



# Asia Economic Monitor

Unwinding Policy Stimulus: Options for Emerging East Asia

Seoul, Republic of Korea • 17 August 2010

ADB

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Unwinding Policy Stimulus: Options for Emerging East Asia  
August 2010

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Seoul, Republic of Korea, 17 August 2010



# Key Questions Addressed

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- I. How is the external environment evolving for emerging East Asia?
- II. How robust is the region's recovery?
- III. What are the major risks and policy challenges?
- IV. Should the region unwind its policy stimulus? When and how?

# I. External Environment Supportive

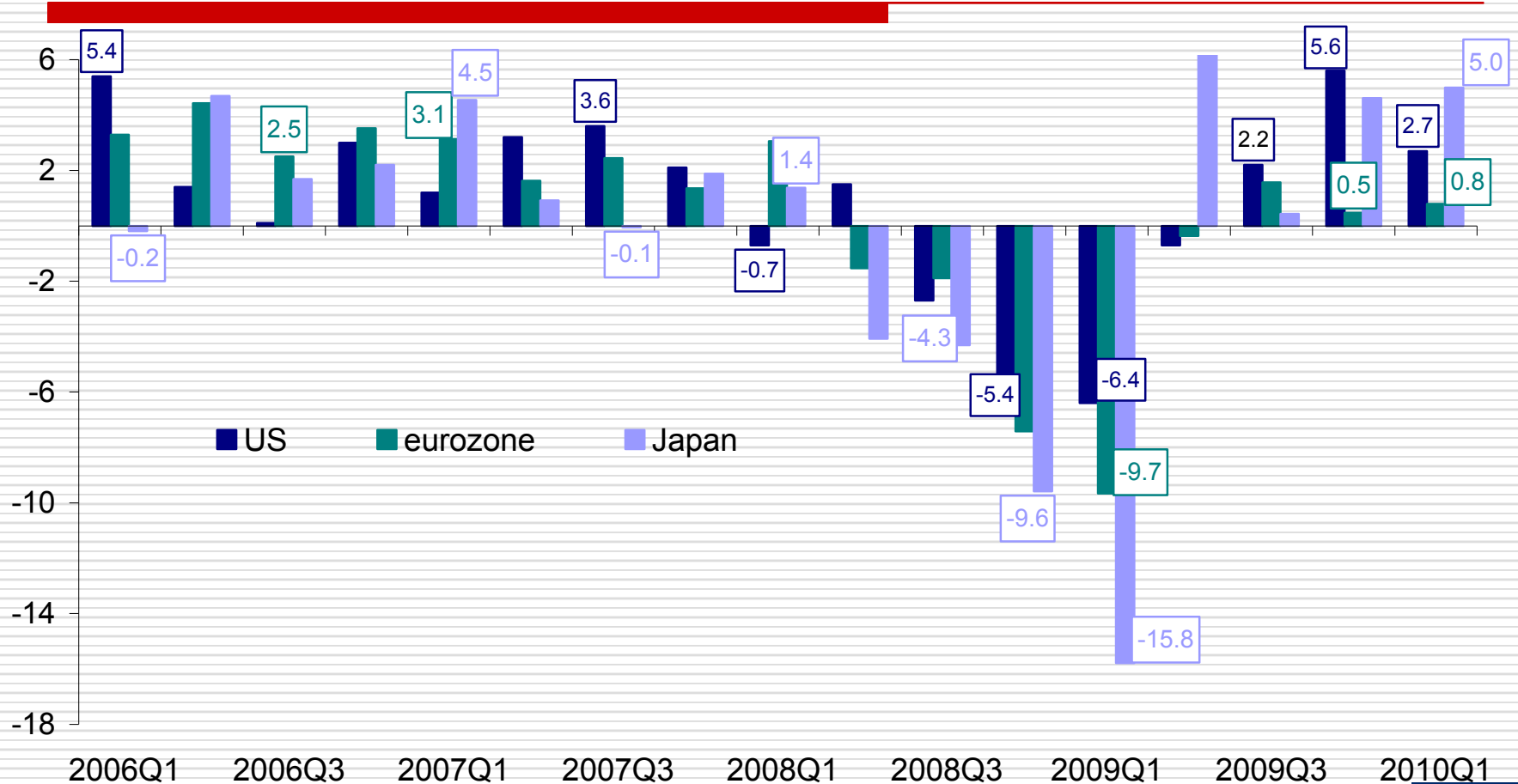
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- Overall external environment remains positive
- Gradual recovery underway in the US.
- Eurozone recovery fragile but Japan returns to solid growth
- World trade rebounding strongly
- G3 inflation, although edging up, mild

# Eurozone remains fragile but US and Japan recovering

## GDP growth—G3

(seasonally adjusted, annualized, q-o-q, % change)



Source: Cabinet Office, Government of Japan (Japan); Eurostat website (eurozone); and Bureau of Economic Analysis (US).

# TED spread edging up, yet remains low

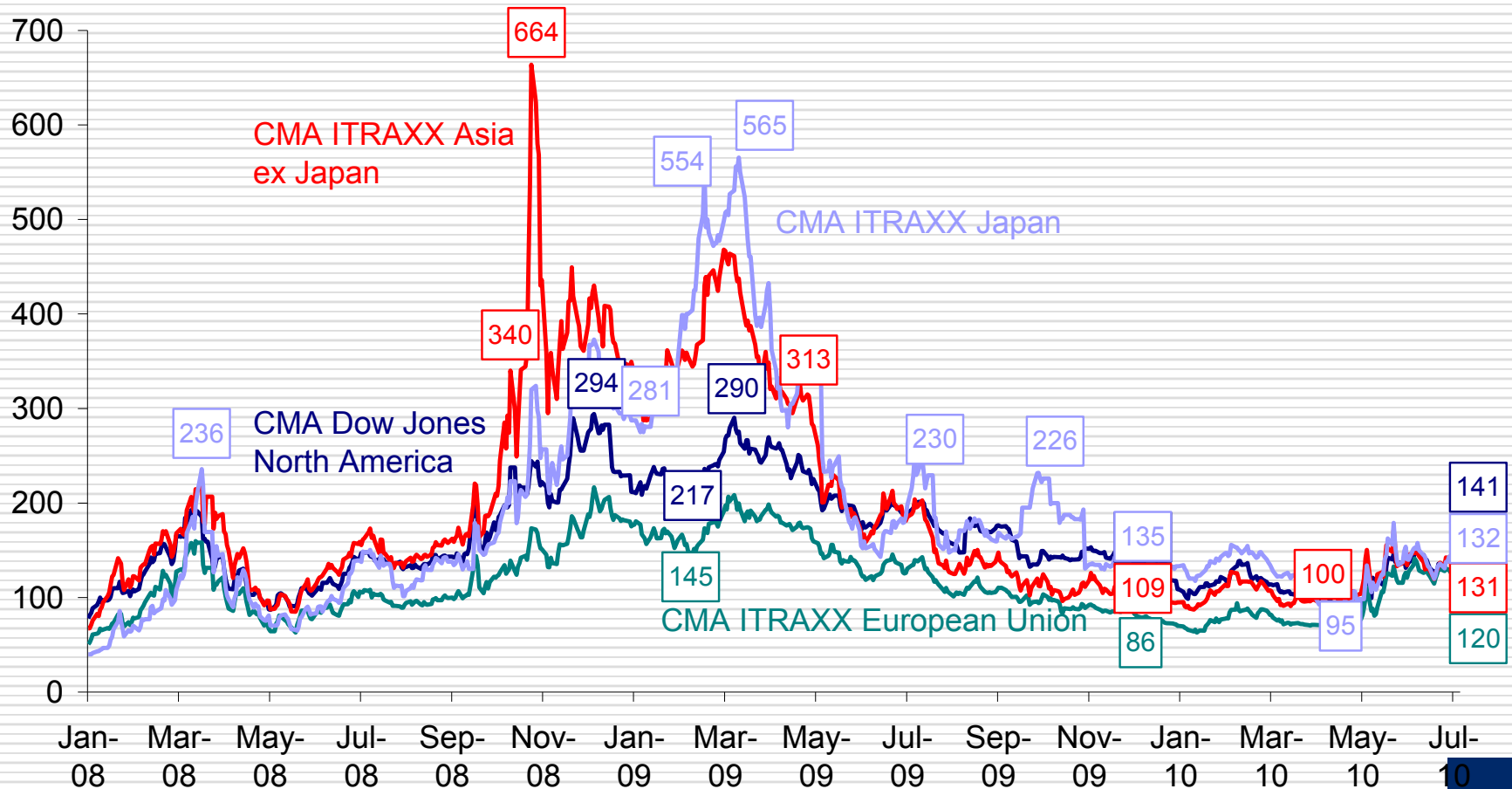
## TED Spreads<sup>1</sup>—G3 (basis points)



<sup>1</sup> Difference between 3-month LIBOR (London Interbank Offered Rate) and 3-month government debt (e.g. Treasury bills).  
Source: OREI staff calculations based on Bloomberg and Datastream data.

