

Global Financial Crisis: Implications for Asia *

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* The views expressed here are those of the author and do not necessarily reflect the views of the Asian Development Bank (ADB) or ADB's Board of Governors or the countries they represent.

Three Questions...

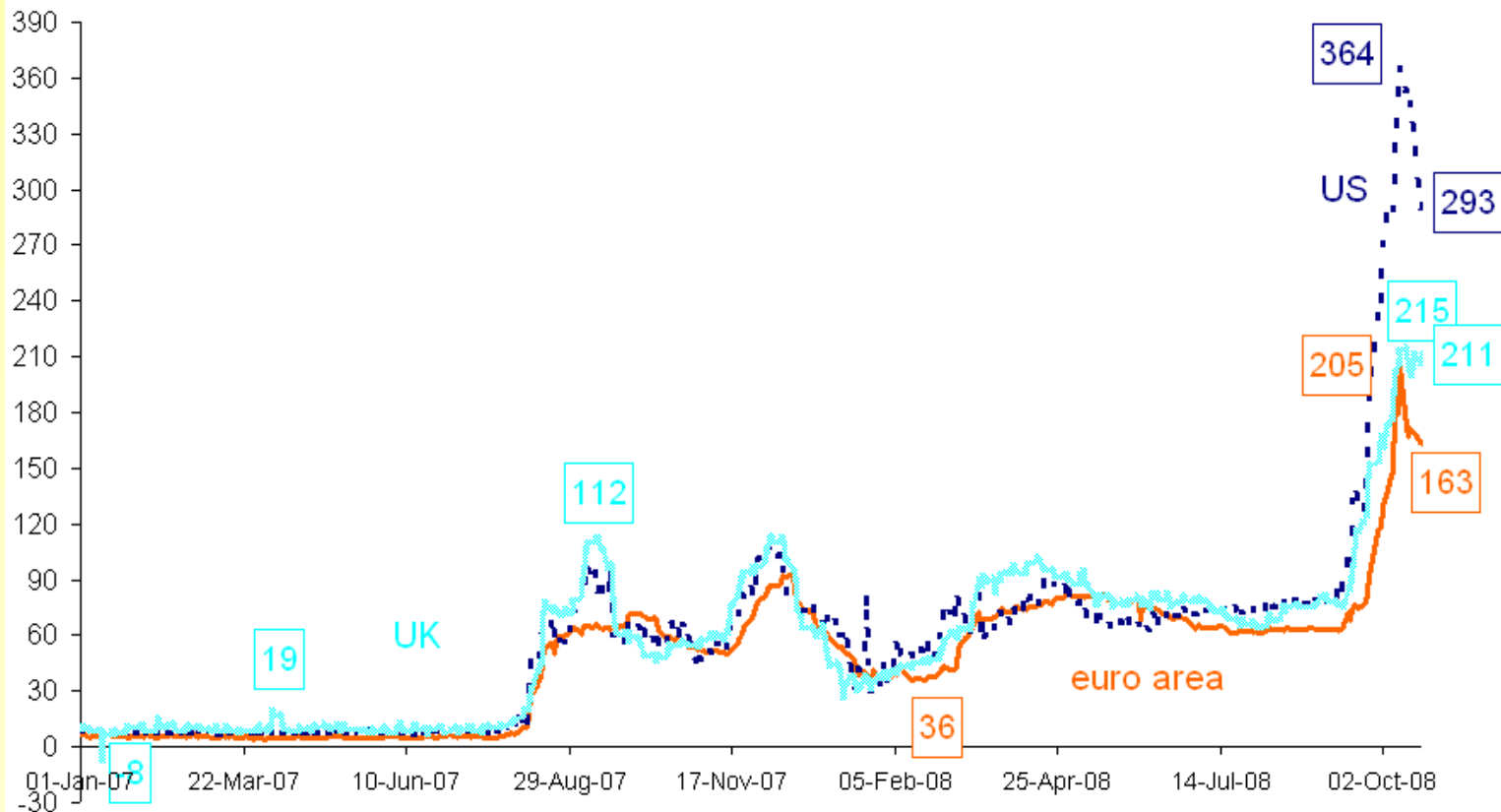
1. Have we reached the bottom?
2. What does it mean for Asia?
3. Where do we go from here?
 - Medium- to long-term measures
 - Immediate steps

1. Have we reached the bottom?

- Liquidity tight, yet easing
- Default risks high, but declining
- Global banks scrambling—
Asia less affected
- Housing bubble still inflated, but correction underway

Liquidity tight, yet easing

3-month Libor minus Overnight Index Swap (OIS) Spreads (basis points)

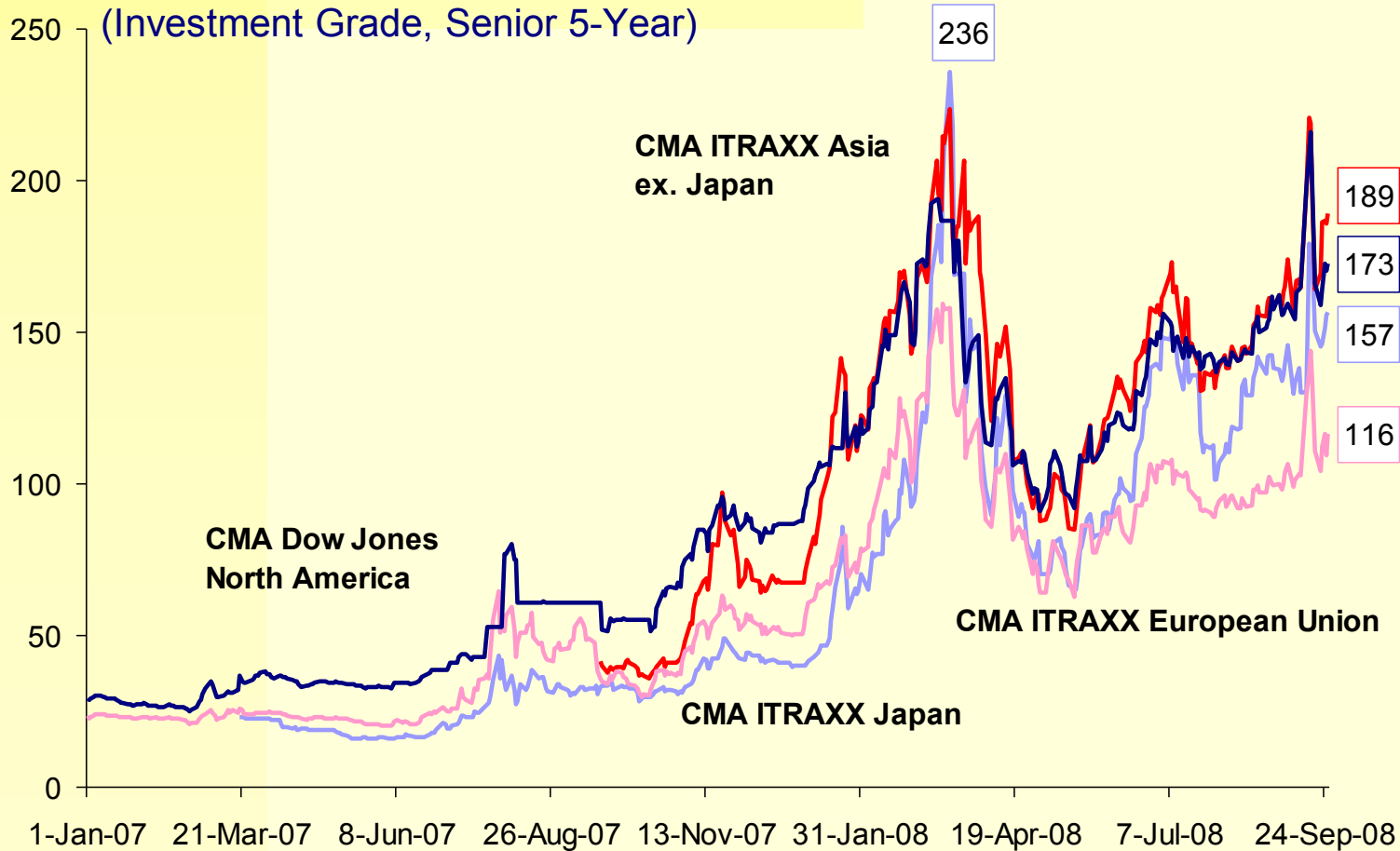


Source: Bloomberg.

