

ADB

ASIAN DEVELOPMENT

Outlook 2010

Macroeconomic Management
Beyond the Crisis

Asian Development Bank



Asian Development Outlook 2010

Macroeconomic Policy Challenges

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April 19, 2010





Outline

1. Economic prospects
 - Global recovery
 - Sustained recovery in Asia
 - Risks to outlook
2. Macroeconomic policy challenges



Key Messages

- Asia's recovery takes firm hold
- Inflation on the rise but manageable
- Uncertain global recovery and volatile capital flows present risks
- Gradually unwind stimulus and shift to private demand
- Reaffirm commitment to prudent monetary and fiscal policies



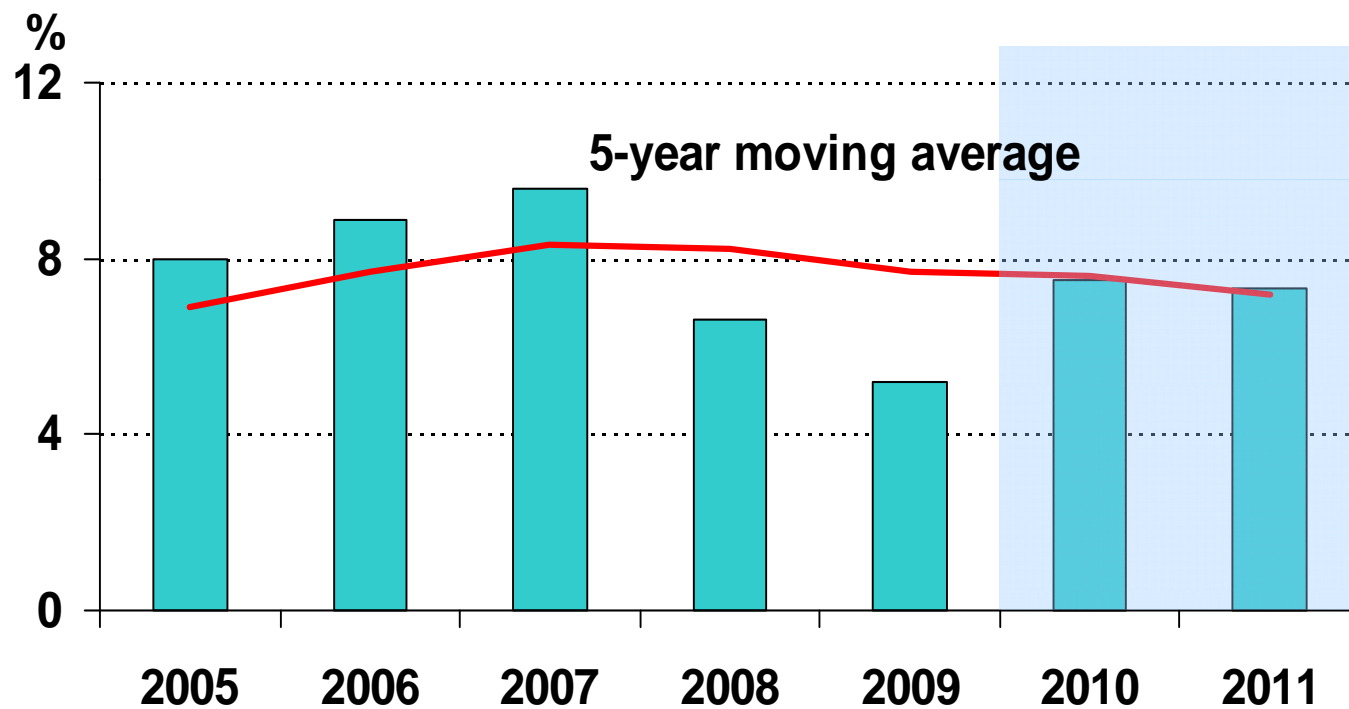
Economic prospects

Global conditions improving

	2008	2009	2010	2011
	Actual	Actual	<i>ADO 2010</i> projection	<i>ADO 2010</i> projection
GDP Growth				
Major industrial economies (%)	0.2	-3.5	1.7	2.0
United States (%)	0.4	-2.4	2.4	2.6
Eurozone (%)	0.6	-4.1	1.1	1.6
Japan (%)	-1.2	-5.2	1.3	1.4
World trade				
Merchandise exports (% change)	1.5	-12.0	7.1	8.1
Inflation				
Inflation (G3 average, %)	3.2	-0.2	1.4	1.3

