

# Global Economic Crisis, Asia and the Asian Development Bank

4<sup>th</sup> International Turkish-Asian Congress  
Istanbul, Turkey  
27 May 2009

**Srinivasa Madhur**

Director, Office of Regional Economic Integration  
Asian Development Bank

The views expressed in this presentation are those of the author and do not necessarily reflect the views and policies of the Asian Development Bank, or its Board of Governors or the governments they represent.

1

**ADB**

# Outline

1. The Global Recession
2. Impact on Asia
3. Asia's Response to the Crisis
4. What is ADB doing?

But first...What is ADB?



Asian Development Bank

ADB

# ADB Vision: Asia and the Pacific free of poverty

- ADB is a multilateral development finance institution
- Founded 1966, 67 shareholders, 48 from the region
- Headquartered Manila, 26 other offices worldwide
- More than 2000 staff from over 50 countries
- Cumulative lending 1968–2008 = \$143.5 billion

# What does ADB do?

- Finance and advice for development solutions
  - Loans (\$10.5 billion in 2008)
  - Grants (\$811.4 million)
  - Technical assistance (\$274.5 million)
  - Also guarantees, equity, policy dialogue
- Main partners
  - Governments
  - Private sector
  - NGOs, development agencies, and foundations

# How does ADB do it?

- Strategy 2020
  - Inclusive economic growth
    - Expand economic opportunities
    - Increase participation from the poor
  - Environmentally sustainable growth
    - Use appropriate technologies and safeguards
    - Mitigate and adapt to climate change
  - Regional integration
    - Infrastructure; trade and investment
    - Money and finance; regional public goods

# 1. The Global Crisis

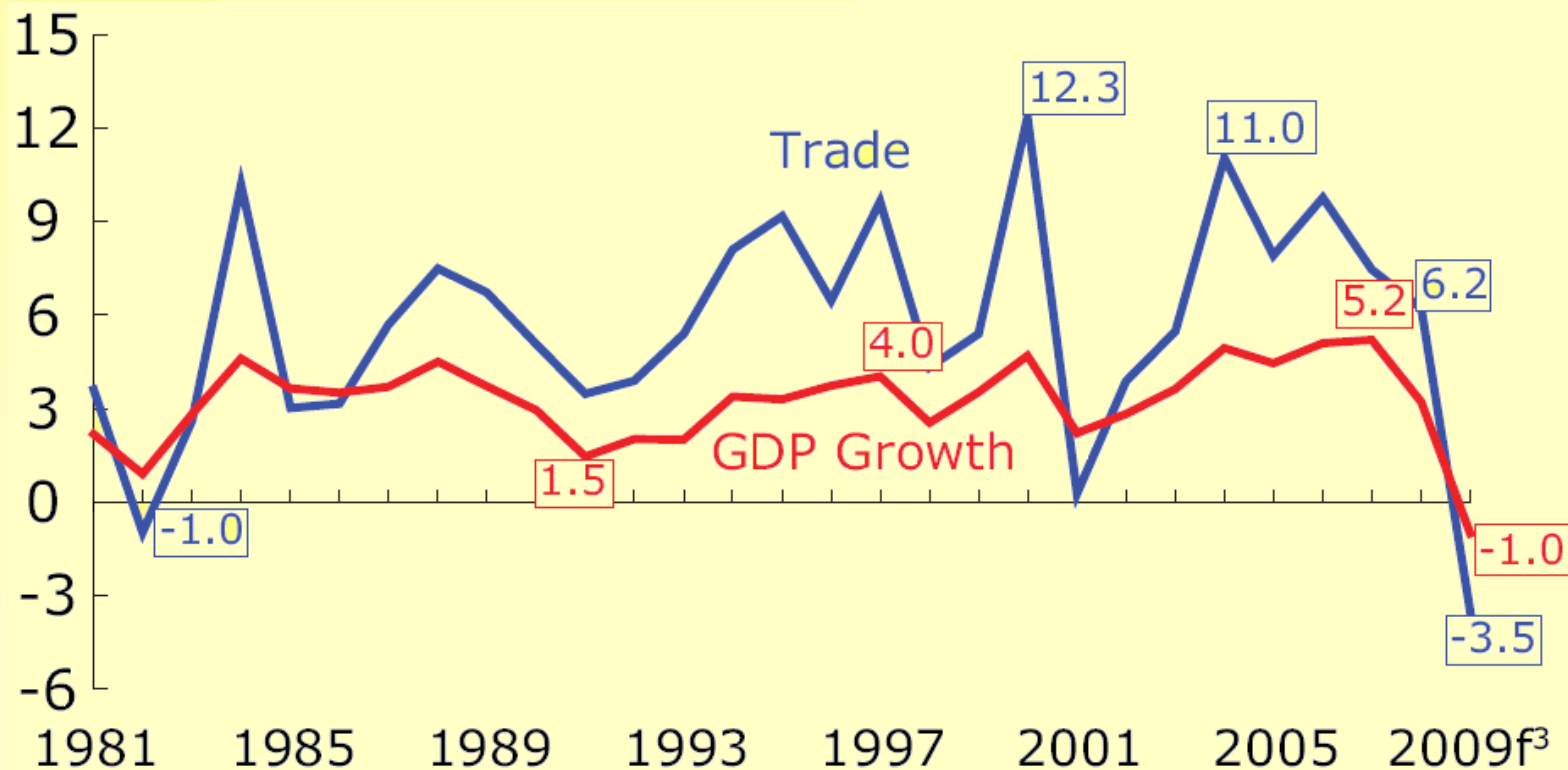
## “How did the tail wag the dog”?

