

Global Financial and Economic Crisis: Impacts, Lessons, and Growth Rebalancing

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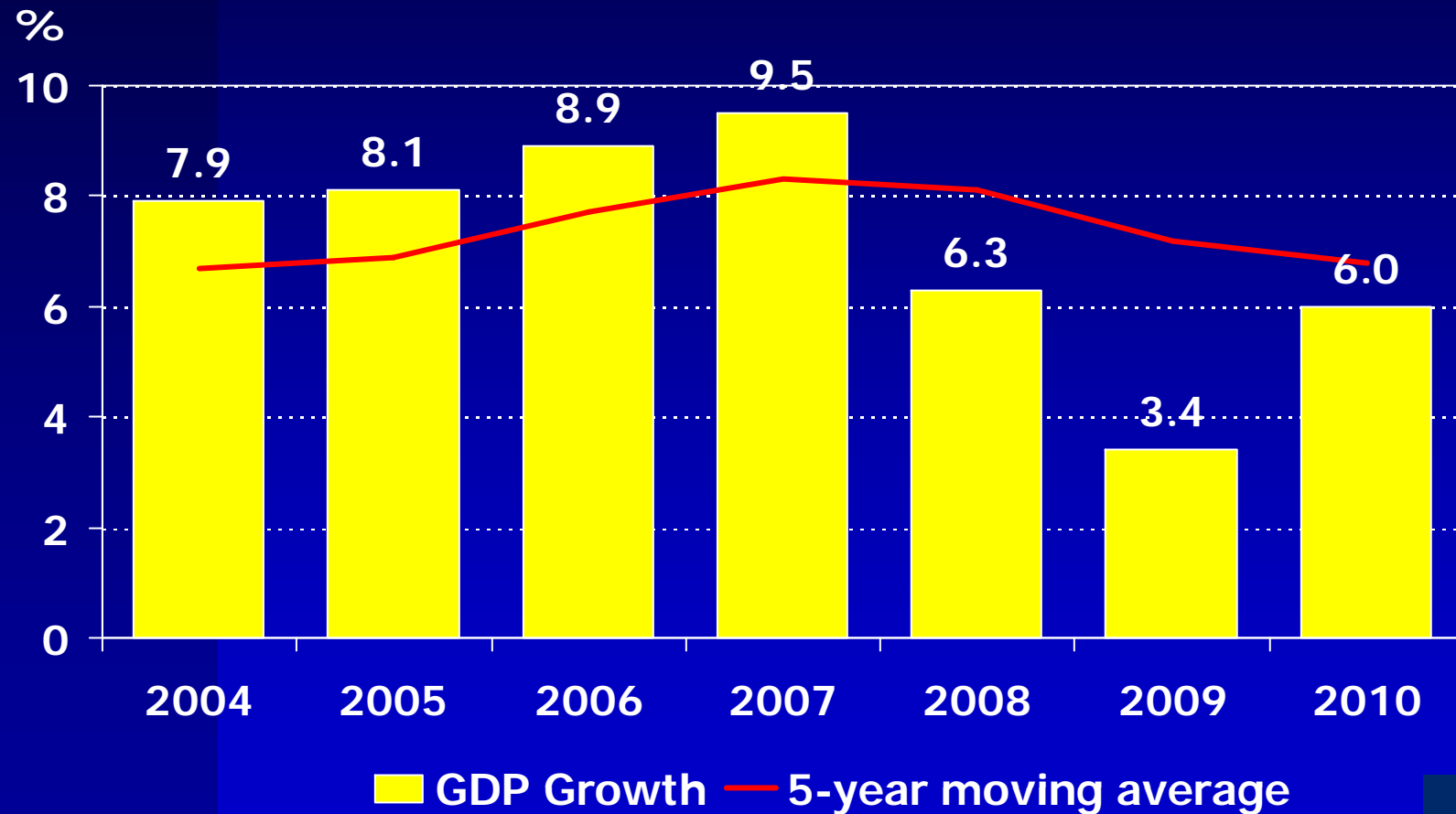
Outline

1. Economic prospects
2. Stylized facts about Asian crises
3. Rebalancing Asia's growth

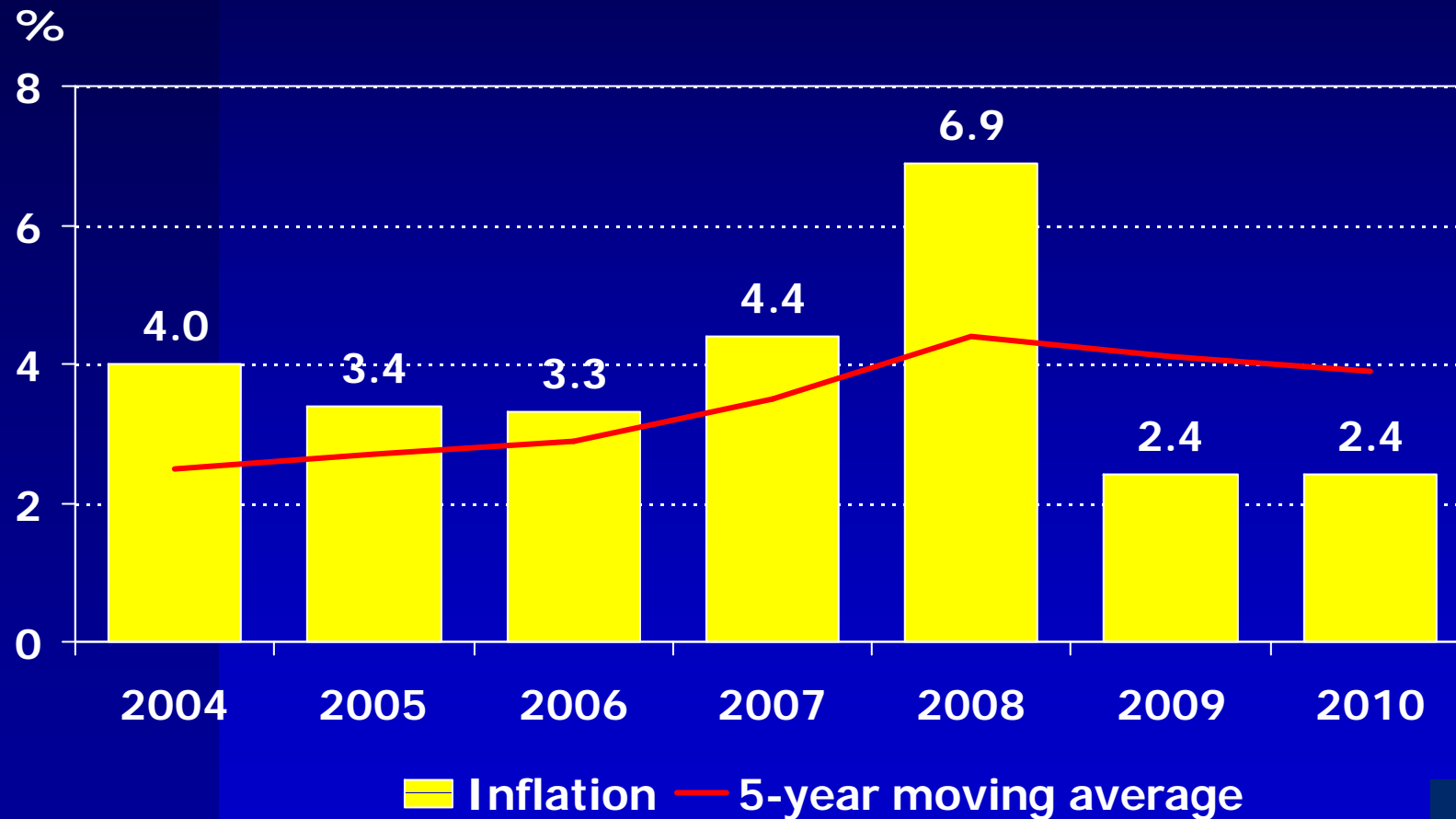
Key messages of regional outlook

- Growth to decelerate further in 2009
- Inflationary pressures continue to ease
- Downside risks high from global economic uncertainty
- Governments adopt policy measures to counter crisis effects
- Rebalancing needed to support long-term growth and welfare