Recovery takes firm hold

GDP growth, developing Asia

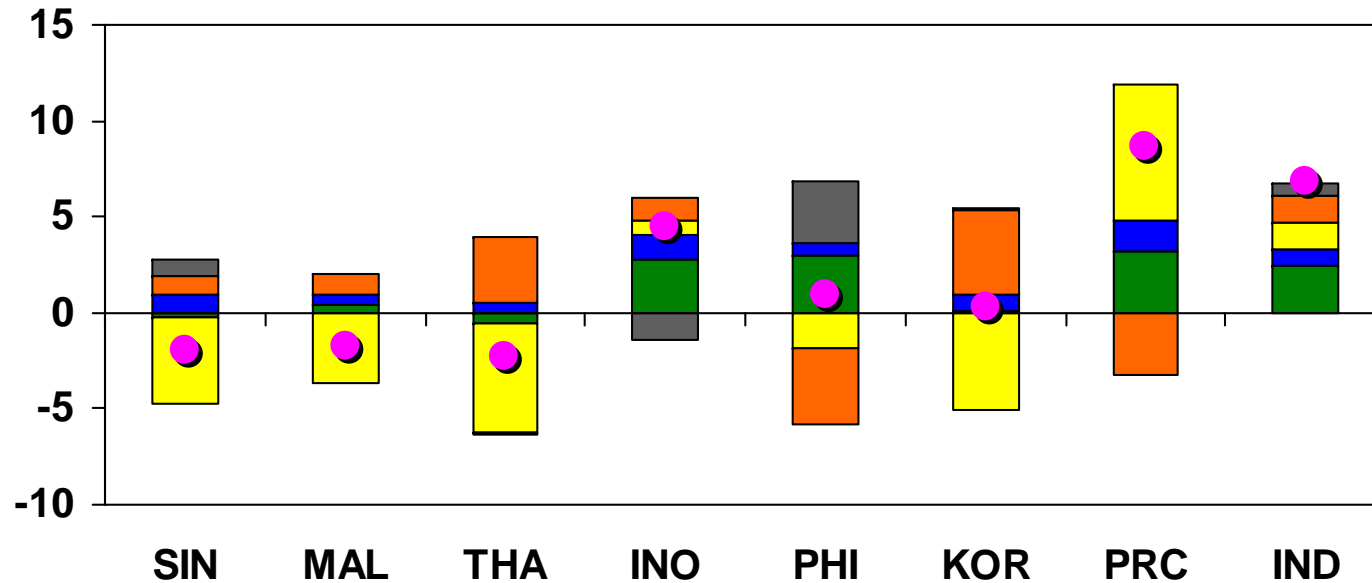


...due to a combination of factors

Contributions to GDP growth

- Private consumption
- Investment
- Statistical discrepancy
- Government consumption
- Net exports
- GDP growth

percentage points

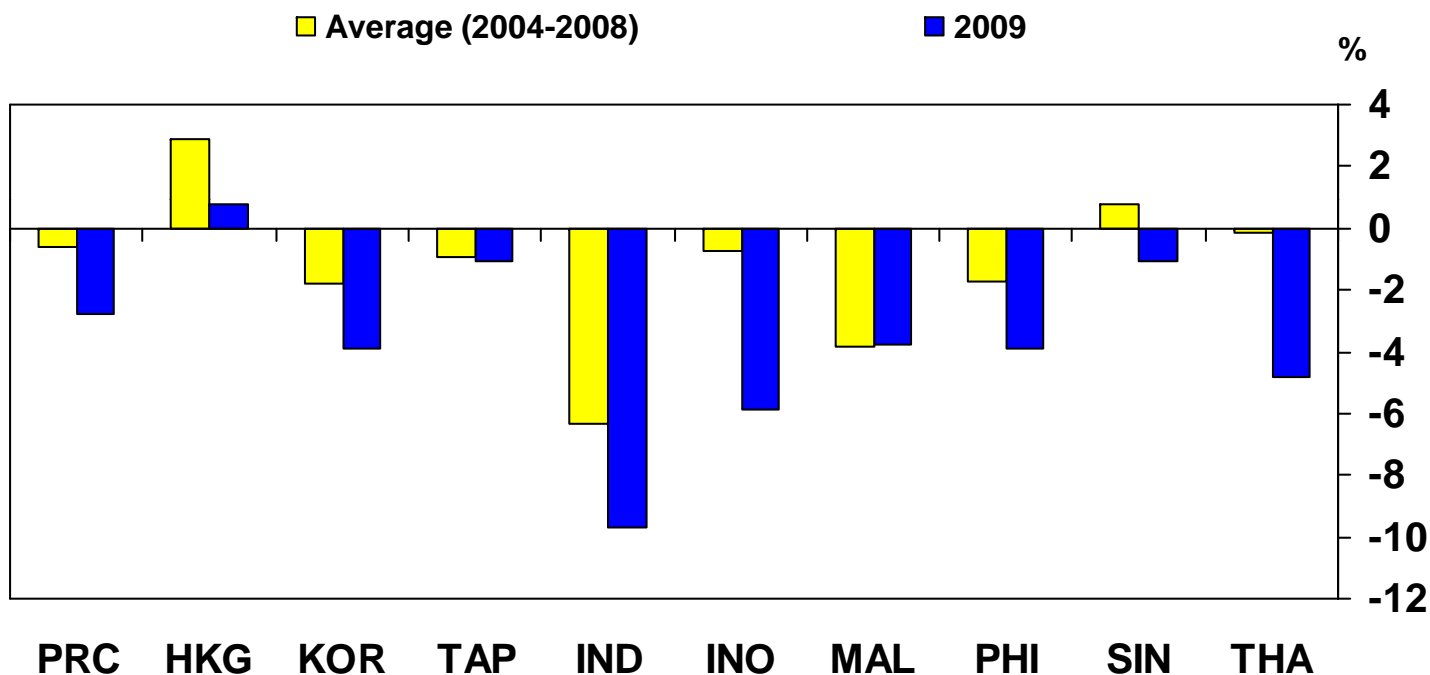


SIN=Singapore; MAL=Malaysia; THA=Thailand; INO=Indonesia; PHI=Philippines;
KOR=Republic of Korea; PRC=People's Republic of China; IND=India



...including substantial fiscal stimulus

Fiscal balance, selected DMCs



PRC=People's Republic of China; HKG=Hong Kong, China; KOR=Republic of Korea;
TAP=Taipei, China; IND=India; INO=Indonesia; MAL=Malaysia; PHI=Philippines;
SIN=Singapore; THA=Thailand

Source: Asian Development Outlook database.



Variation across subregions...