Default risks high, but declining

Credit Default Swap Indexes

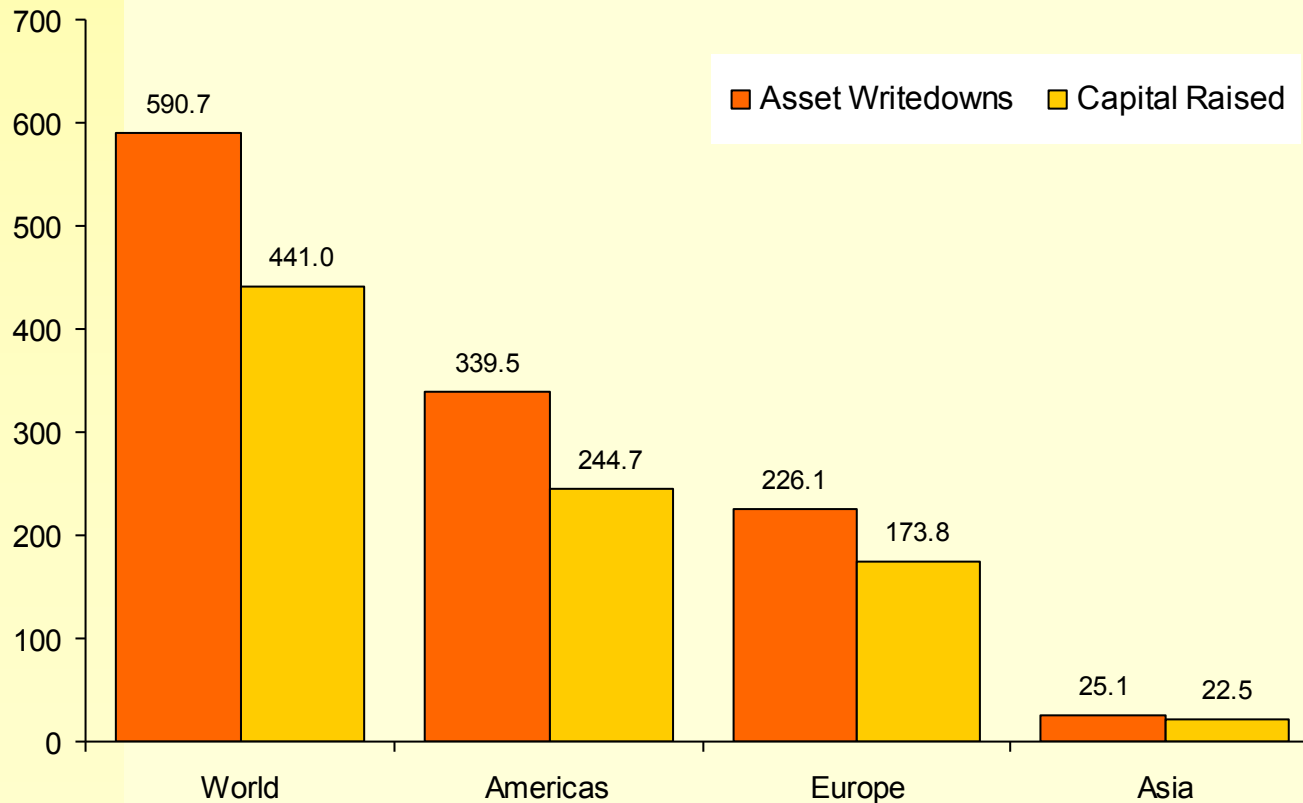
(Investment Grade, Senior 5-Year)



Source: Datastream.

Global banks scrambling— Asia less affected

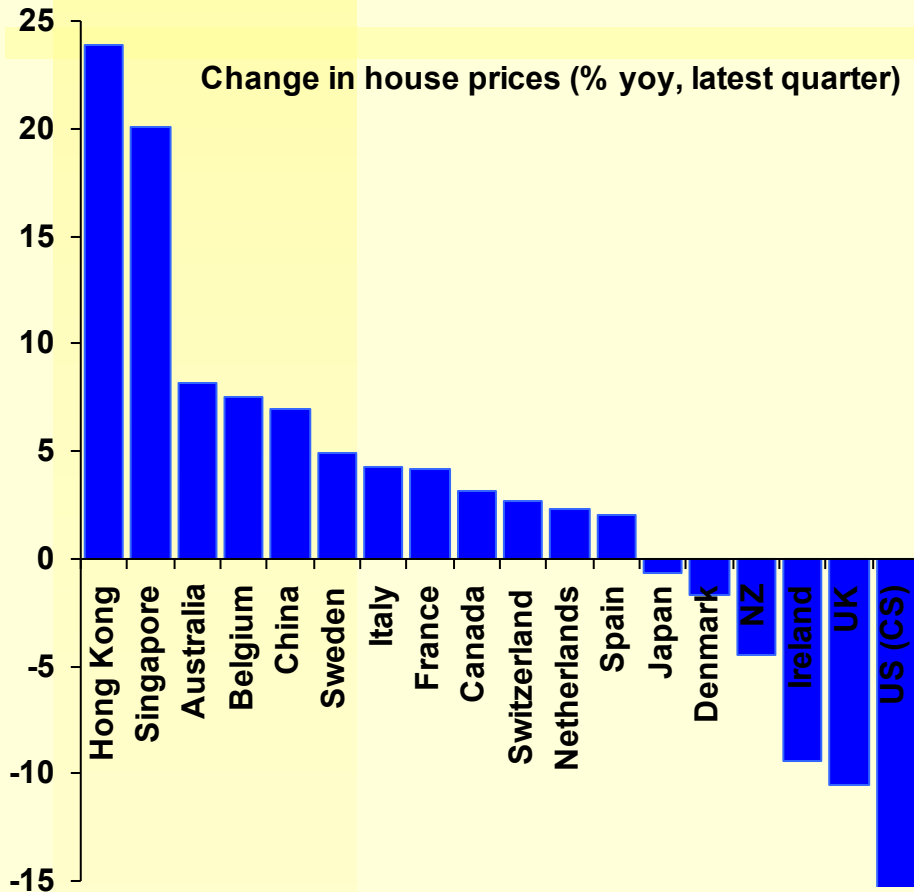
Writedowns and capital raised by major banks since the third quarter of 2007
(US dollar billions)