Developing Asia's growth down this year

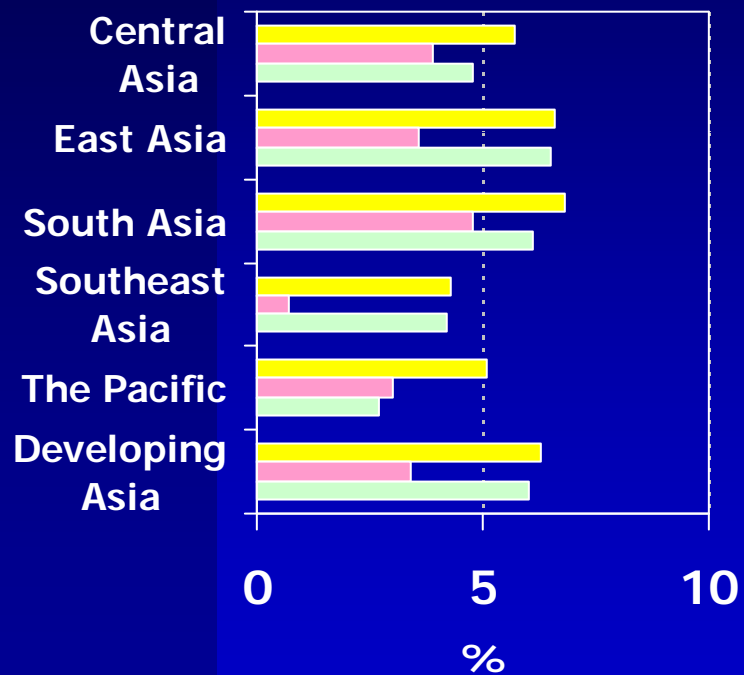


Inflationary pressures ease



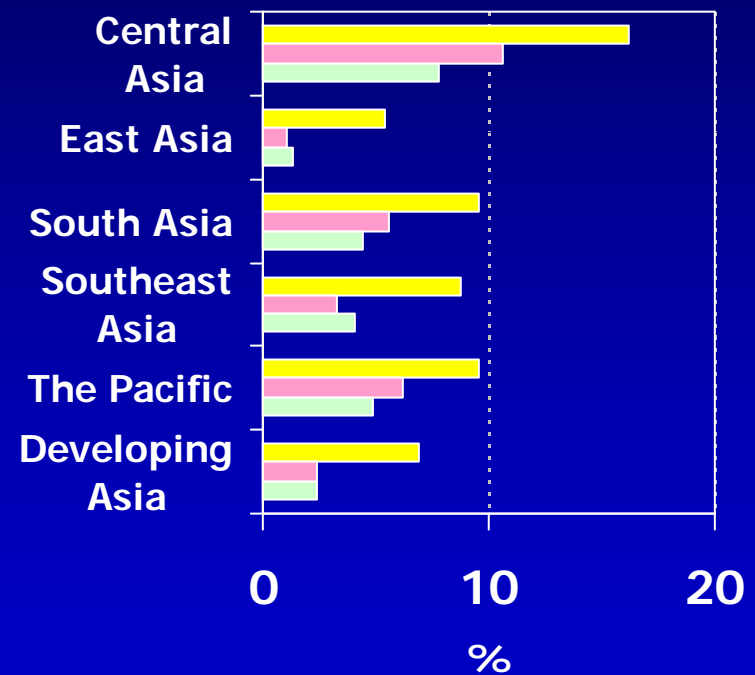
Sub-regional outlook

GDP growth



■ 2008 ■ 2009 ■ 2010

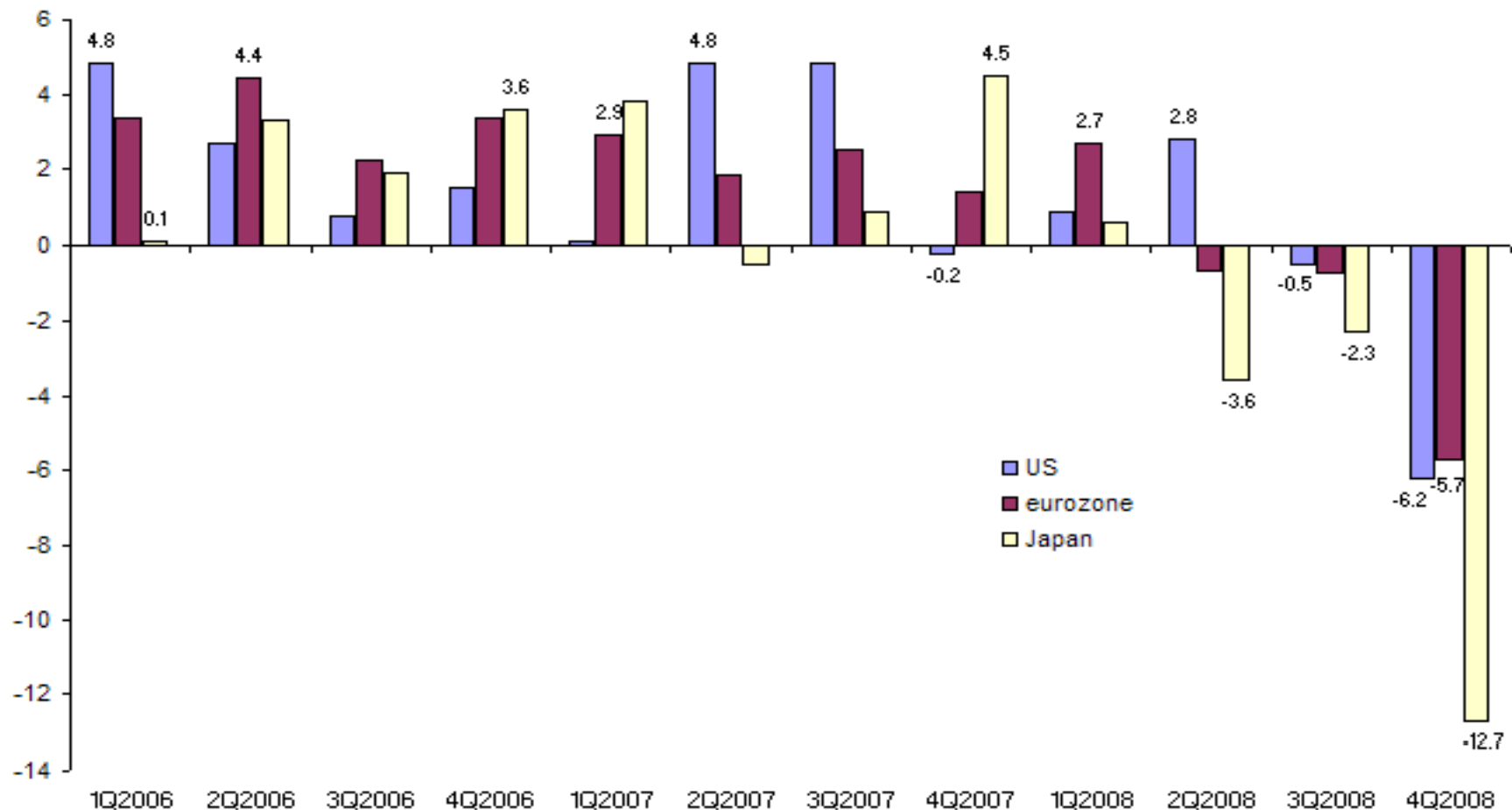
Inflation



■ 2008 ■ 2009 ■ 2010

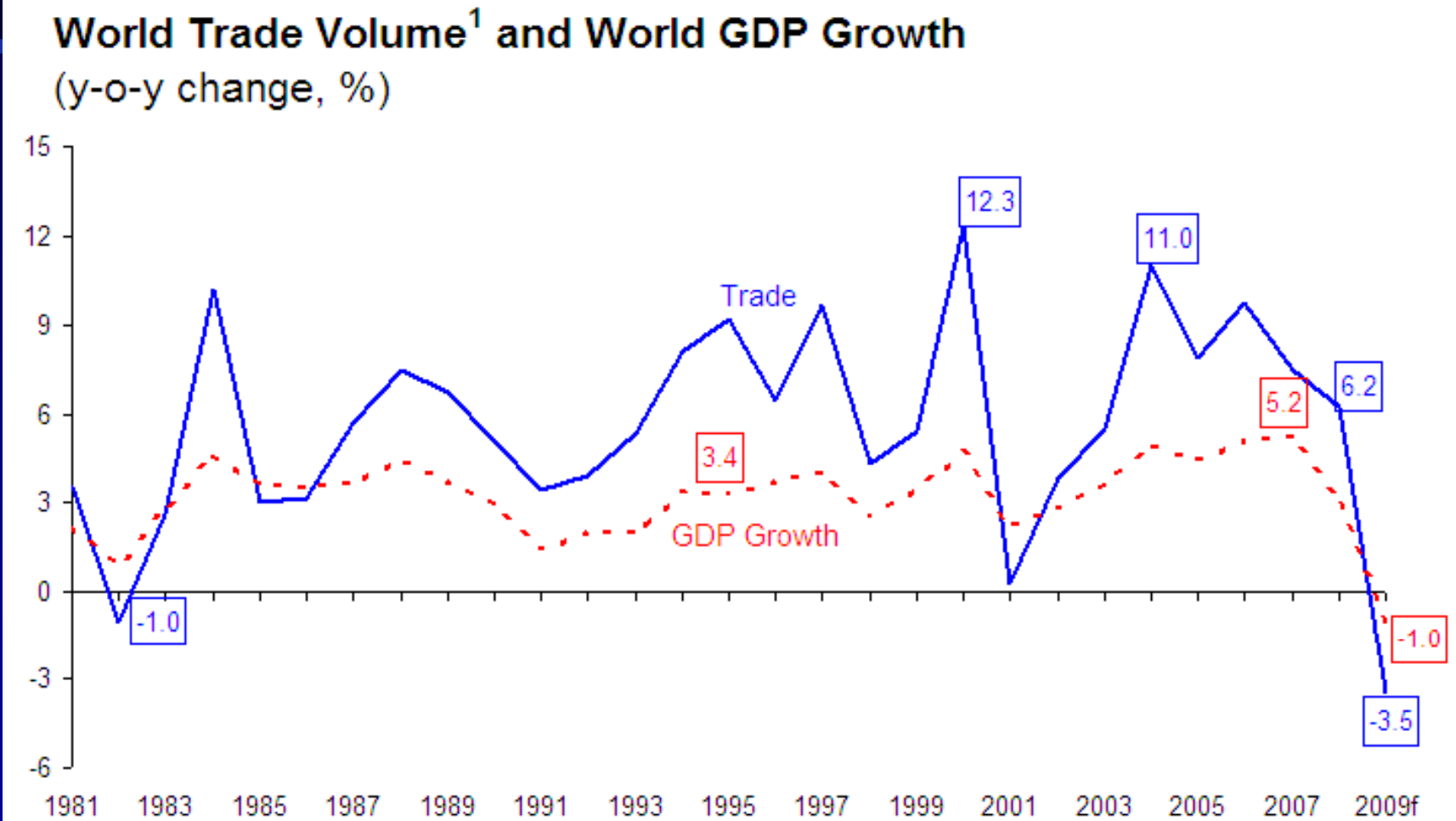
Synchronized recession underway in G3

GDP growth (% , SAAR)



Source: Eurostat, Bureau of Economic Analysis (US), and Economic and Social Research Institute (Japan)

World trade slows sharply



¹Export Volume.

Source: *Asian Development Outlook 2009*, Asian Development Bank; *World Economic Outlook Database* (Oct 2008) and *Global Economic Policies and Prospects for the G20 Meeting of the Ministers and Central Bank Governors*, International Monetary Fund.

Global outlook for 2009 and 2010

	2007 Actual	2008 Actual	2009 Projection	2010 Projection
GDP growth (%)				
Industrial countries	2.3	0.7	-2.6	1.1
United States	2.0	1.1	-2.4	1.6
Eurozone	2.6	0.8	-2.6	0.5
Japan	2.4	-0.6	-3.5	1.1
Inflation (G3 average)	2.2	3.2	-0.3	1.2
World trade volume (% change)	7.5	6.2	-3.5	1.9

Risks to the outlook

- Ineffective financial crisis resolution
- Insufficient fiscal stimulus
- Emerging protectionism
- Volatile commodity prices
- Deflationary threat
- Social instability