# European credit default swaps picking up but still low

## Credit Default Swap Indexes (investment grade, senior 5-year)



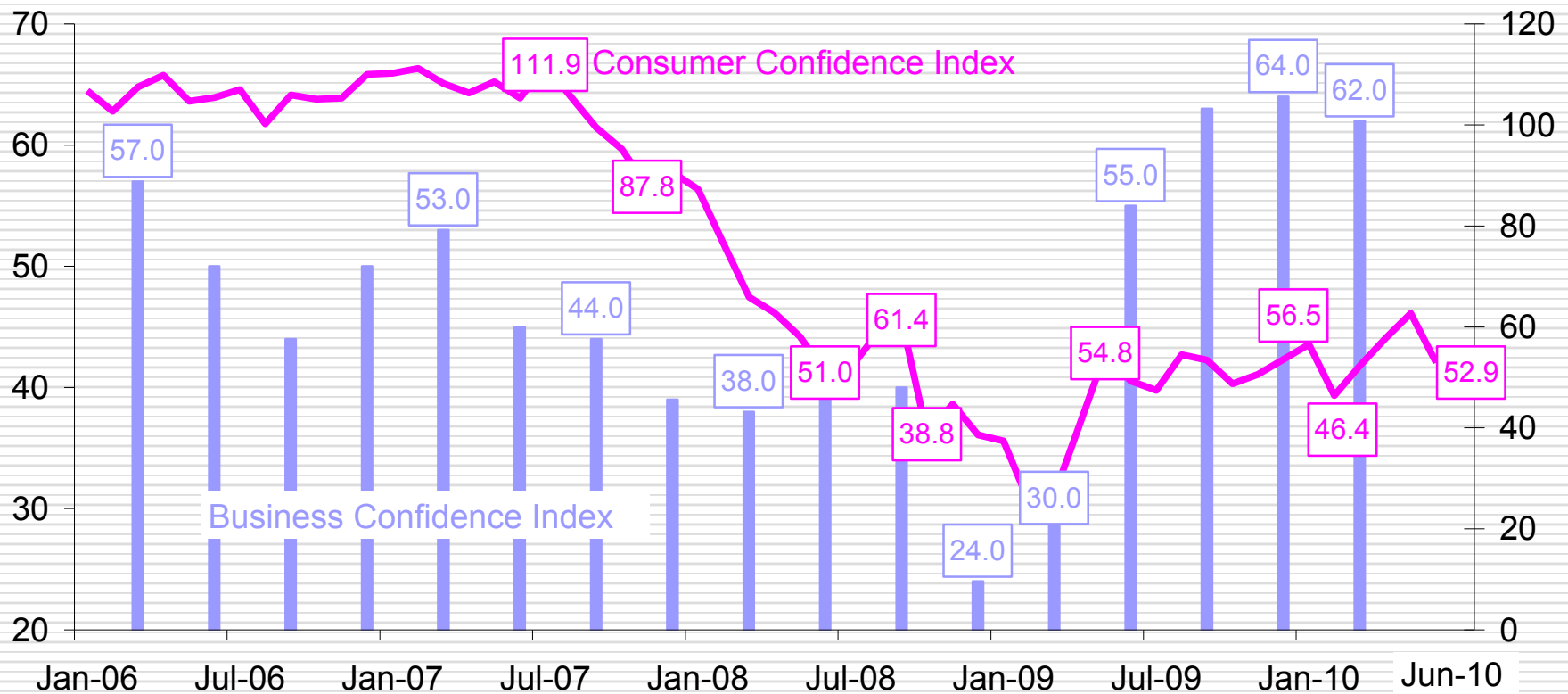
Source: Datastream.

# US consumer confidence and business sentiment recovering

## US Business and Consumer Confidence Indexes

Business Confidence Index

Consumer Confidence Index



US = United States.

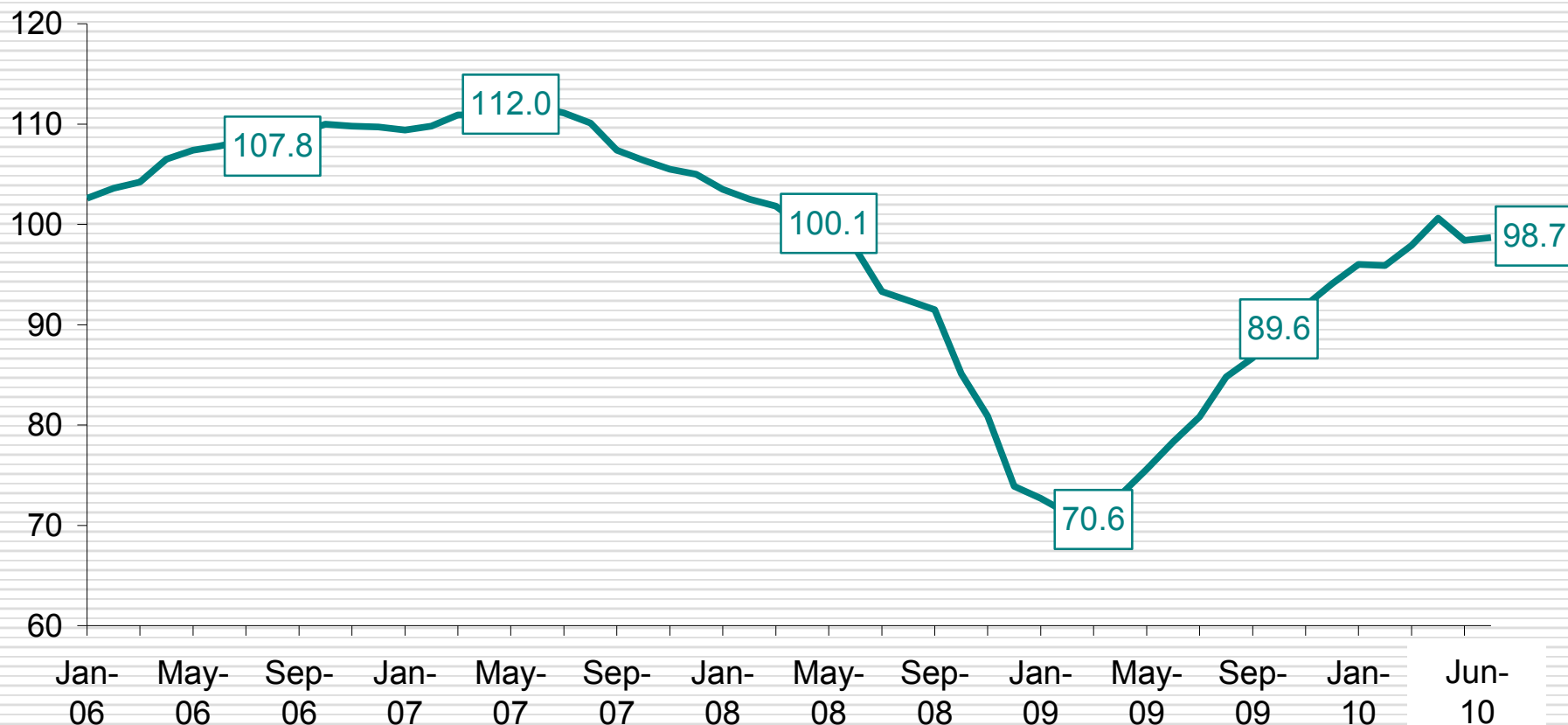
Note: Consumer confidence (1985 = 100). A business confidence index above 50 means there are more positive than negative responses. Consumer confidence index is monthly; business confidence index is quarterly.

Source: Datastream.