US subprime only 3% of US financial assets—so why was everyone affected?

- Excessive global leverage—capitalism without capital (\$1 of subprime-related losses forced \$12 to \$50 of asset liquidation)
- Poor risk management—opaque financial products
- Financial globalization—rapid, unexpected contagion
- Insufficient regulation—shadow banking system
- Result: credit crunch; panicked sell offs; flight-to-quality

# Worst recession since WWII...

World GDP<sup>1</sup> and World Trade Volume<sup>2</sup>  
(y-o-y change, %)



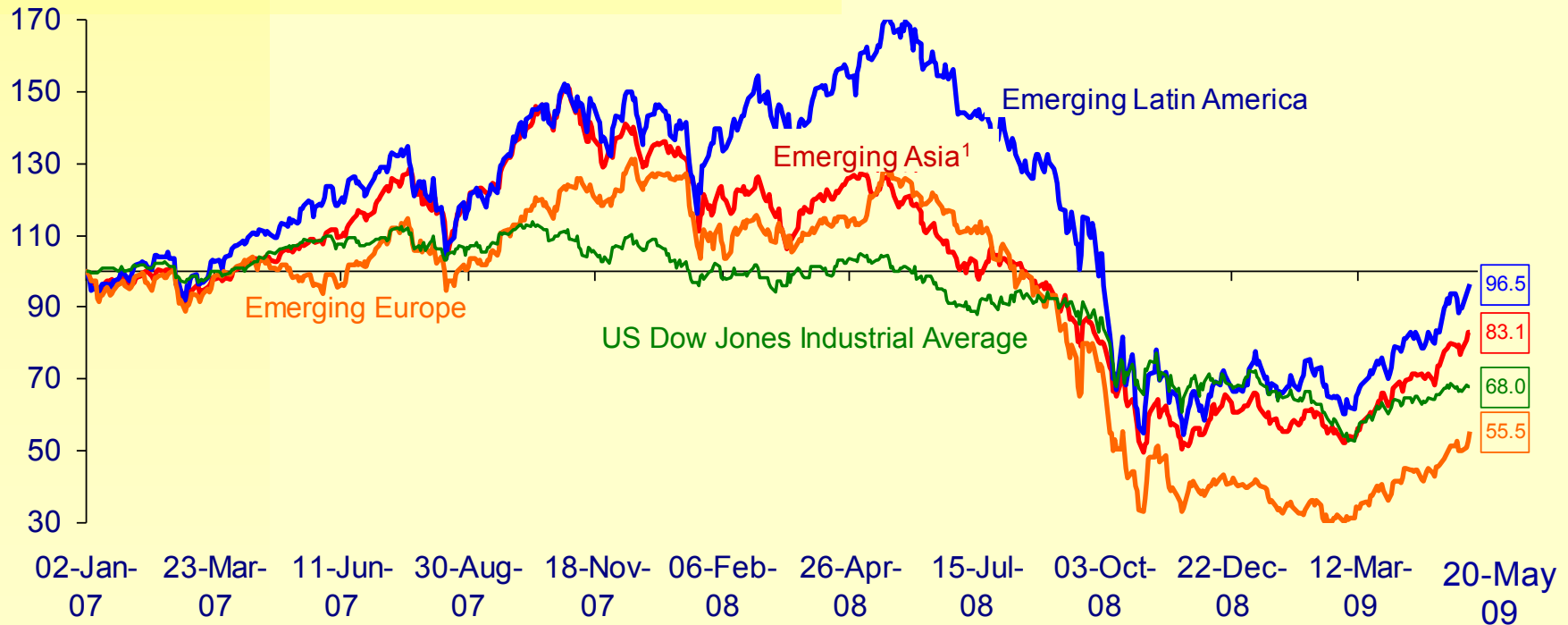
<sup>1</sup>GDP = gross domestic product. <sup>2</sup>Export Volume. <sup>3</sup>f = forecast.

