



Asia Beyond the Crisis: Prospects and Challenges

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Key Messages

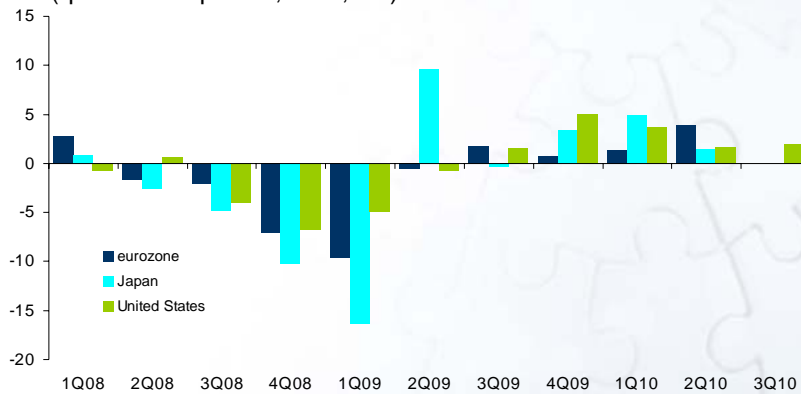
- Global recovery expected to continue albeit at a slower pace
- Asia continues to move ahead
- Uncertainty surrounding banking environment grows
- Asian banks need to remain vigilant and agile to maximize long-term growth potential

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The world economy has turned the corner, but remains fragile

GDP Growth—eurozone,¹ Japan, and United States
(quarter-on-quarter, saar,² %)



GDP = gross domestic product.
¹Refers to euroarea 16 countries; ²saar = seasonally adjusted annualized rate.
 Sources: Eurostat (eurozone), Bureau of Economic Analysis (United States), and CEIC database.



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Gradual recovery expected to continue...

GDP Growth Forecasts (%)

	IMF		ADB		IB Average	
	2010	2011	2010	2011	2010	2011
World	4.8	4.2				
Advanced Economies	2.7	2.2	2.2	2.0		
U.S.	2.6	2.3	2.8	2.6	2.7	2.3
Eurozone	1.7	1.5	1.3	1.4	1.6	1.6
Japan	2.8	1.5	2.5	1.4	3.0	1.2
Emerging Economies	7.1	6.4				
Developing Asia			8.2	7.3		
PRC	10.5	9.6	9.6	9.1	9.9	9.0

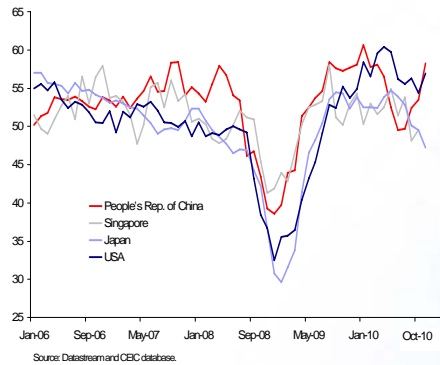
Source: IMF, ADB, and Bloomberg



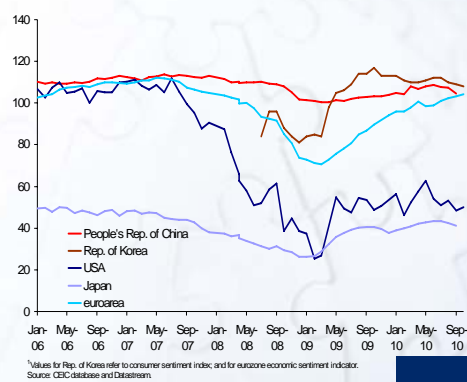
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...although growth momentum slows