GDP growth

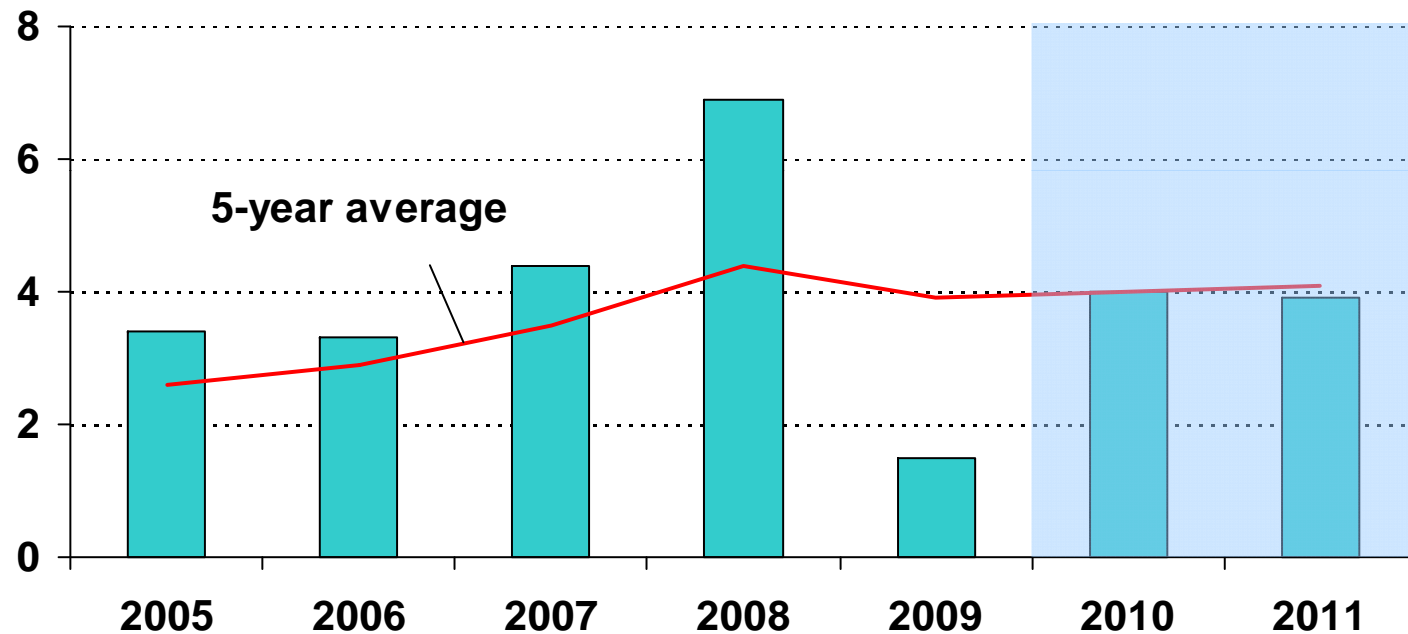


...and across economies

	2008	2009	2010	2011
Central Asia	6.1	2.7	4.7	5.9
Azerbaijan	10.8	9.3	9.5	9.7
Kazakhstan	3.3	1.2	2.5	3.5
East Asia	7.3	5.9	8.3	7.7
China, People's Rep. of	9.6	8.7	9.6	9.1
Hong Kong, China	2.1	-2.7	5.2	4.3
Korea, Rep. of	2.3	0.2	5.2	4.6
Taipei, China	0.7	-1.9	4.9	4.0
South Asia	6.4	6.5	7.4	8.0
Bangladesh	6.2	5.9	5.5	6.3
India	6.7	7.2	8.2	8.7
Pakistan	4.1	2.0	3.0	4.0
Sri Lanka	6.0	3.5	6.0	7.0
Southeast Asia	4.3	1.2	5.1	5.3
Indonesia	6.0	4.5	5.5	6.0
Malaysia	4.6	-1.7	5.3	5.0
Philippines	3.8	0.9	3.8	4.6
Singapore	1.4	-2.0	6.3	5.0
Thailand	2.5	-2.3	4.0	4.5
Viet Nam	6.2	5.3	6.5	6.8
The Pacific	5.4	2.3	3.7	5.0
Fiji Islands	-0.1	-2.5	-0.5	0.5
Papua New Guinea	6.7	4.5	5.5	7.7
Vanuatu	6.3	3.8	4.6	4.0
Developing Asia	6.6	5.2	7.5	7.3

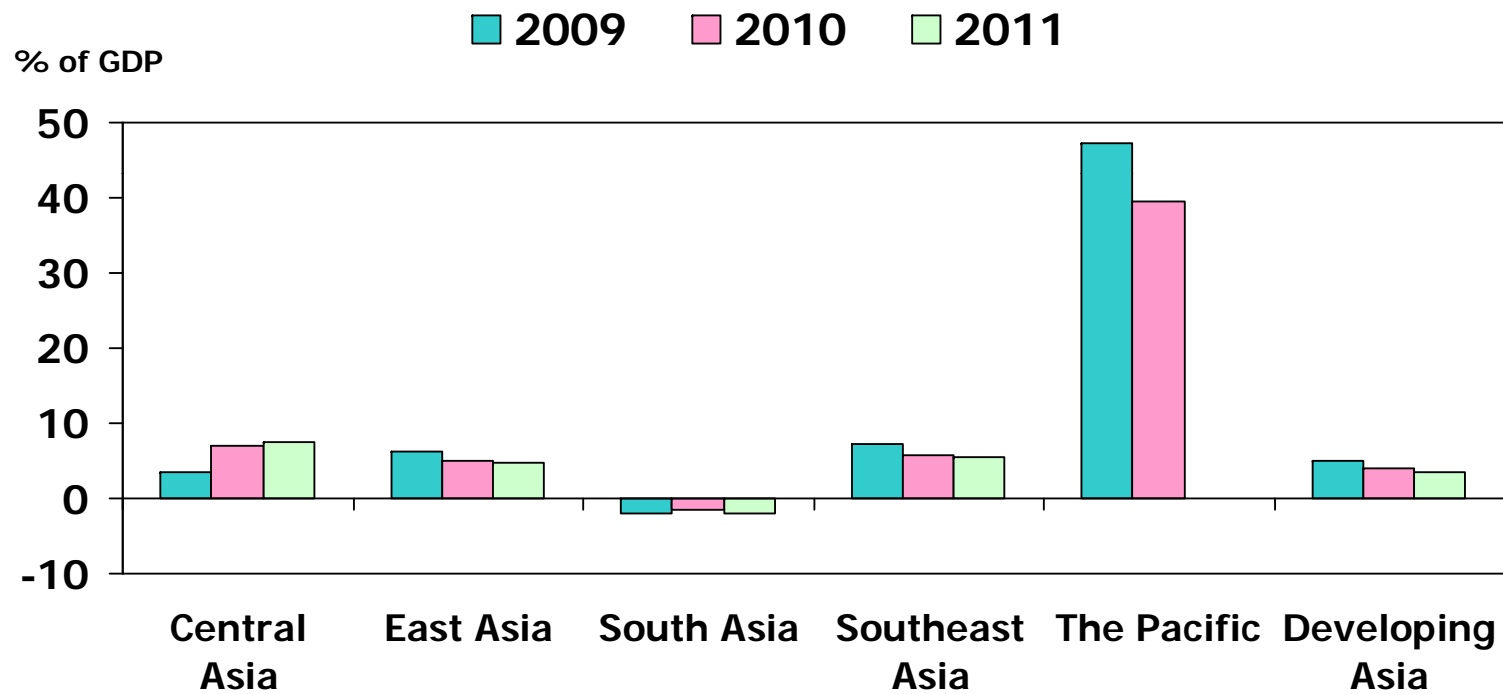
Inflation pressures emerging but still manageable