# Eurozone economic sentiment strengthening

## Economic Sentiment Indicator<sup>1</sup>—eurozone<sup>2</sup>

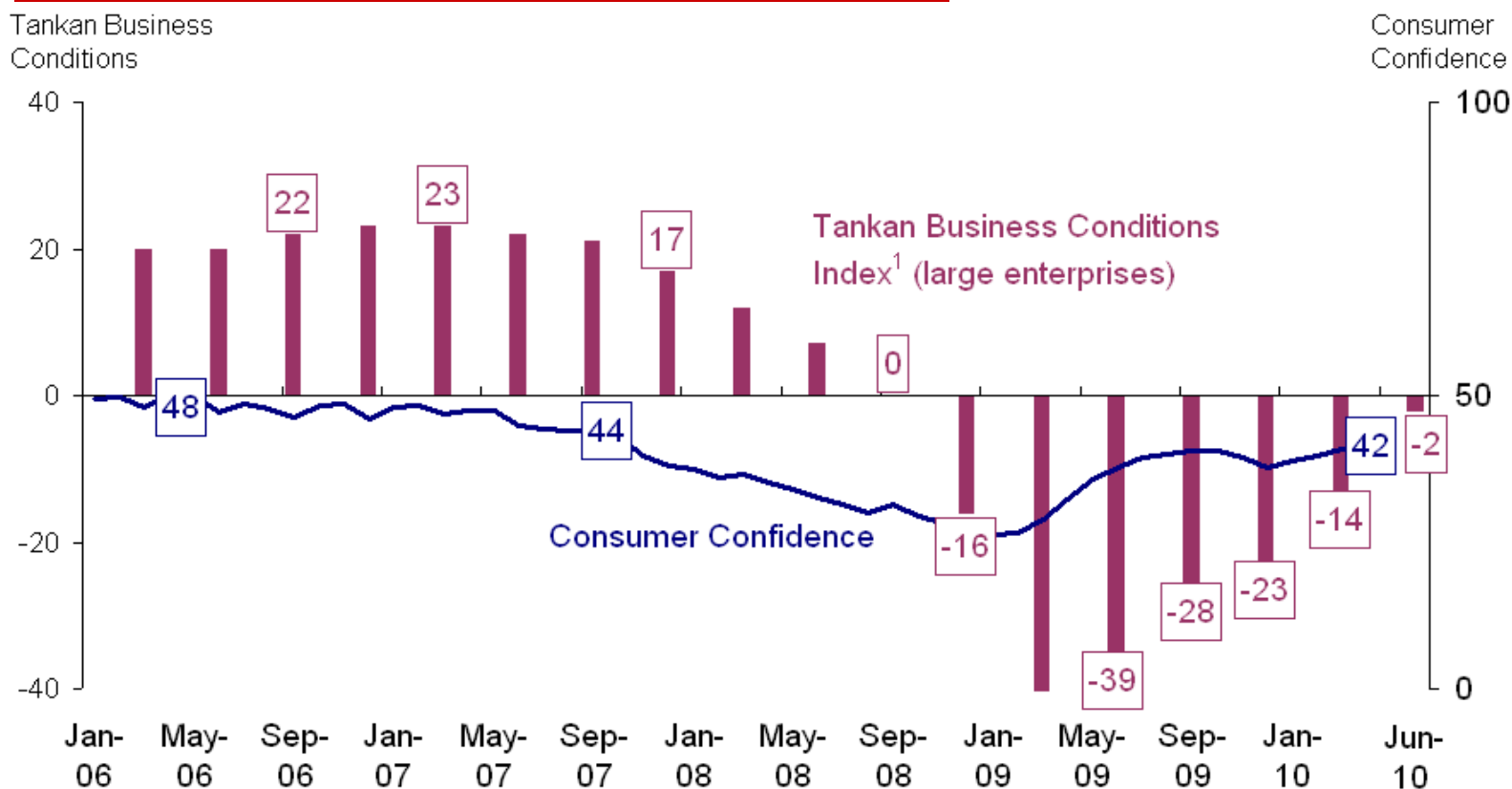


<sup>1</sup> The economic sentiment indicator is a composite index of business and consumer confidence indicators based on surveys of economic assessments and expectations in the eurozone.

<sup>2</sup> refers to: Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia, and Spain.

Source: Datastream.

# Japanese Business Conditions, Consumer Confidence improving



<sup>1</sup> Quarterly survey. A positive figure indicates that there are higher percentage of companies that report favorable business conditions from those that say conditions are unfavorable.

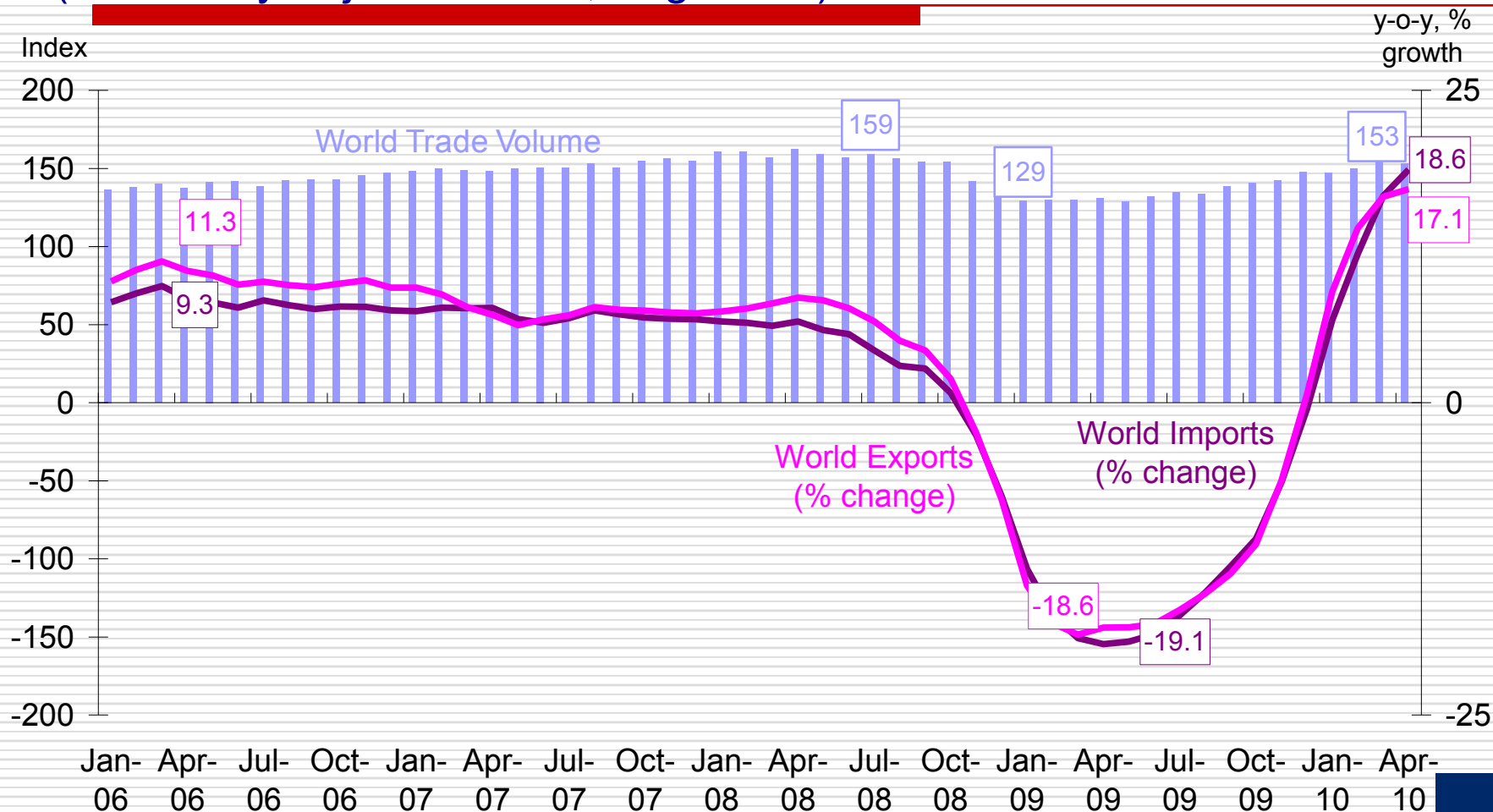
<sup>2</sup> Monthly survey. A figure above 50 indicates positive consumer sentiment, while a number below 50 indicates negative consumer sentiment.