Purchasing Managers' Index



Consumer Sentiment Index

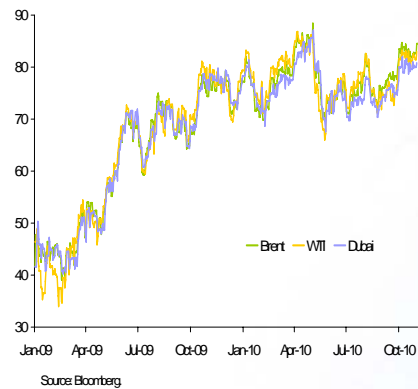


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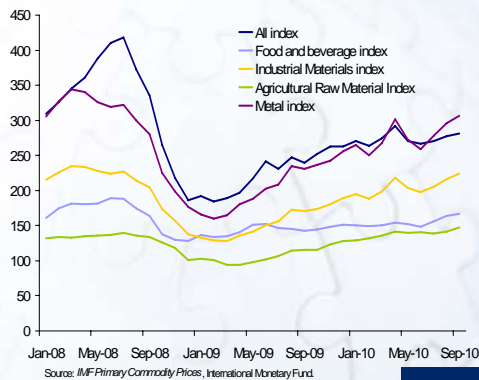
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Oil and commodity prices rise on continued recovery

Crude Oil Price (\$/barrel)



Commodity Price Index (1992 = 100)

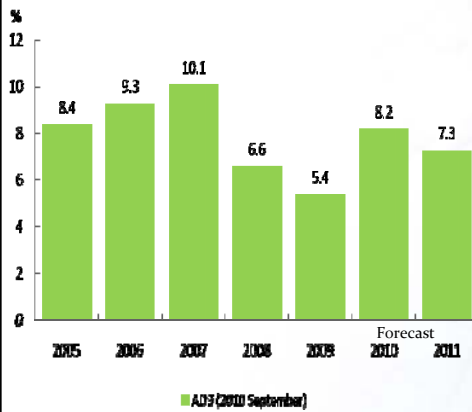


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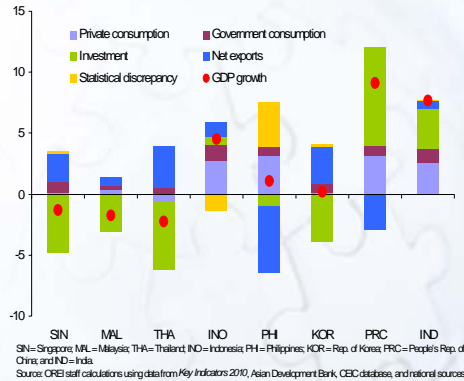
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Asian recovery continues with speed and vigor

GDP Growth for Developing Asia (% y-o-y)



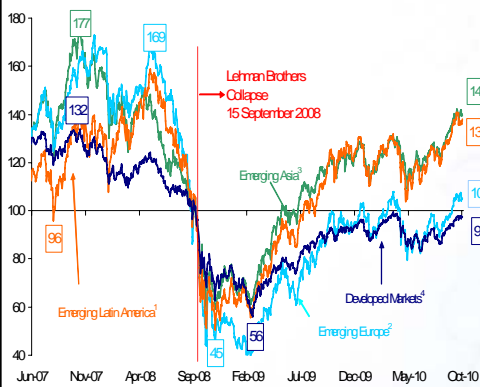
Contributions to GDP Growth, 2009 (percentage points)



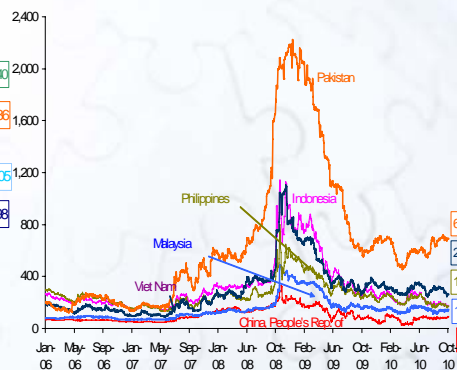
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Asian financial markets gain stability

MSCI Indexes (15 September 2008=100)



JP Morgan EMBI Sovereign Stripped Spreads (Basis Points)