Inflation, developing Asia



Current account surplus narrowing

Current account balance, developing Asia



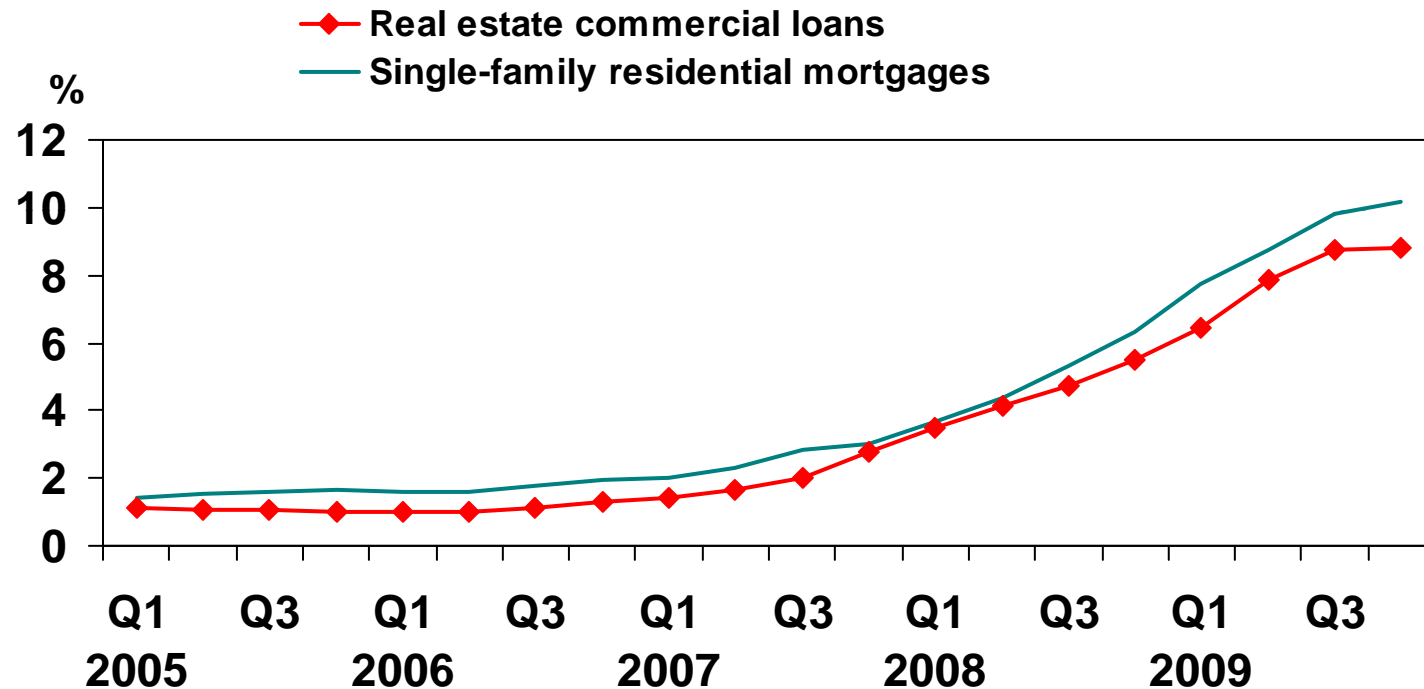


Risks to the outlook

- Continued weakness in US mortgage markets
- Mistimed exit from policy stimulus
- Deteriorating fiscal positions
- Sharp rise in commodity prices
- Persistent global payments imbalances
- Poor international policy coordination
- Asset price bubbles
- Volatile capital flows