Source: Datastream.

# World trade rebounding

## World Trade Volume

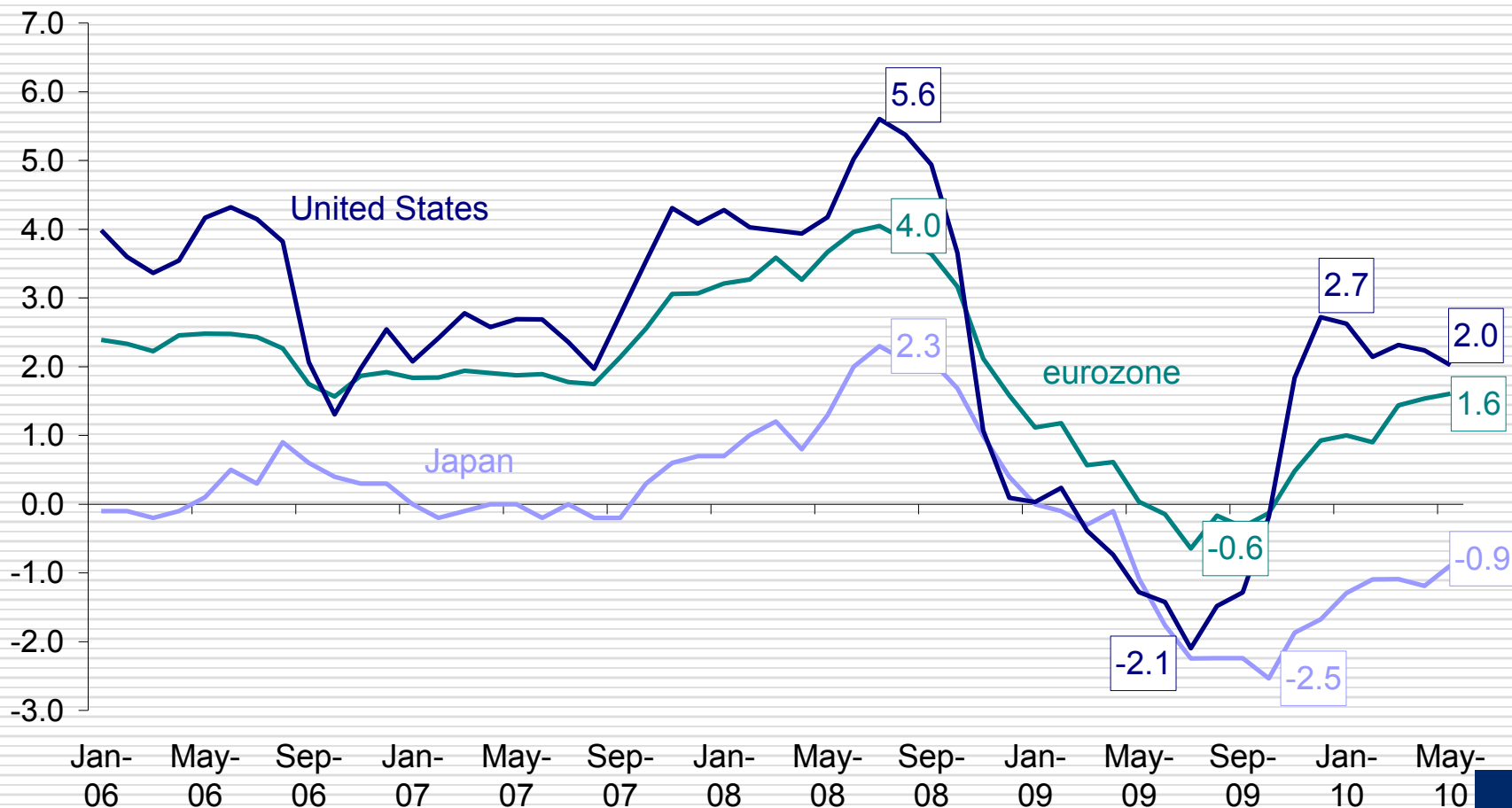
(seasonally-adjusted index, % growth<sup>1</sup>)



<sup>1</sup> Year-on-year (y-o-y) growth rates of 3-month moving averages.  
Source: CBP Netherlands Bureau for Economic Policy Analysis.

# G3 inflation up, but remains mild

## Headline Inflation—eurozone<sup>1</sup>, Japan, and United States (y-o-y, %)



<sup>1</sup> Refers to Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia, and Spain.  
Source: OREI staff calculation using data from CEIC.

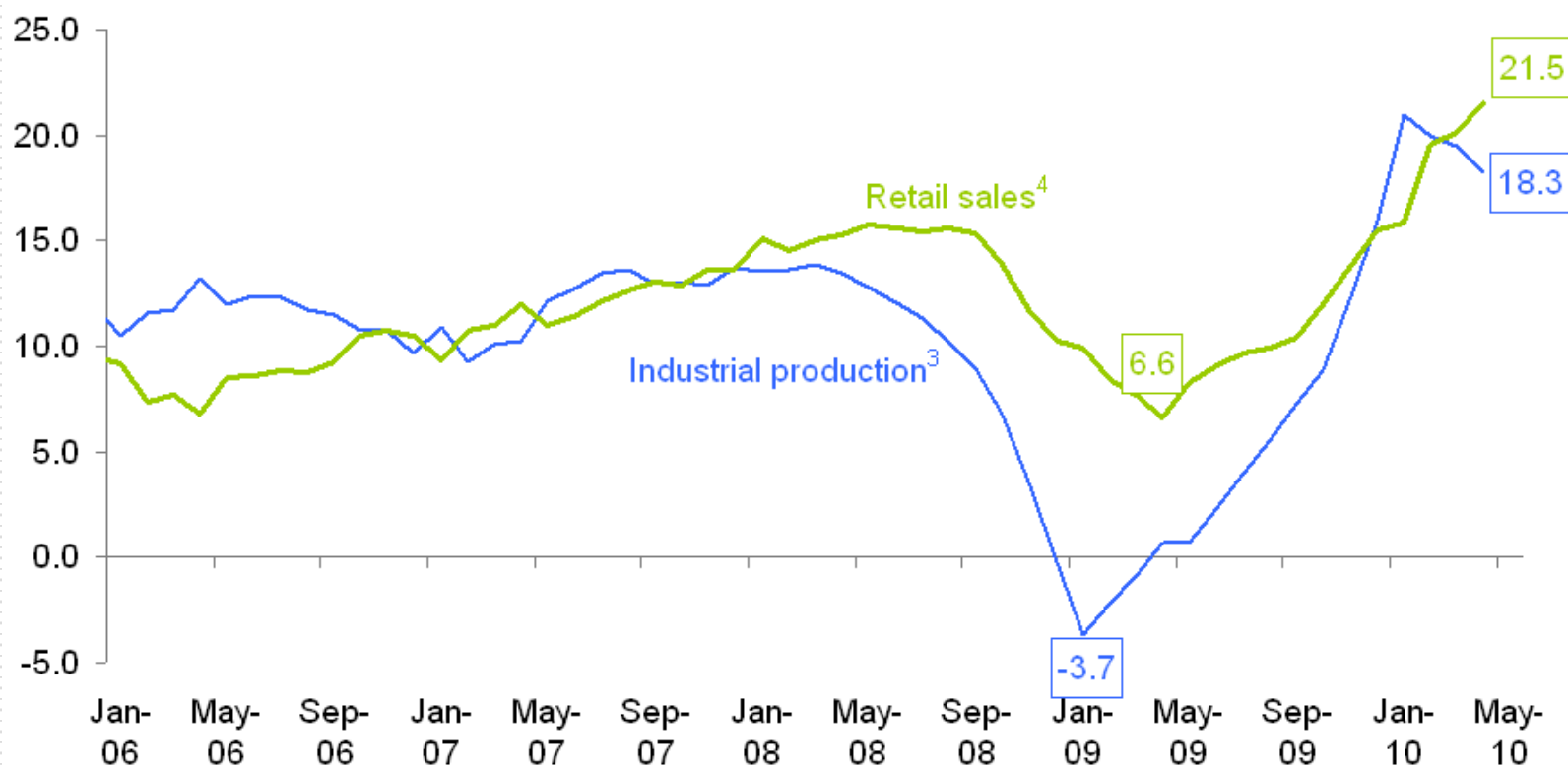
## II. Emerging East Asia's V-shaped Recovery on Track