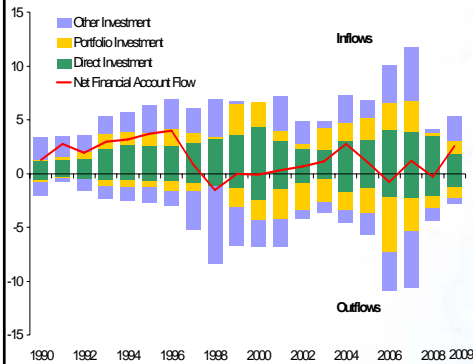


¹Includes Brazil, Chile, Colombia, Mexico, and Peru. ²Includes Czech Republic, Hungary, Poland, Russia, and Turkey. ³Includes China, People's Rep. of, India, Indonesia, Korea, Rep. of, Malaysia, Philippines, Taipei, China, and Thailand. ⁴Includes Canada, France, Germany, Italy, Japan, United Kingdom, and United States.
Source: Morgan Stanley Capital International (MSCI) Barra.

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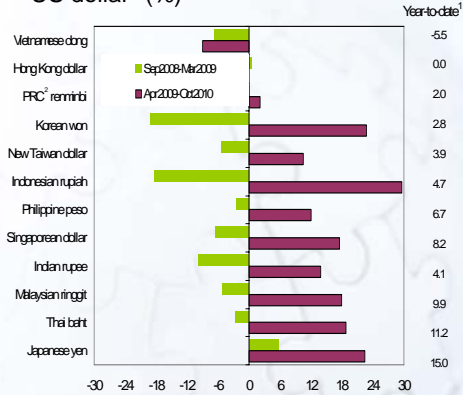
Capital flows into Asia, leading to currency appreciation

Financial Account Flows—Emerging Asia (% of GDP)



GDP = gross domestic product
 Note: Emerging Asia includes Peoples Rep. of China, Hong Kong, China, Indonesia, India, Rep. of Korea, Malaysia, Philippines, Singapore, Taipei, China, and Thailand.
 Sources: International Financial Statistics and World Economic Outlook Database, International Monetary Fund, and CEIC database.

Change in Exchange Rate versus the US dollar¹ (%)

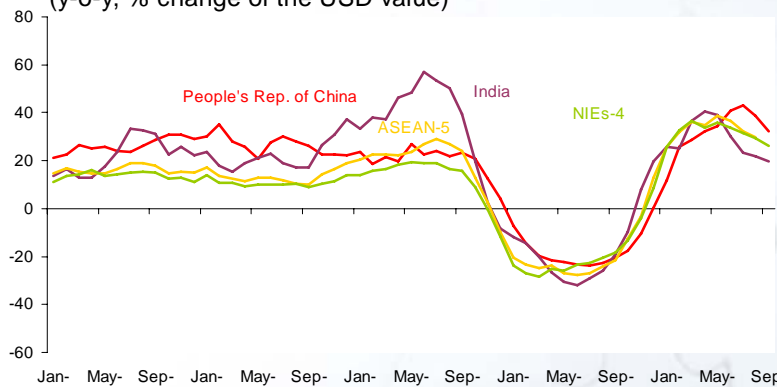


¹Year-to-date (YTD) figures for 2010 from 4 January to 1 November. Negative figures indicate depreciation of local currency; positive values indicate appreciation of the local currency. ²PRC = Peoples Republic of China.
 Source: OREI staff calculations based on Reuters data.



Export growth eases on slower global recovery and strong currencies

Export Growth¹
 (y-o-y, % change of the USD value)

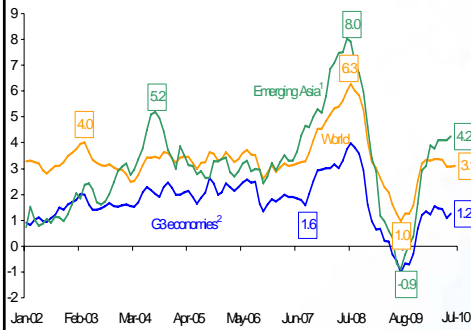


¹ Values computed as the year-on-year change of the three-month moving average of the USD value of exports. ASEAN-5 includes Indonesia, Malaysia, Philippines, Thailand and Viet Nam. NIEs-4 includes Hong Kong, China, Rep. of Korea, Singapore, and Taipei, China.
 Source: OREI staff calculations using national data accessed through CEIC database.