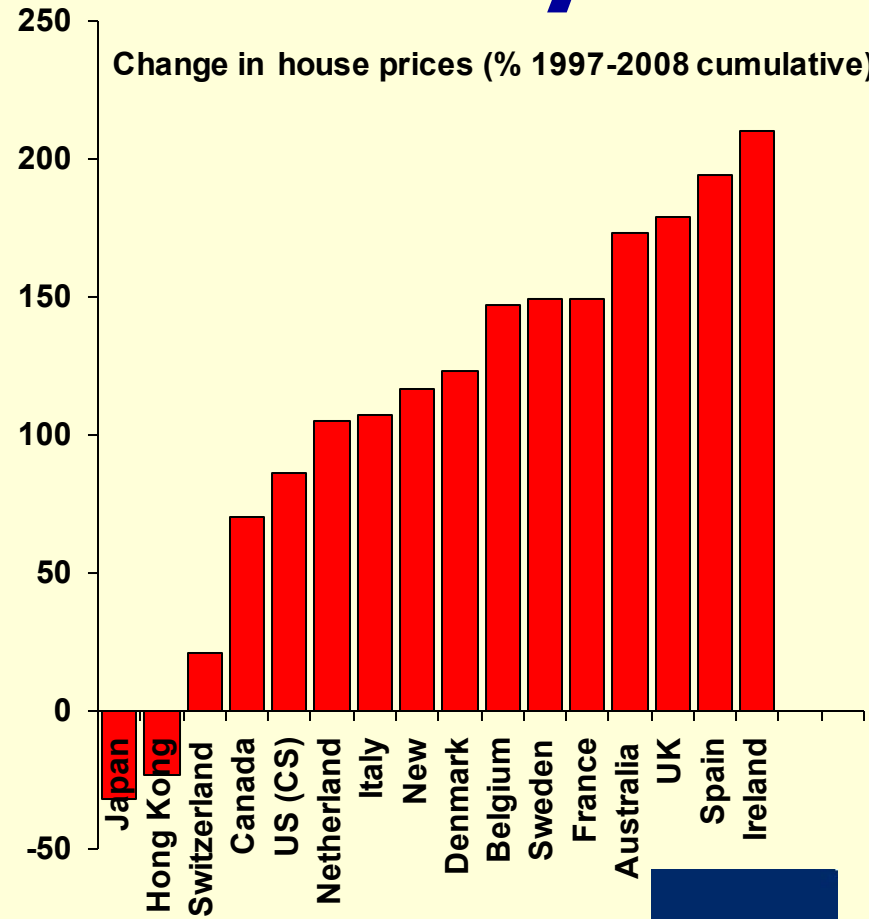
Source: Bloomberg.

Housing bubble still inflated, but correction underway

Change in house prices (% yoy, latest quarter)



Change in house prices (% 1997-2008 cumulative)



Source: Economist Intelligence Unit

2. What does it mean for Asia?

- Ripple effects hit equities and currencies
- Credit crunch reaches Asian shores
- Funding difficult
- Exports feel the pinch
- Industrial growth slows
- Inflation high but receding
- Economic growth to slow further in 2009

Ripple effects hit equities...

Composite Stock Price Indexes (last daily price , 2 January 2007 = 100, local index)



¹ Daily stock price indexes of Hang Seng (Hong Kong, China), JCI (Indonesia), KOSPI (Korea), KLCI (Malaysia), PCOMP (Philippines), STI (Singapore), TWSE (Taipei, China) and SET (Thailand) weighted by market capitalization.

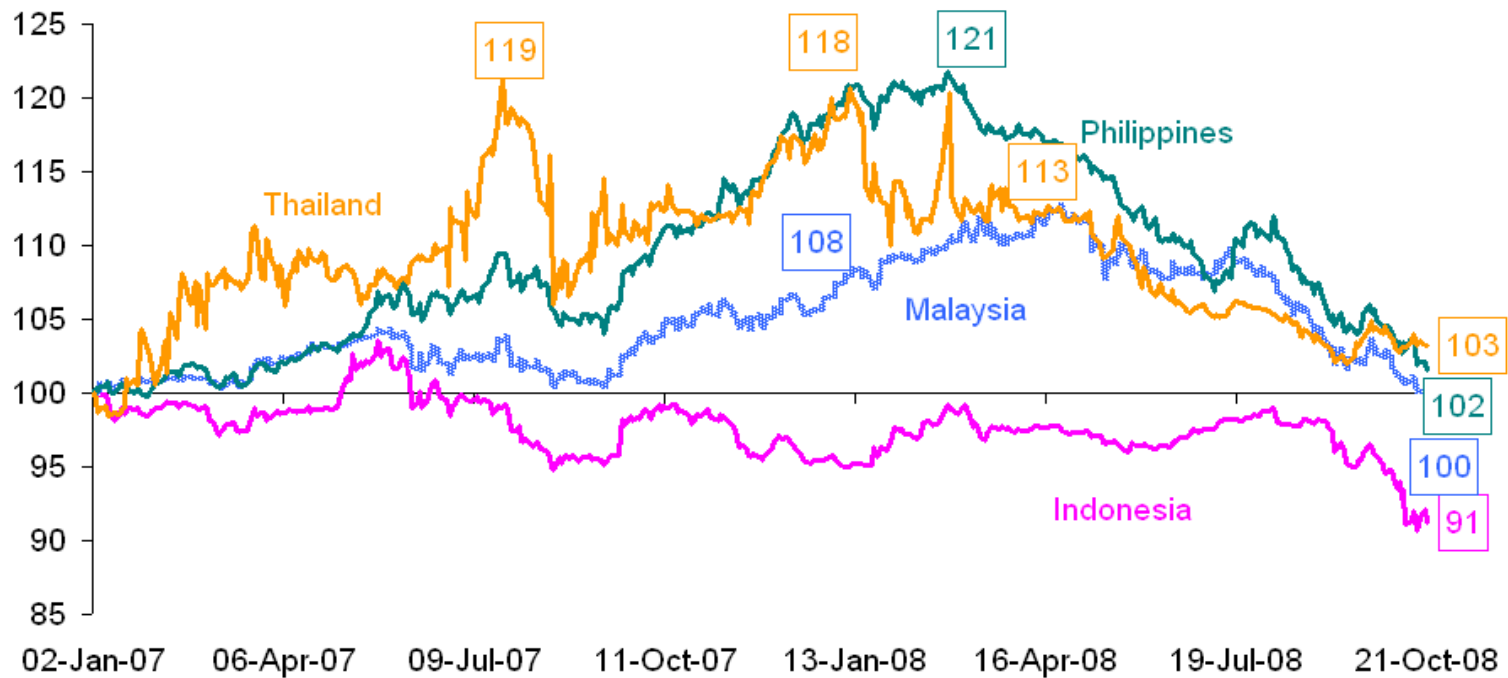
² Daily stock price indexes of combined Shanghai and Shenzhen Composite, weighted by their respective market capitalization (PRC).

Source: OREI staff calculations based on Bloomberg data.