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



# Hitting bottom? Or bear market rally?

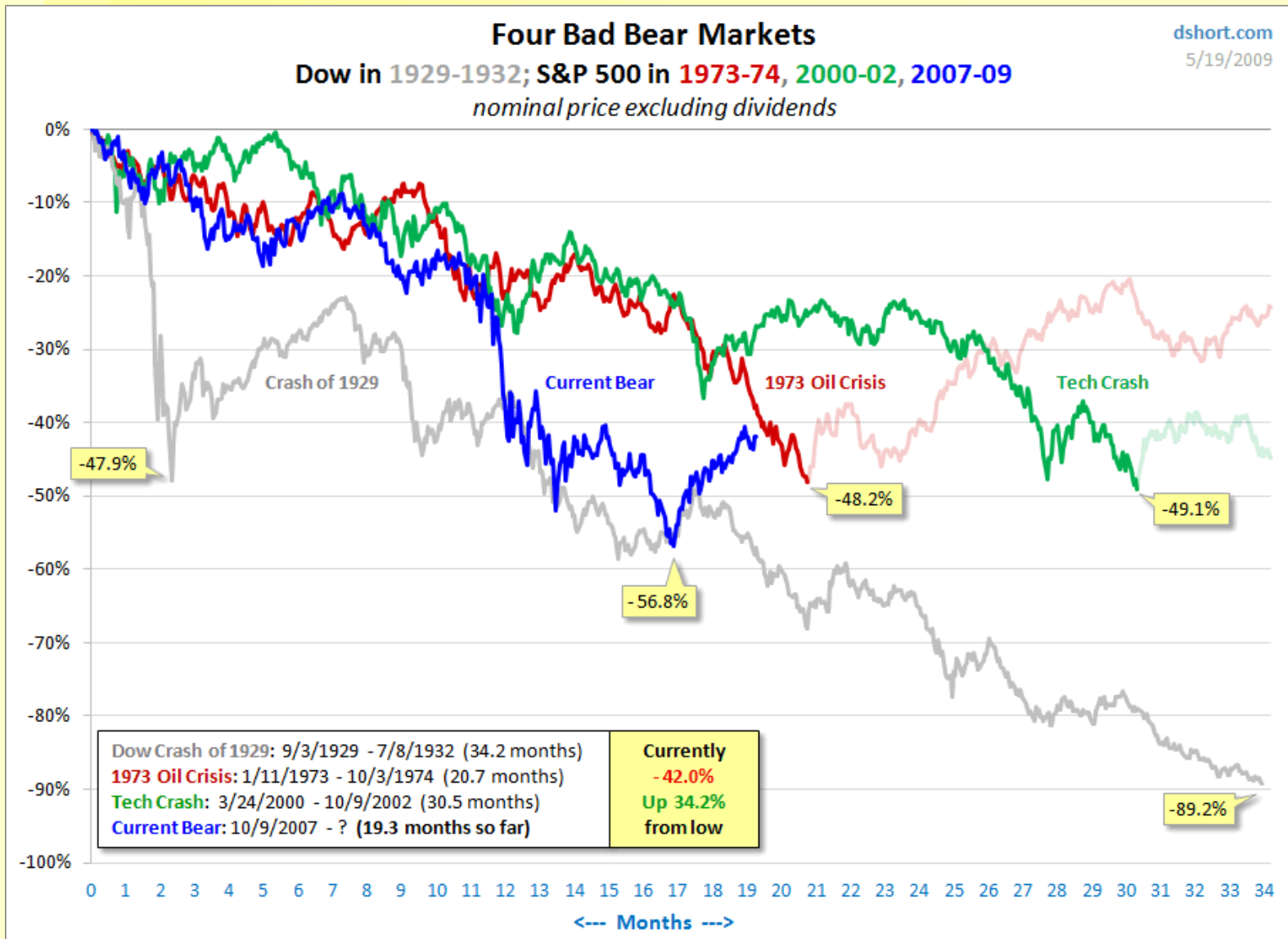
MSCI Indexes (2 January 2007=100)



<sup>1</sup> Includes People's Republic of China; India; Indonesia; Republic of Korea; Malaysia; Pakistan; Philippines; Taipei, China; and Thailand.

Sources: Morgan Stanley Capital International (MSCI) Barra and Datastream.

# Flashback to 1930's: Is history repeating?



## 2. Impact on Asia

— Harder than expected

- Growth stagnates as export demand plunges; affects industrial production
- Capital flows become volatile
- Stock prices plummet
- Currencies tumble against the US dollar
- Sovereign bond spreads widen, indicating heightened credit risk