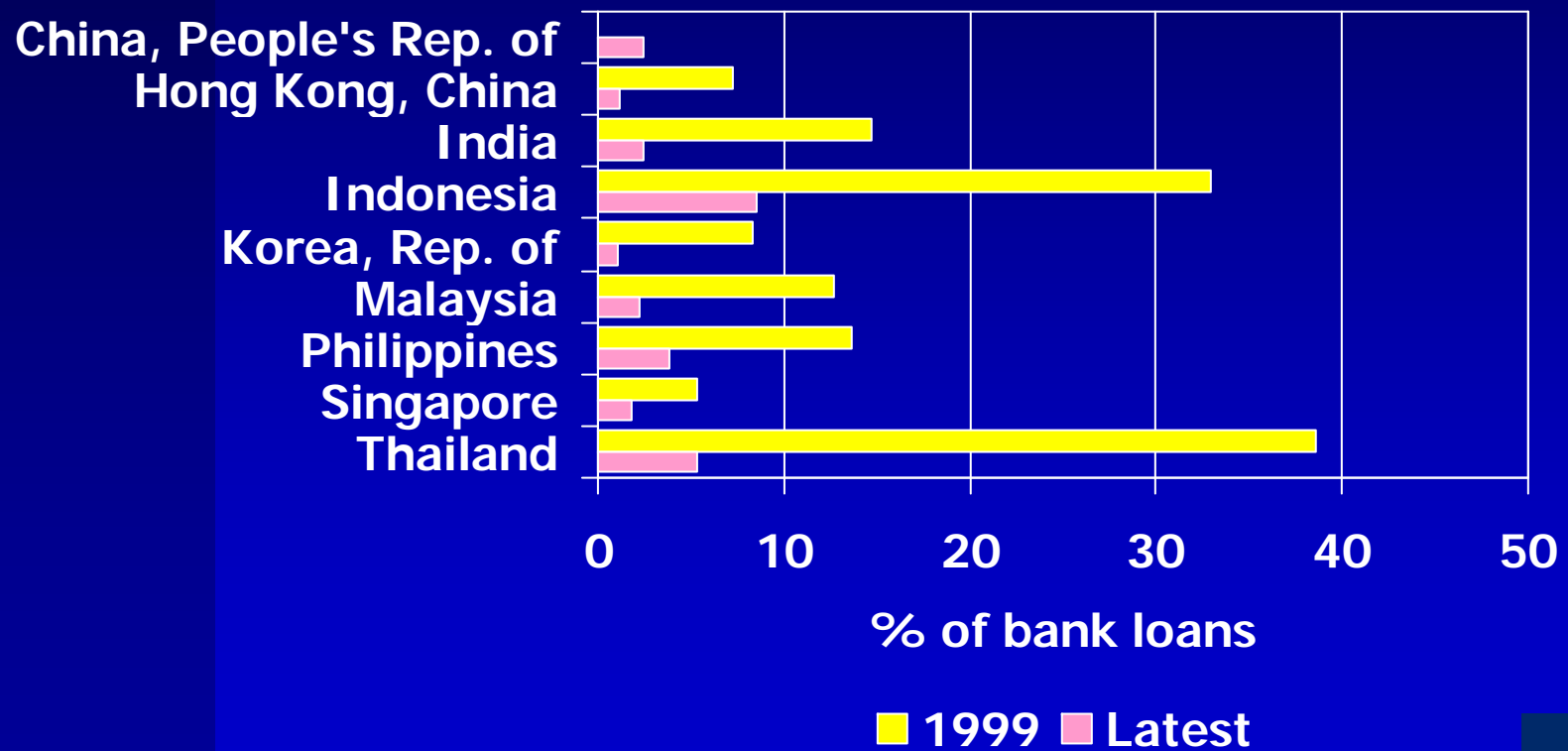
Asia's subprime losses limited

	US	Japan	Asia
Subprime losses (\$ billion)	157.7	8.7	19.5
% of bank capital	10.03	1.52	1.95
% of bank assets	1.02	0.08	0.09

Notes: Asia includes Japan.
Data as of May 2008.

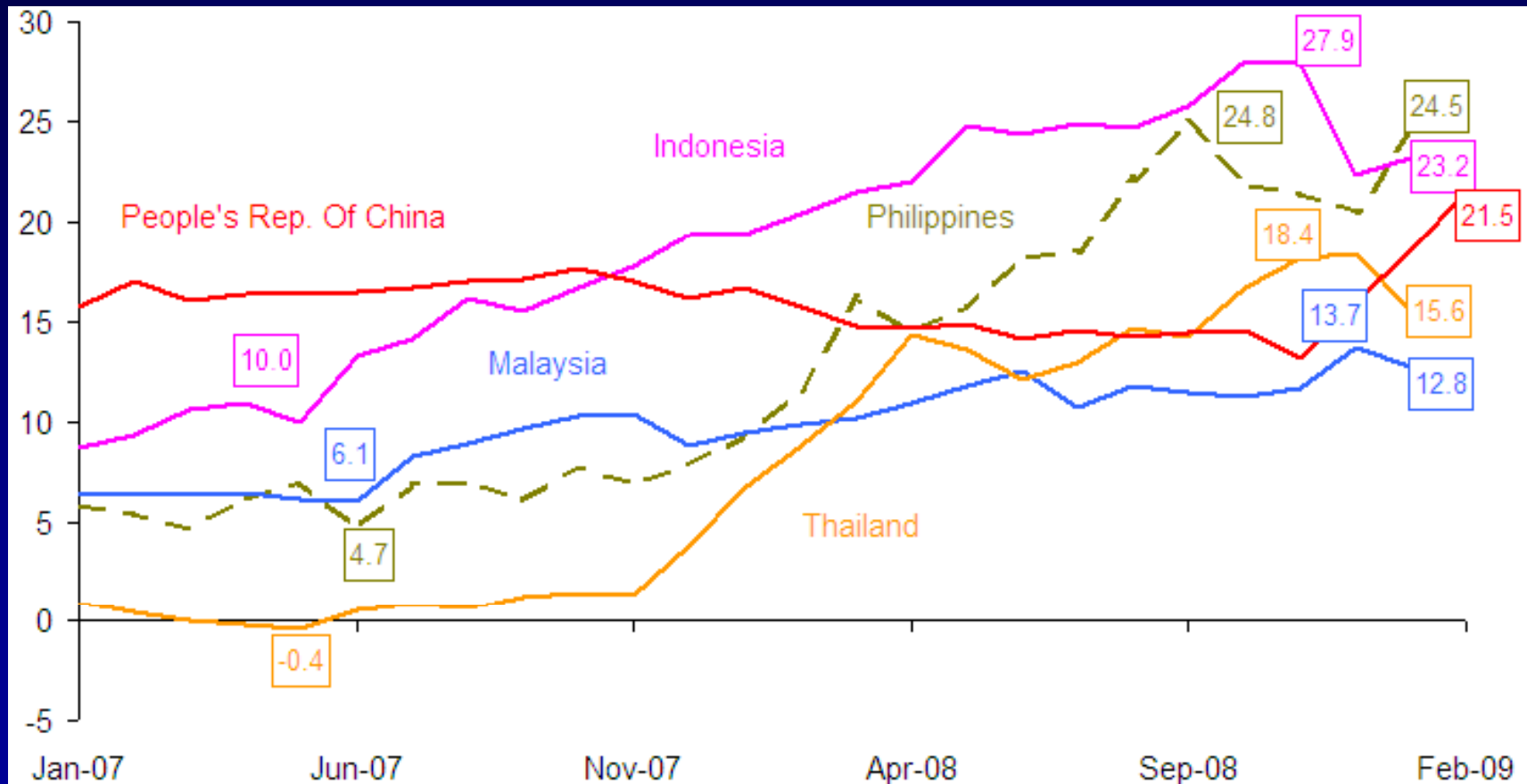
Asia's banking sectors solid ...

Nonperforming loans



Bank lending is strong

Bank lending: ASEAN-4 and PRC (y-o-y, %)



ASEAN-4 includes Indonesia, Malaysia, Philippines, and Thailand.

Data for Indonesia refers to commercial banks claims on public and private sectors; Malaysia commercial banks loans and advances; Philippines commercial banks outstanding loans net of RRP's; and Thailand commercial banks asset loans.

