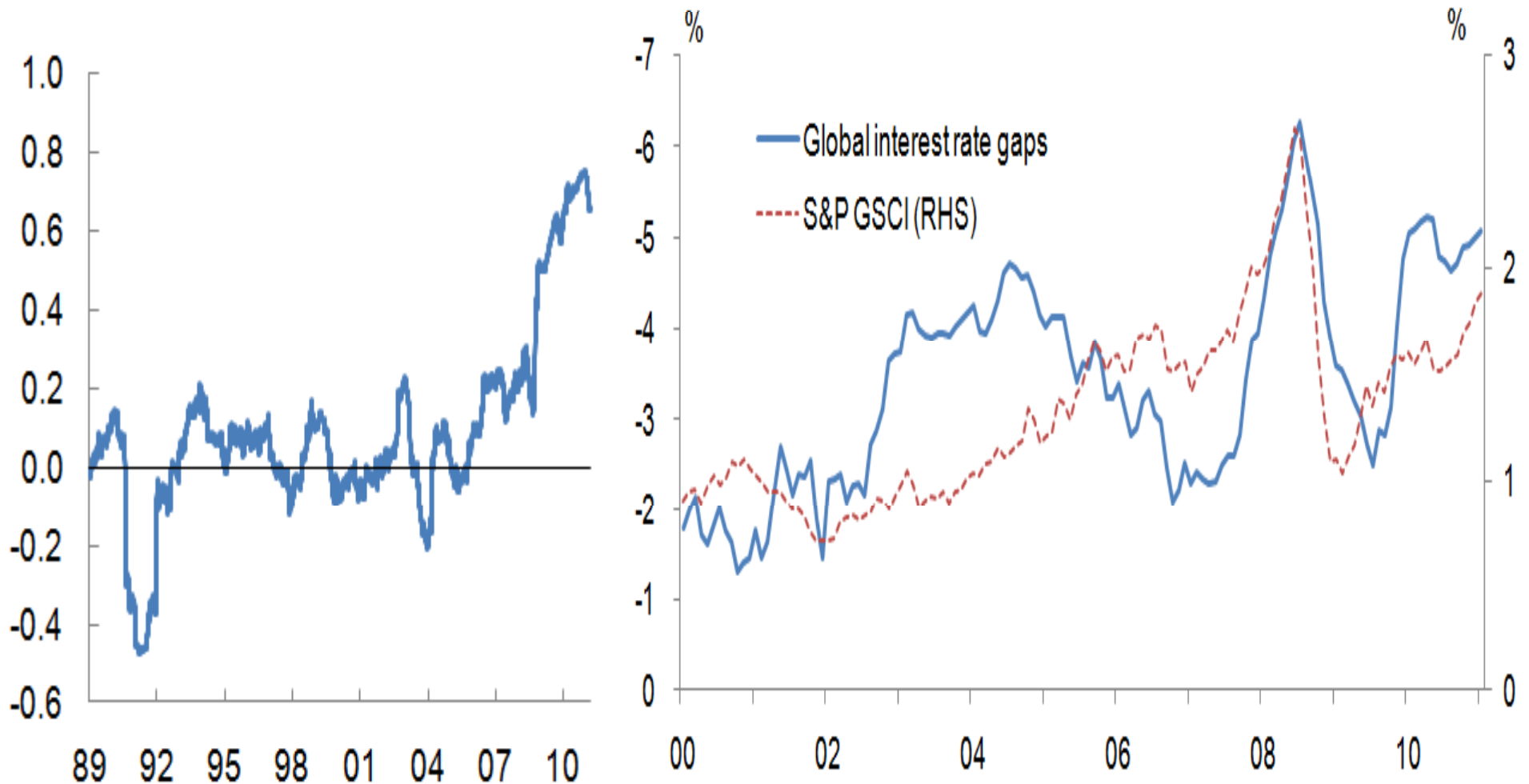
Stalled Oil Supply vs Increased Inventories



(Source) U.S. Department of Energy

One-year rolling correlation between daily return of global equity index (MSCI AC-World) and that of commodity index (S&P GSCI) . (Source) Bloomberg

Interest rate gap = short-term real interest rate minus potential GDP growth (minus means easy monetary conditions). S&P GSCI is shown as relative price to the global headline CPI. (Source) IMF, Bloomberg