# GDP growth to slow further in 2009...

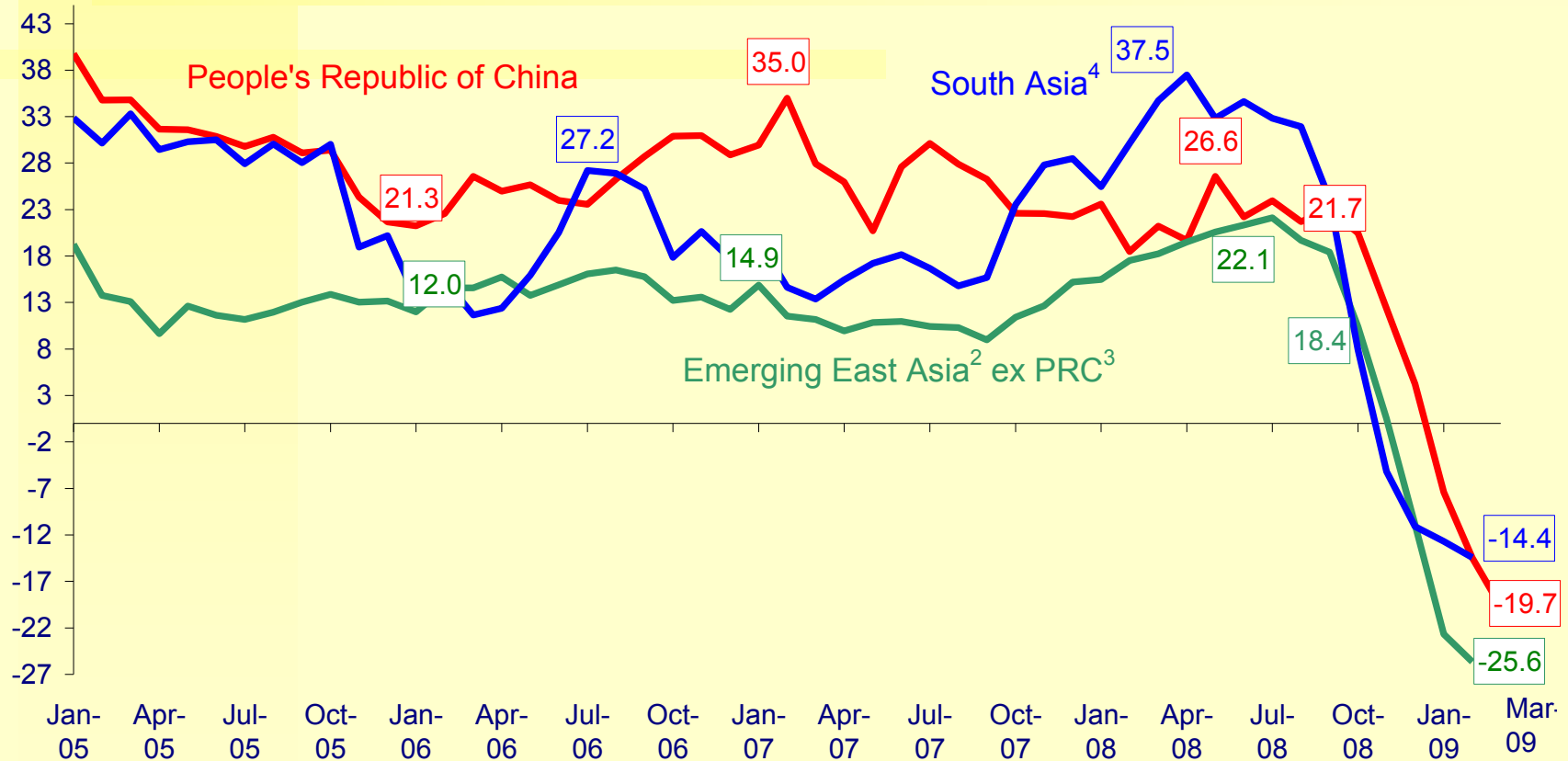
Annual GDP Growth	Rates (%)						ADB Forecasts <sup>1</sup>	
	2003	2004	2005	2006	2007	2008	2009	2010
<b>Developing Asia</b>	7.1	7.9	8.1	8.9	9.5	6.3	3.4	6.0
<b>Emerging Asia <sup>2,3</sup></b>	7.2	8.0	8.0	8.9	9.6	6.3	3.1	5.6
<b>ASEAN 5<sup>3</sup></b>	5.7	6.0	5.5	5.7	6.3	4.8	1.6	4.3
Indonesia <sup>4</sup>	4.8	5.0	5.7	5.5	6.3	6.1	3.6	5.0
Malaysia <sup>5</sup>	5.8	6.8	5.3	5.8	6.3	4.6	(0.2)	4.4
Philippines <sup>6</sup>	4.9	6.4	5.0	5.4	7.2	4.6	2.5	3.5
Thailand	7.1	6.3	4.6	5.2	4.9	2.6	(2.0)	3.0
Viet Nam	7.3	7.8	8.4	8.2	8.5	6.2	4.5	6.5
<b>Newly Industrialized Economies</b>	3.2	6.0	4.8	5.6	5.6	1.8	(3.3)	3.4
Hong Kong, China	3.0	8.5	7.1	7.0	6.4	2.5	(2.0)	3.0
Korea, Rep. of	3.1	4.7	4.2	5.1	5.0	2.5	(3.0)	4.0
Singapore	3.8	9.3	7.3	8.4	7.8	4.6	(5.0)	3.5
Taipei, China	3.5	6.2	4.2	4.8	5.7	0.1	(4.0)	2.4
China, People's Rep. of	10.0	10.1	10.4	11.6	13.0	9.0	7.0	8.0
India <sup>7</sup>	8.5	7.5	9.4	9.6	9.0	7.1e	5.0	6.5
Japan	1.4	2.7	1.9	2.0	2.4	(0.6)	(3.5)	1.1
United States	2.5	3.6	2.9	2.8	2.0	1.1	(2.4)	1.6
eurozone <sup>8</sup>	0.8	2.1	1.7	2.9	2.6	0.8	(2.6)	0.5