US mortgage markets weak

US delinquency rates



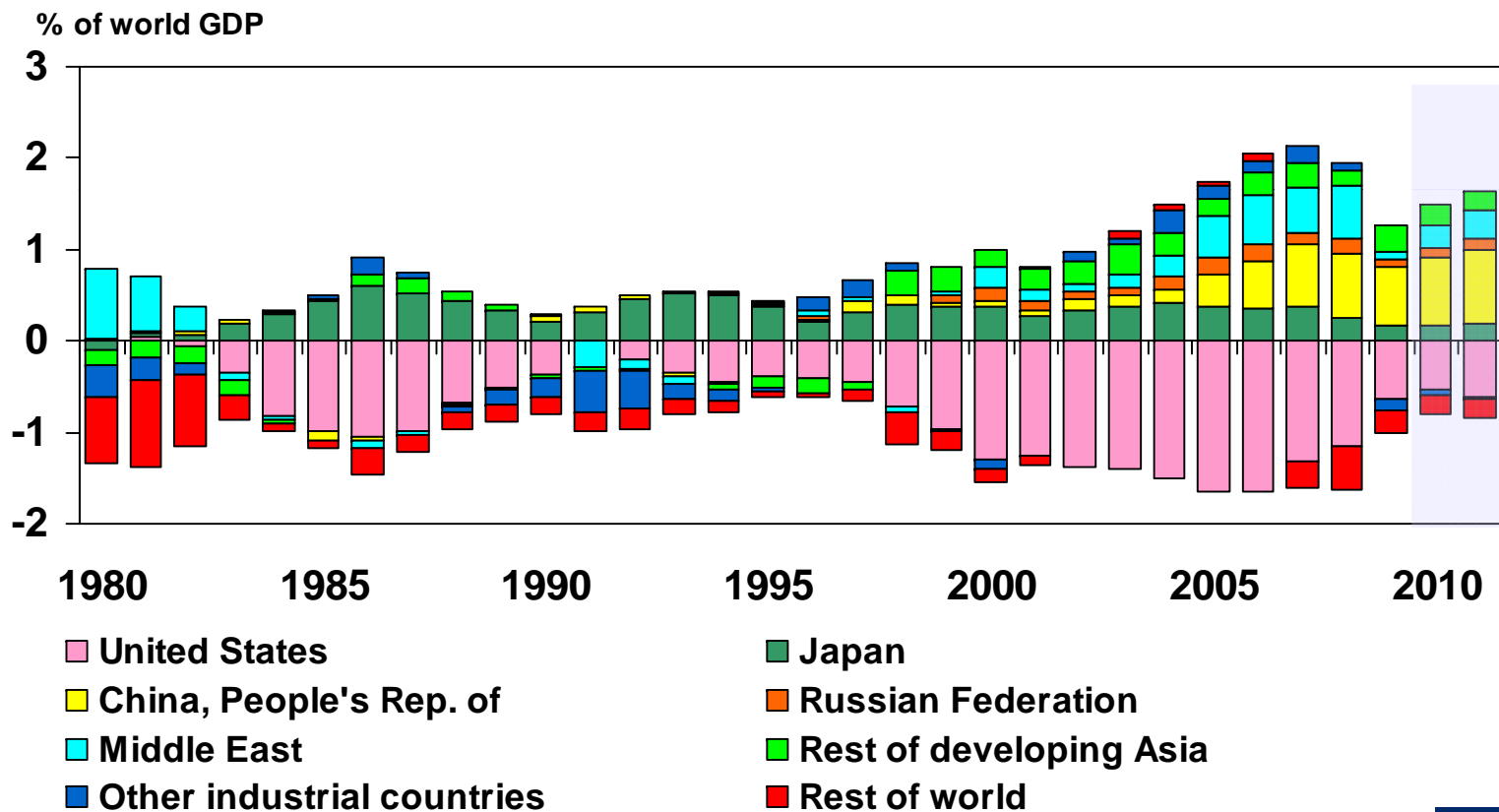
Notes: Loans are from all commercial banks; commercial real estate loans exclude farmland.

Source: The Federal Reserve Board. <http://www.federalreserve.gov/> (accessed 15 March 2010).