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- Strong broad-based growth is expected in 2010
- Growth will likely taper in 2011
- Inflation edging up, but remains manageable with few exceptions

# Industrial Production, Retail Sales gaining strength

Industrial Production and Retail Sales Growth<sup>1</sup>—Emerging East Asia<sup>2</sup> (y-o-y, %)



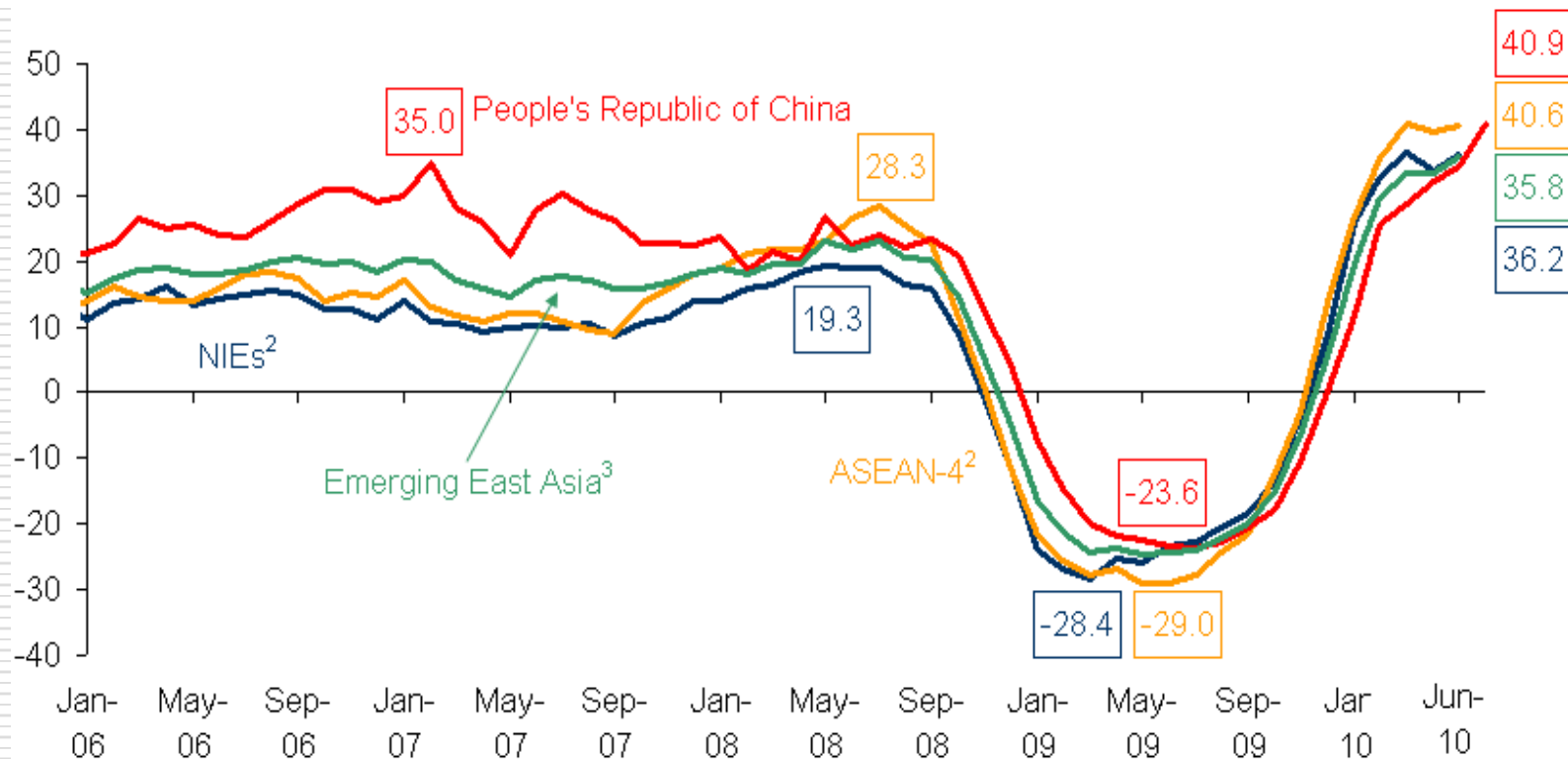
y-o-y = year-on-year.

<sup>1</sup> 3-month moving average. <sup>2</sup> Includes People's Republic of China; NIE-4 (Hong Kong, China; Republic of Korea; Singapore, and Taipei, China); and ASEAN-5 (Indonesia, Malaysia, Philippines, Thailand, and Viet Nam). <sup>3</sup> Does not include Hong Kong, China for which monthly data unavailable. <sup>4</sup> Does not include Malaysia and Philippines for which monthly data unavailable. Data on industrial production and retail sales until Apr 2010.

Source: OREI staff calculations based on CEIC data.

# Exports growth up sharply

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



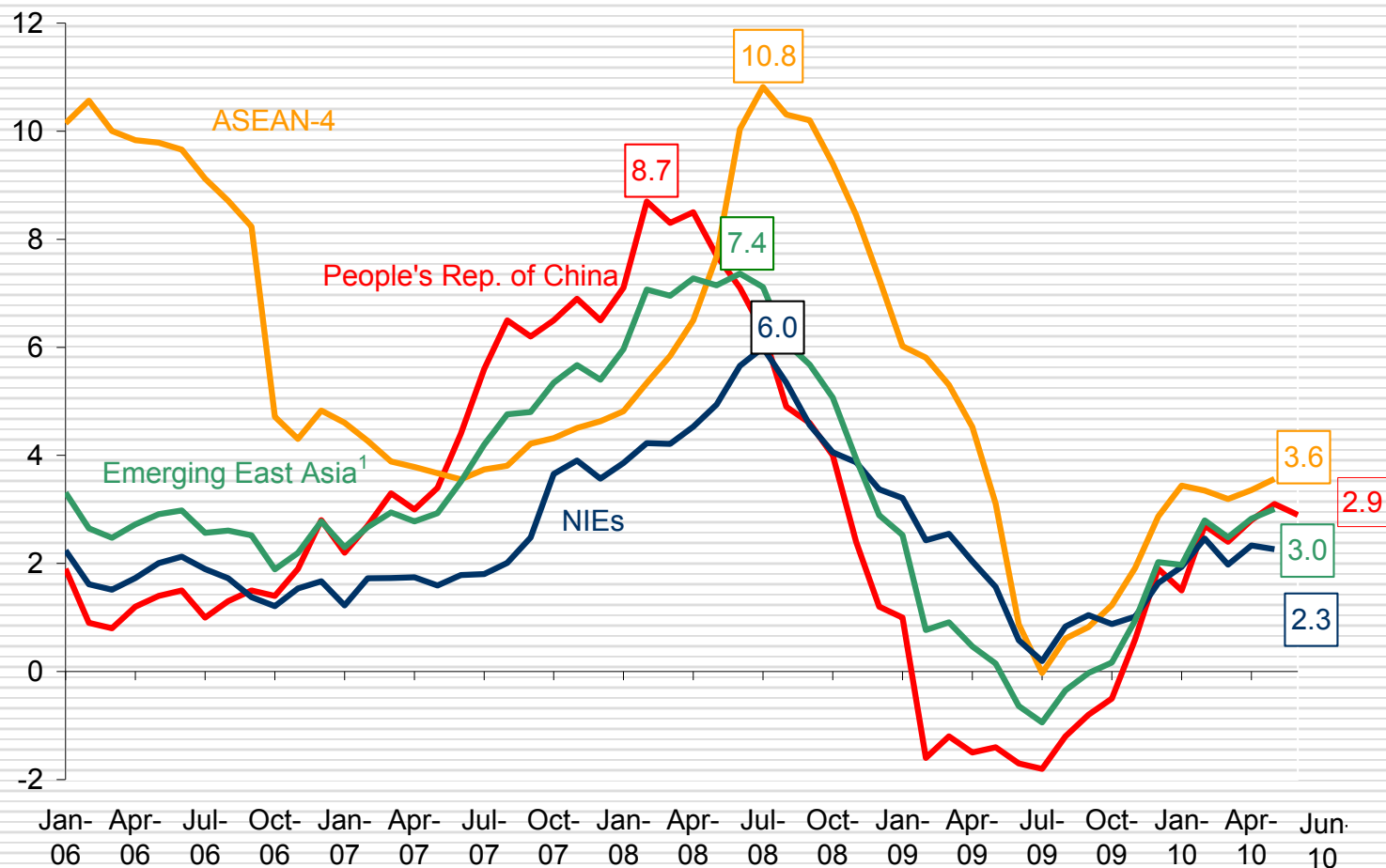
PRC = People's Republic of China

<sup>1</sup>3-month moving average. <sup>2</sup>ASEAN-4 includes Indonesia, Malaysia, Philippines, and Thailand; NIEs include Hong Kong, China; Republic of Korea; Singapore; and Taipei, China. Data for ASEAN-4 and NIEs until May 2010. <sup>3</sup>Refers to ASEAN-4 plus NIEs.