<sup>1</sup>Forecasts are from Asian Development Outlook 2009. <sup>2</sup>Aggregates are weighted according to gross national income levels (atlas method, current USD) from World Development Indicators (World Bank). <sup>3</sup>Includes ASEAN5, NIEs, People's Republic of China, and India. <sup>4</sup>GDP growth rates from 1999–2000 are based on 1993 prices, while growth rates from 2001 onward are based on 2000 prices. <sup>5</sup>Growth rates from 1999–2000 are based on 1987 prices, while growth rates from 2001 onward are based on 2000 prices. <sup>6</sup>Figures for 2004–2006 are not linked to the GDP figures prior to 2003 due to National Statistics Office revisions of sectoral estimates. <sup>7</sup> For fiscal year April–March. <sup>8</sup>Refers to year-on-year growth, seasonally adjusted data. e = estimate

Sources: ADB; Eurostat website (eurozone); Economic and Social Research Institute (Japan); Bureau of Economic Analysis (USA).

# ...as export demand plunges

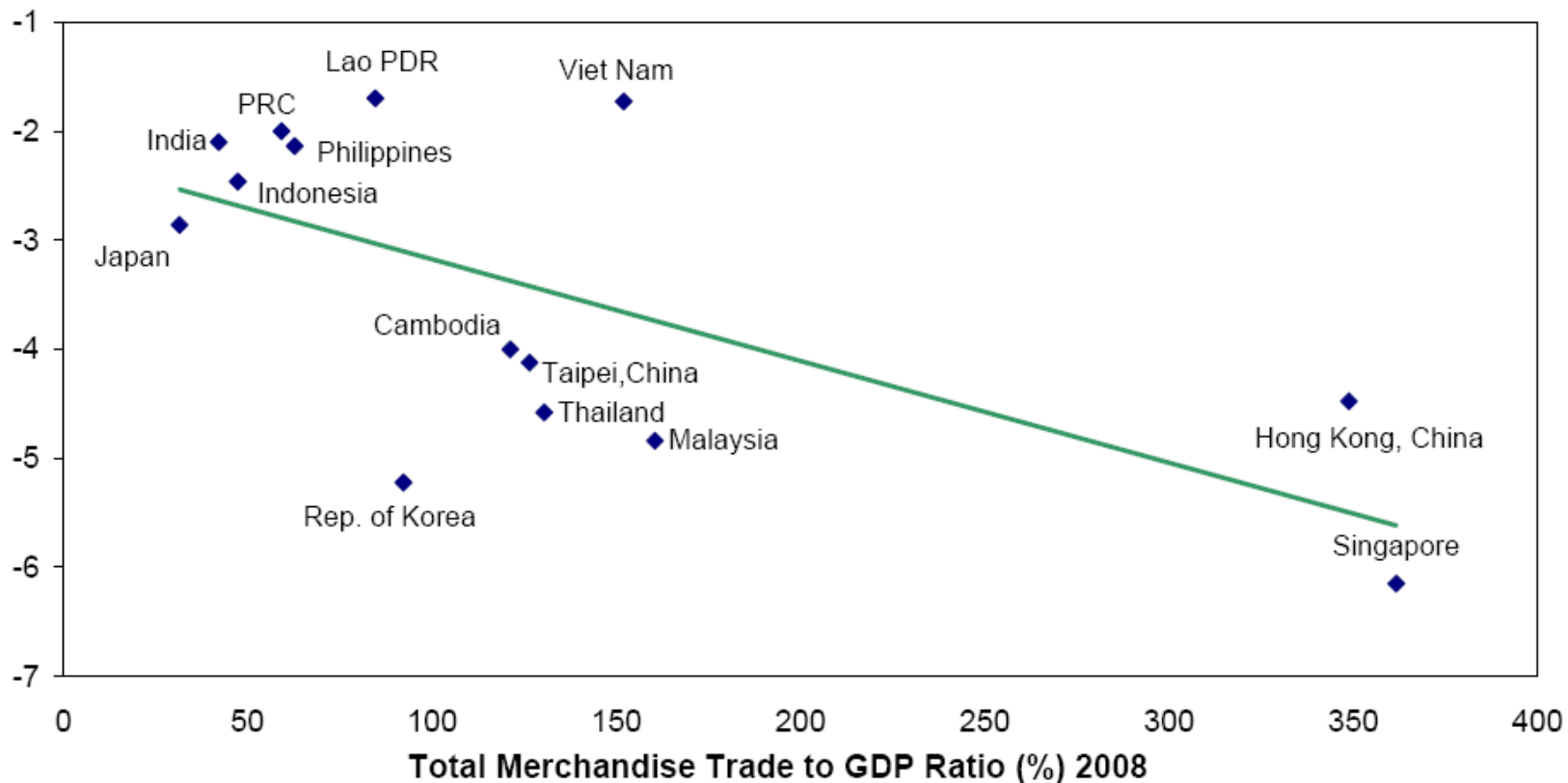
Export Growth<sup>1</sup> (\$ value, y-o-y, %)