...and currencies

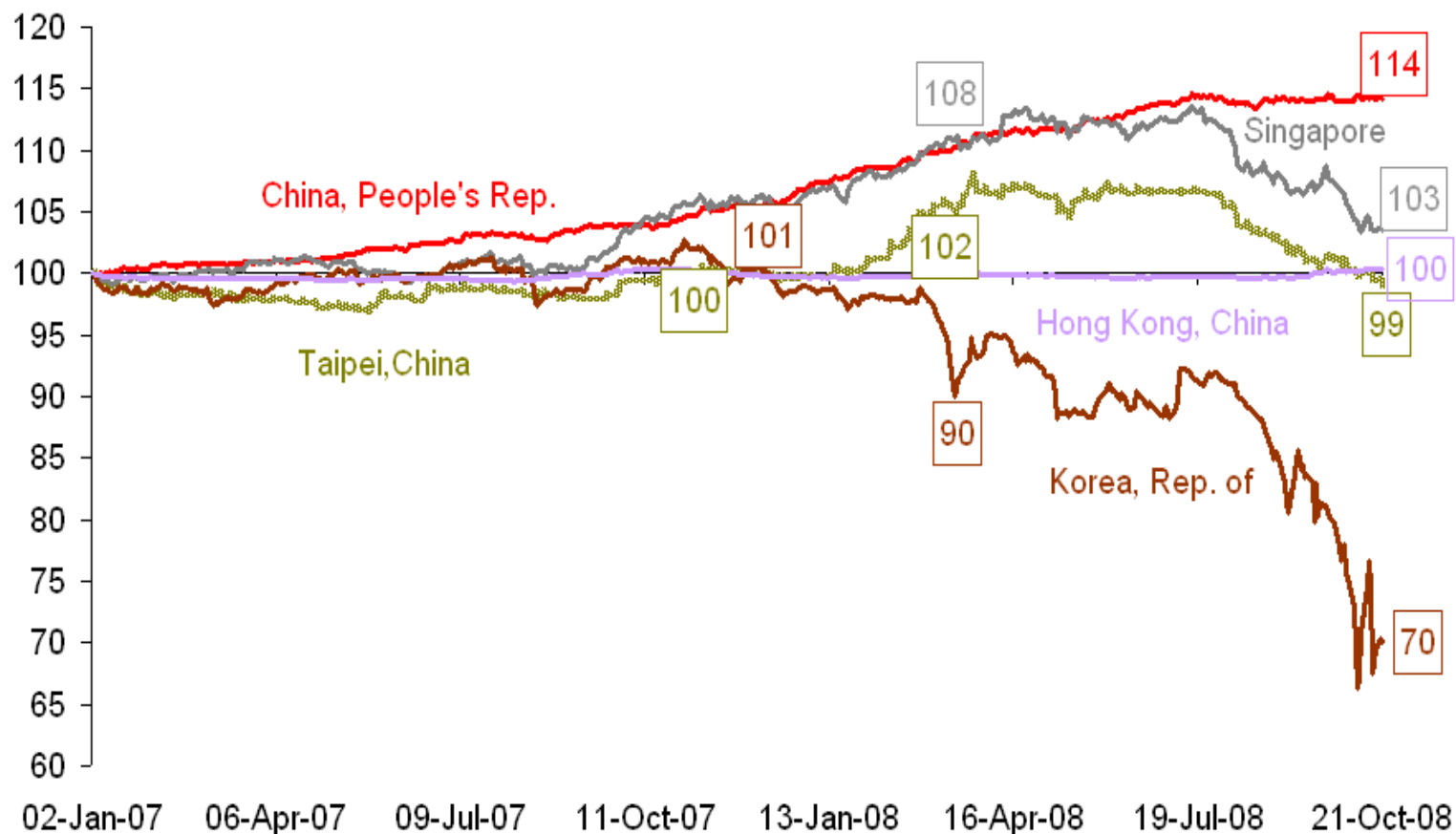
Exchange Rate Indexes—ASEAN-4

(local currency vis-à-vis US\$; 2 January 2007=100)



Source: OREI staff calculations based on Bloomberg data.

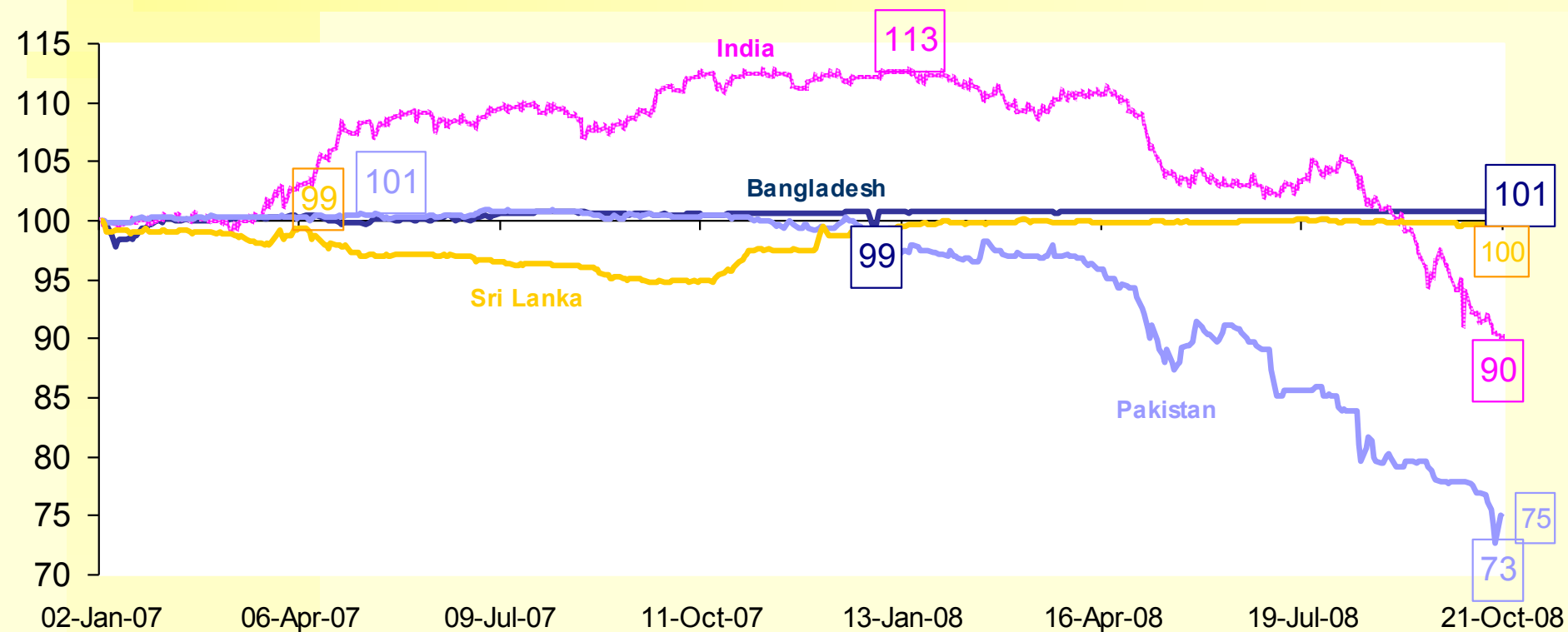
Exchange Rate Indexes—NIEs and People's Rep. of China (local currency vis-à-vis US\$; 2 January 2007=100)



Source: Bloomberg.

Exchange Rate Indexes—South Asia

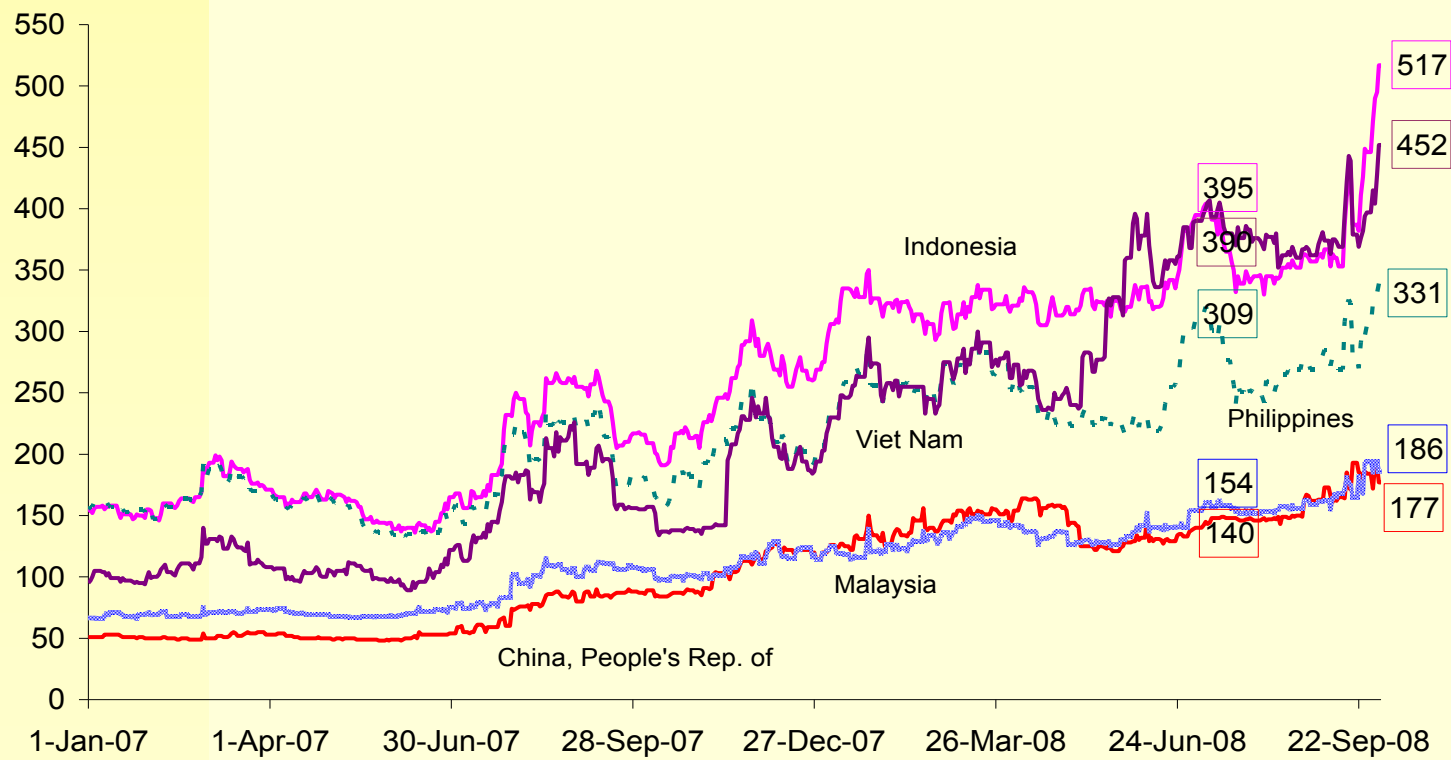
(local currency vis-à-vis US\$; 2 January 2007=100)



Source: OREI staff calculations based on Bloomberg data.