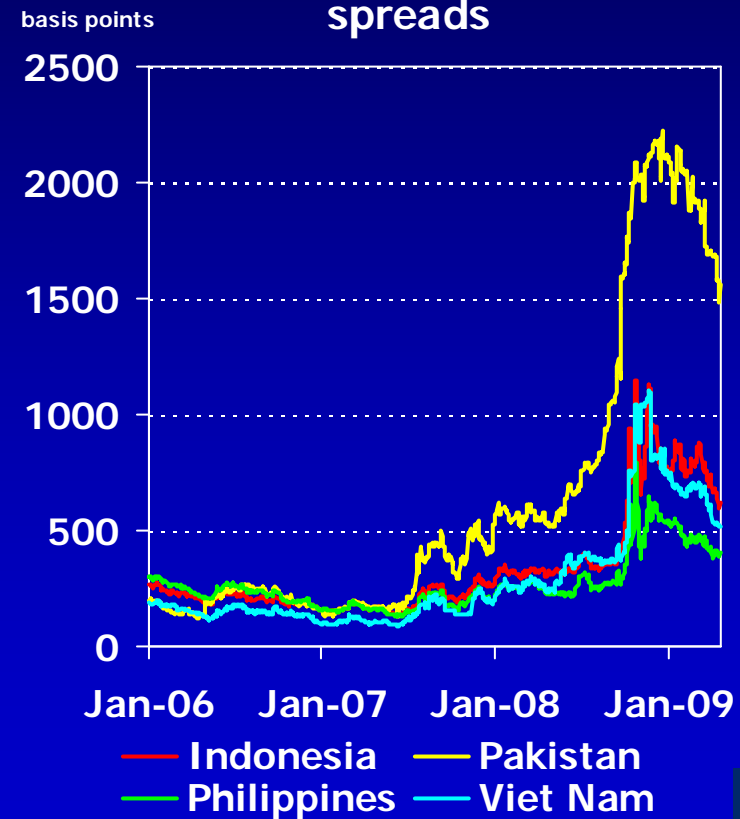
Sources: National sources accessed through CEIC; and Bangko Sentral ng Pilipinas website.

... but there are concerns

Equity prices

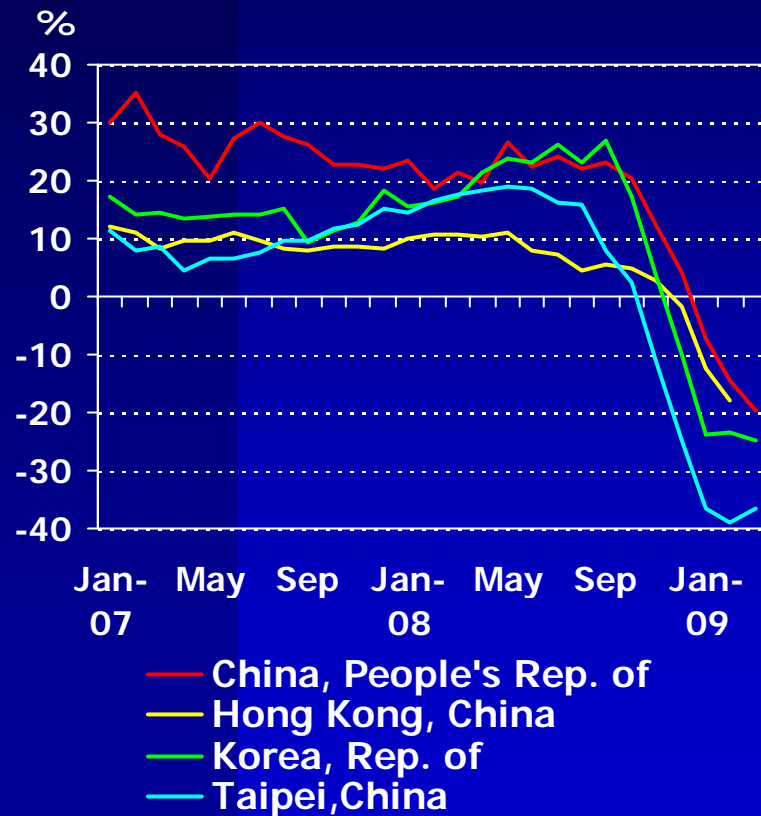


JPMorgan EMBI stripped spreads

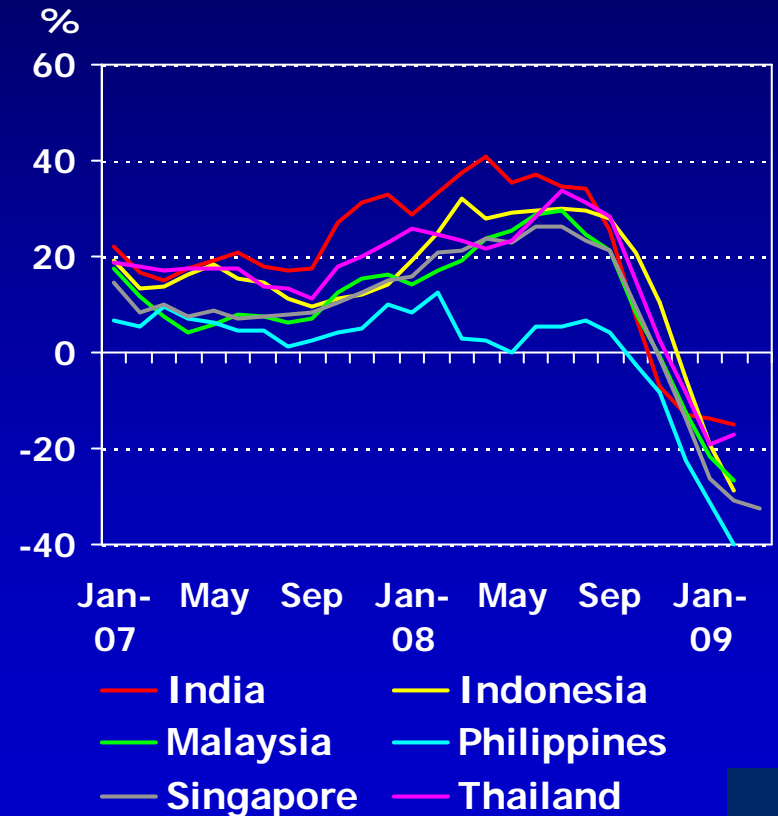


Exports down ... (y-o-y, 3-month moving average)