# The more globalized, the harder hit

## Growth Slowdown and Openness

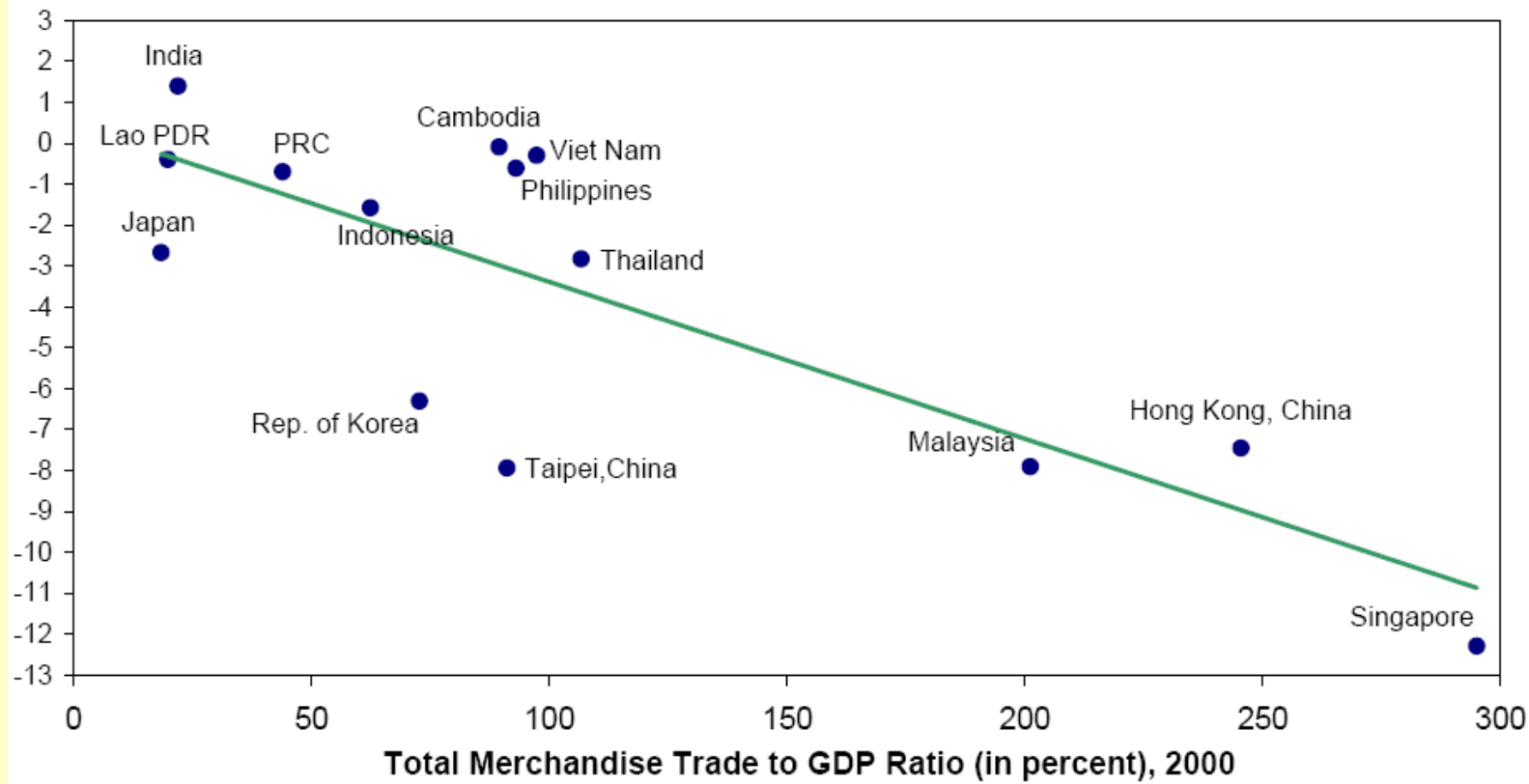
2009 forecast minus 2008 GDP growth



# As it happened in the 2001 recession

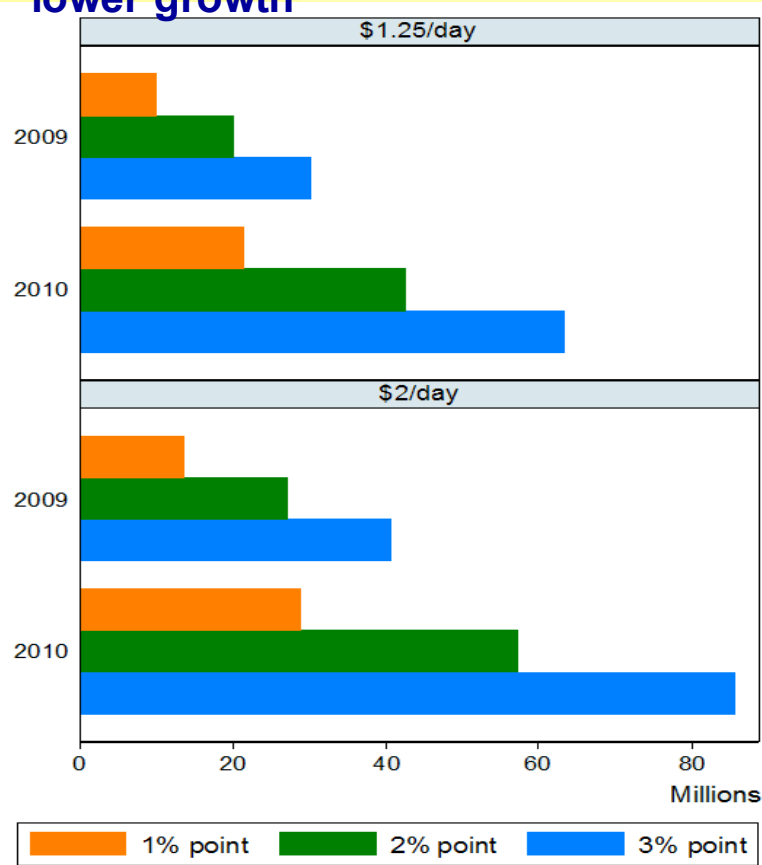
## Growth Slowdown and Openness

2001 minus 2000 GDP Growth



# Pace of poverty reduction to slow

## Additional number of poor due to lower growth



- Simulations show lower GDP growth in 2009 will keep 60 million—including 14 million in PRC and 24 million in India—below absolute poverty line
- The effects are more dramatic at the \$2/day level than \$1.25/day benchmark