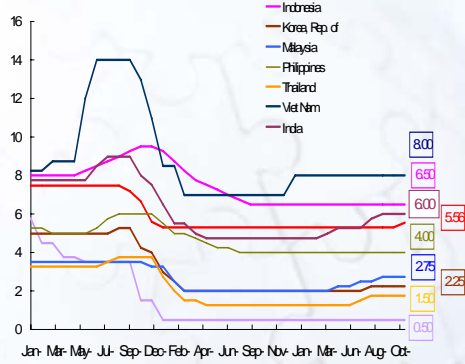
Inflation edges up; policy tightens

Headline Inflation—Emerging Asia, G3 Economies, and World (year-on-year, %)



¹ Emerging Asia includes China, Peoples Rep. of; Hong Kong, China; India; Indonesia; Korea, Rep. of; Malaysia; Philippines; Singapore; Taipei, China; Thailand; and Viet Nam. ² G3 economies include eurozone, Japan, and United States.
Source: *World Economic Outlook* (April 2010), International Monetary Fund, and national sources accessed through CEIC database.

Policy Rates—Emerging Asia (% per annum)



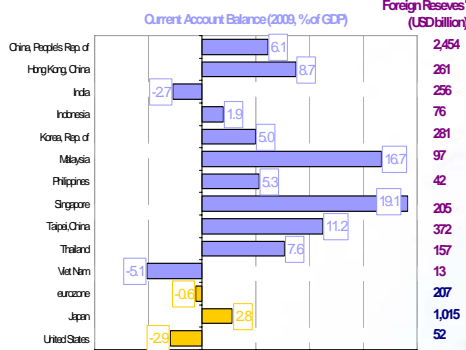
Source: Bloomberg/Pequot for Viet Nam (State Bank of Viet Nam).



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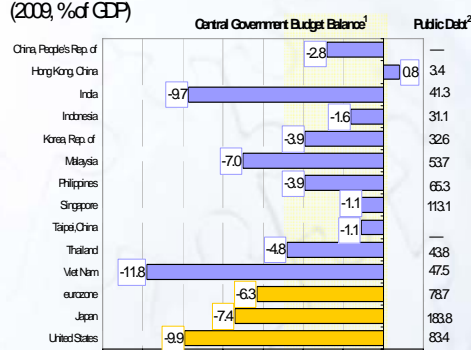
But prudent macroeconomic management pays dividends

External Position—Emerging Asia and G3 Economies



¹ Data as of September 2010, except for China, Peoples Rep. of (June 2010), Hong Kong, China (July 2010), Indonesia (August 2010), Korea, Rep. of (August 2010), Philippines (August 2010), Singapore (August 2010), Taipei, China (August 2010) and Viet Nam (March 2010).
Source: CFB staff calculations using data from national sources, accessed through CEIC database.

Fiscal Position—Emerging Asia and G3 Economies (2009, % of GDP)



— data unavailable. ¹ Data for Peoples Rep. of China refers to general government balance, and United States government budget balance. Values refer to general, central, or public debt; India central government public debt; Indonesia, IMF estimate; and United States to government securities.
Source: Asian Development Outlook 2010, Asian Development Bank, national sources, CEIC, and International Monetary Fund.



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Risks and Challenges to the Outlook

- Double dip in the US economy—continued difficulty in housing and job markets
- European fiscal problems—failed fiscal consolidation could instigate financial instability
- Further widening trade imbalances between advanced and emerging economies—spreading protectionism and currency wars

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Macroeconomic management beyond the crisis

- The recovery relying heavily on fiscal and monetary stimulus—transition to private-demand-driven growth is crucial
- Need to reaffirm prudence and discipline in fiscal and monetary policy
- Effective management of post-crisis challenges (e.g. rebalancing, asset bubbles, capital flows) through an appropriate mix of fiscal, monetary, and exchange rate policies is necessary

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Implications for Banking Environment