East Asia

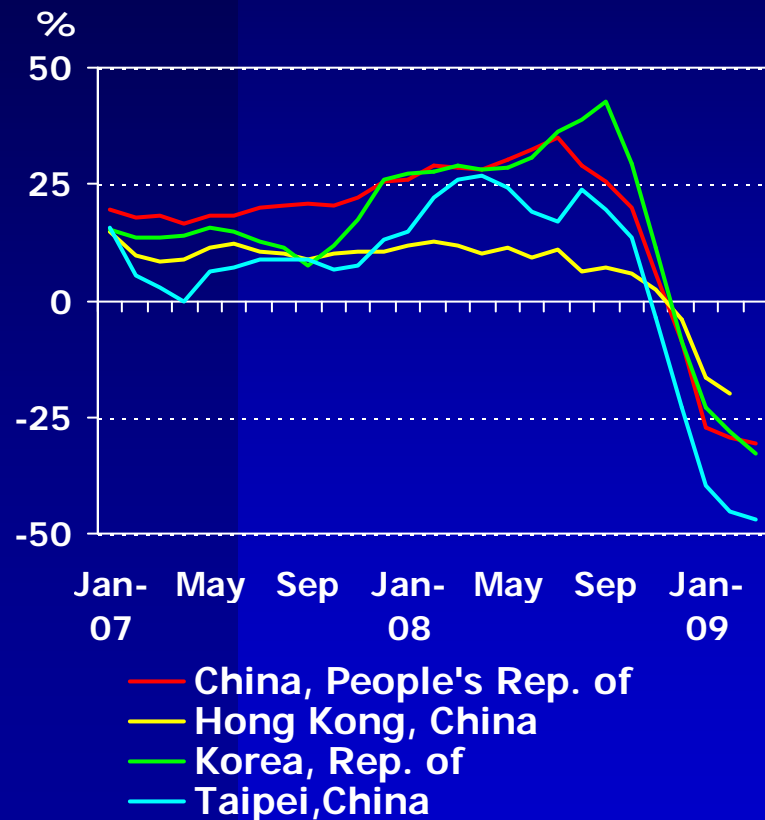


South and Southeast Asia

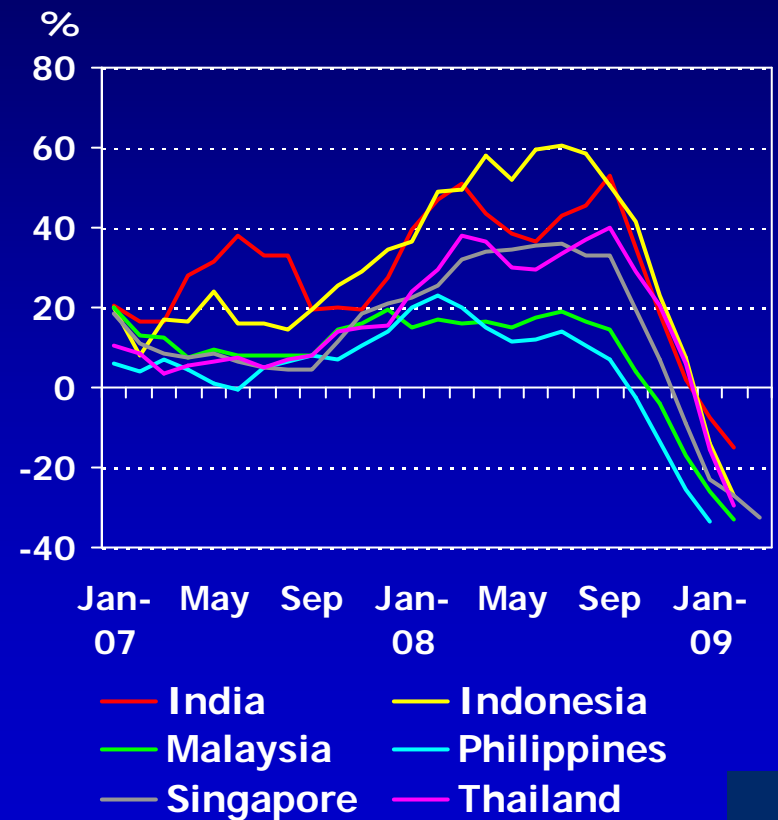


... but imports more so (y-o-y, 3-month moving average)