Persistent global current account imbalances

World current account balance

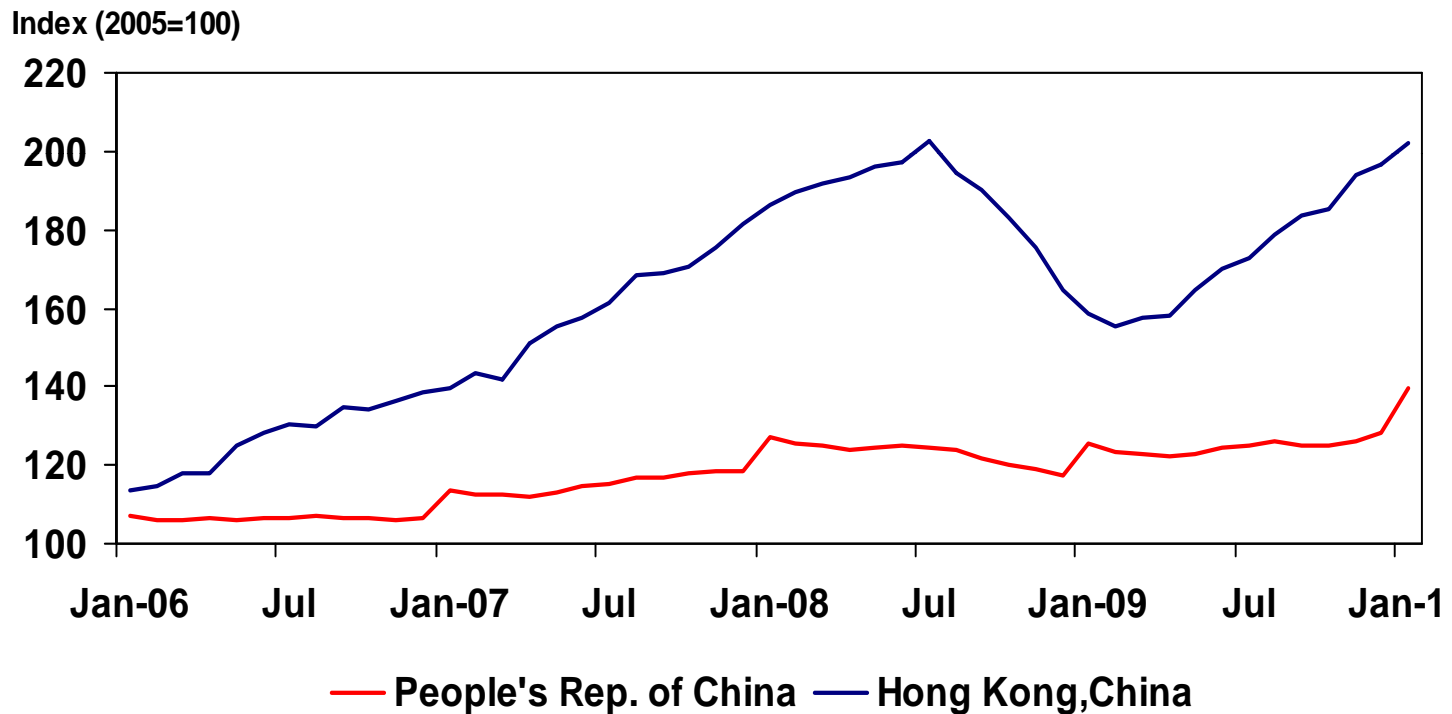


Sources: International Monetary Fund. 2009. World Economic Outlook Database. October. <http://www.imf.org> (accessed 7 April 2010); Asian Development Outlook database.



Risk of asset bubbles

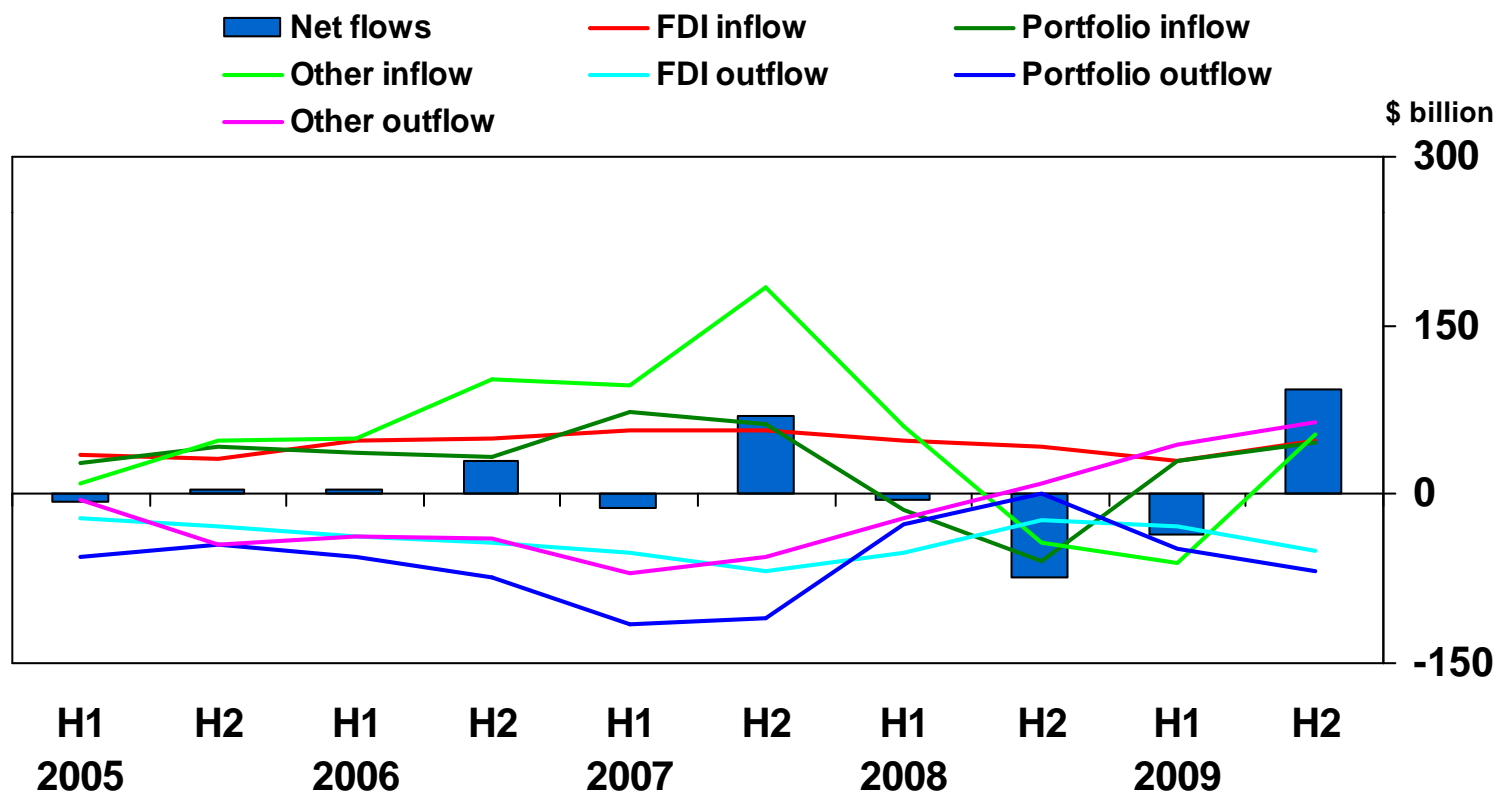
House prices



Source: CEIC Data Company (accessed 5 April 2010).

Volatile capital flows

Capital flows in emerging Asian economies



Sources: ADB estimates based on data from CEIC Data Company; International Monetary Fund. International Financial Statistics online database (accessed 31 March 2010).