Source: OREI staff calculations based on CEIC data.

# Inflation edging up yet subdued

## Regional Headline Inflation Rates (y-o-y, %)



ASEAN-4 = Indonesia, Malaysia, Philippines, and Thailand; NIEs = Hong Kong, China; Republic of Korea; Singapore; and Taipei, China; y-o-y = year-on-year.

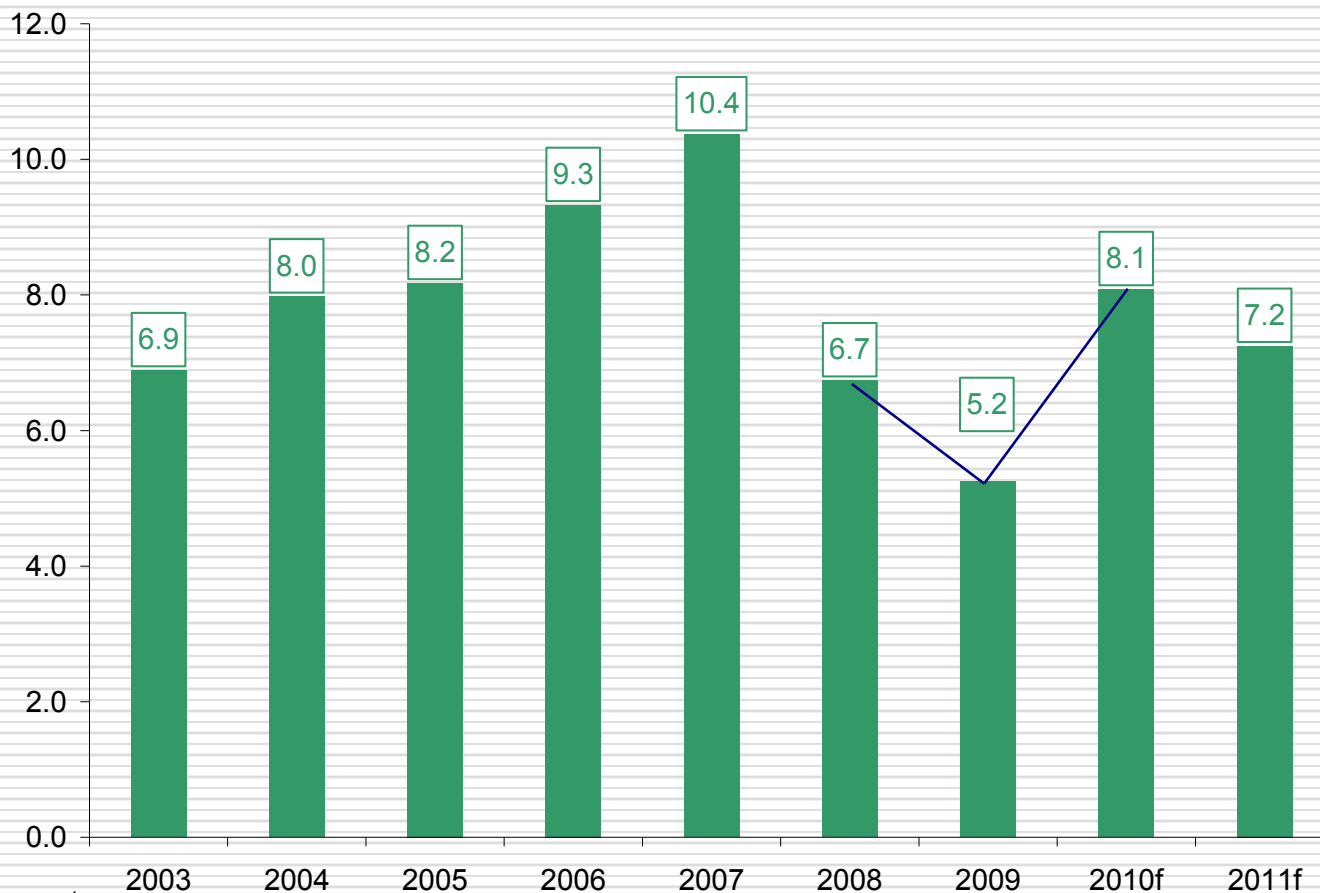
<sup>1</sup> Refers to ASEAN-4, NIEs, People's Republic of China, and Viet Nam. Weighted using gross national income (atlas method, current \$).

Source: OREI staff calculations based on CEIC data.



# V-shaped recovery this year; growth to taper in 2011

Annual GDP growth—Emerging East Asia<sup>1</sup> (y-o-y, %)



f = forecasts

<sup>1</sup>Includes Brunei Darussalam; Cambodia; China, People's Republic of; Hong Kong, China; Indonesia; Korea, Republic of; Lao Peoples' Democratic Republic; Malaysia; Philippines; Singapore; Taipei, China; Thailand; and Viet Nam. Aggregates are weighted according to gross national income levels (atlas method, current US dollars) from World Development Indicators (World Bank). Myanmar is not included for all years as weights are unavailable.

Source: ADB staff estimates; and Asian Development Outlook, Asian Development Bank.