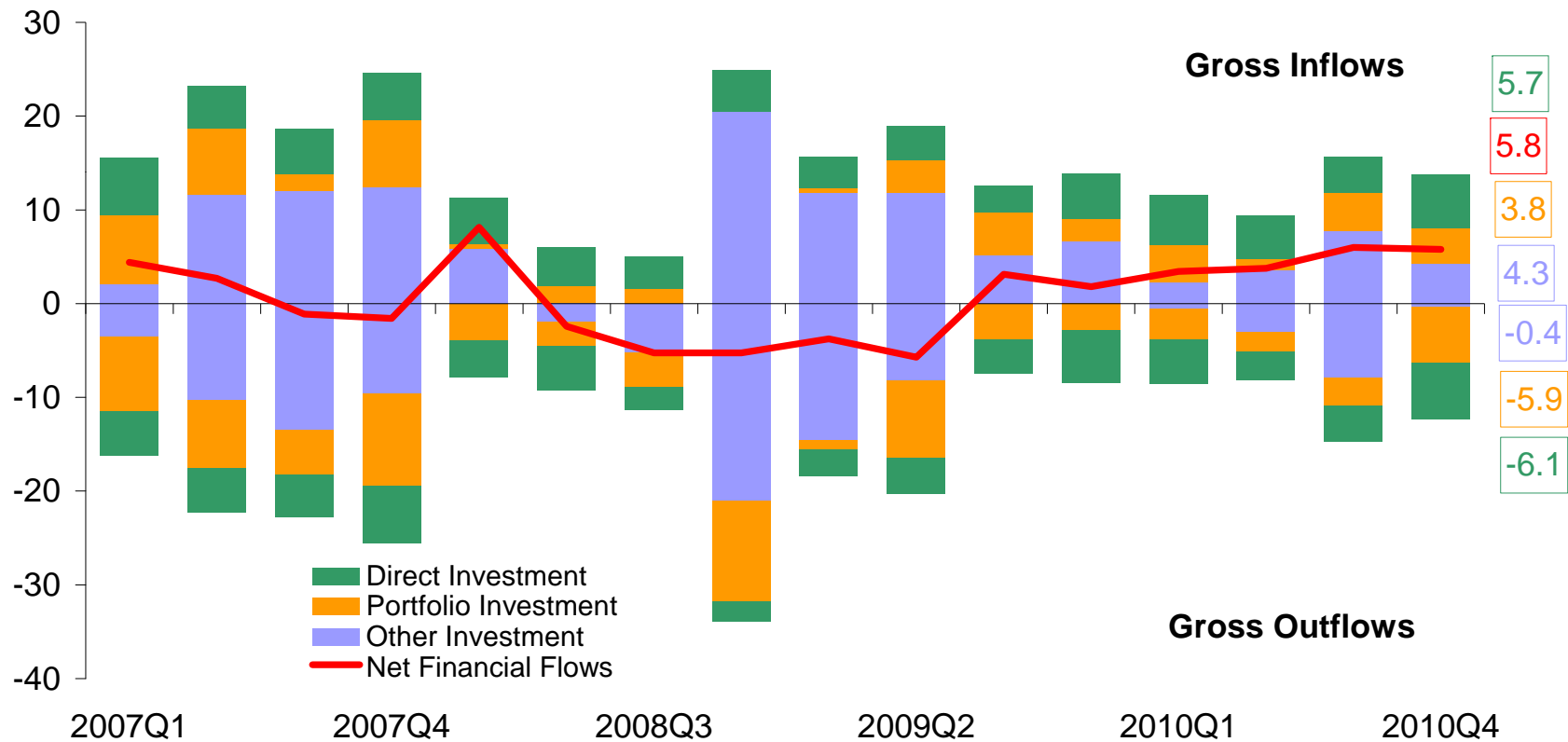


Global Investors' Portfolio Rebalancing: "Financialisation"?

- Institutional investors aiming to gain the benefits of asset diversification and inflation hedging and higher returns.
- Improvements in market infrastructure
- Development of commodity indices and Improvement in trading-related platform.

Destabilizing capital flows

Net Financial Flows—Selected Economies¹
(% of GDP)



GDP = gross domestic product.

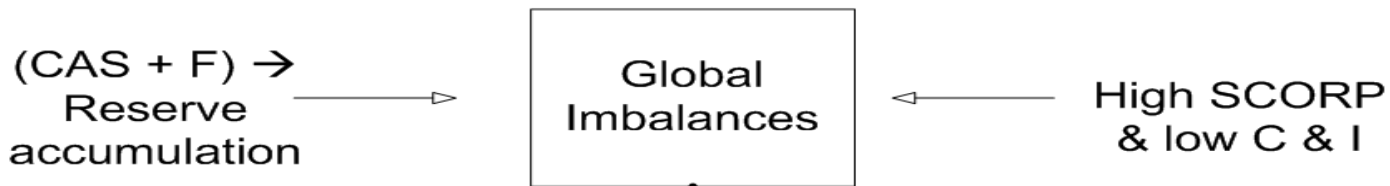
¹Includes Hong Kong, China; Indonesia; Republic of Korea; Philippines; Singapore; Thailand; and Viet Nam. Does not include Malaysia from 2010Q2 to 2010Q4 as data on inflow-outflow breakdown for portfolio and other investment unavailable. Does not include Viet Nam in 2010Q4 as data unavailable. "Other investment" includes financial derivatives.

Source: OREI staff calculations based on data from *International Financial Statistics*, International Monetary Fund; and national sources.