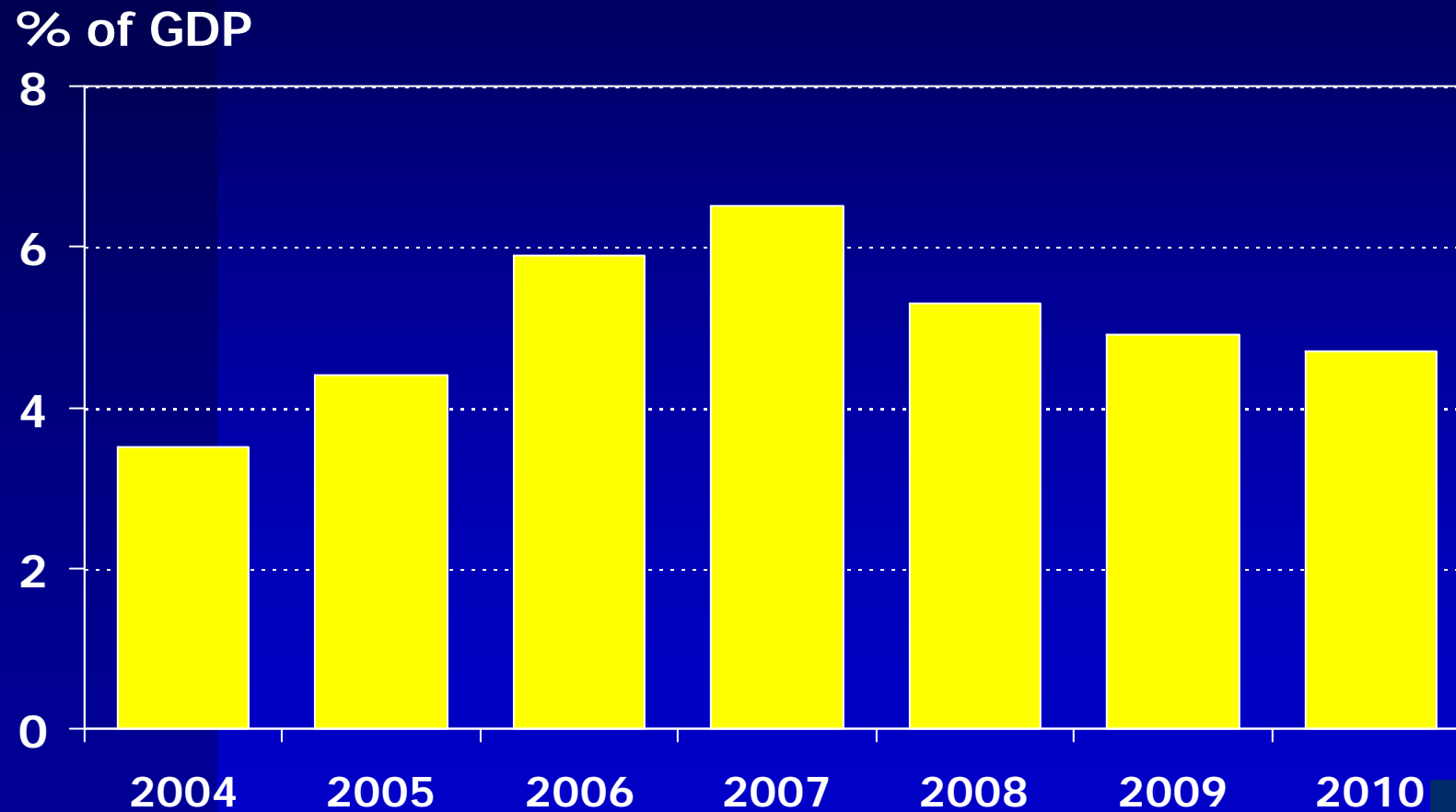
East Asia



South and Southeast Asia

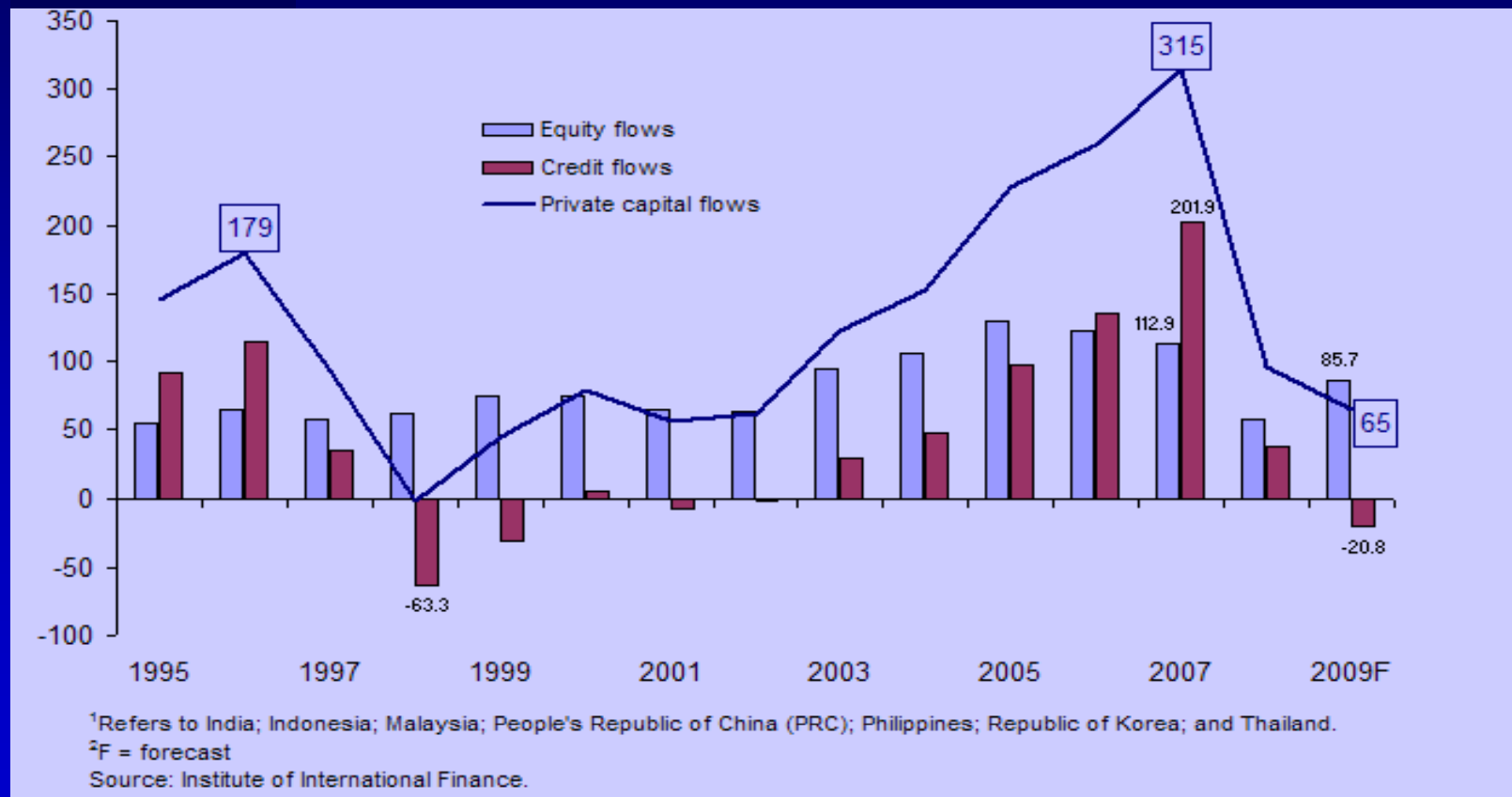


Current account to remain in surplus

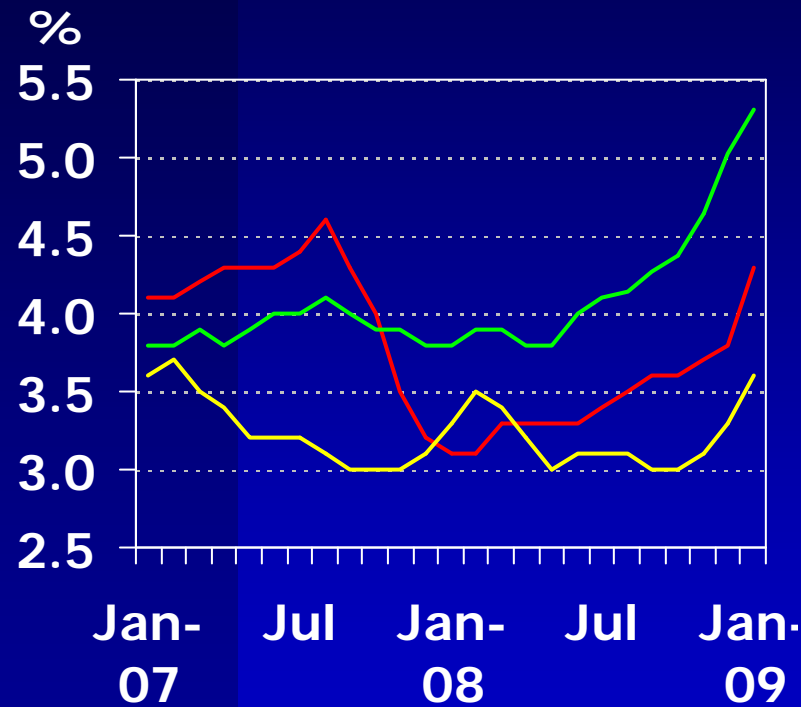


Capital markets continue to attract flows

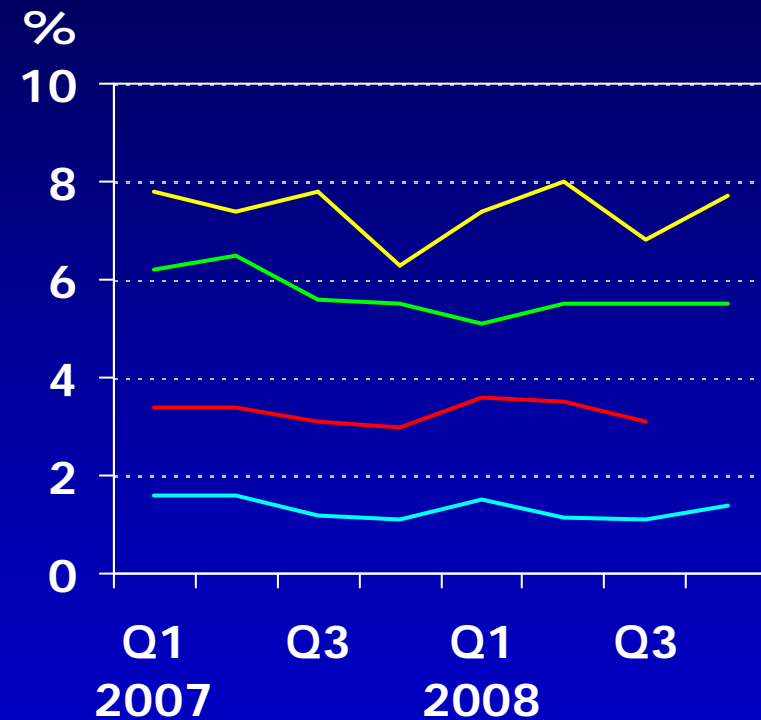
Net Private Capital Flows, Emerging Asia¹ (USD billion)