Credit crunch reaches Asian shores

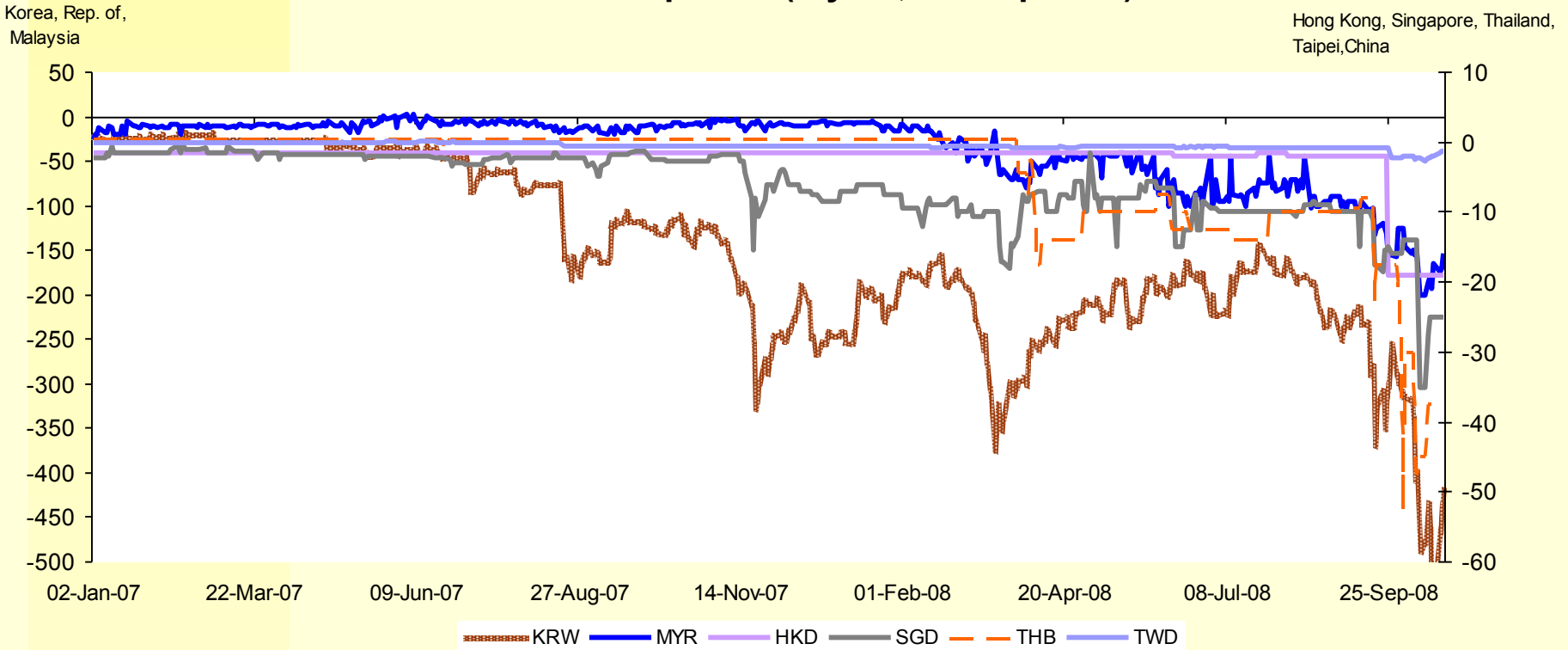
JP Morgan EMBI Sovereign bond credit risk premium (basis points)



Source: Bloomberg.

Dollar funding difficult...

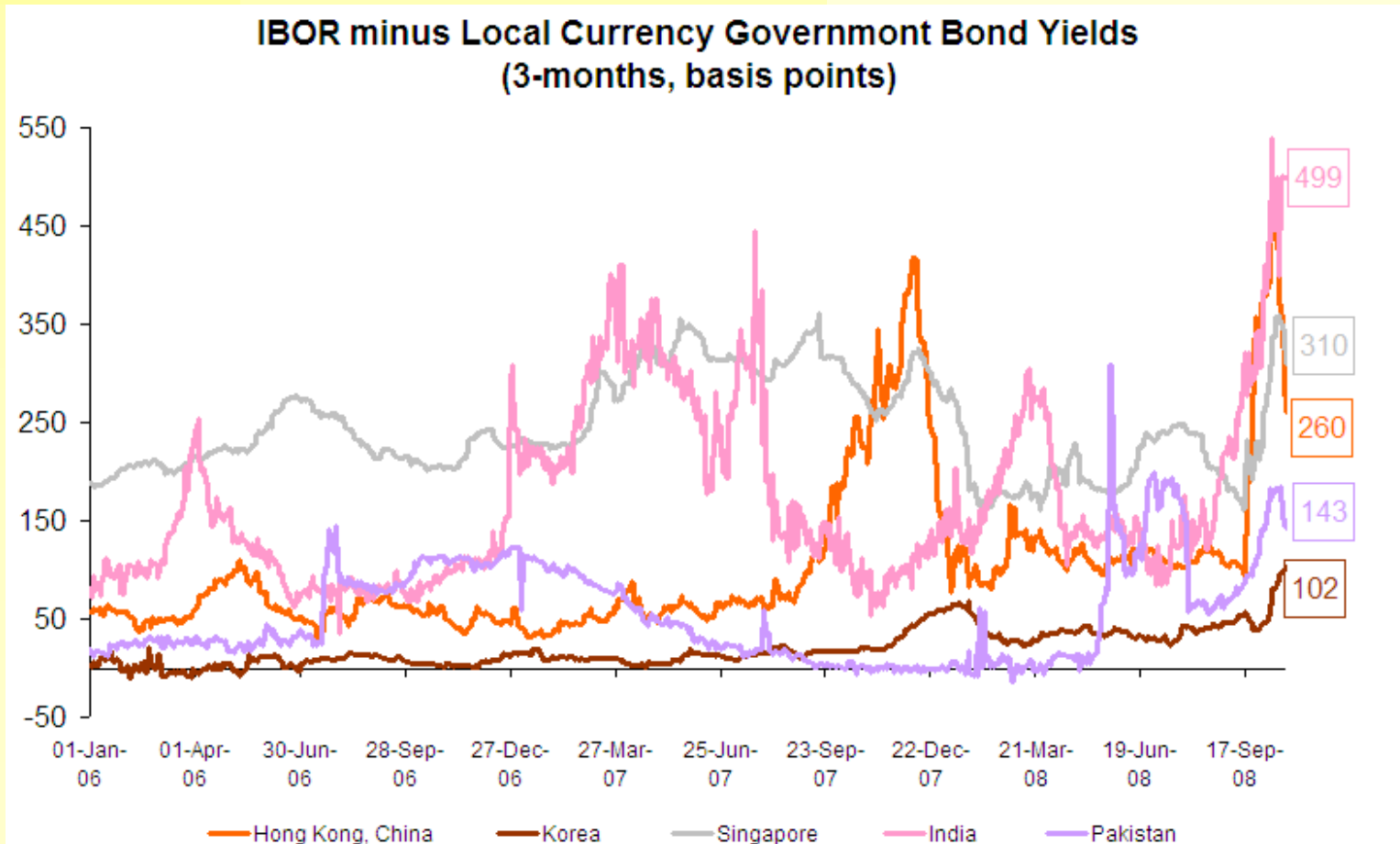
US Dollar Swap Rate (1-year, basis points)



Source: Bloomberg.