# Poverty challenge still daunting...

Despite huge drop in poverty...

- 620 million Asians below \$1.25/day
- 700 million lack access to clean water
- 1.9 billion have no proper sanitation
- 100 million children can't attend school
- 100 million under 5 yrs are underweight

## ...as crisis delays MDGs

3 points off Asia's GDP growth this year means...

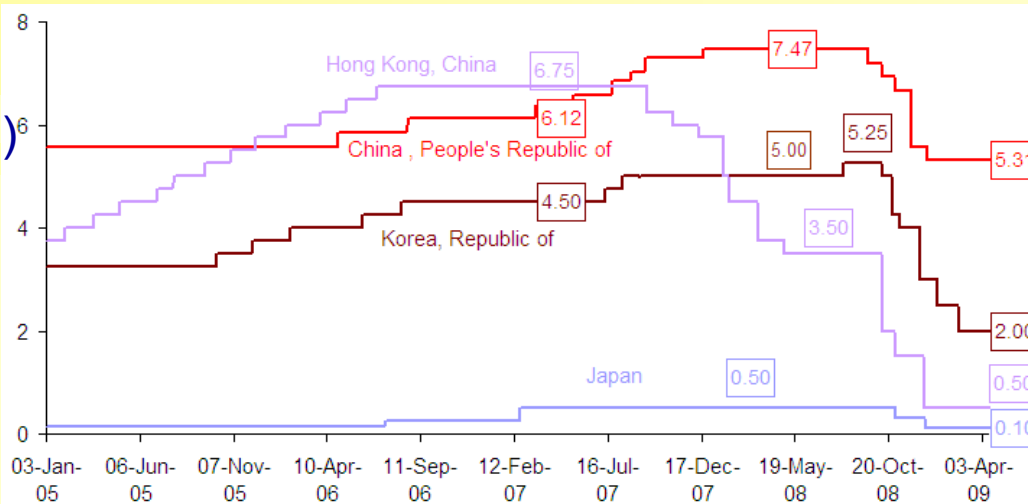
- 10 million more undernourished people
- over 56,000 more deaths of children under 5 years, and
- 2,000 more mothers die at childbirth.
- 1 year delay in achieving MDGs for targets relating to infant mortality and hunger.