Unemployment on the rise



— Hong Kong, China
 — Korea
 — Taipei, China

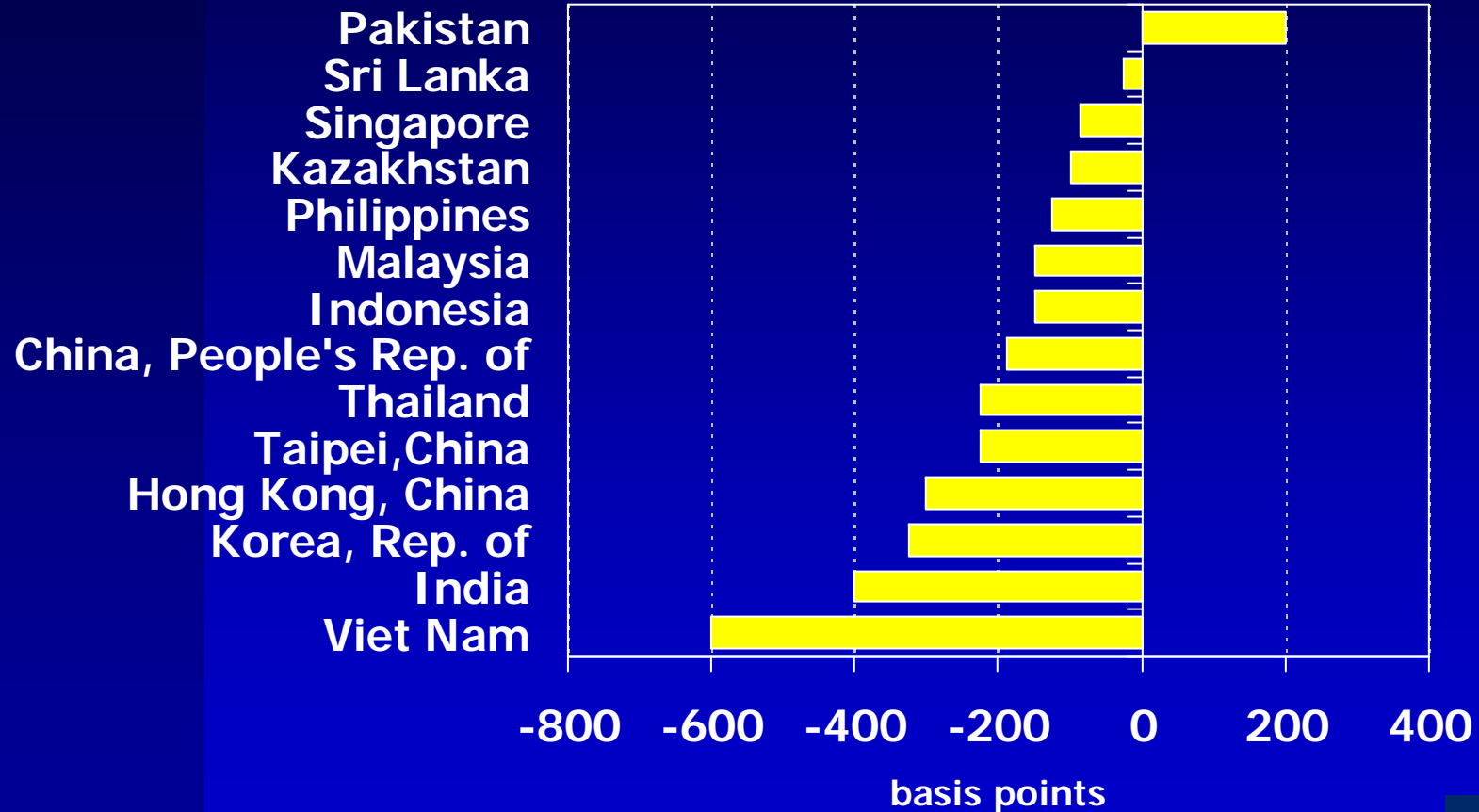


— Malaysia — Philippines
 — Sri Lanka — Thailand

Policy responses

- Short-term measures to improve financial intermediation and boost demand using financial, fiscal, and monetary policies
- Key challenge: rejuvenate economic growth without derailing development strategies

Policy rates cut



From 30 September 2008 to 31 March 2009

Fiscal stimulus packages announced

Economy	Size of package	% of GDP
China, People's Rep. of	CNY4 trillion	13.3
Hong Kong, China	HK\$24.1 billion	1.4
India	Rs800 billion	1.7
Indonesia	Rp73.3 trillion	1.5
Korea, Rep. of	W33 trillion	3.2
Malaysia	RM67 billion	9.0
Philippines	P330 billion	4.4
Singapore	S\$20.5 billion	8.0
Taipei, China	NT\$605 billion	4.8
Thailand	B117 billion	1.3

Regional cooperation

- Enlargement of ASEAN+3 regional reserve pool
- Financial guarantees
- Bilateral currency swap agreements
- Cooperation in monetary, financial, and trade policies
- ADB's efforts

Experience from past crises

- Crises not new to Asia: last hit in 2001 from fallout of dotcom bubble
- Provides indication of how region would fare in the current turmoil
- Stylized facts from study of crises between 1961 and 2007

Recessions and financial downturns in Asia more frequent and more severe

	Frequency	Duration	Amplitude	Cum. Loss
Recessions	(%)	(years)	(%)	(%)
Asia	13.3	1.6	6.7	12.4
OECD	8.5	1.3	1.7	2.6
Credit contractions	(%)	(quarters)	(%)	(%)
Asia	26.1	4.8	18.5	73.8
OECD	17.4	4.4	7.3	27.6
Stock price declines	(%)	(quarters)	(%)	(%)
Asia	47.7	6.4	47.7	277.4
OECD	43.0	6.6	38.5	207.7

Financial crises in Asia raise likelihood of recession in Asia

- A credit contraction implied a 15% chance of recession
- A severe credit contraction increased probability of recession to 39%
- A stock price decline implied a 19% chance of recession
- A severe stock price decline raised the odds to 52%

Financial downturns in US raise probability of such downturns in Asia

- A credit contraction in US implied a 40% chance of credit contraction in Asia
- A stock price decline in US implied a 51% chance of stock price decline in Asia
- Odds climbed to 63% and 88%, respectively, for severe credit contractions and stock price declines

But not all financial downturns in US result in recessions in Asia

- A credit contraction in US implied a 19% chance of recession in Asia
- A stock price decline in US implied a 13% chance of recession in Asia
- A recession in OECD suggested a 14% probability of recession in Asia; a severe recession in OECD raised odds to 24%

Rebalancing Asia's growth

- Asia's sharp slowdown underlines risk of excessive reliance on external demand
- Region's current account surplus an integral part of global imbalances
- Need to rebalance growth toward domestic demand
- Mix of policies required to shore up domestic and regional demand

Policy options to rebalance growth

- Use fiscal and other policies to strengthen domestic consumption
- Enhance investment climate
- Promote small- and medium-sized enterprises and service industries
- Adopt financial development and exchange rate policies to promote better supply-demand balance

Policy options to rebalance growth

- Strengthen regional cooperation
- Encourage international dialogue to resolve global imbalances
- Asia's rebalancing will contribute to orderly unwinding of global imbalances
- Developing Asia should rebalance for its own growth and welfare

Thank you

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