Role of macroeconomic policy

- Fiscal and monetary stimulus helped the region recover
- A wide range of macroeconomic and structural challenges
- Role of fiscal and monetary policy in addressing those challenges



Macroeconomic Management Beyond the Crisis

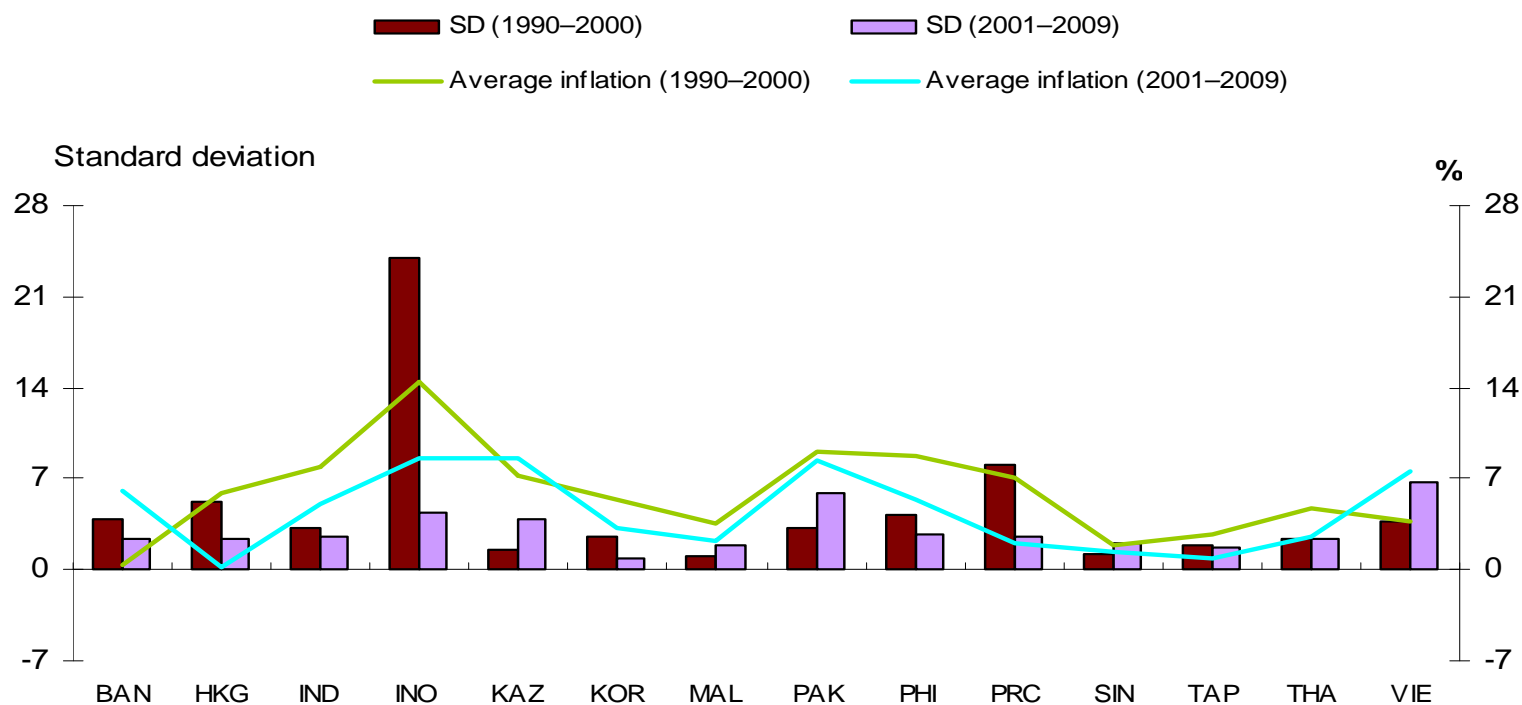


Macroeconomic management in post-crisis Asia

- Reaffirm prudence and discipline in fiscal and monetary policy
- Consider challenging post-crisis environment (e.g. rebalancing, asset bubbles, capital flows)
- Adjust fiscal, monetary, and exchange rate policies to meet challenges

Lower and more stable inflation

Average and standard deviation of inflation



BAN = Bangladesh; HKG = Hong Kong, China; IND = India; INO = Indonesia; KAZ = Kazakhstan; KOR = Republic of Korea; MAL = Malaysia; PAK = Pakistan; PHI = Philippines; PRC = People's Republic of China; SIN = Singapore; TAP = Taipei, China; THA = Thailand; VIE = Viet Nam