- **Macroeconomic conditions and policies**
 - Gradual recovery expected to continue
 - Limited rise in interest rates: limited improvement in interest income
 - Stock market improvement: less attractive bank deposits
 - Lackluster housing markets
 - SME soundness

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Implications for Banking Environment

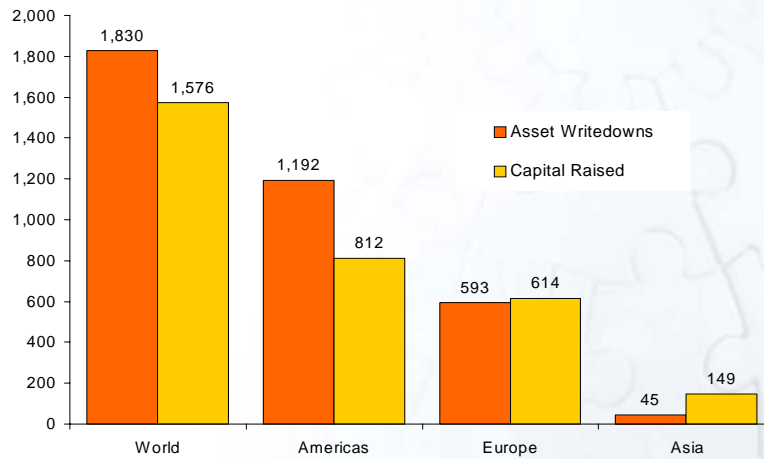
- **New capital and liquidity standards**
 - Basel III include strengthening Tier 1 capital; introducing a leverage ratio, measures to promote the buildup of counter-cyclical capital buffers, and short and medium-term quantitative liquidity ratios.
 - SIFIs may face additional capital, liquidity or other supervisory requirements
- **Regulatory uncertainties and potential costs pose challenges**

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Asian financial systems less affected

Writedowns and Capital Raised by Major Banks since 3Q07
(USD billion, as of 28 October 2010)



Source: Bloomberg.

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Asian banks remain sound

Banking Sector Soundness Indicators (%)

	Nonperforming Loans to Total Loans		Bank Regulatory Capital to Risk Weighted Assets		Bank Provisions to Nonperforming Loans		Private Sector Loans to Deposit Ratio	
	2000	2009	2000	2009	2000	2009	2000	2009
China, People's Rep. of	22.4	1.6	13.5	10.0	4.7	155.0	95.2	72.6
Hong Kong, China	7.3	1.3	17.9	16.8	—	—	66.7	49.1
India	12.8	2.4	11.1	13.2	—	52.6	63.0	71.4
Indonesia	20.1	3.3	21.6	17.4	36.1	127.4	40.6	75.1
Korea, Rep. of	6.6	0.8	6.7	11.4	81.8	125.2	111.5	126.3
Malaysia	8.3	1.8	11.3	13.5	57.2	95.6	109.4	91.6
Philippines	15.1	3.0	16.2	16.0	43.6	112.3	82.0	58.6
Singapore	3.4	2.5	16.4	13.5	87.2	91.0	99.7	77.9
Taipei, China	5.3	1.2	10.8	8.6	24.1	95.7	72.7	60.6
Thailand	17.7	4.8	7.5	11.7	47.2	99.4	101.6	95.2
Average	11.9	2.3	13.3	13.2	47.7	106.0	84.2	77.9
Median	10.5	2.1	12.4	13.3	45.4	99.4	88.6	73.9
eurozone	—	2.4	—	8.3	—	—	135.0	134.7
Japan	5.3	1.9	11.7	15.8	35.5	27.1	83.5	70.1
United States	1.1	5.4	9.4	11.7	146.4	58.3	111.5	109.1

— = data not available

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Immediate Challenges

- Remain vigilant
- Build agile responses
- Diversify portfolio
- Strengthen liquidity provision
- Improve long-term profitability



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Challenges for Asian Financial Systems

- Reform should allow for development challenges—balance regulation and innovation
- Support economic growth and development
- Strengthen legal and institutional framework
- Develop local currency bond markets
- Establish national and cross-border crisis management and resolution mechanisms



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Thank you

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