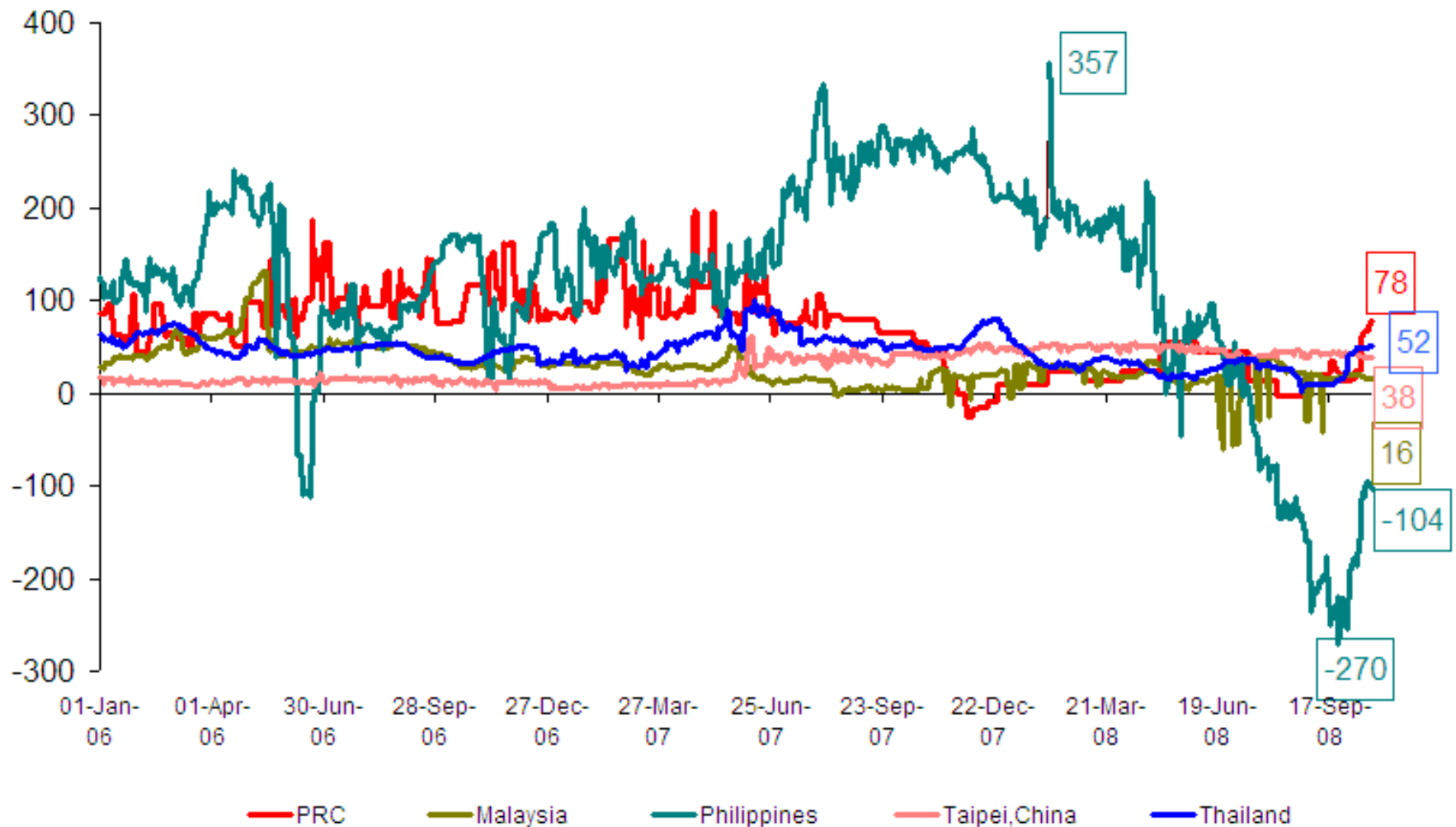


...Domestic funding also tight



Source: Staff calculations based on Bloomberg data.

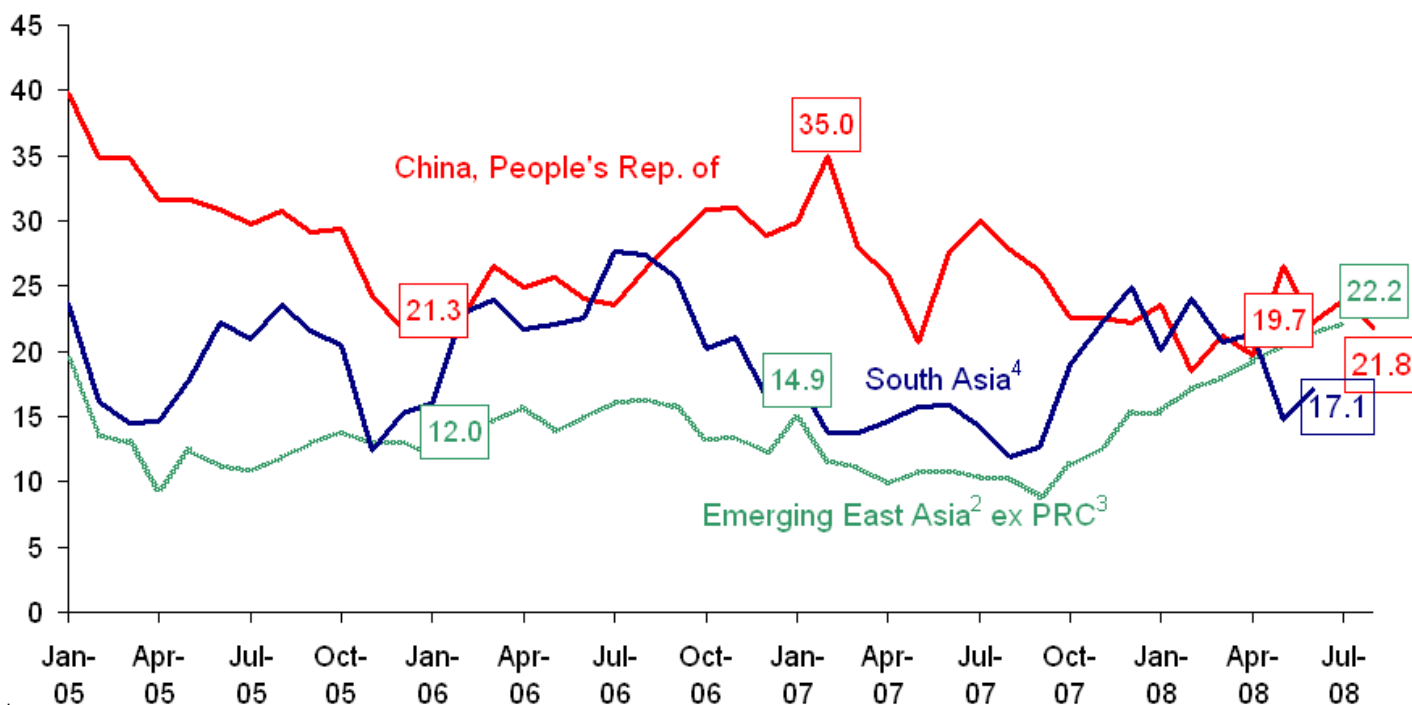
IBOR minus Local Currency Government Bond Yields (3-months, basis points)



Source: Staff calculations based on Bloomberg data.

Exports feel the pinch

Merchandise Export Growth¹ (\$ value, y-o-y, %)



¹3-month moving average.

² Refers to NIEs, ASEAN-4 and Viet Nam; does not include Brunei Darussalam, Cambodia, Lao People's Democratic Republic, and Myanmar, for which monthly data are not available .