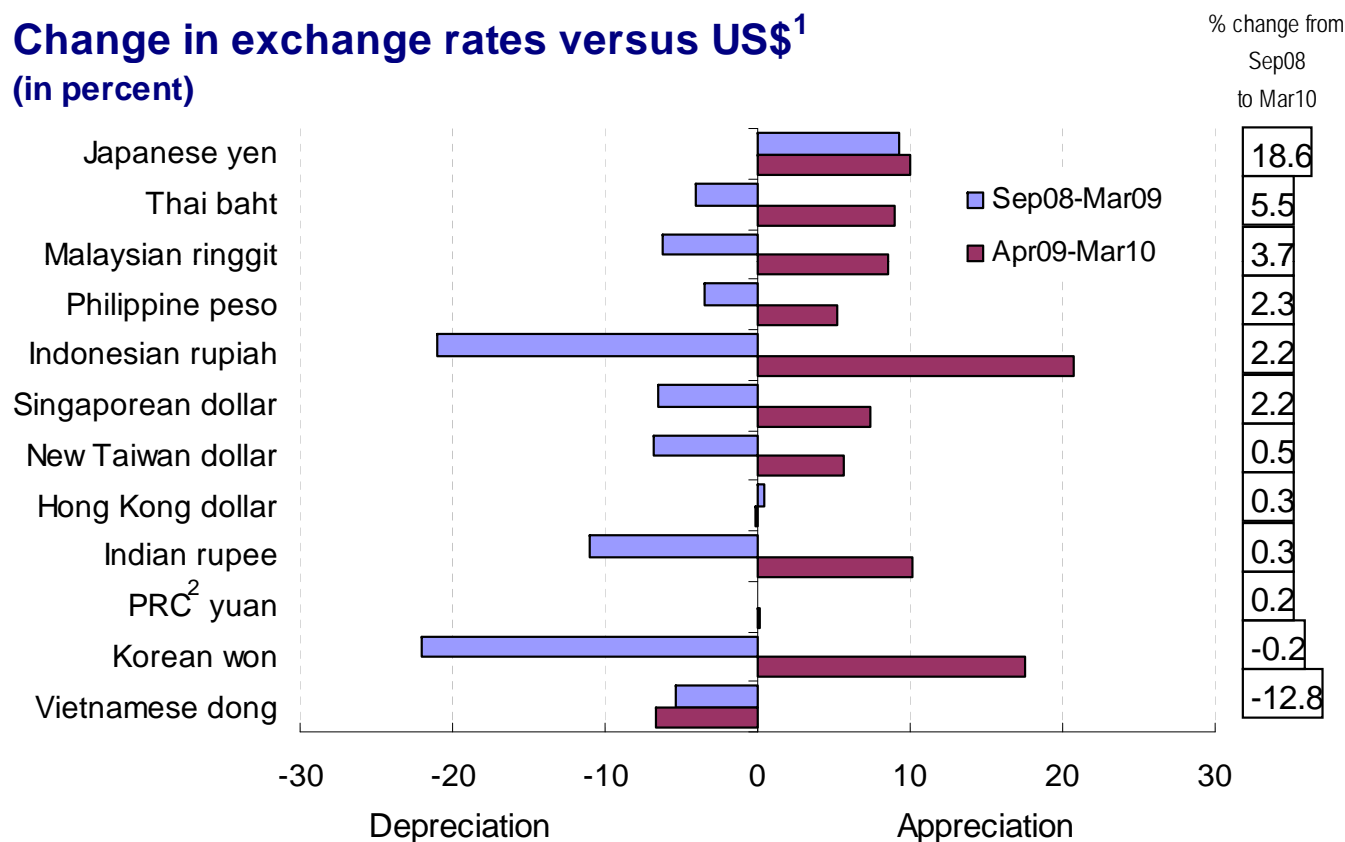
Note: Based on monthly year-on-year inflation figures for each country.

Source: ADB estimates based on data from CEIC Data Company.



Regional currencies have faced appreciation pressure

Change in exchange rates versus US\$¹
(in percent)



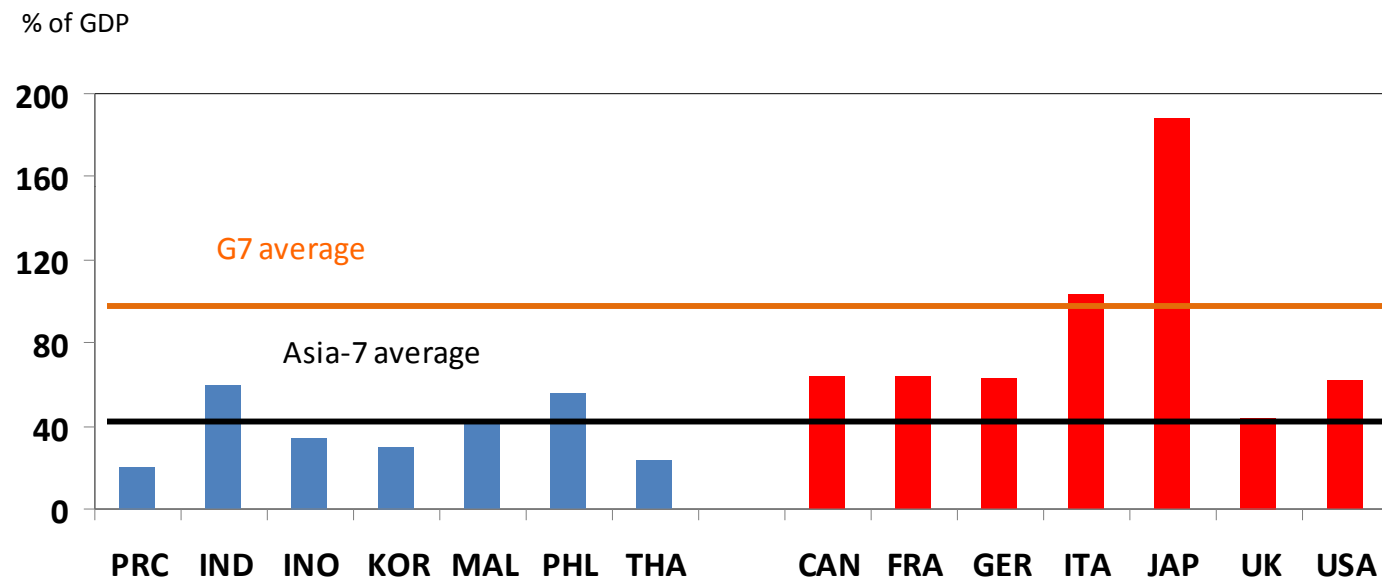
¹ Based on monthly average of \$ value of local currency as of 31 March 2010.

² People's Republic of China (PRC).

Source: Staff calculation from Bloomberg data.

Fiscal prudence led to low-debt burdens

Central government debt, 2007



PRC = People's Republic of China; HKG = Hong Kong, China; IND = India; INO = Indonesia; MAL = Malaysia; PHI = Philippines; KOR = Republic of Korea; TAP = Taipei, China; THA = Thailand; CAN = Canada; FRA = France; GER = Germany; ITA = Italy; JAP = Japan; UK = United Kingdom; USA = United States of America

Sources: CEIC Data Company; Indonesia Debt Management Office; IMF Article IV (for PRC); International Monetary Fund. World Economic Outlook October 2009 database.
<http://www.imf.org/external/pubs/ft/weo/2009/02/weodata/index.aspx> (accessed 16 December 2009).





Policy recommendations

- Coordinate monetary policy with financial regulation
- Reduce exchange rate rigidity
- Reaffirm fiscal discipline
- Fiscal and exchange rate policies for rebalancing
- Need for policy coordination and regional and global cooperation



Thank you

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