### **3. Asia's Response to the crisis** — Quick and comprehensive

- Restores financial stability by...
  - Injecting liquidity when needed
  - Reviving public confidence
- Combats the growth slowdown by...
  - Easing monetary policy
  - Applying fiscal stimulus where possible
  - Targeting physical and social infrastructure

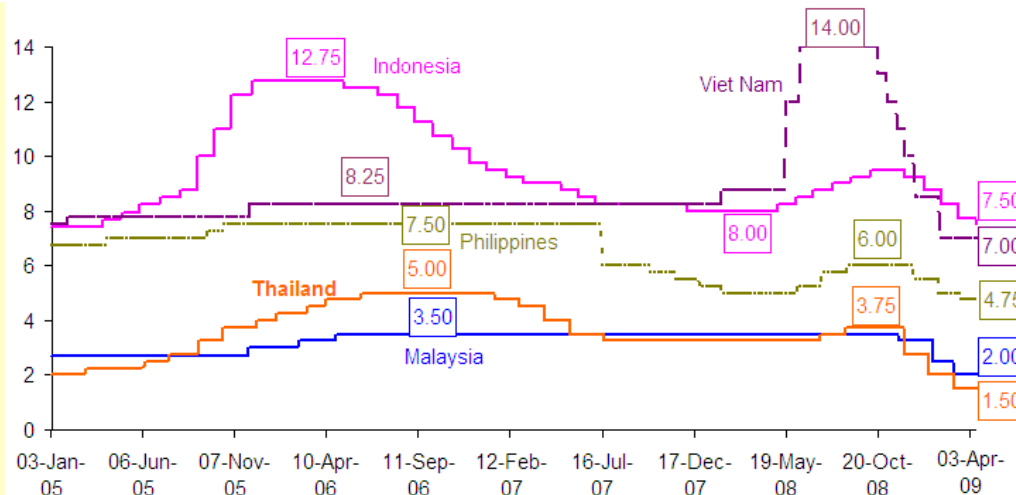
# Monetary policy eases...

Policy Rates  
(% per annum)



<sup>1</sup> Hong Kong base rate (Hong Kong, China); Korea base rate (Republic of Korea); overnight call rate (Japan); one year lending rate (People's Republic of China).

Source: Bloomberg and Datastream.



<sup>1</sup> SBI Rate before July 2005 and BI Rate from July 2005 onwards (Indonesia); overnight policy rate (Malaysia); reverse repurchase (repo) rate (Philippines); 14-day repo rate before 17 Jan 2007 and 1-day repo rate from 17 Jan 2007 onwards (Thailand); prime rate (Viet Nam).

Source: Bloomberg and Datastream.

# ...while stimulus may lead the way out

## Fiscal Stimulus Plans of Selected ADB Developing Member Countries

- **More than 5% of GDP**—People's Republic of China, Georgia, Kazakhstan, Malaysia, Papua New Guinea, Singapore, Viet Nam
- **Between 2% and 5%**—Armenia; Hong Kong, China; India; Republic of Korea; Philippines; Taipei, China; Thailand; Uzbekistan
- **Between 0.5% and 2%**—Bangladesh, Cambodia, Indonesia, Pakistan
- **Less than 0.5%**—Sri Lanka

Note: Based on announced fiscal stimulus packages of countries where data are available.

# Guiding principles for fiscal stimulus: substantial; timely; targeted; temporary

- Size matters, as does timing—avoid too little too late
- Target projects/programs that yield quick results
- Keep an eye on medium- to long-term fiscal deficit and public debt
- The key challenge: balancing fiscal pump-priming with fiscal sustainability (demand creation vs asset creation)
- Should we “dig” holes and “fill” them up? Perhaps we can do better than that!

# Beyond monetary easing and fiscal stimulus: Revamp financial regulatory framework

## Lessons from the crisis

- Leverage is not credit
- Complexity is not innovation
- Risk dispersion is not risk reduction
- Market discipline is no substitute for regulation—voluntary regulation does not work
- In good times prepare for bad—case for countercyclical regulation
- Key challenge is to promote financial innovation while ensuring financial stability

# And Strengthen Regional Cooperation:

- Regionalism is good for Asia, good for the world
- Asian integration is rapid, broad, with global links
- Asian financial crisis of 1997/98 was a watershed
- Asian regionalism is distinctive: outward-oriented, multi-speed, multi-track, and pragmatic



# Regional cooperation can eventually bring...

- a single market
- deep, liquid and integrated financial markets
- effective macroeconomic policy coordination
- workers moving much more freely than today
- collective efforts to address social issues
- stronger voice in global policy forums
- more regional institutions

## 4. What is ADB doing in response to the crisis?

- \$10.4 billion lending increase 2009–2010 (\$32.3 billion compared with \$21.9 billion 2007-2008)
- Consisting of:
  - \$3 billion Countercyclical Support Facility
  - \$1 billion Trade Finance Facilitation Program
  - \$6.4 billion other lending
- \$2.0 billion additional co-financing in 2009–2010 (\$4.5 billion compared with \$2.5 billion 2007-2008)
- As part of lending program, a portion will be front-loaded from 2010 to 2009

# **Thank you!**

## **Srinivasa Madhur**

**Director, Office of Regional Economic Integration**

**Asian Development Bank**

**6 ADB Avenue, Mandaluyong City**

**1550 Metro Manila, Philippines**

**Email: [smadhur@adb.org](mailto:smadhur@adb.org)**

**Tel: 632-632-5744**