# Annual GDP Growth Rates (% , y-o-y)

|   | 2000–2007<br>Average | 2004       | 2005       | 2006       | 2007        | 2008       | 2009        | 2010Q1      | 2010Q2 | ADB Forecasts |            |
|---|----------------------|------------|------------|------------|-------------|------------|-------------|-------------|--------|---------------|------------|
|   |                      |            |            |            |             |            |             |             |        | 2010          | 2011       |
| <b>Developing Asia<sup>e</sup></b>                | <b>7.5</b>           | <b>7.9</b> | <b>8.0</b> | <b>8.9</b> | <b>9.6</b>  | <b>6.6</b> | <b>5.2</b>  | —           | —      | <b>7.9</b>    | <b>7.3</b> |
| <b>Emerging East Asia<sup>1,2</sup></b>           | <b>7.8</b>           | <b>8.0</b> | <b>8.2</b> | <b>9.3</b> | <b>10.4</b> | <b>6.7</b> | <b>5.2</b>  | <b>10.8</b> | —      | <b>8.1</b>    | <b>7.2</b> |
| <b>ASEAN<sup>1,2</sup></b>                        | <b>5.5</b>           | <b>6.5</b> | <b>5.7</b> | <b>6.1</b> | <b>6.6</b>  | <b>4.4</b> | <b>1.3</b>  | <b>9.0</b>  | —      | <b>6.7</b>    | <b>5.3</b> |
| Brunei Darussalam                                 | 2.2                  | 0.5        | 0.4        | 4.4        | 0.2         | -1.9       | -1.2        | —           | —      | 1.1           | 1.5        |
| Cambodia  | 9.5                  | 10.3       | 13.3       | 10.8       | 10.2        | 6.7        | -2.0        | —           | —      | 4.5           | 6.0        |
| Indonesia   | 5.1                  | 5.0        | 5.7        | 5.5        | 6.3         | 6.0        | 4.5         | 5.7         | —      | 6.0           | 6.0        |
| Lao PDR   | 6.7                  | 7.0        | 6.8        | 8.7        | 7.8         | 7.2        | 6.5         | —           | —      | 7.0           | 7.5        |
| Malaysia  | 5.6                  | 6.8        | 5.3        | 5.8        | 6.5         | 4.7        | -1.7        | 10.1        | —      | 6.8           | 5.0        |
| Myanmar <sup>3,e</sup>                            | 9.1                  | 5.0        | 4.5        | 7.0        | 5.5         | 3.6        | 4.4         | —           | —      | 5.2           | 5.5        |
| Philippines <sup>4</sup>                          | 5.1                  | 6.4        | 5.0        | 5.3        | 7.1         | 3.7        | 1.1         | 7.3         | —      | 5.0           | 4.6        |
| Thailand  | 5.1                  | 6.3        | 4.6        | 5.1        | 4.9         | 2.5        | -2.2        | 12.0        | —      | 5.5           | 4.5        |
| Viet Nam  | 7.6                  | 7.8        | 8.4        | 8.2        | 8.5         | 6.3        | 5.3         | 5.8         | 6.4    | 6.5           | 6.8        |
| <b>Newly Industrialized Economies<sup>1</sup></b> | <b>5.0</b>           | <b>5.9</b> | <b>4.8</b> | <b>5.7</b> | <b>5.7</b>  | <b>1.9</b> | <b>-0.8</b> | <b>10.1</b> | —      | <b>6.2</b>    | <b>4.5</b> |
| Hong Kong, China                                  | 5.3                  | 8.5        | 7.1        | 7.0        | 6.4         | 2.2        | -2.8        | 8.2         | —      | 5.4           | 4.3        |
| Korea, Rep. of                                    | 5.2                  | 4.6        | 4.0        | 5.2        | 5.1         | 2.3        | 0.2         | 8.1         | —      | 5.5           | 4.6        |
| Singapore <sup>5</sup>                            | 6.3                  | 9.2        | 7.4        | 8.6        | 8.5         | 1.8        | -1.3        | 16.9        | 19.3   | 12.5          | 5.0        |
| Taipei, China                                     | 4.4                  | 6.2        | 4.7        | 5.4        | 6.0         | 0.7        | -1.9        | 13.3        | —      | 5.9           | 4.0        |
| China, People's Rep. of                           | 10.5                 | 10.1       | 11.3       | 12.7       | 14.2        | 9.6        | 9.1         | 11.9        | 10.3   | 9.6           | 9.1        |
| <b>Japan</b>                                      | 1.7                  | 2.7        | 1.9        | 2.0        | 2.4         | -1.2       | -5.2        | 4.6         | —      | 2.8           | 1.4        |
| <b>US</b>   | 2.6                  | 3.6        | 3.1        | 2.7        | 2.1         | 0.4        | -2.4        | 2.4         | —      | 3.0           | 2.6        |
| <b>eurozone</b>                                   | 2.1                  | 2.2        | 1.7        | 3.0        | 2.7         | 0.5        | -4.1        | 0.8         | —      | 0.8           | 1.0        |

e = ADB estimates, FY = fiscal year, GDP = gross domestic product, Lao PDR = Lao People's Democratic Republic, US = United States, and y-o-y = year-on-year, '—' = not available.

<sup>1</sup> Aggregates are weighted according to gross national income levels (atlas method, current \$) from the World Bank's World Development Indicators. <sup>2</sup> Excludes Myanmar for all years as weights are unavailable. Quarterly figures exclude Brunei Darussalam, Cambodia, Lao PDR, and Myanmar for which quarterly data is not available. <sup>3</sup> For FY April–March. Figures are ADB estimates as reflected in Asian Development Outlook 2010. <sup>4</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>5</sup> Revised its base year from 2000 to 2005 beginning 2010Q1. Figures for 2010Q1 and 2010Q2 are advance estimates from the Ministry of Trade and Industry. Source: Asian Development Outlook 2010, Asian Development Bank; Eurostat website (eurozone); Economic and Social Research Institute (Japan); Bureau of Economic Analysis (US); and CEIC.

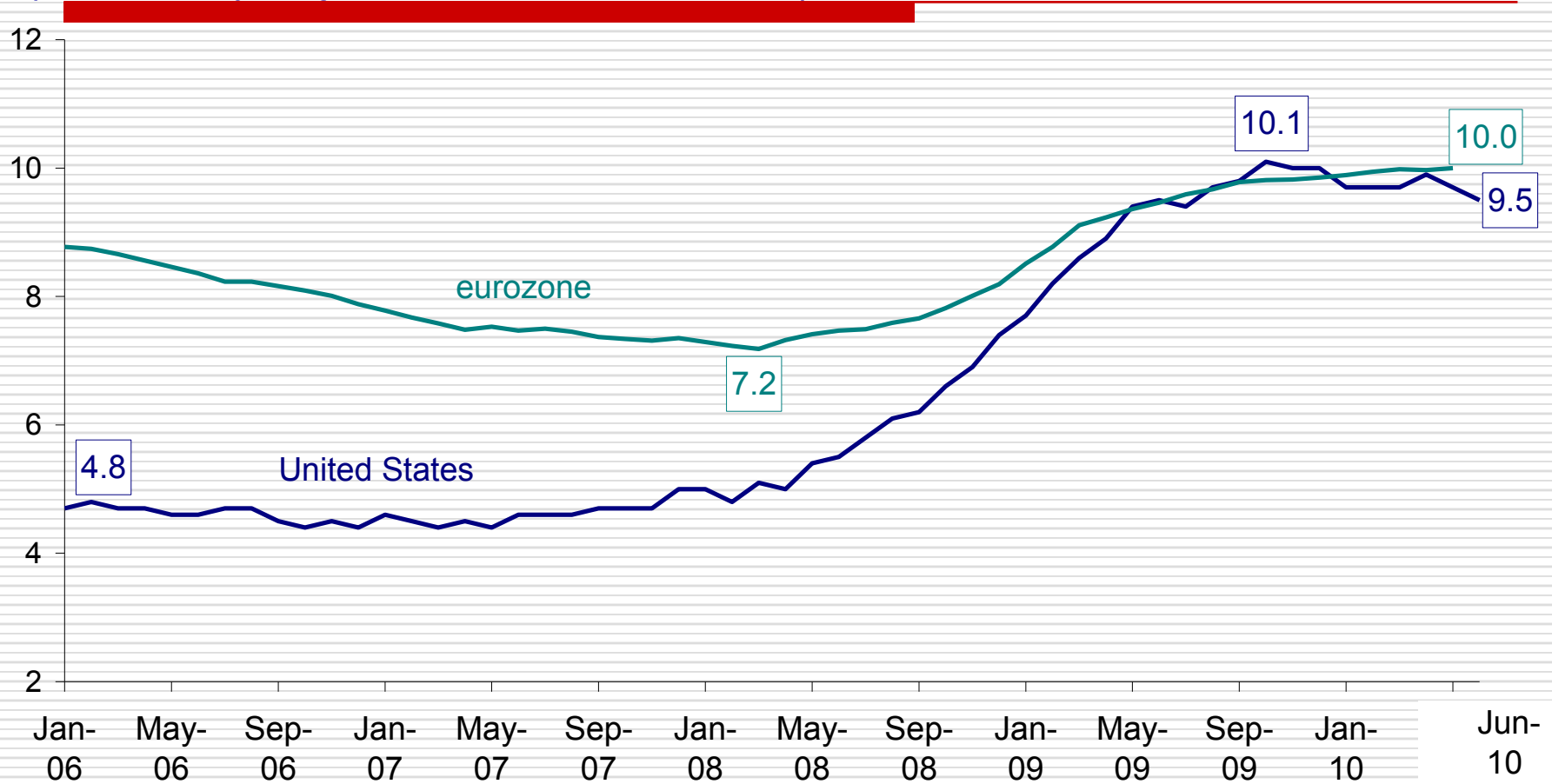
# III. Three Risks Pose Policy Challenges

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- A disruption in the recovery in advanced economies
- Destabilizing capital inflows
- Unintended policy errors