Policy Issues

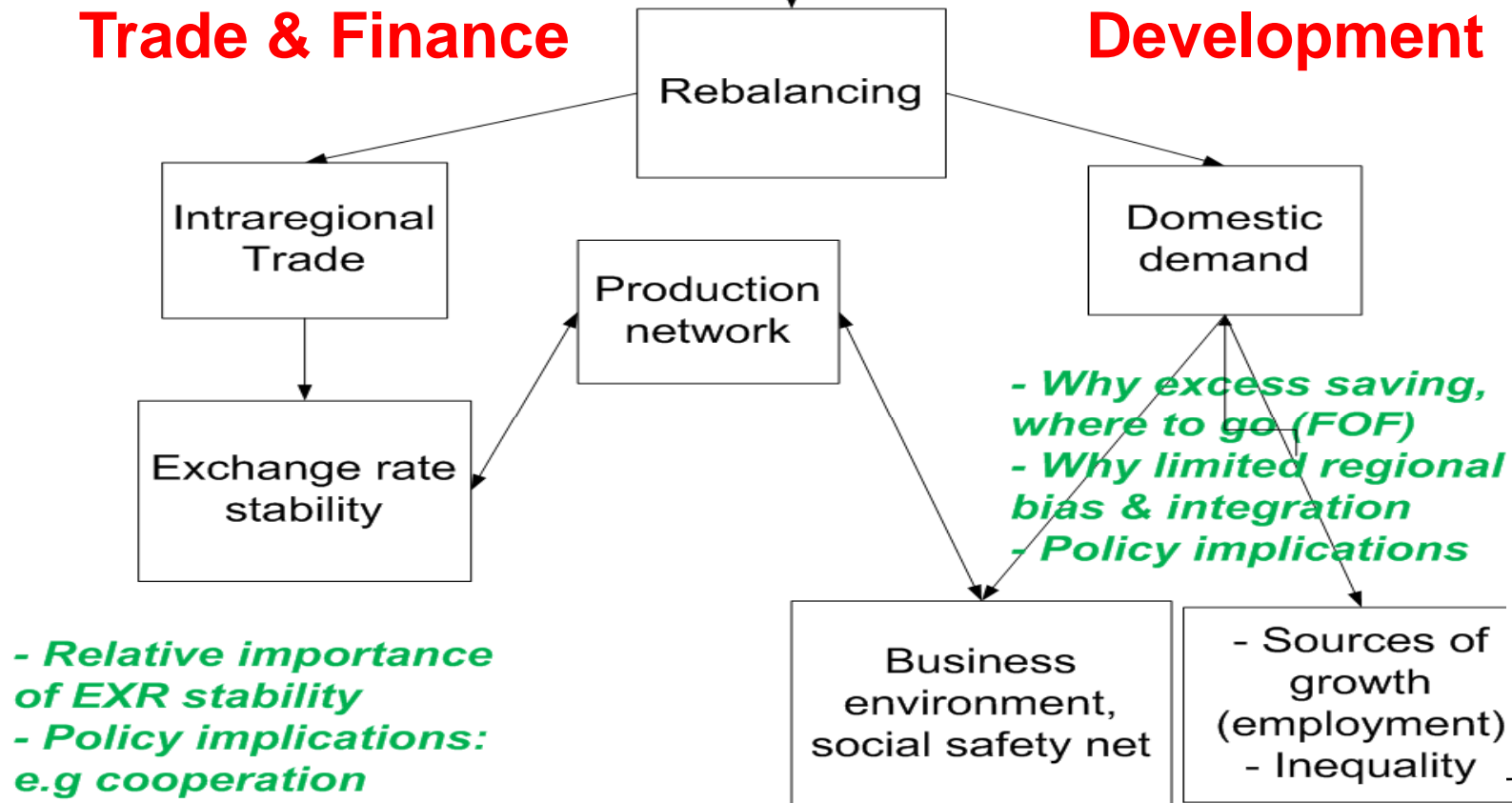
- Managing inflationary pressure
 - Monetary-fiscal & other policies
 - Currency appreciation
 - Regional cooperation & other policies?
- Managing capital flows effectively (well targeted & temporary, and conversion)
 - Limit foreign currency borrowing
 - Foreign currency reserve requirement
 - Holding period
 - Withholding tax on foreign investment
 - Tax on foreign capital
 - Regional coordination & intraregional trade
- Excess saving and cross-border financial flows

Proposed Framework of Analysis & Research



Trade & Finance

Development



Structure of FSAM

	Factors	Production	Institutions	Institution Government	ROW	Capital Account by institution (KAI)	Financial Account	
Factors		Value Added			NFI from abroad			Factor income
Production		IO		Government expenditure	Exports	Investment expenditure by sector		Output
Institutions	Income allocation to inst		Distributed profit & transfers	Government transfer/ subsidy	Non NFI from abroad			Institution Incomes
Institutions Government		Indirect tax on inputs	Direct taxes		Non NFI from abroad+ indirect tax for export	Indirect tax on capital goods		Institution Incomes
ROW		Imports of intermediate goods	Imports of capital goods			Import of capital goods		Imports
Capital Account by Institution (KAI)			HH & Corp saving by inst	Government surplus/ saving	Net capital from abroad		Liabilities of institution by type	Total Savings
Financial Account						Assets of institution by type		Total assets
	Factor income	Inputs	Institution expenditure	Institution expenditure	Exports	Total Investment	Total liabilities	