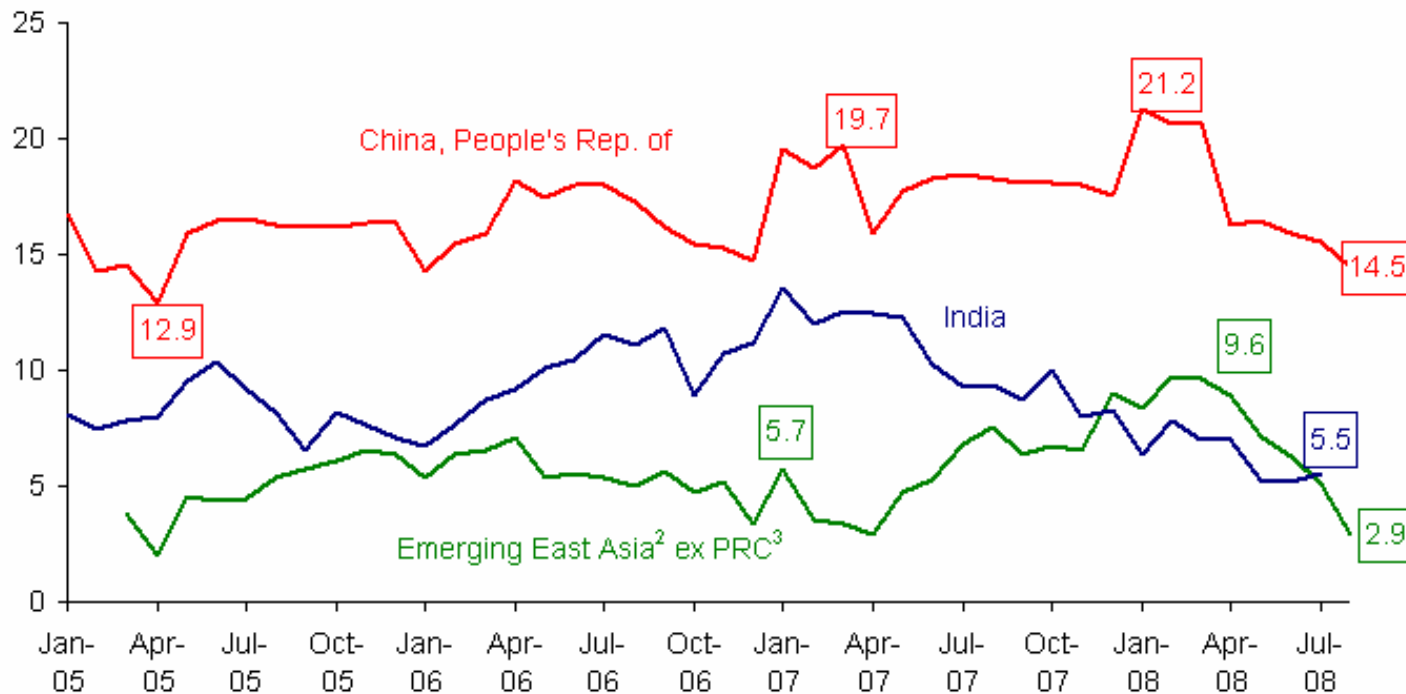
³ PRC = People's Rep. of China

⁴ South Asia includes Bangladesh, India, Pakistan, and Sri Lanka

Source: OREI staff calculations based on CEIC data.

Industrial growth slows

Industrial Production Growth¹ (y-o-y, %)



¹ 3-month moving average.

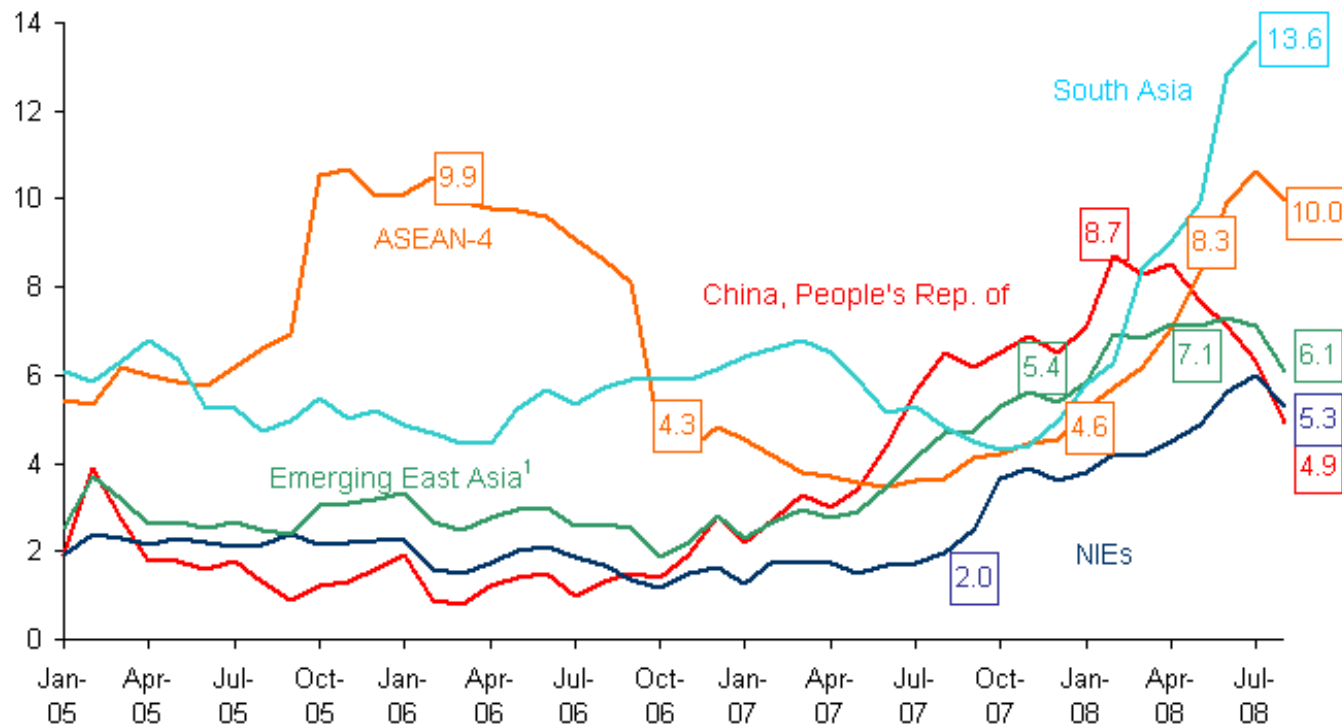
² Refers to ASEAN-4; Korea, Rep. of; Singapore; Taipei, China; and Thailand; does not include Hong Kong, China, Brunei Darussalam, Cambodia, Lao People's Republic, Myanmar, and Viet Nam, for which monthly data are not available.

³ PRC = People's Rep. of China

Source: OREI staff calculations based on CEIC data.

Inflation high but receding

Headline Rates (y-o-y, %)



¹Refers to ASEAN-4, NIES, People's Rep. of China, and Viet Nam; does not include Brunei Darussalam, Cambodia, Lao People's Democratic Republic, and Myanmar for which monthly data are not available.

Source: OREI staff calculations based on CEIC data.