# Unemployment in US and eurozone remains high

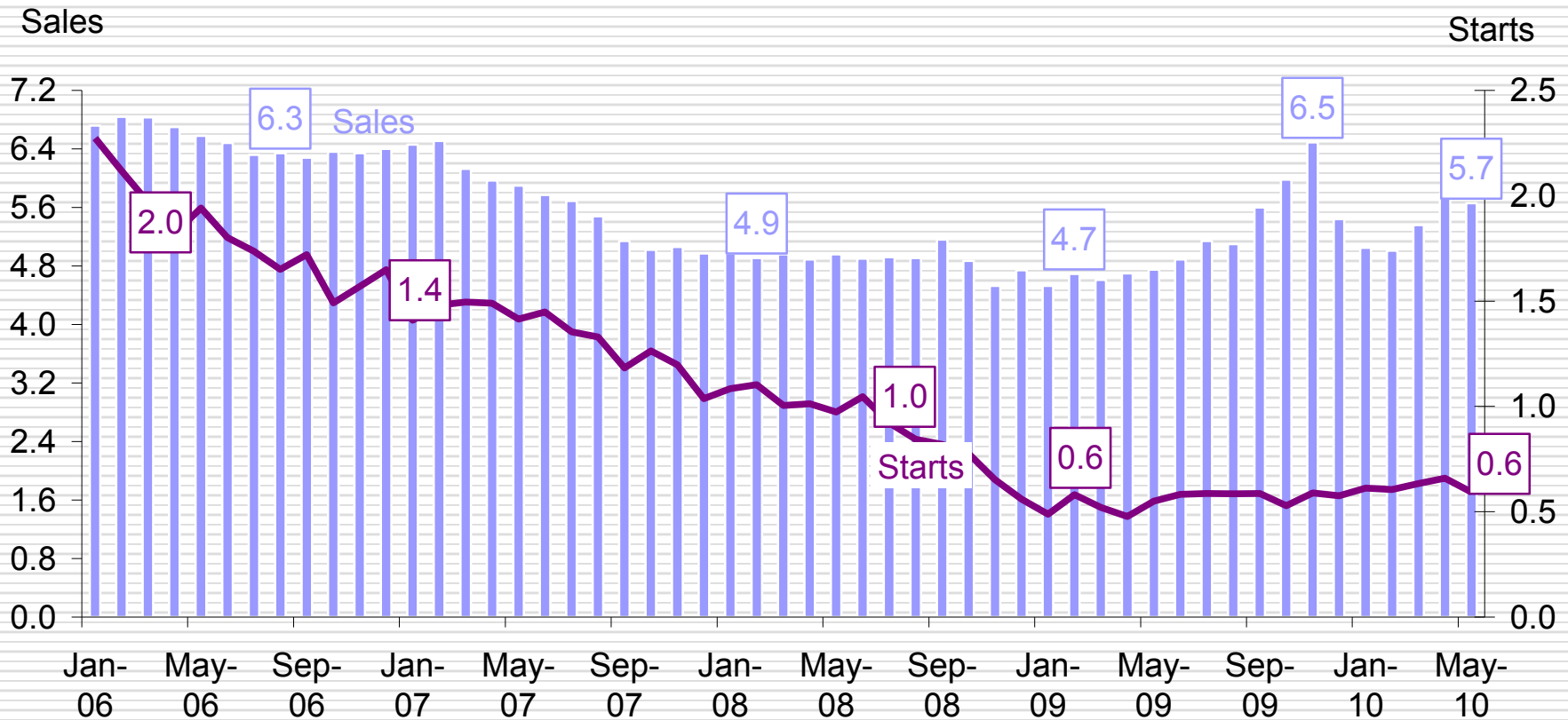
**Unemployment Rate—US and eurozone<sup>1</sup>**  
(seasonally adjusted, % of labor force)



<sup>1</sup> Refers to Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain. Data for eurozone is until May 2010.  
Source: US Bureau of Labor Statistics and European Central Bank.

# US housing markets still weak

Private Housing Starts<sup>1</sup> and Existing Home Sales<sup>2</sup>—US  
(million units)



US = United States.

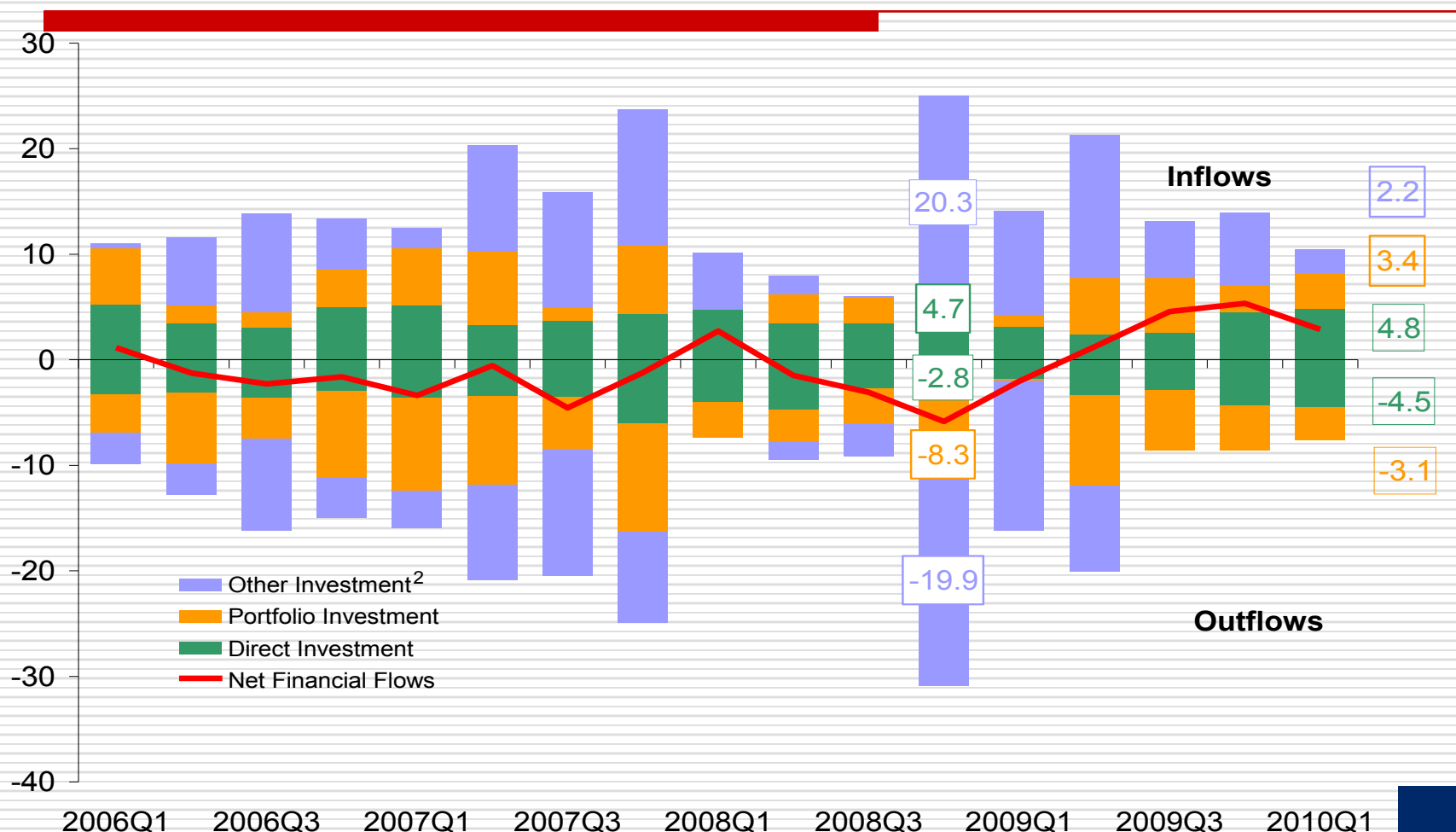
<sup>1</sup> Seasonally adjusted levels.

<sup>2</sup> Seasonally adjusted and annualized.

Source: CEIC.

# Capital flowing in again: Welcome but Beware

Gross and Net Capital Flows—Selected Economies<sup>1</sup> (% of GDP)



<sup>1</sup>Include Hong Kong, China; Indonesia; Republic of Korea; Philippines; Taipei, China; Thailand; and Singapore.

<sup>2</sup>Other investment includes financial derivatives.

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

# IV. Time to Unwind Policy Stimulus

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- Three elements of a well-designed exit strategy: Timing, policy mix, and pace
- With few exceptions, it is time to unwind.
- A “Money First” strategy is appropriate for most.
- Pace to depend on speed of recovery, and evolving risks

# To sum up:

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- External environment remains positive
- Emerging East Asia's V-shaped recovery on track
- Time to unwind policy stimulus
- A "Money First" strategy is appropriate for most
- Capital flows welcome; but beware



# AEM Outlook: Then and Now

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- Jul 2009 – “entering a transition from recession to recovery”
- Dec 2009 – “amid a V-shaped recovery”
- Jul 2010 – “V-shaped recovery is on track”

# Thank you

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