Economic growth to slow further in 2009

				2008			2009	
	2005	2006	2007	2008H1	ADB (Sep)	IMF (Oct)	ADB (Sep)	IMF (Oct)
Developing Asia⁷	8.1	8.9	9.0	...	7.5	7.3	7.2	6.6
Emerging East Asia^{1,2}	7.8	8.7	9.0	8.1	7.5	7.2	7.3	6.7
ASEAN^{1,2}	5.7	6.0	6.5	5.8	5.4	5.2	5.4	4.7
Brunei Darussalam	0.4	4.4	0.6	...	...	...	...	...
Cambodia	13.3	10.8	10.2	...	6.5	...	6.0	...
Indonesia ³	5.7	5.5	6.3	6.4	6.2	6.1	6.2	5.5
Lao PDR	7.3	8.3	7.9	...	7.5	...	7.6	...
Malaysia ⁴	5.3	5.8	6.3	6.7	5.6	5.7	5.3	4.8
Myanmar ⁵	13.6	12.7	5.5	...	...	...	...	...
Philippines ⁶	5.0	5.4	7.2	4.6	4.5	4.4	4.7	3.8
Singapore	7.3	8.2	7.7	4.5	4.2	3.6	4.6	3.5
Thailand	4.5	5.1	4.8	5.7	5.0	4.7	5.0	4.5
Viet Nam	8.4	8.2	8.5	6.5	6.5	6.3	6.0	5.5
Newly Industrialized Economies¹	4.8	5.6	5.6	4.9	4.5	4.0	4.5	3.3
Hong Kong, China	7.1	7.0	6.4	5.8	4.5	4.1	4.5	3.5
Korea, Rep. of	4.2	5.1	5.0	5.3	4.6	4.1	4.5	3.5
Singapore	7.3	8.2	7.7	4.5	4.2	3.6	4.6	3.5
Taipei, China	4.2	4.9	5.7	5.3	4.2	3.8	4.6	2.5
China, People's Rep. of	10.4	11.6	11.9	10.4	10.0	9.7	9.5	9.3
South Asia	9.0	8.9	8.6	...	7.1	7.6	6.7	6.4
Afghanistan	16.1	8.2	11.5	...	7.5	7.5	8.3	8.3
Bangladesh	6.0	6.6	6.4	...	6.2	7.0	6.5	5.6
Bhutan	6.9	7.8	17.0	...	14.4	6.6	7.2	5.7
India	9.4	9.6	9.0	8.4	7.4	7.9	7.0	6.9
Maldives	-4.6	18.0	7.6	...	6.5	6.5	7.0	6.5
Nepal	2.9	4.1	2.6	...	5.6	4.7	5.0	5.5
Pakistan	9.0	5.8	6.8	...	5.8	5.8	4.5	3.5
Sri Lanka	6.2	7.7	6.8	...	6.0	6.1	6.0	5.1
Japan	1.9	2.4	2.1	1.0	1.0	0.7	1.0	0.5
US	3.1	2.9	2.2	2.3	1.3	1.6	1.0	0.1
eurozone	1.6	2.8	2.6	1.7	1.4	1.3	1.4	0.2

Sharper US recession could reduce Asia's growth further

Change in GDP growth from previous year

Recession Period ^a	Year	US	EU ^b	Japan	India	China, People's Rep. of	ASEAN 4 ^b	NIEs 4 ^b	Developing Asia ^c	
									Median	Mean
Dec 1969 to Nov 1970	1970	-2.45	-1.34	-1.77	-1.38	2.50	-0.03	-2.26	-0.38	-0.51
Nov 1973 to Mar 1975	1974	-6.35	-3.00	-9.26	-2.13	-5.60	-3.61	-7.99	-5.22	-5.55
Jan 1980 to Jul 1980	1980	-3.42	-2.42	-2.67	11.98	0.20	0.23	-4.26	-0.56	0.03
Jul 1981 to Nov 1982	1982	-4.50	0.01	-0.17	-2.53	3.90	-3.50	-1.77	-1.77	-1.80
Jul 1990 to Mar 1991	1991	-2.05	-0.83	-1.85	-4.47	5.40	-1.25	1.04	0.08	-0.16
Mar 2001 to Nov 2001	2001	-2.93	-1.98	-2.55	1.19	-0.10	-3.58	-7.05	-4.43	-5.01
Average for all recessions		-3.62	-1.59	-3.04	0.44	1.05	-1.96	-3.71	-2.05	-2.17
Ratio to US average for all recessions		1.00	0.44	0.84	-0.12	-0.29	0.54	1.03	0.57	0.60

Notes:

^aRecession intervals defined by NBER.

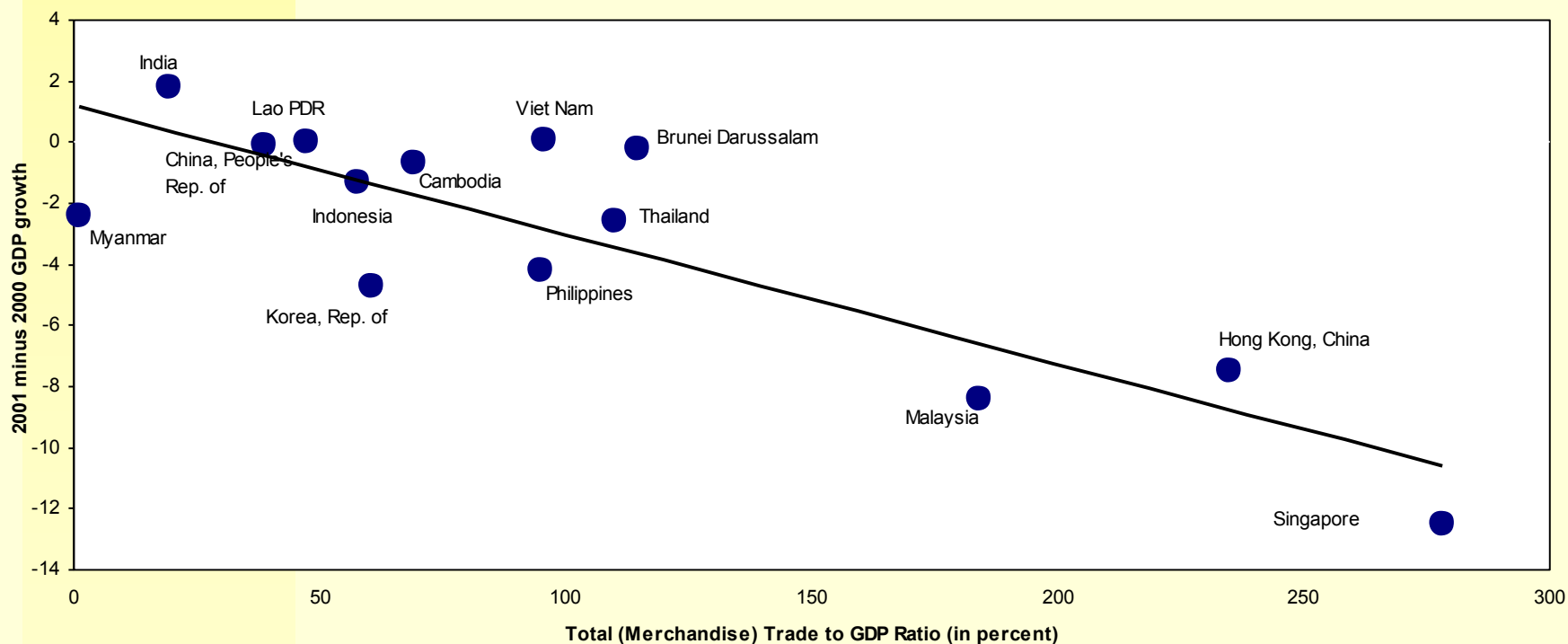
^bComputed using GNI Atlas method as weights.

^cDeveloping Asia includes China, People's Rep. of; India, NIEs4; and ASEAN4.

Sources: World Bank Indicators Online, and CEIC.

Historically, exporters slow more

Growth Slowdown and Openness



3. Where do we go from here?

Lessons from the current meltdown...

- Complexity is not innovation
- Leverage is not credit
- Risk dispersion is not risk reduction
- Market discipline is no substitute for regulation
- In good times prepare for bad—case for countercyclical regulation

Financial market turmoil an impetus for accelerated Asian financial integration?

- Internally integrated yet globally connected Asian markets
- Promote “Asian Financial Stability Dialogue”
- Balance innovation with financial stability; market freedom with government regulation
- Public-Private Partnerships
 - Private sector and financial markets adhere to public regulations
 - Public sector helps markets adjust in times of distress

Stabilize first—immediate steps

- Restore market confidence
- Manage volatile capital
- Prepare for contagion
- Coordinate emergency efforts

Thank you

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